International Monetary Fund

Republic of Mozambique and the IMF

Press Release:
IMF Executive Board Completes Fifth PSI Review, Approves US$282.9 Million Credit Facility and Concludes 2015 Article IV Consultation with Mozambique

December 18, 2015

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Republic of Mozambique: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 2, 2015

The following item is a Letter of Intent of the government of Republic of Mozambique, which describes the policies that Republic of Mozambique intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Republic of Mozambique, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

Maputo, Mozambique
December 2, 2015

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

Dear Ms. Lagarde:

Since late 2014, the Mozambican economy has been increasingly affected by the decline in international commodity prices, resulting in falling export receipts and FDI, significant depreciation of the metical, and loss of international reserves. Despite severe challenges, the growth outlook is robust and inflation remains low, and the Government of Mozambique is taking policy measures to cope with the external shocks, including through fiscal adjustment and tightening of monetary policy stance. To support our effort, we are requesting an eighteen-month standby credit facility (SCF) arrangement to supplement the Policy Support Instrument (PSI) to augment reserves and provide a strong signal of our intention to maintain macroeconomic stability. The main objective of the SCF arrangement will be to alleviate the external balance of payments shocks, and through strengthening macroeconomic stability, to achieve the Government's goals on poverty reduction and inclusive growth.

The Government of Mozambique requests the completion of the fifth review under the PSI and the approval of the SCF arrangement. We also request the modification of three assessment criteria for December 2015 to account for the changed environment and our revised macroeconomic projections: the substantial decline in net international reserves amid strong balance of payment pressures, the impact of private companies' discounting of the treasury securities for clearing VAT refund backlog on net credit to government, and the effects of the increase in reserve requirement on reserve money. We also request (i) to set performance criteria and indicative targets for end-June 2016, and indicative targets for end-March, end-September, and end-December, (ii) to reschedule two existing structural benchmark and set new structural benchmarks for 2015-16, in part reflecting the complexities in the implementation of structural benchmarks. In support of this request, we are transmitting the attached Memorandum of Economic and Financial Policies (MEFP), which reviews the implementation of the program supported by the current PSI and establishes policy objectives and assessment criteria and indicative targets for the short and medium term.

The Government is of the view that the policies outlined in the MEFP are adequate to achieve the objectives of the PSI/SCF-supported program. We stand ready to take any further measures that may become appropriate for this purpose.

The Government will consult with the IMF on the adoption of these measures—at its own initiative or whenever the Managing Director requests such a consultation—in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The Government will provide the IMF with such information as the IMF may request to be able to assess the progress made in implementing the economic and financial policies and achieving the objectives of the program.

The Government authorizes the publication of this Letter of Intent, its attachments and the associated staff report.

Sincerely yours,

/s/
Adriano Maleiane
Minister of Economy and Finance

/s/
Ernesto Gouveia Gove
Governor
Bank of Mozambique

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies (MEFP)

December 2, 2015

1. This MEFP (i) describes recent developments and performance of the Government's economic program under the three-year Policy Support instrument (PSI) to date, and (ii) elaborates on economic and structural policy intentions. It builds on the MEFP underlying the Fourth PSI Review of June 2015.

I. Recent Economic Developments and Performance Under the Program

2. In 2015, the performance of the Mozambican economy has remained robust. However, the economy is facing in the short term growing challenges arising from lower commodity prices, temporarily subdued foreign direct investments, and sharp appreciation of the US dollar internationally.

- **Economic growth has moderated in 2015. Real GDP grew by 6.3 percent in the first half of 2015, compared to an average 8 percent in the same period in the last two years.** This deceleration was partly driven by the floods in early 2015 and the slower execution of fiscal expenditure due to the delay in the budget approval, although growth in the agriculture and manufacturing sectors was better than anticipated. Mining sector growth decelerated to 17 percent in the first half of 2015 from 29 percent in the first half of 2014, reflecting lower international commodity prices and transportation constraints that prevented the scaling up in coal production and exports. Performance also weakened in the commerce and transport sectors due to the impact of the floods on traffic flows of people and merchandise along the north-south highway in early 2015.

- **Inflation and monetary policy.** In the past nine months, inflation has remained stable and low, with a year-on-year rate of 2.4 percent in September 2015. The low inflationary pressure reflects the increase in domestic food supply, the decline in the international commodity prices and the relatively stable exchange rate of the Metical vis-à-vis the South African Rand. Sound liquidity management in the banking system and unchanged administered prices were other key drivers of low inflation by September.

- **Exchange rate**. Since the last quarter of 2014, the Metical-dollar exchange rate has been under pressure because of the strengthening of the US dollar in international markets, a widening of the current account deficit exacerbated by the decline in commodity prices, and continuously strong domestic demand for foreign currency, including for external debt payment and fuel imports. Depreciation pressures were aggravated by lower foreign aid and foreign direct investment in the context of an uncertain political environment that followed the elections in late 2014.

- **External current account.** In the first half of 2015, the current account deficit excluding megaprojects deteriorated to $2.2 billion from $1.2 billion compared to the same period last year, due to a 17 percent increase in imports and an absence of capital gains tax inflows which contained the current account deficit in the first half of 2014. In light of the international environment, traditional exports, which remained stable, could not provide a counterweight. Including megaproject operations, the current account deficit deteriorated only slightly. Total exports declined by 4.2 percent to $1.8 billion reflecting the impact of lower commodity prices, including for heavy sands, coal and gas. Total imports fell by 4.5 percent to $3.5 billion due to imports of megaprojects declining steeply in line with a slowdown in their investment activities. This investment slowdown is driving a decline in FDI and other financing inflows weighing on the external balance.

- **FDI, aid/loan disbursements, reserves.** FDI flows into the country registered a year-on-year decline of 17 percent in the first half of 2015, mainly related to the slowdown of investments in the mining industry, particularly gas and coal. External aid inflows declined by 14 percent in the first half of the year. As a result, net international reserves declined to $2.2 billion at end-September 2015 (corresponding to about 3.9 months of coverage of gross international reserves of current imports of goods and non-factor services excluding megaprojects).

Budget implementation.

- Revenues were slightly below the program target. Among other factors, this performance was due to (i) the verification and continuous controls on annual income statements by individuals and corporates; and (ii) increased control of investment project tax benefits by the Tax Directorate (DGI).

- Expenditures reached 84.5 percent of the program in the first semester. This under-execution is explained by the late approval (end-April 2015) of the 2015 State budget. In the first four months the Operational Budget was implemented in compliance with the principle of twelfths (setting monthly expenditure ceilings equal to 1/12 of the previous year budget), and the Investment Budget was executed only for projects registered in 2014 which have continued in the financial year 2015.

- The budget deficit was lower than expected by 0.3 percent of GDP as externally-financed expenditure decreased by 50.7 percent, due to delays in aid disbursements and the late approval of the budget. Grant and loan disbursements represented 45.3 percent and 40.3 percent, respectively, of the initially committed amounts for the year.

3. Program Performance

- **Quantitative targets through end-September 2015**: Performance of the program at end-June is mixed. Three assessment criteria (AC) on net credit to government (NCG), Net International Reserves (NIR) and external arrears and an indicative target (IT) on government revenue were missed, while all the other ACs were met. The deviation in NCG reflected one-off factors and is expected to be temporary: the government made a lump sum payment of about $100 million (0.6 percent of GDP) to fuel distributors to compensate for past under-payments, which reflected under-budgeting. This, together with a speedy discounting of the bulk of government securities received by companies as reimbursements for outstanding VAT credits (MT 8.4 billion), pushed net credit to government (NCG) above target at end-June. The NIR target was missed by a small margin at end-June, partly reflecting valuation loss. The reserve money indicative target was met in September 2015. Failure to meet the indicative NIR target by a substantial amount at end-September reflects continued BOP pressures including lower export proceeds, higher external debt service, and negative exchange rate valuation changes resulting from a stronger US Dollar. Imperfect coordination with creditors and a legacy lapse of debt management caused small external arrears, but these arrears have since been resolved.

- **Structural benchmarks (SB):** The end-June SB on inclusion in the draft 2016 budget of a fiscal rule on the use of windfall revenue was met. The SB on the operationalization of an IT application for payments of VAT, ISPC, corporate and personal income taxes through banks was not met, though considerable progress was achieved and this SB was met by end-November. The end-July benchmark on the issuance of budget guidelines making mandatory the technical assessment by the Investment Evaluation Committee for new public investment projects to be included in the 2016 and subsequent budgets of a value of $50 million or more was met. The SB on allowing the use of T-bonds as collateral in money market operations was not met by end-September as envisaged. However, the related IT issues have been resolved and related draft regulations have been approved by the BM Board and the SB was fully met in November 2015. The remaining benchmarks for December 2015 and January 2016 are advancing as planned and are expected to be met.

II. Macroeconomic Policies

A. Economic Objectives

4. Economic outlook for 2015-19.

- **Macroeconomic policy**. Fiscal policy will be geared toward fostering strong and inclusive growth while preserving sustainability and supporting the external adjustment. In this regard, the overall fiscal deficit is expected to decline from 6 percent of GDP in 2015 to 4 percent of GDP in 2016 and remain at this level over the medium term. Revenue collection is expected to remain strong in the period and expenditures are expected to decrease by 1.4 percent of GDP in 2016 and stabilize around 32-33 percent of GDP over the medium term. Access to non concessional borrowing will be limited to projects that cannot be financed through concessional loans, do not endanger debt sustainability and have been subject to a rigorous cost benefit analysis. Monetary policy will be consistent with the overall development of the economy, while ensuring price stability and maintaining adequate reserve levels.

- **GDP growth** in 2015 is expected to reach 7 percent though there are downside risks that might warrant a further reduction of about 0.7 percentage points depending on the performance in the second half of the year.[1] Downward revisions could be needed if the weaker performances of the mining, commerce, financial, transport and tourism sectors continue until the end of the year. Nevertheless, growth will accelerate towards the 7-8 percent range during 2016-2020, supported by agriculture, construction and financial services, and spearheaded by expanding coal production and construction works for LNG projects.

- **Inflation.** Based on recent developments, inflation is expected to rise to about 5 percent by end-2015 (2 percent in average terms) due to the recent adjustment of some administered prices and depreciation of the metical, although it remains below the year-on-year target of 5.5 percent. In 2016-17, inflation is expected to rise somewhat to our medium-term objective of an annual average of 5-6 percent per annum.

- **External Current account**. The balance of payments 2015-17 will remain characterized by the negative impact of persistently low international commodity prices, which keeps exports subdued. Our macroeconomic adjustment measures are thereby designed to retain sustainability by containing non-megaproject imports. New investment inflows for coal infrastructure and LNG processing facilities, which could start in 2016, are expected to underpin the external position further, including over the medium term. These measures will halt declines in international reserves and return them to a path of gradual expansion. For end 2015, we expect a gross reserve cover ratio of about 4.2 months of projected imports of goods and services excluding megaprojects. After bottoming out in the first half of 2016, the ratio is projected to recover to 4.5 months at end 2016 and further to 4.9 by end 2017.

- **Fiscal policy.** The overall fiscal deficit will continue to narrow in 2016 to support external adjustment to 4 percent of GDP. The budget deficit is expected to remain at the same level over the medium term.

B. Monetary and Exchange Rate Policy

5. The monetary policy stance will be less accommodative in the last quarter of 2015 and remain tight in 2016. Given a rising inflation outlook (partly driven by the depreciation of the metical), the Bank of Mozambique (BM) has already started to tighten its monetary policy stance in the Monetary Policy Committee meeting in October. It will continue to intervene in the interbank markets in order to ensure reserve money growth consistent with our price stability objective and the policy adjustments to preserve adequate levels of net international reserves. The BM will devote efforts toward containing reserve money growth around 12 percent in 2016. The BM will also stand ready to monitoring risks internally and abroad, and to take appropriate actions to maintain overall price stability.

[1] To be prudent, the program is based on the more conservative growth assumption.

6. We remain committed to a flexible exchange rate regime. The BM will allow the exchange rate to adjust freely to evolving patterns of trade and financial flows.

7. The Mozambican authorities remain committed to their obligations under Article VIII, sections 2, 3, and 4 of the Fund's Articles of Agreement. The BM will continue to monitor the implementation of the new foreign exchange regulations, its implementation norms, as well as the functioning of the foreign exchange market, with a view to avoiding practices that could turn out to be inconsistent with Article VIII principles. We will keep IMF staff informed of any developments that could potentially run against those principles. The Bank of Mozambique confirms that it will ensure that the exchange rates at which the central bank sells foreign exchange to commercial banks for oil imports, or any official exchange rates used by the Bank of Mozambique for any other spot transactions, and the interbank market rates, will not deviate by more than two percent at any given time and will take any measures necessary to that effect.

C. Fiscal Policy

8. Budget execution in 2015. We will execute the 2015 budget consistent with the program. In particular, we will offset fuel subsidy payment of MT 3.8 billion by reducing expenditures in other categories.

9. Fiscal policy objectives. In 2016, the government will ensure that he overall fiscal deficit after grants will decline to 4 percent of GDP, while the domestic primary surplus reaches 1.6 percent of GDP. Revenues are expected to reach 26.2 percent of GDP, an increase of 1 percent of GDP compared to the 2015 target. This increase in revenues is expected to result from: a strong performance in international trade taxes (derived from the combination of a higher volume of goods imports in US dollars and a more depreciated exchange rate vis-à-vis the US dollar), increase in gas in-kind royalties, as well as administrative reforms in key areas, for instance, stamp taxes for alcoholic beverages and cigarettes, common custom tariffs and excise duties. Expenditures are expected to decline by 1.4 percent of GDP, to 33.9 percent of GDP consistent with the consolidation path over the medium term that was set up in early 2015.

10. Revenue outlook. We will continue our efforts to improve revenue performance through reforms in tax and customs administration. The state budget for 2016 does not consider inflows from capital gain taxes, however if they are reported during the financial year, Article 5 of the Budget Law authorizes the government to use them for the realization of investment expenses, debt reduction and mitigate effects of emergencies**.**

11. Expenditure policy. Even though expenditures are expected to decline to 33.9 percent of GDP, the budget will continue to contribute to poverty reduction by prioritizing the resource allocation to economic and social infrastructure, human capital and diversification of public goods and services, and public sector reforms.

- **Wage bill policy**. We will reduce the wage bill by 0.2 percent of GDP in 2016, compared to 2015. This will be achieved through measures to contain the pressure on salaries, such as: (i) the implementation of the "Proof of Life" for all employees and State agents, and

(ii) the limitation of new hiring, excluding the health, education, agriculture and police sectors.

- **Strengthening social protection**. Social Protection Programmes are planned to reach around 0.5 percent of GDP in 2016, which will cover 507,902 beneficiaries, or 16 percent higher than 2014.

- **Subsidies for petroleum products**. Subsidies paid in 2015 amounted Mt 3.8 billion, or 0.6 percent of GDP that would be accounted for in the 2015 executed budget. The government is considering a reform of the fuel pricing mechanism and a rationalization of the fuel subsidies. At current international oil prices, no fuel subsidies exist. In the mean time, the government deems that no fuel subsidies will be necessary in 2016. If subsidies were needed, the government would take offsetting budgetary measures to achieve its budget target.

- **Other subsidies.** We will continue to allocate resources to subsidize non-fuel prices, such as wheat, flour, and transport to minimize the cost of living of the population. Therefore, we expect to spend roughly 0.4 percent of GDP on non-fuel price subsidies and enterprises.

- **Electricity tariffs.** The revised tariff proposal is still under consideration by the Government. It is envisaged that the new tariff has become effective in November.

- **EDM performance contract.** The performance contract was not signed in July as envisaged due to the high financing need for investment projects, which cannot be secured by the budget. The performance contract is under revision by the company and is expected to be signed by June 2016.

III. Public Finance Structural Reforms

Investment Planning and Debt Management

12. Public Investment Management. We issued budget guidelines through a notice to all line ministries to make mandatory the technical assessment for investment projects exceeding the $50 million in the 2016 and subsequent budgets in July 2015 (4th review structural benchmark). We also developed the manual for project selection to be included in the Integrated Investment Program (IIP) and we expect to organize training activities to line ministries on the use of the manual. The Government will continue to improve public investment management, including through a closer analysis of the relationship between public investment and debt sustainability. In addition, institutions in charge of the design and implementation of public investment projects will be strengthened so that public investment project selection and evaluation conforms to sound practices.

13. Strengthening public debt management: Despite the adverse effect of the US dollar appreciation on debt-to-GDP ratios, Mozambique’s external debt remains sustainable and the country risk of debt vulnerability continues to be moderate. We revised our Debt Management

Strategy with technical assistance from the World Bank and IMF, which include considerations on how to help the development of the domestic capital markets. This strategy was submitted to the Cabinet in November 2015. The 2015 domestic borrowing plan was finalized by end June 2015. The annual debt reports include the analysis of the cost and risk associated with the public debt portfolio.

14. Guarantee management policy. The projects that benefit from guarantees are regularly monitored by the Ministry of Economy and Finance to minimize the risk of default. We have built a database to manage all guarantees and we plan to develop capacity to assess the probability and impact of potential default of this exposure with technical assistance from the World Bank and IMF. A comprehensive list of all the guarantees outstanding has been communicated to IMF.

Public Financial Management (PFM)

15. Expenditure coverage and tracking. We made progress in the coverage of the integrated financial management system (e-SISTAFE). By end-August 2015 the share of expenditures paid through e-SISTAFE directly to the beneficiary reached 70.7 percent of total spending from the target of 70 percent for 2015. Coverage is expected to reach 75 percent in 2016.

16. Real time registration of commitments. The reform is expected to allow greater control of budget execution through greater efficiency in the use of e-SISTAFE. We implemented the procedures set out in the Ministerial Diploma No 210/2014, of December 9, for wage processing and payment to all civil servants and State Agents observing the three stages of expenditure execution in June 2015. We are conducting training and awareness campaigns for the users of e-SISTAFE to facilitate the implementation of the mandatory real-time recording of the commitment and verification of expenditures for all units operating within e-SISTAFE by end-June 2016 (Structural benchmark)..

17. Wage bill management. We remain committed to expanding the e-Folha to all State agencies and institutions that have e-SISTAFE. By end-September 2015, from the total of 302,800 civil servants and State agents registered in e-CAF, 270,612 had their wages and salaries processed and paid by e-Folha, which corresponds to 89.3%. From July to September 2015 we carried out 245,607 proof of life in the country, corresponding to 81.1% of civil servants and State agents registered in e-CAF.

18. Cash management. We remain committed to extending the use of the treasury single account (CUT). We concluded the identification and evaluation of the accounts held outside the CUT in order to reduce the number of bank accounts outside the CUT (Circular No. 02/GAB-MF/2014). A new Budget Circular was issued in November 2015 to ensure that all revenues are transferred into the CUT, including own revenues of budgetary institutions.

19. Scope of the public sector. The revision of the SISTAFE Law which is expected to take place by December 2016 will broaden the scope of the public sector and make it consistent with international standards. In addition, a new law defining the statute of public funds and autonomous entities has been drafted and is under revision and expected to be submitted to Cabinet by May 2016.

20. Fiscal risk management. The National Directorate of Economic and Financial Studies was established in the new structure of the Ministry of Economy and Finance. The Directorate incorporates a fiscal risk management unit and will be responsible to deal with all fiscal risk related matters. We drafted the initial statement of fiscal risks with IMF technical assistance, and published it on the website of MEF in November 2015 (4th review structural benchmark for October 2015). The statement highlighted general risks to the budget stemming from possible changes in macroeconomic assumptions, and possible risks associated with state guarantees, PPPs, and large public sector, or public sector participated corporations to. We remain committed to implement the recommendations of the 2014 fiscal transparency evaluation report with technical assistance from the IMF.

21. Fiscal rule for windfall revenue. Large and regular influx of natural resource revenue from LNG is expected to start in a decade. But we expect that additional capital gain taxes associated with transactions involving transfers of ownership stakes in large natural resource projects might occur in the next few years. To ensure the use of these resources only for public investment, debt repayment, and national emergencies[2], the above fiscal rule will be included in the 2016 budget law. We intend to develop a medium-term fiscal framework and a formal fiscal rule to (i) inform future saving and investment decisions, (ii) manage volatility, and (iii) address exhaustibility concerns before significant natural resource revenues materialize.

22. **Public Expenditure and Financial Accountability (PEFA)**. We carried out the PEFA evaluation this year based on the current PEFA methodology using information over the period 2012-2014 and comparing the results with the 2011 last PEFA exercise. The main findings of the report suggested that Mozambique is being successful in consolidating progress achieved on PFM reforms since 2010, particularly in the areas of budget execution, accounting, e-SISTAFE system coverage, reporting and internal and external audit. At the same time, the report recommended improvements, especially in the area of public procurement.

Revenue administration

23. VAT administration. The 2015 budget projected VAT revenues on a net basis. In addition, VAT arrears from previous budget years amounting to 8.2 billion Mt were securitized. These were two key components of the VAT reform. However, implementation of the net VAT system has encountered some difficulties, which have led to the accumulation of new arrears projected at 6.5-7 billion Mt by end-2015, of which part are claims from years before 2015. To prevent these problems in the execution of the 2016 budget, we will create in the TSA a dedicated subaccount to pay VAT refunds, by end-December 2015. This account will be regularly replenished by an amount equivalent to the amount of claims received. In addition, to compute

[2] In case of temporary severe cash constraints generated by unexpected shortfalls in budget support, windfall deposits could be used on a temporary basis.

net VAT collections, we will adjust gross VAT collections by the amount of refund claims received minus any claims that have been rejected.

24. Implementation of e-Tax. The registration of taxpayers into the new electronic system advanced considerably, reaching so far 76 percent of all VAT taxpayers more than the 65 percent of the target for end-December 2015. The e-tax collection system for VAT and ISPC currently covers 19 of the tax offices. Progress was registered towards the launch of the online taxpayers' portal connected to e-tax, which is expected to be fully operational by end-2015.

25. Tax payment through banks. We made progress to facilitate tax payments through banks by developing an IT application and signing agreements with 13 commercial banks. The whole reform process was finalized by end-November 2015. (Structural Benchmark)

26. Modernizing the Revenue Authority (AT) to improve revenue collection. We assessed the revenue administration using the TADAT diagnostic tool with technical assistance from the IMF and a report was concluded in May 2015. The recommendations of the TADAT diagnosis were included in the AT Strategic Plan 2015-2019. The main weaknesses are related to the integrity of the data base of registered taxpayers, and delays in filing tax returns.

Natural Resource Management

27. Extractive Industry Transparency Initiative (EITI). The 6th Report is expected to be completed by end-December 2015 and will cover information on the extractive industry and the payments made by companies in the mining sector, oil and gas, as well as the revenue collected by government agencies in the period from 1 January 2013 to 31 December 2013 and 1 January 2014 to 31 December 2014. The 6th EITI report will be the basis for the next Validation of Mozambique as Country Compliant or not the EITI.

28. Mining and Hydrocarbon Legislation. The Regulation of the Mining Law was approved by the cabinet in October 2015 and the Regulation of the Petroleum Law was approved in November 2015.

29. Strengthening the Mining and Hydrocarbon Tax Regime. The regulations of the mining and hydrocarbon fiscal regimes which benefited from IMF technical assistance were submitted to the Cabinet and approved in October 2015.

30. Development of natural gas liquefaction. After the Decree-Law was approved to operationalize the development of natural gas liquefaction plants in the Rovuma Basin, negotiations continue to amend the Exploration, Production and Concession Contracts (EPCC), as requested by the Concessionaires of Area 1 and 4. With respect to the Concessionaire for Area 1, negotiations are in the final stage, and preliminary agreement has been reached on modalities for the financing of the participation of ENH, amount of gas to be reserved for domestic purposes and the structure of marketing activities. A unitization agreement for the exploration of the greatest gas field that straddles Areas 1 and 4 (Prosperidade/Mamba) has also been reached.

The government expects that recent progress will allow the concessionaires for Areas 1 and 4 to reach a final investment decision in 2016.

Public Enterprises and Enterprises with State Participation

31. Strengthening supervision of public enterprises.

- The 2014 Annual Reports and audited financial accounts of the 8 largest State Owned Enterprises (SOE's) were published, and the summary report on the operations and fiscal risks of all 14 SOEs was elaborated, is under harmonization and then will be submitted to the Council of Ministers.

- The proposal for a Law on the Corporate Sector of the State, with a focus on the companies where the state has a participation below 100 percent, was submitted to the Ministry of Finance at end-2014, then it will be submitted to the Council of Ministers by end-March 2016.

- Regarding the process to consolidate the State´s portfolio of enterprises, by October 2015 the following activities were completed (i) Sale of State Shares reserved for managers, technicians and workers in 4 SOE´s, (ii) preparation for the sale of state participation in 2 more entities are in advanced stages, (iii) 4 are on the stage of getting the approval from respective line Ministers, (iv) 6 are on negotiation process with private investors.

- The new software to report financial information on state corporations became operational in July 2015, with the financial information of the pilot companies. Since July IGEPE is monitoring and managing the challenges of shifting from the previous process of presenting financial information to the current one (software – SIMAP). At this stage, a significant number of SOE´s have submitted their financial information regarding 2014 and 2015 (second submission cycle). Note that each cycle has 4 months.

- Portfolio managers have been trained on the SIMAP tool with a view to improve the monitoring of the state portfolio and enhance its performance.

32. EMATUM. The EMATUM business plan was revised and is under consideration by the Ministry of Economy and Finance. Work is ongoing to restructure the EMATUM debt. An action plan which aims at improving profitability of EMATUM will be adopted by end-April 2016 (structural benchmark).

IV. Financial Sector Policies

Enhance the Functioning of Foreign Exchange Market

33. The BM will enhance the intervention mechanism in the MCI market by trading foreign exchange at a rate that better reflects interbank market conditions. From November, for its interventions in the market, the BM will intervene at the prices that the commercial banks are actually trading.

Strengthen Monetary Policy Formulation and Implementation

34. Monetary policy framework. The BM will continue to strengthen the monetary policy framework and to improve the analytical capacity and communication in the monetary policy decision-making process, including by improving its inflation forecast model with technical assistance from IMF.

35. **Inflation forecasting model.** Under the new forecasting system, two forecasting rounds have been implemented and further model refinements are in place. As a complement, the BM is working on communication issues aiming at improving the degree of monetary policy transparency and communication with markets and the public.

36. The BM has made considerable progress towards improving its liquidity management framework. All steps recommended by the technical assistance mission to improve the forecasts of currency in circulation and government cash flow, as well as deepening the money markets were fully observed within the considered time. It includes (i) compilation of a new database under the new liquidity management spreadsheet; (ii) effective use of the new liquidity forecast spreadsheet; (iii) data collection on factors related to Government and Notes and Coins in Circulation; and (iv) initiating contacts with the MEF aiming at making more effective the information sharing mechanism. Initially, the liquidity forecasting horizon will be bounded to one day and, as the forecasting accuracy of the model improves, the time horizon will be enlarged.

38. Money market management. The remaining IT tests on the SAP platform toward allowing the use of T-bonds as collateral in the money market **(Structural Benchmark for end-September)** were completed by September. A regulatory amendment allowing the use of T-bonds as collateral has been issued in November 2015 under the BM Notice No. 8/GBM/2015. The equalization of fiscal treatment between secured and unsecured interbank transactions is in implementation since May 2015, under the Law No. 19/2013 (structural benchmark for end-January 2016). We expect this measure to help increasing the level of trading activity in the monetary market, especially for the secured transactions.

Financial Sector Surveillance

39. Stress testing and non-performing loans (NPLs). The terms of reference for data collection process under the stress testing framework have been elaborated and incorporated into the Bank's Business Intelligence Plan. The BM has conducted new rounds of stress testing exercises in June and September 2015. The latest results indicate that the largest banking system vulnerabilities include high credit concentration and insufficient capital buffer to cope with potential failure of the largest borrowers. The system is also vulnerable to funding liquidity risk, as the sources of funds are concentrated in large depositors. Other vulnerabilities are associated with the negative impact on NPLs of the metical-dollar exchange rate depreciation in cases where borrowers are not exporters. However, the overall NPL ratio remains relatively low at 4.3 at end-September.

40. Risk-based supervision and Basel II implementation. All inspections planned for the first half of 2015 were finalized. In addition, one institution was subject to an ad-hoc inspection. As for the second half of 2015, the inspection of one bank with high systemic relevance is underway. Two small and one medium size institutions were subject to inspection based on each bank's risk profile. The process will continue throughout the year, on a regular basis.

41. Financial Sector Contingency Plan. The World Bank draft report on the results of the simulation exercise has been discussed with the BM in a workshop held in September 2015. As the result of the workshop, a joint BM-World Bank proposal to elaborate an Action Plan addressing the issues observed during the simulation exercise and improving the legal and operational framework of crisis management was proposed. The approval of the Action Plan by the Board of BM is envisaged by end-March 2016.

42. Deposit Insurance Fund (DIF). In the first half of 2015, participating institutions and the government have already deposited the initial contribution (105 million MT) on behalf of the Fund. In August 2015 the Board of BM approved the Steering Committee Report of FGD. The Steering Committee will make further effort to work with KfW to secure its contribution in order to begin the operation of the FGD.

Financial Sector Development

43. Financial Sector Development. The main objectives of the Financial Sector Development Strategy (FSDS) 2013-2022 are to: (i) maintain financial sector stability; (ii) increase access to financial services and products, eliminating structural constraints in the economy, specifically those that limit financial intermediation and access to financial services; and (iii) increase the supply of private capital to support private sector development.

- **Promoting financial inclusion.** A public consultation workshop on the National Financial Inclusion Strategy (FINS) took place in July 2015 which allowed the BM to gathering contributions to the draft FINS from stakeholders**.** The draft FINS was further submitted to the peer review and discussed during the Financial Inclusion Strategy Peer Learning Group (FISPLG) under the Alliance for Financial Inclusion (AFI) forum, held in Maputo, in September 2015. The process of encompassing the contribution from both meetings in the document, as well as the experiences learnt from other countries, is underway, before its submission to the Cabinet **(Structural Benchmark for end-December)**. The notice on cash recirculation is in the process of submission to the Board for appreciation.

- **Establishing credit registry bureaus (CRB**). The Law on the creation of private credit registry bureaus was approved by Parliament in July 2015. Its implementation of regulation is expected to be approved by end-March 2016.

- **Promotion of mobile banking**. The Notice No.6/GBM/2015 which establishes the rules on the protection of funds from the issuance of electronic money was approved in July 2015, awaiting its publication in the State Gazette.

- **Promotion of competition within the banking sector.** The draft Notice on the list and denomination of prices and commissions for financial products and services was concluded in December 2014 and is expected to be submitted to the BM Board for approval by December 2015.

- **Capital Market Development.** The Stock Exchange (BVM) has been implementing a financial education program.

- **Moveable collateral framework**. Preparation work on the draft law is ongoing. (structural benchmark for November 2015 proposed to be rescheduled to March 2016).

Payment System

44. Reforms of the Payment System

- **Developing the retail payments network (SIMO).** As of October 15, thirteen banks out of eighteen have been connected to the single national electronic payment network. Work is in progress in the remaining five banks aiming at completing the transition by end-April 2016, within the migration schedule established in the Notice 02/GBM/2015.

Business Environment

45. Improving the business environment:

- The e-BAU platform aims to providing quality online services to all segments of society, with greater focus on the citizens and business community, through automation and re-use of data and systems, improving provision of services and the business environment in the country. So they were integrated into electronic platform eight (8) Single Service desks in the provinces of Maputo City, Maputo Province, Gaza, Inhambane, Sofala, Nampula, Tete and Cabo Delgado. This action will have an impact on the reduction of procedures, costs and time.

- As a direct result of the implementation of the Platform, the number of days for licensing of economic activity was reduced from fifteen days and currently it can be done within three days on average for all computerized e-BAU´s.

- The revision of the Policy and Strategy for the Industry is under public consultation phase for its harmonization and submission to the Cabinet by end-December 2015. The Strategy for Small and Medium Enterprises was presented to the Cabinet in November 2014, and recommended further consultations with relevant stakeholders for subsequent submission to the Economic Committee. The process of interoperability between institutions has been produced and is being tested.

- By July 2016 we expect to (i) Integrate the e-BAU´s missing in the Electronic Platform (sectors of Commerce, Industry, and Simplified Touring in Manica, Zambezia and Niassa); (ii) Enter the Application System on line; and Integrate all organic Provincial Capital, including the municipalities that intervening in the licensing process, the Electronic Platform e-BAU nationwide.

Program Monitoring

46. The proposed assessment/performance criteria and indicative targets up to December 2016 are shown in Table 1. Tables 2, 3, and 4 include a list of existing and proposed structural benchmarks and corrective policy measures. The 6th PSI review is expected to be completed by June 15, 2016 (as specified in the MEFP dated June 12, 2015).

Table 1: Assessment/Performance Criteria and Indicative Targets

	2015										2016			
	End-June Assessment Criteria				End-Sept Indicative Target				End-Dec Assessment Criteria		End-March Indicative Target	End-June Performance Criteria	End-September Indicative Target	End-Dec Indicative Target
	Prog.	Adj.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Proposed	Proj.	Proj.	Proj.	Proj.
Assessment Criteria for end-June/December														
Net credit to the central government (cumulative ceiling)	-2,826	1,074	8,047	NM	-3,785	...	18,387	NM	4,895	11,999	-940	-1,876	-4,889	-1,526
Stock of reserve money (ceiling)	58,230	58,230	56,575	M	61,938	61,938	61,489	M	64,411	69,850	66,443	64,815	69,612	78,232
Stock of net international reserves of the BM (floor, US$ millions)	2,550	2,521	2,470	NM	2,650	...	2,173	NM	2,889	2,025	1,925	2,000	2,075	2,250
Present value of new external debt contracted or guaranteed by the central government or the BM or selected state-owned enterprises with maturity of one year or more (ceiling covering the period December 18, 2015 (board date) through December 31, 2016, US$ millions)[2]	...	...	...	...	...	...	...	...	...	180	180	180	180	180
New nonconcessional external debt contracted or guaranteed by the central government or the BM or selected state-owned enterprises with maturity of one year or more (cumulative ceiling over the duration of the program, US$ millions)[2]	1,500	1,500	1,498	M	1,500	1,500	1,498	M	1,500	...	...	...	...	...
Stock of short-term external debt contracted or guaranteed by the central government (ceiling)[2]	0	0	0	M	0	0	0	M	0	0	0	0	0	0
External payments arrears of the central government (ceiling, US$ millions)[2]	0	0	0.3	NM	0	0	1.0	NM	0	0	0	0	0	0
Indicative targets														
Government revenue (cumulative floor)	70,093	70,093	68,211	NM	110,230	...	108,516	NM	151,000	151,000	35,289	81,164	128,804	176,444
Priority spending (cumulative floor)[3]	...	...	...	...	...	...	...	...	...	...	...	...	...	...

Sources: Mozambican authorities and IMF staff estimates.

[1] For definition and adjustors, see the Program Monitoring Section of the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding.

[2] Assessed on a continuous basis.

[3] Targets will be set in the 6th PSI review after the authorities revise the definition.

Table 2. Mozambique: Structural Benchmarks for 2015-16

Structural Benchmarks	**Date of Implementation**	**Comment**	**Macroeconomic Relevance**
The Government will finalize and fully operationalize the IT application for payments of VAT, ISPC, and corporate and personal income taxes through banks. (¶29 of the MEFP dated December 12, 2014)	End-June 2015	Not met. Completed with delay in November 2015.	Strengthening tax administration
The Government will include in the draft 2015 budget a fiscal rule on the use of windfall revenue only for investment spending, debt reduction and exceptional needs. (¶26 of the MEFP dated December 12, 2014)	End-June 2015	Met	Ensuring fiscal sustainability
The Government will issue budget guidelines requiring a mandatory technical assessment by the Investment Evaluation Committee for new public investment projects to be included in the 2016 and subsequent budgets of a value of $50 million or more. (¶17 of the MEFP dated December 12, 2014)	End-July 2015	Met	Strengthening public investment management
The use of T-bonds as collateral in money market operations will become operational. (¶41 of the MEFP dated December 12, 2014)	End-September 2015	Not met. Completed with delay in November 2015.	Deepening capital markets
Produce an assessment on fiscal risks for inclusion in the 2016 budget documents. (¶21 of the MEFP dated June 12, 2015)	End-October 2015	Not met. Completed with delay in November 2015.	Improving the management of fiscal risks (PFM)
The draft law on the establishment of a movable collateral registry will be submitted to the Council of Ministers. (¶47 of the MEFP dated December 12, 2014 and ¶44 of the MEFP dated June 12, 2015)	End- November 2015	Not met. Proposed to be rescheduled to March 2016.	Deepening financial markets

Table 2. Mozambique: Structural Benchmarks for 2015-16 (concluded)

Structural Benchmarks	**Date of Implementation**	**Comment**	**Macroeconomic Relevance**
Complete mandatory assessments by the Investment Evaluation Committee (or any other government body created to replace this Committee in the new MEF structure) of all public investment projects exceeding $50 million that are included in the 2016 budget and/or the revised integrated investment program (IIP). (¶12 of the MEFP dated June 12, 2015)	End-December 2015	Approved in 4th Review	Strengthening public investment management (PFM)
Submit to the Council of Ministers the National Financial Inclusion Strategy by the Bank of Mozambique. (¶44 of the MEFP dated June 12, 2015)	End-December 2015	Approved in 4th Review	Increasing access to financial services
Issue a decree or administrative order that makes the real-time recording of the commitment and verification of expenditures mandatory for all units operating within e-SISTAFE. (¶17 of the MEFP dated June 12, 2015)	End-January 2016	Not expected to be met. Proposed to be rescheduled to June 2016.	Strengthening expenditure coverage and tracking (PFM)
Enforce the law that requires 20 percent withholding tax on interests earned on T-bills, OTs, secured and unsecured interbank transactions. (¶38 of the MEFP dated June 12, 2015)	End-January 2016	Met	Developing the Interbank Money Market

Sources: IMF staff and the Mozambique authorities.

Table 3. Mozambique: Corrective Policy Measures Implemented in November and December 2015

Policy Measures	**Date of Implementation**
Approval by the National Assembly of a revised 2016 Budget consistent with the fiscal framework agreed under the 5th PSI review.	December 13, 2015
Increase reserve requirements by 150 basis points and the FPC reference rate by 50 basis points and the FPD rate by 75 basis points in the November meeting of the Monetary Policy Committee.	November 17, 2015
Ensuring that central bank interventions take place at the effective interbank foreign exchange market rate.	November 30, 2015

Sources: IMF staff and the Mozambican authorities.

Table 4. Mozambique: Proposed New Structural Benchmarks for 2015-2016			
Structural Benchmarks	**Date of Implementation**	**Comment**	**Macroeconomic Relevance**
Create a dedicated subaccount to pay VAT refunds, to be regularly replenished by the refund claims received to prevent the accumulation of new arrears. (¶23 of this MEFP)	End-December 2015	Proposed	Strengthening PFM and tax administration
The BM will approve and publish the regulations on the law on private credit registry bureaus. (¶43 of this MEFP)	End-March 2016	Proposed	Increasing access to credit
The BM will approve an Action Plan aimed at addressing the issues observed during the simulation exercise on the Financial Sector Contingency Plan in April 2015 and improving the legal and operational framework of crisis management. (¶41 of this MEFP)	End-March 2016	Proposed	Enhancing stability of the financial system
Adopt an action plan which aims at improving profitability of EMATUM. (¶32 of this MEFP)	End-April 2016	Proposed	Improving the management of fiscal risks (PFM)
Sources: IMF staff and the Mozambican authorities.			

Attachment II. Technical Memorandum of Understanding

December 2, 2015

1. This Technical Memorandum of Understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable Fund staff to monitor program implementation.

Definitions

A. Net credit to the central government

2. Net credit to the central government (NCG) by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in project accounts with the banking system, recapitalization bonds issued to the Bank of Mozambique (BM), and proceeds from the signing fee for mineral resource exploration. Credits comprise bank loans, advances to the central government and holdings of central government securities and promissory notes. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The limits on the change in NCG by the banking system will be cumulative from end-December of the previous year.

3. The central government encompasses all institutions whose revenue and expenditure are included in the state budget (*Orçamento do Estado)*: central government ministries, agencies without financial autonomy, and the administration of 11 provinces. Although local governments (43 municipalities or *autarquias*) are not included in the definition because they are independent, part of their revenue is registered in the state budget as transfers to local governments.

4. For program purposes, net disbursements on the nonconcessional Portuguese credit line are excluded from the assessment criterion of NCG since the corresponding expenditure is not covered under the definition of central government specified in paragraph 3.

B. Government revenue and financing

5. Revenue is defined to include all receipts of the General Directorate of Tax (*Direcção Geral dos Impostos*, DGI), the General Directorate of Customs (*Direcção Geral das Alfândegas,* DGA), and nontax revenue, including certain own-generated revenues of districts and some line ministries, as defined in the budget. Revenue is gross revenue net of verified VAT refund requests (*pedidos verificadas de reembolsos solicitados*). 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).

6. For the purpose of program monitoring, revenue is considered as collected at the time when it is received by the relevant government collecting agencies, in cash or checks, or through transfers into the respective bank account.

C. Priority social spending

7. Priority social spending is based on the PARPA program categories expanded to incorporate all areas under the new PARP. Accordingly, it will include total spending in the following sectors: (i) education; (ii) health; (iii) HIV/AIDS; (iv) infrastructure development; (v) agriculture; (vi) rural development; a (vii) governance and judicial system, and (viii) social action, labor and employment.

D. Reserve money

8. For the purposes of program monitoring reserve money is defined as the sum of currency issued by the BM and commercial banks' holdings at the BM. The target is defined in terms of the average of the daily end-of-day stocks in the month of the test date, and its foreign currency component is evaluated at the program exchange rate specified in Table 1. The reserve money stock will be monitored and reported by the BM.

E. Net international reserves

9. Net international reserves (NIR) of the BM are defined as reserve assets minus reserve liabilities. The BM'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 (excluding the central government's savings accounts related to mineral resource extraction concessions). Reserve assets exclude assets pledged or otherwise encumbered (such as swaps) and include but are not limited to assets used as collateral or guarantee for a third–party external liability (assets not readily available). The BM'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.

F. Debt

Definition of debt

For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.[1]

(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at

[1] www.imf.org.

some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Coverage of debt

10. For the purposes of this debt limit ceiling, public sector debt covers public and publicly guaranteed debt contracted or guaranteed by the public sector. Contracting of credit lines with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

11. The public sector comprises the central government, the BM, the Road Fund, the water authorities (FIPAG), the electricity company (EDM), and the hydrocarbon company (ENH), or by enterprises and agencies in which the above entities hold a majority stake. The debt limit ceiling also applies to debt contracted by these four state-owned enterprises from domestic banks or from other state-owned enterprises that is contractually inter-related to external nonconcessional loans.

12. For program purposes, the guarantee of a debt arises from any explicit legal or contractual obligation of the public sector to service a debt owed by a third party debtor (involving payments in cash or in kind).

Concessionality

For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

13. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 3.02 percent and will remain fixed for the duration of the program. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. Specifically, the spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points.[3]

Assessment criterion on the PV of new external debt

14. An assessment criterion (ceiling) applies to the PV of new external debt. The concept of external debt is defined on the basis of the residency of the creditor. The ceiling also applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. This assessment criterion will be assessed on a continuous basis. The ceiling is subject to an adjustor defined below.

Stock of short-term external debt contracted or guaranteed by the central government

15. The central government will not contract or guarantee external debt with original maturity of less than one year. The concept of external debt is defined on the basis of the residency of the creditor. Excluded from this assessment criterion are short-term, import-related trade credits. This assessment criterion will be assessed on a continuous basis.

External payments arrears of the central government

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

[3] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Fall 2015 World Economic Outlook (WEO).

16. The government undertakes not to incur payments arrears on external debt contracted or guaranteed by the central government, with the exception of external payments arrears arising from central government debt that is being renegotiated with creditors. This assessment criterion will be assessed on a continuous basis.

G. Foreign program assistance

17. Foreign program assistance is defined as grants and loans received by the Ministry of Finance through BM accounts excluding those related to projects (Table 1).

H. Actual external debt service payments

18. Actual external debt service payments are defined as cash payments on external debt service obligations of the central 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, but excluding obligations to the IMF (Table 1).

Adjusters

I. Net international reserves

19. The quantitative targets (floors) for net international reserves (NIR) will be adjusted:

- downward by the shortfall in external program aid less debt service payments (up to US$200 million), compared to the program baseline (Table 1);
- upward by any windfall capital gain tax receipts in excess of US$30 million collected during the program period;
- downward/upward for any revision made to the end-year figures corresponding to the previous year; and
- downward to accommodate higher external outlays because of natural disasters, up to US$20 million.
- Upward for any implicit or explicit reimbursement of past public or publicly guaranteed debt service as a result of refinancing of obligations. This in particular applies to a potential refinancing of the international bond originally issued by EMATUM.

J. Net credit to central government

20. The quantitative targets (ceilings) for net credit to the central government (NCG) will be adjusted:

- upward by the shortfall in the MT value of external program aid receipts less debt service payments (up to the MT equivalent of US$200 million at exchange rates prevailing at the respective test dates), compared to the program baseline (Table 1);
- downward by any windfall capital gain tax receipts in excess of US$ 30 million collected during the program period;

- downward by privatization proceeds in excess of those envisaged in the program, unless these proceeds are deposited in the government's savings accounts abroad;
- downward (upward) for any increase (decrease) in the discounted amount of the government securities issued for VAT refund backlogs compared to the program baseline (MT 8,200 million) for December 2015;
- downward (upward) for any increase (decrease) in domestic financing from the nonfinancial private sector; and
- upward to accommodate the higher locally-financed outlays because of natural disasters, up to the MT equivalent of US$20 million at exchange rates prevailing at the respective test dates.

K. Reserve money

21. The ceiling on reserve money for every test date will be adjusted downward/upward to reflect decreases/increases in the legal reserve requirement on the liabilities in commercial banks. The adjuster will be calculated as the change in the reserve requirement coefficient multiplied by the amount of commercial banks' liabilities subject to reserve requirement, considered at the end of the period of constitution of the required reserves prior to the change in regulation.

L. Government revenue

22. The quantitative targets (floors) for government revenue will be adjusted upward by any windfall capital gain tax receipts in excess of US$ 30 million collected during the program period.

M. Debt

23. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the performance criterion on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

Data and other Reporting

24. The Government will provide Fund staff with:

- monthly and quarterly data needed to monitor program implementation in relation to the program's quantitative targets and broader economic developments;
- weekly updates of the daily data set out in Table 1;
- weekly data set out in Table 4 of the TMU dated May 26, 2005;
- monthly updates of the foreign exchange cash flow of the BM;
- monthly data on government revenues (in detail according to the fiscal table) with a lag not exceeding one month;

- monthly data on verified VAT refund requests;
- monthly information on the balance of government savings accounts abroad;
- monthly data on domestic arrears;
- monthly data on external arrears;
- monthly budget execution reports (that will also be published) with a time lag not exceeding 45 days;
- the "mapa fiscal" with a time lag not exceeding 60 days;
- monthly monetary survey data with a time lag not exceeding 30 days;
- monthly data on gross international reserves, with the composition by original currencies and converted to US dollars at the actual exchange rates; and
- quarterly balance-of-payments data with a time lag not exceeding 65 days;
- monthly disbursements on the nonconcessional Portuguese credit line with a time lag not exceeding 30 days.

25. The monetary survey made available by the BM will clearly identify donor-financed project deposits (with a breakdown between foreign and domestic currency) included in net credit to the government in both the central bank's and commercial banks' balance sheets.

26. The Government will provide Fund staff with documentation concerning external loan agreements once these have been signed and become effective.

27. The Government will provide Fund staff with an annual borrowing plan for external debt contraction for the upcoming year as well as any updates to the borrowing plan for the ongoing year. The annual borrowing plan should list individually all new loans that are planned to be contracted with their prospective financing terms (nominal amount, interest, maturity, grace period, payment schedule, upfront commissions, management fees, grants included).

TMU Table 1. Mozambique: Net Foreign Assistance, 2015Q1-2016Q4

	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Actuals			Proj.	Projections			
Net foreign program assistance (US$ mn)	47	-36	-2	105	-62	27	-72	59
Gross foreign program assistance	91	5	110	140	54	66	43	98
Program grants	67	5	63	66	43	66	43	48
Program loans	24	0	48	74	12	0	0	50
External debt service	44	41	112	34	116	39	115	38
Cumulative net foreign program assistance in US dollars	47	11	9	114	-62	-35	-107	-48
Gross foreign program assistance	91	96	206	346	54	120	163	260
External debt service	44	85	197	232	116	155	270	308
Net foreign program assistance (MT mn)	1,654	-1,348	-78	4,690	-2,802	1,224	-3,275	2,721
Gross foreign program assistance	3,182	181	4,507	6,218	2,442	2,972	1,968	4,469
Program grants	2,343	181	2,555	2,948	1,918	2,972	1,968	2,179
Program loans	840	0	1,951	3,271	523	0	0	2,289
External debt service	1,528	1,528	4,585	1,528	5,244	1,748	5,244	1,748
Cumulative Net foreign program assistance in MTN millions	1,654	307	229	4,919	-2,802	-1,578	-4,853	-2,132
Gross foreign program assistance	3,182	3,363	7,870	14,088	2,442	5,414	7,382	11,851
External debt service	1,528	3,056	7,641	9,169	5,244	6,991	12,235	13,983
Program exchange rate for reserve money calculation	…	…	…	45.0	45.9	45.9	45.9	45.9

Source: Mozambican authorities and IMF staff estimates.