INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

FOURTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

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This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from April 2014.[1] *Mozambique remains at moderate risk of external public debt distress. While key indicators continue to remain below the thresholds in the baseline scenario, gradual fiscal consolidation, as agreed under the program, is needed to keep debt sustainable. Against this backdrop, further improvements in debt management and investment planning capacity are essential to appropriately balance this consolidation with the importance of public investment for development. This is particularly important as there is a current large pipeline of upcoming investments, which need to be appropriately scrutinized and contracted at a measured pace to retain debt sustainability. As public debt is largely external, the evolution of total public debt indicators mirrors that of public external debt. Private external debt is expected to increase rapidly in importance, driven by investment in the natural gas sector, and to comprise the majority of external debt by the end of this decade. The authorities were in broad agreement with the DSA outlook and presentation. Their technical comments have been taken on board.*

[1]The DSA presented in this document is based on the standard low-income countries (LIC) DSA framework. See "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries" (http://www.imf.org/external/pp/longres.aspx?id=4827) and World Bank Report No. ACS6956, 10/23/13). Under the World Bank Country Policy and Institutional Assessment (CPIA); updated on July 25, 2014 with the 2013 CPIA rating, Mozambique maintains the medium policy performer rating, albeit close to the threshold of 3.75 for strong performers, with an average rating of 3.67 during 2011–13; the DSA uses the indicative threshold for medium performers for 2014-15.

UNDERLYING DSA ASSUMPTIONS

1. **This DSA is consistent with the macroeconomic framework outlined in the Staff Report for the Fourth Review under the PSI** (Box 1). Compared to the previous DSA,[2] the main changes in this DSA are as follows:

a. **The medium-term macroeconomic framework has been updated but is similar to the last DSA** (Text Table 1). The economic outlook remains positive, although somewhat less buoyant than projected during last DSA, with economic growth at 7.4 percent in 2014 and projected at 7 percent in 2015 (compared to 8.3 and 8.2 percent respectively). The main reasons being slower-than-expected increases in coal production, political uncertainties before the presidential election in 2014, and the effects of the floods in early 2015. Nevertheless, growth is expected to accelerate over the medium term on the back of extractive industries and infrastructure investments. The overall fiscal deficit was higher in 2014, with expenditure loosening influenced by the electoral cycle and one-off spending on maritime security (2.8 percent of GDP). To ensure debt sustainability, substantial fiscal consolidation is expected in 2015, mainly through a reduction in public spending and continued improvement in domestic revenue mobilization.[3] The current account deficit is projected to remain in the range of 38-45 percent of GDP over the medium term reflecting significant imports of goods and services related to the development of the gas and coal sectors. These imports are financed primarily by non-debt creating FDI.

Text Table 1: Evolution of Selected Macroeconomic Indicators between DSA Updates

	2013	2014	2015	2016	2017
			Projections		
Real GDP growth (%)					
Previous DSA	7.1	8.3	8.2	8.2	7.9
Current DSA	7.4	7.4	7.0	8.2	7.9
Nominal GDP (US$ billion)					
Previous DSA	15.3	17.1	18.7	20.8	23.2
Current DSA	15.6	16.7	17.0	19.0	21.2
Overall fiscal deficit (% of GDP)					
Previous DSA	2.8	9.2	7.5	6.6	5.8
Current DSA	2.7	10.3	6.5	5.1	5.5
Current account deficit (% of GDP)					
Previous DSA	39.5	46.9	47.0	43.8	52.0
Current DSA	40.0	34.7	38.2	42.1	39.9
FDI (% of GDP)					
Previous DSA	36.5	33.0	28.6	26.4	24.1
Current DSA	39.5	29.4	23.8	24.7	22.9

[2] See IMF Country Report No. 14/148.

[3] From 2020 onwards staff adopts a relatively conservative approach with public debt stocks falling by less than implied by projected growth (and the fiscal deficit path) due to the uncertainty surrounding the LNG development, which constitutes a major growth driver in this period. This results in modestly positive residuals in the analysis of public debt.

Box 1. Macroeconomic Assumptions 2015–35

The medium-term assumptions in the baseline scenario for 2015-35 are consistent with the medium-term macroeconomic framework underlying the Staff Report for the Second Review under the Policy Support Instrument.

Real GDP growth is projected to be in the 7-8 percent range on average in the longer term. Growth is expected to accelerate over the medium term, supported by the expansion in coal mining and infrastructure investments, including support for coal exports and LNG manufacturing. A sharp increase in growth in 2020 reflects the assumed coming on line of the first natural gas production plant ("train") and related exports in that year. Growth is sustained in the long term by strong population/labor force growth, continued infrastructure investment, and related productivity gains. Risks to growth include public and private investment not achieving expected payoffs and thus limiting productivity gains, and the possibility of Dutch disease.

LNG sector. LNG plants are assumed to be under construction during 2016–22. The projection assumes a moderate-sized plant consisting of four LNG manufacturing units ("trains"). One train is assumed to start production in 2020, followed by a second train in 2021, and the third and the fourth train will start production in 2023. Total investment is projected at $40 billion. The sector's contribution to GDP is expected to be small during the construction period due to high import content. Annual LNG output will reach 20 million tons in 2023, contributing more than 20 percent of nominal GDP by then. These assumptions are conservative given the potential size of the project, but remain adequate before a final investment decision is made by the investors.

Consumer price inflation is projected to remain in the authorities' target range of 5–6 percent over the medium term.

Export Growth is projected to remain around 7 percent a year in the longer term as coal and LNG exports stabilize. In the short term, export growth rates show sharp changes as a result of large coal and LNG development project cycles. In particular the growth rate of exports would almost double in 2020-23 due to LNG exports coming on line.

Imports are projected to show abrupt jumps in 2016-2023 during the LNG plant construction phase but their growth would stabilize at around 8 percent a year in the long term.

The non-interest external current account deficit is projected to rise to over 40 percent of GDP in the medium term largely driven by LNG-related imports.[4] The deficit will be primarily financed through FDI and private external borrowing. It would then average 14 percent of GDP in the long term as coal exports increase with transport capacity and as LNG exports start.

The non-interest primary fiscal deficit is projected to widen in 2014, reflecting an expansionary budget in an election year, including one-off expenditure on maritime security (2.8 percent of GDP). The fiscal balance would improve in the medium to long term as revenue efforts continue, the wage bill and public investment taper off to more sustainable levels and other non-interest current expenditure falls in percent of a fast-growing GDP. The fiscal balance is expected to improve further beyond 2020 once LNG revenue commences.

[4] Meanwhile, the non-megaproject current account is expected to remain on the order of 11-12 percent during the next years.

b. External borrowing profile. New borrowing has generally been contained since the last DSA, but the amount of pending applications for large bilateral loans has increased and now surpasses US$ 2.2 billion (Text Table 2), although it does not include all priority projects of the government's five-year investment plan.[5] This pipeline is expected to lead to an increase in external borrowing compared to the previous DSA, with more costly domestic financing being scaled back to achieve the envisaged fiscal consolidation.[6] While about two-thirds of this external loan pipeline is envisaged to be contracted on concessional terms, the total borrowing approaches the pipeline of 2012-13 (US$ 3 billion), which ultimately elevated the risk of debt vulnerability rating from low to moderate (Country Report 13/200).

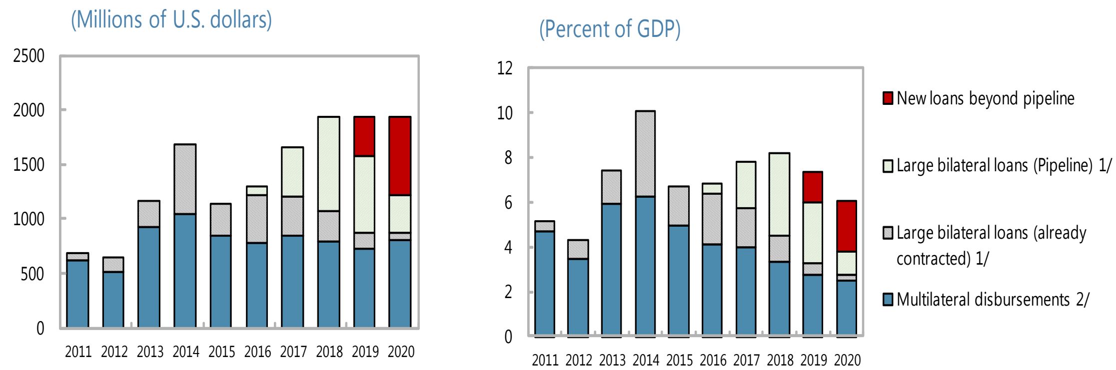
Text Table 2. Large Bilateral Loans in the Pipeline, as of June 2015

	Signed on	Loan amount (US$ millions)
Total		**2,259.5**
Non-concessional loans		**799.8**
China		
Fiber Optic in Metropolitan Areas	EXIMBANK is evaluating feasibility study.	185.4
Transmission line Caia-Nacala	EXIMBANK is evaluating feasibility study.	400.0
Road N380 Chimuarra - Namacurra	EXIMBANK is evaluating feasibility study.	120.0
Road N1 Sunate - Macomia	EXIMBANK is evaluating feasibility study.	94.4
Bilateral concessional loans		**1,459.7**
China		
3 Grocery Warehouses	Financing agreement is under negotiation.	60.0
Rehabilitation of Chipembe Dam	EXIMBANK is evaluating feasibility study.	90.3
Road/Bridge Rio Lurio	EXIMBANK is evaluating feasibility study.	65.4
Modernization of Irrigation in Chokwe	EXIMBANK is evaluating feasibility study.	78.0
Digital Migration I	EXIMBANK is evaluating feasibility study.	60.0
Digital Migration II	Proposal sent to China; awaiting response.	223.0
Maputo Exposition Grounds	Under consideration. No financing yet requested from EXIMBANK.	150.0
Hydropower Dam Lurio	Under consideration. No financing yet requested to EXIMBANK.	450.0
Japan		
Nacala Port Phase II	Signature expected by mid-2015.	283.0

[5] Non-concessional borrowing had been high in 2013 because of the government guarantee for Loan Participation Notes (LNP) of $850 million (6 percent of GDP) issued on behalf of the newly created enterprise EMATUM (tuna fishing). Of this amount, the government incorporated $500 million as government debt in the 2014 budget, which were related to maritime security (under the budget of the Department of Defense). This change does not have an impact on the DSA, which already included publicly-guaranteed debt..

[6] The authorities only envisage to sign most of the loans of Text Table 2 (and all its non-concessional ones) only after their ongoing work on the medium term fiscal framework has been completed.

Text Figure 1. Public Sector External Debt Disbursement Path



Note: Excludes US$ 850 million EMATUM guarantee in 2013, but includes government assumption of US$500 million of this debt issue in 2014.
1/ Large bilateral loans are those with amounts exceeding US$60 million.
2/ Also includes disbursements on small bilateral loans.

c. **Private sector debt stocks and medium-term borrowing have been revised further upwards**. The International Investment Position data now puts private external debt at 31 percent of GDP in 2014. It is projected to rise to some 85 percent by 2020, i.e. somewhat less steeply than in the previous DSA in response to the financing of gas liquefaction capacity, because more of this financing is now expected to be through equity financing. The ratio is expected to fall back to 49 percent by 2025 when LNG is exported and private borrowing is being amortized. This debt is mobilized and repaid entirely through offshore SPVs, which limits risk to the domestic financial system.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

2. Total external debt is projected to rise rapidly during this decade, reflecting mainly private sector investment in the natural gas sector. External debt (both public and private) is expected to peak at about 137 percent of GDP in 2020. By then time private sector debt will represent about two thirds of total external debt. With investment in the coal sector projected to be financed through foreign direct investment, this increase in private external debt is mostly driven by investments in the natural gas sector. The significant build-up of private sector external debt needs to be monitored by the authorities to contain vulnerabilities, though risks (as noted above) are limited due to the financing structures through SPVs offshore. With renowned global companies leading investments in the natural resource sector, however, the risk for government contingent liabilities or other vulnerabilities beyond those specific to the natural resource operations is deemed modest.[7]

[7] Likewise, the risk of BOP pressures emerging as a direct result of megaproject-related investment activity is considered to be low. Care will have to be taken in the long term, however, once revenues from these ventures materialize, as these may be volatile reflecting world commodity prices and in relation to imports. Moreover, large natural resource exports then also hold competitiveness risks emerging from a possible exchange rate appreciation, which will have to be carefully managed.

3. All public external debt indicators remain below their respective thresholds in the baseline (Figure 1).[8] The PV of debt in terms of GDP now peaks around 35.6 percent (in 2019), compared to a peak of 33 percent in the previous DSA. The beginning of LNG production and the ensuing surge in GDP would reduce the ratio down to a 30-32 percent range in the next decade (Table 1).

4. External debt ratios are sensitive to FDI, terms-of-trade and exchange rate shocks.9 The threshold for the PV of debt to GDP ratio is breached under the most extreme stress tests for a sustained period.10 A combination shock consisting of reductions in non-debt creating FDI, export prices and growth in 2016-2017 would push the PV of debt/GDP ratio well above the 40 percent threshold during the next 15 years, with a peak of about 70 percent (Figure 1). Apart from this combination shock, a sharp depreciation of the metical in 2016, or a shock to FDI lead to significant overshooting of the threshold for a sustained period.11 The pattern of these impacts is broadly consistent with the previous DSA. In these three shock scenarios the PV of debt will also breach the debt/exports threshold of 150 percent of exports.12

5. Ensuring that LNG production materializes is crucial for Mozambique's debt sustainability. The authorities have made significant progress in establishing legal frameworks for the sector, but further time-sensitive steps need to be taken this year to ensure that LNG investment can move forward. The LNG sector is expected to contribute significantly to GDP, exports and government revenue. A gradual public investment scaling-up, as under the baseline scenario, anticipating some LNG revenue would be appropriate given Mozambique's infrastructure investment needs. If, however, there are delays in project take-off or LNG production or revenue is much lower than expected, the debt ratios would be higher over the medium to long term.

PUBLIC SECTOR DEBT SUSTAINABILITY

6. The evolution of public debt indicators (including domestic debt) mirrors that of the external indicators because of the predominance of external debt (Table 3 and Figure 2). The medium-term increase in public debt reflects the gradual contraction of loans currently in the pipeline leading to a temporary buildup in externally-financed public investment toward the end of this decade. The DSA assumes that about 10 years after the start of LNG exports the public sector will dedicate an increasing share of resources to pay back debt. Under the baseline scenario, the PV of public debt

[8] Following the previous DSA, the historical scenario has been excluded from Figure 1. The reason for the exclusion is that such a scenario shows unrealistically fast declines of public debt ratios over the medium term, because it fixes the current account deficit at an historical average of 19.2 percent of GDP. This is much lower than the 38-45 percent of GDP deficits. With private debt accumulation assumed to remain unchanged compared to the baseline, this assumption then results in unrealistically fast declines of public debt ratios.

[9] The impact the of the standard shocks in the DSA template is heightened by the fact that the standard stress tests revert to historical values, which are significantly different from current and expected values because of the structural change in the Mozambican economy resulting from the large-scale exploitation of coal and natural gas since 2011.

[10] The scenario in which variables are at their historical levels has been omitted given that it generates negative debt as a result of the large changes in variables in the baseline arising from LNG activities.

[11] The charts in Figure 1 display the stress test with the most adverse outcome in 2025.

[12] This breach, however, should not be overemphasized as a fall in FDI would likely be linked to lower imports rather than higher borrowing as implicitly assumed in the standard shock scenario.

remains below 45 percent of GDP throughout, therefore remaining well contained and below the indicative benchmarks that research has linked to increased probability of debt distress.[13]

7. The public DSA illustrates that it is essential for debt sustainability to prioritize appropriately the investment projects currently in the pipeline. This is particularly important as funding may also be needed for other important investment projects, including in the energy sector, which are currently not yet in the pipeline. This borrowing plan will need to be consistent with the envisaged gradual reduction in the fiscal primary deficit over the medium run to place public debt on a downward trajectory.

CONCLUSION

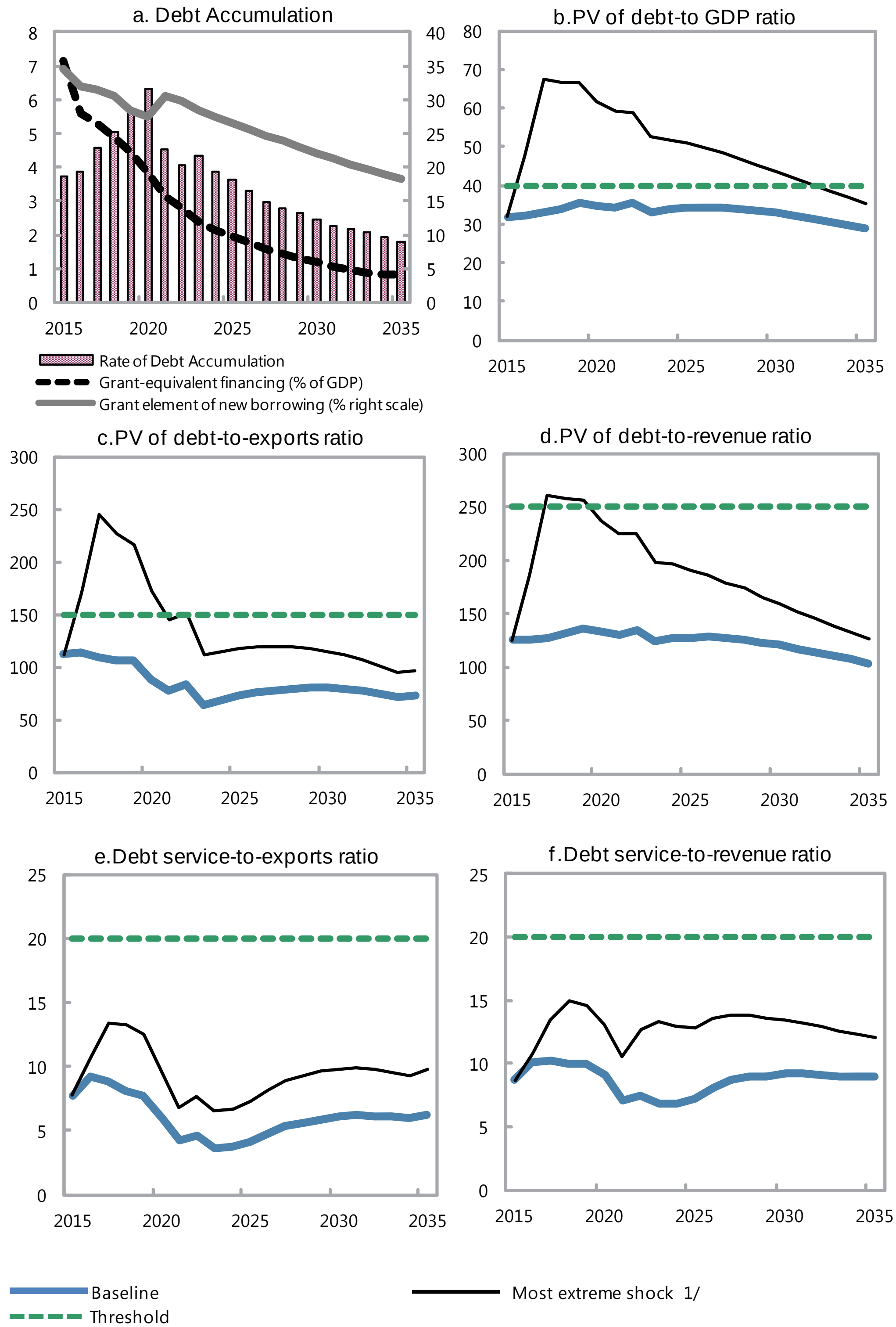
8. While the standard DSA shocks indicate that Mozambique would be in the moderate risk of external public debt distress category, public investment should continue to move forward. However, in light of a large loan pipeline, projects need to be appropriately prioritized to maintain debt sustainable. Even against the background of a temporarily accelerated pace of disbursements toward the end of this decade, the baseline debt trajectories remain below their respective thresholds throughout. Importantly, debt service indicators remain substantially below their thresholds, including under stress tests, and reflect conservative assumptions regarding the grant element for future borrowing.14 The breaches under the stress tests would be reversed by the coming on stream of LNG production, and seem manageable against the backdrop of the authorities' strong track record of prudent economic management. Moreover, the impact of shocks is heightened by the fact that the standard stress tests revert to historical values, which are significantly different from current and expected values because of the structural change in the Mozambican economy resulting from the large-scale exploitation of coal and natural gas.

9. This analysis highlights three important points for debt sustainability. First, it will be important to continue to improve debt management and investment planning capacity to ensure that the most deserving public investment projects are selected and yield their desired payoff. This is becoming even more important, because of the full loan pipeline. Second, it will be important for the authorities to commence the gradual fiscal consolidation envisaged in their program to place public debt on a gradual downward trajectory over the medium term while addressing key public investment priorities. Third, it continues to be important—including from a debt sustainability perspective—to take the essential time-sensitive steps to ensure that LNG production materializes in order to lock in the beneficial effects on GDP and fiscal revenue.

[13] At Mozambique's CPIA rating, the indicative public debt benchmark signaling higher risk of debt distress lies between 56 and 74 percent for the PV of debt-to-GDP ratio. See IMF, 2012, "Revisiting the Debt Sustainability Framework for Low-Income Countries."

[14] Moreover, these indicators do not account for other buffers, such as comfortable levels of international reserves relative to non-megaproject imports.

Figure 1. Mozambique: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock

Table 1. Mozambique: External Debt Sustainability Framework, Baseline Scenario, 2012-2035 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**72.4**	**79.0**	**79.9**			**86.0**	**94.3**	**102.1**	**116.9**	**134.1**	**137.0**		**96.4**	**59.9**	
of which: public and publicly guaranteed (PPG)	35.2	43.4	48.9			50.6	50.5	51.4	52.5	54.2	51.6		47.6	36.5	
Change in external debt	2.3	6.5	0.9			6.1	8.3	7.8	14.8	17.2	3.0		-5.8	-1.8	
Identified net debt-creating flows	-0.5	-3.0	0.3			9.0	11.1	10.4	15.6	12.4	-4.0		-5.4	-9.1	
Non-interest current account deficit	**41.6**	**39.3**	**33.9**	**19.2**	**14.1**	**34.7**	**38.8**	**36.3**	**41.1**	**38.1**	**33.5**		**14.2**	**8.8**	13.4
Deficit in balance of goods and services	47.9	48.7	41.8			41.7	43.7	39.8	43.9	40.6	30.1		6.0	7.1	
Exports	33.3	30.5	27.8			28.4	28.3	30.1	32.0	33.6	39.2		47.1	39.8	
Imports	81.2	79.3	69.6			70.1	72.0	69.9	75.9	74.1	69.3		53.1	46.9	
Net current transfers (negative = inflow)	-5.6	-9.1	-7.6	-6.8	1.1	-5.0	-4.0	-3.6	-3.3	-3.0	-2.7		-2.1	-1.8	-2.0
of which: official	-4.8	-7.0	-5.9			-3.2	-2.3	-1.9	-1.6	-1.3	-1.0		-0.4	-0.1	
Other current account flows (negative = net inflow)	-0.7	-0.3	-0.2			-2.0	-0.8	0.1	0.4	0.6	6.1		10.3	3.5	
Net FDI (negative = inflow)	**-35.1**	**-39.5**	**-29.4**	**-15.8**	**14.3**	**-23.8**	**-24.7**	**-22.9**	**-22.1**	**-22.2**	**-23.3**		**-16.9**	**-16.5**	-17.1
Endogenous debt dynamics 2/	**-7.0**	**-2.8**	**-4.2**			**-1.9**	**-3.0**	**-3.1**	**-3.4**	**-3.5**	**-14.2**		**-2.7**	**-1.5**	
Contribution from nominal interest rate	0.7	0.7	0.8			3.6	3.3	3.6	3.9	4.8	5.2		3.8	2.4	
Contribution from real GDP growth	-4.4	-5.1	-5.5			-5.5	-6.3	-6.7	-7.3	-8.3	-19.4		-6.5	-3.8	
Contribution from price and exchange rate changes	-3.2	1.6	0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**2.8**	**9.5**	**0.6**			**-2.8**	**-2.8**	**-2.6**	**-0.8**	**4.7**	**7.0**		**-0.4**	**7.3**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	61.5			67.2	75.8	83.6	98.3	115.5	120.0		83.0	52.3	
In percent of exports	...	...	221.0			236.5	267.5	277.8	307.3	344.1	306.2		176.4	131.4	
PV of PPG external debt	**...**	**...**	**30.4**			**31.9**	**32.0**	**32.9**	**34.0**	**35.6**	**34.5**		**34.1**	**28.9**	
In percent of exports	**...**	**...**	**109.4**			**112.1**	**113.1**	**109.2**	**106.2**	**106.0**	**88.1**		**72.5**	**72.5**	
In percent of government revenues	**...**	**...**	**109.3**			**124.8**	**124.8**	**127.0**	**130.8**	**136.5**	**132.2**		**127.5**	**103.7**	
Debt service-to-exports ratio (in percent)	**9.4**	**11.0**	**28.8**			**27.6**	**27.1**	**27.0**	**27.2**	**29.3**	**25.6**		**15.8**	**17.2**	
PPG debt service-to-exports ratio (in percent)	**1.9**	**2.7**	**15.5**			**7.8**	**9.2**	**8.8**	**8.1**	**7.7**	**6.0**		**4.1**	**6.3**	
PPG debt service-to-revenue ratio (in percent)	**2.8**	**3.1**	**15.5**			**8.7**	**10.1**	**10.3**	**10.0**	**10.0**	**9.0**		**7.2**	**9.0**	
Total gross financing need (Billions of U.S. dollars)	1.4	0.5	2.1			3.2	4.2	4.6	6.6	6.8	6.5		2.8	-1.1	
Non-interest current account deficit that stabilizes debt ratio	39.2	32.8	33.0			28.6	30.6	28.5	26.3	21.0	30.5		20.0	10.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.1	7.4	7.4	7.3	0.9	7.0	8.2	7.9	8.0	7.9	17.6	9.4	7.0	6.8	7.8
GDP deflator in US dollar terms (change in percent)	4.8	-2.2	-0.5	2.4	8.6	-4.9	3.6	3.4	3.4	3.5	3.5	2.1	2.4	2.4	2.5
Effective interest rate (percent) 5/	1.1	1.1	1.1	1.6	0.7	4.6	4.3	4.3	4.3	4.5	4.7	4.4	4.0	4.2	4.1
Growth of exports of G&S (US dollar terms, in percent)	28.3	-3.8	-2.7	11.2	15.9	4.1	11.7	18.4	18.8	17.1	41.9	18.7	4.8	3.6	11.0
Growth of imports of G&S (US dollar terms, in percent)	59.0	2.5	-6.3	19.2	24.3	2.6	15.1	8.3	21.4	9.0	13.7	11.7	10.3	7.6	7.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	34.5	31.9	31.5	30.6	28.5	27.5	30.7	26.6	18.2	24.1
Government revenues (excluding grants, in percent of GDP)	22.4	26.9	27.8			25.5	25.7	25.9	26.0	26.1	26.1		26.8	27.8	27.1
Aid flows (in Billions of US dollars) 7/	1.3	1.9	1.9			1.4	1.3	1.3	1.3	1.6	1.9		2.2	2.5	
of which: Grants	0.8	0.8	0.8			0.8	0.7	0.6	0.6	0.5	0.5		0.3	0.3	
of which: Concessional loans	0.5	1.0	1.1			0.6	0.6	0.7	0.7	1.0	1.4		1.8	2.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.2	5.6	5.3	4.9	4.5	3.8		1.9	0.8	1.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			62.0	54.8	49.9	46.3	41.8	38.6		34.2	22.9	30.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.9	15.6	16.7			17.0	19.0	21.2	23.7	26.5	32.2		58.0	141.7	
Nominal dollar GDP growth	12.2	5.1	6.8			1.8	12.1	11.6	11.7	11.6	21.6	11.7	9.6	9.4	10.4
PV of PPG external debt (in Billions of US dollars)			4.8			5.4	6.0	6.9	8.0	9.3	11.0		19.5	40.3	
(PVt-PVt-1)/GDPt-1 (in percent)						3.7	3.8	4.6	5.1	5.7	6.3	4.9	3.6	1.8	3.0
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		-0.1	-0.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	30.5			31.9	32.1	32.9	34.0	35.6	34.5		34.2	28.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	109.9			112.6	113.6	109.7	106.6	106.4	88.3		72.7	72.8	
Debt service of PPG external debt (in percent of exports + remittance	...	...	15.6			7.8	9.2	8.9	8.2	7.8	6.0		4.1	6.3	

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

Table 2. Mozambique: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-2035

(In Percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	32	32	33	34	36	35	**34**	29
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	32	24	18	8	0	-3	**30**	87
A2. New public sector loans on less favorable terms in 2015-2035 2	32	33	36	39	42	42	**45**	43
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	32	32	33	35	36	35	**35**	29
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	32	35	43	43	44	42	**38**	29
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	32	35	40	41	43	42	**41**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	32	48	63	62	61	57	**46**	31
B5. Combination of B1-B4 using one-half standard deviation shocks	32	48	68	67	67	62	**51**	35
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	32	45	46	47	50	48	**47**	40
PV of debt-to-exports ratio								
Baseline	112	113	109	106	106	88	**73**	73
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	112	85	59	23	1	-9	**64**	218
A2. New public sector loans on less favorable terms in 2015-2035 2	112	118	120	122	126	108	**95**	107
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	112	112	108	105	105	87	**71**	71
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	112	144	206	196	191	155	**117**	107
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	112	112	108	105	105	87	**71**	71
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	112	170	208	193	183	144	**98**	78
B5. Combination of B1-B4 using one-half standard deviation shocks	112	170	245	227	216	171	**117**	96
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	112	112	108	105	105	87	**71**	71
PV of debt-to-revenue ratio								
Baseline	125	125	127	131	137	132	**127**	104
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	125	94	69	29	1	-13	**113**	312
A2. New public sector loans on less favorable terms in 2015-2035 2	125	130	139	150	162	162	**167**	153
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	125	125	129	133	139	135	**129**	105
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	125	136	165	166	169	160	**141**	105
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	125	136	153	158	164	159	**152**	124
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	125	188	242	238	236	217	**171**	112
B5. Combination of B1-B4 using one-half standard deviation shocks	125	186	261	257	256	236	**190**	126
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	125	174	177	182	190	184	**176**	143

Table 2. Mozambique: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-2035 (concluded)

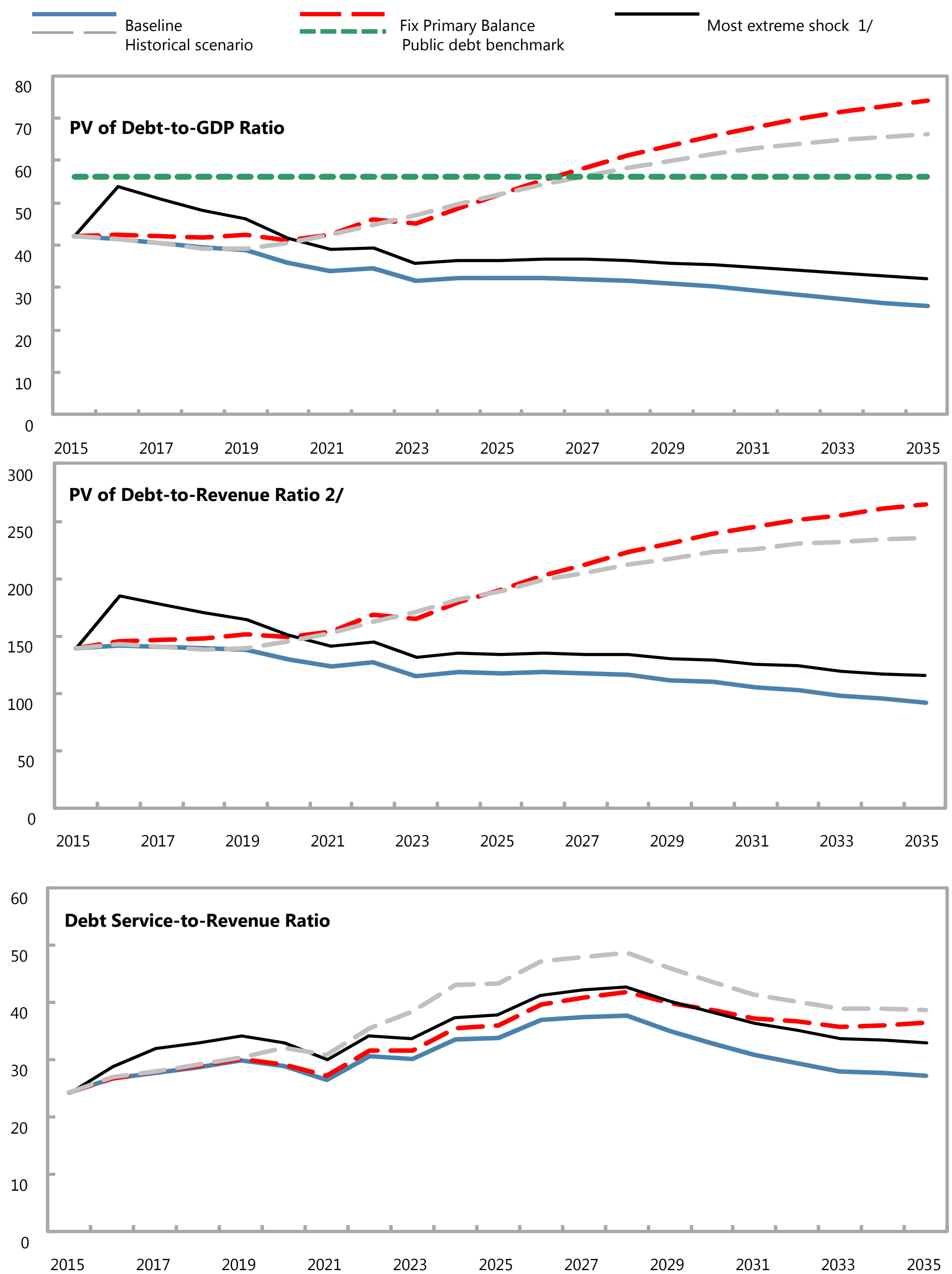
(In percent)

				Debt service-to-exports ratio				
Baseline	8	9	9	8	8	6	**4**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	8	9	8	7	6	4	**1**	12
A2. New public sector loans on less favorable terms in 2015-2035 2	8	9	8	8	8	6	**6**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	8	9	9	8	8	6	**4**	6
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	8	11	13	13	12	10	**7**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	8	9	9	8	8	6	**4**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	8	9	11	11	10	8	**7**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	8	10	13	13	12	9	**8**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	8	9	9	8	8	6	**4**	6
				Debt service-to-revenue ratio				
Baseline	9	10	10	10	10	9	**7**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	9	10	10	9	7	6	**2**	17
A2. New public sector loans on less favorable terms in 2015-2035 2	9	10	10	10	10	9	**11**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	9	10	11	10	10	9	**7**	9
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	9	10	11	11	11	10	**9**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	9	11	13	12	12	11	**9**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	9	10	12	14	13	12	**12**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	9	11	13	15	15	13	**13**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	9	14	14	14	14	13	**10**	13
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	**24**	24

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the b
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after th
an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 2. Mozambique: Indicators of Public Debt Under Alternative Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Table 3. Mozambique: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012-2035

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	40.8	52.2	57.5			61.0	59.8	58.9	58.1	57.4	52.8		45.6	33.3	
of which: foreign-currency denominated	35.2	43.4	48.9			50.6	50.5	51.4	52.5	54.2	51.6		47.6	36.5	
Change in public sector debt	3.2	11.5	5.3			3.5	-1.2	-0.9	-0.8	-0.7	-4.5		-0.5	-1.4	
Identified debt-creating flows	2.9	-1.0	9.3			2.0	-1.4	-0.9	-0.6	-1.6	-6.5		-3.1	-2.6	
Primary deficit	2.9	1.8	9.3	3.5	2.2	5.0	3.6	4.0	4.2	2.9	2.1	3.6	-0.4	-1.0	-0.7
Revenue and grants	27.5	32.2	32.9			30.4	29.1	28.7	28.4	28.1	27.6		27.4	28.0	
of which: grants	5.2	5.3	5.1			4.9	3.4	2.9	2.4	2.0	1.5		0.6	0.2	
Primary (noninterest) expenditure	30.5	34.0	42.2			35.4	32.7	32.7	32.5	31.0	29.7		27.0	27.0	
Automatic debt dynamics	0.0	-2.8	0.0			-3.0	-5.0	-4.8	-4.8	-4.5	-8.6		-2.7	-1.6	
Contribution from interest rate/growth differential	-2.3	-2.6	-3.5			-3.1	-4.3	-4.3	-4.2	-3.9	-8.0		-2.6	-1.5	
of which: contribution from average real interest rate	0.2	0.2	0.0			0.6	0.3	0.0	0.2	0.3	0.5		0.3	0.7	
of which: contribution from real GDP growth	-2.5	-2.8	-3.6			-3.8	-4.6	-4.4	-4.4	-4.3	-8.6		-3.0	-2.2	
Contribution from real exchange rate depreciation	2.2	-0.2	3.6			0.1	-0.7	-0.5	-0.6	-0.6	-0.6		...	...	
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	
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 implicit or contingent liabilities	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 (specify, 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	
Residual, including asset changes	0.3	12.4	-4.0			1.5	0.1	0.0	-0.3	0.9	2.0		2.6	1.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	39.1			42.3	41.3	40.4	39.5	38.8	35.8		32.2	25.6	
of which: foreign-currency denominated	...	...	30.4			31.9	32.0	32.9	34.0	35.6	34.5		34.1	28.9	
of which: external	...	...	30.4			31.9	32.0	32.9	34.0	35.6	34.5		34.1	28.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.6	3.6	18.0			12.3	11.4	11.9	12.3	11.3	10.0		8.8	6.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	118.8			139.1	141.9	140.5	139.3	138.2	129.5		117.5	91.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	140.4			165.5	160.8	156.0	152.1	148.8	137.1		120.1	92.1	
of which: external 3/	...	...	109.3			124.8	124.8	127.0	130.8	136.5	132.2		127.5	103.7	
Debt service-to-revenue and grants ratio (in percent) 4/	6.0	5.4	26.4			24.2	26.7	27.6	28.5	29.7	28.7		33.7	27.1	
Debt service-to-revenue ratio (in percent) 4/	7.3	6.5	31.2			28.8	30.3	30.7	31.2	32.0	30.4		34.5	27.3	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.2	-9.6	4.0			1.5	4.8	4.9	5.0	3.6	6.6		0.1	0.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.1	7.4	7.4	7.3	0.9	7.0	8.2	7.9	8.0	7.9	17.6	9.4	7.0	6.8	7.8
Average nominal interest rate on forex debt (in percent)	0.9	1.2	1.1	0.5	0.5	1.9	2.0	2.0	2.0	2.1	2.1	2.0	2.0	2.6	2.2
Average real interest rate on domestic debt (in percent)	8.2	6.0	2.2	4.5	3.2	3.8	1.4	2.2	3.9	7.2	19.8	6.4	-34.5	-19.3	-31.9
Real exchange rate depreciation (in percent, + indicates depreciation	7.8	-0.6	8.8	3.0	11.6	0.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.9	3.2	4.1	5.5	2.3	5.1	5.6	5.6	5.6	5.6	5.6	5.5	5.6	5.6	5.6
Growth of real primary spending (deflated by GDP deflator, in percer	5.4	20.0	33.2	6.0	11.4	-10.3	0.1	7.8	7.5	2.7	12.7	3.4	5.6	8.0	7.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	34.5	31.9	31.5	30.6	28.5	27.5	30.7	26.6	18.2	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ 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.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Mozambique: Sensitivity Analysis for Key Indicators of Public Debt 2015-2035

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	42	41	40	40	39	36	32	26
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	42	42	40	39	39	40	52	66
A2. Primary balance is unchanged from 2015	42	42	42	42	42	41	52	74
A3. Permanently lower GDP growth 1/	42	41	41	40	39	37	34	32
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	42	42	42	42	42	39	37	34
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	42	43	43	42	41	38	34	26
B3. Combination of B1-B2 using one half standard deviation shocks	42	43	42	42	41	39	36	32
B4. One-time 30 percent real depreciation in 2016	42	54	51	48	46	41	36	32
B5. 10 percent of GDP increase in other debt-creating flows in 2016	42	49	47	46	45	41	36	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	139	142	140	139	138	130	117	91
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	139	142	140	138	139	145	189	235
A2. Primary balance is unchanged from 2015	139	145	147	147	151	149	190	264
A3. Permanently lower GDP growth 1/	139	142	141	141	140	132	125	114
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	139	145	147	148	149	141	136	121
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	139	147	150	149	147	137	123	94
B3. Combination of B1-B2 using one half standard deviation shocks	139	146	147	147	147	139	132	113
B4. One-time 30 percent real depreciation in 2016	139	185	177	170	164	150	133	115
B5. 10 percent of GDP increase in other debt-creating flows in 2016	139	168	165	162	160	148	130	98
Debt Service-to-Revenue Ratio 2/								
Baseline	24	27	28	29	30	29	34	27
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	27	28	29	30	32	43	39
A2. Primary balance is unchanged from 2015	24	27	28	29	30	29	36	36
A3. Permanently lower GDP growth 1/	24	27	28	29	30	29	34	29
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	24	27	28	29	31	30	35	29
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	24	27	28	29	30	29	34	27
B3. Combination of B1-B2 using one half standard deviation shocks	24	27	28	29	31	30	35	29
B4. One-time 30 percent real depreciation in 2016	24	29	32	33	34	33	38	33
B5. 10 percent of GDP increase in other debt-creating flows in 2016	24	27	28	30	30	29	35	28

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Statement by Ms. Chileshe Mpundu Kapwepwe, Executive Director for Mozambique and Mr. Amilca Paia Tivane Advisor to the Executive Director
July 1, 2015

1. Introduction

The Mozambican authorities appreciate the continued Fund engagement and value the constructive policy advice in the implementation of their National Development Agenda which is supported by the Policy Support Instrument (PSI) arrangement. The candid discussions held with staff during the fourth PSI review remain a valuable source of policy support in fostering sustainable development. Program performance remains broadly on track and in light of this, the authorities seek the Executive Board's approval of their request for the completion of the fourth review and modification of the assessment criteria.

2. Recent Economic Developments and Outlook

Prudent implementation of the authorities' economic development strategy has resulted in steady economic growth, averaging 7-8 percent over the past five years. The sources of economic growth have diversified and the incidence of poverty declined sharply, from 69.4 percent in 1996/97 to less than 54 percent in 2009, and is expected to reach 42 percent in 2014.

Economic growth in 2014 remained robust [7.4 percent], in spite of the downside risks stemming from commodity price and terms of trade shocks and the devastating impact of floods earlier in the year. This performance was driven by a rebound in agriculture and manufacturing and buoyant activity in financial sector services. Growth also remained strong in extractive sector, albeit decelerating due to a less favorable outlook in the coal market.

The medium term economic outlook remains robust and projected to be consistent with the average trend achieved over the past five years. However, boosting economic activity, particularly in sectors that generate the bulk of employment such as agriculture and manufacturing, still requires steadfast policy measures in order to reduce structural bottlenecks. In this regard, the Government's Five Year Plan (2015-2019) identifies strategic actions geared toward unleashing the country's growth potential. Focus is placed on employment creation, poverty reduction, and enhancing competitiveness and productivity, through augmentation of fiscal space for investment projects. Proposed reforms aim to improve the transportation logistics for small and medium sized enterprises and megaprojects, strengthen the value chain in agriculture and manufacturing sectors, bolster human capital development and create a friendly business environment.

The fiscal stance has been calibrated to support broad-based growth while preserving its sustainability. The 2014 budget law enacted in early 2015 was amended in May 2015 to increase the fiscal space for elections related-expenditures. Total revenues reached 28 percent of GDP in 2014, total expenditures including net lending amounted 40 percent of GDP, 5.1

percentage points higher than the same period of 2013, and mostly reflected transitory factors such as the need to accommodate elections-related expenditures. Revenue excluding the one-off capital gain tax is projected to rise by 0.9 percentage points of GDP in 2015; the total expenditure including net lending is projected to decline to 36.0 percent of GDP in 2015; and the overall fiscal deficit is expected to decline to 6.5 percent of GDP, from 11 percent of GDP reached in 2014.

The monetary and exchange rate policy is geared towards safeguarding price and exchange rate stability, and boosting competitiveness over the medium-term. Inflation expectations remained low for the whole 2014, in spite of supply disruptions caused by the floods earlier in the year. Annually inflation for twelve months ending in May was 1.2 percent, reflecting increased supply of agricultural products during the harvest season. Between the last quarter of 2014 and end-March 2015 there were heightened depreciation pressures, reflecting the strengthening of the US dollar *vis-a-vis* the Metical, a higher level of demand for imports excluding mega projects, weaker performance of non-mega projects exports, increase currency volatility in the run-up to the elections in 2014 and to some extent, the containment in budget support disbursement. To stabilize the exchange rate, the Bank of Mozambique (BM) intervened in the market by selling US$ 320 million in the last quarter of 2014, and US$ 478 million in the first quarter of 2015, which contributed to significant losses in reserves. Going forward, the BM will continue to adjust its policy to anchoring inflation expectations and improve economic competitiveness.

3. Program Performance

The authorities' commitment to enhance implementation of macroeconomic and structural reforms has led to substantial improvements in economic conditions over the past years. The program has remains broadly on track. Two out of six end-December performance criteria (PC) were missed by a small margin namely the net credit to the government (NCG) and the reserve money growth, whilst the assessment criteria on net international reserves (NIR) deviated from the target by US$ 265 million due to the necessity to address the increase in depreciation pressures and to lessen exchange rate volatility and its pass-through to domestic prices. This has been due to an array of interrelated factors including, the adverse impact of exogenous shocks coupled with expectation-driven factors in domestic market during the election period.

The slower than anticipated return of the currency in circulation into the banking system in the first quarter of 2015, has led to higher levels of money growth, and continuing depreciation pressures arising from a sluggish decline of demand for imports. In light of this, foreign exchange market pressures continued through March 2015 and the NIR was missed by US$ 478 million, whereas the reserve money target was missed marginally by US$ 15.3 million. Going forward, the authorities will recalibrate the monetary and exchange rate policy stance to *inter-alia*, contain the depreciation pressures by allowing more exchange rate flexibility to help absorb the impact of external shocks. The BM has taken measures to allow the Metical to depreciate further by about 7.0 percent from March to June, and will continue to adjust its policy instruments to gradually contain the money growth to support efforts to stabilize the exchange rate.

Significant progress has been made on the structural front. The end-March structural benchmark on securitization of VAT arrears amounting US$ 500 million has been met. In order to align the Integrated Investment Plan (IIP) with the new Government's Five Year Plan (2015-2019) and the budget preparation cycle for 2016, the authorities have rescheduled completion of the review of the IIP to end-December 2015.

4. Structural Policies

Policy priorities on the structural front envisage fostering inclusive growth, through invigoration of policies to accelerate economic diversification and transformation, enhance the fiscal stance and improve the monetary policy framework.

Fiscal Policy

The medium-term fiscal strategy is envisaged to achieve fiscal consolidation through strengthening fiscal structural reforms. More importantly, the authorities will continue enhancing reforms aimed at broadening the tax base while increasing efficiency of tax administration, in particular the taxation of rents from hydrocarbon sector, and improving the management of fiscal risks. Policy reforms will continue to accelerate the pace of implementation of e-Tax module which target to increase the registration of taxpayers into the new system to 55 percent of all VAT taxpayers in 2015. In addition, enhancement of tax payments through banks and modernization of the Revenue Authority will support the efforts to enhance revenue mobilization.

The medium-term expenditure policy focuses on increasing and diversifying the provision of public goods, including augmentation of fiscal space to priority sectors for accelerating poverty reduction, fostering inclusive growth, and improving efficiency and value for money of capital expenditures. In this regard, structural reforms are geared towards containing the pace of increase of recurrent expenditure, mostly of the wage bill; strengthening capacity development to improve the decision making process on project selection, implementation and monitoring. The authorities have also revamped efforts to enhance public debt management, removing from the pipeline of priority investments all projects that had not been subject to a robust feasibility study and evaluation. Starting from the next budget cycle, all projects exceeding US$ 50 million will be subject to a mandatory technical assessment and approval by the Investment Evaluation Committee prior to its inclusion on the budget.

Monetary and Exchange Rate Policy

Monetary and exchange rate policies in the medium-term remain tailored to the objective of maintaining price and exchange rate stability. The BM will continue to strengthen the monetary policy framework and to improve the analytical capacity, including its inflation forecasting model with the technical assistance from IMF, and communication in the monetary policy decision making-process. In addition, the BM will step up ongoing measures aimed at improving liquidity forecasting, enhancing banking supervision and macro-prudential regulations and to increase financial deepening and diversification.

Financial Sector Policies
Improving financial deepening and inclusion remains critical to foster inclusive growth and sustainable development. The authorities will continue to implement their Financial Sector Development Strategy (FSDS 2013-2022) with support from the development partners. Actions will focus on reforms in areas such as financial stability, financial inclusion and education, and improvement in the debt market. Other measures to support efforts to enhance financial deepening include establishing credit registry bureaus, promoting mobile banking, steering competition in the banking sector and creating a moveable collateral registry.

5. Concluding Remarks

The Mozambican authorities would like to reassure the Board of their commitment to pursue a comprehensive reform agenda to improve macroeconomic management and unleash the country's growth potential. Challenges remain significant, mostly related with uncertainty in the global environment and downside risks arising from exogenous shocks. Going forward, policy priorities will be centered on gradually removing the structural bottlenecks to economic competitiveness and productivity to enhance the country's economic resilience.