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

June 7, 2013

The following item is a Letter of Intent of the government of Republic of Mozambique, which describes the policies that Republic of Mozambique intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Republic of Mozambique, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Ms. Christine Lagarde  
Director General  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Ms. Lagarde:

The Government of Mozambique requests the completion of the sixth review under the Policy Support Instrument (PSI) and approval of a successor PSI for 2013-16. We plan to cancel the current PSI at the time of the approval of the successor PSI. In support of this request we are transmitting the attached Memorandum of Economic and Financial Policies (MEFP), which reviews implementation of the current PSI and establishes policy objectives and indicator targets for the short and medium term to be adopted under the next program.

The new PSI will be based on the following four pillars:

(i) Consolidating macroeconomic stability in the context of natural resource exploration;
(ii) Attaining robust and more-inclusive growth;
(iii) Continuing institutional capacity-building in macroeconomic policy formulation and implementation; and
(iv) Strengthening governance and public sector transparency

The program is in line with our Poverty Reduction Strategy Paper (PARP) for 2011-14 and with our plans regarding its successor strategy.

The Government is of the view that the policies outlined in the MEFP are adequate to achieve the objectives of the PSI-supported program. We stand ready to take any additional measures necessary to achieve our policy objectives.

The Government will consult with the IMF on the adoption of these measures, and—at its own initiative or whenever the Managing Director requests such a consultation—in advance of any revision to the policies contained in the MEFP, in accordance with the Fund’s policies on such consultation. The Government will provide the IMF with such information as the IMF may request to be able to assess the progress made in implementing the economic and financial policies and achieving the objectives of the program.
The Government authorizes the publication of this Letter of Intent, its attachments and the associated staff reports.

Sincerely yours,

/s/
Manuel Chang
Minister of Finance

/s/
Ernesto Gouveia Gove
Governor
Bank of Mozambique

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding
Attachment 1—Memorandum of Economic and Financial Policies
June 7, 2013

1. This MEFP (i) describes recent developments and performance of the Government’s economic program under the three-year PSI to date, and (ii) elaborates on economic and structural policy intentions for a new program under the PSI for 2013-16. It builds on the MEFPs underlying the initial PSI request of May 2010 and those for its five reviews, the last of which was completed in December 2012.

Recent Economic Developments and Performance under the Program

2. Mozambique’s economy remains robust, despite a still-fragile world economic environment resulting from the financial crisis that shook the international economy and was exacerbated by the Euro zone sovereign debt crisis.

- **Economic performance.** Preliminary data for 2012 indicate that economic activity grew by 7.4 percent, in line with the growth forecast. This performance is explained by the expansion and rapid rise in coal production as well as in financial services, transport and communications, and agriculture, the last making a major contribution to GDP. Having said that, despite no preliminary estimates as yet for economic activity in the early months of the year, economic performance in the first quarter of 2013 is expected to be lower than the same period in 2012 due to the negative impact of floods in early 2013, which mainly affected the agriculture, electricity, mining, and transport and communications sectors.

- **Inflation** The annual inflation rate slowed from 5.5 percent at end-2011 to 2.2 percent at end-2012. However, the trend is expected to reverse in 2013, given the 5.1 percent rate posted in April. The 2012 deceleration in inflation was the result of the good harvest and attendant increase in food supply, the relative stability of the metical in relation to the leading currencies, favorable developments in international prices, and stable administered prices. Inflation is expected to increase mainly because of the rise in the prices of food, as result of the floods, and school fees in January-April 2013.

- **BOP developments in 2012 were dominated by operations related to the development of the LNG sector.** FDI jumped from $2.6 billion in 2011 to $5.2 billion in 2012 primarily as a result of the exploratory operations in the Indian Ocean in the north of the country where massive reserves of natural gas have been identified. Related imports of goods and services pushed the current account deficit from 24 percent of GDP in 2011 to 36 percent of GDP in 2012. Donor disbursements fell somewhat in terms of GDP from 10 to 7 percent. Traditional exports, mainly agricultural products, continued their strong performance increasing by almost 16 percent over 2011.

- **Net international reserves.** Due to these BOP developments, the country had a stock of reserves of $2.6 billion at end-December 2012, equivalent to approximately to 3.8 months of
projected imports of non-megaproject imports for 2013 compared to 3.7 months at the end of 2011. However, as of end-March 2013, weak foreign assistance disbursement ($45 million against the $194 million expected) coupled with an increase in imports to make up the food shortages created by the floods and emergency infrastructure replacements, net international reserves (NIR) were down to $2.3 billion, around 3.1 months coverage of 2013 imports of goods and non-factor services.

3. Performance under the program has been broadly satisfactory, and the authorities largely complied with the quantitative goals for the period.

- **Four of the six end-December 2012 quantitative assessment criteria were met**, but not those for net credit to the Government (NCG) and reserve money (RM). The end-December 2012 average RM balance was Mt 40.3 billion, around Mt 1 billion above the target, a shift caused by higher than projected demand for money at the end of the year. For its part, in 2012, the overall flow of NCG was Mt 2.7 billion—above the programmed target of Mt 52 million—on account of a shortfall in revenue compared to the program target, and higher than planned investment spending, which is hard to predict.

- **Among the indicative targets for March 2013, the RM target was likewise exceeded** owing to continued high demand for broad money demand and limited scope for monetary intervention in the short term (including an increase in required reserves associated with higher government deposits, and a weak cash return to the banking system in the post-flood period). In contrast, NCG for March 2013 was within projections.

- **Nonconcessional borrowing.** The Government’s total external non-concessional borrowing for 2012 was $1.2 billion, increasing the cumulative amount under the PSI to $1.4 billion, staying below the program’s ceiling of $1.6 billion through end-June 2013. There was no additional non-concessional borrowing in the first four months of 2013. These loans are intended to finance only infrastructure projects with their own debt-servicing capacity.

- **All structural benchmarks were met, but with some delays.** The Annual Domestic Borrowing Plan for 2013 was approved on schedule in January 2013. The Financial Sector Contingency Plan was approved on April 2, 2013, two days later than planned. The Financial Sector Development Strategy, which was submitted to the Cabinet in March 2013 and was approved on April 9, 2013.

**Implementation of the Poverty Reduction Strategy**

4. We are committed to sustain our pursuit of more inclusive growth during and beyond the current Poverty Reduction Strategy (PARP 2011-14). The PARP aims to induce patterns of inclusive growth by increasing the allocation of funds for investment under the following pillars: (i) enhancing production and productivity in agriculture and fishing; (ii) creating employment; and (iii) enhancing social and human development. A review of its quantified indicators is underway to refine them, make them more relevant for assessing progress toward strategic aims, and ensure that they are all measurable and adequate for the new development challenges.
• **Enhancing production and productivity in agriculture.** Agriculture employs 78 percent of the economically active population and contributes 23 percent to GDP. Thus productivity increases and the expansion of areas under cultivation are key to improvements in the livelihood of the population. To this end, we have adopted an agricultural sector development strategy (PEDSA) for 2011-20 and just launched an agricultural investment plan (PNISA) 2013-17 that will help to gradually shift production from subsistence to commercial farming.

In 2012, there was progress in several areas:

- **Land use titles.** Land rights to 108 community areas were delimited, covering a total area of 1.6 million ha, mainly in the provinces of Niassa (48 communities with 1.2 million ha), Zambézia, (27), Gaza (16) and Nampula (6). Also, 56 communities were certified with an area of 0.1 million ha. This has allowed us to enforce community land use rights, reducing land conflicts and ensuring land use for agriculture and other productive purposes.

- **Productivity increases.** Soybean productivity increased by near 40 percent (1.17 tons per hectare against 0.85 ton per hectare programmed for the year). Twenty five percent of farmers had adopted new technologies, according to the 2012 agrarian Survey (TIA). The adopted technologies included the use of improved inputs (improved seed and mechanization) and vaccination of livestock.

- **Strengthening monitoring systems.** The Agrarian Statistics Master Plan, which was approved in 2012, combined with the Early Warning System and the TIA, provide a "statistical framework" to measure production and productivity more accurately and better assess progress under the PEDSA.

• **Creating employment.** In all, 270,267 formal sector jobs were created: 92,140 in the public sector and 178,127 in the private sector, of which more than half were for Mozambican miners to work in South Africa in line with bilateral agreements. While this figure exceeded the goal by 6 percent, it was 14 percent lower than in 2011 reflecting mainly the contraction in the South African mining sector affected by domestic events and the global financial crisis.

• **Establishment of the Labor Market Monitoring Group (Observatório do Mercado de Trabalho).** This forum of stakeholders on labor market issues will deepen interactions on the linkages between the demand and supply of jobs, and help improve employment policies and statistics. Views are being sought from other ministries and the regulations for its creation are expected to be approved in April 2013.

• **Improvement of the business climate will be crucial to attract more investors and enhance employment creation.** We have been working in partnership with the IFC since 2010 to assess and streamline business licensing requirements and procedures, and this work will continue. Milestones reached in 2012 included:

  o Parliamentary adopted a resolution authorizing the Government to establish bankruptcy rules for insolvent companies;
Cabinet Decree No. 5/2012 established simplified rules for licensing of companies in more than two hundred types of activities in one day;

- The Integrated Citizen Services Platform (e-BAU) was launched. It will reduce the number of procedures, time, and costs involved in licensing and registering companies;

- The Decree 49/2004 on normal corporate licensing procedures, including a standard form to simplify the procedure for starting a business was amended by Council of Minister on May 21, 2013;

- The 2nd Strategic Plan to Improve the Business Environment was drafted and provides, among others, for the simplification of forms for starting and registering companies, and procedures for construction licensing. It is currently being aligned in discussions with the relevant line ministries, provincial governments, and the private sector and is expected to be submitted to the Council of Minister in June 2013 for approval in August 2013 (structural benchmark).

Enhancing social and human development. Efforts to boost primary school enrolment continued. The school enrollment rate at age 6 in first grade increased by two percentage points relative to 2011, and net enrollment at age 7 is close to 100 percent. Significant strides in this regard have been the creation of an increasingly gender-equitable system, particularly in secondary schools, and progress in monitoring and evaluating student performance in primary schools. Also notable is the significant increase in age-appropriate enrollment at different levels.

Health sector. The 2012-16 Health Strategy and the Monitoring and Evaluation plans were adopted recently that aim to push forward improvements in the still relatively weak public health system. We launched the Action Plan for Pharmaceutical Logistics and finalized the Pharmaceutical Logistics Strategy as a means to deal with the drug logistics crisis and emergency that had arisen in 2011. PFM systems in the sector have also strengthened with bi-monthly monitoring of the sector accounts.

Macroeconomic Policy

A. Economic Objectives

5. We expect growth in the medium term to remain high and robust, reflecting the boom in the extractive industry and hydrocarbon sector. However, the still-fragile world economic environment will constitute a risk to growth in the short term.

- Over the next five years, the increased contribution of coal production and exports; the implementation of significant infrastructure projects, including the liquefied natural gas plant; greater dynamism in the construction and transport and communications sectors, and continuing growth in other sectors could accelerate economic growth to rates between 7½ and 9 percent per year, in line with our objectives.

- As a result of temporary shocks to our economy, we expect to see inflation accelerate in 2013. However, we maintain our medium-term inflation objective of 5 to 6 percent per year.
• Developments in the external sector over the coming years will continue to be influenced by the emergence and development of new companies involved in direct foreign investment in mineral exploration. Thus, the current account deficit excluding grants could be around 45 percent of GDP, basically reflecting the increase in imports of goods and services to supply the large investments made by such enterprises, funded largely by FDI and private borrowing. We expect the import cover of international reserve cover to remain around four months of projected imports of non-megaproject goods and non-factor services.

B. Macroeconomic Policy Mix

6. **We will continue with our current combination of fiscal and monetary policies with a view to maintaining macroeconomic stability in the medium-term and promoting structural reforms.** We will also strengthen our macroeconomic planning tools and economic policy coordination within the government and with the BM.

7. **Monetary policy will remain oriented toward achieving the objectives of keeping inflation low and stable, safeguarding the financial system, and encouraging lending to the economy.** We will continue reforms to improve operations of the banking system and broaden further access to financial services for depositors as well as borrowers.

8. **The tax and budget policy will continue to meet the objectives in terms of natural resource taxation, priority spending on infrastructure investment, health and education, and income redistribution.** The medium-term fiscal framework (CFMP) for 2013-15 envisages moderate fiscal deficits, continued strong external support, and modest domestic financing needs. It demonstrates the Government’s efforts to increase internal revenue generation capacity and cover the outlays necessary to keep its administrative machinery running with self-generated funds. The CFMP provides for a decrease in the overall fiscal deficit after grants from 8.6 percent to 7 percent between 2013 and 2015, and the Government will continue to give priority to concessional borrowing to finance the budget deficit. However, any recourse to nonconcessional loans must be within the approved ceiling and the funds must be used for investment in public infrastructure projects with a proven ability to generate financial and debt-servicing capacity, as evidenced in the summary description of the project.

9. **We will also move forward structural and governance reforms to improve the business climate and facilitate job creation by the private sector and encourage activity outside the megaprojects.** These address, on the one hand, the need to raise average labor skills and narrow the infrastructure gap, and on the other the need to facilitate business operations through, among others, more client-oriented taxpayer services, streamlining of licensing requirements, and the availability of credit and debtor information.

C. Monetary and Exchange Rate Policies

10. **In the short term, monetary policy will aim to sustain economic growth while maintaining macroeconomic stability.** We will continue to aim for reserve money growth slightly above nominal GDP growth to support financial deepening and the provision of credit to the economy, while maintaining inflation at 5-6 percent in the medium term.
11. **Enhancing the framework for monetary policy operations remains a priority.** The BM will focus on the following areas:

- **Strengthening coordination with the Ministry of Finance.** The BM and MF will continue to strengthen their coordination and exchange of information as envisaged in the Memorandum of Understanding signed on March 25, 2011, with a view to improving liquidity management in the economy.

- **Developing the domestic repo market to help improve money market management and the liquidity of government securities.** Following the July 2012 approval of the legal framework, which made all treasury bills (BT) eligible for repo transactions and permitted secondary trading in BTs, the electronic platform (Mticalnet Module) was modified, enabling the launch on March 13 this year of the first primary market operation with fungible BTs. Further improvements in the Mticalnet for the secondary market are in progress, and are envisaged to be completed by end-June 2013.

- **Continued coordination with the MF with a view to using government bonds (OTs) as security in the Interbank Money Market (MMI).** The inclusion of OTs in the MMI became an integral part of a broader project to develop the government securities market (public debt market), the first phase of which was a diagnostic assessment of the conditions for its implementation. This was completed in November 2012 and identified a number of technical and legal constraints that will have to be removed in the course of 2013 ahead of implementation scheduled for early 2014.

- **Transformation of the standing deposit facility into repo operations.** A set of transactions designed and tested for this purpose is currently undergoing improvements and is scheduled for implementation in June 2013.

12. **We continue to improve monetary policy formulation and implementation, and to communicate this.** The publication of the quarterly monetary policy report as part of efforts to enhance monetary policy communication and transparency is now an established consolidated process. The fifth edition was published in April 2013. In terms of monetary policy implementation, the BM will continue to improve data collection and refine its inflation and liquidity forecasting models, as well as the analytical contents of its publications.

13. **We remain committed to a flexible exchange rate regime.** The BM will allow the exchange rate to adjust freely to evolving patterns of trade and financial flows and closely monitor developments in the real effective exchange rate vis-à-vis a broad basket of currencies, with a view to ensuring external competitiveness and a comfortable level of international reserves.

14. **The Mozambican authorities remain committed to their obligations under Article VIII, sections 2, 3, and 4 of the Fund’s Articles of Agreement.** The BM will continue to monitor the implementation of the new foreign exchange regulations, its implementation norms, as well as the functioning of the foreign exchange market, with a view to avoiding practices that could be inconsistent with Article VIII principles. We will keep IMF staff informed of any developments that could potentially run against those principles.
D. Fiscal Policy

15. Fiscal policy aims at the creation of productive capacity in the country, reducing the vulnerability to external shocks, and fostering sustainable and inclusive economic growth and development. The 2013 Budget Law envisages an increase in the revenue ratio of 23.6 percent of GDP through continued improvements in revenue administration. The level of spending is budgeted at around 35.4 percent of GDP. The resulting deficit would be financed by external funds and domestic borrowing to the tune of 11.8 percent and 0.6 percent of GDP, respectively.

16. 2013 Budget Revision. In response to the floods in early 2013 that devastated a number of provinces in the southern, central, and northern regions of the country, leading to a slowdown in economic growth, the Government intends to submit a revised budget to the National Assembly in August 2013. This revision increases spending to mitigate the vulnerability of those affected and rebuild destroyed infrastructure. This will be funded by already realized windfall revenue on capital gains tax from sales of shares in hydrocarbon companies.

17. Use of potential further windfall revenue. Depending on activity between private parties involving the sale of shares in mineral/hydrocarbon projects, the government could receive further windfall revenue in 2013. The government intends to use such windfalls to advance the socio-economic development of the country. Existing budget rules allow the use of such fiscal space (i) to increase investment, including the contribution of public enterprises to complex PPP investments such as envisaged in the electricity sector, railway projects, and LNG, or (ii) to reduce government debt, e.g. reducing the stock of VAT refunds arrears.

18. Continuation of the wage policy. In 2013 the Government’s wage bill is projected at about 10.4 percent of GDP to sustain the existing payroll, new hiring, and promotions and progressions with a major impact on the education, health, and justice sectors, notwithstanding the impact of other sectors. In the medium term wage policy reforms will continue to (i) advance the decompression of the salary structure and address equity issues through differentiated adjustments in minimum wage across sectors; (ii) strengthen the link between remuneration and productivity in various sectors; and (iii) slow down recruitment in non-priority sectors to create room for the needs of the priority sectors. These measures are intended to reduce the wage bill as a share of GDP to around 8.5 percent in the medium term.

19. Spending for priority sectors. The Government has given priority to significant spending on priority sectors, accounting for 72.3 percent of total expenditure, excluding interest on government debt and government financial operations, compared with 66.9 percent in 2012, in order to ensure the implementation of measures aimed at reducing rural and urban poverty rates through investments to boost national output capacity, productivity, and the competitiveness of domestic inputs. In recent years, the Government has given substantial attention to social protection, in particular measures to protect the most vulnerable. In this regard:
• **Enhancing social protection.** Earmarked government spending on social protection in the 2013 budget increased to Mt 1.7 billion (0.4 percent of GDP).\(^1\) We expect to draw on additional World Bank financing for public works programs, for which pilot schemes have been under way. The Government has renewed its commitment to increasing budget appropriations to 0.8 percent of GDP over the medium term with the aim of reaching around 900,000 beneficiaries and raising the level of cash transfers to meet the poverty line over the coming years.

• **Developing a more effective programmatic targeting system.** The government has begun to develop and test a set of operational tools to improve beneficiary selection and enhance the implementation of social-protection programs with the support of development partners. These include a common targeting system, a consolidated registry of beneficiaries, an information-management system, and a mechanism to redress complaints and grievances. The government has designed an innovative targeting system that combines geographical identification with community targeting to minimize exclusion errors and a proxy means-test instrument to minimize inclusion errors. The system will be tested in 2013 and will be used to select the beneficiaries of the PASP beginning in 2014.

• **Relief for the early-2013 floods.** To alleviate the impact of the natural disasters on the populations concerned, the Government will approve a Post-Flood Reconstruction Plan, which includes the following measures to be implemented over the next three budgets: actions on mitigation, resettlement and reconstruction of infrastructure (emergency and permanent replacement of infrastructures, roads, bridges, water and sanitation, railways, public administration buildings, enhancing flood resistance). We foresee the rehabilitation and construction of affected infrastructure in education and health; replacement of damaged furniture and equipment; and for the specific case of health, the replenishment of medical drug stocks.

• **Improving Infrastructure.** The Government is committed to spatial planning in rural areas and towns, and to regulate urban and peri-urban land use, with a target to demarcate 70,000 plots across the country. Major transport investments in the coming years include the ring road around Maputo; Beira – Machipanda road; the railway line from Moatize via Malawi to Nacala, the deep water port in Nacala, and the Nacala international airport. In the area of water and sanitation, we will focus on promoting sustainable water supply systems in rural areas, expansion of systems in all cities, and rehabilitation and construction of dispersed sources of water supply. The Government will also establish arrangements to monitor water entering Mozambique, and to rehabilitate levees defense platforms and strengthen areas prone to flooding and mitigation of floods and droughts.

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\(^1\) Of particular note in this area is the increase in the monthly minimum basic welfare allowance from Mt 130 to Mt 253 per beneficiary.
• **In the area of education**, the Government’s effort will be focused on building educational infrastructure and improving the quality of education by increasing financial resources, human and material, directly benefiting schools and improving student learning. Continued priority to universalization of Primary education, with a focus on learning and developing basic skills in reading, writing and numeracy.

• **In the health sector**, the government will improve the health network through the rehabilitation and expansion of primary, secondary, tertiary and quaternary networks. We will promote equal access to health care focusing on health of women and children and other vulnerable groups. Furthermore, we will improve the management of human resources, raising the level of humanization of services, control the impact of endemic diseases, and reduce malnutrition rates.

20. **Energy subsidies.**

• **Subsidies on petroleum products.** The Government will continue to monitor fuel prices in the international market and their appropriate framework in the domestic market. To ensure the sustainability of fuel provision activities, including the remuneration of providers, the Government aims to gradually eliminate blanket subsidies over the medium term, and target subsidies exclusively at vulnerable social segments.

• **Compensation to fuel importers.** The Government allocated around Mt 1.3 billion in the 2013 budget (0.3 percent of GDP) to pay fuel importers in compensation for fuel losses incurred in 2012.

• **Electricity tariffs.** The challenges facing the electricity sector include carrying out investments to develop energy production, transmission, and distribution infrastructure; advancing rural electrification to meet demand, which has been steadily rising in recent years as a result of the increasingly dynamic domestic economy; and re-establishing the financial sustainability of EDM, Mozambique’s public electricity company. A tariff study has been prepared and proposed a tariff adjustment mechanism in each consumer segment. A proposal building on this is expected to be presented to the Council of Ministers in the first half of 2013. Other elements such as government transfers to EDM for investments in rural electrification are also under consideration.

**Structural Reforms**

A. **Public Financial Management and Reporting**

21. **Public financial management remains a priority.**

• **Streamlining wage bill administration (expanding coverage of e-Folha and e-CAF).** By end-June 2013, the Government will approve the action plan for the expansion of the electronic payroll system (including e-Folha) and of the integrated civil service database (e-CAF) (structural benchmark). The e-CAF will enable the Government to make salary payments to civil servants and government agents by direct bank transfer, in particular those
that do not meet the requirements for inclusion in e-Folha. The expansion of direct salary payments will include all institutions covered by e-CAF and with direct access to e-SISTAFE by end-December 2013 (structural benchmark).

- **Strengthening expenditure execution processes.** The electronic expenditure system (e-SISTAFE) is currently used largely for payment purposes. However, it is capable of handling the three separate phases of expenditure execution: *commitment* when an order for goods or services is made; *verification* when the delivery of goods and services received is confirmed and their value accepted as payment obligation; and *payment* when the payment obligation to the supplier is met. A pilot for the 3-step expenditure chain has been implemented for public debt servicing, and we plan to expand this practice to other expenditure areas/units starting in January 2014.

**Migrating to IPSAS-compatible reporting.** Under the action plan to reform the public accounting system approved in October 2012, a proposal for new Accrual Accounting Rules in line with International Public Accounting Standards (IPSAS) will be elaborated by July 2013. The proposal will be open to public consultation in August; the Council of Ministers will consider it thereafter, and then submit it to Parliament for approval.

- **Improving budget classification.** We are working on the mapping of priority spending according to the PARP pillars through a more detailed budget classification by spending programs, and expect this to be completed by mid-2013 for the 2014 budget. In addition we have started to structure the presentation of spending according to programmatic classifiers to align it with the program structure of the Government’s next Five Year Plan (Plano Quinquenal do Governo). As an intermediate step, we have updated the economic and the organic classification of expenditure for 2013 to allow a more detailed classification by expenditure units in our accounting system.

- **Preparation of the new economic revenue classifier (CER).** Preparation of the CER is underway and scheduled for conclusion by end-2013 for application in the next budgets. While the current CER aims to identify the nature of the revenue, the new classifier will identify the origin of funds according to the economic nature of the underlying activity, thereby affording greater precision, transparency, and consistency.

**B. Investment Planning and Debt Management**

22. The Government will continue to give priority to modernizing its debt management and investment planning procedures.

- **Strengthening investment planning.** The Ministry of Planning and Development (MPD) will submit by June 2013 the Integrated Investment Program (IIP) for Cabinet approval. The document will present a list of priority projects together with sufficiently specific information to analyze the impact of related borrowing on debt sustainability. (structural benchmark)

- **Strengthening project selection tools.** In February 2013, the MPD completed the Project Preparation Manual and template along with a form for a summary description of individual projects. The Project Management and Selection Committee will start using the Manual in
July 2013 to analyze projects and, once Cabinet approved a particular project, will publish the template and summary description on the website with relevant information on that project. The Debt Management and Project Selection Committees will continue to provide training to key line ministries in the use of the new project selection tools and criteria.

- **Enhancing debt management.** The preparation of a Debt Sustainability Analysis is underway to serve as an input for the 2014 State Budget. The DSA is scheduled for completion by end-June 2013. The Government intends to incorporate the analysis of costs and risks associated with the public debt portfolio and borrowing plans over the medium term in the quarterly debt report, ensuring linkages with the State Budget and the Integrated Investment Program, as well as enhancing debt monitoring in line with the medium-term debt strategy (MTDS). The latter was last completed at end-2012 and is forward-looking policy tool to inform the selection of investment projects in light of the volume and composition of public debt, using cost-risk analysis consistent with the macroeconomic projections and the DSA.

- **Advancing development of capital markets and first Annual Domestic Borrowing Plan for 2013.** In order to promote public savings and stimulate domestic capital market development, a domestic borrowing plan will be prepared annually after the budget has been approved. The first such plan was approved and published in January 2013. Consistent with World Bank/IMF technical assistance recommendations for an auction strategy and determination of a yield curve for the state, as of 2013, Treasury bonds (T bonds) will be issued in several tranches per year and interest rates will be determined at auctions held at the stock exchange. Decree 5/2013 of March 2013 paved the way for the introduction of specialized Treasury bond dealers (OEOT). About ¾ of the total of 20 financial institutions invited to become OEOTs have accepted, facilitating the creation of a secondary market. The first primary T bond auction took place in April 2013 and was substantially oversubscribed.

**C. Tax Policy and Administration**

23. **The modernization of tax administration will continue.** The implementation of measures aimed at the widespread adoption of information and communication technologies for managing tax processes will remain a priority, both in customs and inland revenue, enabling increased coverage of potential taxpayers and broadening the tax base. It will also pay particular attention to taxation of the mining and hydrocarbon sectors as well as megaprojects more generally by building up institutional capacities to conduct dedicated monitoring and audits.

- **VAT administration and refunds.** The Government will follow up on April 2013 IMF technical assistance that studied VAT budgeting and proposed steps to resolve problems with VAT refunds. We are analyzing the recommendations as part of the overall budget planning process, and expect to devise a plan by October 2013 (structural benchmark) to gradually reduce the stock of pending refunds, avoid accumulating new ones, optimize the VAT administration and refund process. We expect to increase the budget allocation for VAT refunds in 2014 to avoid a further accumulation of pending refunds. We intend to submit any changes to the VAT law that may be needed to Parliament in time for application of VAT on a net basis beginning from the 2015 budget.
- **Implementing the single taxpayer database (NUIT) in the e-Tax Project.** The NUIT database in the framework of the e-Tax project is already available and the process of updating information on large taxpayers in all Unidades de Grandes Contribuintes (Large Tax Payer Units) is currently underway. The process is expected to be completed by end-June 2013. Expansion of the NUIT system to all computerized regional tax collection offices (DAFs) is underway on the same schedule. Information on all other taxpayers, whether individuals or legal entities, is being updated and should be completed in 2014.

- **Implementing tax payments through banks (e-Tax) for VAT and the simplified small taxpayer regime (ISPC).** Preparation of the business model for applying e-Tax to VAT/ISPC was completed in terms of legislative amendment, and IT adjustment is ongoing. Its implementation is now being prepared with a view to launch a pilot in the first quarter of 2014. Actual tax payments through banks will only begin in a second phase that fully develops the VAT/ISPC module and a corresponding pilot is planned for the second half of 2014.

- **Simplifying the small taxpayers regime.** General ISPC regime provisions currently are rivaled in provisions for simplified regimes in the specific tax legislation for VAT, corporate and personal income taxes (IRPC and IRPS). A study on the overlaps and possible inconsistencies will be concluded by December 2013. The results of those studies will determine the next steps in order to streamline the system for taxpayers and the tax authority alike.

- **Strengthening the large taxpayers units (UGCs and DCAT).** The pilot scheme phase for the large taxpayers database installed in the Maputo UGC and the General Tax Directorate’s (DGI) Technical Support and Coordination Department (DCAT) is currently underway. Installation in the remaining UGCs (cities of Beira and Nampula) is scheduled for Q4, 2013. The database will improve handling of information on the economic activities of large taxpayers and allow better monitoring.

- **Mitigating transfer pricing.** To mitigate transfer pricing, the government, with technical assistance from the IMF, is working on draft regulations which are expected to be completed in Q4, 2013. We also intend to adopt an action plan to implement the regulations and strengthen capacity building.

- **Revisiting bilateral double taxation agreements (DTAs).** The Government is analyzing existing DTAs in order to identify possible weaknesses or areas that could lead to an unfair loss of revenues for Mozambique. We intend to negotiate the necessary adjustments with our partners.

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2This involves changes to the Enterprise Tax and Policy management System (ETPM).
D. Improving Earnings from Natural Resource Exploration

24. The Government will continue to strengthen its capacity to manage the country’s rich natural resources and channel its benefits to the whole population. This involves improvements in several areas, including analytical tools, sector legislation and taxation, transparency, and the optimization of government participation in the mining and hydrocarbon sectors. The Government is receiving technical assistance in these areas from various development partners, and will supplement this with hiring specialized expertise where needed.

25. The Government is strengthening the statistical tools to help analyze developments and inform economic and social policy making and planning. This involves production statistics, national accounts, fiscal data, balance of payments and financial sector statistics, where INE, BM, MF, MIREM and other government bodies are working together.

26. Extractive Industry Transparency Initiative (EITI) and Transparency. Mozambique has now published three EITI reports in keeping with the country’s laws, which reconcile payments made by previously selected companies in the mining and hydrocarbons sectors with the revenues reported by the government agencies in charge of their collection. The 2nd EITI report rated the country as compliant with the Initiative’s rules. The inclusion of more enterprises in reconciliation reports is a reflection of growth in the country’s extractive industry: the 1st first report covered only six enterprises, the 2nd and 3rd reports encompassed 36 and 46 enterprises, respectively. The 4th EITI reconciliation report on extractive industry payments and government receipts covers the financial year 2011 is currently under preparation and expected to be published by end-2013.

27. Mining and Petroleum Legislation. The Government approved the draft revisions to the mining and hydrocarbon laws in April 2013; the latter of which includes legal provisions for infrastructure concessions to allow for LNG development. Public consultations were held, including through web-posting of the draft laws. This legislation is going to be submitted to Parliament shortly. The existing legislation on public-private partnerships (PPPs) envisages the publication of PPP contract, and this will also be applied to mining and hydrocarbon contracts. Once the new laws are approved, the Government will update the related regulations within 6 months. The government expects to issue tenders for new hydrocarbon exploration areas only after the approval of the revisions to the hydrocarbon law.

28. Enhancing the mining and hydrocarbon fiscal regime. We continue to work on revisions to the fiscal regimes applicable to the mining and hydrocarbon sectors with technical assistance from the IMF and other donors. We have launched the public consultation process in May 2013, and are confident of submitting both bills to Parliament in August 2013. We are also requesting further technical assistance on constructing revenue forecasting tools and administrative capacity.

29. Participation of public enterprises in mining and hydrocarbon development. In the case of oil and gas the state hydrocarbon company ENH participates in PPPs. While this participation is typically on a full carry basis during the exploration period, we are still considering the type of involvement of ENH in the development and production phases with a view to maintaining debt sustainability and managing risks.
E. Management of Public Enterprises

30. **Strengthening supervision of public enterprises.** Following the adoption of the Public Enterprises Act (Law 6/2012 of February 2012), the Government has enhanced its monitoring of the activities of public enterprises in order to reduce fiscal risk and integrate it in the MTDS. The aim is improving governance and strengthening accountability, as well as ensuring that investment and borrowing plans are assessed and approved in advance by the sector ministry and financial oversight unit in the MF.

31. **Ensuring transparency in public enterprise management.** With a view to increasing transparency in the management of public companies in line with the Public Enterprises Act, the Government will ensure that the 2012 reports and accounts (including audit reports) of four large state-owned companies are published in 2013, and annual publication is continued in the future.

32. **The Government’s strategy with respect to the participation of large public enterprises in large infrastructure investments is under elaboration.** Such companies/projects include the railway CFM in the construction of new railroads and ports (Nacala line, Nacala and Techobanine ports), ENH in hydrocarbon projects as discussed above, and EDM in electricity generation, transmission and distribution (Mphanda Nkuwa hydropower station and backbone transmission line, Ressano Garcia gas-fired power station with Sasol), and many potential others. The government will carefully manage the participation of state enterprises in order to mitigate risks and keep public debt sustainable.

F. Good Governance Framework

33. **The Government continues its efforts toward good governance and fighting corruption.** The issues are complex and have been at the center of our dialogue with development partners, involving legislation (anti-corruption package) and its implementation as well as reforms of the justice system and law-enforcement. The Judiciary continues to investigate all allegations of corruption received.

34. **In 2012 the Government submitted to Parliament the remaining two laws of the anti-corruption package, which are awaiting approval, namely (i) the revised and consolidated Criminal Code and (ii) the revised Criminal Procedure Code.** To guide implementation of the package, a costed action plan is being prepared with a first draft expected in June 2013.

35. **The three other elements of the anti-corruption package already adopted are (i) the Public Probity Law, (ii) the law on Whistleblowers and witness protection, and (iii) changes to the organic laws of the prosecution service and Judiciary. These came into effect in November 2012 and advances have been made to address conflicts of interest and enforce mandatory asset declarations for those holding public office. Ethics Commissions in each public agency are tasked with the internal follow-up, and a Central Public Ethics Commission was set up in February 2013.**
Financial Sector Policies

A. Financial Sector Surveillance

36. The BM will continue reforms aimed at enhancing financial sector surveillance despite the difficult global environment. It remains focused on:

- **Strengthening banking supervision with a view to mitigating and preventing systemic risk:** A sample of lending institutions’ data was collected for conducting the first stress tests, with the expectation that this exercise will be performed by a designated team as part of the quarterly surveillance process from July 2013 on, including with the respective report on stress tests results. In this context, the regulation pertaining to nonperforming loan accounting will be revised in June 2013 to make it internationally comparable, followed by the revision of the regulation on concentration limits before September 2013, including banks’ placements abroad, and modified reporting requirements. Likewise with a view to strengthening surveillance, the risk management guidelines and the legal and analytical framework for risk-based surveillance were adopted on March 14, 2013, and will be put into practice in the course of 2013, on track for the adoption of Basel II Capital Accords in 2014.

- **Completion of the financial sector contingency plan.** The package of rules governing the Contingency Plan and Emergency Liquidity Assistance was completed and approved in early April 2013 (existing structural benchmark) with a short delay. The underlying legal provisions were published in April 2013. Implementation will start in June, including the preparatory work to conduct simulation exercises with the help of the World Bank.

- **Making the Deposit Insurance Fund (DIF) operational.** The DIF’s social capital has been approved and fully constituted and the members of the DIF’s Executive Board have been appointed in April 2013. The DIF will become operational once the funding from KfW is disbursed, and this process was completed with the appointment of the Executive Board in May 2013.

B. Financial Sector Development

37. We will step up our efforts to improve financial inclusion as part of Mozambique’s Financial Sector Development Strategy (FSDS) for 2013-2022. In April 2013, the Cabinet approved the FSDS. Its main objectives are to (i) maintain financial sector stability through improving the fiscal and monetary policies and deepening the government debt market, strengthening the bank supervision and regulation and the financial sector safety nets, and developing the insurance and pension sectors; (ii) increase access to financial services by eliminating structural impediments in the economy in general, and specifically in financial intermediation, particularly those that limit access to credit and increase the costs and risks of providing credit and financial services; and (iii) increase the supply of private capital to support private sector development by improving the mobilization and investment of long-term funds, including PPPs, and supporting the development of the domestic capital market, and the role and capacity of the Mozambique Stock Exchange (BVM). A dissemination plan on the FSDS was approved by the Minister of Finance in May 2013, including workshops and seminars planned for June 2013. Key priorities include:
• **Establishing private credit registry bureaus.** A law on the creation of private credit registry bureaus was drafted in November 2012 and is expected to be submitted to the Parliament by November 2013. *(structural benchmark)*

• **Promoting mobile banking.** Specific regulations governing mobile banking services are under preparation by a task force at the BM and expected to be completed by end-September 2013. Given the dynamic nature of these particular services, an operator has already been licensed, with the licensing of a second operator in progress.

• **Encouraging banking competition.** We will foster competition in the banking sector by (i) introducing laws and regulations that address anti-competitive practices, (ii) fostering transparent pricing for financial services to allow consumers to compare costs, and (iii) introducing low-cost online access to credit files. A consumer protection framework will be designed and outreach will promote financial awareness so as to allow consumers (including SMEs) to make better use of available financial services; to encourage competition and innovation amongst financial services providers; and to provide consumers with reasonable protections against unfair business practices, while ensuring financial institutions’ soundness.

• **Strengthening the insolvency framework.** An Insolvency Bill was prepared, and Parliament authorized the government to develop the legal basis for insolvency proceedings. It is expected that this legislation will be adopted in 2013.

• **Collateral framework.** We will work on a Collateral Bill with an eye to establishing a moveable collateral registry.

### C. Money Laundering and Terrorism Financing

38. **The AML/CFT framework continues to be improved.** A draft AML/CFT law was approved by Parliament on May 16, 2013. Under the new law the financing of terrorism is considered a crime.

39. **Progress in developing the AML/CFT legal framework.** The government is pursuing a plan for implementing the FATF standards approved by the FATF-style regional body (ESAMLG). It will build on the recommendations of an IMF Legal Department mission of April 2013 and the technical assistance action plan for eliminating shortcomings identified in the legal system; supervision of financial institutions and Designated Non-Financial Business Professions (DNFBP), Legal Persons and Arrangements; and international cooperation matters. The mission also provided introductory training on surveillance under a risk-based approach for staff from the various institutions involved in combating money laundering.

### D. Payment System

40. **The BM will further enhance financial stability and promote market development through reforms in the national payment system.** In pursuing this objective, the BM will continue to focus mainly on oversight practices and development of the retail payment systems:
• **Enhancing oversight practices.** The BM approved a payment systems oversight policy strategy in March 2012 and will finalize and implement and oversight function by end-November 2013 *(structural benchmark).* Key actions would include (i) the implementation of an oversight manual, and (ii) the start of the operations of an oversight unit. The revised regulation of the electronic clearing system (CEL) for checks will also be approved and published by end-June 2013.

• **Developing the retail payments network shared by the BM and commercial banks.** The interbank retail payments network (SIMO) has been developed and successfully tested. Two banks are currently linked to the network and expanding their services, while the remaining banks are either conducting tests or adjusting their systems with a view to linking to the SIMO network. We expect the platform to cover the major banks operating in the market and handle domestic retail transactions by end-November 2013.

**Program Monitoring**

41. The proposed assessment criteria and indicative targets up to December 2013 are shown in Table 1. Table 2 provides a list of the proposed structural benchmarks. The first PSI review is expected to be completed in December 2013, and the second PSI review by end-June 2014.
### Table 1. Mozambique: Quantitative Assessment Criteria and Indicative Targets under the 2010-13 PSI

(Millions of meticais, unless otherwise specified)

<table>
<thead>
<tr>
<th>Assessment Criteria for end-June/December</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indicative Target</td>
<td>Status</td>
</tr>
<tr>
<td></td>
<td>Prog</td>
<td>Adj</td>
</tr>
<tr>
<td>Net credit to the central government (cumulative ceiling)</td>
<td>-745</td>
<td>-745</td>
</tr>
<tr>
<td>Stock of reserve money (ceiling)</td>
<td>37,031</td>
<td>36,676</td>
</tr>
<tr>
<td>Stock of net international reserves of the BM (floor, US$ millions)</td>
<td>2,323</td>
<td>2,323</td>
</tr>
<tr>
<td>Stock of short-term external debt contracted or guaranteed by the central government or the BM or selected state-owned enterprises with maturity of one year or more (cumulative ceiling over the duration of the program, US$ millions)²</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Stock of short-term external debt contracted or guaranteed by the central government (ceiling)²</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>External payments arrears of the central government (ceiling US$ millions)²</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicative targets</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government revenue (cumulative floor)</td>
<td>69,687</td>
<td>69,687</td>
</tr>
<tr>
<td>Priority spending (cumulative floor)</td>
<td>35,934</td>
<td>35,934</td>
</tr>
</tbody>
</table>

Sources: Mozambican authorities and IMF staff estimates.

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

² Assessed on a continuous basis.
Table 2. Mozambique: Proposed Quantitative Assessment Criteria and Indicative Targets under the Proposed 2013-16 PSI
(Millions of meticais, unless otherwise specified)

<table>
<thead>
<tr>
<th>Assessment Criteria for end-June/December</th>
<th>2013</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>End-June</td>
<td>End-Sept</td>
<td>End-Dec</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Assessment Criteria</td>
<td>Indicative Target</td>
<td>Assessment Criteria</td>
<td></td>
</tr>
<tr>
<td>Net credit to the central government (cumulative ceiling)</td>
<td>-5,858</td>
<td>1,504</td>
<td>895</td>
<td></td>
</tr>
<tr>
<td>Stock of reserve money (ceiling)</td>
<td>40,787</td>
<td>43,817</td>
<td>47,493</td>
<td></td>
</tr>
<tr>
<td>Stock of net international reserves of the BM (floor, US$ millions)</td>
<td>2,360</td>
<td>2,621</td>
<td>2,704</td>
<td></td>
</tr>
<tr>
<td>New nonconcessional external debt contracted or guaranteed by the central government or the BM or selected state-owned enterprises with maturity of one year or more (cumulative ceiling over the duration of the program, US$ millions)</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Stock of short-term external debt contracted or guaranteed by the central government (ceiling)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>External payments arrears of the central government (ceiling, US$ millions)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Indicative targets</td>
<td>55,760</td>
<td>81,891</td>
<td>111,419</td>
<td></td>
</tr>
<tr>
<td>Government revenue (cumulative floor)</td>
<td>43,748</td>
<td>76,041</td>
<td>119,025</td>
<td></td>
</tr>
<tr>
<td>Priority spending (cumulative floor)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Mozambican authorities and IMF staff estimates.

1 For definition and adjustors, see the Program Monitoring Section of the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding.
2 Assessed on a continuous basis.
3 Net of verified VAT refund requests.
<table>
<thead>
<tr>
<th>Structural Benchmarks</th>
<th>Expected Date of Implementation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Ministry of Finance will submit to the Council of Ministers the draft Financial</td>
<td>End-December 2012</td>
<td>Delayed. Completed in March 2013.</td>
</tr>
<tr>
<td>Sector Development Strategy (FSDS), as described in ¶26 of the MEFP dated December</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7, 2012.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Bank of Mozambique will finalize the draft financial sector contingency plan,</td>
<td>End-March 2013</td>
<td>Delayed. Completed in early April.</td>
</tr>
<tr>
<td>as described in ¶26 of the MEFP dated December 7, 2012.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Government will adopt an Annual Borrowing Plan for 2013, as described in ¶20 of</td>
<td>End-January 2013</td>
<td>Met.</td>
</tr>
<tr>
<td>the MEFP dated May 10, 2012.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 4. Mozambique: Structural Benchmarks Under the Proposed PSI 2013-16

<table>
<thead>
<tr>
<th>Structural Benchmarks</th>
<th>Expected Date of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government approval of the action plan for the expansion of the electronic payroll system (including e-Folha) and of the integrated civil service database (e-CAF). (¶21)</td>
<td>End-June 2013</td>
</tr>
<tr>
<td>2. Completion of the expansion of salary payments by direct bank transfer to all institutions covered by e-CAF and with direct access to e-SISTAFE. (¶21)</td>
<td>End-December 2013</td>
</tr>
<tr>
<td>3. Submission of Integrated Investment Plan to the Council of Ministers with sufficient specific information to analyze the impact of the related borrowing on debt sustainability. (¶22)</td>
<td>End-June 2013</td>
</tr>
<tr>
<td>4. Submission of the 2\textsuperscript{nd} Strategic Plan to Improve the Business Environment to the Council of Ministers (¶4)</td>
<td>End-August 2013</td>
</tr>
<tr>
<td>5. Submission to Parliament of draft law on the creation of private credit registry bureaus. (¶37)</td>
<td>End-November 2013</td>
</tr>
<tr>
<td>6. Staffing a payment systems oversight unit in the BM and begin operations by end-November 2013. (¶40)</td>
<td>End-November 2013</td>
</tr>
<tr>
<td>7. Preparation of a plan to gradually reduce the stock of pending VAT arrears, avoid accumulation of new arrears, and optimize the administration and refund process. (¶23)</td>
<td>End-October 2013</td>
</tr>
</tbody>
</table>
1. This Technical Memorandum of Understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable Fund staff to monitor program implementation.

Definitions

A. Net credit to the central government

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

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

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

B. Government revenue and financing

5. Revenue is defined to include all receipts of the General Directorate of Tax (Direcção Geral dos Impostos, DGI), the General Directorate of Customs (Direcção Geral das Alfândegas, DGA), and nontax revenue, including certain own-generated revenues of districts and some line ministries, as defined in the budget. Revenue is gross revenue net of verified VAT refund requests (pedidos verificadas de reembolsos solicitados). Net receipts from privatization received by the National Directorate of State Assets (Direcção Nacional do Património do Estado) and unrealized profits transferred by the central bank to the treasury will not be considered as revenue (above the line) and will be accounted for as other domestic financing (below the line).
6. For the purpose of program monitoring, revenue is considered as collected at the time when it is received by the relevant government collecting agencies, in cash or checks, or through transfers into the respective bank account.

C. Priority social spending

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

D. Reserve money

8. For the purposes of program monitoring reserve money is defined as the sum of currency issued by the BM and commercial banks’ holdings at the BM. The target is defined in terms of the average of the daily end-of-day stocks in the month of the test date. The reserve money stock will be monitored and reported by the BM.

E. Net international reserves

9. Net international reserves (NIR) of the BM are defined as reserve assets minus reserve liabilities. The BM’s reserve assets include (a) monetary gold; (b) holdings of SDRs; (c) reserve position at the IMF; (d) holdings of foreign exchange; and (e) claims on nonresidents, such as deposits abroad (excluding the central government’s savings accounts related to mineral resource extraction concessions). Reserve assets exclude assets pledged or otherwise encumbered, 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.

F. New nonconcessional external debt contracted or guaranteed by the central government, the BM, and selected state-owned enterprises, with maturity of more than one year

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

11. The ceiling applies to external debt with original maturity of one year or more and with a grant element below 35 percent. The grant element is 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.
12. The term ‘debt’ will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted on August 3, 1979, as amended August 31, 2009, effective December 1, 2009. The concept of external debt is defined on the basis of the residency of the creditor. This assessment criterion is defined cumulatively from the beginning of the program and will be assessed on a continuous basis.

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

13. The central government will not contract or guarantee external debt with original maturity of less than one year. This assessment criterion applies to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted on August 3, 1979, as amended August 31, 2009, effective December 1, 2009. The concept of external debt is defined on the basis of the residency of the creditor. Excluded from this assessment criterion are short-term, import-related trade credits. This assessment criterion will be assessed on a continuous basis.

**H. External payments arrears of the central government**

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

**I. Foreign program assistance**

15. 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).

**J. Actual external debt service payments**

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

**Adjusers**

**A. Net international reserves**

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

- downward by the shortfall in external program aid less debt service payments (up to US$100 million), compared to the program baseline (Table 1);
- downward/upward for any revision made to the end-year figures corresponding to the previous year; and
• downward to accommodate higher external outlays because of natural disasters, up to US$20 million.

B. Net credit to central government

18. The quantitative targets (ceilings) for net credit to the central government (NCG) will be adjusted:
• upward by the shortfall in the MT value of external program aid receipts less debt service payments (up to the MT equivalent of US$100 million at exchange rates prevailing at the respective test dates), compared to the program baseline (Table 1);
• 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; and
• upward to accommodate the higher locally-financed outlays because of natural disasters, up to the MT equivalent of US$20 million at exchange rates prevailing at the respective test dates.

C. Reserve money

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

Data and Other Reporting

20. The Government will provide Fund staff with:
• monthly and quarterly data needed to monitor program implementation in relation to the program’s quantitative targets and broader economic developments;
• weekly updates of the daily data set out in Table 1;
• weekly data set out in Table 4 of the TMU dated May 26, 2005;
• monthly updates of the foreign exchange cash flow of the BM;
• monthly data on government revenues (in detail according to the fiscal table) with a lag not exceeding one month;
• monthly data on verified VAT refund requests;
• monthly information on the balance of government savings accounts abroad;
• monthly data on domestic arrears;
• monthly data on external arrears;
• monthly budget execution reports (that will also be published) with a time lag not exceeding 45 days;
• the “mapa fiscal” with a time lag not exceeding 60 days;
• monthly monetary survey data with a time lag not exceeding 30 days;
• monthly data on gross international reserves, with the composition by original currencies and converted to US dollars at the actual exchange rates; and
• quarterly balance-of-payments data with a time lag not exceeding 65 days;
• monthly disbursements on the nonconcessional Portuguese credit line with a time lag not exceeding 30 days.

21. 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.

22. The Government will provide Fund staff with documentation concerning external loan agreements once these have been signed and become effective.
### TMU Table 1. Mozambique: Net Foreign Assistance, 2012-13

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
</tr>
<tr>
<td>Net foreign program assistance (US$ mn)</td>
<td>91</td>
<td>114</td>
<td>128</td>
<td>-5</td>
<td>-5</td>
<td>230</td>
<td>102</td>
<td>45</td>
</tr>
<tr>
<td>Gross foreign program assistance</td>
<td>118</td>
<td>141</td>
<td>155</td>
<td>21</td>
<td>37</td>
<td>271</td>
<td>144</td>
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<tr>
<td>Program grants</td>
<td>118</td>
<td>32</td>
<td>125</td>
<td>21</td>
<td>37</td>
<td>191</td>
<td>34</td>
<td>36</td>
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<tr>
<td>Program loans</td>
<td>0</td>
<td>109</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>80</td>
<td>110</td>
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<td>27</td>
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<td>41</td>
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<td>Cumulative net foreign program assistance in US dollars</td>
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<td>205</td>
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<td>328</td>
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<td>225</td>
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<td>414</td>
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<td>107</td>
<td>41</td>
<td>82</td>
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<td>Net foreign program assistance (MT mn)</td>
<td>2,578</td>
<td>3,274</td>
<td>3,767</td>
<td>-64</td>
<td>-59</td>
<td>6,848</td>
<td>3,169</td>
<td>1,366</td>
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<td>3,221</td>
<td>3,946</td>
<td>4,432</td>
<td>627</td>
<td>1,105</td>
<td>8,274</td>
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<td>2,737</td>
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<td>3,569</td>
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<td>863</td>
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<td>3,426</td>
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<td>666</td>
<td>691</td>
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<td>1,426</td>
<td>1,303</td>
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<td>1,105</td>
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<td>1,164</td>
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<td>3,893</td>
<td>5,264</td>
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Source: Mozambican authorities and IMF staff estimates.