INTERNATIONAL MONETARY FUND

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# THE REPUBLIC OF MOZAMBIQUE

December 2022

## FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOZAMBIQUE

In the context of the First Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Request for Modification of the Monetary Policy Consultation Clause, 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 November 21, 2022, following discussions that ended on September 16, 2022, 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 November 4, 2022.
- A **Statement by the Executive Director** for the Republic of Mozambique.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund**
**Washington, D.C.**

# IMF Executive Board Concludes the First Review under the Extended Credit Facility Arrangement for the Republic of Mozambique

**FOR IMMEDIATE RELEASE**

- The IMF Executive Board completed the first review under the Extended Credit Facility (ECF) arrangement for Mozambique, providing the country with access to SDR 45.44 million (about US$59.26 million).
- The three-year ECF arrangement aims to support the economic recovery, reduce public debt and financing vulnerabilities, and foster higher and more inclusive growth through structural reforms.
- All end-June 2022 program performance criteria, indicative targets and the structural benchmark were met. The monetary policy stance and proactive tightening since early 2021 are deemed appropriate to address higher than expected inflation.

**Washington, DC — November 21, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the first review under the three-year ECF arrangement for Mozambique.[1] The Board also completed the financing assurances review and approved the authorities' request for modification of conditionality.[2] This allows for the immediate disbursement of SDR 45.44 million (about US$59.26 million), usable for budget support, bringing Mozambique's total disbursements under the ECF arrangement to SDR 113.6 million (about US$150million).

Growth is projected to increase in 2022, with the strengthening economic recovery despite the worsening international economic environment and rising commodity prices, reflecting a strong vaccination campaign and full lifting of COVID-related restrictions in July 2022. Inflation has risen to double digits, driven by global fuel and food prices and tropical storms that impacted domestic food supply in the second quarter. Fiscal developments in 2022 are broadly aligned with expectations, with strong revenue and contained spending. Large liquefied natural gas (LNG) investments are driving the current account. The first LNG project started production in November 2022. Program implementation has been strong, despite the challenging environment, with completion of important program commitments in the areas of fiscal governance and anti-corruption.

Risks to the outlook are significant but balanced. Passthrough of fuel and food inflation to other prices, social unrest, terrorism activity in the north and natural disasters are downside

[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).

risks, balanced by upside risks from the strengthening recovery, strong prospects for LNG demand, and scope for higher-than-expected non-LNG growth in the medium-term.

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

“The economic recovery is strengthening, supported by a successful COVID vaccination campaign. Program performance has been strong, with all quantitative targets and the structural benchmark met at end-June. While the outlook remains positive, driven by large liquefied natural gas (LNG) projects, significant risks remain, including from adverse climate events and fragile security situation. Governance weaknesses and debt vulnerabilities also pose challenges. In that context, continued capacity development and donor support remain imperative for Mozambique to achieve its development objectives.

“Solid revenue performance and spending restraint helped align fiscal outcomes with program objectives. The authorities’ fiscal policy reforms will contribute to medium-term fiscal consolidation. A broader VAT base will help secure buoyant and diversified revenues independent of commodity prices. Reforming public sector remuneration will improve efficiency in delivering public services and create space for other spending priorities over time. Revenue administration and public financial management reforms are also essential to achieve fiscal policy objectives.

“The draft Sovereign Wealth Fund law is a welcome step to develop a transparent, accountable, and efficient framework for managing LNG receipts. Additional efforts are needed to mitigate revenue volatility, continue strengthening public investment management, and integrating natural resource revenues into the broader fiscal framework.

“The monetary policy stance and proactive tightening since early 2021 are appropriate to manage inflation expectations. The Monetary Policy Consultation Clause (MPCC) upper inflation band was breached due to the rise in global fuel and food prices and the impact of domestic floods on food production. Continued caution is warranted to ensure adherence to program targets on reserves going forward. Additional exchange rate flexibility would help absorb external shocks.

“Progress continues across the governance and anti-corruption agenda. The authorities are implementing their action plans to address shortfalls in the AML/CFT framework and Mozambique’s grey listing by the Financial Action Task Force. Amending the public probity law and continued implementation of recommendations from the audit of COVID spending are near-term priorities.

“The climate policy agenda is being articulated and efforts should continue in integrating climate resilience criteria in public investment and project selection.”

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

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **National Income and Prices** | | | | | |
| Nominal GDP (MT billion) | 963 | 983 | 1,033 | 1,142 | 1,292 |
| Real GDP growth (percentage change) | 2.3 | -1.2 | 2.3 | 3.8 | 5.0 |
| Consumer price index (percentage change, end of period) | 3.5 | 3.5 | 6.7 | 15.0 | 8.5 |
| **Government Operations (percent of GDP)** | | | | | |
| Total revenue | 29.0 | 23.9 | 25.7 | 25.7 | 25.9 |
| Total expenditure and net lending | 29.8 | 32.9 | 31.5 | 33.2 | 33.3 |
| Overall balance, after grants | 0.3 | -5.4 | -4.8 | -3.7 | -3.9 |
| Primary Balance after grants | 3.5 | -2.3 | -2.1 | -0.2 | -0.7 |
| Public sector debt | 99.0 | 120.0 | 107.0 | 102.9 | 101.4 |
| of which: external | 79.4 | 97.8 | 82.8 | 77.6 | 75.9 |
| **Money and Credit** | | | | | |
| Reserve money (percentage change) | 19.1 | 9.0 | -14.4 | -5.1 | 11.2 |
| M3 (Broad Money) (percentage change) | 12.1 | 23.6 | 2.8 | 2.3 | 11.8 |
| Credit to the economy (percentage change) | 5.0 | 14.8 | 3.0 | 3.0 | 11.5 |
| Credit to the economy (percent of GDP) | 24.0 | 27.0 | 26.5 | 24.6 | 24.3 |
| **External Sector (percentage change)** | | | | | |
| Merchandise exports | -10.2 | -23.1 | 55.6 | 38.9 | -2.5 |
| Merchandise exports, excluding megaprojects | 8.3 | -22.0 | 42.7 | 14.7 | 8.6 |
| Merchandise imports | 9.5 | -12.9 | 33.2 | 70.1 | -35.5 |
| Merchandise imports, excluding megaprojects | 9.3 | -4.5 | 37.8 | 10.2 | -0.6 |
| External current account, after grants (percent of GDP) | -19.1 | -27.3 | -23.6 | -41.5 | -14.7 |
| Net international reserves (millions of U.S. dollars, end of period) | 3,605 | 3,493 | 2,927 | … | … |
| Gross international reserves (millions of U.S. dollars, end of period) | 3,884 | 4,070 | 3,470 | … | … |

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

INTERNATIONAL MONETARY FUND

# REPUBLIC OF MOZAMBIQUE

November 4, 2022

## FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE, AND FINANCING ASSURANCES REVIEW

## EXECUTIVE SUMMARY


**Context.** The economic recovery is strengthening, as a successful vaccination campaign and recovery from COVID-related restrictions dominate headwinds from the worsening international economic environment. Growth is projected at 3.8 percent this year, rising to 5 percent in 2023 as the first liquefied natural gas (LNG) project enters production. Food and fuel prices have pushed inflation to double digits. Monetary policy has been proactive, including a further 200bps increase in the policy rate in September 2022. Credit conditions remain tight, while financial sector buffers built before the pandemic have underpinned banking sector resilience. Fiscal outcomes have been in line with expectations. The current account deficit is lower than forecast (though it still widens due to LNG infrastructure imports), as exports have been stronger than anticipated. International reserves have declined faster than anticipated due to higher imported fuel prices.

**Outlook and risks.** Risks from the conflict in the north of the country have abated somewhat, with local populations beginning to return to affected areas. But security risks and population displacement remain critical challenges. Natural disasters and structural food insecurity are significant risks. The government has been passing through international fuel price increases gradually and aims to put in place measures to mitigate the impact of price rises on public transport users, while tight monetary policy is expected to keep inflation expectations in check. Upside risks arise from the strengthening recovery, strong prospects for LNG, and scope for higher-than-expected non-LNG growth in the medium-term.

**Program performance.** All performance criteria, indicative targets and the structural benchmark for end-June 2022 were met. The monetary policy consultation clause (MPCC) inflation consultation band was breached in June 2022, reflecting higher international food and fuel prices as well as the effects of floods in Mozambique. A consultation letter is annexed to the staff report. Staff proposes a change to the indicative target on the ceiling for the domestic debt stock to reflect delays in disbursements of grants from a development partner and anticipation of issuance in

the second quarter given eased market conditions at that time. Progress continued across the broader structural agenda, including in the fiscal and anti-money laundering areas. A minor modification to the structural benchmark establishing quarterly commitment ceilings is proposed to align the measure with practical implementation and moving the completion date from end-December 2022 to end-January 2023. The target completion date for the structural benchmark on the submission to Parliament of the Public Probity Law was moved from end-December 2022 to end-June 2023.

**Strategy and prospects.** Macroeconomic prospects remain similar to program approval, and performance criteria for the second review have not been modified. Key reforms will be finalized and implemented for the second review, including with respect to the VAT, the public sector wage bill, and public financial management. A sovereign wealth fund law expected to be submitted to Parliament in November will help manage natural resource wealth efficiently and transparently.

Approved By
**Abebe Selassie (AFR) and Anna Ilyina (SPR)**

An IMF team comprising Alvaro Piris (head), Samuel Delepierre, Mai Farid, Samuel Mann, Dominique Simard (all AFR), and Gaëlle Pierre (SPR) held discussions with the Mozambican authorities during a mission to Maputo September 5-16, 2022. 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; Edson Manguinhane, local economist; and Béatrice Rangel, assistant. Jorge Essuvi (OED) participated in some meetings. Research assistance was provided by Jimena Montoya and Tebo Molosiwa. Ms. Fausa Aliu provided secretarial assistance.

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# CONTEXT

1. **The three-year ECF arrangement aims to support the economic recovery, reduce public debt and financing vulnerabilities, and foster higher and more inclusive growth through structural reforms.** The arrangement supports the government's reforms to boost investment and growth and reduce balance-of-payments (BOP) vulnerabilities through strengthening governance and transparency, improving management of public and natural resources, mobilizing additional revenue, and rebalancing expenditure. The country benefits from extensive capacity development (CD) support from the IMF and other development partners.

2. **The authorities' proactive approach to vaccination contributed to low and stable COVID cases, while the security situation in the north of the country has improved.** The last (fourth) peak in COVID infections in January 2022 (Figure 2) had mild mortality and economic effects. Vaccination rates are among the highest in sub-Saharan Africa. Over 15 million people (42 and 97 percent of the total and target populations, respectively) had received at least one shot by end-September 2022, and 40.9 percent of the population were fully vaccinated.[1] Terrorist attacks starting in 2017 have caused thousands of deaths and displaced 945,000 people. While attacks continue in isolated areas, the authorities' military response supported by international partners and reconstruction efforts have enabled the gradual return of the civilian population. Combined with the effects of natural disasters, the security situation has contributed to increase the number of acutely food insecure people to about 1.5 million (4.7 percent of the population).[2]

# PROGRAM PERFORMANCE

3. **All performance criteria (PCs), indicative targets (ITs), and the structural benchmark for end-June 2022 were met.** The PCs on the floors on the domestic primary budget balance and the stock of net international reserves of the Bank of Mozambique (BM) were met by wide margins, and there was no newly contracted non-concessional external debt, nor accumulation of new public and publicly guaranteed external payment arrears. The ITs on the present value of new external debt, the ceiling on the domestic debt stock and the floor on social spending were also met. The structural benchmark on the submission to parliament of anti-money laundering (AML) and combating the financing of terrorism (CFT) legislation, was met.

4. **Inflation breached the upper bound of the MPCC in June 2022, driven by higher food and fuel prices**. Inflation rose in the second quarter of 2022, reaching 10.8 percent in June, reflecting international commodity price increases due to Russia's war in Ukraine and related sanctions, and flooding that affected domestic agricultural prices. The BM raised the policy rate (MIMO) in March 2022 by 200 basis points to 15.25 percent, citing increases in expected inflation and gathering economic momentum, and again by 200bp in September 2022. Since January 2021,

[1] Our World in Data.

[2] World Food Programme, Mozambique Country Brief, August 2022.

the BM has increased the policy rate by 700bp, and real interest rates are among the highest in the region (Figure 3).

**Text Table 1. Quantitative Program Performance at End-June 2022**

| | End-June 2022 | End-June 2022 | |
|---|---|---|---|
| | QPC | Adjusted QPC | Actual |
| **Performance Criteria** | | | |
| Floor on domestic primary budget balance [1/] | -2.6 | | 3.8 |
| Ceiling on new non-concessional external debt contracted or guaranteed by the public sector [2/] | 0 | | 0 |
| Floor on the stock of net international reserves of the BM (US$ millions) | 2000 | 1,947 | 2,573 |
| Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million) [3/] | 0 | | 0 |
| **MPCC** [4/5/] | | | |
| Inflation (upper-band, percent) | 10.0 | | |
| Inflation (mid-point, percent) | 7.0 | | 10.8 |
| Inflation (lower-band, percent) | 4.0 | | |
| **Indicative Targets** | **IT** | | |
| Present value of new external debt (US$ million) [6/] | 89 | | 0 |
| Ceiling on domestic debt stock [7/] | 253 | 256 | 251 |
| Floor on social spending [8/] | 1.9 | | 2.1 |
| *Memo item:* | | | |
| *External concessional borrowing* | **0** | | |
| *Budget grants (US$ million)* | 52.6 | | 52.6 |

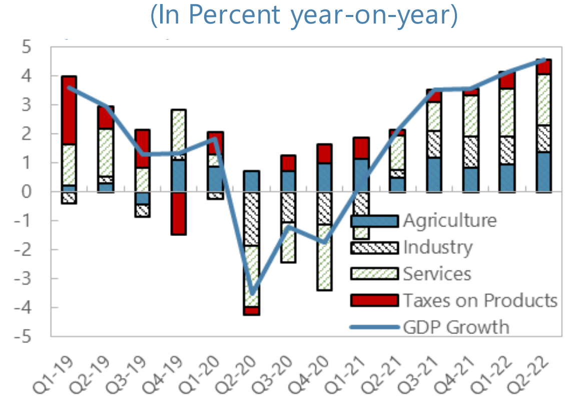
Sources: Mozambican authorities; and IMF Staff.

[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 the 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/] 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).

# RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

5. **The economic recovery strengthened in the first half of 2022** (Text Figure 1). Real GDP grew 4.6 percent year-on-year in Q2 2022, with services contributing 1.8 percentage points, reflecting the progressive lifting of COVID-related restrictions completed in July 2022 and despite the worsening international economic environment and rising commodity prices. The purchasing managers index showed consistent expansion in economic activity through September 2022 (Figure 2). Direct trade and investment links with Ukraine and Russia are small. Growth is

**Text Figure 1. GDP Growth**
(In Percent year-on-year)




Sources: Authorities' data and IMF Staff calculations projected to reach 3.8 percent in 2022 (Text Table 2), rising to 5.0 percent in 2023 as the first LNG project begins production (Coral South offshore platform). Staff forecasts two onshore LNG projects to start production in 2027 and 2029 with positive impacts on growth from production, fiscal revenues, and the current account.

**Text Table 2. Medium-Term Macroeconomic Framework, 2022-2027**

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| | | | Proj. | | | |
| | | | (Annual percentage change) | | | |
| Real GDP growth | 3.8 | 5.0 | 8.3 | 5.1 | 5.0 | 15.6 |
| GDP per capita (US$) | 541 | 582 | 629 | 651 | 676 | 774 |
| Consumer price index (end of period) | 15.0 | 8.5 | 6.1 | 5.5 | 5.5 | 5.5 |
| | | | (In percent of GDP) | | | |
| Current Account balance | -41.5 | -14.7 | -35.5 | -38.9 | -40.9 | -27.1 |
| - excluding megaprojects and indirect imports | -16.2 | -19.3 | -17.0 | -16.5 | -16.4 | -16.2 |
| Primary fiscal balance after grants | -0.2 | -0.7 | 0.0 | 0.8 | 2.3 | 3.1 |
| Public sector debt | 102.9 | 101.4 | 102.6 | 101.5 | 97.6 | 81.9 |
| | | | (In months of next year's non-megaproject imports) | | | |
| Gross international reserves | 3.7 | 3.8 | 4.2 | 4.3 | 4.9 | 5.0 |

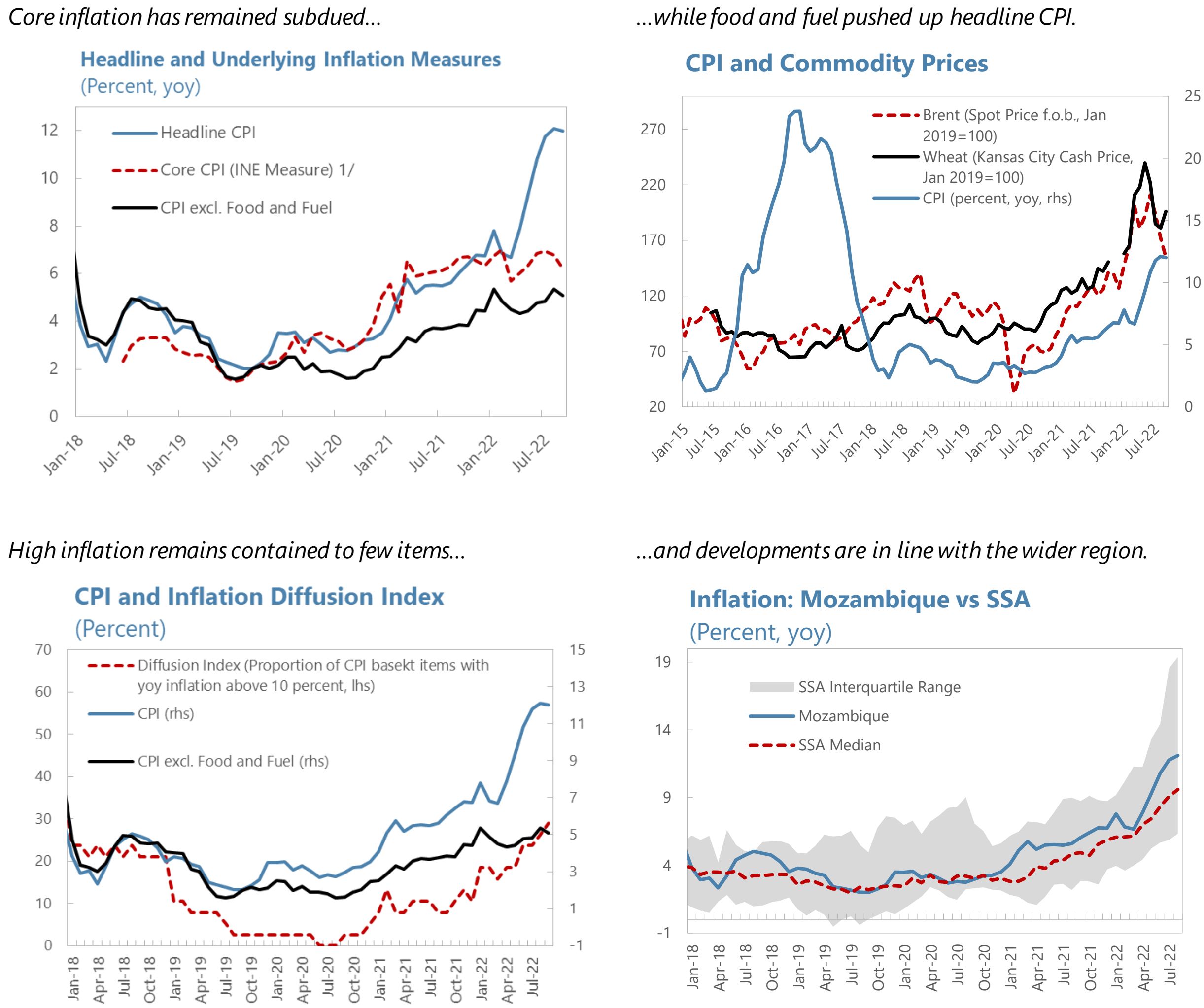
Sources: Mozambican authorities; and IMF staff estimates and projections.

6. **Annual inflation reached 12 percent in August, remaining at that level in September.** The CPI components for diesel and gasoline prices increased by 42 percent and 26 percent, respectively, between January and September 2022, despite gradual passthrough of international fuel prices. Overall transport prices (fuels, vehicles, and transport services) contributed 3.8 percentage points to inflation in September (up from 1.4 percentage points in January). Reduced domestic food supply and the increase in global food prices also raised inflation, contributing 5.9 percentage points. Inflation at end-2022 is projected at 15 percent, based on completion of the adjustment of domestic to international fuel prices and passthrough to transport prices. Measures of inflation excluding food and fuel prices remain around 5-7 percent year-on-year (Text Figure 2), reflecting elastic labor supply, in line with the BM's objective of "single digit" overall inflation.

7. **Fiscal developments in 2022 are broadly aligned with expectations.** The primary deficit (after grants) for 2022 is estimated at -0.2 percent of GDP in line with program projections (Table 2b). The overall balance forecast widened by 0.1 percent of GDP compared to program projections, to reach -3.7 percent of GDP.

8. **Revenues remain strong.** Total revenue is projected at 25.7 percent of GDP in 2022, supported by overperformance of personal and corporate income tax collection (forecast at 10.7 percent of GDP). Modest declines in taxes on goods and services and non-tax revenue are expected compared to 2021 (Figure 5).

**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.

9. **Expenditure pressures are being kept in check.** Costs related to the humanitarian and security situation in the north, social support payments (partly related to COVID support early in 2022), and the upfront cost of the public sector remuneration reforms of MT9.6 billion in 2022 have contributed to pressures. However, overall expenditure has been maintained within the 2022 budget, reflecting lower investment spending (Text Table 3, Figure 5). The government is developing plans to partially offset the impact of rising fuel prices on households identified as vulnerable by the social security institute through cash transfers, and discounts at point of sale for public transport users for a period of six months. As an interim measure while these schemes are rolled out, the price per journey has not been adjusted in the Maputo metropolitan area, and a monthly transfer is paid to registered public transport providers. Generalized fuel subsidies were eliminated in 2017 (Box 1).

### Box 1. The Fuel Price Setting Mechanism

**A rules-based approach to setting domestic fuel prices was adopted in 2017.** Following reform of the subsidy system and settlement of legacy debts, a new autonomous regulatory agency (ARENE) was created and a fuel price rule linking domestic prices with economic costs implemented, with IMF and World Bank support. Fuel imports are conducted through centralized tenders managed by IMOPETRO, a body with representatives from the government, the regulator and fuel companies. The fuel import supplier is selected through a bi-annual international competitive public tender, a process also managed by IMOPETRO.

**ARENE regulates and supervises the price mechanism, reviewing prices monthly.** The mechanism was improved in 2019 to incorporate all fuel (petroleum product) import and storage costs.

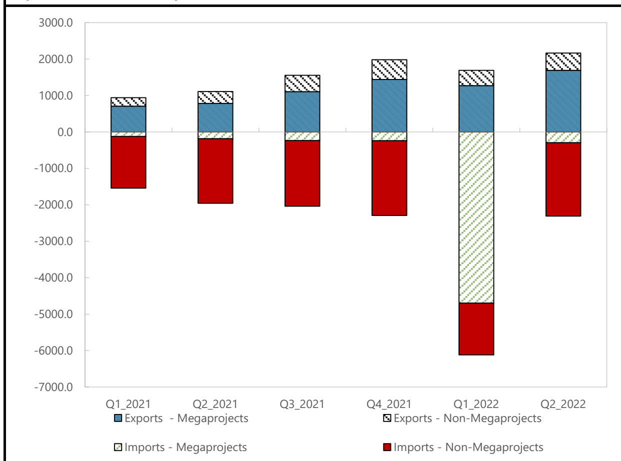
- Variations of market prices within a three percent band do not lead to adjustments at the pump; a pump price below or above breakeven within the band triggers contributions to or withdrawals from a stabilization fund.
- If price changes are within a band of three to 20 percent, ARENE adjusts pump prices automatically.
- For variations over 20 percent, the price setting decision is ceded to the Council of Ministers.

**Responding to the large increase in international oil prices and fuel import costs in 2022 that exceeded 20 percent, the Council of Ministers is passing through cost increases only gradually.** The policy was motivated by the rise in living costs, including for vulnerable urban households dependent on public transport, and the risk of social unrest. The response included voluntary agreements to temporary reductions in margins and fees across all components of the cost price formula. Pump prices were also held below cost, and a liability of about $170 million (1 percent of GDP) had accumulated by the stabilization fund at end-August 2022.

**An agreement to settle this liability between the government and fuel distributors and return fully to the rules-based system is expected.** An agreement would likely incorporate a new contribution in the fuel price structure to compensate the liability over time. Other fees and margins should be restored. Should international prices fall consistently to levels below current pump prices, the government could decide to reduce prices, while still incorporating the contribution to repay the liability.

10. **Budget financing needs are covered by international financial institutions and domestic debt.** The World Bank approved budget support (Development Policy Financing) of US$300 million in July 2022. The EU is expected to disburse a budget grant of US$50 million this year. Projected net domestic financing in 2022 is broadly unchanged from 2021 at 3.8 percent of GDP. Reliance on short-term T-bills has increased (to net issuance of 1.9 percent of GDP from 1.3 in 2021). Use of US$163 million of the 2021 SDR allocation reduced pressure on the debt market and interest costs, with limited net issuance of longer-term bonds; use of a further US$147 million of the SDR allocation in 2023 will support spending on social protection (including displaced people) and alleviate domestic financing pressures.[3] The authorities remain

**Text Figure 3. Trade in Goods**
(Million USD)




[3] On-lending modalities are governed by a memorandum of understanding between the BM and the government, stipulating that all associated costs and risks that may arise for the BM will be borne by the government.

committed to the transparency and accountability of budgetary execution, including financed by the SDR allocation. Domestic debt markets remained tight, with coverage falling below full placement on several occasions, despite high real interest rates (Tables 2a and 2b).

11. **Large LNG investments are driving the current account.** US$4.4 billion (25 percent of GDP) in imports for the Coral South LNG project, including the offshore platform, were recorded in the first quarter of 2022. Higher commodity prices and volumes increased exports, notably of coal and electricity (Text Figure 3). The current account deficit for large, foreign investment-led natural resource projects ("megaprojects") is fully financed through trade credits and FDI. The non-megaproject current account deficit has narrowed as the increase in imports, especially fuels, was compensated by higher exports (prices and volumes for minerals and foods) and is expected to be lower at end-2022 than 2021. Compared to program projections, the current account deficit is lower due to the lower-than-expected trade deficit. Over the medium term, the differences in the current account are driven by the one-year postponement of the resumption of onshore LNG projects.

12. **Risks to the outlook are significant but balanced** (Table 7). While inflation is driven by exogenous shocks to food and fuel prices, passthrough to other prices or the emergence of wage pressures would risk de-anchoring expectations and could contribute to social unrest. Natural disasters related to climate change are a key risk as is intensification of terrorist activity in the north of the country. Upside risks include the demand for LNG surpassing expectations over the medium-term. Over the longer term, non-hydrocarbon growth may exceed the current conservative projection of 4 percent.

# POLICY DISCUSSIONS

*Mitigating risks from rising international food and fuel prices while managing fiscal spending and financing pressures are the main near-term challenge. Over the medium term, the program aims to set debt on a declining path, rebalance fiscal and monetary policies, strengthen governance and combat corruption, and improve management of public and natural resources.*

## A. Fiscal Policy and Structural Reforms

13. **Budget execution is consistent with program objectives.** Based on end-June 2022 data, tax revenue is aligned with 2022 projections supported by robust personal and corporate income tax collection. Current spending on subsidies and transfers is expected to be higher than in the program (3.7 percent of GDP, versus 2.8 percent) partly reflecting fuel price support measures (¶9). Under-execution of capital spending mainly reflects a shortfall in externally financed investment (by about a quarter of the budgeted amount), with total capital spending for the year now estimated at 6.7 percent of GDP. Overall, spending is expected to remain within budgeted ceilings (Text Table 3).

14. **The authorities have announced an economic reactivation package to support post-COVID economic recovery.** The package (*Pacote de Aceleração Económica—PAE*), to be implemented over 2023-24 aims to enhance the business environment by simplifying administrative

procedures and better aligning tax policy with development priorities. VAT reforms have been modified to better align with policy priorities for private investment, the agricultural sector, and renewables inputs (¶16).

15. **The 2023 budget is aligned with program objectives.** Revenues are forecast at 26 percent of GDP, slightly stronger than in the program, reflecting income tax performance in 2022 and VAT reform. Expenditure is also higher than originally envisaged (33 percent of GDP versus 31.8 percent at program), with spending on goods and services expected to increase largely due to higher-than-expected election-related costs for municipal (2023) and general (2024) elections. Investment spending is expected to recover to 8.1 percent of GDP, in line with PAE priorities including on roads, health and education, energy, water, and telecommunications. Primary balance (after grants) is expected to be achieved in 2024, as in the original program.

**Text Table 3. Mozambique: Government Finance, 2022-23**

(Percent of GDP)

| | **2022** (Program Approval | **2022** (Proj.) | **2023** Program Approval | **2023** (Proj.) |
|---|---|---|---|---|
| Total revenue | 25.0 | 25.7 | 25.4 | 25.9 |
| Tax revenue | 20.6 | 21.8 | 20.6 | 21.8 |
| Income and profits | 10.5 | 10.7 | 10.5 | 10.7 |
| Goods and services | 7.3 | 8.2 | 7.3 | 8.2 |
| VAT | 6.4 | 7.4 | 7.3 | 7.9 |
| Nontax revenue | 4.4 | 3.9 | 4.3 | 4.0 |
| | | | | |
| Total expenditure and net lending | 32.4 | 33.2 | 31.8 | 33.3 |
| Current spending | 24.7 | 26.1 | 24.2 | 24.8 |
| Wage bill | 14.2 | 14.6 | 14.2 | 14.1 |
| Goods and services | 4.2 | 4.4 | 4.2 | 4.5 |
| Interest on public debt | 3.4 | 3.5 | 3.0 | 3.2 |
| Subsidies and transfers | 2.8 | 3.7 | 2.8 | 3.0 |
| Capital Spending | 7.3 | 6.7 | 7.3 | 8.1 |
| | | | | |
| Net lending | 0.4 | 0.4 | 0.4 | 0.4 |
| Primary balance (after grants) | -0.2 | -0.2 | -0.6 | -0.7 |
| Overall balance (after grants) | -3.6 | -3.7 | -3.6 | -3.9 |
| Domestic primary balance | 0.2 | 0.2 | 1.1 | 0.7 |
| *Memorandum items:* | | | | |
| GDP (billions of Meticais) | 1173 | 1142 | 1318 | 1292 |

Sources: Authorities and IMF staff projections.

16. **VAT and wage bill reforms are proceeding.**

- *VAT reform*. The reform aims to broaden the tax base and reduce distortions by eliminating exemptions and zero-ratings. In line with PAE priorities, the authorities have (i) modified the list of VAT exemptions agreed in the program to ensure agricultural and renewables inputs remain exempt; and (ii) reduced the VAT rate by one percentage point to 16 percent in 2023 (compared to the half point cut in 2023, and a further half point cut in 2024, envisaged at program approval), to bring the rate closer to neighboring countries. As originally planned, the reform preserves exemptions on a 'basic basket' of goods and services consumed by low-income households. To offset the revenue impact of the changes and retain the reform's objectives, the authorities are eliminating exemptions on additional domestic services, and implementing an excise tax reform in addition. The net yield from the VAT and excise reforms is 0.9 percent of GDP, versus 1.1 percent previously. The amended VAT law is expected to be submitted to parliament in November 2022 (prior action, MEFP ¶20). Full implementation of the elimination of VAT exemptions and zero-ratings identified through the 2022 prior action will become effective on January 1, 2023 (structural benchmark).

- *Reform of public employment and compensation*. As planned, the authorities are implementing a wage bill reform that unifies and makes fairer the compensation structure across the public sector, facilitating the movement of civil servants across different assignments and improving efficiency in the delivery of public services. Revising the wage increase formula, and freezing wage supplements in nominal terms will contribute to reducing the relatively high wage bill as a proportion of GDP over time, from 14.6 percent of GDP in 2022 to 10.6 percent of GDP. The reforms are expected to have an upfront cost of MT 9.6 billion (0.7 percent of GDP) in 2022, and a full year cost of MT 19.2 billion from 2023, as civil servants are brought onto the new salary scale, with supplements paid to ensure no individual is worse off under the new scheme. Changes to the rules mapping individual staff from the old to the new pay scales were made to keep costs within the original envelope (amendments modifying the wage bill reform law were passed by Parliament in October 2022). Further, only one in three leaving public employees will be replaced in 2023 and 2024, except in health, education, agricultural extension, and administration of justice (structural benchmarks for end-December 2022 and end-December 2023, respectively). As most civil servants will be better off under the reform, base pay rises in 2023 have been set below inflation. Risks from implementing this complex reform remain. Should costs again rise above forecasts, the authorities will take compensating measures, and implement a supplementary budget if necessary (MEFP ¶20). Next steps include a functional review of public employment to be undertaken with World Bank support in 2023-24.

17. **Increasing the efficiency and transparency of public resource management is a key structural reform area.**

- *Revenue administration*. The integrated electronic tax system is being extended to all taxes and tax offices by end-2023 (structural benchmark). At the taxpayer level, the interface allowing electronic filing and payment is expected to be fully implemented by June 2023 (structural benchmark). The authorities are modernizing the taxpayers' registry and monitoring of large taxpayers, and enhancing links and interoperability with other public registries by end-2022 (MEFP ¶34). Risk assessment for mining and gas taxation will be improved (MEFP ¶35), and capacity to gather and crosscheck third-party information enhanced to increase compliance and tax arrears collection (MEFP ¶35). Long delays in the VAT refunds process increase the effective VAT rate and create fiscal risks. The VAT reform expected to be submitted to Parliament in November 2022 includes a twelve-month limit for taxpayers to claim refunds, and ensures adequate resources are available for refunds (MEFP ¶20).

- *Public financial management*. Improvements in expenditure management, budgetary planning, and financial programming are underway. Public procurement stages were added to the electronic financial administration system (e-SISTAFE), and suppliers are now required to show valid commitment notes before delivering goods and services (MEFP ¶38). Ensuring more spending is executed within e-SISTAFE will improve control, avoid over-commitment at the spending entity level, improve predictability and oversight, and reduce scope for extra-budgetary arrears. The government plans to integrate all spending within e-SISTAFE by end-2022 (MEFP ¶38) and establish limits on quarterly expenditure commitments (to be operationalized through a quarterly Treasury Budget). This reform will be implemented through the budget execution circular for the 2023 budget (proposed modified structural benchmark for January 2023, MEFP ¶38). The authorities will establish a cash management committee by end-2022 and map all public sector bank accounts (MEFP ¶39). The new financial programming and budgetary planning tools will be operationalized in e-SISTAFE and implemented in all spending units by end-December 2022 (structural benchmark, MEFP ¶38). The authorities will fully integrate climate resiliency criteria in public investment planning and project selection over time (MEFP ¶40).

**Text Table 4. Fiscal Structural Reforms, 2022**

| | |
|---|---|
| **Revenue Administration** | • Submission to Parliament of proposal limiting VAT refund claim period to 12 months is included in the VAT reform expected to be submitted to Parliament in November 2022.<br>• Approval of the reform of the internal structure of the revenue administration, including fully integrating the risk management committee by end-2022.<br>• Updating the taxpayer registry and enhancing links and interoperability with other public registries, especially for large taxpayers by end-2022. |
| **Public Financial Management** | • Operationalization of new financial programming and forecasting tools and implementation in all spending units expected by end-2022.<br>• Treasury mapping of all public sector bank accounts in the single treasury account (expected end-June 2023).<br>• Full integration over time of climate resiliency criteria in public investment planning and project selection criteria. |

## B. Reducing Debt Vulnerabilities

18. **Changes to the macroeconomic outlook do not significantly affect the assessment of debt sustainability**. At program approval the risk of debt distress was assessed to be high and debt to be sustainable in a forward-looking sense considering prospective revenues from the LNG projects and the structure of related debt. Compared to program assumptions, staff expect a one-year postponement of the resumption of the first onshore LNG project (TotalEnergies, Area 1, Golfinho), with a minor downward effect on the national energy company's (ENH) debt path.

Reflecting these delays, forecast GDP growth in 2026 is revised down by 8.8 percentage points relative to the original program scenario, rising commensurately in 2027. Public debt to GDP for 2026-27 is over 10 percentage points higher, and the delayed investment and exports also alter current account projections sharply in those years, postponing convergence of key liquidity and solvency indicators to thresholds. The government has not contracted any new non-concessional debt nor extended new debt guarantees. As planned, it expects to start repaying the reconciled amount of its arrears with Brazil at the end of 2022, once the agreement is ratified by Brazil's parliament. The government is working to resolve pre-HIPC arrears with five countries.

19. **Sovereign exposure on the debt related to the LNG projects remains unchanged**. The amount of the sovereign guarantee associated with this project stands at $43 million (0.2 percent of GDP)—this could rise to a maximum $2.5 billion as project development proceeds. Repayment of exploration and development debt related to the offshore platform (ENI, Area 4, Coral South) began production in October. Under the financing terms of the project, 90 percent of the revenue generated by the platform accruing to ENH will be used to repay creditors. ENH's equity stake in the Area 1 and 4 projects is funded by its partners: ENH is considering refinancing this debt considering its high costs.

20. **The external borrowing plan for July-December 2022 is unchanged compared with program approval.** Loans under negotiation are concessional and have NPVs well within the program cumulative target set for December 2022. This includes a concessional project loan from the World Bank of US$200 million to support digitalization. For 2023, the government has started negotiating a new concessional project loan of US$200 million from the World Bank—to support the implementation of the economic reactivation package—and is also seeking to finance critical infrastructure projects. These projects fall within program targets (Text Table 5).

**Text Table 5. Projected External Borrowing Program May 9, 2022 to December 2023**

| PPG external debt | PV of new debt 1/ (program purposes) USD million | Percent |
|---|---|---|
| **By sources of debt financing** | **710** | **100** |
| ***Concessional debt, of which 2/*** | **710** | **100** |
| Multilateral debt | 370 | 52 |
| Bilateral debt | 340 | 48 |
| Other | 0 | 0 |
| ***Non-concessional debt, of which*** | **0** | **0** |
| Semi-concessional 3/ | 0 | 0 |
| Commercial terms 4/ | 0 | 0 |
| **By Creditor Type** | **710** | **100** |
| Multilateral | 370 | 52 |
| Bilateral - Paris Club | 190 | 27 |
| Bilateral - Non-Paris Club | 150 | 21 |
| Other | 0 | 0 |
| **Uses of debt financing** | **710** | **100** |
| Infrastructure | 710 | 100 |

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.

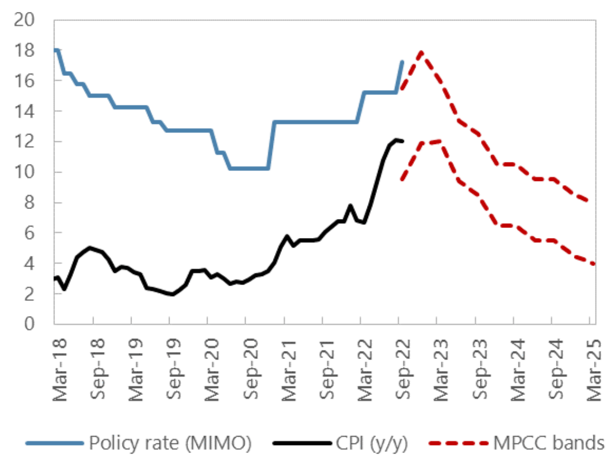
21. **The Medium-Term Debt Strategy (MTDS), published in July, aims to increase the share of concessional external financing, and lengthen maturities of domestic debt.** Debt service costs have increased, due especially to domestic debt. Given the significant exposure of commercial

banks to sovereign debt, the strategy aims to shift to longer maturities, and attract other types of investors, including pension funds and insurance companies. An investor survey was launched to determine the potential scale of demand. The strategy defines ambitious goals of gradually increasing the share of external financing from 30 per-cent in 2022 to 55 per-cent in 2025 and increasing the share of domestic debt with maturities over 5 years from 5 percent in 2022 to 25 percent in 2025. According to program targets and debt sustainability, the government plans to seek external financing exclusively on concessional terms.

## C. Monetary and Financial Sector

22. **The BM has proactively tightened monetary policy to contain inflation expectations.** Despite subdued credit conditions, the monetary policy stance remains appropriate given high inflation and risks that external price shocks have second round effects. The exchange rate against the US dollar has been de facto stabilized, with historically low volatility since July 2021 while it has appreciated against the South African rand. The parallel exchange market spread has remained below 5 percent since March 2022, while market participants report limited and brief queuing for FX supply. Over the medium term, as public sector deficits and debt decline and pressures ease, reductions in the policy rate will become more feasible. With continued reforms to deepen interbank and FX markets, greater exchange rate flexibility would provide a buffer against external shocks.

**Text Figure 4. Inflation, MIMO and MPCC**
(In Percent)




Sources: Authorities' data and IMF Staff calculations

23. **International reserves have declined during 2022**. The BM meets the currency demand for fuel imports not served by the interbank market, leading to a faster-than-anticipated decline in reserves as international prices have risen. Gross international reserves fell to US$2.6 billion at end-September (or 3.4 months of projected 2023 non-megaprojects imports) down from US$3.5 billion at end-December 2021. Despite the downward revision in the forecast, program targets for net international reserves are unchanged, reflecting the authorities' intention to retain sufficient buffers to manage possible new shocks, and given the expected impact of tighter monetary policy.

24. **Banks report strong system-wide capital and liquidity ratios, with some heterogeneity across institutions.** At end-August 2022, system-average capital adequacy ratios were 26.1 percent, comfortably above the regulatory minimum of 12 percent. NPLs were at 9.1 percent, below the end-June 2022 figure of 10 percent. NPLs differ across banks, partly owing to differential exposures to SOEs impacted by the pandemic. The authorities continue to strengthen supervision, for which development partners provide CD. Credit extension is mostly to larger enterprises and formal sector

wage earners. However, a new collateral registry (movable property) launched in July 2021 should help expand lending to SMEs over the medium term.

25. **Financial inclusion is gradually increasing.** Bank account ownership rose to 31.2 percent in June 2022, compared with 30.7 percent in June 2021.[4] Parliament approved a Basic Bank Account law that allows all banks to create accounts with fewer formal documentation requirements (addressing a constraint for low-income groups) and reduces the legal age to open a bank account from 21 to 18 years. The BM is reforming the payment system law (MEFP ¶47) and has reached agreement on interoperability with mobile payments providers to facilitate use of digital money, e-commerce and digitalization of government benefits. An evaluation of the 2016-2022 National Financial Inclusion Strategy, expected by end-June 2023, will inform the successor strategy.

## D. Structural Reforms

26. **Preparation of the Sovereign Wealth Fund (SWF) law to manage the resources expected from the LNG projects is well advanced** (structural benchmark, Dec 2022, MEFP ¶29). The draft law envisages dividing resource flows between the SWF and the budget. The BM will manage resources transferred to the SWF, following transparency and accountability rules broadly aligned with the Santiago Principles. Next steps include developing regulations which will integrate the SWF law with Treasury management and the medium-term fiscal framework, to manage residual volatility in fiscal revenues that could have destabilizing macroeconomic side-effects. Prospects for scaling up public investment in the medium term to meet development goals underscore the importance of improving public investment management, including with World Bank support.

27. **The climate policy agenda is being articulated.** The Council of Ministers has approved a plan to address financial risks from natural disasters, and the World Bank is completing a Country Climate and Development Report (CCDR, expected to be finalized by end-2022). The focus is on adaptation measures, including strengthening climate resilience criteria in the selection of public investment projects (included in PFM reforms under the program).

28. **Progress continues across the governance agenda, to minimize vulnerabilities to corruption**.

- ***AML/CFT.*** The authorities are implementing their comprehensive action plan to address the gaps identified in the June 2021 report of the Eastern and Southern Africa Anti-Money Laundering Group (MEFP ¶46), and in the updated action plan adopted by the Financial Action Task Force (FATF) Plenary in October 2022, following 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 the FATF standards, and targeted financial sanctions for terrorism financing. The risk-based supervision framework is being supported by Bank of France CD.

[4] Bank of Mozambique, Financial Inclusion report 2021

- ***Public probity law.*** The law is 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. With finalization of the draft taking longer than expected submission to parliament is expected by end-June 2023 (revised from December 2022, structural benchmark).

- ***COVID audit follow-up.*** An audit of COVID related spending was completed in May 2022. The authorities are implementing an action plan built on the audit recommendations through the Ministry of Finance general inspectorate. A PFM strategy to strengthen budget execution in emergencies is expected by end-June 2023 (MEFP ¶37).

# PROGRAM MODALITIES AND OTHER ISSUES

29. **Performance criteria and indicative targets are proposed for June, September and December 2023, the MPCC bands are proposed to be raised for the remainder of the program, and the IT on the floor of domestic debt is proposed to be raised for end-June 2023.** A floor on the domestic primary surplus is proposed to be set at MT 5.3 billion for end-June 2023, MT 2.0 billion for end-September 2023 (IT), and MT 7.5 billion for end-December 2023. The end-December 2022 MPCC is proposed to be set with the midpoint based on projected inflation (15.0 percent) and a symmetric band of ±3 percent around the objective, followed by a narrower symmetric band of ±2 percent around 14.0 percent at end-March 2023, 11.5 percent at end-June 2023, 10.5 percent at end-September 2023, 9 percent at end-December 2023, 8.5 percent for end-March 2024, 7.5 percent for end-June or end-September 2024, 6.5 percent for end-December 2024, and 6 percent for end-March 2025. The monetary policy tightening since early 2021 is considered adequate to contain inflation and guide it towards the BM's medium-term objective. Staff proposes a change to the indicative target on the ceiling for the domestic debt stock of MT 320 billion at end-Jun 2023, raised by MT 34 billion relative to the initial IT, to reflect delays in disbursements from a development partner and higher than anticipated issuance given somewhat easier debt market conditions in the first half of 2022. IT ceilings of MT 328 billion at end-Sep 2023 and MT 350 billion at end-Dec 2023 are proposed. An adjustor is proposed to the IT ceiling of domestic debt (TMU ¶26) to reflect the planned securitization to clear the current stock of VAT refund arrears, amounting to MT 35.2 billion at end-June 2022 (MEFP ¶36).

30. **A minor modification to the structural benchmark on implementation of quarterly commitment ceilings and the delay of the structural benchmark on the Public Probity Law are proposed.** The SB set by the Board at the time of program approval requires that the quarterly commitment ceilings be implemented in the budget execution decree. A change is proposed to make the instrument the budget execution circular issued in January 2023, as the circular triggers practical implementation of the measure. While the reform will proceed as planned from the beginning of 2023, the change in date implies that the SB can only be formally assessed at the time of the third and not the second review. A change in the date for the structural benchmark on submission to parliament of the public probity law is proposed, from end-December 2022 to end-June 2023, reflecting delays in finalization of the draft amendments.

31. **The program is fully financed, with firm commitments for the next twelve months and good prospects for adequate financing for the remainder of the program period**. The disbursement will be used for budget support. Budget support will also be provided by the World Bank (commitments of US$550 million over 2022-2024) and the European Union (US$50 million).

**Text Table 6. Public Gross Financing Needs and Sources of Financing, 2022-25**

(Millions of US dollars)

| | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| **Gross financing needs** | **1,505** | **2,068** | **2,072** | **2,108** |
| Domestic primary deficit (exc. deficit reduction measures)[1] | 142 | 556 | 454 | 278 |
| Debt service | 1,359 | 1,512 | 1,618 | 1,830 |
| Interest payments | 623 | 633 | 719 | 707 |
| MLT amortization | 736 | 878 | 900 | 1,123 |
| **Deficit reducing measures** | **185** | **703** | **798** | **920** |
| VAT reform | 0 | 118 | 126 | 133 |
| Wage bill management | 185 | 586 | 672 | 788 |
| **Sources of financing** | **1,320** | **1,364** | **1,275** | **1,188** |
| Budget grants | 350 | 150 | 100 | 0 |
| World Bank | 300 | 150 | 100 | 0 |
| European Union | 50 | 0 | 0 | 0 |
| Domestic MLT borrowing | 506 | 1,043 | 1,496 | 1,223 |
| o.w. SDR allocation | 210 | 93 | 0 | 0 |
| Domestic ST borrowing (net) | 335 | -86 | -429 | -86 |
| Drawdown of deposits | 107 | 135 | -16 | -11 |
| IMF | 155 | 123 | 124 | 62 |
| *(in percent of quota)* | *51%* | *41%* | *41%* | *20%* |
| Net Float | -132 | 0 | 0 | 0 |
| **Memorandum** | | | | |
| Domestic primary balance (baseline)[2] | 42.7 | 147.5 | 343.4 | 718.1 |
| Net issuance of domestic debt | 577 | 586 | 682 | 528 |

Sources: Authorities and IMF staff estimates and projections.
1/ Primary balance measured from above the line and excluding external grants and loans for investment, special programs and lending to public enterprises.
2/ Negative sign means surplus.

32. **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 23.7 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.

33. **The BM has made progress in implementing the 2020 safeguards assessment recommendations.** The BM strengthened internal audit and compliance procedures, published the overdue audited financial statements for 2021, and committed to timely publications going forward (MEFP ¶27). In addition, the BM is reviewing internal controls in currency operations with the ongoing TA under a twinning arrangement with Norges Bank. The recommended legal amendments to strengthen the BM's mandate, autonomy and governance arrangements are planned to be submitted to parliament by June 2024 (MEFP ¶25).

34. **CD is aligned with program objectives, and data provision is broadly adequate for program monitoring**. CD prioritizes PFM reforms, fiscal policy, revenue administration, natural resource management, governance and fiscal transparency, monetary policy implementation, and government, real, and financial sector statistics. Mozambique is a high intensity user of Fund TA with a solid implementation record.

# STAFF APPRAISAL

35. **The economic recovery is strengthening, and the authorities are proactively addressing the inflationary shock caused by exogenous factors.** Supported by a successful vaccination campaign, growth in real GDP in the first half of 2022 was moderately stronger than expected, with a recovery of services, industry, and agriculture. Rising inflation, driven by the global surge in fuel and food prices and domestic floods, is being addressed through increased monetary policy interest rates to contain inflation expectations and second round effects. The widening of the current account deficit is due to imports related to LNG projects. Risks to the outlook are significant, but relatively balanced by good prospects for growth and natural gas exports.

36. **Performance under the program has been strong.** All quantitative program targets and the structural benchmark were met at end-June, while the MPCC inflation band was breached. PCs on the domestic primary balance, net international reserves and debt variables, and ITs on social spending and the stock of domestic debt were met. Inflation overshot the upper bound of the MPCC due to exogenous factors. The monetary policy tightening since early 2021 is estimated to be sufficient to effectively contain inflation and guide it towards the BM's medium-term objective. Despite pressures, solid revenue performance and restraint in spending given tight financing conditions underpinned fiscal outcomes in line with the program.

37. **The authorities are implementing fiscal policy reforms that will contribute to the medium-term consolidation of the fiscal position.** A broadening of the VAT base will help secure a buoyant and diversified, non-LNG, source of revenue. Implementing the reform of public sector remuneration will improve efficiency in the delivery of public services, foster a rebalancing of public outlays towards more growth-enhancing spending, and align the wage bill with regional peer countries over time. The authorities' commitment to restrain wage rises in the near-term and keep reform costs within the original envelope will help underpin fiscal consolidation.

38. **Revenue administration and public financial management reform will help achieve fiscal policy objectives.** Digitizing revenue administration, linkages with other public registries, and the tax interface with the public is expected to strengthen revenue collection. Budget execution reforms to incorporate all stages of the expenditure chain within the electronic financial management system will improve budget discipline and reduce scope for supplier arrears. Strengthening SOE management and oversight will help prevent expenditure overruns, increase transparency, and reduce a key fiscal risk.

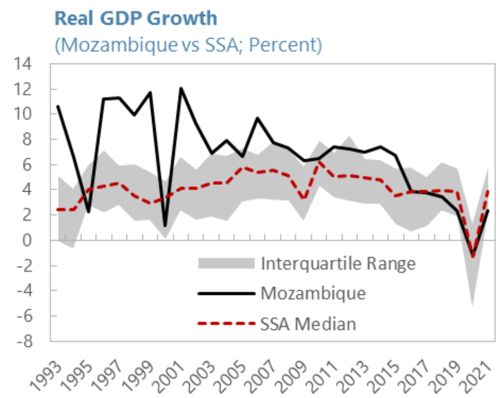
39. **The current stance of monetary policy is appropriate to prevent an upward drift in core inflation.** Staff support the BM's proactive approach, including additional tightening if needed, to help ensure inflation objectives and the external position envisaged at the time of the program approval remain within reach. The faster-than-anticipated decline in international reserves highlights the need for caution; the authorities stand ready to take additional policy steps, if needed, to maintain a prudent level of reserves and adhere to program targets. Over the medium term, as structural reforms progress to deepen the financial, money and foreign exchange markets and the fiscal position is further consolidated, additional exchange rate flexibility would strengthen Mozambique's resilience to shocks.

40. **The authorities' reforms strengthen institutions over the medium-term.** The draft SWF law represents an important step in the development of a transparent, accountable, and efficient institutional framework for the management of LNG receipts. Regulations implementing the SWF law and strengthening public investment rules and practice are the next steps needed to articulate the fiscal framework and mitigate residual volatility in budget revenues. Further improvement of PFM processes and integrating natural resource revenues into the medium-term fiscal framework are important to strengthen transparency and efficiency of public spending around widely shared objectives. Recent steps towards implementing the authorities AML/CFT action plan and the updated action plan adopted by the FATF Plenary are important steps in meeting the authorities' governance reform objectives and addressing Mozambique's grey listing. Amendment of the public probity law and implementation of recommendations from the audit of COVID spending are priorities in the months ahead.

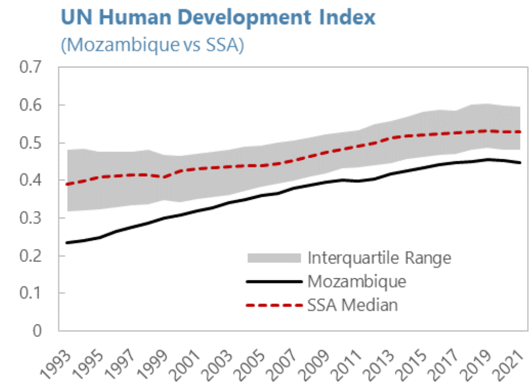
41. **Staff supports the completion of the first review under the ECF arrangement**, the requests for modification of the MPCC from end-September 2022 to end-June 2023, the SBs on the submission of the public probity law and the quarterly commitment limits for end-December 2022 and the IT for end-June 2023, and completion of the financing assurances review.

## Figure 1. Mozambique: Growth and Living Standards

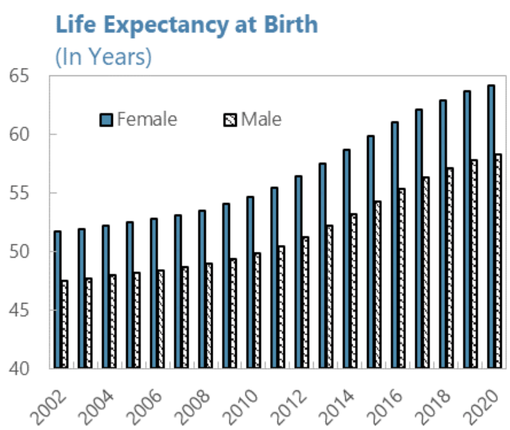
*A series of shocks has lowered growth in GDP since 2015.*



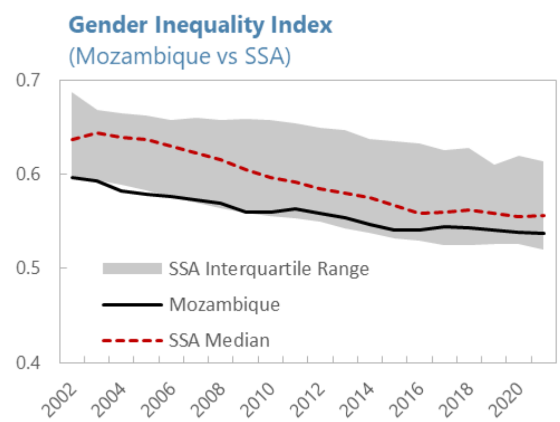

*The pandemic slowed the upward trend in living conditions, which remain below SSA comparators.*



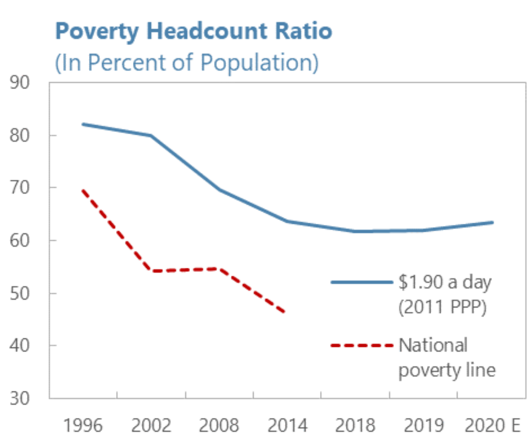

*Life expectancy improved through 2020...*



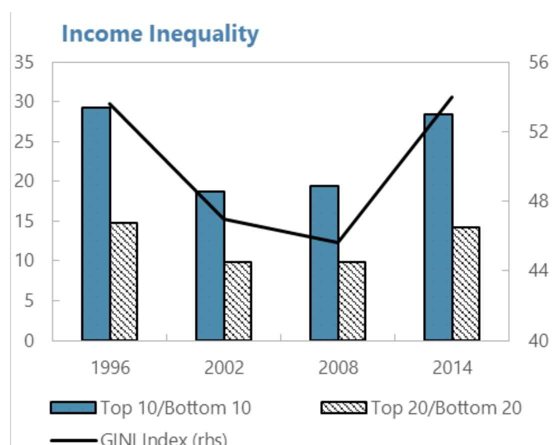

*... and gender disparities have declined.*




*While poverty has been reduced, the decline has stalled in recent years...*



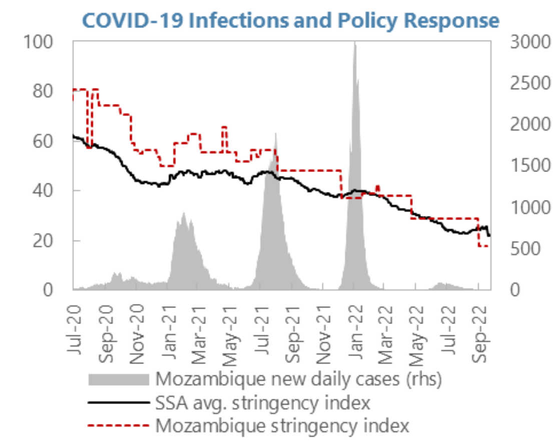

*...and inequalities were acute as of 2014.*



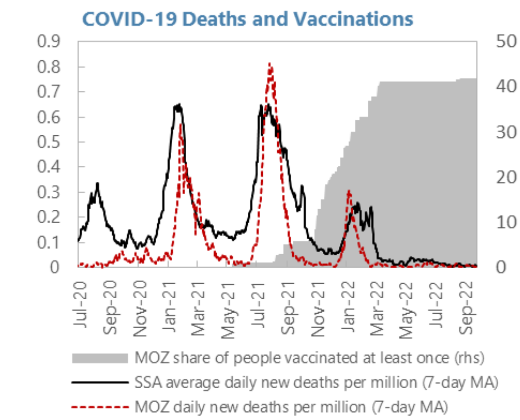

Sources: World Bank World Development Indicators, UN Human Development Report, UN Population Division, World Bank Poverty and Equity Database, World Bank Macro Poverty Outlook, and IMF staff calculations.

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

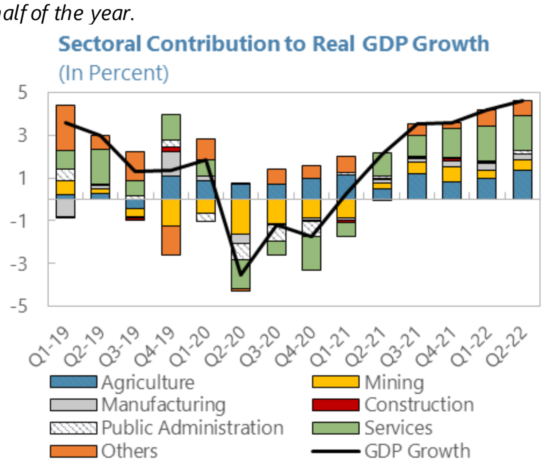
*The latest COVID wave has had a small overall impact…*



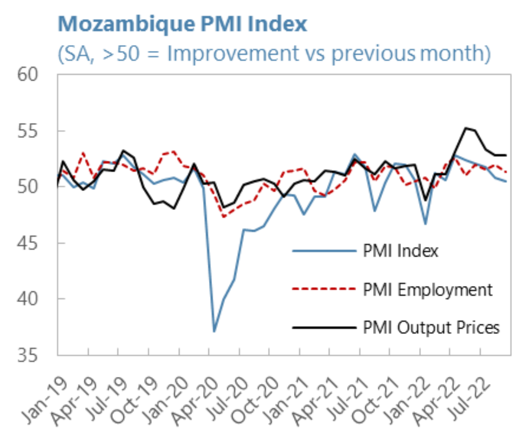

*…and vaccination rates are high.*



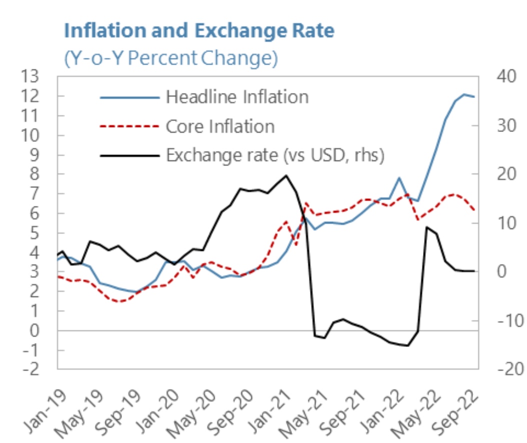

*The recovery broadened and picked up pace through the first half of the year.*



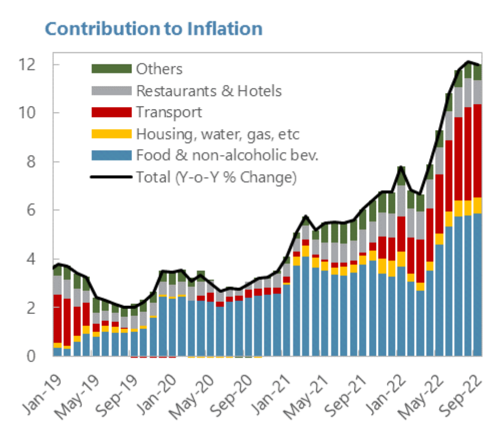

*While the PMI suggest a modest deceleration following Russia's invasion of Ukraine.*




*Inflation has picked up…*



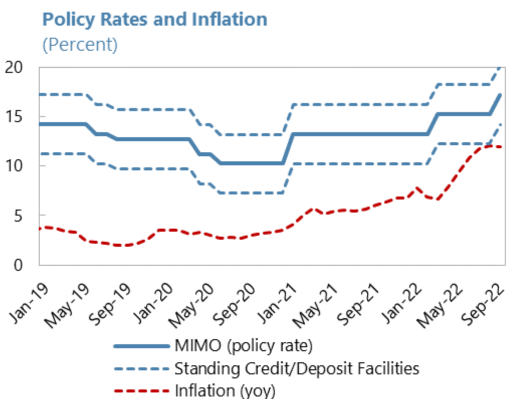

*…driven by food and fuel prices.*



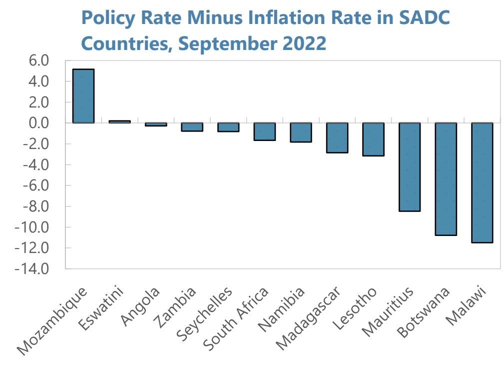

Sources: OurWorldInData, National Institute of Statistics, Standard Bank/IHS Markit, and IMF Staff Calculations.

## Figure 3. Mozambique: Monetary and Financial Developments

*The policy rate was increased in March and September 2022…*

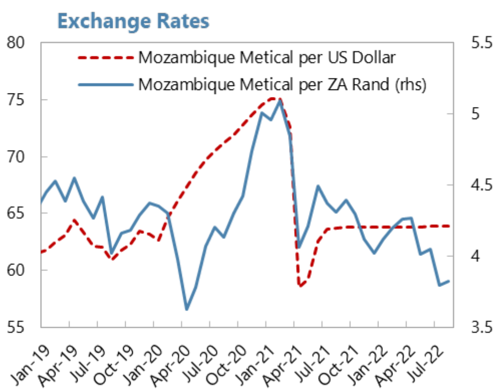



*…maintaining the contemporaneous real policy rate as the highest in the Southern African Development Community (SADC).*

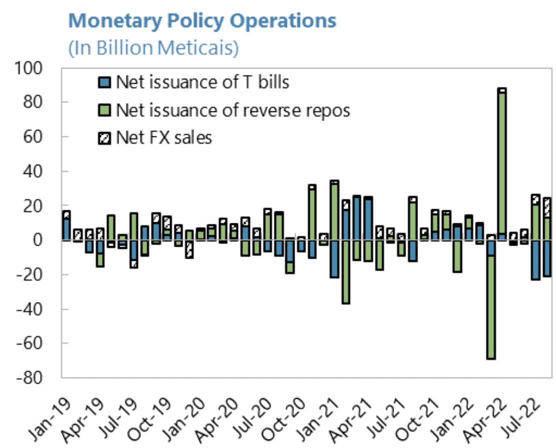



Sources: Thomson Reuters Eikon, country authorities.

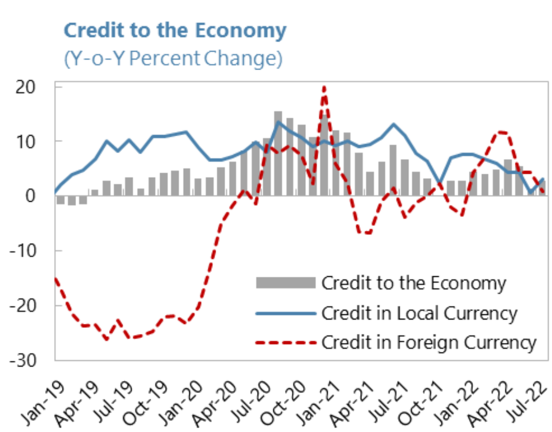
*The exchange rate has been stable against the US dollar since July 2021.*



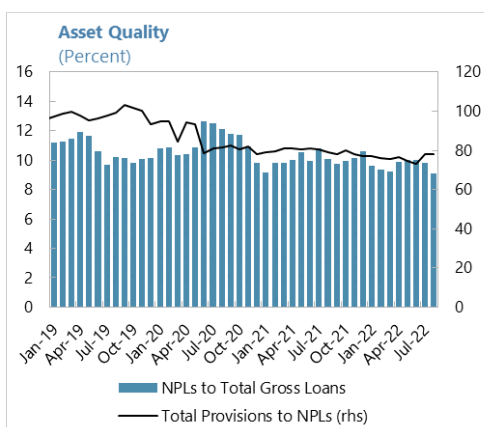

*Liquidity is managed through open market operations, with larger volumes around the time of policy rate increases.*




*Credit growth is relatively subdued, with some recovery in July 2022.*




*Reported overall NPLs and provisioning rates remained relatively steady, while COVID forbearance measures have been lifted.*

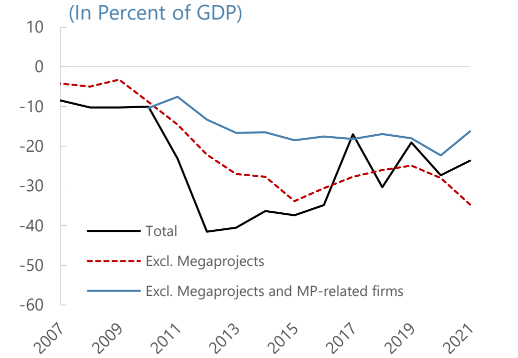



Sources: IMF staff calculations, Bank of Mozambique.

## Figure 4. Mozambique: Selected External Sector Developments

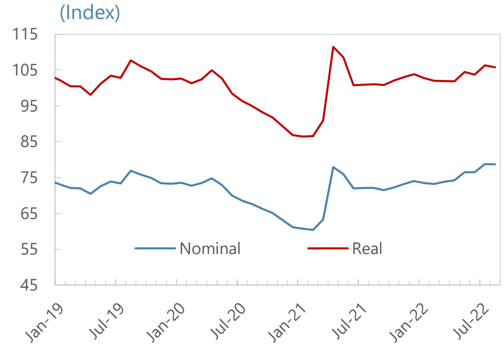
*In the post-COVID recovery, the non-megaprojects current account deficit has widened in 2021…*

**Current Account Balance**
(In Percent of GDP)



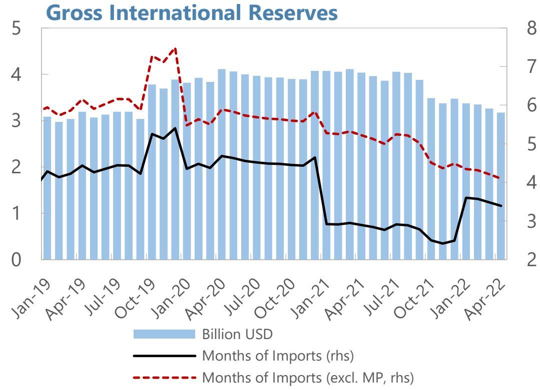

*…while tighter monetary policy has limited exchange rate fluctuations.*

**Effective Exchange Rates**
(Index)



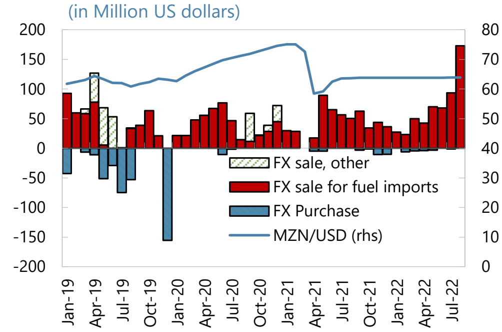

*International reserves have declined following the drop in reserve requirement ratio…*

**Gross International Reserves**



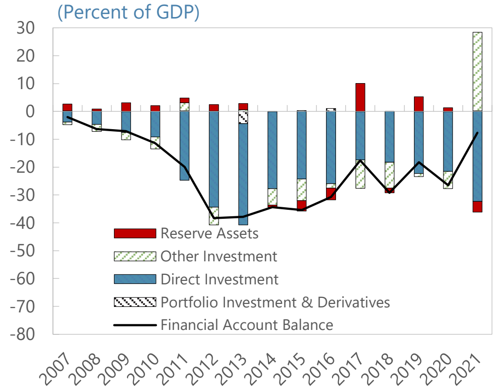

*…and to cover growing fuel import bills.*

**FX Interventions and Spot Exchange Rate**
(in Million US dollars)



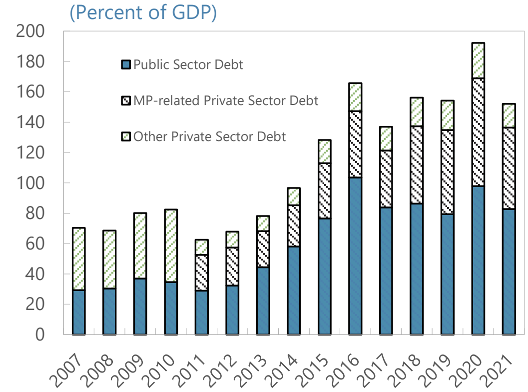

*The financial account was dominated by FDI flows and a private firm loan reimbursement.*

**Financial Account Balance**
(Percent of GDP)




*External debt was lower mostly due to the appreciation of the Metical over 2021.*

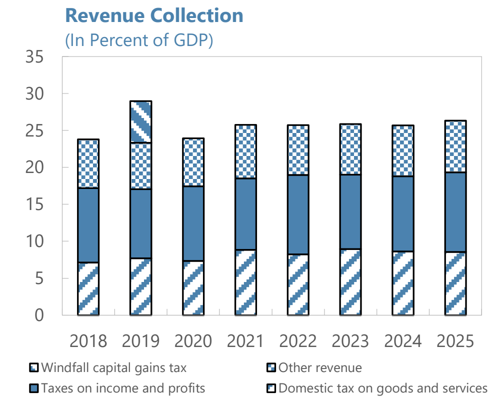
**External Debt**
(Percent of GDP)



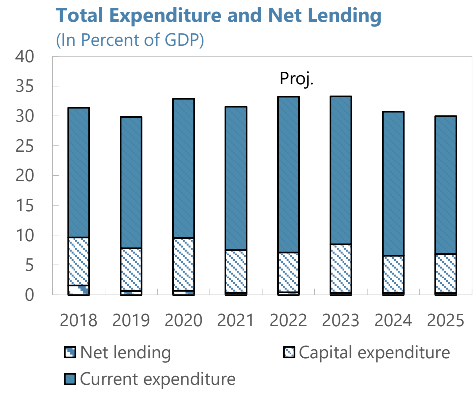

Sources: Mozambican authorities and IMF staff estimates.

## Figure 5. Mozambique: Fiscal Developments

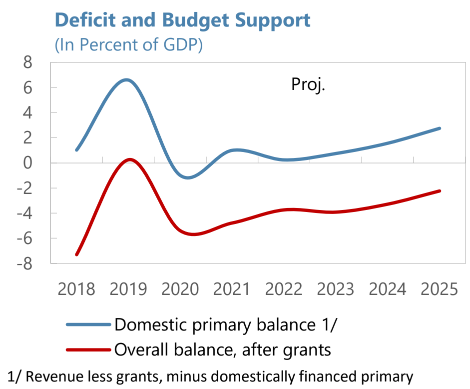
*Revenues remain high and stable despite various shocks…*



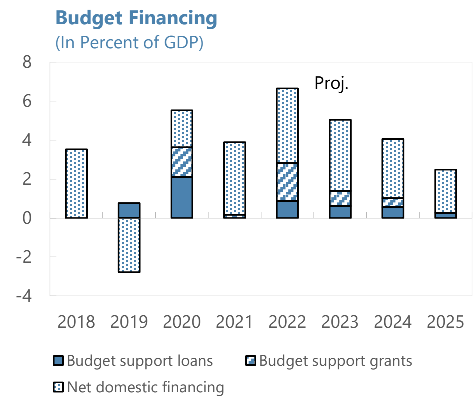

*…while spending has been controlled despite pressures.*



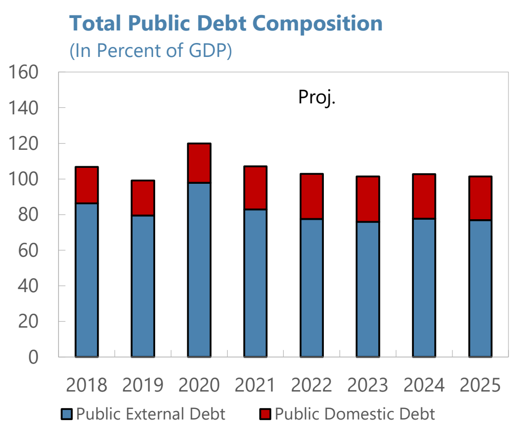

*The fiscal deficit has been improving over the past few years.*



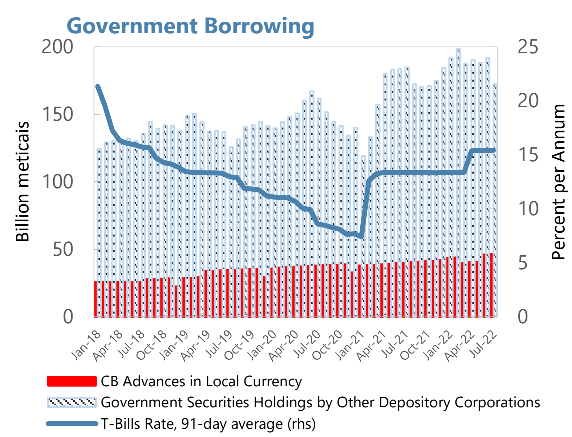

*Domestic issuance was the main source of financing before the program.*




*Debt ratios are stabilizing as the economy recovers…*




*…despite rising borrowing costs from domestic debt.*




Sources: Mozambican authorities and IMF staff estimates and projections.

## Table 1. Mozambique: Selected Economic and Financial Indicators, 2019–27 1/

| | 2019 | 2020 | 2021 | 2022 | | 2023 | | 2024 | | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Prel. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. |
| **National income and prices (Percentage change, unless otherwise indicated)** | | | | | | | | | | | | | | | |
| Real GDP | 2.3 | -1.2 | 2.3 | 3.8 | 3.8 | 5.0 | 5.0 | 8.3 | 8.3 | 5.1 | 5.1 | 13.8 | 5.0 | 13.1 | 15.6 |
| Real GDP, excl. extractive industiries | 2.7 | -0.1 | 2.3 | 3.4 | 3.4 | 3.8 | 3.7 | 4.0 | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Nominal GDP | 7.5 | 2.2 | 5.0 | 11.3 | 10.6 | 12.3 | 13.2 | 15.6 | 16.7 | 11.7 | 11.8 | 20.5 | 11.3 | 19.3 | 22.0 |
| GDP deflator | 5.1 | 3.4 | 2.6 | 7.2 | 6.5 | 7.0 | 7.8 | 6.7 | 7.8 | 6.3 | 6.4 | 5.9 | 6.0 | 5.5 | 5.5 |
| Consumer prices (end of period) | 3.5 | 3.5 | 6.7 | 9.0 | 15.0 | 7.0 | 8.5 | 6.3 | 6.1 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Consumer prices (annual average) | 2.8 | 3.1 | 5.7 | 8.5 | 10.7 | 7.7 | 11.5 | 6.5 | 7.3 | 5.9 | 5.7 | 5.5 | 5.5 | 5.5 | 5.5 |
| GDP (billions of meticais) | 963 | 983 | 1,033 | 1,173 | 1,142 | 1,318 | 1,292 | 1,523 | 1,509 | 1,701 | 1,687 | 2,050 | 1,878 | 2,446 | 2,291 |
| GDP (billions of US dollars) | 15.4 | 14.2 | 15.8 | 18.1 | 17.9 | 19.5 | 19.7 | 21.5 | 21.9 | 23.0 | 23.3 | 26.6 | 24.9 | 30.6 | 29.3 |
| GDP per capita (US dollars) | 508 | 454 | 492 | 547 | 541 | 573 | 582 | 614 | 629 | 638 | 651 | 718 | 676 | 804 | 774 |
| **Investment and savings (Percent of GDP)** | | | | | | | | | | | | | | | |
| Gross domestic investment | 60.1 | 50.8 | 49.8 | 79.9 | 67.8 | 72.3 | 37.8 | 73.5 | 61.5 | 74.0 | 66.3 | 62.3 | 68.1 | 48.5 | 59.7 |
| Gross domestic savings, excl. grants | 41.0 | 23.5 | 26.2 | 35.0 | 26.3 | 33.3 | 23.2 | 35.9 | 26.0 | 37.0 | 27.4 | 36.9 | 27.2 | 39.5 | 32.5 |
| **Central government (Percent of GDP)** | | | | | | | | | | | | | | | |
| Total revenue 1/ | 29.0 | 23.9 | 25.7 | 25.0 | 25.7 | 25.4 | 25.9 | 25.1 | 25.7 | 25.6 | 26.3 | 24.8 | 27.5 | 24.1 | 25.6 |
| of which: LNG revenues | N.A. | N.A. | N.A. | N.A. | N.A. | 0.1 | 0.1 | 0.3 | 0.3 | 0.3 | 0.3 | 0.9 | 1.0 | 1.2 | 1.3 |
| Total expenditure and net lending | 29.8 | 32.9 | 31.5 | 32.4 | 33.2 | 31.8 | 33.3 | 29.1 | 30.7 | 27.8 | 29.9 | 24.9 | 29.8 | 22.4 | 26.6 |
| of which: current expenditure | 22.0 | 23.3 | 24.0 | 24.7 | 26.1 | 24.2 | 24.8 | 23.3 | 24.1 | 22.2 | 23.1 | 19.7 | 22.3 | 17.9 | 19.9 |
| Overall fiscal balance, before grants | -0.7 | -9.0 | -6.7 | -8.0 | -8.2 | -6.4 | -7.4 | -4.0 | -5.0 | -2.2 | -3.6 | -0.1 | -2.3 | 1.7 | -1.0 |
| Grants | 1.0 | 3.6 | 2.0 | 4.4 | 4.4 | 2.8 | 3.5 | 1.2 | 1.7 | 0.6 | 1.4 | 0.5 | 1.5 | 0.4 | 1.6 |
| Overall fiscal balance, after grants | 0.3 | -5.4 | -4.8 | -3.6 | -3.7 | -3.6 | -3.9 | -2.8 | -3.3 | -1.6 | -2.2 | 0.4 | -0.7 | 2.1 | 0.5 |
| Overall fiscal balance before LNG revenues, after grants | 0.3 | -5.4 | -4.8 | -3.6 | -3.7 | -3.7 | -4.0 | -3.1 | -3.6 | -1.9 | -2.6 | -0.5 | -1.7 | 0.8 | -0.7 |
| Primary fiscal balance, after grants | 3.5 | -2.3 | -2.1 | -0.2 | -0.2 | -0.6 | -0.7 | 0.3 | 0.0 | 1.3 | 0.8 | 2.9 | 2.3 | 4.1 | 3.1 |
| **Public sector debt (Percent of GDP) 2/** | | | | | | | | | | | | | | | |
| Nominal stock of total debt | 99.0 | 120.0 | 107.0 | 101.4 | 102.9 | 102.1 | 101.4 | 99.2 | 102.6 | 96.7 | 101.5 | 83.2 | 97.6 | 69.8 | 81.9 |
| of which: external | 79.4 | 97.8 | 82.8 | 77.6 | 77.6 | 78.5 | 75.9 | 76.2 | 77.7 | 74.4 | 76.9 | 64.7 | 74.4 | 55.7 | 62.8 |
| **Money and credit (Percentage change, unless otherwise indicated)** | | | | | | | | | | | | | | | |
| Reserve money | 19.1 | 9.0 | -14.4 | 10.7 | -5.1 | 11.7 | 11.2 | 13.8 | 14.0 | 11.7 | 11.5 | 13.4 | 15.2 | 14.5 | 11.2 |
| Broad Money (M3) | 12.1 | 23.6 | 2.8 | 12.0 | 2.3 | 12.2 | 11.8 | 12.8 | 12.6 | 11.2 | 11.3 | 14.1 | 13.3 | 13.3 | 11.6 |
| Percent of GDP | 48.6 | 58.9 | 57.6 | 56.8 | 53.3 | 56.7 | 52.7 | 55.4 | 50.8 | 55.1 | 50.6 | 52.2 | 51.5 | 49.5 | 47.1 |
| Credit to the economy | 5.0 | 14.8 | 3.0 | 8.7 | 3.0 | 11.8 | 11.5 | 14.8 | 12.0 | 12.7 | 10.0 | 15.2 | 10.0 | 13.3 | 12.0 |
| Percent of GDP | 24.0 | 27.0 | 26.5 | 25.3 | 24.6 | 25.2 | 24.3 | 25.0 | 23.3 | 25.3 | 22.9 | 24.1 | 22.7 | 22.9 | 20.8 |
| Policy rate (percent) 3/ | 12.75 | 10.25 | 13.25 | 15.25 | 17.25 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **External sector (Percent of GDP, unless otherwise indicated)** | | | | | | | | | | | | | | | |
| Current account balance | -19.1 | -27.3 | -23.6 | -44.9 | -41.5 | -39.0 | -14.7 | -37.6 | -35.5 | -37.0 | -38.9 | -25.4 | -40.9 | -9.0 | -27.1 |
| excl. megaprojects | -24.9 | -28.0 | -34.7 | -31.4 | -33.9 | -28.7 | -31.7 | -26.0 | -29.3 | -25.5 | -28.0 | -24.8 | -27.5 | -23.4 | -26.1 |
| excl. megaprojects (MP) and indirect MP imports | -16.9 | -18.0 | -22.3 | -19.6 | -16.2 | -17.0 | -19.3 | -14.6 | -17.0 | -14.1 | -16.5 | -14.1 | -16.4 | -13.3 | -16.2 |
| Merchandise exports | 30.3 | 25.3 | 35.4 | 37.0 | 43.4 | 36.2 | 38.3 | 38.1 | 39.3 | 37.5 | 38.8 | 41.0 | 37.2 | 44.6 | 40.6 |
| excl. megaprojects | 9.0 | 7.7 | 9.8 | 9.9 | 9.9 | 10.1 | 9.8 | 9.5 | 9.2 | 9.3 | 9.0 | 8.6 | 9.0 | 8.1 | 8.4 |
| Merchandise imports | 43.9 | 41.6 | 49.7 | 71.8 | 74.6 | 49.1 | 43.5 | 46.6 | 46.2 | 45.3 | 45.5 | 39.9 | 44.6 | 34.6 | 38.4 |
| excl. megaprojects | 34.8 | 36.1 | 44.6 | 42.0 | 43.5 | 37.6 | 39.1 | 34.6 | 36.0 | 33.5 | 34.2 | 31.0 | 33.5 | 28.8 | 30.1 |
| Net foreign direct investment | 22.2 | 21.4 | 32.3 | 14.0 | 17.1 | 11.4 | 7.6 | 10.7 | 13.2 | 10.9 | 13.3 | 2.2 | 12.4 | 4.6 | 4.1 |
| Terms of trade (Percentage change) | -2.0 | -0.3 | 1.1 | 0.1 | -3.4 | 2.3 | -0.4 | -0.4 | 1.4 | -0.7 | 1.5 | -0.8 | 1.0 | -0.4 | 0.7 |
| Gross international reserves (millions of US dollars, end of period) | 3,884 | 4,070 | 3,470 | 3,076 | 2,905 | 3,263 | 3,031 | 3,613 | 3,389 | 4,099 | 3,686 | 4,700 | 4,447 | 5,710 | 4,834 |
| Months of next year's non-megaproject imports | 7.5 | 5.8 | 4.5 | 4.2 | 3.7 | 4.4 | 3.8 | 4.7 | 4.2 | 5.0 | 4.3 | 5.3 | 4.9 | 6.1 | 5.0 |
| Net international reserves (millions of US dollars, end of period) | 3,605 | 3,493 | 2,927 | 2,400 | 2,234 | 2,485 | 2,265 | 2,717 | 2,512 | 3,196 | 2,801 | 3,886 | 3,647 | 4,998 | 4,128 |
| **Exchange rate** | | | | | | | | | | | | | | | |
| Meticais per US dollar, end of period | 61.5 | 74.9 | 63.8 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Meticais per US dollar, period average | 62.5 | 69.5 | 65.5 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (Percentage change) | 1.5 | -5.3 | 2.9 | ... | 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 September 2022).

# Table 2a. Mozambique: Government Finances, 2019–27

(Billions of Meticais)

| | 2019 | 2020 | 2021 | | 2022 | | 2023 | | 2024 | | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Est. | Prelim. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. |
| Total revenue [1] | 278.9 | 235.3 | 266.8 | 265.9 | 293.8 | 293.6 | 334.9 | 334.3 | 381.9 | 387.6 | 434.9 | 444.1 | 509.0 | 516.0 | 589.3 | 585.3 |
| Tax revenue | 242.2 | 196.7 | 222.9 | 221.7 | 242.0 | 248.7 | 278.3 | 283.0 | 319.3 | 330.3 | 365.6 | 380.6 | 431.8 | 446.1 | 503.6 | 508.3 |
| Income and profits | 144.3 | 99.4 | 109.1 | 99.9 | 123.2 | 122.5 | 133.0 | 130.0 | 155.4 | 153.4 | 180.4 | 181.5 | 203.9 | 205.7 | 228.8 | 228.7 |
| *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 | 0.0 | 0.0 | 0.0 |
| Goods and services [1] | 74.0 | 72.1 | 83.0 | 91.4 | 86.2 | 94.0 | 108.7 | 115.8 | 118.0 | 130.1 | 131.1 | 144.5 | 152.5 | 165.8 | 180.5 | 187.4 |
| International trade | 17.1 | 15.1 | 18.0 | 18.0 | 18.4 | 18.5 | 19.4 | 19.7 | 21.4 | 22.0 | 24.6 | 24.9 | 29.4 | 29.0 | 34.0 | 33.2 |
| Other | 6.8 | 10.1 | 12.8 | 12.5 | 14.3 | 13.8 | 17.2 | 17.4 | 24.5 | 24.7 | 29.5 | 29.8 | 46.0 | 45.5 | 60.2 | 59.0 |
| *Of which: Revenue from LNG* | ... | ... | ... | ... | ... | ... | 1.3 | 1.3 | 5.0 | 4.7 | 5.9 | 5.6 | 18.8 | 18.0 | 30.0 | 28.7 |
| Nontax revenue | 36.8 | 38.6 | 43.9 | 44.2 | 51.8 | 44.9 | 56.5 | 51.3 | 62.6 | 57.4 | 69.3 | 63.5 | 77.1 | 70.0 | 85.8 | 77.0 |
| Total expenditure and net lending | 287.2 | 323.3 | 323.0 | 325.6 | 380.4 | 379.3 | 419.6 | 429.9 | 442.7 | 463.1 | 472.8 | 504.9 | 511.4 | 558.8 | 548.6 | 609.2 |
| Current expenditure | 212.0 | 229.6 | 245.8 | 248.1 | 289.8 | 298.4 | 318.7 | 320.4 | 354.1 | 363.9 | 377.2 | 389.6 | 403.7 | 418.1 | 437.8 | 456.3 |
| Compensation to employees | 117.3 | 130.1 | 145.0 | 145.1 | 166.6 | 166.6 | 186.7 | 181.8 | 199.8 | 203.7 | 210.8 | 216.7 | 221.0 | 226.8 | 235.9 | 242.0 |
| *Of which: Social insurance* | 4.5 | 5.7 | 5.8 | 5.9 | 6.1 | 6.1 | 6.6 | 6.1 | 7.2 | 6.8 | 7.6 | 7.3 | 8.1 | 7.7 | 8.5 | 8.2 |
| Goods and services | 41.2 | 41.0 | 43.5 | 44.8 | 49.7 | 49.7 | 55.3 | 58.3 | 62.5 | 65.5 | 69.2 | 73.2 | 78.0 | 81.7 | 93.7 | 97.0 |
| Interest on public debt | 31.2 | 30.7 | 27.4 | 28.1 | 40.4 | 39.9 | 40.0 | 41.5 | 47.2 | 49.4 | 48.3 | 51.2 | 51.0 | 56.3 | 49.3 | 58.8 |
| Domestic | 17.3 | 15.8 | 16.1 | 17.6 | 29.0 | 29.0 | 28.2 | 29.9 | 35.2 | 38.1 | 36.2 | 39.6 | 36.1 | 41.8 | 34.5 | 44.4 |
| External | 13.9 | 14.9 | 11.3 | 10.5 | 11.4 | 10.9 | 11.8 | 11.6 | 12.0 | 11.3 | 12.1 | 11.6 | 14.9 | 14.5 | 14.8 | 14.4 |
| Subsidies and transfers | 22.3 | 27.7 | 29.9 | 30.1 | 33.1 | 42.1 | 36.8 | 38.8 | 44.7 | 45.2 | 48.9 | 48.6 | 53.7 | 53.2 | 59.0 | 58.5 |
| Capital expenditure | 68.8 | 86.9 | 73.7 | 73.9 | 85.9 | 76.3 | 96.3 | 105.0 | 83.8 | 94.4 | 90.6 | 110.2 | 102.4 | 135.5 | 105.5 | 147.7 |
| Domestically financed | 33.5 | 44.1 | 33.9 | 34.7 | 32.4 | 31.4 | 39.9 | 43.9 | 44.4 | 47.6 | 49.2 | 57.0 | 60.9 | 76.0 | 70.1 | 86.0 |
| Externally financed | 35.3 | 42.9 | 39.7 | 39.2 | 53.5 | 44.9 | 56.4 | 61.0 | 39.4 | 46.9 | 41.4 | 53.2 | 41.5 | 59.5 | 35.3 | 61.7 |
| Grants | 9.3 | 20.1 | 16.7 | 18.7 | 28.8 | 20.1 | 30.1 | 35.3 | 11.2 | 19.2 | 10.9 | 23.2 | 10.6 | 29.0 | 9.5 | 36.1 |
| Investment projects | 5.1 | 15.6 | 9.9 | 11.78 | 19.6 | 11.1 | 22.4 | 26.9 | 5.0 | 10.7 | 4.9 | 12.9 | 4.7 | 16.1 | 4.2 | 20.1 |
| Special programs | 4.3 | 4.5 | 6.9 | 6.9 | 6.6 | 6.5 | 6.4 | 7.0 | 6.2 | 8.5 | 6.0 | 10.3 | 5.9 | 12.9 | 5.2 | 16.0 |
| Direct financing | 0.0 | 0.0 | 0.0 | 0.0 | 2.6 | 2.6 | 1.4 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans | 25.9 | 22.8 | 23.0 | 20.5 | 24.8 | 24.8 | 26.2 | 25.8 | 28.2 | 27.7 | 30.4 | 30.0 | 30.9 | 30.5 | 25.9 | 25.6 |
| Net lending [2] | 6.4 | 6.8 | 3.4 | 3.6 | 4.7 | 4.7 | 4.6 | 4.5 | 4.8 | 4.8 | 5.1 | 5.0 | 5.3 | 5.2 | 5.3 | 5.2 |
| Statistical Discrepancy | 1.4 | -0.1 | -13.9 | -10.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Unallocated revenue (+)/ expenditure (-) | 0.0 | 0.0 | 0.0 | 0.0 | -7.7 | -7.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, before grants | -6.8 | -88.1 | -70.1 | -69.7 | -94.3 | -93.4 | -84.7 | -95.6 | -60.9 | -75.5 | -37.9 | -60.7 | -2.4 | -42.7 | 40.8 | -23.9 |
| Grants received | 9.3 | 35.1 | 18.5 | 20.4 | 51.6 | 50.7 | 36.9 | 45.1 | 18.3 | 26.0 | 10.9 | 23.2 | 10.6 | 29.0 | 9.5 | 36.1 |
| Project support | 9.3 | 20.1 | 16.7 | 18.7 | 28.8 | 28.4 | 30.1 | 35.3 | 11.2 | 19.2 | 10.9 | 23.2 | 10.6 | 29.0 | 9.5 | 36.1 |
| Budget support | 0.0 | 15.1 | 1.7 | 1.7 | 22.8 | 22.4 | 6.8 | 9.8 | 7.1 | 6.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Primary balance, after grants | 33.6 | -22.4 | -24.2 | -21.2 | -2.3 | -2.7 | -7.9 | -9.1 | 4.6 | 0.0 | 21.3 | 13.6 | 59.3 | 42.6 | 99.5 | 71.0 |
| Overall balance, after grants | 2.5 | -53.0 | -51.6 | -49.3 | -42.7 | -42.6 | -47.9 | -50.5 | -42.6 | -49.4 | -27.0 | -37.6 | 8.2 | -13.7 | 50.2 | 12.2 |
| Financing | -2.5 | 53.0 | 51.6 | 49.3 | 42.6 | 42.61 | 47.9 | 50.5 | 42.6 | 49.4 | 27.0 | 37.6 | -8.2 | 13.7 | -50.2 | -12.2 |
| Net external financing | 16.9 | 23.4 | 8.8 | 6.5 | 8.4 | 7.3 | 2.4 | 3.3 | 2.3 | 3.6 | -2.0 | 0.2 | -8.0 | -5.4 | -13.3 | -11.2 |
| Disbursements | 38.7 | 48.2 | 25.6 | 23.3 | 37.9 | 37.5 | 37.8 | 36.6 | 40.2 | 39.0 | 38.1 | 37.3 | 33.7 | 33.3 | 28.5 | 28.1 |
| Project | 25.9 | 22.8 | 23.0 | 20.5 | 24.8 | 24.8 | 26.2 | 25.8 | 28.2 | 27.7 | 30.4 | 30.0 | 30.9 | 30.5 | 25.9 | 25.6 |
| Nonproject support | 12.8 | 25.4 | 2.6 | 2.7 | 13.2 | 12.7 | 11.5 | 10.8 | 12.0 | 11.3 | 7.7 | 7.3 | 2.8 | 2.8 | 2.6 | 2.5 |
| Of which budget support (including IMF) | 7.4 | 20.7 | 0.0 | 0.0 | 10.3 | 9.9 | 8.7 | 8.1 | 9.2 | 8.5 | 4.8 | 4.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | -21.8 | -24.8 | -16.8 | -16.8 | -29.6 | -30.2 | -35.4 | -33.3 | -37.9 | -35.4 | -40.1 | -37.2 | -41.7 | -38.7 | -41.7 | -39.3 |
| Net domestic financing | -26.8 | 18.6 | 38.4 | 38.4 | 42.7 | 43.7 | 45.5 | 47.2 | 40.2 | 45.8 | 28.9 | 37.4 | -0.2 | 19.2 | -37.0 | -1.0 |
| Of which: short term debt (net) | 8.7 | 14.5 | 13.7 | 13.7 | 9.0 | 21.4 | -8.2 | -5.6 | -19.7 | -29.5 | -9.7 | -6.2 | -6.5 | 0.7 | -10.7 | -7.6 |
| Of which: issuances of medium term debt | 23.5 | 52.1 | 40.4 | 40.4 | 42.2 | 32.4 | 58.7 | 68.3 | 91.0 | 102.9 | 68.3 | 88.4 | 53.1 | 90.1 | 28.0 | 72.3 |
| o.w. SDR allocation | | | | | 20.5 | 13.4 | | 6.1 | | | | | | | | |
| Of which: amortization of medium term debt | -27.3 | -29.3 | -26.0 | -26.0 | -15.2 | -16.9 | -18.9 | -24.3 | -31.0 | -26.5 | -30.2 | -44.0 | -46.2 | -68.9 | -53.2 | -64.1 |
| Change in Deposits | -31.6 | -18.8 | 10.5 | 10.5 | 6.7 | 6.8 | 13.9 | 8.8 | -0.1 | -1.1 | 0.6 | -0.8 | -0.5 | -2.7 | -1.0 | -1.6 |
| Float from previous year[3] | -2.5 | -4.4 | -9.5 | -9.5 | -8.4 | -8.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Float at the end of the year[3] | 4.4 | 9.5 | 8.4 | 8.4 | 0.0 | 0.0 | 0.0 | 0.0 | 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 | 5.4 | 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 | 0.0 |
| *Memorandum items:* | | | | | | | | | | | | | | | | |
| Primary balance after grants (excl. the one-off 2019 capital gains tax revenues) | -20.5 | -22.4 | -24.2 | -21.2 | -2.3 | -2.7 | -7.9 | -9.1 | 4.6 | 0.0 | 21.3 | 13.6 | 59.3 | 42.6 | 99.5 | 71.0 |
| Domestic primary balance[5] | 64.6 | -8.5 | 13.392 | 10.2 | 2.7 | 2.7 | 14.3 | 9.7 | 28.1 | 23.6 | 53.8 | 46.4 | 92.0 | 75.8 | 126.9 | 99.1 |
| Stock of Government Deposits | 116.7 | 135.5 | 125.0 | 125.0 | 118.3 | 118.2 | 104.4 | 109.3 | 104.5 | 110.4 | 103.9 | 111.2 | 104.4 | 113.9 | 105.4 | 115.5 |

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 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, 2019–27
(Percent of GDP)

| | 2019 | 2020 | 2021 | | 2022 | | 2023 | | 2024 | | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Est. | Prelim. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. |
| Total revenue [1] | 29.0 | 23.9 | 25.8 | 25.7 | 25.0 | 25.7 | 25.4 | 25.9 | 25.1 | 25.7 | 25.6 | 26.3 | 24.8 | 27.5 | 24.1 | 25.6 |
| Tax revenue | 25.2 | 20.0 | 21.6 | 21.5 | 20.6 | 21.8 | 21.1 | 21.9 | 21.0 | 21.9 | 21.5 | 22.6 | 21.1 | 23.8 | 20.6 | 22.2 |
| Taxes on income and profits | 15.0 | 10.1 | 10.6 | 9.7 | 10.5 | 10.7 | 10.1 | 10.1 | 10.2 | 10.2 | 10.6 | 10.8 | 9.9 | 11.0 | 9.4 | 10.0 |
| *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 | 0.0 |
| Taxes on goods and services [1] | 7.7 | 7.3 | 8.0 | 8.8 | 7.3 | 8.2 | 8.3 | 9.0 | 7.7 | 8.6 | 7.7 | 8.6 | 7.4 | 8.8 | 7.4 | 8.2 |
| Taxes on international trade | 1.8 | 1.5 | 1.7 | 1.7 | 1.6 | 1.6 | 1.5 | 1.5 | 1.4 | 1.5 | 1.4 | 1.5 | 1.4 | 1.5 | 1.4 | 1.4 |
| Other taxes | 0.7 | 1.0 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 | 1.6 | 1.6 | 1.7 | 1.8 | 2.2 | 2.4 | 2.5 | 2.6 |
| *Of which*: Revenue from LNG | ... | ... | ... | ... | ... | ... | 0.1 | 0.1 | 0.3 | 0.3 | 0.3 | 0.3 | 0.9 | 1.0 | 1.2 | 1.3 |
| Nontax revenue | 3.8 | 3.9 | 4.3 | 4.3 | 4.4 | 3.9 | 4.3 | 4.0 | 4.1 | 3.8 | 4.1 | 3.8 | 3.8 | 3.7 | 3.5 | 3.4 |
| Total expenditure and net lending | 29.8 | 32.9 | 31.3 | 31.5 | 32.4 | 33.2 | 31.8 | 33.3 | 29.1 | 30.7 | 27.8 | 29.9 | 24.9 | 29.8 | 22.4 | 26.6 |
| Current expenditure | 22.0 | 23.3 | 23.8 | 24.0 | 24.7 | 26.1 | 24.2 | 24.8 | 23.3 | 24.1 | 22.2 | 23.1 | 19.7 | 22.3 | 17.9 | 19.9 |
| Compensation to employees | 12.2 | 13.2 | 14.0 | 14.1 | 14.2 | 14.6 | 14.2 | 14.1 | 13.1 | 13.5 | 12.4 | 12.8 | 10.8 | 12.1 | 9.6 | 10.6 |
| *Of which*: Social insurance | 0.5 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.4 |
| Goods and services | 4.3 | 4.2 | 4.2 | 4.3 | 4.2 | 4.4 | 4.2 | 4.5 | 4.1 | 4.3 | 4.1 | 4.3 | 3.8 | 4.4 | 3.8 | 4.2 |
| Interest on public debt | 3.2 | 3.1 | 2.7 | 2.7 | 3.4 | 3.5 | 3.0 | 3.2 | 3.1 | 3.3 | 2.8 | 3.0 | 2.5 | 3.0 | 2.0 | 2.6 |
| Domestic | 1.8 | 1.6 | 1.6 | 1.7 | 2.5 | 2.5 | 2.1 | 2.3 | 2.3 | 2.5 | 2.1 | 2.3 | 1.8 | 2.2 | 1.4 | 1.9 |
| External | 1.4 | 1.5 | 1.1 | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.8 | 0.6 | 0.6 |
| Subsidies and transfers | 2.3 | 2.8 | 2.9 | 2.9 | 2.8 | 3.7 | 2.8 | 3.0 | 2.9 | 3.0 | 2.9 | 2.9 | 2.6 | 2.8 | 2.4 | 2.6 |
| Capital expenditure | 7.1 | 8.8 | 7.1 | 7.2 | 7.3 | 6.7 | 7.3 | 8.1 | 5.5 | 6.3 | 5.3 | 6.5 | 5.0 | 7.2 | 4.3 | 6.4 |
| Domestically financed | 3.5 | 4.5 | 3.3 | 3.4 | 2.8 | 2.7 | 3.0 | 3.4 | 2.9 | 3.2 | 2.9 | 3.4 | 3.0 | 4.0 | 2.9 | 3.8 |
| Externally financed | 3.7 | 4.4 | 3.8 | 3.8 | 4.6 | 3.9 | 4.3 | 4.7 | 2.6 | 3.1 | 2.4 | 3.2 | 2.0 | 3.2 | 1.4 | 2.7 |
| Net lending [2] | 0.7 | 0.7 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 |
| Statistical Discrepancy | 0.1 | 0.0 | -1.3 | -1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Unallocated revenue (+)/ expenditure (-) | 0.0 | 0.0 | 0.0 | 0.0 | -0.7 | -0.7 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Overall balance, before grants | -0.7 | -9.0 | -6.8 | -6.7 | -8.0 | -8.2 | -6.4 | -7.4 | -4.0 | -5.0 | -2.2 | -3.6 | -0.1 | -2.3 | 1.7 | -1.0 |
| Grants received | 1.0 | 3.6 | 1.8 | 2.0 | 4.4 | 4.4 | 2.8 | 3.5 | 1.2 | 1.7 | 0.6 | 1.4 | 0.5 | 1.5 | 0.4 | 1.6 |
| Project support | 1.0 | 2.0 | 1.6 | 1.8 | 2.5 | 2.5 | 2.3 | 2.7 | 0.7 | 1.3 | 0.6 | 1.4 | 0.5 | 1.5 | 0.4 | 1.6 |
| Budget support | 0.0 | 1.5 | 0.2 | 0.2 | 1.9 | 2.0 | 0.5 | 0.8 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Primary balance, after grants | 3.5 | -2.3 | -2.3 | -2.1 | -0.2 | -0.2 | -0.6 | -0.7 | 0.3 | 0.0 | 1.3 | 0.8 | 2.89 | 2.3 | 4.07 | 3.1 |
| Overall balance, after grants | 0.3 | -5.4 | -5.0 | -4.8 | -3.6 | -3.7 | -3.6 | -3.9 | -2.8 | -3.3 | -1.6 | -2.2 | 0.4 | -0.7 | 2.1 | 0.5 |
| Financing | -0.3 | 5.4 | 5.0 | 4.8 | 3.6 | 3.7 | 3.6 | 3.9 | 2.8 | 3.3 | 1.6 | 2.2 | -0.4 | 0.7 | -2.1 | -0.5 |
| Net external financing | 1.8 | 2.4 | 0.9 | 0.6 | 0.7 | 0.6 | 0.2 | 0.3 | 0.2 | 0.2 | -0.1 | 0.0 | -0.4 | -0.3 | -0.5 | -0.5 |
| Disbursements | 4.0 | 4.9 | 2.5 | 2.3 | 3.2 | 3.3 | 2.9 | 2.8 | 2.6 | 2.6 | 2.2 | 2.2 | 1.6 | 1.8 | 1.2 | 1.2 |
| Project | 2.7 | 2.3 | 2.2 | 2.0 | 2.1 | 2.2 | 2.0 | 2.0 | 1.9 | 1.8 | 1.8 | 1.8 | 1.5 | 1.6 | 1.1 | 1.1 |
| Nonproject support | 1.3 | 2.6 | 0.3 | 0.3 | 1.1 | 1.1 | 0.9 | 0.8 | 0.8 | 0.7 | 0.5 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 |
| Of which budget support (including IMF) | 0.8 | 2.1 | 0.0 | 0.0 | 0.9 | 0.9 | 0.7 | 0.6 | 0.6 | 0.6 | 0.3 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | -2.3 | -2.5 | -1.6 | -1.6 | -2.5 | -2.6 | -2.7 | -2.6 | -2.5 | -2.3 | -2.4 | -2.2 | -2.0 | -2.1 | -1.7 | -1.7 |
| Net domestic financing | -2.8 | 1.9 | 3.7 | 3.7 | 3.6 | 3.8 | 3.5 | 3.7 | 2.6 | 3.0 | 1.7 | 2.2 | 0.0 | 1.0 | -1.5 | 0.0 |
| Of which: short term debt (net) | 0.9 | 1.5 | 1.3 | 1.3 | 0.8 | 1.9 | -0.6 | -0.4 | -1.3 | -2.0 | -0.6 | -0.4 | -0.3 | 0.0 | -0.4 | -0.3 |
| Of which: issuances of medium term debt | 2.4 | 5.3 | 3.9 | 3.9 | 3.6 | 2.8 | 4.5 | 5.3 | 6.0 | 6.8 | 4.0 | 5.2 | 2.6 | 4.8 | 1.1 | 3.2 |
| o.w. SDR allocation | | | | | 1.7 | 1.2 | | | | | | | | | | |
| Of which: amortization of medium term debt | -2.8 | -3.0 | -2.5 | -2.5 | -1.3 | -1.5 | -1.4 | -1.9 | -2.0 | -1.8 | -1.8 | -2.6 | -2.3 | -3.7 | -2.2 | -2.8 |
| Change in Deposits | -3.3 | -1.9 | 1.0 | 1.0 | 0.6 | 0.6 | 1.1 | 0.7 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | -0.1 |
| Float from previous year [3] | -0.3 | -0.4 | -0.9 | -0.9 | -0.7 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Float at the end of the year [3] | 0.5 | 1.0 | 0.8 | 0.8 | 0.0 | 0.0 | 0.0 | 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 | 0.5 | 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 | 0.0 |
| *Memorandum items:* | | | | | | | | | | | | | | | | |
| Primary balance after grants (excl. the one-off and 2019 capital gains tax revenues) | -2.1 | -2.3 | -2.3 | -2.1 | -0.2 | -0.2 | -0.6 | -0.7 | 0.3 | 0.0 | 1.3 | 0.8 | 2.9 | 2.3 | 4.1 | 3.1 |
| Domestic primary balance [5] | 6.7 | -0.9 | 1.3 | 1.0 | 0.2 | 0.2 | 1.1 | 0.7 | 1.8 | 1.6 | 3.2 | 2.8 | 4.5 | 4.0 | 5.2 | 4.3 |
| Stock of Government Deposits | 12.1 | 13.8 | 12.1 | 12.1 | 10.1 | 10.3 | 7.9 | 8.5 | 6.9 | 7.3 | 6.1 | 6.6 | 5.1 | 6.1 | 4.3 | 5.0 |

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, 2019–27
(Percent of non-LNG GDP)

| | 2019 | 2020 | 2021 | | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Est. | Prelim. | | | Proj. | | | |
| Total revenue [1] | 29.0 | 23.9 | 25.8 | 25.7 | 25.7 | 26.2 | 27.1 | 28.0 | 29.5 | 30.4 |
| Tax revenue | 25.2 | 20.0 | 21.6 | 21.5 | 21.8 | 22.2 | 23.1 | 24.0 | 25.5 | 26.4 |
| Taxes on income and profits | 15.0 | 10.1 | 10.6 | 9.7 | 10.7 | 10.2 | 10.7 | 11.4 | 11.8 | 11.9 |
| *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 | 8.0 | 8.8 | 8.2 | 9.1 | 9.1 | 9.1 | 9.5 | 9.7 |
| Taxes on international trade | 1.8 | 1.5 | 1.7 | 1.7 | 1.6 | 1.5 | 1.5 | 1.6 | 1.7 | 1.7 |
| Other taxes | 0.7 | 1.0 | 1.2 | 1.2 | 1.2 | 1.4 | 1.7 | 1.9 | 2.6 | 3.1 |
| *Of which* : Revenue from LNG | ... | ... | ... | ... | ... | 0.1 | 0.3 | 0.4 | 1.0 | 1.5 |
| Nontax revenue | 3.8 | 3.9 | 4.3 | 4.3 | 3.9 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Total expenditure and net lending | 29.8 | 32.9 | 31.3 | 31.5 | 33.3 | 33.7 | 32.3 | 31.8 | 32.0 | 31.7 |
| Current expenditure | 22.0 | 23.3 | 23.8 | 24.0 | 26.2 | 25.1 | 25.4 | 24.6 | 23.9 | 23.7 |
| Compensation to employees | 12.2 | 13.2 | 14.0 | 14.1 | 14.6 | 14.3 | 14.2 | 13.7 | 13.0 | 12.6 |
| *Of which* : Social insurance | 0.5 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| Goods and services | 4.3 | 4.2 | 4.2 | 4.3 | 4.4 | 4.6 | 4.6 | 4.6 | 4.7 | 5.0 |
| Interest on public debt | 3.2 | 3.1 | 2.7 | 2.7 | 3.5 | 3.3 | 3.5 | 3.2 | 3.2 | 3.1 |
| Domestic | 1.8 | 1.6 | 1.6 | 1.7 | 2.5 | 2.3 | 2.7 | 2.5 | 2.4 | 2.3 |
| External | 1.4 | 1.5 | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 | 0.7 | 0.8 | 0.7 |
| Subsidies and transfers | 2.3 | 2.8 | 2.9 | 2.9 | 3.7 | 3.0 | 3.2 | 3.1 | 3.0 | 3.0 |
| Capital expenditure | 7.1 | 8.8 | 7.1 | 7.2 | 6.7 | 8.2 | 6.6 | 7.0 | 7.8 | 7.7 |
| Domestically financed | 3.5 | 4.5 | 3.3 | 3.4 | 2.7 | 3.4 | 3.3 | 3.6 | 4.3 | 4.5 |
| Externally financed | 3.7 | 4.4 | 3.8 | 3.8 | 3.9 | 4.8 | 3.3 | 3.4 | 3.4 | 3.2 |
| Net lending [2] | 0.7 | 0.7 | 0.3 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Statistical Discrepancy | 0.1 | 0.0 | -1.3 | -1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Unallocated revenue (+)/ expenditure (-) | 0.0 | 0.0 | 0.0 | 0.0 | -0.7 | ... | ... | ... | ... | ... |
| Overall balance, before grants | -0.7 | -9.0 | -6.8 | -6.7 | -8.2 | -7.5 | -5.3 | -3.8 | -2.4 | -1.2 |
| Grants received | 1.0 | 3.6 | 1.8 | 2.0 | 4.5 | 3.5 | 1.8 | 1.5 | 1.7 | 1.9 |
| Project support | 1.0 | 2.0 | 1.6 | 1.8 | 2.5 | 2.8 | 1.3 | 1.5 | 1.7 | 1.9 |
| Budget support | 0.0 | 1.5 | 0.2 | 0.2 | 2.0 | 0.8 | 0.5 | 0.0 | 0.0 | 0.0 |
| Primary balance, after grants | 3.5 | -2.3 | -2.3 | -2.1 | -0.2 | -0.7 | 0.0 | 0.9 | 2.4 | 3.7 |
| Overall balance, after grants | 0.3 | -5.4 | -5.0 | -4.8 | -3.7 | -4.0 | -3.5 | -2.4 | -0.8 | 0.6 |
| Financing | -0.3 | 5.4 | 5.0 | 4.8 | 3.7 | 4.0 | 3.5 | 2.4 | 0.8 | -0.6 |
| Net external financing | 1.8 | 2.4 | 0.9 | 0.6 | 0.6 | 0.3 | 0.3 | 0.0 | -0.3 | -0.6 |
| Disbursements | 4.0 | 4.9 | 2.5 | 2.3 | 3.3 | 2.9 | 2.7 | 2.4 | 1.9 | 1.5 |
| Project | 2.7 | 2.3 | 2.2 | 2.0 | 2.2 | 2.0 | 1.9 | 1.9 | 1.7 | 1.3 |
| Nonproject support | 1.3 | 2.6 | 0.3 | 0.3 | 1.1 | 0.8 | 0.8 | 0.5 | 0.2 | 0.1 |
| Of which budget support (including IMF) | 0.8 | 2.1 | 0.0 | 0.0 | 0.9 | 0.6 | 0.6 | 0.3 | 0.0 | 0.0 |
| Amortization | -2.3 | -2.5 | -1.6 | -1.6 | -2.6 | -2.6 | -2.5 | -2.3 | -2.2 | -2.0 |
| Net domestic financing | -2.8 | 1.9 | 3.7 | 3.7 | 3.8 | 3.7 | 3.2 | 2.4 | 1.1 | -0.1 |
| Of which: short term debt (net) | 0.9 | 1.5 | 1.3 | 1.3 | 1.9 | -0.4 | -2.1 | -0.4 | 0.0 | -0.4 |
| Of which: issuances of medium term debt | 2.4 | 5.3 | 3.9 | 3.9 | 2.8 | 5.4 | 7.2 | 5.6 | 5.2 | 3.8 |
| o.w. SDR allocation | | | | | 1.2 | | | | | |
| Of which: amortization of medium term debt | -2.8 | -3.0 | -2.5 | -2.5 | -1.5 | -1.9 | -1.9 | -2.8 | -3.9 | -3.3 |
| Change in Deposits | -3.3 | -1.9 | 1.0 | 1.0 | 0.6 | 0.7 | -0.1 | 0.0 | -0.2 | -0.1 |
| Float from previous year[3] | -0.3 | -0.4 | -0.9 | -0.9 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Float at the end of the year[3] | 0.5 | 1.0 | 0.8 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptional financing (external debt service) [4] | 0.6 | 0.6 | 0.5 | 0.5 | 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 | -2.3 | -2.3 | -2.1 | -0.2 | -0.7 | 0.0 | 0.9 | 2.4 | 3.7 |
| Domestic primary balance[5] | 6.7 | -0.9 | 1.3 | 1.0 | 0.2 | 0.8 | 1.6 | 2.9 | 4.3 | 5.2 |
| Stock of Government Deposits | 12.1 | 13.8 | 12.1 | 12.1 | 10.3 | 8.5 | 7.3 | 6.6 | 6.1 | 5.0 |

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, 2019–27
(Billions of Meticais; unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| **Bank of Mozambique** | | | | | | | | | |
| Net foreign assets | 213.2 | 250.9 | 159.1 | 115.4 | 122.5 | 147.0 | 175.1 | 247.3 | 294.1 |
| (US$ billions) | 3.5 | 3.4 | 2.5 | … | … | … | … | … | … |
| Net international reserves | 221.6 | 261.6 | 186.8 | … | … | … | … | … | … |
| (US$ billions) | 3.6 | 3.5 | 2.9 | 2.2 | 2.3 | 2.5 | 2.8 | 3.6 | 4.1 |
| Net domestic assets | -60.6 | -84.6 | -16.6 | 19.7 | 27.8 | 24.2 | 15.9 | -27.3 | -49.4 |
| Credit to government (net) | -103.7 | -61.1 | -59.8 | -40.2 | -23.9 | -24.2 | -24.4 | -26.5 | -27.5 |
| Credit to banks (net) | -47.4 | -105.2 | -81.1 | -57.9 | -79.4 | -100.9 | -126.3 | -192.7 | -235.3 |
| Credit to the economy | 3.9 | 5.0 | 6.0 | 5.7 | 6.4 | 7.3 | 8.1 | 9.3 | 10.4 |
| Other items (net; assets +) | 86.6 | 76.8 | 118.2 | 112.1 | 124.7 | 142.1 | 158.4 | 182.5 | 203.0 |
| Reserve money | 152.6 | 166.3 | 142.4 | 135.1 | 150.2 | 171.2 | 190.9 | 220.0 | 244.6 |
| Currency in circulation | 59.6 | 68.7 | 72.7 | 74.1 | 83.5 | 94.7 | 106.1 | 121.2 | 134.2 |
| Bank Deposits (reserves) in BM | 93.0 | 97.6 | 69.7 | 61.0 | 66.8 | 76.5 | 84.8 | 98.8 | 110.5 |
| **Commercial Banks** | | | | | | | | | |
| Net foreign assets | 34.2 | 61.6 | 85.0 | 90.2 | 101.5 | 114.1 | 127.4 | 144.9 | 174.0 |
| (US$ billions) | 0.6 | 0.8 | 1.3 | … | … | … | … | … | … |
| Net domestic assets | 392.0 | 466.3 | 454.3 | 461.9 | 515.5 | 580.1 | 644.8 | 729.4 | 802.3 |
| Banks' reserves | 111.9 | 116.4 | 88.2 | 78.5 | 86.4 | 98.8 | 109.8 | 127.3 | 142.1 |
| Credit to central bank (net) | 46.3 | 102.1 | 78.7 | 57.9 | 79.4 | 100.9 | 126.3 | 192.7 | 235.3 |
| Credit to government (net) | 133.6 | 124.6 | 175.3 | 161.8 | 155.1 | 154.4 | 153.7 | 153.1 | 152.6 |
| Credit to the economy | 227.1 | 260.3 | 267.2 | 275.7 | 307.4 | 344.2 | 378.6 | 416.0 | 466.0 |
| Other items (net; assets +) | -126.9 | -137.0 | -155.1 | -112.0 | -112.8 | -118.1 | -123.6 | -159.8 | -193.6 |
| Deposits | 426.2 | 527.9 | 539.3 | 552.1 | 616.9 | 694.1 | 772.1 | 874.3 | 976.3 |
| Demand and savings deposits | 265.2 | 333.7 | 328.9 | 336.7 | 376.3 | 423.3 | 470.9 | 533.2 | 595.5 |
| Time deposits | 161.0 | 194.3 | 210.4 | 215.4 | 240.7 | 270.8 | 301.2 | 341.1 | 380.9 |
| **Monetary Survey** | | | | | | | | | |
| Net foreign assets | 247.4 | 312.5 | 244.2 | 205.6 | 223.9 | 261.1 | 302.4 | 392.2 | 468.1 |
| (US$ billions) | 4.0 | 4.2 | 3.8 | ... | ... | ... | ... | ... | ... |
| Net domestic assets | 220.8 | 266.3 | 350.8 | 403.1 | 456.9 | 505.5 | 550.8 | 574.8 | 610.9 |
| Domestic credit | 260.9 | 328.7 | 388.7 | 403.0 | 445.0 | 481.6 | 516.0 | 552.0 | 601.4 |
| Credit to government (net) | 30.0 | 63.5 | 115.5 | 121.6 | 131.2 | 130.1 | 129.4 | 126.7 | 125.1 |
| Credit to the economy | 230.9 | 265.2 | 273.2 | 281.4 | 313.8 | 351.4 | 386.7 | 425.3 | 476.4 |
| Of which: in foreign currency | 35.2 | 49.8 | 41.2 | 43.3 | 48.3 | 54.1 | 59.6 | 65.5 | 73.4 |
| Other items (net; assets +) | -40.1 | -62.4 | -37.9 | 0.1 | 11.8 | 23.9 | 34.8 | 22.8 | 9.4 |
| Money and quasi money (M3) | 468.2 | 578.8 | 595.0 | 608.8 | 680.8 | 766.6 | 853.3 | 967.0 | 1,078.9 |
| Foreign currency deposits | 112.8 | 157.2 | 144.4 | 149.8 | 163.6 | 179.8 | 196.1 | 216.5 | 248.0 |
| (US$ billions) | 1.8 | 2.1 | 2.3 | ... | ... | ... | ... | ... | ... |
| M2 | 355.3 | 421.7 | 450.6 | 458.9 | 517.1 | 586.7 | 657.2 | 750.5 | 830.9 |
| Currency outside banks | 42.0 | 50.9 | 55.6 | 56.7 | 63.8 | 72.4 | 81.1 | 92.7 | 102.6 |
| Domestic currency deposits | 313.4 | 370.8 | 395.0 | 402.3 | 453.3 | 514.3 | 576.0 | 657.8 | 728.3 |
| **Memorandum Items** | | | | | | | | | |
| 12-month percent change | | | | | | | | | |
| Reserve money | 19.1 | 9.0 | -14.4 | -5.1 | 11.2 | 14.0 | 11.5 | 15.2 | 11.2 |
| M2 | 14.3 | 23.9 | 2.2 | 1.9 | 12.7 | 13.5 | 12.0 | 14.2 | 10.7 |
| M3 | 12.1 | 23.6 | 2.8 | 2.3 | 11.8 | 12.6 | 11.3 | 13.3 | 11.6 |
| Credit to the economy | 5.0 | 14.8 | 3.0 | 3.0 | 11.5 | 12.0 | 10.0 | 10.0 | 12.0 |
| Money multiplier (M2/reserve money) | 2.33 | 2.53 | 3.16 | 3.40 | 3.44 | 3.43 | 3.44 | 3.41 | 3.40 |
| Velocity (GDP/M2) | 2.71 | 2.33 | 2.29 | 2.49 | 2.50 | 2.57 | 2.57 | 2.50 | 2.76 |
| Nominal GDP | 963 | 983 | 1,033 | 1,142 | 1,292 | 1,509 | 1,687 | 1,878 | 2,291 |
| Nominal GDP growth | 7.5 | 2.2 | 5.0 | 10.6 | 13.2 | 16.7 | 11.8 | 11.3 | 22.0 |

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

## Table 4a. Mozambique: Balance of Payments, 2019–27

(Millions of U.S. dollars; unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2022 | | 2023 | | 2024 | | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Est. | | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. |
| **Current account balance** | -2,934 | -3,869 | -3,730 | -8,120 | -7,408 | -7,616 | -2,895 | -8,096 | -7,779 | -8,493 | -9,074 | -6,732 | -10,173 | -2,753 | -7,946 |
| *Trade balance for goods* | -2,084 | -2,294 | -2,252 | -6,287 | -5,567 | -2,507 | -1,028 | -1,829 | -1,516 | -1,789 | -1,578 | 294 | -1,858 | 3,027 | 635 |
| *Of which: Megaprojects* | 1,874 | 1,730 | 3,241 | -487 | 420 | 2,874 | 4,764 | 3,578 | 4,354 | 3,768 | 4,302 | 6,238 | 4,229 | 9,332 | 6,997 |
| Exports, f.o.b. | 4,669 | 3,588 | 5,583 | 6,702 | 7,756 | 7,073 | 7,565 | 8,194 | 8,607 | 8,613 | 9,045 | 10,897 | 9,254 | 13,613 | 11,883 |
| Megaprojects | 3,278 | 2,504 | 4,035 | 4,908 | 5,982 | 5,107 | 5,639 | 6,149 | 6,593 | 6,481 | 6,935 | 8,623 | 7,002 | 11,132 | 9,426 |
| Other | 1,390 | 1,084 | 1,547 | 1,794 | 1,774 | 1,966 | 1,926 | 2,045 | 2,014 | 2,132 | 2,109 | 2,274 | 2,252 | 2,481 | 2,457 |
| Imports, f.o.b. | 6,753 | 5,883 | 7,834 | 12,990 | 13,323 | 9,580 | 8,593 | 10,023 | 10,123 | 10,402 | 10,622 | 10,603 | 11,112 | 10,586 | 11,249 |
| Megaprojects | 1,404 | 774 | 794 | 5,395 | 5,562 | 2,233 | 875 | 2,572 | 2,240 | 2,713 | 2,633 | 2,385 | 2,774 | 1,800 | 2,429 |
| Other | 5,348 | 5,109 | 7,040 | 7,594 | 7,761 | 7,347 | 7,718 | 7,451 | 7,883 | 7,689 | 7,989 | 8,218 | 8,339 | 8,787 | 8,820 |
| *Services (net)* | -1,819 | -1,966 | -1,865 | -2,303 | -2,086 | -5,381 | -1,629 | -6,432 | -5,768 | -6,868 | -6,975 | -5,997 | -7,489 | -4,471 | -6,740 |
| Megaprojects | -1,718 | -1,632 | -1,365 | -1,962 | -1,580 | -4,980 | -1,056 | -5,998 | -5,153 | -6,405 | -6,322 | -5,434 | -6,731 | -3,696 | -5,726 |
| Other | -101 | -334 | -371 | -341 | -506 | -401 | -573 | -418 | -600 | -435 | -624 | -511 | -717 | -692 | -935 |
| *Primary income (net)* | -276 | -287 | -340 | -354 | -575 | -279 | -848 | -368 | -1,063 | -276 | -1,020 | -1,476 | -1,365 | -1,759 | -2,428 |
| *Of which* : Interest on public debt (net) [1] | -243 | -193 | -161 | -250 | -175 | -272 | -205 | -208 | -205 | -205 | -203 | -508 | -248 | -497 | -524 |
| *Of which* : Megaprojects (Net interest and dividends) | 0 | 0 | 0 | 15 | -187 | 48 | -348 | -171 | -551 | -146 | -503 | -1,130 | -791 | -1,476 | -1,506 |
| Secondary income (net) | 1,245 | 678 | 726 | 824 | 821 | 551 | 610 | 534 | 568 | 439 | 499 | 446 | 540 | 450 | 588 |
| *Of which* : External grants | 79 | 250 | 209 | 493 | 491 | 214 | 278 | 188 | 224 | 82 | 142 | 76 | 171 | 65 | 205 |
| **Capital account balance** | 106 | 135 | 64.9 | 153 | 153 | 135 | 161 | 98 | 182 | 94 | 206 | 91 | 243 | 83 | 287 |
| **Financial account balance** | 4,524 | 4,014 | 3,136 | 7,441 | 6,562 | 7,565 | 2,764 | 8,230 | 7,845 | 8,878 | 9,157 | 7,332 | 10,775 | 3,782 | 8,140 |
| Net foreign direct investment | 3,410 | 3,035 | 5,102 | 2,529 | 3,055 | 2,226 | 1,490 | 2,306 | 2,900 | 2,512 | 3,095 | 594 | 3,093 | 1,418 | 1,192 |
| Megaprojects | 954 | 2,568 | 3,080 | 1,538 | 2,269 | 1,219 | 623 | 1,270 | 2,002 | 1,441 | 2,165 | -246 | 2,323 | 544 | 313 |
| Other | 2,456 | 466 | 2,022 | 991 | 785 | 1,007 | 868 | 1,036 | 898 | 1,071 | 930 | 841 | 771 | 873 | 879 |
| Borrowing (net) by the general government | 413 | 7 | 31 | -81 | -92 | -98 | -93 | -101 | -92 | -92 | -81 | -111 | -93 | -178 | -410 |
| Disbursements | 698 | 326 | 295 | 426 | 432 | 431 | 436 | 438 | 443 | 450 | 454 | 437 | 441 | 356 | 359 |
| Repayments [2] | 284 | 319 | 264 | 507 | 523 | 529 | 529 | 539 | 535 | 541 | 535 | 548 | 534 | 533 | 769 |
| Loans (net) by the nonfin private sector | 904 | 883 | -1,049 | 668 | 717 | 520 | 570 | 580 | 640 | 657 | 726 | 745 | 823 | 818 | 904 |
| Megaprojects | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 904 | 883 | -1,049 | 668 | 717 | 520 | 570 | 580 | 640 | 657 | 726 | 745 | 823 | 818 | 904 |
| Other financial flows (net) [3] | -203 | 90 | -947 | 4,325 | 2,882 | 4,917 | 797 | 5,445 | 4,397 | 5,801 | 5,417 | 6,104 | 6,952 | 1,723 | 6,454 |
| *Of which: Megaproject trade credit (net)* | | -3,708 | -5,324 | -13 | 1,643 | 512 | -2,126 | 920 | -2,054 | 1,127 | -2,109 | 1,267 | -2,133 | -3,085 | -1,619 |
| *Of which: net SDR* | -1 | 6 | 300 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net errors and omissions** | -894 | -96 | -68 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Overall balance** | 802 | 184 | -597 | -526 | -693 | 84 | 31 | 233 | 248 | 478 | 289 | 691 | 846 | 1,112 | 481 |
| **Financing** | -802 | -184 | 597 | 526 | 693 | -84 | -31 | -233 | -248 | -478 | -289 | -691 | -846 | -1,112 | -481 |
| Reserve assets (- = increase) | -1,209 | -726 | 403 | 394 | 564 | -187 | -127 | -350 | -360 | -486 | -298 | -600 | -761 | -1,011 | -396 |
| *Of which* : SDR allocation (- = increase) | 17 | 0 | -305 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net use of credit | 73 | 281 | -26 | 133 | 129 | 102 | 97 | 117 | 112 | 8 | 9 | -91 | -85 | -101 | -85 |
| *Of which* : IMF disbursements/Financing gap (+) | 118 | 309 | 0 | 159 | 155 | 129 | 123 | 130 | 124 | 65 | 62 | 0 | 0 | 0 | 0 |
| *Of which* : Repayments to the IMF (-) | -44 | -28 | -26 | -26 | -26 | -26 | -26 | -12 | -11 | -57 | -54 | -91 | -85 | -101 | -85 |
| Exceptional financing [4] | 334 | 261 | 220 | 0 | 0 | 0 | 0 | 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 | -27.3 | -23.6 | -44.9 | -41.5 | -39.0 | -14.7 | -37.6 | -35.5 | -37.0 | -38.9 | -25.4 | -40.9 | -9.0 | -27.1 |
| excl. megaprojects (MP) (Percent of GDP) | -24.9 | -28.0 | -34.7 | -31.4 | -33.9 | -28.7 | -31.7 | -26.0 | -29.3 | -25.5 | -28.0 | -24.8 | -27.5 | -23.4 | -26.1 |
| excl. MP and indirect MP imports (Percent of GDP) [5] | -16.9 | -18.0 | -22.3 | -19.6 | -16.2 | -17.0 | -19.3 | -14.6 | -17.0 | -14.1 | -16.5 | -14.1 | -16.4 | -13.3 | -16.2 |
| Net foreign assets | 3,468 | 3,350 | 2,493 | 1,967 | 1,800 | 2,051 | 1,831 | 2,284 | 2,079 | 2,762 | 2,368 | 3,453 | 3,213 | 4,564 | 3,695 |
| Net international reserves [6] | 3,605 | 3,493 | 2,927 | 2,400 | 2,234 | 2,485 | 2,265 | 2,717 | 2,512 | 3,196 | 2,801 | 3,886 | 3,647 | 4,998 | 4,128 |
| Gross international reserves | 3,884 | 4,070 | 3,470 | 3,076 | 2,905 | 3,263 | 3,031 | 3,613 | 3,389 | 4,099 | 3,686 | 4,700 | 4,447 | 5,710 | 4,834 |
| Months of next year's imports of goods and services | 5.4 | 4.6 | 2.5 | 2.3 | 3.1 | 2.2 | 2.1 | 2.4 | 2.2 | 2.8 | 2.2 | 3.5 | 2.8 | 4.2 | 3.0 |
| Months of projected imports of G&S (under full debt service) | 5.4 | 4.6 | 2.5 | 2.3 | 3.1 | 2.2 | 2.1 | 2.4 | 2.2 | 2.8 | 2.2 | 3.5 | 2.8 | 4.6 | 3.3 |
| Months of next year's imports of goods and services, excl. MP | 7.5 | 5.8 | 4.5 | 4.2 | 3.7 | 4.4 | 3.8 | 4.7 | 4.2 | 5.0 | 4.3 | 5.3 | 4.9 | 6.5 | 5.3 |
| Percent of broad money (M2) | 67.2 | 72.3 | 49.2 | 40.0 | 40.5 | 39.4 | 39.0 | 40.3 | 40.7 | 42.8 | 41.3 | 44.5 | 46.7 | 49.1 | 46.1 |

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, 2019–27
(Percent of GDP)

| | 2019 | 2020 | 2021 | 2022 | | 2023 | | 2024 | | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Est. | | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. | Prog. | Proj. |
| **Current account balance** | -19.1 | -27.3 | -23.6 | -44.9 | -41.5 | -39.0 | -14.7 | -37.6 | -35.5 | -37.0 | -38.9 | -25.4 | -40.9 | -9.0 | -27.1 |
| *Trade balance for goods* | -13.5 | -16.2 | -14.3 | -34.8 | -31.2 | -12.8 | -5.2 | -8.5 | -6.9 | -7.8 | -6.8 | 1.1 | -7.5 | 9.9 | 2.2 |
| *Of which: Megaprojects* | 12.2 | 12.2 | 20.5 | -2.7 | 2.4 | 14.7 | 24.1 | 16.6 | 19.9 | 16.4 | 18.4 | 23.5 | 17.0 | 30.5 | 23.9 |
| Exports, f.o.b. | 30.3 | 25.3 | 35.4 | 37.0 | 43.4 | 36.2 | 38.3 | 38.1 | 39.3 | 37.5 | 38.8 | 41.0 | 37.2 | 44.6 | 40.6 |
| Megaprojects | 21.3 | 17.7 | 25.6 | 27.1 | 33.5 | 26.2 | 28.6 | 28.6 | 30.1 | 28.2 | 29.7 | 32.5 | 28.1 | 36.4 | 32.2 |
| Other | 9.0 | 7.7 | 9.8 | 9.9 | 9.9 | 10.1 | 9.8 | 9.5 | 9.2 | 9.3 | 9.0 | 8.6 | 9.0 | 8.1 | 8.4 |
| Imports, f.o.b. | 43.9 | 41.6 | 49.7 | 71.8 | 74.6 | 49.1 | 43.5 | 46.6 | 46.2 | 45.3 | 45.5 | 39.9 | 44.6 | 34.6 | 38.4 |
| Megaprojects | 9.1 | 5.5 | 5.0 | 29.8 | 31.2 | 11.4 | 4.4 | 12.0 | 10.2 | 11.8 | 11.3 | 9.0 | 11.1 | 5.9 | 8.3 |
| Other | 34.8 | 36.1 | 44.6 | 42.0 | 43.5 | 37.6 | 39.1 | 34.6 | 36.0 | 33.5 | 34.2 | 31.0 | 33.5 | 28.8 | 30.1 |
| *Services (net)* | -11.8 | -13.9 | -11.8 | -12.7 | -11.7 | -27.6 | -8.3 | -29.9 | -26.3 | -29.9 | -29.9 | -22.6 | -30.1 | -14.6 | -23.0 |
| Megaprojects | -11.2 | -11.5 | -8.7 | -10.8 | -8.9 | -25.5 | -5.4 | -27.9 | -23.5 | -27.9 | -27.1 | -20.5 | -27.0 | -12.1 | -19.6 |
| Other | -0.7 | -2.4 | -2.4 | -1.9 | -2.8 | -2.1 | -2.9 | -1.9 | -2.7 | -1.9 | -2.7 | -1.9 | -2.9 | -2.3 | -3.2 |
| *Primary income (net)* | -1.8 | -2.0 | -2.2 | -2.0 | -3.2 | -1.4 | -4.3 | -1.7 | -4.8 | -1.2 | -4.4 | -5.6 | -5.5 | -5.8 | -8.3 |
| *Of which: Interest on public debt (net)* [1] | -1.6 | -1.4 | -1.0 | -1.4 | -1.0 | -1.4 | -1.0 | -1.0 | -0.9 | -0.9 | -0.9 | -1.9 | -1.0 | -1.6 | -1.8 |
| *Of which: Megaprojects (net Interest and dividends)* | 0.0 | 0.0 | 0.0 | 0.1 | -1.0 | 0.2 | -1.8 | -0.8 | -2.5 | -0.6 | -2.2 | -4.3 | -3.2 | -4.8 | -5.1 |
| *Secondary income (net)* | 8.1 | 4.8 | 4.6 | 4.6 | 4.6 | 2.8 | 3.1 | 2.5 | 2.6 | 1.9 | 2.1 | 1.7 | 2.2 | 1.5 | 2.0 |
| *Of which: External grants* | 0.5 | 1.8 | 1.3 | 2.7 | 2.8 | 1.1 | 1.4 | 0.9 | 1.0 | 0.4 | 0.6 | 0.3 | 0.7 | 0.2 | 0.7 |
| **Capital account balance** | 0.7 | 1.0 | 0.4 | 0.8 | 0.9 | 0.7 | 0.8 | 0.5 | 0.8 | 0.4 | 0.9 | 0.3 | 1.0 | 0.3 | 1.0 |
| **Financial account balance** | 29.4 | 28.4 | 19.9 | 41.1 | 36.8 | 38.8 | 14.0 | 38.3 | 35.8 | 38.7 | 39.3 | 27.6 | 43.3 | 12.4 | 27.8 |
| Net foreign direct investment | 22.2 | 21.4 | 32.3 | 14.0 | 17.1 | 11.4 | 7.6 | 10.7 | 13.2 | 10.9 | 13.3 | 2.2 | 12.4 | 4.6 | 4.1 |
| Megaprojects | 6.2 | 18.1 | 19.5 | 8.5 | 12.7 | 6.2 | 3.2 | 5.9 | 9.1 | 6.3 | 9.3 | -0.9 | 9.3 | 1.8 | 1.1 |
| Other | 16.0 | 3.3 | 12.8 | 5.5 | 4.4 | 5.2 | 4.4 | 4.8 | 4.1 | 4.7 | 4.0 | 3.2 | 3.1 | 2.9 | 3.0 |
| Borrowing (net) by the general government | 2.7 | 0.0 | 0.2 | -0.4 | -0.5 | -0.5 | -0.5 | -0.5 | -0.4 | -0.4 | -0.3 | -0.4 | -0.4 | -0.6 | -1.4 |
| Disbursements | 4.5 | 2.3 | 1.9 | 2.4 | 2.4 | 2.2 | 2.2 | 2.0 | 2.0 | 2.0 | 1.9 | 1.6 | 1.8 | 1.2 | 1.2 |
| Repayments [2] | 1.8 | 2.3 | 1.7 | 2.8 | 2.9 | 2.7 | 2.7 | 2.5 | 2.4 | 2.4 | 2.3 | 2.1 | 2.1 | 1.7 | 2.6 |
| Loans (net) by the nonfin private sector | 5.9 | 6.2 | -6.7 | 3.7 | 4.0 | 2.7 | 2.9 | 2.7 | 2.9 | 2.9 | 3.1 | 2.8 | 3.3 | 2.7 | 3.1 |
| 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 |
| Other | 5.9 | 6.2 | -6.7 | 3.7 | 4.0 | 2.7 | 2.9 | 2.7 | 2.9 | 2.9 | 3.1 | 2.8 | 3.3 | 2.7 | 3.1 |
| Other financial flows (net) [3] | -1.3 | 0.6 | -6.0 | 23.9 | 16.1 | 25.2 | 4.0 | 25.3 | 20.1 | 25.3 | 23.2 | 23.0 | 27.9 | 5.6 | 22.1 |
| **Net errors and omissions** | -5.8 | -0.7 | -0.4 | 0.0 | 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 | -3.8 | -2.9 | -3.9 | 0.4 | 0.2 | 1.1 | 1.1 | 2.1 | 1.2 | 2.6 | 3.4 | 3.6 | 1.6 |
| **Financing** | -5.2 | -1.3 | 3.8 | 2.9 | 3.9 | -0.4 | -0.2 | -1.1 | -1.1 | -2.1 | -1.2 | -2.6 | -3.4 | -3.6 | -1.6 |
| Reserve assets (- = increase) | -7.9 | -5.1 | 2.6 | 2.2 | 3.2 | -1.0 | -0.6 | -1.6 | -1.6 | -2.1 | -1.3 | -2.3 | -3.1 | -3.3 | -1.4 |
| Net use of credit | 0.5 | 2.0 | -0.2 | 0.7 | 0.7 | 0.5 | 0.5 | 0.5 | 0.5 | 0.0 | 0.0 | -0.3 | -0.3 | -0.3 | -0.3 |
| *Of which: IMF disbursements/Financing gap (+)* | 0.8 | 2.2 | 0.0 | 0.9 | 0.9 | 0.7 | 0.6 | 0.6 | 0.6 | 0.3 | 0.3 | 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 | -0.1 | -0.2 | -0.2 | -0.3 | -0.3 | -0.3 | -0.3 |
| Exceptional financing [4] | 2.2 | 1.8 | 1.4 | 0.0 | 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 |

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, 2021-27**
(Millions of U.S. dollars; unless otherwise indicated)

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|
| | Prel. | | | Proj. | | | |
| **Financing requirements** | **4,230** | **8,448** | **3,727** | **8,550** | **9,805** | **10,962** | **9,005** |
| Current account deficit excl. grants | 3,940 | 7,899 | 3,172 | 8,003 | 9,216 | 10,343 | 8,151 |
| *of which: Megaprojects* | *-1,876* | *1,347* | *-3,360* | *1,350* | *2,523* | *3,293* | *234* |
| *of which: Public sector interest payments* [1/] | *161* | *175* | *205* | *205* | *203* | *248* | *524* |
| Public sector loan amortization | 264 | 523 | 529 | 535 | 535 | 534 | 769 |
| Interest and amortization payments on existing Fund loans | 26 | 26 | 26 | 11 | 54 | 85 | 85 |
| **Financing sources** | **4,271** | **7,944** | **3,454** | **8,326** | **9,743** | **10,962** | **9,005** |
| Capital account balance | 65 | 153 | 161 | 182 | 206 | 243 | 287 |
| Net foreign direct investment | 5,102 | 3,055 | 1,490 | 2,900 | 3,095 | 3,093 | 1,192 |
| *of which: Megaprojects* | *3,080* | *2,269* | *623* | *2,002* | *2,165* | *2,323* | *313* |
| Public sector loan disbursements | 295 | 432 | 436 | 443 | 454 | 441 | 359 |
| Public sector grants | 209 | 141 | 128 | 124 | 142 | 171 | 205 |
| Non-financial private sector loans (net) | -1,049 | 717 | 570 | 640 | 726 | 823 | 904 |
| *of which: Megaprojects* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| Other capital flows (net) | -947 | 2,882 | 797 | 4,397 | 5,417 | 6,952 | 6,454 |
| Change in reserves (+ decrease) | 403 | 564 | -127 | -360 | -298 | -761 | -396 |
| Exceptional financing [2/] | 193 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Financing Gap** | **26** | **504** | **273** | **224** | **62** | **0** | **0** |
| CCRT | 26 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public sector program grants | 0 | 350 | 150 | 100 | 0 | 0 | 0 |
| *of which: World Bank* | *0* | *300* | *150* | *100* | *0* | *0* | *0* |
| *of which: EU* | *0* | *50* | *0* | *0* | *0* | *0* | *0* |
| Financing from IMF (RCF/ECF disbursement) | 0 | 155 | 123 | 124 | 62 | 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 Commercial Banks and Deposit Takers, 2018–22

(In percent; unless otherwise indicated)

| | Dec-18 | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | | | | | | | | | | | | |
| Regulatory capital to risk-weighted assets | 23.8 | 23.5 | 24.0 | 26.2 | 28.8 | 25.2 | 25.2 | 26.5 | 26.1 | 26.2 | 25.6 | 27.88 | 26.19 | 25.47 | 26.76 | 26.70 |
| Regulatory Tier I capital to risk-weighted assets | 22.6 | 22.4 | 22.9 | 25.8 | 28.7 | 25.1 | 25.4 | 27.0 | 27.2 | 27.2 | 26.6 | 28.48 | 26.71 | 26.01 | 27.33 | 27.16 |
| Capital (net worth) to assets | 11.4 | 11.4 | 11.4 | 12.3 | 12.7 | 11.5 | 11.4 | 12.1 | 11.8 | 11.9 | 11.6 | 12.86 | 12.85 | 11.85 | 12.49 | 13.01 |
| Tier 1 Capital to total Assets | 10.8 | 10.9 | 10.9 | 12.1 | 12.6 | 11.5 | 11.5 | 12.3 | 12.3 | 12.3 | 12.0 | 13.14 | 13.11 | 12.11 | 12.76 | 13.24 |
| **Asset Quality** | | | | | | | | | | | | | | | | |
| Nonperforming loans to gross loans [1] | 11.1 | 11.5 | 10.6 | 10.1 | 10.2 | 10.3 | 12.6 | 11.8 | 9.8 | 9.8 | 9.9 | 9.76 | 10.60 | 9.19 | 10.02 | 9.28 |
| Total provision to NPLs | 95.7 | 99.5 | 96.2 | 103.2 | 93.5 | 84.5 | 78.4 | 82.5 | 78.3 | 81.0 | 80.8 | 77.86 | 76.87 | 75.46 | 73.13 | 79.56 |
| NPLs net of provisions to total capital | 3.5 | 2.9 | 3.6 | 2.9 | 3.9 | 4.4 | 12.2 | 9.6 | 9.7 | 8.7 | 8.9 | 8.46 | 8.97 | 9.40 | 10.56 | 8.91 |
| NPLs net of provisions to capital and reserves | 2.1 | 1.8 | 2.2 | 1.9 | 2.6 | 2.8 | 7.7 | 6.3 | 6.6 | 5.9 | 5.8 | 5.85 | 6.01 | 6.35 | 7.52 | 6.18 |
| Specific provisions to NPLs | 92.2 | 93.4 | 90.9 | 91.8 | 88.7 | 89.0 | 75.0 | 78.8 | 74.1 | 76.4 | 75.3 | 73.27 | 72.63 | 70.67 | 67.99 | 71.99 |
| **Earnings and Profitability** | | | | | | | | | | | | | | | | |
| Return on Equity | 29.8 | 33.7 | 27.3 | 26.7 | 24.9 | 25.5 | 20.2 | 20.1 | 18.7 | 24.3 | 24.6 | 23.09 | 25.15 | 27.54 | 26.40 | 25.36 |
| Return on Assets | 3.1 | 3.7 | 3.1 | 3.1 | 3.0 | 3.0 | 2.4 | 2.4 | 2.2 | 2.9 | 2.9 | 2.79 | 3.10 | 3.43 | 3.29 | 3.17 |
| Interest margin to gross income | 71.6 | 64.8 | 68.3 | 67.9 | 67.6 | 66.8 | 68.5 | 67.2 | 65.9 | 66.2 | 64.9 | 66.63 | 64.08 | 66.77 | 67.10 | 68.03 |
| Noninterest expenses to gross income | 58.0 | 54.0 | 59.0 | 58.3 | 59.2 | 62.1 | 62.5 | 62.6 | 62.1 | 60.2 | 57.1 | 57.79 | 53.75 | 53.57 | 53.34 | 53.70 |
| Personnel expenses to noninterest expenses | 46.4 | 44.9 | 45.6 | 45.6 | 45.2 | 44.2 | 44.3 | 45.7 | 45.9 | 43.6 | 44.3 | 43.98 | 44.47 | 44.41 | 43.71 | 44.40 |
| Trading and fee income to gross income | 11.1 | 16.7 | 11.5 | 11.1 | 11.1 | 11.9 | 11.3 | 11.6 | 12.0 | 13.3 | 13.5 | 12.72 | 14.90 | 11.50 | 11.09 | 10.95 |
| Fee and commission to total income | 18.5 | 17.7 | 19.9 | 20.9 | 21.4 | 21.5 | 20.5 | 20.5 | 21.2 | 22.5 | 22.1 | 22.56 | 21.71 | 21.88 | 21.80 | 21.58 |
| **Liquidity** | | | | | | | | | | | | | | | | |
| Liquid assets (core) to total assets | 13.9 | 11.9 | 11.8 | 13.2 | 14.3 | 12.1 | 11.6 | 12.5 | 13.8 | 13.2 | 11.9 | 11.95 | 18.05 | 16.90 | 16.45 | 13.85 |
| Liquid assets (broad measure) to total assets | 39.3 | 37.2 | 37.5 | 39.8 | 39.3 | 40.7 | 40.5 | 40.6 | 42.5 | 43.6 | 41.2 | 41.73 | 47.89 | 49.25 | 48.65 | 46.55 |
| Liquid assets (core) to total deposits | 20.2 | 17.4 | 17.4 | 19.4 | 20.7 | 17.5 | 16.5 | 17.7 | 19.1 | 18.6 | 16.9 | 17.07 | 25.54 | 23.80 | 23.06 | 19.63 |
| Liquid assets (core) to demand deposits | 32.9 | 27.8 | 28.1 | 31.7 | 33.3 | 27.6 | 26.7 | 29.2 | 30.6 | 30.4 | 26.6 | 27.88 | 41.99 | 40.80 | 39.48 | 34.02 |
| Liquid assets (core) to short term liabilities | 19.9 | 17.0 | 17.4 | 19.1 | 20.4 | 17.2 | 16.5 | 17.3 | 19.0 | 17.9 | 16.5 | 16.73 | 25.74 | 24.54 | 23.26 | 19.98 |
| Liquid assets (broad measure) to short term liabilities | 56.2 | 53.0 | 55.4 | 57.3 | 56.1 | 57.8 | 57.8 | 56.0 | 58.5 | 59.0 | 56.9 | 58.40 | 68.30 | 71.50 | 68.81 | 67.15 |
| Customer deposits to total (noninterbank) loans | 168.6 | 170.4 | 173.8 | 177.1 | 182.7 | 186.4 | 186.4 | 186.1 | 204.3 | 203.8 | 195.8 | 192.80 | 199.12 | 208.78 | 208.03 | 193.79 |
| **Sensitivity to market risk** | | | | | | | | | | | | | | | | |
| FX loans to FX deposits [1/] | 64.2 | 49.4 | 48.8 | 52.3 | 47.8 | 47.1 | 46.2 | 48.5 | 37.1 | 43.5 | 42.3 | 42.59 | 34.12 | 36.22 | 35.88 | 36.15 |
| FX loans to total loans | 25.5 | 22.2 | 21.1 | 21.3 | 19.9 | 20.9 | 21.1 | 20.5 | 16.9 | 18.1 | 18.0 | 18.16 | 15.63 | 16.76 | 17.00 | 14.40 |
| FX liabilities to total liabilities | 24.5 | 25.3 | 23.9 | 22.9 | 23.4 | 25.3 | 26.3 | 25.4 | 26.2 | 23.8 | 23.2 | 23.14 | 23.73 | 24.22 | 25.11 | 23.19 |

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 |
|---|---|---|---|---|
| **Intensifying spillovers from Russia's war in Ukraine.** Further sanctions resulting from the war and related uncertainties exacerbate trade disruptions and commodity price volatility. | High | ST | Low | Structural reforms to improve economic efficiency and enhance diversification |
| **Commodity price shocks.** Combined continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability. | High | ST | High | Well-targeted subsidies for the needy and users of goods subject to higher prices. |
| **Systemic social unrest**. Rising inflation, declining incomes, deteriorating governance climate, and worsening inequality amplify social unrest and political instability slowing economic growth and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies). | Medium | ST, MT | High | Well-targeted subsidies for the needy and users of goods subject to higher prices. |
| **De-anchoring of inflation expectations.** Supply shocks to food and energy prices sharply increase headline inflation and passthrough to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tighter labor markets. | Medium | ST, MT | Medium | Tighten monetary policy as needed. |
| **Natural disasters related to climate change.** More frequent natural disasters deal severe damage to infrastructure and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth. | High | ST, MT | High | • Address infrastructure gaps.<br>• Develop social safety nets.<br>• Investment (public and private) in climate resilient infrastructure and agriculture.<br>• Strengthen institutions to manage climate change risk. |
| **Deterioration in security situation in Mozambique.** | Medium | ST, MT | High | • Enhance security and socioeconomic policies in northern region.<br>• Continue drive for durable peace and implementation of reforms |
| **Local Covid-19 outbreaks.** Emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, and slower growth. | Medium | ST, MT | Medium | • Enhance health and social protection spending to address the impact of Covid'19 pandemic.<br>• Partial use of international reserves to cover external needs. • Mobilize additional grants and concessional loans from development partners to cover more persistent external needs |
| **Cyberthreats.** Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability and disrupt economic activities. | Medium | MT | Low | • Develop and implement a cybersecurity risk regulatory and supervisory framework for the Bank of Mozambique. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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 scenarios 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 8. Indicators of Capacity to Repay the Fund, 2022-2032

(In percent; unless otherwise indicated)

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund obligations based on existing credit | | | | | | | | | | | |
| (in millions of SDRs) | | | | | | | | | | | |
| Principal | 9.470 | 18.930 | 8.520 | 39.760 | 62.480 | 69.300 | 76.110 | 67.590 | 36.350 | 13.630 | 6.820 |
| Charges and interest | 0.860 | 5.190 | 5.190 | 5.180 | 5.190 | 5.190 | 5.190 | 5.180 | 5.190 | 5.190 | 5.190 |
| Obligations to the Fund based on existing and prospective credit[1] | | | | | | | | | | | |
| (in millions of SDRs) | | | | | | | | | | | |
| Principal | 9.470 | 18.930 | 8.520 | 39.760 | 62.480 | 69.300 | 89.740 | 99.400 | 86.340 | 68.160 | 61.340 |
| Charges and interest | 0.860 | 5.190 | 5.190 | 5.180 | 5.190 | 5.190 | 5.190 | 5.180 | 5.190 | 5.190 | 5.190 |
| Obligations to the Fund from existing and prospective credit | | | | | | | | | | | |
| In millions of U.S. dollars | 13.900 | 32.076 | 18.337 | 60.448 | 91.571 | 101.372 | 129.188 | 142.320 | 124.561 | 99.820 | 90.539 |
| In percent of gross international reserves | 0.477 | 1.058 | 0.543 | 1.649 | 2.202 | 2.108 | 2.070 | 2.218 | 1.883 | 1.601 | 1.405 |
| In percent of exports of goods and services | 0.159 | 0.374 | 0.190 | 0.597 | 0.883 | 0.777 | 0.811 | 0.807 | 0.583 | 0.423 | 0.373 |
| In percent of GDP | 0.078 | 0.163 | 0.084 | 0.259 | 0.368 | 0.346 | 0.378 | 0.374 | 0.282 | 0.206 | 0.179 |
| In percent of quota | 4.547 | 10.616 | 6.034 | 19.780 | 29.784 | 32.786 | 41.783 | 46.030 | 40.286 | 32.284 | 29.283 |
| Outstanding Fund credit based on existing drawings (end-of-period) | | | | | | | | | | | |
| In millions of SDRs | 399.490 | 380.560 | 372.040 | 332.280 | 269.800 | 200.500 | 124.390 | 56.800 | 20.450 | 6.820 | 0.000 |
| In percent of quota | 175.830 | 167.500 | 163.750 | 146.250 | 118.750 | 88.250 | 54.750 | 25.000 | 9.000 | 3.000 | 0.000 |
| Outstanding Fund credit based on existing and prospective drawings (end-of-period) | | | | | | | | | | | |
| In millions of SDRs | 444.930 | 516.880 | 599.240 | 604.920 | 542.440 | 473.140 | 383.400 | 284.000 | 197.660 | 129.500 | 68.160 |
| In millions of U.S. dollars | 598.694 | 687.372 | 801.479 | 813.663 | 734.031 | 643.884 | 521.759 | 386.488 | 268.990 | 176.233 | 92.757 |
| In percent of gross international reserves | 20.532 | 22.681 | 23.713 | 22.190 | 17.654 | 13.391 | 8.359 | 6.023 | 4.066 | 2.827 | 1.439 |
| In percent of exports of goods and services | 6.834 | 8.016 | 8.304 | 8.034 | 7.075 | 4.935 | 3.277 | 2.191 | 1.260 | 0.747 | 0.382 |
| In percent of GDP | 3.354 | 3.483 | 3.655 | 3.488 | 2.949 | 2.200 | 1.526 | 1.017 | 0.610 | 0.364 | 0.183 |
| In percent of quota | 195.830 | 227.500 | 263.750 | 266.250 | 238.750 | 208.250 | 168.750 | 125.000 | 87.000 | 57.000 | 30.000 |
| Use of IMF Credit | | | | | | | | | | | |
| Net Use of IMF Credit (in millions of SDRs) | 94.660 | 71.940 | 82.360 | 5.680 | -62.480 | -69.300 | -89.740 | -99.400 | -86.340 | -68.160 | -61.340 |
| Disbursements (in millions of SDRs) | 45.440 | 90.880 | 90.880 | 45.440 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Repayments (in millions of SDRs) | 18.940 | 18.940 | 8.520 | 39.760 | 62.480 | 69.300 | 89.740 | 99.400 | 86.340 | 68.160 | 61.340 |
| *Memorandum items:* | | | | | | | | | | | |
| Nominal GDP (in billions of U.S. dollars) | 17.852 | 19.734 | 21.927 | 23.326 | 24.888 | 29.266 | 34.202 | 38.017 | 44.128 | 48.359 | 50.590 |
| Exports of goods and services (in billions of U.S. dollars) | 8.761 | 8.575 | 9.652 | 10.127 | 10.375 | 13.046 | 15.923 | 17.641 | 21.350 | 23.589 | 24.298 |
| Gross international reserves (in billions of U.S. dollars) | 2.916 | 3.031 | 3.380 | 3.667 | 4.158 | 4.808 | 6.242 | 6.417 | 6.616 | 6.234 | 6.445 |
| 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 | 227.2 |

Source: 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. Schedule of Disbursements Under the ECF Arrangement, 2022-2025

| | 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, 2021-2023[1]

| | Debt Stock (end of period) | | | Debt Service | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| | *(In million US$)* | *(Percent total debt)* | *(Percent GDP)* | *(In million US$)* | | | *(Percent GDP)* | | |
| **Total** | 16961.5 | 100.0 | 104.8 | 1190.5 | 2301.2 | 1328.6 | 7.4 | 12.9 | 6.9 |
| **External**[2] | 13398.0 | 79.0 | 82.8 | 430.8 | 709.3 | 759.9 | 2.7 | 4.0 | 3.9 |
| Multilateral creditors[3] | 5056.8 | 29.8 | 31.3 | 163.8 | 196.7 | 215.6 | 1.0 | 1.1 | 1.1 |
| IMF | 489.8 | 2.9 | 3.0 | | | | | | |
| World Bank | 3166.8 | 18.7 | 19.6 | | | | | | |
| ADB/AfDB/IADB | 9.3 | 0.1 | 0.1 | | | | | | |
| Other Multilaterals | 1391.0 | 8.2 | 8.6 | | | | | | |
| *o/w:* ADF/IFAD | 1054.0 | 6.2 | 6.5 | | | | | | |
| BADEA | 94.1 | 0.6 | 0.6 | | | | | | |
| Bilateral Creditors | 4566.3 | 26.9 | 28.2 | 222.2 | 404.9 | 439.8 | 1.4 | 2.3 | 2.3 |
| Paris Club | 1060.8 | 6.3 | 6.6 | 35.7 | 78.7 | 82.4 | 0.2 | 0.4 | 0.4 |
| *o/w:* Japan/Korea | 636.0 | 3.7 | 3.9 | | | | | | |
| France/Brazil | 245.7 | 1.4 | 1.5 | | | | | | |
| Non-Paris Club | 3505.6 | 20.7 | 21.7 | 186.5 | 326.2 | 357.4 | 1.2 | 1.8 | 1.8 |
| *o/w:* China/Portugal | 2494.7 | 14.7 | 15.4 | | | | | | |
| India/Iraq/Libya | 747.2 | 4.4 | 4.6 | | | | | | |
| Bonds | 900.0 | 5.3 | 5.6 | 44.9 | 45.0 | 44.9 | 0.3 | 0.3 | 0.2 |
| Commercial creditors | 56.9 | 0.3 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *o/w:* Senior creditors of LNG debt financing | 43.0 | 0.3 | 0.3 | | | | | | |
| Other international creditors | 2818.0 | 16.6 | 17.4 | 0 | 46.5 | 22.8 | 0.0 | 0.3 | 0.1 |
| *o/w:* ENH's LNG project partners[4] | 2818.0 | 16.6 | 17.4 | | | | | | |
| **Domestic**[5] | 3563.4 | 21.0 | 22.0 | 760 | 1592 | 569 | 4.7 | 8.9 | 2.9 |
| Held by residents, total | | | | | | | | | |
| Held by non-residents, total | | | | | | | | | |
| T-Bills | 906.9 | 5.3 | 5.6 | | | | | | |
| Bonds | 1624.2 | 9.6 | 10.0 | | | | | | |
| Loans | 1032.4 | 6.1 | 6.4 | | | | | | |
| **Memo items:** | | | | | | | | | |
| Contingent liabilities | 43.0 | 0.3 | 0.3 | | | | | | |
| *o/w:* Public guarantees | 43.0 | 0.3 | 0.3 | | | | | | |
| Nominal GDP (millions US$) eop exchange rate | | | | 15745 | 17478 | 19199 | | | |

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 2.2 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.

# Annex I. Consultation with the IMF Executive Board on the Missed Inflation Target Under the MPCC

Consultation on Breach of MPCC Target in June 2022.

Banco de Moçambique

November 4, 2022

In June 2022, CPI inflation increased to 10.8 percent, 0.8 percentage points above the upper bound of the inflation consultation band of 10.0 percent, agreed under the ECF. This letter firstly explains the reasons why inflation has breached the upper 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 second quarter of 2022, inflation accelerated, driven by exogenous external and domestic factors, in the context of recovering aggregate demand as COVID-related restrictions were lifted. In particular, the international food and energy price increase due to the war in Ukraine that started at end-February 2022 and adverse weather events that affected domestic agricultural output in March 2022 have driven inflation.

The war in Ukraine has prompted a surge in global food and fuel prices. As an oil importer, Mozambique has been directly affected by the steep increase in oil prices. Despite government measures to pass-through international price changes to domestic consumers gradually, the CPI components for diesel and gasoline prices increased by 27 percent and 20 percent, respectively, between January and June. Weighing about 7 percent in the CPI basket, these two products contributed 2.2 percentage points to headline inflation. The contribution of transport prices (including the prices of vehicles and transport services, in addition to fuel) increased from 1.4 percentage points in January to 2.9 percentage points in June. Similarly, the increase in global food prices has sharply impacted inflation. The price of wheat flour and wheat bread have increased by 13.0 percent and 32.9 percent between January and June, respectively, with the total weight of wheat-derived products at 4.3 percent in the CPI basket.

The harvest in the first half of 2022 was damaged by flooding associated with tropical storms. While Mozambican food prices typically fall each month from May to August, the impact of reduced supply outweighed this pattern and had a significant inflationary impact. Overall food price inflation (including both imported and domestically produced products) reached 15.9 percent year-on-year in June 2022, contributing 5.3 percentage points to headline inflation.

## 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, while avoiding undermining the recovery of demand. Since January 2021, the BM has cumulatively increased the policy rate by 700bp, and real interest rates are among the highest in the region. The monetary policy tightening since the start of last year is estimated to be sufficient to effectively contain inflation and guide it towards the BM's medium-term objective.

## 3. Inflation outlook

In August 2022, headline inflation for Mozambique stood at 12.1 percent year-on-year. At the same time, CPI excluding fruit, vegetables and administered prices, remained substantially lower at 6.8 percent year-on-year. The current baseline scenario is predicated on an expected moderation in international food and fuel prices in 2023, that will ease inflationary pressures. 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. After peaking at 15.0 percent at the end of 2022, inflation is expected to decelerate to 8.5 percent at the end of 2023, followed by a further deceleration towards 6.0 percent in 2024 and 5.5 percent in 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/

Rogério Lucas Zandamela, Governor

# Appendix I. Letter of Intent

November 3, 2022

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 all 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 June 2022, we have met all four quantitative performance criteria (the floor on the domestic primary balance, floor on net international reserves (NIR), ceiling on new non-concessional external debt and the continuous performance criterion on non-accumulation of external debt arrears). Similarly, we met all three indicative targets (ceilings on the present value of new external debt and on the stock of domestic debt, and a floor on social spending). We have also submitted to Parliament an amended anti-money laundering (AML) law, meeting the structural benchmark for the first review and an important step forward in our governance and financial integrity agenda.

Russia's war in Ukraine has led to sharp rises in imported food and fuel prices, while domestic food prices were already affected by flooding. As a direct consequence of these shocks, consumer price inflation exceeded the upper bound under the Monetary Policy Consultation Clause (MPCC) in June 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.

As the economic recovery gathers momentum with the lifting of COVID-related restrictions, we have announced a package of economic activation measures (*Pacote de Activação Económica*) to support private investment and reduce the drag from the less favorable international environment. Our measures aim to reduce administrative burdens for investors, and align fiscal policy with our development priorities, within the objectives and fiscal parameters of the program.

We are advancing with the core fiscal reforms needed to foster growth and achieve our debt reduction objectives. With respect to VAT reform, we have adjusted the list of items on which exemptions and zero ratings will be eliminated to align the reform with the government's development priorities in agriculture and renewable energy, while extending the list in other areas to ensure that we meet our efficiency and tax base broadening objectives. The VAT rate will be cut from 17 to 16 percent in 2023—½ a point more than previously agreed—to better align our regime with neighboring countries and support the recovery. The elimination of exemptions and zero-ratings were encapsulated in the amended VAT law expected to be submitted to parliament in November 2022. To ensure yields from the reform align with our objectives under the program, we are also reforming excise taxes. Regarding public sector wages, we are managing implementation challenges within the cost envelope originally agreed, entailing some changes to the implementing legislation, although we still expect to fully implement this reform this year. We are also exercising restraint in the basic pay rise for the public sector in 2023, despite the strong cost-push from unexpected inflation, and given our longer-term objective of reducing the budgetary pressure from public sector remuneration.

We are moving ahead with our structural agenda. Following regional peer group evaluation of the AML/CFT framework, amended laws for AML/CFT have been passed, and we are implementing risk-based supervision of supervised entities' money laundering risks among other steps. 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. The audit of COVID spending has led to internal control improvements at the Ministry of Economy and Finance, and we anticipate regulating the commercial code to collect beneficial ownership information for firms and submitting an amended public probity law (albeit delayed to the third review), in the months ahead. We expect parliament to approve a law creating a sovereign wealth fund to manage the anticipated large revenue flows from natural resources before the end of the year. Next steps will include preparing the broader fiscal framework and rules for the management of budget revenue. 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 first review and the related disbursement of SDR 45.44 million, and modification of the MPCC to reflect inflationary pressures and our policy response. We also request extending the test dates for the SBs on the quarterly commitment limits and the submission of the public probity law from end-December 2022 to end-January 2023 and end-June 2023, respectively, and modifying the IT for end-June 2023. Finally, we request an additional adjustor for the IT setting a ceiling on domestic debt, to reflect the planned securitization of past VAT refund arrears. 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 Tonela | Rogério 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 the key development priorities in the quinquennial program that aim to foster sustained inclusive growth and strengthen governance and institutions.** The program centers on developing human capital, promoting gender equity and social inclusion, and protecting the most vulnerable. The program supports economic growth and decentralization while safeguarding fiscal and debt sustainability, it also proposes a stable and transparent institutional framework for the management of natural resource wealth, particularly for hydrocarbons.

2. **Despite the common emerging challenges facing all economies, the government is determined to pursue a sustainable development path for Mozambique.** The government is determined to overcome these significant challenges which include: the fragile global recovery from the COVID-19 pandemic; terrorist attacks in the country's north; more frequent and intense natural disasters driven by a changing global climate; and fluctuating global economic circumstances such as sharply increasing inflation, particularly for energy and wheat, as well as disrupted global supply chains which impact directly on the country's immediate access to important goods.

3. **The government's Economic and Financial Program 2022-2025 (EFP), supported by the ECF, aims to foster sustainable and inclusive growth.** The government is supporting economic recovery by addressing debt and structural challenges contributing to macroeconomic vulnerabilities and driving protracted balance of payment (BOP) needs, whilst avoiding a large upfront adjustment. The EFP aims to ensure public debt levels decline over the medium term. The government continues to build institutions and capacity to manage public resources efficiently. These include: i) applying appropriate fiscal rules and institutions for LNG resources; ii) addressing concerns around governance, transparency, and corruption; and iii) enhancing equality of opportunity and greater social inclusion.

4. **The IMF Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF) to support the implementation of Mozambique's EFP on May 9, 2022.** The ECF aims to promote economic recovery and foster policies that reduce public debt and financing vulnerabilities, while creating space for 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 BoP needs.

5. **The government has met its ECF fiscal and international reserves targets for end-June 2022** (Table 1). The quantitative performance criterion on the floor of the primary budget balance was met, at MT 3.8 billion compared to a target of MT -2.6 billion. The quantitative performance criterion on the floor of net international reserves of the Bank of Mozambique (BM) was met, adjusted by the amount of the delayed disbursement of the European Union (EU) grant of

EUR 50 million that was initially expected at end-June but is now expected later in 2022. The indicative target on the ceiling on the stock of domestic debt (accordingly adjusted by the amount of the delayed disbursement of the EU grant), was met at MT 250.7 billion, relative to a program target of MT 253 billion.

6. **CPI inflation increased to 10.8 percent at end-June 2022, above the upper bound of the inflation band of 10 percent, triggering the consultation clause under the program.** In a letter addressed to the IMF Executive Board, the government explains that inflation breached the upper limit of the inflation consultation band due to exogenous external (the military conflict in Ukraine, which started at end-February 2022) and exogenous domestic factors (adverse weather events that partly destroyed agriculture output in March 2022) that impacted fuel and food prices. In March 2022, when inflation was still below the upper band, the BM reacted to an increase in expected inflation by raising the policy rate (MIMO) by 200bp, from 13.25 percent to 15.25 percent. The monetary policy tightening since January 2021 is estimated to be sufficiently effective in containing inflation and directing it towards the BM's single digit target in the medium-term. After peaking at 15 percent at end-2022, inflation is expected to decelerate to 8.5 percent at end-2023, followed by a further deceleration towards 6 percent in 2024 and 5.5 percent in 2025. This baseline scenario is predicated on international food and fuel prices that are expected to moderate in 2023 and contribute to easing inflationary pressures.

7. **The structural benchmark under the ECF was successfully met.** The AML/CFT law was passed by parliament in May 2022 (Structural Benchmark - submission to Parliament prior to end-June 2022).

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

- ***To progress in the management of public resources*** - The government published a revised medium-term debt strategy along with quarterly (I-2022 and II-2022) and annual public debt reports (2021). The provision to limit the period for taxpayers to claim refunds to twelve months, with refunds to be carried-forward and credited against future VAT liabilities, is included in the revised VAT code proposal.

- ***To continue building the basis for an inflation targeting framework, with IMF and Norges Bank support:***

  - *Forecasting.* The BM has started to split agriculture and non-agriculture GDP in its quarterly projections model.

  - *In monetary operations,* the BM has strengthened the collateral framework for repos by publishing the haircuts applied by government securities held by commercial banks in August 2022.

  - *To reform the foreign exchange (FX) market,* the BM Board approved the FX intervention strategy in June 2022.

- ***To strengthen the AML/CFT framework*** - The BM has started implementing its risk-based supervision framework for AML/CFT, with support from the Banque de France. The National Risk Assessment was published in March 2022 while risk-based requirements and proposed internal supervisory procedures pertaining to banks, microcredit institutions, MVTS and VASPS were also introduced then. By June 2022, the BM had mapped the inherent risk of national banks after calibrating the respective risk assessment model of banks and microcredit institutions based on survey data. A pilot inspection of one of the largest national banks, using the methodology and risk-based monitoring tool was conducted in July 2022 while a risk-based inspection of a medium-size national bank was conducted in September. Credit institutions are mandated by the implementing regulations to the AML/CFT laws to send annual risk assessments to the BM.

- ***To progress in its financial inclusion agenda***, the Parliament approved a law establishing simplified criteria for opening bank accounts in October 2022.

- ***To continue implementing recommendations from the 2020 Safeguards Assessment***, the BM published the audit of its 2021 accounts.

- ***To continue gradually removing restrictions on capital and financial account international transactions***, the Parliament approved the revision of FX law in October 2022.

9. **The government remains fully committed to the May 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 national economy is recovering from the COVID-19 pandemic, despite the global inflationary shock.** Following the recovery in 2021 of 2.3 percent, real GDP growth in 2022 is projected to reach 3.8 percent. The acceleration in growth is primarily driven by rising agricultural production, mining, and services. The start of LNG production in Q4 of 2022 is expected to meaningfully contribute to real GDP growth from 2023 onwards.

11. **Global inflationary pressures are creating new challenges.** Inflation has accelerated sharply in 2022, reaching 12.1 percent (y/y) in August, though measures for core inflation have remained relatively more stable at around 6 to 7 percent. The BM's proactive monetary policy response is expected to keep inflation expectations and second-round effects well controlled. The current account deficit widened significantly due to the import of the LNG offshore platform. Higher fuel prices led to a growing fuel import bill, which is the main reason for the steady decline in international reserves, from 4.5 months of goods and services (excluding megaprojects) at end-2021 to 3.7 months at end-August 2022.

12. **Consumer price inflation is projected to peak at around 15 percent in December 2022, before moderating to 8.5 percent at end-2023.** In 2022, the BM will maintain its current, cautious

monetary policy stance and stands ready to take further action as appropriate to ensure that inflation expectations remain well-anchored within single digits. Over the medium term, as financing conditions improve and fiscal pressures abate, the BM will explore scope for easing policy to allow for lower real lending rates and higher credit growth subject to continuing moderate inflation expectations, settling between 5 and 6 percent, and financial sector strength.

13. **The government expects an improvement in the fiscal position in 2022.** The primary deficit after grants, on a modified cash basis[1] is expected to decline from MT 21.2 billion (2.1 percent of GDP) in 2021 to MT 2.7 billion (0.2 percent of GDP) in 2022. The overall deficit after grants, on a modified cash basis is projected to decline from MT 49.3 billion (4.8 percent of GDP) in 2021 to MT 42.9 billion in 2022 (3.8 percent of GDP). This reflects projected budget support grants in 2022 (including US$300 million from the World Bank and use of MT 13.4 billion of the 2021 Special Drawing Rights (SDR) allocation) and less reliance on domestic debt.

14. **The government is strengthening social protection and working to reduce poverty.** An updated National Development Strategy will be submitted to Parliament by March 2023, while the National Strategy for Basic Social Security 2016-2024 aims to strengthen social protection and outlines macroeconomic and financial policies to support poverty reduction. The government will continue to provide resources for social protection programs with a budget allocation of MT 6.8 billion in 2023 (0.5 percent of GDP), with an indicative target of an increase of around MT 1 billion in 2023. Going forward, INAS looks to increase the number of beneficiaries and expand the social protection program. In addition to the Basic Social Subsidy, the government aims to improve efficiency through digitalization and enhancing cash controls by reconciling payments with e-SISTAFE.

15. **The government is working to expand the reach, effectiveness, and efficiency of social support programs.** The expansion of registered vulnerable households during the COVID-19 crisis was significant. Programs are being developed to link the register with: i) other existing social support programs (identifying those qualifying for other programs); or ii) other sectors (e.g., linking temporary social protection with vulnerable beneficiaries under the SUSTENTA agricultural support program for small farmers). The scope for using social protection programs to support the rehabilitation of families displaced by the conflict in the North is also being explored. A single, cross-government registry of vulnerable households is being developed with World Bank support. The government is hoping these projects will be completed by end 2023, but is limited to the financial constraints it faces. The cost efficiency of delivering support alongside ongoing development of conditional social transfer schemes remain a priority. Support to vulnerable households was provided through mobile money for the first time (in areas with cellphone coverage) during the pandemic. The identification of beneficiaries and capacity to log payments made in real time continues to improve.

16. **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

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

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.

17. **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 has begun in October 2022, generating an estimated addition to economic growth in 2023 of about 1.3 percentage points, rising further in 2024 and 2025, while 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.

18. **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 appreciating exchange rate that could undermine non-hydrocarbon sector competitiveness, bring about asset price inflation, and other distortions to the wider economy.

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

19. **Given the high level of public debt, the government's policies will continue to focus on long-term sustainability.** Reversing the rising trend of the debt-to-GDP ratio (106.7 percent at end-2021) 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.

20. **The government will adopt strong fiscal policies to achieve this objective**. From a primary balance after grants of -2.1 percent of GDP in 2021, the aim is to achieve a primary surplus by 2024. The following measures underpin this goal:

- *Public employment and compensation reforms*. The State's public sector wage bill (at 14.1 percent of GDP in 2021), exceeds average regional levels and those observed in peer countries. The government is implementing measures to better manage the cost of public sector employment and to align the wage bill more closely with regional averages (as a proportion of GDP) by 2026.

  In 2021 the Parliament passed several reforms unifying a large number of different pay scales and supplementary pay components across the public sector into a unique scheme applying to all public sector employees. This will facilitate employee movements in and out of public sector positions, and rebalance compensation towards basic wages, promoting better control and predictability of the wage bill.

Savings will be achieved through revising the wage increase formula, and freezing wage supplements in nominal terms. The reforms are expected to have an upfront cost of MT 9.6 billion (0.7 percent of GDP) in 2022, and a full year cost of MT 19.2 billion from 2023 (the net cost is lower because of expected higher income tax). These cost estimates were revised upwards during the early stages of implementation as staff appeals were heard and new information came to light. Following temporary suspension of the transition to the new salary scales, legal amendments modifying the criteria used to map individuals from the old to the new salary scales were passed by Parliament in October 2022 to fully correct for these factors and ensure the costs remain within the original envelope, while ensuring all civil servants are fairly treated under the reform. Should costs again rise above the allocated envelope, the government will utilize existing mechanisms to offset the additional cost and, if necessary, will pass a supplementary budget in the first half of 2023.

This one-off cost is being partially offset through restraining increases in public sector wage levels (aside from the impact of the reform) to below inflation in 2022 and 2023; and only 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 (*Ministério da Administração Estatal e da Função Pública—MAEFP*), and the attrition rule will be maintained in 2023 and 2024 (structural benchmark).

Finally, the government will implement further measures to reduce the pressure on the wage bill, these include: (i) evaluating the functional structure across the public sector (ministries, local government structures, public institutions), with a view to reducing duplication in activities and institutional overlap; (ii) developing a policy which will encourage early retirement; and (iii) implementing the reforms to the EGFAE Statute recently approved by the Parliament which determine the retirement age.

Should savings fall short of expectations, additional measures to ensure convergence of the wage bill to GDP ratio towards regional and peer group averages will be considered.

- *Contingency funds.* The 2023 budget will also provide for contingency funds to address risks identified in the Report on Fiscal Risks for 2023.

- *VAT reform.* Broadening the VAT base will build a robust and fair revenue collection mechanism that does not depend on volatile commodity revenues. The government is committed to eliminating some VAT exemptions and domestic zero-ratings. To minimize the impact on the most vulnerable households, exemptions and zero-ratings on basic items will be maintained, as will exemptions for the agricultural and renewables sectors in line with government development priorities. The necessary legal changes to implement the elimination of VAT exemptions and zero-ratings are expected to be made in November 2022 to ensure the reform is effective starting on January 1st, 2023 (prior action). 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 (¶37).

- *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 tax administration (¶¶32 to 37), and PFM (¶¶38 to 43).

21. **The government is continuing to strengthen institutional capacity for public debt management.** The government is committed to building the capacity and powers of the public debt management directorate at the MEF and enhancing the sustainability and transparency of public sector debt, by publishing quarterly and annual debt reports, covering stocks, on-lending, and state guarantees, including for most SOEs. To this end, the MEF is transitioning to a new database, which will encompass external, domestic and on-lending to SOEs. The government's medium-term debt strategy centers on gradually increasing the share of external financing from 30 to 55 percent in 2025 and the share of domestic debt instruments with maturities greater than 5 years from 5 to 25 percent in 2025. As a first step, the MEF is carrying out an assessment of the capacity of institutional investors to absorb public debt issuances.

## D. Governance and Management of Public Resources

22. **Fulfilling Mozambique's long-term economic potential—and meeting the needs of society—requires decisive actions to ensure public resources are well managed.** With IMF technical assistance, the government has strengthened its capacity to analyze fiscal risks, and created a fiscal risk unit in the Ministry of Economy and Finance (MEF) that publishes regular reports. The BM continues to implement the recommendations from the IMF's 2020 Safeguards Assessment.

### Governance Reform

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

- *Reform of the public probity law*. The Office of the Attorney General (*Procuradoria Geral da República*) is amending 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).

- *Beneficial ownership in natural resource companies*. Enhancing transparency in the management of Mozambique's natural resources is a key commitment in the *Diagnostic Report* and to the Extractive Industries Transparency Initiative. Using the definition of beneficial ownership in the new AML law (consistent with Financial Action Task Force (FATF) standards), new regulations of the Commercial Code require all firms to register and identify their beneficial owners at a centralized registry (*Registo das Entidades)*. The government will make any legal and regulatory changes necessary to ensure that this information on beneficial ownership is publicly accessible at the registry by end-June 2023.

- *Improvement of property registries for public officials.* The Ministry of Justice will strengthen the enforcement of asset declaration rules established in a law to be submitted to the Parliament by June 2023.

24. **The government is accounting transparently for COVID-19-related public spending.** The *Tribunal Administrativo* (the supreme audit institution) prepared an independent audit of the use of funds received for COVID-19 spending in 2020, with IMF technical assistance. This report included a consolidated report and a list of recommendations on corrective measures. Based on this, the government prepared a report assessing the findings and recommendations of the audit, which was published together with the external audit consolidated report. These recommendations inform the need to strengthen, in particular, the process of producing supporting documents and the delivery of social assistance. A second independent audit is being performed to cover COVID-19 spending in 2021 and to follow-up on implementing past recommendations. Government internal control entities are also monitoring the implementation of the recommendations, including through an internal action plan of the MEF.

25. **The BM 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 parliament by June 2024. This revised law will strengthen BM's mandate by explicitly stating its financial stability and macroprudential functions and strengthen limits on monetary financing of the budget. At the same time, the legal amendments will improve the BM's autonomy, governance, and accountability.

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

27. **The BM will continue implementing recommendations from the 2020 Safeguards Assessment to meet best practices in governance and transparency.** The 2022 audited annual reports are expected to be published in April 2023.

### Managing Resources from Liquefied Natural Gas

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

29. **The government is creating a sovereign wealth fund (SWF) to manage resource flows from LNG.** Following public consultation, a draft law creating an SWF has been prepared. Investments of the SWF 's resources will be managed by the BM, 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 draft law includes a revenue repartition rule which divides LNG related fiscal revenues between the SWF and the budget. The rule will be based on projected revenues rather than actual revenues being received during the fiscal year to enable proper budget planning and to counteract volatility in international petroleum prices. The methodology for calculating projected revenues will be further detailed in regulations and will include a mechanism for multi-year smoothing by applying a moving average of petroleum revenues to determine the share of revenues to be allocated to the State Budget. The regulations, subsequent to the law will be prepared by June 2023. The rules and conditions for using the resources in the SWF in case of emergencies will be transparent. The government will submit the SWF law to the Parliament by end-December 2022 (structural benchmark).

## Managing Fiscal Resources

30. **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*

31. **The Revenue Administration (Autoridade Tributária, AT) is modernizing tax collection through an integrated electronic tax filing system (e-tributação).** E-tributação is currently used to collect receipts from the most important tax bases, including VAT and income taxes, in all tax offices (DAFs) and large taxpayer offices (UGCs).[2] As of end-August 2022, it covered 45 percent of income tax collections and 100 percent of VAT and simplified tax collections. The system is now linked with e-SISTAFE (the financial management system) resulting in an automatic classification and faster transfer of resources to the CUT (treasury single account).

32. **The AT will extend e-tributação to other taxes (tax on vehicles, tax on national reconstruction, stamp duties (IS), property taxes (SISA), and inheritance and donation tax) by end-2023.** In addition, the AT will extend the transversal modules (fiscal execution, bankruptcies, payments by installments, risk profiles, claims and recourse, refunds and compensations, litigation and tax audits) by end-2023. As a result, the AT will fully implement e-tributação for all taxes and in all tax offices by end 2023 (structural benchmark), with an objective of achieving a tax coverage of 70 percent of total tax revenue collected by the AT.

33. **The AT will continue to develop a digital interface (Portal do Contribuinte) to allow all taxpayers to file and pay all taxes electronically by end-June 2023 (structural benchmark).** The interface connects the portal do contribuente with e-tributação and is currently operational for only

[2] The full list of taxes currently collected through e-tributação is as follows: Imposto sobre o Valor Acrescentado (IVA), Imposto Simplificado para Pequenos Contribuintes (ISPC), Imposto sobre o Rendimento das Pessoas Singulares (IRPS), Imposto sobre o Rendimento das Pessoas Colectivas (IRPC), Imposto sobre a Produção Petrolífera (IPP), Imposto sobre a Produção Mineira (IPM), Imposto sobre a Superfície (ISS), Imposto sobre a Renda do Recurso Mineiro (IRRM) Taxa sobre os Combustíveis (TsC).

two types of taxes, VAT and the simplified tax for small taxpayers. At end-August 2022, the Portal do Contribuinte covered 37 percent of total taxpayers in VAT and small taxes, and 72 percent of large taxpayers. By end of 2023, the objective is to allow all taxpayers to file and pay electronically, and cover 60 percent of total taxpayers. In the context of COVID-19-related restrictions, the AT has already simplified procedures for taxpayers to process payments through banks.

34. **Modernizing the taxpayer registry and enhancing interoperability with other public registries remains a key step towards achieving improved revenue collection.** The AT is cleaning and updating the taxpayer registry, removing duplicated taxpayers, and verifying the registry for 90 of the largest 100 taxpayers, with the remining 10 to be completed by end-December 2022. The AT is also enhancing links and interoperability with other public registries, including for the civil registry and commercial banks. Going forward, it will involve also utility companies. Work is ongoing to create a unique identification number for individuals for civil and fiscal purposes.

35. **The AT continues to reform its structure and progress in gathering and cross-checking third-party information to increase taxpayer compliance and enforce tax arrears collection.** A reform proposal for the internal structure of the AT is expected to be approved by the Council of Ministers by end-December 2022. A risk management committee was 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 will be integrated in the revised organizational structure of the AT and has started using mining and gas risk assessment matrix to perform audits to extractive companies.

36. **The MEF is committed to addressing the deficiencies in the VAT refund mechanism and to clear accumulated arrears.** The VAT law expected to be submitted to the Parliament in November 2022 limits the period for taxpayers to claim refunds to twelve months. Past this deadline, the refund will be carried-forward and credited against future VAT liabilities. In parallel, MEF will submit a strategy by end-June 2023 to clear the current stock of VAT refund arrears, amounting to MTS 35.2 billion at end-June 2022. In 2022, the government is retaining 16.5 percent of the share of VAT gross collection for the payment of refunds, which will remain at the same rate in the 2023 budget, to ensure sufficient resources are available for refunds and avoid any further accumulation of arrears.

***Public Financial Management (PFM)***

37. **Informed by the experience of the COVID spending and various other diagnostics, the government's second PFM strategy will be completed by end-June 2023.**[3] Its main objective is to guide PFM reforms in a prioritized and coordinated manner and to address new challenges, including to strengthen budgetary execution norms pertaining to spending in an emergency context.

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

38. **The government is reforming budget execution to strengthen the expenditure chain and financial controls, to prevent the accumulation of expenditure arrears.** The government is implementing several reforms to incorporate all stages of the expenditure chain within e-SISTAFE (the financial management system) by end-2022, to enhance budget execution control, budget discipline and budget transparency:

- Modernization of the PFM legal framework (SISTAFE law and regulations) which is in line with international good practice has been completed. All stages of the public procurement process are incorporated into the e-SISTAFE system. The system is currently used to manage procurement of goods and services by central government, representing 17.3 percent of procured expenditure (goods and services, public investment, and works). By January 2023, the government will commence managing all public investment procurement undertaken by central government entities through e-SISTAFE. All central government entity procurement will be fully managed through e-SISTAFE by June 2023.
- Establishing ex-ante quarterly commitment limits for all expenditure units from January 2023. 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. This measure will be implemented through the applicable budget execution circular to be issued for management of the 2023 budget (proposed modified structural benchmark for January 2023)
- The new financial programming tools have been finalized in e-SISTAFE (modulo de programação financeira) which consists of the annual *Orçamento de Tesouraria* for budgetary planning and the quarterly *Plano de Tesouraria* for financial programming. The government will fully implement these tools in all spending units, by end December 2022 (structural benchmark).

39. **The government is moving from a cash rationing approach to pro-active management of cash flows and balances.** With support from the IMF, the government will set-up by end-2022, 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. The MEF will enhance the coverage and functioning of the treasury single account (*Conta Única do Tesouro—CUT*), beginning with a full mapping of all public sector bank accounts by June 2023. Treasury's cash management will also be enhanced with support from a forecasting tool that is being developed within e-SISTAFE.

40. **The government has strengthened public investment management and will focus on improving the climate resilience of public infrastructure investments.** The revised SISTAFE law regulation, which revokes 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

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

public investment (*Manual Geral de Identificação, formulação e avaliação de Projetos*) enable us to list, assess and approve investment projects. For instance, all new capital spending in the 2022 and 2023 budgets went through the assessment procedures. The government will continue to strengthen planning and project selection over time, including by using criteria pertaining to climate-change resilience of infrastructure projects, with World Bank support.

41. **The government will continue to strengthen the oversight and management of SOEs.** The current legal framework provides for IGEPE to exercise a shareholder role and oversight over SOEs that are directly and indirectly held by the central government. To improve the monitoring of these SOEs, IGEPE has prepared a mapping of all existing SOEs and their subsidiaries and is preparing consolidated 2020 accounts, to be published by December 2022, which will then be subject to external audit. IGEPE also monitors the level of indebtedness of national SOEs, and sends their borrowing thresholds to the MEF for the purpose of harmonization with the treasury (in accordance with article 30, number 3 of the Decree 10/2019, February 26) at the beginning of each fiscal year. The MEF is creating a task force to monitor the implementation and supervision of reimbursements of on-lending agreements. The government intends to regulate municipal SOEs' borrowing in a decree to be approved by the Council of Ministers by December 2023. 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.

42. **The government will continue to strengthen fiscal transparency and fiscal risks management.** The government will continue to publish the medium-term fiscal framework (annually), debt management reports (quarterly and annual) and the fiscal risks statements (annually). These reports support transparent budgetary discussions, among other uses. The fiscal risk statement already covers fiscal risks from SOEs and pensions, and coverage will be expanded to report on PPPs in 2023.

## E. Monetary and Financial Sector Reform

43. **The BM 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. A new regulation for the derivatives market was issued in April 2021. To further foster the development of price discovery, BM is in the process of adhering to the FX Global Code by 2023.

**Next Steps are as Follows**:

- ***In monetary operations***, to sharpen its monetary policy response to the state of the economy, the BM plans to continue improving its forecasting process, including by further refining their near-term forecasts for agricultural and non-agricultural GDP. Improvements to the BM's provision of liquidity to the interbank market hinge on strengthened cash flow management by the government (¶41) and enhanced communication between government agencies and the BM.

- ***Reform of the foreign exchange (FX) market.*** The BM is introducing policies to help develop the FX market over the medium-term, including by fostering better price discovery by market participants and the development of hedging instruments. The determination of the reference exchange rate is being revised to capture actual volume-weighted market transactions rather than quoted rates and will be operational by end-2023. A new FX derivatives regulation permitted the resumption of derivatives transactions.

44. **The BM 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 BM 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.

45. **The BM is advancing in bank regulation and supervision.** Drawing on the experience of countries in the region with the implementation process, the BM is revising the prudential regulations to allow the transition from Basel II to Basel III capital accords by end-2023. With IMF TA support, the BM is developing the regulatory and supervisory framework for the management of cybersecurity risks, including through on-site assessments by end-September 2023.

46. **The government is addressing the findings of the Eastern and Southern Africa Anti-Money Laundering Group mutual evaluation report and updated FATF action plan.** The government is taking significant measures to address the significant technical compliance deficiencies and effectiveness challenges identified in the June 2021 report and the FATF's Post Observation Period Report. Looking ahead, measures include:

- Reforms prioritizing strengthening the framework for collecting and holding beneficial ownership information (in line with the FATF definition of beneficial ownership).

- Implementation of the risk-based AML/CFT supervision framework started in September 2022 and the AML/CFT Service within the BM's Prudential Supervision Department is expected to be fully operational by end-June 2023. The supervision manual for risk-based supervision is expected to be finalized and distributed to all supervisors by end-2022.

- The information exchange framework is being strengthened. GIFiM has signed MoUs with several regional and international counterparts and continues strengthen its domestic and international links. Domestic cooperation is also being enhanced—the BM signed Memoranda of Understanding (MoU) with the FIU (GIFiM), the Gambling Control Unit (Inspecção Geral de Jogos – IGJ) and the Insurance Supervision Institute of Mozambique (Instituto de Supervisão de Seguros de Moçambique- ISSM). The BM cooperates with the Attorney General's office and law enforcement under the requirements of the Criminal Proceeding Code and their Organic Law.

- A law addressing ML risks in non-governmental organizations has been submitted to parliament.

- The BM will conduct an awareness program to microfinance institutions throughout the country, which is expected to be concluded by end-2023.

47. **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-June 2023. Recommendations from the evaluation will inform the new strategy. The BM 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 end-2023. The revised law, aligned with international best practices, will strengthen BM powers in the national payment system, and improve financial inclusion.

48. **The crisis management framework is being strengthened.** Following approval of the regulations governing recovery and resolution planning, the BM has issued guidelines on the implementation of resolution powers covered by the banking law. The BM is reforming the Deposit Guarantee Fund Regulation, with technical assistance from KfW, aiming at aligning its functions with the scope of the new resolution framework, including by revising the corporate governance structure and the determination of the participants' fees. The BM expects to finalize by end-2023.

49. **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

50. **The authorities stand 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. --Dominant 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

51. **The government is implementing improvements to national accounts statistics.** Following recommendations from IMF TA, the government is on track to produce quarterly national accounts (QNA) by expenditure by first completing an evaluation of available data sources for current and constant price estimates by end-2022 and publishing QNA series by expenditure by

end-2023. The government will resume publishing changes in inventories in the annual national accounts by expenditure at constant prices by June 2023. The government will resume publishing economic activity indicators, such as monthly industrial production and quarterly economic climate indicators in timely fashion (data will be published with no more than a two-month lag).

52. **The authorities are reconciling 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 BM and the MEF, based on TA recommendations from the IMF Statistics department. The BM 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

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

54. **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 2022, end-September 2022, end-December 2022, end-March 2023, end-June 2023, and end-December 2023 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 second, third and fourth reviews will take place on or after March 15, 2023, September 15, 2023, and March 15, 2024, respectively. To this end, the government plans to:

- 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.
- 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 BM, and the zero ceiling on the accumulation of new public and publicly guaranteed external payment arrears (continuous criterion).

- 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.
- The government will prepare an external borrowing plan to facilitate assessment of the QPCs and ITs on external debt.
- In line with the transition towards inflation targeting, monetary policy aims to achieve an annual headline inflation rate centered on the program objective of 12.5 percent at end-September 2022, and 15.0 percent at end-December 2022, with a symmetric band of ±3 percent around the objective; 14.0 percent at end-March 2023, 11.5 percent at end-June 2023, 10.5 percent at end-September 2023, 9 percent at end-December 2023, 8.5 percent at end-March 2024, 7.5 percent at end-June and end-September 2024, 6.5 percent at end-December 2024, and 6.0 percent at end-March 2025, with a symmetric band of ±2 percent. If inflation goes beyond the specified bands at the program test dates, we 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 BM plans to undertake.
- 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 modify import restrictions for balance of payments purposes; and
- Adopt any new financial or structural measures that may be necessary for the success of its policies, in consultation with the IMF.

55. **The government estimate 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 from the World Bank.

56. **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.

57. **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-Sept 2022 | | End-Dec 2022 | | End-Mar 2023 | | End-June 2023 | End-Sept 2023 | End-Dec 2023 |
|---|---|---|---|---|---|---|---|---|---|
| | IT | Prop. rev. IT | QPC | Prop. rev. QPC | IT | Prop. rev. IT | Prop. QPC | Prop. IT | Prop. QPC |
| **Performance Criteria** | | | | | | | | | |
| Floor on domestic primary budget balance [1/] | -2.0 | | 2.7 | | 1.6 | | 5.3 | 2.0 | 7.5 |
| Ceiling on new non-concessional external debt contracted or guaranteed by the public sector [2/] | 0 | | 0 | | 0 | | 0 | 0 | 0 |
| Floor on the stock of net international reserves of the BM (US$ millions) | 2000 | | 2000 | | 2200 | | 2200 | 2200 | 2200 |
| Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million) [3/] | 0 | | 0 | | 0 | | 0 | 0 | 0 |
| **MPCC [4/5/]** | | | | | | | | | |
| Inflation (upper-band, percent) | 10.0 | 15.5 | 10.0 | 18.0 | 8.0 | 16.0 | 13.5 | 12.5 | 11.0 |
| Inflation (mid-point, percent) | 7.0 | 12.5 | 7.0 | 15.0 | 6.0 | 14.0 | 11.5 | 10.5 | 9.0 |
| Inflation (lower-band, percent) | 4.0 | 9.5 | 4.0 | 12.0 | 4.0 | 12.0 | 9.5 | 8.5 | 7.0 |
| **Indicative Targets** | **IT** | | **IT** | | **IT** | | **IT** | **IT** | **IT** |
| Present value of new external debt (US$ million) [6/] | 217 | | 294 | | 86 | | 215 | 320 | 436 |
| Ceiling on domestic debt stock [7/] | 257 | | 270 | | 278 | | 320 | 328 | 350 |
| Floor on social spending [8/] | 3.8 | | 5.8 | | 1.7 | | 3.4 | 5.1 | 6.8 |
| *Memo item:* | | | | | | | | | |
| *External concessional borrowing* | 26.6 | | 35.4 | | | | | | |
| *Budget grants (US$ million)* | 52.6 | | 349.6 | | 0.0 | | 0.0 | 0.0 | 150.0 |

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/] 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 | | Due Dates |
|---|---|---|---|
| | **Prior actions** | **Macroeconomic objectives** | **Dates** |
| | Submit to parliament an amended VAT law to implement the elimination of VAT exemptions and zero-ratings to ensure the reform is effective starting on January 1st, 2023 | Enhance revenue mobilization. | |
| | **Structural Benchmarks** | | |
| Governance and Anti-Corruption | Submit to Parliament an amended AML/CFT law updating the legal framework including to bring the definition of beneficial ownership in line with the FATF AML/CFT international standard and strengthen the framework for implementation of targeted financial sanctions. | Improve governance and strengthen efficiency of public spending. | Met, End-June 2022 |
| | 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. | | Proposed change from end-December 2022 to End-June 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 |
| Fiscal | Fully implement the elimination of VAT exemptions and zero-ratings identified through the 2022 prior action | Enhance revenue mobilization. | Jan. 1 2023 |
| | 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 |
| | 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 - Dec 2023 |
| | Implement the digital interface (Portal do contribuinte) to allow all taxpayers to file and pay all taxes electronically. | | End - Jun 2023 |
| | 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. | | Proposed change from end-December 2022 to end-January, 2023 |
| | Fully implement in all spending units e-SISTAFE tools for budgetary planning (annual) and for financial programming (quarterly). | | End - Dec 2022 |

Sources: Mozambican authorities; and IMF staff.

# 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 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.

- **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.

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

| | End-Jun. 2022 | End-Sep. 2022 | End-Dec 2022 | End-Mar 2022 | End-Jun. 2023 | End-Sep. 2023 | End-Dec. 2023 |
|---|---|---|---|---|---|---|---|
| Budget Grants and loans | 52.6 | 52.6 | 351.6 | 0 | 0 | 0 | 150 |
| 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.

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 2.

**Text Table 2. 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 Reserve
https://www.federalreserve.gov/releases/h10/current/default.htm.
https://www.imf.org/external/np/fin/data/rms_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 contracted or guaranteed 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, 2021, that

result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling.[1]

## 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 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.

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

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

## 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 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

[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.

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 2).

## 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.

## 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. 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 spending (rather than allocation). The monitoring of this IT will be made through the table on quarterly spending provided by the MEF (see below).

| | 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*

### 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 inflation falls outside the:

- ±3 percentage point range around the 12.5 percent mid-point target band value for end-September 2022, or 15.0 percent for end-December 2022,

[4] Instituto Nacional de Acçao Social.

- ±2 percentage point range around the 14.0 percent mid-point target band value for end-March 2023, 11.5 percent for end-June 2023, 10.5 percent for end-September 2023, or 9 percent for end-December 2023,

- ±2 percentage point range around the 8.5 percent mid-point target band value for end-March 2024, 7.5 percent for end-June or end-September 2024, or 6.5 percent for end-December 2024,

- ±2 percentage point range around the 6.0 percent mid-point target band value for end-March 2025.

## J. Structural Benchmarks and Prior Actions

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

- Make the necessary legal changes to implement the elimination of VAT exemptions and zero-ratings to ensure the reform is effective starting on January 1st, 2023

31. **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.

| Summary of Data to be Reported | | |
|---|---|---|
| ***Data*** | ***Provider*** | ***Periodicity and Target Date*** |
| **1. 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 |
| 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". | MEF | Quarterly, 50 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 |
| 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 |

| ***Data*** | ***Provider*** | ***Periodicity and Target Date*** |
|---|---|---|
| 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 |
| *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. |
| Interest accumulated. | ENH/MEF | Quarterly. Within 20 days after the end of the quarter. |

| ***Data*** | ***Provider*** | ***Periodicity and Target Date*** |
|---|---|---|
| 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. |

**Statement by Mr. Willie Nakunyada, Mr. Adriano Isaias Ubisse, and Mr. Jorge Essuvi on Republic of Mozambique Executive Board Meeting**
**November 21, 2022**

## Introduction

1. Our Mozambican authorities appreciate the constructive dialogue with the Fund staff during the first ECF review mission. They broadly share the staff's assessment of policy priorities and challenges.

2. The economy of Mozambique is gathering recovery momentum following the lifting of pandemic restrictions. Despite a difficult domestic and external environment compounded by overlapping shocks including recurrent climate disasters, the authorities have remained steadfast in implementing reforms to keep the Extended Credit Facility (ECF) arrangement firmly on track. They remain committed to the reform agenda anchored by sustained fiscal consolidation and structural reforms—including strengthening governance to reduce corruption vulnerabilities—to bolster inclusive and sustainable growth. They have also made progress in strengthening policy and institutional settings to achieve durable macroeconomic stability, enhance productivity growth and strengthen governance. Considering the uncertainties dominating the outlook, the authorities have recalibrated macro-economic policies under the *Pacote de Aceleração Económica (PAE)* to address immediate socioeconomic challenges while enhancing resilience to future shocks.

3. The authorities have intensified their fight against terrorism alongside regional partners, to restore peace, ensure national cohesion, and unleash the country's enormous growth potential. As such, they view the ECF arrangement as instrumental to support their reform agenda to realize the key objectives of the country's Five-Year Government Program 2020–2024 designed to tackle growth and development challenges. In this regard, they continue to pursue economic reforms aimed to safeguard macroeconomic stability, consolidate public finances, reduce poverty and social inequalities, while creating a conducive environment for private sector development and job creation.

**Program Performance**

4. All quantitative performance criteria (QPCs) were met, some with large margins. This include the QPC on the floor of the primary budget balance; the QPC on the floor of net international reserves; the ceiling on new non-concessional external debt contracted or guaranteed by the public sector; and the ceiling on the accumulation of new public and publicly guaranteed external payment arrears.

5. The Monetary Policy Consultation Clause (MPCC) was marginally breached as inflation increased to 10.8 percent at end-June 2022, compared to the upper bound of 10 percent. This slight breach was attributed to higher international fuel and food prices, as well as domestic factors related to adverse weather events that affected agriculture output and prices. To address the inflationary pressures, the Banco de Moçambique (BM) continue to tighten its monetary policy and stands ready to further tighten conditions as needed. The authorities are, therefore, requesting the modification of the monetary policy consultation clause based on the projected inflation for the rest of the program.

6. The indicative target on the floor on social spending was met by a large margin and the ceiling on the stock of domestic debt was also met. On structural benchmarks (SBs), Parliament passed the amendments to the AML/CFT law in May 2022. Significant progress has also been made on the forward-looking SBs, including the revision of the public probity law and the law to establish the Sovereign Wealth Fund. **Considering the strong performance under the ECF arrangement amidst challenging conditions, the authorities seek Executive Directors' support in completing the first review under the ECF program and associated requests.**

**Recent Economic Developments and Outlook**

7. GDP growth is projected to expand from 2.3 percent in 2021 to 3.8 percent in 2022, reflecting a rebound in aggregate demand experienced in the first half of 2022, including increased activity in mining and services sectors. Looking ahead, LNG production that saw the first shipment in November 2022, is expected to accelerate growth to 5.0 percent in 2023. Nevertheless, the medium-term outlook remains subject to downside risks including from the slowdown in advanced economies and emerging markets, tightening global financial conditions and volatile commodity prices. Additionally, climate shocks, as well as delays in the implementation of the LNG megaprojects, could compound downside risks. On the upside, should the LNG megaprojects materialize as planned, expanded production combined with strong structural reform efforts will have a significant impact on output. Consequently, overall growth is projected to average 6.1 percent over the period 2023–2025.

8. Inflation accelerated sharply in 2022, reaching 12.1 percent year-on-year in September, due to rising food and energy import costs. As a result, the current account deficit widened significantly on the back of higher imports of equipment to support LNG developments. Notwithstanding higher fuel prices, international reserves are projected to

remain comfortable at medium-term levels of 4 months of non-megaproject imports, buoyed by rising gas export earnings.

**Fiscal Policy and Debt Management**

9. The government remains committed to fiscal consolidation efforts to reduce public debt vulnerabilities while creating fiscal space for priority investment in human capital and climate resilient infrastructure. To support these investments, they plan to build a robust and fair revenue collection mechanism that does not depend on volatile commodity revenues. As such, they are reforming the current VAT regime by eliminating some exemptions and domestic zero-ratings. To minimize the impact on the most vulnerable households, exemptions, and zero-ratings on basic items, for the agricultural and renewables sectors will be maintained in line with government development priorities. Further VAT reforms include the reduction of the tax rate from 17 percent to 16 percent to align with the regional benchmark and safeguard competitiveness. Moreover, they will shorten the window during which VAT refunds can be claimed to reduce VAT reimbursement arrears.

10. The authorities continue their efforts to improve the efficiency of tax administration by modernizing the taxpayer registry. In this context, they are enhancing interoperability with other public registries towards achieving improved revenue collection. The Tax Administration is also enhancing links and interoperability with other public registries, including for the civil registry and commercial banks. In addition, the Tax Administration continues its modernization project to collect tax through an integrated electronic tax filing system (e-taxation). The e-taxation is currently being used to collect receipts from the most important tax categories, including VAT and income taxes, in all tax offices and large taxpayer offices.

11. Reform efforts are also being directed towards implementing a set of measures to enhance public expenditure efficiency. In this vein the authorities are limiting new hire of public servants except in education, health, agriculture sectors and the judiciary system. Reforming the wage bill is a key element of the fiscal adjustment efforts. In October 2022 the Parliament concluded the necessary amendments to the public wage bill legislation which allow the government to implement measures to better manage the cost of public sector employment and limit the wage bill below 12 percent of GDP in the medium-term. Ultimately, they plan to unify pay scales and supplementary wage components across the public sector into a unique scheme applicable to all public sector employees. The new legislation will also allow only one replacement out of three leaving (retiring) civil servants going forward. This is consistent with the objective of streamlining the size of the civil service in the medium-to-long term.

12. Government remains committed to strengthening the debt management framework and improving the quality and transparency of debt statistics within the debt management strategy. In this context, the debt strategy will focus on (i) prioritizing multilateral and bilateral credits with more favorable conditions (ii) mapping and continued monitoring of SOEs to reduce the state exposure to guaranteed debt and (iii) debt restructuring, especially with non-Paris Club creditors. Benefitting from capacity development from the

World Bank and IMF, the authorities are improving regular reporting of debt. They are also enhancing the sustainability and transparency of the public sector debt by setting clear, entity-specific debt limits approved by the Council of Ministers, and by publishing detailed quarterly public sector debt reports, containing stock levels, intra-agency on-lending, and state guarantees.

**Monetary, Exchange Rate and Financial Sector Policies**

13. The Bank of Mozambique (BM) remains committed to tightening of monetary conditions to bring inflation back to target. As such, since January 2021, the BM has cumulatively increased the policy rate by 700 basis points in response to raising inflationary pressures and stands ready to further tighten monetary policy in a transparent and clearly communicated manner. In this regard, the BM will continue to implement a cautious monetary tightening while refining its framework to implement a forward-looking monetary policy framework based on a policy interest rate (MIMO) to signal the stance of the policy and to achieve the objective of a single-digit inflation in the medium term.

14. The BM will continue to allow for exchange rate flexibility as a shock absorber while making strategic interventions to smoothen disorderly market conditions. In this regard, the ongoing reforms being developed in the FX market are expected to improve transparency while fostering better price discovery by market participants. The determination of the reference exchange rate is being revised to capture actual volume-weighted market transactions rather than quoted rates. Furthermore, Parliament concluded the approval of the new FX law which will allow the authorities to continue gradual removal of restrictions on international capital and financial account transactions to promote a business-friendly environment.

15. The banking sector is well capitalized, liquid, and positioned to absorb credit losses and a liquidity squeeze if the crisis is short-lived. Going forward, the BM will continue implementing prudential rules to support the safety and soundness of banks and ensure adherence to loan classification and provisioning standards. Meanwhile, the BM is revising the prudential regulations to allow the transition from Basel II to Basel III capital accords by end-2023. With IMF technical support, the central bank is also developing the regulatory and supervisory framework for the management of cybersecurity risks.

16. Financial inclusion continues to rank high on the authorities' priorities under the 2016–2022 National Financial Inclusion Strategy. In this connection, Parliament approved, in October 2022, the Basic Account Law that simplifies the requirements and reduce the costs of opening bank accounts for low-income households. Moreover, the interoperability among the mobile payments' providers has allowed for more flexibility in the settlement of transactions. The government is also implementing a set of initiatives to improve the feasibility, transparency and security of the national payments system that will be strengthened by the reform of the payment system law.

**Governance and Structural Reforms**

17. Leveraging Fund capacity development (CD), the supreme Audit Tribunal prepared an independent audit of the use of funds received for COVID-19 spending in 2020. The report identified several shortcomings in procurement and spending execution, with the later related to the limited capacity imposed by the emergence situation and supply chain disruptions. However, the Attorney General's Office opened investigations linked to possible criminal violations. Based on the recommendations of the report, the government is implementing remedial measures, including introducing appropriate legislative amendments.

18. Progress has been made in strengthening the AML/CFT framework, including the approval by the Council of Ministers of the strategy against money laundering and the financing of terrorism and the amendments to the legislation that introduced the beneficial ownership regime. Nonetheless, the country has been placed on the FATF Grey List. That said, the authorities are committed to fully implement additional measures necessary to further improve the remaining AML/CFT shortcomings. In this regard, they started to implement the risk-based supervision framework and the AML/CFT Service within the BM's Prudential Supervision Department that is expected to be fully operational by end-June 2023. This process will be finalized with the introduction of a manual for risk-based supervision.

19. As part of the preparations for the effective management of natural gas revenues, the authorities are considering adopting a fiscal rule to mitigate risks stemming from commodity price volatility. That said, they are establishing a sovereign wealth fund (SWF) to manage resource flows from LNG. Following public consultation, a draft law creating the SWF is being prepared by the Government for submission to the National Assembly by end-2022. Investments of the SWF 's resources will be managed by observing the highest standards of accountability and transparency.

**Conclusion**

20. The authorities appreciate Fund engagement and technical support and remain determined to implement appropriate fiscal and monetary policies as well as structural reforms to set the economy on a higher growth trajectory. To this end, they remain optimistic that Fund support under the ECF arrangement will help in the implementation of sound macroeconomic policies that deliver short to medium-term payoffs. They look forward to the Executive Directors' support in the completion of the first review under the ECF arrangement.