



Presentation of the IMF Resident Representative Office in
Mozambique to
the Development Partner Group^{1,2}

Victor Lledó
November 17, 2011

¹ The Development Partner Group consists of heads of mission in Mozambique of bilateral donors, the UN, and the international financial institutions.

² This document has not been approved by the IMF Executive Board.

Outline of the presentation

- Sub-Saharan Africa Economic Outlook:
 - Sustaining the Expansion

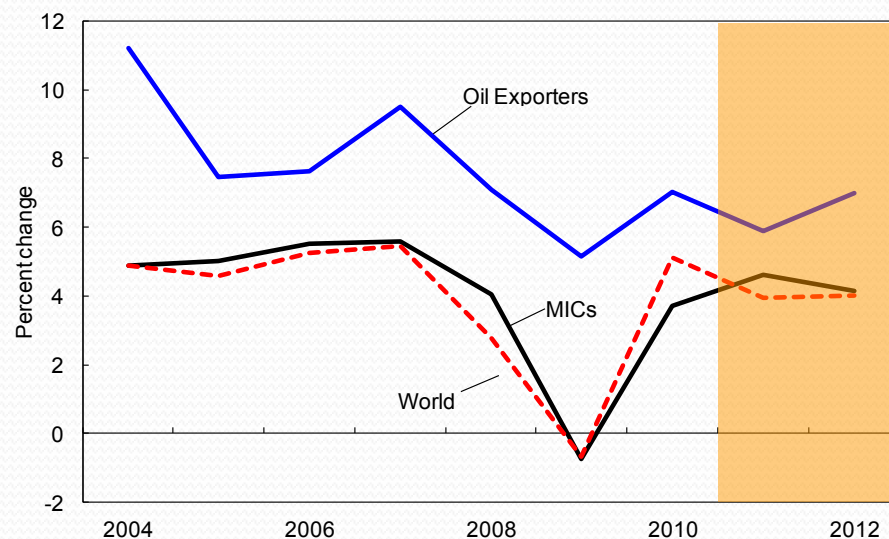
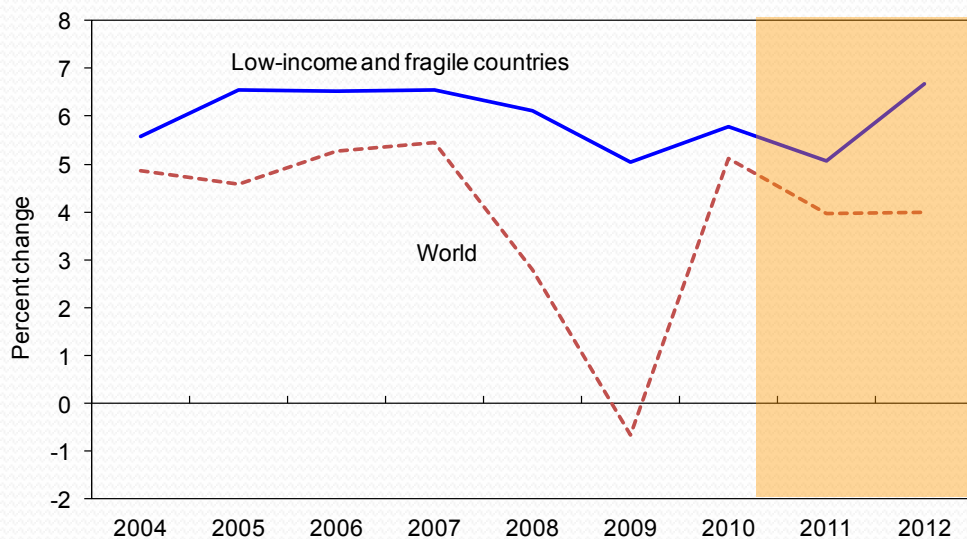
- Mozambique Economic Outlook
 - Recent Developments and 2011-12 Prospects

- Policy Discussions : 3rd PSI review mission



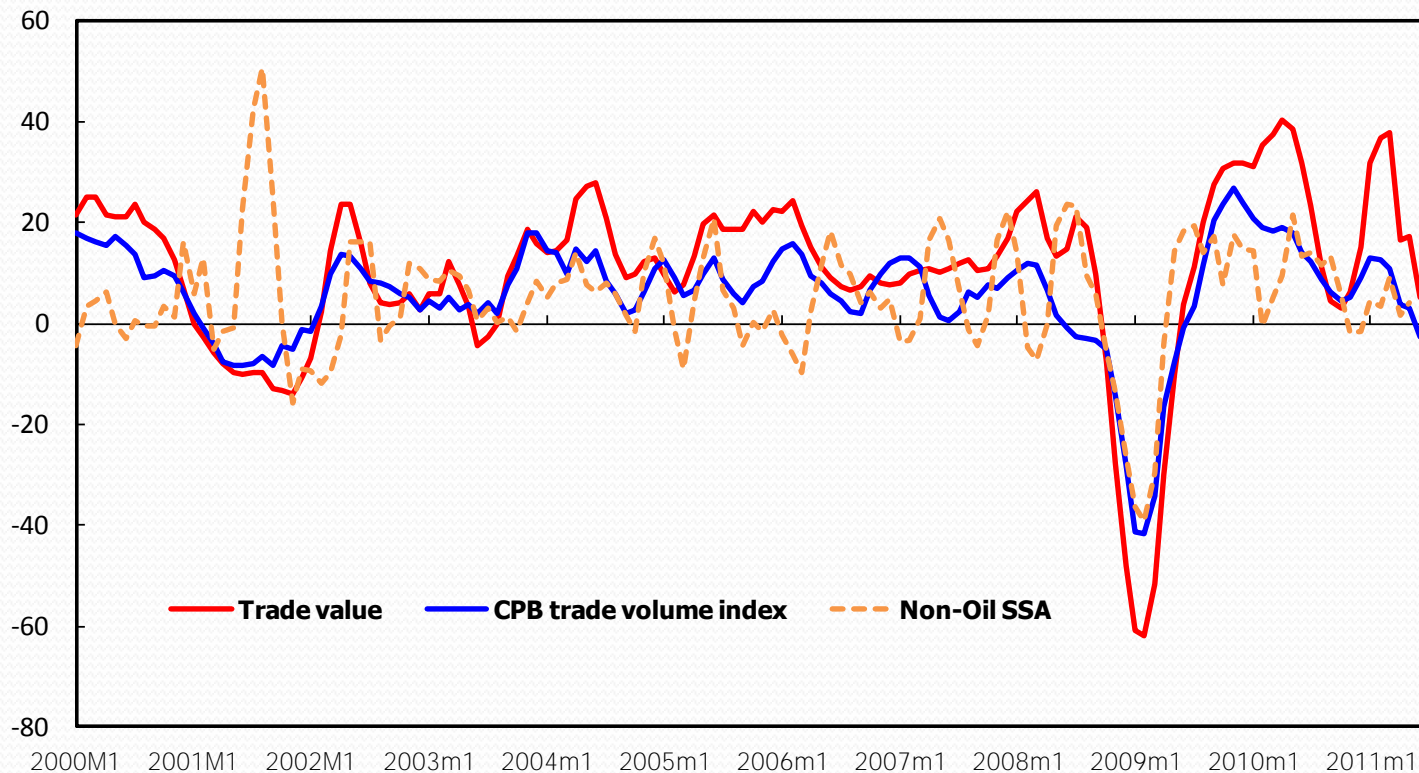
Sub-Saharan Africa: Sustaining the Expansion

Providing the world economy expands at 4 percent this year and next, output growth in SSA is expected to be robust at 5¼ percent in 2011 and 5¾ percent in 2012. LICs are particularly expected to do well.



Sub-Saharan Africa: Sustaining the Expansion

Could the sub-Saharan African economy decouple and avoid another slowdown? This is very unlikely given the strong links between SSA exports and global trade volume indicators.



Sub-Saharan Africa: Sustaining the Expansion

❖ Policy challenges :

- Create and timely use the policy space to sustain the expansion

- Some LICs need to consider tightening their monetary stance to restrain inflationary pressures.
- Countries in which fiscal deficits are not declining from their 2009-10 highs, and where growth remains strong, should focus on rebuilding fiscal policy buffers.
- Slower-growing countries (mostly middle income) without financing constraints should retain a supportive macroeconomic stance.
- Oil exporters should be using their windfall gains to build up fiscal buffers.



Sub-Saharan Africa: Sustaining the Expansion

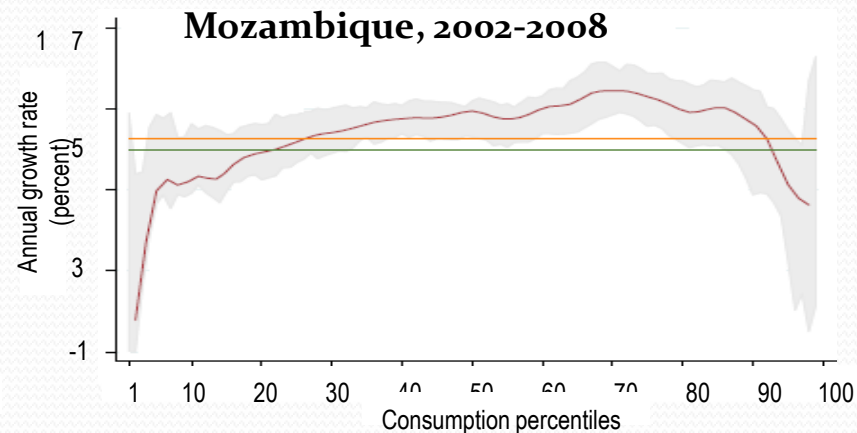
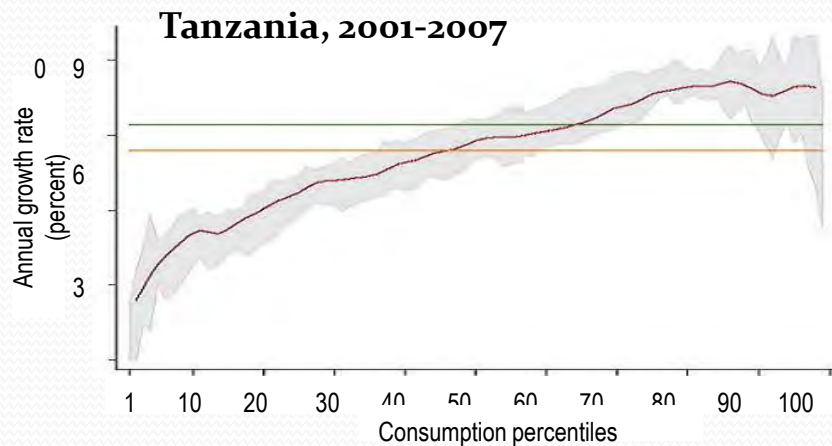
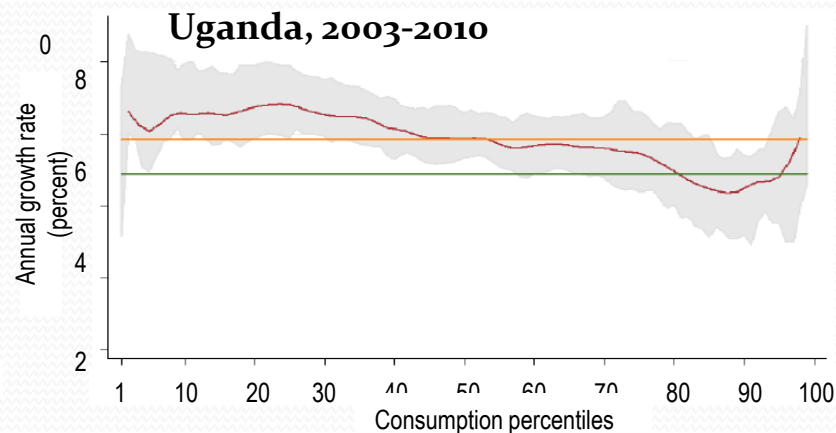
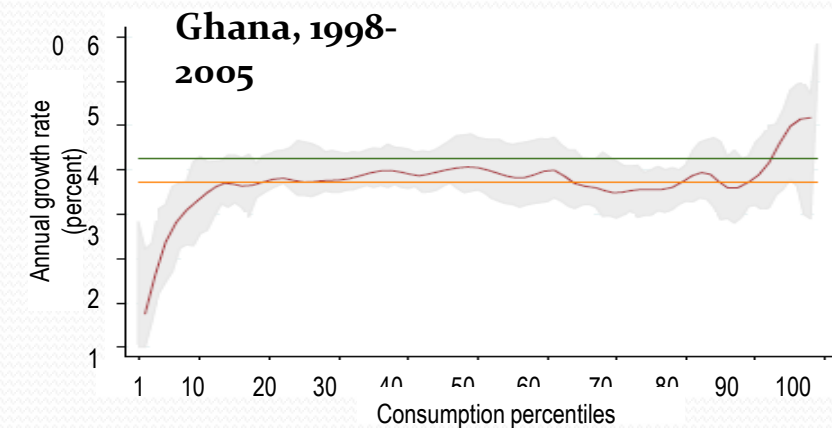
❖ Structural Challenges

- **Speed limits**
 - Economies are expanding at or near their highest rates of growth in many years, and so supply bottlenecks are emerging—e.g. infrastructure
- **Politics**
 - Several important elections in 2012 may delay necessary policy adjustments.
- **Financial Sector Deepening, with Effective Supervision**
- **Inclusive Growth**



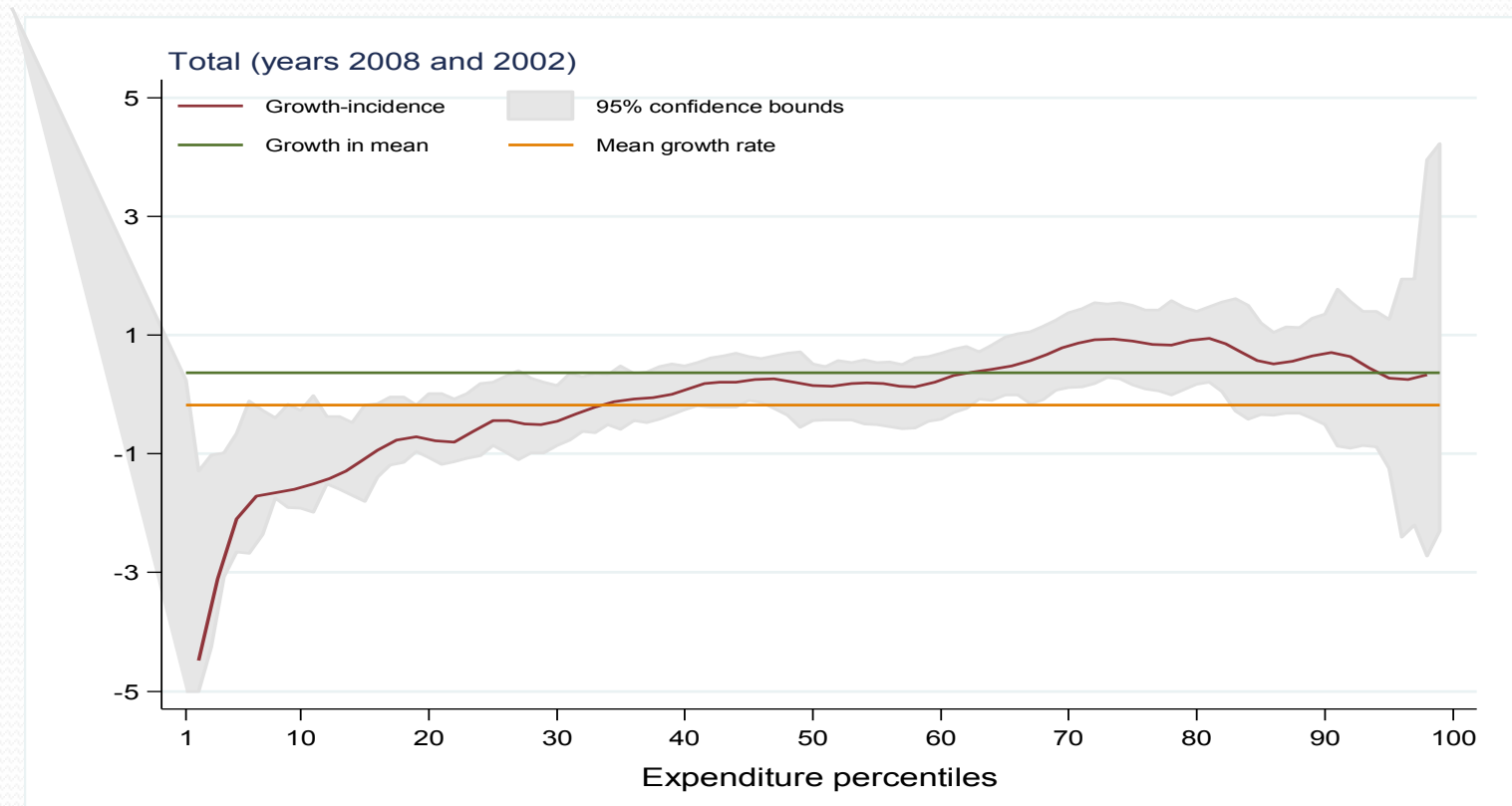
How inclusive is Africa's Growth

Growth rate of real consumption per capita by percentile of the distribution: the high-growth cases



How inclusive is Africa's Growth : Mozambique case with different deflators

Mozambique, 2002-2008 – different regional deflators



Employment growth has been strong and rural agricultural employment growth provides much of the explanation of per capita consumption growth among the poorest households

Employment Indicators

(Annual percentage change, except where stated)

	Period	Total Employment	Employment Output Elasticity	Urban Employment	Agricultural Employment	Rural Agricultural Employment	Formal Sector Employment ¹
Cameroon	2001–07	2.7	0.8	5.6	5.9	4.2	9.5
Ghana	1999–2005	3.4	0.7	6.1	3.5	1.4	13.3
Mozambique	2003–09	4.4	0.6	7.4	3.4	-0.4	16.7
Tanzania	2000–09	3.3	0.5	8.8	2.3	2.1	9.5
Uganda	2002–09	7.5	1.0	9.8	6.0	6.4	13.9
Zambia	1998–2004	1.9	0.6	5.1	-0.2	-1.6	13.8
<i>Memo items:</i>							
Cambodia	2004–07	4.2	0.4	4.5	3.9	4.7	25.0
Vietnam ²	2000–07	2.9	0.4	6.1	-0.3	n.a.	44.0
Sub-Saharan Africa (sample median)		3.3	0.6	6.8	3.5	1.8	13.6

Sources: Household surveys; Vietnam Ministry of Planning and Investment and UNDP (2010); World Bank (2008).

¹Latest estimate in percent of working-age population.

²Agricultural employment is for 2000–08.



Mozambique Economic Outlook :

Recent Developments and 2011-12 Prospects

Mozambique and Sub-saharan Africa: Selected Economic Indicators, 2004-2012

	Mozambique					Sub-saharan Africa				
	2004-08	2009	2010	2011	2012	2004-08	2009	2010	2011	2012
	Average	Act.	Est.	Proj.	Proj.	Average	Act.	Est.	Proj.	Proj.
Real GDP (% growth)	7.8	6.3	6.8	7.2	7.5	5.3	3.2	5.5	5.2	5.8
Consumer prices (average, %)	10.2	3.3	12.7	10.8	7.2	8.4	10.6	7.5	8.4	8.3
Broad money (% of GDP)	30.3	40.2	42.0	39.5	40.6	42.0	49.5	48.0	47.9	48.2
Credit to the private sector (% of GDP)	14.4	26.8	29.1	28.8	30.5	17.3	20.8	21.6	26.9	20.6
Current account balance, incl. grants (% of GDP)	-10.9	-12.2	-11.7	-11.2	-11.1	0.8	-2.3	-1.2	0.7	-0.5

Source: Regional Economic Outlook Sub-Saharan Africa, IMF, October 2011; Projections from the latest PSI review mission.

- Mozambique's growth performance remains robust, cementing the country as one of the fast growing economies in the Sub-Saharan Africa
- While risks to the global economic turmoil have increased, Mozambique's medium-term macroeconomic outlook remains positive.



Mozambique Economic Outlook :

Recent Developments and 2011-12 Prospects

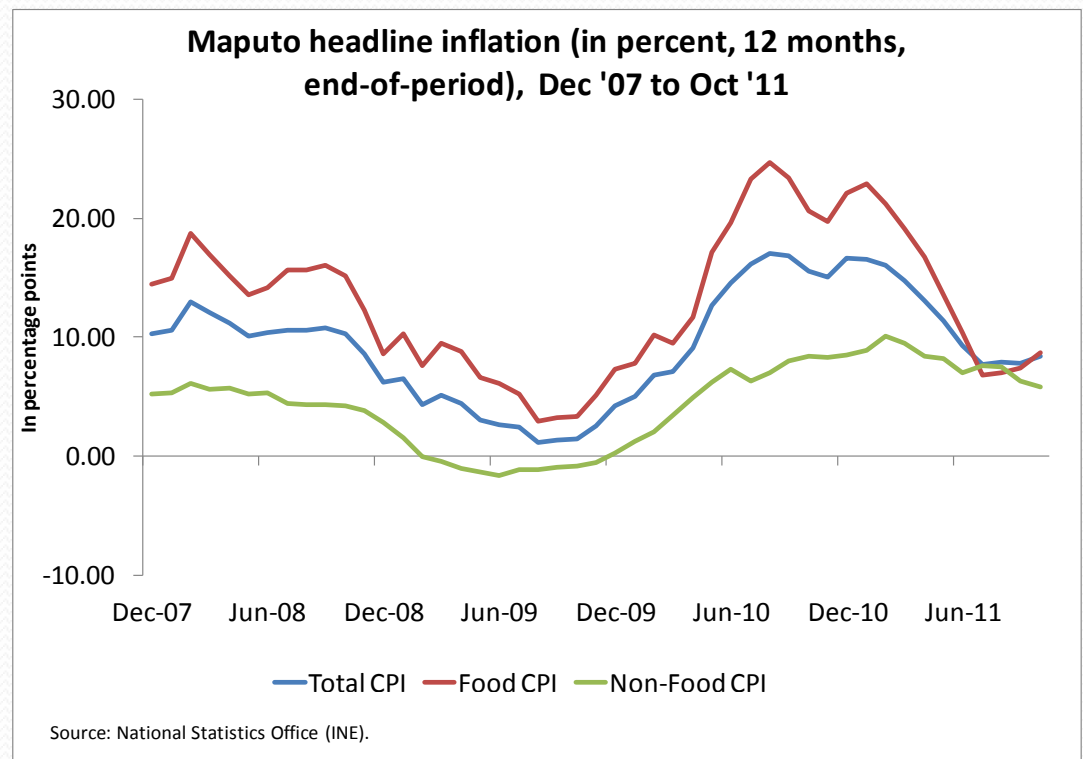
Inflation

➤ The inflation rate in October was 0.01 percent, the lowest October rate in at least a decade:

➤ This contributed to further bringing the average in twelve months down to 11.9 percent.

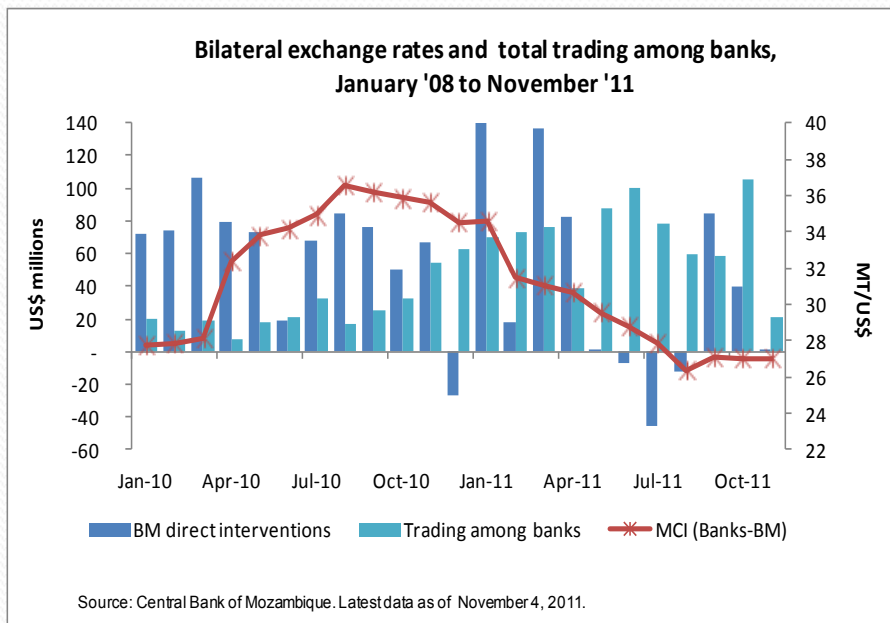
➤ The core measure of inflation has also followed this downward trend, by declining to 6.8 percent.

➤ The end of period in twelve months is 8.3 percent, almost close to the current projection under the IMF program (8.4 percent).



Mozambique Economic Outlook : Recent Developments and 2011-12 Prospects

Exchange rates



**Monthly changes in exchange rates,
Dec 2010 to Oct 2011 (in percent)**

	EUR	ZAR	USD
Dec-10	0.2	-4.5	-7.2
Mar-11	1.3	1.4	-1.0
Jun-11	-2.9	-3.1	-3.7
Sep-11	-13.2	-6.8	-0.1
Oct-11	3.4	3.5	-0.3
Jan-Oct 2011	-30.1	-13.8	-17.7

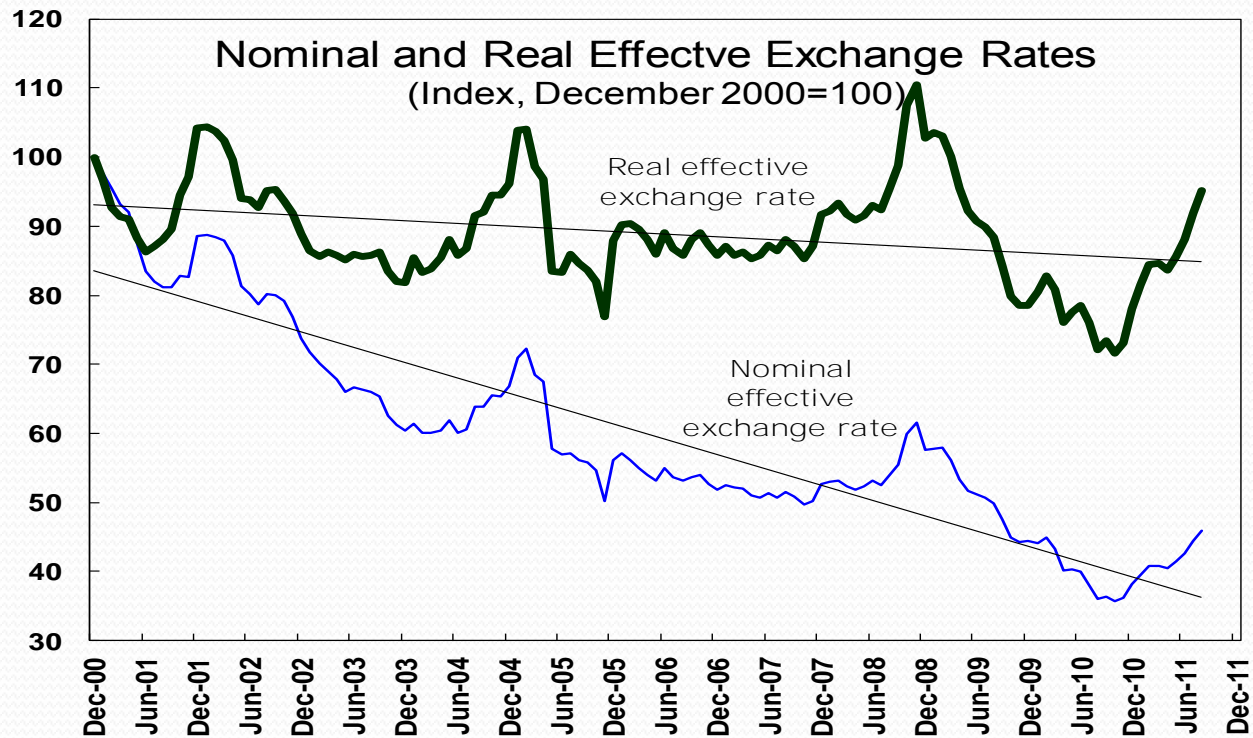
Obs: (+) depreciation of the Metical; (-) appreciation of the Metical.

The pace of the appreciation vis-à-vis the US dollar, slowed down recently. The same applies to the SA Rand and to a lesser extent to the Euro.



Mozambique Economic Outlook : Recent Developments and 2011-12 Prospects

Exchange rates



Policy Discussions : 3rd PSI Review

- Mozambique continues to weather the global economic turmoil remarkably well.
- Mozambique is relatively well positioned to mitigate the impact of a severe global downturn.
- Mozambique's record under the PSI remains strong.
- Authorities' focus to continue the disinflation effort in the short run is appropriate
 - Monetary policy geared towards preserving low levels of inflation while allowing financial deepening;
 - Fiscal policy: while supportive of the disinflation stance, will seek to step up public investment to close the infrastructure gap and support expansion of social safety nets to address chronic poverty.
- Medium-term : Sustain and achieve more inclusive growth
 - Create fiscal space : prudent concessional and non-concessional borrowing, maintain revenue mobilization efforts with support from booming natural resource sector.
 - Better prioritize current spending, spend more on social support mechanisms
 - Scale-up infrastructure through the selection of appropriate projects and financing vehicles.
 - Enhance macroeconomic management of natural resources.



Thank you!

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