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Republic of Mozambique: First Review Under the Policy Support Instrument—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Mozambique

In the context of the first review under the Policy Support Instrument for the Republic of Mozambique, the following documents have been released and are included in this package:

- The staff report for the first review under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on November 13, 2007, with the officials of the Republic of Mozambique on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 30, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its December 17, 2007 discussion of the staff report that completed the review.
- A statement by the Executive Director for the Republic of Mozambique.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Republic of Mozambique*
Memorandum of Economic and Financial Policies by the authorities of the Republic of Mozambique*
Technical Memorandum of Understanding*

*Also included in the Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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REPUBLIC OF MOZAMBIQUE

First Review Under the Three-Year Policy Support Instrument

Prepared by the African Department
(In collaboration with other departments)

Approved by David Nellor and Mark Plant

November 30, 2007

- Discussions for the first review of the Policy Support Instrument (PSI) were held in Maputo October 29–November 13, 2007, by a staff team comprising Mr. Clément (head), Mr. Peiris, Mr. Saenz, and Ms. Takebe (all AFR), and Ms. Kvintradze (PDR). Mr. Sulemane (OEDAE) also participated. The team was assisted by Mr. Fischer, the resident representative in Mozambique; Mr. Baxter, Mr. Binkert, and Mr. Nucifora (all World Bank) joined the discussions.
- The mission met with the Prime Minister; Ministers of Finance, Development and Planning, Justice, Energy, Mining and Petroleum, Trade and Industry; the Governor of the Bank of Mozambique; senior government officials; and representatives of civil society and press. It overlapped with an IMF revenue administration mission, coordinated its work with the Program Aid Partners, and participated in a joint retreat with the World Bank.
- The attached letter of intent (LOI) and memorandum of economic and financial policies (MEFP) (Appendix I) review the performance under the PSI-supported program in April–September 2007, and set out the policies and program monitoring issues for the remainder of 2007 and 2008. The authorities request modifications to the assessment criterion and adjustor on base money for 2007, as described in the MEFP and the technical memorandum of understanding (TMU).
- Since taking office in 2005, the government has shown a strong commitment to implement a second wave of reforms. The provincial elections due in early 2008 have been postponed, and will be combined with the municipal elections scheduled for late 2008 or the presidential and assembly elections scheduled for 2009.

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EXECUTIVE SUMMARY

- **Macroeconomic performance has been strong in 2007.** Real GDP grew an estimated 7.6 percent in the first semester, down from 8.0 percent in 2006. Core (nonfood and energy) inflation has been within 5–7 percent, as programmed, though higher fuel prices pose some inflationary risk. The external position has strengthened thanks to strong capital inflows, which offset the impact of oil price and climatic shocks.

- **The 2007 program has been implemented satisfactorily through September 2007.** All but one of the quantitative assessment criteria for end-June 2007 and all structural assessment criteria through September 2007 were observed. Base money narrowly missed the end-June target because of an increase in money demand. All but one of the structural benchmarks through September 2007 were also met. Except for the base money target at year's end, the 2007 quantitative and structural program is broadly unchanged.

- **The fiscal position through end-September 2007 was better than programmed.** Tax collections were higher. Net credit to the government at end-June (assessment criterion) remained negative and within target. The rollout of the public administration information system (e-SISTAFE) bolstered public financial management (PFM).

- **The 2008 program includes**

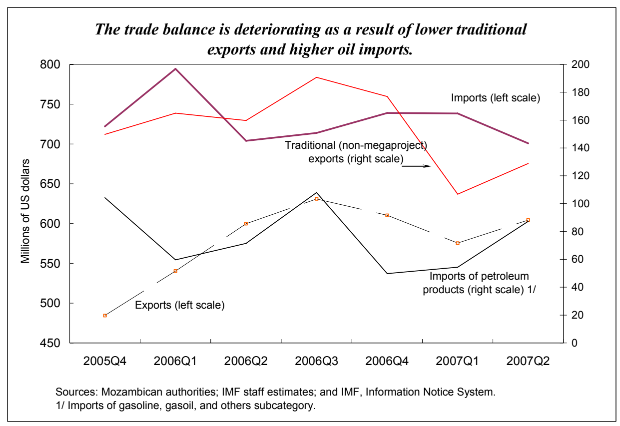
    - a domestic revenue effort of 0.5 percent of GDP and a budget that allocates most of the increase in foreign aid toward achieving the Millennium Development Goals (MDGs);
    - measures to buttress the central revenue authority (AT) and public financial management, including a prudent wage policy and a strategy to decentralize public finance;
    - a fine-tuning of monetary and exchange rate policy by the Bank of Mozambique (BM) to firmly anchor inflationary expectations in the single digits; and
    - acceleration of the second wave of reforms articulated in the *Plano de Acção Para a Redução da Pobreza Absoluta II* (PARPA II).

- **The medium-term framework focuses on consolidating macroeconomic stability to sustain Mozambique's growth takeoff.** Reforms to reduce the costs of doing business and buttress natural resource management are also a priority.

I. Economic Resilience is Increasing

1. **Despite exogenous shocks, economic performance is still strong and inflation is under control.** Real GDP grew an estimated 7.6 percent in the first semester, notwithstanding the impact of floods, down from 8.0 percent in 2006. Though there was an expected return to trend growth in the construction sector, buoyant agricultural activities kept GDP growth above the 2007 target.[1] Reflecting a more than 20 percent rise in domestic fuel prices, headline inflation accelerated temporarily but is expected to remain in the single digits. Core (nonfood and energy) inflation has been contained in the 5–7 percent range as programmed, but higher food prices and a further rise in fuel prices pose some inflationary risks.

2. **The external position strengthened, with strong capital inflows offsetting the effects of oil price and climatic shocks.** The trade balance deteriorated in the first semester of 2007 as climatic shocks hurt traditional exports and oil imports increased. Meanwhile, foreign aid and private capital inflows surged, and on balance, the net international reserve (NIR) targets for end-June and September 2007 were met; the NIR target for end-year 2007 is likely to be exceeded by a comfortable margin.



3. **Base money was higher than projected because of an unanticipated increase in money demand (Figure 1).** Broad money aggregates are trending higher because economic activity was unexpectedly strong and foreign currency deposits increased as donor-financed project disbursements through commercial banks picked up. Meanwhile, unexpectedly good cash crops (cotton and sugar) and additional provincial branches opened by the central bank boosted demand for currency in circulation. These factors contributed to a marginal breach of the adjusted base money assessment criteria for the end of June 2007. Because the higher monetary aggregates appear to be driven by a permanent increase in demand, and core inflation is within target, staff supports the authorities' request for a waiver and modification to the assessment criterion on base money at end-year.[2]

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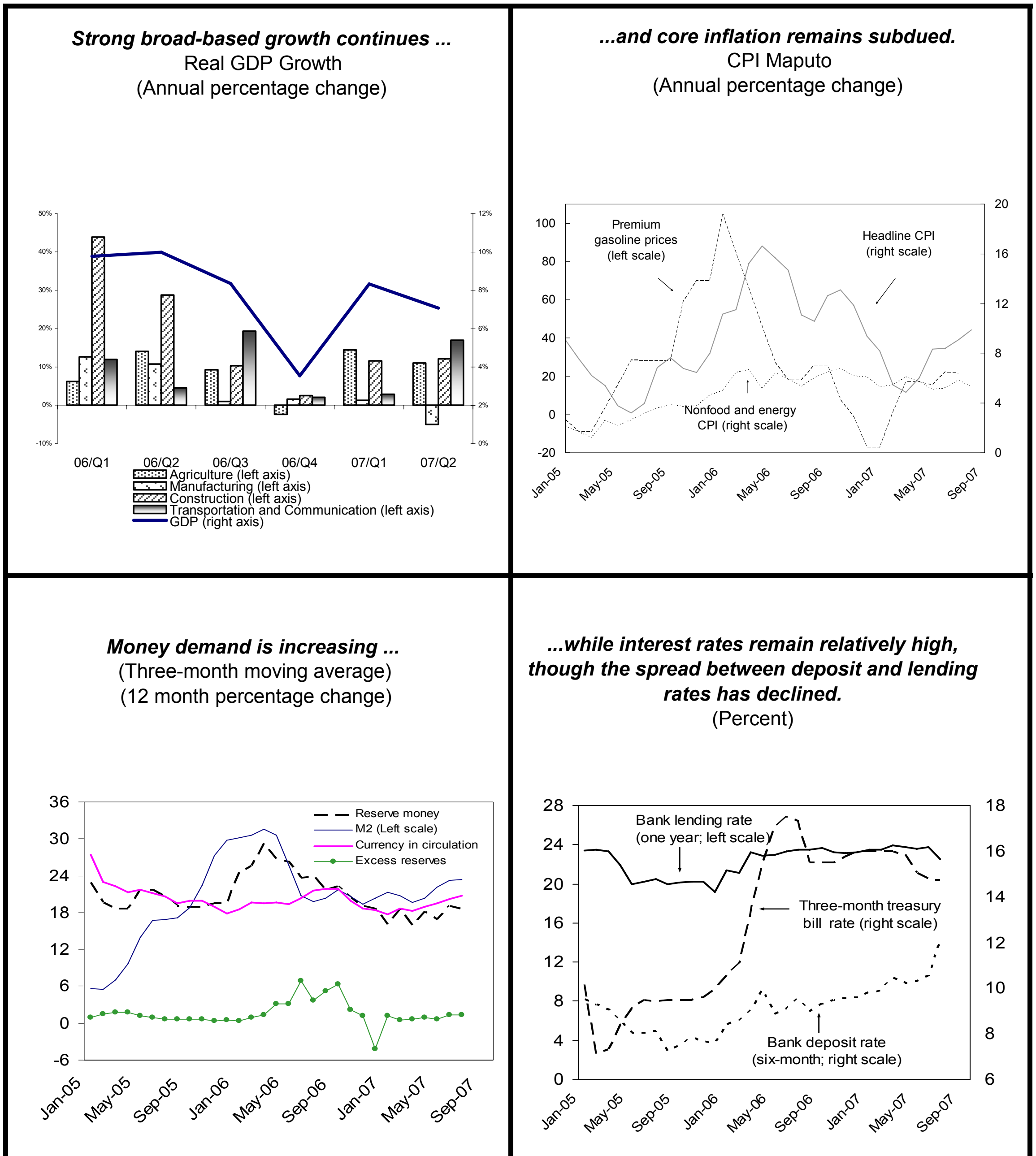
[1] Quarterly GDP estimates were released for the first time in August 2007 along with a revised annual GDP series.

[2] Base money is now expected to grow by 14.7 at end-year 2007, albeit moderating from 19 percent at end-September 2007.

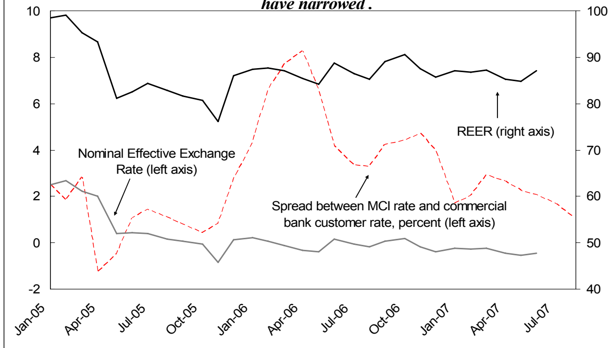
Figure 1. Recent Economic Development, 2005-2007



Sources: Mozambican authorities; and IMF staff estimates.

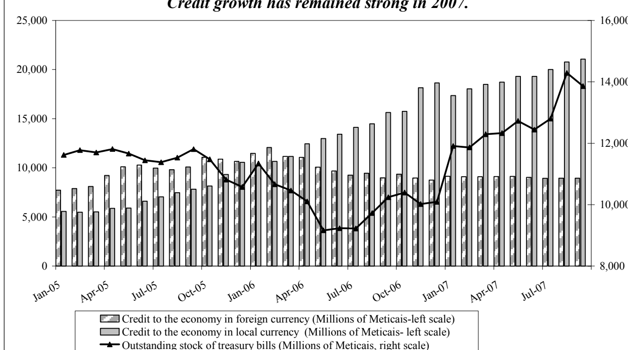
4. **The Bank of Mozambique (BM) has continued to reform its monetary and exchange rate operations.** It restored exchange rate flexibility when it removed the temporary band on the interbank foreign exchange market (MCI) in June 2007. Markets have remained calm; the spread between MCI rates and those quoted by banks has narrowed to less than 1 percent, and the real effective exchange rate (REER) is stable. However, one September structural benchmark has been delayed to November 2007 (agreement to shift the cost of monetary policy to the budget to enhance the BM's operational independence).

Foreign exchange markets remained calm while exchange rate spreads have narrowed .



5. **Financial intermediation continues to deepen** (Table 7). Growth in credit to the private sector stayed strong (at about 20 percent year-on-year) but has moderated in 2007, possibly because of higher domestic debt issuance for sterilization purposes. The banking system is sound (the share of nonperforming loans in the total is below 5 percent). The profitability of the banking system is high, albeit moderating over the last few quarters. Capital adequacy ratios remain comfortably above minimum requirements. Since July 2005, when a prudential measure calling for banks to provision 50 percent of their foreign currency-denominated loans to nonexporters took effect, foreign currency borrowing has continued to give way to domestic currency bank borrowing.

Credit growth has remained strong in 2007.



Sources: Mozambican authorities; and IMF staff estimates.
1/ Includes three-month Monetary Authority bills (TAM) up to May 2006.

6. **Fiscal performance through September 2007 is in line with the program.** Revenues are 0.1 percent of GDP above target, buoyed by tax collections, particularly on personal and corporate income. Expenditures were roughly as programmed despite emergency spending related to floods. Net credit to the government kept to the upward-adjusted target for June and was far below target in September because foreign aid disbursements, while delayed, exceeded expectations (MEFP Table 1). Priority expenditures as a share of total spending in June—while slightly below the 65 percent target in the PARPA—are expected to exceed the 2007 target once donor-financed project execution picks up toward the year's end. Overall, the fiscal program for 2007 is largely unchanged; higher revenues and program aid should offset the administrative costs related to the

upcoming elections, approved this October by the Assembly in a supplementary budget (Table 2).[3]

7. **The fiscal structural program is ahead of schedule** (MEFP Table 2, and ¶6–¶8). All but one of the tax policy measures for the 2008 budget has already been submitted to the assembly. PFM reforms have been implemented ahead of schedule, and the multicurrency treasury single account (CUT) is operational since September. The new mining and petroleum fiscal regimes are being put in place; the model contract for mining concessions and the petroleum sector were adopted on time (assessment criteria for end-June and end-September). For the transfer of ownership of Cahora Bassa dam from Portugal to Mozambique, an agreement has been reached with a consortium of international banks in October 2007. According to the World Bank, the agreement includes a nonrecourse financing clause (i.e., financing will not increase the government's liabilities to commercial creditors). Other structural measures have also advanced (MEFP ¶11–¶14).

II. Policy Framework[4]

A. Strengthening Fiscal Policy and Institutions to Manage Scaled-Up Aid

8. **Scaled-up foreign aid will mostly go toward achieving the MDGs** (Table 2 and MEFP ¶22). In the 2008 budget, aid is expected to be about US$350 million (about 5.5 percent of GDP) more than originally programmed (partly because of the euro's appreciation against the U.S. dollar). Priority public investments will increase significantly as a result (Table 6).[5] Expenditures cover costs related to upcoming municipal elections, the hiring of 12,000 teachers and 5,000 health workers, the reinforcement of security forces, and sufficient counterpart funds to ensure that donor-financed projects are executed smoothly. The budget also targets a domestic revenue effort of 0.5 percent of GDP (MEFP ¶22). A revenue loss related to the Southern African Development Community Free Trade Area Protocol (0.4 percent of GDP) will be offset by bringing a number of off-budget line items on budget in line with IMF technical assistance. As permitted under the PSI, which allows priority expenditures to increase if revenues or program aid outperform targets, the 2008 budget includes 0.5 percent of contingent spending.

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[3] The international community will not finance forthcoming elections (90 percent of past election costs were financed by foreign aid).

[4] See IMF Country Report No. 07/262 for more detail on the authorities' medium-term policy framework.

[5] This, combined with the higher increase in NIR, suggests that the authorities, while spending domestically, are smoothing the absorption of aid over a longer time period.

9. **Medium-term measures to mobilize revenue and enhance PFM systems will help consolidate fiscal and macroeconomic stability** (MEFP, ¶23–¶25). Given domestic and foreign investor interest in Mozambique—which recently surged to about US$20 billion—the tax system for small and medium-sized enterprises will be simplified and the 2002 code of fiscal benefits will be revised to rationalize tax incentives across key sectors, including agriculture and special economic zones. The authorities are also undertaking audits of VAT refunds and any related arrears payments to large infrastructure contractors.[6] In addition, the strategic plan of the AT to be supported by a common donor fund is being initiated; the plan calls for the entire chain of revenue collection to be computerized. The authorities medium-term PFM action plan and budget (APB) for 2008 also includes the following measures:

- Salary payments via e-SISTAFE will start in early 2008 (end-March benchmark) based on an integrated payroll database verified by all sectors. Validation of the database by the Administrative Tribunal will continue.
- The rollout of e-SISTAFE to 27 districts will be initiated in January 2008, and a business case with the additional districts and municipalities that will receive e-SISTAFE will be defined by June 2008 (structural benchmark).

10. **Improving public service delivery and accountability are key pillars of the public sector reform program** (MEFP, ¶38). A strategy to decentralize the revenue and expenditure responsibilities encompassing all government tiers will be defined by end-2007; this should improve public service delivery while maintaining fiscal control. A new wage policy to sharpen incentives and increase accountability is also being designed with the help of the World Bank. Action plans developed with the help of the World Bank will address concerns about governance results since the anticorruption strategy was adopted last year.

B. Fine-Tuning Monetary and Exchange Rate Policy

11. **A key monetary policy challenge is to sterilize the liquidity injected by government spending of foreign aid.** With a view to achieving its inflation target of 5-6 percent and anchoring expectations, the BM will limit base money growth to 14.4 percent in 2008 (MEFP, ¶26). Excess liquidity will be mopped up mostly through foreign exchange

Monetary Policy Mix

	2006		2007	
	Sept.	Dec.	Jun.	Sept.
	(Millions of MT)			
Total sterilization	8,572	11,887	7,838	11,491
Net foreign exchange sales	8,906	12,370	5,490	7,726
Net T-bill issuance	-334	-483	2,348	3,766
Memo:				
	(Percentage of total sterilization)			
Net foreign exchange sales	103.9	104.1	70.0	67.2
Net T-bill issuance	-3.9	-4.1	30.0	32.8
	(Millions of US$)			
Net foreign exchange sales	361.8	476.3	210.9	299.8

Source : Bank of Mozambique (BM)

[6] The government will develop an arrears payment schedule, if needed, and aim to include VAT charged on supplies of projects in the final price of a contract. The donors could also help by paying for VAT in public works projects and resist seeking tax exemptions.

sales (up to a maximum of the NIR floor); treasury bill issuances would smooth seasonal liquidity fluctuations. The authorities recognize that they may have relied excessively on treasury bill issuance for sterilization purposes in 2007 and are increasing sales of foreign exchange (MEFP, ¶27). A net redemption of treasury bills is programmed for 2008. The volatility of net capital flows (particularly foreign aid) and government spending patterns highlights the importance of closely monitoring liquidity and external conditions, and responding flexibly to changing circumstances. Now that the first generation of reforms has been successful, the BM can consider gradually moving to an inflation targeting framework as conditions permit in line with recent IMF technical assistance. The BM agreed on the following intermediate steps: (i) intensifying reliance on repurchase operations for short-term liquidity management; (ii) strengthening research and forecasting capacity; and (iii) measures to deepen debt markets, including allowing for outright operations in the secondary treasury bill market (structural benchmark for June 2008).

C. Acceleration of the Second Wave of Reforms

12. Second-generation reforms in 2008, with the help of the World Bank and other development partners, will include private sector development and stronger management of natural resources and megaprojects.

- **Improving the business environment.** While Mozambique is emerging as a regional reform champion, the staff encouraged the authorities to timely implement the action plan and reduce the costs of doing business (MEFP, ¶33–¶34). Financial sector reforms are also advancing, especially to introduce the International Financial Reporting Standards (IFRS) and risk-based supervision in the banking system, and deepen the nonbank financial sector (MEFP, ¶27–¶29).[7]

- **The fiscal and transparency regime will need to be strengthened further given the number of megaprojects and concessions in the pipeline.** The authorities are committed to adopting the regulations needed to implement the new mining and petroleum fiscal laws (structural benchmark for end-February 2008). The government reiterated that it would adhere to the principles of the Extractive Industries Transparency Initiative (EITI) (MEFP, ¶21). The process by which the Council of Ministers approves new projects, public-private partnerships (PPPs), and concessions will be strengthened to ensure that fiscal revenue are maximized and fiscal risks minimized (MEFP, ¶15).

[7] The mission liaised with an overlapping World Bank-led Financial Sector Technical Assistance Program mission on financial sector reform issues.

D. Other Issues

13. **Progress was made in reaching debt rescheduling agreements in the context of the enhanced Heavily Indebted Poor Country (HIPC) Initiative and reducing external vulnerability** (Table 8 and MEFP, ¶18).[8] The authorities completed the buyback of its commercial debt (US$153 million) in October 2007 at the price of 9 cents per dollar with the assistance of the international community. Discussions are ongoing with Russia on mechanisms to cancel debt. In the context of the enhanced HIPC initiative, the government advanced bilateral debt rescheduling by concluding negotiations with Hungary and Romania. Negotiations with Bulgaria and Libya are ongoing, and discussions with Iraq and Portugal have been scheduled. [9]

14. **Mozambique has committed to introduce current account convertibility.** A new foreign exchange law was submitted to the Assembly in September 2007. After it is approved and related regulations are issued, the authorities intend to accept their obligations under Article VIII sections 2, 3, and 4 of the Fund's Articles of Agreement (MEFP, ¶30).

15. **The statistical agency has revised its historical national accounts series**, and is seeking further assistance to improve statistics through a sector-wide financing approach.

III. Program Monitoring and Risks

16. **The second review of the PSI is expected to be completed by end-June 2008, conditional on the authorities meeting the end-December 2007 quantitative and structural assessment criteria (MEFP, Tables 1 and 3).** The government intends to continue to monitor its program through the multidisciplinary committee. A centralized unit will also be created to collect and disseminate information on megaprojects and state-owned and public-participating enterprises by end-March 2008 (MEFP, ¶35).

17. **The risks to the program include natural calamities, a surge in international oil prices, and spending pressure during election times.**

18. **The mission had a retreat with the Mozambique World Bank team in Maputo to update the joint work programs for 2008.** Staffs discussed macrocritical sectoral issues; shared recent analytic and diagnostic work; and coordinated work programs, including TA missions and the timing of the next Debt Sustainability Analysis. The staffs agreed that the retreat was useful and should be repeated in the future.

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[8] The program for 2008 allows US$5 million of nonconcessional borrowing consistent with the 2008 budget.

[9] Libya did not agree on the debt restructuring terms comparable to the Paris Club and considered litigation.

IV. Staff Appraisal

19. **The 2007 program has been implemented satisfactorily through September 2007**; all but one of the quantitative assessment criteria for end-June 2007 and all structural assessment criteria through end-September 2007 were observed. Base money narrowly missed the end-June target because of increased money demand. All but one of the structural benchmarks through September 2007 were also met.

20. **Economic performance has been strong so far in 2007, despite climatic and oil price shocks.** Economic growth slowed to 7.6 percent in the first semester. Thanks to prudent fiscal and monetary policies, inflation is expected to stay in the single digits, albeit somewhat higher than programmed in line with higher international oil prices. Despite a marked decrease in traditional exports and higher oil imports, NIR should remain at a comfortable level.

21. **Economic prospects for 2008 and the medium term are good.** Growth should continue to be robust and inflation should decelerate, though natural calamities, an increase in international oil prices, and spending pressures during election times pose some risk. The external current account is expected to widen as aid is scaled up.

22. **To sustain growth as aid is scaled up, the authorities' strategy is to consolidate macroeconomic stability while accelerating the second-generation of reforms.** Fiscal policy will be strengthened so that additional priority spending is sustainable and to ensure that aid-financed expenditures reach the most productive sectors. Reforms to reduce the cost of doing business and buttress the management of natural resources also figure prominently. Monetary control will need to anchor inflationary expectations; the flexible exchange rate regime will help cushion against exogenous shocks.

23. **The 2008 fiscal framework envisages a continued revenue effort and spending most of scaled-up foreign aid.** To maintain economic stability, it targets a 0.5 percent of GDP rise in domestic revenue. Priority expenditures will make up more than 65 percent of total spending, significantly above the 2007 level. The budget also identifies 0.5 percent of contingent priority spending that could be executed if revenue or program aid outperforms expectations. The rollout of e-SISTAFE to all public entities (central and provincial) and a number of districts in early 2008 should improve expenditures monitoring. Now that the multicurrency CUT is operational, staff supports the authorities' call on the international community to bring their projects, including common funds on CUT and e-SISTAFE (MEFP ¶8).

24. **Public sector and governance reforms need to be monitored closely.** As the authorities seek to increase the revenue-raising and spending responsibilities of subnational units, it would be important to define a decentralization strategy that ensures macroeconomic stability as well as takes into account the capacity of districts and municipalities to absorb

and account for resources. In addition, borrowing by the provinces should be ruled-out and reporting mechanisms should be established to facilitate fiscal coordination with the center. A new wage policy is needed to retain and recruit frontline workers including economic and financial managers but must be fiscally sustainable. The authorities' commitment to decisively carry out their anticorruption strategy would ease governance concerns.

25. **With fine-tuning, the monetary policy framework should help consolidate price stability.** In this regard, the staff encourages the BM to rely more on foreign exchange sales to mop up excess liquidity. Given its success with first-generation reforms, the BM could consider gradually moving to a monetary policy framework that targets inflation as conditions permit.

26. **To create a level playing field for investors, it will be important to timely execute the action plan to reduce the costs of doing business.**

27. **Mozambique's expanding financial system is sound**. Risk-based supervision and the IFRS should foster bank stability. Steps to restructure the national pension fund (INSS) and better supervise the growing nonbank financial sector are also important.

28. **More fiscal transparency in megaprojects, public-private partnerships, and concessions would enhance their economic returns.** Regulations to the new Mining and Petroleum Fiscal Regime laws must be issued on time to ensure that all new projects are subject to the new fiscal regime. The staff welcomes the authorities' commitment to adhere to the EITI principles. Megaprojects, PPPs, and concessions must be selected and monitored more systematically to safeguard fiscal sustainability.

29. **The staff welcomes advances in debt rescheduling and exchange system reforms.** It looks forward to the approval of the new foreign exchange law and regulations consistent with Article VIII, Sections 2, 3, and 4 of the Fund Articles of Agreement. The authorities are encouraged to continue to negotiate with external creditors and agree on terms consistent with those of the Paris Club.

30. **Based on performance to date and the strength of the program, the staff recommends completion of the first review of the PSI, a waiver for the non-observance of the quantitative assessment criterion on base money, and modification of the assessment criterion on base money for end-year 2007.**

31. **The staff welcomes the authorities' intent to make public the staff report, the letter of intent, and the MEFP.**

Table 1. Mozambique: Selected Economic and Financial Indicators, 2005–10 1/

	2005	2006	2007		2008		2009	2010
	Act.	Act.	Orig. Prog.	Prog.	Orig. Prog.	Prog.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Nominal GDP (millions of MT)	151,707	173,566	220,150	200,419	249,051	226,786	255,723	287,815
Nominal GDP growth	17.9	14.4	13.9	15.5	13.1	13.2	12.8	12.5
Real GDP growth	8.4	8.0	7.0	7.0	7.0	7.0	7.0	7.0
GDP per capita (US$)	336	347	397	378	421	410	441	476
Consumer price index (annual average)	6.4	13.2	6.4	7.9	5.7	5.7	5.4	5.1
Consumer price index (end of period)	11.2	9.4	6.0	8.0	5.5	5.5	5.3	5.0
External sector								
Merchandise exports	16.1	36.4	7.9	4.3	-1.5	0.4	2.4	6.3
Merchandise exports, excluding megaprojects	6.0	41.3	22.6	1.2	13.7	19.6	19.9	21.3
Merchandise imports	21.2	18.1	8.4	5.9	5.0	13.8	4.2	5.1
Merchandise imports, excluding megaprojects	19.3	8.3	13.4	11.5	7.2	18.5	5.3	5.2
Terms of trade	11.1	34.8	1.9	7.0	-20.5	-11.7	-13.3	-13.6
Nominal effective exchange rate (end of period) 2/	-14.0	-3.0	...	...	...	...	...	...
Real effective exchange rate (end of period) 2/	-6.3	1.8	...	...	...	...	...	...
	(Annual changes in percent of beginning-of-period stock of money, unless otherwise indicated)							
Money and credit								
Net foreign assets	23.1	31.3	10.4	18.5	3.0	10.5	4.6	3.4
Net domestic assets	4.0	-7.9	5.7	2.4	12.5	7.6	12.4	14.5
Of which: net credit to the government 3/	-2.2	-9.6	1.0	0.6	-2.4	-0.4	-0.2	-0.5
credit to the economy	22.5	14.3	15.9	10.8	17.0	10.3	14.6	16.5
M2 (12-month percent change)	22.1	25.8	16.2	20.1	15.4	18.1	17.9	17.9
Velocity (GDP/M2)	5.5	5.0	5.4	4.8	5.3	4.6	4.4	4.2
Interest rate for 90-day treasury bills (percent; end of period)	10.0	16.3	...	...	...	...	...	...
	(Percent of GDP)							
Investment and saving								
Gross domestic investment	18.7	19.3	28.8	23.9	28.9	25.3	24.6	23.8
Government	8.6	12.3	14.4	16.7	13.5	17.8	16.9	15.9
Other sectors	10.1	7.1	14.5	7.2	15.4	7.4	7.6	7.8
Gross domestic savings (excluding grants)	1.9	3.1	10.9	3.2	11.8	2.5	3.3	4.4
Government	0.2	0.9	0.0	0.0	0.7	0.0	0.8	1.4
Other sectors	1.7	2.3	10.9	3.1	11.1	2.6	2.5	2.9
Current account, before grants	-16.8	-16.2	-17.9	-20.7	-17.0	-22.8	-21.3	-19.4
Government budget								
Total revenue	14.1	15.6	14.5	16.1	15.0	16.7	17.2	17.9
Total expenditure and net lending	22.9	28.0	30.5	34.4	29.0	36.7	35.4	34.2
Overall balance, before grants	-8.9	-12.7	-15.9	-18.3	-14.0	-20.0	-18.1	-16.3
Total grants	6.6	11.0	11.5	12.8	10.7	13.8	12.5	11.4
Overall balance, after grants	-2.3	-1.7	-4.5	-5.5	-3.3	-6.2	-5.6	-5.0
Domestic primary balance	-1.9	-2.1	-2.7	-3.3	-2.6	-3.5	-3.2	-2.8
External financing (incl. debt relief) 4/	3.6	5.1	5.2	6.5	4.3	6.7	5.6	5.1
Net domestic financing	-1.5	-3.4	-0.7	-1.1	-1.0	-0.5	-0.1	-0.1
Privatization 4/	0.3	0.0	0.0	0.1	0.0	0.1	0.0	0.0
	(Percent of exports of goods and nonfactor services)							
External debt service (nonfinancial public sector)								
scheduled, after additional bilateral assistance and MDRI	2.0	1.2	0.7	1.1	0.9	0.7	1.1	1.7
	(Millions of US$, unless otherwise indicated)							
Overall balance of payments	-57	139	74	223	54	116	75	59
Net international reserves (end of period)	943	1,229	1,300	1,450	1,354	1,566	1,641	1,700
Gross international reserves (end of period)	1,103	1,241	1,315	1,464	1,369	1,581	1,656	1,715
In months of imports of goods and nonfactor services	4.6	4.4	4.2	4.7	4.2	4.5	4.5	4.5
In months of imports of goods and nonfactor services, excl. megaprojects	5.7	6.8	5.3	6.0	5.2	5.5	5.4	5.4
In months of imports of goods and nonfactorservices, excl. megaprojects and foreign financed capital imports	...	7.3	7.1	8.2	6.8	8.1	8.3	8.1
Exchange rate (MT per U.S. dollar; end of period)	24.2	26.0	...	...	…	…	…	…

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

Note: Takes into account IMF delivery of MDRI in January 2006 and reflects changes in quantitative targets in line with projected program adjustors.

1/ 2004 and 2005 data incorporate revisions in GDP. Projections exclude several megaprojects such as the Moatize coal mine project, Cahora Bassa transfer, and petroleum exploration.

2/ Minus sign indicates depreciation.

3/ Includes the issuance of government securities for the central bank recapitalization in years 2005-07.

4/ Includes movement in the government account set abroad with the proceed of the Moatize coal mine concession.

Table 2. Mozambique: Government Finances, 2005-10

	2005	2006	2007		2008		2009	2010
	Act.	Act.	Orig. Prog.	Prog.	Orig. Prog.	Prog.	Proj.	Proj.
				(Millions of MT)				
Total revenue	21,418	26,997	31,941	32,274	37,256	37,773	44,061	51,437
Tax revenue	18,534	23,313	27,852	28,102	32,163	32,695	37,831	45,588
Taxes on income and profits	4,469	6,367	7,241	7,627	9,165	10,004	12,799	17,730
Taxes on goods and services	10,873	13,031	15,974	15,874	18,012	18,892	21,063	23,827
Of which : on petroleum products	1,806	1,830	2,768	2,545	3,199	3,155	3,396	3,635
Taxes on international trade	2,816	3,284	3,936	3,957	4,203	3,124	3,202	3,163
Other taxes	376	632	701	644	783	676	766	869
Nontax revenue	2,884	3,683	4,089	4,171	5,093	5,078	6,230	5,849
Total expenditure and net lending	34,734	48,546	67,052	68,896	72,171	83,220	90,409	98,461
Current expenditure	21,092	25,518	31,841	32,175	35,489	37,886	41,960	47,315
Compensation to employees	10,691	12,994	15,683	15,920	17,944	18,815	20,588	23,161
Goods and services	5,012	6,274	7,812	8,556	8,703	10,076	10,581	11,901
Interest on public debt	1,248	1,380	2,238	1,326	1,877	1,651	2,187	2,014
Domestic	789	916	1,818	889	1,271	1,122	1,481	1,285
External	459	464	420	437	606	529	707	729
Transfer payments	4,141	4,869	6,109	6,372	6,965	7,343	8,603	10,238
Domestic current primary balance	1,574	2,859	2,338	1,425	3,643	1,538	4,289	6,137
Capital expenditure	12,971	21,292	31,667	33,374	33,526	40,450	43,317	45,775
Grant finance projects	1,918	4,220	11,767	11,272	12,272	12,860	13,161	13,429
Projet loans	3,148	5,172	4,331	6,607	4,516	7,576	7,754	7,912
Locally financed	4,335	6,102	8,527	8,235	10,250	9,612	12,703	14,537
Grant-financed special programs	2,151	4,164	5,075	5,384	5,293	8,555	8,755	8,933
Direct financing	869	1,185	952	908	988	923	945	964
Expenditure financed with fund for the concession mine of Tete	550	450	1,014	968	207	923	0	0
Net lending	671	1,736	3,544	3,348	3,155	4,884	5,132	5,371
Of which : locally financed	-94	-24	-156	-156	-178	-176	-201	-230
Domestic primary balance, before grants, above the line 1/	-2,667	-3,218 5,349	-6,033	-6,654	-6,429	-7,897	-8,213	-8,171
Unallocated revenue (+)/expenditure (-) 2/	-141	-507	0	0	0	0	0	0
Overall balance, before grants (below the line)	-13,457	-22,056	-35,111	-36,623	-34,915	-45,447	-46,348	-47,024
Grants received	9,975	19,124	25,313	25,618	26,661	31,334	32,067	32,720
Project	4,938	9,569	17,795	17,564	18,552	22,338	22,861	23,326
Nonproject	5,037	5,940	7,519	8,054	8,109	8,996	9,206	9,394
MDRI assistance via the central bank 3/	0	3,615		0	0	0	0	0
Overall balance, after grants	-3,482	-2,932	-9,797	-11,005	-8,254	-14,113	-14,281	-14,304
Central bank transfer of HIPC Initiative assistance by the IMF	388	0	0	0	0	0	0	0
Net external financing	5,035	8,767	11,521	13,012	10,628	15,193	14,438	14,715
Disbursements	5,219	9,401	10,768	12,773	10,646	15,275	15,787	16,267
Project	3,148	5,172	4,331	6,607	4,516	7,576	7,754	7,912
Nonproject	2,071	4,229	6,438	6,166	6,129	7,699	8,033	8,356
Cash amortization	-734	-1,084	-261	-730	-224	-1,006	-1,349	-1,552
Investment abroad 4/	550	450	1,014	968	207	923	0	0
Net domestic financing 5/	-2,335	-5,835	-1,828	-2,111	-2,493	-1,202	-157	-411
Of which: MDRI from the IMF		-3,615						
Privatization	394	0	104	104	119	122	0	0
Memorandum items:								
MDRI debt relief from IDA	... .	31,897	...	...	...	...	...	...
MDRI debt relief from the AfDF	... .	11,233	...	...	...	...	...	...
MDRI saving on total debt service	... .	1065	1,215	1,215	1079	1031	1040	1218
Domestic primary balance, before grants, below the line 1/	-2,808	-3,725	-6,033	-6,654	-6,429	-7,897	-8,213	-8,171
Balance on MDRI deposit account with the central bank	0	2,687	1,792	1,792	897	897	0	0
Grants and loan disbursements 6/	15,194	28,525	36,082	38,391	37,307	46,609	47,854	48,987
Bonds issuance for strengthening the balance sheet of the central bank	1,500	1,501	1,500	1,500	0	0	0	0
Nominal GDP	151,707	173,566	220,150	200,419	249,051	226,786	255,723	287,815

Table 2. Mozambique: Government Finances, 2005-10 (Concluded)

	2005	2006	2007		2008		2009	2010
	Act.	Act.	Orig. Prog.	Prog.	Orig. Prog.	Prog.	Proj.	Proj.
	(Percent of GDP, unless otherwise specified)							
Total revenue	14.1	15.6	14.5	16.1	15.0	16.7	17.2	17.9
Tax revenue	12.2	13.4	12.7	14.0	12.9	14.4	14.8	15.8
Taxes on income and profits	2.9	3.7	3.3	3.8	3.7	4.4	5.0	6.2
Taxes on goods and services	7.2	7.5	7.3	7.9	7.2	8.3	8.2	8.3
Of which: on petroleum products	1.2	1.1	1.3	1.3	1.3	1.4	1.3	1.3
Taxes on international trade	1.9	1.9	1.8	2.0	1.7	1.4	1.3	1.1
Other taxes	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	1.9	2.1	1.9	2.1	2.0	2.2	2.4	2.0
Total expenditure and net lending	22.9	28.0	30.5	34.4	29.0	36.7	35.4	34.2
Current expenditure	13.9	14.7	14.5	16.1	14.2	16.7	16.4	16.4
Compensation to employees	7.0	7.5	7.1	7.9	7.2	8.3	8.1	8.0
Goods and services	3.3	3.6	3.5	4.3	3.5	4.4	4.1	4.1
Interest on public debt	0.8	0.8	1.0	0.7	0.8	0.7	0.9	0.7
Domestic	0.5	0.5	0.8	0.4	0.5	0.5	0.6	0.4
External	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3
Transfer payments	2.7	2.8	2.8	3.2	2.8	3.2	3.4	3.6
Domestic current primary balance	1.0	1.6	1.1	0.7	1.5	0.7	1.7	2.1
Capital expenditure	8.6	12.3	14.4	16.7	13.5	17.8	16.9	15.9
Of which: locally financed	2.9	3.5	3.9	4.1	4.1	4.2	5.0	5.1
Net lending	0.4	1.0	1.6	1.7	1.3	2.2	2.0	1.9
Of which : locally financed	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Domestic primary balance, above the line 1/	-1.8	-1.9	-2.7	-3.3	-2.6	-3.5	-3.2	-2.8
Unallocated revenue (+)/expenditure (-) 2/	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, before grants (below the line)	-8.9	-12.7	-15.9	-18.3	-14.0	-20.0	-18.1	-16.3
Grants received	6.6	11.0	11.5	12.8	10.7	13.8	12.5	11.4
Project	3.3	5.5	8.1	8.8	7.4	9.8	8.9	8.1
Nonproject	3.3	3.4	3.4	4.0	3.3	4.0	3.6	3.3
MDRI assistance via the central bank 3/	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, after grants	-2.3	-1.7	-4.5	-5.5	-3.3	-6.2	-5.6	-5.0
Central bank transfer of HIPC assistance by the IMF	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external financing	3.3	5.1	5.2	6.5	4.3	6.7	5.6	5.1
Disbursements	3.4	5.4	4.9	6.4	4.3	6.7	6.2	5.7
Project	2.1	3.0	2.0	3.3	1.8	3.3	3.0	2.7
Nonproject	1.4	2.4	2.9	3.1	2.5	3.4	3.1	2.9
Cash amortization	-0.5	-0.6	-0.1	-0.4	-0.1	-0.4	-0.5	-0.5
Investment abroad 4/	0.4	0.3	0.5	0.5	0.1	0.4	0.0	0.0
Net domestic financing 5/	-1.5	-3.4	-0.8	-1.1	-1.0	-0.5	-0.1	-0.1
Privatization	0.3	0.0	0.0	0.1	0.0	0.1	0.0	0.0
Memorandum items:								
Domestic primary balance, before grants, below the line 1/	-1.9	-2.1	-2.7	-3.3	-2.6	-3.5	-3.2	-2.8
Balance on MDRI deposit account with the central bank	0.0	1.5	0.8	0.9	0.4	0.4	0.0	0.0
Grants and loans disbursements 6/	10.0	16.4	16.4	19.2	15.0	20.6	18.7	17.0
Bonds issuance for strengthening the balance sheet of the central bank	1.0	0.9	0.7	0.7	0.0	0.0	0.0	0.0
Nominal GDP (Millions of meticais)	151,707	173,566	220,150	200,419	249,051	226,786	255,723	287,815

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

1/ Revenue minus noninterest current expenditure minus locally financed capital expenditure and locally financed net lending. Unallocated revenue and expenditure are included in the primary balance.

2/ Residual discrepancy between identified sources and use of funds.

3/ Includes the transfer of both MDRI and HIPC assistance from the central bank to the budget in 2006.

4/ Tracks the movements in the government account set up abroad with the proceeds of the Moatize coal mine

5/ Excludes recapitilization bonds issued to the Bank of Mozambique and proceeds of the Moatize coal mine concession.

6/ Assumes a constant level of foreign aid disbursements in US$ from 2008 onwards.

Table 3. Mozambique: Monetary Survey, 2005–10

	2005	2006	2007		2008		2009	2010
	Act.	Act.	Orig. Prog.	Prog.	Orig. Prog.	Prog.	Proj.	Proj.
			(Millions of MT, unless otherwise specified)					
Central bank								
Net foreign assets	26,113	34,348	38,808	40,230	40,294	43,400	46,435	49,014
(millions of US$)	1,080	1,323	1,380	1,531	1,399	1,612	1,687	1,746
Net international reserves	22,809	31,912	36,566	38,093	39,009	42,152	45,159	47,712
(millions of U.S. dollars)	943	1,229	1,300	1,450	1,354	1,566	1,641	1,700
Medium- and long-term foreign liabilities	-3	-11	-11	-17	-11	-17	-17	-17
(millions of US$)	0	0	0	-1	0	-1	-1	-1
Other	3,308	2,447	2,253	2,154	1,296	1,265	1,293	1,319
(millions of US$)	137	94	80	82	45	47	47	47
Net domestic assets	-13,929	-19,612	-22,788	-23,326	-22,552	-24,066	-24,586	-24,364
Credit to government (net)	-15,168	-17,433	-16,820	-19,454	-15,192	-19,194	-18,651	-17,462
Credit to banks (net)	408	552	1,175	-26	730	-24	-95	-122
Credit to the economy	1	16	16	16	16	16	16	16
Other items (net; assets +)	831	-2,747	-7,159	-3,862	-8,107	-4,864	-5,856	-6,796
Reserve money	12,185	14,736	16,020	16,904	17,742	19,334	21,849	24,650
Currency outside banks	6,110	7,152	7,272	8,434	7,695	9,614	10,775	11,844
Bank reserves	6,075	7,584	8,748	8,470	10,047	9,720	11,074	12,806
Currency in banks	1,226	1,637	2,377	1,699	2,319	1,872	2,021	2,071
Deposits	4,849	5,947	6,371	6,771	7,728	7,848	9,053	10,735
Required reserves	4,913	6,090	6,344	6,377	7,694	7,448	8,653	10,335
Free reserves	-64	-143	27	394	33	400	400	400
Deposit money banks						1.133		
Net foreign assets	8,270	13,618	14,748	17,663	15,106	21,292	21,767	22,200
(millions of US$)	342	524	524	672	524	791	791	791
Net domestic assets	29,061	32,816	40,232	38,688	49,061	45,610	57,009	71,544
Banks' reserves	6,015	7,687	8,748	8,470	10,047	9,720	11,074	12,806
Credit to central bank (net)	-235	-209	-1,175	26	-730	24	95	122
Credit to government (net)	7,748	5,823	5,742	8,161	2,608	7,620	6,920	5,320
Credit to the economy	21,215	27,398	35,930	33,186	46,508	39,868	51,016	65,827
Other items (net; assets +)	-5,681	-7,883	-9,013	-11,155	-9,371	-11,621	-12,097	-12,530
Deposits	37,331	46,434	54,980	56,352	64,167	66,902	78,776	93,745
Demand and savings deposits	26,177	31,240	36,615	37,239	43,092	44,462	52,548	62,807
Time deposits	11,154	15,194	18,365	19,113	21,075	22,440	26,228	30,938
Monetary survey								
Net foreign assets	34,383	47,966	53,556	57,894	55,400	64,691	68,202	71,214
Net domestic assets	9,058	5,620	8,696	6,892	16,462	11,824	21,349	34,375
Domestic credit	13,795	15,803	24,868	21,909	33,940	28,310	39,302	53,701
Credit to government (net)	-7,420	-11,610	-11,078	-11,293	-12,584	-11,574	-11,731	-12,142
Credit to the economy	21,215	27,414	35,946	33,202	46,524	39,884	51,032	65,843
Other items (net; assets +)	-4,737	-10,183	-16,172	-15,016	-17,478	-16,486	-17,953	-19,326
Money and quasi money (M3)	43,441	53,586	62,253	64,786	71,862	76,516	89,551	105,589
Foreign currency deposits	15,793	18,809	21,851	23,032	25,224	27,214	31,432	37,061
(Millions of US$)	653	724	777	876	876	1,011	1,142	1,321
M2	27,648	34,777	40,402	41,754	46,639	49,301	58,119	68,527
Currency outside banks	6,110	7,152	7,272	8,434	7,695	9,614	10,775	11,844
Domestic currency deposits	21,538	27,625	33,130	33,320	38,943	39,688	47,344	56,683
Memorandum items:								
Currency in circulation (millions of MT)	7,336	8,789	9,649	10,133	10,015	11,486	12,796	13,915
MDRI assistance via the central bank 1/ (millions of US$)	0	154	0	0	0	0	0	0
Balance on MDRI deposit account with the central bank 2/	0	0	-1,792	-1,792	-897	-897	0	0
	(Annual growth in percentage of beginning of period M3, unless otherwise specified)							
Net foreign assets	23.1	31.3	10.4	18.5	3.0	10.5	4.6	3.4
Net domestic assets	4.0	-7.9	5.7	2.4	12.5	7.6	12.4	14.5
Credit to government (net)	-2.2	-9.6	1.0	0.6	-2.4	-0.4	-0.2	-0.5
Credit to the economy	22.5	14.3	15.9	10.8	17.0	10.3	14.6	16.5
Other items (net; asset +)	-16.3	-12.5	-11.2	-9.0	-2.1	-2.3	-1.9	-1.5
Broad money (M3) (12-month change in percent)	27.1	23.4	16.2	20.9	15.4	18.1	17.0	17.9
M2 (12-month change in percent)	22.1	25.8	16.2	20.1	15.4	18.1	17.9	17.9
M3-to-GDP ratio (percent)	28.6	30.9	28.3	32.3	28.9	33.7	35.0	36.7
M2-to-GDP ratio (percent)	18.2	20.0	18.4	20.8	18.7	21.7	22.7	23.8
Credit to the economy (12-month change in percent)	57.0	29.2	31.1	21.1	29.4	20.1	28.0	29.0
Credit to the economy-to-GDP ratio (percent)	14.0	15.8	16.3	16.6	18.7	17.6	20.0	22.9
Currency outside banks-to-M3 ratio (percent)	14.1	13.3	11.7	13.0	10.7	12.6	12.0	12.0
Foreign currency deposits-to-M3 ratio (percent)	36.4	35.1	35.1	35.6	35.1	35.6	35.1	35.1
Reserve money growth (12 month change in percent) 3/	16.8	20.9	8.7	14.7	10.8	14.4	13.0	12.8
Money multiplier (M2/reserve money)	2.3	2.4	2.5	2.5	2.6	2.6	2.7	2.8
Velocity (GDP/M2)	5.5	5.0	5.4	4.8	5.3	4.6	4.4	4.2
Nominal GDP growth	17.9	14.4	13.9	15.5	13.1	13.2	12.8	12.5

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

Note: The new family of meticais (MT) was introduced in July 2006. Values in this tables have been thus converted to MT for ease of comparison.

1/ Mozambique's liability to the Fund rests with the Bank of Mozambique. MDRI assistance is immediately transferred to a government blocked deposit account at the Bank of Mozambique.

2/ Balance declines from MDRI assistance by 0.5 percent of GDP corresponding to an agreed increase in government expenditures contingent on MDRI assistance.

3/ On an annual average basis from December 2006 to December 2007, reserve money growth is 15.5 percent.

Table 4. Mozambique: Balance of Payments, 2005–10
(Millions of US$, unless otherwise specified)

	2005	2006	2007		2008		2009	2010
	Act.	Act.	Orig. Prog.	Proj.	Orig. Prog.	Proj.	Proj.	Proj.
Trade balance	-721	-533	-539	-602	-732	-1,017	-1,105	-1,130
Exports, f.o.b.	1,745	2,381	2,580	2,483	2,542	2,494	2,553	2,714
Megaprojects	1,263	1,699	1,719	1,793	1,563	1,669	1,564	1,514
Other exports	483	682	861	690	979	825	989	1,200
Imports, c.i.f.	-2,467	-2,914	-3,119	-3,085	-3,275	-3,511	-3,658	-3,843
Megaprojects	-423	-701	-630	-618	-607	-586	-579	-605
Other imports	-2,044	-2,213	-2,489	-2,468	-2,668	-2,925	-3,079	-3,239
Services and incomes (net)	-381	-592	-917	-1,005	-771	-940	-909	-896
Receipts	464	558	597	560	624	593	633	684
Expenditures	-846	-1,150	-1,514	-1,565	-1,396	-1,533	-1,541	-1,580
Of which: interest on public debt	-22	-30	-20	-16	-26	-21	-32	-43
Current account, before grants	-1,103	-1,125	-1,456	-1,607	-1,504	-1,957	-2,014	-2,026
Unrequited official transfers	461	2,570	950	1,023	966	1,223	1,224	1,212
Of which: MDRI relief from the IMF		120	0	0	0	0	0	0
MDRI relief from IDA		1,319	0	0	0	0	0	0
MDRI relief from AfDF		465	0	0	0	0	0	0
Of which: HIPC grant from the IMF	15	34	0	0	0	0	0	0
Current account, after grants 1/	-642	1,445	-506	-584	-538	-733	-789	-814
Capital account	347	-1,422	580	807	592	850	865	873
Trade credit (net)	5	-32	0	0	0	0	0	0
Foreign borrowing	463	603	572	752	593	848	971	1,015
Public (including IMF)	221	370	354	494	348	579	585	590
Private 3/	242	233	218	258	244	269	386	425
Amortization	-251	-2,147	-307	-320	-328	-326	-384	-409
Public	-71	-1,954	-16	-30	-18	-16	-18	-19
Of which: IMF 2/	-30	-154	0	0	0	0	0	0
Private	-179	-193	-290	-290	-310	-310	-366	-390
Direct investment (net)	105	154	299	321	304	343	367	393
Of which: Moatize coal mine	0	0	0	0	0	0	0	0
Other investment of the government 4/	24	0	0	0	0	0	0	0
Short-term capital and errors and omissions (net)	238	115	0	0	0	0	0	0
of which change in commercial bank NFA (- = increase)	-78	182	0	148	0	119	0	0
Overall balance	-57	139	74	223	54	116	75	59
Financing	57	-139	-74	-223	-54	-116	-75	-59
Of which: Bank of Mozambique								
gross reserve assets (increase -)	57	-139	-74	-223	-54	-116	-75	-59
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Use of Fund credit (net)	-30	-149	2	2	0	0	0	0
Current account deficit (percent of GDP)								
Before grants	16.8	16.2	17.9	20.7	17.0	22.8	21.3	19.4
After grants	9.8	-20.8	6.2	7.5	6.1	8.5	8.3	7.8
Net international reserves	943	1,229	1,300	1,450	1,354	1,566	1,641	1,700
Gross international reserves	1,103	1,241	1,315	1,464	1,369	1,581	1,656	1,715
In months of imports of GNFS	4.6	4.4	4.2	4.7	4.2	4.5	4.5	4.5
In months of imports of GNFS, excluding megaprojects	5.7	6.8	5.3	6.0	5.2	5.5	5.4	5.4
In months of imports of goods and nonfactorservices, excl. megaprojects and foreign financed capital imports		7.3	7.1	8.2	6.8	8.1	8.3	8.1

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

1/ Since this presentation still follows the fourth balance of payments manual, MDRI and HIPC grants from the IMF are included in the current account.

2/ The large amortization in 2006 reflects the repayment of IMF debt with MDRI resources.
3/ Private borrowing, not guaranteed by the government or the Bank of Mozambique.
4/ Tracks the movements in the government account set up abroad with the proceeds of the coal mine concession.

Table 5. Mozambique: Balance of Payments of Megaprojects, 2002–12 1/

	2002 Act.	2003 Act.	2004 Act.	2005 Act.	2006 Prel.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
	(Millions of US$, unless otherwise specified)										
Trade balance	66	344	726	840	998	1,175	1,083	985	909	1,151	1,114
Exports, f.o.b.	468	681	1,049	1,263	1,699	1,793	1,669	1,564	1,514	1,988	1,925
Imports, c.i.f.	-402	-337	-322	-423	-701	-618	-586	-579	-605	-837	-811
Services and incomes (net)	-233	-228	-305	-455	-702	-1,016	-894	-856	-854	-724	-756
Current account, before grants	-167	116	421	385	295	159	189	128	55	426	358
Current account, after grants	-167	116	421	385	295	159	189	128	55	426	358
Capital account	644	229	-57	50	30	109	114	229	277	47	69
Foreign borrowing	439	62	5	110	114	134	151	261	294	313	333
Amortization	-40	-66	-117	-120	-129	-171	-187	-236	-266	-381	-388
Direct investment (net)	245	234	55	60	46	146	151	204	250	115	124
Overall balance before short-term capital inflows 2/	477	344	364	435	326	268	303	357	332	473	427

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

1/ Megaprojects include Mozal (aluminum production), Sasol (gas production and pipeline), the Cahora-Bassa dam (hydro-power), and two titanium ore projects.
2/ This line significantly overestimates the contribution of megaprojects to international reserve accumulation because most financial operations related to such products are conducted outside the domestic banking system. Only a small fraction of foreign exchange proceeds are actually repatriated in Mozambique. However, information on repatriation proceeds is not available.

Table 6. Mozambique: Expenditure in PARPA Priority Sectors, 2005-2008 1/

(Millions of MT, unless otherwise indicated)

	2005 Est.	2006 Est.	2007 Proj.	2008 Proj.
Total revenues	21,418	26,997	32,274	37,773
Total expenditure, excluding bank restructuring costs and net lending	34,063	46,810	65,549	78,335
Total expenditure (excl.bank restruct. costs, net lending, and interest payments)	32,815	45,430	64,222	76,684
Interest payments on public debt	1,248	1,380	1,326	1,651
Total expenditure in PARPA priority sectors	21,756	29,575	43,730	53,219
percent of GDP	14.3	17.0	21.8	23.5
percent of total expenditure (excl. bank restruct costs, net lending, and interest payments)	66.3	65.1	68.1	69.4
Education	6,542	9,109	13,111	14,110
Health	4,159	6,628	8,397	9,892
Infrastructure development	6,131	7,435	11,991	13,420
Agriculture and rural development	1,290	1,522	3,956	5,751
Governance and judicial system	2,913	5,671	4,214	6,595
Other priority areas	727	510	1,016	3,451
Total PARPA expenditures in percent of GDP				
Education	4.3	5.2	6.5	6.2
Health	2.7	3.8	4.2	4.4
Infrastructure development	4.0	4.3	6.0	5.9
Agriculture and rural development	0.9	0.9	2.0	2.5
Governance and judicial system	1.9	3.3	2.1	2.9
Other priority areas	0.5	0.3	0.5	1.5
Total PARPA expenditures in percent of total expenditures				
Education	19.9	20.1	20.4	18.4
Health	12.7	14.6	13.1	12.9
Infrastructure development	18.7	16.4	18.7	17.5
Agriculture and rural development	3.9	3.4	6.2	7.5
Governance and judicial system	8.9	12.5	6.6	8.6
Other priority areas	2.2	1.1	1.6	4.5

Source: Mozambican authorities (Ministry of Finance); and staff estimates and projections.
1/ PARPA stands for National Action Plan for the Reduction of Absolute Poverty, which is the Portuguese acronym.

Table 7. Mozambique: Financial Soundness Indicators for Banking Sector, 2001–07
(Percent unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007 1/
Capital adequacy							
Regulatory capital to risk-weighted assets	5.49	14.01	17.03	18.65	16.00	12.53	17.1
Regulatory Tier I capital to risk-weighted assets	6.03	11.97	14.67	15.97	13.57	10.72	14.14
Capital (net worth) to assets	8.22	9.42	9.01	9.51	8.04	6.06	7.06
Asset composition and quality							
Sectoral distribution of loans to total loans							
Agriculture	18.00	15.00	12.73	9.45	8.49	6.39	12.28
Industry	25.00	22.00	16.94	11.94	16.77	22.15	19.62
Construction	4.00	4.00	5.20	3.35	4.13	5.64	5.22
Commerce	20.00	17.00	18.13	21.29	27.36	27.40	25.72
Transportation and communication	7.00	5.00	7.08	7.19	5.83	6.15	7.21
Other	27.00	36.00	37.14	36.18	35.05	32.27	29.95
of which: Private 2/			7.63	12.12	13.03	13.54	14.29
Housing			7.10	8.18	4.24	4.07	4.09
Diverse 3/			22.41	15.87	17.78	14.66	10.32
Foreign exchange loans to total loans	64.69	69.87	70.77	67.33	63.91	45.04	30.49
Nonperforming loans to gross loans 4/	23.43	21.98	14.43	6.42	3.82	3.26	4.64
Nonperforming loans net of provisions to capital 4/	11.00	9.39	7.91	1.70	0.89	2.17	7.49
Earnings and profitability							
Return on assets	0.14	1.59	1.24	1.43	1.81	3.51	2.82
Return on equity	3.51	22.10	16.29	18.73	27.42	55.39	36.36
Interest margin to gross income	10.22	61.39	56.83	60.15	58.01	63.07	42.57
Noninterest expenses to gross income	16.92	67.03	72.18	71.24	65.85	54.10	47.19
Personnel expenses to noninterest expenses	51.71	44.67	45.68	45.21	45.35	44.35	43.19
Trading and fee income to gross income	33.09	39.68	45.49	41.87	43.78	32.15	53.87
Spread between reference loan and deposit rates (90 days, local currency)	14.00	19.00	17.39	14.67	11.48	14.57	
Funding and liquidity							
Liquid assets to total assets 5/	34.64	53.93	57.74	58.12	55.52	51.87	56.21
Customer deposits to total (non-interbank) loans	217.00	240.00	227.97	283.07	191.90	179.34	192.69
Foreign exchange liabilities to total liabilities	63.30	61.26	46.39	41.38	45.26	42.75	44.53

Source: Bank of Mozambique (BM).

1/ Data as of September 2007.
2/ Includes credit cards and consumer credit lines for vehicle and durable goods.
3/ Includes credit to all other sectors not discriminated above or yet to be identified.
4/ Nonperforming loans are defined according to Mozambican accounting standards (they include only part of the past-due loans).

Table 8. Mozambique: Indicators of External Vulnerability, 2005-08
(Percent of GDP, unless otherwise indicated)

	2005	2006	2007 Proj.	2008 Proj.
Financial indicators				
Net present value of public sector debt 1/ 2/	19.0	19.7	19.8	22.6
Broad money (percent change, 12-month basis)	27.1	23.4	20.9	18.1
Private sector credit (percent change, 12-month basis)	57.0	29.2	21.1	20.1
31 day T-bill yield 3/				
31 day T-bill yield (real) 4/				
External indicators				
Exports of goods (percent change, 12-month basis in US$)	16.1	36.4	4.3	0.4
Imports of goods c.i.f. (percent change, 12-month basis in US$)	21.2	18.1	5.9	13.8
Terms of trade (percent change, 12-month basis)	11.1	34.8	7.0	-11.7
Current account balance (after grants)	-9.8	20.8	-7.5	-8.5
Capital and financial account balance	5.3	-20.5	10.4	9.9
Of which : foreign direct investment (net)	1.6	2.2	4.1	4.0
Gross international reserves (millions of US$)	1,103	1,241	1,464	1,581
(months of imports of goods and services)	4.6	4.4	4.7	4.5
(months of imports of goods and services, excluding megaprojects)	5.7	6.8	6.0	5.5
Net international reserves (millions of US$)	943	1,229	1,450	1,566
Net international reserves (percent of foreign currency deposits)	144	170	165	155
Net foreign assets of commercial banks (millions of US$)	342	524	672	791
Total short-term external debt to reserves (in percent)	7.3	3.1	2.6	
Net present value of total external debt 1/ 2/	30.7	30.4	30.5	31.3
Net present value of public external debt-to-exports of goods and services (percent) 2/	31.1	24.6	33.3	45.2
Public external debt-service payments to exports of goods and services (percent) 3/	4.3	2.5	1.2	1.2
Exchange rate (MT per US$; end of period) 4/	24	26	...	...
Real effective exchange rate (end of period) 5/	-6.3	1.8	...	...

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

1/ Domestic public debt and private sector external debt are valued at par in the net present value calculation.

2/ Historical NPV estimates are based on previous debt sustainability analyses.

3/ Cash interest and amortization payments, after HIPC assistance.

4/ Official exchange rate.

5/ Minus sign indicates depreciation.

Table 9. Mozambique: Millennium Development Goals, 1990–2004

	1990	1994	1997	2000	2003	2004
Goal 1: Eradicate extreme poverty and hunger						
Income share held by lowest 20 percent	..	..	6.0	..	..	..
National household survey poverty incidence 2/	..	..	*69.4*	..	54.1	..
Malnutrition prevalence, weight for age (percentage of children under 5)	..	..	26.0	26.0	24.0	*24.0*
Poverty gap at 1 U.S dollar a day (PPP) (in percent)	..	..	*12.0*	..	..	..
Poverty headcount ratio at 1 U.S dollar a day (PPP) (percentage of population)	..	..	*38.0*	..	..	..
Poverty headcount ratio at national poverty line (percentage of population)	..	..	69.0	..	..	..
Prevalence of undernourishment (percentage of population)	..	..	58.0	..	45.0	*45.0*
Goal 2: Achieve universal primary education						
Literacy rate, youth total (percentage of people ages 15-24)	49.0	..	..	..	..	..
Persistence to grade 5, total (percentage of cohort)	..	..	..	52.0	..	..
Primary completion rate, total (percentage of relevant age group)	24.9	24.5	*25.4*	16.2	*22.1*	29.0
School enrollment, primary (percentage, net)	..	..	..	56.0	*56.0*	71.0
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliament (in percent)	16.0	..	25.0	*25.0*	30.0	30.0
Ratio of girls to boys in primary and secondary education (in percent)	..	..	..	75.1	*78.6*	82.3
Ratio of young literate females to males (percentage ages 15–24)	47.9	..	..	..	..	..
Share of women employed in the nonagricultural sector (in percent of total nonagricultural employment)	11.0	..	..	..	..	..
Goal 4: Reduce child mortality						
Immunization, measles (percentage of children ages 12–23 months)	59.0	65.0	61.0	71.0	77.0	77.0
Mortality rate, infant (per 1,000 live births)	158.0	..	..	122.0	..	104.0
Mortality rate, under-5 (per 1,000)	235.0	..	..	178.0	..	152.0
Goal 5: Improve maternal health						
Births attended by skilled health staff (in percent of total)	..	..	44.2	..	48.0	*48.0*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	1,000	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Children orphaned by HIV/AIDS	..	..	..	..	470,000	*470,000*
Contraceptive prevalence (percentage of women ages 15-49)	..	..	6.0	..	17.0	*17.0*
Incidence of tuberculosis (per 100,000 people)	167.1	..	..	..	..	460.2
Prevalence of HIV, female (percentage ages 15-24)	..	..	..	..	..	..
Prevalence of HIV, total (percentage of population ages 15-49)	..	..	..	..	12.0	*12.0*
Tuberculosis cases detected under DOTS (in percent)	..	..	46.8	44.5	45.5	45.9
Goal 7: Ensure environmental sustainability						
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	*0.1*	..
Forest area (percentage of land area)	26.0	..	..	25.0	..	..
GDP per unit of energy use (constant 2,000 PPP U.S. dollars per kilogram of oil equivalent)	1.0	2.0	2.0	2.0	2.0	*2.0*
Improved sanitation facilities (percentage of population with access)	..	..	..	..	*27.0*	..
Improved water source (percentage of population with access)	..	..	..	..	*42.0*	..
Nationally protected areas (percentage of total land area)	..	..	..	..	8.4	8.4
Goal 8: Develop a global partnership for development						
Aid per capita (current U.S. dollars)	74.7	78.3	56.6	49.0	54.5	63.2
Debt service (PPG and IMF only, percentage of exports, excluding workers' remittances)	17.0	30.0	18.0	2.0	5.0	3.0
Fixed line and mobile phone subscribers (per 1,000 people)	3.5	3.7	4.1	7.6	26.9	*26.9*
Internet users (per 1,000 people)	0.0	..	0.1	1.1	4.4	7.1
Personal computers (per 1,000 people)	..	..	1.8	3.3	5.0	5.8
Total debt service (percentage of exports of goods, services and income)	26.0	31.0	19.0	12.0	6.0	5.0
Unemployment, youth female (percentage of female labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth male (percentage of male labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth total (percentage of total labor force ages 15-24)	..	..	..	..	..	..
Other						
Fertility rate, total (births per woman)	6.2	..	5.9	5.7	5.4	5.4
GNI per capita, Atlas method (current U.S dollars)	170	140	170	210	230	270
GNI, Atlas method (billions of current U.S. dollars)	2.3	2.1	2.9	3.8	4.4	5.3
Gross capital formation (% of GDP)	22.1	25.5	20.6	33.5	25.9	20.1
Life expectancy at birth, total (years)	43.2	..	43.8	42.6	41.9	41.8
Literacy rate, adult total (percentage of people ages 15 and above)	33.5	..	..	..	..	..
Population, total (millions)	13.4	15.3	16.7	17.9	19.1	19.4
Trade (in percent of GDP)	44.2	62.1	41.9	61.3	72.3	68.3

Source: World Development Indicators database, April 2006; and Mozambican authorities.

1/ Figures in italics refer to periods other than those specified.

2/ A household survey was conducted between 1996–97 and 2002–03 to determine poverty incidence. The methodology included a basket of goods that satisfies basic calorie needs. The cost of this basket represents the food poverty line in each domain; a nonfood poverty line was also obtained. Households are defined as poor if their daily per capita expenditure is less than the total poverty line (sum of food and nonfood poverty lines).

Appendix I

Maputo, Mozambique
November 12, 2007

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. The Government of Mozambique is implementing a financial and economic program with support from the Fund through its Policy Support Instrument (PSI). We recently held discussions with the Fund staff on the first review of the new program approved by the Executive Board of the Fund on June 18, 2007. On behalf of the Government, we hereby transmit the attached Memorandum of Economic and Financial Policies (MEFP), which reviews recent economic developments, progress in the implementation of our 2007 objectives and policies, and sets out the policies that are consistent with our *Plano de Acção para a Redução da Pobreza Absoluta II* (PARPA II) and that the Government intends to pursue covering the period 2007-2010. The attached technical memorandum of understanding (TMU) defines the terms and conditions of the program.

2. Implementation of the 2007 program has been satisfactory through September 2007, with all but one of the quantitative assessment criteria (AC) for end-June 2007 and all structural assessment criteria through end-September 2007 observed. The end-June AC for base money was missed by a narrow margin because of an unanticipated increase in money demand. Because of the permanent nature of this increase, the government requests the modification of the related AC for end-December 2007. All structural benchmarks through September 2007 were met with the exception of the one related to the memorandum of understanding between the Ministry of Finance and the Bank of Mozambique for the shifting of the cost of managing monetary policy which will be agreed before end of November 2007. In light of the progress achieved in the implementation of our program, the Government of Mozambique requests a waiver for the non-observance of the quantitative AC on base money and the completion of the first review under the PSI.

3. The resources released as part of the MDRI have been incorporated in the execution of the 2007 budget and included in the medium-term fiscal framework (CFMP) to be spent on poverty-reducing priority expenditures identified in the PARPA II.

4. Looking ahead, the policies set out in the MEFP continue to aim to consolidate macroeconomic stability and sustain strong broad-based growth through a second wave of reforms in order to achieve the Millennium Development Goals (MDGs). The ACs for end-December 2007 for the second review (expected to be completed by end-June 2008) remain unchanged, except for the one on base money, set out in Tables 1 and 3 of the MEFP. Our PSI supported program also proposes ACs for end-June 2008 for the third review, which is expected to be completed by December 2008.

5. The Government of Mozambique intends to accept its obligations under Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement following the approval of the new foreign exchange law which was submitted to the Assembly in September 2007, and issuance of related regulations. The government remains committed to a flexible exchange rate regime.

6. The Government of Mozambique will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

7. The Government of Mozambique believes that the policies set forth in the MEFP are adequate to achieve the objectives of our PSI program; it will take additional measures to that end if deemed necessary. During the implementation of the program, the Government of Mozambique will consult with the Managing Director on the adoption of these measures and in advance of revisions to the policies contained in the PSI, at the initiative of the Government or whenever the Managing Director requests such a consultation.

Sincerely yours,

/ s /
Manuel Chang
Minister of Finance

/ s /
Ernesto Gouveia Gove
Governor
Bank of Mozambique

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I

Memorandum of Economic and Financial Policies of the Government of Mozambique for the First Review of the PSI Supported-Program (June 2007–June 2010)

November 12, 2007

1. The Government of Mozambique is committed to continuing to consolidate macroeconomic stability and to achieve sustained economic growth and poverty reduction through the pursuit of prudent macroeconomic policies and a second wave of structural reforms. The strategy to achieve these goals is set out in the *Plano de Acção Para a Redução da Pobreza Absoluta II* (PARPA II) for which a Joint Staff Advisory Note was approved by the Boards of the International Monetary Fund (IMF) and World Bank (WB) in December 2006. The current Government's economic program is supported by the IMF with a three-year Policy Support Instrument (PSI) approved on June 18, 2007. This Memorandum of Economic and Financial Policies (MEFP) reviews the performance under the PSI program through September 2007 and describes the policies and targets for the rest of 2007 and for 2008.

I. Recent Performance and Policy Agenda for the Remainder of 2007 Under the PSI-Supported Program

2. In 2007 economic performance has remained strong so far, despite exogenous shocks. Economic growth remains robust and is expected to reach the program target of 7 percent for the year as a whole. Thanks to prudent fiscal and monetary policies inflation is expected to remain in the single digits, albeit somewhat higher than programmed, on account of food and international oil prices. Despite a marked deceleration in traditional exports net international reserves (NIR) are expected to remain at a comfortable level and exceed the program target at end 2007 mainly on account of an increase in net capital inflows.

3. In response to the floods along the Zambezi River and the cyclone Favio that affected Mozambique in early 2007, the council of Ministers endorsed in July the findings of an assessment for the national food security and nutrition situation in May 2007 prepared by the Vulnerability Assessment committee (VAC) of the Technical Secretariat for Food Security and Nutrition (SETSAN). According to the study 520,000 people are highly food insecure and need humanitarian assistance until March 2008. An additional 140,000 people are at risk of food insecurity and will need assistance from October 2007 to March 2008. The government, with the financial assistance of the donor community, is assisting the affected population and enterprises with their basic needs and reconstruction of damaged infrastructure. However, in the event that donor-financing is inadequate to cover the reconstruction plan, the Government may consider using the program adjustor to accommodate emergency fiscal outlays (up to a maximum of about MT500 million).

4. The Bank of Mozambique (BM) has stepped up its efforts to strengthen monetary and exchange rate policy and operations. The exchange rate showed greater flexibility but

remained relatively stable following the removal in June 2007 of the temporary band on the interbank foreign exchange market (MCI) introduced in November 2005. The spread between the different foreign exchange markets has narrowed to about one percent and the real effective exchange rate has remained stable.

5. The fiscal position at end-June and end-September 2007 was better than programmed and fiscal targets for end 2007 are well within reach. This notwithstanding the administrative cost related to the forthcoming elections that were included in a supplementary budget that was approved by Parliament in October 2007. Tax collections were slightly higher than targeted through end-September 2007 led by the buoyancy in corporate and income taxes (including collection of tax arrears). Domestic current and capital expenditures were as programmed, but the share of priority expenditures were slightly below 65 percent PARPA target due to delays in disbursement of donor-financed projects, which is expected to pick up towards the end of the year. Net credit to the government (NCG) at end-June (assessment criteria) remained negative and within the upward adjusted target taking into account lower than projected foreign aid due to a delayed disbursement by one donor.

6. A number of administrative measures have been implemented to increase tax collection and widening the tax base, including (i) an increase of registered tax payers by 138,472 at end-September exceeding the objective of 100,000 by end-December 2007; (ii) an increase of tax audits of large tax payers, including mega projects, in line with the 2007 target of 675 audits; (iii) a simplification of tax declaration forms; (iv) intensification of fiscal education and communication campaigns at central and provincial levels; and (v) a reduction in average time to release imported goods at the border to a maximum of two hours. In addition, the Information Technology Master Plan (PDTI) for 2007-2010 was approved by Government in June and a business case (BC) for a revenue collection network, that electronically consolidates all classified revenues and links them to e-SISTAFE (e-Tributação) has been developed and awaits the approval of financing from the development partners by end-January 2008. A study on operationalizing an "electronic one-stop-window" through an integrated IT system in which both customs and tax IT systems are incorporated will be finalized by end 2007.

7. In the area of tax policy a number of draft laws were submitted to Parliament: (i) on the Municipal Finances and Property; (ii) on the Inheritance and Donations; (iii) amendments to the personal and corporate tax income laws (IRPS and IRPC); and (iv) amendments to the VAT law. The proposed changes in the VAT law grant a limited exemption on public works as a transitory solution but the government remains committed to the full taxation of services related to public works and will seek to gradually reduce the deduction from the tax base and eliminate the limited exemption in due course. Following the approval of the new mining and petroleum fiscal regime laws in June 2007, model contracts for the mining and petroleum sectors were approved in June and September 2007 respectively (structural assessment criteria). A draft law updating excises taxes on alcoholic beverages, beer and tobacco will be submitted to the Council of Ministers by end-December 2007 and submitted to Parliament by end-February 2008 (structural assessment criteria).

8. Public Financial Management (PFM) reforms are progressing well.

- An integrated and e-SISTAFE compatible payroll database was developed in June following the completion of the civil services census (structural benchmark). The validation of the database by the Administrative Tribunal (TA) is now expected for early 2008. However, the salary payments via e-SISTAFE will start in early 2008 (end-April benchmark) while the validation process continues. The institutional responsibilities for keeping the payroll system updated will be decided by the authorities before end-December 2007.

- Ahead of schedule, e-SISTAFE has been successfully rolled out in September to all remaining ministries at the central and provincial levels (structural benchmark for end-December). The roll out of e-SISTAFE to 27 districts originally envisaged for October will now be initiated on January 1, 2008 to coincide with the new fiscal year. The progressive roll-out of e-SISTAFE to State organs at the central level will start in 2008.

- Phase II of the budget formulation module has been developed and successfully implemented for the preparation of the 2008 budget.

- In close coordination with the ATM and Treasury Directorate, a fully articulated BC was approved in July 2007 by the Government to implement a revenue collection network (RCN) with which all government revenues collection will be automated and classified before being transferred to the Treasury Single Account (CUT).
- The module for a multi-currency CUT has been finalized (structural benchmark for September 2007) and the pilot case with UTRAFE external funds has been initiated for salary payments and allowances. In order to maximize the benefits from e-SISTAFE the government encourages donors to rapidly put all their projects on-CUT.
- A tender for the implementation of the asset management system and procurement interface to e-SISTAFE will be launched by December 2007, pending financing from the international community.
- Well ahead of schedule, the direct budget execution of e-SISTAFE has drastically improved from 5 percent in 2006 to more than 80 percent in 2007 (structural assessment criteria for end-December 2007).

9. Monetary policy has remained prudent. At end-June, NCG remained negative and within the upward adjusted target (assessment criteria), and net international reserves exceeded the floor by US$69 million (assessment criteria). In June 2007 the BM lifted all remaining bands in the foreign exchange markets. Since then, both interest rates on government securities and the exchange rate are market determined. Credit growth to the economy has remained strong and has almost doubled in the last three years, albeit starting from a low base. Base money at end-June (assessment criteria) and end-September was higher than programmed because of a structural increase in money demand. In June, the BM issued new regulations for repo operations and a new facility was added to the main money market instrument system (Metical net), allowing the BM

to perform reverse repo auctions. An initial stock of treasury bills for repo operations of about 1.75 billion meticais was issued in July. The BM has started using reverse repo auctions in July 2007 to mop up aggregate liquidity excess. Monetary policy transparency and credibility were enhanced with the approval and electronic dissemination of a long-term monetary policy strategy document and the creation in June 2007 of a new Monetary Policy Committee whose meeting communiqués are published. In order to strengthen the balance sheet of the BM, securities in an amount of MT 1.5 billion were issued to BM in June 2007 as envisaged in the program. An agreement between the BM and the treasury to shift the cost of monetary policy to the budget to enhance the BM's independence will be finalized before end-November 2007 (an end-September 2007 structural benchmark).

10. Prudential ratios of the banking system have continued to improve. Bank profitability remains high. Nonperforming loans (NPL) have fallen to less than 5 percent of all loans. By end-December 2007, the BM will complete an assessment of the impact of IFRS on banks' nonperforming loans and on prudential regulations. Banks are also becoming more efficient with non-interest expenses to gross income and to a lesser extent personal expenses to non-interest expenses declining since 2004. Greater confidence in the banking system and regulatory measures introduced in May 2005 requiring the provision of 50 percent of their foreign currency-denominated loans to non-exporters have led to a significant decrease in liability dollarization and thus less financial vulnerability.

11. The BM has continued to strengthen the regulatory and supervisory framework in order to comply with Basel I principles. In March 2007, the BM issued a set of regulations related to International Financial Reporting System (IFRS) implementation in the financial sector, including risk management, maximum limit exposures, consolidated supervision, capital ratios, and connected lending. Banks with non-bank holdings are now required to publish consolidated accounts using IFRS by October 31, 2007, and all banks by January 2008. To strengthen risk-based banking supervision the banking supervision department is reviewing the Inspection Manual with the assistance of IMF technical assistance. Furthermore, the positions of "Chief Inspector" responsible for a group of financial institutions were created in the banking supervision department (BSD). In the context of the implementation of the Anti-Money Laundering Law, the Government created a financial intelligence unit in June 2007.

12. Progress was also made to increase access to finance, in particular for rural financing. In order to promote the physical presence of banks in rural districts and direct bank lending to the agriculture and rural sector, the authorities have launched a package of initiatives targeted to reduce the operational costs of providing banking services in rural areas through infrastructure improvements, and by relaxing reserve requirements in rural branches so as to include cash in vault. Transport costs related to the constitution of legal reserves and cash in vault for immediate withdrawal have been further minimized with the opening of five BM branches (with due regard to its cost) in selected provinces. Progress was also made in improving the institutional lending environment. In order to accelerate dispute settlement and improve contract enforcement, the Parliament approved in October 2007 a new bankruptcy and insolvency law for banks. Furthermore, the

Parliament also approved a new national payment system law consistent with the SADC payment system initiative. The BM has launched a survey in the banking sector on the rationale of the fees and charges structure.

13. Progress on structural reforms also accelerated, particularly in the areas of the cost of doing business. Several measures helped to improve the investment climate resulting in an improvement of its ranking in the ease of doing business, as assessed in the Doing Business report 2008, by 6 positions to 134th place. The authorization to publish the bylaws of firms electronically approved in early 2007 has helped reduce the time it takes to start a business from 113 to 29 days, while the costs of business registration has decreased by two-thirds and the number of procedures declined from 13 to 10. The Decree on Simplified Licenses for Micro and Small Business will be submitted to the Council of Ministers by end of 2007. The new restructuring plan of PETROMOC will be submitted to the Council of Ministers by end-December 2007 to improve its operational and financial performance.

14. With regard to the Justice sector, several important laws were approved recently, including (i) the Law on Judiciary Organization, which increases the district tribunal competencies bringing the justice system closer to the citizens; and (ii) the Organic Law of the Public Ministry and the Statute of the Magistrate, which improves their organization and functioning and contributes to better access to justice. The draft Integrated Strategic Plan will be submitted to the Council of Ministers before end-December 2007. The Law revising principles and regulation of Institute for the Provision of Judicial Assistance (Instituto de Patrocínio e Assistência Jurídica—IPAJ) will be submitted to the Council of Ministers before end-December 2007.

15. The government intends to strengthen the selection and monitoring of all major investment projects, Public-Private Partnership (PPPs) and concessions with the help of the World Bank, particularly ensuring non-recourse financing clauses to the Government. Importantly, the process leading to the approval by the Council of Ministers of new projects and concessions will be strengthened to ensure that the fiscal regime, the maximization of fiscal revenue, and minimization of fiscal risks are duly taken into account before end-December 2007. The MPD will also develop standards and guidelines, including mandatory cost-benefit analysis for public investment projects and concessions in key sectors. To strengthen the management and transparency of natural resources, the government will issue regulations to the new Mining and Petroleum Fiscal Regime laws by end-December 2007 (structural benchmark for end-February 2008) and start publishing transactions relating to natural resource concessions. A list of megaprojects and concessions together with their related fiscal regime will be published in the budget execution documents starting in March 2008. The Government remains committed to ensuring that any new mineral resource project agreements and Exploitation and Production Concession Contracts (EPCs) in the petroleum sector will adhere to the principles of the new fiscal laws and its proposed regulations. The Moatize coal mine contract has been signed and is broadly in line with the new mining fiscal regime. The model contracts for mining and petroleum will be used in the current round of negotiations of new projects.

16. A number of large infrastructure projects in the pipeline will be carefully managed to maximize the benefits to the economy. For the purchase of shares in Cahora Bassa, an agreement has been reached with a consortium of international banks in October 2007 which includes a non-recourse financing clause (i.e., the financing package does not increase liabilities of the Government to commercial creditors). While strengthening the investment planning capacity of the Ministry of Energy, the Government, with the assistance of its financial advisors, is now in the process of selecting strategic investors for: (i) Temane gas-fired generation project (about 1100 MW); (ii) Moatize coal power project (about 1,500 MW); and (iii) Mphanda Nkuwa hydropower plant (about 1,500 MW). To support these new generation projects, there would be a need to build a major transmission line to distribute the power to the Mozambican market and for export. For all these projects, the Government will ensure, with the help of the World Bank and other partners, that: (i) financing is non-recourse and does not increase central government liabilities; and (ii) maximizes private sector investments through the use of public-private partnerships with any equity stake by the state-owned electricity company (Electricidade de Moçambique, EDM) raised through concessional borrowing or without government guarantees. Aeroportos de Moçambique (ADM) is now seeking to mobilize funds for its Investment Plan, estimated at US$94 million, including the Modernization of Maputo Airport Infrastructure (about US$46 million) through only concessional borrowing.

17. In order to improve the trade regime, the government will continue in 2007 Economic Partnership Agreement (EPA) negotiations, with technical advice under the Integrated Framework. The government is also pursuing bilateral free trade arrangements as recommended in the Diagnostic Trade Integration Study (DTIS). The government is continuing its negotiations with Angola, Tanzania, and Zambia in order to reach trade agreements similar to the ones concluded with Zimbabwe and Malawi in 2005.

18. With the financial assistance of the World Bank and the Government of Norway the Government completed the buyback operation for its commercial debt of US$153 million in October 2007 at the price of 9 cents per dollar. Discussions are ongoing with Russia on mechanisms of 100 percent debt cancellation. The Government recognizes the importance of reaching rescheduling agreements with all bilateral creditors in the context of the enhanced HIPC Initiative. It has made significant progress in the bilateral debt rescheduling with non-Paris club creditors by concluding bilateral negotiations with Hungary and Romania. Negotiations are ongoing with Bulgaria and Libya and are scheduled with Iraq and Portugal. The Government has also invited Angola, Poland and Algeria to negotiate and awaits confirmation of dates. In this regard the Government of Mozambique looks forward to the continuing support of the Bretton Woods institutions.

19. The Government is continuing its efforts to improve the quality of macroeconomic statistics in order to improve policy formulation and the monitoring of economic developments. The National Institute for Statistics (INE) launched in June 2007 a new national accounts framework, including the revision of annual GDP data and quarterly estimates in real term. With regards to monetary statistics, the BM is committed to aligning the chart of accounts with the Monetary and Financial Statistics Manual,

including a breakdown between local and foreign-currency denominated accounts. The BM is also aiming at improving the quality of its external sector statistics, including by improving the coverage of megaprojects with the help of the research department of the MF. The BM also aims at providing timely information to the public on monetary and economic developments through its monthly bulletins. With regards to government finance statistics, significant improvements have been made as a result of the launch of e-SISTAFE. However, the Government understands that further work is needed to expand the institutional and transactional coverage sufficient for compilation of the Funds in accordance with Government Finance Statistics (GFS) manual of 2001.

II. Objectives and Policies for 2008

20. Economic prospects for 2008 and the medium term remain favorable with continued strong economic growth and inflation in single digits, albeit with risks related to natural calamities, a resurge in international oil prices, and spending pressure during election times. Central to achieving these objectives will be the continuation of a prudent fiscal and monetary policy in the context of a flexible exchange rate regime. The external current account is targeted to widen on account of a scaling up of aid while international reserves will remain at comfortable levels.

21. We are committed to continue to timely implement the second wave of our reforms. Particular emphasis will be on implementing the second phase of the public sector reform program (2006–11) which consists of four pillars: (i) improving service delivery to the citizen and the private sector; (ii) strengthening the capacity of local governments, with special emphasis on the Districts (including the decentralization strategy); (iii) professionalization of the public sector (including payroll systems, performance evaluation and wage policy); and (iv) strengthening good governance systems and the fight against corruption. We continue to be determined to make Mozambique’s business environment one of the most competitive in Africa to benefit from Foreign Direct Investment (FDI) and technology spillovers. We will also ensure that our natural resources are managed transparently following the principles of the Extractive Industries Transparency Initiative (EITI) and with due regard to fiscal risk so that future generations reap the maximum benefit of Mozambique’s rich endowment. The fight against pandemics, and the improvement of human and physical capital, particularly infrastructure would continue with the help of the international community. The Government intends to continue to monitor its program with the existing multi-disciplinary committee, especially through reinforced coordination between the BM and the MF.

22. The 2008 budget envisages a scaling-up of aid by about 1 percent of GDP mainly due to the appreciation of the euro and an associated increase in priority spending focused towards achieving the PARPA II targets and the Millennium Development Goals (MDGs) including sufficient counterpart funds to ensure a smooth execution of donor-financed projects. There will be no recourse to domestic bank financing. The revenue losses related to trade liberalization (0.4 percent of GDP) is mitigated by bringing a number of off-budget line items on budget. The increase in domestic revenue by 0.5 percent of GDP is

expected to come from improvements in revenue administration, and tax policy measures including revisions to the personal income and corporate income tax codes submitted to Parliament (0.2 percent of GDP), reduction in VAT exemptions (0.1 percent of GDP), collection of tax arrears (0.1 percent of GDP), continued adjustment of fuel taxes, and revision of excises taxes on alcoholic drinks, beer and tobacco (0.1 percent of GDP). The expenditure path is in line with the revised CFMP, which takes into account costs related to forthcoming elections. The share of spending on priority sectors (above 65 percent), particularly education, health, and infrastructure will be closely monitored. The wage bill will reach 7.7 percent of GDP, mainly on account of the hiring of 12,000 teachers, 5,000 health workers, and reinforcement of security forces. The 2008 budget also identifies 0.5 percent of GDP contingent priority expenditures that will be executed if revenues or program aid is higher than expected.

23. The Government will continue to improve the efficiency of the tax system by implementing its medium-term tax policy reform program, with the support of the international community. By end-June 2008, the government will submit to the Council of Ministers tax policy measures defined to streamline and simplify the tax system for small and medium-sized enterprises, and rationalize the code of income tax benefits, particularly related to the agriculture sector (including biofuels), industrial free trade zones and rapid development zones benefiting from Fund technical assistance. The central revenue authority (AT) will continue to improve the management capacity and human resources policies. In collaboration with UTRAFE, AT will implement the approved IT Master Plan (PDTI), including the revenue collection network (e-Tributação) and the single electronic window. Subject to approval by the Partnership Committee a pilot will be implemented with one key tax by September 2008 and will be extended to all other taxes for the 2009 budget. In this context, in the course of 2008 AT will: (i) design and implement a detailed performance indicator framework using a modern management information system to measure performance of the tax administration's core functions and to guide management decisions; (ii) fully develop and implement a tax collection system through banks; (iii) fully develop and implement an electronic filing and payment system starting with the large tax payers; (iv) bring more informal tax payers in the tax net; (v) create new fiscal areas to bring AT closer to the tax payers; and (vi) continue to strengthen the audit function.

24. The findings of the external audit on the amount of arrears on VAT refund due to contractors of large infrastructure projects, particularly in the road and water sectors, will be approved by the Government before end-April 2008. On the basis of this audit a payment schedule will be defined to clear the arrears. Going forward, the government will ensure that VAT charged on supplies of projects be included in the final price of a contract and will establish clear coordination mechanisms between the relevant departments (Budget Directorate, Planning Directorate, line ministries and ATM), so as to avoid contradicting approaches for the resolution of the VAT issue in the future. To facilitate the Government's liquidity management and to reduce administrative burden donors are encouraged to wave VAT exemptions for externally financed projects.

25. A number of specific measures aiming at strengthening public finance management will be implemented in 2008.

- A business case (BC) list of additional district and municipalities for the rollout of e-SISTAFE will be defined by June 2008 (structural benchmark).
- The census of pensioners will take place in April 2008. Based on the new pension database that will be finalized by end-September 2008, pension payments will be made through e-SISTAFE starting in January 2009.
- The concept of program budgeting will be further developed on the basis of the current pilot projects for the road program, Proagri Common Fund, and the primary education program and will be rolled out to cover the entire ministries of public works, agriculture and education and culture. In this context, the reports generated will be improved to allow for a more strategic and systematic use of e-SISTAFE data by March 2008.
- To strengthen the existing control mechanisms of the General Finance Inspection (IGF) for internal control and the Administrative Tribunal (TA) for external control, UTRAFE will facilitate that both institutions can use e-SISTAFE by June 2008 for consulting purposes.

26. On monetary policy, the BM will continue to target base money with a view to achieving its inflation goal of 5-6 percent at end-2008. Base money growth will be limited to 14.5 percent—or higher than nominal GDP growth— to take into account the ongoing financial deepening. In order to enhance the transparency of the Monetary Policy Committee, the BM will publish its regulations before end-December 2007. With the first generation of reforms successfully implemented, the BM will consider the possibility of moving to a monetary framework to better reflect determinants of price stability with the help of Fund technical assistance.

27. The BM will continue to improve liquidity management, and deepen financial markets as part of the Financial Sector Technical Assistance Program (FSTAP). In this context, the MF will improve the preparation of its cash-flow projections and communicate it to the BM in a timely manner. Monetary policy operations will continue to be fine-tuned using repo operations. The deposit auctions will be replaced by reverse repo operations in early 2008. In addition, the BM will gradually be more proactive in the market using repo and reverse repo operations. The Meticalnet will be adapted to allow for outright operations for the secondary market by June 2008 (structural benchmark for June 2008). The BM intends to continue to increasingly use foreign exchange sales to sterilize liquidity and thus avoid a large build-up in domestic debt and crowding-out of the private sector.

28. Based on the results of the FSTAP study, to be completed by mid-2008, the application of IFRS will also be extended to the corporate sector in January 2009 for large companies. A firm that will be selected in early 2008 will help with the introduction of IFRS in the corporate sector. This will improve the ability of the financial system to evaluate the quality of their loan portfolios. In order to buttress its analytical capacity, the BM will strengthen the human resource capacity of its Banking Supervision Department

(BSD) (its regulatory division) for updating the regulatory framework, updating internal tools made available to inspectors, providing training to inspectors, researching issues related to banking supervision, preparing and monitoring of Financial Soundness Indicators (FSIs), and reviewing its supervision manuals. Furthermore, the BSD will review by June 2008 the role assigned to external auditors of banks and issue regulations which give the BM access to audit reports, working papers, contracts and other documents produced by the external auditors and related to the audited institutions. The BSD intends by December 2008 to develop a framework for assessing market and operational risks, review banks' rating system (CAMEL) as a function of the banks' risks, create an information system within the BM intranet for all the managerial information of banks and financial system in the interest of supervisions, and design a plan for on-site inspections on the basis of banks' risk profile.

29. The Government is committed to supporting a sound expansion of the non-bank financial sector. The BM will continue to license and supervise microfinance deposit-taking institutions to facilitate enhanced access to finance by rural households and small-and-medium sized enterprises. Both the FSTAP and the IFAD supported Fundo de Apoio à Reabilitação Económica (FARE) and the Rural Finance Support Program (RFSP) will support the government's efforts to improve access to finance, especially in rural areas. Following the recent adoption of a new law on social protection the authorities intend to strengthen the social security and supplementary pension system. As part of the restructuring of the National Social Security Institute (INSS), an actuarial study will be finalized by early 2008 and an investment strategy taking into account fiscal sustainability will be approved by June 2008. In the meantime, guarantees of minimum benefits will be limited until the full study is carried out. Efforts to strengthen the regulatory and supervisory framework of the insurance sector as well as the institutional capacity of the Inspecção Geral de Seguros (IGS) are under way. The review of the Insurance Law will be finalized to bring it in line with international best practices, revised prudential and solvency requirements for Mozambican insurers are being developed, while new IFRS-compliant Chart of Accounts for insurers would also be designed.

30. Regarding the foreign exchange system, a new foreign exchange law taking into account comments from all stakeholders and the Fund, was submitted to the Assembly in September 2007. Following approval of the new law and implementing regulations, the authorities intend to accept their obligations under Article VIII sections 2, 3, and 4 of the Fund's Articles of Agreement. The recent regulation (Aviso 2/06) pertaining to the current import and export transactions remains suspended and will be replaced by the issuance of a new one in consultation of all stakeholders including the Fund.

31. In the area of public debt management, the MF will in 2008: (i) restructure the Public Debt Unit (PDU) and strengthen procedures and controls with the help of a resident public debt advisor, under the FSTAP project; (ii) consolidate and reconcile the debt database for all public debt with the assistance of the COMSEC; (iii) strengthen information analysis and reporting with the help of an IT consultant under the FSTAP project; (iv) prepare the debt sustainability analysis and design an integrated debt strategy

with support of ASDI; and (v) improve the Treasury cash management policies and procedures. The MF intends also to start to publish debt reports regularly.

32. The Government of Mozambique is keen to accelerate reforms to reduce the costs of doing business to make Mozambique's business environment the most competitive in SADC by 2015. To address this challenge and significantly improve the investment climate in Mozambique, the Ministry of Industry and Commerce has coordinated the development of a strategic action plan to improve the business environment through an inter-ministerial committee. The World Bank will provide comments on the strategy and technical assistance in concert with other donors for advancing the reform agenda. The inter-ministerial committee will monitor the implementation of this plan.

33. In 2008, the following actions are envisaged:

- Reducing the cost of inspections and fines while improving compliance. To that, the decree on unified inspections for business activities will be adopted by the Council of Ministers by March 2008;

- Reducing the licensing burden. To speed up the licensing process, the Ministry of Industry and Trade will transfer the authority to issue licenses to the "One-Stop-Shops" at the provincial level in the first trimester of 2008.

- Simplifying the procedures of closing businesses. Through a new insolvency law for the corporate sector that will be submitted to the Council of Ministers by end March 2008, the Government intends to simplify the business closing process and increase the recovery rate with the objective of helping viable businesses to overcome a short-term cash flow crisis, and insolvent businesses to be rapidly liquidated.

- Facilitating trading across borders. The Government will carry out a review of the import and export procedures, with financial assistance from the international community and will implement the recommendations of that study with the specific aim of reducing documents, signatures and the amount of time required for both importing and exporting; and

- Improving the system for VAT refunds. This would be achieved by (1) identifying regular exporters and audit their refund requests; (2) do the same with providers of public work services to the government; and (3) improve coordination with customs regarding information on actual exports.

34. In 2009, the four key actions envisaged are:

- Consolidate the progress in streamlining and reducing licenses for all sectors;

- Consolidate the progress in facilitating trading across the borders. By end-2009, Mozambique should be one of the most efficient within SADC in the clearance of goods for both imports and exports. This will require reducing the number of documents filled out by at least half;

- Simplification of Tax Filing. Electronic filing of taxes should be provided and forms should be simplified to reduce the time required for tax filing; and

- Property Registration. Amend the relevant legislation to speed up the registration process by improving communication among different government agencies and developing an electronic database for the real estate registry.

35. Aiming at improved overall fiscal risk management and accountability, transparency and revenue forecasting, the MF intends to implement a number of recommendations made by the recent Fund technical assistance. With the help of the international community the MF will buttress the compilation and consolidation of financial data from partial or full state shareholdings in private or public enterprises, State's autonomous institutions, Public-Private Partnerships (PPPs) and other concessions, and mega-projects. This will help improve its reporting through the systematic compilation and publication of an annex to budget execution documents covering quasi-fiscal activities, contingent assets and liabilities, and sensitivity analysis of fiscal risks.

36. Improving transparency remains a priority for the Government. The Government intends to follow the EITI principles with regard to management of natural resources and other megaprojects. On the basis of the EITI scoping study the government will decide whether to formally solicit the views of all stakeholders on the findings of this review and will convene and participate in a seminar in Maputo in 2008 to discuss these findings and build a national consensus around joining the initiative. The Government may thereafter consider becoming a member of the EITI though the public declaration of its intent, formation of a national multi stakeholder EITI working group, and adoption of an implementation work program to collect, verify and publish all significant payments between the government and the natural resource sector.

37. With regard to judicial reforms the revision of Law of the Community Tribunals will be submitted to the Council of Ministers before end-September 2008. The Penal Procedures Code is expected to be submitted with some delay to the Council of Ministers before end-June 2008 pending the authorization by Parliament.

38. The public sector reform program is being reinvigorated, particularly:

  - A decentralization strategy is being finalized with the help of the World Bank and other partners and will be approved by the Council of Ministers by end-2008. The strategy will propose, among other things, a clear legal, regulatory, and institutional framework for revenue raising and spending responsibilities and functions of subnational units (provinces, districts, and municipalities) and monitoring of subnational fiscal operations. The sequencing of the strategy will pay due regard to the administrative capacity of subnational units and need to maintain fiscal control as well as fiscal sustainability.

- A preliminary wage policy is being elaborated, by a reference group comprised by the following ministries: Civil Service, Finance, Planning and Development, Education and Culture, Health and Agriculture, with the help of consultants from the World Bank on the on the basis of the recent census of civil servants. This study will be presented to the Council of Ministers and it will include the costing of alternative scenarios duly taking into account fiscal sustainability.

- Public sector accountability will be improved by reinforcement the capacity of the Tribunal Administrativo and the Inspectorate General of Finances, and conducting more internal and external audits.

- The government intends to forcefully implement its public sector reform program and anti-corruption strategy to improve governance. To this effect, a committee is working with the help of the World Bank to define by March 2008 a number of measures that will help improve a number of governance indicators.

IV. Program Monitoring

39. The semiannual quantitative assessment criteria for end-December 2007 and end-June 2008 and indicative targets for end-March 2008 which will be used to evaluate the implementation of the program for 2007-08 are shown in Table 1 of this memorandum, with further definitions and explanations contained in the annexed Technical Memorandum of Understanding. In addition, the Government has specified in Table 3 a list of structural assessment criteria and benchmarks for 2008.

40. The Government understands that the completion of the second review is contingent upon the observance of the assessment criteria for end-December 2007 set out in Tables 1 and 3; which is expected to take place before end-June 2008. In reviewing developments under the program during the second review, particular attention will be paid to the implementation of measures aimed at broadening the tax base, further developing e-SISTAFE, improve the overall fiscal risk assessment, the 2008 budget execution, monetary and financial sector reform, reducing the cost of doing business, infrastructure financing with due regard to debt sustainability, and improving the fiscal regime and transparency of natural resource exploitation and megaprojects as well as their net contribution.

Table 1. Mozambique: Quantitative Performance/Assessment Criteria and Indicative Targets, 2007-2008 1/

(Millions of MT, unless otherwise specified)

	2007								2008			
	End-June Assessment Criteria			End-Sep. Indicative Target			End-Dec. Assessment Criteria		End-March Indicative Target	End-June Assessment Criteria	End-Sep. Indicative Target	End-Dec. Indicative Target
	Prog.	Adj.	Prel. Act.	Prog.	Adj.	Prel. Act.	Prog.	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Net credit to the government (cumulative ceiling)	-1,948	-960	-1,332	-1,713	-1,228	-2,831	-1,828	-1,828	-2,000	-1,600	-700	-1,200
Stock of reserve money (ceiling)	14,235	14,535	14,647	14,990	15,174	15,467	16,020	16,904	15,859	17,394	17,747	19,334
Stock of net international reserves of the BM (floor, millions of US$)	1,283	1,228	1,309	1,341	1,285	1,465	1,300	1,300	1,532	1,552	1,566	1,566
New nonconcessional external debt contracted or guaranteed by the central government or the BM with maturity of one year or more (ceiling)	3	3	0	3	3	0	3	3	5	5	5	5
Stock of short-term external public debt outstanding (ceiling)	0	0	0	0	0	0	0	0	0	0	0	0
External payments arrears (ceiling)	0	0	0	0	0	0	0	0	0	0	0	0
Indicative targets:												
Balance of the government's savings account set up abroad with proceeds from the coal exploration contract (floor, in millions of U.S. dollars)	55	55	55	35	55	55	35	35	35	0	0	0
Government revenue (floor)	14,594	...	15,557	22,711	...	23,058	31,942	32,274	8,367	17,271	26,590	37,773

1/ For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.

Table 2. Mozambique: Structural Assessment Criteria and Benchmarks Under the 2007 Policy Supported Instrument (June 2007–December 2007)

Actions	Expected Date of Implementation	Comments
Structural assessment criteria		
Adoption of the new model contract for mining concessions.	End-June 2007	met
Adoption of the new model contract for the petroleum sector.	End-September 2007	met
The level of effective direct budget execution via e-SISTAFE (according to the sequence of commitment, verification, and payment) for goods and services will be increased to 50 percent.	End-December 2007	met
Structural benchmarks		
An integrated and e-SISTAFE compatible payroll database will be developed —register of the state employees (CAF)—enabling the Ministry of Finance to carry out salary payments via e-SISTAFE.	End-June 2007	met
A limited number of separate foreign currency accounts will be opened within the CUT.	End-September 2007	met
A memorandum of understanding will be agreed between the Ministry of Finance and the Bank of Mozambique, to shift the costs of managing monetary policy to the budget.	End-September 2007	End-November 2007
All budgetary operations for goods and services of Financial Management Departments (DAFs) of all remaining ministries at the central and provincial levels will be executed through the e-SISTAFE.	End-December 2007	met

Table 3. Mozambique: Structural Assessment Criteria and Benchmarks Under the 2007/08 Policy Supported Instrument (December 2007—June 2008)

Actions	Expected Date of Implementation	Comments
Structural assessment criteria		
Submission to Parliament of a draft law on the excise tax on alcoholic beverages, beer, and tobacco.	End-February 2008	
The level of effective direct budget execution via e-SISTAFE (according to the sequence of commitment, verification, and payment) for goods and services will be increased to 50 percent.	End-December 2007	met
Structural benchmarks		
All budgetary operations for goods and services of Financial Management Departments (DAFs) of all remaining ministries at the central and provincial levels will be executed through the e-SISTAFE.	End-December 2007	met
Adoption by the Council of Ministers of regulations for the new mining and petroleum fiscal regime laws.	End-February 2008	
An integrated and e-SISTAFE compatible payroll database will start to be used by the Ministry of Finance to carry out salary payments via e-SISTAFE.	End-April 2008	
A list of additional district and municipalities for the rollout of e-SISTAFE will be defined.	End-June 2008	
The Meticalnet will be adapted to allow for outright operations of treasury bills for the secondary market.	End-June 2008	

Attachment II

Technical Memorandum of Understanding on Selected Concepts, Definitions, and Data Reporting Under Mozambique's Policy Support Instrument Program

November 12, 2007

1. This technical memorandum of understanding (TMU) purpose is to describe the concepts and definitions that will be used in monitoring the Policy Support Instrument (PSI) program, including the following:

- net claims on the central government by the banking system;
- government revenue;
- net international reserves, and reserve money of the Bank of Mozambique;
- new nonconcessional external debt contracted or guaranteed by the central government or the Bank of Mozambique with a maturity of more than one year;
- short-term external public debt outstanding;
- external payments arrears; and
- foreign program assistance and external debt service.

This memorandum also describes the adjusters that will be applied to certain quantitative assessment criteria of the program.

Net Claims on the Central Government by the Banking System

2. **Net claims on the central government (NCG)** by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in project accounts with the banking system, recapitalization bonds issued to the Bank of Mozambique and commercial banks, and proceeds from the signing fee for coal exploration. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The limits on the change in net claims on the central government by the banking system will be cumulative beginning end-December 2006 for the 2007 program and end-December 2007 for the 2008 program.

3. The government encompasses all institutions whose revenue and expenditure are included in the state budget (*Orçamento do Estado)*: central government ministries, agencies, and the administration of 11 provinces. Although local governments (33 municipalities or autarquias) are not included because they are independent, the bulk of their revenue is registered in the state budget as transfers to local governments.

Government revenue and financing

4. Revenue is defined to include all receipts of the Domestic Tax Administration (Administração Tributária de Impostos or DGI), the National Directorate of Customs (Direcção Nacional de Alfândegas, DNA), and nontax revenue, including certain own-generated revenues of districts and some line ministries as defined in the budget. Net receipts from privatization received by the National Directorate of State Assets (Direcção Nacional do Património do Estado) and unrealized profits transferred by the central bank

to the treasury will not be considered as revenue (above the line) and will be accounted for as other domestic financing (below the line).

5. For the purpose of program monitoring, revenue is considered as collected at the time when it is received by the DGI from private agents or other government collecting agencies, in cash or checks, or through transfers into a DGI bank account.

6. An indicative target consisting of semiannual floors on the resources in the government's savings fund abroad has been added to monitor the use of the proceeds from the signing fee for coal exploration.

Money supply

7. **Base money** is defined as the sum of currency issued by Bank of Mozambique (BM) and the commercial banks' deposits in the BM. The commercial bank deposits include the statutory required reserves and excess reserves held at the BM. The base money ceilings for 2007-08 will be the total stock of base money outstanding at end-December 2007, end-March 2008, end-June 2008, end-September 2008 and end-December 2008, and will be monitored by the monetary authority and provided to the IMF by the BM.

Net international reserves

8. **Net international reserves** of the Bank of Mozambique are defined as reserve assets minus reserve liabilities. The Bank of Mozambique's reserve assets include (a) monetary gold; (b) holdings of SDRs; (c) reserve position at the IMF; (d) holdings of foreign exchange; and (e) claims on nonresidents, such as deposits abroad (excluding the government's savings account related to the Moatize coal mine concession). Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guarantee for a third–party external liability (assets not readily available.) The Bank of Mozambique's reserve liabilities include (a) all short-term foreign exchange liabilities to nonresidents with original maturity of up to and including one year; and (b) all liabilities to the IMF.

9. The Bank of Mozambique will publish the exchange rates quoted by commercial banks on average as the market rates.

New nonconcessional external debt contracted or guaranteed by the central government or the Bank of Mozambique with maturity of more than one year

10. The term "debt" will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000. Government debt is outstanding debt owed or guaranteed by the central government or the Bank of Mozambique (but does not include debt of any political subdivision or government-owned entity with a separate legal personality that is not otherwise owed or guaranteed by the central government).

11. The central government will limit contracting or guaranteeing external debt up to US$3 million in 2007 and US$5 million in 2008 with original maturity of one year or more with a grant element of less than 35 percent, calculated using currency-specific discount rates based on the Organization for Economic Cooperation and Development

(OECD) commercial interest reference rates in accordance with the Budget Laws of 2007 and 2008. This assessment criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. This assessment criterion will be assessed on a continuous basis.

Stock of short-term external public debt outstanding

12. The central government will not contract or guarantee external debt with original maturity of less than one year. This assessment criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this assessment criterion are short-term, import-related trade credits. This assessment criterion will be assessed on a continuous basis.

External payments arrears

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

Foreign program assistance

14. Foreign program assistance is defined as grants and loans received by the Ministry of Finance through Bank of Mozambique accounts excluding those related to projects (Table 1).

Actual external debt-service payments

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

Adjusters

16. The quantitative targets (floors) for the central bank's net international reserves will not be adjusted for any excess in disbursements of foreign program assistance (and any shortfall in external debt service), compared to the program baseline. These targets will be adjusted downward by 100 percent of any shortfall in external program aid (up to a maximum of US$50 million) and any excess in external debt service payments, compared to the program baseline (Table 1). The quantitative targets (floors) for the central bank's net international reserves will be adjusted downward/upward for any revision made to the end-year figures corresponding to the previous year. They will also be adjusted upward for the full amount of any external privatization proceeds in excess of those envisaged in the program, unless these proceeds are deposited in the government's savings account abroad. If they are deposited abroad, the indicative targets on the balance

in this account will be adjusted upward for the full amount of the higher than envisaged proceeds, net of any costs related to the privatizations, including severance payments. The quantitative targets (floors) for the central bank's net international reserves will be adjusted equivalently downward up to a maximum of US$50 million per annum by the amount that the projected fuel import bill is higher due to a rise in the average global oil price (average petroleum spot price of West Texas Intermediate, U.K. Brent, and Dubai Fateh crude). This adjustment will be equal to the difference between the realized and the projected average global oil price, multiplied by the volume of total fuel imports projected for each quarter (Table 2).

17. The quantitative targets (ceilings) for net claims on the central government (NCG) will not be adjusted for any excess in disbursements of foreign program assistance (and any shortfall in external debt service), compared to the program baseline. These targets will be adjusted upward by 100 percent of any shortfall in external program aid (up to a maximum of US$50 million) and any excess in external debt service payments, compared to the program baseline (Table 1). These targets will also be adjusted downward for the full amount of any privatization proceeds in excess of those envisaged in the program, unless these proceeds are deposited in the government's savings account abroad. The quantitative targets (ceilings) for NCG will be adjusted downward (upward) for any increase (decrease) in domestic financing from the non-financial private sector. The government expenditures contingent on higher disbursements of foreign program assistance (and lower external debt service) will be used to finance greater "priority" spending identified in the budget.

18. The quantitative target (ceiling) for net claims on the central government (NCG) for end-December 2007, end-March 2008, end-June 2008, end-September 2008, and end-December 2008 will be adjusted upward (and the floors on net international reserves adjusted downward) to accommodate the possible need for higher locally financed government outlays to deal with natural disasters, up to a total limit of MT 500 million.

19. The base money ceiling will be adjusted equivalently upward up to a maximum of MT 500 million at end-December 2007, end-March 2008, end-June 2008, end-September 2008, and end-December 2008 to the extent that the outstanding stock of currency issued by the BM exceeds those projected in Table 3.

Data reporting

20. In addition to providing the monthly and quarterly data needed to monitor program implementation in relation to the programs' quantitative targets and broader economic developments, the authorities will provide weekly updates of the daily data set out in Table 3 as well as the weekly data set out in Table 4 of the TMU dated May 26, 2005. Monthly updates will also be provided of the foreign exchange cash flow of the Bank of Mozambique.

21. The government will continue to provide Fund staff with the data corresponding to monthly government revenues (in detail according to the fiscal table), with a lag not exceeding one month. In addition, the government will continue to publish and provide Fund staff with the quarterly budget execution reports with a time lag not exceeding 45 days.

22. In addition, the government will provide monthly information on the balance of its savings account abroad and will start developing and providing information on domestic arrears on a quarterly basis.

23. From December 2005 onwards, the monetary survey made available by the Bank of Mozambique will clearly identify donor-financed project deposits (with a breakdown between foreign and domestic currency) included in net credit to the government in both the central bank's and commercial banks' balance sheets.

Table 1 Mozambique: Foreign Program Assistance and External Debt Service for 2007 and 2008
(In millions of MTn; unless otherwise indicated)

	2007	2008				
		Q1	Q2	Q3	Q4	Year
	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.
Foreign program assistance	10179.5	4877.7	2672.5	1530.9	2550.1	11631.3
Program grants	7518.6	3926.8	2672.5	1513.8	872.1	8985.2
Program loans	2660.9	950.9	0.0	17.1	1678.0	2646.0
External debt service	-502.4	-126.8	-136.9	-129.7	-135.6	-529.0

Source: Mozambican authorities; and Fund staff estimates.

Table 2: Projected fuel import bill 2007-08

	2007	2008			
	Prog.	Prog.			
	End-Dec.	End-Mar.	End-Jun.	End-Sept.	End-Dec.
Fuel Import Bill	81.3	94.5	123.9	146.0	89.5
Forecast Oil price (US$ per barrel)	63.5	76.5	75.3	74.5	73.8
Volume of fuel imports (in metric tons)	122,416	123,673	163,757	199,386	120,686

Sources: Mozambican authorities and Fund staff projections

Table 3: Currency issued by the BM

	2007	2008			
	End-December	End-March	End-June	End-	End-
	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Currency issued by BM	10,133	8,924	10,310	10,358	11,486

Source: Mozambican authorities; and Fund staff projections.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

First Review Under the Three-Year Policy Support Instrument
Informational Annex

Prepared by the African Department
(In consultation with other Departments)

November 30, 2007

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Appendix I
Mozambique: Relations with the Fund
(As of October 31, 2007)

I. Membership Status: Joined 9/24/84; Article XIV

II. General Resources Account	SDR Million	% Quota
Quota	113.6	100.0
Fund holdings of currency	113.6	100.0
Reserve position in Fund	0.01	0.01

III. SDR Department	SDR Million	%Allocation
Holdings	0.14	n.a.

IV. Outstanding Purchases and Loans	SDR Million	% Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	9.74	8.57

V. Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	07/06/04	07/05/07	11.36	11.36
PRGF	06/28/99	06/28/03	87.20	78.80
ESAF	06/21/96	06/27/99	75.60	75.60

VI. Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	2008	2009	2010	2011
Principal				0.16	0.97
Charges/Interest	0.02	0.05	0.05	0.05	0.05
Total	0.02	0.05	0.05	0.21	1.02

VII. Implementation of HIPC Initiative:

	Original framework	Enhanced framework	Total
Commitment of HIPC Initiative assistance			
Decision point date	4/7/98	4/7/2000	
Assistance committed (end-1998 NPV terms)			
Total assistance (US$ million)	1,716.0	306.0	2,022.0
Of which: Fund assistance (US$ million)	124.6	18.5	143.1
Completion point date	6/29/99	9/20/01	
Delivery of Fund assistance (SDR million)			
Amount disbursed	93.2	13.7	106.9
Interim assistance	…	2.3	2.3
Completion point	93.2	11.4	104.6
Additional disbursements of interest income	...	1.1	1.1
Total disbursements	93.2	14.8	108.0

VIII. Implementation of MDRI Assistance:

MDRI- Eligible Debt (SDR Million)[1]	106.56
Financed by MDRI Trust	83.05
Remaining HIPC Resources	23.51

Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
January 2006	N/A	106.56	106.56

[1] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

Safeguards assessment

A safeguards assessment with respect to Mozambique's PSI is currently in progress. This voluntary assessment will update the findings of the previous safeguards assessment, which was completed in August 2004. While the central bank is making progress in implementing the recommendations of the 2004 safeguards assessments, weaknesses remain in financial reporting practices and the internal audit function.

Exchange arrangements

Mozambique's exchange system is a managed float. Commercial banks may buy and sell foreign exchange to individual customers on a fully negotiable basis. The BM introduced a foreign exchange auction system in January 2005. Auctions are held biweekly.

Mozambique still avails itself of the transitional arrangements under Article XIV of the Fund Articles of Agreement, but has eliminated all Article XIV restrictions. It maintains, however, restrictions on the making of payments and transfers for current international transactions subject to Fund approval under Article VIII, as evidenced by (i) the discretionary prior approval for remittances of family living expenses; (ii) the authorization for the purchase of foreign exchange in excess of US$5,000 for certain transactions; (iii) the prohibition for the conversion of balances of nonresidents' domestic currency accounts into foreign currency or transfer abroad; (iv) the prohibition on advance payments for a service; and (v) the prohibition on advance payments for the import of goods. On June 18, 2007, the Fund granted approval for the retention of these five exchange restrictions until May 31, 2008. At the authorities' request, an Article VIII mission was conducted by LEG and PDR in March 2004. The mission encouraged the authorities to remove all existing the exchange restrictions. A new foreign exchange law was submitted to the Assembly in May 2007. Following enactment of the new law and issuance of related regulations, the authorities intend to accept their obligations under Article VIII sections 2, 3, and 4 of the Fund's Articles of Agreement.

Article IV consultation

In accordance with Decision No 12794–(02/76), as amended by Decision No 12854–(02/96), Mozambique is on a 24-month Article IV cycle due to the approval of a PSI in June 2007. The 2007 Article IV consultation was completed by the Executive Board on June 18, 2007 (Country Report No. 07/262).

In concluding the 2007 Article IV consultation, Executive Directors commended the Mozambican authorities on the impressive macroeconomic performance and overall satisfactory program performance since the last Article IV consultation. At the same time, they noted there are policy challenges related to sustaining Mozambique's growth takeoff and to achieving the MDGs. In this regard, they agreed that the strategy to consolidate macroeconomic stability in the context of a continued scaling-up of foreign aid and the acceleration of a second wave of reforms outlined in the authorities' poverty reduction plan for 2006-09 (PARPA II) would be essential to overcome such challenges. In particular, they looked forward to the timely implementation of reforms to (i) increasing tax revenues; (ii) strengthening public sector operations; (iii) reducing the costs of doing business; and (iv) improving the management of natural resources.

Ex-post assessment of performance under Fund-supported programs

An ex post assessment (EPA) of Mozambique's performance under Fund-Supported Programs since 1987 was undertaken in December 2003 under the guidelines on assessments of countries with a longer-term program engagement. The EPA was circulated to the Executive Board on November 21, 2003 (Country Report No. 04/53).

Directors commended the authorities for their pursuit of sound macroeconomic policies and wide ranging structural reforms over the past fifteen years which contributed to strong growth of the economy, and a steady decline in poverty rates. Noting that despite considerable progress Mozambique remains a very poor and vulnerable country, Directors urged the authorities to persevere in their efforts to consolidate macroeconomic stability and accelerate and deepen structural reforms with a view to sustaining economic growth, encouraging employment creation, and further reducing poverty.

FSAP participation and ROSCs

A Financial Sector Assessment Program (FSAP) for Mozambique was undertaken during the first quarter of 2003. The related Financial Sector Stability Assessment was circulated to the Executive Board on November 19, 2003 (Country Report No. 04/52). A ROSC on fiscal transparency was issued on February 22, 2001. This ROSC was updated in the context of the 2002 Article IV consultation (Country Report No. 02/140) and the 2003 Article IV consultation (Country Report No. 04/50). A new update is expected soon following a FAD mission in August 2007. A Report on the Observance of Standards and Codes (ROSC) data module was prepared in June 2002 and issued on March 5, 2003. This data module was updated in August 2005.

Management's visit

At the invitation of the authorities, Mr. Kato, Deputy Managing Director, visited Maputo, Mozambique in July 2005.The Managing Director visited Mozambique on August 2007 for a meeting with the African Consultative Group on quotas, voice, and representation.

IMF Technical Assistance Provided to Mozambique (2004–2007)				
Departments	Timing	Form	Purpose	Counterparts
Fiscal Affairs	Oct-Nov 2007	Mission	Tax Administration inspection	Ministry of Finance
	September 2007	Mission	Public Private Partnerships and Fiscal Risks	Ministry of Finance
	August 2007	Peripatetic expert	Tax Policy and Administration	Ministry of Finance
	August 2007	Mission	Fiscal ROSC update and Public Financial Management inspection	Ministry of Finance
	April-May 2007	Mission	Tax Administration inspection	Ministry of Finance
	April-May 2007	Mission	Petroleum Fiscal Regime	Ministry of Finance Ministry of Mineral Resources
	December 2006	Mission	Tax Administration	Ministry of Finance
	March 2006	Mission	Tax Policy review	Ministry of Finance
	November 2005	Mission	Public expenditure management	Ministry of Finance
	October 2005	Fourth multipartite review of the joint IMF/SECO/ DANIDA tax and customs administration reform project; inspection mission	Reform of the tax system and its administration	Ministry of Finance
	May 2005	Inspection mission	Public expenditure management	Ministry of Finance
	April-May 2005	Mid-term review of the joint IMF/SECO/DANIDA domestic tax and administration reform project	Reform of the tax system and its administration; advice on the creation of a Central Revenue Authority.	Ministry of Finance
	November 2004	Inspection mission, and coordination with bilateral donors	Public expenditure management	Ministry of Finance
	October 2004	Joint IMF/SECO/ DANIDA project; short-term consultant training advisor (total 4 months in 3 visits)	Reform of the tax system and its administration	Ministry of Finance
Monetary and Capital Markets	August 2007	Mission	Post-FSAP TA assessment banking supervision, monetary Policy and operations	Bank of Mozambique
	April 2007	Short-term consultant	Banking supervision	Bank of Mozambique
	October 2006	Mission	Post- FSAP TA assessment banking supervision, monetary Policy and operations	Bank of Mozambique

IMF Technical Assistance Provided to Mozambique (2004–2007)				
Departments	Timing	Form	Purpose	Counterparts
Monetary and Capital Markets	Feb-March 2006	Mission	AML/CFT legislation	Bank of Mozambique
	Jan-Feb 2006	Short-term consultant	Monetary policy framework	Bank of Mozambique
	Jan-Feb 2006	Short-term consultant	Monetary operations	Bank of Mozambique
	January 2006	Short-term consultant	Exchange rate management	Bank of Mozambique
	September 2005	Mission	Post- FSAP TA assessment banking supervision, monetary Policy and operations	Bank of Mozambique
	October 2004	Short-term consultant	Banking supervision	Bank of Mozambique
Statistics	December 2007	Mission	Balance of payments Statistics	Bank of Mozambique
	November 2007	Mission	Monetary and financial statistics	Bank of Mozambique
	June-July 2006	Mission	Consumer price statistics	National Institute of Statistics (INE)
	August 2005-July 2006	Long-term consultant	National accounts statistics	National Institute of Statistics
	July 2005	Mission	Government finance statistics	National Institute of Statistics
	June–July 2005	Mission	Consumer price statistics	National Institute of Statistics
	May 2005	Mission	Balance of payments Statistics	Bank of Mozambique
	November 2004	Mission	Balance of payments statistics	Bank of Mozambique

Resident Representative: Mr. Felix Fischer has been the IMF's resident representative to Mozambique since March 1, 2006.

Appendix II
Mozambique: Relations with the World Bank Group

(As of November 9, 2007)

Partnership in Mozambique's development strategy

1. The Mozambican government's development strategy is set forth in its second generation poverty reduction strategy paper (PRSP), termed the PARPA-II (Plano de Acção para a Redução da Pobreza Absoluta, or Action Plan for the Reduction of Absolute Poverty), which was approved in May 2006 by the council of ministers and endorsed by the Boards of the Fund and the Bank in December 2006, when they discussed a Joint Staff Advisory Note of PARPA II. The Fund and the World Bank will continue to cooperate closely, within their respective mandates, in assisting the government to implement its medium-term poverty reduction and growth strategy and the related reform agenda, as presented in the PARPA-II and updated in the annual progress report and PAF.

2. The Fund will continue to lead the policy dialogue on macroeconomic policy, (including fiscal, monetary, and exchange rate policies), the integrated financial management information system (SISTAFE), and tax and customs reforms. The Bank will continue to lead the policy dialogue on public expenditure management, sectoral structural reforms, the reform of the civil service, and the Poverty and Social Impact Analysis (PSIA). Areas of close collaboration include banking supervision and financial sector issues, trade issues, natural resource management, the PARPA and accompanying annual updates and joint staff advisory notes, and external debt sustainability.

Bank group country assistance strategy

3. The current Country Partnership Strategy (CPS FY08-11) was discussed by the Board on May 22, 2007. The new strategy is the second results-based strategy, prepared jointly with IFC and MIGA. The Bank is coordinating with partners through a peer review process and harmonization of analysis and results frameworks. Preparation of the CPS was coordinated with 14 development partners through a review process mechanism launched by Government in 2006 in support of the Paris Declaration on harmonization. This strategy is the second country assistance strategy developed jointly within the World Bank Group between IDA, IFC, and MIGA, continuing the practice that started during the development of the FY04-07 Country Assistance Strategy (CAS). A CAS Progress Report, an evaluation of the Bank's program during the first two years of implementation of the closed CAS has been completed and presented to the Board in March 2006. The CPS program is formulated around three pillars, corresponding to the PARPA II pillars: (i) increased accountability and public voice, (ii) equitable access to key services, (iii) equitable and broad-based growth. Five major result areas have been defined encompassing 18 development outcomes in support of key outcomes in PARPA II.

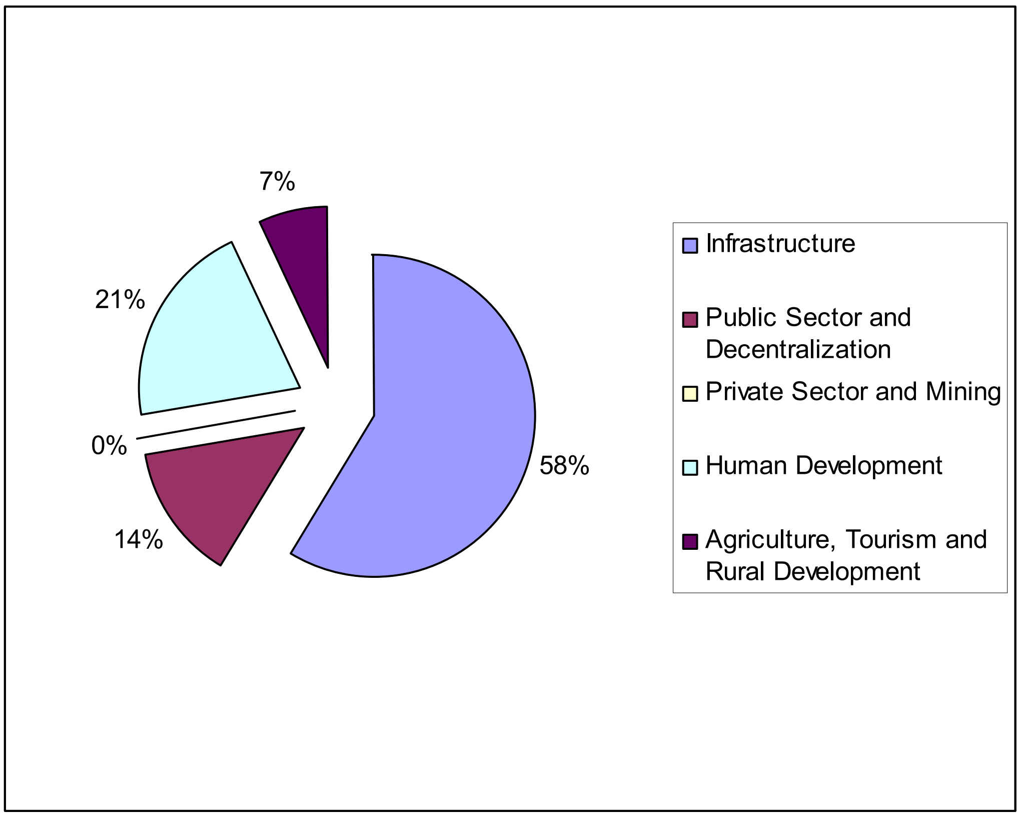
4. Under the new CPS, IDA, IFC and MIGA will work more closely together, and at an early stage, on large infrastructure projects to help optimize their developmental impacts. IDA will also review accessing carbon financing funds. Output-Based Aid will also be

accessed for additional financing. Finally, IDA will collaborate with GEF to update irrigation infrastructure and improve efficient water resources management in rural areas and Maputo.

5. To date, the World Bank Group has approved 7 adjustment operations, 3 development policy operations, one investment guarantee and 51 investment operations totaling approximately US$3.3 billion in grants and credits.

6. The current portfolio includes 18 operations for total commitments of US$778.2, of which US$95.5 in grants (including through the Global Environment Facility as well as IDA). The CPS financing plan for FY08–11 includes credit financing and grant resources for over US$650 million through budget support operations and investment operations and it introduces a strong focus on regional integration.

World Bank Lending in Mozambique (as of November 2007)



7. The World Bank has been actively supporting the Government of Mozambique's macroeconomic program since 1986 through a series of **structural adjustment operations**. The last, the Economic Management and Private Sector Operation (EMPSO), was approved by the Bank Board in August 2002 for US$120 million. The EMPSO supported the government's program of consolidating macroeconomic stability and laying the foundations for sustained private sector-led growth over the medium term. It included measures to make the budget more transparent (including accounting for external aid flows), conduct a public

expenditure review, strengthen the financial sector while aiming to eliminate government ownership in the sector, and liberalize the telecommunications and air transport sectors in order to facilitate further private participation. Since 2004, the Bank's quick-disbursing assistance has taken the form of development policy lending through PRSCs, which have been developed in tandem with the Joint Review/Performance Assessment Framework. Three PRSCs have been presented to the Board so far (in July 2004, September 2005, and January 2007), valued at US$60 million, US$120 million, and US70 million respectively. The third PRSC credit is the first operation to support the PARPAII. A Fourth credit of the PRSC series is currently under preparation for presentation to the Board at the end of 2007.

8. The World Bank has been an active partner in supporting the government in improving **education** and strengthening capacity building in key public institutions. The Education Sector Strategic Program (US$71 million—FY99, closed in December 31, 2007) supported the implementation of the National Education Strategy, whose objectives are the promotion of sustained improvements in the quality of Mozambique's labor force, and greater gender and regional equity in economic opportunities. The Higher Education Project (US$60 million—FY02) supports the entire higher education system, including both public and private institutions of higher education. A new additional financing credit was approved in FY08 for US$15 million. The Technical and Vocational Education and Training project (US$30 million—FY06) is the first operation in the tertiary and vocational education area.

9. In **health**, the Health Sector Recovery Project (US$98.7 million—FY96, closed in 2003) supported the government's broad Health Sector Recovery Program, especially by reducing infant and child mortality. The HIV/AIDS Project (US$55 million grant—FY03) assists the government in carrying out its National Strategic Plan to Combat STDs and HIV/AIDS. The HIV/AIDS Treatment Acceleration Project (US$21 million—FY04) assists the government in scaling up ongoing HIV/AIDS treatment initiatives using a combination of public/private/NGO partnerships to serve vulnerable groups. A new health operation is under preparation for FY09.

10. In the area of **transport and infrastructure**, the Bank has three active projects. The Railways and Ports Restructuring Project (US$100 million—FY00) aims at increasing the operating efficiency of the three major port-rail systems in Mozambique. The Roads and Bridges Project (US$162 million—FY02) aims at improving road infrastructure, sector policies, and management, and the Beira Railway Project (US$110 million—FY05) aims to improve the cost-effectiveness and efficiency for freight and passenger rail transport in the Zambezi Valley and beyond. The second phase of the Roads and Bridges project (US$100 million) was approved by the Board on May 22, 2007.

11. In the **water** sector, one project—the National Water Development Project I (NWDP I) (US$36 million—FY98)—closed on October 31, 2006, the National Water Development Project II (NWDP II) (US$75 million plus US$15 supplemental—FY99, FY04)—support improvements in service delivery standards, coverage, water resources management, and management capacity in both rural and urban areas. The NWDP II also supports private sector management of water services in five major cities. The Bank catalyzed external resources through the Africa Growth Catalytic Fund for US$15 million under a new follow-on operation approved in FY08.

12. Another important part of the Bank's portfolio focuses on strengthening the investment climate and encouraging **private sector** participation. Like the previous CAS, the current CPS has been prepared jointly with the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). IDA recently closed the Enterprise Development Project (US$26 million—FY00) which aimed at broadening the base of private participation in the Mozambican economy. A new operation in support of Small and Medium Enterprises is currently under preparation for FY09. The Mineral Resource Management Capacity Building Project (US$18 million—FY01, closed in FY07) helped increase institutional capacity in the sector, and alleviate poverty. The Communications Sector Reform Project (US$14.9 million—FY02) seeks to increase private sector participation in the postal, air transport, and telecommunications sectors and has contributed to bringing competition into the mobile market thus increasing access.

13. As regards **public sector reform**, the Public Sector Project (US$25.6 million—FY03) seeks to upgrade the quality of public services, reduce red tape, and improve access to public services. The Municipal Development Project (US$33.6 million—FY01, closed in February 2007) aimed to strengthen the institutional capacity of municipal government and pilot a municipal grant mechanism to finance investment. The Maputo Municipal Development Program (US$30 million, FY07) aims to strengthen the capacity of the Maputo City Council to develop, manage and maintain quality service delivery to its citizens. Finally, the Decentralized Planning Financing Project (US$42 million—FY04) supports improvements to the institutional capacity of district administrations. The **Financial Sector** Technical Assistance project (US$10.5 million—FY06) supports implementation of the recommendations of the Financial Sector Assessment Program jointly conducted with the Fund in 2003.

14. The Bank is also involved in **agriculture**, **energy, and the environment**. The Agricultural Sector Public Expenditure Program (US$30 million—FY99, closed in December 2006), was a sector-wide assistance program (SWAP) that sought to improve the impact of public expenditure in developing an enabling environment for sustainable and equitable growth in the rural sector. The Gas Engineering Project (US$26 million—FY94), which closed in 2003, supported pre-investment in the Pande-Gas Project and provided capacity building to the government for negotiation of megaprojects. This operation supported capacity and technical assistance for negotiation and implementation of the Southern Africa Gas project, a pipeline financed by SASOL of South Africa with equity participation of IFC and guarantee coverage of MIGA (US$30 million—FY04. The Energy Reform and Access Project (US$40.2 million—FY04), which supports reform of the power sector, in particular the separation of distribution, transmission, and generation functions, aims at increasing the number of electricity connections, solar energy distributors, and seeks to provide a more efficient service. The World Bank Group is also supporting sustainable use of natural resources with two operations in environment: the Coastal and Marine Biodiversity Management Project (US$9.7 million—FY00), which pilots an integrated approach to achieving sustainable development, focusing on two main coastal areas, and the second credit of a Transfrontier Conservation Areas and Tourism project (US$20 million plus US$10 million in a Global Environment Facility grant—FY06). A Market-Led Smallholder Development project of US$30 million was approved in FY06 and a new irrigation operation is being prepared.

15. The Bank's program also encompasses analytical and advisory activities and will involve work on the following:

a. Analytical work to examine the mechanisms for local government financing and accountability;

b. Fiduciary analytical and advisory work in procurement and financial management, and assessing municipal development; a second Public Expenditure Financial Accountability Assessment (jointly with some G18 partners) will provide an update on the key public financial management reforms;

- Work aimed at strengthening the governance framework, including anti-corruption and support to civil society;

- Beneficiary Assessment Surveys and benefit incidence analysis to help the Government fine-tune public sector reforms to further improve service delivery and to ensure that public funds reach their intended targets. IDA will also undertake specific poverty and social impact analyses of major reforms planned by Government. This will include continued work on the Poverty Social Impact Analysis; and

- Monitoring and Evaluation. The Bank provided technical assistance to the government to finalize and monitor its first PRSP M&E system, the Strategic Matrix of PARPAII. The Bank is currently supporting the preparation of a monitoring plan to implement the Strategic Matrix.

IMF-World Bank collaboration in specific areas

16. The Fund and Bank staffs maintain a close working relationship, with the lead taken by one or both institutions, especially with respect to (i) analyses and reforms in public financial management; (ii) the PARPA and accompanying annual updates and joint staff advisory notes; (iii) the financial sector and banking supervision; (iv) natural resource management; (v) PSIA; (vi) tax issues; (vii) trade issues; and (viii) external debt sustainability analysis:

- **Public financial management**. The Fund and the Bank jointly emphasize the urgent need to further improve public expenditure management, accountability, and transparency. The two institutions support policy reforms in the areas of budget formulation, execution, and monitoring. The IMF assists the authorities in introducing the integrated financial management information system (SISTAFE), and several donors, including the World Bank, provide financial support and policy advice for this reform. Under the Fund's leadership, a group of 10 donors set up a common fund for this large undertaking. The Bank's PRSC emphasizes budget comprehensiveness, adoption of the e-SISTAFE, internal and external audit, and budget execution reporting, and implementation of the procurement reforms.

- **Poverty reduction strategy paper**. The Fund and Bank worked together with the government during 1999–2001, while the PARPA was being produced, and drafted the joint staff review, which was presented to the Board in September 2001. The government issued annual progress reports in 2003, 2004 and 2005 and the staff presented their joint staff assessments to their respective Boards. The Bank and the Fund worked again with the government during the preparation of PARPA II and elaborated the Joint Staff Advisory Note (JSAN) on the PARPA II in late 2006. The PARPAII incorporates a Strategic Matrix, which is the basis for the M&E system.

- **Financial sector**. The Fund and the Bank have worked together on the financial sector. The banking sector in Mozambique has repeatedly shown weaknesses in the past, requiring recapitalizations and intervention. Following the FSAP conducted in Mozambique during the first semester of 2003, the Fund and the Bank continue to advise the authorities on strengthening financial supervision and accounting standards to prevent the recurrence of such problems in the future. The Financial Sector Technical Assistance Project was approved in FY06.

- **Natural resources management.** Bank and Fund staff are collaborating closely with the government to improve the transparency of resource revenues. In addition, the Bank and the Fund have worked with the authorities to revise the fiscal regimes for mining and petroleum fiscal regime, to maximize the benefits for the country from the exploitation of these natural resources.

- **PSIA**. As part of the ongoing Bank budget support and the programs supported by the IMF, the Fund and the Bank have agreed to review closely the poverty and social impact of the key reforms that are being implemented. A pilot PSIA, advising the government on the impact of an increase in specific fuel taxes, was undertaken in 2002. A second PSIA, on the impact of reducing primary schooling fees, was completed in October 2004. A third PSIA in FY07 analyzed the likely impact of the proposed new Labor Law. A PSIA following up on the previous study on the elimination of primary schooling fees will be finalized in FY08.

- **Taxes**. The Fund has taken the lead in this area. The government issued a new income tax law in 2002 and a revised code of fiscal incentives for investors. The Bank has been supportive of the policies proposed. Further reforms to strengthen tax revenues and to improve the efficiency of tax administration are part of Mozambique's regular dialogue with the Fund.

- **Trade.** The Fund and the Bank have worked together since the early 1990s on trade issues concerning general reductions in tariffs, the variable tariff on sugar introduced in 1999, and the reduction in the export tariff on raw cashews. The Fund and the Bank are involved in reforming the customs administration in Mozambique. The Bank is cooperating with the donors (particularly USAID) and the government in executing the studies on trade policy required for the Integrated Framework.

- **Debt sustainability analysis (DSA)**. The Bank and the Fund work jointly in preparing an annual DSA, in consultation with the authorities. The latest DSA was finalized in May 2007.

17. In 2007 and 2008, disbursements under World Bank investment projects are expected to reach around US$184 million on average a year.

World Bank Loan and Grant Operations, 1999-2006[1]
(Million U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006
I. Project Credit Disbursements	97.5	51.6	85.2	89.4	140.6	187.1	158.7
Established operations							
Household Energy (6/89) 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic and Financial Management (10/89)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Education II (12/90)2/ 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industrial Enterprise (12/89)[2]	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Agricultural Service Rehabilitation Development (2/92)[2]	0.7	0.0	0.0	0.0	0.0	0.0	0.0
First Road and Coastal Shipping (6/92)[2]	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Capacity Building: Human Res. Dev. (11/92)	4.5	2.8	0.0	0.0	0.0	0.0	0.0
Capacity Building: Public Sector & Legal Institutional Development (11/92)	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Maputo Corridor (1/93)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rural Rehab.(3/93)[2]	2.0	0.3	0.0	0.0	0.0	0.0	0.0
Food Security (4/93)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government (6/93)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Second Road and Coastal Shipping (4/94)[2]	26.5	11.4	9.7	17.5	0.0	0.0	0.0
Financial Sector Capacity Building (4/94)[2]	1.4	0.3	0.0	0.0	0.0	0.0	0.0
Gas Engineering (6/94)2/ 2/	1.1	1.6	1.8	0.4	0.0	0.0	0.0
Health Sector Recovery (11/95)[2]	17.2	17.4	14.4	5.6	0.0	0.0	0.0
National Water I (2/98)	1.7	2.4	3.9	4.5	7.5	13.6	0
Agricultural Sec. PEP (2/99)	0.9	4.2	3.8	3.9	3.9	6.7	4.1
General Education (2/99)	0.5	1.2	6.9	14.7	19	16.1	9.5
Railway and Port Restructuring (10/99)	1.9	3.6	22.3	8.2	22.6	10.2	13.7
National Water II (6/99)	1.4	2.8	4.4	5.1	9.1	21.8	12.3
Enterprise Development (01/00)	2.3	3.0	2.9	3.4	4.5	6.0	2.8
Flood Emergency Recovery (4/00)	28.7	0.0	0.0	0.0	0.0	0.0	0.0
Coastal and Marine Biodiversity (6/00)	0.0	0.3	0.4	0.3	3.7	1.8	1.7
Municipal Development (7/01)	0.0	0.3	4.3	4.6	3.6	6.1	9.5
Roads and Bridges I (7/01)	0.0	0.0	4.3	0.5	39.1	56.2	36.4
Communications (11/01)	0.0	0.0	1.2	2.8	1.8	1.1	2.2
Mineral Resources Project (3/01)	0.0	0.2	1.4	4.1	5.5	4.8	0.1
Higher Education Project 1 (3/02)	0.0	0.0	3.4	9.2	10.0	11.6	8.7
Newest operations							
HIV/AIDS (3/03)	0.0	0.0	0.0	2.7	2.3	7.6	13.5
Public Sector Reform (3/03)	0.0	0.0	0.0	1.2	1.5	1.3	2.4
Energy Reform and Access Project (8/03)	0.0	0.0	0.0	0.0	1.6	1.5	1.5
Decentralization Planning (11/03)	...	...	...	...	4.9	6.2	8.9
Beira Railway (10/04)						9.1	23.2
Treatment Acceleration Program (6/04)						5.3	4.0
TFCA & Tourism Development (12/05)							1.8
Financial Sector TA project (12/05)							1.3
Technical and Vocational Education (2/06)							1.1
Market Led Smallholder Development (6/06)							0.0

World Bank Loan and Grant Operations, 1999-2006[1]
(Million U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006
II. Adjustment operations	0.0	0.0	63.5	70.7	60.0	60.0	60.0
Economic Management and Private Sector Operation	0.0	0.0	63.5	70.7	0.0	0.0	
PRSC 1 (6/04)	...	...	...	...	60.0	...	
PRSC 2 (9/05)	...	...	...	...	...	60.0	60.0
PRSC3 (1/07)							70.0

Source: World Bank.

[1] Date of Board approval in brackets.
[2] Closed.
[3] Grant.

Appendix III
Mozambique: Statistical Issues

1. Data provision to the Fund for surveillance purposes is adequate, but the overall quality of macroeconomic statistics still hinders policy formulation and monitoring of economic development. Moreover, despite the increase in budget resources allocated to the compilation of official statistics, continued high reliance on external funding raises concerns about the sustainability of the programs of the National Institute of Statistics (INE).

2. In May 2005, an STA mission updated the data module of the Report on the Observance of Standards and Codes (ROSC) prepared in June 2002. The mission noted that significant effort has been made to address the shortcomings identified by the 2002 ROSC mission, a clear indication of the increased awareness of the importance of compiling and disseminating statistics that follow international standards and good practices. The improvements in the institutional environment and the increased allocation of resources for the compilation of national accounts, balance of payments, and more recently, government finance statistics should help to address weaknesses in the prerequisites for the quality of the statistics. The methodological soundness, accuracy, and reliability of the macroeconomic statistics are starting to show improvements as a result of these actions.

3. The authorities are committed to adhering to internationally accepted standards and good practices, as demonstrated by their participation in the IMF's General Data Dissemination System (GDDS) since November 2003. GDDS metadata are posted on the IMF's Data Standards Bulletin Board (DSBB) website, and on the INE's website. In August 2004, the INE's webpage was replaced by a portal with search capabilities to improve the accessibility of available data and metadata.

National accounts

4. The national accounts are prepared by the INE in accordance with the *1993 System of National Accounts* (*1993 SNA*). In August 2007, the INE released quarterly GDP estimates for the first time along with a revised annual GDP series. The INE compiles and disseminates (i) annual GDP at current and constant (1996) prices by activity; (ii) annual GDP by expenditure items at current and constant prices; and (iii) annual value added components at current prices by activity. The INE has launched a new household income and expenditure survey and new economic censuses leading to a new business registry. Furthermore, it is compiling more comprehensive and timely foreign trade data based on improved classification systems.

Prices and labor market

5. A new consumer price index for Maputo based on weights derived from the 2002–03 household survey was released in February 2006. The previous series, available

since 1998, was widely criticized for narrowly focusing on a few basic food staples with relatively volatile prices and, therefore, exhibiting large swings. A national index obtained by integrating the indices for Maputo, Beira, and Nampula was released in April 2006. The IMF has provided technical assistance in price statistics in the context of the GDDS Regional Project for Lusophone African Countries. The last technical assistant mission (June 11–July 21, 2006) under the GDDS project found important advances regarding the use of the COICOP classification and the strengthening of human resources in the compilation of the new CPI. Several issues remain outstanding, however, such as price collection procedures not fully consolidated at the provincial level, imputation methods, and possible inconsistencies in the overlapping period between the new and old series.

6. There are insufficient sectoral labor market and employment data, and where available, they have limited coverage. A one-year labor market survey of the entire country, undertaken by INE in collaboration with the Labor Ministry, was launched in October 2004.

Monetary statistics

7. An STA mission in September 2004 prepared a work plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM*) and the development of an integrated monetary database (IMD) to meet the needs of the Bank of Mozambique (BM), AFR, and STA. The mission noted progress in the information system and in the periodicity and timeliness of the data compiled. The mission found that the BM's chart of accounts was not fully aligned with the *MFSM* in terms of the sectorization of the institutional units and the breakdown between local and foreign-currency-denominated accounts. The mission recommended improving the classification and valuation of some financial instruments, estimating the full instrument and sectoral breakdown based on available information, and expanding the coverage of the survey on other depository corporations by including the credit cooperatives, in the medium term.

8. Mozambique now reports monetary data to STA using the standardized forms (SRFs) for reporting monetary data to STA. As a result, five-year historical enhanced data are being published in the IFS Supplement, first issued in September 2006. The IMD consistent with the SRFs is in the process of becoming fully operational, which will allow the derivation of accurate and timely monthly monetary statistics that meet the needs of STA, AFR, and the authorities, while reducing BM's reporting burden. STA has provided TA to this effect through a follow-up monetary and financial statistics mission that to visited Maputo in November 2007.

External sector statistics

9. With assistance from STA, provided in the context of the GDDS regional project, the BM has made significant progress toward compiling and disseminating balance-of-payments (BOP) and international investment position (IIP) statistics that are fully aligned with the *Balance of Payments Manual, fifth edition* (*BPM5*).

10. The BM has an adequate institutional framework for the compilation of BOP and IIP statistics, and has implemented many of the recommendations made by the four technical assistance missions conducted since mid-2003. However, in order for the work on institution building to be consolidated, the Foreign Exchange Law has to be approved (incorporating the definition of residency in alignment with he BPM5 methodology), training on BOP statistics has to be sustained, and the project to computerize the balance of payments compilation system has to be completed. The major improvements in the basic sources of data from the beginning of the project comprise (i) the distribution of the new BOP surveys to more than 35 enterprises, including the megaprojects; (ii) program improvements by Customs to ensure the quality of external trade data; (iii) improvements in the reports on transportation services, foreign investment, and private loans prepared by the BM; (iv) improvements in the reports on the external public debt provided by the Ministry of Finance; and (v) improvements in the banks' reports on foreign currency transactions. To improve the collection, timeliness, and quality of data on goods, a panel on foreign trade statistics was established, comprising representatives from the Directorate General of Customs, National Statistics Institute, and BM.

11. Other important concerns include (i) the coverage and quality of the data obtained in the enterprise surveys; (ii) the quality of external trade data, especially with regard to price and volume indices; (iii) the coverage, time of recording, and classification of the data on foreign investment and private loans; (iv) completeness of data for the Reserves Template and their reconciliation with the reserve component of the balance of payments; and (v) compiling the IIP using the sources that are used for the balance of payments compilation.

12. In 2007, the BM has started to compile and report to the STA comprehensive IIP data. Previously, only partial IIP data had been reported and published in the *2005 Balance of Payments Statistics Yearbook*.

Government finance statistics

13. In recent years, technical assistance has been provided under the GDDS Project for Lusophone countries. The July 2005 mission found that while the authorities have made significant efforts to improve fiscal data, serious weaknesses remain.

14. The creation of a statistical unit in the MOF and the launching of the Integrated Management and Financial Information System (SISTAFE) will contribute to enhance the analytical usefulness of government finance statistics in the near future. However, the mission found that the budget system, while broadly aligned to the *GFSM 1986* analytical framework, is inadequate to compile GFS. In particular, further work is needed to improve institutional and transactional coverage.

15. Mozambique does not report fiscal data for publication in the *IFS* or the *Government Finance Statistic Yearbook (GFSY).*

Mozambique: Table of Common Indicators Required for Surveillance
(As of November 19, 2007)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – Methodological soundness[7]	Memo Items: Data Quality Accuracy and reliability[8]
Exchange Rates	Oct. 2007	Nov. 2007	D	W	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]							
Reserve/Base Money	Sept. 2007	Oct. 2007	M	M	M	LO, O, LO, O	LO, LO, O, O, LO
Broad Money	Sept. 2007	Oct. 2007	M	M	M		
Central Bank Balance Sheet	Sept. 2007	Oct. 2007	M	M	M		
Consolidated Balance Sheet of the Banking System	Sept. 2007	Oct. 2007					
Interest Rates[2]	Sept. 2007	Oct. 2007	M	M	M		
Consumer Price Index	Oct. 2007	Nov. 2007	M	M	M	O, LO, LNO, O	LNO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]						LO, LNO, LO, O	LO, O, LO, O, LNO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government							
Stocks of Central Government and Central Government-Guaranteed Debt[5]							
External Current Account Balance	Sept. 2007	Nov. 2007	Q	I	I	LO, LNO, LO, O	LO, LNO, LO, LO, LNO
Exports and Imports of Goods and Services	Sept. 2007	Nov. 2007					
GDP/GNP	Dec. 2005	Mar. 2007	A	I	I	O, LO, O, LO	LNO, LO, LO, O, LO
Gross External Debt	Dec. 2005	Mar. 2006	A	I	I		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), and Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published in March 2003 and based on the findings of the June 2002 mission for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO). No changes were proposed by the update mission of May 2005.
[8] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies. No changes were proposed by the update mission of May 2005.

Press Release No. 07/292
FOR IMMEDIATE RELEASE
December 17, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review under the Policy Support Instrument for Mozambique

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Mozambique's economic performance under the three-year Policy Support Instrument (PSI). The Executive Board also granted a waiver of nonobservance for the quantitative assessment criterion on reserve money.

The PSI for Mozambique was approved on June 18, 2007 (See Press Release No 07/135) to support the nation's economic reform efforts. It is aimed at consolidating macroeconomic stability as foreign aid is scaled up, promoting structural reforms, as well as implementing the broader policy agenda as envisaged in the Mozambican authorities' national poverty reduction strategy, *Plano de Acção para Redução da Pobreza Absoluta* (PARPA II).

The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. Members' performance under a PSI is reviewed semi-annually, irrespective of the status of the program (see Public Information Notice No. 05/145).

Following the Board's discussion on Mozambique, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, made the following statement:

"The Mozambican authorities are to be commended for the strong macroeconomic performance, attributable in large part to the implementation of prudent fiscal and monetary policies in the context of a flexible exchange rate regime. The strategy of consolidating macroeconomic stability in an environment of a continued scaling-up of aid and the acceleration of the second wave of structural reforms should help sustain rapid growth.

"The 2008 budget will continue to target a 0.5 percent of GDP rise in domestic revenue, with priority expenditures exceeding 65 percent of total spending. Expenditures related to the elections will be monitored closely, to avoid fiscal slippages. The rollout of the public financial administration system (e-SISTAFE) to all public entities at the central and provincial levels and to some districts should improve expenditure monitoring. These strengthened accounting and reporting systems should make it possible for international donors to incorporate their projects, including common funds, into the multicurrency single treasury account and e-SISTAFE.

“Fiscal transparency will need to be strengthened further given the number of large investment projects and concessions in the pipeline. In this vein, the authorities are committed to adopting regulations to give force to the new Mining and Petroleum Fiscal Regime laws. Mozambique also intends to adhere to the principles of the Extractive Industries Transparency Initiative.

“The authorities continue to implement a prudent monetary policy. It is noteworthy that, given the success of first-generation reforms, the Bank of Mozambique intends to consider gradually moving to an inflation-targeting framework, as conditions permit.

“The authorities have embarked energetically on the second wave of their structural reform agenda. This will include the design of a comprehensive strategy for the decentralization of fiscal responsibilities to districts and municipalities that pays due regard to both preserving macroeconomic stability and the capacity of local governments to absorb and allocate resources. A new public service wage policy will aim at recruiting and retaining key workers while maintaining fiscal sustainability. Good progress is also being made in reducing the cost of doing business, and the authorities intend to move ahead with their action plan to ensure a level playing field for all investors.

“Public sector and governance reforms will continue, and the authorities are committed to carrying out decisively their anticorruption strategy.

“It is hoped that the debt cancellation negotiations with Mozambique’s few remaining official bilateral creditors would soon be concluded successfully, so that the country can receive the full benefits of the Multilateral Debt Reduction Initiative,” Mr. Kato said.

Statement by Peter Gakunu, Executive Director for the Republic of Mozambique and Jose Sulemane, Advisor to the Executive Director
December 17, 2007

Introduction

The Mozambican authorities are appreciative of the continued support by the Fund and value the constructive policy dialogue and advice given by staff. They welcome the balanced staff report and are in broad agreement with the thrust of the analyses, conclusions, and recommendations. They reaffirm their commitment to pursuing prudent policies under the PSI and request the completion of the first review.

Prudent fiscal and monetary policies have kept inflation in the single digits, albeit somewhat higher than programmed, on account of high food and international oil prices. Despite a marked deceleration in traditional exports, net international reserves are expected to remain at a comfortable level and exceed the program target at end-2007, mainly on account of an increase in net capital inflows.

The authorities' commitment to reforms is evidenced by the satisfactory implementation of the 2007 program, with all but one of the quantitative assessment criteria (AC) for end-June 2007 and all structural assessment criteria through end-September 2007 observed. The end-June AC for base money was missed by a narrow margin because of an unanticipated increase in money demand. Because of the permanent nature of this increase, the government requested the modification of the related AC for end-December 2007. All structural benchmarks through September 2007 were met, with the exception of the one related to the memorandum of understanding between the Ministry of Finance and the Bank of Mozambique for the shifting of the cost of managing monetary policy, which was agreed to at the end of November 2007.

Looking ahead, the policies set out under the authorities' reform program continue to aim at consolidating macroeconomic stability and sustain strong broad-based growth through a second wave of reforms, with particular emphasis on implementing the second phase of the public sector reform program (2006-11). The main priorities will be to improve efficiency, governance, fight corruption, and improve access to finance in particular, in rural areas.

Macroeconomic Developments and Performance

Mozambique's economy has continued to grow strongly over the past decade, with real GDP growth averaging about 8 percent, and poverty reducing from 69 percent in 1996-97 to 54 percent in 2002-03. Economic performance has remained strong despite exogenous shocks. Economic growth remains robust and is expected to reach the program target of 7 percent for the year as a whole, boosted by macroeconomic stability and continuing donor support, as well as broad-based expansion across most sectors of the economy. Agriculture continues to benefit from growth in the food-crop sub-sector and expansion of export crops, although output remains dependent on climatic conditions. Key cash crops, such as tobacco, sugar and cotton, should continue to benefit from the heavy investment of recent years. Services, which account for a large percentage of the GDP, should be boosted by higher domestic demand and growth in local companies providing services. Transport and communications sector continues to attract private investment in ports, railways, roads and mobile telephone.

Economic prospects for 2008 and the medium term remain favorable with continued strong growth and inflation in single digits, albeit with risks related to natural calamities, high oil prices, and spending pressure during the period of the elections. The authorities are prepared to take necessary measures to make the risks manageable. In addition, the economy is set to benefit from a second generation of large projects. Given the crucial role of SMEs in the economy, the government will implement policies aimed at employment generation and improvement of income distribution within the different regions of the country. Central to achieving these objectives will be the continuation of a prudent fiscal and monetary policy in the context of a flexible exchange rate regime. The external current account is targeted to widen on account of inflows and the impact of the Euro appreciation, but international reserves will be comfortable.

Fiscal Policy

The authorities' fiscal policy stance was better than programmed at end-September 2007, as revenue collection was above target, while current and capital expenditures were as programmed. Under these conditions, the fiscal targets for end 2007 are well within reach. In November, the government agreed to postpone the provincial elections until 2009, from the initial schedule of January 2008, to combine them with the parliament and presidential elections. The harmonization of the timing of elections is expected to ensure efficient use of resources in terms of focus of program implementation and financing. The authorities have made progress on implementing the integrated public financial management system (SISTAFE), by expanding it to all ministries at central and provincial levels. They have continued their efforts to improve public expenditure through the installation of an integrated payroll database for the civil service, and additional features will be further enhanced in the ensuing months for its full operation.

In the area of tax policy, a number of draft laws have been submitted to Parliament. While the proposed changes in the VAT law grant a limited exemption on public works, this is transitory and the government remains committed to the full taxation of services related to public works and will seek to gradually reduce the deduction from the tax base and eliminate the limited exemption in due course.

The authorities have increased fiscal spending for 2008, around two-thirds of which has been allocated to priority sectors, including sufficient counterpart funds to ensure a smooth execution of donor-financed projects. The 2008 Budget reflects the increase in donor support and the appreciation of the Euro. In September, the government completed its mid-year review with the "G-19" (Program Aid Partners (PAPs), the international partners engaged in the budget support mechanism. This represents a major conceptual change to donor coordination and harmonization and is intended to streamline government reporting requirements and enable donors to buy into the government's overall performance, rather than focus on specific projects or programs. In the process, it is worthwhile to note that dialogue between donors and government on policy and performance issues has become frank and more transparent.

A major policy goal in 2008 is to increase tax revenue by the equivalent of 0.5 percent of GDP. The increase in domestic revenue is expected to come from improvements in revenue administration, and tax policy measures, including revisions to the personal income and corporate income tax codes. As part of these efforts, legislation was passed recently establishing new tax regimes for the mining and petroleum sectors, which will apply to new investments, and, as a result, it is expected that natural resource-based projects would contribute more to the fiscal revenues in the near future.

Monetary and Exchange Rate Policy

The Bank of Mozambique (BM) has stepped up its efforts to strengthen monetary and exchange rate policy and operations. At the same time, BM has redoubled its efforts in the fight against inflation during 2007. The spread between the different foreign exchange markets has narrowed to about one percent and the real effective exchange rate has remained stable. Furthermore, the spreads between the deposit and lending interest rates have been narrowing.

The BM will continue to target base money with a view to achieving its inflation goal of 5-6 percent at end-2008. It will continue with interventions in the foreign exchange markets as a major mechanism to sterilize liquidity. With the first generation of reforms successfully implemented, the BM will consider the possibility of moving to a monetary framework that better reflects determinants of price stability with the help of Fund technical assistance. The BM will support the expansion of the non-bank financial sector, and continue to license and supervise the microfinance deposit-taking institutions to facilitate access to finance by SMEs and rural households. Regarding the reforms in the foreign exchange system, a new foreign exchange law was submitted to the Parliament in September 2007, as harmonization of various views took some time. Upon approval of the law and its related regulations, the authorities intend to accept obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

Structural Reforms

Progress on structural reforms also accelerated, particularly in reducing the cost of doing business and on the judiciary. Several measures helped to improve the investment climate including the authorization to publish company bylaws electronically, approved in early 2007, which has helped to reduce the time it takes to start a business from 113 to 29 days, while the cost of business registration has decreased by two-thirds, and the number of procedures declined from 13 to 10.

The Mozambican authorities are keen to accelerate reforms to reduce the cost of doing business to make Mozambique's business environment the most competitive in the region by 2015. To address this challenge, the Ministry of Industry and Commerce has coordinated the development of a strategic action plan to improve the business environment through an inter-ministerial committee. The World Bank will provide support on the strategy and technical assistance in coordination with other donors for advancing the reform agenda. The Decree on Simplified Licenses for Micro and Small Business will be submitted to the Council of Ministers by end of 2007. With regard to reforms in the Justice sector, several important laws were approved recently, including the Law on Judiciary Organization, which increases the district tribunal competencies and brings the justice system closer to the citizens; and the Organic Law of the Public Ministry and the Statute of the Magistrate, which improves their organization and functioning and contributes to better access to justice. The draft Integrated Strategic Plan will be submitted to the Council of Ministers before end-December 2007. The Law revising principles and regulation of Institute for the Provision of Judicial Assistance (Instituto de Patrocínio e Assistência Jurídica-IPAJ) will be submitted to the Council of Ministers before end-December 2007.

The government intends to faithfully implement its public sector reform program and anti-corruption strategy to improve governance and service delivery. To this effect, a committee is working with the help of the World Bank to define by March 2008 a number of measures that will help improve governance indicators.

The authorities are aware that managing aid and financial inflows, including those from potential mega-projects, pose major challenges both to the fiscal and monetary authorities. At the same time, after the relative long process of structural reforms, the authorities believe that conditions are now ripe to demand more from foreign investors, in particular, in the area of natural resources and concessions, and the recent legislation in this area is a step in the direction.

In addition, the government announced the conclusion of the process to take over the ownership of the company that operates the Cahora Bassa dam (HCB) on November 26th, after a long process of negotiations of a non-recourse financing.

Conclusion

The Mozambican authorities remain committed to implementing prudent policies and advance further the reform agenda. This will be achieved through effective implementation of the PSI arrangement within the framework of PARPA II, which seeks to attain macroeconomic stability, enhance revenue mobilization, and efficient use of public resources through the PFM reforms. Consistent with this overall strategy is the timely implementation of the second wave of reforms, in particular, the improvement of service delivery in the public sector and the creation of an enabling environment for private sector development, and the related financing of these activities. My authorities are grateful for the support from the Fund and the international community, and will continue to count on such future support for their reform effort.