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

November 18, 2009

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

REPUBLIC OF MOZAMBIQUE: LETTER OF INTENT

November 18, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

On behalf of the Government of Mozambique, we would like to transmit to you the attached Memorandum of Economic and Financial Policies (MEFP). It provides an overview of the progress made in implementing our economic program under the Policy Support Instrument (PSI) and the arrangement under the Exogenous Shocks Facility (ESF) and sets out the objectives and policies that the Government intends to pursue over the short and medium term.

The economic and financial policies outlined in the MEFP are consistent with the Government's medium-term *Plano de Acção para a Redução da Pobreza Absoluta II* (PARPA II) for 2006-09, which was extended to 2010, and aim at maintaining macroeconomic stability, promoting diversified and strong economic growth, and reducing poverty. With these medium-term objectives in mind, we have pursued a temporary easing of fiscal and monetary policies to help Mozambique weather the impact of the global economic crisis. We believe that our strong economic fundamentals and prudent macroeconomic policy mix over the past decade provide us with the necessary flexibility in this regard.

With respect to the program, we met all quantitative performance/assessment criteria (P/AC) through end-June 2009, except for base money and net credit to the Government, for which we request waivers. Base money exceeded the program ceiling, as demand for currency was unusually high due to the buoyant activity in agriculture as well as a substantial increase in credit to the economy to compensate for the shortfall in foreign financing to support economic expansion. Although net credit to the Government was virtually flat and close to zero at end-June 2009, it marginally exceeded the relevant program ceiling. All structural benchmarks but one through end-September were met.

The Government of Mozambique believes that the policies set forth in the MEFP are adequate to achieve the objectives of our PSI and ESF-supported program. Our economic program for the remainder of the year has been revised to reflect recent developments, and we request modifications to the end-December 2009 assessment and performance criteria for

ATTACHMENT I**REPUBLIC OF MOZAMBIQUE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES**

November 18, 2009

1. This updated MEFP (i) describes performance under the Government of Mozambique's economic program under the three-year Policy Support Instrument (PSI) and the one-year arrangement under the Exogenous Shocks Facility (ESF) through September 2009; (ii) summarizes the Government's policy intentions over the short- and medium-term; and (iii) elaborates on the specific policies and targets for 2009/10.

I. PERFORMANCE UNDER THE PSI AND ESF ARRANGEMENT

2. Most program targets have been met. Except for base money and net credit to the Government, we observed all quantitative performance/assessment criteria (P/AC) through end-June 2009. Base money exceeded the program ceiling, as buoyant activity in agriculture resulted in an unusually high demand for currency, particularly related to the commercialization of tobacco where metical (instead of the Malawian currency) is now being used as currency of payment. Another factor was the increase in credit to the economy in order to compensate for the shortfall in foreign financing. On the other hand, the floor on net international reserves was met comfortably. Fiscal performance during the first half of 2009 was broadly in line with program projections, with virtually zero net credit to the Government (NCG), although the relevant program ceiling was slightly missed. Structural reforms are on track as well. All structural benchmarks through end-September were met, except for the one on the tax administration pilot project, which has been delayed because of the re-definition of the project's development strategy, consistent with IMF technical assistance advice.

II. OBJECTIVES AND POLICIES LOOKING FORWARD

3. The Government of Mozambique is committed to its medium-term strategy of pursuing prudent macroeconomic policies and implementing second-generation structural reforms to safeguard macroeconomic stability, sustain high economic growth, and reduce poverty. These objectives and underlying policies are consistent with our poverty reduction and growth strategy (*Plano de Acção para a Redução da Pobreza Absoluta II (PARPA II)*) for 2006-09, which was extended to 2010. We have started to review this plan and are preparing a new strategy for 2011-14, relying on a participatory approach involving the private sector, civil society, and development partners.

4. Within this medium-term framework, the Government has embarked on a temporary easing of macroeconomic policies to help mitigate the impact of the global economic crisis. Mozambique has been affected by the crisis, as economic growth is projected to have slowed, the overall balance of payments to have deteriorated, and the import coverage of reserves

(before the ESF and SDR allocation) to have suffered. Mozambique's strong economic fundamentals and prudent macroeconomic policy mix over the past decade offer the necessary flexibility to address these challenges. The accommodating policy stance will be limited in time and unwound as soon as signs of the expected economic recovery become evident.

5. Following the temporary softening of economic growth in 2009, economic activity is expected to strengthen to 5½ percent in 2010 and 6 percent over the medium term. However, the Government intends to make every possible effort to achieve a higher rate of growth. The recovery in external demand should help stabilize the external current account deficit (after grants) at around 10 percent of GDP over 2010-12. This should help buttress our international reserves, which are also benefiting from the IMF's SDR allocation and are projected to average five months of imports during the period. We expect average inflation to remain at about 6 percent over the medium term, below its historical levels, although establishing the full pass-through of international oil prices will contribute to a peak in average inflation of 9½ percent in 2010.

A. Fiscal Policy

6. The Government remains committed to its medium-term fiscal strategy geared toward preserving debt sustainability, containing inflationary pressures, and limiting recourse to domestic financing to make room for sustainable private sector credit growth. The prudent fiscal policy stance to date has created the space enabling the Government to temporarily loosen fiscal policies in 2009 in response to the global crisis. Current indications should allow a careful unwinding of the fiscal expansion in 2010, in tandem with the improved economic outlook.

7. For 2009, we expect the overall fiscal deficit (after grants) to widen by two percentage points, to 4½ percent of GDP, resulting in a domestic financing need of 0.8 percent of GDP. The recourse to domestic financing should be lower than envisaged earlier, reflecting an advance disbursement from the World Bank. A strong revenue administration effort should shore up tax collections, although some taxes have been affected by the impact of the global economic crisis. The Government intends to adhere to the overall budget envelope for expenditure approved by Parliament. Higher than expected spending on wages and pensions (0.2 percent of GDP) resulting from the early initiation of the decompression of the new civil service pay scale, as well as the cost of fuel subsidies (0.6 percent of GDP), will be accommodated by cutting other expenditures. This may entail limited temporary cuts in priority expenditures; however, such spending will still rise to a projected 66.9 percent of total domestic spending in 2009, from 66.7 percent a year earlier.

8. The expected strengthening of economic activity in 2010 should permit a gradual tightening of fiscal policy, with a view to begin reverting to the medium-term fiscal policy stance. This entails reducing the overall fiscal deficit (after grants) to about 4 percent of GDP

in 2010, consistent with a net domestic financing requirement of 1.8 percent of GDP, which also reflects a deposit drawdown related to the World Bank disbursement from late 2009.

9. The draft 2010 budget envisages a revenue increase by 0.3 percent of GDP, reflecting further efficiency gains in tax administration, while domestic current and capital spending will remain broadly unchanged, at about 22 percent of GDP. It also aims at further strengthening priority spending to 67.1 percent of total domestic spending. The draft budget includes allocations to (i) further implement the new civil service pay scale (0.4 percent of GDP); (ii) hire 16,000 additional civil servants, two-thirds of which will be for education and health (0.5 percent of GDP); (iii) pay for the expected costs of the fuel subsidies (0.6 percent of GDP); and (iv) continue clearing post-2003 commercial VAT arrears (0.1 percent of GDP), based on the audit of 2008 and consistent with the Government's commitment to eliminate all remaining arrears by end-2012.

10. The Government aims to protect vulnerable segments of the population from economic hardship, including from adverse developments in international prices for fuel products. In doing so, it strives to strike the appropriate balance between safeguarding macroeconomic stability, providing temporary relief, and ensuring an appropriate targeting of the support. In light of the sharp reduction of inflation in Mozambique over the past few months and the broad stabilization of international oil prices at less than half their peak-2008 level, the Government intends to gradually phase out the current system of fuel subsidies by end-March 2010. This will allow a full pass-through of international prices to consumers, which the Government will maintain going forward. It will consider replacing the fuel subsidies with better targeted and more effective alternative measures benefiting those truly in need, making use of the overall ceiling of MT 1.7 billion for such measures in the 2010 draft budget. The fuel subsidies will be transparently shown in the budget documents.

B. Fiscal Structural Reform

11. With a view to shoring up our medium-term fiscal strategy and mitigating fiscal risks, we will strengthen our revenue administration and public financial management (PFM). We have benefited in both areas from ongoing cooperation with the IMF, the World Bank, and other development partners.

12. Our focus in tax administration is to reinforce management capacity and streamline operations. Key measures in the short run will include:

- *Rolling out the electronic tax system e-Tributação (e-tax)*: The Minister of Finance (MF) will approve by May 15, 2010, the *e-Tributação* Strategic Planning Document, which will outline the roadmap for *e-Tributação*'s implementation, especially with respect to the prioritization of steps, business process reviews, cost-benefit analysis, organizational set-up, and capacity building efforts (**structural benchmark**). The strategy will include an *e-Tributação* pilot that will focus on the corporate income tax

in two main collection directorates (the Large Tax Payer Unit in Maputo and the Revenue Directorate of Maputo City (*Primeiro Bairro Fiscal*)) and be completed by end-2010. The delay in the completion of the pilot to 2010 reflects additional conceptual work to redesign the e-Tax strategy, in line with IMF technical assistance.

- *Strengthening the Revenue Authority (Administração Tributária, AT)*: This will entail (i) enhancement of its management information system, by improving the system of data collection, defining core management performance indicators, and making effective use of the system in decision-making; (ii) submission to the Council of Ministers of two decrees to approve the new organic structure and the remuneration status of the staff, consistent with the Government's overall approach to civil service wage policy; and (iii) approval by the Interministerial Committee of Civil Service of a resolution that approves the AT's new career structure. These three steps will be completed by end-May 2010 (**structural benchmark**).
- *Improving monitoring of own revenues*: A diagnostic study will be completed on the sources of own revenues by end-2009. On this basis, the Minister of Finance will issue regulation (*circular*) by end-March 2010 specifying which own revenues would be included in the budget execution system (e-SISTAFE).
- *Reinforcing large taxpayers unit (LTU)*: The three regional LTUs will be put under one national coordination unit by end-June 2010, which will be responsible for planning and monitoring all large taxpayers in the country, including the mega projects.
- *Implementing new taxes and special regimes*: While striving for strong tax collections overall, the AT will devote particular attention to introducing the new code for excise taxes on alcoholic beverages and tobacco as of January 1, 2010, strictly applying the new fiscal benefits code, and broadening the application of the simplified tax for small contributors.
- *Strictly adhering to mega project framework*: The Government will implement the mining and petroleum fiscal regime, related regulations, and model contracts for all new projects, and adopt non-recourse financing clauses in future mega projects.

13. Further improvements to PFM are a priority of the Government. Based on the PFM vision paper for the coming ten years approved on July 20, 2009, we intend to strengthen the institutional and operational framework for budget preparation, execution, monitoring, and control and strive to make the new public financial management (PFM) system (SISTAFE) fully operational. Specifically, we intend to take the following key measures in the short run:

- *Promoting implementation of SISTAFE*: Following the end-September 2009 adoption by the Minister of Finance of Phase III of the SISTAFE action plan and budget, the electronic budget execution system e-SISTAFE will be further rolled out to districts and state institutions. The objective is to gradually increase direct budget execution

through e-SISTAFE to 37.5 percent of the total executed budget by end-2010, as agreed with development partners.

- *Ensuring compatibility of other IT systems with SISTAFE:* The MF will issue a decree ('diploma ministerial') by end-2009 requiring sectoral ministries to receive prior authorization for the procurement of new accounting or financial management systems complementary to e-SISTAFE.
- *Improving aid and debt management:* The MF will continue encouraging donors to use the single- and multi-currency treasury accounts at the BM for disbursing project aid. The Government will also strive to improve its external debt management. It will continue to seek to identify concessional resources to help finance the country's large development needs. However, concessional financing is not always available, which was behind our decision to sign a framework loan agreement with Portugal to help finance road infrastructure. The framework agreement allows for extension of external loans to a domestic bank and on-lending of these funds to a domestic public entity, up to a total of 300 million euros. Under the agreement, the government did not undertake to offer a guarantee on the external loans, but had to commit to provide a guarantee on future borrowings by the public entity from the domestic bank regarding the implementation of the framework agreement. The government has started the implementation process and identified potential projects to be financed under the framework agreement. It will firm up its intentions by the time of the next IMF review mission and consult with Fund and World Bank staff to ensure the projects' compatibility with the macroeconomic framework, debt sustainability, and financial viability so as to ensure that the road fund (Fundo de Estradas) generates sufficient resources to repay the loan.
- *Reinforcing investment planning, limiting fiscal and quasi-fiscal risks, and maximizing economic benefits:* By end May 2010, the MF will submit to the Council of Ministers a draft Public Private Partnership Law, which will also be applicable to mega projects and other concessions, including those in the power generation area.
- *Improving the framework for public enterprises:* A draft Public Enterprises Law will be submitted to the Council of Ministers by end-May 2010. It will include the requirement for quarterly financial reporting to the MF and the ring-fencing of commercial activities.
- *Enhancing procurement systems:* The Government intends to make reliable procurement information publicly available in 2011. By end-March 2010, it will initiate a study to develop a web-based monitoring and evaluation system.

14. The Government intends to continue implementing a reform of the civil service pay scale. It approved a new salary policy in September 2008 that it will phase in over the medium term in a very gradual manner, consistent with the need to preserve macroeconomic stability and fiscal sustainability. While raising the wage bill, the new policy aims to simplify

and rationalize the salary scales across ministries, decompress the scales consistent with qualification and responsibility, reform the system of housing and other allowances, and harmonize the salary policy with the pension system. Further technical work (supported by development partners) will be undertaken in 2010 to help determine specific elements and the sequencing of the reform steps.

15. To limit fiscal risks and improve governance and transparency, the Government is stepping up its efforts to strengthen the National Institute for Social Security (INSS). By end-December 2009, based on the work of an external consultant, the INSS Board will approve an investment strategy aimed solely at protecting the interests of the pensioners. The INSS also intends to finalize and publish its audited financial statements up to 2007 by the same date. These accounts will serve as a basis for an updated actuarial study that will help determine the possible need for adjustments to contribution rates and benefits. Finally, the INSS will introduce an IT system during 2010 to help improve registration of contributors and claimants and strengthen collection of contributions.

16. The Government is committed to becoming a full member of EITI within the envisaged timeframe of two years. To this end, a number of actions will be undertaken, including (i) the drafting of the first EITI progress report according to EITI standards; (ii) the hiring of an independent auditor; and (iii) the creation of a website for public information. With a view to launching the necessary work expeditiously, we will create an EITI Secretariat in early 2010, but not later than end-March 2010 (**structural benchmark**).

C. Monetary and Exchange Rate Policies

17. The Bank of Mozambique (BM) will continue to pursue a prudent monetary policy aimed at maintaining price stability within the context of a flexible exchange rate regime. Given inflation developments and the continued need to provide adequate room for financing the Government and the private sector, we see scope to maintain an eased monetary policy stance. The BM is mindful, however, that the bottoming out of international food prices, higher domestic retail fuel prices resulting from the phasing out of fuel subsidies, and a possibly more depreciated currency could give rise to new inflationary pressures in the short run.

18. In its monetary policy implementation, the BM will pay closer attention to the level of the effective real exchange rate vis-à-vis a broad basket of currencies. This would allow the exchange rate to adjust more freely to existing patterns of trade and financial flows with other countries while safeguarding Mozambique's international reserves.

19. The BM will continue reinforcing its monitoring, analysis and forecasting of macroeconomic and monetary indicators. In particular, the BM will:

- Continue to focus on further strengthening liquidity management, paying particular attention to improving coordination with the Ministry of Finance on its cash flow projections and on its increased aid management through the single-and multiple-currency treasury accounts at the BM, and with banks on their liquidity requirements; and
- Broaden its use of repos and reverse repos to help strengthen the interbank market and liquidity management and safeguard international reserves, and build a flexible and realistic intervention corridor that reflects market conditions.

20. The Government intends to accept the obligations under Article VIII sections 2, 3, and 4 of the Fund's Articles of Agreement in due course. The official communication will be sent as soon as the implementation regulation has been brought in line with the new legislative framework that came into effect on March 11, 2009.

D. Financial Sector Policies

21. The Government and the BM will ensure expeditious follow-up to the recommendations of the 2009 Financial Sector Assessment Program (FSAP) update. The FSAP noted the overall soundness of the banking system and the improvements in banking supervision and regulation, while highlighting some remaining obstacles to financial intermediation and access to credit. Building on the progress to date, the Government and the BM intend to pursue the following initiatives:

- *Developing Financial Sector Action Plan:* The authorities will finalize an action plan to implement the FSAP recommendations by end-March 2010, supported by technical assistance. To this end, an interagency task force will be created that will develop measures to enhance access to finance and financial market development, strengthen compliance of the supervisory framework with the Basel Core Principles, and complete the modernization of the payments system. In its cooperation with the interagency task force, the BM will preserve the confidentiality of banking information.
- *Continuously monitoring developments in the banking system:* Because of the more challenging international environment and the rapid growth in credit over the last two years, the BM will closely monitor activities in the banking system and apply its supervisory framework. Close attention will be devoted to assessing liquidity conditions and the quality of loan portfolios.
- *Adopting Financial Sector Contingency Plan:* Although the global crisis has so far not directly affected the banking system, the authorities intend to develop a contingency plan that would create a set of tools to (i) enhance their ability to promptly and effectively respond to banks in financial distress; (ii) strengthen interagency coordination between the BM and Government, including information

sharing, analysis, decision-making, and communication; and (iii) develop a bank resolution framework. The Plan will be developed in cooperation with development partners and completed by end-May 2010 (**structural benchmark**).

E. Other Structural Policies

22. The Government is intensifying its reforms to improve the business environment to help raise Mozambique's growth potential, diversify exports, and stimulate new investment. In coordination with the World Bank, the Government has identified the following key measures that it intends to put on a fast track and implement by end-2010:

- Ease red tape to start and run a business by combining the three procedures related to tax registration of businesses, evenhandedly applying the labor code and reducing paperwork to hire workers, and making the new unified inspection agency (for all inspections except those on taxes and labor) operational;
- Submit legislation to streamline business-related licenses;
- Implement the new bankruptcy law once it has been adopted by parliament;
- Accelerate the registration of property by streamlining legislation and consolidating procedures; and
- Facilitate trading across borders by easing pre-arrival clearance.

23. The Government will strengthen the compilation and analysis of data on mega projects to be better able to assess their budgetary, macroeconomic and social implications. To this end, it will improve the coordination between the Ministry of Finance (MF), Ministry of Planning and Development (MPD), the BM, the Institute for National Statistics (INE), and line ministries and enhance the analytical and forecasting capabilities at the MF and MPD.

III. PROGRAM MONITORING

24. The revised quantitative P/AC for end-December 2009 and the new indicative targets for the first half of 2010 are shown in Table 1. Table 2 lists the structural benchmarks for 2010.

Table 1: Mozambique: Quantitative Assessment and Performance Criteria and Indicative Targets, 2009-10

(MM millions, unless otherwise specified)

Assessment/Performance Criteria for end-June/December	2009						2010						
	End-March		End-June		End-Sept		End-March		End-June		End-Sept		
	Indicative Target		Performance/Assessment Criteria		Indicative Target		Performance/Assessment Criteria		Indicative Target		Performance/Assessment Criteria		
	Prog.	Adj. Prog.	Act	Prog.	Adj. Prog.	Est	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	
Net credit to the government (cumulative ceiling)	133	133	0	85	85	171	2,148	4,716	2,148	-124	-446	1,182	5,515
Stock of reserve money (ceiling)	17,622	17,622	17,896	19,301	20,051	20,814	19,762	21,632	22,685	21,031	23,841	23,920	26,321
Stock of net international reserves of the BM (floor, US\$ millions)	1,632	1,632	1,666	1,554	1,537	1,717	1,487	1,421	1,758	1,711	1,839	1,940	1,711
New nonconcessional external debt contracted or guaranteed by the central government or the BM with maturity of one year or more (ceiling, US\$ millions)	5	5	3	5	5	3	5	5	5	5	5	5	5
Stock of short-term external public debt outstanding (ceiling)	0	0	0	0	0	0	0	0	0	0	0	0	0
External payments arrears (ceiling)	0	0	0	0	0	0	0	0	0	0	0	0	0
Indicative targets:													
Balance of the government's savings account set up abroad with proceeds from the coal exploration contract (floor, US\$ millions)	0	0	0	0	0	0	0	0	0	0	0	0	0
Government revenue (floor)	9,075	9,075	9,152	19,861	19,861	20,995	30,624	41,095	42,553	10,810	23,773	36,560	49,983
Memorandum items ²													
Stock of net credit to the government (cumulative change)			367			249			2,443	-4	-662	966	5,515
Stock of net international reserves at the BM			1,539			1,670			1,758	1,711	1,839	1,940	1,711

Source: Mozambican authorities and IMF staff estimates

¹ For definition and adjustors see the attached Program Monitoring Section of the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding.² From the monetary survey.

Table 2: Mozambique: Structural Conditionality, 2010

Actions	Expected Date of Implementation
1. Approval by the Minister of Finance of the <i>e-Tributação</i> (e-tax) Strategic Planning Document	May 15, 2010
2. Strengthening the Revenue Authority (<i>Administração Tributária</i> , AT): enhancing the management IT system and approving the new organic structure. (i) enhancement of the management information system; (ii) submission to the Council of Ministers of two decrees to approve the new organic structure and remuneration status AT's staff; and (iii) approval of a resolution by the Interministerial Committee of Civil Service of a resolution that approves the AT's new career structure.	May 31, 2010
3. Creation of an EITI Secretariat	March 31, 2010
4. Adoption of a financial sector contingency plan	May 31, 2010

ATTACHMENT II

REPUBLIC OF MOZAMBIQUE: TECHNICAL MEMORANDUM OF UNDERSTANDING

November 18, 2009

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

I. DEFINITIONS

Net credit to the central government

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

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

Government revenue and financing

4. Revenue is defined to include all receipts of the General Directorate of Tax (*Direcção Geral dos Impostos*, DGI), the General Directorate of Customs (*Direcção Geral das Alfândegas*, DGA), and nontax revenue, including certain own-generated revenues of districts and some line ministries, as defined in the budget. Net receipts from privatization received by the National Directorate of State Assets (*Direcção Nacional do Património do Estado*) and unrealized profits transferred by the central bank to the treasury will not be considered as revenue (above the line) and will be accounted for as other domestic financing (below the line).

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

Reserve money

6. Reserve money is defined as the sum of currency issued by BM and commercial banks' holdings at the BM. The reserve money stock will be monitored by the monetary authority and provided to the IMF by the BM.

Net international reserves

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

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

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

9. The central government will limit contracting or guaranteeing external debt up to US\$5 million each year with original maturity of one year or more with a grant element of less than 35 percent, calculated using currency-specific discount rates based on the Organization for Economic Cooperation and Development (OECD) commercial interest reference rates in accordance with the annual Budget Law. This assessment (performance) criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. This assessment (performance) criterion will be assessed on a continuous basis.

Stock of short-term external public debt outstanding

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

External payments arrears

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

Foreign program assistance

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

Actual external debt service payments

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

II. ADJUSTERS

Net international reserves

14. The quantitative targets (floors) for net international reserves (NIR) will be adjusted:
- downward/upward in 2009/2010 by the shortfall/excess in the World Bank PRSC 6 program disbursements compared to the level envisaged in the program.
 - downward by the shortfall in external program aid less debt service payments (up to US\$100 million), compared to the program baseline (Table 1) and excluding the World Bank PRSC 6 disbursement,
 - downward/upward for any revision made to the end-year figures corresponding to the previous year.

- downward to accommodate higher external outlays because of natural disasters, up to US\$20 million.

Net credit to government

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

- upward/downward in 2009/2010 by the shortfall/excess in the MT equivalent of World Bank PRSC 6 program disbursements compared to the level envisaged in the program.
- upward by the shortfall in the MT value of external program aid receipts less debt service payments (up to the MT equivalent of US\$100 million at exchange rates prevailing at the respective test dates), compared to the program baseline (Table 1), excluding the World Bank PRSC 6 disbursement.
- downward by privatization proceeds in excess of those envisaged in the program, unless these proceeds are deposited in the government's savings accounts abroad.
- downward (upward) for any increase (decrease) in domestic financing from the nonfinancial private sector.
- upward to accommodate the higher locally financed government outlays because of natural disasters, up to the MT equivalent of US\$20 million at exchange rates prevailing at the respective test dates.

Reserve money

16. The quantitative target (ceiling) for reserve money will be adjusted upward by the excess of the stock of currency issued by the BM above the level envisaged in the program, up to MT 750 million (Table 1). The maximum adjustment will be MT 1000 million at end-December because of the seasonal increase in the demand for currency during the end-year festive season.

III. DATA AND OTHER REPORTING

17. The government will provide Fund staff with

- monthly and quarterly data needed to monitor program implementation in relation to the program's quantitative targets and broader economic developments;
- weekly updates of the daily data set out in Table 1;
- weekly data set out in Table 4 of the TMU dated May 26, 2005;
- monthly updates of the foreign exchange cash flow of the BM;

- monthly data on government revenues (in detail according to the fiscal table) with a lag not exceeding one month;
- monthly information on the balance of government savings accounts abroad;
- monthly data on domestic arrears; and
- monthly budget execution reports (that will also be published) with a time lag not exceeding 45 days.
- monthly data on gross international reserves, with the composition by original currencies and converted to US dollars at the actual exchange rates.

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

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

Table 1. Mozambique: Net Foreign Assistance, 2009-10

	2009						2010												
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4		Year		
	Prog.	Act.	Prog.	Act.	Prog.	Act.													
Net foreign program assistance (US\$ mn)	105	104	105	128	78	85	68	127	356	446	163	95	86	26	370				
Gross foreign program assistance	116	116	117	138	98	103	82	144	413	501	182	113	104	44	444				
Program grants	116	116	117	108	83	103	67	34	382	361	151	113	104	44	413				
Program loans	0	0	0	30	15	0	15	110	30	140	30	0	0	0	30				
External debt service	11	12	11	10	21	17	14	17	57	56	18	18	18	18	73				
World Bank PRSC 6 Disbursement										110									
Net foreign program assistance (MT mn)	2,735	2,715	2,643	3,400	2,434	2,331	1,740	2,885	9,552	11,331	4,843	2,539	2,549	600	10,531				
Gross foreign program assistance	3,003	2,984	3,293	3,647	2,852	2,744	2,366	3,895	11,514	13,270	5,220	3,310	3,052	1,296	12,877				
Program grants	3,003	2,984	3,293	2,845	2,412	2,744	1,922	928	10,632	9,500	4,344	3,310	3,052	1,296	12,002				
Program loans	0	0	0	803	439	0	443	2,967	883	3,770	876	0	0	0	876				
External debt service	268	268	650	247	418	413	628	1,010	1,962	1,939	376	770	503	697	2,346				
World Bank PRSC 6 Disbursement										2,697									
Stock of outstanding currency (MT bn)	10,587	10,587	11,677	13,085	11,857	13,462	12,763	15,004	12,763	15,004	13,278	15,634	15,473	17,298	17,298				

Source: Mozambican authorities and IMF staff estimates