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REPUBLIC OF MOZAMBIQUE

June 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOZAMBIQUE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with the Republic of Mozambique, the following documents have been released and are included in this package:

- A **Press Release**. summarizing the views of the Executive Board as expressed during its June 3, 2019 consideration of the staff report that concluded the Article IV consultation with the Republic of Mozambique
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 3, 2019 following discussions that ended on March 29, 2019, 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 May 15, 2019.
- **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Mozambique.

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

Selected Issues

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

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June 04, 2019

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with the Republic of Mozambique

On June 3, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Mozambique.

Mozambique's economic situation had been improving until Tropical Cyclones Idai and Kenneth hit the country in March and April, respectively. Economic growth was recovering gradually and becoming broader based, and inflation reached low single digits. Economic activity is expected to decelerate sharply in 2019 due to the supply shock to productive capacity, but it should rebound to pre-cyclone levels by 2020. The IMF Executive Board approved in April US$118 million in emergency assistance under the Rapid Credit Facility (RCF). The authorities are committed to macroeconomic stability while fostering inclusive growth and addressing governance challenges.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' reform efforts in the run up to Tropical Cyclones Idai and Kenneth and regretted the losses, including in human lives, from the two cyclones. Against this background, Directors called for continued progress in Mozambique's policy and institutional settings to achieve durable macroeconomic stability and inclusive growth, address governance challenges, manage reconstruction and build resilience against external shocks, including from extreme climate events.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the reallocation of lower priority spending in the annual budget to emergency assistance and reconstruction. However, given the magnitude of the needs, they also looked forward to further support by the international community, catalyzed by IMF's financial support. In that context, they noted the importance of allocating cyclone-related grants to one-off spending in the affected areas to protect, inter alia, the fiscal position as cyclone-related aid is phased out over time.

Directors commended the authorities' commitment to gradual fiscal consolidation over the medium term, while protecting social and critical infrastructure outlays to ensure durable macroeconomic stability. They noted that creating fiscal space, through domestic revenue mobilization and reducing spending inefficiencies, would also be crucial to better prepare and deal with the consequences of future extreme climate events.

Directors welcomed the authorities' commitment to bring debt risk to moderate levels over the medium term and the important steps taken to strengthen public debt management and transparency. While welcoming the agreement in principle with private creditors on debt relief, Directors called for the adoption and implementation of a debt strategy and stressed the importance of strengthening oversight of the entire public debt portfolio, including for state-owned enterprises, to put public debt-to-GDP ratios on a clear declining path.

Directors commended Bank of Mozambique's gradual and cautious normalization of monetary policy while remaining vigilant about possible second-round effects on inflation of the cyclone-induced supply shock. They stressed the importance of maintaining exchange rate flexibility as a shock absorber and preserving an adequate level of international reserves. They also encouraged the Bank of Mozambique to continue to enhance its supervisory capacity, modernize the bank resolution framework, and strengthen the monetary policy regime building on enhanced communications, increased technical capacities and a reformed, modern central bank law.

Directors urged the authorities' continued focus on improving governance, transparency and accountability, including to reduce vulnerabilities to corruption. In that context, they welcomed the authorities' ongoing preparation, with IMF technical assistance, of a diagnostic report on the main governance and corruption challenges and strongly encouraged its publication. They also called for continued progress in strengthening the AML/CFT framework and enhanced focus on transparency on natural resource management.

Directors commended ongoing efforts to increase the country's resilience to natural disasters including through the National Resilience Strategy with support from the World Bank and encouraged the authorities to integrate climate change resilience within their broader development agenda.

Directors also called for further structural reforms to support inclusive growth, job creation and poverty reduction, including by fostering competition and improving the business climate. They also welcomed the authorities' plans to establish a Sovereign Wealth Fund to support productivity-enhancing investments as part of their natural resource management strategy.

Mozambique: Selected Economic Indicators			
	2017	**2018**	**2019**
	(Annual percentage change, unless otherwise indicated)		
National income and prices			
Nominal GDP (MT billion)	804	876	946
Real GDP growth	3.7	3.3	1.8
Consumer price index (end of period)	5.6	3.5	8.5
	(Percent of GDP)		
Government Operations			
Total revenue	26.2	24.2	24.0
Total expenditure and net lending	31.4	31.2	37.0
Overall balance, after grants	-3.4	-5.5	-6.5
Primary Balance after grants	-0.3	-1.9	-2.5
	(Annual percentage change, unless otherwise indicated)		
Money and Credit			
Reserve money	4.7	21.8	16.3
M3 (Broad Money)	5.1	10.9	7.6
Credit to the economy	-13.7	-2.6	5.6
(Percent of GDP)	28.1	25.1	24.5
External sector			
Merchandise exports	42.0	16.8	8.0
Merchandise exports, excluding megaprojects	15.7	10.5	8.6
Merchandise imports	4.4	3.4	53.3
Merchandise imports, excluding megaprojects	13.3	3.1	2.2
	(Millions of U.S. dollars)		
External Public Debt	11,372	13,132	14,780
External current account, after grants	-2,512	-4,371	-8,748
Net international reserves (end of period)	3,062	2,844	2,670
Gross international reserves (end of period)	3,297	3,079	2,905

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

REPUBLIC OF MOZAMBIQUE

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

May 15, 2019

KEY ISSUES

Context and Outlook. Mozambique's economic situation had been improving until Tropical Cyclone Idai and Kenneth hit the country in March and April, respectively. Economic growth was recovering gradually and becoming broader based, and inflation reached low single digits. Economic activity is expected to decelerate sharply in 2019 due to the supply shock to productive capacity, but it should rebound to pre-cyclone levels by 2020. In April, the IMF Executive Board approved US$118 million in emergency assistance under the Rapid Credit Facility (RCF). The authorities are committed to macroeconomic stability while fostering inclusive growth and addressing governance challenges.

Focus of the Consultation. Discussions focused on increasing fiscal space to face urgent emergency assistance and reconstruction needs; implementing gradual fiscal consolidation over the medium-term which, together with debt relief, would be instrumental in putting public debt-to-GDP ratios on a clear downward path and creating fiscal space to mitigate and deal with the effects of future natural disasters; normalizing the monetary policy stance; strengthening and deepening the financial sector; and strengthening the governance, transparency and accountability frameworks while improving markedly the business climate and social safety nets.

Key Policy Recommendations

- Increasing fiscal space in the near term to respond to the urgent needs in areas affected by the cyclones by, inter alia, reallocating lower priority spending in the annual budget to emergency assistance and reconstruction.
- Creating fiscal buffers, including to help deal with future natural disasters, by implementing gradual fiscal consolidation over the medium term and finalizing the debt restructuring with private creditors in line with the authorities' debt strategy.
- Relying to the maximum extent possible on grants and highly concessional loans for budget financing.
- Normalizing monetary policy, by cautiously reducing the policy rate.
- Strengthening financial sector resilience, by enhancing the bank resolution framework, modernizing the banking system and central bank laws, revamping supervisory capacities, and strengthening risk-based supervision.
- Strengthening the governance framework and fighting corruption.
- Increasing the economy's resilience and preparedness to adverse weather events that are becoming more frequent and intense due to climate change.

Approved By
David Owen and Maria Gonzalez

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

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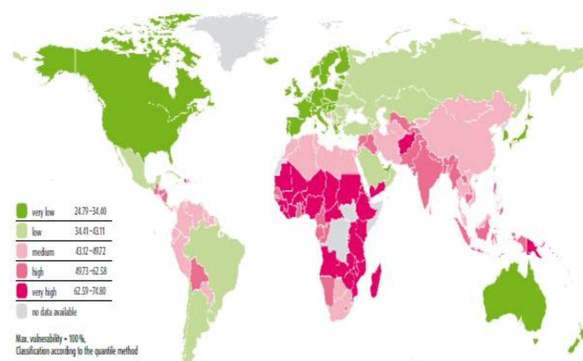
BACKGROUND

1. **Tropical Cyclone (TC) Idai struck on March 15 the central region of Mozambique, making landfall near the port city of Beira—the country's second largest—resulting in significant loss of life and widespread damage to crops and physical infrastructure.** The cyclone inundated entire neighborhoods and destroyed most homes, hospitals and schools in Beira. Floods are estimated to have ruined around 800 thousand hectares of crops, including for local consumption and exports. Transportation, electricity, communications and commercial activities were severely disrupted. The Government estimated emergency assistance needs and reconstruction costs at around US$1.5 billion (10 percent of GDP).[1] The impact of TC Idai has been compounded by TC Kenneth that struck on April 25 the northern province of Cabo Delgado, causing additional loss of live and destruction to homes and infrastructure. Rescue and emergency assistance operations are underway in the North and there is currently no preliminary estimate of the potential economic impact and reconstruction costs due to TC Kenneth. The IMF Executive Board approved on April 19 US$118 million in emergency assistance under the Rapid Credit Facility (RCF) in the wake of TC Idai.

2. **Mozambique is one of the most vulnerable countries to natural disasters and climate change**.[2] The country's geographic location and topography (particularly low-lying elevation) add to the risk. Additionally, weak socio-economic infrastructure, poverty and heavy dependence on rain-fed agriculture magnify these risks, in a context of limited access to insurance. Limited preparedness and lack of adequate resources further inhibit the country's crisis adaptation and response capacity.

Vulnerability to Natural Disasters and Climate-induced Events



Source: World Risk Index 2016.

3. **Mozambique has made significant progress in restoring macroeconomic stability, but challenges remain**. Until TC Idai hit the country, economic growth was recovering gradually and becoming broader based following a series of shocks in 2015-16, including the disclosure of hidden borrowing.[3] Tight monetary policy and lower food price increases brought annual inflation down to low single digits at end-2018. The Bank of Mozambique (BM) stabilized the foreign exchange (forex) market and rebuilt its international reserves to a relatively comfortable level. However, growth is still barely above population growth and public debt remains in distress.

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[1] Total estimated needs associated with TC Idai are expected to amount to US$800 million this year and are projected to decline to US$500 million in 2020 and US$200 million in 2021.

[2] See EBS/19/21 (Box 2) and SM/18/38, Enhancing Resilience to Climate Change in Mozambique: Risks and Policy Options, pp. 66-78.

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

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

5. **The authorities are engaged in good-faith discussions with private creditors to restructure Mozambique's Eurobond and previously hidden loans or are taking legal measures as appropriate**. An agreement in principle with a group of Eurobond holders was reached last November to provide debt service relief over the next five years and extend principal repayments by ten years. Mozambique's AGO has notified the Proindicus lenders of the cancellation of the government guarantee in respect of the loan contracted by Proindicus with Credit Suisse and filed a lawsuit in the U.K. against Credit Suisse and others considering the indictments in the U.S. and in Mozambique that allege criminal behavior in connection with these transactions. Restructuring discussions with VTB on the MAM loan are nearly finalized. The authorities have expressly reserved their legal rights with respect to the Eurobond and guaranteed MAM loan while investigations and proceedings relating to the circumstances in which the transactions arose continue.

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

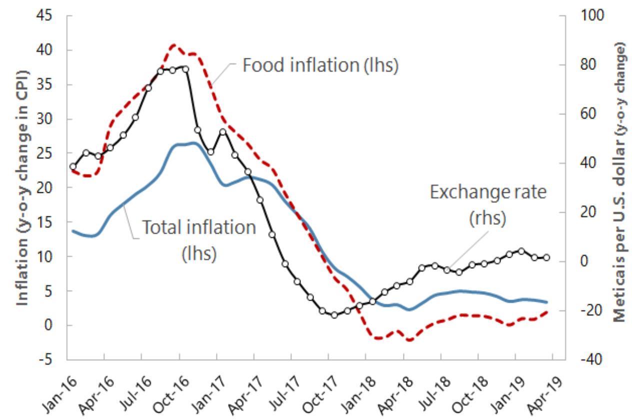
RECENT ECONOMIC DEVELOPMENT, OUTLOOK AND RISKS

7. **The economic situation was improving gradually before TC Idai**:

- *Growth* decelerated to 3¼ percent in 2018 because of lower mining growth. However, growth was broader based, with non-mining real GDP growth accelerating to 2¾ percent, from 2 percent in 2017.

- *Inflation* declined from a peak of 26½ percent (y/y) in November 2016, to 3¼ percent (y/y) in April 2019, reflecting tight monetary policy and exchange rate and food price stability, despite very significant increases in administrated prices (excluding administrated price increases inflation stood at only 2½ percent (y/y) in April).

Inflation, Food Prices and Exchange Rate
(Percentage change)



Sources: Mozambican authorities and IMF staff estimates.

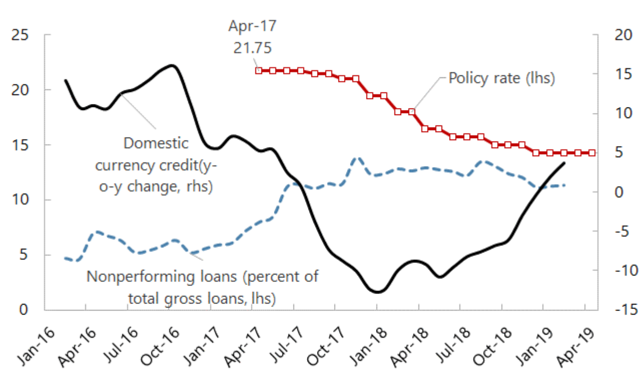
- *Fiscal policy* effort has been significant. Fuel and wheat subsidies were eliminated, an automatic fuel price adjustment mechanism was adopted, and electricity and public transportation tariffs were increased in 2017-18. These efforts combined with cuts in public investment have reduced significantly the primary fiscal deficit to about 2 percent of GDP in 2018, compared to 4¾ per-cent of GDP in 2016. The overall fiscal deficit, however, remained relatively high at 5½ percent of GDP in 2018 as budget financing relied primarily on expensive domestic financing given tight monetary policy and limited availability of external financing.

- *Public debt* is in distress but nonetheless sustainable. The authorities are pursuing a strategy to bring public debt to moderate risk of distress levels.[4] The stock of public and publicly guaranteed debt, including domestic debt, reached about 110½ percent of GDP at end-2018. The stock of arrears on public and publicly guaranteed external debt reached about US$1.2 billion at end-2018. As noted above, the authorities are in good-faith discussions with private creditors to restructure Mozambique's Eurobond and previously hidden loans or are taking legal measures as appropriate.

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

- The *banking system* remains stable, and the BM has continued to address banking sector vulnerabilities. New regulations that increased capital adequacy ratios and established minimum liquidity requirements have been in place since 2017; supervision and

Policy Rate, Domestic Currency Credit and Nonperforming Loans[1]
(Percent)



[1] Policy rate, MIMO, introduced in April 2017.

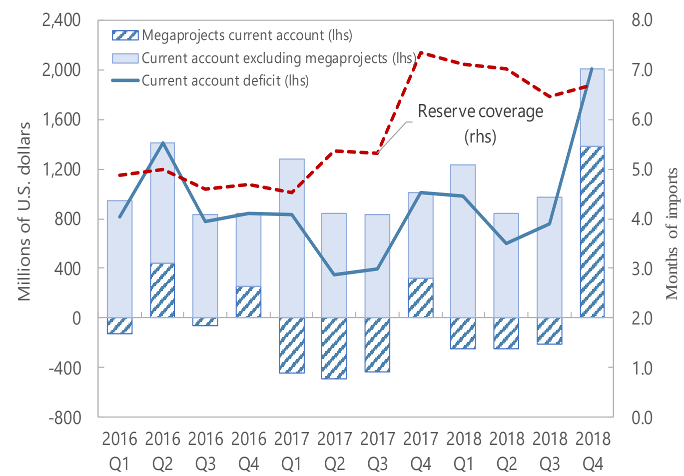
Sources: Mozambican authorities and IMF staff estimates.

[4] See IMF Debt Sustainability Analysis (EBS/19/21, Sup.1).

enforcement of prudential requirements have been strengthened; and higher reserve requirements on foreign currency deposits have provided disincentives for intermediation in foreign currency. On average, banks remain liquid, well capitalized and profitable. However, NPLs reached 11 percent of total loans in February reflecting, inter alia, better classification of past-due exposures to SOEs (provisioning of NPLs was comfortable at 99 percent). Also, credit to the economy declined by 2½ percent (y/y) in nominal terms in February, as real interest rates remained elevated.

- The *current account* deficit worsened in 2018. Lower exports, mainly due to mine flooding in coal production, and higher megaproject imports of services led to a deterioration in the current account deficit to 30½ percent of GDP in 2018, from 20 percent of GDP in 2017. While megaproject imports contributed to the large deficit, it was financed to a large extent by FDI. The non-megaproject current account deficit,[5] however, narrowed to 25¾ percent of GDP in 2018 (from 28½ percent of GDP in 2017). International reserves have been rebuilt to a relatively comfortable level (5¾ months of next year's non-megaproject imports at end-March).

Current Account Deficit and Reserve Coverage



Sources: Mozambican authorities and IMF staff estimates.

8. The outlook for 2019 is impacted by the extensive damage from TC Idai and Kenneth. While it is too early to assess the impact of TC Kenneth on growth and inflation, preliminary projections suggest that real GDP growth in 2019 would decelerate to 1.8 percent owing mainly to losses to agricultural production and disruptions to transport, communications and services. Given the adverse supply shock to food availability in Beira and neighboring districts, inflation is projected to pick up to 8½ percent (y/y) by end-2019.[6] Considering the limited room to reallocate budgetary resources, the primary fiscal deficit after grants is projected to reach to 2½ percent of GDP in 2019 due to lower tax collections in the cyclone-hit areas and higher spending related to emergency relief and reconstruction.

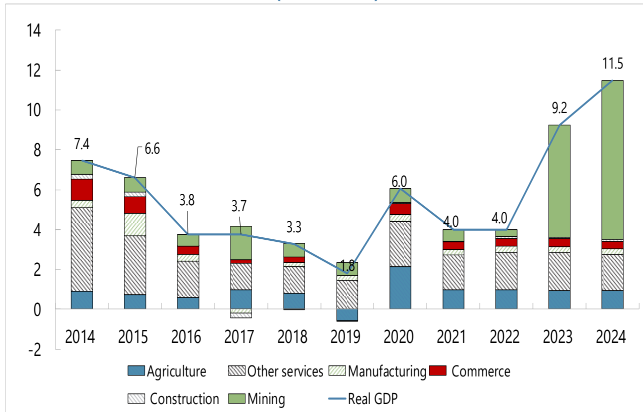
9. Large BOP gaps are expected. The non-megaproject current account deficit is estimated to widen after TC Idai, to around 27 percent of GDP in 2019. Replacement for locally-grown foodstuffs,

[5] For the rationale for focusing the discussion on the non-megaprojects current account and non-megaprojects imports, see Annex II, footnotes 1-3.

[6] In Beira, inflation (y/y) accelerated to 7½ percent in April, from 4¼ in February.

such as rice and maize, and reconstruction materials along with decreases in export receipts, including from Beira's port services, will create a significant BOP gap. While external grants are expected to cover most of the external financing shortfall, the authorities will close the remaining BOP gap projected for 2019 with the recent RCF disbursement.[7]

Sectoral Contribution to Growth, 2014-24
(Percent)



Sources: Mozambican authorities and IMF staff estimates

10. The outlook for the medium term is expected to improve. After decelerating sharply in 2019, growth is projected to rebound strongly in 2020 in response to a recovery in agricultural production to normal levels as well as reconstruction, and to reach 4 percent annually in 2021-22. The very sharp acceleration in growth projected for 2023-24 reflects the start of LNG production; other economic activity (non-LNG) is conservatively assumed to continue to grow at a steady rate of 4 percent per year. Inflation would return to pre-cyclone levels after the supply shock runs its course as the BM continues to normalize the monetary policy stance while standing ready to act if second-round effects on inflation are identified. The primary fiscal deficit after grants is projected to improve in line with the authorities' fiscal consolidation plans. The non-megaproject current account deficit is projected to narrow to 12½ percent of GDP over the medium term reflecting, inter alia, fiscal adjustment. International reserves are projected to remain broadly stable at comfortable levels amid an environment of exchange rate stability.

11. Risks remain broadly balanced. Downside risks involve weak policy implementation, particularly with respect to planned, gradual fiscal consolidation, and delays in key rebuilding projects due to limited implementation capacity, inability to mobilize enough financing for reconstruction, especially external grants. A negative impact from TC Kenneth, not included in the baseline, is also a risk. Delays in securing financing to support reconstruction needs could constraint growth recovery. On the macrofinancial side, the cyclones may increase NPLs as households and businesses deal with lost income and assets in the affected areas. Other downside risks include a deterioration in security in the North; backtracking of peace negotiations; loosening of expenditure control in the run-up to the October elections; and delays in the LNG megaprojects. Upside risks include new oil and gas discoveries; a quicker resolution of ongoing debt renegotiations; closer reengagement with donors; and faster progress on improving governance.

12. Spillovers: Mozambique has marginal trade and financial flows with countries in the region except South Africa, where cross-border trade ties are strong. Disruptions to port services due to TC

[7] The authorities are seeking external grants to minimize recourse to further debt accumulation. The international community has responded rapidly by pledging support. Additional assistance—on top of what already has been disbursed—of about US$580 million is being considered, including: (i) €30 million from Germany; (ii) €90 million from the EU; (iii) US$350 million from the World Bank; and (iv) US$100 million from the African Development Bank.

Idai have somewhat limited outward spillover effects to Zimbabwe, Malawi and Zambia since only about 5 percent of transit trade takes place through Beira's port. On the other hand, inward spillovers from large swings in energy prices and global growth slowdown could be tangible, affecting Mozambique's oil imports as well as its coal and aluminum exports.

Authorities' Views

13. The authorities broadly agreed with staff's assessment of the outlook and risks. However, they expect GDP growth in 2019 in the range of 2 percent to 2½ percent. Like staff, the authorities expect inflation to accelerate to 8½ percent (y/y) by end-2019 due to the cyclone-induced supply shock and to gradually ease as the economy recovers, underpinned by prudent monetary policy and gradual fiscal consolidation. They agreed with staff's views on near-term prospects for the current account and the importance of external support mostly in the form of grants for reconstruction efforts. The authorities broadly agreed with staff's debt sustainability analysis and external sector assessment.

POLICY DISCUSSIONS

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

A. Fiscal and Debt Sustainability

14. Staff recommended capping the primary fiscal deficit after grants at 2½ percent of GDP in 2019. While the annual budget is consistent with a primary fiscal deficit of 1½ percent of GDP in 2019, TC Idai would lead to lower revenue and higher spending—beyond reallocation of lower priority outlays and what could be financed by external grants—and thus a primary fiscal deficit of 2½ percent of GDP in 2019. However, this higher deficit would be in line with available financing in the economy, without resorting to arrears accumulation or central bank financing. Staff stressed the importance of properly allocating higher grants to one-off spending in the cyclone-affected areas to protect, inter alia, the primary fiscal deficit after grants and the authorities' debt strategy as cyclone-related aid is phased out over time. Given that public debt is in distress, the authorities should rely to the maximum extent possible on grant financing and highly concessional loans. Issuance of government debt and guarantees should strictly follow the new approval procedures established in the December 2017 decree. Access to the BM's overdraft window should be strictly contained within legal limits.

15. Gradual medium-term fiscal consolidation should be pursued. To create fiscal buffers, including to deal with future natural disasters, and to help ensure that public debt-to-GDP ratios remain on a clear downward path, staff recommended eliminating the primary fiscal deficit after grants by 2022 through a combination of revenue-enhancing measures (i.e., eliminating VAT exemptions except for basic goods) and spending rationalization (i.e., review and reform of wage and hiring policies in the public sector). Tax administration reforms to boost revenue collection should continue, by improving the taxpayers' registry and electronic information systems, enhancing tax compliance from large taxpayers with adequate risk analysis, and strengthening the extractive industry tax management. Meanwhile, the impact of these measures on the most vulnerable will be mitigated through increases in social spending assistance.[8]

Fiscal Yield by Measure
(Percent of GDP)

	2020	2021	2022
All Measures	0.8	0.8	0.3
A. Tax revenue measures	0.8	0.6	0.0
Remove VAT exemptions on select food products, public worksand	0.8	0.6	0.0
B. Wage bill rationalization measures	0.0	0.2	0.3

Source: IMF staff estimates.

16. The authorities are adopting a comprehensive debt strategy aimed at bringing down debt levels to moderate risk of debt distress over the medium term. Mozambique's debt remains in distress as debt restructuring discussions are ongoing with international private creditors.[9] Accounting for the authorities' debt restructuring strategy and considering that, to a large extent, future borrowing and government guarantees reflect state participation in the sizable LNG development, debt is deemed sustainable. The PV of external public and publicly guaranteed (PPG) debt relative to GDP is projected to surpass prudent thresholds for a few years but is expected to remain on a gradual declining path; and the PV of external PPG debt relative to exports would remain close to the prudent threshold. Both debt service ratios (to exports and revenue) are projected to remain below their respective thresholds during the projection period.

17. Debt management and oversight needs to be strengthened further. While the authorities have already taken important steps, including to improve the transparency of the process of evaluating and granting government guarantees, the debt unit of the Ministry of Economy and Finance needs to be strengthened with respect to both its capacity and clout to exercise effective oversight over the entire public debt portfolio and to implement stronger safeguards. In addition, building on the new SOE Law and its recently-approved regulation, oversight over the entire SOE sector needs to be strengthened.

18. Staff welcomed the implementation of a strategy to clear domestic payments arrears to government suppliers.[10] However, to avoid further accumulation of arrears, the authorities should adopt immediate measures to strengthen commitment controls and recreate all stages of a healthy spending chain, while gradually improving cash management in line with IMF TA

[8] For details, see SM/18/32, Box 2.

[9] For details, see EBS/19/21.

[10] The stock of domestic payments arrears stood at about 2½ percent of GDP at end-2017 of which about 1¾ percent of GDP has been validated. About half of the validated arrears was cleared in 2018 and the remainder will be cleared by end-2019.

recommendations.[11] Staff encouraged the authorities to tackle the backlog of VAT refunds by developing and implementing a strategy to eliminate the backlog over time.

19. Staff commended the authorities for cabinet approval of the SOE Law regulation in line with IMF suggestions. In this connection, it will be critical to strictly implement the envisaged controls on SOE ability to issue debt, particularly those SOEs in financial distress. At the same time, staff emphasized the importance of creating the new agency envisaged in the SOE Law to exert strong financial oversight over the entire SOE sector. Speeding up the preparation and implementation of recovery, restructuring or privatization plans of SOEs in distress remains essential.

20. Staff acknowledged the improvements achieved in assessing and mitigating fiscal risks and commended the authorities' decision to publish the 2019 fiscal risks assessment. The authorities were encouraged to regularly update this assessment, on a timely basis, to better inform the budget process, and to gradually increase the scope of fiscal risks and quantitative data covered in the report. Ongoing efforts to improve fiscal projections and deepen the assessment of fiscal risks related to SOEs and fiscal decentralization (provinces and districts) are also welcome**.**

21. Fiscal decentralization should be gradual and pursued in a fiscal deficit neutral basis. Staff recommended a gradual transfer of revenue and spending responsibilities to subnational levels of government, in line with their capacity to execute subnational budgets and maintain the quality of delivery of public goods and services. In this vein, the authorities should prepare a public finance decentralization draft law in harmony with other, already approved administrative decentralization laws.

Authorities' Views

22. The authorities broadly agreed with staff's views and recommendations. They shared the need to contain the primary fiscal deficit after grants at around 2½ percent of GDP in 2019 and to eliminate this deficit by 2022. They stressed that they are implementing a debt strategy with the aim to bring down their debt risk rating to moderate levels. This would be achieved through debt restructuring that would bring significant debt relief as well as prudent financing with emphasis on grants and highly concessional borrowing and gradual medium-term fiscal consolidation. The authorities agreed with the need to further strengthen debt management capacities and oversight over the entire SOE sector, which they stressed is ongoing.

B. Monetary and Exchange Rate Policies: Prudent Normalization and Sustaining Stability

23. The BM faces the challenge of resetting monetary policy in an environment affected by a significant supply shock and external/domestic risks. Staff welcomed the gradual and cautious normalization of monetary policy while emphasizing the importance to remain vigilant about possible second-round effects on inflation of the cyclone-induced supply shock. To the extent that such second-round effects do not materialize, the process of normalization could include

[11] For further details on PFM reform issues, see Annex III (paragraph 6) and Annex IV.

additional policy rate cuts, possibly intertwined with pauses to assess market reaction and recalibrate the strategy.[12] At the same time, given that sterilization operations are becoming less successful, staff encouraged the BM to consider other options to sterilize excessive structural liquidity in the system, including long-term reverse repos as opposed to short-term T-bills.

24. Noting the recent, unexpected decision to significantly increase reserve requirements on foreign currency deposits, staff recommended that any further increases should be carefully considered and explained to market participants. While the recent and previous increases aimed at discouraging financial dollarization,[13] such actions reduce the capacity of the banking sector to supply credit and could add to forex market pressures. Effective de-dollarization will require building a track record of strong macroeconomic fundamentals combined with incentives to increase the use the local currency.[14]

25. Staff recommended developing a strategy to deepen the forex market, maintaining exchange rate flexibility as a shock absorber and preserving an adequate international reserve cover. Forex market intervention should be limited to avoiding excessive exchange rate volatility and should be fully sterilized to avoid affecting liquidity in local currency. The external sector assessment (Annex II) shows that Mozambique's external position in 2018 was substantially weaker than implied by medium-term fundamentals—real effective exchange rate was overvalued in the range of 10 percent to 20 percent at end-2018—underscoring the need for real exchange rate adjustment supported by fiscal adjustment and structural reforms to bring the non-megaproject current account deficit in line with its estimated norm. Since the beginning of the year, the metical has depreciated by 4½ percent against the U.S. dollar and 5 percent against the rand, in nominal terms, contributing to close the estimated overvaluation.

Authorities' Views

26. The authorities broadly agreed with staff's views and recommendations. They agreed that a cautious approach to monetary policy normalization should be followed while considering external/domestic risks to the inflation outlook and remaining vigilant about possible second-round effects on inflation of the cyclone-induced supply shock. In addition, they stressed that the BM already maintained, and would continue to maintain, exchange rate flexibility and was committed to preserving an adequate international reserve cover. The authorities noted that financial de-dollarization was a priority and, circumstances permitting, additional increases in reserve requirements on foreign currency deposits would be considered.

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[12] A Selected Issues Paper presents estimates of the neutral real interest rate for Mozambique applying several methods used in the literature. Results indicate that this rate is in the range of 4¾percent to 7¾ percent.

[13] The BM increased reserve requirements on foreign currency deposits from 14 percent in January 2018 to 36 percent in February 2019.

[14] They include: (i) prudential measures to internalize currency risk such as an active management of reserve requirement differentials, higher provisions for foreign currency loans, and tighter limits on banks' net open positions; (ii) developing the capital market in local currency; and (iii) requiring only the use of local currency for payments to the government, including taxes and fees.

C. Financial Sector: Increasing Resilience and Tackling Vulnerabilities

27. The BM is committed to implementing further monetary and financial sector regulatory measures to enhance financial sector resilience (Box 1). It continues to strengthen its governance and operations with Norges Bank and IMF TA. Progress has been made in the first phase of this project,[15] including to: (i) strengthen central bank governance, organization, and management; (ii) improve monetary and exchange rate policy, operations, and communications; (iii) enhance financial stability analysis, reporting, and communications; (iv) modernize the national payments systems and its oversight function; and (v) make cash management more efficient. The financial regulatory framework continues to be strengthened to mitigate vulnerabilities, including limits/procedures to calculate loan-to-value and debt-to-income ratios, defining risk concentration limits; and improving methodology to identify systemic banking institutions.

28. The BM should continue to mitigate risks arising from an environment of high interest rates and only gradual recovery of economic activity and credit. Staff advised the BM to remain watchful of banks' portfolio performance, through strong enforcement of loan classification rules, collateral valuation and timely provision building and to follow up closely the impact on the banking system of the government's plan to clear domestic payments arrears, particularly on NPLs and credit growth.

29. Staff welcomed the efforts to implement macroprudential surveillance and strengthening communications on financial stability issues. Nevertheless, to further enhance financial stability, it would be important to upgrade loan classification and provisioning rules, as well as address weaknesses in the legal framework for crisis management, bank resolution and safety nets.[16] Supervisory efforts should focus on containing risks associated with bank exposures to the public sector, by proactively strengthening regulations on concentration risks, including requiring the use of realistic capital adequacy risk weights for loans to SOEs backed (or not) by government guarantees. Additional provisioning should be required, as necessary, on a case by case basis. Revamping supervisory capacities is urgently needed. This would include increasing the number of staff and refocusing supervision toward key risks; empowering supervisors by following up on findings (e.g., onsite inspection results) at the BM Board level; and improving offsite supervision and enforcement and strengthening risk-based supervision. Staff also encouraged the BM to continue engaging with home supervisors of foreign-owned banks to ensure recovery and resolution plans of the groups, further strengthen the prudential framework for loan loss provisioning, and regularly publish Financial Stability Indicators (FSIs).

30. Staff commended the authorities for their efforts at promoting financial inclusion within the National Strategy 2016-22. Mobile banking and electronic currency and, more generally, digital finance, could play a key role in extending the network of transactions and creating opportunities to people in rural areas, women entrepreneurs, micro, small and medium-sized businesses. The fees structure should be carefully assessed to bring in innovative and cost-efficient

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[15] The initiative delivered 18 missions, 1 study tour and 1 workshop from October 2017 until April 2019. See Capacity Development Strategy (Annex IV) and IMF Technical Assistance (Informational Annex, pp.8-9).

[16] In this connection, the BM is reviewing, with IMF support, the central bank law and is also working with the World Bank and the IMF on revisions to the banking law. Strengthening the deposit insurance scheme is also warranted.

solutions for accessing financial services. Staff encouraged the authorities to partner with the relevant stakeholders to promote a better understanding of the role of Fintechs.

Box 1. Monetary and Financial Sector Regulatory Measures

Monetary

- Norms on specific accounts opened by exporters to receive revenues or income from foreign investment (March 2018).
- Norms and complementary procedures for operations of oil and gas companies (September 2018).
- Conditions to exchange export revenue of goods and services, foreign investment income and other foreign inflows (October 2018).

Financial

- Code of conduct for credit institutions and financial corporations (March 2018).
- Prudential limits for risks concentration with counterparts (April 2018).
- Determination of loan-to-value (LTV) and debt-service-to-income (DTI) ratios (October 2018).
- Systemically important domestic bank institutions (October 2018).

Transparency and competition

- Regulation on publicity of products and financial services (March 2018).
- Review of the Standardized Prime Interest rate for Bank Lending (*Indexante Único*) (September 2018).

31. The BM is committed to undertaking a safeguards assessment in connection with the RCF disbursement. The previous assessment, conducted in 2016, recommended legal amendments to strengthen the central bank mandate and improve its governance framework, including through the establishment of an independent oversight body of management/operations and strengthened autonomy and accountability provisions. These have yet to be implemented and require a reform of the central bank law.

Authorities' Views

32. The BM expressed its strong commitment to remain vigilant of macrofinancial risks, continue strengthening regulation and prudential supervision, and continue modernizing its governance framework and operations. The BM agreed to closely monitor financial system exposure to SOEs and government securities, and it confirmed its commitment to continue improving bank resolution tools, strengthening the safety net, and improving risk-based supervision. The BM expressed satisfaction with the technical assistance provided under the Norges Bank and IMF multiyear project.

D. Structural Policies: Strengthening Governance and Resilience to Natural Disasters while Supporting Inclusive Growth

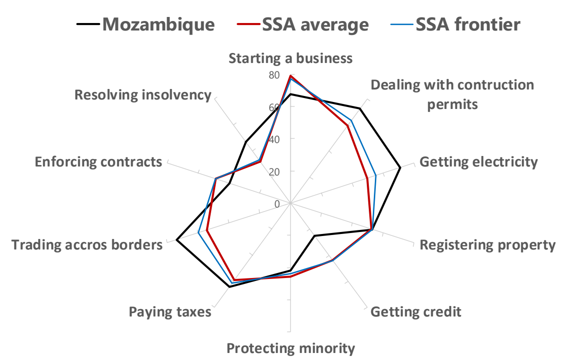
33. Staff urged the authorities to continue taking steps to strengthen governance, transparency and accountability, including to reduce vulnerabilities to corruption (Annex III). The authorities' ongoing preparation with IMF TA of a diagnostic report on governance and corruption vulnerabilities on areas most relevant for economic activity is welcome and would provide a roadmap for further reform. Key areas covered include fiscal governance and transparency, market regulation, central bank governance, and AML/CFT. Staff stressed that an effective implementation of the AML/CFT framework would not only support the integrity of the financial sector but would be critical for governance and anti-corruption efforts as well.

34. Integrating climate change within the broader developmental agenda is essential given Mozambique's vulnerability to natural disasters. Public action on several fronts is being taken to enhance resilience and response capacity. The revised Law on Managing Natural Disasters (15/2014) and the Government Plan 2015-19 highlight the need for reducing vulnerabilities and including preventive measures in development planning. Long-term policy defined in the National Climate Change Strategy 2013-2025 and the Master Plan for Risk and Disaster Reduction 2017-2030 provide a large set of measures to combat, adapt and mitigate climate change effects. However, substantial support is still needed to improve socio-economic infrastructure resilience. With support from the World Bank, the government is preparing a National Resilience Strategy. While these efforts are costly, particularly in context of limited fiscal space, evidence suggests that even small, low-cost initiatives can be effective in enhancing preparedness.

35. Managing natural resources wealth. Mozambique is poised to become a key producer and exporter of LNG, with significant impact on its economy.[17] Staff welcomed the recent high-level international conference to raise awareness and start discussions on the main tradeoffs and policy issues related to the development of Mozambique's large natural gas reserves.[18] Staff recommended strengthening the medium-term fiscal framework, gradually transitioning the fiscal anchor, and considering fiscal rules to save for future generations part of the upcoming and very substantial LNG related fiscal revenue—a sovereign wealth fund could be considered to underpin transparency.[19]

Mozambique: Ease of Doing Business Survey, 2019

(100= most favorable; 0=least favorable)



Sources: World Bank, *Doing Business* 2019 & IMF staff calculations.

36. Structural reforms to remove impediments to investment and employment creation are necessary for diversified and sustained inclusive growth, and to support poverty reduction. Underdeveloped infrastructure, difficulties with corruption,

[17] See Selected Issues Paper on "Natural Gas Revenues in Mozambique: Trade-offs and Opportunities" which, inter alia, supports the need to embed counter-cyclical policies, both as part of natural resource wealth management but also to limit the so-called natural resource wealth curse thus ensuring diversified and inclusive development.

[18] President Nyusi opened the conference that took place during March 27-28 and was co-organized by the BM and the IMF. It was attended by approximately 180 participants, including senior government officials, private sector representatives and Mozambique's development partners.

[19] Possible fiscal anchors include a non-resource (non-LNG) primary fiscal balance that is more suitable to deal with external shocks common to commodity-based economies. Ideally, the new fiscal anchor and framework should be chosen and developed and should become an integral part of the annual budgets over the next three-to-five years.

and ambiguous regulations are key challenges according to the World Banks's Ease of Doing Business Survey. The private sector also struggles with unresolved public sector arrears and tight and expensive access to credit. Staff urged the authorities to adopt, in consultation with the World Bank, a set of reforms aimed at improving the business climate (Mozambique ranks 138 out of 190 countries in the 2018 installment of the Ease of Doing Business). Structural reforms together with better institutions to manage natural resource wealth and policies to build resilience to climate change will improve Mozambique's competitiveness and resilience, contributing also to address external sector weakness. In this context, staff advised the authorities to continue working toward meeting the sustainable development goals and to adopt reforms to improve the business climate and strengthen social safety nets.

Authorities' Views

37. The authorities broadly agreed with staff's views and recommendations. They are cognizant that further reforms, particularly to improve transparency and governance, are paramount to achieving higher rates of inclusive growth, reducing poverty and improving intra-generational distribution of natural resource wealth. In this context, they are committed to invigorating efforts with a view to address governance and corruption vulnerabilities, and work diligently toward the completion, publication and implementation of the recommendations of the forthcoming diagnostic report on governance and corruption challenges.

E. Data Issues and Capacity Development Strategy

38. Data provided to the Fund are broadly adequate for surveillance. The authorities are encouraged to address data gaps, including strengthened compilation and dissemination for reporting fiscal data and improved national accounts and prices compilation. Also, they should continue their efforts to improve BOP and financial sector data, including by improving the coverage of imports by domestic firms to supply megaprojects and finalizing the compilation of the other financial corporations' survey (i.e., pension funds and insurance companies).

39. Mozambique receives significant IMF TA, including to strengthen PFM systems, revenue mobilization, macroeconomic statistics, central banking and financial supervision (Annex IV). Going forward, capacity development will support consolidating PFM reforms and the fiscal decentralization process; modernizing tax policy and revenue administration; strengthening governance and modernizing central bank operations; and enhancing the compilation and dissemination of government finance and real sector statistics.

STAFF APPRAISAL

40. While recognizing the limited room for maneuver, staff welcomes the authorities' efforts to reallocate lower priority spending in the annual budget to emergency assistance and reconstruction in the aftermath of TC Idai and Kenneth. As the bulk of these costs will have to be covered by external grants, staff urges the international community to participate.

41. Continued rebalancing of the policy mix is needed to ensure durable macroeconomic stability. Gradual fiscal consolidation aimed at eliminating the primary fiscal deficit over the medium term is essential. Staff welcomes the authorities' intention to consolidate over time its fiscal position, by eliminating VAT exemptions and reducing recurrent spending, particularly on wages, while protecting social and critical infrastructure outlays. Given the forthcoming aid related to TC Idai and Kenneth, it will be important to properly allocate such higher grants to one-off spending in the affected areas to protect, inter alia, the primary fiscal deficit after grants and the authorities' debt strategy as cyclone-related aid is phased out over time.

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

43. Adopting and implementing a debt strategy aiming to bring Mozambique's debt risk to moderate levels over the medium term remains a priority. While the authorities have already taken important steps to strengthen public debt management, including to improve the process of evaluating and granting guarantees, strengthening oversight of the entire public debt portfolio to ensure that public debt-to-GDP ratios remain on a declining path will be important as well.

44. Staff welcomes the gradual and cautious normalization of monetary policy and cautions the BM to remain vigilant about possible second-round effects on inflation of the cyclone-induced supply shock. While the normalization of monetary policy could include additional policy rate cuts—possibly intertwined with pauses to assess market reaction and recalibrate the strategy—it will be important to proceed with caution due to external and domestic risks. Staff welcomes the authorities' intention to maintain exchange rate flexibility as a shock absorber and preserving an adequate international reserve cover. While the external position of Mozambique in 2018 was substantially weaker than implied by medium-term fundamentals and desirable policies, this is likely to correct over the medium-term with an improved policy mix, structural reforms and LNG production and exports. Forex market intervention should continue to be limited to managing excessive exchange rate volatility and should be fully sterilized to avoid affecting liquidity in local currency.

45. Steadfast implementation of financial sector and monetary policy reforms is essential to strengthen resilience and mitigate macrofinancial risks. The authorities must remain vigilant of risks coming from a prolonged period of high real interest rates and rapid increase in public domestic debt. Staff supports the BM's efforts to enhance supervisory capacities and the bank resolution framework. The evolving monetary policy regime should build on enhanced communications, increased technical capacities and reformed central bank law that, inter alia, grants operational autonomy to the BM, precludes or strictly limits central bank lending to the government, and strengthens BM governance and accountability. Staff welcomes the BM's decision to undertake a safeguards assessment in connection with the RCF disbursement.

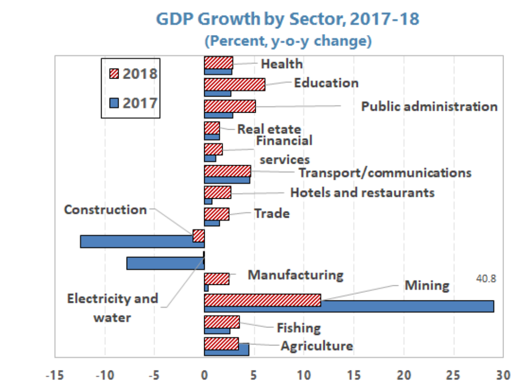
46. Staff recognizes the authorities' commitment to improve governance, transparency and accountability, including to reduce vulnerabilities to corruption. The authorities' ongoing preparation with IMF TA of a diagnostic report on governance and corruption challenges in areas most relevant for economic activity will provide a roadmap for further reforms in this area. Publication of the diagnostic report soon after its finalization is strongly encouraged.

47. Further structural reforms will be important to support higher rates of inclusive growth, job creation and further reductions of poverty and inequality. Strengthening governance and fighting corruption, fostering competition and improving the business climate will be instrumental in attracting FDI and supporting private investment and job creation. Restructuring and attracting private sector participation in ailing SOEs will be key to improve economic efficiency and contain fiscal risks.

48. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

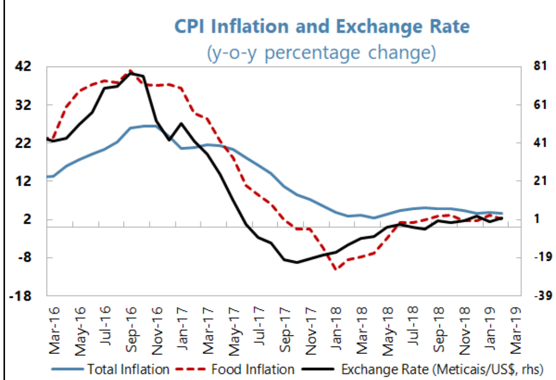
Figure 1. Mozambique: Growth and Inflation

Growth decelerated because of mining…

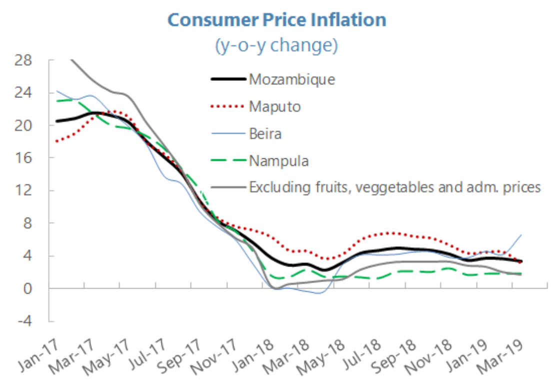


…but became broad based with non-mining accelerating.

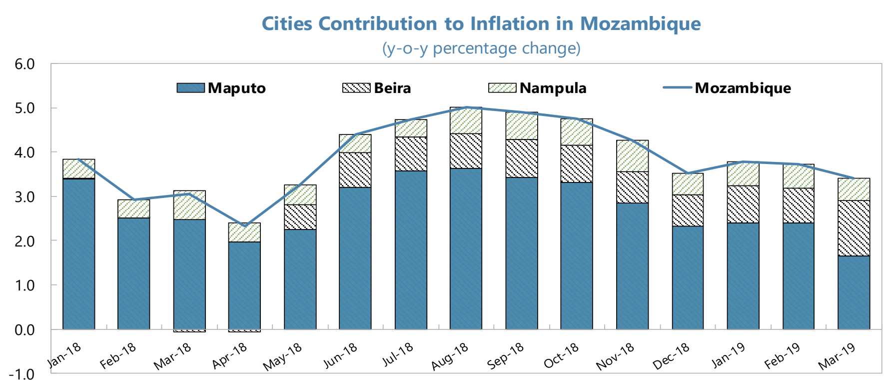
And inflation continue to decline despite increase in administrative prices.



So far, the cyclone has only affected inflation in Beira.



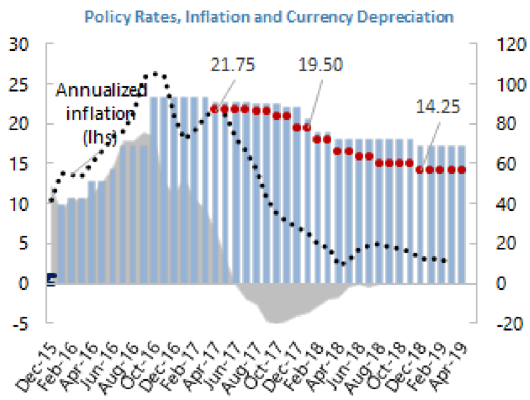
Maputo and Beira are the main contributors to inflation in Mozambique



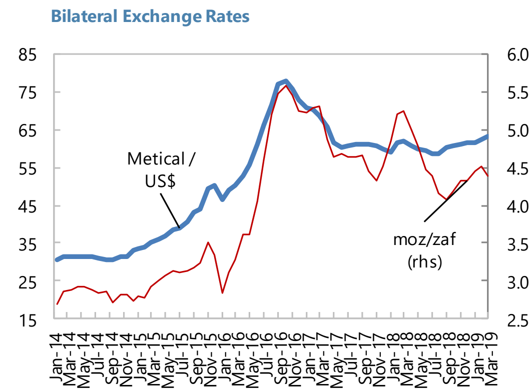
Sources: National Institute of Statistics and IMF Staff calculations.

Figure 2. Mozambique: Monetary and Financial Developments

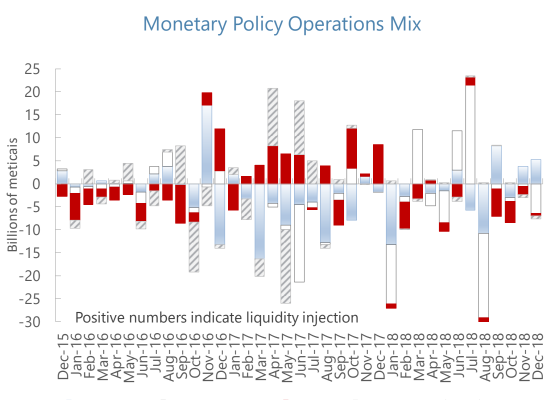
Monetary policy started a cautious easing cycle after inflation stabilization within single digits…



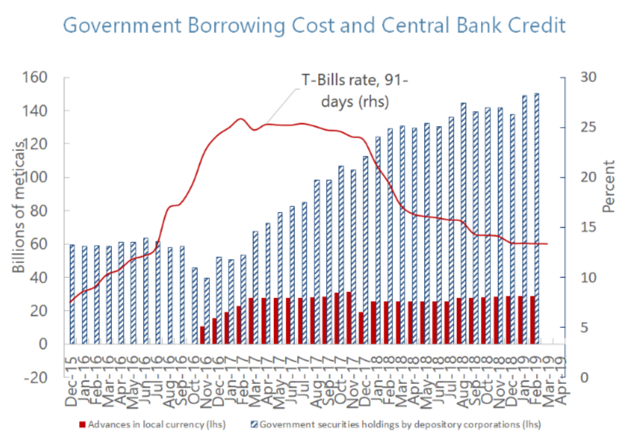
…and the metical has been broadly stable against the dollar.



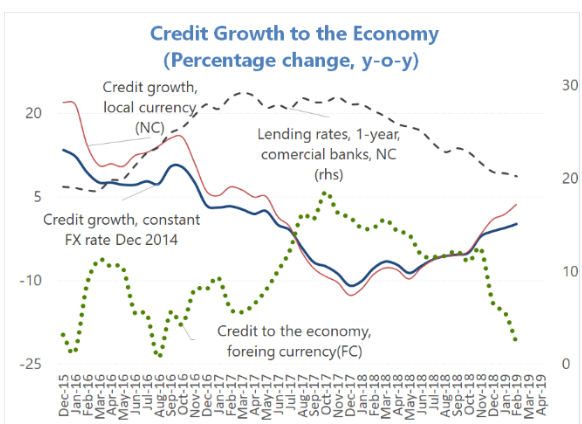
Excess liquidity is mopped trough T-Bill issuance and reverse repos.



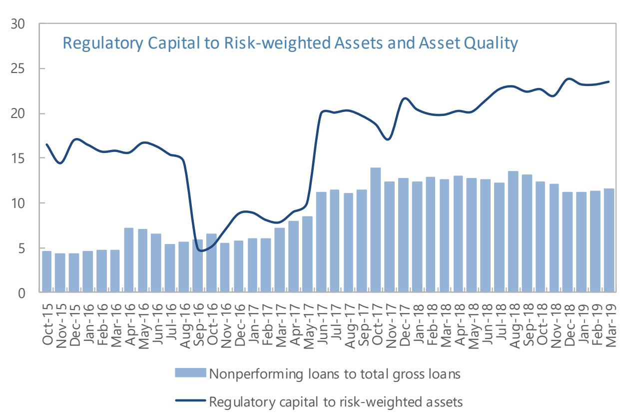
Government borrowing cost remains high while recurrence to central bank credit has fall.



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



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

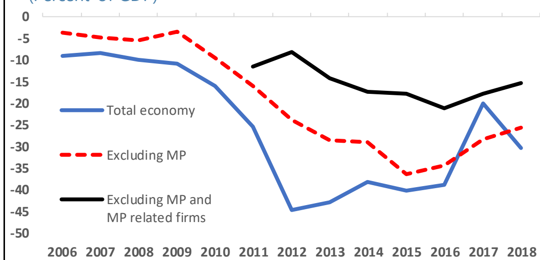


Source: Bank of Mozambique.

Figure 3. Mozambique: Selected External Sector Developments

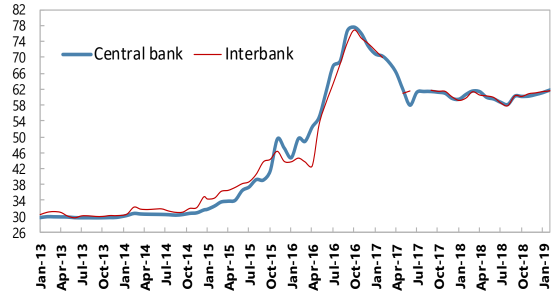
The non-megaproject current account continued narrowing

Current Account Balance
(Percent of GDP)



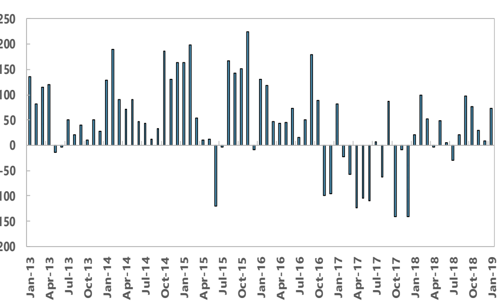
...while the exchange rate stabilized.

Nominal Exchange Rate
(Metical/U.S. dollar)



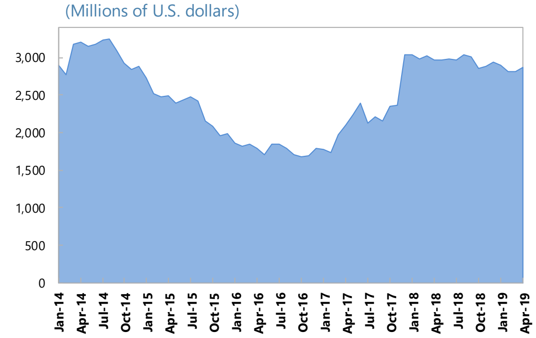
The central bank has intervened to moderate FX volatility ...

Net Central Bank Foreign Exchange Sales
(Millions of U.S. dollars)



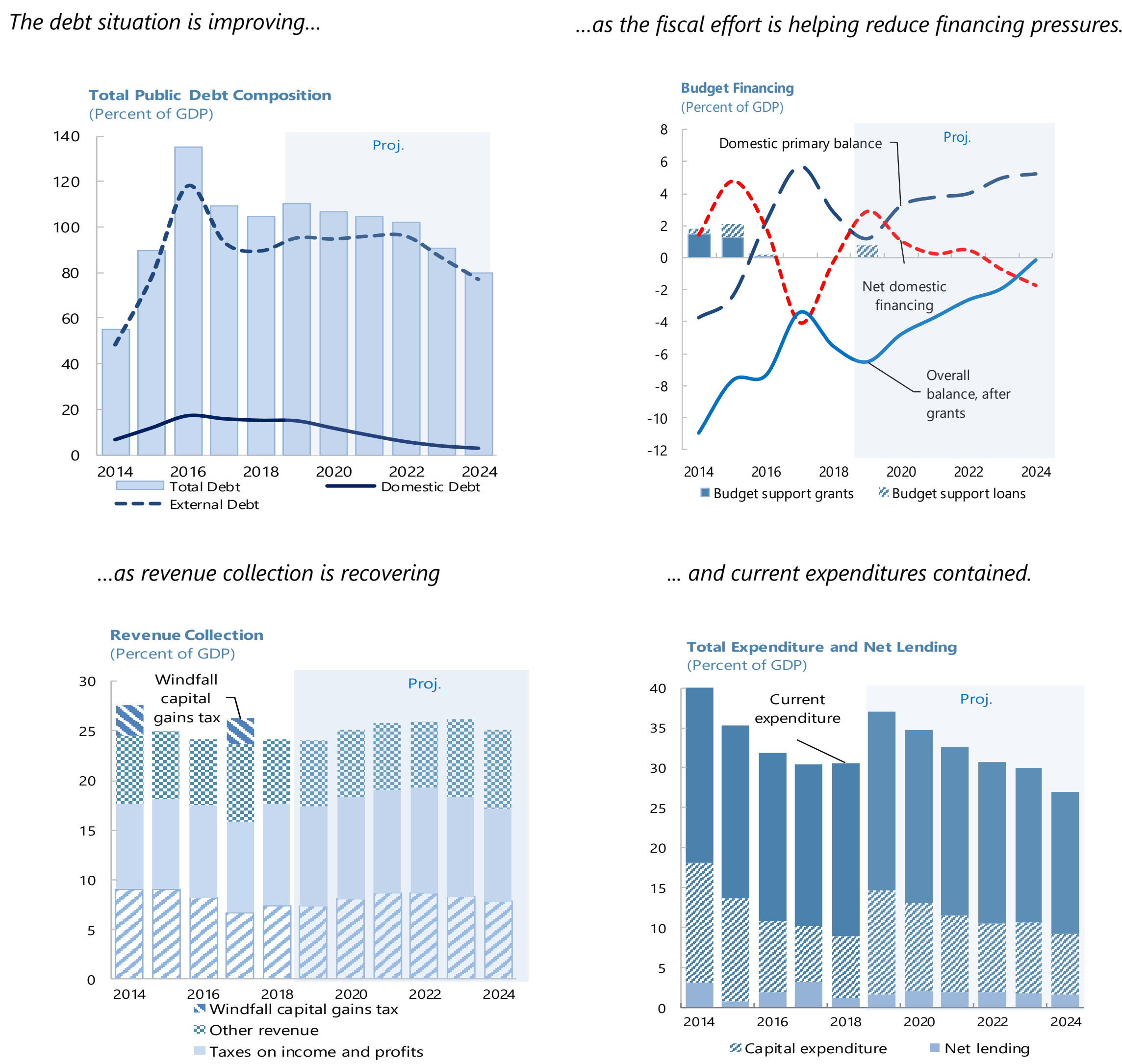
...while international reserves have stabilized

Net International Reserves
(Millions of U.S. dollars)



Sources: Mozambican authorities and IMF staff estimates and projections.

Figure 4. Mozambique: Fiscal Developments



Sources: Mozambican authorities and IMF staff estimates and projections.

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Prel.	Est.			Proj.			
National income and prices (Percentage change, unless otherwise indicated)									
Real GDP	3.8	3.7	3.3	1.8	6.0	4.0	4.0	9.2	11.5
Real GDP, excl. mining	3.3	2.1	2.8	1.2	5.8	3.7	3.9	3.9	4.0
Nominal GDP	16.1	17.1	9.0	8.0	14.5	10.6	9.7	15.3	17.6
GDP deflator	11.9	12.9	5.5	6.1	8.0	6.3	5.5	5.5	5.5
Consumer prices (end of period)	23.7	5.6	3.5	8.5	6.5	5.5	5.5	5.5	5.5
Consumer prices (annual average)	19.9	15.1	3.9	5.6	7.6	6.0	5.5	5.5	5.5
GDP (billions of meticais)	687	804	876	946	1,084	1,198	1,314	1,515	1,781
GDP (billions of US dollars)	10.9	12.6	14.4	15.1	16.7	17.9	19.0	21.3	24.2
GDP per capita (US dollars)	379	426	475	484	522	544	564	615	682
Investment and savings (Percent of GDP)									
Gross domestic investment	38.1	39.2	48.7	76.8	88.3	87.0	92.9	85.8	75.0
Gross domestic savings, excl. grants	-2.3	18.4	17.6	13.6	18.1	22.6	16.8	23.8	35.4
Central government (Percent of GDP)									
Total revenue [1]	24.1	26.2	24.2	24.0	25.1	25.8	25.9	26.3	25.2
Total expenditure and net lending	32.2	31.4	31.2	37.0	34.7	32.6	30.6	30.0	26.9
of which: current expenditure	21.0	20.2	21.6	22.5	21.7	21.1	20.2	19.4	17.7
Overall fiscal balance, before grants [2]	-9.4	-5.4	-7.3	-13.1	-9.6	-6.7	-4.7	-3.7	-1.7
Grants	2.1	2.0	1.8	6.6	4.9	3.0	2.0	1.9	1.8
Overall fiscal balance, after grants [2]	-7.3	-3.4	-5.5	-6.5	-4.8	-3.7	-2.6	-1.8	0.1
Primary fiscal balance, after grants	-4.7	-0.3	-1.9	-2.5	-1.0	-0.5	0.0	0.7	2.0
Public sector debt (Percent of GDP)									
Nominal stock of total debt	137.6	110.4	110.5	117.0	111.4	109.0	109.2	102.1	89.8
of which: external	112.9	90.4	91.2	97.9	96.3	96.9	98.6	94.5	85.7
Nominal stock of total debt, excl. ENH's debt	129.3	104.2	103.4	103.8	93.3	87.1	83.1	75.1	65.3
of which: external debt, excl. ENH's debt	104.5	84.2	84.2	84.7	78.2	75.0	72.6	67.5	61.2
Money and credit (Percentage change, unless otherwise indicated)									
Reserve money	35.2	4.7	21.8	16.3	7.5	7.9	8.3	9.7	9.8
Broad Money (M3)	10.1	5.1	10.9	7.6	9.6	9.6	9.6	12.3	12.4
Percent of GDP	53.4	48.0	48.8	48.7	46.6	46.2	46.2	45.0	43.0
Credit to the economy	12.6	-13.7	-2.6	5.6	9.3	9.5	9.6	9.7	9.7
Percent of GDP	38.0	28.1	25.1	24.5	23.4	23.2	23.2	22.1	20.6
Policy rate (percent) [3]	23.3	19.5	14.3	14.3	...	...	...	...	...
External sector (Percent of GDP, unless otherwise indicated)									
Current account balance	-39.0	-20.0	-30.4	-58.0	-66.7	-62.9	-75.6	-61.6	-39.3
excl. megaprojects	-34.3	-28.4	-25.7	-27.1	-23.2	-22.5	-22.7	-23.1	-22.1
excl. megaprojects (MP) and indirect MP imports	-21.1	-17.7	-15.2	-13.1	-11.7	-12.2	-12.3	-13.2	-12.8
Merchandise exports	30.5	37.5	36.1	36.2	34.5	34.3	33.1	36.6	41.4
excl. megaprojects	8.5	8.5	8.9	8.6	9.3	9.6	10.0	9.8	9.5
Merchandise imports	43.4	41.5	42.8	52.8	50.3	47.0	48.6	44.9	39.7
excl. megaprojects	36.4	35.7	34.0	38.8	33.9	31.6	30.4	29.4	28.3
Net foreign direct investment	28.4	18.2	18.7	18.5	21.2	20.1	23.9	17.1	13.5
Terms of trade (Percentage change)	2.0	2.7	-2.5	0.2	-0.7	-0.3	-0.1	-0.1	-0.1
Gross international reserves (millions of US dollars, end of period)	1962	3297	3079	2905	2991	3078	3251	3407	3506
Months of next year's non-megaproject imports	4.2	6.8	5.5	5.1	5.2	5.1	4.9	4.8	4.7
Net international reserves (millions of US dollars, end of period)	1727	3062	2844	2670	2756	2843	3016	3172	3271
Exchange rate									
Meticais per US dollar, end of period	71.4	59.3	61.6	...	...	...	...	...	...
Meticais per US dollar, period average	63.1	63.9	60.9	...	...	...	...	...	...
Real effective exchange rate (Percentage change)	-23.3	6.0	6.7	...	...	...	...	...	...

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

[1] Net of verified VAT refund requests.

[2] Modified cash balances and including arrears.

[3] Liquidity injection standing lending facility rate (2016), Bank of Mozambique's MIMO rate (2017, and latest as of April 2019).

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

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

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

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

[2] Externally financed loans to SOEs.

[3] Modified cash balances include an adjustment for payment arrears.

[4] Exceptional financing for external debt under renegotiation.

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

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

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

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

[2] Externally financed loans to SOEs.

[3] Modified cash balances include an adjustment for payment arrears.

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

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

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

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

[1] Liquidity injection standing lending facility rate (2016), Bank of Mozambique's MIMO rate (2017, and latest as of end-April 2019).
[2] Latest as of end-April 2019.

Table 4a. Mozambique: Balance of Payments, 2016–24

(Millions of U.S. dollars; unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Prel.	Est.			Proj.			
Current account balance	-4,247	-2,512	-4,371	-8,748	-11,142	-11,245	-14,380	-13,116	-9,526
Trade balance for goods	-1,405	-498	-973	-2,507	-2,631	-2,254	-2,951	-1,781	410
Of which: Megaprojects	1,633	2,925	2,637	2,042	1,474	1,673	941	2,402	4,983
Exports, f.o.b.	3,328	4,725	5,196	5,465	5,763	6,141	6,294	7,781	10,039
Megaprojects	2,405	3,657	3,913	4,163	4,203	4,420	4,398	5,700	7,749
Other	924	1,068	1,282	1,301	1,560	1,721	1,895	2,081	2,291
Imports, f.o.b.	4,733	5,223	6,169	7,971	8,394	8,395	9,245	9,562	9,630
Megaprojects	771	733	1,277	2,121	2,729	2,747	3,457	3,298	2,766
Other	3,962	4,490	4,892	5,850	5,665	5,648	5,788	6,264	6,864
Services (net)	-2,701	-2,324	-3,431	-6,504	-8,468	-8,649	-10,976	-10,804	-9,419
Megaprojects	-2,086	-1,828	-3,287	-5,901	-7,882	-7,921	-10,053	-9,605	-8,178
Other	-615	-496	-145	-278	-288	-317	-467	-644	-673
Primary income (net)	-377	-325	-303	-749	-867	-869	-808	-879	-868
Of which : Interest on public debt (net) [1]	-201	-277	-312	-285	-297	-304	-314	-390	-467
Of which : Megaprojects (Net interest and dividends)	-18	0	0	-433	-512	-510	-491	-503	-516
Secondary income (net)	236	634	336	1,012	824	527	354	349	351
Of which : External grants	156	116	108	781	585	280	100	86	80
Capital account balance	178	253	263	375	372	369	367	358	609
Financial account balance	3,274	3,538	3,644	7,827	10,638	10,754	14,106	12,836	8,976
Net foreign direct investment	3,093	2,293	2,692	2,796	3,532	3,585	4,543	3,638	3,279
Megaprojects	1,288	886	2,013	1,880	2,635	2,660	3,590	2,654	2,262
Other	1,806	1,407	679	915	897	925	953	984	1,017
Borrowing (net) by the general government	160	430	47	173	230	302	322	420	341
Disbursements	514	672	430	512	614	729	759	941	821
Repayments [2]	354	242	383	339	384	426	437	521	480
Loans (net) by the nonfin private sector	-8	165	1,425	4,109	6,144	6,505	8,719	7,274	4,675
Megaprojects	-36	0	0	3,946	5,976	6,330	8,539	7,080	4,466
Other	28	165	1,425	163	169	174	180	194	209
Other financial flows (net) [3]	29	650	-520	749	731	362	522	1,504	681
Net errors and omissions	-3.6	-578	-262	0	0	0	0	0	0
Overall balance	-799	701	-726	-546	-132	-122	93	78	59
Financing	799	-701	726	546	132	122	-93	-78	-59
Reserve assets (- = increase)	534	-1,296	290	99	-58	-61	-147	-130	-87
Net use of credit	-33	-32	-32	75	-28	-26	-26	-26	-12
Of which : IMF disbursements (+)	0	0	0	120	0	0	0	0	0
Of which : Repayments to the IMF (-)	-33	-32	-32	-45	-28	-26	-26	-26	-12
Exceptional financing	298	626	468	372	218	209	80	78	40
Memorandum items:									
Current account balance (Percent of GDP)	-39.0	-20.0	-30.4	-58.0	-66.7	-62.9	-75.6	-61.6	-39.3
excl. megaprojects (Percent of GDP)	-34.3	-28.4	-25.7	-27.1	-23.2	-22.5	-22.7	-23.1	-22.1
excl. megaprojects (MP) and indirect MP imports (Percent of GDP) [4]	-21.1	-17.7	-15.2	-13.1	-11.7	-12.2	-12.3	-13.2	-12.8
Net foreign assets	1,646	2,969	2,756	3,413	4,052	4,489	4,588	4,621	4,522
Net international reserves [5]	1,727	3,062	2,844	2,670	2,756	2,843	3,016	3,172	3,271
Gross international reserves	1,962	3,297	3,079	2,905	2,991	3,078	3,251	3,407	3,506
Months of next year's imports of goods and services	2.9	3.8	2.4	2.0	2.0	1.7	1.8	2.0	2.1
Months of next year's imports of goods and services, excl. MP	4.2	6.8	5.5	5.1	5.2	5.1	4.9	4.8	4.7
Percent of broad money (M2)	54.9	67.8	59.0	57.4	53.4	51.2	50.8	48.7	46.0

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

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

[2] Includes repayments of previously undisclosed loans.

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

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

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

Table 4b. Mozambique: Balance of Payments, 2016–24

(Percent of GDP)

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

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

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

[2] Includes repayments of previously undisclosed loans.

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

Table 5. Mozambique: Financial Soundness Indicators for Banking Sector, 2016–19[1]

(In percent; unless otherwise indicated)

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Jan-19	Feb-19
Capital Adequacy											
Regulatory capital to risk-weighted assets	8.8	7.8	19.9	19.7	21.5	19.8	21.4	22.4	23.8	23.2	23.2
Regulatory Tier I capital to risk-weighted assets	14.2	12.8	19.4	19.0	20.8	19.2	20.3	21.7	22.6	22.1	22.2
Capital (net worth) to assets	5.2	4.4	10.7	10.6	10.1	9.1	10.4	11.0	11.4	11.2	11.4
Tier 1 Capital to total Assets	8.5	7.3	10.4	10.2	9.8	8.8	9.9	10.7	10.8	10.6	10.9
Asset Quality											
Nonperforming loans to gross loans [1]	5.7	7.1	11.2	11.4	12.6	12.6	12.6	13.0	11.1	11.2	11.3
Total provision to NPLs	99.3	108.3	71.1	68.9	87.4	95.0	93.8	95.3	95.7	97.2	98.6
NPLs net of provisions to total capital	13.3	21.0	21.3	24.0	10.3	7.1	6.1	5.2	3.5	3.0	2.9
NPLs net of provisions to capital and reserves	5.2	6.9	14.3	16.0	5.8	3.7	3.4	3.1	2.1	1.8	1.8
Specific provisions to NPLs	78.8	75.7	61.8	58.6	83.6	88.9	89.3	90.5	92.2	93.2	93.4
Earnings and Profitability											
Return on Equity	9.9	31.9	41.5	36.8	32.0	41.5	33.7	30.7	29.8	26.0	24.4
Return on Assets	0.7	2.0	2.4	2.5	2.6	3.8	3.3	3.0	3.1	2.7	2.6
Interest margin to gross income	65.0	77.9	73.9	71.8	71.2	72.5	71.6	71.9	71.6	71.7	71.5
Noninterest expenses to gross income	67.8	67.0	59.9	58.2	56.4	54.9	57.2	58.5	58.0	57.5	57.7
Personnel expenses to noninterest expenses	43.4	44.0	45.0	46.1	45.9	44.8	45.5	46.2	46.4	46.2	47.2
Trading and fee income to gross income	16.6	6.7	9.5	11.3	10.9	11.2	10.6	11.0	11.1	10.9	11.2
Fee and commission to total income	20.0	16.4	15.6	16.0	15.8	15.6	16.9	17.8	18.5	18.6	14.0
Liquidity											
Liquid assets (core) to total assets	20.7	20.8	21.4	11.5	12.8	13.2	11.8	11.5	13.9	8.2	12.0
Liquid assets (broad measure) to total assets	31.3	34.6	38.3	33.2	37.0	37.8	37.2	37.3	39.3	27.7	37.1
Liquid assets (core) to total deposits	29.6	29.1	30.3	16.5	18.4	19.6	17.4	16.8	20.2	11.8	17.6
Liquid assets (core) to demand deposits	46.4	46.8	50.0	27.9	29.6	32.8	29.2	28.4	32.9	18.5	29.6
Liquid assets (core) to short term liabilities	28.9	28.5	29.7	16.0	17.8	18.9	16.8	16.5	19.9	15.5	18.3
Liquid assets (broad measure) to short term liabilities	43.8	47.4	53.2	46.2	51.3	54.1	53.0	53.5	56.2	52.6	56.6
Customer deposits to total (noninterbank) loans	124.2	135.8	138.5	142.9	154.6	157.9	158.1	158.4	168.6	168.7	167.9
Sensitivity to market risk											
FX loans to FX deposits [2]	71.6	70.0	73.7	70.5	69.0	63.6	61.9	60.3	64.2	60.8	57.2
FX loans to total loans	29.4	29.4	27.1	26.5	26.1	27.6	25.4	25.2	25.5	24.9	24.0
FX liabilities to total liabilities	28.8	27.4	24.6	25.5	25.0	26.4	25.5	25.4	24.5	24.3	24.7

Source: Bank of Mozambique (BM).

[1] Banking sector referes to deposit corporations.

[2] Includes deposits at parent banks.

Table 6. Mozambique: Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Impact on Mozambique	Policy Response
Rising protectionism and retreat from multilateralism. Global imbalances and fraying consensus about the benefits of globalization lead to escalating and sustained trade actions and spreading isolationism. This threatens the global trade system, regional integration, labor mobility, as well as global and regional policy and regulatory collaboration. In the short term, increased uncertainty about growth triggered by escalating trade tensions leads to increased financial market volatility. Negative consequences for growth are, in turn, exacerbated by adverse changes in market sentiment and investment.	High	ST, MT	Medium	• Anchor **macroeconomic stability** to mobilize foreign investors' interest in Mozambique, including through appropriate fiscal and monetary policy mix and structural reform policies. • ***Diversify exports,*** both in terms of export products and trading partners. • Continue improving the **business environment** to boost productivity and competitiveness.
Weaker-than-expected global growth: The global growth slowdown could be synchronized as weakening outlooks in the U.S., Europe and China feed off each other and impact on earnings, asset prices and credit performance.	High	ST, MT	Medium	• Maintain ***exchange rate flexibility*** to cushion the impact of related shocks. • Rebuild fiscal and external buffers. • ***Diversify its exports*** both in terms of export products and trading partners. • Continue improving the **business environment** to boost productivity and competitiveness. • Develop the country's ***infrastructure***.
• **Europe**: In the near term, weak foreign demand makes euro area businesses delay investment, while faltering confidence reduces private consumption. Adverse financial market reaction to debt sustainability concerns further dampens growth. A disorderly Brexit could cause market disruption with negative spillovers. In the medium term, disregard for the common fiscal rules and rising sovereign yields for high-debt countries test the euro area policy framework, with adverse impact on confidence and growth.	Medium	MT	Medium	
• **U.S.:** Confidence wanes against a backdrop of a long expansion with stretched asset valuations, rising leverage, and unwinding of the fiscal stimulus, leading to abrupt closure of the output gap rather than a smooth landing.	Medium	ST, MT	Medium	
• **China:** In the short term, intensification of trade tensions and/or a housing market downturn prompt a slowdown, which is not fully offset by policy easing. Deleveraging is delayed and financial stresses, including capital outflow and exchange				
Large swings in energy prices. Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks translates to elevated price volatility, complicating economic management and adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings. While, on aggregate, higher oil prices would	Medium	ST, MT	Low	• Maintaining fuel price ***automatic adjustment mechanism***. • Maintain ***exchange rate flexibility*** to cushion the impact of related shocks. • Accelerate ***structural reforms*** to improve economic efficiency and enhance diversification.
Mozambique specific risks: • Deterioration in security	Medium	ST, MT	High	• Enhance security, particularly in the LNG development related region.
• Backtracking of peace negotiations	Medium/ Low	ST, MT	High	• Continue drive for durable peace and implementation of reforms.

Table 6. Mozambique: Risk Assessment Matrix (concluded)

Source of Risks	Relative Likelihood	Time Horizon	Impact on Mozambique	Policy Response
• Increasing fiscal risks including non-performing SOEs and government expenditure arrears	High	ST, MT	High	• Implement a balanced package of policies and reforms to address fiscal risks, including the adoption of an adequate medium-term fiscal framework, strengthening cash management and commitment controls to avoid accumulation of new arrears, and restructuring SOEs in financial distress.
• Recurrence of banking sector stress, including deterioration in asset quality and liquidity shortfalls due to protracted low growth and high real interest rates	Medium/ Low	MT	High	• Implement financial reforms including banking resolution, strengthening the deposit guarantee scheme and banking regulation and supervision. • Enhance operational independence of the monetary authorities. • Conduct asset quality reviews and adjust provisioning accordingly. Step up risk-based supervisions.
• Potential complications in the resolution of debt issues	Medium/High	ST	High	• Further rebalancing of the policy mix.
• Delay in implementation of megaprojects	Medium	MT	High	• Structural reform to support economic diversification and inclusive growth.
• Extreme climate events	High/Medium	ST, MT	High	• Address infrastructure gaps and income/developmental disparities among regions, while instituting appropriate social safety nets.

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

Annex I. Implementation of Past IMF Recommendations

Recommendation	Status
Fiscal - Attain a pace of fiscal consolidation to ensure debt sustainability and contribute to required external adjustment. - Remove VAT exemptions, except for basic basket goods, Strengthen VAT administration. - Contain wage bill increase through a deceleration in the pace of new hiring and stronger administrative controls on salary payments and bonuses. - Avoid further accumulation of arrears by adopting critical reforms to strengthen cash management, commitment controls, and recreate all stages of a healthy spending chain, including adopting a strategy to clear over time domestic payments arrears to suppliers. - Rely to the maximum extent possible on grant financing and highly concessional loans Contain within legal limits access to the BM overdraft window. - Monitor fiscal risks and public enterprises and continue to strengthen debt management.	- The government eliminated subsidies on fuel and wheat, and reintroduced an automatic price adjustment mechanism for fuel, and is committed to eliminating the fiscal primary deficit by 2022. This is to be achieved by eliminating VAT exemptions and reform of wages and hiring policies. - The government adopted a strategy to clear domestic suppliers' arrears. Half of the outstanding amount has been settled and the remaining amount is to be securitized. The authorities are working closely with the Fund to strengthen the commitment controls and improving cash management to avoid further accumulation of arrears. - The cabinet approved SOE Law regulations, including strengthening controls on SOE ability to issue debt, and creates a new agency envisaged in the SOE Law to exert strong financial oversight over the entire SOE sector. - The authorities prepared a 2019 fiscal risk assessment report.
Monetary and Exchange Rate - Continue easing monetary policy at a cautions pace. - Enhance exchange rate flexibility. - Continue to strengthen governance and modernize BM operations.	- Monetary policy eased cautiously while keeping inflation anchored in single digits. The policy rate has been cut by 750 basis points to 14¼ percent. Authorities are committed to preserving exchange rate flexibility and to continue upgrading the monetary policy framework.
Financial - Implement reforms to strengthen bank supervision, crisis management tools, bank resolution framework and safety net. - Increase financial inclusion. - Strengthen the AML/CFT framework.	- The central bank is preparing a new bank resolution framework that enhances its resolution powers with tools designed to deal with systemic failures. Authorities are making progress implementing the National Strategy for Financial Inclusion 2016-22 and launched the Project "One District, and One Bank."
Structural - Improve governance and transparency, including enhancing transparency in natural resource wealth management. - Develop a strong medium-term fiscal framework and a formal fiscal rule. - Improve the business environment to promote enterprises, and job creation.	- Prepared a diagnostic report on governance, transparency, and accountability with IMF TA. - Organized a high-level international conference to raise awareness and start discussions on the main tradeoffs and policy issues related to the development of Mozambique's large natural gas reserves. - Proposed a package of reforms covering legislation to improve the business environment.

Annex II. External Sector Assessment

The external position of Mozambique in 2018 was substantially weaker than implied by medium-term fundamentals and desirable policies. While the non-megaproject current account deficit narrowed in 2018, it remained high at 15¼ percent of GDP, vis-à-vis an estimated current account deficit norm of 9 percent of GDP. The EBA methodologies indicate an overvaluation of the real effective exchange rate in the range of 10 percent to 20 percent in 2018. This overvaluation, however, is likely to correct with LNG megaprojects production.

1. External sector assessments for Mozambique are subject to considerable uncertainty due to data limitation surrounding megaproject activities. While the authorities produce accurate external sector data for the megaprojects themselves, only exploratory data are available for domestic firms that are exclusively focused on supporting megaprojects' activity.[1] To describe better the country's core or traditional economy, staff has estimated a current account balance and a net international investment position unrelated to the megaprojects (both directly and indirectly or induced), following the same approach used in the previous Article IV external sector assessments.[2,3]

2. Staff estimates show that the non-megaproject current account deficit narrowed from 18 percent in 2017 to 15¼ percent of GDP in 2018. This was achieved mainly due to lower imports of services and less than expected imports of goods in the last quarter of 2018.

3. A drop in non-megaproject FDI is likely to have contributed to the narrowing of the non-megaproject current account deficit in 2018. While megaproject FDI picked up from US$900 million in 2017 to US$2 billion in 2018, non-megaproject FDI contracted from a peak of US$2¾ billion in 2015 to US$700 million in 2018. As a result, lower imports could be at least in part attributed to a decline in non-megaproject FDI.

4. The non-megaproject current account deficit is projected to narrow to 12½ per-cent in 2019 and stabilize thereafter, thereby improving Mozambique's non-megaproject IIP. Since 2017, monetary policy tightening has helped lower inflation and stabilize the forex market. The projected reduction in the non-megaproject current account deficit in 2019 would come from a commitment by the authorities to fiscal prudence and maintaining international reserve holdings. Over the medium term, the non-megaproject current account deficit is expected to stabilize at around 12½ percent, before further narrowing from 2025 onward, as natural gas megaprojects come into production (Figure 1, left graph). Therefore, the non-

[1] For instance, there are domestic firms engaged in extraction and processing of coal that exclusively sell their services to coal megaprojects. Data available for the coal sector in 2013 suggest that imports of the so-called megaprojects related domestic firms were larger than that of the coal megaprojects themselves.

[2] The presence of extremely large megaprojects and their related imports has no potential bearing on BM's international reserves (megaproject imports are fully financed through special investment vehicles outside the country and included in the balance of payments statistics for completeness). The non-megaproject current account is therefore the appropriate concept to assess the Mozambique's external position.

[3] This approach also involves making additional adjustments to the non-megaproject current account by estimating and deducting megaprojects' indirect or induced imports within the traditional economy.

megaproject IIP is expected to continue, over the medium-term, the recovery that started in 2017 as activity in the traditional economy shrinks as a share of GDP (Figure 1, right graph).

Figure 1. Mozambique: External Current Account and International Investment Position

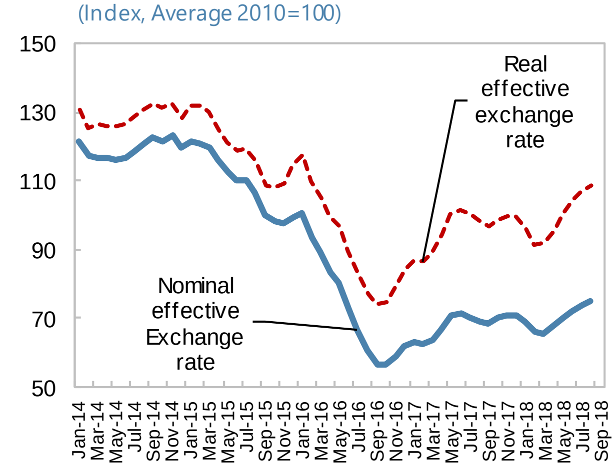
Current Account Balance (Percent of GDP) | **Net International Investment Position** (Percent of GDP)

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

5. The non-megaproject financial account deteriorated in 2018. Non-megaproject FDI fell in 2018 and are projected to remain relatively low, while private sector loans, currency and deposits, and trade credits recorded net inflows. Total financial inflows of the traditional economy amounted to around US$3¾ billion in 2018, down from US$4½ billion in 2017 and are projected to stabilize at around US$4½ over the medium term.

6. In 2018, the metical was overvalued in the range of 10 percent to 20 percent which is expected to correct in the long run due to the impact of LNG production. The real effective exchange rate (REER) depreciated sharply by 29 percent between 2014 and 2016. However, following the stabilization of the forex market, it appreciated by about 13 percent during 2017-18. Using the EBA-lite current account model, the current account norm (excluding megaprojects) is estimated at a deficit of 9 percent of GDP. This compares to an estimated non-megaproject current account deficit of 15¼ percent of GDP in 2018, predominately explained by more than warranted fiscal deficit and decline in reserves, implying a REER gap of 18 percent using an elasticity of -0.38. The REER approach indicates an overvaluation of the REER of only 6¾ percent in 2018. The external sustainability approach, which seems less relevant for a country like Mozambique that is undergoing significant structural change and must rely to a significant extent on foreign savings for its development, shows a current account gap of 12.8 percent of GDP, implying a REER gap of 34 percent using similar elasticity as in the current account model.

Nominal and Real Effective Exchange Rates
(Index, Average 2010=100)



The estimated overvaluation of the metical, however, is expected to correct as the current account deficit as a share of GDP is projected to narrow in the long run due to the impact LNG production.

Estimates of the Valuation of the Metical using EBA-lite Approaches, 2018

Approach	Current Account Gap (percent of GDP) [1/]	Overvaluation (+) / Undervaluation (-) (percent) [2/]
Current Account Approach	-6.8	18.0
Index REER Approach	...	6.7
External Sustainability Approach [3/]	-12.8	34

Source: IMF staff estimates. Update with revised EBA-Lite 2.0

[1/] The EBA considers a non-megaproject current account, which is further adjusted by indirect megaproject imports by domestic firms to supply megaprojects (estimated).

[2/] As in past analyses, the Tokarick (2010) elasticity is used to translate the current account gap into the implied valuation, because it is derived on a small country assumption (see EBS/13/76, p. 81).

[3/] Based on stabilizing the non-MP related IIP position estimated by end-2018 level at 143 percent of GDP.

7. International reserves are broadly adequate. At end-2018, gross international reserves stood at US$3.1 billion, down from $3.3 billion in 2017, covering 5.9 months of next year's non-megaproject imports of goods and services (not adjusted for indirect or induced megaproject imports). The assessment of reserve adequacy is limited by the unavailability of data on short-term external debt. In 2019, international reserves are projected to remain stable, with a downside risk. The IMF's metric to assess reserve adequacy in credit-constrained economies, with assumed cost of holding reserves of 4 percent, indicates a reserve cover for Mozambique of 5.6 months of non-megaproject imports.

Annex III. Governance and Corruption Challenges

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

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

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

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

5. **Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT).** The authorities have taken steps to address deficiencies in the AML/CFT framework, though improvements are still needed, particularly to strengthen its effectiveness. The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) 2011 review found Mozambique was not compliant with most of the 40+9 Financial Action Task Force (FATF) recommendations.

Recent progress reports still show deficiencies. The country will be assessed against the AML/CFT updated international standards in late 2019-2020. Some of the challenges for AML/CFT tools supporting anti-corruption efforts include ensuring that financial institutions and Designated Non-Businesses and Professions (DNFBP) take appropriate measures to identify Politically-Exposed Persons in their customer due diligence process and take enhanced measures when needed; implementing effective registration and supervision of DNFBPs as well as filing of Suspicious Transactions Reports (STRs); and enhancing accurate collection and transparency of beneficial ownership information.

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

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

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

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

10. Anti-Corruption Framework. Mozambique has a relatively comprehensive anti-corruption legislative framework in place. While it is highly recommended to amend the Public

Probity Law and adopt regulations to strengthen and clarify some provisions such as those focusing on the prevention of conflicts of interest, more important than additional legal reforms is the uniform and effective implementation of the existing laws. Going forward, enhancing procedures for pursuing corruption cases, strengthening the framework for reporting conflicts of interest, and amending the asset declaration system to digitize processes, facilitate transparency and reinforce compliance will be critical.

Annex IV. Capacity Development Strategy

Mozambique receives significant TA to strengthen public finance management, revenue mobilization, statistics, central banking and financial supervision. Effectiveness has been medium-to-high, improving overtime, and being supported in the field by long-term resident advisors in the Ministry of Economy and Finance and in the Bank for Mozambique, as well as by a long-term TA coordinator and advisor in the IMF Resident Representative Office.

A. CD Strategy

The CD strategy for Mozambique focuses on: consolidating public finance management (PFM) reforms, modernizing tax policy and revenue administration; strengthening governance and modernizing the central bank; and enhancing the compilation and dissemination of government finance and real sector statistics.

B. Key Overall CD Priorities Going Forward

Priorities	**Objectives**
Public Finance Management	Strengthening legislation, processes, and institutions for the upcoming decentralization of provinces and districts, and with a view to improving control spending, cash management, expenditure arrears clearance, fiscal risk management, oversight of SOEs and natural resources wealth management.
Tax Policy and Revenue Administration	Broadening the revenue base and improving tax compliance (including by simplifying tax exemptions and improving VAT refund function) with a view to supporting fiscal consolidation and developing a strong revenue administration for the extractive industry sector to strengthen revenue mobilization.
Monetary/Macroprudential policy and Central Bank Operations[1]	Strengthening central bank governance, organization and management; improving monetary and exchange rate policy, operations and communications; enhance financial stability analysis, reporting, communications and the financial stability framework; modernizing the national payment system and its oversight function; and improving currency cash management.
Government finance and real sector statistics	Strengthening compilation and dissemination for reporting fiscal data by aligning the fiscal map with the GFS Framework-Government Operation Statement. Improving methodology of national accounts data.

[1] This priority is carried out within phase II of the project with Norges Bank and the Fund to build enhanced capacity at the Bank of Mozambique to strengthen governance and support the BM modernization efforts. The phase I started in October 2017 and will end in December 2019 and Phase II will cover 2020-21.

C. Main Risks and Mitigation

Low capacity and reform resistance are key constraints, which may be overcome by adopting a sequenced approach and dedicating resources to ensure full understanding of the reform proposals and buy-in from the authorities. Good alignment to strategic views and improved management are crucial for reform implementation. The CD strategy should include hands-on capacity building to seek lasting improvements in units' work regardless of staff turnover, foster cross-unit coordination, and mitigate any negative impact of reforms. The reform momentum is subject to changes, and other assistance provided by donors might result in overlaps and inefficiencies. The long-term resident coordinator at the resident representative office and the resident advisors will regularly engage at relevant levels to ensure proper implementation of the recommendations, sustain external complementary support to the reforms, and frequently reach out to other TA providers.

D. Authorities' Views

Senior officials from the Ministry of Finance, Bank of Mozambique, Tax Authority and the Statistical Agency were consulted. They have expressed satisfaction with TA provided by the IMF both through the Fund resident advisors in the field as well as with the peripatetic visits from HQs and AFS. Moreover, they have concurred with the CD priorities listed above. The Ministry of Finance requested that a timetable of TA missions is prepared soon considering that presidential elections are scheduled for October 2019. TA on fiscal decentralization would be highly appreciated before July, when preparations for the 2019 budget are likely to start.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

May 15, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	African Department

CONTENTS

FUND RELATIONS

(As of April 30, 2019)

I. Membership Status: Joined: September 24, 1984; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	227.20	100.00
IMF's Holdings of Currency (Holdings Rate)	198.76	87.48
Reserve Tranche Position	28.54	12.56
III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	108.84	100.00
Holdings	8.13	7.47
IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	15.62	6.88
RCF Arrangements	85.20	37.50
SCF Arrangements	85.20	37.50

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SCF	Dec 18, 2015	Jun 17, 2017	204.48	85.20
ESF	Jun 30, 2009	Jun 28, 2010	113.60	113.60
ECF [1/]	Jul 06, 2004	Jul 05, 2007	11.36	11.36

[1/] Formerly PRGF.

VI. Overdue Obligations and Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	23.67	20.35	18.93	18.93	18.93
Charges/Interest	0.87	1.15	1.28	1.23	1.18
Total	24.54	21.51	20.21	20.17	20.12

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Apr 1998	Apr 2000	
Assistance committed by all creditors (US$ Million)[1/]	1,716.00	306.00	
Of which IMF assistance (US$ Million)	124.60	18.46	
(SDR Equivalent in millions)	93.17	13.73	
Completion point date	Jun 1999	Sep 2001	

II. Disbursement of IMF assistance (SDR Million)

Assistance disbursed to the member	93.17	13.73	106.90
Interim assistance	--	2.31	2.31
Completion point balance	93.17	11.42	104.58
Additional disbursement of interest income [2/]	--	1.10	1.10
Total disbursements	93.17	14.83	108.00

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.
[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million)[1/]	106.56
Financed by: MDRI Trust	83.05
Remaining HIPC resources	23.51

Debt Relief by Facility (SDR Million)

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

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

IX. Implementation of Catastrophe Containment and Debt Relief (CCR): Not Applicable

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

Exchange Rate Arrangement

Mozambique has a de jure and de facto floating exchange rate arrangement. The exchange rate is largely determined in the interbank foreign exchange market (MCI). The BM regularly intervenes in the market to smooth seasonal fluctuations, provide foreign exchange liquidity received by the government in the form of aid, and sterilize domestic liquidity as part of its monetary policy operations. Mozambique is an Article VIII member and does not maintain exchange restrictions or multiple currency practices subject to Fund approval under Article VIII, Sections 2(a) and 3.

Safeguards Assessment

The most recent assessment was completed in 2016. The assessment concluded that reforms are needed in the Bank of Mozambique (BM) governance and legal frameworks. The BM continues to lack independent oversight of management and operations. The BM's Board of Directors consists solely of executives responsible for specific operational areas, while other statutory bodies (primarily, the Audit Board) do not have an adequate mandate and capacity to oversee internal controls and audit mechanisms. The report noted that reforms to the central bank's legal framework are needed. While internal audit capacity has improved, its independence and authority need to be strengthened. Financial statements are audited by international firms and published.

AML/CFT framework

Mozambique has taken several steps to address the deficiencies identified in its 2011 mutual evaluation report. With assistance from the Fund, it enacted a new AML/CFT law and regulations in 2013 and 2014 respectively. A new Penal code which increases the number of predicate offences for money laundering was enacted in December 2014. The Bank of Mozambique further strengthened the regulatory framework by issuing enforceable guidelines for financial institutions in May 2015. Draft amendments to the FIU law which are designed, in part, to strengthen its operational independence have been approved by Cabinet. The Financial Intelligence Unit (GIFiM) continues to work towards membership of the Egmont Group of Financial Intelligence Units and with assistance from the Fund, has developed Guidance on Reporting Suspicious Transactions, which will be issued to reporting entities. Going forward, the authorities should build on progress achieved and take important strides to achieve an acceptable level of effectiveness, including by improving the AML/CFT supervision of financial institutions as well as implementing enforceable requirements to identify politically exposed persons; and increased transparency of the beneficial ownership of corporate vehicles. Additional laws and regulations are required, namely to implement the supervision of Designated Non-Financial Businesses and Professions (DNFBPs), an asset recovery law and a mutual legal assistance law. Under a LEG TA project, GIFiM developed tools to be used in the AML/CFT supervision of real estate agents.

Article IV Consultation

The 2017 Article IV consultation was completed by the Executive Board on March 5, 2018 (Country Report No. 18/65). It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Ex post assessment of performance under Fund-supported programs

An ex post assessment (EPA) of Mozambique's performance under Fund-Supported Programs since 1987 was undertaken in December 2003 under the guidelines on assessments of countries with a longer-term program engagement. The EPA was circulated to the Executive Board on November 21, 2003 (Country Report No. 04/53).

Directors commended the authorities for their pursuit of sound macroeconomic policies and wide-ranging structural reforms over the past fifteen years which contributed to strong growth of the economy, and a steady decline in poverty rates. Noting that despite considerable progress Mozambique remains a very poor and vulnerable country, Directors urged the authorities to persevere in their efforts to consolidate macroeconomic stability and accelerate and deepen structural reforms with a view to sustaining economic growth, encouraging employment creation, and further reducing poverty.

Management's visit

At the invitation of the authorities, Mr. Kato, Deputy Managing Director, visited Maputo, Mozambique in July 2005. Mr. Rato, Managing Director, visited Mozambique on August 2007 for a meeting with the African Consultative Group on Quotas, Voice, and Representation. Mr. Lipton, Deputy Managing Director, visited Maputo, in May 2013. Ms. Lagarde, Managing Director, visited Mozambique on May 2014 for the Africa Rising conference.

Resident representative

Mr. Ari Aisen has been the IMF's resident representative to Mozambique since September 9, 2016.

Technical Assistance (2016–2019)

IMF Technical Assistance Provided to Mozambique (2016–19)
(As of April 2019)

Departments	Timing	Form	Purpose	Counterparts
Fiscal Affairs	March 2019	Mission	Extractive industry (EI) fiscal modelling and risk assessment; compliance – capacity building	Ministry of Economy and Finance (MEF), Revenue Authority (AT), Ministry of Natural Resources and Energy (MIREME), National Mining Agency (INAMI), National Petroleum Institute (INP), Bank of Mozambique (BM)
	March 2019	Peripatetic Expert Assignment	Revenue Reforms Management, strategic planning and management	AT/MEF
	February 2019	Mission	Fiscal decentralization, expenditure controls and cash management	MEF
	December 2018	Mission	EI fiscal modelling – capacity building	AT/MEF, MIREME, INAMI
	November 2018	Mission	Tax gap analysis	AT/MEF, INE
	September 2018	Mission	EI risk identification; compliance	AT/MEF, MIREME, INAMI, INP
	September 2018	Mission	Revenue reforms, strategic management, and consolidation of large taxpayers' unit	AT/MEF
	August 2018	Mission	EI risk management – capacity building	AT/MEF, MIREME, INAMI, INP
	August 2018	Peripatetic Expert Assignment	Strategic planning and management	AT/MEF
	June 2018	Mission	Improve EI fiscal modelling and tax compliance – capacity building	AT/MEF
	May 2018	Peripatetic Expert Assignment	Improve taxpayers' register	AT/MEF
	March 2018	Mission	Improve EI fiscal modelling, risks processes and compliance management – capacity building	AT/MEF, MIREME, INAMI, INP, Bank of Mozambique (BM)

	February 2018	Peripatetic Expert Assignment	Improve expenditure control and clearance of arrears	MEF
	December 2017	Mission	Improve EI fiscal modelling – capacity building	AT/MEF, MIREME, INAMI, INP, BM
	November 2017	Mission (Jointly with AFS)	PFM reforms, expenditure controls, cash management and fiscal risks	MEF
	October 2017	Mission	Improve fiscal modelling – Capacity building to administer revenue from EI	AT/MEF
	September 2017 to 2019	Long-term Resident Advisor	Strengthening macro-fiscal projections and improve fiscal risks management	MEF
	September 2017	Mission	Extractive Industry– Developing a medium to long term revenue management strategy and capacity building program - FARI Workshop	AT/MEF, MIREME, INAMI, INP, BM
	July 2017	Peripatetic Expert Assignment	Support to e-tax implementation	AT/MEF
	July 2017	Mission	Extractive Industry – Developing a medium to long term revenue management strategy and capacity building program	AT/MEF, MIREME, INAMI, INP, BM
	June-July 2017	Mission	Tax administration follow-up, governance and organizational structure	AT/MEF
	June 2017	Peripatetic Expert Assignment	Strategic planning and management	AT/MEF
	June 2017	Mission	Wage bill and civil service reform	MEF, Public Administration and Civil Service Ministry (MAEFP)
	March 2017	Peripatetic Expert Assignment	Support to e-tax implementation	AT/MEF
	May 2017	Mission	Removing fuel subsidies and improving automatic price mechanism	MEF, MIREME
	February 2017	Mission	EI fiscal modelling – capacity building	AT/MEF, MIREME, INAMI, INP
	December 2016	Mission	Follow-up of PFM reforms	MEF
	December 2016	Mission	Follow-up of revenue administration reforms	AT/MEF
	June 2016	Peripatetic Expert Assignment	Develop electronic invoicing	AT/MEF

	April 2016	Mission	Strengthening Budget Execution Controls	MEF
	April 2016	Mission	VAT core processes assessment	AT/MEF
	2016-2019	Long-term TA advisor and coordinator (jointly with AFS)	Long-term support to fiscal reforms (including PFM, revenue administration, debt management, natural resources wealth management)	MEF, AT, MIREME, MAEFP
Debt management	May 2017	Mission	External public debt reconciliation	MEF
ICD	October 2017	Mission (Jointly with MCM and AFS)	Developing a Forecasting and Policy Analysis System (FPAS)	BM
Legal	April 2019	Desk review	Banking Law	BM
	February 2019	Mission (Jointly with FAD)	Governance Diagnostic and Action Plan	MEF, Ministry of Justice; BM
	November 2018	Mission (Jointly with FAD)	Governance Diagnostic	MEF, Ministry of Justice; BM
	November 2016	Mission	Structures and Tools DNFBP	BM
	April 2016	Mission	AML/CFT Supervision DNFBPs	BM
Monetary and Capital Markets	March 2019	Mission	Monetary Policy: Macro econometric forecasting using Matlab	BM
	March 2019	Mission	Cash Currency Management: Issuing notes and coins.	BM
	March 2019	Mission	Cash Currency Management: Study tour to Norges Bank	BM
	February 2019	Mission	Financial Stability: Developing FSR	BM
	January 2019	Mission	Developing Monetary Policy Report (MRP)	BM
	December 2018	Mission	Central Bank Governance: Follow up on reorganization	BM
	November 2018	Mission	Monetary Policy Implementation: Liquidity forecasting	BM
	October 2018	Mission	Oversight of Financial Markets Infrastructures and Implementation of a Real Time Gross Settlement System	BM

	September 2018	Mission	Monetary Policy: Macroeconomic Diagnosis	BM
	August 2018	Mission	Cash Currency Management: Follow up on role and responsibility	BM
	August 2018	Mission	Central Bank Governance: Risk Management and Internal Audit	BM
	June 2018	Mission	Payment Systems: The procurement of a new RTGS	BM
	May 2018	Mission	Cash Currency Management: CB role and responsibility in currency handling	BM
	April 2018	Mission	Monetary Policy Implementation	BM
	April 2018	Mission	FX Interventions and peer-to-peer workshop Bank of Zambia	BM
	March 2018	Mission	Monetary Policy: Training in Matlab and Eviews	BM
	March 2018	Mission	Financial Stability: Indicators; systemically important banks; Financial Stability Report	
	December 2017	Mission (Jointly with AFS)	Payments and Settlement Systems oversight and new RTGS	BM
	November 2017	Mission	Financial stability analysis and communication	BM
	October 2017	Mission	Monetary Policy: Near Term Forecasting	BM
	September 2017	Mission	Central Bank Modernization Technical Assistance Project: discussion with Norges Bank experts	BM
	June 2017	Mission	Monetary policy, foreign exchange operations and central bank modernization and communication	BM
Statistics	December 2018	Mission	Monetary and Financial Statistics; Financial Soundness Indicators	BM
	August-September 2018	Mission	Government Finance Statistics (GFS)	MEF, INE
	November 2017	Mission	Improving GFS	MEF

	August 2017	Mission (Jointly with AFS)	National Accounts Statistics	INE
	November 2016	Mission	External Sector Statistics	INE
	April 2016	Peripatetic Expert Assignment (Jointly with FAD and STA)	Improving fiscal reporting and GFS	MEF
	April 2016	Mission	National Accounts (Natural Resources)	INE
AFRITAC South (AFS)	August 2018	Peripatetic Expert Assignment	Improve customs post clearance audit (PCA) function	AT/MEF
	June 2018	Mission (Jointly with FAD)	Restore the expenditure chain, strengthen expenditure controls and improve cash management	MEF
	Mai 2018	Mission (Jointly with FAD)	Improve fiscal projections and fiscal risks management	MEF
	November 2017	Mission (Jointly with FAD)	Improve fiscal projections	MEF
	October 2017	Peripatetic Expert Assignment	Improve leadership, strategic planning and reform management – capacity building	AT/MEF
	August 2017	Mission	Improve national accounts	INE
	August 2017	Peripatetic Expert Assignment	Improve customs PCA function	AT/MEF
	July 2017	Peripatetic Expert Assignment	Improve leadership, strategic planning and reform management – capacity building	AT/MEF
	March 2017	Peripatetic Expert Assignment	Management and Leadership Development Training	AT/MEF
	February 2017	Mission	Capacity building program	MEF, AT, INE, BM
	November 2016	Mission	Improve national accounts	INE
	October 2016	Peripatetic Expert Assignment	Develop customs PCA function	AT/MEF
	July 2016	Mission	Improve national accounts	INE

JOINT WORLD BANK-IMF WORK PROGRAM, 2018–19

(As of April 30, 2019)

The IMF and World Bank staff collaborate closely in their work on Mozambique. Bank staff participates in IMF missions, while the Bank's analysis and advice to the government in key structural reform areas informs Fund surveillance. The Fund Mozambique team met with the World Bank Mozambique team in Maputo during the mission in March 2019.

The Fund and the World Bank teams share a common assessment and have identified seven structural reform areas as macro-critical, in view of their central role in achieving higher and more inclusive growth:

Debt management and investment planning. The authorities' ambitious investment program will need to be backed by a strong reform agenda to enhance capacity to manage fiscal risks and ensure value for money. In the field of investment selection, several measures are being implemented to improve the investment pipeline and the project selection process. Debt management is also being strengthened to ensure that borrowing and investment decisions entail value for money. This is underpinned by a new medium-term debt strategy.

Public financial management. The focus will be on consolidating PFM achievements, while enhancing the capacity to manage risks outside the central government, in the context of increased decentralization and growing SOEs sector. To achieve this objective, the authorities will adjust their PFM framework to include all level of governments (national and subnational) and its fiscal relations, and will adopt procedures to regularly identify, monitor and mitigate fiscal risks. Other critical measures aim at enhancing control of public spending to ensure budget appropriations remain within the limits, arrears are properly tracked and reduced. These reforms are macro-critical since they will protect fiscal space needed to reduce poverty and increase priority spending, while managing risks related to SOE's large-scale investment plans and enhancing the government's oversight.

Tax administration. Despite the strong increase in revenue collections, the tax system is still complex to administer and comply with. It is marked by numerous tax benefits and an overall low contribution from the mega-project sectors. Going forward, the government plans to use a modern e-tax system, improve the taxpayer registry, facilitate tax compliance through electronic tax payment and an improve large taxpayers' unit, and continue to expand the tax base to cover the large informal sector. The revenue management system will be enhanced, in line with a set of agreed performance indicators.

Social safety nets. Two decades of high GDP growth have not yet resulted in significant poverty reduction. This, in turn, undermines the country's long-term growth potential. To address this, the authorities have started to strengthen their safety nets. Measures include: (i) rationalizing and expanding health insurance coverage; (ii) strengthening higher education and vocational training;

(iii) strengthening the financial sustainability and administration of the National Social Security Fund and creating a new pension system for private sector workers; and (iv) improving the targeting of social protection systems to the most needy. These measures are macro-critical, as better health and education services, stronger pensions systems, and a more effective social safety net can enhance the productivity of the workforce and support social cohesion.

Natural resource wealth. Mozambique is endowed with rich natural resource reserves which are largely not exploited so far. With the recently started coal and gas projects, the extractive sector is slated for a boom which could make significant contributions to the country's economic growth and government revenues. This poses challenges for economic management, the sector's legal and regulatory frameworks and the government's capacity in managing contracts and revenues. Mozambique remains full membership of the Extractive Industries Transparency Initiative (EITI).

Investment climate. Mozambique's private sector is held back by the high costs of doing business. These arise mainly from weaknesses in governance, access to finance, power supply, tax and regulatory systems, and contract enforcement. Wide-ranging reforms are needed to address these issues. They are macro-critical because a better investment climate is conducive to supporting private sector activities, thereby broadening the country's productive and export base, creating jobs, and thus helping reduce poverty.

Financial sector stability and development. Strong past growth of credit to the private sector, the expansion of the banking system and its potential exposure to cross-border risks call for strengthening the continuous supervision of the financial sector, as well as the capacity to identity and address potential sources of vulnerabilities. Meanwhile, improving financial intermediation and access to credit remains a top priority. To this end, the authorities have prepared the 2013-22 Financial Sector Development Strategy which includes a wide-ranging and clearly sequenced action plan, covering ways to, among other things, enhance financial inclusion, competition, consumer protection, and financial literacy.

4. **The teams agreed on the following division of labor:**

Debt management and investment planning reforms. Both institutions will assist the authorities in strengthening their debt management capacity, with TA support and on-site assistance, and will contribute to implement reform priorities defined in government DeMPA action plan. The Fund will continue to play a key role in building government capacity to assess debt sustainability and improve debt management. The Bank will continue providing technical assistance for enhancing project investment management and medium-term debt strategy.

Public financial management reform. The Bank and the Fund will cooperate in the field to strengthening and enforce PFM systems and improve public sector fiscal risks management. The Fund and the Bank will continue their support to define a coherent reform strategy through in-situ TA coordinator and advisors, regular TA missions from FAD, and AFRITAC South regional office in Mauritius, and the planned World Bank multi-donor PFM trust fund. The Bank will provide ongoing consultation from its local office and supervision missions of projects under implementation in this area. The Fund missions will provide opportunities to assess progress in this field.

Tax administration reforms. The Fund will take the lead in this area and provide support through ongoing advice based on regular TA missions from FAD and AFRITAC South. The Bank will advance reforms in this area in collaboration with the IMF, in the context of its program on natural resources (MAGTAP) and program four results in PFM.

Social safety net reform. The Bank will take the lead in this field through continued TA in the design of more comprehensive and performing safety nets, in cooperation with other development partners and international organizations (including UNICEF and ILO). The Fund will play its role in identifying the fiscal space for the safety nets. The results will be discussed among the collaborators on a regular basis to inform policy discussions with the authorities. The Bank is also taking the lead in public pension reforms.

Natural resource wealth. The Fund will provide TA under the Topical Trust Fund for Managing Natural Resource Wealth (TTF-MNRW), relating to the fiscal regime of the extractive sector, revenue forecasting, and natural resource statistics, all being crucial to increase the sector's contribution to the budget and support the country's development agenda. The Bank is supporting Mozambique's implementation of EITI through its Multi-donor Trust Fund (MDTF). The Bank also funds it through the MAGTAP project and will support policy dialogue in this area through the Economic Management for Inclusive Growth Program.

Investment climate reform. The Bank will take the lead in working with government to enhance the investment climate, by deepening its agenda to help the authorities cut red tape and simplify the legal and regulatory framework. The results will be shared on an ongoing basis and discussed during the Fund program review missions.

Financial sector stability and development. The Fund will continue to help the Bank of Mozambique to build its capacity to assess risks to financial stability of the banking sector, while the Bank will take the lead in supporting financial sector development and reforms, including through enhanced financial inclusion, competition, consumer protection, and financial literacy. The results of their respective work will be shared and discussed regularly.

The teams have the following requests for information from their counterparts:

- The Fund team requests to be kept informed of progress in the above macro-critical structural reform areas. Timing: when milestones are reached; and during Fund program missions.
- The Bank team requests to be kept informed of the Fund's assessments of macroeconomic policies and prospects, and analytical work on areas under the Fund's lead, as well as on recommendations of Fund TA missions. Timing: in the context of Fund missions, and at least semi-annually.

The table below lists the teams' separate and joint work programs from May 2018 to April 2019.

Mozambique: Bank and Fund Activities in Macro-Critical Structural Reform Areas, May 2018-April 2019

Title	Products	Timing of Missions	Expected delivery date
1. Bank Work Program	FSTAP project support to financial sector reforms	Ongoing	Ongoing
	Structural reforms: procurement, decentralization, business environment, financial sector	Ongoing	Ongoing
	Support on targeted, sustainable safety net measures (including public works system)	Ongoing	Ongoing
	Country Economic Memorandum and Mozambique Economic Update	Ongoing	Ongoing
	TA on public investment management	Ongoing	Ongoing
	TA and policy advice on disaster risk management	Ongoing	Ongoing
2. Fund Work Program	Capacity building on PFM and fiscal risks	2018-19	Ongoing
	Capacity building on revenue mobilization	2018-19	Ongoing
	Capacity building to natural resources wealth management (MNRW-TTF), including fiscal modelling (FARI), revenue administration and macro fiscal issues	2018-19	Ongoing
	Modernizing governance and Central Bank Operations (Phase I)	Ongoing	Oct. 2020
	Governance diagnostics	Nov. 2018 Feb. 2019	2019
	TA on statistics GFS, MFS/FSI and NA	2018-19	Ongoing
3. Joint Work Program	Support to PFM, revenue mobilization and fiscal decentralization	Ongoing	Ongoing
	Policy advice on public sector salary reforms (incl. pensions)	Ongoing	Ongoing
	TA and policy advice on debt management, SOE and Fiscal Risks Management	Ongoing	Ongoing
	Policy advice on natural resource wealth management	Ongoing	Ongoing
	Social Protection: Design of programs and assessment of fiscal space	Ongoing	Ongoing

STATISTICAL ISSUES

(As of April 30, 2019)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. The authorities are encouraged to address data gaps, including strengthening compilation and dissemination for reporting fiscal data, as well as improving national accounts, balance of payments and financial sector data – finalizing the compilation the other financial corporations survey.
Real sector statistics: The national accounts are prepared by the INE in accordance with the *1993 System of National Accounts* (*1993 SNA*). In July 2014, the INE released a revised annual GDP series for the period 1991-2013 with a switch from 2003 to 2009 as the base year. A partly revised GDP series was released in July 2015, in which the measurement of investments and imports for natural resource projects improved. The authorities are working to strengthen quarterly national accounts compilation at current prices. The INE's recent household income and expenditure survey conducted in 2015-2016 need to be incorporated to strengthen the national accounts. A revamped consumer price index for Maputo based on weights derived from the 2008–09 household survey was released in February 2011. A national index obtained by integrating the indices for Maputo, Beira, and Nampula was released in April 2006. Several issues remain outstanding, however, including how to improve the housing market rent sample and expand coverage to include the Quelimane and Greater Maputo areas. There are insufficient sectoral labor market and employment data, and where available, they have limited coverage. A one-year labor market survey of the entire country, undertaken by INE in collaboration with the Labor Ministry, was launched in October 2004.
Monetary and financial statistics: The BOM regularly reports monthly monetary data for the central bank and other depository corporations using the standardized report forms (SRFs), which are inputted in the integrated monetary database (IMD) used by AFR for surveillance purposes and STA for dissemination purposes. Monetary statistics disseminated by the BOM are based on the SRFs. A December 2018 technical assistance mission reviewed the monetary data compiled by the BOM and found them full in line with the methodology of the *Monetary and Financial Statistics Manual and Compilation Guide* (*MFSMCG*). The mission advanced work towards the compilation of a quarterly other financial corporations' survey, but more disaggregated information is needed from insurance corporations before the survey can be regularly compiled. The monthly financial soundness indicators (FSIs) currently compiled by the BOM for internal use are fully consistent with the methodology of the *FSI Compilation Guide*. The December 2018 mission recommended that the BOM disseminate monthly FSIs on its website and report them to STA for publication on the IMF's website. Mozambique reports data on some key series and indicators of the Financial Access Survey (FAS), including mobile money and the two indicators adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs).

Balance of payments: With assistance from STA, provided in the context of the Enhanced Data Dissemination Initiative project financed by the United Kingdom's Department for International Development (DFID), the BM has made significant progress toward compiling and disseminating balance of payments (BOP) and international investment position (IIP) statistics. The migration process to the *Balance of Payments and International Investment Position Manual*, *sixth edition (BPM6)* has been finalized; BOP and IIP statistics are now disseminated based on BPM6. Also, the IIP is compiled and disseminated on quarterly basis. The BM has an adequate institutional framework for the compilation of BOP and IIP statistics. However, further strengthening of external sector statistics needs to focus on: strengthening information technology (specially to apply data warehouse and on-line analytical processing tools); improving accuracy, consistency with BPM6 methodology, and coverage for several specific areas (especially in trade credit and advances and public and publicly-guaranteed private sector external debt). Also, there is need for improving data quality especially for foreign liability positions of non-megaprojects; and improving the compilation of imports of domestic enterprises supplying megaprojects. Joint work with other institutions to improve the quality of external trade data, especially about price and volume indices, also merits attention. Work is progressing to identify imports of domestic firms that are directly related to providing services to megaprojects. This will allow enhanced analysis of the impact of megaprojects and allow improved estimation of the economy's underlying (non-megaproject) current account position.
External debt statistics: While the authorities achieved a notable improvement in debt management under the 2010-13 PSI-supported program, improvements in this area are still needed. The debt unit needs to be strengthened (with respect to capacity) to exercise effective oversight over the entire public debt portfolio, including state-owned enterprises and loans that are part of cooperation agreements, and implement strong safeguards. As the information on disbursements received by entities outside the central government or by other line ministries as part of international cooperation agreements, comes with a delay to the debt office, when the confirmation from creditors or line ministries is missing, the stock figures can be subject to significant revisions. The strengthening of the debt office capacity is still needed to ensure a timely recording of disbursements in the external debt database.
II. Data Standards and Quality
Mozambique participates in the enhanced General Data Dissemination System, but full implementation is pending the dissemination of a National Summary Data Page. To data dissemination practices, DfID, through its Enhanced Data Dissemination Initiative program, financed an IMF mission on the Enhanced General Data Dissemination System in April 2017.
III. Reporting to STA
Mozambique does not report fiscal data for publication in the International Financial Statistics (IFS) but reports some revenue data for the Government Finance Statistic Yearbook (GFSY). Mozambique now reports monthly monetary data to STA using the standardized reporting forms (SRFs). As a result, these enhanced data are being published in the IFS Supplement. In 2007, the BM started to compile and report comprehensive IIP data in the *Balance of Payments Statistics Yearbook*.

Mozambique: Table of Common Indicators Required for Surveillance

(As of May 08, 2019)

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Mar. 2019	Mar. 2019	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Mar. 2019	Mar. 2019	W	W	W
Reserve/Base Money	Mar. 2019	Mar. 2019	D	W	D
Broad Money	Mar. 2019	Mar. 2019	M	M	M
Central Bank Balance Sheet	Mar, 2019	Apr.2019	M	M	M
Consolidated Balance Sheet of the Banking System	Mar.2019	Apr.2019	M	M	M
Interest Rates[3]	Feb. 2019	Mar. 2019	M	M	M
Consumer Price Index	Feb. 2019	Mar. 2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5] and Central Government	2018 Q4	Feb. 2019	M, Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2018 Q4	Mar. 2019	Q	Q	Q
External Current Account Balance	2018 Q4	Feb. 2018	Q	I	I
Exports and Imports of Goods and Services	2018 Q4	Feb. 2018	Q	I	I
GDP/GNP	2018 Q4	Feb. 2018	Q	Q	I
Gross External Debt	2017	Jun. 2018	A	I	I
International Investment Position[7]	2018	Feb. 2019	A	A	A

[1] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[2] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] Data is available for the central government. The authorities are working on data compilation for the general government. The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[6] Including currency and maturity composition.

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by Dumisani Hebert Mahlinza , Executive Director for Mozambique and Amilcar Paia Tivane, Senior Advisor to the Executive Director
June 3, 2019

I. Introduction

1. Our Mozambican authorities thank staff for their continued engagement and candid policy discussions during the 2019 Article IV consultation. They also appreciate the Fund's swift response to their request for emergency financing under the Rapid Credit Facility (RCF) to support post-disaster reconstruction efforts and catalyze additional donor support.

2. Mozambique continues to make progress in improving its policy and institutional settings to achieve durable macroeconomic stability and inclusive growth. At the same time, the authorities continue to make efforts to calibrate the policy mix to insulate the economy against external shocks including, commodity price volatility, extreme climate events, and the tightening of global financial conditions. Going forward, they are determined to broaden structural reforms to support inclusive and sustainable growth, maintain macroeconomic stability, improve fiscal and debt sustainability, bolster productivity growth, and strengthen governance.

3. The authorities recognize that preserving peace remains essential to unlocking the country's growth potential and improving the country's investment appeal. In this regard, they are committed to leveraging the country's democratic experience by accelerating the integration of the residual forces of the Renamo Party into the army, security forces and civil society, and completing the decentralization process.

II. Vulnerability to Climate Shocks

4. Mozambique remains highly vulnerable to climate-related shocks due to its geographical location and topography. In March 2019, Tropical Cyclone Idai struck the central region near the port city of Beira leaving a trail of destruction on its path. Immediately thereafter, in April 2019, Tropical Cyclone Kenneth made landfall in the northern Province of Cabo Delgado destroying entire villages and displacing thousands of people, in a country already struggling with the consequences of a drought. The growing frequency and intensity of the climate change shocks has placed immense pressure on the economy and its ability to tackle development challenges. In addition, the weak socio-economic infrastructure and heavy reliance on rainfed subsistence agriculture, amplifies the impact of adverse weather conditions on vulnerable households.

5. The authorities are intensifying efforts to increase the country's resilience to natural disasters. In this context, they have developed the National Climate Change Strategy (2013-

2015) and the Master Plan for Risk and Disaster Reduction (2017-2030). In response to the recent disasters, the authorities have completed a Post Disaster Needs Assessment (PDNA), which estimates the post-Idai reconstruction financing needs at $2.9 billion. Support from development partners remains essential to restore infrastructure and bring the economy on a recovery footing. In this respect, they plan to hold an International Donors' Conference in the city of Beira, from May 31 to June 1, 2019.

III. Recent Economic Developments and Outlook

6. Following a series of shocks in 2015-2016, economic recovery has begun to emerge. Nonetheless, real GDP growth slowed down from 3.7 percent in 2017 to 3.3 percent in 2018 due to a decline in economic activity in the agriculture, mining and transport sectors. Economic growth is expected to further moderate to 2.5 percent in 2019 owing to the impact of the recent cyclones. Going forward, growth is expected to remain positive, in line with a rebound in consumption and investment related to the liquified natural gas projects.

7. Inflation declined from a peak of 26½ percent at end-November 2016, to 3¼ percent at end-April 2019, reflecting a tight monetary policy stance and subdued food prices. As the supply shocks occasioned by the two cyclones pass through the economy, inflation is projected to pick up to about 7 percent in 2019. Going forward, inflation pressures are expected to dissipate and remain within the Bank of Mozambique's target range of 6-8 percent.

8. The current account deficit, excluding mega projects, widened to 30.4 percent of GDP at end-December 2018 from 20 percent of GDP at end-December 2017. This was largely due to an increase in imports of intermediate and capital goods, including fuel. At the same time, key commodity exports (coal and aluminum) continued to decline. Consequently, gross international reserves declined from about 6.8 months of import cover at end December 2017 to nearly 5.5 months of imports at end December 2018.

IV. Fiscal Policy and Public Financial Management

9. The authorities' medium-term fiscal strategy aims to intensify fiscal consolidation through improved revenue collection and enhanced public expenditure efficiency. Concomitantly, the authorities aim to place debt on a sustainable path while improving the oversight of state-owned enterprises (SOEs). To achieve these objectives, they will build robust fiscal management systems, and strengthen project management capacities. As part of the preparations for the effective management of natural gas revenues expected after 2023, the authorities are considering adopting a fiscal rule to mitigate risks stemming from commodity price volatility. Similarly, they intend to establish a Sovereign Wealth Fund to support productivity-enhancing investments.

10. The authorities have made progress in advancing fiscal consolidation measures over the FY2017/18, including, among others, streamlining recurrent expenditures, notably the wage bill and goods and services; the phasing out of fuel and wheat subsidies together with the introduction of an automatic fuel price-adjustment mechanism; and scaling back of capital expenditures. They continue to press ahead with the implementation of the strategy to address domestic payments arrears. Going forward, they plan to rationalize lower priority spending to address post-disaster financing needs. They remain committed to achieving a zero primary fiscal balance by 2022, which along with the reliance on grants and highly concessional financing will reduce fiscal pressures and help curb debt vulnerabilities in the medium term.

11. The authorities are committed to bringing debt levels to moderate risk of debt distress over the medium term. In this respect, they have taken positive steps to improve the transparency of the process of evaluating and granting government guarantees. In addition, they are stepping up efforts to strengthen the recently-created Fiscal Risk Assessment Unit in the Ministry of Economy and Finance. Further, they plan to upgrade debt management capacity while strengthening the oversight of fiscal risks emanating from SOEs. In parallel, good faith discussions with commercial creditors to achieve timely debt restructuring are continuing.

12. To support medium term fiscal consolidation efforts and improve policy credibility, the authorities will accelerate public financial management reforms and pursue fiscal decentralization in a fiscally-responsible manner. In this respect, they intend to submit to parliament a public finance decentralization draft law in harmony with the set of administrative decentralization laws already approved by Parliament. These legislative steps aim to improve the quality of delivery of public goods and services through a gradual transfer of revenue and spending responsibilities to Provinces.

V. Monetary, Exchange Rate, and Financial Sector Policies

13. The authorities' monetary policy stance emphasizes price stability, financial sector resilience and ensuring exchange rate flexibility. To this effect, the Bank of Mozambique (BM) has pursued a cautious easing of monetary policy in line with the softening inflationary pressures. The normalization of monetary policy will remain as the BM continues to monitor the potential second round effects of the cyclone induced supply shocks.

14. As part of an effort to strengthen the monetary policy framework and the Bank of Mozambique's operational autonomy, the authorities are presently preparing amendments to the Central Bank Act and preparing a new Banking Law to enhance crisis management, bank resolution, and safety nets. At the same time, the BM will implement measures to ensure adequate capital buffers in the banking sector while accelerating the shift to risk-based supervision. To enhance financial sector resilience, the authorities will strengthen the

AML/CFT framework. In this connection, preparations for the 2019 AML/CFT evaluation by the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) under the revised AML/CFT international standard are at an advanced stage.

15. The authorities view financial deepening and inclusion as important to support broad-based growth, accelerate poverty reduction, and improve distributional outcomes. To this end, they are committed to continue implementing the National Strategy for Financial Inclusion (2016-2022) to promote access to financial services in all districts. They believe that this strategy will position the country well to leverage benefits conferred by the digital revolution.

VI. Structural Reforms

16. The authorities view the implementation of structural reforms including governance reforms, as essential to improve the country's growth prospects in the medium to long run. To this end, they intend to intensify efforts to enforce existing laws aimed at fighting corruption and reinforcing the primacy of the rule of law. More importantly, they expect to work towards the completion, publication, and implementation of the diagnostic report on governance, transparency, and accountability with IMF technical assistance. At the same time, the Attorney General's Office will continue to work cooperatively with bilateral partners with a view to expedite the ongoing investigations related to the undisclosed loans. Similarly, the authorities intend to prepare and submit to Parliament a Law to permit recovery of assets related to corruption practices.

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

VII. Conclusion

18. The Mozambican authorities are determined to advance their reform agenda to achieve durable macroeconomic stability, support broad-based growth, improve distributional outcomes, and strengthen institutional capacity. They greatly appreciated the Fund's continued engagement and policy advice and wish to thank the international community and development partners for supporting the country's resilience building efforts to mitigate the impact of climate change.