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SECOND REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE, WAIVERS OF NONOBSERVANCE FOR QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOZAMBIQUE

In the context of the Second Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Modification of The Monetary Policy Consultation Clause, Waivers of Nonobservance for Quantitative Performance Criteria, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 6, 2023, following discussions that ended on May 5, 2023, with the officials of the Republic of Mozambique on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 21, 2023.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the Republic of Mozambique

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PRESS RELEASE

PR23/258

IMF Executive Board Completes the Second Review under the Extended Credit Facility Arrangement for the Republic of Mozambique

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the second review under the Extended Credit Facility (ECF) Arrangement for Mozambique, providing the country with access to SDR 45.44 million (about US$ 60.6 million).*

- *The three-year ECF arrangement aims to support Mozambique's economic recovery, reduce public debt and financing vulnerabilities, while fostering higher and more inclusive growth through structural reforms.*

- *Based on the mixed program performance, the authorities have taken substantive actions to resolutely address macroeconomic challenges and keep the program on track, especially to reduce the wage bill and keep the fiscal outlook aligned with program targets. The tight monetary policy stance is appropriate to contain inflation pressures.*

Washington, DC — July 6, 2023: The Executive Board of the International Monetary Fund (IMF) completed the Second Review under the three-year ECF arrangement for Mozambique.[1] This allows for the immediate disbursement of SDR 45.44 million (about US$ 60.6 million), usable for budget support, bringing Mozambique's total disbursements under the ECF arrangement to SDR 159.04 million (about US$ 212.09 million).

By completing the review, the Executive Board approved waivers of nonobservance for two performance criteria: (i) the end-December 2022 performance criterion on domestic primary budget balance was missed due to overruns in the implementation of the wage bill reform and revenue shortfalls; (ii) the continuous performance criterion on non-accumulation of public and publicly-guaranteed external arrears was missed due to delays in debt service repayment by a SOE. Both waivers of nonobservance were approved based on remedial actions taken by the authorities.

The monetary policy consultation clause (MPCC) band was breached at the lower bound, as inflation decelerated faster than expected. The monetary policy consultation with the Executive Board was completed. The Executive Board also completed the financing assurances review and approved the authorities' request for modification of conditionality.[2]

Growth is projected to increase in 2023, driven by increasing liquefied natural gas (LNG) production, agriculture, and services activities. Inflation has returned to single digits, due to proactive monetary policy and favorable import prices for fuel and food. Fiscal performance in 2022 was worse than expected, mainly due to slippage in the wage bill reform and revenue

[1] Arrangements under the ECF provide financial assistance that is more flexible and better tailored to the diverse needs of low-income countries (LICs), including in times of crisis (e.g., protracted balance of payments problems).

[2] The 36-month ECF arrangements was approved in May 2022 (Press Release).

underperformance. While LNG investments are driving the current account deficit, the expected increase in LNG exports, and the moderation of food and energy imports, is projected to improve the current account balance going forward. Program performance has been broadly favorable, though with notable slippages in the fiscal area, while important program commitments in the areas of fiscal governance and anti-corruption were completed.

Risks to the outlook are primarily on the downside. Delays to LNG projects and deepening geo-economic fragmentation present risks, while inflation remains vulnerable to pressures from higher wages. Natural disasters and food insecurity also represent downside risks. Upside risks include ramping up of LNG projects.

Following the Executive Board discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

“Economic recovery in Mozambique is strengthening, supported by the liquified natural gas (LNG) projects and rebound in various sectors. The economy has shown resilience to Cyclone Freddy which hit Mozambique in early 2023. While the outlook remains positive, significant risks remain, mainly due to adverse climate events and a fragile security situation.

The authorities are undertaking corrective measures to ensure fiscal discipline in 2023 and continued fiscal consolidation efforts are also warranted over the medium term. On the revenue side, broadening the VAT base will help mobilize revenues in an efficient way. On the expenditure side, reducing the wage bill in line with regional peers will help create fiscal space for high-priority spending. Further strengthening the social safety net remains important to address food insecurity and elevated poverty.

The monetary policy stance is appropriate to help contain inflationary pressures and rebuild reserves. While inflation has decelerated faster than expected, continued caution is warranted to help anchor inflationary pressures and support macroeconomic stability. Implementing an appropriate and carefully calibrated policy mix between fiscal and monetary is key. Improving the transmission of the policy rate by implementing an inflation targeting regime over the medium term remains important for improved macroeconomic management, and to allow greater exchange rate flexibility to cope with external shocks.

Continued progress is also needed across the governance, anti-corruption, and fiscal structural agenda, including submitting to Parliament the Sovereign Wealth Fund law which aims to develop a transparent, accountable, and efficient framework for managing LNG receipts. Other key reforms include improvements in revenue administration, public financial and debt management and in State Owned Enterprise (SOE) transparency. Strengthening the AML/CFT framework and monitoring vulnerabilities in the financial sector, including cybersecurity risks, also remain important. Given Mozambique’s strong vulnerabilities to climate change, there is also a need for policies to enhance climate resilience.

Continued program ownership by the authorities complemented with capacity development efforts and donor support also remain essential for Mozambique to achieve its development objectives.”

Table 1. Mozambique: Selected Economic Indicators, 2019–23

	2019	2020	2021	2022	2023
National Income and Prices					
Nominal GDP (MT billion)	963	983	1,053	1,223	1,414
Real GDP growth (percentage change)	2.3	-1.2	2.4	4.2	7.0
Consumer price index (percentage change, end of period)	3.5	3.5	6.7	10.3	6.7
Government Operations (percent of GDP)					
Total revenue	29.0	23.9	25.3	23.4	23.5
Total expenditure and net lending	28.2	32.9	30.9	32.3	30.2
Overall balance, after grants	0.3	-5.7	-4.7	-4.9	-2.8
Primary Balance after grants	3.5	-2.6	-2.0	-2.0	0.4
Public sector debt	99.0	120.0	104.9	95.5	89.7
of which: external	79.4	97.8	81.2	71.1	65.6
Money and Credit					
Reserve money (percentage change)	19.1	9.0	-14.3	0.6	85.9
M3 (Broad Money) (percentage change)	13.4	23.3	1.9	8.7	5.2
Credit to the economy (percentage change)	4.2	13.1	5.2	4.0	6.0
Credit to the economy (percent of GDP)	23.8	26.4	25.9	23.2	21.2
External Sector (percentage change)					
Merchandise exports	-10.2	-23.1	55.6	47.2	-1.9
Merchandise exports, excluding megaprojects	8.3	-22.0	43.0	31.9	8.8
Merchandise imports	9.5	-12.9	33.2	70.2	-29.5
Merchandise imports, excluding megaprojects	9.3	-4.5	37.8	12.1	7.9
External current account, after grants (percent of GDP)	-19.1	-27.6	-22.4	-32.9	-15.5
Net international reserves (millions of U.S. dollars, end of period)	3,605	3,493	2,927	2,333	…
Gross international reserves (millions of U.S. dollars, end of period)	3,884	4,070	3,470	2,888	…

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

REPUBLIC OF MOZAMBIQUE

June 21, 2023

SECOND REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE, WAIVERS OF NONOBSERVANCE FOR QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The economic recovery is broad-based and strengthening. Inflation pressures remain moderate reflecting favorable domestic food production and stable fuel prices. Fiscal performance in 2022 was worse than expected, mainly due to slippage in the wage bill reform and revenue underperformance. Mozambique has been grappling with the impact of Cyclone Freddy and a persistent cholera outbreak. The security situation in the North has improved; municipal elections will be held in October 2023, and general elections in October 2024.

Outlook and risks. Macroeconomic prospects remain positive, and growth is projected to rise to 7 percent in 2023, driven by LNG production. Delays to LNG projects and deepening geo-economic fragmentation present risks, while inflation remains vulnerable to pressures from higher wages. General elections might impact the authorities' reform commitment. Security risks and population displacement remain critical challenges. Natural disasters and food insecurity also represented downside risks. Upside risks include ramping up of LNG projects.

Program performance. Performance criteria (PC) on net international reserves and new non-concessional external debt were met, while PCs on the domestic primary balance and external arrears were missed. The monetary policy consultation clause band was breached at the lower end, as inflation decelerated faster than expected. The indicative target on contracting of new external debt was met, but the ceiling on the domestic debt stock was breached and the floor on social spending was not met. Four out of five structural benchmarks were met.

Keeping the program on track. The authorities have taken substantive actions to resolutely address macroeconomic challenges and keep the program on track. In the fiscal area, they quickly adopted measures to reduce the wage bill and keep the fiscal outlook aligned with program targets. In the monetary area, the central bank has taken appropriate action to contain inflationary pressure and reduce drains on FX reserves. Looking ahead, modifications to some performance criteria for the third review are being proposed (a small reduction in the NIR target and the indicative target on the stock of domestic debt), and important structural reforms will be implemented, including with respect to revenue mobilization, the wage bill and governance. A sovereign wealth fund law expected to be approved by Parliament in July will help properly manage significant expected revenue from LNG over the medium term.

Approved By
Andrea Richter Hume (AFR) and Boileau Loko (SPR)

An IMF team comprising Pablo Lopez Murphy (head), Mai Farid, Samuel Mann, Dominique Simard (all AFR), and Gaëlle Pierre (SPR) held discussions with the Mozambican authorities during a mission to Maputo April 24-May 5, 2023. The mission met with the Honorable Mr. Adriano Maleiane, Prime Minister, the Honorable Mr. Ernesto Max Tonela, Minister of Economy and Finance; Bank of Mozambique Governor Rogério Zandamela; senior officials, members of parliament and private sector representatives. The team was assisted in Maputo by Alexis Meyer Cirkel, resident representative; Esther Palacio, TA coordinator; Vanda Castelo and Edson Manguinhane, local economists; and Béatrice Rangel, assistant. Adriano Ubisse (Alternate Executive Director-OEDAE) participated in some meetings and Jorge Essuvi (Senior Advisor, OEDAE) participated in all meetings. Jimena Montoya and Hatem Alsokhebr (AFR) contributed to the preparation of this report.

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CONTEXT

1. **Mozambique has been grappling with the impact of Cyclone Freddy and persistent cholera**. Cyclone Freddy hit Mozambique in March 2023 and destroyed over 130,000 homes, left more than 640,000 people homeless, and damaged 1,000 schools, roads, and 390,000 hectares of land. It also exacerbated a cholera outbreak that, according to the UN, has affected over 27,000 people. The World Bank has provided assistance of $150 million to repair the transportation infrastructure and support the provision of services in the areas of health, education, energy, water, and sanitation.

2. **General elections are scheduled for October 2024, against a backdrop of an improving security situation in the North.** Elections in the 65 municipalities in October 2023 will inform the outlook for the general elections the following year. On the security front, Mozambique has been dealing with an insurgency since 2017 in the northern state of Cabo Delgado, where the LNG infrastructure is located. In recent months, the displaced population has been returning to the region, including to the districts hosting the large LNG investment projects. TotalEnergies, the largest consortium partner, had suspended operations in March 2021 but is currently assessing security conditions to decide when activities can be resumed. Mozambique is classified by the World Bank as a fragile and conflict-affected state, on account of its legacy of armed conflict and high vulnerability to extreme weather conditions (Annex I).

PROGRAM PERFORMANCE

3. **Program performance has been broadly favorable, though with notable slippages in the fiscal area:**

- The end-December 2022 PC on net international reserves, the PC on non-concessional external debt, and the indicative target (IT) on new external debt were met. However, the PC on the domestic primary balance and the IT on domestic debt were missed by wide margins and the IT on social spending was not met by a small margin (Text Table 1). In addition, the continuous PC on non-accumulation of external arrears was temporarily breached.

- Four structural benchmarks (SBs) were met: submitting the Sovereign Wealth Fund bill to Parliament; establishing a quarterly Treasury budget; implementing e-SISTAFE tools for budgetary planning in all spending units; and adopting the attrition rules for civil servants. The elimination of VAT exemptions by end-2022 was not met as some exemptions were extended until end-2023.

4. **Inflation was lower than anticipated and breached the lower bound of the Monetary Policy Consultation Clause (MPCC) in December 2022.** At 10.3 percent (y/y), inflation was below the 12 precent lower bound of the MPCC (Annex II). Favorable domestic food production during the last quarter combined with lower imported food prices helped contained

inflationary pressures. Moreover, pump prices for fuel were constant throughout the second half of 2022 due to the suspension of the automatic fuel price adjustment mechanism, leading to lower-than-expected transport prices, and lower second-round effects (see ¶12, Figure 3).

Text Table 1. Quantitative Performance Criteria (QPC) and Indicative Targets (IT) for End-December 2022 Under the ECF Arrangement

(In billions of meticais, unless otherwise indicated)

	PC/IT	PC/IT Adjusted	Actual	Status
Performance Criteria				
Floor on domestic primary budget balance	2.7		-30.6	not met
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector (US$ million) 1/	0		0	met
Floor on the stock of net international reserves of the BM (US$ millions)	2,000	1,976	2,251	met
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million)	0		1	not met
MPCC				
Inflation (upper-band, percent)	18.0			
Inflation (mid-point, percent)	15.0		10.3	not met
Inflation (lower-band, percent)	12.0			
Indicative Targets	**IT**			
Present value of new external debt (US$ million)	294		93.5	met
Ceiling on domestic debt stock	270	271.4	281.5	not met
Floor on social spending	5.8		5.7	not met

Sources: Mozambican authorities; and IMF Staff.

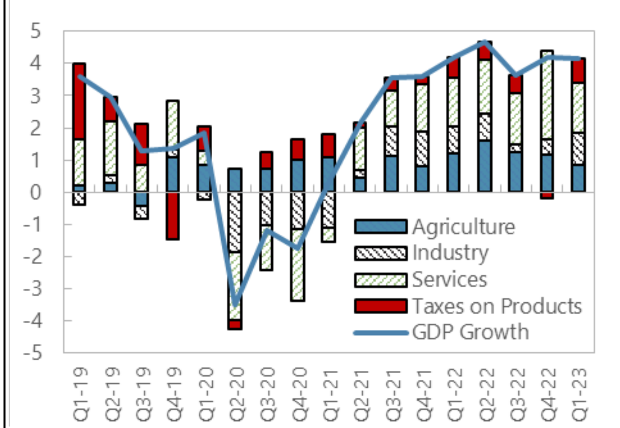
1/ Please refer to the Technical Memorandum of Understanding (TMU) (Attachment II, section b) for details on the adjustor to the NIR floor.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

5. **The economy continues recovering and the growth outlook is favorable.** Sectors most impacted by COVID-19 (hospitality, transport, and communications) rebounded in 2022, while agriculture benefited from favorable rainfalls (Text Figure 1). Growth in 2022 is estimated at 4.2 percent,[1] and is projected to rise to 7 percent in 2023, driven by the offshore LNG platform that started operations in October 2022. Staff forecast two further LNG projects to start production in 2027 and 2029 with positive impact on growth, fiscal revenues, and the current account (Figure 2). Non-LNG growth is forecast to remain broadly unchanged in 2023, close to the estimated potential for non-LNG growth of 4 percent. Inflation is expected to continue moderating towards 6.7 percent (y/y) at end-2023, reflecting tight monetary policy conditions. The policy rate has been at 17.25 percent

Text Figure 1. GDP Growth

(In Percent year-on-year)

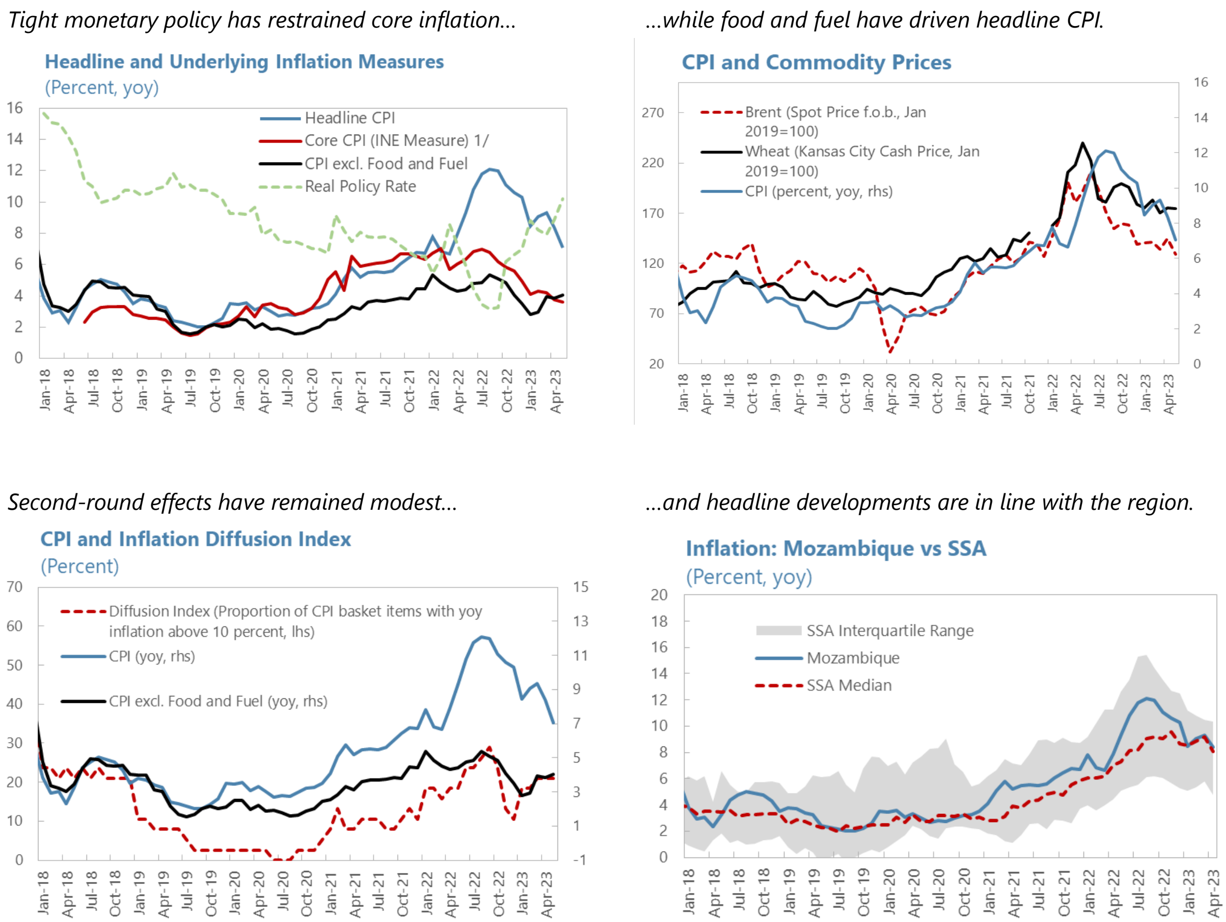


Sources: Authorities' data and IMF Staff calculations

[1] On 23 May 2023, INE published a first estimate for 2022 nominal GDP growth at 16.1 percent, significantly higher than previously forecast.

since September 2022, and the required reserve ratio on local (foreign) currency deposits was raised from 10.5 (11.5) percent to 28 (28.5) percent in February, and 39 (39.5) percent in May.

Text Figure 2. Inflation and Related Developments



Sources: Authorities' data and IMF Staff calculations.

1/ Core inflation calculated by National Statistics Institute (INE) excludes fruit, vegetables, and products with administered prices.

6. **The external position is assessed as substantially weaker than the level implied by fundamentals and desirable policies** (Annex III). The overall current account deficit widened in 2022, though less than expected as buoyant exports, especially coal, helped offset an increase in non-megaproject imports. Over the medium term, diversification policies and inflows from LNG receipts should help strengthen the external sector position. Gross international reserves have declined but remain above 4.3 months of non-megaproject imports excluding indirect megaproject-related imports (Figure 4). During 2022, international reserves declined steadily, while the MT/dollar exchange rate remained stable. The BM's policy to supply FX to cover fuel

import bills[2] has caused a drain on reserves, as international fuel prices increased rapidly in the context of the invasion of Ukraine.

7. Fiscal performance in 2022 was worse than expected (Table 2). The domestic primary balance was -2.5 percent of GDP, lower than previously projected. This was driven by overruns in the implementation of a complex wage bill reform and by revenue shortfalls. The wage bill reform aimed to unify salary scales and streamline supplementary pay components to put the wage bill on a stronger footing but resulted in significant average wage increases. Low revenues reflected lower collections on taxes on goods and services (especially VAT) and non-tax revenue. The fiscal slippage was financed primarily through higher and costly domestic financing.

8. Risks to the outlook are primarily on the downside (Table 7). Higher frequency and severity of natural disasters are a key risk, as is intensification of the insurgency in the North. Delays to LNG projects, limited fiscal space for growth-enhancing outlays, and deepening geo-economic fragmentation also present risks to growth. Inflation remains vulnerable to commodity price shocks and potential pressures from higher wages. The authorities' reform commitment could come under pressure as general elections draw closer. Upside risks include ramping up production under current LNG projects, and higher demand for LNG.

POLICY DISCUSSIONS

Aligning fiscal policy with program targets to secure fiscal sustainability is the main near-term challenge. Monetary policy remains appropriately focused on containing imported inflationary pressures and second round effects, but options for looser policy should be explored once the policy mix between fiscal and monetary has been rebalanced in a sustainable manner. Structural reforms efforts prioritize improving governance. Over the medium term, the program aims to reduce debt vulnerabilities, rebalance fiscal and monetary policies, enhance governance to promote private sector development, and strengthen the policy and institutional frameworks for managing natural resources.

Text Table 2. Government Finance, 2022–23
(Percent of GDP)

	2022 ECR-R1 (Proj.)	2022 ECR-R2 (Est.)	2023 ECR-R1 (Proj.)	2023 ECR-R2 (Proj.)
Total revenue	25.7	23.4	25.9	23.5
Tax revenue	21.8	20.0	21.8	20.1
Income and profits	10.7	10.5	10.7	10.9
Goods and services	8.2	6.8	8.2	6.6
Nontax revenue	3.9	3.4	4.0	3.4
Total expenditure and net lending	33.2	32.3	33.3	30.2
Current spending	26.1	25.8	24.8	23.6
Wage bill	14.6	16.4	14.1	14.6
Goods and services	4.4	3.9	4.5	2.9
Interest on public debt	3.5	2.9	3.2	3.2
Subsidies and transfers	3.7	2.6	3.0	2.9
Capital Spending	6.7	6.3	8.1	6.3
Net lending	0.4	0.2	0.4	0.3
Primary balance (after grants)	-0.2	-2.0	-0.7	0.4
Overall balance (before grants)	-8.2	-8.8	-7.4	-6.7
Overall balance (after grants)	-3.7	-4.9	-3.9	-2.8
Domestic primary balance	0.2	-2.5	0.7	0.6

Sources: Ministry of Economy and Finance and IMF staff projections.

[2] It also reduced its provision of FX to fuel importers from 100 percent to 60 percent of the fuel import bill in April and ceased it completely in June

A. Fiscal Policy

9. The fiscal slippage of 2022 will be corrected in 2023. The domestic primary balance in 2023 is projected at 0.6 percent of GDP, in line with the target set at the first ECF review, and 3 percent of GDP higher than in 2022 (Text Table 2 and Table 2b). Tax revenue is projected at about 20 percent of GDP, about 1½ percentage points of GDP lower than projected under the first review, with lower collection from taxes on goods and services partly offset by higher personal income tax collection on account of a higher wage bill. VAT revenue in 2023 is projected to be significantly lower than previously envisaged due to weak performance in 2022 and a smaller-than-expected broadening of the VAT net in 2023, as the elimination of some exemptions was postponed to 2024. In 2024, the spillovers from stronger economic activity in the North will underpin tax revenue. Expenditure is projected at about 30 percent of GDP, about 3 percent of GDP lower compared to the first review, driven by lower spending on goods and services and lower capital spending, which more than compensate for the higher wage bill.

10. The authorities are adopting expenditure and revenue measures to ensure that fiscal performance aligns with program objectives in 2023. In January, the authorities reduced public sector salaries by 20 percent (excluding the lowest four of the 21 salary scales) and eliminated the 13th-month wage. In May, the Parliament amended the wage bill law to reduce the salary and subsidies for statutory appointed and elected public office holders by 5 and 10 percentage points, respectively (prior action). In addition, the authorities will incorporate all public sector servants into the electronic payroll system (prior action). Further reduction of the wage bill will be achieved through an audit and "proof of life" of *all* public sector servants (newly proposed structural benchmark for September 2023). Against this backdrop, the wage bill is projected to decline from 16.4 percent of GDP in 2022 to 14.6 percent of in 2023.[3] Spending in goods and services is projected at 2.9 percent of GDP, in line with the ceiling in the approved 2023 budget. This is consistent with average spending over the period 2017-19, and one percentage point below the 2022 outturn. The authorities have committed to revenue

Text Table 3. Corrective Measures in 2023

	(In MT billion)	(In percent of GDP)
Wage Bill Reducing Measures		
Incorporation of all public sector servants into the electronic payroll system (prior action)	1.8	0.14
Approval by parliament of amendments to the wage bill law, adjusting the percentage of the reference salary, which is applied to the calculation of the representation subsidy, for statutorily appointed and elected holders of public office (prior action).	0.5	0.04
General audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finances (IGF) (proposed structural	0.7	0.05
January 2023 decrees; reducing the reference salary by 20 percent for public sector servants	14.3	1.1
No 13th month	6.4	0.5
Revenue Measures		
Including all public sector employees under the personal income tax net (proposed structural benchmark).	0.6	0.04
Approval of Ministerial Regulation (Diploma) to determine the reference price of extractive industry upon which the tax base is calculated on the basis of international prices instead of the current practice of using the firm's last sale price (proposed	0.7	0.05
Total fiscal impact of corrective measures	25.0	1.9

Sources: Ministry of Economy and Finance and IMF staff projections.

[3] Since January 2023, the authorities have started reporting the monthly wage bill to IMF staff. For the period January-April 2023, the monthly wage bill has been stable at MT15.8 billion, which is consistent with staff projections in 2023.

mobilization by including all public sector employees under the personal income tax net (MEFP ¶21) (Text Table 3).

11. The authorities are committed to reducing the wage bill even further over the medium term. The goal is to increase fiscal space for important spending priorities including human capital, safety nets, and climate resilient infrastructure. They will prepare an action plan laying out how the wage bill will be reduced to 10 percent of GDP by 2028 to create space to spend on infrastructure and human capital, crucial for economic growth and poverty reduction (MEFP ¶21). The details of the action plan will be informed by forthcoming technical assistance from FAD.[4] The authorities will start monthly reporting of the wage bill to improve monitoring under the program.

12. The authorities have reactivated the automatic fuel price mechanism, which was suspended in July 2022 in light of high fuel import costs. Fuel prices were fixed well below international market prices. This has led the government to incur a liability to fuel distribution companies estimated at 2 percent of GDP. In April 2023, the government reactivated the automatic fuel price mechanism—described in Box 1 of the Staff Report to the First Review—which will allow for a gradual elimination of the accumulated liability to fuel distributers and yield additional VAT revenues. The authorities plan to continue mitigating the impact of higher fuel prices on the most vulnerable, by keeping public transportation fares (which affect the most vulnerable disproportionately) unchanged, providing subsidies to public transportation companies. A public transportation fund was created in May 2023, with contributions from the fuel distribution companies, to fully finance these subsidies and avoid fiscal costs.

B. Reducing Debt Vulnerabilities and Preparing for LNG Revenues

13. Overall and external public debt are assessed at high risk of distress (DSA Annex). Some indicators are projected above sustainability thresholds for some years under the baseline and in some alternative scenarios. Public debt is assessed as sustainable in a forward-looking basis because a large share of projected future borrowing reflects the state's participation in the large LNG projects, which will be repaid directly from future LNG revenues and are expected to bring significant revenues. The assessment is unchanged from the DSA at program approval in May 2022.

14. The external borrowing plan relies only on concessional loans. The World Bank approved a $300 million credit for the "Mozambique Access to Finance and Economic Opportunities Project" in March 2023. The authorities are considering several scenarios for combining concessional financing for other projects, while keeping under the borrowing ceiling agreed under the program (Text Table 4). They are notably considering loans from the OPEC Fund, Italy, the Islamic Development Bank, and the Arab Bank Economic Development in Africa, including to support the food production and the health sector.

[4] An IMF technical assistance scoping mission took place in May 2023 to be followed by a diagnostic mission scheduled September 2023.

15. External arrears. The authorities incurred small arrears on external debt service: in late 2022 with Spain for debt service of about $1.1 million (which was left unpaid by an SOE), and with Portugal for about $4.7 million, and in early 2023 with the Islamic Development Bank for about $0.49 million. These arrears were due to delays incurred because of recurrent discrepancies between the internally forecasted debt service and creditors' invoices, and liquidity constraints; they have since been resolved. An agreement on resolving arrears owed to Brazil was reached in 2022; it is pending ratification by the Brazilian Parliament. Brazil has consented to Fund financing notwithstanding these arrears. The authorities continue to make best efforts to resolve pre-HIPC arrears with five countries. They notably revised the reconciled amount with Angola, and reached an agreement with Libya, which however has at this point less favorable terms than those prescribed by the HIPC process (see DSA for details).[5]

Text Table 4. Projected External Borrowing Program, January 1, 2023 to June 30, 2024

PPG External Debt	PV of New Debt 1/ (Program Purposes) USD million	Percent
By Sources of Debt Financing	**691**	**100**
Concessional debt, of which 2/	**691**	**100**
Multilateral debt	394	57
Bilateral debt	297	43
Other	0	0
Non-concessional debt, of which	**0**	**0**
Semi-concessional 3/	0	0
Commercial terms 4/	0	0
By Creditor Type	**691**	**100**
Multilateral	394	57
Bilateral - Paris Club	197	29
Bilateral - Non-Paris Club	100	14
Other	0	0
Uses of Debt Financing	**691**	**100**
Economic Development	312	45
Infrastructure	379	55

Sources: Mozambican authorities and IMF staff estimates.
1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.
3/ Debt with a positive grant element which does not meet the minimum grant element.
4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

16. The authorities are making progress in implementing their Medium-Term Debt Strategy (MTDS). The strategy aims to increase the share of concessional external financing and lengthen maturities of domestic debt. In this regard, the authorities are considering to engage commercial banks in several reforms aimed at lowering the government's borrowing costs. The authorities have been benefitting from World Bank and IMF TA to develop and implement the MTDS. IMF TA helped the authorities simulate an annual borrowing plan (ABP). A goal is to publish timely updates of a focused MTDS and a detailed ABP, ideally before the beginning of each year. Amid a high need to develop the primary and secondary government security markets, the authorities have recently requested MCM TA on the development of local currency government bond markets.

17. The Sovereign Wealth Fund bill was submitted to Parliament in December 2022 (SB); passage is expected by July 2023. In managing LNG revenue, a well-designed law is critical to ensure short-term macroeconomic stability and long-term fiscal sustainability. The

[5] Given that a representative Paris Club agreement covers the claim, this means that the pre-HIPC arrears with Angola, Bulgaria, Iraq, Libya, and Poland are deemed away under the IMF Lending Into Official Arrears policy. The PC Secretariat is currently reviewing the proposed agreement between Mozambique and Libya.

draft law, which was informed by the Santiago Principles, calls for LNG revenue to be divided between the SWF (40 percent) and budget (60 percent) for the first 15 years, changing to 50 percent each thereafter. A key concern with this allocation rule was that LNG revenue transferred to the budget could be highly volatile. To address this issue the draft law was revised so that LNG revenue transferred to the budget is calculated based on a moving average of past and future petroleum prices. Further implementing regulations (which are being prepared with technical support from the IMF and from Norway) will be needed to ensure that LNG revenues transferred to the budget are used in a transparent and effective way.

C. Monetary and Exchange Rate Policy

18. The Bank of Mozambique (BM) proactively tightened monetary policy to address inflationary pressures in a context of high commodity prices and the recent fiscal expansion. The outlook for global commodity prices is uncertain and there are risks that higher wages could fuel demand for domestic goods and imports, and contribute to depreciation pressures on the exchange rate, which would spill over to inflation. [6] In this context, the current tight monetary policy conditions remain warranted.[7] Provided the fiscal position remains on a strong footing, and inflationary pressures have abated, there would be scope to loosen monetary policy and achieve a more balanced policy mix.

19. In addition to the tight monetary stance, the BM has used other levers to contain exchange rate depreciation pressures and slow the depletion of international reserves. It raised the reserve requirements on FX deposits from 11.5 percent to 28.5 percent in February 2023 and to 39.5 percent in May. It also reduced its provision of FX to fuel importers from 100 percent to 60 percent of the fuel import bill in April and ceased it completely in June.

20. The BM's exchange rate management policy has resulted in a *de facto* fixed exchange rate vis-à-vis the U.S. dollar since mid-2021. The BM has intervened in the FX market mainly to supply FX to cover fuel import invoices. In addition, tight regulation and moral suasion have increased barriers for financial intermediaries to deviate from the current exchange rate. Coupled with a preference of importers and exporters for exchange rate stability, the exchange rate has been *de facto* fixed against the USD since mid-2021. Maintaining a stable exchange rate could help counter imported inflationary pressure and contribute to greater economic certainty over the short run—provided that fiscal and domestic credit policies are prudent to remain consistent with the peg.

21. The BM is building the basis for an inflation targeting framework, with IMF and Norges Bank support. Improving the transmission of the policy rate by deepening the interbank, money, and FX markets over the medium term remains important, as well as reducing the reliance on the reserve requirement ratio as a policy tool. This requires further modernizing the BM's liquidity management and the money market, with continued TA support by MCM and

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[6] See Aisen et al. (2021), *An Empirical Assessment of the Exchange Rate Pass-through in Mozambique,* IMF Working Paper No. 2021/132.

[7] The real policy rate in April was at 8 percent.

AFRITAC South.[8] This will enhance the stability of Mozambique's financial sector and facilitate greater exchange rate flexibility, which are particularly important in the context of large, expected FX inflows from LNG, and to improve access to credit and the FX market.

D. Financial Stability and Financial Inclusion

22. Banks are reporting somewhat weaker system-wide capital and liquidity ratios, though NPLs remain low. At end-March 2023, the average capital adequacy ratio was 25 percent, compared to 27 percent in December 2022. NPLs systemwide were 9 percent, with some inter-bank dispersion correlated with exposure to SOEs. Core liquid assets to short term liabilities declined from 26 percent at end-2021 to 15 percent at end-March 2023. The BM should continue to monitor the banking sector closely, including to assess how tighter monetary conditions are impacting balance sheets. The BM received a general training on IFRS for central banks.[9] The transition from Basel II to Basel III capital accords is expected to be implemented during 2024-2026. The BM continues strengthening supervisory capacity towards cybersecurity risks, with TA support from the IMF. Collaboration is being strengthened between the BM and the SOE directorate (IGEPE) to intensify monitoring the risk of lending to SOEs.

23. Continued progress is being made in advancing financial inclusion. Digital currency accounts increased from 32 percent of the adult rural population in March 2020 to 59 percent at end-2022. The Basic Bank Account law, adopted in October 2022, is expected to promote financial inclusion by requiring less formal documentation and reducing the legal age to open a bank account to 18. Ongoing modernization of the payment system is expected to increase interoperability with mobile payments providers, facilitating the use of digital money, e-commerce, and digitalization of government benefits. Progress in that area must be accompanied by buttressing the supervision of cybersecurity risks.

E. Structural Reforms

24. Progress in strengthening the Tribunal Administrativo (TA) to improve the oversight of government spending. Technical assistance from the IMF will support efforts to strengthen the TA, including by introducing timely publication of audit reports, and enhance the efficiency and transparency of the judicial phase and allowing for real time access by the Attorney General and law enforcement to information to identify fraud and corruption.

25. Additional governance reforms should help reduce vulnerabilities corruption.

- ***AML/CFT.*** The authorities are implementing their comprehensive action plan to address the gaps identified in the June 2021 report of the ESAAMLG (MEFP ¶49), and in the updated action plan adopted by the FATF Plenary in October 2022, following

[8] An IMF TA mission on monetary operations in early 2023 found that over recent years, the BM has already implemented a range of recommendations from previous TA missions.

[9] On the BM's request the training did not include the BM's own financial statements and the BM did not request follow-up TA on this issue.

Mozambique's inclusion on the FATF list of jurisdictions under increased monitoring ('grey listing'). The amended AML/CFT laws include a definition of beneficial ownership consistent with FATF standards, and targeted financial sanctions for terrorism financing. The revised commercial code obliges individuals and corporates to register information at the centralized registry of legal entities, and regulations are being updated to ensure adequate information on beneficial ownership in companies is publicly accessible in line with FATF standards (newly proposed structural benchmark for end-2023)

- ***Public probity law.*** The law is in the process of being amended to clarify coverage, strengthen the definition of conflict of interest and establish reporting procedures. It also requires submission of declarations of financial interests by public servants. Submission to parliament is envisaged by end-June 2023 (SB).

- ***Public Financial Management (PFM).*** A renewed PFM strategy to strengthen budget execution in emergencies is expected by end-2023 (MEFP ¶38).

PROGRAM MODALITIES AND OTHER ISSUES

26. Program conditionality has been updated to reflect the revised macroeconomic framework and the authorities' reform commitments (MEFP, Tables 1 and 2).[10] This review proposes modification of existing conditionality as well as new SBs, QPCs and ITs for end-March 2024 and end-June 2024, respectively. The number of outstanding SBs from July 2023 to June 2024 is 10[11]; they focus on program-critical targets and tailored to the implementation capacity of the authorities. These key elements of program conditionality are:

- A **modification** of the floor on the stock of net international reserves of the Bank of Mozambique to $2bn for the next 12 months (end-June 2023 to end June 2024), compared to an original floor of $2.2bn. With net foreign reserves currently at $2.19bn,[12] this modification provides some room for reserve fluctuations (and reduces the need for further monetary policy tightening) while safeguarding a reserve buffer (as $2bn is equivalent to more than 3 months of imports). .

- An **additional adjustor** is proposed to accommodate for shortfalls or gains in project financing, compared with projected cumulative amounts that go through the Bank of Mozambique reserves.

- A **modification** of the MPCC to lower target ranges and mid-points, such that a consultation with the Board is triggered if inflation falls outside the ±3 percentage point range around the 9.0 percent mid-point target band value for end-June 2023, 8.5 percent for end-September 2023, and 8.0 percent for end-December 2023.

[10] An updated TMU is attached to this staff report.

[11] Consistent with the findings of the 2018 Review of Program Design and Conditionality.

[12] Valued at program exchange rate (see TMU).

- To ensure wage bill control and align fiscal policy with program objectives in 2023, the authorities committed to **prior actions** on (listed in Table 2 (MEFP ¶21)):
    - Incorporating all public servants into the electronic payroll system (e-folha).
    - Parliament approval of amendments to the wage bill law, adjusting the percentage of the reference salary, which is applied to the calculation of the representation subsidy, for statutorily appointed and elected holders of public office.
- Completion of general audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finances (IGF) is a **proposed new SB** for end-September 2023.
- To ensure wage bill reducing measures consistent with medium-term fiscal sustainability under the program, a **proposed new SB** (end-December 2023) on submitting to the Council of Ministers a measures-based action plan to reduce the wage bill to 10 percent of GDP by 2028, with IMF TA support.
- To improve governance and strengthen the efficiency of public spending, publication of 2020 and 2021 external audit reports of COVID 19 emergency expenditure, including all findings except for those possibly involving financial responsibility, is a **proposed new SB** for December 2023.
- To enhance revenue mobilization, government approval of the regulation to determine the reference price of minerals based on international prices is a **proposed new SB** for end-June 2023.
- To enhance transparency in the management of natural resources, government commitment to make any legal and regulatory changes necessary to ensure that the information on beneficial ownership is adequate, accurate, up to date and publicly accessible at the centralized registry is a **proposed new SB** for end-December 2023.
- To enhance cash management and strengthen debt management, Treasury to prepare weekly cash flow forecasts extending at least three months to be rolled forward at least monthly is a **proposed new SB** for end-June 2024.
- To enhance SOE transparency and strengthen governance, publish the financial risks indicators (as referenced in the MEFP, ¶43) for the complete list of entities comprising the SOEs and other public bodies is a **proposed new SB** for end-March 2024.

27. In view of the authorities' corrective measures, staff supports waivers for the missed targets. Staff supports the request for a waiver on the missed domestic primary balance given the authorities' actions to ensure fiscal sustainability: (i) wage bill reducing measures adopted earlier in 2023; and (ii) additional corrective measures composed of revenue mobilization and wage bill reducing measures (MEFP, ¶21). In addition, staff support the authorities' request for a waiver for missing the target on non-accumulation of external arrears given that these have been settled, and as the authorities are taking concrete administrative steps to ensure such arrears are not repeated: (i) clearing the existing debt recording database to eliminate discrepancies between creditor invoices and internal debt services estimates, and are preparing the migration to a new system (CS-Meridian); and (ii) improving liquidity and debt management to avoid cash crunches.

28. The program is fully financed, with firm commitments for the next twelve months (June 2023-June 2024) and good prospects for adequate financing for the remainder of the program period. The disbursement available under the ECF upon completion of the second review will be used for budget support. Budget support will also be provided by the World Bank (commitments of US$350 million over 2023–2024) and Portugal (Euros 1 million over 2023–26).

29. Capacity to repay the Fund remains adequate, but subject to risks (Table 8). Under the baseline scenario, outstanding obligations to the Fund based on existing and prospective drawings would peak at 3.7 percent of GDP in 2024, or about 28 percent of gross international reserves. Downside risks include failure of the onshore LNG projects, natural disasters, and fiscal risks that could reduce the government's debt service capacity. Risks are mitigated by the authorities' strong track record of servicing their debt obligations to the Fund, policy measures envisaged in the program, and smooth phasing of disbursements.

30. The BM has made progress in implementing the 2020 safeguards assessment recommendations. Financial statements of the BM for 2022 were published in March 2023. A review of the operational risk framework is ongoing, with support from IMF TA, while the control over vault access is being improved in line with earlier TA recommendations. The draft organic law of the BM is expected to be submitted to parliament in June 2024.

31. CD is aligned with program objectives, and data provision is broadly adequate for program monitoring. Priority areas include PFM, fiscal policy, revenue administration, natural resource management, wage bill reform, governance, and fiscal transparency (including SOEs), monetary policy implementation, and government finance, real, and financial sector statistics. Mozambique is a high intensity user of Fund CD with a solid implementation record.

32. The government has made progress on the updated National Development Strategy (ENDE). Staff and the authorities have agreed to use the updated National Development Strategy (ENDE) as a Poverty Reduction and Growth Strategy (PRGS) under the program. Under the advice of the technical council of the MEF, the government extended the stakeholder consultations. The strategy is now expected to be submitted to Parliament by September. The authorities are requesting an extension of the PRGS requirement until the fourth review, given limited institutional capacity—including extension to the stakeholders' consultations, delays in addressing all comments and uncertain duration of the Parliamentary approval process.

STAFF APPRAISAL

33. The economic recovery is strengthening, despite Mozambique being hard hit by cyclone Freddy. Resurgent activity in COVID-affected sectors, the launch of LNG extraction, and robust production in agriculture and mining have contributed to a broad-based acceleration of growth. Inflation has decelerated rapidly in line with lower import prices, while domestic price increases have remained muted amid tight monetary policy.

34. Performance under the program has been broadly favorable, though with notable slippage in the fiscal area. PCs on net international reserves and new non-concessional external debt were met, while the PCs on the domestic primary balance and external arrears were missed. The MPCC band was breached at the lower end as inflation decelerated faster than expected. IT on new external debt were met, but the ceiling on the domestic debt stock was breached and the floor on social spending was not met. Progress on the structural front has been good: the SBs on the SWF law, Treasury budget, and e-SISTAFE, and attrition rules for civil servants were met though, the SB on eliminating exemptions from VAT was missed.

35. The authorities are taking broad-based and meaningful measures to ensure fiscal discipline in 2023 and achieve the medium-term fiscal consolidation envisaged under the program. The fiscal package is composed of revenue-enhancing and wage bill reducing measures. In addition, and to help rationalize the wage bill over the medium term, the authorities have committed to prepare an action plan setting out concrete measures to reduce the wage bill to 10 percent of GDP by 2028. They have also committed to enhanced monitoring of wage bill performance, which will facilitate quicker action—if needed—to keep expenditure on track.

36. Fiscal structural reforms aimed at wage bill control, SOE transparency, and debt management will help achieve fiscal policy objectives. Wage bill control is macro-critical to ensure medium-term fiscal consolidation and bring Mozambique's spending on public employment in line with regional peers, and to create fiscal space for high-priority spending on education, health, and infrastructure. Improving the coordination between cash and debt management functions and implementing the MTDS will strengthen debt management and budget execution. Strengthening SOE management and oversight will help prevent expenditure overruns, increase transparency, and reduce a key fiscal risk.

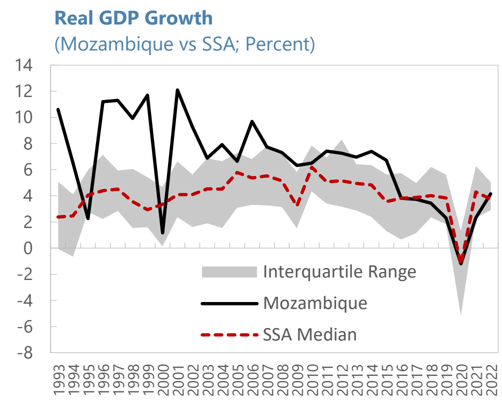
37. The current stance of monetary policy is appropriate to contain inflationary pressures. Staff support the BM's proactive approach, including undertaking additional tightening if needed, to help anchor inflationary pressure and support macroeconomic stability. Options for looser policy should be explored once the policy mix between fiscal and monetary has been rebalanced in a sustainable manner, and external and internal inflationary pressures have abated. Improving the transmission of the policy rate by deepening the interbank, money, and FX markets over the medium term remains important for improved macroeconomic management, and to allow greater exchange rate flexibility to cope with external shocks. Staff welcomes the recent reduction in the BM's supply of FX to cover fuel import bills and its decision to cease this practice starting June 2023.

38. Staff supports the completion of the second review under the ECF arrangement, the waivers for the missed QPCs, the completion of the consultation under the MPCC, the requests for modification of the MPCC from end-June 2023 to end-September 2023, and the extension of the PRGS requirement until the fourth review. Staff supports the completion of the financing assurance review on the basis that adequate safeguards remain in place for the further use of the Fund's resources in Mozambique's circumstances and that Mozambique's adjustment efforts have not been undermined by developments in debtor-creditor relations.[13]

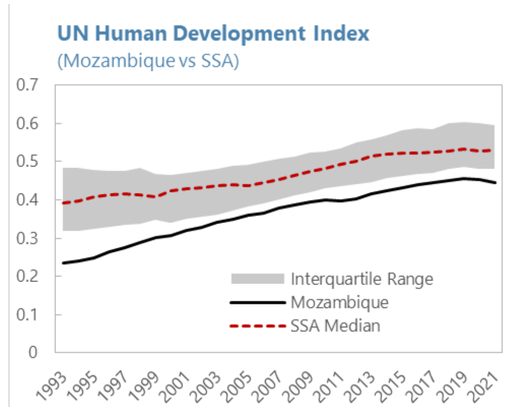
[13] The financing assurance review is in respect of the arrears to Brazil.

Figure 1. Mozambique: Growth and Living Standards

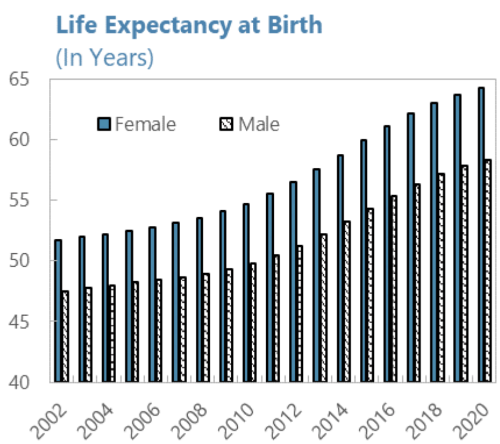
Since 2015, a series of shocks has eroded Mozambique's prior strong growth in GDP.



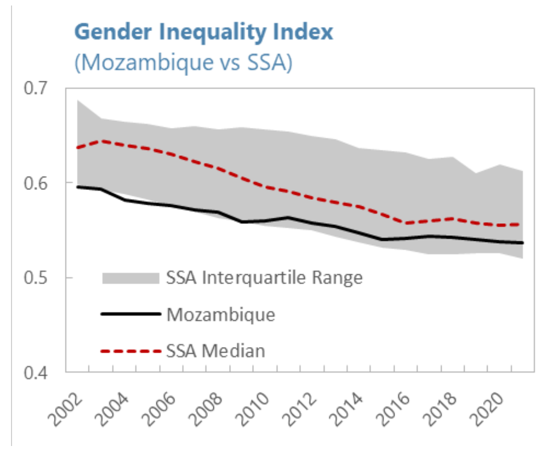
Mozambique's living conditions steadily improved through 2019, though remained relatively low for SSA.



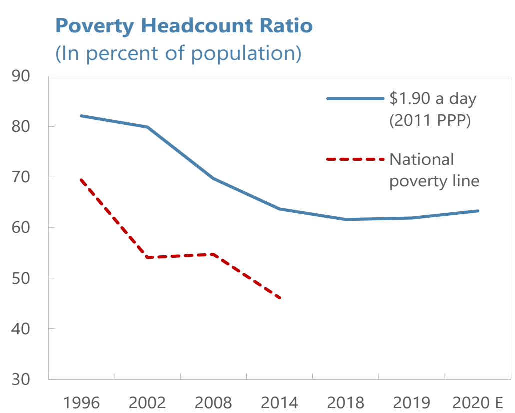
Life expectancy improved through 2020…



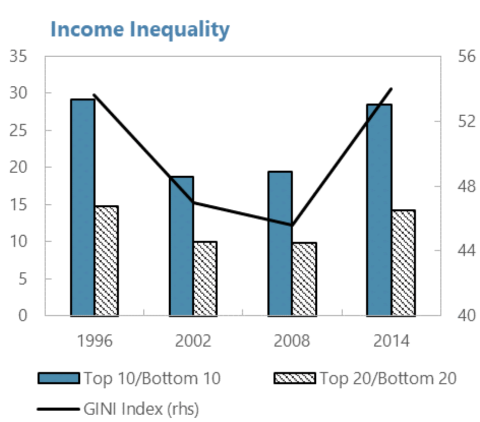
… and gender disparities continue to decline, with Mozambique outperforming the SSA median SSA country.



While poverty has declined…



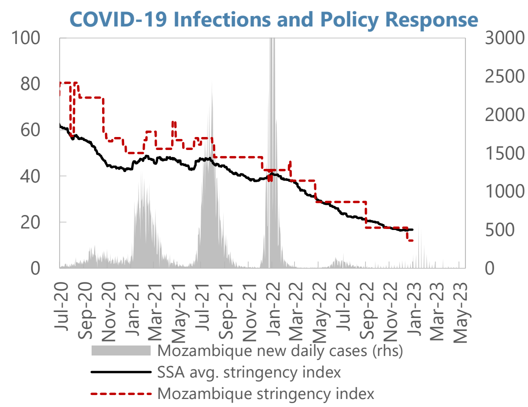
…inequalities are acute.



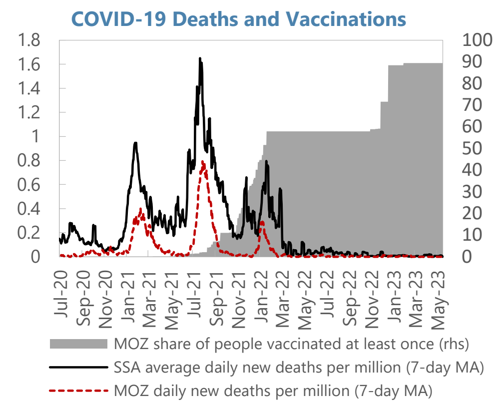
Sources: World Bank World Development Indicators, UN Human Development Report, UN Population Division, World Bank Poverty and Equity Database, World Bank Macro Poverty Outlook, and IMF staff calculations.

Figure 2. Mozambique: COVID-19 Pandemic, Growth, and Inflation

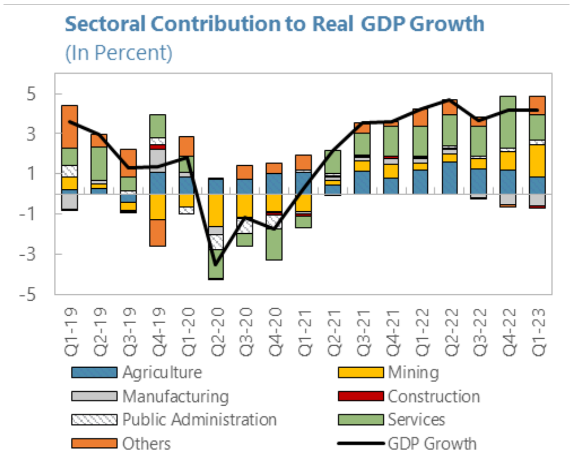
The latest COVID wave has had a minimal impact…



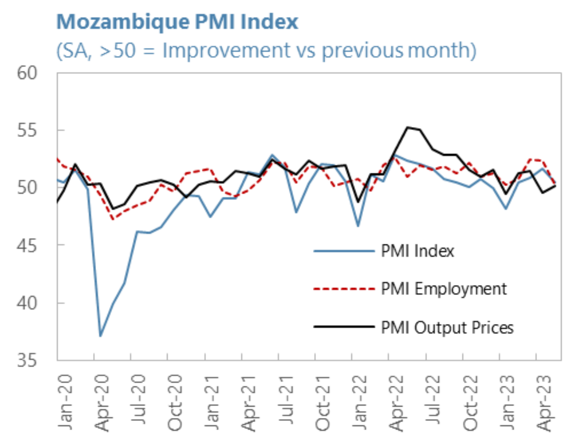
…and deaths have declined sharply.



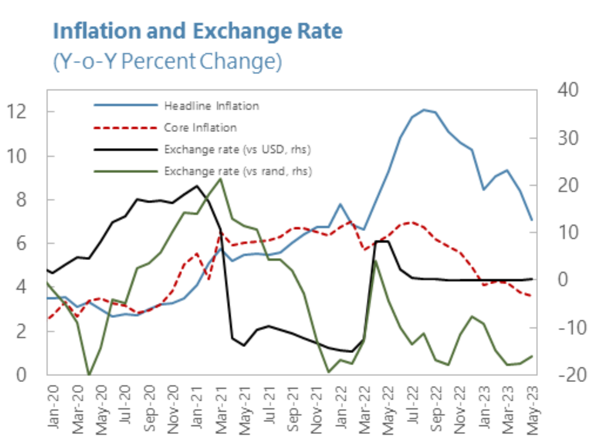
The recovery broadened through the fourth quarter…



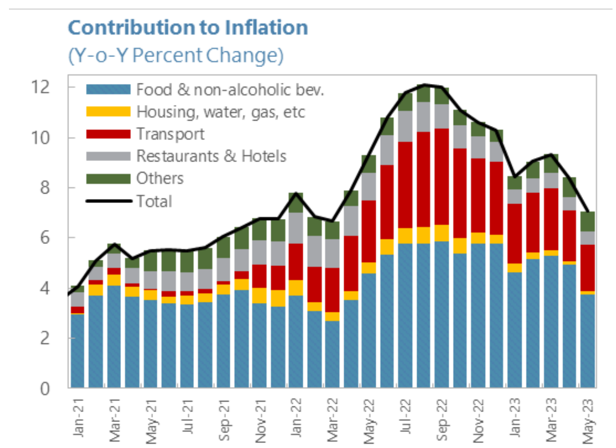
…with the Purchasing Managers' Index suggesting a slight improvement in Q1 2023.



Inflation peaked in August 2022…



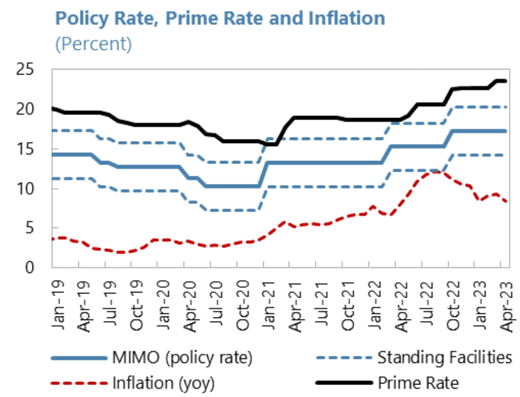
…and continues to be driven by food and fuel prices.



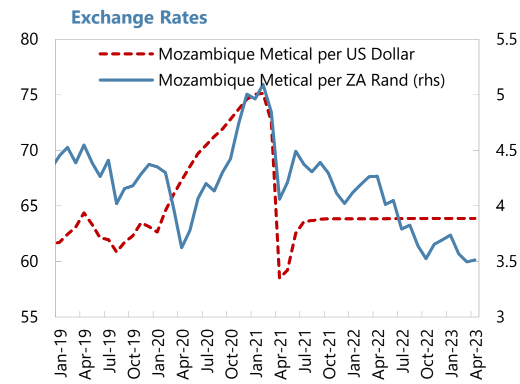
Sources: National Institute of Statistics and IMF Staff Calculations.

Figure 3. Mozambique: Monetary and Financial Developments

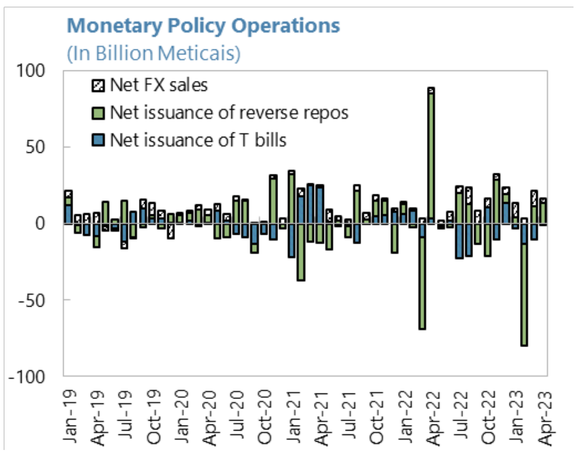
Tight monetary policy is helping to contain inflation…



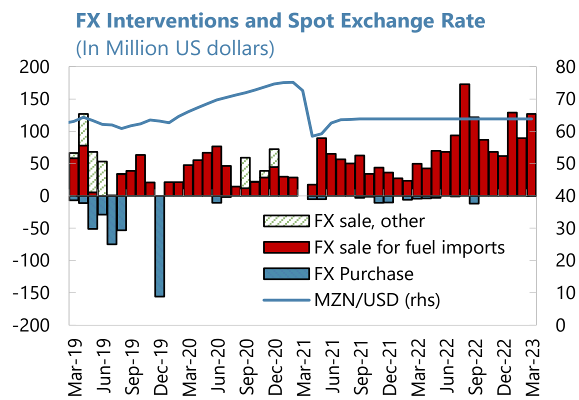
… while the MZN/USD exchange rate has been held flat since mid-2021.



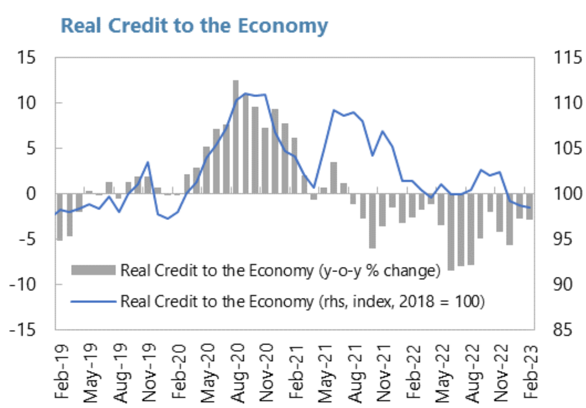
Liquidity is managed through open market operations.



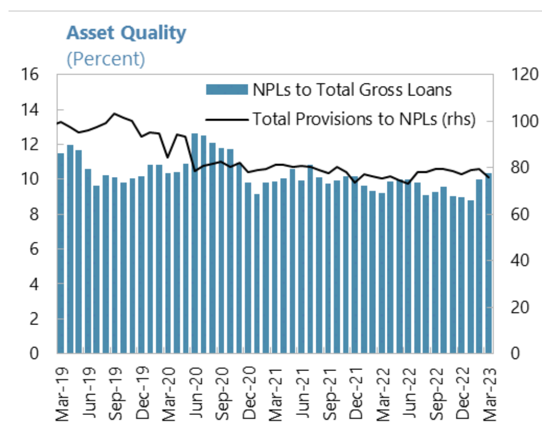
Foreign exchange intervention by the BM is mostly limited to providing FX liquidity for fuel imports.



Real credit to the economy is still constrained by tight policy.



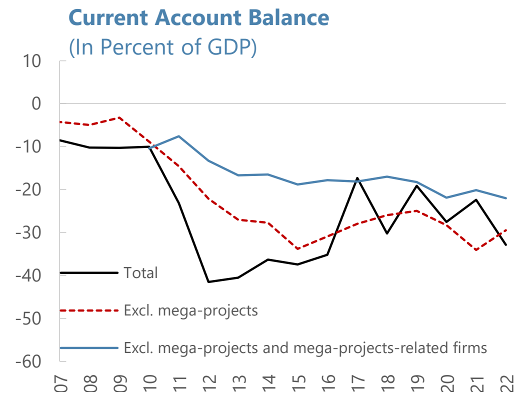
Reported overall NPLs have increased slightly while provisioning rates remain relatively steady.



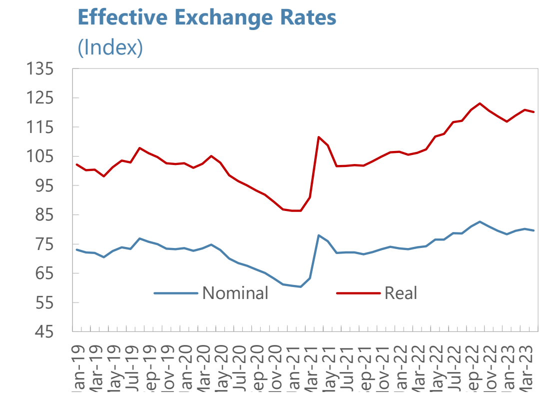
Sources: IMF staff calculations and Bank of Mozambique.

Figure 4. Mozambique: Selected External Sector Developments

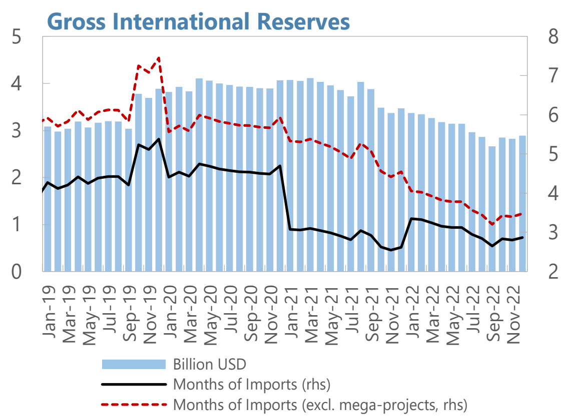
The non-megaproject current account deficit has widened somewhat…



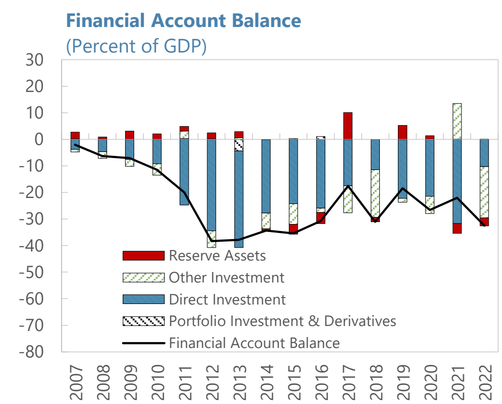
…while Mozambique's trade competitiveness has eroded.



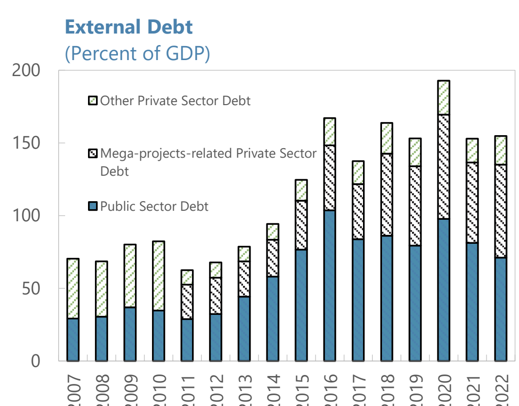
International reserves have declined but remain adequate.



Financial flows in 2022 were dominated by trade credit to finance the LNG platform…



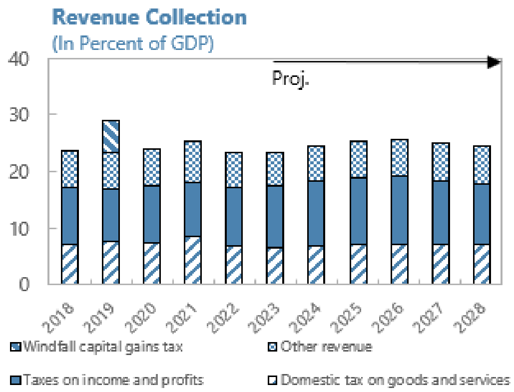
External debt increased in 2022, driven by private sector financing needs



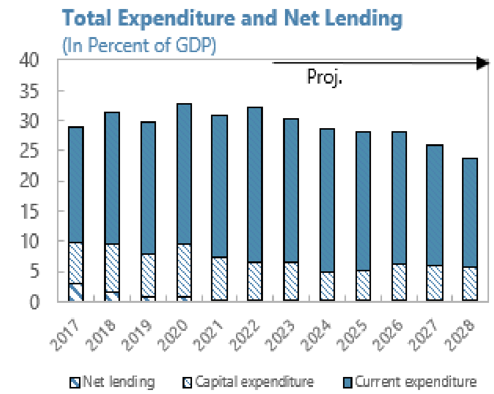
Sources: Mozambican authorities and IMF staff estimates.

Figure 5. Mozambique: Fiscal Developments

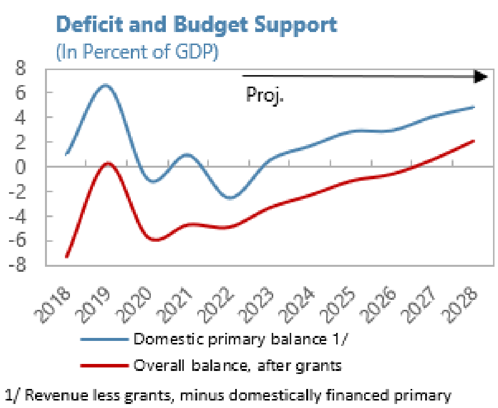
Revenue remains high and stable despite various shocks…



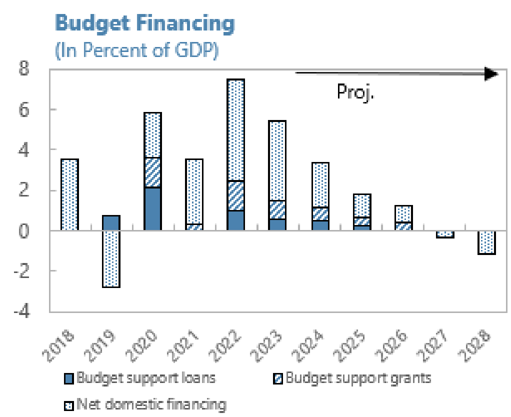
…but spending increased in 2022.



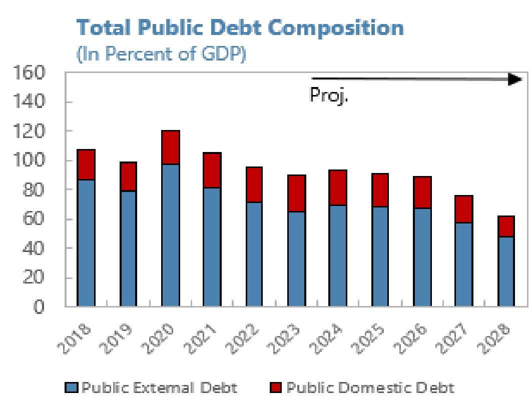
The fiscal balance has been improving over the past few years, except for wage bill-related slippages in 2022.



Domestic issuance rose sharply in 2022 to meet fiscal overruns.



Debt ratios are stabilizing as the economy recovers…



… though borrowing costs from domestic debt have increased.

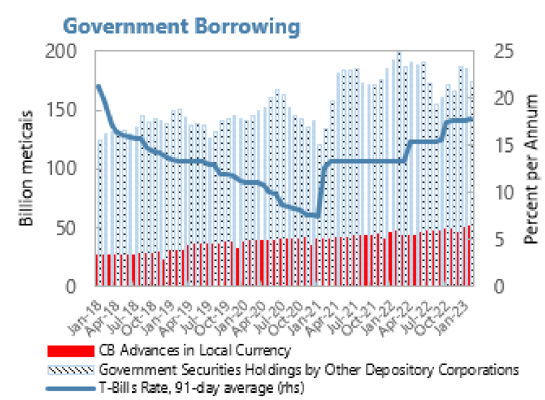


Table 1. Mozambique: Selected Economic and Financial Indicators, 2020–28

	2020	2021	2022		2023		2024		2025	2026	2027	2028
	Est.	Prel.	First rev ECF	Proj.	First rev ECF	Proj.	First rev ECF	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices (Percentage change, unless otherwise indicated)												
Real GDP	-1.2	2.4	3.8	4.2	5.0	7.0	8.3	5.0	5.0	4.0	13.1	12.1
Real GDP, excl. extractive industries	-0.1	2.4	3.4	3.9	3.7	3.7	4.1	4.1	4.0	4.0	3.9	4.0
Nominal GDP	2.2	7.1	10.6	16.1	13.2	15.6	16.7	12.7	12.3	10.4	19.6	18.2
GDP deflator	3.4	4.6	6.5	11.5	7.8	8.1	7.8	7.4	7.0	6.2	5.7	5.5
Consumer prices (end of period)	3.5	6.7	15.0	10.3	8.5	6.7	6.1	6.5	5.7	5.5	5.5	5.5
Consumer prices (annual average)	3.1	5.7	10.7	9.8	11.5	7.4	7.3	6.5	6.3	5.7	5.5	5.5
GDP (billions of meticais)	983	1,053	1,142	1,223	1,292	1,414	1,509	1,594	1,790	1,977	2,364	2,796
GDP (billions of US dollars)	14.2	16.1	17.9	19.2	19.7	21.9	21.9	23.9	25.6	27.0	31.1	35.5
GDP per capita (US dollars)	454	502	541	581	582	647	629	686	714	734	822	914
Investment and savings (Percent of GDP)												
Gross domestic investment	50.8	34.0	67.8	51.0	37.8	31.9	61.5	54.5	59.5	60.4	50.3	41.1
Gross domestic savings, excl. grants	23.3	11.6	26.3	18.2	23.2	16.3	26.0	15.6	16.3	15.5	19.6	21.1
Central government (Percent of GDP)												
Total revenue 1/	23.9	25.3	25.7	23.4	25.9	23.5	25.7	24.6	25.3	25.7	25.1	24.4
of which: LNG revenues	N.A.	N.A.	N.A.	N.A.	0.1	0.1	0.3	0.3	0.3	0.3	0.7	1.0
Total expenditure and net lending	32.9	30.9	33.2	32.3	33.3	30.2	30.7	28.6	28.0	28.0	25.9	23.9
of which: current expenditure	23.3	23.6	26.1	25.8	24.8	23.6	24.1	23.6	22.7	21.8	20.0	18.1
Overall fiscal balance, before grants	-9.3	-6.8	-8.2	-8.8	-7.4	-6.7	-5.0	-4.0	-2.7	-2.3	-0.8	0.6
Grants	3.6	2.1	4.4	3.9	3.5	3.8	1.7	1.8	1.6	1.8	1.5	1.6
Overall fiscal balance, after grants	-5.7	-4.7	-3.7	-4.9	-3.9	-2.8	-3.3	-2.2	-1.1	-0.5	0.6	2.1
Overall fiscal balance before LNG revenues, after grants	-5.7	-4.7	-3.7	-4.9	-4.0	-2.9	-3.6	-2.5	-1.4	-0.8	-0.1	1.1
Primary fiscal balance, after grants	-2.6	-2.0	-0.2	-2.0	-0.7	0.4	0.0	0.8	1.7	1.8	2.8	3.9
Public sector debt (Percent of GDP) 2/												
Nominal stock of total debt	120.0	104.9	102.9	95.5	101.4	89.7	102.6	92.8	90.6	87.9	75.0	61.3
of which: external	97.8	81.2	77.6	71.1	75.9	65.6	77.7	69.0	68.3	66.8	57.9	47.4
Money and credit (Percentage change, unless otherwise indicated)												
Reserve money	9.0	-14.3	-5.1	0.6	11.2	85.9	14.0	9.3	11.4	12.2	14.6	14.4
Broad Money (M3)	23.3	1.9	2.3	8.7	11.8	5.2	12.6	8.1	11.3	10.1	14.9	14.8
Percent of GDP	59.4	56.5	53.3	52.9	52.7	48.1	50.8	46.1	45.7	45.6	43.8	42.5
Credit to the economy	13.1	5.2	3.0	4.0	11.5	6.0	12.0	12.0	10.0	10.0	12.0	9.5
Percent of GDP	26.4	25.9	24.6	23.2	24.3	21.2	23.3	21.1	20.7	20.6	19.3	17.9
Policy rate (percent) 3/	10.25	13.25	17.25	17.25	...	17.25	...	...	...	...	...	...
External sector (Percent of GDP, unless otherwise indicated)												
Current account balance	-27.6	-22.4	-41.5	-32.9	-14.7	-15.5	-35.5	-38.9	-43.2	-44.9	-30.7	-20.0
excl. megaprojects	-28.2	-34.1	-33.9	-29.5	-31.7	-30.7	-29.3	-29.8	-29.1	-28.4	-27.4	-25.1
excl. megaprojects (MP) and indirect MP imports	-18.2	-21.9	-16.2	-20.1	-19.3	-21.9	-17.0	-21.3	-20.6	-20.0	-19.7	-18.0
Merchandise exports	25.3	34.7	43.4	43.2	38.3	37.2	39.3	35.3	34.8	34.2	38.8	41.3
excl. megaprojects	7.7	9.6	9.9	11.0	9.8	8.9	9.2	8.7	8.9	9.3	8.8	8.6
Merchandise imports	41.6	48.7	74.6	69.6	43.5	44.3	46.2	47.3	46.9	46.3	40.8	35.9
excl. megaprojects	36.1	43.8	43.5	41.2	39.1	39.8	36.0	37.3	36.3	35.8	32.8	30.5
Net foreign direct investment	21.4	31.7	17.1	10.3	7.6	4.3	13.2	13.7	15.6	16.3	7.9	9.3
Terms of trade (Percentage change)	-1.2	1.9	-3.4	-2.8	-0.4	6.6	1.4	0.6	1.4	1.4	1.0	0.6
Gross international reserves (millions of US dollars, end of period)	4,070	3,470	2,905	2,888	3,031	2,939	3,389	3,184	3,536	3,977	4,464	5,865
Months of next year's non-megaproject imports	5.9	4.5	3.7	3.4	3.8	3.4	4.2	3.5	3.7	3.9	4.2	5.1
Net international reserves (millions of US dollars, end of period)	3,493	2,927	2,234	2,333	2,265	2,288	2,512	2,422	2,766	3,292	3,873	5,397
Exchange rate												
Meticais per US dollar, end of period	74.9	63.8	...	63.9	...	65.1	...	68.3 ...	71.6 ...	74.7 ...	77.4 ...	80.0
Meticais per US dollar, period average	69.5	65.5	...	63.9	...	64.5	...	66.7 ...	69.9 ...	73.2 ...	76.0 ...	78.7
Real effective exchange rate (Percentage change)	-5.4	2.9	...	13.3	...	N.A.	...	N.A.	N.A.	N.A.	N.A.	N.A.

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

1/ Net of verified VAT refund requests.

2/ Public sector debt includes central government debt, ENH debt and SOE domestic debt.

3/ Mozambique Interbank Market Offer rate (MIMO, latest as of February 2023).

Table 2a. Mozambique: Government Finances, 2019–28

(Billions of Meticais)

	2019	2020	2021	2022		2023		2024		2025	2026	2027	2028
	Est.	Est.	Est.	ECF 1st Review	Est.	ECF 1st Review	Proj.	ECF 1st Review	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue [1]	278.9	235.3	265.9	293.6	286.0	334.3	332.7	387.6	392.4	452.6	507.9	592.5	682.8
Tax revenue	242.2	196.7	221.7	248.7	244.3	283.0	284.8	330.3	339.1	393.2	442.3	519.3	601.3
Income and profits	144.3	99.4	99.9	122.5	128.3	130.0	153.7	153.4	180.1	208.1	237.0	267.1	299.4
Of which: Capital gains tax	54.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services [1]	74.0	72.1	91.4	94.0	83.7	115.8	92.7	130.1	111.5	128.7	141.0	167.3	197.1
International trade	17.1	15.1	18.0	18.5	18.4	19.7	21.7	22.0	23.8	27.7	32.2	37.5	44.0
Other	6.8	10.1	12.5	13.8	13.9	17.4	16.7	24.7	23.6	28.7	32.1	47.4	60.8
Of which: Revenue from LNG	…	…	…	…	…	1.3	1.1	4.7	4.2	5.1	5.1	17.6	28.0
Nontax revenue	36.8	38.6	44.2	44.9	41.7	51.3	47.9	57.4	53.4	59.4	65.7	73.2	81.5
Total expenditure and net lending	271.7	323.3	325.6	379.3	395.3	429.9	427.1	463.1	456.5	501.1	553.6	612.2	666.8
Current expenditure	196.5	229.6	248.1	298.4	315.2	320.4	334.1	363.9	376.9	407.0	431.2	471.9	505.0
Compensation to employees	117.3	130.1	145.1	166.6	200.6	181.8	206.5	203.7	236.3	255.5	272.7	291.1	309.8
Of which: Social insurance	4.5	5.7	5.9	6.1	6.3	6.1	6.4	6.8	6.4	6.4	6.8	7.2	7.5
Goods and services	25.7	41.0	44.8	49.7	47.6	58.3	40.8	65.5	47.7	54.2	59.9	71.1	84.3
Interest on public debt	31.2	30.7	28.1	39.9	35.4	41.5	45.6	49.4	48.3	49.2	45.6	51.4	48.6
Domestic	17.3	15.8	17.6	29.0	24.1	29.9	34.4	38.1	35.2	36.0	32.3	38.2	36.2
External	13.9	14.9	10.5	10.9	11.3	11.6	11.2	11.3	13.0	13.2	13.3	13.2	12.4
Subsidies and transfers	22.3	27.7	30.1	42.1	31.6	38.8	41.1	45.2	44.6	48.2	53.0	58.3	62.3
Capital expenditure	68.8	86.9	73.9	76.3	77.2	105.0	89.4	94.4	75.6	89.6	117.5	135.1	156.2
Domestically financed	33.5	44.1	34.7	31.4	35.9	43.9	33.2	47.6	32.9	39.4	59.7	70.6	86.5
Externally financed	35.3	42.9	39.2	44.9	41.3	61.0	56.2	46.9	42.7	50.3	57.7	64.5	69.7
Grants	9.3	20.1	18.7	20.1	29.8	35.3	34.7	19.2	18.6	22.4	28.1	35.1	43.6
Investment projects	5.1	15.6	11.78	11.1	26.2	26.9	26.5	10.7	10.3	12.5	15.6	19.5	24.2
Special programs	4.3	4.5	6.9	6.5	3.5	7.0	6.9	8.5	8.3	10.0	12.5	15.6	19.4
Direct financing	0.0	0.0	0.0	2.6	0.0	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Loans	25.9	22.8	20.5	24.8	11.5	25.8	21.4	27.7	24.1	27.9	29.6	29.4	26.1
Net lending [2]	6.4	6.8	3.6	4.7	2.9	4.5	3.6	4.8	4.0	4.5	5.0	5.2	5.6
Statistical Discrepancy	1.7	-3.3	-11.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unallocated revenue (+)/ expenditure (-)	-15.5	0.0	0.0	-7.7	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, before grants	-6.5	-91.3	-71.4	-93.4	-107.6	-95.6	-94.3	-75.5	-64.1	-48.5	-45.7	-19.7	17.0
Grants received	9.3	35.1	22.1	50.7	47.8	45.1	54.1	26.0	28.6	29.4	35.5	35.1	43.6
Project support	9.3	20.1	18.7	28.4	29.8	35.3	34.7	19.2	18.6	22.4	28.1	35.1	43.6
Budget support	0.0	15.1	3.4	22.4	18.0	9.8	19.4	6.9	10.0	7.0	7.3	0.0	0.0
Primary balance, after grants	34.0	-25.6	-21.2	-2.7	-24.3	-9.1	5.4	0.0	12.8	30.1	35.4	66.7	109.2
Overall balance, after grants	2.8	-56.2	-49.3	-42.6	-59.8	-50.5	-40.2	-49.4	-35.5	-19.1	-10.2	15.3	60.6
Financing	-2.8	56.2	49.3	42.6	59.7	50.5	40.2	49.4	35.5	19.1	10.2	-15.3	-59.6
Net external financing	16.9	23.4	10.4	7.3	0.2	3.3	-1.2	3.6	0.8	-1.0	-4.9	-7.1	-27.0
Disbursements	38.7	48.2	23.3	37.5	24.1	36.6	29.8	39.0	32.8	32.8	30.4	30.0	26.6
Project	25.9	22.8	20.5	24.8	11.5	25.8	21.4	27.7	24.1	27.9	29.6	29.4	26.1
Nonproject support	12.8	25.4	2.7	12.7	12.6	10.8	8.4	11.3	8.7	5.0	0.8	0.6	0.5
Of which budget support (including IMF)	7.4	20.7	0.0	9.9	12.4	8.1	7.9	8.5	8.1	4.3	0.0	0.0	0.0
Amortization	-21.8	-24.8	-12.8	-30.2	-23.9	-33.3	-31.0	-35.4	-32.1	-33.8	-35.3	-37.1	-53.6
Net domestic financing	-27.1	21.8	33.7	43.7	60.7	47.2	49.4	45.8	34.7	20.1	15.1	-8.2	-32.6
Of which: short term debt (net)	8.7	14.5	13.7	21.4	12.0	-5.6	41.4	-29.5	-3.5	-7.0	10.3	-16.3	-5.7
Of which: issuances of medium term debt	23.5	52.1	39.2	32.4	51.5	68.3	25.0	102.9	61.4	72.1	96.0	57.9	44.6
o.w. SDR allocation				13.4	13.4	6.1	5.7						
Of which: amortization of medium term debt	-27.3	-29.3	-26.1	-16.9	-11.7	-24.3	-26.5	-26.5	-20.2	-44.2	-88.4	-53.8	-54.5
Change in Deposits	-32.0	-15.6	6.9	6.8	8.9	8.8	9.5	-1.1	-3.1	-0.8	-2.7	4.0	-17.0
Float from previous year[3]	-2.5	-4.4	-9.5	-8.4	-9.2	0.0	-8.0	0.0	0.0	0.0	0.0	0.0	0.0
Float at the end of the year[3]	4.4	9.5	9.2	0.0	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (external debt service)[4]	5.5	5.9	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Memorandum items:													
Primary balance after grants (excl. the one-off 2019 capital gains tax revenues)	-20.2	-25.6	-21.2	-2.7	-24.3	-9.1	5.4	0.0	12.8	30.1	35.4	66.7	109.2
Domestic primary balance[5]	64.6	-8.5	10.2	2.7	-30.6	9.7	8.0	23.6	27.5	51.6	58.5	96.8	134.8
Stock of Government Deposits	117.1	132.6	125.7	118.2	116.8	109.3	107.3	110.4	110.4	111.2	113.9	109.9	126.9

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

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

[2] Externally financed loans to SOEs.

[3] The float from previous year consists in other accounts receivable, the float at the end of the year consists in other account payable.

[4] Exceptional financing for external debt under renegotiation.

[5] Revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

Table 2b. Mozambique: Government Finances, 2019–28

(Percent of GDP)

	2019	2020	2021	2022			2023			2024		2025	2026	2027	2028
	Est.	Est.	Est.	ECF 1st Review	Est.	Difference	ECF 1st Review	Proj.	Difference	ECF 1st Review	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue [1]	29.0	23.9	25.3	25.7	23.4	-2.3	25.9	23.5	-2.3	25.7	24.6	25.3	25.7	25.1	24.4
Tax revenue	25.2	20.0	21.1	21.8	20.0	-1.8	21.9	20.1	-1.8	21.9	21.3	22.0	22.4	22.0	21.5
Taxes on income and profits	15.0	10.1	9.5	10.7	10.5	-0.2	10.1	10.9	0.8	10.2	11.3	11.6	12.0	11.3	10.7
Of which : Capital gains tax	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services [1]	7.7	7.3	8.7	8.2	6.8	-1.4	9.0	6.6	-2.4	8.6	7.0	7.2	7.1	7.1	7.1
Taxes on international trade	1.8	1.5	1.7	1.6	1.5	-0.1	1.5	1.5	0.0	1.5	1.5	1.5	1.6	1.6	1.6
Other taxes	0.7	1.0	1.2	1.2	1.1	-0.1	1.3	1.2	-0.2	1.6	1.5	1.6	1.6	2.0	2.2
Of which : Revenue from LNG	...	...	...	...	...		0.1	0.1	0.0	0.3	0.3	0.3	0.3	0.7	0.9
Nontax revenue	3.8	3.9	4.2	3.9	3.4	-0.5	4.0	3.4	-0.6	3.8	3.3	3.3	3.3	3.1	2.9
Total expenditure and net lending	28.2	32.9	30.9	33	32.3	-0.9	33.3	30.2	-3.1	30.7	28.6	28.0	28.0	25.9	23.9
Current expenditure	20.4	23.3	23.6	26.1	25.8	-0.36	24.8	23.6	-1.2	24.1	23.6	22.7	21.8	20.0	18.1
Compensation to employees	12.2	13.2	13.8	14.6	16.4	1.8	14.1	14.6	0.5	13.5	14.8	14.3	13.8	12.3	11.1
Of which : Social insurance	0.5	0.6	0.6	0.5	0.5	0.0	0.5	0.4	0.0	0.5	0.4	0.4	0.3	0.3	0.2
Goods and services	2.7	4.2	4.3	4.4	3.9	-0.5	4.5	2.9	-1.6	4.3	3.0	3.0	3.0	3.0	3.0
Interest on public debt	3.2	3.1	2.7	3.5	2.9	-0.6	3.2	3.2	0.0	3.3	3.0	2.7	2.3	2.2	1.7
Domestic	1.8	1.6	1.7	2.5	2.0	-0.6	2.3	2.4	0.1	2.5	2.2	2.0	1.6	1.6	1.3
External	1.4	1.5	1.0	1.0	0.9	0.0	0.9	0.8	-0.1	0.8	0.8	0.7	0.7	0.6	0.4
Subsidies and transfers	2.3	2.8	2.9	3.7	2.6	-1.1	3.0	2.9	-0.1	3.0	2.8	2.7	2.7	2.5	2.2
Capital expenditure	7.1	8.8	7.0	6.7	6.3	-0.4	8.1	6.3	-1.8	6.3	4.7	5.0	5.9	5.7	5.6
Domestically financed	3.5	4.5	3.3	2.7	2.9	0.2	3.4	2.4	-1.0	3.2	2.1	2.2	3.0	3.0	3.1
Externally financed	3.7	4.4	3.7	3.9	3.4	-0.6	4.7	4.0	-0.8	3.1	2.7	2.8	2.9	2.7	2.5
Net lending [2]	0.7	0.7	0.3	0.4	0.2	-0.2	0.4	0.3	-0.1	0.3	0.2	0.2	0.3	0.2	0.2
Statistical Discrepancy	0.2	-0.3	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unallocated revenue (+)/ expenditure (-)	-1.6	0.0	0.0	-0.7	0.1	0.8	...	...		...	...	...	...	...	...
Overall balance, before grants	-0.7	-9.3	-6.8	-8.2	-8.8	-0.6	-7.4	-6.7	0.7	-5.0	-4.0	-2.7	-2.3	-0.8	0.6
Grants received	1.0	3.6	2.1	4.4	3.9	-0.5	3.5	3.8	0.3	1.7	1.8	1.6	1.8	1.5	1.6
Project support	1.0	2.0	1.8	2.5	2.4	-0.1	2.7	2.5	-0.3	1.3	1.2	1.3	1.4	1.5	1.6
Budget support	0.0	1.5	0.3	2.0	1.5	-0.5	0.8	1.4	0.6	0.5	0.6	0.4	0.4	0.0	0.0
Primary balance, after grants	3.5	-2.6	-2.0	-0.2	-2.0	-1.7	-0.7	0.4	1.1	0.0	0.8	1.7	1.8	2.8	3.9
Overall balance, after grants	0.3	-5.7	-4.7	-3.7	-4.9	-1.2	-3.9	-2.8	1.1	-3.3	-2.2	-1.1	-0.5	0.6	2.1
Financing	-0.3	5.7	4.7	3.7	4.9	1.2	3.9	2.8	-1.1	3.3	2.2	1.1	0.5	-0.6	-2.1
Net external financing	1.8	2.4	1.0	0.6	0.0	-0.6	0.3	-0.1	-0.3	0.2	0.0	-0.1	-0.2	-0.3	-1.0
Disbursements	4.0	4.9	2.2	3.3	2.0	-1.3	2.8	2.1	-0.7	2.6	2.1	1.8	1.5	1.3	1.0
Project	2.7	2.3	2.0	2.2	0.9	-1.2	2.0	1.5	-0.5	1.8	1.5	1.6	1.5	1.2	0.9
Nonproject support	1.3	2.6	0.3	1.1	1.0	-0.1	0.8	0.6	-0.2	0.7	0.5	0.3	0.0	0.0	0.0
Of which budget support (including IMF)	0.8	2.1	0.0	0.9	1.0	0.1	0.6	0.6	-0.1	0.6	0.5	0.2	0.0	0.0	0.0
Amortization	-2.3	-2.5	-1.2	-2.6	-2.0	0.7	-2.6	-2.2	0.4	-2.3	-2.0	-1.9	-1.8	-1.6	-1.9
Net domestic financing	-2.8	2.2	3.2	3.8	5.0	1.1	3.7	3.5	-0.2	3.0	2.2	1.1	0.8	-0.3	-1.2
Of which: short term debt (net)	0.9	1.5	1.3	1.9	1.0	-0.9	-0.4	2.9	3.4	-2.0	-0.2	-0.4	0.5	-0.7	-0.2
Of which: issuances of medium term debt	2.4	5.3	3.7	2.8	4.2	1.4	5.3	1.8	-3.5	6.8	3.9	4.0	4.9	2.4	1.6
o.w. SDR allocation				1.2	1.1	-0.1	0.0	0.4	0.4						
Of which: amortization of medium term debt	-2.8	-3.0	-2.5	-1.5	-1.0	0.5	-1.9	-1.9	0.0	-1.8	-1.3	-2.5	-4.5	-2.3	-2.0
Change in Deposits	-3.3	-1.6	0.7	0.6	0.7	0.1	0.7	0.7	0.0	-0.1	-0.2	0.0	-0.1	0.2	-0.6
							0.0		0.0	0.0					
Float from previous year[3]	-0.3	-0.4	-0.9	-0.7	-0.8	0.0	0.0	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Float at the end of the year[3]	0.5	1.0	0.9	0.0	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (external debt service) [4]	0.6	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Primary balance after grants (excl. the one-off and 2019 capital gains tax revenues)	-2.1	-2.6	-2.0	-0.2	-2.0	-1.7	-0.7	0.4	1.1	0.0	0.8	1.7	1.8	2.8	3.9
Domestic primary balance[5]	6.7	-0.9	1.0	0.2	-2.5	-2.7	0.7	0.6	-0.2	1.6	1.7	2.9	3.0	4.1	4.8
Stock of Government Deposits	12.2	13.5	11.9	10.3	9.5	-0.8	8.5	7.6	-0.9	7.3	6.9	6.2	5.8	4.6	4.5

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

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

[2] Externally financed loans to SOEs.

[3] The float from previous year consists in other accounts payable, the float at the end of the year consistes in other account receivable.

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

[5] Revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

Table 2c. Mozambique: Government Finances, 2019–28

(Percent of non-LNG GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Est.	Est.	Est.			Proj.				
Total revenue [1]	29.0	23.9	25.3	23.5	24.3	25.6	26.5	26.9	28.5	29.8
Tax revenue	25.2	20.0	21.1	20.0	20.8	22.1	23.0	23.5	25.0	26.2
Taxes on income and profits	15.0	10.1	9.5	10.5	11.2	11.8	12.2	12.6	12.8	13.1
Of which : Capital gains tax	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services [1]	7.7	7.3	8.7	6.9	6.8	7.3	7.5	7.5	8.0	8.6
Taxes on international trade	1.8	1.5	1.7	1.5	1.6	1.6	1.6	1.7	1.8	1.9
Other taxes	0.7	1.0	1.2	1.1	1.2	1.5	1.7	1.7	2.3	2.7
Of which : Revenue from LNG	…	…	…	…	0.1	0.3	0.3	0.3	0.8	1.2
Nontax revenue	3.8	3.9	4.2	3.4	3.5	3.5	3.5	3.5	3.5	3.6
Total expenditure and net lending	28.2	32.9	30.9	32.4	31.2	29.8	29.4	29.4	29.4	29.1
Current expenditure	20.4	23.3	23.6	25.9	24.4	24.6	23.9	22.9	22.7	22.0
Compensation to employees	12.2	13.2	13.8	16.5	15.1	15.4	15.0	14.5	14.0	13.5
Of which : Social insurance	0.5	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Goods and services	2.7	4.2	4.3	3.9	3.0	3.1	3.2	3.2	3.4	3.7
Interest on public debt	3.2	3.1	2.7	2.9	3.3	3.2	2.9	2.4	2.5	2.1
Domestic	1.8	1.6	1.7	2.0	2.5	2.3	2.1	1.7	1.8	1.6
External	1.4	1.5	1.0	0.9	0.8	0.9	0.8	0.7	0.6	0.5
Subsidies and transfers	2.3	2.8	2.9	2.6	3.0	2.9	2.8	2.8	2.8	2.7
Capital expenditure	7.1	8.8	7.0	6.3	6.5	4.9	5.3	6.2	6.5	6.8
Domestically financed	3.5	4.5	3.3	2.9	2.4	2.2	2.3	3.2	3.4	3.8
Externally financed	3.7	4.4	3.7	3.4	4.1	2.8	2.9	3.1	3.1	3.0
Net lending [2]	0.7	0.7	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2
Statistical Discrepancy	0.2	-0.3	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unallocated revenue (+)/ expenditure (-)	-1.6	0.0	0.0	0.1	…	…	…	…	…	…
Overall balance, before grants	-0.7	-9.3	-6.8	-8.8	-6.9	-4.2	-2.8	-2.4	-0.9	0.7
Grants received	1.0	3.6	2.1	3.9	4.0	1.9	1.7	1.9	1.7	1.9
Project support	1.0	2.0	1.8	2.4	2.5	1.2	1.3	1.5	1.7	1.9
Budget support	0.0	1.5	0.3	1.5	1.4	0.7	0.4	0.4	0.0	0.0
Primary balance, after grants	3.5	-2.6	-2.0	-2.0	0.4	0.8	1.8	1.9	3.2	4.8
Overall balance, after grants	0.3	-5.7	-4.7	-4.9	-2.9	-2.3	-1.1	-0.5	0.7	2.6
Financing	-0.3	5.7	4.7	4.9	2.9	2.3	1.1	0.5	-0.7	-2.6
Net external financing	1.8	2.4	1.0	0.0	-0.1	0.1	-0.1	-0.3	-0.3	-1.2
Disbursements	4.0	4.9	2.2	2.0	2.2	2.1	1.9	1.6	1.4	1.2
Project	2.7	2.3	2.0	0.9	1.6	1.6	1.6	1.6	1.4	1.1
Nonproject support	1.3	2.6	0.3	1.0	0.6	0.6	0.3	0.0	0.0	0.0
Of which budget support (including IMF)	0.8	2.1	0.0	1.0	0.6	0.5	0.3	0.0	0.0	0.0
Amortization	-2.3	-2.5	-1.2	-2.0	-2.3	-2.1	-2.0	-1.9	-1.8	-2.3
Net domestic financing	-2.8	2.2	3.2	5.0	3.6	2.3	1.2	0.8	-0.4	-1.4
Of which: short term debt (net)	0.9	1.5	1.3	1.0	3.0	-0.2	-0.4	0.5	-0.8	-0.2
Of which: issuances of medium term debt	2.4	5.3	3.7	4.2	1.8	4.0	4.2	5.1	2.8	1.9
o.w. SDR allocation				1.1						
Of which: amortization of medium term debt	-2.8	-3.0	-2.5	-1.0	-1.9	-1.3	-2.6	-4.7	-2.6	-2.4
Change in Deposits	-3.3	-1.6	0.7	0.7	0.7	-0.2	0.0	-0.1	0.2	-0.7
Float from previous year [3]	-0.3	-0.4	-0.9	-0.8	-0.6	0.0	0.0	0.0	0.0	0.0
Float at the end of the year [3]	0.5	1.0	0.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (external debt service) [4]	0.6	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance after grants (excl. the one-off and 2019 capital gains tax revenues)	-2.1	-2.6	-2.0	-2.0	0.4	0.8	1.8	1.9	3.2	4.8
Domestic primary balance [5]	6.7	-0.9	1.0	-2.5	0.6	1.8	3.0	3.1	4.7	5.9
Stock of Government Deposits	12.2	13.5	11.9	9.5	7.6	6.9	6.2	5.8	4.6	4.5

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

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

[2] Externally financed loans to SOEs.

[3] The float from previous year consists in other accounts payable, the float at the end of the year consistes in other account receivable.

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

[5] Revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

Table 3. Mozambique: Monetary Survey, 2020–2028
(Billions of Meticais; unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Projections					
Bank of Mozambique									
Net foreign assets	250.7	158.2	121.8	121.3	136.3	167.6	214.0	266.8	397.9
(US$ billions)	3.3	2.5	1.9	1.9	2.0	2.3	2.9	3.4	5.0
Net international reserves	261.6	186.8	149.0	149.0	165.3	198.1	245.8	299.7	432.0
(US$ billions)	3.5	2.9	2.3	2.3	2.4	2.8	3.3	3.9	5.4
Net domestic assets	-84.4	-15.7	21.6	145.2	154.9	156.8	149.9	150.2	79.0
Credit to government (net)	-67.9	-72.6	-37.8	-22.4	-24.9	-25.0	-27.1	-22.6	-39.0
Credit to banks (net)	-105.3	-81.0	-125.7	-96.5	-108.8	-139.7	-183.7	-240.5	-354.6
Credit to the economy	5.0	6.0	6.6	12.2	13.3	14.9	16.7	19.1	21.8
Other items (net; assets +)	83.8	131.9	178.5	251.9	275.2	306.6	343.9	394.1	450.8
Reserve money	166.3	142.5	143.4	266.5	291.2	324.4	363.9	417.0	476.9
Currency in circulation	68.7	72.7	80.7	85.6	93.3	104.5	116.0	132.2	150.7
Bank Deposits (reserves) in BM	97.6	69.7	62.6	180.9	197.9	219.9	247.9	284.8	326.2
Commercial Banks									
Net foreign assets	62.5	84.0	81.5	83.7	88.2	98.5	106.8	137.8	173.8
(US$ billions)	0.8	1.3	1.3	1.3	1.3	1.4	1.4	1.8	2.2
Net domestic assets	468.5	454.2	501.7	529.4	574.2	638.2	703.5	794.1	897.0
Banks' reserves	114.5	87.0	84.5	199.3	218.0	242.4	272.9	313.2	358.6
Credit to central bank (net)	103.2	78.7	121.6	96.5	108.8	139.7	183.7	240.5	354.6
Credit to government (net)	128.1	174.9	175.4	169.5	168.9	168.2	167.6	167.0	166.5
Credit to the economy	254.2	266.6	276.9	288.3	323.2	355.4	390.6	437.0	477.6
Of which: in foreign currency	45.2	41.2	45.5	47.3	53.1	58.4	64.1	71.8	78.4
(billions of U.S. dollars)	0.6	0.6	0.7	0.7	0.8	0.8	0.9	0.9	1.0
Other items (net; assets +)	-131.6	-153.0	-156.7	-224.2	-244.6	-267.5	-311.2	-363.6	-460.3
Deposits	530.9	538.2	583.2	613.1	662.4	736.6	810.3	931.9	1,070.8
Demand and savings deposits	331.4	327.8	342.8	360.4	389.4	433.0	476.3	547.8	629.5
Time deposits	199.6	210.4	240.4	252.7	273.0	303.6	334.0	384.1	441.3
Monetary Survey									
Net foreign assets	313.2	242.2	203.3	205.0	224.5	266.0	320.8	404.5	571.7
(US$ billions)	4.2	3.8	3.2	3.1	3.3	3.7	4.3	5.2	7.1
Net domestic assets	270.5	352.5	443.3	475.3	511.2	552.6	580.5	631.1	617.4
Domestic credit	319.4	375.0	421.1	447.6	480.6	513.4	547.8	600.6	626.9
Credit to government (net)	60.2	102.3	137.6	147.1	144.0	143.2	140.5	144.5	127.5
Credit to the economy	259.2	272.6	283.5	300.5	336.6	370.2	407.3	456.1	499.5
Of which: in foreign currency	45.2	41.2	45.5	49.3	55.3	60.8	66.9	74.9	82.0
Other items (net; assets +)	-49.0	-22.5	22.2	27.7	30.6	39.1	32.7	30.5	-9.6
Money and quasi money (M3)	583.7	594.6	646.6	680.2	735.6	818.6	901.3	1,035.6	1,189.1
Foreign currency deposits	157.5	144.4	146.1	149.5	157.2	170.9	182.3	216.0	254.7
(US$ billions)	2.1	2.3	2.3	2.3	2.3	2.4	2.4	2.8	3.2
M2	426.2	450.3	500.5	530.7	578.4	647.7	719.0	819.6	934.4
Currency outside banks	52.7	56.4	63.3	67.2	73.2	82.0	91.0	103.7	118.3
Domestic currency deposits	373.5	393.9	437.2	463.5	505.2	565.8	628.0	715.9	816.1
Memorandum Items									
12-month percent change									
Reserve money	9.0	-14.3	0.6	85.9	9.3	11.4	12.2	14.6	14.4
M2	24.0	1.4	11.2	6.0	9.0	12.0	11.0	14.0	14.0
M3	23.3	1.9	8.7	5.2	8.1	11.3	10.1	14.9	14.8
Credit to the economy	13.1	5.2	4.0	6.0	12.0	10.0	10.0	12.0	9.5
Money multiplier (M2/reserve money)	2.56	3.16	3.49	1.99	1.99	2.00	1.98	1.97	1.96
Velocity (GDP/M2)	2.31	2.34	2.44	2.67	2.76	2.76	2.75	2.88	2.99
Nominal GDP	983	1,053	1,223	1,414	1,594	1,790	1,977	2,364	2,796
Nominal GDP growth	2.2	7.1	16.1	15.6	12.7	12.3	10.4	19.6	18.2

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

Table 4a. Mozambique: Balance of Payments, 2019–28
(Millions of U.S. dollars; unless otherwise indicated)

	2019	2020	2021	2022	2022	2023	2023	2024	2024	2025	2026	2027	2028
		Est.		1st review	Est.	1st review	Proj.	1st review	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-2,946	-3,900	-3,601	-7,408	-6,295	-2,895	-3,408	-7,779	-9,295	-11,053	-12,144	-9,558	-7,097
Trade balance for goods	-2,084	-2,294	-2,252	-5,567	-5,056	-1,028	-1,570	-1,516	-2,857	-3,102	-3,276	-636	1,930
Of which: Megaprojects	1,874	1,730	3,238	420	725	4,764	5,214	4,354	3,984	3,908	3,884	6,799	9,707
Exports, f.o.b.	4,669	3,588	5,583	7,756	8,281	7,565	8,153	8,607	8,447	8,909	9,250	12,054	14,682
Megaprojects	3,278	2,504	4,032	5,982	6,172	5,639	6,205	6,593	6,364	6,618	6,740	9,306	11,615
Other	1,390	1,084	1,551	1,774	2,109	1,926	1,948	2,014	2,083	2,291	2,510	2,749	3,067
Imports, f.o.b.	6,753	5,883	7,834	13,323	13,337	8,593	9,723	10,123	11,304	12,011	12,526	12,690	12,752
Megaprojects	1,404	774	794	5,562	5,448	875	991	2,240	2,380	2,710	2,856	2,506	1,908
Other	5,348	5,109	7,040	7,761	7,890	7,718	8,732	7,883	8,924	9,300	9,671	10,184	10,844
Services (net)	-1,831	-1,997	-1,736	-2,086	-1,447	-1,629	-1,296	-5,768	-5,349	-6,626	-7,123	-6,292	-4,799
Megaprojects	-1,718	-1,632	-1,363	-1,580	-1,300	-1,056	-1,096	-5,153	-5,073	-6,267	-6,677	-5,625	-4,057
Other	-112	-365	-372	-506	-147	-573	-201	-600	-266	-338	-415	-605	-649
Primary income (net)	-276	-287	-340	-575	-924	-848	-1,707	-1,063	-2,138	-2,375	-2,852	-3,703	-5,375
Of which: Interest on public debt (net) [1]	-216	-193	-161	-175	-181	-205	-212	-205	-250	-245	-252	-528	-256
Of which: Megaprojects (Net interest and dividends)	0	0	0	-187	-135	-348	-801	-551	-1,062	-1,218	-1,633	-2,158	-3,724
Secondary income (net)	1,245	678	726	821	1,132	610	1,165	568	1,049	1,050	1,108	1,072	1,147
Of which: External grants	79	250	209	491	392	278	428	224	274	243	271	205	246
Capital Account Balance	106	135	64.9	153	61	161	167	182	189	213	250	294	347
Financial Account Balance	4,671	3,848	2,538	6,562	5,977	2,764	3,195	7,845	9,240	11,184	12,420	9,846	8,274
Net foreign direct investment	3,410	3,035	5,102	3,055	1,975	1,490	936	2,900	3,266	3,987	4,399	2,471	3,309
Megaprojects	954	2,568	3,080	2,269	1,329	623	227	2,002	2,224	2,359	2,524	311	791
Other	2,456	466	2,022	785	647	868	708	898	1,042	1,628	1,875	2,160	2,518
Borrowing (net) by the general government	413	7	31	-92	-248	-93	-161	-92	-131	-96	-88	-360	-822
Disbursements	698	326	295	432	155	436	340	443	370	408	416	395	338
Repayments [2]	284	319	264	523	403	529	501	535	502	504	504	755	1,160
Loans (net) by the nonfin private sector	904	889	-1,046	717	658	570	508	640	588	681	783	865	928
Megaprojects	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	904	889	-1,046	717	658	570	508	640	588	681	783	865	928
Other financial flows (net) [3]	-57	-82	-1,548	2,882	3,592	797	1,912	4,397	5,518	6,612	7,326	6,869	4,859
Of which: Megaproject trade credit (net)		-3,708	-5,302	1,643	2,648	-2,126	-2,039	-2,054	-1,789	-2,198	-2,706	-2,277	-2,804
Of which: net SDR	-1	6	300	0	-240	0	0	0	0	0	0	0	0
Net Errors and Omissions	-1,026	102	399	0	-323	0	0	0	0	0	0	0	0
Overall Balance	804	184	-599	-693	-580	31	-46	248	135	344	526	581	1,524
Financing	-804	-184	599	693	580	-31	46	-248	-135	-344	-526	-581	-1,524
Reserve assets (- = increase)	-1,211	-726	405	564	424	-127	-50	-360	-245	-351	-441	-496	-1,432
Of which: SDR allocation (- = increase)	17	0	-305	0	259	0	0	0	0	0	0	0	0
Net use of credit	73	281	-26	129	124	97	96	112	111	7	-85	-86	-92
Of which: IMF disbursements/Financing gap (+)	118	309	0	155	150	123	122	124	122	61	0	0	0
Of which: Repayments to the IMF (-)	-44	-28	-26	-26	-26	-26	-26	-11	-11	-54	-85	-86	-92
Exceptional financing [4]	334	261	220	0	32	0	0	0	0	0	0	0	0
Of which : IMF CCRT grants		28	26										
Memorandum items:													
Current account balance (Percent of GDP)	-19.1	-27.6	-22.4	-41	-32.9	-15	-15.5	-35	-38.9	-43.2	-44.9	-30.7	-20.0
excl. megaprojects (MP) (Percent of GDP)	-25.0	-28.2	-34.1	-34	-29.5	-32	-30.7	-29	-29.8	-29.1	-28.4	-27.4	-25.1
excl. MP and indirect MP imports (Percent of GDP) [5]	-17.0	-18.2	-21.9	-16	-20.1	-19	-21.9	-17	-21.3	-20.6	-20.0	-19.7	-18.0
Net foreign assets	3,472	3,347	2,478	1,800	1,907	1,831	1,862	2,079	1,996	2,340	2,866	3,447	4,971
Net international reserves [6]	3,605	3,493	2,927	2,234	2,333	2,265	2,288	2,512	2,422	2,766	3,292	3,873	5,397
Gross international reserves	3,884	4,070	3,470	2,905	2,888	3,031	2,939	3,389	3,184	3,536	3,977	4,464	5,896
Months of next year's imports of goods and services	5.4	4.7	2.6	3.1	2.9	2.1	2.0	2.2	1.9	2.0	2.4	2.6	3.7
Months of projected imports of G&S (under full debt service)	5.4	4.7	2.6	3.1	2.9	2.1	2.0	2.2	1.9	2.0	2.4	2.8	4.1
Months of next year's imports of goods and services, excl. MP	7.5	5.9	4.5	3.7	3.4	3.8	3.4	4.2	3.5	3.7	3.9	4.4	5.5
Percent of broad money (M2)	66.2	71.5	49.2	41	36.9	39	36.1	41	37.6	39.1	41.3	42.1	50.5

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

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

[2] Includes repayments of previously undisclosed loans.

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

[4] Exceptional financing consists of external debt service arrears on defaulted loans and IMF CCRT grants.

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

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

Table 4b. Mozambique: Balance of Payments, 2019–28
(Percent of GDP)

	2019	2020	2021	2022		2023		2024		2025		2026		2027		2028
		Est.		1st review	Est.	1st review	Proj.	1st review	Proj.	1st review	Proj.	1st review	Proj.	1st review	Proj.	Proj.
Current Account Balance	-19.1	-27.6	-22.4	-41.5	-32.9	-14.7	-15.5	-35.5	-38.9	-38.9	-43.2	-40.9	-44.9	-27.1	-30.7	-20.0
Trade balance for goods	-13.5	-16.2	-14.0	-31.2	-26.4	-5.2	-7.2	-6.9	-12.0	-6.8	-12.1	-7.5	-12.1	2.2	-2.0	5.4
Of which: Megaprojects	12.2	12.2	20.1	2.4	3.8	24.1	23.8	19.9	16.7	18.4	15.3	17.0	14.4	23.9	21.9	27.3
Exports, f.o.b.	30.3	25.3	34.7	43.4	43.2	38.3	37.2	39.3	35.3	38.8	34.8	37.2	34.2	40.6	38.8	41.3
Megaprojects	21.3	17.7	25.1	33.5	32.2	28.6	28.3	30.1	26.6	29.7	25.9	28.1	24.9	32.2	29.9	32.7
Other	9.0	7.7	9.6	9.9	11.0	9.8	8.9	9.2	8.7	9.0	8.9	9.0	9.3	8.4	8.8	8.6
Imports, f.o.b.	43.9	41.6	48.7	74.6	69.6	43.5	44.3	46.2	47.3	45.5	46.9	44.6	46.3	38.4	40.8	35.9
Megaprojects	9.1	5.5	4.9	31.2	28.4	4.4	4.5	10.2	10.0	11.3	10.6	11.1	10.6	8.3	8.1	5.4
Other	34.8	36.1	43.8	43.5	41.2	39.1	39.8	36.0	37.3	34.2	36.3	33.5	35.8	30.1	32.8	30.5
Services (net)	-11.9	-14.1	-10.8	-11.7	-7.6	-8.3	-5.9	-26.3	-22.4	-29.9	-25.9	-30.1	-26.4	-23.0	-20.2	-13.5
Megaprojects	-11.2	-11.5	-8.5	-8.9	-6.8	-5.4	-5.0	-23.5	-21.2	-27.1	-24.5	-27.0	-24.7	-19.6	-18.1	-11.4
Other	-0.7	-2.6	-2.3	-2.8	-0.8	-2.9	-0.9	-2.7	-1.1	-2.7	-1.3	-2.9	-1.5	-3.2	-1.9	-1.8
Primary income (net)	-1.8	-2.0	-2.1	-3.2	-4.8	-4.3	-7.8	-4.8	-8.9	-4.4	-9.3	-5.5	-10.6	-8.3	-11.9	-15.1
Of which: Interest on public debt (net) [1]	-1.4	-1.4	-1.0	-1.0	-0.9	-1.0	-1.0	-0.9	-1.0	-0.9	-1.0	-1.0	-0.9	-1.8	-1.7	-0.7
Of which: Megaprojects (net Interest and dividends)	0.0	0.0	0.0	-1.0	-0.7	-1.8	-3.7	-2.5	-4.4	-2.2	-4.8	-3.2	-6.0	-5.1	-6.9	-10.5
Secondary income (net)	8.1	4.8	4.5	4.6	5.9	3.1	5.3	2.6	4.4	2.1	4.1	2.2	4.1	2.0	3.4	3.2
Of which: External grants	0.5	1.8	1.3	2.8	2.0	1.4	2.0	1.0	1.1	0.6	0.9	0.7	1.0	0.7	0.7	0.7
Capital Account Balance	0.7	1.0	0.4	0.9	0.3	0.8	0.8	0.8	0.8	0.9	0.8	1.0	0.9	1.0	0.9	1.0
Financial Account Balance	30.3	27.2	15.8	36.8	31.2	14.0	14.6	35.8	38.7	39.3	43.7	43.3	45.9	27.8	31.7	23.3
Net foreign direct investment	22.2	21.4	31.7	17.1	10.3	7.6	4.3	13.2	13.7	13.3	15.6	12.4	16.3	4.1	7.9	9.3
Megaprojects	6.2	18.1	19.1	12.7	6.9	3.2	1.0	9.1	9.3	9.3	9.2	9.3	9.3	1.1	1.0	2.2
Other	16.0	3.3	12.6	4.4	3.4	4.4	3.2	4.1	4.4	4.0	6.4	3.1	6.9	3.0	6.9	7.1
Borrowing (net) by the general government	2.7	0.0	0.2	-0.5	-1.3	-0.5	-0.7	-0.4	-0.5	-0.3	-0.4	-0.4	-0.3	-1.4	-1.2	-2.3
Disbursements	4.5	2.3	1.8	2.4	0.8	2.2	1.6	2.0	1.5	1.9	1.6	1.8	1.5	1.2	1.3	1.0
Repayments [2]	1.8	2.3	1.6	2.9	2.1	2.7	2.3	2.4	2.1	2.3	2.0	2.1	1.9	2.6	2.4	3.3
Loans (net) by the nonfin private sector	5.9	6.3	-6.5	4.0	3.4	2.9	2.3	2.9	2.5	3.1	2.7	3.3	2.9	3.1	2.8	2.6
Megaprojects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	5.9	6.3	-6.5	4.0	3.4	2.9	2.3	2.9	2.5	3.1	2.7	3.3	2.9	3.1	2.8	2.6
Other financial flows (net) [3]	-0.4	-0.6	-9.6	16.1	18.7	4.0	8.7	20.1	23.1	23.2	25.8	27.9	27.1	22.1	22.1	13.7
Net Errors and Omissions	-6.7	0.7	2.5	0.0	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	5.2	1.3	-3.7	-3.9	-3.0	0.2	-0.2	1.1	0.6	1.2	1.3	3.4	1.9	1.6	1.9	4.3
Financing	-5.2	-1.3	3.7	3.9	3.0	-0.2	0.2	-1.1	-0.6	-1.2	-1.3	-3.4	-1.9	-1.6	-1.9	-4.3
Reserve assets (- = increase)	-7.9	-5.1	2.5	3.2	2.2	-0.6	-0.2	-1.6	-1.0	-1.3	-1.4	-3.1	-1.6	-1.4	-1.6	-4.0
Net use of credit	0.5	2.0	-0.2	0.7	0.6	0.5	0.4	0.5	0.5	0.0	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
Of which: IMF disbursements/Financing gap (+)	0.8	2.2	0.0	0.9	0.8	0.6	0.6	0.6	0.5	0.3	0.2	0.0	0.0	0.0	0.0	0.0
Of which: Repayments to the IMF (-)	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Exceptional financing [4]	2.2	1.8	1.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which : IMF CCRT grants	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

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

[2] Includes repayments of previously undisclosed loans.

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

[4] Exceptional financing consists of external debt service arrears on defaulted loans and IMF CCRT grants. The CCRT grant for the debt service falling due in the 12 months from April 14, 2021 is subject to the availability of resources under the CCRT.

Table 5. Mozambique: External Financing Needs and Sources, 2021–28
(Millions of U.S. dollars; unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028
	Prel.	Prel.	Proj.					
Financing Requirements	**4,100**	**7,116**	**4,363**	**10,082**	**11,854**	**13,004**	**10,604**	**8,595**
Current account deficit excl. grants	3,810	6,687	3,836	9,569	11,296	12,415	9,763	7,343
of which: Megaprojects	*-1,874*	*712*	*-3,315*	*2,153*	*3,580*	*4,428*	*986*	*-1,916*
of which: Public sector interest payments [1/]	*161*	*181*	*212*	*250*	*245*	*252*	*528*	*256*
Public sector loan amortization	264	403	501	502	504	504	755	1,160
Interest and amortization payments on existing Fund loans	26	26	26	11	54	85	86	92
Financing Sources	**4,074**	**6,639**	**3,941**	**9,809**	**11,692**	**12,904**	**10,604**	**8,595**
Capital account balance	65	61	167	189	213	250	294	347
Net foreign direct investment	5,102	1,975	936	3,266	3,987	4,399	2,471	3,309
of which: Megaprojects	*3,080*	*1,329*	*227*	*2,224*	*2,359*	*2,524*	*311*	*791*
Public sector loan disbursements	295	155	340	370	408	416	395	338
Public sector grants	209	64	128	124	142	171	205	246
Non-financial private sector loans (net)	-1,046	658	508	588	681	783	865	928
of which: Megaprojects	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other capital flows (net)	-1,149	3,269	1,912	5,518	6,612	7,326	6,869	4,859
Change in reserves (+ decrease)	405	424	-50	-245	-351	-441	-496	-1,432
Exceptional financing [2/]	193	32	0	0	0	0	0	0
Financing Gap	**26**	**478**	**422**	**272**	**161**	**100**	**0**	**0**
CCRT	26	0	0	0	0	0	0	0
Public sector program grants	0	328	300	150	100	100	0	0
of which: World Bank	*0*	*285*	*300*	*150*	*100*	*100*	*0*	*0*
of which: EU	*0*	*43*	*0*	*0*	*0*	*0*	*0*	*0*
Financing from IMF (RCF/ECF disbursement)	0	150	122	122	61	0	0	0

Sources: Mozambican authorities and IMF staff estimates and projections.
[1] Includes payments on EMATUM bond but excludes interest on Fund loans.
[2] Exceptional financing consists of external debt service arrears on defaulted loans.

Table 6. Mozambique: Financial Soundness Indicators for Banking Sector[1/], 2019–23

(In percent; unless otherwise indicated)

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Capital Adequacy																	
Regulatory capital to risk-weighted assets	23.5	24.0	26.2	28.8	25.2	25.2	26.5	26.1	26.2	25.6	27.9	26.2	25.5	26.8	26.7	26.9	25.1
Regulatory Tier I capital to risk-weighted assets	22.4	22.9	25.8	28.7	25.1	25.4	27.0	27.2	27.2	26.6	28.5	26.7	26.0	27.3	27.2	27.5	25.6
Capital (net worth) to assets	11.4	11.4	12.3	12.7	11.5	11.4	12.1	11.8	11.9	11.6	12.9	12.9	11.9	12.5	13.0	12.5	12.3
Tier 1 Capital to total Assets	10.9	10.9	12.1	12.6	11.5	11.5	12.3	12.3	12.3	12.0	13.1	13.1	12.1	12.8	13.2	12.8	12.5
Asset Quality																	
Nonperforming loans to gross loans [1]	11.5	10.6	10.1	10.2	10.3	12.6	11.8	9.8	9.8	9.9	9.8	10.2	9.2	10.0	9.3	9.0	10.4
Total provision to NPLs	99.5	96.2	103.2	93.5	84.5	78.4	82.5	78.3	81.0	80.8	77.9	73.7	75.5	73.1	79.6	77.1	75.9
NPLs net of provisions to total capital	2.9	3.6	2.9	3.9	4.4	12.2	9.6	9.7	8.7	8.9	8.5	9.9	9.4	10.6	8.9	8.5	9.1
NPLs net of provisions to capital and reserves	1.8	2.2	1.9	2.6	2.8	7.7	6.3	6.6	5.9	5.8	5.9	6.8	6.5	7.7	6.4	5.8	6.2
Specific provisions to NPLs	93.4	90.9	91.8	88.7	89.0	75.0	78.8	74.1	76.4	75.3	73.3	68.5	70.7	68.0	72.0	71.8	71.6
Earnings and Profitability																	
Return on Equity	33.7	27.3	26.7	24.9	25.5	20.2	20.1	18.7	24.3	24.6	23.1	17.5	18.3	18.2	17.8	19.1	22.1
Return on Assets	3.7	3.1	3.1	3.0	3.0	2.4	2.4	2.2	2.9	2.9	2.8	3.9	4.5	4.5	4.4	4.7	5.5
Interest margin to gross income	64.8	68.3	67.9	67.6	66.8	68.5	67.2	65.9	66.2	64.9	66.6	64.1	66.8	67.1	68.0	68.5	70.5
Noninterest expenses to gross income	54.0	59.0	58.3	59.2	62.1	62.5	62.6	62.1	60.2	57.1	57.8	53.7	53.6	53.3	53.7	53.9	50.9
Personnel expenses to noninterest expenses	44.9	45.6	45.6	45.2	44.2	44.3	45.7	45.9	43.6	44.3	44.0	44.5	44.4	43.7	44.4	43.7	43.0
Trading and fee income to gross income	16.7	11.5	11.1	11.1	11.9	11.3	11.6	12.0	13.3	13.5	12.7	14.9	11.5	11.1	10.9	10.8	10.0
Fee and commission to total income	17.7	19.9	20.9	21.4	21.5	20.5	20.5	21.2	22.5	22.1	22.6	21.7	21.9	21.8	21.6	21.4	19.9
Liquidity																	
Liquid assets (core) to total assets	11.9	11.8	13.2	14.3	12.1	11.6	12.5	13.8	13.2	11.9	12.0	18.1	16.9	16.4	16.4	15.4	10.6
Liquid assets (broad measure) to total assets	37.2	37.5	39.8	39.3	40.7	40.5	40.6	42.5	43.6	41.2	41.7	47.9	49.2	48.6	53.1	50.5	38.0
Liquid assets (core) to total deposits	17.4	17.4	19.4	20.7	17.5	16.5	17.7	19.1	18.6	16.9	17.1	25.5	23.8	23.1	23.3	21.1	14.8
Liquid assets (core) to demand deposits	27.8	28.1	31.7	33.3	27.6	26.7	29.2	30.6	30.4	26.6	27.9	42.0	40.8	39.5	40.4	35.2	26.3
Liquid assets (core) to short term liabilities	17.0	17.4	19.1	20.4	17.2	16.5	17.3	19.0	17.9	16.5	16.7	25.7	24.5	23.3	22.0	21.3	14.8
Liquid assets (broad measure) to short term liabilities	53.0	55.4	57.3	56.1	57.8	57.8	56.0	58.5	59.0	56.9	58.4	68.3	71.5	68.8	71.0	69.8	53.2
Customer deposits to total (noninterbank) loans	170.4	173.8	177.1	182.7	186.4	186.4	186.1	204.3	203.8	195.8	192.8	199.1	208.8	208.0	193.8	212.4	209.4
Sensitivity to Market Risk																	
FX loans to FX deposits 1/	49.4	48.8	52.3	47.8	47.1	46.2	48.5	37.1	43.5	42.3	42.6	34.1	36.2	35.9	36.1	33.5	34.0
FX loans to total loans	22.2	21.1	21.3	19.9	20.9	21.1	20.5	16.9	18.1	18.0	18.2	15.6	16.8	17.0	14.4	14.5	16.3
FX liabilities to total liabilities	25.3	23.9	22.9	23.4	25.3	26.3	25.4	26.2	23.8	23.2	23.1	23.6	24.1	25.0	23.0	23.3	23.0

Source: Bank of Mozambique (BM).

1/ Includes deposits at parent banks.

Table 7. Mozambique: Risk Assessment Matrix[1/]

Source of Risks	Likelihood	Horizon	Impact	Policy Response
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium		High	Well-targeted subsidies for the needy and users of goods subject to higher prices.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium	ST, MT	High	Address infrastructure gaps. • Develop social safety nets. • Investment (public and private) in climate resilient infrastructure and agriculture. • Strengthen institutions to manage climate change risk.
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	High		High	• Well-targeted subsidies for the needy and users of goods subject to higher prices.
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High		High	Strengthen social safety nets. • Improve governance, transparency and accountability; fight corruption. •Avoid early withdrawal of financial support to households and companies. • Anchor macroeconomic stability to mobilize private investment, through appropriate fiscal and monetary policy and structural reforms. • Diversify exports products and partners. • Improving the business environment to boost productivity and competitiveness.
Deterioration in security situation in Mozambique.	High	ST, MT	High	• Enhance security and socioeconomic policies in northern region. • Continue drive for durable peace and implementation of reforms.
Abrupt growth slowdown in China: Greater-than-expected economic disruptions from COVID resurgence, rising geopolitical tensions, and/or a sharper-than-expected slowdown in the property sector disrupt economic activity.	Medium	ST, MT	Medium	
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	Medium		Medium	

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Table 7. Mozambique: Risk Assessment Matrix (concluded)

Source of Risks	Likelihood	Horizon	Impact	Policy Response
Fiscal risks materialize (contingent liabilities from SOEs, revenue shortfalls, expenditure overruns).	High	ST, MT	High	• Strengthening cash management and commitment controls. • Restructuring SOEs in financial distress. • Adoption of a reliable medium-term fiscal framework.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium		High	• Strengthen the resolution and crisis management frameworks. • Enhance regulation and supervision.
Delay in implementation of LNG investments.	Medium	MT	High	• Structural reform to support economic diversification and inclusive growth.

Table 8. Mozambique: Indicators of Capacity to Repay the Fund

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund Obligations Based on Existing Credit											
(in millions of SDRs)											
Principal	18.930	8.520	39.760	62.480	69.300	85.200	76.680	45.440	22.720	15.900	0.000
Charges and interest	5.820	11.590	11.580	11.590	11.590	11.590	11.580	11.590	11.590	11.590	11.580
Obligations to the Fund Based on Existing and Prospective Credit[1]											
(in millions of SDRs)											
Principal	18.930	8.520	39.760	62.480	69.300	89.740	99.400	86.340	68.160	61.350	40.900
Charges and interest	8.220	11.270	11.260	11.270	11.270	11.270	11.260	11.270	11.270	11.270	11.260
Obligations to the Fund from Existing and Prospective Credit											
In millions of U.S. dollars	33.008	26.804	68.706	99.535	109.087	131.038	119.490	77.209	46.450	37.217	15.677
In percent of gross international reserves	1.143	0.944	2.226	2.893	2.827	2.994	2.055	1.115	0.648	0.551	0.224
In percent of exports of goods and services	0.399	0.328	0.812	1.115	1.186	1.094	0.818	0.479	0.240	0.175	0.071
In percent of GDP	0.172	0.122	0.288	0.390	0.404	0.422	0.337	0.198	0.104	0.077	0.031
In percent of quota	10.893	8.851	22.597	32.601	35.603	42.601	38.847	25.101	15.101	12.099	5.074
Outstanding Fund Credit Based on Existing Drawings (end-of-period)											
In millions of SDRs	426.000	417.480	377.720	315.240	245.940	160.740	84.060	38.620	15.900	0.000	0.000
In percent of quota	187.500	183.750	166.250	138.750	108.250	70.750	37.000	17.000	7.000	0.000	0.000
Outstanding Fund Credit based on Existing and Prospective Drawings (end-of-period)											
In millions of SDRs	516.890	599.260	604.940	542.460	473.160	383.420	284.020	197.680	129.510	68.170	27.270
In millions of U.S. dollars	689.351	798.728	809.561	728.954	638.097	519.088	384.516	267.626	175.335	92.291	36.919
In percent of gross international reserves	23.866	28.118	26.224	21.187	16.537	11.862	6.615	3.865	2.448	1.366	0.527
In percent of exports of goods and services	8.325	9.778	9.566	8.169	6.937	4.332	2.633	1.659	0.908	0.434	0.168
In percent of GDP	3.599	3.649	3.393	2.853	2.365	1.671	1.083	0.685	0.394	0.190	0.073
In percent of quota	227.500	263.760	266.260	238.760	208.260	168.760	125.010	87.010	57.000	30.000	12.000
Use of IMF Credit											
Net Use of IMF Credit (in millions of SDRs)	71.940	82.360	5.680	-62.480	-69.300	-89.740	-99.390	-86.330	-68.160	-61.350	-40.900
Disbursements (in millions of SDRs)	90.880	90.880	45.440	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Repayments (in millions of SDRs)	18.940	8.520	39.760	62.480	69.300	89.740	99.390	86.330	68.160	61.350	40.900
Memorandum Items:											
Nominal GDP (in billions of U.S. dollars)	19.157	21.891	23.858	25.547	26.986	31.072	35.489	39.054	44.510	48.471	50.840
Exports of goods and services (in billions of U.S. dollars)	8.281	8.169	8.462	8.923	9.199	11.981	14.604	16.135	19.320	21.290	21.934
Gross international reserves (in billions of U.S. dollars)	2.888	2.841	3.087	3.441	3.859	4.376	5.813	6.924	7.163	6.754	7.000
Quota (in millions of SDRs)	227.2	227.2	227.2	227.2	227.2	227.2	227.2	227.2	227.2	227.2	228.2

Sources: IMF staff estimates, and projections.

[1] Assumes access of 50 of the quota in 2022, 40 in 2023, 40 in 2024, and 20 in 2025, and semi-annual disbursements from 2022.

Table 9. Mozambique: Schedule of Disbursements Under the ECF Arrangement, 2022–25

	Amount (Percent of Quota)	Amount (Million SDR)	Available Date	Conditions for Disbursement
	30.0	68.16	May 9, 2022	Executive Board approval of the three year ECF arrangement
	20.0	45.44	September 15, 2022	Observance of the performance criteria for June 30, 2022 and completion of the first review under the arrangement
	20.0	45.44	March 15, 2023	Observance of the performance criteria for December 31, 2022 and completion of the second review under the arrangement
	20.0	45.44	September 15, 2023	Observance of the performance criteria for June 30, 2023 and completion of the third review under the arrangement
	20.0	45.44	March 15, 2024	Observance of the performance criteria for December 31, 2023 and completion of the fourth review under the arrangement
	20.0	45.44	September 15, 2024	Observance of the performance criteria for June 30, 2024 and completion of the fifth review under the arrangement
	20.0	45.44	March 15, 2025	Observance of the performance criteria for December 31, 2024 and completion of the sixth review under the arrangement
Total	***150.0***	***340.8***		

Source: IMF Staff estimates and projections.

Table 10. Mozambique: Composition of Public Debt and Debt Service by Creditor, 2022–24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In million US$)	*(Percent total debt)*	*(Percent GDP)*	*(In million US$)*			*(Percent GDP)*		
Total	18016.7	100.0	94.1	1190.8	2268.4	1551.1	7.2	11.8	7.1
External[2]	13610.1	75.5	71.1	430.8	562.7	738.9	2.6	2.9	3.4
Multilateral creditors[3]	5039.5	28.0	26.3	163.8	166.0	224.7	1.0	0.9	1.0
IMF	592.0	3.3	3.1						
World Bank	3016.9	16.7	15.8						
ADF	886.2	4.9	4.6						
Other Multilaterals	544.4	3.0	2.8						
o/w : IDB	160.4	0.9	0.8						
IFAD	130.0	0.7	0.7						
BADEA	87.8	0.5	0.5						
EBI	86.5	0.5	0.5						
Bilateral Creditors	4288.6	23.8	22.4	222.2	351.9	410.9	1.3	1.8	1.9
Paris Club	1148.8	6.4	6.0	35.7	54.3	64.5	0.2	0.3	0.3
o/w: Japan	399.7	2.2	2.1						
Korea	245.3	1.4	1.3						
Brazil	193.2	1.1	1.0						
France	148.2	0.8	0.8						
Non-Paris Club	3139.7	17.4	16.4	186.5	297.6	346.4	1.1	1.6	1.6
o/w: China	1717.6	9.5	9.0						
Portugal	485.5	2.7	2.5						
Libya	253.4	1.4	1.3						
India	241.4	1.3	1.3						
Iraq	230.6	1.3	1.2						
Bonds	900.0	5.0	4.7	44.9	44.9	45.0	0.3	0.2	0.2
Commercial creditors	50.5	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Senior creditors of LNG debt financing	43.0	0.2	0.2						
Other international creditors	3331.5	18.5	17.4	0	46.5	22.8	0.0	0.2	0.1
o/w: ENH's LNG project partners[4]	3331.5	18.5	17.4						
Domestic[5]	4406.6	24.5	23.0	760	1706	812	4.6	8.9	3.7
Held by residents, total									
Held by non-residents, total									
T-Bills	1094.0	6.1	5.7						
Bonds	2254.5	12.5	11.8						
Loans	1058.2	5.9	5.5						
Memo Items:									
Collateralized debt[6]	0		0.0						
o/w: Related	0		0.0						
o/w: Unrelated	0		0.0						
Contingent liabilities	43.0	0.2	0.2						
o/w: Public guarantees	43.0	0.2	0.3						
Nominal GDP (millions US$) eop exchange rate				16082	18969	21426			

Sources: Mozambican authorities and IMF staff estimates and projections.

[1] As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except the stock of domestic debt does not include state-owned enterprise equivalent to 1.4 percent of GDP.

[2] External debt data are IMF estimates.

[3] Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

[4] Annual interest due are capitalized until beginning of project production.

[5] Debt service in 2021 does not include amortization of T-bills.

[6] Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

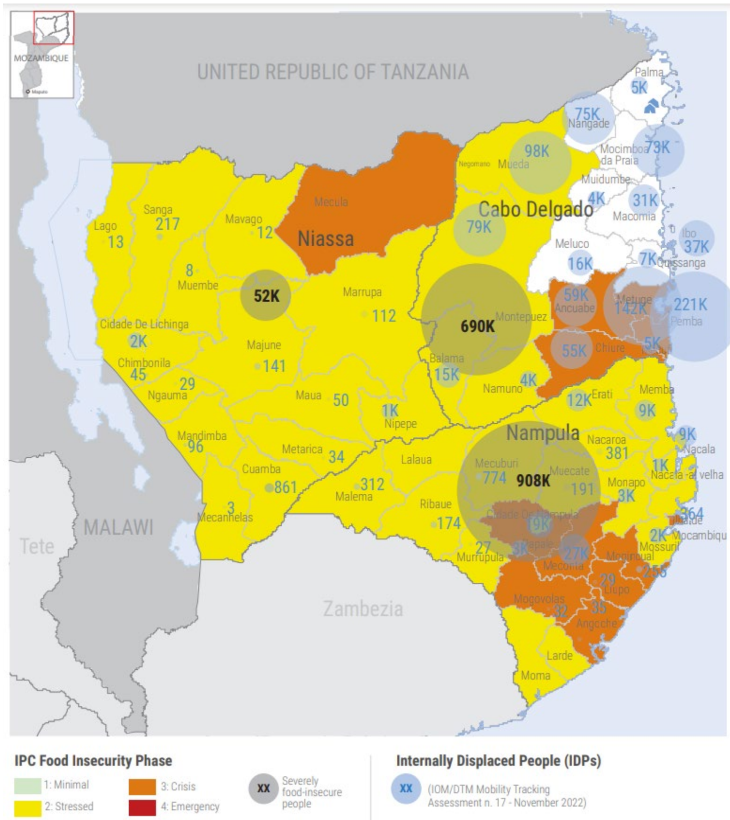
Annex I. Country Engagement Strategy

State fragility in Mozambique is manifested in conflict, poor economic and social outcomes, and broad-based exclusion and marginalization of groups. Fragility has deep roots across several dimensions—distributional, regional, historical, and in governance – and is linked to the unfinished process of state building. Three decades of armed conflict, including the war for independence (ending in 1975) and a subsequent armed internal conflict (coming to an end in 1992), created the backdrop of the security challenges experienced today. While the authorities have prioritized reforms addressing the causes and symptoms of fragility over many years, vested interests, shocks, and capacity constraints have impeded steady progress. More effort is needed to reduce the significant regional imbalances between North/Centre and South. The IMF has been closely engaged with the country since the 1980s.

Conflict, Conflict Drivers, and Sources of Fragility

1. Stakeholders generally share a view of the key components of Mozambique's fragility. These include a legacy of conflict, uneven regional development, high fertility rates, fast but unequal growth, heavy reliance on Overseas Development Assistance, an unequal division of the "peace dividend", and high vulnerability to extreme weather conditions. This Country Engagement Strategy (CES) is broadly in line with the World Bank's RRA assessment, with more emphasis on institutional and fiscal management weaknesses.

Figure AI.1. Mozambique: Human Displacement and Food Insecurity in Northern Mozambique
(As of March 2023)

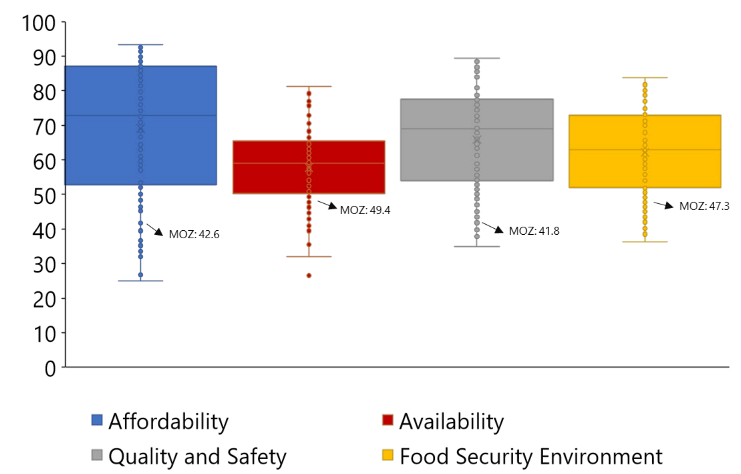


Source: UNOCHA

2. Armed conflict and a high number of internally displaced people (IDPs) are an outcome of fragility, particularly in the north of the country (Figure 1). The province of Cabo Delgado has been especially impacted by poor infrastructure, lack of schooling and basic health care, and weak law enforcement. Deficient coastal patrolling has created opportunities for illicit trade, including of precious minerals, timber, as well as drugs. Natural resource exploitation—including investment in large natural gas reserves—has not delivered material improvement in economic and living conditions for the local population, and discontent has fostered radicalism among unemployed local youth. Recurrent waves of violence started in 2017 and led to over 4,500 deaths and a peak in IDPs estimated at over 900,000 in 2021. The IDP count has been gradually declining as the state regains control of the territory with support from Rwandan and South African Development Community military forces, and as of end-April 2023, about 420,000 people have returned to their places of origin.

3. **Fragility and vulnerability are exacerbated by widespread poverty and food insecurity.** Figure 2 presents the Global Food Security Index for 2022, which measures several dimensions of food insecurity including affordability, availability, quality and safety, and natural resources and resilience. For all indicators Mozambique ranks at the low end of the distribution. This is driven by climate change and its impacts on subsistence agriculture, uneven distribution of growth, limited diversification, governance weaknesses across institutions, illicit trade and informality, and low human capital.

Figure AI.2. Mozambique: Food Insecurity Index

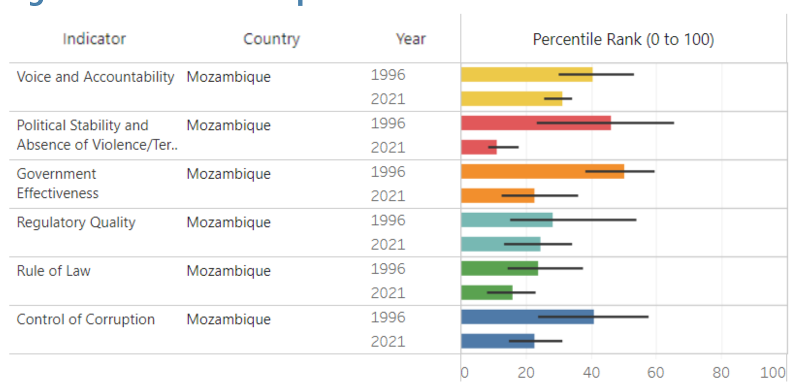


Source: Global Food Security Index, 2022, The Economist. IMF Staff computations.

Constraints to Reform Implementation

4. **Institutions and governance are weak.** Mozambique's Worldwide Governance Indicators (WGI) scores deteriorated over the last two decades in all 6 governance dimensions, including rule of law, political stability and absence of conflict, control of corruption, regulatory quality, voice and accountability, and government effectiveness. Moreover, Mozambique's rank scored below Sub-Saharan Africa's average in

Figure AI.3. Mozambique: World Governance Indicators



Source: World Bank
Rank: Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank)

2021 in all the governance dimensions.[1] Limited state capacity and lack of independence from private interests weaken institutions. Furthermore, corruption is a key component of high transaction costs for the private sector. The authorities recognized the importance of addressing the issues and published a Diagnostic Report on Transparency, Governance and Corruption in 2019, but progress has been limited. Furthermore, indicators such as the WGI reflect survey collected data and stakeholders' perception, they do not necessarily reflect ongoing institutional change in real time. It is important to note that important reform effort and successful implementation has been happening in the areas of Public Financial Management, AML/CFT, financial market supervision, among others. Those reforms, while very impactful in determining the efficiency, transparency, and rules-based policy making, are not necessarily reflected immediately in the public opinion.

Policies to Promote Inclusive Growth and Resilience

5. Macroeconomic stability is necessary for sustained and inclusive economic growth. The government should keep fiscal discipline to reduce public debt vulnerabilities, while ensuring that spending is well targeted and economic recovery protected. This will reduce interest rates and create fiscal space to have stronger safety nets and invest in health, education, and climate resilient infrastructure. Developing sound fiscal frameworks and institutions to adequately manage natural resource wealth, improving the business environment, and strengthening governance are necessary to promote private sector development, generate jobs for a young and rapidly-growing population, and raise living standards.

6. Addressing public financial management (PFM) weaknesses is essential to strengthen the current fiscal framework and improve the quality of government spending. Improving the annual budget process by having a binding expenditure ceiling, tightening expenditure controls, and enhancing fiscal reporting and transparency is critical. In addition, government officials would benefit from enhancing their capacity in policy formulation, implementation, and monitoring.

Sequence of CD Priorities & Prioritization of Policy Advice

7. Mozambique is a high-intensity user of Fund capacity development (CD). The country is among the top decile of IMF CD recipients, and also receives CD support from many other development partners. CD covers all key areas of institution building, with a focus on (1) governance, transparency, and accountability; (2) PFM broadly defined, including revenue administration, public debt and investment management and fiscal risks; (3) expenditure policies; (4) natural resource wealth management; (5) central banking operations and governance; (6) government, real, and financial sector statistics; and (7) climate adaptation. Fund CD activities

[1] World Bank. (2022, February 16). Worldwide Governance Indicators. Retrieved from https://info.worldbank.org/governance/wgi/ D. Kaufmann, A. Kraay, and M. Mastruzzi, Worldwide Governance Indicators (WGI), available at http://www.govindicators.org/.

The WGI are a research dataset summarizing the views on the quality of governance provided by many enterprise, citizen, and expert survey respondents. The WGI are perception-based indicators and as such subject to bias, and do not reflect the official views of the IMF.

respond to specific requests from the authorities and are in line with the reform priorities identified in the National Development Strategy (ENDE), the five-year government plan (PQG), the government economic acceleration plan, the Diagnostic Report on Transparency, Governance and Corruption and Fund staff advice.

8. The Fund-supported program underscores several reforms to strengthen institutions. The ECF approved in 2022 focuses on three broad areas of institutional reform: (i) governance and anti-corruption, (ii) LNG revenue management, and (iii) fiscal management, particularly PFM reform. In the first area, an upgraded AML/CFT framework and a stronger public probity law is envisaged. In the second area, the goal is a Sovereign Wealth Fund (SWF) law in line with the Santiago Principles that supports transparent and sound management of natural resource wealth. In the third area, the program includes measures to enhance domestic revenue mobilization and strengthen the efficiency of public spending.

Annex II. Consultation with the IMF Executive Board on the Missed Inflation Target under the MPCC

Consultation on Breach of MPCC Target in December 2022.

Banco de Moçambique

June 15, 2023

In December 2022, CPI inflation was 10.3 percent (y/y), 1.2 percentage points below the lower bound of the inflation consultation band (12.0 percent – 15.0 percent) agreed under the ECF. This letter firstly explains the reasons why inflation breached the lower limit of the inflation consultation band and then discusses the policy response and the inflation outlook.

1. Inflation deviation from the consultation band

In the fourth quarter of 2022, inflation decelerated, driven by external and domestic factors, despite the context of recovering aggregate demand following the COVID crisis. In particular, international food and energy prices, which had increased earlier in the year due to the war in Ukraine, began to ease significantly. Moreover, the impact on inflation of a pick-up in the domestic economy was relatively contained, despite a rebound in economic activity across a broad range of sectors.

As an oil importer, Mozambique has been directly affected by the easing in global oil prices. Compared to forecasts (on which the MPCC bands were based), fuel price inflation was significantly lower than expected, as the government decided to keep fuel prices constant at the pump throughout the second half of 2022. With a weight of 7 percent in the CPI basket, diesel and gasoline price developments by themselves led to a shortfall in inflation of about 1 percentage point compared to the forecast. This in turn contributed to lower-than-expected second-round effects on other transport prices, such as public transportation fares; this also contributed about 1 percentage point less than expected to headline inflation. Similarly, the easing of global food prices has had a moderating effect on inflation. The price of wheat flour and wheat bread increased by 4.5 percent and 2.1 percent, respectively, in the second half of 2022, significantly below the increases of 13.0 percent and 32.9 percent over the first half of 2022, and below the increases forecast when the MPCC was set. With a total CPI basket weight of wheat-derived products of 4.3 percent, this moderation led to a further easing in headline inflation compared to forecasts.

The re-opening of the Mozambican economy following COVID has only led to moderate price pressures, amid tight monetary policy. The contribution to inflation of items other than food and transportation fell from 2.6 percentage points in July 2022 to 1.6 percentage points by December 2022. This moderation in domestic price pressures despite a rebounding in economic activity further increased the undershooting of headline inflation compared to the MPCC bands and forecasts.

2. Policy response

In March 2022, when inflation was still below the target, the BM reacted to an increase in expected inflation and gathering economic momentum following the lifting of COVID-related restrictions by increasing the policy rate (MIMO) by 200bp, from 13.25 percent to 15.25 percent. A second 200bp increase was implemented in September 2022. In doing so, the BM's policy aimed to proactively forestall risks of de-anchoring inflation expectations. Since January 2021, the BM has cumulatively increased the policy rate by 700bp, and real interest rates are among the highest in the region. This monetary policy tightening effectively contained inflation and guided it towards the BM's medium-term inflation objective somewhat faster than anticipated.

3. Inflation outlook

In March 2023, headline inflation was 9.3 percent year-on-year. Inflation for the CPI excluding fruit, vegetables and administered prices, remained substantially lower at 4.2 percent year-on-year. The current baseline scenario is predicated on an expected further moderation in international food and fuel prices in 2023. Meanwhile, while the increase in food and fuel prices to date will have second-round effects that add inflationary pressure, the relatively tight policy stance is expected to sufficiently lower demand and guide expectations to set overall inflation on a path towards the medium-term objectives. Inflation is expected to decelerate to 6.7 percent at the end of 2023, 6.5 percent at end-2024, and 5.7 percent at end-2025.

Given remaining uncertainties around the war in Ukraine, the global and domestic economic outlook and future inflationary developments, the BM closely monitors the economic situation both globally and domestically and stands ready to respond accordingly in fulfilment of the price stability objective.

/s/

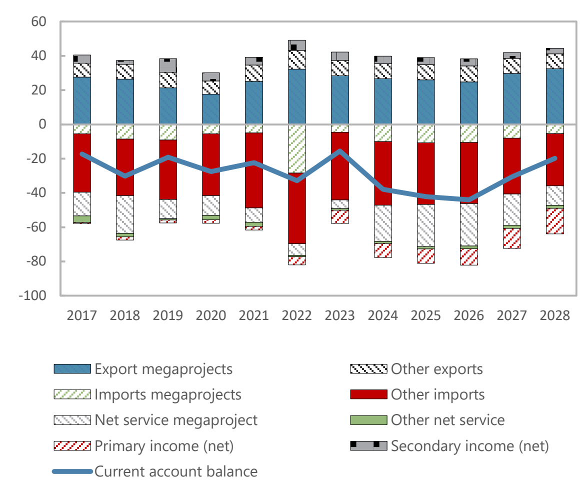
Rogerio Zandamela, Governor

Annex III. External Sector Assessment

Overall Assessment: The external position of Mozambique in 2022 was substantially weaker than the level implied by medium-term fundamentals and desirable policies. The non-megaproject current account deficit was 20.1 percent of GDP in 2022, vis-à-vis an estimated current account deficit norm of 9.9 percent of GDP. The EBA-lite current account model indicates an overvaluation of the real effective exchange rate of up to 56 percent. The external position is expected to strengthen as LNG production and exports rise and as structural reforms to promote diversification bear fruit.

1. External sector assessments for Mozambique are subject to considerable uncertainty due to data limitations surrounding megaproject activities. "Megaprojects" are large, foreign enterprise-led and funded investments in extractive sectors, specifically coal, aluminum, and natural gas, that produce overwhelmingly for export. Associated imports are fully financed through offshore special investment vehicles. While they are based outside the country, flows related to these vehicles are included in the balance of payments statistics for completeness, though they do not have a bearing on international reserves. The non-megaproject current account is therefore the appropriate concept to assess the external position. While the authorities produce accurate external sector data for the megaprojects themselves, only rough estimates are available for the external flows related to domestic firms that are exclusively focused on supporting megaprojects' activities. To better describe the external accounts that impinge directly on the domestically focused, traditional economy, staff has estimated a current account balance and a net international investment position excluding megaprojects (directly and indirectly), following the same approach used in previous external sector assessments.[1]

Figure AIII.1. Mozambique: Current Account Decomposition
(Percent of GDP)



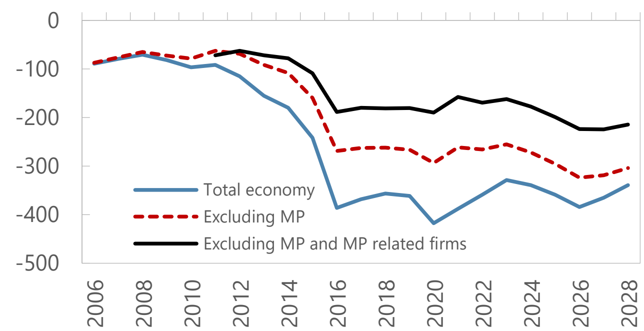
Sources: IMF Staff Estimates

2. Mozambique has seen large current account deficits and negative NIIP for over a decade. The current account deficit has been dominated in recent years by large investment-related imports by the megaprojects; it deteriorated in 2022 with the importation of the LNG

[1] This approach involves making additional adjustments to the non-megaproject current account by estimating and deducting megaprojects' indirect or induced imports within the traditional economy. It is used throughout the External Sector Assessment.

platform (estimated at US$4.4 billion). The development of megaprojects is financed through significant FDI inflows.[2] The baseline forecast assumes that development of the first onshore LNG project will resume during 2023. The main difference with the previous assessment is that a slight delay in the resumption of the project means that the current account is expected to improve somewhat in 2023, before worsening in the following years as large LNG-related imports resume. The NIIP is projected to stabilize at the current level as the large increase in investment-related imports for the development of the onshore projects will start as exports from the offshore platform peak. A turnaround in the NIIP is projected from 2027 onward, when the first onshore LNG megaproject starts production, and is expected to improve in the long run as Mozambique becomes a major LNG exporter.

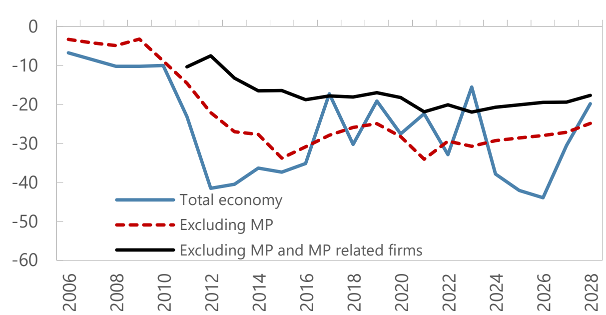
Figure AIII.2. Mozambique: Net International Investment Position
(Percent of GDP)



Sources: IMF Staff Estimates

3. **The non-megaproject current account deficit was stable during 2017–20, but has since increased.** After hovering around 18 percent of GDP between 2017 and 2020, it increased to an estimated 20 percent of GDP in 2022, as higher commodity exports—reflecting higher global commodity prices and demand—did not offset higher imports of goods and services.[3] The deficit is projected to decrease over the medium term, as productivity improvements, including in the agriculture sector, foster an increase in exports that outpaces non-megaproject import growth. The non-megaproject NIIP is projected to strengthen over the projection period.

Figure AIII.3. Mozambique: Current Account Balance
(Percent of GDP)



Sources: IMF Staff Estimates

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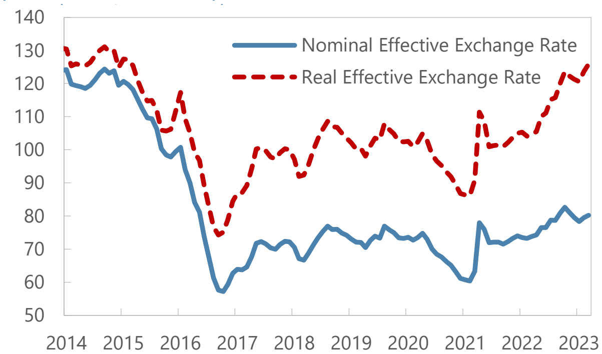
[2] While the Coordinated Direct Investment Survey (CDIS) indicates an inward FDI position of around USD 76.6 billion, the IIP indicates only USD 51.5 FDI liabilities for end-2021. This discrepancy is explained by more extensive coverage of enterprises in the CDIS. The authorities are working on improving coverage of the BOP and IIP data, notably with the help of IMF TA.

[3] The current account deficit excluding only megaproject firms (dotted red line in the chart) was nearly 10 percentage points higher at 29.5 percent of GDP in 2022.

4. The REER has appreciated significantly since its recent low in 2021. The REER has been appreciating since early 2021, gaining more than 40 percent between January 2021 and December 2022. In March 2023 it was 21 percent higher than the average REER during 2018-20. A tight monetary stance combined with a *de facto* fixed exchange rate against the US dollar since July 2021 accounts for a broadly stable NEER. In this context, domestic inflation higher than inflation in trade partners was the main driver of the appreciation of the REER.

Figure AIII.4. Mozambique: Nominal and Real Effective Exchange Rate

(Index, 2010=100)



Source: IMF Staff Calculations

5. The non-megaproject financial account was stable between 2021 and 2022. Non-megaproject FDI, which was at around US$2 billion mostly due to a company's financial operation—converting debt into investment—contracted to around US$650 million in 2022, a level slightly higher than in 2020. Such uneven evolution stems from FDI remaining very much linked to bulky investment projects. Meanwhile, the megaproject current account is fully financed through FDI and trade credits, which tend to constitute the largest financial flows. Multilateral financing decreased in 2022, leading to a net repayment of the external public debt, while net debt of the non-megaproject private sector contracted by around $650 million.

Table AIII.1. Mozambique: EBA-Lite Model Results, 2022

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual 2/	**-20.1**	
Cyclical contributions (from model) (-)	4.6	
COVID-19 adjustors (-) 3/	-0.2	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-24.5**	
CA Norm (from model) 4/	**-9.7**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-9.7**	
CA Gap	**-14.8**	**...**
o/w Relative policy gap	-2.8	
Elasticity	-0.28	
REER Gap (in percent)	**52.5**	**-10.9**

1/ Based on the EBA-lite 3.0 methodology
2/ The CA-Actual refers to the non-megaproject CA account including imports adjustments.
3/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.2 percent of GDP).
4/ Cyclically adjusted, including multilateral

6. The external sector position was substantially weaker than implied by fundamentals and desirable policy settings. Using the EBA-lite current account model, the adjusted current account norm (excluding megaprojects) is estimated at a deficit of 9.7 percent of GDP. This compares to an estimated adjusted non-megaproject current account deficit of 24.5 percent of GDP, implying a REER gap of 52.5 percent using an elasticity of -0.28. Conversely, the REER approach indicates an undervaluation of the REER of 10.9 percent. Results across the two methodologies are not directly comparable, as the current account model is estimated on the non-megaproject economy, while the REER approach—due to data limitations—includes the whole economy. As the non-megaproject economy is the appropriate scope for the assessment, results from the current account approach are chosen as a more suitable basis for the assessment.

7. **Gross international reserves are at nearly 4.3 months of import coverage, which is above the minimum buffer commonly recommended for LICs**.[4] Gross international reserves have been falling since early 2021, and reached US$2.9 billion at end-2022, covering 4.3 months of projected non-megaproject imports of goods and services in 2023.[5] Higher fuel import costs in 2022 drained reserves, since the Bank of Mozambique provided FX to the main fuel importers. At the same time, non-megaproject imports have significantly increased over the past couple of years, further decreasing import coverage of reserves. In January 2023, the Bank of Mozambique raised the required reserve ratio for foreign current deposits from 11.5 percent to 28 percent. In April 20023, it reduced its provision of FX to fuel importers from 100 percent of the fuel bill to 60 percent. The BM has also announced that it will cease providing FX to fuel importers altogether starting in June.

8. **External imbalances are expected to decline in the medium term as LNG production picks up and diversification policies bear fruit**. Government policy to improve infrastructure and increase productivity in the agricultural sector will be crucial to enhance competitiveness and foster non-megaproject exports. Measures to foster human capital development and improve the business climate could encourage inclusive and resilient growth, and productivity improvements.

[4] It is recommended for LICs to have at least three months of import coverage. The IMF's metric to assess reserve adequacy in credit-constrained economies with *de facto* fixed exchange rate, with assumed cost of holding reserves of 4 percent, indicates that an adequate reserve cover for Mozambique is 8.8 months of non-megaproject imports (adjusted for indirect or induced megaproject imports). However, the last published AREAER assessment classifies Mozambique as having a crawl-like arrangement.

[5] At end 2022, international reserves covered 4.3 months of projected 2023 imports of goods and services excluding those carried out by megaproject international firms and imports by the traditional economy firms that are induced by megaprojects activity, 3.5 months of projected non-megaproject imports (i.e., carried out by traditional economy firms), or 2.9 months of projected total imports.

Appendix I. Letter of Intent

June 16, 2023

Ms Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Ms Georgieva,

The Republic of Mozambique remains committed to the reform program supported by the Extended Credit Facility (ECF) arrangement with the IMF. Despite a challenging international environment, we have made progress on our commitments. The attached Memorandum of Economic and Financial Policies (MEFP) updates the previous memorandum and describes progress and further policy steps to meet our objectives.

In the period to December 2022, we have met two quantitative performance criteria (the floor on net international reserves (NIR), and ceiling on new non-concessional external debt). Similarly, we met the indicative target on the ceiling on the present value of new external debt. We have also submitted to Parliament the law on the Sovereign Wealth Fund, established a quarterly Treasury Budget which will determine limits on quarterly commitments and eliminate ex-ante weekly commitment limits in the budget law and corresponding budget execution circular, and fully implemented in all spending units e-SISTAFE tools for budgetary planning and financial programming—three cornerstone structural benchmarks and important steps forward in our governance and financial integrity agenda. However, we missed the indicative targets on the floor on social spending and the ceiling on the stock of domestic debt.

In the fourth quarter of 2022, inflation decelerated, amid lower import prices, and tight monetary policy. In particular, international food and energy prices, which had increased earlier in the year due to the war in Ukraine, began to ease significantly, leading to a breach of the lower bound under the Monetary Policy Consultation Clause (MPCC) in December 2022. We attach a letter to the Executive Board explaining the circumstances for the breach, and our policy response. We have agreed on a new corridor for consultations under the MPCC, while retaining our medium-term objectives of achieving inflation between 5 and 6 percent.

We embarked on a wage reform which aimed at simplifying public employment compensation and managing the cost of public sector employment with the aim of aligning the wage bill to around 11 percent of GDP over the medium term. Initial reforms passed by the National Assembly in 2021 were aimed at improving controls and predictability over wage bill spending. During the implementation phase, we encountered higher costs than estimated for the wage bill reform resulting in primary deficit after grants of 2.8 percent of GDP compared to a projection of 0.2 percent of GDP. We are committed to adopt credible corrective measures to ensure fiscal discipline and achieve the medium-term fiscal consolidation envisaged under the program. The package of corrective measures of about 1 percent of GDP will be comprised of revenues and wage bill reducing measures. In addition, and to help rationalize the wage bill over the medium term, we are committed to prepare an action plan to reduce the wage bill to 11 percent of GDP over the medium-term.

We are advancing with the core fiscal reforms needed to foster growth and achieve our debt reduction objectives. With respect to VAT reform, we are striving to fully implement the elimination of exemptions and zero-ratings identified through the 2022 prior action, including the elimination of the VAT exemptions and domestic zero rate remaining from the 2022 list of prior action by end-2023. Our domestic revenue mobilization effort includes aligning the reference price of the extractive industry to international prices in line with best practice. In addition, the April decision on the resumption of the automatic fuel price mechanism for diesel and gasoline prices will help reduce market frictions and fiscal liability. To mitigate the impact of higher fuel prices on the most vulnerable, we provide direct subsidies to public transportation companies to contain the impact of fluctuation in international prices on the fare of public transportation.

Due to delays in finalizing the update to our National Development Plan, we are requesting an extension of Poverty Reduction Strategy until the fourth review. We are requesting the completion of the financing assurance review. In addition, we are requesting a waiver on the missed Quantitative Performance Criteria on the domestic primary balance supported by policy measures adopted and committed to ensure fiscal sustainability over the medium-term. We also request a waiver for missing the target on non-accumulation of external arrears. These external arrears have been settled, and we are taking concrete administrative steps to ensure such arrears are not repeated. In view of continued pressures on FX reserves in the first half of 2023, we are requesting to modify the NIR floor at $2bn in line with the floor for 2022, as the current target is set at $2.2bn.

We are moving ahead with our structural agenda. To improve governance and strengthen efficiency of public spending, we are planning to submit to Parliament an amendment to the Public Probity Law before end-June 2023. We are also working to address Mozambique's recent grey listing by implementing the action plan adopted by the Financial Action Task Force (FATF) Plenary. In particular, we plan to make adequate, accurate and up-to-date information on beneficial ownership publicly accessible at the centralized registry in line with FATF standards by end-2023.Moreover, we are advancing with extensive public financial management and revenue administration reforms, and pursuing a broad agenda of reforms in monetary, foreign exchange and central bank organization. Finally, we reiterate our commitment to transparency and accountability in the use of the 2021 SDR allocation, in full compliance with the Memorandum of Understanding signed by the Bank of Mozambique and the Ministry of Economy and Finance.

Based on strong performance to date and our continued commitment to the reforms in our program supported by the ECF, we request approval by the IMF Executive Board of completion of the second review and the related disbursement of SDR 45.44 million, and modification of the MPCC to reflect inflationary developments and our policy response. The program will continue to be monitored through six-monthly reviews, prior actions, quantitative performance criteria (QPC), indicative targets (ITs), and structural benchmarks (SBs) as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

We believe the policies set forth in the attached MEFP are adequate for the implementation of the program, and we will take any additional measures that may be appropriate for this purpose. We will consult with the IMF before adopting any such measures or in advance of revisions to the policies contained in the MEFP. Moreover, we will provide all information requested by the IMF to assess implementation of the program.

Sincerely,

/s/	/s/
Ernesto Max Elias Tonela	Rogério Lucas Zandamela
Minister of Economy and Finance	Governor of the Bank of Mozambique

Attachment I. Memorandum of Economic and Financial Policies

A. Context and Objectives

1. The government continues to pursue a sustainable development path for Mozambique whilst confronting emerging and significant challenges. These will continue to hamper development over the medium-term and include: fluctuating global economic circumstances such as persistent inflation and weakened global supply chains; more frequent and intense natural disasters driven by a changing global climate; and security issues in the north of the country.

2. The government's key development priorities are outlined in its quinquennial program and focus on fostering sustained inclusive growth and strengthening governance and institutions. The program centers on the development of human capital, promotion of gender equity, social inclusion, and protection of the most vulnerable. It aims to support economic growth and decentralization while safeguarding fiscal and debt sustainability. The program proposes a stable and transparent institutional framework for the management of natural resource wealth, particularly for hydrocarbons. The draft National Development Strategy (ENDE) has been published on the MEF website and a final version will be submitted to the National Assembly by September-2023.

3. The government's Economic and Financial Program 2022-2025 (EFP), supported by the IMF's Extended Credit Facility (ECF), aims to foster sustainable and inclusive growth. Under the EFP, the government is supporting economic recovery by avoiding a large upfront adjustment, while addressing debt and structural challenges which are contributing to macroeconomic vulnerabilities and driving protracted balance of payment needs. The EFP aims to ensure that public debt declines over the medium term. The government continues to build institutions and capacity which are required to manage public resources efficiently and effectively. Measures already implemented by the government include: i) reforming the wage bill; ii) applying appropriate fiscal rules and institutions for LNG resources; iii) addressing concerns around governance, transparency, and corruption; and iv) enhancing equality of opportunities and social inclusion.

4. The IMF Executive Board approved a three-year arrangement under the ECF to support Mozambique's EFP on May 9, 2022. The ECF supports the policy aims of the government through fostering economic recovery and policies to reduce public debt and financing vulnerabilities and creating fiscal space for service provision, priority investments in human capital, climate adaptation and infrastructure. Support for the EFP also focuses on strengthening governance institutions and the management of public resources while improving the business environment to address protracted Balance of Payment (BoP) needs.

5. The government has met its ECF international reserves targets for end-December 2022, but fiscal targets were not met, (Table 1). The quantitative performance criterion (QPC) on:

- The floor of net international reserves of the Bank of Mozambique was met
- The quantitative performance criterion on the floor of the domestic primary budget balance was not met, at deficit of about MT 30.6 billion compared to a target of a surplus of MT 2.7 billion.
- The indicative target on the social spending floor was not met by a small margin (MT 5.7 billion v MT 5.8 billion).
- The quantitative performance criterion on non-accumulation of new external arrears was not met, as the government incurred delays of over 30 days to repay debt service for an SOE external debt with Spain, and debt service with Portugal and the Islamic Development Bank.
- The indicative target on the ceiling on the stock of domestic debt, also adjusted by the amount of exchange rate valuation related to the World Bank disbursement, was not met at MT 281.5 billion, relative to a program target of MT 271.4 billion.

6. CPI inflation decreased, for the fourth consecutive month, to 10.3 percent at end-December 2022, below the lower bound of the inflation band of 12 percent, triggering the consultation clause under the program. In a letter addressed to the IMF Executive Board, the government explained that inflation breached the lower limit of the consultation band (12–18 percent), mainly driven by the non-transmission of high international fuel prices to domestic fuel prices. The impact on inflation of a pick-up in the domestic economy was relatively contained, despite a rebound in economic activity across a broad range of sectors, as the stance of monetary policy remained tight. Inflation is expected to decelerate to 6.7 percent by end-2023, followed by a further deceleration to 6.5 percent in 2024 and 5.7 percent in 2025. This baseline scenario is predicated on a tightening of fiscal policy in line with the ECF objectives.

7. The structural benchmarks under the ECF were broadly met. These are as follows:

- The law on the Sovereign Wealth Fund (SWF) on LNG resources was submitted to the National Assembly in December (SB end-2022);
- The attrition rule for civil servants in the 2023 budget (hiring limit of one out of three leaving employees) as described in Table 2 of the MEFP was implemented;
- The structural benchmark on implementing the proposed elimination of VAT exemptions and zero-ratings identified through the 2022 prior action was not met. The National Assembly, recognizing that some of these adjustments would have an effect on basic

items, took the approach to phasing the elimination over a further 12 months, the intent of the benchmark will be fully implemented by January 2024;

- The e-SISTAFE tools for annual budgetary planning and quarterly financial programming were fully implemented in all spending units at end-2022;

- The structural benchmark on establishing a quarterly Treasury budget to determine limits on quarterly commitments to be operationalized and eliminate ex-ante weekly commitments limits in the budget law for 2023 and in the corresponding budget execution circular was met by end-January 2023

8. Other structural measures stated in the November 2022 Memorandum of Economic and Financial Policies (MEFP) were completed.

- ***Strengthen social protection and contributing to the reduction in the incidence of poverty,*** the government is finalizing consultations on the ENDE with stakeholders and will submit the final version to the National Assembly by 2023.

- ***To progress in the management of public resources,*** the government:

    - planned an interdepartmental cash management committee for financial programming *Comité de Programação Financeira*, CPF) to be supported by the cash management unit within Treasury to forecast and manage cash flows;

    - set and operationalized Treasury Budget limits on quarterly expenditure commitments at end-January 2023. This is applicable to all units and institutions and ensures expenditure is engaged on a commitment basis according to the budget law; commenced the implementation of including public investment procurement plans of central government entities through e-SISTAFE; and

    - prepared, through its public enterprises directorate Instituto de Gestao das Participacoes do Estado (IGEPE), a mapping of all existing state-owned enterprises (SOEs) and their subsidiaries and published a set of consolidated 2020 accounts in April 2023.

- ***To buttress its revenue administration, the government:***

    - reinforced the VAT refund mechanism by revising the VAT legislation, which establishes a 12-month limit for refund claims, alongside the approval of an alternative refund mechanism for the extractive sector;

    - completed the third phase of its integrated electronic tax filing system (e-tributação) by extending the system beyond the main tax categories to other taxes such as the donation tax and stamp duties; and

- cleaned and updated its taxpayer registry, including the removal of duplicated taxpayers and verifying the registry for the largest 100 taxpayers in 2022.

- ***To continue building the basis for an inflation targeting framework, the government:***

  - *reformed the interbank market,* The public communication on the intervention policy was made available in December 2022. Internal guidelines on intervention policy were approved on the same date as the FX intervention policy. The two instruments entered into force on the same day.

  - reformed the foreign exchange (FX) market – The Bank of Mozambique (BdM) is currently drafting implementing regulations to support the new FX law passed by the National Assembly in October 2022 (with effect from January 29, 2023). The BdM eliminated the practice of supplying FX required by banks' clients for their petroleum imports from June 2023, an additional step towards an expanded opportunity for price discovery in the FX market. The BdM approved a normative related to the proceeds from oil re-exportation in March 2023.

- ***To strengthen the AML/CFT framework,*** the government is preparing regulations for implementing the AML/CFT law to be approved by July 2023. The manual for risk-based supervision was approved by the BdM Board on April 27, 2023. The manual will be enforced by an internal regulation, which will be available to all supervisors. The law addressing money laundering risks in non-governmental organizations has been submitted to the National Assembly and is expected to be approved in the coming months.

- ***To progress in its financial inclusion agenda,*** in 2022 68.5 of adult population had obtained access to accounts with Mobile Money Operators (MMO) surpassing the government's objective of 60 percent. The interoperability between the various MMOs has been in e-ffect since the second half of 2022, which is an important step to foster financial inclusion. The legal regime for bank accounts was approved in October 2022.

- ***To gradually remove restrictions on capital and financial account international transactions,*** the new FX law provides a legal environment where the BdM can confidently implement the gradual liberalization of international transactions on both the capital and financial account. While the process of relaxing some of the capital and financial transactions were initiated in 2017, the BdM is currently working on supporting regulations to the new FX law which is expected to be finalized by end-2023.

9. The government is fully committed to the November 2022 MEFP. Unless modified below, those policies remain valid in full. The quantitative targets that serve as performance criteria and indicative targets are proposed to be updated. These updates targets and structural benchmarks are presented in Table 1 and Table 2, respectively.

B. Supporting the Recovery

10. The economy continues its post-COVID-19 recovery, despite the significant global inflationary shock with real GDP growth estimated to have further grown by 4.1 percent in 2022. This builds on the recovery of 2.3 percent in 2021. The acceleration is driven by a broad-based recovery across primary, secondary and tertiary sectors. The start of LNG production in October 2022, with the ENI-led Coral South project, is expected to meaningfully contribute to real GDP growth from 2023 onwards. Global inflationary pressures continued to present challenges, with inflation peaking in August 2022 at 12.1 percent (y/y).

11. In September 2022, the BdM further raised the policy rate from 15.25 to 17.25 percent (200bps). Subsequently, headline and core inflation steadily declined to 10.3 percent (year on year) (September to December 2022). The significant widening of the current account deficit was due to the import of the LNG offshore platform in 2022. Higher fuel prices led to a growing fuel import bill, prompted a steady decline in international reserves, from 4.5 months of goods and services (excluding megaprojects) at December-2021 to 3.5 months at December 2022. The BdM´s measure to end its provision of FX to fuel importers since June/2023 should help to limit further decline in Net International Reserves.

12. Consumer price inflation (CPI) is expected to further moderate to 6.7 percent at end-2023. The BdM stands ready to maintain its cautious monetary policy stance of returning inflation to single digits and ensure that expectations remain well-anchored around that objective. Since January 2023, the BdM increased the reserve requirements from 10.5 percent to 39.0 percent for domestic currency liabilities and 11.5 percent to 39.5 percent for foreign currency liabilities, in order to absorb excessive liquidity in the banking system, with the potential to generate inflationary pressure. Over the medium term, as financing conditions improve and fiscal pressures abate, the BdM will explore the scope for easing monetary policy to foster lower real lending rates and higher credit growth subject to continuing moderate inflation expectations, settling between 5 and 6 percent. The BdM will continue to aim at maintaining financial sector strength.

13. The government adhered to a prudent fiscal stance in line with the 2023 approved budget by taking corrective measures to address wage bill slippages which became apparent in 2022. The primary balance after grants, on a modified cash basis is expected to reach MT5.4 billion (0.4 percent of GDP) compared to a projection of primary deficit after grants of MT 9.1 billion (0.7 percent of GDP) in 2023.[1] The overall deficit after grants is projected to be lower than projections at MT 45.1 billion (3.9 percent of GDP) in 2023. This reflects projected budget support grants in 2023, including US$200 million from the World Bank and use of MT 5.7 billion of the 2021 Special drawing Rights (SDR) allocation and less reliance on domestic debt.

14. The government continues to strengthen social protection and reduce the incidence poverty. The National Strategy for Basic Social Security 2016-2024 aims to strengthen

[1] Modified cash balances are adjusted for payments in arrears.

social protection and outline macroeconomic and financial policies to support poverty reduction. The government will continue to provide resources for social protection programs to meet the 2023 budget allocation of MT 6.8 billion (0.5 percent of GDP).

15. The country's medium-term prospects remain positive with the heart of the government's program centered on increasing non-LNG growth. For the years ahead, non-LNG growth is conservatively expected to stabilize at around 4 percent per annum, assuming no spillovers from LNG production. The government believes there is scope to increase this level of growth. This will require working with our young population, ensuring the availability of ample arable land, improving access to water and energy resources, making investments in human capital—through expanding provision of services in health, education, and social protection and investing in more climate-resilient infrastructure.

16. Mozambique is set to become a major global LNG producer, and LNG production is expected to have a significant impact on overall economic growth. Mozambican LNG is an important factor in the global energy transition to cleaner fuels, characterized by a relatively low carbon content relative to other fossil fuels. Mozambique is also well located to supply Asian and European markets. Production at the ENI-led Coral South project is expected to yield an additional 3.3 pp to real economic growth in 2023, and moderating in 2024 and 2025 as production volumes reach full capacity. The significantly larger Total Energies-led Mozambique LNG project is expected to start production in 2027. A third, ExxonMobil-led project (Rovuma LNG) is expected to follow in 2029.

17. The rapid growth in LNG poses challenges, and the government will establish policies to preserve internal and external macroeconomic balances. This will require the government to manage the risks of an appreciation in the exchange rate that could undermine non-hydrocarbon sector competitiveness, bring about asset price inflation, and other distortions to the wider economy.

18. Over the medium term, the government's fiscal policy objective is aimed at supporting ongoing economic recovery, reducing both public debt and macroeconomic vulnerabilities, and better control fiscal risks. The fiscal objectives and targets (which are anchored public spending will reduce from 32.3% of GDP in 2022 to 27.4% in 2026) will strengthen the fiscal position over the medium term and favor a declining path of the public debt stock from 82 percent of GDP in 2022.[2] The generation of primary surpluses and less recourse to domestic borrowing to finance the budget deficit will also have a positive effect on private sector financing.

19. Achieving the fiscal policy objective will allow the reduction of gross financing needs after grants from 8.1% of GDP in 2022 to 4.9% in 2023 to 2.6% in 2026. The

[2] The contraction of the debt stock in 2022 is due to the isolation of the assets of Area 1 and the regularization of the accounting records of the assets of Area 4 to be removed from ENH's balance sheet, starting to be registered in the Special Purpose Vehicle (SPV) balance sheet of the project.

government will continue to prioritize external borrowing on favorable financing terms over domestic borrowings to finance the budget deficit.

C. Creating Space for Priority Spending while Addressing Public Debt Vulnerabilities

20. The government's policies will principally focus on long-term sustainability of public debt. Reversing the rising trend of the debt-to-GDP ratio (82 percent at end-2022) and reducing external public debt risks will reduce structural vulnerabilities and create policy space to manage the impact of possible future shocks. Reducing debt service costs will create fiscal space to support our development objectives.

21. The government will adopt strong fiscal policy stance to achieve this objective aimed at achieving a primary surplus by 2024. The following measures underpin this goal:

- *Public employment compensation reforms:* The government is commitment to simplifying public employment compensation and will continue with reforms aimed at better managing the cost of public sector employment with the aim of adjusting the wage bill over the medium term to sustainable levels and reaching the overall objective of 10 percent of GDP by 2028. Initial reforms passed by the National Assembly in 2021 were aimed at improving controls and predictability over wage bill spending. These reforms were concentrated on rebalancing the composition of employee remuneration towards basic wages and the movement of employees in and out of public sector positions. The initial estimated costs of the reform were an upfront cost of 0.7 percent of GDP in 2022, and a full year cost of 1.6 percent of GDP from 2023. In the last quarter of 2022, it became apparent the full cost of the reform in 2023 would exceed initial estimates following the actions taken to incorporate feedback from civil servants on issues of concern with the initial suite of reforms.

- The following measures (total savings of approximately 2.5 percent of GDP) were implemented in January 2023 to ensure the sustainability of the reform, and contain the overall cost of public sector remuneration:

    a. adjusting nominal wage levels relative to the paypoint levels articulated in the original TSU framework;

    b. a freeze on any increase in nominal public sector wage levels; and

    c. not paying the 13th month wage payment (in relation to the previous calendar year).

i. Commit to continue replacing one out of three leaving employees except in the sectors of education, health, justice administration bodies, and agriculture. Implementation of the employment attrition rule will be monitored and verified by the Ministry of State

Administration (*Ministerio da Administração Estatal e da Função Publica—MAEFP*), and this rule will be maintained in 2023 and 2024 (structural benchmark).

ii. Additional corrective measures which the authorities are implementing include an action plan to control the wage bill and achieve a wage bill to GDP ratio of 10 percent of GDP by the end of the medium-term (2030). The action plan will be supported by policy measures to reduce the wage bill and increase revenue to achieve the fiscal targets consistent with the 2023 budget and the authorities' commitments under the ECF (structural benchmark by end-December 2023). These include the following:

Wage Bill Reducing Measures

- Amending the TSU law by reducing the percentage of the reference salary which is applied for the calculation of the representation subsidy, for statutorily appointed and elected holders of public office by June 2023;
- Incorporation of 100 percent of all public sector servants into the electronic payroll system (e-folha) by end-June 2023;
- fortifying internal controls (such as proof of live evidence) on the payroll system for all sectors starting in June 2023; and
- implementing the findings of Inspector-General of Finances (IGF's) audit of the TSU mapping arrangements for all civil and non-civil servants by September-2023 and in the subsequent payroll and concurrent to the audit report findings release.

Revenue Measures

- Ensuring compliance measures and enforcement of personal income tax collection of *all* sectors starting from June and going forward.
- Decision adopted by Council of Ministers on May 9 and made effective May 11 which resumes the automatic fuel price mechanism for diesel and gasoline prices. The resumption of the automatic fuel price mechanism increased the price of diesel and decreased the price of gasoline. The price of cooking gas was not affected by this resumption, which will ensure the basic cost of goods remains unchanged.
- Ensuring the reference price of mineral products upon which the tax base is calculated is made on the basis of international prices instead of the current practice of using the firm's last declared price. A joint MEF-MIREME Ministerial Diploma (Regulation) to determine the reference price of minerals in line with international prices will be issued by end-May 2023. The Ministerial Diploma will establish a committee composed of MEF, Tax Authority, and MIREME, responsible for updating the reference price for minerals using the latest international prices on monthly basis starting on the date determined by the Ministerial Diploma (structural benchmark by September 2023).

iii. *Contingency funds*. The contingency funds provided in the 2023 budget partially cover the wage bill overruns and other risks identified in the Report on Fiscal Risks for 2023.

iv. *VAT reform*. Broadening the VAT base aims to build a robust and fair revenue collection mechanism that does not depend on volatile commodity revenues. Effective from January 1, 2023, the government eliminated some VAT exemptions, with some further exemptions to be eliminated from January 1,2024) domestic zero-ratings on goods and services other than basic items and exemptions for the agricultural and renewables sectors according to government development priorities. The legal changes also reduced the tax rate to 16 percent and modified the window during which VAT refunds can be claimed to 12 months (¶X).

v. *Revenue administration and public financial management (PFM)*. With technical assistance from the IMF and other development partners, the government continues to improve the efficiency of the revenue administration (¶¶35 to 39), and PFM (¶¶40 to 44).

22. The government continues to strengthen its institutional capacity for public debt management. The government remains committed to building the capacity of the public debt management directorate within MEF, and enhance the sustainability and transparency of public sector debt management, by publishing quarterly and annual debt reports which cover stocks, on-lending, and state guarantees, including SOEs. The transition to a new database (Meridian) for public debt management will encompass external, domestic and on-lending to SOEs. Communication with the markets will be further strengthened. The updated *Medium Term Debt Strategy* (MTDS) to be approved by the Minister by end-June 2023 will reflect developments in the global and domestic economy and in financial markets. Following a capital market diagnostic, the government is now working on the development on the concrete intervention measures aimed at strengthening the market over the medium-term horizon. The National Debt Directorate plans to continue developing the government bond markets in the country, and this action is a recommendation in the MTDS.

23. The government is taking measures to avoid repeated occurrence of delays in debt service payments, which have occurred in the past few months. These delays were partly due to discrepancies between the internally forecast debt service and the invoices sent by the creditors, as well as liquidity constraints. The government has been clearing the debt database to avoid such errors and ahead of the migration to the new database, which will encompass external and domestic debt by December 2023, and eventually on-lending to SOEs. In addition, urgent measures aimed at building contingent provisions for the Treasury are being studied, including the concentration/consolidation of public sector deposits with the purpose of building a liquidity/cash pool which would provide Government with prompt and efficient access to relatively cheaper resources by tapping the idle deposits of public institutions to finance temporary/seasonal deficits. In addition, the government is looking to restrain issuances of short-to medium-term bonds to avoid incurring new liabilities within this already critical redemption horizon.

D. Governance and Management of Public Resources

24. Fulfilling Mozambique's long-term economic potential—and meeting society's needs —requires decisive actions to ensure public resources are well managed. The government has strengthened its capacity to analyze fiscal risks and publishes regular reports through the fiscal risk directorate in MEF. The quality of fiscal risks analysis is being enhanced by measures such as the annual credit risk analysis of the SOE sector and an analysis on PPPs to be included in the 2024 RRF. The BdM continues to implement the recommendations from the IMF's 2020 Safeguards Assessment.

Governance Reform

25. Key outstanding priorities from the Diagnostic Report focus on reducing scope for corruption and conflicts of interest in the natural resource sector.

i. *Reform of the public probity law*. The Office of the Attorney General (*Procuradoria Geral da República*) amended the Public Probity Law to: (i) clarify to which individuals the various requirements apply; (ii) strengthen the definition of conflict of interest; (iii) require submission of declarations of financial interests by new public servants upon hiring; and (iv) establish published procedures for reporting conflicts of interest. The government will submit the amended law to Parliament by end-June 2023 (structural benchmark).

ii. *Beneficial ownership*. Enhancing transparency on the "real beneficiaries" or individuals who ultimately own, control or benefit from the different organizations and the income they generate is a key commitment in the Governance *Diagnostic Report, to the Financial Action Task Force (FAFT),* and to the Extractive Industries Transparency Initiative. Using the definition of beneficial ownership in the new AML law (consistent with FATF standards), new regulations of the Commercial Code and the AML law require all firms to register and identify their beneficial owners at a centralized registry (*Registry of Legal Entities, CREL)*. The government will revise CREL regulations to approve rules and procedures requiring that the information on beneficial ownership is adequate, accurate, up to date and publicly accessible at the centralized registry (CREL) by end-December 2023 (new proposed structural benchmark). Going forward, the government is considering submitting to Parliament a stand-alone law on beneficial ownership to complete and consolidate the legal and institutional framework.

iii. *Improvement of property registries for public officials*. The Ministry of Justice submitted to parliament in June 2023 a draft law that strengthens the enforcement of asset declaration rules.

26. The government is progressing in accounting transparently for emergency-related public spending. The second independent audit being performed to cover COVID-19 spending in 2021, is expected to be completed by September 2023. While prosecution is undergoing for cases of possible financial responsibility, the government internal control entities are monitoring the implementation of the recommendations of the first audit, including through an internal action plan of the MEF. The government will publish 2020 - 2021 external audit reports of COVID 19 emergency expenditure, including all findings except for those possibly involving financial responsibility, by December 2023 (new structural benchmark). The government will continue implementing the national PLACOR IV strategy aimed at strengthening the Tribunal Administrativo's practices and is moving to revising and clarifying the legislation to regularly publish audit reports, and strengthening the collaboration between all public entities involved in audit and prosecution processes.

27. The BdM Organic law is being revised. Revisions to the law will be finalized in consultation with the IMF and the draft law will be submitted to the National Assembly by June 2024. This revision will: i) strengthen BdM's mandate by explicitly stating its financial stability and macroprudential functions; ii) strengthen limits on monetary financing of the budget; and iii) improve the BdM's autonomy, governance, and accountability.

28. The BdM will continue to modernize its internal audit function, benchmarking its activities in this area against international best practice. A peer review External Quality Assessment was undertaken by the Central Bank of Brazil in August 2022, evaluating consistency with the International Professional Practices Framework (IPPF) promulgated by the Institute of Internal Auditors (IIA). The next steps in strengthening the BdM's internal audit function include a revision of core internal audit regulation procedures.

29. The BdM will continue implementing recommendations from the 2020 Safeguards Assessment to meet best practices in governance and transparency. The BdM published its 2022 audited annual reports in March 2023, ahead of the expected deadline of April 2023. It now has a regular publication schedule, with plans to publish its audited annual reports by end of April of the following year. The BdM is improving the management and circulation and handling of vaults, implementing the recommendations from the September 2022 TA on cash currency management. The BdM also received IMF/Norges Bank training on practical applications of International Financial Reporting Standards in the central bank context.

Managing Resources from Liquefied Natural Gas

30. Harnessing the potential of LNG wealth for the Mozambican people will require reforms across several critical areas. The government will ensure the country's gas resources are managed well and transparently, with broad public support. The government will aim to ensure fiscal revenues derived from the exploitation of these natural resources is spent and invested in an efficient and effective manner which delivers positive outcomes for Mozambique. Finally, the government will ensure that the country's monetary and financial frameworks are sufficiently robust to avoid macroeconomic distortions and foster the efficient allocation of capital in the economy.

31. The next step to operationalize the sovereign wealth fund (SWF) law is to finalize the implementing regulations, including to optimally manage LNG resources. Investments of the SWF 's resources will be managed by the BdM, and observe the highest standards of accountability and transparency. The SWF will invest in foreign assets, assisting in managing the macroeconomic consequences of high revenue flows, and addressing intergenerational equity. The law includes a revenue repartition rule which divides LNG related fiscal revenues between the SWF and the budget. Rules and conditions for using the resources in the SWF in case of emergencies are transparent. To manage the remaining volatility in budget revenues, the government will develop a fiscal framework covering medium-term budget objectives (in particular public investment) and the use of resources above expected levels. To that effect, the government will prepare implementing regulations to the SWF law that will specify objectives for the use of LNG resources in the SWF and fiscal rules to achieve these objectives while safeguarding macroeconomic stability.

Managing Fiscal Resources

32. Ensuring taxation is fair and government spending is efficient, effective, and transparent are key priorities. The government will continue to build on existing, extensive reform programs and capacity development activities.

Revenue Administration

33. The Revenue Administration (Autoridade Tributária, AT) is on track to fully implement its modernized tax collection system, the integrated electronic tax filing system (e-tributação). E-tributação is being used in all tax offices across the country to collect all taxes (structural benchmark for end-December 2023). As at end-December 2022, 45 percent of total tax receipts were collected through E-tributação. E-tributação is linked to e-SISTAFE (the financial management information system) resulting in an automatic classification and faster transfer of resources to the CUT (treasury single account) and interfaces with seven commercial banks. To complete the full implementation of the system by end-2023, the AT is fine tuning the transversal modules (fiscal execution, bankruptcies, payments by installments, risk assessments, audits, claims and recourse, refunds and compensations, litigation and tax audits).

34. The AT continues to develop its digital interface (Portal do Contribuinte) to allow all taxpayers to file and pay all taxes electronically by end-March 2024 (modified structural benchmark). The interface connects the Portal do Contribuinte with e-tributação and is currently operational for only two types of taxes, VAT, and the simplified tax for small taxpayers. At end-March 2023, the Portal do Contribuinte covered 37 percent of total taxpayers in VAT and small taxes, and 72 percent of large taxpayers. By March 2024, the objective is to cover all taxpayers (structural benchmark for end-March 2024).

35. Modernizing the taxpayer registry and enhancing interoperability with other public registries remains a key step towards achieving improved revenue collection. The AT has cleaned and updated the taxpayer registry (NUIT), removed duplicated taxpayers, and verified the registry for the largest 100 taxpayers. The AT is also enhancing links and interoperability of the taxpayer registry with other public registries, including: the civil registry; the Customs' single window (JUE, Janela Unica Electronica); the ministries of Justice and Tourism; and commercial banks. Going forward, it will also involve linking the taxpayer registry with utility companies. Work is ongoing to implement a unique identification number for individuals for civil and fiscal purposes, jointly with the ministries of Justice and Interior, with the objective of completing the work by end-2023.

36. The AT has prepared a reform to modernize its structure and continues to progress in gathering and cross-checking third-party information to increase taxpayer compliance and enforce tax arrears collection. The reform proposal for the internal organization structure of the AT is expected to be approved by the Council of Ministers by end-July 2023. The organization structure will integrate the risk management committee created to strengthen compliance, and design procedures for taxes and customs across all value chains, with a focus on mining and gas taxation. This committee has started using mining and gas risk assessment matrix to perform audits to extractive companies.

37. The MEF is committed to addressing the deficiencies in the VAT refund mechanism and to clear accumulated arrears. MEF will draft a strategy to clear the current stock of VAT refund arrears (amounting to MTS 39 billion at end-December 2022) and submit to the Minister by end-June 2023, and subsequently submit a final strategy to the Council of Ministers in August 2023. The government is adhering to its commitment in the 2023 budget to retaining 16.5 percent of the share of VAT gross collection for the payment of refunds, to ensure sufficient resources are available for refunds and avoid any further accumulation of arrears.

Public Financial Management (PFM)

38. Informed by the experience of the COVID spending and various other diagnostics, [3] **the government is preparing its second PFM strategy.** The strategy is anticipated to be completed by end 2023. Its main objective is to guide PFM reforms in a prioritized and coordinated manner and address new challenges, including strengthening budgetary execution norms pertaining to spending in an emergency context.

39. The government is building on its important reforms of budget execution processes to strengthen the expenditure chain and financial controls and prevent the accumulation of expenditure arrears. To enhance budget execution control, budget discipline and budget transparency:

i. Most of the stages of the public procurement process are already incorporated into the e-SISTAFE system (*Modulo de Património do Estado*), from the preparation of procurement plans to the signature of the contract. As of December 2022, 33 percent of

[3] These diagnostics include, the Fiscal Transparency Evaluation (FTE) and the Public Expenditure and Financial Accountability (PEFA) assessment, among others.

procured expenditures were managed through the module, including most goods and services and public investment, with the exception of public works.

ii. The first meeting of the financial programming committee is expected to occur in June 2023. Members of the committee will comprise staff from Treasury, Budget, Accounting, CEDSIF, Tax Authority and Debt Management. Further TA is expected in June 2023 to design the analytical reports to support the committee's decision-making process. The government continues to address the operational challenges of operating the new quarterly Treasury budget system in its initial year of operation in the absence of any previous years' experience. This includes challenges to better integrate revenue and debt servicing projections into the system.

iii. The MEF is transitioning to a system where it will issue and service Treasury instruments for cash management purposes, to smooth the profile of government cash flows and respond to cash flow shortfalls.

40. The government aims to move from a cash rationing approach to a pro-active management of cash flows and balances. Treasury is currently working on three pillars of the cash flow forecasting process: i) building capacity across all government entities to better plan their expenditures and cash requirements across the budget year; ii) developing the tools (eventually using E-Sistafe) to provide appropriate cash flow reporting for decisions makers; and iii) building analytical capacity within Treasury to analyze reports and advise on the cash flows environment to the cash flow committee. Treasury will prepare rolling three monthly cash flow forecasts on a weekly basis by end-June 2024 (newly proposed structural benchmark).

41. The legal framework for a full mapping of all public sector bank accounts, particularly at commercial banks, is already provided through the existing SISTAFE law and regulations. However, Treasury cannot access some of these accounts as the Bank of Mozambique needs to request information from commercial banks. MEF is assessing how to enhance the coverage and functioning of the treasury single account (*Conta Única do Tesouro—CUT*) with an eventual full mapping of all public sector bank accounts.

42. The government has strengthened public investment management and will focus on improving the climate resilience of public infrastructure investments. The revised SISTAFE law regulation, revoking Decree 52/2020, brings the public investment framework into the general PFM legal framework, and requires mandatory appraisals for capital expenditures above US$ 30 million. The adoption of the new electronic platform (e-SNIP[4]) and the revision of the manual to assess public investment (*Manual Geral de Identificação, formulação e avaliação de Projetos*) enable the government to list, assess and approve investment projects. For instance, all new capital spending in the 2022 and 2023 budgets went through the new assessment procedures. The government will continue to strengthen planning and project selection over

[4] http://e-snip.mef.gov.mz/

time, including by using criteria pertaining to climate-change resilience of infrastructure projects, with World Bank support.

43. The government will continue to strengthen the oversight and management of SOEs. Building on the publication of the consolidated 2020 SOE accounts, IGEPE will launch the external audit of these consolidated accounts by December 2023. IGEPE also aims to publish the audited consolidated 2021 accounts by end 2023. To enhance SOE transparency and strengthen governance, MEF-Direcao Geral de Riscos (DGR) will publish information about other public bodies, (new SB for March 2024); and IGEPE will publish the financial risk indicators for the complete list of entities comprising the SOEs in the consolidated account report.

44. The MEF is creating a task force to monitor the implementation and supervision of reimbursements of on-lending agreements. The MEF issued a note reiterating the mandatory ratification by line ministries of any multiannual loans by municipalities (as per Law No. 1/2008 Art. 20) as well as instructions to banks on complying with the specific legal requirements when lending to municipalities. The Debt Directorate of the MEF will strengthen the oversight of national and municipal SOEs borrowing, on-lending agreements, PPPs and public guarantees, in coordination with the Fiscal Risks Directorate, and data will be published in annual debt and fiscal risk reports, including on SOEs borrowing thresholds for the year ahead.

45. The government will continue to strengthen fiscal transparency and fiscal risks management. The government will continue to publish the: i) annual medium-term fiscal framework; ii) quarterly and annual debt management reports; and iii) fiscal risks statements. These reports support transparent budgetary discussions, amongst other uses. The fiscal risk statement already covers fiscal risks from SOEs and pensions, and coverage will be expanded in 2023 to initially report on PPPs. A fiscal risks management manual will be finalized and approved by December 2023 following technical assistance from FAD.

E. Monetary and Financial Sector Reform

46. The Bank of Mozambique continues to build the basis for an inflation targeting framework, with IMF and Norges Bank support. It aims to implement a forward-looking monetary policy framework based on a policy interest rate (MIMO) to signal the stance of policy and promote price stability. Effective monetary transmission of changes in the policy rate to economic activity hinges on deepening the interbank and foreign exchange (FX) markets.

The Next Steps are as Follows:

i. ***In monetary operations***, to sharpen its monetary policy response to the state of the economy, the BdM plans to continue improving its forecasting process, including by further refining its medum--term forecasts for oil and non-oil GDP. Finally, improvements to the BdM's provision of liquidity to the interbank market hinge on strengthened cash flow management by the government and enhanced communication between government agencies and the BdM.

ii. ***Reform of the foreign exchange (FX) market.*** The BdM is introducing policies to help develop the FX market over the medium-term, including by fostering better price discovery by market participants. The revised determination of the reference exchange rate, based on actual volume-weighted market transactions rather than quoted rates, was approved in May 2022. Its implementation is subject to the go-live of the BdM new IT core system. Finally, it is laying the groundwork towards adopting the FX Global Code, which would be a significant milestone in securing adhesion by the Bank of Mozambique, and the banking and non-banking sectors to best international practices for the FX market.

47. The BdM is committed to maintaining financial stability. In part reflecting increases in capital requirements implemented in 2017, banks report strong capital and liquidity positions on aggregate. The BdM is monitoring the dispersion of asset quality across the sector resulting from the impacts of the pandemic and the global rise in fuel prices on borrowers and developments in the quality of restructured loans (including affected SOEs). Supervisory actions include monitoring compliance with loans classification and discussing business models adjustments.

48. The BdM is assessing its bank regulation and advancing in bank supervision. Drawing on the experience of countries in the region with the implementation process, the BdM is assessing the impact for its banking system of an eventual transition from Basel II to Basel III capital accords. In that context, the BdM is undertaking a gap assessment of its supervisory process and regulation with the aim of establishing a transition roadmap by end 2023, with the effective implementation of Basel III standards to take place during the period 2024-2026. In the context of strengthening banks solvency, the risk weights for all assets will be reevaluated. Further collaboration between the Bank of Mozambique and the National Debt Directorate overseeing SOE debt has been initiated. With IMF TA support, the BdM developed a regulation on cybersecurity risks, which is being finalized after the end of the public consultation in April 2023, and conducted a pilot on-site examination of a systemic bank in 2022. From May-2023, the BdM will receive an IMF TA to develop its manual on cybersecurity supervision.

49. The government is addressing the findings of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) mutual evaluation report. The government continues to take a series of measures and actions to tackle significant technical compliance deficiencies and effectiveness challenges flagged in the June 2021 report. these measures include:

- Reforms which strengthen the framework for collecting and holding beneficial ownership information (in line with the Financial Action Task Force (FATF) definition of beneficial ownership).

- Implementation of the risk-based supervision framework in September 2022, and the appointment of additional staff to the BdM's Prudential Supervision Department in January 2023 to enhance the AML/CFT activities, while the BdM will continue assess its relevant staffing needs

- Implementation of the risk-based supervision framework started in September 2022 and the AML/CFT Service within the BM's Prudential Supervision Department received additional staff in January 2023, and will continue assessing its staffing needs.

- Strengthening the information exchange frameworkned. The BdM signed Memoranda of Understanding (MoU) with the FIU (GIFiM), the General Inspectorate of Gaming (Inspecção Geral de Jogos – IGJ) and the Insurance Supervision Institute of Mozambique (Instituto de Supervisão de Seguros de Moçambique- ISSM). The BdM cooperates with the Attorney General's office and law enforcement under the requirements of the Criminal Proceeding Code and their Organic Law. The General Inspectorate of Gaming (GIG) signed a MoU with the Communications Regulatory Authority regarding the Mobile Money Operators.

- In 2022, the BM started an awareness program to microfinance institutions throughout the country, which is expected to be continuous.

50. Central bank reforms will strengthen the payment system and foster financial inclusion. The government expects to have completed its evaluation of the implementation of its 2016-2022 National Financial Inclusion Strategy by end-December 2023. Recommendations from the evaluation will inform the new strategy. The BdM is reforming the payment system law to improve its resilience, transparency and flexibility, with technical assistance from IMF. The government expects to submit the draft law to the parliament for approval by June-2024. The revised law, aligned with international best practices, will strengthen BdM powers in the national payment system, and improve financial inclusion. The implementation of the Real Time Gross Settlement System (RTGS) is subject to the implementation of the BdM new core IT system.

51. The BdM's crisis management framework is being strengthened. Following approval of the regulations governing recovery and resolution planning, the BdM has issued guidelines on recovery plans content and resolution plans' information requirements in line withthe banking law provisions. The BdM is proposing reforms to the Deposit Guarantee Fund Regulation, with technical assistance from KfW, and an independent consultant hired by the World Bank, aiming at aligning its functions with the scope of the new resolution framework, including by revising the corporate governance structure and the revision of the premium structure paid by the participants. The BdM expects to finalize by end-2023.

52. The government remains committed to its obligations under Article VIII, sections 2, 3, and 4 of the Fund's Articles of Agreement.

F. Risks and Contingencies

53. The government stands ready to adjust policies if risks materialize. Downside risks to the program include growth setbacks from commodity price or global trade shocks from geopolitical tensions, natural disasters or from procyclical fiscal tightening resulting from a lack of financing. Banks' asset quality may deteriorate if the effects of higher fuel prices or the lagged impact of the pandemic on borrower creditworthiness worsen. Important reforms could be delayed by political and institutional constraints or have fiscal costs overshooting program projections.

54. Medium-term risks center on recurrent risks of natural disasters and a deterioration of the security situation, leading to further delays in the LNG projects, or full withdrawal of the current investors. If these risks materialize, the authorities stand ready to adjust its policies, in close consultation with IMF staff, to ensure the achievement of the program's objectives.

G. Improving Economic Statistics

55. The government is implementing improvements to national accounts statistics. The government is on track to produce quarterly national accounts (QNA) by expenditure. An evaluation of available data sources for current and constant price estimates has been concluded in 2022. The government aims to publish QNA series by expenditure at current and constant prices, from 2011 to present, by end-June 2024. The government will also prepare and release methodological notes underpinning the QNA by end-June 2024. Regarding the next rebasing of the national accounts, the government will develop a project timeline by end-July 2023. The government has resumed publishing economic activity indicators, such as monthly industrial production and quarterly economic climate indicators in timely fashion (data is being published with no more than a two-month lag).

56. The government is reconciling its monetary and fiscal accounts. This will improve the identification of fungible deposits available to finance the budget of the central government and improve the elaboration of fiscal projections and plans. The government is reconciling government deposits as reported by the BdM and the MEF, based on TA recommendations from the IMF Statistics department. The BdM and MEF will implement a formal process of reconciling flows and stocks regularly and explain the differences that are identified.

H. Program Design, Financing and Monitoring

57. The ultimate responsibility of program monitoring and coordination will rest with MEF and BdM. To ensure coordinated implementation of the program, the MEF and BdM will consult with the other public institutions involved in meeting program objectives to track progress on various targets and reforms under the program. Similarly, MEF will provide oversight responsibility for ensuring that public spending is compliant with budget limits.

58. The program will be monitored by the IMF Executive Board. Assessment will be through bi-annual performance criteria (end-June and end-December), continuous performance criteria, indicative targets, and a Monetary Policy Consultation Clause (MPCC) for end-June 2023, end-September 2023, end-December 2023, end-March 2024 and end-June 2024, as presented in Table 1. To monitor progress on the structural reforms previously described, structural benchmarks are presented in Table 2. Detailed definitions and reporting requirements for all performance criteria, indicative targets, and the MPCC are presented in the Technical Memorandum of Understanding (TMU) attached to this letter, which also defines the scope and frequency of data to be reported for program monitoring purposes and presents the projected assumptions that form the basis for some of the performance assessments. The Third, Fourth, and Fifth reviews will take place on or after September 15, 2023 and March 15, 2024, and September 15, 2024. To this end, the government plans to:

i. Refrain from extending new guarantees or entering into new external borrowing contracts at non-concessional rates. Debt contracted through ENH related to already identified LNG development projects, integral to the authorities' development program—for which concessional financing is not available—would be added to the borrowing plan and as exceptions to the zero non-concessional debt limit in amounts consistent with meeting the debt reduction objectives of the program, when details of the loan terms become available.

ii. Adhere to the quantitative performance criteria (QPC) on the floor on the domestic primary budget balance, the ceiling on new non-concessional external debt contracted or guaranteed by the public sector (continuous criterion), the floor on the stock of net international reserves of the BdM, and the zero ceiling on the accumulation of new public and publicly guaranteed external payment arrears (continuous criterion).

iii. Adhere to the indicative targets (IT) on the ceiling on the present value of new external debt, the ceiling on domestic debt stock, and the floor on social spending.

iv. The government will prepare an external borrowing plan to facilitate assessment of the QPCs and ITs on external debt.

v. In line with the transition towards inflation targeting, monetary policy aims to achieve an annual headline inflation rate centered on the program objective of 9.0 percent at end-June 2023, 8.5 percent at end-September 2023, and 8.0 percent at end-December 2023, with a symmetric band of ±3 percent around the objective; 7.5 percent at end-March 2024, 7.0 percent at end-June 2024, 6.5 percent at end-September 2024, 6.0 percent at end-December 2024, and 5.5 percent at end-March 2025, with a symmetric band of ±3 percent. If inflation goes beyond the specified bands at the program test dates, the government will complete a consultation with the IMF's executive board analyzing the reasons for the breach, policies undertaken to prevent it, and corrective actions that the Bank of Mozambique plans to undertake.

vi. Not introduce or intensify restrictions on payments and transfers for current international transactions, introduce multiple currency practices, enter into bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement, or introduce or intensify import restrictions for balance of payments purposes; and

vii. Adopt any new financial or structural measures that may be necessary for the success of its policies, in consultation with the IMF.

59. The government estimates that the financing needs for the 2022-2024 program will be covered. We currently expect US$600 million in budget support from other development partners, of which US$550 million is from the World Bank.

60. The government believes the policies specified in this MEFP provide a foundation for sustaining growth, reducing inflation, and alleviating poverty, and we stand ready to take additional measures if required. The government will provide IMF staff with the information needed to assess progress in implementing our program as specified in the TMU and will consult with Fund staff on any measures that may be appropriate at the initiative of the government or whenever the Fund requests a consultation. The government intends to make this letter and the TMU available to the public. In this context, it authorizes the IMF to arrange for them to be posted on the IMF website, subsequent to Executive Board approval.

61. Accordingly, the government is requesting Board approval of the policies set forth in the MEFP, and disbursement of the second loan installment, totaling SDR 45.44 million, out of a total three-year arrangement of SDR 340.8 million.

Table 1. Mozambique: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) for the Program Under the ECF Arrangement

(Billions of meticais, unless otherwise indicated)

	End-Dec 2022				End-Mar 2023			End-June 2023		End-Sept 2023		End-Dec 2023		End-Mar 2024	End-June 2024
	QPC	PC/IT Adjusted	Actual	Status	IT	Actual	Status	QPC	Prop. rev. QPC	IT	Prop. rev. IT	QPC	Prop. rev. QPC	Prop. IT	Prop.QPC
Performance Criteria															
Floor on domestic primary budget balance [1/]	2.7		-30.6	not met	1.6			5.3		2.0		7.5		2.0	7.5
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector [2/]	0		0	met	0			0		0		0		0	0
Floor on the stock of net international reserves of the BM (US$ millions)	2000	1976	2251	met	2200	2292	met	2200	2000	2200	2000	2200	2000	2000	2000
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million) [3/]	0		1	not met	0			0		0		0		0	0
MPCC [4/5/]															
Inflation (upper-band, percent)	18.0				16.0			13.5	12.0	12.5	11.5	11.0	11.0	10.5	10.0
Inflation (mid-point, percent)	15.0		10.3	not met	14.0	9.3		11.5	9.0	10.5	8.5	9.0	8.0	7.5	7.0
Inflation (lower-band, percent)	12.0				12.0			9.5	6.0	8.5	5.5	7.0	5.0	4.5	4.0
Indicative Targets	**IT**				**IT**			**IT**		**IT**		**IT**		**IT**	**IT**
Present value of new external debt (US$ million) [6/]	294		93.5	met	86	0		215		320		436		110	255
Ceiling on domestic debt stock [7/]	270	271.4	281.5	not met	278	307	not met	320	312	328	318	350	341	356	366
Floor on social spending [8/]	5.8		5.7	not met	1.7	0.4	not met	3.4		5.1		6.8		7.0	7.0
Memo item:															
External concessional borrowing	35.4														
Budget grants (US$ million)	349.6				0.0			0.0		0.0		300.3			

Sources: Mozambican authorities; and IMF Staff.

[1/] Revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

[2/] Refer to the TMU for a definition of the evaluation basis of the QPC, the instruments and institutional coverage of public debt for the purposes of evaluation of this PC.

[3/] Assessed on a continuous basis.

[4/] If the end of period year-on-year headline inflation is outside the upper/lower bound, a formal consultation with the Executive Board as part of program reviews would be triggered.

[5/] As noted in paragraph 29 of the TMU, the MPCC also applies through the end of the program period.

[6/] This iarget is cumulative from the beginning of each calendar year. In 2022, the ceiling on the present value of new external contracted or guaranteed public debt is based on debt contracted after May 9, 2022.

[7/] Includes T-bills, T-Bonds, loans from the Central bank and other direct loans from banks but excludes net transactions with the CB related to the use of the SDR allocation for budget financing.

[8/] Social Spending is defined as transfers to INAS (National Institute for Social Action).

Table 2. Mozambique: Prior Actions and Structural Benchmarks for the Program Under the ECF Arrangement

	Measures	Macroeconomic objectives	Due Dates	Status
	Prior actions			
	Incorporation of all public sector servants into the electronic payroll system (e-folha).	Wage bill control		
	Approval by parliament of amendments to the wage bill law, adjusting the percentage of the reference salary, which is applied to the calculation of the representation subsidy, for statutorily appointed and elected holders of public office.			
	Structural Benchmarks			
Governance and Anti-Corruption	Submit to Parliament an amendment to the Public Probity Law to: (i) clarify to which individuals the various requirements apply; (ii) strengthen the definition of conflict of interest; (iii) require submission of declarations of financial interests by new public servants upon hiring; (iv) establish published procedures for reporting conflicts of interest.	Improve governance and strengthen efficiency of public spending.	End-June 2023	
	Publication of 2020 and 2021 external audit reports of COVID 19 emergency expenditure, including all findings except for those possibly involving financial responsibility (newly proposed structural benchmark).		End-November 2023	
	Make adequate, accurate and up-to-date information on beneficial ownership publicly available at the centralized registry (Registro das Entidades) in line with the FATF standards (newly proposed structural benchmark).		End-December 2023	
LNG Revenue Management	Submit to Parliament the law on the Sovereign Wealth Fund on LNG resources.	Improve governance, strengthen revenue mobilization and efficiency of public spending, and optimize budgetary use of resource revenue.	End - Dec 2022	Met
Fiscal	Fully implement the elimination of VAT exemptions and zero-ratings identified through the 2022 prior action	Enhance revenue mobilization.	Jan. 1 2023	Not met
	Establish the quarterly Treasury Budget which will determine limits on quarterly commitments to be operationalized, and eliminate ex-ante weekly commitment limits in the budget law for 2023 and in the corresponding budget execution ~~decree~~ circular.		End-January, 2023	Met
	Fully implement in all spending units e-SISTAFE tools for budgetary planning (annual) and for financial programming (quarterly).		End - Dec 2022	Met

Table 2. Mozambique: Prior Actions and Structural Benchmarks for the Program Under the ECF Arrangement (concluded)

	Measures	Macroeconomic objectives	Due Dates	Status
Fiscal	Include in the 2023 budget document and all implementing documents the public service hiring limit of one out of three leaving employees except in the sectors of education, health, justice administration and agriculture.	Reduce public debt through fiscal consolidation.	End-December 2022	Met
	Include in the 2024 budget document and all implementing documents the public service hiring limit of one out of three leaving employees except in the sectors of education, health, justice administration and agriculture.		End-December 2023	
	Extend the implementation of the new e-tax system (including filing electronic tax returns and payments) to all taxes and tax administration offices.	Enhance revenue mobilization.	End-December 2023	
	Implement the digital interface (Portal do contribute) to allow all taxpayers to file and pay all taxes electronically.		Proposed change from end-December 2023 to end-March 2024	
	Approval of Ministerial Regulation (Diploma) to determine the reference price of extractive industry upon which the tax base is calculated on the basis of international prices instead of the current practice of using the firm's last sale price (newly proposed structural benchmark).		End-September 2023	
	General audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finances (IGF) (newly proposed structural benchmark).	Wage bill control	End - September 2023	
	Submit to Council of Ministers an action plan to address the wage bill overrun consistent with the fiscal consolidation path under the program and anchor efforts to bring the wage bill to around 10 percent of GDP over the medium-term (newly proposed structural benchmark).		End-December 2023	
	Publish the financial risks indicators (as referenced in the MEFP, ¶43) for the complete list of entities comprising the SOEs and other public bodies as published in the CGE Mapa I-06 (newly proposed structural benchmark).	Enhance SOE transparency and strengthen governance	End-March 2024	
Debt Management	The National Directorate for Treasury to prepare weekly cash flow forecasts extending at least three months ahead to be rolled forward at least monthly in line with FAD recommendation (newly proposed structural benchmark).	Enhance cash and debt management	End-June 2024	

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Letter of Intent (LOI) and Memorandum on Economic and Financial Policies (MEFP) of November 4, 2022. It describes the information requirements to monitor performance under the ECF-supported program. The authorities will consult with the IMF before modifying measures contained in this TMU or adopting new measures that would deviate from the goals of the program.

A. Quantitative Performance Criteria (QPC) and Indicative Targets (IT)

2. The quantitative performance criteria listed below are those specified in Table 1 of the MEFP. Definitions and adjusters (to take into account factors or changes beyond the control of the Government) for each criterion are specificized in the subsequent sections (B, C, D, and E). Continuous Quantitative Performance Criteria require that at no point in time will the ceiling be breached. Unless stated otherwise, all quantitative performance criteria will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates specified in Table 1 of the MEFP. The quantitative performance criteria are as follows:

- Floor on domestic primary budget balance (section B).
- Floor on the stock of Net International Reserves (NIR) of the Bank of Mozambique (BM) (section C).
- A zero ceiling on the accumulation of new public and publicly guaranteed external payment arrears. (Section D).
- Ceiling on new non-concessional external debt contracted or guaranteed by the public sector (section E).

3. The indicative targets listed below are those specified in Table 1 of the MEFP. Definitions and adjusters for each indicative target are specificized in the subsequent sections (F, G, H). Unless stated otherwise, all indicative targets will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates specified in Table 1 of the MEFP. The indicative targets are as follows:

- Ceiling on the present value of new external debt (section F).
- Ceiling on domestic debt (section G).
- Floor on social spending (section H).

B. QPC on the Floor on Domestic Primary Budget Balance

Definition

4. The domestic primary balance is defined as the difference between total government non-liquified natural gas (LNG) revenue (minus grants) and domestic primary expenditure.

The above items are defined as follows:

- Unless otherwise indicated, the term **Government** refers to the central government of the Republic of Mozambique comprising all the national executive, legislative and judicial bodies at the central level and central government's representatives at the local level and all budget and extrabudgetary public entities such as institutes, funds and agencies whose competence are included in the definition of central government as defined in the Government Finance Statistics Manual of 2014 (GFSM 2014), paragraphs 2.85 – 2.89.

- **Total government revenue** is the sum of tax revenue and non-tax revenue (as defined in GFSM 2014, Chapter 5) and is recorded on a cash basis. LNG revenue and exceptional receipts as defined below, will be shown in the breakdown of total government revenue. For program purposes, LNG revenue will be excluded from total government revenue and therefore are not part of calculation of domestic primary balance reported in the quantitative performance criteria in Table 1 of the MEFP.

- **Tax revenue.** Tax revenues are the sum of revenues from taxes and levies on (i) income, profits and capital gains, (ii) salaries and labor, (iii) assets, (iv) taxes on goods and services, (v) foreign trade and international transactions, and other tax revenues. They correspond to "receitas fiscais", as reported in the Mapa Fiscal.

- **LNG revenues.** For the purpose of this TMU, LNG revenues are defined as all revenues from the LNG sector, including royalties, profit share, CIT, dividends from state's participations and all other LNG-related tax or revenues.

- **Grants.** Grants are defined in paragraph 5.101 of the GFSM 2014. For the purpose of this TMU, grants consist of project grants and budget grants.

- **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees on a gross basis, goods and services, transfers (including subsidies, grants, social benefits, and other expenses), other current outlays, interest payments, and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. Spending items are defined as in GFSM 2014 (Chapter 6).

- **Primary expenditure** is understood as total government expenditure as defined above minus interest payments.

- **Domestic primary expenditure** is understood as primary expenditure minus externally financed capital expenditure.

- **Exceptional receipts** are defined as all resources that come from (i) the sale or placement or privatization of Government's assets, (ii) taxation on contracts, (iii) granting or renewal of licenses, (iv) resolution of disputes between foreign companies operating in Mozambique and the Government in connection with their tax obligations or potential violations to laws and standards or any other legal obligations, and any other exceptional receipts.

Adjusters to Domestic Primary Balance

5. The following adjustors will apply to the target on the domestic primary balance.

- If the budget grants or loans are larger than the programmed amount, or in the event of exceptional receipts (according to Article 4 of the 2022 budget law, the government may use exceptional resources for investment and emergency spending and debt reduction), the floor for the domestic primary balance can be adjusted downward by 75 percent of the excess amount in 2022, 60 percent of the excess amount in 2023, and 50 percent of the excess amount in 2024. For the purpose of the TMU, baseline budget grants and budget loans are shown in the Text Table 1.

- In the event of a natural disaster, the floor for the domestic primary balance can be adjusted downward by up to MTS 3.7 billion drawling on the capital gains Treasury account ("*Mais valías*") at the Central Bank.

- If the authorities sign an agreement to settle the disputed liability, as part of court or arbitral decisions or as part of out of court settlements with respect to government guarantees on existing external debt in dispute as of Dec 31, 2022, that result in more favorable terms to the guarantor than those of the initial debt, the floor for the domestic primary balance will be adjusted downward by the amount to be settled immediately (in the same year of signature of the agreement) and recorded as a state-owned enterprise transfer, per the terms of the signed agreement.

Text Table 1. Baseline Projection of Selected Variables
(In million of US dollars; Cumulative on an annual basis)

	End-Mar 2023	End-Jun. 2023	End-Sep. 2023	End-Dec. 2023	End-Mar. 2024	End-Jun. 2024	End-Sep. 2024
Budget Grants and loans	0	0	0	300.27	0	0	150.27
Exceptional Receipts	0	0	0	0	0	0	0

C. QPC on the Floor on the Stock of NIR of the BM

Definition

6. **Net international reserves (NIR) of the Bank of Mozambique (BM) are defined, consistent with the definition of the Template on International Reserves and Foreign Currency**, as external assets readily available to, or controlled by, the BM net of its external liabilities. Pledged or otherwise encumbered reserve assets (including swaps) are excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Reserve assets corresponding to undisbursed project accounts are also considered encumbered assets and are excluded from the measurement of NFA for program purposes. External liabilities include, inter alia, use of IMF resources.

Calculation of NIR

7. **The stock of net official international reserves (NIR) of the BM will be calculated as the difference between total gross official international reserves and official short-term reserve liabilities**.

- **Gross official international reserves are defined as the sum of:**
- the BM's holdings of monetary gold (excluding amounts pledged as collateral);
- holdings of Special Drawing Rights (SDRs);
- BM holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments); and
- Mozambique's reserve tranche position with the IMF.
- **Gross official usable international reserves exclude**:
- pledged, swapped, or any encumbered reserve assets, including but not limited to reserve assets used as collateral or guarantees for third-party external liabilities (assets not readily available);
- precious metals other than gold, assets in nonconvertible currencies and illiquid foreign assets.
- **Gross official reserve liabilities are defined as:**
- the total outstanding liabilities of the BM to the IMF, excluding the SDR allocations;
- convertible currency liabilities of the BM to nonresidents with an original maturity of up to and including one year; and

- commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options)

Adjustor to NIR Floor

The QPC (floors) for net international reserves (NIR) will be adjusted:

- downward by any shortfall in budget grants and loans relative to the program baseline excluding the IMF's budget support.

- downward to accommodate higher external outlays linked to relief from natural disasters.

- upward for any implicit or explicit reimbursement of past public or publicly guaranteed debt service as a result of refinancing of obligations, such as those related to MAM or Proindicus.

- If the amount disbursed through project loans and grants and channeled through the Bank of Mozambique's FX reserves is higher/lower in U.S. dollar terms than assumed under the program—as set out in Text Table 2—the floor on the program NIR will be adjusted upward/downward by the cumulative differences on the test date. These adjustors will apply to the NIR floor for end-June 2023 and thereafter.

Text Table 2. Cumulative Project Financing Channeled Through the Bank of Mozambique
(Million USD)

Actual	Projected				
End-March 2023	End-June 2023	End-Sep 3023	End-Dec 2023	End-March 2024	End-June 2024
54	234	319	625	97	234

Note: These inflows are recorded monthly by the BM in the cash flow table under "2.3. Estado (Entradas para Projectos)" together with IMF disbursements.

8. **NIR is monitored in U.S. dollars**, and, for program monitoring purposes, assets and liabilities in currencies other than the U.S. dollar shall be converted into dollar equivalent values, using the exchange rates or source as specified in the text Table 3.

Text Table 3. Program Exchange Rates
(Currency unit per US dollar)

SDR	0.723999
EUR	1.1044
JPY	119.17
CNY	6.3609
INR	76.03
KRW	1212.2

Source: March 18, IMF and Federal Reserves
http://www.federalreserve.gov/releases/h10/current/default.htm.
http://www.imf.org/extenral/np/data/ms_five.aspx

D. QPC on a Zero Ceiling on the Accumulation of New Public and Publicly Guaranteed External Payment Arrears

Definition

9. **Definition and coverage of public and publicly-guaranteed external debt is provided in section E**.

10. **External payment arrears are defined as the difference between the amounts required to be paid under the contract or legal document** and the amount actually paid after the payment deadline, including any grace period, specified in the pertinent contract.

11. **The government's external payment arrears include all external debt service obligations (principal and interest) matured and unpaid deriving from loans arranged or guaranteed by the central government, penalties, and interest charges deriving from these loans not paid at maturity**. For performance criteria requirements, external debt service obligations matured and unpaid after 30 days will be considered "program" arrears. The definition excludes arrears relating to debt subject to renegotiation (dispute or ongoing renegotiation) or rescheduling. External debt is defined on a currency basis.

12. **The performance criterion on the public and publicly-guaranteed external payment arrears is defined as a cumulative flow in gross terms from May 9, 2022 and applies on a continuous basis**.

E. QPC on the Ceiling on New Non-Concessional External Debt Contracted or Guaranteed by the Public Sector

Definition of Debt Ceiling

13. **A performance criterion (ceiling) applies to the present value (PV) of new external non-concessional debt <u>contracted or guaranteed</u> by the public sector**. The ceiling applies also to debt contracted or guaranteed for which value has not yet been received. Operations that resolve arrears to Angola, Bulgaria, Iraq, Libya, and Poland and result in reduction in outstanding stock of debt are excluded from the ceiling. Court or arbitral decisions and related debt operations with respect to government guarantees on existing external debt in dispute as of Dec 31, 2022, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling.[1] Debt operations that restructure existing loans and that result in a reduction of the present value (present value savings) compared with the initial debt and/or an improvement of the overall public external debt service profile will be excluded from the ceiling. In the calculation of the present value savings for these debt operations, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future

[1] The latter is a change from the time of program approval.

stream of debt service due on the instrument it replaces using a discount rate of 5 percent and these amounts will not be capped by the nominal value of the debt. The company Hidroeléctrica de Cahora Bassa (HCB) is excluded from this criterion. HCB meets the criteria for exclusion set out in the 2017 Staff Guidance Note on the Debt Sustainability Framework for LICs (Appendix III) because it is run on commercial terms, has good financial performance, enjoys managerial independence, and borrows without government guarantee.

Definition of Debt

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

15. The term "debt"[2] is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several forms; the primary ones being as follows:

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

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

iii. lease agreements (classified as debt until 2021 and then reclassified as goods and services from 2022, based on recommendations from the IMF Statistics department), that is, arrangements under which the lessee is allowed to use a property for a duration usually shorter than that of the life of the property in question, but without transfer of ownership, while the lessor retains the title to the property. For the purposes of this guideline, the debt is the present value (at the inception of the lease) of all the lease payments expected for the period of the agreement, except payments necessary for the operation, repair, and maintenance of the property.

16. In accordance with the definition of debt set out above, arrears, penalties and judicially awarded damages arising from failure to pay under a contractual obligation that

[2] Guidelines on Public Debt Conditionality in IMF-Supported Programs.

constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Coverage of Debt

17. For the purposes of this debt limit ceiling, public sector debt covers public and publicly guaranteed debt. The public sector comprises the central government, the central bank, and Empresa Nacional de Hidrocarbonetos (ENH). The government's control of an entity will be assessed according to the methodology defined in GFSM 2014, Chapter 2.

18. For program purposes, a 'guaranteed debt' is an explicit promise by the public sector to pay or service a third-party obligation (involving payments in cash or in kind).

- Public sector external debt includes foreign-currency denominated obligations of the National Government of Mozambique, and foreign-currency denominated obligations of the Central Bank of Mozambique contracted on behalf of the national government (excluding newly contracted financing from the IMF and the General SDR allocation).

- The definition of debt is presented in the above sub-section, with the exception noted in the previous bullet.

Contracting of Debt and Treatment of Credit Lines

19. For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met, including approval by the Council of Ministers. Contracting of credit lines (which can be drawn at any time and entered into effect) with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

Present Value Calculation and Concessionality

20. For the purposes of the ceiling on the contracting or guaranteeing of new external non-concessional debt, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[3] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

21. The grant element of external debts in currencies other than the U.S. dollar will be calculated in U.S. dollar terms at program exchange rates. For any debt carrying a variable

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

interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 1.52 percent and will remain fixed for the duration of the program. The spread of six-month Euro EURIBOR over six-month USD SOFR is -200 basis points. The spread of six-month JPY OIS over six-month USD SOFR is -150 points. The spread of six-month GBP SONIA over six-month USD SOFR is -100 basis point. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD SOFR is -100 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 basis points) will be added.

External Debt

22. For the purposes of the ceiling on the contracting or guaranteeing of new external debt, external debt is any debt contracted or guaranteed by the public sector on non-concessional terms denominated in foreign currency, i.e., currency other than the Metical. External debts in currencies other than the U.S. dollar will be converted in U.S. dollars at program exchange rates (Text Table 3).

F. IT on the Present Value of New External Debt

23. An indicative target (ceiling) applies to the PV of new external debt <u>contracted or guaranteed</u> by the public sector, as defined in paragraphs 14–16. The ceiling applies also to debt contracted or guaranteed for which value has not yet been received. Operations that resolve arrears to Angola, Bulgaria, Iraq, Libya, and Poland and result in reduction in outstanding stock of debt are excluded from the ceiling. Court or arbitral decisions and related debt operations with respect to government guarantees on existing external debt in dispute as of Dec 31, 2022, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling. Debt operations that restructure existing loans and that result in a reduction of the present value (present value savings) compared with the initial debt and/or an improvement of the overall public external debt service profile will be excluded from the ceiling. In the calculation of the present value savings for these debt operations, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 5 percent and these amounts will not be capped by the nominal value of the debt.

G. IT on the Ceiling on Domestic Debt

Definition

24. For the purpose of this TMU, domestic debt is defined as provided in Mapa da Divida, covering T-bills, T-bonds, loans from the Bank of Mozambique excluding onlending from the additional SDR allocation received in August 2021 (MT 20.5 billion), and "Other" ("Outros").

25. The indicative target (ceiling) applies to the nominal value of domestic debt by the central government denominated in metical. Newly issued domestic debt as part of debt operations related to court or arbitral decisions or as part of out of court settlements concerning government guarantee on existing external debt in dispute as of December 31, 2022, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling. Data on domestic debt will be reported and communicated to the IMF in the "Mapa de divida interna" prepared by the MEF and in the weekly and monthly data received from the BM.

Adjustors to the IT Domestic Debt

26. The following adjustors will apply to the target on domestic debt:

- If the budget grants or loans are **lower** than the programmed amount, the ceiling on the stock of domestic debt will be adjusted upward by the amount of the shortfall. For the purpose of the TMU, baseline budget grants and budget loans are shown in the Text Table 1.

- The ceiling on the stock of domestic debt will be adjusted upwards by the amount of MT 35 billion of securitized VAT arrears to be repaid by the Treasury.

H. IT on the Floor on Social Spending

Definition

27. For the purpose of this TMU, social spending is defined as transfers to INAS[4] from the budget (through the treasury single account, i.e., not including transfers to INAS through project grants or project loans from external partners). The IT is on the execution on budget spending (rather than allocation).

	LEI 2022			PROP. 2023		
	Interno	Externo	Total	Interno	Externo	Total
			Em Milhões de MT			
Programas de Protecção Social	**4,750.0**	**1,444.5**	**6,194.5**	**6,800.1**	**4,247.3**	**11,047.4**
Subsídio Social Básico	3,735.8	701.1	4,437.0	4,843.5	1,490.0	**6,333.5**
Apoio Social Directo	594.8	743.4	1,338.3	815.5	785.1	**1,600.5**
Serviços Sociais de Acção Social	-	-	-	-	-	**-**
Acção Social Produtiva	267.8	-	267.8	796.6	1,972.2	**2,768.8**
Programa de Atendimento em Unidades Sociais	118.1	-	118.1	344.5	-	**344.5**
Programas de Serviços Sociais de Acção Social	33.4	-	33.4	-	-	**-**

Fonte: *MEF, MGCAS 2022*

[4] Instituto Nacional de Acçao Social.

Adjustors to the IT on Social Spending

28. The following adjustor will apply to the indicative target on social spending.

- Should expenditure compression be needed, social spending would be adjusted to the extent that it is reduced proportionally less than other domestically financed primary spending such that its ratio increases compared to the previous year.

I. Monetary Policy Consultation Clause (MPCC)

29. The authorities will complete a consultation with the Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviation, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary, if the end-of-period year-on-year headline 3-city ("MABENA") inflation falls outside the:

- ±3 percentage point range around the 9.0 percent mid-point target band value for end-June 2023, 8.5 percent for end-September 2023, or 8.0 percent for end-December 2023.
- ±3 percentage point range around the 7.5 percent mid-point target band value for end-March 2024, 7.0 percent for end-June 2024.

J. Structural Benchmarks and Prior Actions

30. Prior Actions are specified in Table 2 of the MEFP.

- Incorporating all public servants into the electronic payroll system (e-folha).

31. Parliament approval of amendments to the wage bill law, adjusting the percentage of the reference salary, which is applied to the calculation of the representation subsidy, for statutorily appointed and elected holders of public office. **Structural benchmarks are specified in Table 2 of the MEFP**.

- Submit to Parliament an amendment to the Public Probity Law to: (i) clarify to which individuals the various requirements apply; (ii) strengthen the definition of conflict of interest; (iii) require submission of declarations of financial interests by new public servants upon hiring; (iv) establish published procedures for reporting conflicts of interest, by end-June 2023.
- Submit to Parliament the law on the Sovereign Wealth Fund on LNG resources by end-December 2022.
- Fully implement the elimination of VAT exemptions and zero-ratings identified through the 2022 prior action by (i) adopting the revised VAT law and (ii) making effective the implementation decree to the VAT law by January 1, 2023.

- Include in the 2023 and 2024 budget documents the public service hiring limit of one out of three leaving employees except in the sectors of education, health, justice administration, and agriculture.

- Fully extend the implementation of e-tributação to all taxes and tax offices by end-2023.

- Implement the digital interface (Portal do contribuinte) to allow all taxpayers to file and pay all taxes electronically by end-June 2023.

- Fully implement in all spending units e-SISTAFE tools, *Orçamento de Tesouraria* for budgetary planning (annual) and *Plano de Tesouraria* for financial programming (quarterly) by end-December 2022.

- Through the applicable budget execution circular to be issued for management of the 2023 budget, implement the establishment of ex-ante quarterly commitment limits for all expenditure units. These limits will allow all expenditure units to record expenditure transactions in real time and issue commitment notes in e-SISTAFE. The cash management committee will establish the quarterly Treasury Budget which will determine limits on quarterly commitments to be operationalized in e-SISTAFE and eliminate the operation of ex-ante weekly commitment limits for 2023. (Proposed modified structural benchmark for January 2023).

K. Reporting Procedures to the IMF

32. Data on all the variables subject to quantitative performance criteria and indicative targets and information on the progress towards meeting structural benchmarks will be transmitted regularly to the IMF in accordance with the table shown in Attachment 1 herewith. For the purpose of this TMU, **days** refer to calendar days unless otherwise specified. Revisions to data will also be forwarded to the IMF within 5 days after being made. In addition, the authorities will transmit to IMF staff any information or data not defined in this TMU but pertinent for assessing or monitoring performance relative to the program objectives.

33. Fiscal data. Fiscal data are reported in the following documents.

- Mapa Fiscal

34. Debt Data. Debt data are reported in the following documents.

Domestic Debt

- Mapa de divida

- Mapa de projeçao de divida interna

External Debt

- Mozambique External Loans Government Guaranteed Public Debt Having DOD Outstanding For Year Ending (each year)

- External Debt Service Projection by creditor and project

- Tabela 8a and Tabela 8b

- Newly contracted debt terms (as per the IMF tool on the PV of new debt).

35. ENH data.

- ENH (through MEF) will provide quarterly updates for all LNG projects debt data ahead of each quarterly deadline on: (i) actual and projected carry disbursements or balance, broken down by carry agreement and creditor, (ii) interest accumulated, and (iii) modifications to terms or relief granted (for example, a delay in interest accumulation), (iv) balance on the State guarantee according to the debt drawdown (Area 1), and (vi) revisions to capex and project costs. ENH will inform the IMF of new debt negotiations, and provide term details once these negotiations are completed.

- For the projects under production phase ENH data will be expected quarterly on: (i) actual and projected production quantities, (ii) actual and projected prices, and (iii) actual and projected operating costs.

Table 1. Mozambique: Summary of Data to be Reported

Data	*Provider*	*Periodicity and Target Date*
Inflation		
CPI	INE	Monthly, 10 days after the end of the month
2. Fiscal data		
Mapa Fiscal	MEF	Monthly, 50 days after the end of the month
Total government revenue and expenditure as defined in paragraph 4 of the TMU	MEF	Monthly, 30 days after the end of the month
Total compensation to all public sector employees and breakdown by sector per the template prepared by IMF staff	MEF	Monthly, 30 days after the end of the month
Table with social transfers to INAS	MEF	Quarterly, 50 days after the end of the quarter
3. Public debt		
Mapa de Divida, which includes the stock of Treasury Bills and Bonds, debt from the central bank and other domestic debt “outros”, including the quarterly Mapa 1-3 (MOVIMENTO DA DÍVIDA PÚBLICA POR GRUPO DE CREDORES)	MEF	Quarterly, 30 days after the end of the quarter
Mapa de projeçao de divida interna	MEF	Quarterly, 50 days after the end of the quarter
Total new contracted or guaranteed external project loans (concessional and non-concessional).	MEF	Data will be provided to the IMF on a continuous basis
Total other new contracted or guaranteed external concessional debt	MEF	Quarterly. Within 50 days after the end of the quarter
Total new Eurobond issuances	MEF	Data will be provided to the IMF on a continuous basis
Total new other non-concessional external debt contracted or guaranteed	MEF	Quarterly. Within 50 days after the end of the quarter
Change in external arrears, including interest and principal, and penalties		Data will be provided to the IMF on a continuous basis.
4. Gross Reserves (in US$ million)	BM	Monthly, 30 days after end of month
Monetary Gold	BM	Monthly, 30 days after end of month
Foreign Currency Included in Official Reserve Assets	BM	Monthly, 30 days after end of month
Transf. Dep. Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Other Dep. Multilateral Payment Agreements FC	BM	Monthly, 30 days after end of month
Other Dep. Included in Official Reserve Assets Other FC	BM	Monthly, 30 days after end of month

Table 1. Mozambique: Summary of Data to be Reported (continued)

Data	***Provider***	***Periodicity and Target Date***
Securities Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Repos Nonresidents Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Other Loans Nonresidents Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Shares Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Financial Derivatives Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Net international reserves at program exchange rates as specified in text Table 3	BM	Monthly, 30 days after end of month
FUND ACCOUNTS	BM	Monthly, 30 days after end of month
Reserve Position in the Fund, IMF Record	BM	Monthly, 30 days after end of month
SDR Holdings, IMF Record	BM	Monthly, 30 days after end of month
Short-term foreign liabilities	BM	Monthly, 30 days after end of month
Transf. Dep. Excl. Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Other Dep. Excl. Multilateral Payment Agreements FC	BM	Monthly, 30 days after end of month
Other Dep. Excl. Nonresidents Short-Term Other FC	BM	Monthly, 30 days after end of month
Securities Excl. Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Repos Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Other Loans Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Financial Derivatives Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Of which: Liabilities to IMF	BM	Monthly, 30 days after end of month
Use of Fund Credit & Loans, IMF Record	BM	Monthly, 30 days after end of month
External cash flow		
External cash flow to compute international reserves (Reservas Internacionais Liquidas)	BM	Monthly, 40 days after end of month
5. LNG debt		
Actual and projected carry disbursements or balance, broken down by carry agreement and creditor.	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.

Table 1. Mozambique: Summary of Data to be Reported (concluded)		
Data	***Provider***	***Periodicity and Target Date***
Interest accumulated.	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
Modifications to terms or relief granted (for example, a delay in interest accumulation).	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
Balance on the State guarantee according to the debt drawdown (Area 1).	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
Revisions to capex and project costs.	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
Inform IMF of negotiations for new debt (terms to be provided once negotiations are completed).	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
6. LNG production		
Actual and projected production quantities.	ENH	Quarterly. Within 20 days after the end of the quarter.
Actual and projected prices.	ENH	Quarterly. Within 20 days after the end of the quarter.
Actual and projected operating costs.	ENH	Quarterly. Within 20 days after the end of the quarter.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

June 21, 2023

SECOND REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE, WAIVERS OF NONOBSERVANCE FOR QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the staffs of the International Monetary Fund and the World Bank.

Mozambique: Risk Rating Summary	
Joint Bank-Fund Debt Sustainability Analysis	
Risk of External debt distress:	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

The assessment is unchanged from the DSA at program approval in 2022. Overall and external public debt are assessed to be at high risk of distress due to some indicators remaining above sustainability thresholds for some years under the baseline, and the vulnerability of debt to downside risks during this period.[1] *Public debt is assessed as sustainable in a forward-looking sense because a large share of projected future borrowing reflects the state's participation in large LNG projects, which will be repaid directly from future LNG revenues (which are expected to be significant). The PV of external debt-to-GDP and the public debt-to-GDP ratio reach the threshold one year later than the 2022 DSA, on account of fiscal slippages related to public wage bill reform. Risks are tilted to the downside, reflecting vulnerability to natural disasters, intensification of terrorist activity in the North (which could jeopardize onshore LNG projects), and deepening geo-economic fragmentation. On the upside, assumptions underlying the DSA are conservative, as growth projections do not incorporate potential spillovers from LNG projects to the broader economy. In addition, external debt is mostly concessional, and debt contracted for LNG development will be entirely repaid from LNG revenue, once production starts.*

[1] Mozambique's debt carrying capacity is assessed as "weak" based on a compositor indicator value of 2.62. This assessment is based on the World Economic Outlook, April 2023 and the 2021 Country Policy and Institutional Assessment.

PUBLIC DEBT COVERAGE

1. **The coverage of public and publicly guaranteed debt is the same as in the program DSA** (Text Table 1). The analysis covers external and domestic obligations of the central government, including on-lending to SOEs. The authorities provide data on debt of state-owned enterprises (SOEs) and guarantees provided by the central government on debt contracted by SOEs. Most of SOE guarantees relates to the state energy company—Empresa Nacional de Hidrocarbonetos (ENH)—which is involved in the LNG exploitation. SOE domestic debt is included, while non-ENH SOE direct external debt is not included. Domestic debt is denominated in local currency and, for the purposes of the analysis, is assessed by currency, as data capturing the residency of creditors are not available. The contingent liabilities stress test assumes realization of contingencies linked to the disputed government guarantees on commercial loans (around 7.5 percent of GDP),[2] debt contracted by municipalities, and non-ENH SOE external debt are realized.[3] For the latter two contingencies, the contingency is estimated to be slightly above the default amount (at 3 percent in total) based on available information.[4]

Text Table 1. Mozambique: Public Debt Coverage and Design Stress Tests of Contingent Liability

Public sector coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

Definition of contingent liabilities

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt		
2	Other elements of the general government not captured in 1.	1.5 percent of GDP	1.5	Municipalities debt
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	9	Disputed sovereign guarantee arrears (7.5) + non-ENH SOE direct external debt (1.5)
4	PPP	35 percent of PPP stock	3.27	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		18.8	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

[2] The government of Mozambique is disputing its liability for state guarantee of loans extended to the two SOEs MAM and Proindicus in the context of the broader "undisclosed debt" scandal. The Mozambican state and Credit Suisse are suing each other, and are both being sued by investors in the UK. The "undisclosed debts" are related to loans worth US $ 2.2 billion contracted between 2013 and 2014 from the British branches of investment banks Credit Suisse and VTB by Mozambican state-owned companies Proindicus, Ematum, and MAM.

[3] Direct external debt includes debt contracted by TMCel (telecom company), Petromoc (fuel importer), EMEM (mining company), EDM (electricity company) and BNI (Banco National de Investimento). It is not included because there is no information on future disbursements for this debt.

[4] Municipalities debt is not currently systematically collected by the authorities. Most of this debt is short-term, to address liquidity needs within the year, and municipalities are required to obtain authorization from the Minister of Finance before contracting longer-term debt.

BACKGROUND

A. Recent Economic and Debt Developments

2. A recovery is underway led by agriculture, services, and offshore LNG production (Coral platform). Growth accelerated from 2.4 percent in 2021 to 4.2 percent in 2022 led by acceleration across most sectors. The offshore LNG platform was delivered and started production at end-2022. Exports made a strong recovery (growing by 48 percent), in particular coal, intermediate goods, and electricity. Imports also increased both due to the LNG offshore platform import in early 2022, and non-megaproject imports. Reserves declined in 2022, with an acceleration in the second half of the year as the Bank of Mozambique (BM) provided FX to fuel importers, amid rising energy prices. The current account excluding "megaprojects" remains in structural deficit. Fiscal performance deteriorated significantly in 2022, with a primary deficit after grants reaching 2 percent of GDP, compared to projections at the start of the program at 0.2 percent of GDP.

3. With regards to onshore LNG development, Totalenergies—the lead member of the consortium for Area 1—has not yet announced a resumption date for its onshore LNG project. Following terrorist attacks in 2021, Totalenergies declared *force majeure* and suspended activity until "security and stability have been restored in a sustainable manner". The company has reiterated its long-term commitment to the project, in which it has substantial sunk costs from purchasing the concession and initial investments, with the project about one third of the way to completion. A second onshore LNG project led by ExxonMobil has not yet reached Final Investment Decision.

4. While domestic borrowing increased in 2022, GDP growth helped reduce total debt to GDP ratio. External public debt is estimated at 71.1 percent of GDP at end-2022, down from 81.2, explained by a decrease in the nominal amount of external debt due to net repayments, higher growth and favorable exchange rate movements. ENH equity debt on Golfinho increased due to capitalized interests, as well as additional costs incurred for local socio-economic development activities around the project, and other costs related to maintaining the current infrastructures (security, storage, etc.). Domestic debt is estimated to have risen to about 24.5 percent of GDP, partly due to the unexpected additional cost of the wage bill reform and a shortfall in revenues. The share of short-term debt in the total is about 15 percent, consistent with the Medium-term Debt Strategy (¶11). Public external debt is largely concessional, owed to multilaterals and bilateral donors (Text Table 2, Table 5). New multilateral debt disbursement came from the new IMF program in 2022, and existing project loans. Overall, multilateral debt level stayed unchanged between 2021 and 2022. Bilateral nominal debt decreased slightly. The program with the IMF catalyzed financing from the World Bank through a DPF worth $284.9 million in grants in October 2022 and a budget grant of $42.8 million by the EU. Mozambique does not have market access, and external commercial borrowing is precluded under the IMF-supported program.

Text Table 2. Mozambique: Debt, Public and Publicly Guaranteed
(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 Prel.
Public Sector Debt	**64.3**	**87.4**	**126.2**	**104.1**	**106.7**	**99.0**	**120.0**	**104.9**	**95.5**
Public Sector External Debt (Incl. Guarantees)	**58.1**	**76.6**	**103.6**	**83.8**	**86.2**	**79.4**	**97.8**	**81.2**	**71.1**
A. Bank of Mozambique-IMF	1.1	1.8	2.0	1.3	1.0	1.4	4.0	3.0	3.1
B. General Government	47.5	63.6	89.4	72.3	74.5	73.1	92.8	77.4	67.0
Multilateral creditors, excl IMF	19.9	26.2	35.9	29.3	29.6	27.1	32.9	27.7	23.2
Bilateral creditors	19.9	28.6	39.0	32.2	32.7	29.3	34.0	27.2	21.6
Paris Club	3.1	4.7	7.1	7.1	8.1	7.2	8.7	6.4	5.3
China (incl. EXIMBANK of China)	8.3	11.3	16.1	14.2	14.7	12.9	14.8	12.0	9.0
Portugal	2.9	5.4	6.0	4.9	4.1	3.6	3.7	3.1	2.5
Pre-HIPC loans[1/]	3.5	4.2	5.6	4.2	4.0	3.8	4.5	3.6	3.3
Banks	3.0	3.0	6.9	5.1	5.0	5.7	6.9	5.5	4.7
EMATUM/Mozam Eurobond	3.0	3.0	6.9	5.1	5.0	5.7	6.9	5.5	4.7
Other public sector: *ENH (LNG project)*	4.6	5.7	7.6	5.7	7.1	10.9	19.1	17.1	17.4
C. Government guaranteed external debt	9.5	11.2	11.2	8.2	8.0	3.9	0.5	0.3	0.3
EMATUM	2.1	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proindicus	3.8	4.5	6.2	4.7	4.7	0.0	0.0	0.0	0.0
MAM	3.2	3.9	5.5	4.3	4.3	4.1	0.0	0.0	0.0
ENH	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.2
Other guarantees	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.1	0.0
D. External arrears	0.0	0.0	1.0	1.9	2.7	1.0	0.5	0.5	0.7
Public Sector Domestic Debt (Incl. Guarantees)	**6.3**	**10.9**	**22.6**	**20.3**	**20.5**	**19.6**	**22.1**	**23.7**	**24.5**
Memo item: disputed external arrears (not included in debt stock) [2/]	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*4.4*	*10.2*	*8.1*	*7.0*

1/ Stock of debt owed to Angola, Bulgaria, Iraq, Libya, Poland. These loans are not being repaid; debt stock interest and late interest (penalty) accruing on unresolved arrears are not added to the debt stock; negotiations are ongoing and, although initial stock of debt is reported here, HIPC terms are expected to be used, in line with PC representative agreement.
2/ Proindicus and MAM are in dispute.

6. **Mozambique has reached agreements on some of its defaulted external loans and is actively seeking resolution of the remaining ones.** The overall stock of external arrears on public and publicly guaranteed external debt service is estimated at US$1.9 billion at end-2022 (Text Table 3). Mozambique accrued some debt service arrears to Portugal and Spain at the end of 2022 due to administrative difficulties in processing the payments, and with the Islamic Development Bank in early 2023 linked to constraints in meeting a bunching of domestic and external debt service payments. All arrears have been resolved. The loans contracted by Proindicus and Mozambique Asset Management (MAM), which have disputed government guarantees, are not included in the baseline and are instead treated as contingent liabilities in accordance with IMF policy (Text Table 3). Mozambique has reached an agreement on an actualized amount for its arrears with Brazil and a repayment plan. While the plan is pending ratification by the Brazilian parliament yet, the MOU remains valid since it accounted for such potential delays.[5] Pre-HIPC Non-Paris Club arrears have a representative agreement in place. Mozambique has been in contact with the authorities of the five countries with which it still holds pre-HIPC arrears. They updated the reconciled amount on the arrears with Angola, and recently reached an understanding on a reconciled amount and repayment plan with Libya on its pre-HIPC loan. The understanding with Libya involves a haircut on accumulated interest, and debt service that is non-concessional. These terms are less favorable than

[5] The reconciled amount, which is technically still in arrears as long as the MoU is not ratified, is below 1 percent of GDP and constitutes a *de minimis* case as per the guidance on Bank-Fund DSAs.

the terms covered by the HIPC agreement and lead to an increase in NPV, and no significant change in the debt sustainability assessment.

B. Macroeconomic Forecasts

7. The onshore LNG project led by TotalEnergies is assumed to resume development in 2023. In view of the security improvement in the North, TotalEnergies published in May an assessment of the human rights situation and an action plan establishing a foundation for local socio-economic development. They have not announced the official resumption of the development phase. Once such decision is taken, the remobilization is expected to take about six months. It is therefore assumed that exports for the TotalEnergies and ExxonMobil projects will commence in 2027 and 2029 respectively, a year later than in the previous DSA. Meanwhile, the ENI-led Coral FLNG project, which started production in end-2022, is assumed to reach full-capacity in July. Government revenues will be small at first—under 0.1 percent of GDP in 2023—and are projected to reach 0.8 percent of GDP in 2027 when the first onshore project starts production.[6] First repayments for ENH's equity debt for Area 4 exploration and development will start in 2023 from its Coral South cash flow share (see Box 1 for details).

Text Table 3. Mozambique: Evolution of the Stock of External Arrears
(Millions of U.S. dollars)[1]

	End-2017	End-2018	End-2019	End-2020	End-2021	End-2022
Commercial Debt	**876.4**	**1241.1**	**1337.6**	**1337.6**	**1337.6**	**1337.6**
Mozam/ EMATUM	97.9	174.2	-	-	-	-
MAM [2]	343.1	499.1	644.0	644.0	644.0	644.0
Proindicus [2]	435.5	567.8	693.6	693.6	693.6	693.6
Bilateral Debt	**116.8**	**207.3**	**295.3**	**380.7**	**463.6**	**594.9**
Paris Club: Brazil [3]	22.9	37.7	51.9	65.6	78.9	142.5
Non-Paris Club [4]	93.9	169.7	243.4	315.1	384.8	452.3
Total	**993.2**	**1448.4**	**1632.9**	**1718.4**	**1801.3**	**1932.5**

[1] Staff estimates based on information received by the authorities on their debt strategy. Contractual penalty fees or rates have not been included.

[2] Arrears are in dispute since 2020 for MAM and 2019 for Proindicus.

[3] An MOU agreeing on a reconciled amount and a debt service path has been signed in 2022 and is awaiting Brazilian's Parliament approval. The reconciled amount is entered as a new loan in the DSA.

[4] Data reported by the authorities for Libya, Iraq, Angola, Poland and Bulgaria lack of debt servicing. The initial loan amounts are included in the debt stock in the DSA.

8. The medium-term growth outlook is positive. Growth is projected to strengthen to 7 percent in 2023, mostly due to LNG. Long-term non-LNG growth is estimated at 4 percent, assuming no positive spillovers from LNG to the rest of the economy, and substantially below growth rates observed prior to the "undisclosed debts" scandal. It is driven primarily by a large and growing contribution from services and a large, although shrinking, contribution from agriculture. The negative impact on growth from fiscal consolidation is expected to be compensated by the stimulating impact of higher public sector wages and looser monetary policy as the policy mix becomes more balanced. Overall growth is expected to accelerate sharply to 13.2 percent in 2027

[6] Government revenue streams from the first LNG project has started in the form of a royalty as well as a share of profit oil. Once the investing companies have recouped costs, they will also start paying corporate income tax.

and 12.1 percent in 2028 as the first onshore project begins production. Inflation is projected to be higher than in the May 2022 DSA due to (i) higher realized inflation over past months, as well as (ii) an upward revision of projected inflation, due to both domestic and global factors, in particular the relaxation of COVID-related restrictions in Mozambique, global supply-chain shocks, and the war in Ukraine. At the same time, inflation is expected to decline over the short and medium term amid tight domestic monetary policy.

9. External sector dynamics are dominated by the LNG projects development. Mozambique's external position in 2022 was substantially weaker than the level implied by fundamentals and desirable policies. The non-megaproject current account is dominated by goods imports that are not fully matched by exports and grants. The investments related to megaprojects are fully financed through FDI inflows. The medium-term current account is expected to show a large total deficit linked to the LNG investment projects, while the non-megaproject current account deficits are projected to improve over the medium term as structural reforms to promote diversification bear fruit. Government policies to improve infrastructure and increase productivity in the agricultural sector will be crucial to enhance competitiveness and foster non-megaprojects exports. Measures to foster human capital development and improve the business environment could encourage inclusive and resilient growth, and productivity improvements. The external position is expected to strengthen over the long term as LNG production and exports rise.[7]

10. International reserves are projected to rebound over the medium term. In addition to the tight monetary stance and raising reserve requirements on commercial banks' FX deposits from 11.5 percent to 28.5 percent (February 2023) and to 39.5 in May, the BM reduced its provision of FX to fuel importers from 100 percent to 60 percent of the fuel import bill in April 2023, and removed it completely in June. Fiscal consolidation and the ramp up in LNG revenue should also reduce pressure on reserves.

11. Mozambique's new medium-term debt strategy aims to increase the share of external debt (limiting new loans to concessional debt), and lengthen maturities on domestic debt, while looking for domestic

Text Table 4. Mozambique: Projected External Borrowing Program, January 1, 2023 to June 30, 2024

PPG External Debt	PV of New Debt 1/ USD million	PV of New Debt 1/ Percent
By Sources of Debt Financing	**691**	**100**
Concessional debt, of which 2/	**691**	**100**
Multilateral debt	394	57
Bilateral debt	297	43
Other	0	0
Non-concessional debt, of which	**0**	**0**
Semi-concessional 3/	0	0
Commercial terms 4/	0	0
By Creditor Type	**691**	**100**
Multilateral	394	57
Bilateral - Paris Club	197	29
Bilateral - Non-Paris Club	100	14
Other	0	0
Uses of Debt Financing	**691**	**100**
Economic Development	312	45
Infrastructure	379	55

Sources: Mozambican authorities and IMF staff estimates.
1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.
3/ Debt with a positive grant element which does not meet the minimum grant element.
4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

[7] See External Sector Assessment Annex in Staff Report.

private sector creditors.[8] The authorities contracted a new $200 million concessional loan with the World Bank in 2022 and reached a new loan agreement of $300 million to finance their economic development plan, to be signed by mid-2023. They have been carefully considering investment priorities and listed a pipeline of projects that would be signed in 2023. The total amount envisaged in this pipeline will stay within the agreed ceiling (Text Table 4).[9] Over the medium term, external financing is projected to increase slightly, reflecting an increase in multilateral concessional financing and in bilateral creditors' lending, with the share of multilateral lending still dominant but decreasing gradually. Over the long term, Mozambique is projected to rely gradually less on external financing as LNG revenues start flowing in.

12. External financing gaps are estimated at 1.5 percent of GDP on average over the period 2023-24. The financing needs arise because of budget outlays. Compared to the May 2022 DSA, spending pressures—mostly wage bill-related—have worsened the primary balance (Text Table 5). The authorities have used SDR 162.9 million of the SDR allocation of SDR 227.2 million as a complement to the IMF-supported program in 2022 and an additional SDR 65 million has been used in 2023. The three-year arrangement under the Extended Credit Facility of 150 percent quota (SDR 340.8 million) supports the authorities' reform program, addresses near-term BOP needs and provides budget support in the pandemic recovery phase.

Text Table 5. Mozambique: Selected Macroeconomic Assumptions

	2022	2023	2024	2025	2026	Long-term 1/
Primary Balance (Percent of GDP) 2/						
Current DSA	-2.1	0.5	1.0	1.8	2.0	5.5
ECF 2022 DSA	0.5	-0.5	0.5	1.4	4.1	4.2
Inflation rate (GDP Deflator, In Percent)						
Current DSA	11.5	8.1	7.4	7.0	6.2	5.5
ECF 2022 DSA	7.2	7.0	6.7	6.3	5.9	5.5
Nominal GPD (Meticals million)						
Current DSA	1,223,162.0	1,414,448.4	1,594,268.2	1,790,440.9	1,977,284.6	5,587,891.0
ECF 2022 DSA	1,173,199.9	1,317,565.9	1,522,671.1	1,700,752.6	2,049,826.3	5,400,182.1
Real GDP Growth (Percent)						
Current DSA	4.2	7.0	5.0	5.0	4.0	5
ECF 2022 DSA	3.8	5	8.3	5.1	13.8	4.4
Exports of Goods and Services (Growth)						
Current DSA	46.9	-1.4	3.8	5.3	3.8	7.3
ECF 2022 DSA	19.3	5	14.3	4.9	24.1	6.6
Current Account Balance (Percent of GDP)						
Current DSA	-32.9	-15.5	-38.9	-43.2	-44.9	-8.5
ECF 2022 DSA	-44.9	-39.0	-37.6	-37.0	-25.4	0.5

1/ Average 2028-40

2/ The primary balance presented here is composed of the central government primary deficit augmented by LNG revenues accruing directly to repay ENH debt.

13. A cumulative improvement of the primary balance (after grants) of about 3 percent of GDP is projected by 2024 compared with 2022. This is mainly driven by reforms on VAT and the wage bill:

- **Revenue performance and projections over the medium-term.** VAT collections in 2022 underperformed because of lower-than-expected activity associated with LNG projects. The VAT rate was reduced from 17 to 16 percent in 2023 and was combined with a broadening of the VAT net that was smaller than previously expected, as the elimination of some exemptions was delayed to 2024. Going forward, the expected resumption of LNG projects and positive spillovers from stronger economic activity in the North will help strengthen tax

[8] Under the IMF ECF and the World Bank's Sustainable Development Finance Policy, Mozambique has committed to zero non-concessional external borrowing.

[9] The projected weighted average grant element shown in Table 1 includes the sovereign guarantee commitments associated with the development phase of the LNG Golfinho project.

revenue. Moreover, the authorities have committed to revenue mobilization by including all public sector employees under the personal income tax net.

- **Expenditure projections and wage bill reducing corrective measures**. In 2023, the wage bill is projected at 14.6 percent of GDP compared to 16.4 percent of GDP in 2022. After the wage bill overruns of 2022, in January, the authorities reduced public sector salaries by 20 percent and eliminated the 13th-month wage. In May, the Parliament amended the wage bill law to reduce the salary and subsidies for statutory appointed and elected public office holders by 5 and 10 percentage points, respectively (prior action). In addition, the authorities will incorporate all public sector servants into the electronic payroll system (prior action). Further reduction of the wage bill will be achieved through an audit and "proof of life" of all public sector servants (proposed structural benchmark for September 2023). Spending in goods and services is projected at 2.9 percent of GDP, in line with the ceiling in the approved 2023 budget, and 1 percent of GDP lower than in 2022.

- **The authorities are committed to further rationalize the wage bill over the medium term**. The aim is to create fiscal space for important spending priorities including investment in resilient infrastructure and human capital. They will prepare an action plan laying out how the wage bill will be reduced to 10 percent of GDP over the medium term. The details of the action plan will be informed by forthcoming technical assistance from FAD. The authorities will start reporting the wage bill monthly to improve monitoring under the program.

14. The BM has proactively tightened monetary policy to help contain FX demand and inflation expectations in a context of loose fiscal policy. The outlook for global commodity prices is uncertain and there are risks that higher wages could fuel demand for imports, and contribute to depreciation pressures on the exchange rate, which would spill over to inflation. In this context, the current tight monetary policy conditions are warranted. Once the fiscal position is consolidated, there would be scope to loosen monetary policy and normalize the balance between monetary and fiscal policies. In the meantime, high interest rates and crowding out from public spending constitute a hurdle to private sector-led development.

15. The authorities have committed to implementing reforms to address structural weaknesses. These include those supported under the World Bank DPF which aims to (i) strengthen budget institutions and responsibility; (ii) improve the investment climate and financial access; and (iii) promote low-carbon growth potential. The authorities have also committed to reforms under the IMF ECF arrangement, which helps reduce protracted BOP vulnerabilities through supporting structural reforms aimed at: (i) developing the policy and institutional framework for managing LNG resources; (ii) improving governance and transparency to help foster private development; (iii) increasing the efficiency of public resources management; and (iv) enabling diversification and equitable growth through public investment in human capital and climate-resilient infrastructure.

16. Risks to the outlook are tilted to the downside. Previously identified risks, notably extreme climate events and a deterioration in the security situation in the North, are still pertinent. Despite recent military success, a deterioration of the security situation in the North cannot be ruled out, which would have significant humanitarian costs and could lead to further delays or abandonment of the LNG megaprojects led by Totalenergies and ExxonMobil. Geo-economic fragmentation and its consequences could impact growth. In addition, there are potential contingent liability risks related to SOEs and disputed government guarantees on commercial loans (Proindicus and MAM).

17. The debt sustainability framework's realism tools reflect the baseline assumptions (Figures 3 and 4). Projected variations in debt indicators are very similar to those observed over the past five year for external debt, but total public debt is unexpectedly higher. Growth projections in 2023 are much higher than those suggested by the alternative fiscal-growth multiplier analysis due to the expected effects of LNG. The adjustment in the primary balance in the baseline scenario is high compared with adjustments carried out in a sample of comparable LICs that requested Fund support since 1990. This is due to the immediate policy adjustment and corrective measures to address wage bill overruns. Compared to the previous DSA, changes in private investment are driven almost exclusively by changes to LNG-related imports, and the further postponement of the Area 1 project.

Box 1. LNG-Related Debt Structure

ENH is a partner in the LNG projects led by Totalenergies (Area 1, Golfinho) and ENI (Area 4, Coral), holding shares of 15 and 10 percent, respectively. At end-December 2022, ENH's debt amounted to 18.8 percent of GDP, about 18 percent of total PPG debt. A third project led by ExxonMobil (Area 4, Rovuma) has been considered but has not reached Final Investment Decision yet. This means that debt contracted for exploration of Area 4 will initially be repaid through revenues from the Coral offshore platform.

IMF staff's current understanding is that the debt and the contracts governing the State's obligations have the following features:

- ENH's shares are funded (or "carried") by the partner energy companies as project finance borrowing. The debt linked to the exploration phase is subject to interest, compounded annually, at 3 percent per annum until full repayment for the Coral and Golfinho projects. The debt linked to the development phase of Coral is subject to interest, compounded annually, at 8.7 percent per annum until fully repaid. For Golfinho, the interest rate is 9 percent from the date incurred until one year after the completion of the development phase. Thereafter, the interest rate is 13 percent until the amounts are repaid in full.
- The contracts are structured such that ENH debt repayments will be taken directly from LNG revenues once they start. For Golfinho, 80 percent of ENH revenues (after deduction of operating costs) serves to pay the debt related to the exploration and development of the project, while for Coral this share is 90 percent. In both cases, 100 percent of revenues will be used to repay any remaining debt after 15 years, or when debt level reaches a pre-determined trigger point. These two projects have pre-sold a significant majority of the expected gas production in contracts with Asian customers and international energy companies.
- A US$2.25 billion (15 percent of GDP) sovereign guarantee covers ENH's debt-financed share in the LNG megaprojects' financing package for Golfinho and lapses within about a year after the start of LNG production, currently expected in 2027. The full amount is gradually included in PPG debt, as project financing is disbursed. No other public guarantees are extant.

The funding for the projects is issued through Special Investment Vehicles (SIVs) incorporated in United Arab Emirates and in Mozambique.

C. Public Debt Related to LNG

18. **The DSA includes the value of the sovereign guarantee as well as the equity tranche of disbursed ENH debt.** The value of the guarantee is assumed to increase gradually to reach its maximum value by the end of the development phase of the Golfinho project. Based on staff's understanding of the structure of the projects and the State guarantee, should the Area 1 projects be abandoned as they stand now, ENH would be liable *only* for its share of the debt funded tranche of capital expenditures disbursed so far—15 percent of the total development phase investment to date, amounting to US$43 million (0.2 percent of GDP). The State guarantee would be triggered for this amount if ENH is not able to repay. If the project resumes, the value covered by the guarantee would rise in tandem with actual disbursements, up to the US$2.25 billion ceiling, until full cancellation upon commencement of LNG production (See Box 1 for further details on the structure of the LNG debt contracts).

COUNTRY CLASSIFICATION

19. **As in the last DSA, debt carrying capacity is assessed as weak.** Countries' debt carrying capacity is measured through a composite index, equal to 2.62 for Mozambique (Text Table 6),[10] similar to the previous DSA. The analysis that underpins the indicator considers the imports related to the large scale of LNG megaprojects under development (amounting to 300 percent of GDP). If only non-megaproject imports were considered in the calculation of the composite index, the debt carrying capacity would be assessed as *medium*, and relevant debt distress thresholds revised upward.

Text Table 6. Mozambique: Composite Indicator Score

Debt Carrying Capacity and Thresholds

Country	Mozambique
Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak 2.62	Weak 2.61	Weak 2.72

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.133	1.21	46%
Real growth rate (in percent)	2.719	4.654	0.13	5%
Import coverage of reserves (in percent)	4.052	30.874	1.25	48%
Import coverage of reserves^2 (in percent)	-3.990	9.532	-0.38	-15%
Remittances (in percent)	2.022	1.120	0.02	1%
World economic growth (in percent)	13.520	2.898	0.39	15%
CI Score			2.62	100%
CI rating			Weak	

Applicable Thresholds

EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Source: IMF staff calculations.

[10] Debt carrying capacity is assessed to be *weak* with an index strictly below 2.69 for two years in a row, *medium* with an index between 2.69 and 3.05, and *strong* with an index strictly above 3.05.

Megaproject imports are fully financed through special investment vehicles outside the country with no potential bearing on international reserves (though they are included in the BoP statistics).

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

20. Three external debt sustainability indicators are above sustainability thresholds in a significant number of years (Table 1 and Figure 1). Although the assessment is mostly unchanged from the last DSA, the ratios of debt service to revenue and to exports have somewhat improved, as revenue projections are higher due to revised assumptions on VAT base broadening. All indicators except the PV of debt service to revenue fall significantly below the sustainability threshold at the latest by 2029. The PV of the debt to GDP ratio reaches the sustainability thresholds in the same year as in the May 2022 DSA. The relatively large residual is partially due to projected price evolutions and ENH debt accumulation. The debt solvency indicators reach a peak in 2028, when ENH debt starts to be repaid—directly from LNG revenue—and the Eurobond is assumed to be repaid as well, within 4 years.

- The PV of external public debt in terms of GDP is projected to be around 42 percent at end-2023 and to remain above the sustainability threshold until 2027. This is partially driven by ENH borrowing to finance its participation in the LNG megaprojects, and the issuance of a sovereign guarantee covering ENH's participation in Golfinho.

- The PV of external public debt in terms of exports is below the 140 percent threshold in 2023 and improves rapidly after 2026 as LNG exports pick up. A large increase in exports, which started in 2021 with commodity price increases and rising demand for intermediate goods, is confirmed since the last DSA, where the indicator was already below the threshold, but at a slightly higher value.

- External public debt service in terms of exports is below the threshold from 2023 to 2026, and again in 2029, subsequently remaining below the threshold. This path is equivalent to the previous DSA, although the peak in 2028 is higher.

- External public debt service in terms of revenue breaches the threshold in 2027–2029. This is three years less in which the threshold is breached compared to the previous DSA.

21. External public debt ratios are most sensitive to changes in the primary balance, export shocks, and other flows (Figure 1, Table 3). All shocks lead to threshold breaches for all debt indicators, except for the PV of debt to exports where the breaches are only due to the primary balance, export, other flows and combined shocks. The stress tests illustrate that a nominal export growth (in U.S. dollars) one standard deviation below baseline in 2024 and 2025 would increase the PV of external public debt-to-GDP by 28 percentage points (to 70 percent) in 2025 compared to

2023.[11] Similarly, the PV of external public debt-to-exports would be pushed above the sustainability threshold to 276 percent in 2025 (compared to staying at 108 percent under the baseline). The export shock pushes the debt service to export ratio significantly above the sustainability threshold from 2024 to 2033. Similarly, a combined shock to current transfers-to-GDP and FDI-to-GDP ratios keeps the PV of debt to GDP above the threshold until 2030 and raises the PV of debt to exports above the threshold in 2025 and 2026. As in the previous DSA, a 30 percent nominal depreciation in 2023 would lead to an increase in the debt service-to-revenue ratio by an average of 3 percentage points over the projection period compared to the baseline.[12]

22. The realization of contingent liabilities or a natural disaster would significantly worsen the outlook. In this case, the PV of debt to GDP would be higher, and its return below sustainability threshold postponed by two years. The realization of the contingent liabilities would bring the PV of external public debt in terms of exports above the baseline by an average of 24 percentage points over the remainder of the projection period, and above the threshold in 2026. It would bring the external public debt service in terms of exports above the sustainability threshold in 2027-2028, while the external public debt service in terms of revenue would be over the sustainability threshold between 2027-2031. Similarly, a large disaster shock with an impact of 10 percent of GDP would significantly worsen debt sustainability, pushing back the return of the PV of external debt to GDP by one year. A commodity price shock would not have a significant impact.

B. Public Sector Debt Sustainability Analysis

23. Under the baseline, the indicator of public debt sustainability reaches the sustainability threshold by 2030. Total PPG debt is estimated at 95.5 percent of GDP at end-2022, with external debt accounting for about 74 percent of total public debt (71.1 percent of GDP), a decrease compared to 2021, mostly due to higher GDP and exchange rate dynamics.[13] Due to the large financing needs associated with the recovery from the pandemic as well as the unexpected costs associated with the wage bill reform in 2022, the PV of debt-to-GDP is projected to reach below the 35 percent of GDP benchmark only in 2030, one year later than in the previous DSA (Table 2 and Figure 2).

24. Public debt sustainability indicators are highly sensitive to other flows, the primary balance, and exports (Table 4). A shock to the primary balance, which would also correspond to the baseline projection minus one standard deviation in 2024 and 2025, would lead the PV of debt-to-GDP to reach 86 percent by 2025 (compared to 66 percent under the baseline). Similarly, a shock to current transfers-to-GDP and FDI-to-GDP ratios during the same years would lead the PV of debt-to-GDP to reach 81 percent in 2025, while a shock to exports would bring the ratio to 86 percent in

[11] This stress test does not reflect a plausible scenario as it implies that there would be no export revenue from LNG, despite still including all the debt created by the projects. However, should the project not go ahead for reasons outside of the control of the country, Mozambique would not be liable for the latter according to the LNG contracts.

[12] Vulnerability to exchange rate movements is an expected outcome for a commodity exporter like Mozambique.

[13] In the medium term, the residual is mostly due to ENH debt accumulation.

2025. Under realization of contingent liabilities or a commodity price shock, the PV of debt-to-GDP would cross the threshold one year later than in the baseline (2031).

RISK RATING AND VULNERABILITIES

25. Mozambique's debt is assessed to be at high risk of distress, yet sustainable in a forward-looking sense taking into account prospective LNG revenue and risk management of related debt. This assessment is unchanged from the DSA at program approval. The rating of "high risk of debt distress" is due to several indicators remaining above sustainability thresholds for several years, and to the high vulnerability of debt to downside risks, including: (i) possible realization of contingent liabilities, (ii) unfavorable developments in the trade balance or exchange rate shocks, and (iii) difficulty in sustaining fiscal discipline especially in a context of climate shocks and upcoming elections. The path of the sustainability indicators is downward sloping and reaches the sustainability thresholds over the projection period. In addition, the following mitigating factors underpin the assessment:

- Future borrowing and government guarantees largely reflect state participation in LNG developments. The State's guarantee is gradually included in PPG debt (up to 15 percent of GDP) over the period, since it is only activated in tandem with project finance disbursements—the current exposure amounts to 0.2 percent GDP and will rise only as projects resume.

- Debt carrying capacity is likely to be stronger than signaled by the CI rating because international reserves do not need to cover imports related to megaprojects (which are fully funded through SIVs outside the country). The breaches of two external debt sustainability thresholds are, hence, judged to be narrower and less persistent than suggested by the standard methodology. Having a debt carrying capacity assessed as medium would imply that both the PV of external debt to GDP and the PV of public debt to GDP would reach the sustainability threshold by 2027 and 2028, respectively. The other three indicators for external debt sustainability would be below sustainability thresholds for most of the projection period (except for one year—2028—for the debt service-to-revenue ratio).

- The assessment is based on a relatively conservative baseline for growth, which does not include positive spillovers from LNG to the wider economy.

- Finally, besides the debt linked to LNG projects, external debt is mostly composed of concessional multilateral and bilateral debt, and a Eurobond, product of restructuring a debt linked to the "undisclosed debts".

26. The financial structure of the State's involvement in the LNG projects offers substantial protection against the risk that onshore LNG projects do not resume. Compared with the situation at the time of program approval, the risk that the Golfinho project does not resume is still considered unlikely and is not in the baseline, although further delays or full cancellation could still occur, as the security situation has not been fully resolved. Moreover, the second onshore project (Rovuma) is still being evaluated. The State is protected in case the Area 1 project is cancelled for reason beyond its control. However, the debt service burden for Area 4 would be carried solely from the production of the offshore platform leaving ENH with negative cash flow balance. Without onshore LNG, lower growth would leave the country carrying an already heavy debt burden for longer, and future external and exchange rate risks could be expected to be higher. Mozambique could seek other ways of exploiting its large natural resources, but the window of opportunity during the energy transition may be short.

27. Progress has been made in debt management and oversight. The debt unit in the Ministry of Economy and Finance has taken important steps, including (i) adopting a medium-term debt strategy (published in July 2022), which is being implemented with the help of TA; (ii) working to move to a new IT system (Meridian), which will encompass domestic and external debt of the central government, and eventually SOE debt; (iii) reforming cash and debt management to exert greater control of domestic debt issuance. At the same time, the authorities have continued to regularly publish annual and quarterly public debt reports; and supported public accountability and enforcement measures stemming from the "undisclosed debts" scandal, including prosecution of senior officials and public figures.

28. In addition, the authorities have committed to several measures under IDA's Sustainable Development Financing Policy (SDFP). As an IDA country currently in high risk of debt distress, Mozambique is subject to IDA's SDFP, which replaced the Non-Concessional Borrowing Policy (NCBP). The SDFP foresees a series of Policy and Performance Actions (PPAs) that contribute to addressing critical debt vulnerabilities. Under the policy, the authorities have committed this fiscal year to (i) not enter into any contractual obligations for new external public and publicly guaranteed (PPG) non-concessional debt; (ii) publish a comprehensive report using accurate external PPG and private nonguaranteed debt, addressing the severe inconsistencies between stocks and flows identified in the 2021 Debtor Reporting System (DRS) Report, and publish an error-free debt report for 2022 debt report capturing SOE and PPP-related debt.

AUTHORITIES' VIEW

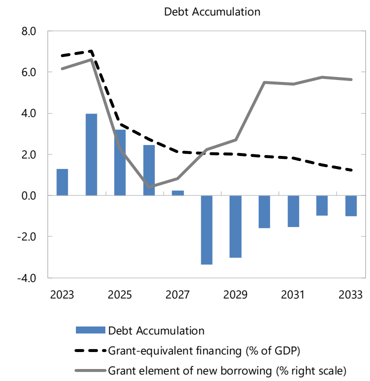
29. The authorities partially agreed with the assessment made in the DSA. The authorities acknowledged the debt sustainability assessment and its focus on external debt indicators. They also suggested that debt related to the LNG project should not be included in the analysis as it is part of SPVs and will be automatically repaid through LNG revenues. With respect to domestic debt, they noted their rising concern about its high cost. They pointed out that repayment "bunching" for both external and domestic debt service in February/March and September 2023 have created liquidity constraints. They acknowledged that they had incurred arrears in servicing debt, some of which led to arrears under the program. They cited administrative issues, linked to a debt-reconciliation exercise, as well as liquidity constraints as reasons for these arrears. To avoid such arrears in the future, the authorities have been clearing the debt database to avoid discrepancies between the internally forecast debt service and the invoices sent by the creditors. They are preparing the migration to the new debt database, which will encompass external and domestic debt by December 2023, and eventually on-lending to SOEs. The government is studying urgent measures aimed at building contingent provisions for the Treasury, including the concentration/consolidation of public sector deposits with the purpose of building a liquidity/cash pool which would provide prompt and efficient access to relatively cheaper resources by tapping the idle deposits of public institutions to finance temporary/seasonal deficits. In addition, the government is looking to restrain issuances of short-to medium-term bonds to avoid incurring new liabilities within this already critical redemption horizon, whilst considering broader medium to longer-term reforms to lower government's overall borrowing costs. Returning to a level of debt that is more sustainable is a goal of the authorities and of the IMF-supported program. The government published a medium-term debt strategy in 2022 and is currently revising it. The government is committed to enhancing the sustainability and transparency of public sector debt, and publishes quarterly and annual debt reports, covering stocks, on-lending, and state guarantees, including for most SOEs. The IMF and Ministry of Finance teams worked together to confirm the 2022 external and domestic debt stocks. All discrepancies have been resolved.

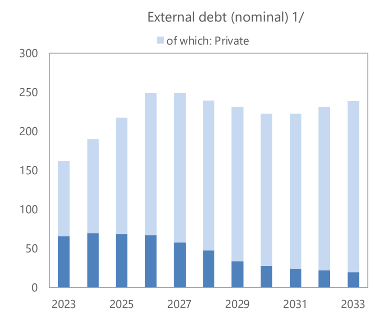
Table 1. Mozambique: External Debt Sustainability Framework, Baseline Scenario, 2020–2043

(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	**185.9**	**154.8**	**154.8**	**162.0**	**189.4**	**217.3**	**248.6**	**248.8**	**239.4**	**238.5**	**284.9**	**140.2**	**222.8**
of which: public and publicly guaranteed (PPG)	**97.8**	**81.2**	**71.1**	**65.6**	**69.0**	**68.3**	**66.8**	**57.9**	**47.4**	**19.4**	**5.4**	**78.2**	**45.5**
Change in external debt	31.5	-31.1	0.0	7.2	27.4	27.9	31.4	0.2	-9.4	7.7	3.3		
Identified net debt-creating flows	**19.6**	**-31.6**	**-2.3**	**1.8**	**17.9**	**18.8**	**20.5**	**-5.5**	**-15.7**	**-7.8**	**-15.5**	**4.5**	**-3.4**
Non-interest current account deficit	**25.8**	**21.1**	**31.2**	**11.1**	**32.0**	**35.9**	**37.5**	**23.0**	**9.2**	**-5.3**	**-0.5**	**28.5**	**10.8**
Deficit in balance of goods and services	30.3	24.8	33.9	13.1	34.3	38.0	38.5	22.3	8.1	-5.7	-6.0	**33.5**	**11.3**
Exports	30.9	39.8	49.1	42.3	40.3	39.6	38.9	43.0	45.2	45.6	43.7		
Imports	61.2	64.6	83.1	55.4	74.6	77.6	77.4	65.3	53.3	39.9	37.7		
Net current transfers (negative = inflow)	-4.8	-4.5	-5.9	-5.3	-4.4	-4.1	-4.1	-3.4	-3.2	-2.5	-1.9	**-5.6**	**-3.5**
of which: official	-1.6	-1.2	-2.0	-1.9	-1.1	-0.9	-1.0	-0.6	-0.7	-0.4	0.0		
Other current account flows (negative = net inflow)	0.2	0.8	3.1	3.4	2.1	2.0	3.2	4.2	4.4	2.9	7.4	**0.6**	**2.9**
Net FDI (negative = inflow)	**-21.4**	**-31.7**	**-10.3**	**-4.3**	**-13.7**	**-15.6**	**-16.3**	**-7.9**	**-9.3**	**-7.7**	**-16.8**	**-22.9**	**-9.5**
Endogenous debt dynamics 2/	**15.2**	**-21.0**	**-23.1**	**-5.0**	**-0.5**	**-1.5**	**-0.8**	**-20.6**	**-15.6**	**5.1**	**1.8**		
Contribution from nominal interest rate	1.8	1.3	1.7	4.4	6.9	7.3	7.4	7.7	10.8	11.4	9.1		
Contribution from real GDP growth	2.0	-3.9	-5.4	-9.4	-7.4	-8.8	-8.1	-28.3	-26.3	-6.3	-7.3		
Contribution from price and exchange rate changes	11.4	-18.4	-19.4	...	...	...	...	...	...	...	...		
Residual 3/	**12.0**	**0.5**	**2.2**	**5.4**	**9.6**	**9.0**	**10.9**	**5.7**	**6.3**	**15.5**	**18.8**	**4.3**	**11.0**
of which: exceptional financing	-0.6	-0.5	-0.4	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**47.3**	**42.4**	**42.6**	**42.7**	**42.8**	**37.4**	**29.8**	**13.5**	**3.0**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**96.3**	**100.3**	**105.7**	**107.9**	**109.9**	**87.0**	**66.0**	**29.7**	**7.0**		
PPG debt service-to-exports ratio	**11.9**	**6.9**	**6.1**	**7.4**	**7.6**	**7.6**	**7.6**	**10.0**	**13.5**	**5.1**	**1.9**		
PPG debt service-to-revenue ratio	**15.3**	**10.9**	**12.8**	**13.3**	**12.3**	**11.8**	**11.5**	**16.0**	**22.9**	**9.0**	**2.5**		
Gross external financing need (Million of U.S. dollars)	1519.0	-896.7	4981.4	3353.8	7049.9	8366.5	9361.1	9296.9	7171.3	3133.1	223.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-1.2	2.4	4.2	7.0	5.0	5.0	4.0	13.1	12.1	2.9	2.7	**4.0**	**7.1**
GDP deflator in US dollar terms (change in percent)	-6.9	11.0	14.3	7.0	3.9	2.0	1.6	1.7	1.9	2.0	2.0	**-1.4**	**2.6**
Effective interest rate (percent) 4/	1.1	0.8	1.3	3.3	4.6	4.1	3.6	3.6	4.9	5.2	3.4	**1.2**	**4.8**
Growth of exports of G&S (US dollar terms, in percent)	-22.0	46.6	46.9	-1.4	3.8	5.3	3.8	27.1	20.0	3.1	4.9	**9.9**	**9.3**
Growth of imports of G&S (US dollar terms, in percent)	-9.0	20.0	53.1	-23.7	46.9	11.4	5.3	-3.0	-6.8	7.5	4.6	**4.7**	**3.9**
Grant element of new public sector borrowing (in percent)	...	...	...	50.8	52.9	31.4	22.0	24.1	31.2	48.2	40.7	**...**	**39.8**
Government revenues (excluding grants, in percent of GDP)	23.9	25.3	23.4	23.6	24.8	25.4	25.9	26.9	26.6	25.7	32.6	**24.7**	**25.3**
Aid flows (in Million of US dollars) 5/	1165.9	661.3	1080.9	1647.0	1960.7	1048.9	882.0	793.6	844.9	733.5	71.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	6.8	7.0	3.5	2.7	2.1	2.0	1.2	0.1	**...**	**3.0**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	70.3	60.2	46.5	44.8	51.4	65.8	84.0	40.7	**...**	**68.0**
Nominal GDP (Million of US dollars)	14,157	16,087	19,157	21,926	23,900	25,598	27,030	31,095	35,514	53,376	87,131		
Nominal dollar GDP growth	-8.0	13.6	19.1	14.5	9.0	7.1	5.6	15.0	14.2	4.9	4.8	**2.4**	**9.8**
Memorandum items:													
PV of external debt 7/	...	...	131.0	138.8	163.0	191.7	224.6	228.3	221.9	232.7	282.6		
In percent of exports	...	...	266.7	328.2	404.7	484.1	577.0	530.9	490.9	509.9	647.0		
Total external debt service-to-exports ratio	20.7	12.6	10.5	19.9	27.7	31.2	34.3	34.4	44.9	41.2	40.1		
PV of PPG external debt (in Million of US dollars)			9060.6	9306.0	10176.7	10938.2	11567.0	11632.7	10590.8	7223.5	2647.7		
(PVt-PVt-1)/GDPt-1 (in percent)				1.3	4.0	3.2	2.5	0.2	-3.4	-1.0	-0.5		
Non-interest current account deficit that stabilizes debt ratio	-5.8	52.2	31.2	3.9	4.6	8.0	6.2	22.8	18.6	-12.9	-3.8		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

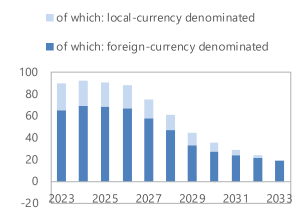
Table 2. Mozambique: Public Sector Sustainability Framework, Baseline Scenario, 2020–2043

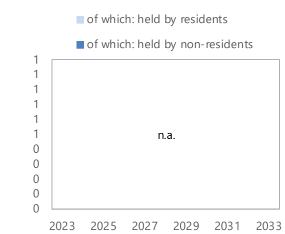
(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 7/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	**120.0**	**104.9**	**95.5**	**89.7**	**92.8**	**90.6**	**87.9**	**75.0**	**61.3**	**18.8**	**-9.9**	**95.8**	**59.0**
of which: external debt	**97.8**	**81.2**	**71.1**	**65.6**	**69.0**	**68.3**	**66.8**	**57.9**	**47.4**	**19.4**	**5.4**	**78.2**	**45.5**
Change in public sector debt	20.9	-15.1	-9.3	-5.8	3.0	-2.1	-2.7	-12.9	-13.7	-5.0	-2.2		
Identified debt-creating flows	**20.0**	**-17.1**	**-8.0**	**-8.4**	**-7.7**	**-7.2**	**-5.6**	**-13.7**	**-13.2**	**-5.4**	**-7.8**	**-5.3**	**-8.3**
Primary deficit 2/	**2.3**	**0.9**	**2.1**	**-0.5**	**-1.0**	**-1.8**	**-2.0**	**-4.7**	**-6.1**	**-5.0**	**-7.1**	**-5.1**	**-3.8**
Revenue and grants	27.5	27.4	27.3	27.5	26.6	27.1	27.7	28.4	28.2	26.7	32.6	**27.5**	**27.1**
of which: grants	3.6	2.1	3.9	3.8	1.8	1.6	1.8	1.5	1.6	1.0	0.0		
Primary (noninterest) expenditure	29.8	28.3	29.4	27.0	25.6	25.2	25.7	23.7	22.1	21.7	25.5	**22.4**	**23.3**
Automatic debt dynamics	**17.7**	**-18.0**	**-10.2**	**-7.9**	**-6.7**	**-5.3**	**-3.6**	**-9.0**	**-7.2**	**-0.4**	**-0.7**		
Contribution from interest rate/growth differential	1.3	-1.8	-3.1	-7.9	-6.7	-5.3	-3.6	-9.0	-7.2	-0.4	-0.7		
of which: contribution from average real interest rate	0.1	1.0	1.1	-1.7	-2.5	-1.0	-0.1	1.2	0.9	0.3	-0.9		
of which: contribution from real GDP growth	1.2	-2.8	-4.2	-6.2	-4.2	-4.4	-3.5	-10.2	-8.1	-0.7	0.2		
Contribution from real exchange rate depreciation	16.4	-16.2	-7.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**0.9**	**2.0**	**-1.3**	**2.6**	**10.7**	**5.1**	**2.8**	**0.8**	**-0.5**	**0.4**	**5.6**	**11.1**	**1.3**
Sustainability indicators													
PV of public debt-to-GDP ratio 3/	**...**	**...**	**71.8**	**67.0**	**67.4**	**66.1**	**64.8**	**55.2**	**44.3**	**13.1**	**-12.1**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**263.0**	**244.1**	**253.5**	**244.0**	**234.1**	**194.4**	**157.1**	**49.1**	**-37.2**		
Debt service-to-revenue and grants ratio 4/	**39.5**	**42.2**	**43.6**	**25.0**	**34.3**	**35.4**	**38.4**	**35.0**	**36.3**	**9.1**	**-15.0**		
Gross financing need 5/	13.1	12.5	14.0	6.4	8.2	7.8	8.6	5.3	4.2	-2.6	-12.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-1.2	2.4	4.2	7.0	5.0	5.0	4.0	13.1	12.1	2.9	2.7	**4.0**	**7.1**
Average nominal interest rate on external debt (in percent)	1.3	1.1	1.4	1.3	1.7	1.5	1.4	2.9	2.7	3.7	2.4	**1.6**	**2.7**
Average real interest rate on domestic debt (in percent)	4.8	7.5	4.7	1.5	2.7	2.3	1.7	3.2	3.2	-6.3	6.9	**4.7**	**1.5**
Real exchange rate depreciation (in percent, + indicates depreciation)	20.7	-17.1	-9.1	...	...	...	...	...	...	...	...	**5.2**	**...**
Inflation rate (GDP deflator, in percent)	3.4	4.6	11.5	8.1	7.4	7.0	6.2	5.7	5.5	5.5	5.5	**6.1**	**6.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	18.2	-2.8	8.5	-1.9	-0.3	3.5	5.8	4.4	4.5	4.7	3.3	**2.4**	**4.2**
Primary deficit that stabilizes the debt-to-GDP ratio 6/	-18.7	16.0	11.5	5.3	-4.0	0.3	0.7	8.2	7.6	0.0	-4.9	**2.9**	**3.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Currency-based.

2/ The primary deficit presented here is composed of the central government primary deficit augmented by LNG revenues accruing directly to repay ENH debt.

3/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

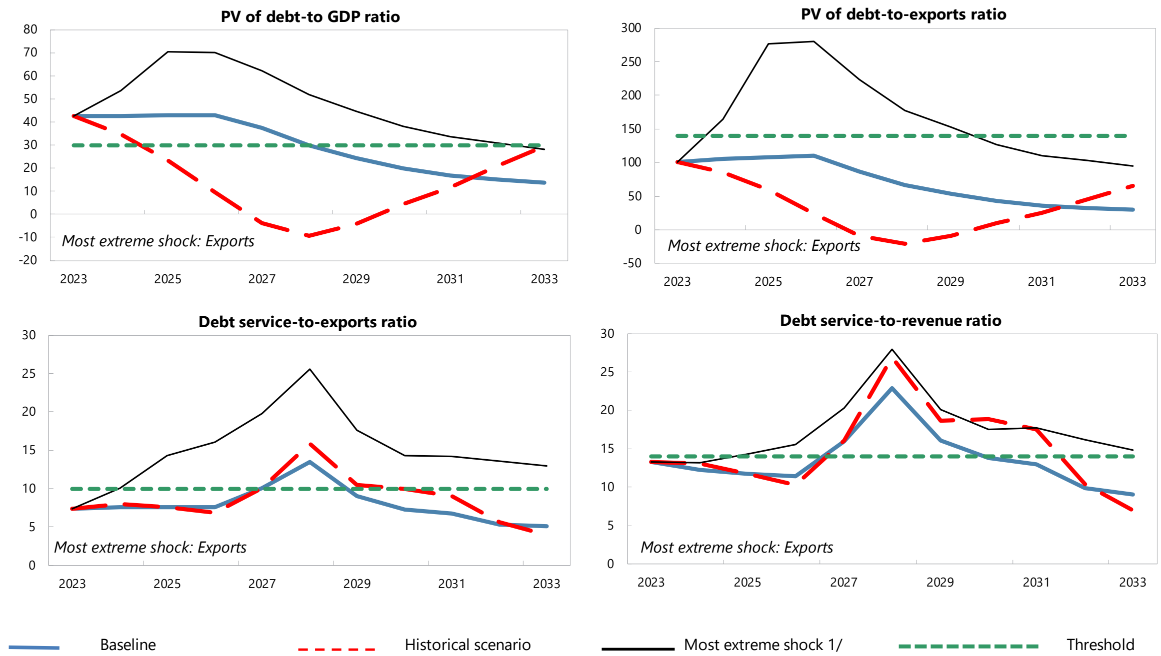
4/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

5/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

6/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

7/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Mozambique: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2023–2033



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	No	No
Market financing	n.a.	n.a.

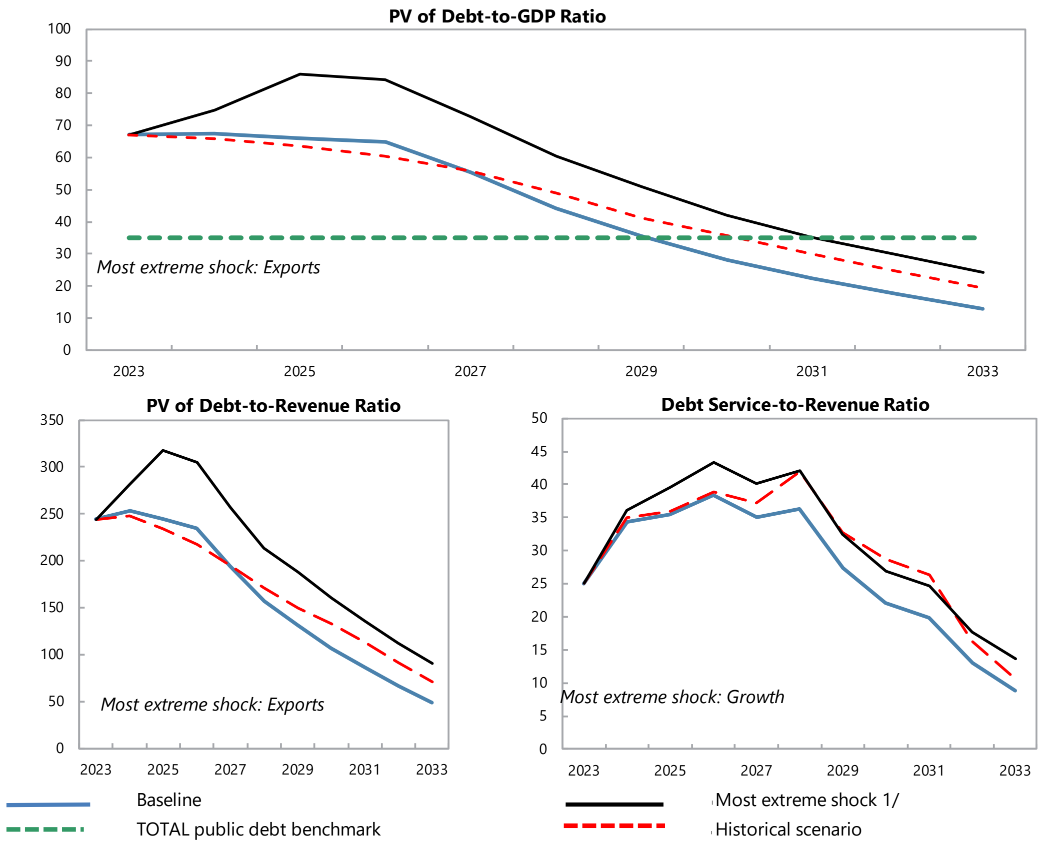
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	24
Avg. grace period	9	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Mozambique: Indicators of Public Debt Under Alternative Scenarios, 2022–2032



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	54%	90%
Domestic medium and long-term	32%	8%
Domestic short-term	14%	2%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
Avg. maturity (incl. grace period)	30	24
Avg. grace period	9	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.4%	12.0%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	5.5%	12.5%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Mozambique: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–2033

(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	**42**	**43**	**43**	**43**	**37**	30	24	20	17	15	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**42**	**35**	23	10	-4	-9	-4	5	12	21	30
B. Bound Tests											
B1. Real GDP growth	**42**	**45**	**48**	**48**	**42**	**33**	27	22	19	17	15
B2. Primary balance	**42**	**51**	**60**	**60**	**54**	**46**	**39**	**34**	**30**	28	26
B3. Exports	**42**	**54**	**70**	**70**	**62**	**52**	**45**	**38**	**34**	**31**	28
B4. Other flows 3/	**42**	**50**	**57**	**57**	**50**	**42**	**36**	**30**	26	24	22
B5. Depreciation	**42**	**53**	**45**	**45**	**39**	**30**	24	19	15	13	12
B6. Combination of B1-B5	**42**	**54**	**57**	**57**	**50**	**41**	**34**	29	25	23	20
C. Tailored Tests											
C1. Combined contingent liabilities	**42**	**55**	**55**	**55**	**49**	**41**	**35**	29	26	24	22
C2. Natural disaster	**42**	**50**	**50**	**51**	**45**	**37**	**31**	27	24	22	21
C3. Commodity price	**42**	**43**	**43**	**43**	**37**	30	24	20	17	15	14
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	100	106	108	110	87	66	54	43	36	33	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	100	86	59	25	-9	-21	-9	10	25	45	65
B. Bound Tests											
B1. Real GDP growth	100	106	108	110	87	66	54	43	36	33	30
B2. Primary balance	100	127	**152**	**155**	126	101	87	72	64	60	57
B3. Exports	100	**165**	**276**	**280**	**224**	**178**	**153**	126	111	103	95
B4. Other flows 3/	100	124	**145**	**147**	117	92	79	64	56	52	48
B5. Depreciation	100	106	90	92	72	53	42	32	26	23	20
B6. Combination of B1-B5	100	**143**	130	**171**	136	106	89	72	62	57	52
C. Tailored Tests											
C1. Combined contingent liabilities	100	136	139	**141**	114	90	77	63	55	52	49
C2. Natural disaster	100	126	130	133	107	84	71	58	51	49	46
C3. Commodity price	100	106	108	110	87	66	54	43	36	33	30
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	7	8	8	8	**10**	**13**	9	7	7	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	7	8	8	7	**10**	**16**	**11**	10	9	6	4
B. Bound Tests											
B1. Real GDP growth	7	8	8	8	**10**	**13**	9	7	7	5	5
B2. Primary balance	7	8	8	9	**11**	**14**	**10**	8	8	8	7
B3. Exports	7	**10**	**14**	**16**	**20**	**26**	**18**	**14**	**14**	**14**	**13**
B4. Other flows 3/	7	8	8	9	**11**	**14**	10	8	8	7	7
B5. Depreciation	7	8	8	7	10	**13**	9	7	6	4	4
B6. Combination of B1-B5	7	9	**11**	**11**	**14**	**18**	**12**	10	**10**	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	8	9	**11**	**14**	10	8	7	6	6
C2. Natural disaster	7	8	8	8	**11**	**14**	10	8	7	6	6
C3. Commodity price	7	8	8	8	**10**	**13**	9	7	7	5	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	13	12	12	11	**16**	**23**	**16**	14	13	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	13	13	12	10	**16**	**27**	**19**	**19**	**18**	10	7
B. Bound Tests											
B1. Real GDP growth	13	13	13	13	**18**	**26**	**18**	**15**	**15**	11	10
B2. Primary balance	13	12	13	13	**18**	**25**	**18**	**15**	**16**	14	13
B3. Exports	13	13	**14**	**16**	**20**	**28**	**20**	**17**	**18**	**16**	**15**
B4. Other flows 3/	13	12	13	13	**17**	**24**	**17**	**15**	**15**	13	12
B5. Depreciation	13	**15**	**15**	13	**19**	**28**	**19**	**17**	**16**	10	9
B6. Combination of B1-B5	13	13	**14**	14	**19**	**26**	**19**	**16**	**17**	13	12
C. Tailored Tests											
C1. Combined contingent liabilities	13	12	13	13	**17**	**24**	**17**	**15**	**14**	11	10
C2. Natural disaster	13	12	13	12	**17**	**24**	**17**	**15**	14	11	10
C3. Commodity price	13	12	12	11	**16**	**23**	**16**	14	13	10	9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Mozambique: Sensitivity Analysis for Key Indicators of Public Debt, 2023–2033[1/]

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
					PV of Debt-to-GDP Ratio						
Baseline	**67**	**67**	**66**	**65**	**55**	**44**	**36**	28	22	18	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**67**	**66**	**63**	**60**	**55**	**48**	**41**	35	29	23	18
B. Bound Tests											
B1. Real GDP growth	**67**	**72**	**77**	**78**	**69**	**58**	**51**	**43**	**38**	**35**	32
B2. Primary balance	**67**	**77**	**86**	**84**	**73**	**60**	**51**	**42**	**36**	31	26
B3. Exports	**67**	**75**	**86**	**84**	**73**	**60**	**51**	**42**	**35**	30	24
B4. Other flows 3/	**67**	**75**	**81**	**79**	**68**	**56**	**47**	**39**	32	27	22
B5. Depreciation	**67**	**73**	**70**	**67**	**56**	**44**	**37**	28	21	15	10
B6. Combination of B1-B5	**67**	**73**	**73**	**66**	**56**	**45**	**36**	28	22	18	13
C. Tailored Tests											
C1. Combined contingent liabilities	**67**	**81**	**80**	**78**	**67**	**55**	**46**	**38**	32	27	22
C2. Natural disaster	**67**	**76**	**75**	**74**	**63**	**52**	**43**	**35**	29	25	20
C3. Commodity price	**67**	**68**	**69**	**70**	**62**	**52**	**45**	**38**	34	31	28
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
					PV of Debt-to-Revenue Ratio						
Baseline	244	253	244	234	194	157	132	107	86	67	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	244	247	234	216	193	170	148	130	110	88	68
B. Bound Tests											
B1. Real GDP growth	244	271	282	279	241	206	185	164	147	133	120
B2. Primary balance	244	291	317	305	256	214	188	160	137	116	97
B3. Exports	244	281	317	304	256	214	188	160	137	113	91
B4. Other flows 3/	244	282	299	287	241	200	174	147	124	101	81
B5. Depreciation	244	277	259	243	198	156	136	107	82	59	37
B6. Combination of B1-B5	244	274	269	237	196	159	132	108	87	67	49
C. Tailored Tests											
C1. Combined contingent liabilities	244	306	294	283	237	196	170	144	122	101	83
C2. Natural disaster	244	286	276	266	223	184	159	134	113	94	76
C3. Commodity price	244	258	255	252	217	185	166	147	132	118	106
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	25	34	35	38	35	36	27	22	20	13	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	25	35	36	39	37	42	33	29	26	16	11
B. Bound Tests											
B1. Real GDP growth	25	36	40	43	40	42	33	27	25	18	14
B2. Primary balance	25	34	38	43	41	41	30	24	23	17	13
B3. Exports	25	34	36	41	37	38	29	24	22	17	13
B4. Other flows 3/	25	34	36	40	36	38	29	23	22	16	12
B5. Depreciation	25	34	36	39	37	40	30	25	22	14	10
B6. Combination of B1-B5	25	34	36	39	35	38	28	22	20	13	9
C. Tailored Tests											
C1. Combined contingent liabilities	25	34	39	41	40	38	29	24	21	14	10
C2. Natural disaster	25	35	38	40	39	38	29	24	21	14	10
C3. Commodity price	25	34	36	39	36	38	29	24	22	16	12
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

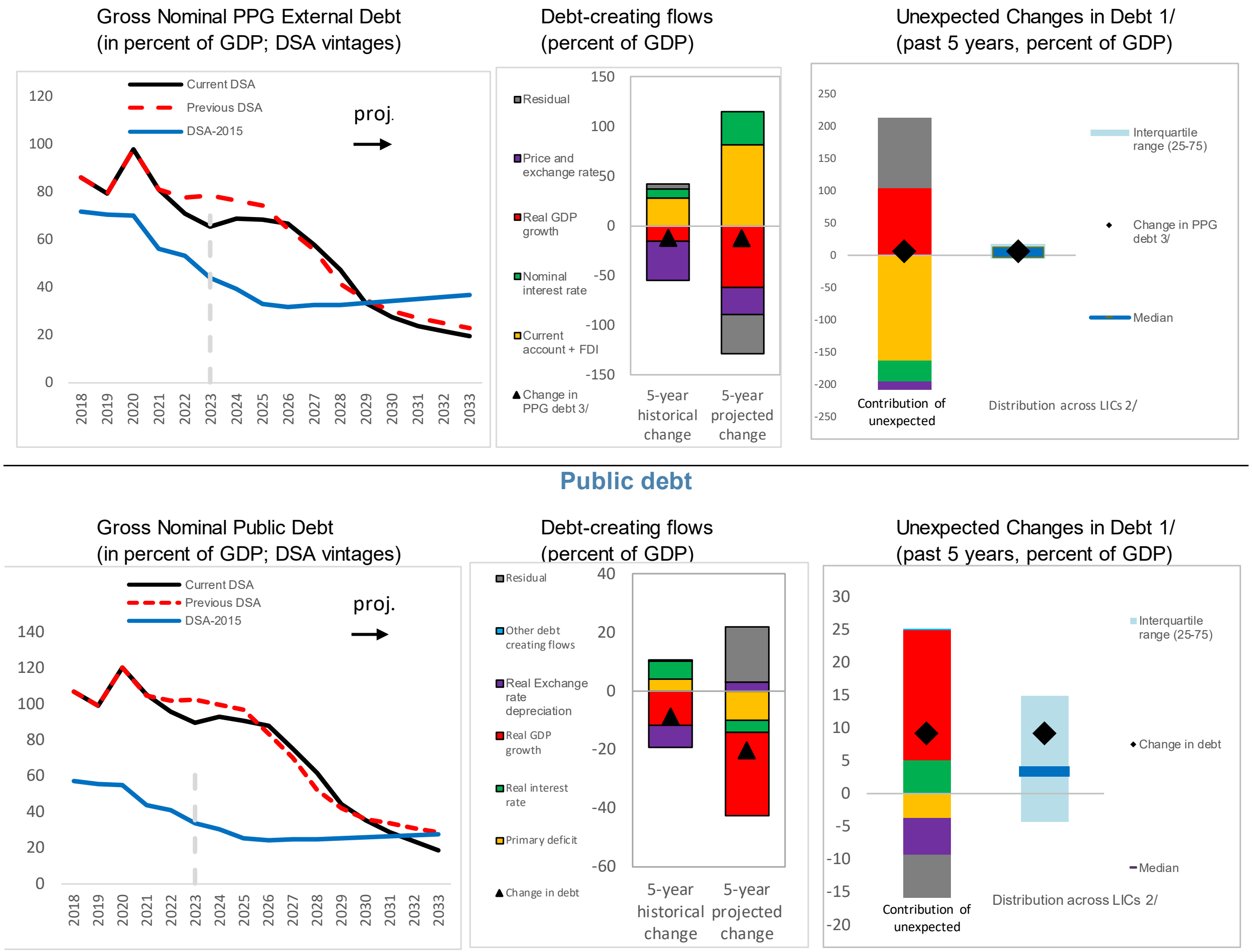
1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Mozambique: Drivers of Debt Dynamics - Baseline Scenario

External Debt



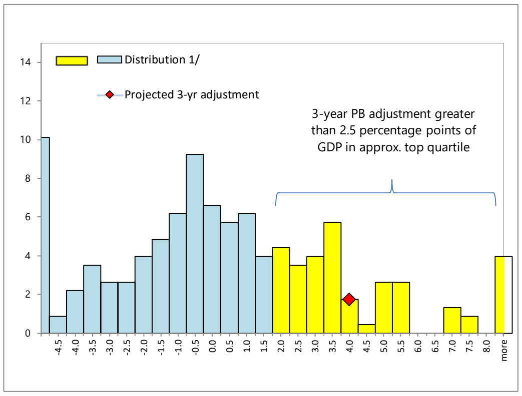
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

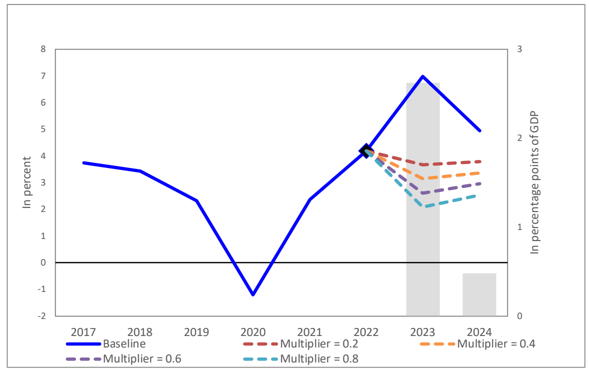
Figure 4. Mozambique: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



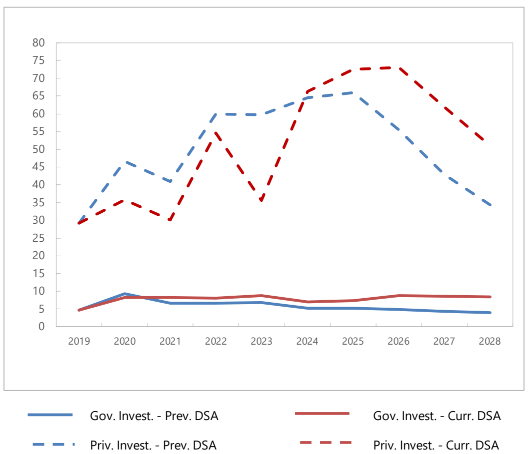
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

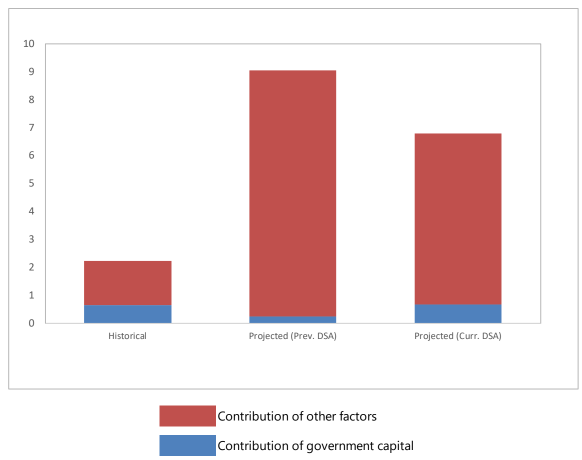


Table 5. Mozambique: Decomposition of Public Debt and Debt Service by Creditor, 2022–24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In million US$)	(Percent total debt)	(Percent GDP)	(In million US$)			(Percent GDP)		
Total	18016.7	100.0	94.1	1190.8	2268.4	1551.1	7.2	11.8	7.1
External[2]	13610.1	75.5	71.1	430.8	562.7	738.9	2.6	2.9	3.4
Multilateral creditors[3]	5039.5	28.0	26.3	163.8	166.0	224.7	1.0	0.9	1.0
IMF	592.0	3.3	3.1						
World Bank	3016.9	16.7	15.8						
ADF	886.2	4.9	4.6						
Other Multilaterals	544.4	3.0	2.8						
o/w : IDB	160.4	0.9	0.8						
IFAD	130.0	0.7	0.7						
BADEA	87.8	0.5	0.5						
EBI	86.5	0.5	0.5						
Bilateral Creditors	4288.6	23.8	22.4	222.2	351.9	410.9	1.3	1.8	1.9
Paris Club	1148.8	6.4	6.0	35.7	54.3	64.5	0.2	0.3	0.3
o/w: Japan	399.7	2.2	2.1						
Korea	245.3	1.4	1.3						
Brazil	193.2	1.1	1.0						
France	148.2	0.8	0.8						
Non-Paris Club	3139.7	17.4	16.4	186.5	297.6	346.4	1.1	1.6	1.6
o/w: China	1717.6	9.5	9.0						
Portugal	485.5	2.7	2.5						
Libya	253.4	1.4	1.3						
India	241.4	1.3	1.3						
Iraq	230.6	1.3	1.2						
Bonds	900.0	5.0	4.7	44.9	44.9	45.0	0.3	0.2	0.2
Commercial creditors	50.5	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Senior creditors of LNG debt financing	43.0	0.2	0.2						
Other international creditors	3331.5	18.5	17.4	0	46.5	22.8	0.0	0.2	0.1
o/w: ENH's LNG project partners[4]	3331.5	18.5	17.4						
Domestic[5]	4406.6	24.5	23.0	760	1706	812	4.6	8.9	3.7
Held by residents, total									
Held by non-residents, total									
T-Bills	1094.0	6.1	5.7						
Bonds	2254.5	12.5	11.8						
Loans	1058.2	5.9	5.5						
Memo items:									
Collateralized debt[6]	0		0.0						
o/w: Related	0		0.0						
o/w: Unrelated	0		0.0						
Contingent liabilities	43.0	0.2	0.2						
o/w: Public guarantees	43.0	0.2	0.3						
Nominal GDP (millions US$) eop exchange rate				16082	18969	21426			

Sources: Mozambican authorities and IMF staff estimates and projections.

[1] As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except the stock of domestic debt does not include state-owned enterprise equivalent to 1.4 percent of GDP.

[2] External debt data are IMF estimates.

[3] Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

[4] Annual interest due are capitalized until beginning of project production.

[5] Debt service in 2021 does not include amortization of T-bills.

[6] Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

July 5, 2023

SECOND REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE, WAIVERS OF NONOBSERVANCE FOR QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

Prepared By | African Department

This statement provides information that has become available since the issuance of the Staff Report for the Second Review under the Extended Credit Facility (EBS/23/74) relating to fulling the two prior actions under this review. The thrust of the Staff Report remains unchanged.

1. **The authorities met both prior actions under the second review of the Extended Credit Facility**. On May 30, the Parliament approved amendments to the wage bill law, adjusting the percentage of the reference salary that is applied to the calculation of the representation subsidy, for statutorily appointed and elected holders of public office. In addition, based on data provided by the authorities on June 29, 2023, the Resident Representative office assessed that the prior action on incorporating all public sector servants into the electronic payroll system has been met. These were the two prior actions for the second review under the ECF listed in Table 2 of the Memorandum of Economic and Financial Policies (MEFP).

Statement by Mr. Willie Nakunyada, Executive Director for Mozambique; Mr. Adriano Isaias Ubisse, Alternate Executive Director; and Mr. Jorge Essuvi, Senior Advisor to Executive Director
July 6, 2023

Introduction

1. Our Mozambican authorities thank staff for their constructive engagement during the mission on the second review of the Extended Credit Facility (ECF) arrangement. They broadly share the staff's assessment of policy priorities and challenges.

2. The post-pandemic economic recovery momentum in Mozambique is gathering pace, despite the devastating effects of frequent and increasingly severe climate shocks. Specifically, the shock from Cyclone Freddy experienced earlier this year, resulted in the loss of lives and destruction of key infrastructure, as well as the outbreak of persistent water borne diseases such as cholera. Nevertheless, the authorities have made determined efforts to keep the Fund-supported ECF program on-track, despite strong headwinds from domestic and external challenges. They have taken decisive actions to address fiscal slippages and delivered on their structural benchmarks. Over the medium-term, the authorities are committed to sustained fiscal consolidation efforts, to ensure fiscal and debt sustainability. Importantly, the authorities view the ECF arrangement as instrumental to help realize the key objectives of their *Five-Year Government Program 2020–2024* designed to safeguard macroeconomic stability, consolidate public finances, and reduce poverty and social inequalities, while creating a conducive environment for private sector development and employment creation.

Program Performance

3. Two out of four Quantitative Performance Criteria (QPCs) were met. The QPC on the floor of the domestic primary budget balance was not met due to the wage bill overrun and revenue underperformance. Further, the ceiling on non-accumulation of new external arrears was not met, as the government incurred delays of over 30 days to service the debt of a state-owned enterprise (SOE). The authorities have since taken corrective revenue and expenditure measures to address the fiscal slippages. At the same time, the recently accumulated external arrears have been settled, and the authorities have instituted administrative measures to avoid the re-accumulation of arrears.

4. To address the overshooting of the wage bill, the authorities adopted measures to reduce the wage bill, including through amendments to the wage bill act, which was approved by the National Assembly in May 2023, in line with the respective prior actions. This legislative change also gave effect to the integration of all civil servants including the special sectors'[1] personnel into the wage bill. In the medium-term, the authorities plan to achieve the 10 percent of GDP wage bill target with support from Fund TA.

5. The Indicative Target (IT) on the present value of new external debt was met, but the IT on the social spending floor and the ceiling on domestic debt stock were missed. To address capacity constraints at the National Institute for Social Action (INAS) that affected performance under the IT on social spending, the authorities are putting in place an action plan to improve efficiency through digitalization and cash controls. Concurrently, the authorities have instituted appropriate corrective actions to avoid future breaches on the debt stock ceiling, including clearing the debt database ahead of the migration to the new debt database.

6. Reflecting the lower-than anticipated inflation, the Monetary Policy Consultation Clause was breached. With inflation declining for the fourth consecutive month to 10.3 percent at end-December 2022, below the lower bound of the inflation band of 12.0 percent, the consultation clause was triggered under the program. According to the central bank, these price developments were underpinned by the lower-than anticipated transmission of high international fuel prices to domestic pump prices, as well as the authorities' proactive tightening of monetary policy to bring inflation down.

7. Four out of five Structural Benchmarks (SBs) were met. The *e-SISTAFE* (the public finance management system) tools for budgetary planning (annual) and for financial programming (quarterly) were fully implemented in all spending units at end-2022; the submission to Parliament of the law on the Sovereign Wealth Fund was met, as well as the SB on exemptions from attrition rules for civil servants in the 2023 budget. However, the SB on implementing the proposed elimination of VAT exemptions and zero-ratings identified through the 2022 prior action was not met due to the decision taken by Parliament to extend some exemptions to end-2023. **Considering the remedial measures, prior actions, and progress made in implementing structural reforms, the authorities seek Executive Directors' support in completing the second review under the ECF program, and the associated requests.**

Recent Economic Developments and Outlook

8. Real GDP growth is projected to accelerate from 4.2 percent in 2022 to 7.0 percent in 2023, underpinned by the broad-based recovery in agriculture and the services sector, as the pandemic subsided. Moreover, the commencement of LNG production in October 2022, under the ENI-led Coral South project, improved security conditions in the North, and increased LNG gas investments are expected to provide strong growth impetus from

[1] Special sectors include the security and defense forces.

2023 onwards. Meanwhile, inflation decelerated from a peak of 12.10 percent in August 2022 to 7.06 percent in May 2023, driven by lower food and gasoline prices. Going forward, inflation is projected to further moderate to 6.7 percent by end-2023, benefitting from tight monetary conditions and receding commodity prices.

9. The current account deficit widened significantly from 22.4 percent of GDP in 2021 to 32.9 percent of GDP in 2022 due to LNG project-related imports. Higher fuel prices also shored-up imports, triggering a steady decline in international reserves, from 4.5 months of goods and services (excluding megaprojects) in 2021 to 3.4 months in 2022. Looking ahead, the expected export earnings from LNG gas, and the moderation of food and energy imports, is projected to improve current account performance and strengthen external reserve buffers.

Fiscal Policy and Debt Management

10. The authorities have undertaken bold measures to restore budget credibility and ensure fiscal discipline. To rectify the wage bill overrun following the implementation of the *Tabela Salarial Única – TSU* (single wage bill table) that started in October 2022, the government has undertaken several measures including the revision of the wage bill law to deliver on fiscal objectives as articulated in the 2023 National Budget. Specific measures undertaken by the government include: i) the reduction in the nominal wage levels relative to the original TSU framework; ii) freezing new hires in the special sectors; iii) canceling the 13th paycheck; iv) introducing the payroll of the special sectors into the system; and v) audit of all civil servants including from the special sectors to eliminate irregularities, including potential ghost workers. Going forward, monitoring instruments, including monthly wage bill reporting, regular audits and proof of life will be adopted to avoid wage bill slippages. Reflecting these remedial measures, the authorities seek to reduce the wage bill from 16.4 percent to 14.6 percent of GDP by the end-2023. Meanwhile, the authorities are implementing additional measures to bring the wage bill to around 10 percent of GDP over the medium-term, consistent with the program objectives.

11. The authorities are making concerted efforts to strengthen tax collection, including by reforming the VAT, and enhancing the tax administration capacity. They are gradually phasing out some of the VAT exemptions and domestic zero-ratings while broadening the VAT base. Further, the authorities are implementing measures to modernize tax administration, including i) enhancing links and interoperability with other public registries to boost revenue collection; ii) cleaning and updating the taxpayer's registry, including removing duplicated taxpayers; and iii) implementing an integrated electronic tax filing system (*e-tributação*) to collect receipts from the most important taxes, including VAT and income taxes. Moreover, the authorities are committed to adopting best international practices in determining the tax base for the mining industry.

12. The government has laid the groundwork for the adoption of a fully-fledged automatic fuel price-adjustment mechanism. In this vein, the authorities are implementing structural procedures to reduce costs of storage and distribution of fuel, including scaling down of

port operation fees. To cushion vulnerable households from the effects of the fuel subsidy removal, the authorities are strengthening social protection by increasing the envelope and the number of beneficiaries, improving efficiency through digitalization, and enhancing cash controls by reconciling payments with *e-SISTAFE*.

13. The government continues to implement the Medium-Term Debt Strategy (MTDS) aimed to place public debt on a sustainable footing. To this end, they are committed to follow a prudent borrowing strategy for public investment projects, by prioritizing projects under a tight and secured financing envelope. Importantly, the authorities are prioritizing concessional financing, and refraining from contracting new debt to finance non-priority investments.

14. The authorities are stepping up efforts to strengthen debt management, including by capping the state-owned enterprises (SOEs) debt levels. To this end, they have made strides in strengthening SOE debt management practices through improving monitoring, mapping all existing SOEs and their subsidiaries and regularly publishing their consolidated reports. Furthermore, the authorities are committed to enhancing the sustainability and transparency of the public sector debt and by publishing detailed quarterly public sector debt reports containing stock levels, intra-agency on-lending, and government guarantees.

Monetary, Exchange Rate, and Financial Sector Policies

15. The Banco de Moçambique (BM) has taken pro-active monetary tightening actions that have brought inflation down to levels below the MPCC. Going forward, the central bank is committed to a cautious approach to monetary policy normalization while maintaining exchange rate flexibility to absorb external shocks. Should inflationary pressures persist, the BM stands ready to further tighten monetary conditions. Furthermore, the BM will continue to refine its framework to implement a forward-looking monetary policy framework based on the policy interest rate (MIMO) to signal its monetary policy stance, while advancing progress on the transition to an inflation targeting regime.

16. The BM is introducing policies to help develop the FX market over the medium-term, including by fostering better price discovery. The determination of the reference exchange rate is being revised to capture actual volume-weighted market transactions rather than quoted rates and its implementation is subject to the BM's new IT system going live. To further foster the integrity and effective functioning of the FX market, the BM is adhering to the FX Global Code as a first step to ensure alignment with market participants. Meanwhile, the BM's FX allocations will be limited to the smoothening of disorderly market conditions.

17. The banking sector has remained broadly resilient to shocks, but the authorities remain attentive to the recent declines in capital and liquidity ratios. At the same time, the BM will continue implementing prudential rules to support the safety and soundness of the banking system and ensure adherence to loan classification and provisioning standards. Moreover, the BM is revising the prudential regulations to allow for the smooth transition

from Basel II to Basel III capital accords. With Fund technical support, the BM is developing the regulatory and supervisory framework for cybersecurity risks management, including through on-site assessments. Further, the BM finalized and approved the manual for AML/CFT risk-based supervision. In addition, following enactment of the Basic Bank Account Law that simplifies the requirements and reduces the costs of opening bank accounts for low-income households, the authorities continue to make progress in implementing their 2016-2022 National Financial Inclusion Strategy. Notable progress has also been made in implementing the recommendations of the 2020 safeguards assessment.

Governance and Structural Reforms

18. To bolster financial integrity and accelerate exit from the FATF grey list, the authorities have stepped up implementation of the action plan to address identified AML/CFT deficiencies. Following the amendments introduced in the AML/CFT legislation, the authorities are implementing measures to address the 40 recommendations by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Specifically, they are addressing issues related to beneficial ownership, tackling AML risks in non-governmental organizations, and strengthening human and institutional capacity of the financial information unit (GIFiM), the Attorney General's Office (AGO), and other anti-corruption agencies. In addition, the AGO is concluding the draft bill to introduce amendments to the Public Probity Law to clarify the definition of public agent, strengthen the definition of conflict of interest, and establish published procedures for its reporting.

19. The government is taking steps to promote the transparent and accountable management of LNG resources and ensure inter-generational equity. In this vein, the authorities are designing a sovereign wealth fund (SWF) to effectively manage natural resource flows. Following public consultations, a draft law establishing the SWF has been submitted to Parliament. The SWF will internalize a fiscal rule determining the portion of the resources to be earmarked for budgetary purposes.

20. Improving transparency in the implementation of the budget ranks high on the authorities' near-term priorities. In this vein, the government is setting-up both an interdepartmental cash management committee for financial program decision making, and a cash management unit within the Treasury to forecast and manage cash flows. Additionally, they plan to enhance the coverage and functioning of the treasury single account, beginning with the full mapping of all public sector bank accounts. Treasury's cash management will also be enhanced leveraging on the forecasting tool being developed within the e-SISTAFE.

Climate Change and Adaptation Policies

21. Mozambique is susceptible to increasingly large and frequent climate shocks, ranging from devastating floods precipitated by recurring tropical cyclones, to severe droughts. As such the authorities attach a high premium on policies to enhance climate resilience. Moreover, the Natural Disasters Management Law 15/2014 provides a general framework for preventive measures and integrating adaptation responses into

development planning. The authorities' long-term policy plans are guided by the National Climate Change Strategy ENAMMC 2013-2025 and the Master Plan for Risk and Disaster Reduction 2017-2030. In this connection, they are considering financing under the Resilience and Sustainability Trust (RST) and view it as instrumental in catalyzing additional climate financing. The authorities are also working to develop a climate finance protection strategy geared to efficiently finance post-disaster investments in climate-resilient infrastructure.

Conclusion

22. The authorities remain firmly committed to their reform agenda aimed at restoring macroeconomic stability and enhancing sustainable and inclusive growth. They are determined to continue implementing appropriate fiscal, monetary, and structural policies to set the economy on an accelerated growth path. Importantly, they appreciate the continued Fund engagement and policy advice and look forward to the Executive Directors' support towards completion of the second review under the ECF arrangement.