



# Recent Economic Developments, Program Discussions and Technical Assistance<sup>1</sup>

## Mozambique

Presentation to Donor Coordination Platform

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April 6, 2017

<sup>1</sup> This document has been prepared to elicit a discussion only. It does not necessarily represent the views of the IMF, its management, or the Executive Board. Data and projections will be updated during coming IMF missions (new program or Article IV).

# Outline



- Background
- Recent economic developments
- IMF program discussions
- Technical assistance

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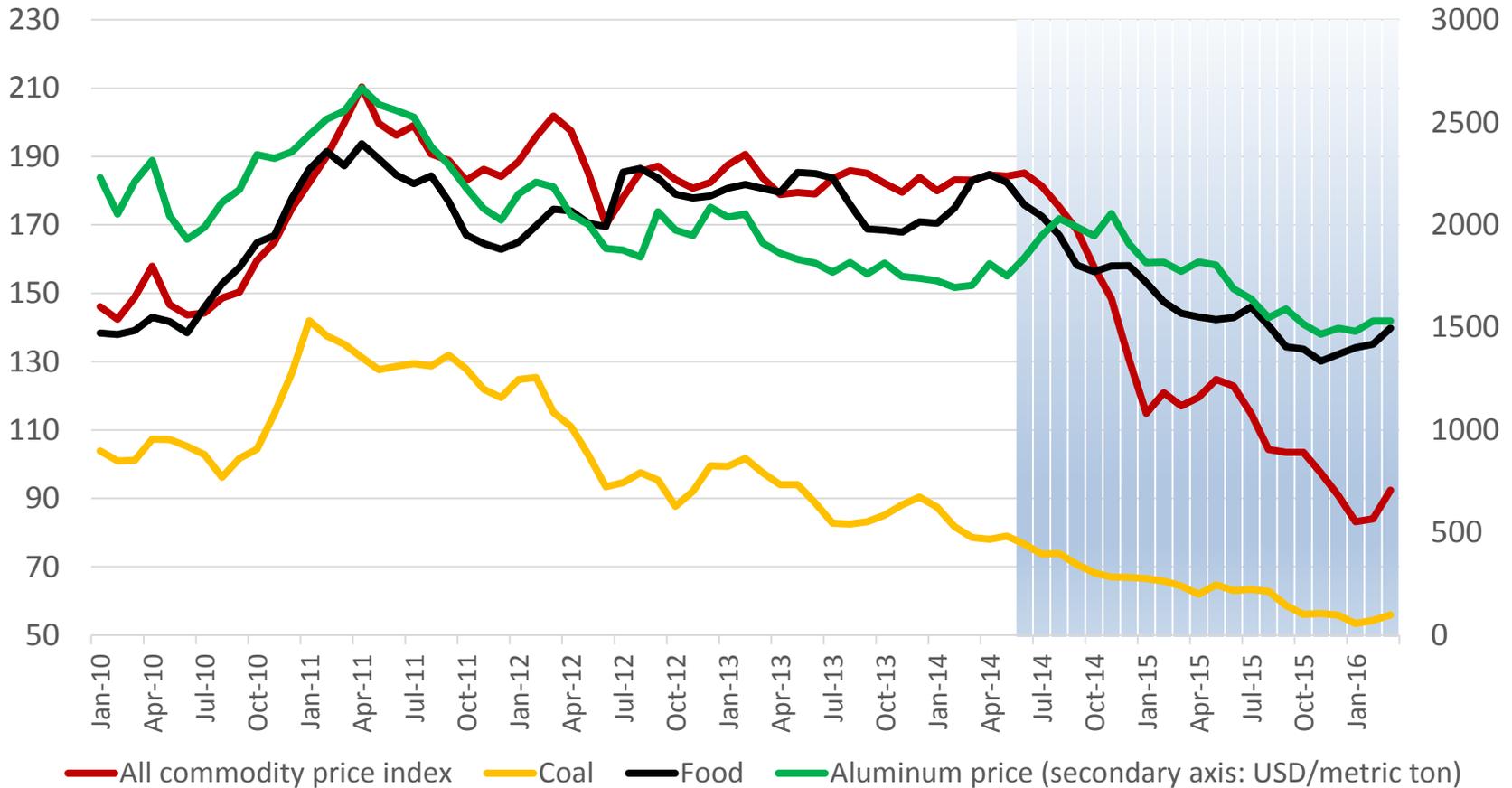


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# A commodity price shock hit the economy in late 2014...



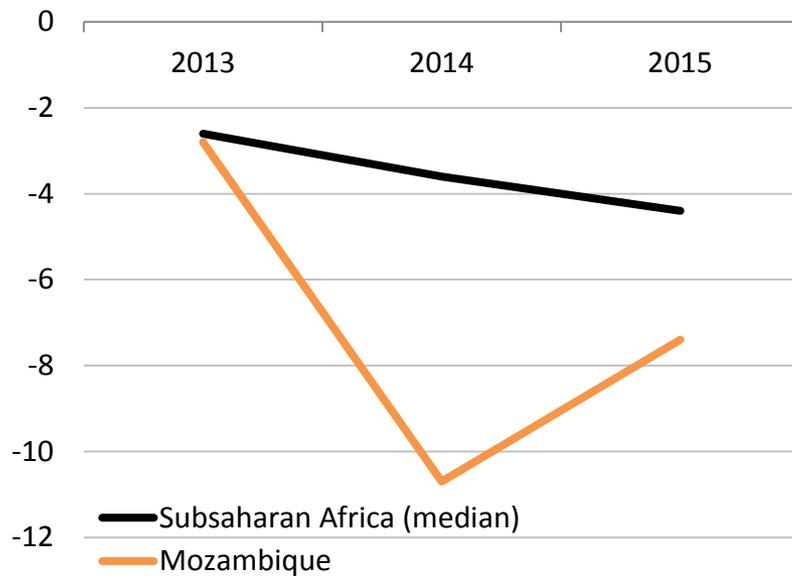
Commodity price indices (2005=100), aluminum price



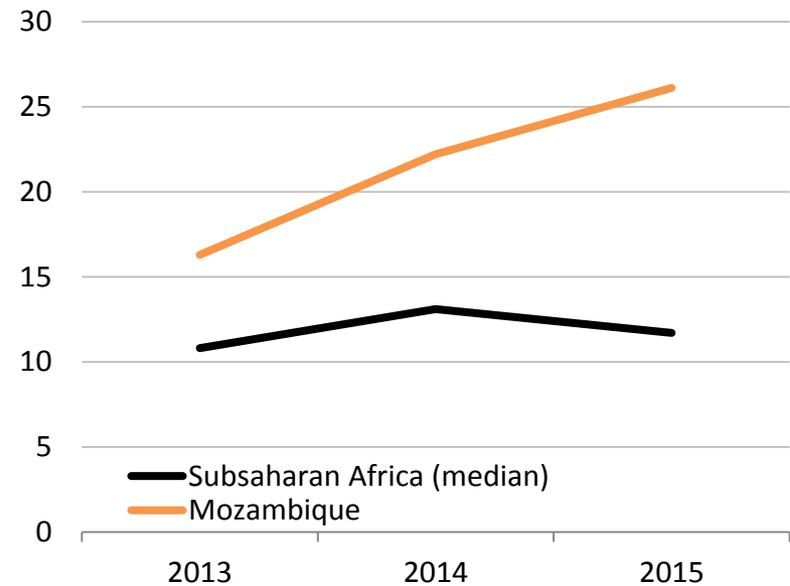
...in a context of extremely loose fiscal and monetary policies.



Overall fiscal balance including grants  
(% of GDP)



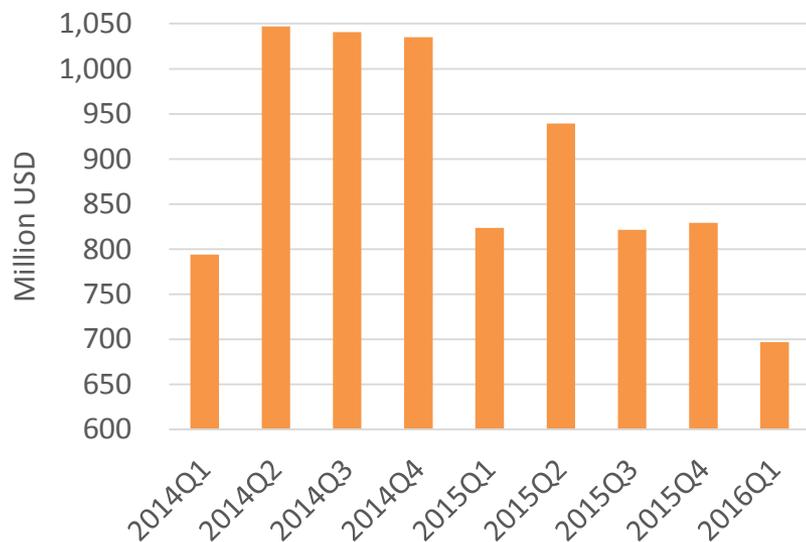
Broad money growth (percent change)



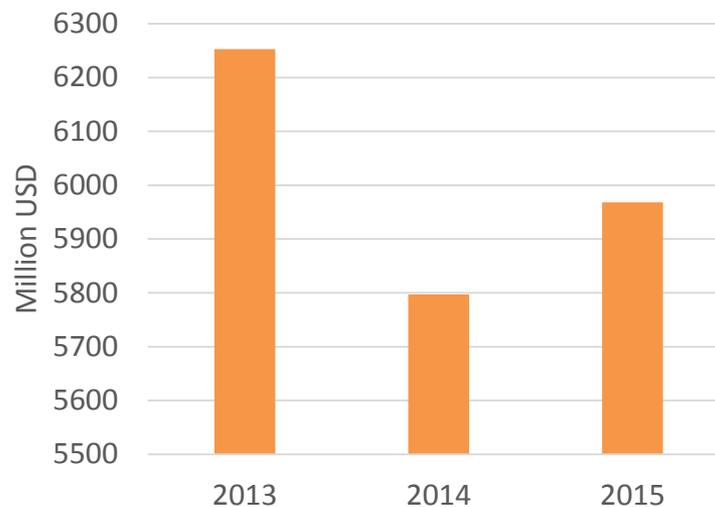
# Exports declined and the current account deficit worsened throughout 2015...



### Exports

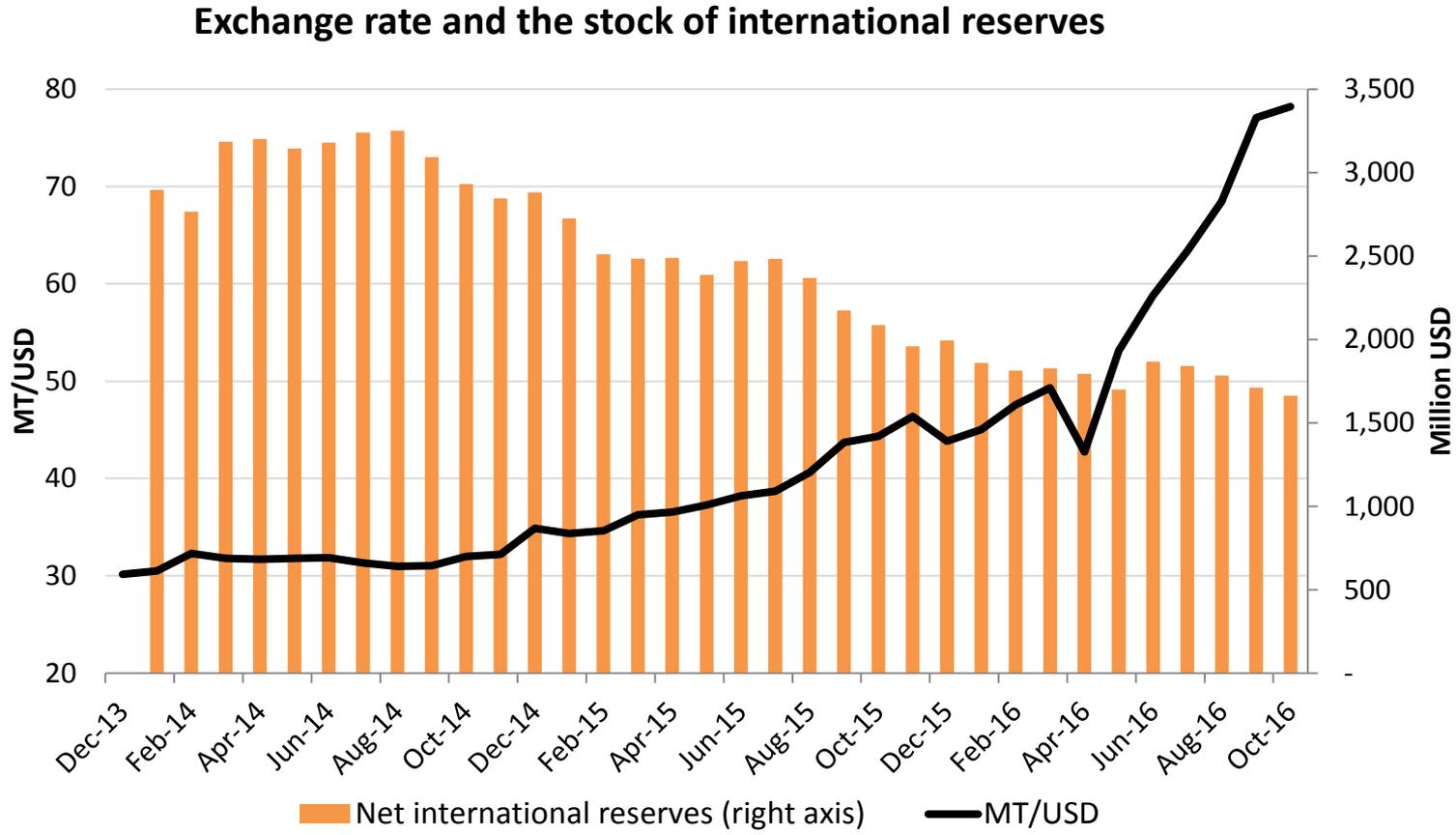


### Current account deficit



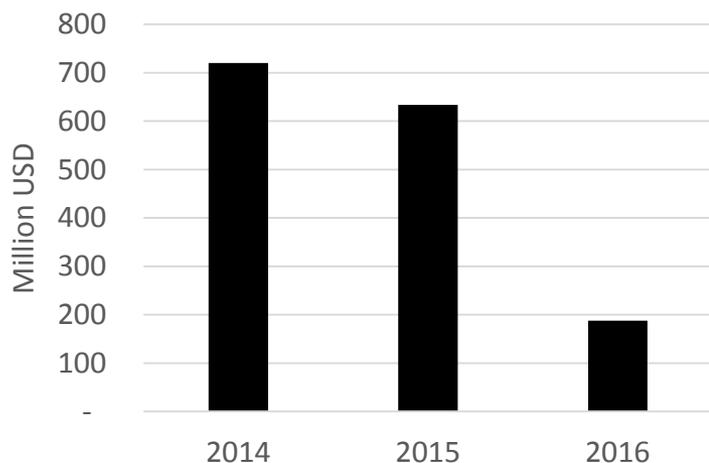


...triggering a severe exchange rate depreciation, and depletion of international reserves.

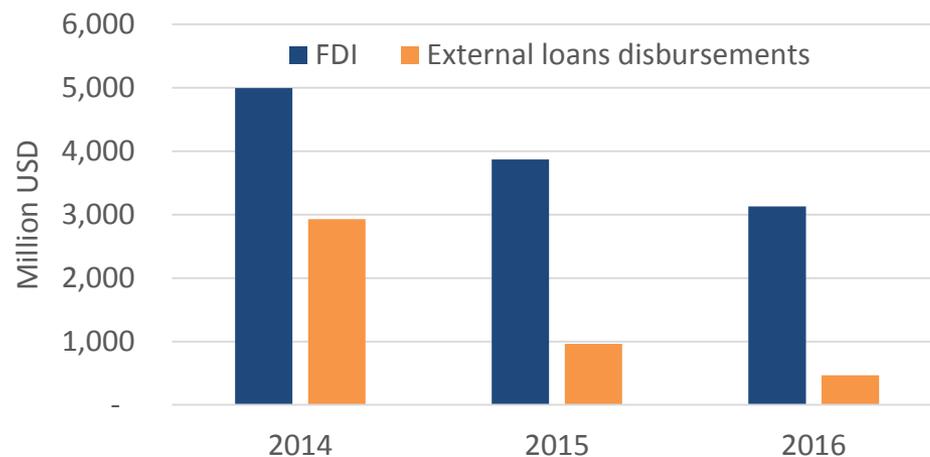


# A slump in confidence in early 2016, prolonged the earlier reversal of capital inflows.

### Grants



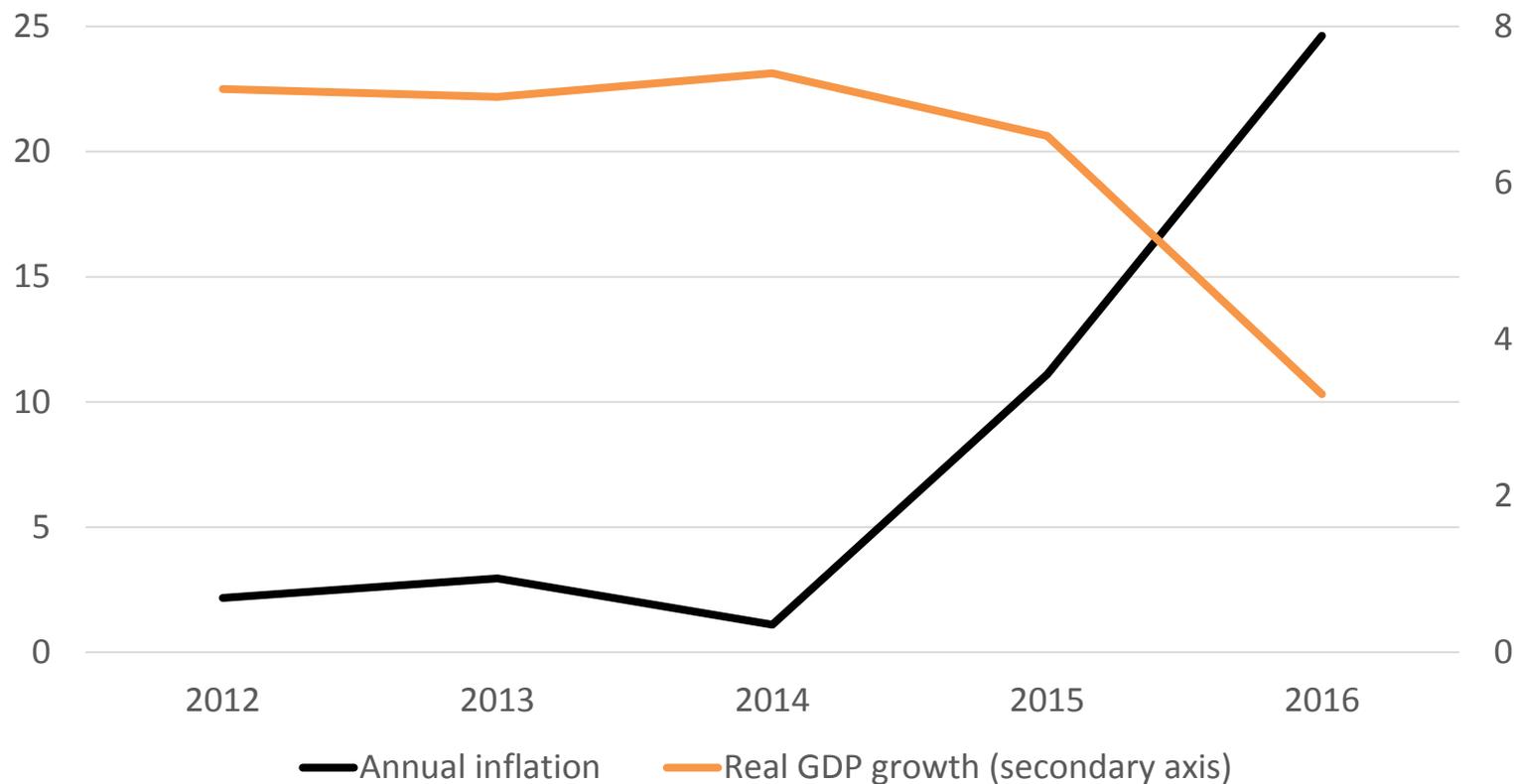
### FDI and external loans disbursements



# As a result, inflation escalated and growth decelerated markedly in 2016.



Inflation and GDP growth (percent change)

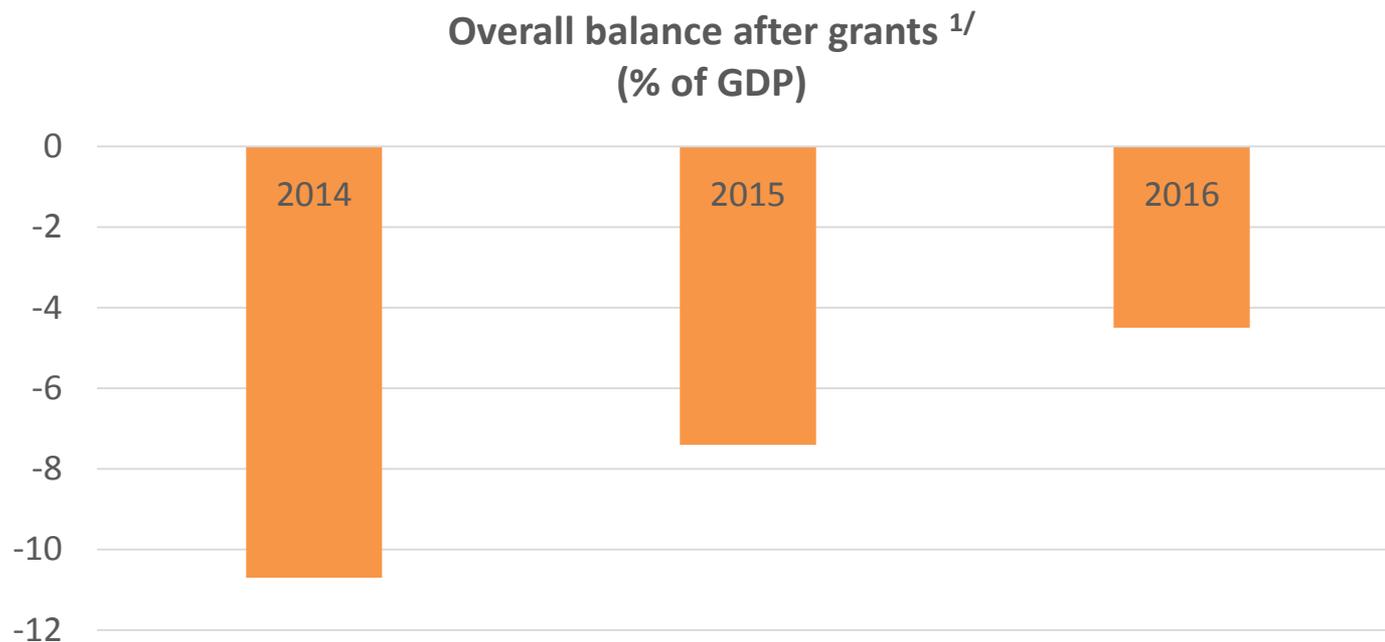


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# Policy response (1): Fiscal policy tightening, particularly in the second half of 2016.

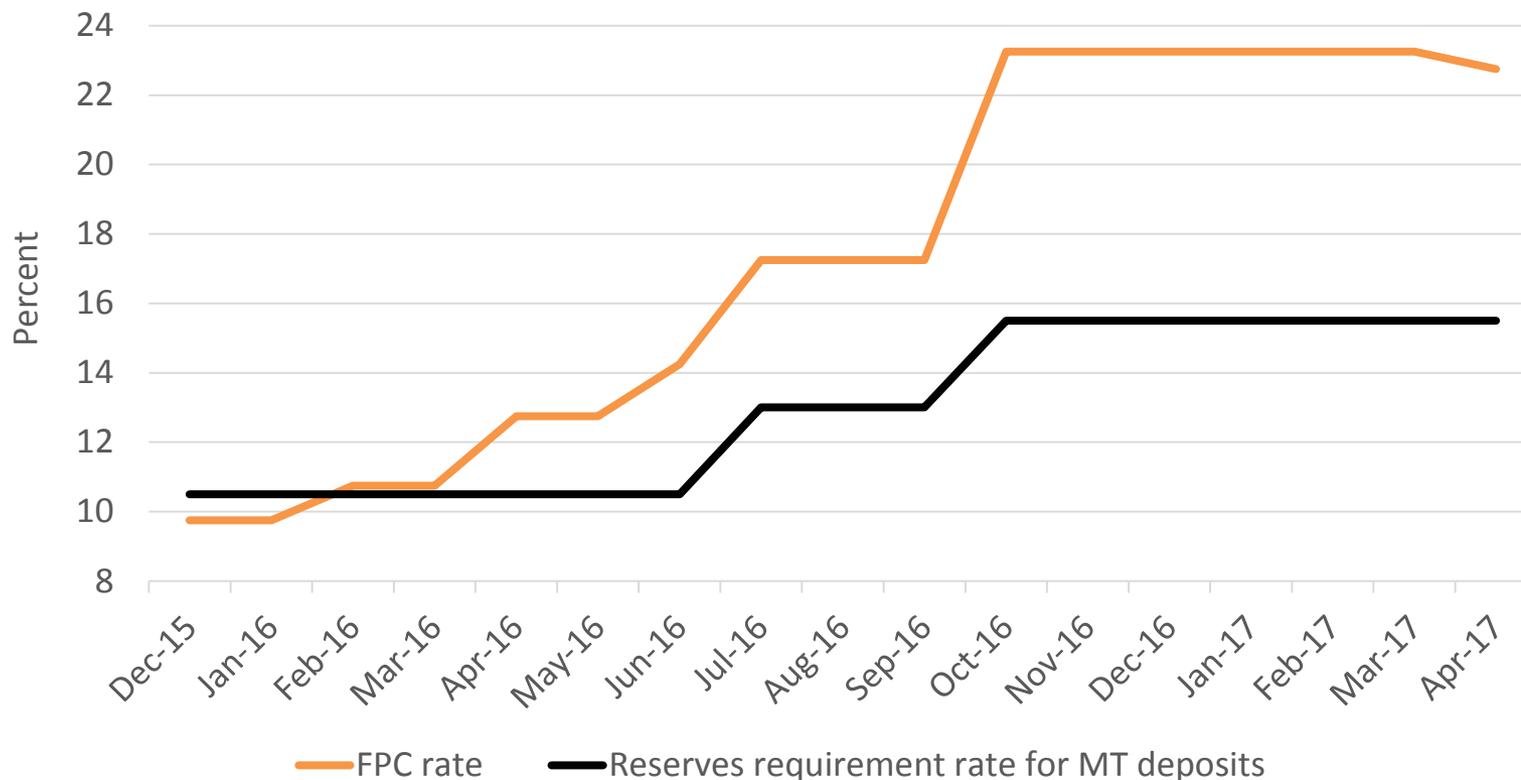


<sup>1</sup> Fiscal data for 2016 is preliminary.

# Policy response (2): and aggressive tightening of monetary policy...



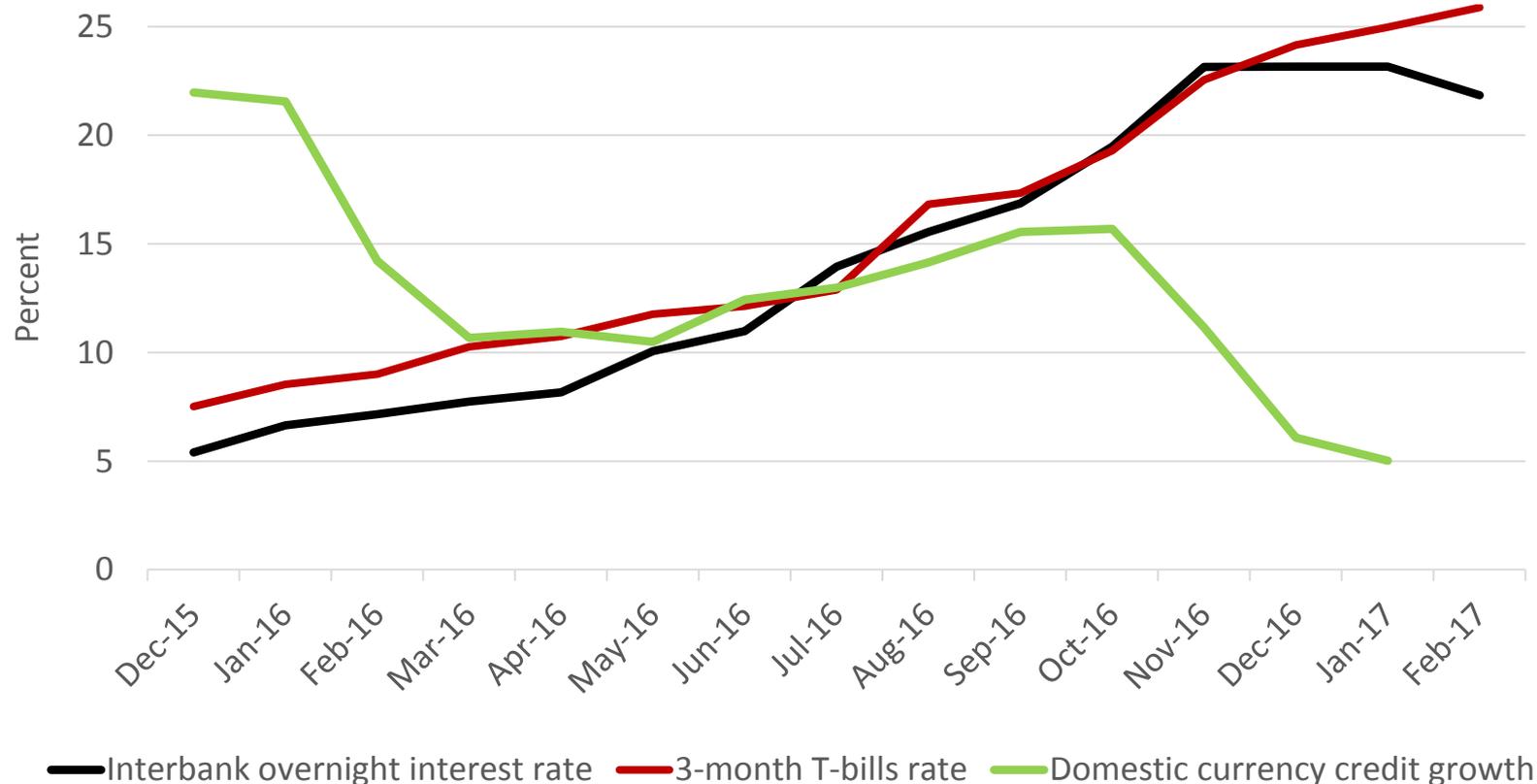
Central bank lending facility interest rate (FPC) and reserves requirement



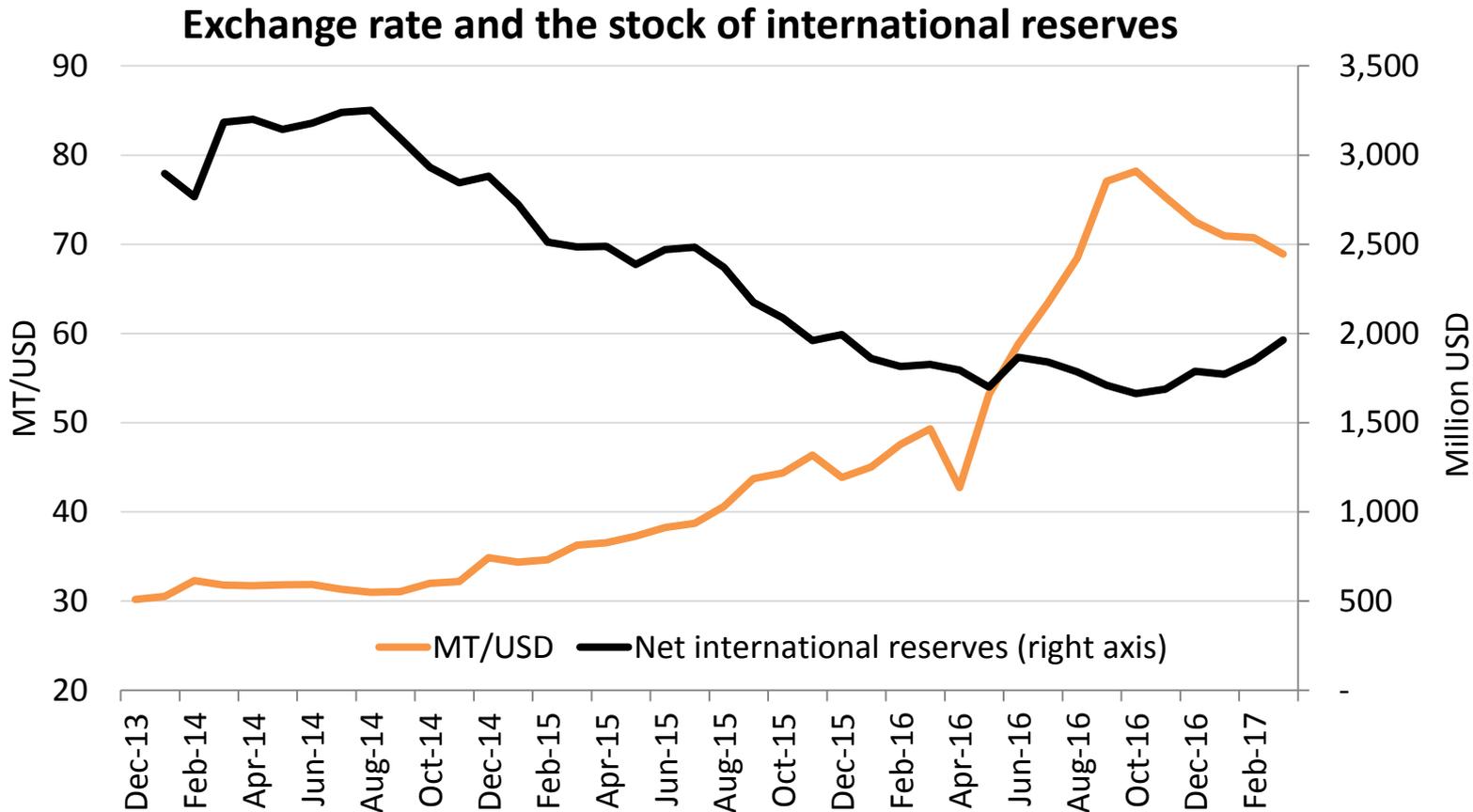
...significantly reduced liquidity, increased market interest rates and cooled credit growth.



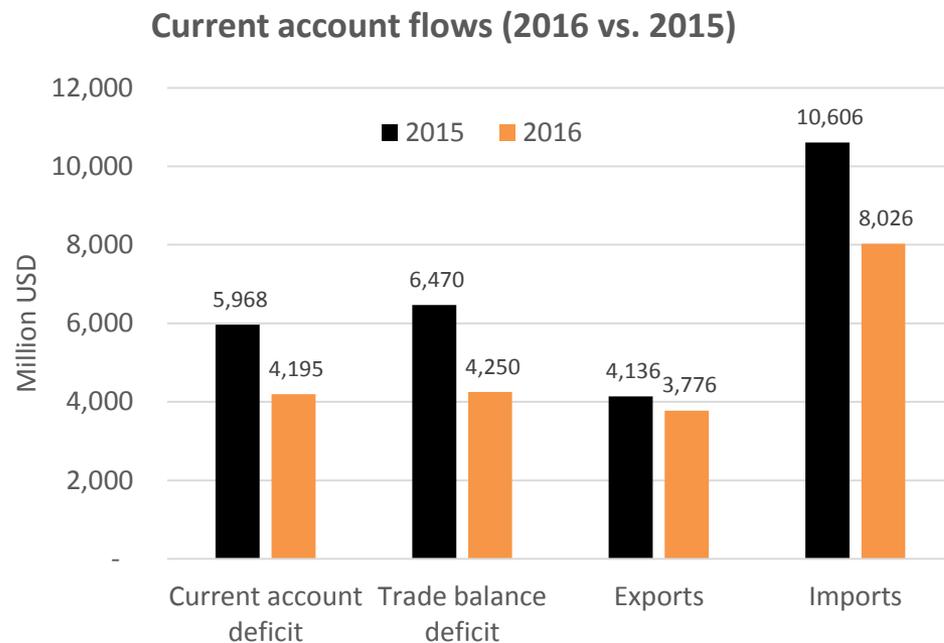
Market interest rates and credit growth



There are signs that an incipient recovery is underway: the foreign exchange market has rebalanced, the Metical has appreciated, and the central bank is again accumulating reserves.



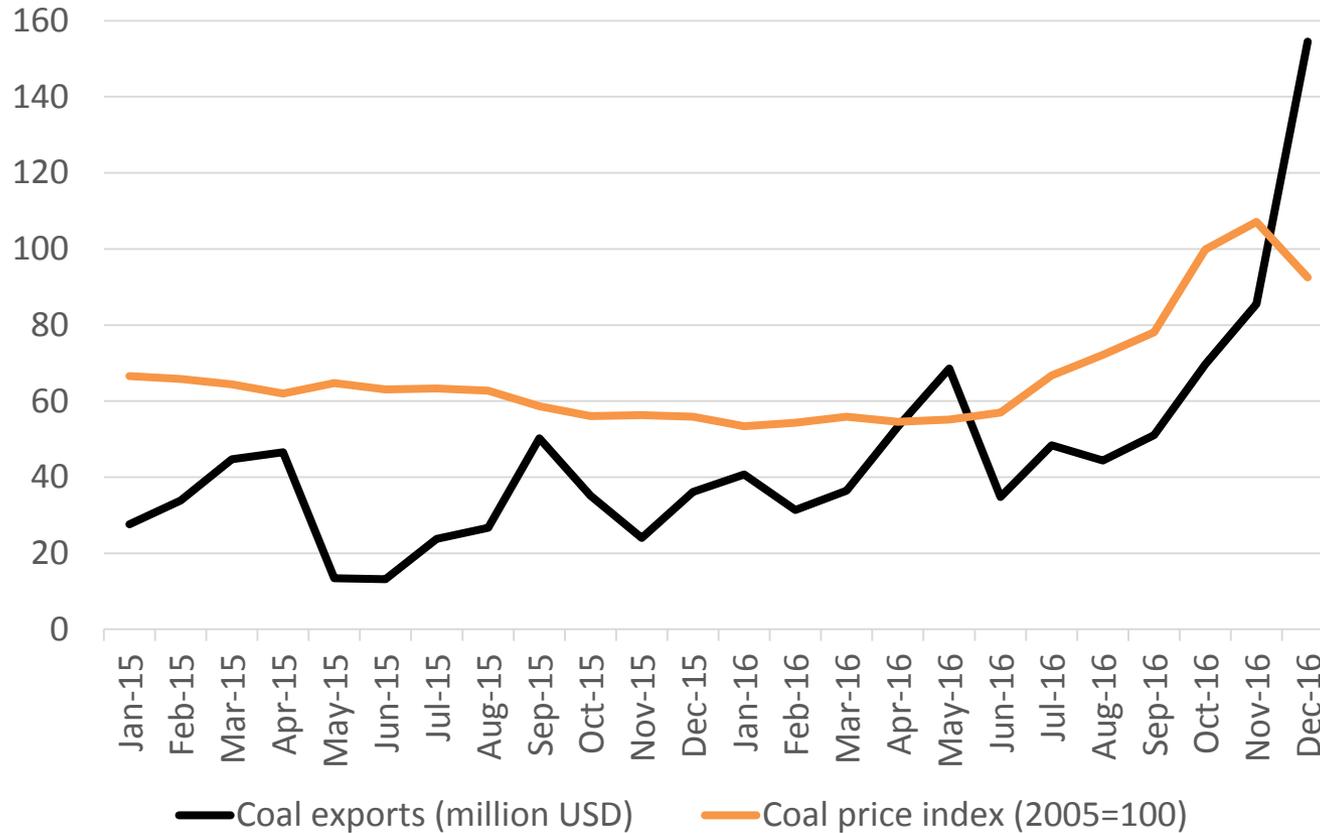
# A massive adjustment in imports improved the trade and current account balances...



...helped in part by the recovery in coal prices.



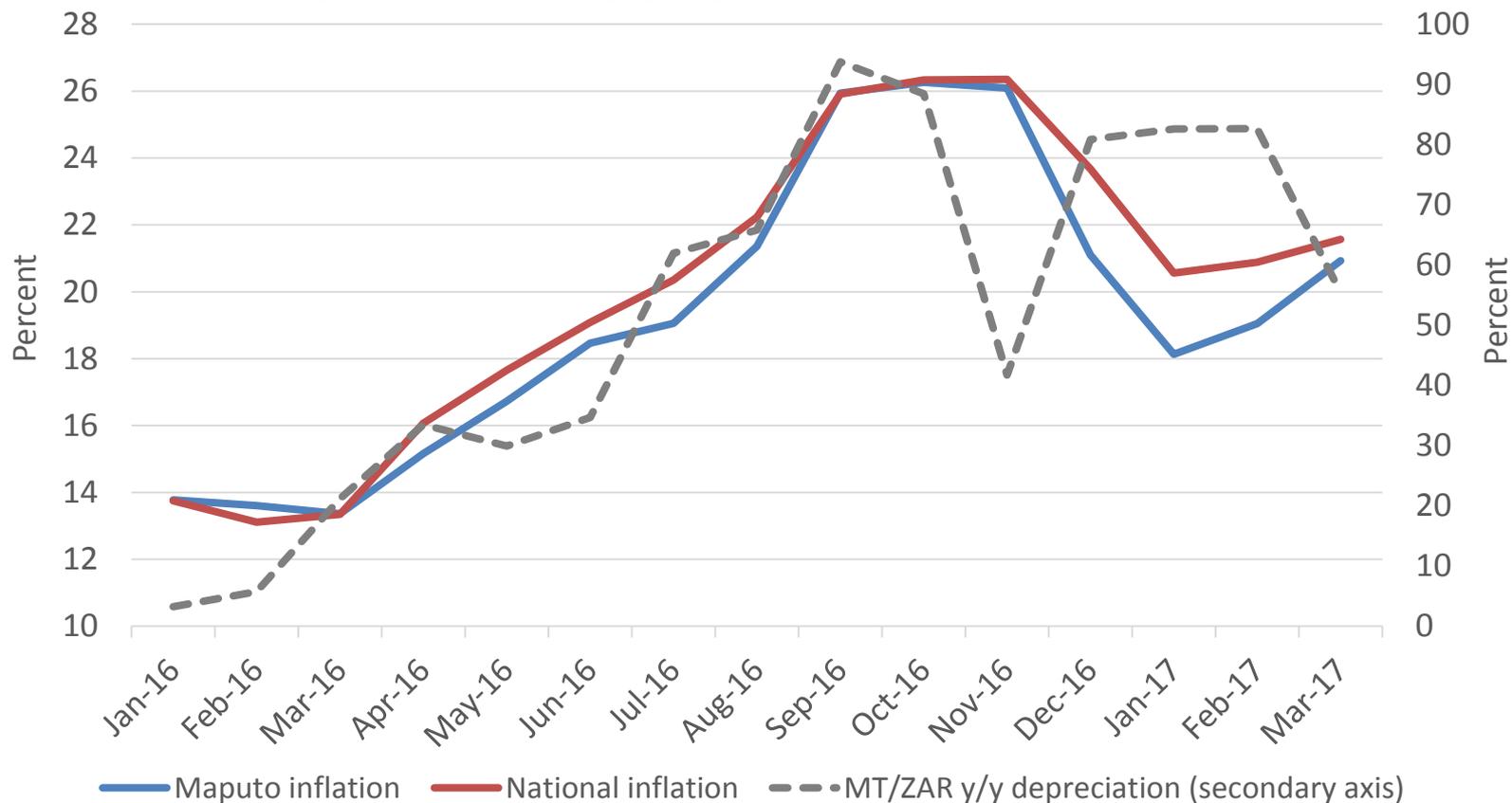
Coal exports and price index



# However, inflation remains high, despite the recent appreciation of the Metical...



y/y inflation and y/y depreciation of the MT/ZAR rate





## ...as fiscal policy needs further consolidation.

- Revenues over-performed and current/capital expenditure were cut down in 2016, resulting in an improved overall deficit after grants.
  - However, these results are uncertain due to a substantial accumulation of arrears to suppliers (e.g. oil companies) and VAT refund.
- Good fiscal policies recently adopted to remove unsustainable (fuel and bread) subsidies.
- But new loans for investment projects are being contracted (no IMF program ceiling in place).
- Further fiscal consolidation would help reduce the burden of the macroeconomic adjustment, which has fallen disproportionately on the private sector through higher interest rates (crowding out effect).

# Public debt remains at distressed levels...



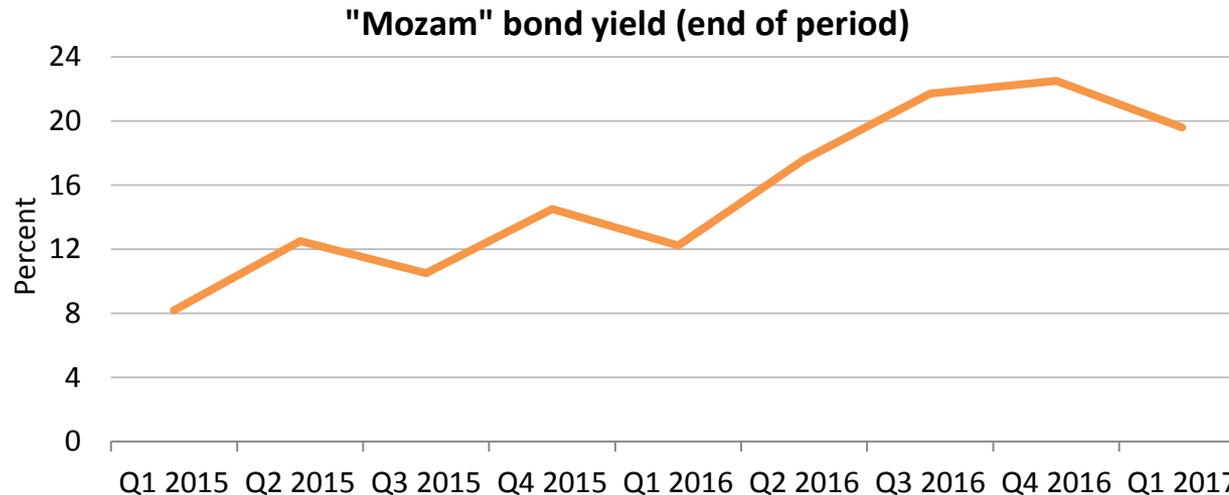
- The Government has recently missed an external debt payment:
  - January 2017: \$60 million for MOZAM (Ex-Ematum);
- MAM missed a payment of \$178 million in May 2016 and Proindicus another one of \$119 million in March 2017.
- Debt restructuring negotiations between the Government and creditors are needed to restore debt sustainability within a reasonable time horizon.



# ...despite a nascent recovery in confidence.

- ENI-Exxon Mobil deal to yield \$350 million in capital gain tax to the Government, and FID in ENI's area 4 LNG project could be reached in 2017;
- Closure of Vale-Mitsui deal in March is also positive to the coal sector;
- Ongoing military truce supporting a recovery in trade and tourism.

These factors may have improved investors' risk perception on Mozambique.





# There are important risks and concerns:

## **Confidence risk:**

- Effective capacity to rebuild trust and uncertainty on aid flows;
- Dealing with legacy issues: “debt hangover”, debt restructuring to sustainable territory.

## **Fiscal risk:**

- Fiscal transparency (beyond the Central Government/Treasury) and the materialization of significant risks related to SOEs;
- Need to remove additional inefficient subsidies (e.g. electricity tariffs) while maintaining social stability.

**Financial sector risk:** Adequate capitalization of the banking system.

**Political risk:** Political stability amid the upcoming electoral season.

**External risk:** Spillovers from regional shocks (e.g. South Africa).

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# IMF Program Objectives



- Restore macroeconomic and financial stability.
- Restore debt and fiscal sustainability.
- Support ongoing monetary policy reforms.
- Ensure adequate international reserves' coverage of imports.
- Support structural reforms to contain critical fiscal risks:
  - ✓ Public financial management, good governance and transparency.
  - ✓ Public investment and debt management policies.
  - ✓ Bank supervision and enforcement of prudential requirements to ensure financial stability.
- Support private sector development (crowding out)
- At the authorities' request, discussions on a new program started in December 2016.
- A new IMF arrangement could help restore confidence among private investors, development partners and civil society.

# Discussions towards a new IMF program need to overcome significant challenges.



- Effective progress on the audit to Ematum, MAM and Proindicus
    - Audit report delayed to April 28 (balance between timeliness and good quality objectives)
    - Summary audit report to be released to the public
  
  - Public debt sustainability
    - DSA and debt strategy are still being updated
    - Debt rescheduling process is proving challenging (not clear overview/strategy, slowdown in negotiations, new credits being signed...)
  
  - Solid macroeconomic policies to be implemented
    - Removing further subsidies.
    - Containing the expansion of the wage bill.
    - Limiting the fiscal risks presented by some large public enterprises.
  
  - Discussions will proceed during the Spring Meetings (April 2017).
-

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# IMF technical assistance missions continue to support key reforms.



- **Bank of Mozambique:**
    - Monetary policy framework and operations
    - Bank supervision
    - Interbank money and Foreign exchange markets
  - **Ministry of Economy and Finances:**
    - Public financial management
    - Fiscal risks management
    - SOEs and Debt management
    - Wage bill and Subsidy reforms
  - **Revenue Authority:**
    - Modern organizational structure, Tax compliance management, and Large taxpayers
    - Effective management, Leadership, Strategic planning and Skills management
    - E-tax integrated system for income tax
    - Natural resources tax administration
  - **Statistics National Institute:**
    - National accounts statistics and coverage
    - Price statistics
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# Thank You

More information at:

<http://www.imf.org/en/Countries/ResRep/MOZ>