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REPUBLIC OF MOZAMBIQUE

SELECTED ISSUES

February 2026

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January 28, 2026

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African Department

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CONTENTS

GROWTH CHALLENGES AND POLICY PRIORITIES[1]

Mozambique's economy has slowed sharply since 2016 with two-thirds of the population below the poverty line. While over half a million young people enter the job market annually, job creation remains weak, as structural transformation has favored extractive industries (in particular, capital-intensive LNG projects) over manufacturing. Agriculture, employing three-quarters of the population, suffers from low productivity and limited access to inputs and finance. Informality dominates, accounting for about 95 percent of jobs. Human development indicators are among the world's lowest, with fiscal pressures constraining social and development spending. To tackle Mozambique's growth challenges, reforms must promote economic diversification, job-rich growth, agricultural modernization, improved governance, and expanded access to finance.

A. Introduction

1. **Mozambique stands at a critical juncture in its development trajectory**. After a decade and a half of robust growth averaging nearly 8 percent annually, the economy has experienced a sharp slowdown since 2016, compounded by structural vulnerabilities and governance challenges. This paper examines the underlying factors behind this shift and outlines policy priorities to restore inclusive, sustainable growth.

2. **The paper is organized as follows**. The analysis begins with Section B, which reviews Mozambique's growth performance, highlighting the post-2016 stagnation and its repercussions on poverty reduction. Section C underscores the urgent need for creating jobs, given the country's young and rapidly expanding population. Section D explores structural transformation and diversification, focusing on the dominance of extractives and the decline of manufacturing. Section E assesses productivity in agriculture—a sector central to poverty alleviation yet constrained by structural inefficiencies. Section F examines the role of informality in employment and its dual nature as both a challenge and an opportunity. Section G addresses gaps in physical infrastructure and human capital, emphasizing fiscal constraints that limit investment in education, health, and connectivity. Section H analyzes trends in financial development, particularly the crowding out of private credit. Section I evaluates governance weaknesses and their impact on the business environment and resource management. Finally, Section J presents a forward-looking agenda, outlining cross-cutting reforms to promote economic diversification, job-rich growth, and institutional strengthening. Together, these sections provide a comprehensive framework for understanding Mozambique's economic trajectory and identifying reform options for inclusive, sustainable growth.

[1] Prepared by Can Sever (AFR). I thank Pablo Lopez Murphy and the Mozambican authorities for helpful discussions and suggestions.

B. Growth Performance

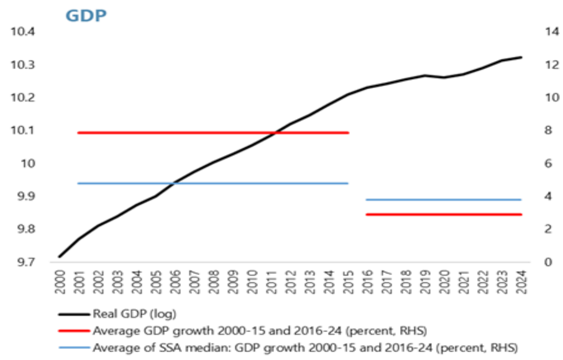
3. **Mozambique's economic performance has weakened markedly since 2016, following the hidden debt scandal that triggered a prolonged slowdown** (Figure 1).[2] Between 2000 and 2015, real GDP grew at a robust average of 7.9 percent per year, well above the Sub-Saharan African average (Figure 1, top-left). During 2016-2024, however, average annual growth plunged to 2.9 percent.[3] The deceleration was broad-based, with services accounting for half of the decline (Figure 1, top-right). As population growth remained broadly similar across these periods (Figure 1, middle-left), per capita GDP growth has stalled compared to the 5.2 percent annual pace during 2000-2015 (Figure 1, middle-right), and poverty now affects about two thirds of the population, compared to about 45 percent in 2014 (Figure 1, bottom-left). A growth decomposition using the production function approach indicates that the slowdown since 2016 reflects a much weaker contribution from capital accumulation and total factor productivity (Figure 1, bottom-right).

[2] In 2016, previously undisclosed debt that included borrowing of about US$1.4 billion by two SOEs (Proindicus and MAM) came to light. This brough external financing to a standstill and was a major shock to the economy. See IMF 2019 Article IV Consultation Staff Report for more details.

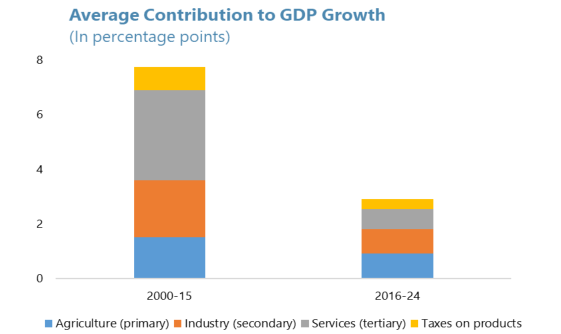
[3] While the Covid-19 pandemic in 2020 and the social unrest following the October 2024 elections are important factors for this performance, average growth was only 3.6 percent excluding both 2020 and 2024 but including the post-pandemic recovery (2021-2023).

Figure 1. Economic Growth and Poverty

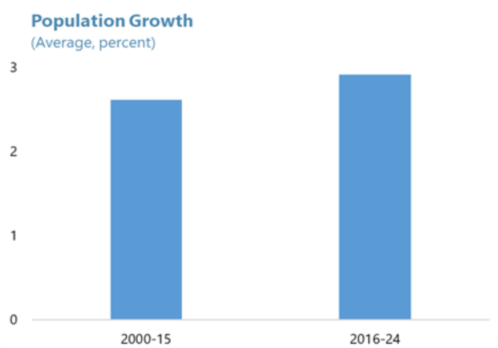
Mozambique's economic performance has weakened markedly since 2016.



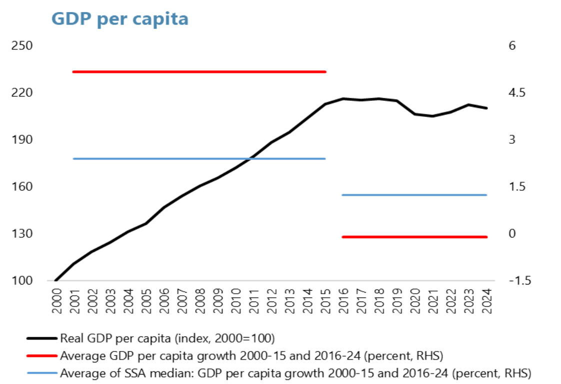
The deceleration was broad-based, with services accounting for half of the decline.



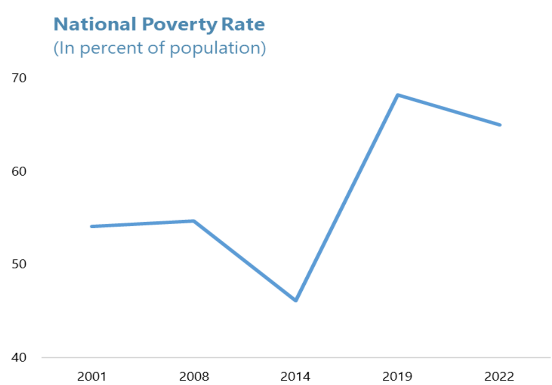
Population growth was broadly stable with a marginal increase.



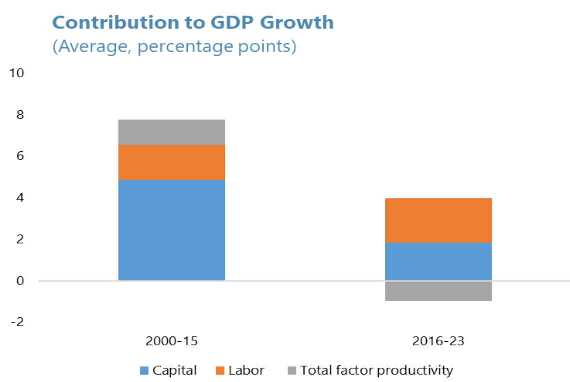
Growth contributions from capital accumulation and total factor productivity have been weaker since 2016.



Poverty affects two-thirds of population.



Growth contributions from capital accumulation and total factor productivity have been weaker since 2016.



Sources: World Development Indicators; Penn World Table; INE; IOF; and IMF staff calculations. GDP and GDP per capita are constant in 2015 USD.

C. Job Creation

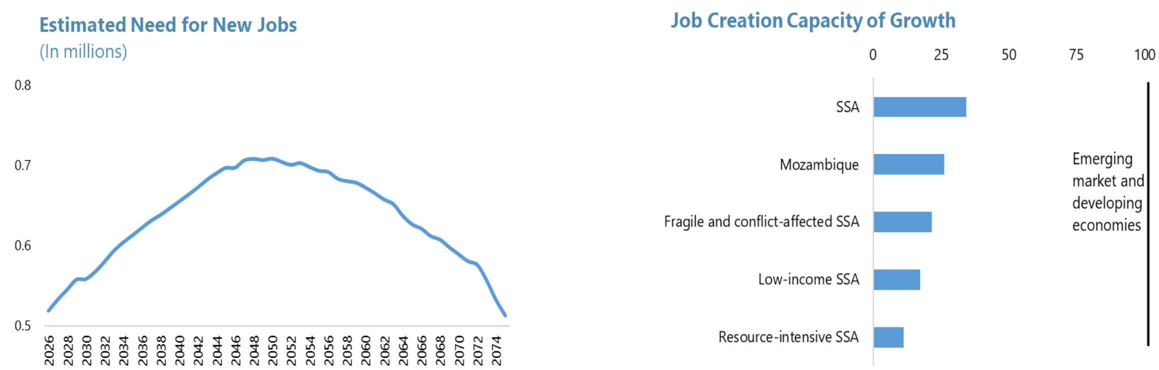
4. **Mozambique faces an urgent challenge to create sufficient employment opportunities for its rapidly growing population.** Unlike many countries grappling with aging populations globally, Mozambique's population is young and booming: the median age is about 17 years, fertility rates remain high at roughly 5 children per woman, and nearly 45 percent of the population is under the age of 15. With population growth approaching 3 percent per year, this demographic wave offers a potential dividend, especially if the economy can generate productive, high-quality jobs.

5. **Current estimates by IMF staff suggest that Mozambique will need to create around 0.55 million new jobs annually by 2030 to employ the new entrants to the workforce, with the demand continuing to rise over the next two decades** (Figure 2, left). Without adequate job creation, poverty and food insecurity could worsen, heightening risks of social tensions. The weak link between growth and employment further compounds this challenge: Mozambique generated only one-fourth as many jobs per unit of per capita GDP growth as emerging markets outside Sub-Saharan Africa. Within sub-Saharan Africa, the job creation capacity of growth in Mozambique remains slightly above the fragile and conflict-affected states and low-income countries of the region, while it is less than the regional average of one-third (Figure 2, right). This structural weakness is particularly concerning given the large LNG projects on the horizon, which are capital-intensive and offer limited employment opportunities. These dynamics underscore the urgency of pursuing efforts to create an environment conducive to a job-rich growth model–key to inclusive and sustainable development.

Figure 2. The Urgent Need for a Job-Intensive Growth Model

Mozambique will need to create over half a million new jobs annually by 2030.

The link between growth and employment has been weak.



Sources: World Population Projections; International Labor Organization; World Development Indicators; and IMF staff calculations and estimates. SSA=Sub-Saharan Africa.

Note: The right-hand side chart is based on the correlation between GDP per capita growth and employment rates. After calculating the correlation between real per capita GDP growth and the change in the employment to population ratio (ages 15+, total) over 1992-2022 for each country, it uses median values of these correlations in each subsample, with the emerging market and developing economies (excluding SSA) normalized to 100. For details, see IMF Regional Economic Outlook for Sub-Saharan Africa October 2024 "The Clock is Ticking: Meeting Sub-Saharan Africa's Urgent Job Creation Challenge" prepared by Wenjie Chen, Khushboo Khandelwal, Athene Laws, Faten Saliba, Can Sever and Luc Tucker.

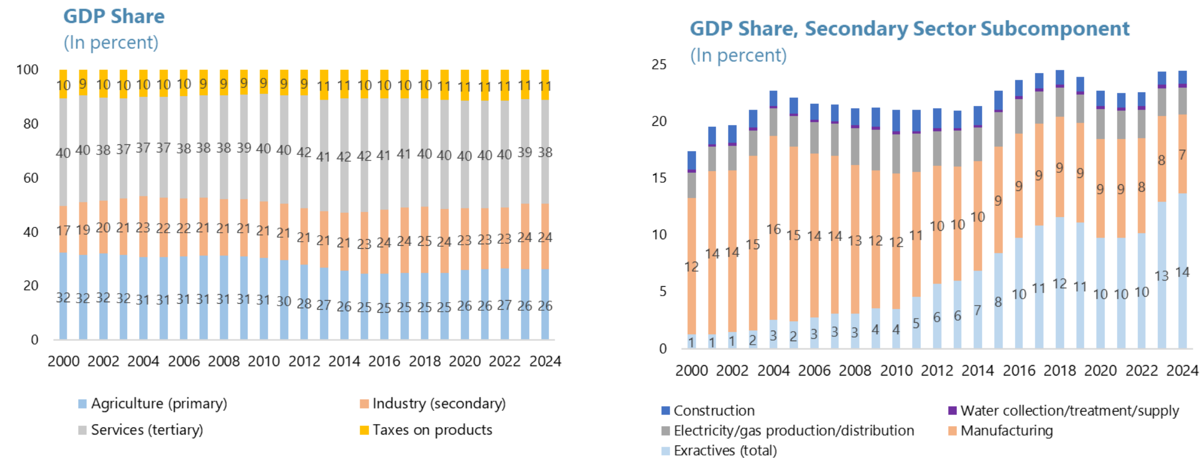
D. Structural Transformation and Diversification

6. **Mozambique's economic structure has shifted since the 2000s** (Figure 3). The primary sector's share has declined, while the secondary sector has expanded—driven by extractives rather than manufacturing (Figure 3, left). Agriculture's contribution fell from about one-third of GDP in 2000 to one-quarter in 2024, offset by mining growth. Manufacturing—a sector typically associated with high-productivity and employment—has been contracting since the 2000s (Figure 3, right). Rising reliance on extractives, coupled with upcoming LNG projects, raises concerns about job creation and inclusive growth.

Figure 3. Structural Transformation and Diversification

The primary sector's share in GDP has declined since 2000, While the secondary sector expanded, …

… driven by extractives rather than manufacturing.



Sources: INE; and IMF staff calculations and estimations.

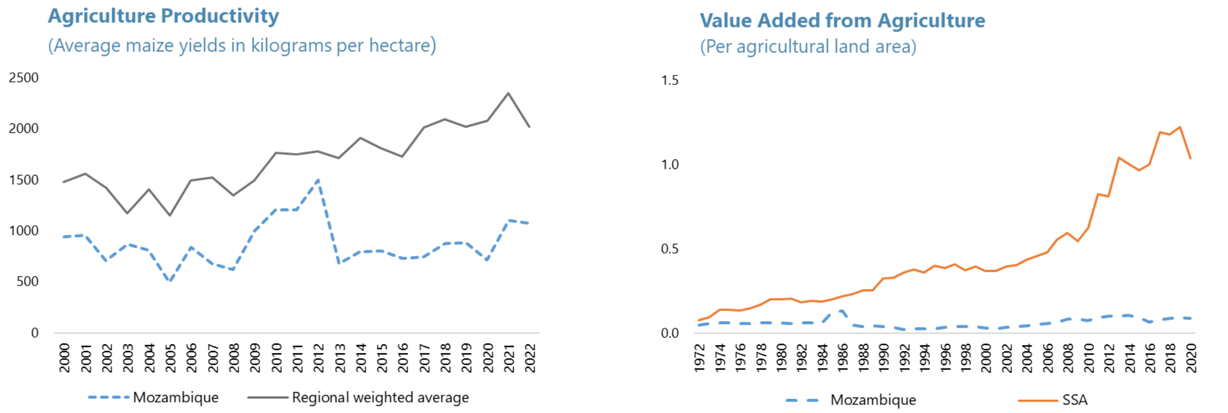
E. Productivity in Agriculture

7. Agriculture remains a cornerstone of Mozambique's economy and a critical driver of inclusive growth, yet productivity in the sector has been persistently low (Figure 4). Agriculture accounts for roughly one-quarter of GDP and three quarters of the workforce, making it central for efforts to reduce poverty, improve food insecurity, and strengthen resilience. However, the sector has not reached its potential. Only about 12 percent of Mozambique's land area is currently under cultivation (Bratley and Meyer-Cirkel 2025) and farming is dominated by smallholders, who face significant constraints, including limited access to inputs, finance, and irrigation, as well as inadequate preparedness for climate shocks (UNU-WIDER 2025). These structural challenges have kept productivity levels well below those of comparable countries (Figure 4). Unlocking the sector's potential will require targeted interventions to modernize farming practices, expand access to resources, and build resilience against environmental risks.[4]

[4] See OECD/FAO (2025) and FAO (2022) for the initiatives to boost agricultural productivity in Ethiopia, and Wiggins (2009) for the improvements in agricultural productivity across various sub-Saharan African since the 1980s.

Figure 4. Agriculture Productivity

Agriculture productivity remains low looking at main products, … *… and overall value added per land area.*



Sources: FAOSTAT; Bratley and Meyer-Cirkel (2025); and UNU-WIDER 2025.

F. Informality

8. The informal sector plays a dominant role in Mozambique's economy. The sector is estimated to be about one third of GDP (Medina and Schneider 2018) and be the source of employment for about 95 percent of the workforce (ILO). Large informality poses significant challenges: most jobs are low-paying, insecure, and less productive than formal employment, and fewer than one-third of manufacturing firms operate fully formally. Transition rates from informal to formal status remain low (Adom 2025), limiting opportunities for workers to move up the economic ladder. Nevertheless, some informal jobs offer training, better wages, and relatively high productivity, serving as stepping stones toward formal employment (Danquah et al. 2021). Harnessing the potential of this sector while promoting gradual formalization is essential for inclusive growth.

G. Physical Infrastructure and Human Capital

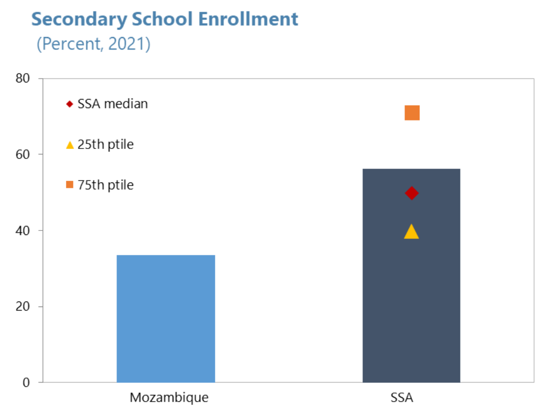
9. Mozambique's human development indicators point to deep structural gaps that hinder inclusive and sustainable growth (Figure 5)**.** The country ranked 182nd out of 193 nations in the 2023 UNDP Human Development Index, reflecting weak education and health outcomes, limited access to electricity,[5] significant gender disparities (Figure 5, bottom-right), and persistently high

[5] Access to reliable electricity also acts as a major impediment to firm growth, according to the survey data.

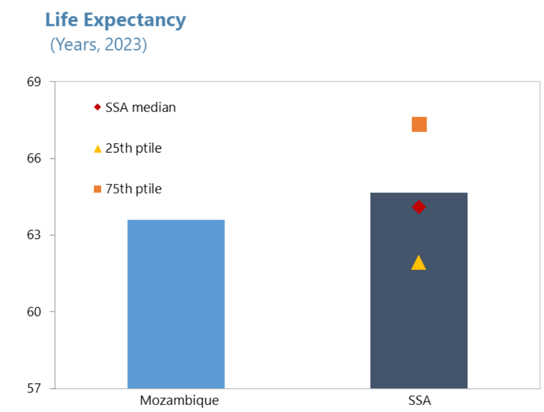
poverty rates. These deficiencies constrain the accumulation of human capital needed to harness the demographic dividend.

Figure 5. Development Indicators

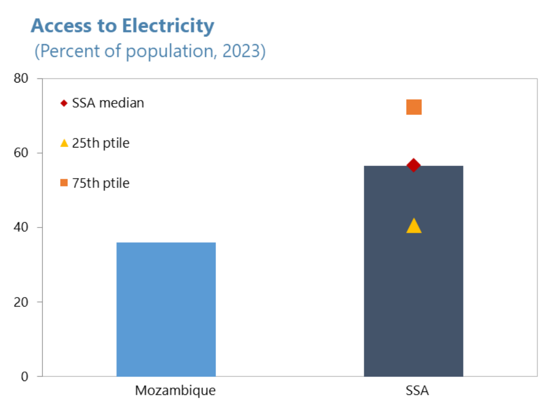
School enrollment is low, …



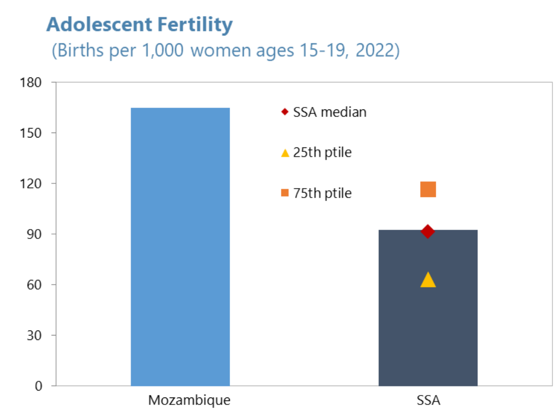
… life expectancy remains short.



Access to electricity is limited, …



… adolescent fertility is high.

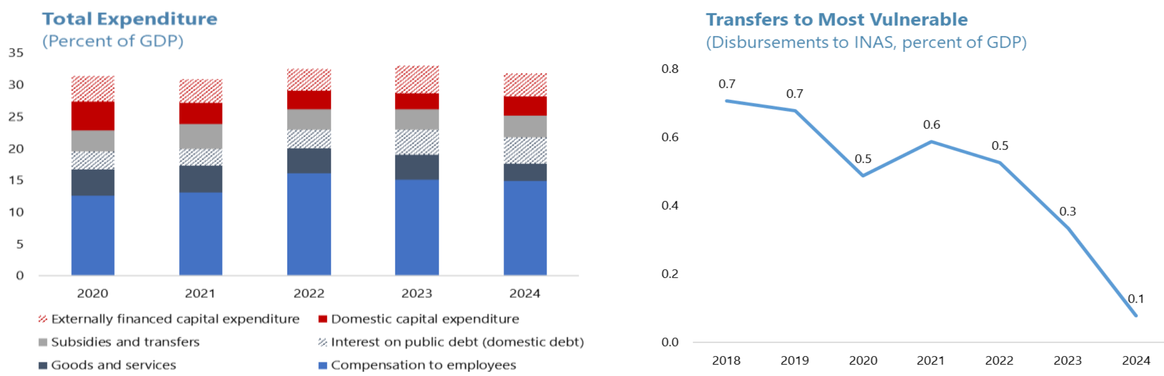


Sources: World Development Indicators; UNDP; and IMF staff calculations. SSA=Sub-Saharan Africa.

10. At the same time, fiscal pressures have severely limited the government's ability to address these challenges (Figure 6). In 2024, current expenditures reached 26.4 percent of GDP, with public wage-bill and interest payments accounting for 14.4 percent and 4.1 percent, respectively. In contrast, domestically financed capital expenditures remained at just 3.1 percent of GDP (Figure 6, left), while social transfers to the most vulnerable fell sharply—from 0.7 percent of GDP in 2019 to 0.1 percent in 2024 (Figure 6, right). These trends underscore the need for reprioritizing public spending toward infrastructure, education, health, and social protection to foster inclusive growth.

Figure 6. Investment in Physical Infrastructure and Social Spending

Current expenditures amount to more than a quarter of GDP, … *… with social cash transfers plummeting in recent years.*



Sources: Mozambican authorities; and IMF staff calculations. INAS=National Institute of Social Action.

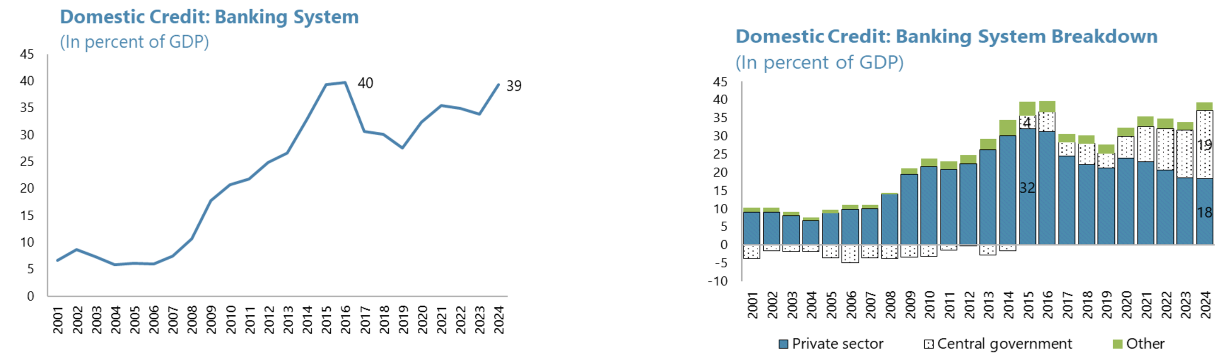
H. Credit to the Private Sector

11. Credit allocation has had a close link with economic growth over the past two decades. Financial development supported growth between 2000 and 2015, as credit to the private sector expanded from 9 percent of GDP in 2001 to 32 percent in 2015 (Figure 7). Since 2016, total credit has stagnated, masking a sharp shift toward government borrowing and away from the private sector. This crowding-out effect weakens the finance–growth nexus (Levine 2005, Sahay et al. 2015) and underscores the need to tackle fiscal dominance to encourage banks to finance the private sector. When surveyed recently, many firms report limited access to credit as a major constraint to their operations.

Figure 7. Credit to the Private Sector

Credit expansion has stalled since 2016, …

… where credit to the government crowded out the lending to the private sector.



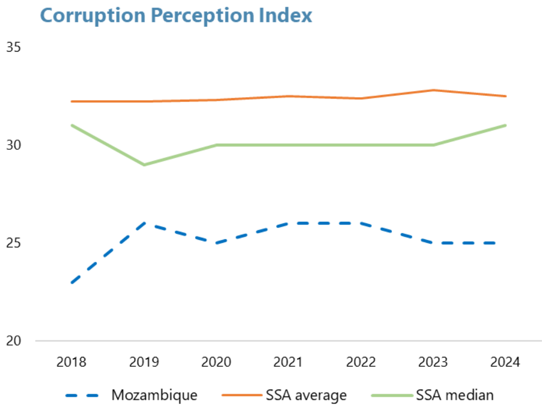
Sources: IFS; and IMF staff calculations.

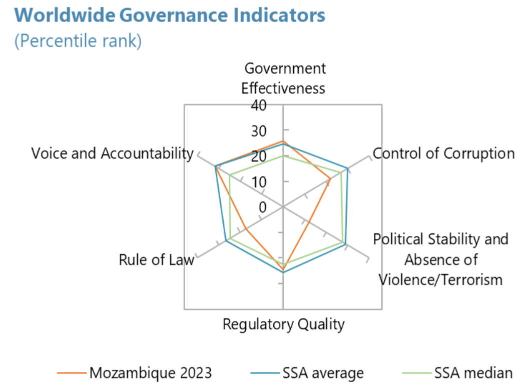
I. Governance

12. Governance, transparency, accountability, and strengthening the rule of law are critical to fostering a predictable business environment, attracting investment, and creating jobs. Mozambique lags regional peers in corruption and governance indicators (Figure 8). Private sector growth and sustainable resource management are only possible with strong commitments and continued efforts toward decisive implementation of the anti-corruption framework, stronger accountability institutions, enhanced judicial integrity and independence and improved protection and enforcement of property rights and contracts. Survey data from different years showed that improving governance is considered to be vital to unleashing the growth potential for many firms in Mozambique.

Figure 8. Corruption Perceptions and Governance Indicators

Mozambique lags regional peers in corruption … *… and governance indicators.*





Sources: Transparency International; World Governance Indicators; and IMF staff calculations.

Note: Corruption perceptions index scale 0-100, 100=lowest level of perceived corruption. On the right-hand side, percentile rank (0-100) indicates the global rank of country, 100=highest rank. These indicators are derived from derived from perception-based data, estimates are subject to uncertainty, and should be considered carefully.

J. Way Forward

13. To turn its demographic wave into a dividend, Mozambique must adopt policies that support a broad-based, job-intensive, private sector-led growth model. Key priorities include:

- Facilitating economic diversification and structural transformation toward labor-intensive sectors such as agro-processing, tourism, and modern services;
- Boosting agricultural productivity through better inputs, mechanization, irrigation, finance, and infrastructure;
- Leveraging informality while incentivizing formalization and scaling youth skills programs;
- Tackling fiscal dominance and prioritizing growth-friendly spending on infrastructure, education, health, and social protection;
- Expanding access to finance via mobile banking, microfinance, and legal reforms ensuring the use of land as collateral; and
- Improving the business environment through institutional reforms, digitalization, and streamlined procedures.