



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

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May 16, 2012

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

- Mozambique Recent Economic Developments
- Mozambique Economic Outlook
- Mozambique : Policy Discussions

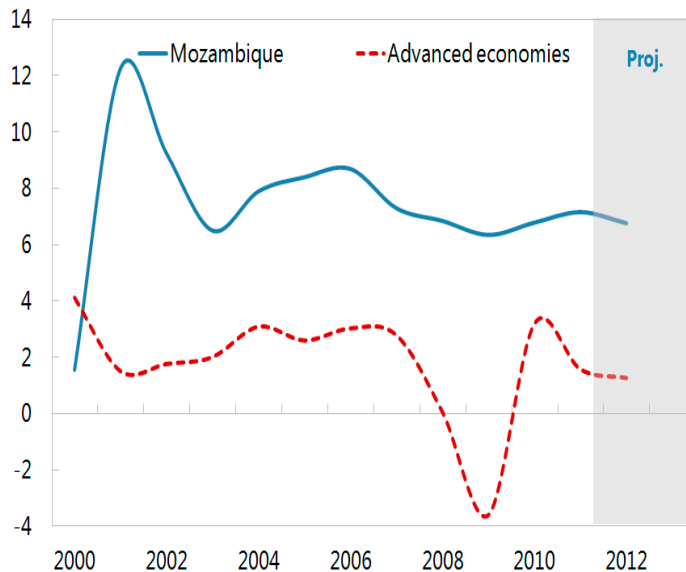


Mozambique Recent Developments – Growth

- The global weakness has yet to have a significant impact on Mozambique's economic growth.
- Mozambique's growth performance continued to compare favorably with growth rates of its peers.
- Growth was broad-based, with agriculture, mining, transportation and communication, and financial sectors outperforming.

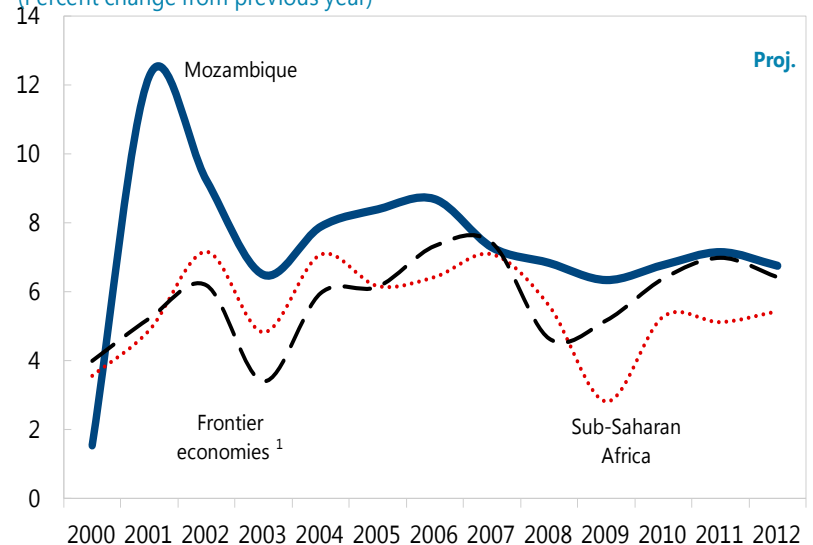
Real GDP Growth, 2000-12

(Percent)



Real GDP

(Percent change from previous year)



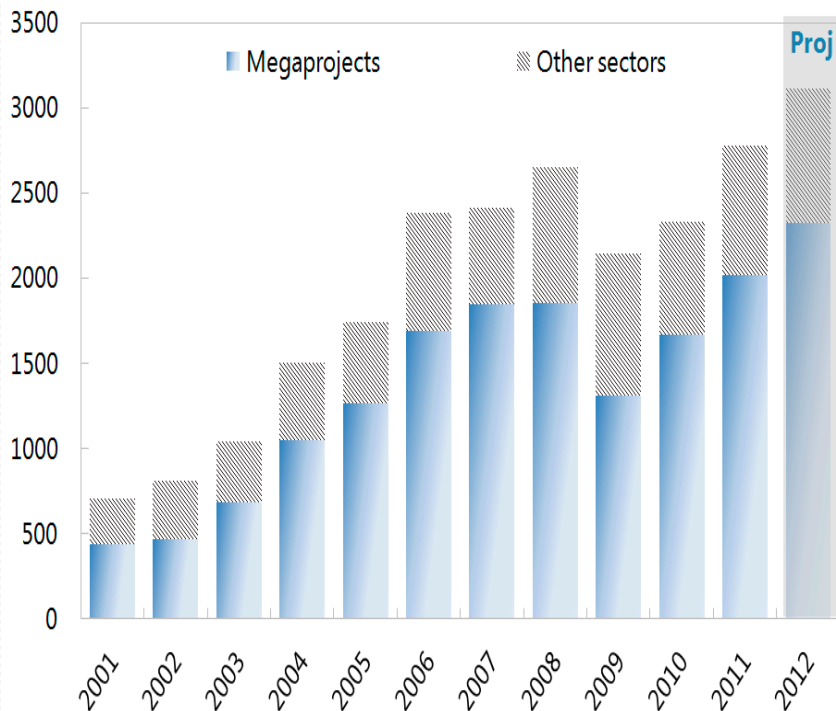
¹ Frontier economies: Angola, Ghana, Kenya, Mauritius, Mozambique, Senegal, Tanzania, Uganda, Zambia and Zimbabwe.

Mozambique Recent Developments – External Performance

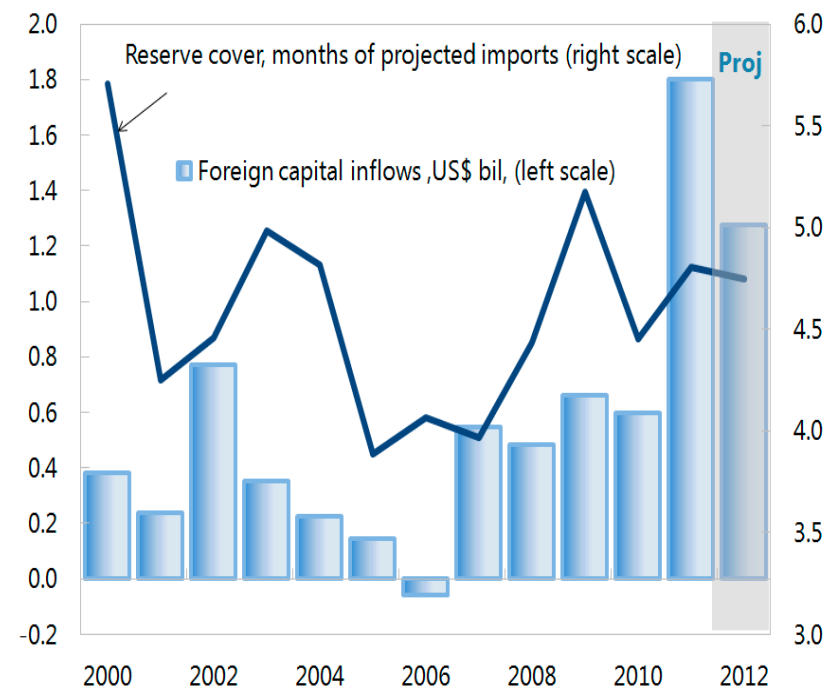
- The external sector performed well with both megaprojects' and traditional exports buoyant.
- Strong private capital inflows especially by megaprojects have helped to maintain the reserve cover.

Export Receipts

(Millions of U.S. dollars)



Private Foreign Capital Inflows and Reserve Cover

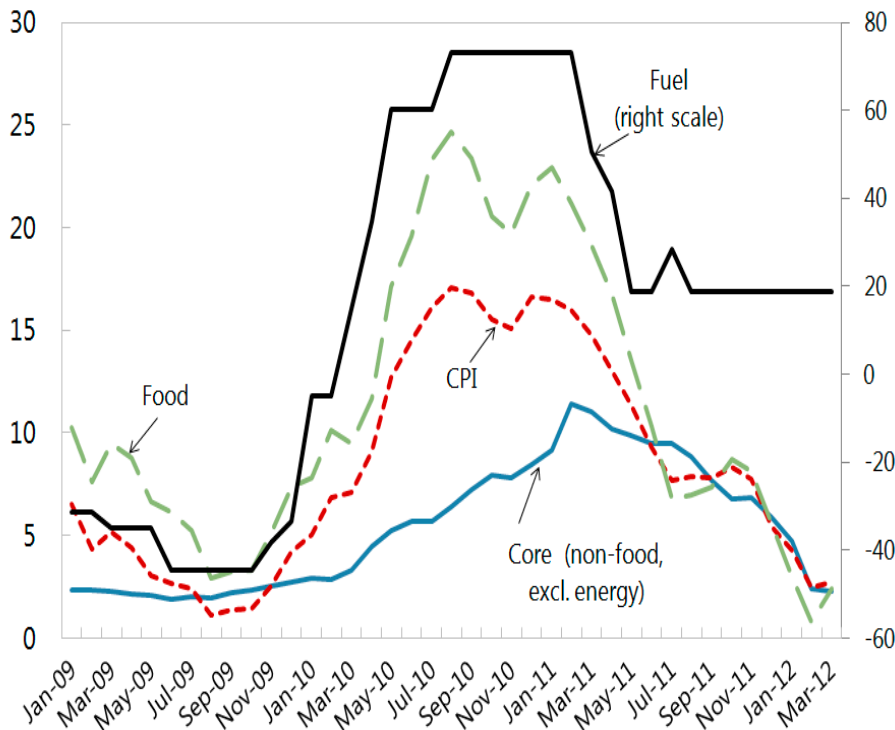


Mozambique Recent Developments – Inflation

- Disinflation in 2011 was impressive with both headline and core inflation coming down from double digits to about 2 percent in April 2012.
- Due to favorable developments in international prices, determined monetary tightening, and a restrictive fiscal stance in the first half of the year.

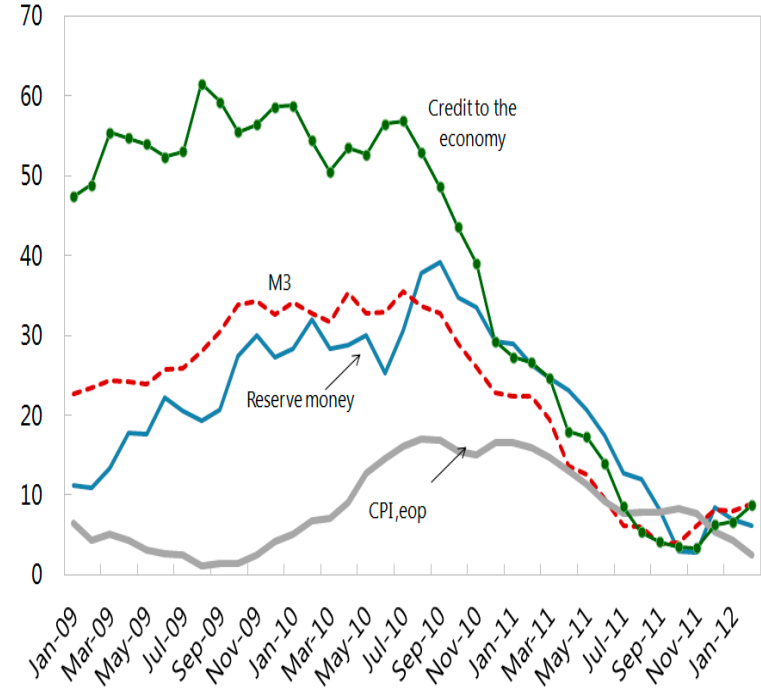
CPI and Components

(Percent change, year-on-year)



Money, Credit and Inflation

(12-month percentage change)

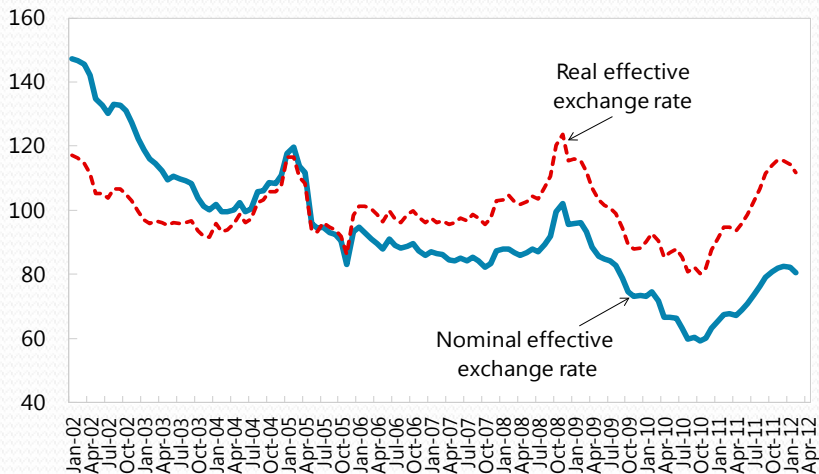


Mozambique Recent Developments – Exchange Rate

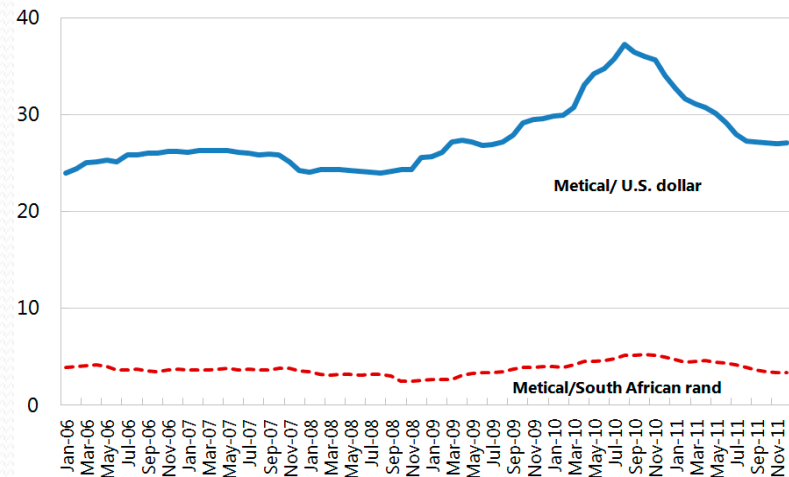
- Strong capital inflows and the monetary tightening have contributed to the appreciation of the metical during 2011.
- Our latest exchange rate assessment (June 2011) found the metical was slightly undervalued, though within the margin of equilibrium.
- Although the metical has appreciated in real terms in 2011; as of end March 2012 it is still shows a depreciation of 9%, compared to the 2008 peak.
- Since February 2012, it has started to depreciate both relative to the key reference currencies and to a weighted average of trading partners currencies in both nominal and real terms.

Nominal and Real Effective Exchange Rates

(Index, Average 2005=100)



Bilateral Exchange Rates



Mozambique Recent Developments – External Competitiveness

-Traditional exports have improved in 2011 relative to 2010.

- This is particularly interesting given that 2010 was a period where exchange rates on nominal and effective terms were relatively depreciated by historical terms.

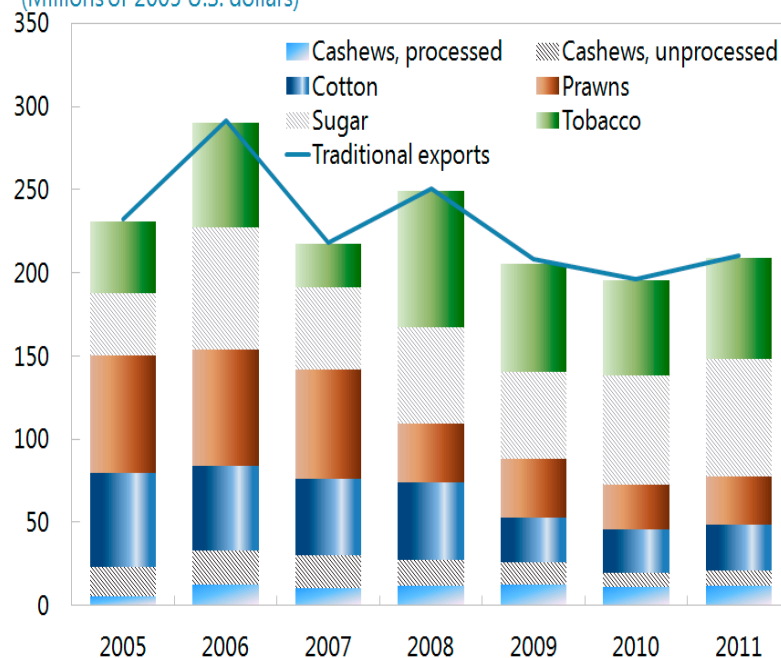
-To be sure, small exporters did report to us during the last mission that the exchange rate was eroding their profitability.

- However, in recent discussions, private sector representatives continue to identify the weak business environment, lack of access to finance, and , in the case of agriculture, poor land rights and unclear contract enforcement as their key bottlenecks.

--All that said, the exchange rate remains an important factor for external competitiveness. We will continue to monitor exchange rate developments to ensure that it adjust freely to evolving patterns of trade and financial flows and closely monitor developments in the real effective exchange rate with a view to ensuring external competitiveness and a comfortable level of international reserves.

Traditional Exports Volume

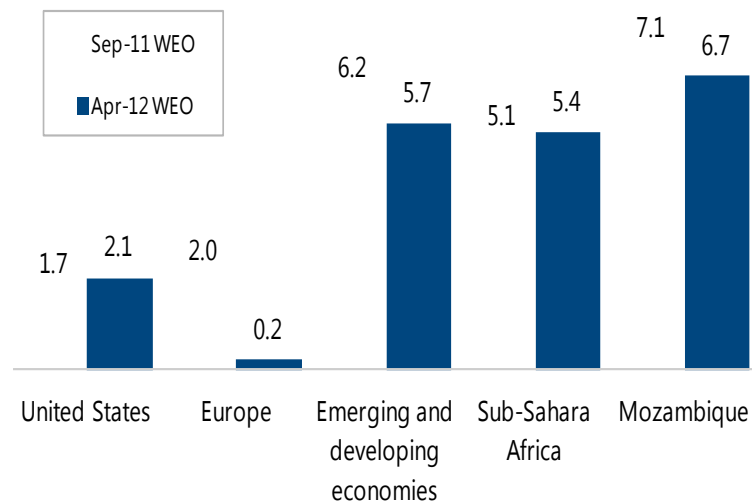
(Millions of 2005 U.S. dollars)



Mozambique Economic Outlook

- Global growth prospects are gradually improving again. However, the recovery remains vulnerable and risks are firmly to the downside.
- Downside risks include the two most immediate concerns: i) a re-escalation of the euro area crisis and (ii) sharply higher oil prices.
- The worsened global economic outlook for 2012-13 poses a risk to Mozambique's economic performance but through likely different channels than the 2008-09 global crisis:
 - 2008-9: Lower FDI/Export demand, High Commodity prices
 - 2012-13: Lower aid disbursements and more limited credit availability

**Global Growth Projections, 2012
(Percent)**

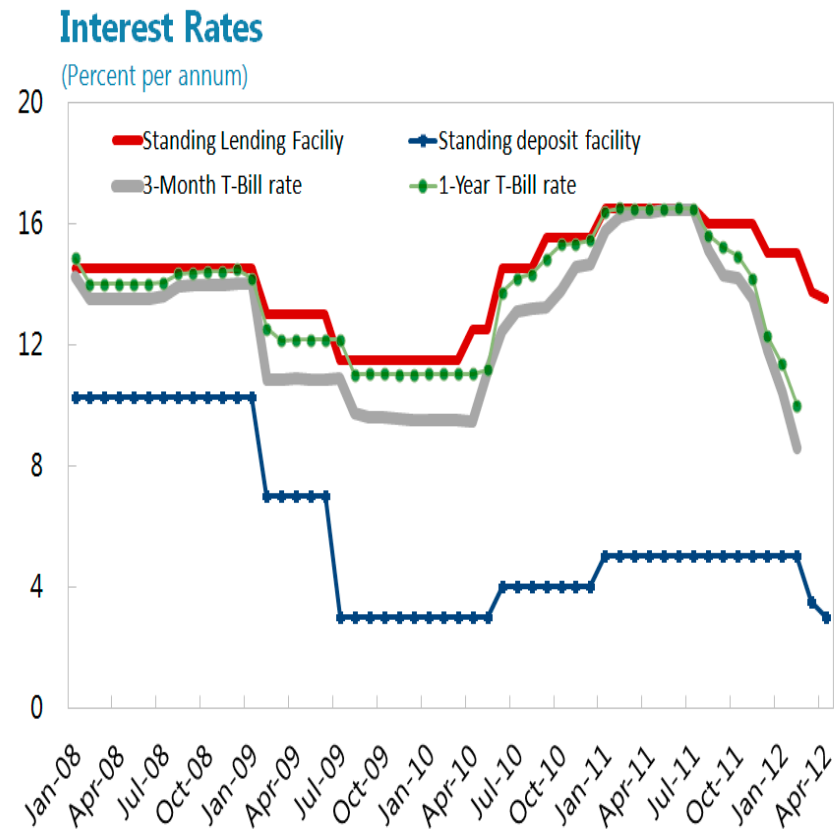


Source: *World Economic Outlook*.



Mozambique: Policy discussions – Short Term

- Mitigating the Impact of the Global Slowdown
 - ✓ Authorities are on the right track in adopting countercyclical policies.
 - ✓ Monetary policy : accommodating stance intended to support the provision of private sector credit at a critical time;
 - ✓ Fiscal policy : operation of automatic stabilizers to deal with the less favorable scenario for growth and revenue collection.



➤ Promoting Inclusive and Sustainable Growth

- ✓ Closing the Infrastructure Gap While Maintaining External Sustainability
- ✓ Tapping and Managing Natural Resource Wealth to Finance Priority Spending
- ✓ Scaling-up social protection on a Fiscally Sustainable Basis
- ✓ Deepening Structural Reforms



Thank you!

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