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REPUBLIC OF MOZAMBIQUE

April 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOZAMBIQUE

In the context of the Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 24, 2020, following discussions that took place on April 8 and 9, 2020, with the officials of the Republic of Mozambique on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 17, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Republic of Mozambique.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$309 Million in Emergency Assistance to Mozambique to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF approved a disbursement under the Rapid Credit Facility (RCF) of US$309 million to help Mozambique meet urgent balance of payment and fiscal needs stemming from the COVID-19 pandemic.
- The pandemic is expected to have a significant impact on Mozambique's economy, interrupting a nascent recovery following two powerful tropical cyclones that struck in 2019.
- To mitigate the impact of the pandemic and preserve macroeconomic stability, the government has taken several steps to increase health spending, strengthen social protection to the most vulnerable, and support micro, small, and medium-sized businesses.

Washington, DC – April 24, 2020. The Executive Board of the International Monetary Fund (IMF) today approved a disbursement under the Rapid Credit Facility (RCF) of SDR 227.2 million (about US$ 309 million at today's exchange rate) to help Mozambique meet urgent balance of payment and fiscal needs stemming from the COVID-19 pandemic. The pandemic is expected to have a significant impact on Mozambique's economy, interrupting a nascent recovery following two powerful tropical cyclones that struck in 2019. Significant disruptions are emerging in services, transport, agriculture, manufacturing and communications coupled with a much worse external environment affecting export-oriented sectors, such as mining. To mitigate the impact of the pandemic and preserve macroeconomic stability, the government has taken several steps to increase health spending, strengthen social protection to the most vulnerable and support micro-businesses and small and medium-sized enterprises. The Bank of Mozambique has reduced the policy rate and provided additional liquidity in both local and foreign currencies to the financial market. The weakened macroeconomic outlook and deteriorating fiscal situation have created urgent external and fiscal financing needs. The IMF financial support will make a substantial contribution toward fulfilling the needed increases in health spending and other social safety nets.

Following the Executive Board discussion, Mr. Tao Zhang, IMF Deputy Managing Director and Chair, made the following statement:

"Mozambique is expected to be significantly affected by the COVID-19 pandemic, dashing prospects of a nascent economic recovery following two powerful tropical cyclones that struck in 2019. The IMF's emergency financial support under the Rapid Credit Facility, along with the additional donor grant financing it will help to catalyze, will contribute to addressing Mozambique's urgent balance of payments needs generated by the pandemic.

"The authorities' immediate priority is to limit the impact of the pandemic and preserve macroeconomic and financial stability. Higher health spending and measures to protect the most vulnerable in the society and support micro-businesses and SMEs are being enacted.

“Given Mozambique’s limited fiscal space and high public debt, additional external support, preferably in the form of grants and highly concessional loans, is also urgently required to meet the country’s elevated financing needs and ease the financial burden of the pandemic. Participation in the G20 debt standstill initiative will provide additional resources to fight the pandemic while limiting a deterioration of Mozambique’s debt liquidity indicators in the near term.

“The authorities are committed to prevent corruption and misuse of emergency financing, by strengthening transparency and accountability. In this connection, they will publish large public procurement contracts and conduct and publish ex-post audits of funds’ use.

“Once the pandemic eases, it will be critical to resume fiscal consolidation and strengthened debt management and transparency to ensure that public debt remains sustainable. It will also be important to implement structural reforms to support inclusive and sustainable growth.’’

More information:
IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

April 17, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic is expected to hit Mozambique hard, and the authorities have requested emergency Fund financial assistance through the Rapid Credit Facility (RCF). As of April 16, Mozambique had reported 29 positive cases of COVID-19 but this number is expected to increase rapidly. The impact of the shock is likely to be significant in the short-term, dashing prospects of a nascent economic recovery. Prior to the COVID-19 crisis, Mozambique was rebounding from two Tropical Cyclones (TCs) which struck in 2019 and for which Mozambique benefitted from an RCF disbursement in April 2019.

Request for Fund support. Given the large and urgent external and fiscal financing needs arising from the COVID-19 pandemic, the authorities are seeking financial assistance under the "exogenous shocks" window of the RCF. In the attached letter of intent (LOI), the authorities request a disbursement of SDR227.2 million, equivalent to 100 percent of quota, and they envisage a central bank on-lend of this disbursement to the Treasury. Staff assesses that Mozambique meets the qualification criteria and other applicable requirements and supports the request. While public debt is in distress, it is assessed to be sustainable in a forward-looking sense, and the capacity to repay the Fund is adequate. The IMF disbursement is expected to play a catalytic role in securing additional financing from Mozambique's development partners, which authorities are actively seeking.

Macroeconomic policies and IMF engagement. The authorities' immediate priority is to limit the impact of the pandemic and preserve macroeconomic stability. Health spending is being increased and measures to protect the most vulnerable members of society and support the private sector are being implemented. The authorities will undertake independent audits of crisis-mitigation spending and related procurement processes once the pandemic abates and will publish the audited results. In the meantime, they will publish the related large public procurement contracts and their beneficiaries. Exchange rate flexibility has been maintained. Beyond this short-term objective, the government remains fully committed to medium-term fiscal consolidation and its structural reform agenda to support inclusive and sustainable growth.

Approved By
David Owen (AFR) and Mark Flanagan (SPR)

An IMF team consisting of Messrs. Velloso (Head), Zavarce and Delepierre (all AFR), Endegnanew (SPR), Aisen (Resident Representative), Manguinhane (local economist) and Ms. Palacio (capacity development coordinator) exchanged information and held discussions with Mozambican authorities, including Minister of Economy and Finance Maleiane, Central Bank Governor Zandamela, and other senior government officials by video conferences on April 8 and 9, 2020. Mses. Carvalho, Gupta, Luo provided research support and Mses. Aliu and Prado assisted in the preparation of this report.

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BACKGROUND

1. **Prior to the COVID-19 crisis, Mozambique was recovering from two Tropical Cyclones (TCs) which struck in 2019 and for which Mozambique benefitted from a Rapid Credit Facility (RCF) disbursement in April 2019**. Mozambique remains one of the poorest countries in the world and faces multifaceted economic and climate challenges. The security situation is also challenging, including an ISIS affiliated terrorist insurgence in the north which has devasted communities and left hundreds dead.

2. **In February, the authorities asked for the initiation of discussions on an ECF arrangement**. A mission to initiate such discussions was planned for the second half of March but it was postponed due to travel disruptions in the wake of the COVID-19 pandemic. Discussions are expected to start later in the year when the current crisis has stabilized.

3. **The COVID-19 pandemic is expected to hit Mozambique hard, and the authorities have requested emergency IMF financial assistance through the RCF**. As of April 16, Mozambique had reported 29 positive cases of COVID-19 but this number is expected to increase rapidly.[1] Facing a severe impact from the global pandemic, including from lower export commodity prices and volumes and a partial domestic lockdown, the authorities' immediate priority is to ensure the health of the population and limit economic and financial disruptions to preserve macroeconomic stability. A 30-day state of emergency was declared on March 30. The authorities are seeking urgent financial assistance under the RCF to help address these immediate needs.

PRE-COVID-19 ECONOMIC DEVELOPMENTS

4. **Despite the severe impact of TCs Idai and Kenneth, the authorities maintained macroeconomic and financial stability**. In 2019, economic activity decelerated to 2¼ percent driven by the adverse supply shock of the TCs and a contraction in the extractive industry. However, despite the supply shock, inflation declined to about 3 percent (y/y) in March, from 3½ percent (y/y) in December 2018, due to subdued aggregate demand, well anchored inflation expectations, and a broadly stable exchange rate. The current account deficit improved to 20¾ percent of GDP in 2019, from 30¾ percent of GDP in 2018, mainly due to much lower-than-expected megaprojects' imports of services and a large payment (US$880 million) of one-off capital gains taxes related to the sale to Total of Occidental's LNG operations in the country. The trade balance for goods, however, worsened driven by lower coal exports (mine flooding and lower export prices), higher megaprojects' imports of goods and emergency relief imports. This deficit was largely financed by FDI, international aid and the RCF disbursement. Gross international reserves increased to US$3.9 billion at end-2019, from US$3.1 billion at end-2018, mainly due to the one-off capital gains taxes. In 2019, the (underlying) overall fiscal deficit, after grants and excluding one-off capital gains taxes, was contained at 5½ percent of GDP and public

[1] According to a recent study by the Imperial College (The Global Impact of COVID-19 and Strategies for Mitigation and Suppression, 2020), as much as 94 percent of the population could get contaminated in a worst-case scenario.

debt stood at almost 110 percent of GDP. On average, banks remained liquid, well capitalized and profitable. NPLs have been trending down and reached 10¼ percent of total loans in December 2019 (provisioning coverage of NPLs was comfortable at 93 percent).

IMPACT OF THE COVID-19 PANDEMIC

5. **The impact of the COVID-19 pandemic will be significant in the short-term, dashing prospects of a nascent economic recovery**. The brunt of the impact will be felt in the first half of 2020, due to lower tax revenue collections and higher spending to treat infected people and protect the most vulnerable in society, as well as production and transportation disruptions if large segments of the population have to be put in quarantine when the outbreak spreads further. In addition, the fall in international commodity prices and demand for exports will have an impact on economic growth and the availability of foreign exchange, including for the critical imports of food and medicine. Substantial and urgent BOP and fiscal financing gaps are materializing.

6. **The pandemic will have a strong impact on all sectors of the economy**:

- Loss of output due to demand and supply shocks (including from virus containment measures) is currently projected to reduce 2020 real GDP growth to 2¼ percent, 3¾ percentage points below the October 2019 projection. Lower growth will be due to a combination of economic disruptions in services, transport, agriculture, manufacturing and communication coupled with a much worse external environment affecting export-oriented sectors, such as mining. Temporary inflationary pressures are likely to emerge from the supply shock and exchange rate depreciation. Credit is expected to slowdown, given a slowing economy and the adverse impact on business prospects and investment of uncertainty about the duration and intensity of the COVID-19 pandemic.

- In the fiscal sector, the COVID-19 pandemic will lead in 2020 to a projected financing gap of about 4¾ percent of GDP due to (i) lower tax revenues (1¾ percent of GDP) given the adverse effect of lower GDP growth on revenue collections and temporary and well-targeted measures to support families, SMEs and the health sector, and (ii) higher spending to respond to the health crisis and humanitarian needs, including higher health related spending on goods and services (¾ percent of GDP), and higher cash transfers and subsidies to the poorest households as well as micro-businesses and SMEs (2¼ percent of GDP).

- The external sector is expected to weaken, leading in 2020 to a projected financing gap of about 4¾ percent of GDP in 2020. The current account deficit excluding COVID-19 related grants and megaprojects is projected to widen to 29½ percent of GDP in 2020, from 27½ percent in 2019, mainly due to depressed export commodity prices and volumes partially offset by lower fuel imports. Gross international reserves are forecast to decline to US$3 billion by end-2020, falling by to 10 percent below the IMF's reserve adequacy metric.

Text Table 1. Macroeconomic Impact of COVID-19

	2020		2021	
	Oct 2019 projections	Current projections	Oct 2019 projections	Current projections
Real GDP Growth (%)	6.0	2.2	4.0	4.7
GDP (billions of meticais)	1084	1017	1198	1124
Primary balance before grants(% of GDP)	-5.8	-8.6	-3.5	-5.8
Primary balance after grants (% of GDP)	-1.0	-2.4	-0.5	-0.8
Merchandise exports excl. megaprojects (% of GDP)	9.3	6.3	9.6	8.1
Merchandise imports excl. megaprojects (% of GDP)	33.9	37.5	31.6	35.5
Current account, excl. megaprojects (% of GDP)	-23.2	-29.4	-22.5	-25.6
Current account, excl. megaprojects (MP) and indirect MP imports (% of GDP)	-11.7	-15.1	-12.2	-12.0
Gross international reserves (millions of US dollars, end of period)	2,991	3,012	3,078	3,018
In months of next year's non-megaproject imports	5.2	5.1	5.1	4.9

Sources: Mozambican authorities and IMF staff calculations.

7. **Important downside risks remain**. These include (i) a more pronounced than envisaged COVID-19 pandemic in Mozambique, with a sharper impact on all sectors of the economy, including even lower coal production and exports, (ii) delays in the implementation of the LNG megaprojects that have already reached their final investment decision (FID), and (iii) delayed normalization of the global economy and protracted trade disruptions. Previously identified risks remain, including (i) a deterioration in the security situation in the North, (ii) backtracking of peace negotiations with the main opposition party Renamo, and (iii) extreme climate events. In light of these risks and the distressed debt position, prudent debt management and medium term-fiscal consolidation are essential to ensure debt sustainability.

POLICY ISSUES

The authorities' immediate priority is to contain the spread of the COVID-19 pandemic and limit its impact on the poorest segments of society and preserve macroeconomic stability. Beyond this short-term objective, the authorities remain committed to medium-term fiscal consolidation and structural reform—including governance reform—to bolster inclusive and sustainable growth. The central bank is committed to cautious normalization of monetary policy and to safeguard financial stability.

8. **Over the past few weeks, the authorities have taken the following measures to contain the crisis and mitigate its impact**:

- *Prevention.* Early actions included (i) the shutdown of schools from pre-school up to university, (ii) a ban of all gatherings – including religious services - of more than 50 people, (iii) a ban and cancellation of all entry visas, (iv) a 14-day mandatory quarantine for all travelers entering Mozambique, and (iv) the creation of a technical and scientific committee to advise the government in matters related to the COVID-19 pandemic. On March 30, President Nyusi declared a 30-day state of emergency that, inter alia, imposed limitations on movements within the country and border entries, (ii) banned all types of public or private events, and (iii) limited the activities of non-essential shops. Additional urgent actions include allocating sufficient resources for containment and support for the most affected.

- *Fiscal*. On March 27, the government increased the budget allocation for the health sector, from about MT2 billion (0.2 percent of GDP) to about MT3.3 billion (0.3 percent of GDP). Revenue measures to ease pressures on families and the health sector are being implemented (¶6). Simplifying or postponing tax payments could also be envisaged, together with monitoring tax compliance of large taxpayers. These measures will need to be well targeted, timely and temporary. If the economic situation were to worsen, the government should prepare a contingency plan, including notably (i) further increases as needed of health spending by reallocating non-essential expenditure and limiting public wage increases and hiring of non-essential workers, and (ii) additional tax relief.

- *Monetary and financial*. To ease liquidity conditions, the central bank reduced on March 16 reserve requirements by 150 basis points for both domestic currency and foreign currency deposits (to 11½ percent and 34½ percent respectively). On March 22, it announced measures to support financial markets and encourage prudent loan restructuring: (i) a foreign currency credit line of US$500 million for a period of nine months for institutions participating in the interbank foreign exchange market,[2] and (ii) the waiver until December 31 of additional provisions by credit institutions and financial companies in cases of renegotiation of the terms and conditions of loans, before their maturity, for clients affected by the COVID-19 pandemic. On March 30, the central bank announced measures to easy payment system transactions and liquidity conditions by: (i) lowering fees and charges for digital transactions through commercial banks, mobile banking and e-currency, for three months, and (ii) waiving specific provision on foreign currency loans, until December 31. The central bank reduced the policy rate by 150 basis points to 11¼ percent on April 16.[3]

9. Beyond the immediate response to the COVID-19 pandemic, the authorities are committed to medium-term fiscal consolidation and structural reform— including governance reforms to reduce vulnerabilities to corruption —to bolster inclusive and sustainable growth:

- *Fiscal measures*. During the crisis, the authorities are committed to create additional fiscal space and to increase health spending and social programs, through prioritization and reallocation. This will require, for example, a freeze of wage increases in 2020, expected to generate about ½ percent of GDP in savings, although temporary increases in benefits for health care workers could be envisaged. Over the medium term, once the crisis is resolved,

[2] This emergency credit line uses government securities as collateral and charges an interest rate equal to the six-month U.S. dollar Libor rate plus a country risk premium as calculated by the Mozambican Banking Association (currently about 5½ percent) and ten basis points.

[3] Since August 2019 the central bank had adopted a holding stance.

the authorities will implement a VAT reform, aiming at widening the VAT base by reducing exemptions and zero-ratings to increase VAT revenue collections by about ½ percent of GDP in 2021 and an additional ¾ percent of GDP in 2022. Also, the government will implement a domestic financing strategy aimed at gradually reducing domestic debt and rebuilding government deposits.[4]

- *Monetary and exchange rate policies*. During the crisis, the Bank of Mozambique (BM) stands ready to provide liquidity to the financial system, as needed, while ensuring that transparent information is available on eligible collateral. Staff recommends managing the foreign exchange credit line judiciously to help secure forex availability for critical fuel, food, medicine and health equipment imports. The BM is also committed to continue implementing a cautious monetary policy normalization and maintaining exchange rate flexibility as a shock absorber while allocating international reserves to the market to address disorderly market conditions.[5] Staff concurs with a cautious easing bias given subdued aggregate demand and a benign inflation environment.[6]

- *Financial stability.* The banking sector is well capitalized and liquid. It is well positioned to absorb credit losses and a liquidity squeeze if the crisis is short-lived. The BM will continue implementing prudential rules to support the safety and soundness of banks and the banking system and ensure loan classification and provisioning standards are maintained, exceptional loan restructuring is time bound without compromising the underlying information on loan quality, and the loans are clearly identified and reported. In addition, the BM will ensure capital buffers should be used first and liquidity buffers also used as needed. Once the crisis is resolved, measures to restore capital and liquidity levels above the minimum required will be discussed and executed as needed over a period considered appropriate to prevent additional stress on banks and the financial system.

- *Transparency, governance and corruption.* Legislative and institutional reforms were adopted a few years ago and the country has a national plan and an adequate anti-corruption legal framework. However, a lack of effective implementation attributable in part to low technical capacity, inadequate budgets, insufficient institutional autonomy and poor oversight undermine efforts to fight corruption. The authorities are strongly committed to implementing the recommendations of the Government's Diagnostic Report prepared with IMF TA and will undertake independent audits of crisis-mitigation health spending and related procurement processes once the pandemic abates and to publish the results. Staff strongly recommends the Government to prevent corruption and the misuse of emergency financing by strengthening

[4] From 2022 onwards, net domestic financing needs would decline. The stock of government deposits is projected to bottom out at 2.1 percent of GDP in 2023 and to increase thereafter, once the LNG revenues begin.

[5] The metical has been allowed to adjust flexibly and has depreciated since February by almost 5 percent.

[6] This is likely to deliver additional policy rate cuts during the year, perhaps with pauses to assess market reaction and recalibrate the strategy. Recent estimates of the neutral real interest rate for Mozambique range from 4¾ percent to 7¾ percent (IMF Country Report 19/167, pp. 18-28).

transparency and accountability while putting in place effective mechanisms for the disbursement of funds.

FUND SUPPORT UNDER THE RCF

10. The authorities have requested support of 100 percent of quota under the RCF. This disbursement is equivalent to SDR227.2 million and represents 2.1 percent of GDP. It would be disbursed under the "exogenous shocks" window.

11. Mozambique meets the eligibility requirements for support under the RCF, and staff considers that access of 100 percent of quota to be appropriate:

- Financial support under the RCF reflects Mozambique's urgent BOP and fiscal needs following the external shock of the COVID-19 pandemic. The severe impact of the pandemic requires immediate financial support. The authorities are seeking US$700 million from the international community to fight the adverse economic effects of the COVID-19 pandemic. The RCF disbursement would close about forty-five percent of the external and fiscal financing gaps. Mozambique's other development partners have also signaled their intention to provide support, including US$22 million in additional funds for the Pro-Saúde (Pro-Health) program, and also US$40 million from the Islamic Bank, US$170 million from the World Bank for support to the health sector and social protection, and US$ 54 million from the European Union for budget support.

Text Table 2. Fiscal Financing Needs and Sources, 2020

	Million US$	Percent of GDP
Fiscal financing gap	**700**	**4.7**
Revenue losses	267	1.8
Income Tax	*126*	*0.9*
VAT, excise tax and import duties	*141*	*1.0*
Health sector spending	119	0.8
Social protection	314	2.1
Support to micro-businesses and SMEs	157	1.1
Cash transfers to at-risk poor families	157	1.1
Sources of financing	**700**	**4.7**
Budget Support	491	3.3
World Bank	*100*	0.7
European Union	*54*	0.4
IMF	*337*	2.3
Rapid Credit Facility	309	2.1
Catastrophe Containment and Relief Trust	28	0.2
Project Support	132	0.9
World Bank	*70*	0.5
Islamic Development Bank	*40*	0.3
Pro-Saude Project 1/	*22*	0.1
Other Sources 2/	77	0.5

1/ Ireland, Canada, Belgium, Switzerland, WB, WHO
2/ Unidentified

- Discussions on a new multi-year ECF supported arrangement are planned but cannot be concluded immediately. Rapid IMF involvement through the RCF is expected to play a catalytic role in securing needed external grants from development partners to help the authorities deal with the economic effects of the COVID-19 pandemic.

- In the absence of IMF support and donors' assistance, the fiscal gap would be closed with a much sharper drawdown of international reserves, leaving the reserve cover (4½ months of imports) significantly below the assessed adequate level (5¾ months of imports) in the 2019 Article IV consultation discussions.

- Mozambique's debt is assessed to remain in distress, but sustainable in a forward-looking sense. This assessment is unchanged relative to the last DSA and considers that, to a large extent, future borrowing and government guarantees reflect State participation in the sizable LNG developments. Albeit with some delay, the LNG megaprojects will proceed. The sustainability assessment is also anchored in the authorities' strong commitment to implement fiscal consolidation and a prudent borrowing strategy. Additional debt reduction is envisaged as the government does not intend to support MAM, which will follow the normal course of commercial bankruptcy without backing, and the validity of the government guarantee on VTB's loan to MAM is in dispute. The authorities have expressed their intention to request forbearance from creditors under the recently-announced G-20 initiative which would deliver debt service relief in the near term, thus providing an additional cushion to respond to the COVID-19 pandemic and flattening the projected sharp deterioration in debt liquidity indicators due to the COVID-19 pandemic. The authorities are committed to monitoring any new spending that would be financed by the debt service standstill and to fully disclose this information and their public sector financial commitments.

- Mozambique continues to accumulate external debt service arrears, particularly on the "hidden loans" contracted with Credit Suisse and VTB.[7] The overall stock of external arrears on public and publicly guaranteed external debt service reached US$1,375 million (about 9 percent of GDP) at end-2019.

- Mozambique's capacity to repay the Fund adequate in the baseline but subject to significant uncertainties and downside risks. A disbursement of 100 percent of quota would result in Fund exposure to Mozambique of 3½ percent of GDP, or 17¼ percent of international reserves. Annual repayments would peak at ⅓ percent of GDP and 1½ percent of government revenue in 2026. Risks from this exposure will be mitigated by the authorities' excellent track record of servicing their debt obligations to the Fund.[8]

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[7] The arrears to Angola, Bulgaria, Iraq, Libya, and Poland are deemed away as best efforts continue, in line with the normal application of LIOA policy. The RCF would be expected to advance the normalization of relations with creditors by the time of a successor IMF arrangement.

[8] In addition, RCF resources will be due only after LNG production, exports and fiscal revenue are expected to start.

- The authorities remain committed to economic policies to ensure more sustained and inclusive growth to improve development outcomes. In the current volatile and uncertain environment, the government will focus on immediate measures and prioritize social spending, including in the health sector.

12. Outstanding PRGT credit would reach 162½ percent of quota, of which 137½ percent for outstanding credit under the RCF,[9] and total PRGT disbursements over a twelve month-period would reach 100 percent of quota.

13. A safeguards assessment required under last year's RCF disbursement is being conducted. The safeguards assessment mission that was conducted in December 2019 found that the BM had made progress in streamlining its operations and improving its organizational structure. At the same time, it noted that governance arrangements continue to lack independent oversight over BM management and operations. The BM is committed to address the safeguards assessment mission's recommendations, inter alia, by preparing legal reforms with IMF technical assistance to enhance autonomy and governance arrangements, formalizing an external audit selection and rotation policy, and strengthening the capacity of the internal audit function. In addition, the BM will publish the 2018 audited financial statements shortly after this audit is finalized and, going forward, will continue to publish the audited financial statements in a timely fashion.

STAFF APPRAISAL

14. The economic and financial impact of the COVID-19 pandemic will be significant, dashing the expected recovery from TCs Idai and Kenneth. Real GDP growth has been revised significantly downward due to declines in extractive industry production and exports and disruptions to manufacturing, services, agriculture, transport and communication. The fiscal situation, that was already difficult, will deteriorate further with the need for additional spending to respond to the health and humanitarian crisis and tax revenue shortfalls due to weaker economic activity.

15. Staff supports the authorities' policies to mitigate the impact of the COVID-19 pandemic while preserving macroeconomic and financial stability. Appropriate measures are being taken to increase health spending, help the most vulnerable, support the private sector, preserve the stability of the financial sector, and maintain the flexible exchange rate regime. Going forward, to help ensure that public debt indicators remain sustainable the authorities are committed to fiscal consolidation once the temporary shock has passed and confidence has been restored.

16. Staff encourages the authorities to take additional measures to mitigate the immediate impact of COVID-19. Timely, temporary and well-targeted fiscal measures to support health spending and provide additional tax relief should be considered. Simplifying or postponing tax payments should also be considered, together with monitoring tax compliance of large taxpayers. Going forward, to help ensure that public debt indicators remain sustainable, the staff welcomes the authorities' commitment

[9] In addition to the proposed disbursement of 100 percent of quota, there is an outstanding credit under the RCF equivalent to 37½ percent of quota, corresponding to a previous RCF disbursements in April 2019.

to fiscal consolidation once the COVID-19 shock has passed and confidence has been restored. The BM should continue implementing prudential rules to support the safety and soundness of banks and the banking system and ensure loan classification and provisioning standards are maintained, exceptional loan restructuring should be time bound, without compromising the underlying information on loan quality, and the loans are clearly identified and reported. Staff strongly recommends the Government to prevent corruption and the misuse of emergency financing, by strengthening transparency and accountability while putting in place effective mechanisms for the disbursement of funds. In this connection, the commitment to auditing how the funds were spent is welcome.

17. Against this background, staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR227.2 million (100 percent of quota). Staff support is based on urgent BOP and fiscal needs, and the authorities' existing and prospective policies to address this shock, including the commitment to seek external grants and highly concessional financing for emergency assistance. Capacity to repay is adequate in the baseline but subject to significant uncertainties and downside risks. The authorities' strong track record of repaying the Fund and commitment to fiscal consolidation in recent years are mitigating factors.

18. Discussions on a medium-term ECF arrangement are expected to take place later in the year when the current crisis has stabilized. The authorities have reiterated their strong interest in such discussions. In the meantime, they will stay engaged with staff to help them shape their medium-term fiscal consolidation strategy and structural reform agenda, with particular emphasis on governance reform.

Table 1. Mozambique: Selected Economic and Financial Indicators, 2017–2025

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Prel.	Est.				Proj.			
National income and prices (Percentage change, unless otherwise indicated)									
Real GDP	3.7	3.4	2.2	2.2	4.7	4.0	8.6	11.0	11.2
Real GDP, excl. mining	2.1	2.9	2.4	2.0	3.6	4.0	4.0	4.0	4.0
Nominal GDP	11.7	5.6	5.7	8.3	10.6	9.7	15.5	18.5	18.6
GDP deflator	7.6	2.1	3.4	6.0	5.6	5.5	6.4	6.8	6.7
Consumer prices (end of period)	5.6	3.5	3.5	6.5	5.5	5.5	5.5	5.5	5.5
Consumer prices (annual average)	15.1	3.9	2.8	5.3	6.1	5.5	5.5	5.5	5.5
GDP (billions of meticais)	841	888	939	1,017	1,124	1,233	1,425	1,688	2,003
GDP (billions of US dollars)	13.2	14.6	14.9	14.8	15.7	17.3	19.9	22.6	25.6
GDP per capita (US dollars)	445	481	477	462	479	512	576	636	703
Investment and savings (Percent of GDP)									
Gross domestic investment	33.2	49.0	37.4	70.2	76.2	88.5	71.7	51.6	42.4
Gross domestic savings, excl. grants	14.1	18.1	16.6	6.9	10.1	10.2	7.6	8.6	11.1
Central government (Percent of GDP)									
Total revenue [1]	25.1	24.0	29.5	22.1	24.5	25.4	25.7	24.5	22.9
Total expenditure and net lending	30.0	32.9	30.6	33.8	33.2	32.4	30.3	27.2	25.0
of which: current expenditure	19.3	21.9	22.6	24.4	22.3	21.6	20.1	18.8	17.3
Overall fiscal balance, before grants [2]	-5.1	-9.2	-1.1	-11.8	-8.8	-6.9	-4.5	-2.7	-2.1
Grants	1.9	2.0	1.0	6.2	5.0	4.0	3.3	1.9	1.6
Overall fiscal balance, after grants [2]	-3.2	-7.2	-0.2	-5.6	-3.8	-2.9	-1.2	-0.8	-0.5
Primary fiscal balance, after grants	-0.2	-2.8	3.2	-2.4	-0.8	-0.1	1.2	1.5	1.4
Public sector debt (Percent of GDP)									
Nominal stock of total debt	106.6	110.0	108.4	113.7	113.1	106.2	101.1	91.9	81.7
of which: external	87.4	92.4	89.4	97.1	97.4	91.4	88.3	80.8	72.6
Nominal stock of total debt, excl. ENH's debt	100.6	103.1	98.6	98.8	93.4	83.0	74.9	66.7	59.1
of which: external debt, excl. ENH's debt	81.5	85.4	79.6	82.1	77.7	68.2	62.1	55.6	50.0
Money and credit (Percentage change, unless otherwise indicated)									
Reserve money	4.7	22.5	19.8	16.9	8.9	8.3	9.9	9.9	10.8
Broad Money (M3)	5.1	8.2	12.2	8.2	9.5	9.6	12.0	12.2	13.2
Percent of GDP	45.9	47.0	49.9	49.9	49.4	49.3	47.8	45.3	43.2
Credit to the economy	-13.7	-2.5	4.7	2.1	9.4	9.7	10.0	10.4	10.7
Percent of GDP	26.9	24.8	24.5	23.1	22.9	22.9	21.8	20.3	18.9
Policy rate (percent) [3]	19.5	14.3	12.8	12.3	...	...	...	...	...
External sector (Percent of GDP, unless otherwise indicated)									
Current account balance	-19.1	-30.9	-20.8	-63.3	-66.1	-78.3	-64.1	-43.0	-31.3
excl. megaprojects	-29.8	-26.3	-27.6	-29.4	-25.6	-23.2	-23.2	-23.1	-22.0
excl. megaprojects (MP) and indirect MP imports	-19.6	-17.2	-16.2	-15.1	-12.0	-10.4	-11.2	-12.4	-12.0
Merchandise exports	35.9	35.6	31.7	22.2	29.9	30.4	33.9	39.6	44.0
excl. megaprojects	8.1	8.8	9.7	6.3	8.1	9.0	8.5	8.1	7.8
Merchandise imports	39.7	42.3	45.7	50.2	51.1	52.0	47.2	41.7	37.0
excl. megaprojects	34.1	33.5	36.3	37.5	35.5	32.7	30.5	28.8	27.0
Net foreign direct investment	17.4	18.5	14.9	20.4	23.5	27.9	20.7	15.5	12.3
Terms of trade (Percentage change)	0.2	-1.6	-1.5	2.7	-0.1	0.1	0.2	0.3	0.4
Gross international reserves (millions of US dollars, end of period)	3,338	3,081	3,884	3,012	3,018	3,114	3,278	3,461	3,728
Months of next year's non-megaproject imports	6.7	5.7	6.7	5.1	4.9	4.7	4.6	4.6	4.6
Net international reserves (millions of US dollars, end of period)	3,114	2,885	3,605	2,811	2,817	2,913	3,077	3,260	3,527
Exchange rate									
Meticais per US dollar, end of period	59.3	61.6	62.4	...	...	...	...	...	...
Meticais per US dollar, period average	63.9	60.9	63.1	...	...	...	...	...	...
Real effective exchange rate (Percentage change)	6.0	6.7	0.3	...	...	...	...	...	...

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

[1] Net of verified VAT refund requests.

[2] Modified cash balances and including arrears.

[3] Liquidity injection standing lending facility rate (2016), Bank of Mozambique's MIMO rate (2017, and latest as of mid-April 2020).

Table 2a. Mozambique: Government Finances, 2017–2025[1]

(Billions of meticais)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Prel.	Est.	Est.			Proj.			
Total revenue [1]	211.1	213.0	276.4	224.2	275.1	313.9	366.7	413.3	458.5
Tax revenue	168.0	177.0	239.7	182.1	228.0	261.7	308.9	349.8	388.9
Income and profits	94.8	90.4	144.3	86.6	108.5	120.7	135.0	151.1	169.1
Of which: Capital gains tax	20.9	0.0	54.2	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services [1]	53.8	63.7	71.5	71.5	91.9	111.3	122.0	133.9	146.9
International trade	12.0	14.9	17.1	15.4	17.9	18.9	19.0	20.9	18.7
Other	7.3	8.0	6.8	8.6	9.7	10.8	32.9	43.9	54.2
Of which: Revenue from LNG	…	…	…	…	…	…	21.1	31.0	40.0
Nontax revenue	43.1	36.1	36.8	42.1	47.1	52.2	57.8	63.4	69.6
Total expenditure and net lending	252.0	279.7	287.2	344.0	373.7	399.3	431.3	458.9	500.7
Current expenditure	162.6	194.6	212.0	248.3	251.2	267.0	286.9	317.6	347.3
Compensation to employees	89.3	101.7	117.3	128.3	142.6	157.3	173.7	193.4	214.1
Of which: Social insurance	4.2	5.2	4.5	4.5	4.7	5.0	5.3	5.5	5.9
Goods and services	26.1	33.6	41.2	42.9	44.6	45.0	45.3	49.7	54.5
Interest on public debt	25.0	39.6	31.2	31.8	33.2	34.5	34.7	37.7	38.1
Domestic	9.1	18.6	17.3	23.2	22.5	23.0	23.3	23.1	23.6
External	15.9	21.0	13.9	8.6	10.7	11.5	11.4	14.6	14.5
Subsidies and transfers	22.3	19.7	22.3	45.3	30.7	30.2	33.3	36.8	40.6
Capital expenditure	56.7	72.2	68.8	88.0	113.7	122.7	133.7	129.1	139.5
Domestically financed	27.1	32.7	33.5	29.6	38.1	45.5	55.6	61.0	67.0
Externally financed	29.7	39.4	35.3	58.4	75.6	77.2	78.1	68.1	72.5
Net lending [2]	24.9	13.9	6.4	7.7	8.8	9.7	10.6	12.2	14.0
Statistical Discrepancy	7.7	-1.0							
Payments in arrears	2.3	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clearance of domestic arrears	0.0	13.4	10.4	4.6					
Unallocated revenue (+)/ expenditure (-)	0.0	-11.3	0.0						
Overall balance (modified cash basis), before grants [3]	-43.2	-81.0	-10.8	-119.8	-98.6	-85.5	-64.6	-45.6	-42.2
Grants received	16.3	17.7	9.3	63.2	56.0	49.3	47.5	32.8	32.0
Project support	16.3	17.7	9.3	45.3	50.3	49.3	47.5	32.8	32.0
Budget support	0.0	0.0	0.0	17.8	5.7	0.0	0.0	0.0	0.0
Primary balance (modified cash basis), after grants[3]	-1.9	-23.7	29.7	-24.8	-9.4	-1.6	17.6	25.0	27.9
Overall balance (modified cash basis), after grants[3]	-26.9	-63.3	-1.4	-56.6	-42.6	-36.1	-17.1	-12.7	-10.2
Financing	26.9	76.7	11.8	61.2	42.6	36.1	17.1	12.7	10.2
Net external financing	23.8	0.2	16.9	34.6	3.2	0.5	3.6	10.0	18.1
Disbursements	38.5	34.8	38.7	50.6	33.6	37.0	40.7	46.8	53.8
Project	13.3	21.7	25.9	22.1	25.3	27.9	30.6	35.2	40.5
Nonproject support	25.1	13.1	12.8	28.5	8.3	9.1	10.0	11.5	13.3
Of which budget support (including RCF)	0.0	0.0	7.4	21.3	0.0	0.0	0.0	0.0	0.0
Amortization	-14.7	-34.6	-21.9	-16.1	-30.4	-36.5	-37.1	-36.7	-35.7
Net domestic financing	-32.8	45.0	-10.6	20.7	33.5	29.9	8.0	-0.3	-10.9
Of which: short term debt (net)	…	-0.7	8.7	-20.6	3.8	-1.8	-3.1	1.8	-2.0
Of which: issuances of medium term debt	…	54.8	29.3	36.6	51.8	44.6	32.2	39.3	31.1
Of which: amortization of medium term debt	…	-21.6	-16.6	-25.1	-48.2	-37.2	-28.1	-36.7	-34.9
Change in Deposits	…	12.5	-32.0	29.8	26.1	24.3	6.9	-4.6	-5.1
Exceptional financing (external debt service)[4]	33.6	28.5	5.6	5.9	5.9	5.7	5.6	3.0	3.0
Of which: Interest payments	12.2	9.1	3.3	2.2	1.7	1.0	0.8	0.1	0.0
Exceptional financing (domestic payments and Financing for Covid-19)	2.3	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Primary balance after grants (excl. the one-off 2017 and 2019 capital gains tax revenues) [3]	-22.8	-23.7	-24.4	-24.8	-9.4	-1.6	17.6	25.0	27.9
Overall balance after grants (excl. the one-off 2017 and 2019 capital gains tax revenues and interest payment in arrears under negotiations)[3]	-35.5	-54.2	-52.3	-54.4	-40.9	-35.1	-16.3	-12.7	-10.2
Stock of Government Deposits		85.1	117.1	87.3	61.2	36.9	30.1	34.7	39.7
Sources: Mozambican authorities; and IMF staff estimates and projections.			-32.0	29.8	26.1	24.3	6.9	-4.6	-5.1

[1] VAT presented on a net basis (collection minus requested VAT refunds).

[2] Externally financed loans to SOEs.

[3] Modified cash balances include an adjustment for payment arrears.

[4] Exceptional financing for external debt under renegotiation.

Table 2b. Mozambique: Government Finances, 2017–2025[1]
(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Prel.	Est.	Est.			Proj.			
Total revenue [1]	25.1	24.0	29.5	22.1	24.5	25.4	25.7	24.5	22.9
Tax revenue	20.0	19.9	25.5	17.9	20.3	21.2	21.7	20.7	19.4
Taxes on income and profits	11.3	10.2	15.4	8.5	9.6	9.8	9.5	9.0	8.4
Of which : Capital gains tax	2.5	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services [1]	6.4	7.2	7.6	7.0	8.2	9.0	8.6	7.9	7.3
Taxes on international trade	1.4	1.7	1.8	1.5	1.6	1.5	1.3	1.2	0.9
Other taxes	0.9	0.9	0.7	0.8	0.9	0.9	2.3	2.6	2.7
Of which : Revenue from LNG	…	…	…	…	…	…	1.5	1.8	2.0
Nontax revenue	5.1	4.1	3.9	4.1	4.2	4.2	4.1	3.8	3.5
Total expenditure and net lending	30.0	31.5	30.6	33.8	33.2	32.4	30.3	27.2	25.0
Current expenditure	19.3	21.9	22.6	24.4	22.3	21.6	20.1	18.8	17.3
Compensation to employees	10.6	11.5	12.5	12.6	12.7	12.8	12.2	11.5	10.7
Of which : Social insurance	0.5	0.6	0.5	0.4	0.4	0.4	0.4	0.3	0.3
Goods and services	3.1	3.8	4.4	4.2	4.0	3.6	3.2	2.9	2.7
Interest on public debt	3.0	4.5	3.3	3.1	3.0	2.8	2.4	2.2	1.9
Domestic	1.1	2.1	1.8	2.3	2.0	1.9	1.6	1.4	1.2
External	1.9	2.4	1.5	0.9	1.0	0.9	0.8	0.9	0.7
Subsidies and transfers	2.7	2.2	2.4	4.5	2.7	2.4	2.3	2.2	2.0
Capital expenditure	6.7	8.1	7.3	8.7	10.1	9.9	9.4	7.6	7.0
Domestically financed	3.2	3.7	3.6	2.9	3.4	3.7	3.9	3.6	3.3
Externally financed	3.5	4.4	3.8	5.7	6.7	6.3	5.5	4.0	3.6
Net lending [2]	3.0	1.6	0.7	0.8	0.8	0.8	0.7	0.7	0.7
Statistical Discrepancy	0.9	0.0	0.0						
Payments in arrears	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clearance of domestic arrears	0.0	1.5	1.1	0.5	…	…	…	…	…
Unallocated revenue (+)/ expenditure (-)	0.0	-1.3	0.0	…	…	…	…	…	…
Overall balance (modified cash basis), before grants [3]	-5.1	-9.1	-1.1	-11.8	-8.8	-6.9	-4.5	-2.7	-2.1
Grants received	1.9	2.0	1.0	6.2	5.0	4.0	3.3	1.9	1.6
Project support	1.9	2.0	1.0	4.5	4.5	4.0	3.3	1.9	1.6
Budget support	0.0	0.0	0.0	1.8	0.5	0.0	0.0	0.0	0.0
Primary balance (modified cash basis), after grants [3]	-0.2	-2.7	3.2	-2.4	-0.8	-0.1	1.2	1.5	1.4
Overall balance (modified cash basis), after grants [3]	-3.2	-7.1	-0.2	-5.6	-3.8	-2.9	-1.2	-0.8	-0.5
Financing	3.2	8.6	1.3	6.0	3.8	2.9	1.2	0.8	0.5
Net external financing	2.8	0.0	1.8	3.4	0.3	0.0	0.3	0.6	0.9
Disbursements	4.6	3.9	4.1	5.0	3.0	3.0	2.9	2.8	2.7
Project	1.6	2.4	2.8	2.2	2.3	2.3	2.2	2.1	2.0
Nonproject support	3.0	1.5	1.4	2.8	0.7	0.7	0.7	0.7	0.7
Of which budget support (including RCF)	0.0	0.0	0.8	2.1	0.0	0.0	0.0	0.0	0.0
Amortization	-1.7	-3.9	-2.3	-1.6	-2.7	-3.0	-2.6	-2.2	-1.8
Net domestic financing	-3.9	5.1	-1.1	2.0	3.0	2.4	0.6	0.0	-0.5
Of which: short term debt (net)	…	-0.1	0.9	-2.0	0.3	-0.1	-0.2	0.1	-0.1
Of which: issuances of medium term debt	…	6.2	3.1	3.6	4.6	3.6	2.3	2.3	1.6
Of which: amortization of medium term debt	…	-2.4	-1.8	-2.5	-4.3	-3.0	-2.0	-2.2	-1.7
Change in Deposits	…	1.4	-3.4	2.9	2.3	2.0	0.5	-0.3	-0.3
Exceptional financing (external debt service) [4]	4.0	3.2	0.6	0.6	0.5	0.5	0.4	0.2	0.2
Of which : Interest payments	1.5	1.0	0.4	0.2	0.1	0.1	0.1	0.0	0.0
Exceptional financing (domestic payments)	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Primary balance after grants (excl. the one-off 2017 and 2019 capital gains tax revenues) [3]	-2.7	-2.7	-2.6	-2.4	-0.8	-0.1	1.2	1.5	1.4
Overall balance after grants (excl. the one-off 2017 and 2019 capital gains tax revenues and interest payment in arrears under negotiations)[3]	-4.2	-6.1	-5.6	-5.3	-3.6	-2.8	-1.1	-0.8	-0.5
Stock of Government Deposits	…	9.6	12.5	8.6	5.4	3.0	2.1	2.1	2.0

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

[1] VAT presented on a net basis (collection minus requested VAT refunds).

[2] Externally financed loans to SOEs.

[3] Modified cash balances include an adjustment for payment arrears.

[4] Exceptional financing for the external debt service under negotiations.

Table 3. Mozambique: Monetary Survey, 2016–2020
(Billions of meticais, unless otherwise indicated)

	2016	2017	2018 Prel.	2019 Est.	2020 Proj.
Bank of Mozambique					
Net foreign assets	119.5	175.2	169.6	217.2	188.1
(US$ billions)	1.6	3.0	2.8	3.5	2.7
Net international reserves	128.1	183.8	177.3	224.9	196.8
(US$ billions)	1.8	3.1	2.9	3.6	2.8
Net domestic assets	-19.6	-70.7	-41.4	-63.7	-8.6
Credit to government (net)	-13.0	-80.0	-80.3	-66.8	-44.7
Credit to banks (net)	3.4	-27.9	-28.3	-77.6	-43.9
Credit to the economy	2.4	2.3	2.9	3.6	3.6
Other items (net; assets +)	-12.3	34.9	64.4	77.2	76.4
Reserve money	99.9	104.6	128.1	153.5	179.5
Currency in circulation	47.6	49.4	53.5	61.2	66.5
Bank deposits in BM	52.3	55.1	74.6	92.3	113.0
Deposits in MT	32.7	38.9	46.6	50.0	47.9
Deposits in foreign currency	19.6	16.3	28.0	42.4	65.1
Commercial Banks					
Net foreign assets	34.7	16.3	26.0	34.8	43.4
(US$ billions)	0.5	0.3	0.4	0.6	0.6
Net domestic assets	294.1	331.2	353.7	391.8	417.2
Banks' reserves	67.3	69.3	93.4	123.6	133.2
Credit to BM (net)	-13.8	27.8	26.1	77.6	43.9
Credit to government (net)	54.5	112.3	133.3	123.0	138.3
Credit to the economy	259.0	223.4	217.1	214.8	231.7
Other items (net; assets +)	-72.9	-101.5	-116.2	-147.1	-129.9
Deposits	328.8	347.5	380.8	426.6	460.6
Demand and savings deposits	205.2	208.7	235.0	267.7	287.6
Time deposits	123.7	138.8	145.7	158.9	173.0
Monetary Survey					
Net foreign assets	154.2	191.5	195.5	251.9	231.5
(US$ billions)	2.1	3.2	3.2	4.0	3.3
Net domestic assets	212.9	194.3	222.1	216.6	275.4
Domestic credit	302.8	258.0	273.0	286.6	328.9
Credit to government (net)	41.5	32.3	53.0	56.1	93.6
Credit to the economy	261.4	225.7	220.0	230.4	235.2
Cred. economy in foreign currency	60.5	49.8	44.6	22.7	33.9
Other items (net; assets +)	-89.9	-63.6	-50.9	-69.9	-53.5
Money and quasi money (M3)	367.2	385.8	417.6	468.5	506.9
Foreign currency deposits	112.0	97.7	106.8	113.0	120.7
(US$ billions)	1.5	1.7	1.7	1.8	1.7
M2	255.2	288.1	310.8	355.6	386.2
Currency outside banks	36.3	36.3	36.7	41.9	46.3
Domestic currency deposits	218.9	251.8	274.1	313.6	339.9
Memorandum Items:					
12-month percent change					
Reserve money	35.2	4.7	22.5	19.8	16.9
Currency in circulation	21.0	3.9	8.2	14.4	8.6
Bank reserves	51.3	5.4	35.4	23.7	22.5
M2	2.4	12.9	7.9	14.4	8.6
Domestic deposits	-0.2	15.0	8.9	14.4	8.4
M3	10.1	5.1	8.2	12.2	8.2
Credit to the economy	12.6	-13.7	-2.5	4.7	2.1
Credit to the economy in domestic currency	6.1	-12.6	-0.6	12.2	2.4
Money multiplier (M2/reserve money)	2.6	2.8	2.4	2.3	2.2
Velocity (GDP/M2)	2.9	2.9	2.9	2.6	2.6
Nominal GDP	753	841	888	939	1,017
Nominal GDP growth	18.0	11.7	5.6	5.7	8.3
Policy lending rate (end-of-period) [1]	23.25	19.50	14.25	12.75	11.25
T-bill 364 days rate [2]	24.15	23.75	13.17	11.64	10.96

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

[1] Liquidity injection standing lending facility rate (2016), Bank of Mozambique's MIMO rate (2017, and latest as of mid-April 2020).

[2] Latest as of mid-April 2020.

Table 4a. Mozambique: Balance of Payments, 2016–2025

(Millions of US dollars, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.	Est.	Est.			Proj.			
Current account balance	-4,247	-2,512	-4,504	-3,078	-9,357	-10,387	-13,503	-12,766	-9,728	-8,010
Trade balance for goods	-1,405	-498	-973	-2,081	-4,140	-3,334	-3,736	-2,650	-487	1,794
Of which: Megaprojects	1,633	2,925	2,637	1,874	480	978	363	1,748	4,203	6,714
Exports, f.o.b.	3,328	4,725	5,196	4,717	3,285	4,700	5,237	6,747	8,943	11,272
Megaprojects	2,405	3,657	3,913	3,278	2,356	3,433	3,687	5,063	7,114	9,286
Other	924	1,068	1,282	1,439	929	1,267	1,550	1,684	1,829	1,986
Imports, f.o.b.	4,733	5,223	6,169	6,798	7,425	8,034	8,973	9,397	9,430	9,478
Megaprojects	771	733	1,277	1,404	1,876	2,455	3,324	3,315	2,912	2,571
Other	3,962	4,490	4,892	5,394	5,549	5,579	5,649	6,082	6,518	6,907
Services (net)	-2,701	-2,324	-3,571	-1,895	-5,489	-7,278	-9,912	-10,184	-9,097	-8,185
Megaprojects	-2,086	-1,828	-3,287	-1,718	-5,141	-6,678	-9,122	-9,055	-7,910	-6,956
Other	-615	-496	-284	-177	-370	-315	-409	-621	-658	-690
Primary income (net)	-377	-325	-296	-347	-507	-525	-518	-551	-524	-2,004
Of which : Interest on public debt (net) [1]	-201	-277	-305	-222	-166	-187	-196	-245	-277	-444
Of which : Megaprojects (Net interest and dividends)	-18	0	0	0	-355	-355	-375	-406	-414	-1,802
Secondary income (net)	236	634	336	1,245	779	749	664	618	380	386
Of which : External grants	156	116	108	101	531	496	400	344	93	86
Capital account balance	178	253	164	106	98	87	77	58	297	271
Financial account balance	3,408	3,538	3,644	3,570	8,219	10,071	13,442	12,795	9,573	8,005
Net foreign direct investment	3,093	2,293	2,692	2,212	3,021	3,695	4,821	4,130	3,510	3,140
Megaprojects	1,288	886	2,013	954	1,865	2,513	3,593	2,851	2,172	1,745
Other	1,806	1,407	679	1,258	1,156	1,182	1,229	1,279	1,338	1,395
Borrowing (net) by the general government	294	430	47	173	495	36	67	32	80	123
Disbursements	514	672	430	507	736	470	517	569	626	688
Repayments [2]	220	242	383	335	242	434	450	537	545	565
Loans (net) by the nonfin private sector	-8	165	1,425	1,208	4,108	5,886	8,427	7,703	5,761	4,739
Megaprojects	-36	0	0	1,049	3,960	5,734	8,269	7,531	5,573	4,534
Other	28	165	1,425	159	149	152	158	172	188	205
Other financial flows (net) [3]	29	650	-520	-22	595	454	127	930	221	4
Net errors and omissions	-137.3	-578	-30	-36	0	0	0	0	0	0
Overall balance	-799	701	-726	562	-1,040	-229	16	87	142	267
Financing	799	-701	726	-481	1,040	229	-16	-87	-142	-267
Reserve assets (- = increase)	534	-1,296	290	-929	513	20	-70	-138	-183	-267
Net use of credit	-33	-32	-32	76	281	-26	-26	-26	0	0
Of which : IMF disbursements/Financing gap (+)	0	0	0	120	309	0	0	0	0	0
Of which : Repayments to the IMF (-)	-33	-32	-32	-44	-28	-26	-26	-26	0	0
Exceptional financing	298	626	468	372	246	235	80	78	40	0
Of which : IMF CCRT grants [4]					28	26				
Memorandum items:										
Current account balance (Percent of GDP)	-35.6	-19.1	-30.9	-20.7	-63.3	-66.1	-78.3	-64.1	-43.0	-31.3
excl. megaprojects (Percent of GDP)	-31.3	-29.8	-26.3	-27.6	-29.4	-25.6	-23.2	-23.2	-23.1	-22.0
excl. megaprojects (MP) and indirect MP imports (Percent of GDP) [5]	-19.2	-19.6	-17.2	-16.1	-15.1	-12.0	-10.4	-11.2	-12.4	-12.0
Net foreign assets	1,646	2,969	2,758	3,481	2,687	2,693	2,789	2,953	3,136	3,403
Net international reserves [6]	1,764	3,114	2,885	3,605	2,811	2,817	2,913	3,077	3,260	3,527
Gross international reserves	2,009	3,338	3,081	3,884	3,012	3,018	3,114	3,278	3,461	3,728
Months of next year's imports of goods and services	2.9	3.8	3.8	3.3	2.2	1.8	1.8	2.0	2.1	2.3
Months of next year's imports of goods and services, excl. MP	4.3	6.7	5.7	6.7	5.1	4.9	4.7	4.6	4.6	4.6
Percent of broad money (M2)	56.2	68.7	61.0	68.2	54.6	51.6	46.5	45.3	44.4	44.0

Sources: Data from Government of Mozambique and projections by IMF staff.

[1] Includes interest payments for Ematum and previously undisclosed loans.

[2] Includes repayments of previously undisclosed loans.

[3] Other financial account flows include net portfolio investment; net financial derivatives; net currency and deposits; insurance, pension and standardized guarantee schemes (net); net trade credits and advances; net other accounts receivable/payable; net other equity and net special drawing rights.

[4] The grant for the debt service falling due in the 18 months from October 14, 2020 is subject to the availability of resources under the CCRT.

[5] Imports by domestic firms to supply megaprojects (estimated).

[6] NIR include USD reserve deposits of commercial banks at the Bank of Mozambique. NIR do not include any disbursements by the IMF, foreign currency swaps, foreign currency liabilities of the central bank to non-residents, foreign currency deposits by resident banks, or reserve requirement deposits in foreign currency by resident banks.

Table 4b. Mozambique: Balance of Payments, 2016–2025
(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.	Est.	Est.			Proj.			
Current account balance	-35.6	-19.1	-30.9	-20.7	-63.3	-66.1	-78.3	-64.1	-43.0	-31.3
Trade balance for goods	-11.8	-3.8	-6.7	-14.0	-28.0	-21.2	-21.7	-13.3	-2.2	7.0
Of which: Megaprojects	13.7	22.2	18.1	12.6	3.2	6.2	2.1	8.8	18.6	26.2
Exports, f.o.b.	27.9	35.9	35.6	31.7	22.2	29.9	30.4	33.9	39.6	44.0
Megaprojects	20.1	27.8	26.8	22.0	15.9	21.8	21.4	25.4	31.5	36.2
Other	7.7	8.1	8.8	9.7	6.3	8.1	9.0	8.5	8.1	7.8
Imports, f.o.b.	39.6	39.7	42.3	45.7	50.2	51.1	52.0	47.2	41.7	37.0
Megaprojects	6.5	5.6	8.8	9.4	12.7	15.6	19.3	16.6	12.9	10.0
Other	33.2	34.1	33.5	36.3	37.5	35.5	32.7	30.5	28.8	27.0
Services (net)	-22.6	-17.7	-24.5	-12.7	-37.1	-46.3	-57.5	-51.1	-40.3	-31.9
Megaprojects	-17.5	-13.9	-22.5	-11.6	-34.8	-42.5	-52.9	-45.4	-35.0	-27.1
Other	-5.2	-3.8	-1.9	-1.2	-2.5	-2.0	-2.4	-3.1	-2.9	-2.7
Primary income (net)	-3.2	-2.5	-2.0	-2.3	-3.4	-3.3	-3.0	-2.8	-2.3	-7.8
Of which: Interest on public debt (net) [1]	-1.7	-2.1	-2.1	-1.5	-1.1	-1.2	-1.1	-1.2	-1.2	-1.7
Of which: Megaprojects (net Interest and dividends)	-0.1	0.0	0.0	0.0	-2.4	-2.3	-2.2	-2.0	-1.8	-7.0
Secondary income (net)	2.0	4.8	2.3	8.4	5.3	4.8	3.8	3.1	1.7	1.5
Of which: External grants	1.3	0.9	0.7	0.7	3.6	3.2	2.3	1.7	0.4	0.3
Capital account balance	1.5	1.9	1.1	0.7	0.7	0.6	0.4	0.3	1.3	1.1
Financial account balance	28.6	26.9	25.0	24.0	55.6	64.1	77.9	64.2	42.4	31.2
Net foreign direct investment	25.9	17.4	18.5	14.9	20.4	23.5	27.9	20.7	15.5	12.3
Megaprojects	10.8	6.7	13.8	6.4	12.6	16.0	20.8	14.3	9.6	6.8
Other	15.1	10.7	4.7	8.5	7.8	7.5	7.1	6.4	5.9	5.4
Borrowing (net) by the general government	2.5	3.3	0.3	1.2	3.3	0.2	0.4	0.2	0.4	0.5
Disbursements	4.3	5.1	3.0	3.4	5.0	3.0	3.0	2.9	2.8	2.7
Repayments [2]	1.8	1.8	2.6	2.3	1.6	2.8	2.6	2.7	2.4	2.2
Loans (net) by the nonfin private sector	-0.1	1.3	9.8	8.1	27.8	37.4	48.8	38.7	25.5	18.5
Megaprojects	-0.3	0.0	0.0	7.1	26.8	36.5	47.9	37.8	24.7	17.7
Other	0.2	1.3	9.8	1.1	1.0	1.0	0.9	0.9	0.8	0.8
Other financial flows (net) [3]	0.2	4.9	-3.6	-0.2	4.0	2.9	0.7	4.7	1.0	0.0
Net errors and omissions	-1.2	-4.4	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-6.7	5.3	-5.0	3.8	-7.0	-1.5	0.1	0.4	0.6	1.0
Financing	6.7	-5.3	5.0	-3.2	7.0	1.5	-0.1	-0.4	-0.6	-1.0
Reserve assets (- = increase)	4.5	-9.9	2.0	-6.2	3.5	0.1	-0.4	-0.7	-0.8	-1.0
Net use of credit	-0.3	-0.2	-0.2	0.5	1.9	-0.2	-0.2	-0.1	0.0	0.0
Of which: IMF disbursements/Financing gap (+)	0.0	0.0	0.0	0.8	2.1	0.0	0.0	0.0	0.0	0.0
Of which: Repayments to the IMF (-)	-0.3	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1	0.0	0.0
Exceptional financing	2.5	4.8	3.2	2.5	1.7	1.5	0.5	0.4	0.2	0.0
Of which : IMF CCRT grants [4]	0.0	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0

Sources: Data from Government of Mozambique and projections by IMF staff.

[1] Includes interest payments for Ematum and previously undisclosed loans.

[2] Includes repayments of previously undisclosed loans.

[3] Other financial account flows include net portfolio investment; net financial derivatives; net currency and deposits; insurance, pension and standardized guarantee schemes (net); net trade credits and advances; net other accounts receivable/payable; net other equity and net special drawing rights.

[4] The grant for the debt service falling due in the 18 months from October 14, 2020 is subject to the availability of resources under the CCRT.

Table 5. Mozambique: Financial Soundness Indicators for the Banking Sector, 2016–2019
(Percent of GDP)

	2016	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Capital Adequacy													
Regulatory capital to risk-weighted assets	8.8	7.8	19.9	19.7	21.5	19.8	21.4	22.4	23.8	23.5	24.0	26.2	29.1
Regulatory Tier I capital to risk-weighted assets	14.2	12.8	19.4	19.0	20.8	19.2	20.3	21.7	22.6	22.4	22.9	25.8	29.0
Capital (net worth) to assets	5.2	4.4	10.7	10.6	10.1	9.1	10.4	11.0	11.4	11.4	11.4	12.3	12.7
Tier 1 Capital to total Assets	8.5	7.3	10.4	10.2	9.8	8.8	9.9	10.7	10.8	10.9	10.9	12.1	12.6
Asset Quality													
Nonperforming loans to gross loans [1]	5.7	7.1	11.2	11.4	12.6	12.6	12.6	13.0	11.1	11.5	10.6	10.1	10.2
Total provision to NPLs	99.3	108.3	71.1	68.9	87.4	95.0	93.8	95.3	95.7	99.5	96.2	95.4	93.0
NPLs net of provisions to total capital	13.3	21.0	21.3	24.0	10.3	7.1	6.1	5.2	3.5	2.9	3.6	2.9	3.9
NPLs net of provisions to capital and reserves	5.2	6.9	14.3	16.0	5.8	3.7	3.4	3.1	2.1	1.8	2.2	1.9	2.6
Specific provisions to NPLs	78.8	75.7	61.8	58.6	83.6	88.9	89.3	90.5	92.2	93.4	90.9	91.8	88.7
Earnings and Profitability													
Return on Equity	9.9	31.9	41.5	36.8	32.0	41.5	33.7	30.7	29.8	33.7	27.3	26.7	24.9
Return on Assets	0.7	2.0	2.4	2.5	2.6	3.8	3.3	3.0	3.1	3.7	3.1	3.1	3.0
Interest margin to gross income	65.0	77.9	73.9	71.8	71.2	72.5	71.6	71.9	71.6	64.8	68.3	67.9	67.6
Noninterest expenses to gross income	67.8	67.0	59.9	58.2	56.4	54.9	57.2	58.5	58.0	54.0	59.0	58.3	59.2
Personnel expenses to noninterest expenses	43.4	44.0	45.0	46.1	45.9	44.8	45.5	46.2	46.4	44.9	45.6	45.6	45.2
Trading and fee income to gross income	16.6	6.7	9.5	11.3	10.9	11.2	10.6	11.0	11.1	16.7	11.5	11.1	11.1
Fee and commission to total income	20.0	16.4	15.6	16.0	15.8	15.6	16.9	17.8	18.5	17.7	19.9	20.9	21.4
Liquidity													
Liquid assets (core) to total assets	20.7	20.8	21.4	11.5	12.8	13.2	11.8	11.5	13.9	11.9	11.8	13.2	14.3
Liquid assets (broad measure) to total assets	31.3	34.6	38.3	33.2	37.0	37.8	37.2	37.3	39.3	37.2	37.5	39.8	39.3
Liquid assets (core) to total deposits	29.6	29.1	30.3	16.5	18.4	19.6	17.4	16.8	20.2	17.4	17.4	19.4	20.7
Liquid assets (core) to demand deposits	46.4	46.8	50.0	27.9	29.6	32.8	29.2	28.4	32.9	27.8	28.1	31.7	33.3
Liquid assets (core) to short term liabilities	28.9	28.5	29.7	16.0	17.8	18.9	16.8	16.5	19.9	17.0	17.4	19.1	20.4
Liquid assets (broad measure) to short term liabilities	43.8	47.4	53.2	46.2	51.3	54.1	53.0	53.5	56.2	53.0	55.4	57.3	56.1
Customer deposits to total (noninterbank) loans	124.2	135.8	138.5	142.9	154.6	157.9	158.1	158.4	168.6	170.4	173.8	177.1	182.7
Sensitivity to market risk													
FX loans to FX deposits [2]	71.6	70.0	73.7	70.5	69.0	63.6	61.9	60.3	64.2	49.4	48.8	52.3	47.8
FX loans to total loans	29.4	29.4	27.1	26.5	26.1	27.6	25.4	25.2	25.5	22.2	21.1	21.3	19.9
FX liabilities to total liabilities	28.8	27.4	24.6	25.5	25.0	26.4	25.5	25.4	24.5	25.3	23.9	22.9	23.4

Source: Bank of Mozambique (BM).

[1] Banking sector referes to deposit corporations.

[2] Includes deposits at parent banks.

Table 6. Mozambique: External Financing Requirements and Sources, 2020–2025
(Millions of US dollars)

	2020	2021	2022	2023	2024	2025
	Proj.					
Financing requirements	**10,158**	**11,343**	**14,379**	**13,673**	**10,366**	**8,661**
Current account deficit excl. grants	9,888	10,883	13,903	13,110	9,821	8,096
of which: Public sector interest payments 1/	166	187	196	245	277	444
Public sector loan amortization	242	434	450	537	545	565
of which: EMATUM Bond amortization	0	0	0	0	0	0
Interest and amortization payments on existing Fund loans	28	26	26	26	0	0
Financing sources	**9,458**	**11,343**	**14,379**	**13,673**	**10,366**	**8,661**
Capital account balance	98	87	77	58	297	271
Net foreign direct investment	3,021	3,695	4,821	4,130	3,510	3,140
Public sector loan disbursements	736	470	517	569	626	688
Public sector grants	168	496	400	344	93	86
Non-financial private sector loans (net)	4,108	5,886	8,427	7,703	5,761	4,739
Other capital flows (net)	595	454	127	930	221	4
Change in reserves (+ decrease)	513	20	-70	-138	-183	-267
Exceptional financing	218	235	80	78	40	0
Financing Gap due to COVID-19 Pandemic	**700**	**0**	**0**	**0**	**0**	**0**
CCRT	28	0	0	0	0	0
Public sector grants	363	0	0	0	0	0
Financing from IMF (RCF disbursement)	309	0	0	0	0	0

Source: Mozambican authorities and IMF staff estimates and projections.
1/ Includes payments on EMATUM bond but excludes interest on Fund loans.

Table 7. Mozambique: Indicators of Capacity to Repay the Fund, 2020–2032

(In percent, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Fund obligations based on existing credit													
(in millions of SDRs)													
Principal	20.350	18.930	18.930	18.930	8.520	17.040	17.040	17.040	17.040	8.520	0.000	0.000	0.000
Charges and interest	0.110	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050
Obligations to the Fund based on existing and prospective credit[1]	20.460	18.980	18.980	18.980	8.570	39.810	62.530	62.530	62.530	54.010	22.770	0.050	0.050
(in millions of SDRs)													
Principal	20.350	18.930	18.930	18.930	8.520	39.760	62.480	62.480	62.480	53.960	22.720	0.000	0.000
Charges and interest	0.110	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050
Obligations to the Fund from existing and prospective credit													
In millions of U.S. dollars	28.795	26.872	27.047	27.201	12.365	57.438	90.218	90.218	90.218	77.926	32.853	0.072	0.072
In percent of gross international reserves	0.956	0.890	0.869	0.830	0.357	1.541	2.551	1.771	1.692	1.391	0.557	0.001	0.001
In percent of exports of goods and services	0.668	0.460	0.416	0.337	0.120	0.452	0.703	0.410	0.382	0.321	0.124	0.000	0.000
In percent of GDP	0.195	0.171	0.157	0.137	0.055	0.224	0.338	0.251	0.235	0.194	0.076	0.000	0.000
In percent of quota	9.005	8.354	8.354	8.354	3.772	17.522	27.522	27.522	27.522	23.772	10.022	0.022	0.022
Outstanding Fund credit based on existing drawings (end-of-period)													
In millions of SDRs	142.000	123.070	104.130	85.200	76.680	59.640	42.600	25.560	8.520	0.000	0.000	0.000	0.000
In percent of quota	62.500	54.170	45.830	37.500	33.750	26.250	18.750	11.250	3.750	0.000	0.000	0.000	0.000
Outstanding Fund credit based on existing and prospective drawings (end-of-period)													
In millions of SDRs	369.200	350.270	331.330	312.400	303.880	264.120	201.640	139.160	76.680	22.720	0.000	0.000	0.000
In millions of U.S. dollars	520.984	497.463	473.344	449.081	439.779	382.238	291.816	201.394	110.972	32.881	0.000	0.000	0.000
In percent of gross international reserves	17.297	16.483	15.202	13.698	12.706	10.254	8.251	3.954	2.082	0.587	0.000	0.000	0.000
In percent of exports of goods and services	12.079	8.514	7.276	5.568	4.261	3.008	2.274	0.916	0.469	0.135	0.000	0.000	0.000
In percent of GDP	3.524	3.164	2.744	2.254	1.946	1.492	1.093	0.560	0.289	0.082	0.000	0.000	0.000
In percent of quota	162.500	154.170	145.830	137.500	133.750	116.250	88.750	61.250	33.750	10.000	0.000	0.000	0.000
Net use of Fund credit (millions of SDRs)	206.850	-18.930	-18.930	-18.930	-8.520	-39.760	-62.480	-62.480	-62.480	-53.960	-22.720	0.000	0.000
Disbursements	227.200	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Repayments and purchases	20.350	18.930	18.930	18.930	8.520	39.760	62.480	62.480	62.480	53.960	22.720	0.000	0.000
Memorandum items:													
Nominal GDP (billions of U.S. dollars)	14.782	15.723	17.251	19.923	22.598	25.625	26.708	35.933	38.378	40.208	43.439	48.150	51.598
Exports of goods and services (billions of U.S. dollars)	4.313	5.843	6.506	8.065	10.322	12.709	12.835	21.991	23.637	24.306	26.462	30.223	32.588
Gross international reserves (billions of U.S. dollars)	3.012	3.018	3.114	3.278	3.461	3.728	3.537	5.094	5.331	5.601	5.898	5.684	5.985
Quota (millions of SDRs)	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200

Sources: IMF staff estimates, and projections.

[1] Assumes access of 100 percent of the quota in April 2020 as one-time disbursement.

Appendix I. Letter of Intent

Maputo, Mozambique

April 17, 2020

Ms. Kristalina Georgieva

Managing Director

International Monetary Fund

Washington, D.C. 20431

Dear Ms. Georgieva,

1. The economic and financial impact of the COVID-19 pandemic has heightened uncertainty and dashed prospects of a nascent economic recovery from the devastating impact of Tropical Cyclones Idai and Kenneth in 2019. Although the number of coronavirus cases in Mozambique is relatively small, the impact on the economy is already severe and human costs are expected to rise significantly. Credit conditions have tightened, growth has slowed, and there is an urgent need to mobilize substantial public funds for additional health spending as the pandemic spreads across Mozambique. The cost of coping with this pandemic will be enormous.

2. We have taken strict social-distancing measures to contain the spread of the disease. To mitigate the effects of the crisis on the private sector and safeguard financial stability, we have reduced reserve requirements on banks' deposits, created a U.S. dollar credit line to alleviate banks' liquidity shortages, and relaxed provisioning rules for restructured loans. Despite these measures, the short-term economic impact is expected to be large. Real GDP growth in 2020 could decline to 2.2 percent—down from a pre-pandemic projection of 6 percent—due to a dramatic decline in extractive industry production and exports and disruptions to manufacturing, services, transport and communications.

3. Our fiscal situation will be severely affected by a shortfall in tax revenues due to the decline in projected growth and by additional spending needs to address critical spending on health and social assistance to mitigate the impact on the most vulnerable. Total financing needs are estimated at US$700 million (4.7 percent of GDP) which would have to be covered to the maximum extent possible by external grants given our high level of public debt and limited fiscal buffers. In this

connection, we have approached our development partners for in-kind and financial support. Our development partners have already signaled financial support, including US$22 million in additional funding for the Pro-Health project, US$40 million from the Islamic Bank to support the health sector US$170 million from the World Bank for health spending and social protection, and US$54 million from the European Union for budget support. Notwithstanding, additional support will be required given the emerging large budgetary and external financing gaps.

4. Against this background, and in the face of the urgent BOP need arising from the COVID-19 pandemic, the Government of the Republic of Mozambique requests emergency financing from the IMF under the Rapid Credit Facility (RCF) in the amount of SDR227.2 million, equivalent to 100 percent of quota. This disbursement will help fill the projected BOP and fiscal financing gaps in 2020. Also, we are confident that IMF involvement in the international effort to assist Mozambique in dealing with the COVID-19 pandemic will play a catalytic role in securing the needed external grants from our development partners. We have requested Fund assistance from the Catastrophe Containment and Relief Trust (CCRT).

5. We remain committed to safeguard macroeconomic stability and foster inclusive growth. To help ensure that public debt indicators remain sustainable, we are committed to eliminate the primary fiscal deficit after grants by 2023 through a combination of revenue-enhancing measures (i.e., eliminating VAT exemptions except for basic goods) and spending rationalization (i.e., review and reform of wage and hiring policies in the public sector). While following this gradual fiscal consolidation, budget allocations for education, health, social protection, and basic infrastructure will be increased to advance Mozambique's poverty reduction and growth. In addition, we are committed to bringing public debt risk to moderate levels over time, inter alia, by strengthening our debt management capacities to ensure effective oversight over the entire public debt portfolio, including state-owned enterprises. Last year, a restructuring agreement was reached with Eurobond holders providing substantial debt service relief. Mozambique's Attorney-General has filed a lawsuit in the U.K. to nullify the criminally obtained government guarantee on the loan contracted by Proindicus SA, a state-owned enterprise, with Credit Suisse. Similarly, in its defense against a lawsuit brought by VTB in the U.K., the Government will seek to nullify the illegally obtained government guaranteed on the loan contracted by MAM SA, another state-owned enterprise.

6. We are committed to reforms to strengthen governance, transparency and accountability in line with the recommendations of the Government's Diagnostic Report published in August 2019.

Also, we will undertake an independent audit of crisis-mitigation spending and related procurement processes once the crisis abates and will publish its results. We will also publish on the government's website large public procurement contracts related to crisis mitigation, the names of the awarded companies, their beneficial owners, and ex-post validation of delivery. In addition, we will implement the recommendations of the soon-to-be-concluded safeguards assessment of the central bank. In this latter context, the Bank of Mozambique will publish the 2018 audited financial statements shortly after this audit is finalized and, going forward, will continue to publish the audited financial statements in a timely fashion.

7. We intend to use the RCF disbursement to help fill the projected fiscal financing gap. This amount will be on-lent by the Bank of the Mozambique to the Treasury. We are aware that a Memorandum of Understanding (MoU) between the Bank of Mozambique and the Ministry of Economy and Finance is needed to establish a framework that clarifies the responsibilities for timely servicing of the financial obligations to the IMF, and we already have the proper procedures in place to make this on-lending operation possible.

8. The Government intends to continue its dialogue with the IMF to explore solutions to Mozambique's BOP difficulties and will avoid measures or policies that would compound these difficulties. We do not intend to introduce measures or policies that would exacerbate BOP difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for BOP purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

9. We are determined to succeed in meeting this formidable challenge. Support from the international community will be critical, and we look forward to an early approval of financial assistance by the IMF. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RCF.

Sincerely yours,

/s/	/s/
Adriano Afonso Maleiane	Rogério Zandamela
Minister of Economy and Finance	Bank of Mozambique Governor

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

April 17, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
David Owen and Mark Flanagan (IMF) and Marcello Estevão (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Republic of Mozambique	
Joint Bank-Fund Debt Sustainability Analysis	
Risk of External debt distress:	In debt distress
Overall risk of debt distress	In debt distress
Granularity in the risk rating	Sustainable
Application of judgment	No

Mozambique's debt remains in distress, which is unchanged from the previous DSA published in June 2019. Considering that, to a large extent, future borrowing and government guarantees reflect state participation in the sizable liquified natural gas (LNG) development, debt is deemed sustainable in a forward-looking sense. Participation in the recently announced G20 initiative would provide debt service relief in the near term, thus flattening the projected sharp deterioration in debt liquidity indicators due to the COVID-19 pandemic. The possibility of an extension of the G20 initiative into 2021 would be a further mitigating factor for the debt sustainability assessment. The present value (PV) of external public and publicly guaranteed (PPG) debt relative to GDP is projected to remain above the prudent threshold with a gradual declining path dropping below the threshold by 2028.The PV of PPG external debt relative to exports would drop below the prudent threshold in 2024. The ratio of external public debt service to fiscal revenues would drop below the prudent threshold temporarily in 2020 but would breach again the threshold until 2030. The debt service-to-exports ratio would remain around the prudent threshold until 2023, when it drops and remains below the threshold for the rest of the projection period.

[1] Mozambique's Composite Indicator score is 2.60 based on the October 2019 WEO and the 2018 CPIA, indicating that the country's debt-carrying capacity is weak. The analysis presented in this document is based on the new debt sustainability framework (DSF) for low-income countries (http://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf).

PUBLIC DEBT COVERAGE

1. Compared to the last DSA,[2] the coverage of public and publicly guaranteed debt remains unchanged (Text Table 1). The scope of Mozambique's public debt covers data on external and domestic obligations of the central and local governments. The authorities also provided debt data on state-owned enterprises (SOEs) and SOE debt guarantees. [3] The debt covered by the DSA excludes Hidroeléctrica de Cahora Bassa (HCB).[4] Domestic debt is denominated in local currency and, for the purposes of the analysis, domestic debt is assessed by currency and not by residence as data capturing the residency of creditors are unavailable.

Text Table 1. Mozambique: Public Debt Coverage Under the Baseline Scenario

	Subsectors of the public sector	Sub-Sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

BACKGROUND

A. Recent Economic and Debt Developments

2. Before the COVID-19 pandemic, the Mozambican economy was recovering from Tropical Cyclones (TCs) Idai and Kenneth which struck in 2019. GDP growth decelerated to 2.2 percent in 2019 driven by the adverse supply shock of the TCs and a contraction in the extractive industry. However, despite the supply shock, inflation declined to 3.1 percent (y/y) in March, from 3.5 percent (y/y) in December 2018, due to subdued aggregate demand, well anchored inflation expectations, and a broadly stable exchange rate. The current account deficit improved to 20.8 percent of GDP in 2019, from 30.9 percent of GDP in 2018, mainly due to: (1) a much lower-than-expected megaproject imports of services; and (2) a large payment (US$880 million) of one-off capital gains taxes related to the sale to Total of Occidental's LNG operations in the country. This payment was only partially offset by lower coal exports (mine flooding and lower export prices) and higher emergency relief imports. The (underlying) overall fiscal deficit, after grants and excluding one-off capital gains taxes, was contained at about 5½ percent of GDP in 2019, from about

[2] IMF Country Report 19/136, May 16, 2019.

[3] This includes Mozambique's National Hydrocarbons Company (ENH) borrowing to finance its equity participation in the LNG megaprojects, along with any sovereign guarantees issued to cover ENH's share in the LNG megaprojects' financing package.

[4] HCB meets the criteria for exclusion set out in the 2017 Staff Guidance Note on the Debt Sustainability Framework for LICs (Appendix III) because it is run on commercial terms, has a good financial performance, enjoys managerial independence, and borrows without government guarantee.

6 percent of GDP in 2018, as lower (underlying) revenue collections were more than offset by lower public spending.

3. Compared with the previous DSA, the debt stocks used are updated from 2017 to 2018. This DSA also accounts for Mozambique's recent GDP rebasing which has led to downward revisions to the historical (until 2017) debt-to-GDP indicators (Text Table 2).

Text Table 2. Mozambique: Debt, Public and Publicly Guaranteed

(Percent of GDP)

	2014	2015	2016	2017 Prel.	2018 Prel.
Public sector debt	**64.3**	**87.4**	**126.9**	**106.6**	**110.0**
Public sector external debt (incl. guarantees)	**58.1**	**76.6**	**104.3**	**87.4**	**92.4**
A. Bank of Mozambique-IMF	1.1	1.8	2.0	1.3	1.1
B. General Government	47.5	63.6	89.4	72.8	75.0
Multilateral creditors, excl IMF	19.9	26.2	35.9	29.5	30.0
Bilateral creditors	19.9	28.6	39.0	32.3	33.1
Paris Club	3.1	4.7	7.1	7.1	8.1
Banks	3.0	3.0	6.9	5.1	5.0
EMATUM/Mozam Eurobond	3.0	3.0	6.9	5.1	5.0
Other public sector: *ENH (LNG project)*	4.6	5.7	7.6	5.9	7.0
C. Government guaranteed external debt	9.5	11.2	11.2	8.3	8.1
EMATUM	2.1	2.5	0.0	0.0	0.0
Proindicus	3.8	4.5	5.7	4.2	4.1
MAM	3.2	3.9	5.1	3.8	3.7
Other guarantees	0.4	0.4	0.4	0.3	0.2
D. External arrears	0.0	0.0	1.7	5.0	8.2
Public sector domestic debt (incl. guarantees)	**6.3**	**10.9**	**22.6**	**19.1**	**17.7**

4. The authorities' legal and debt restructuring strategy is being implemented. It reached an important milestone in October 2019 with the Eurobond swap that has lowered interest payments and extended maturities broadly in line with the baseline scenario in the last DSA. While the authorities were conducting due diligence on whether corruption may have been involved in contracting the VTB loan to MAM, that bank filed in December 2019 a civil lawsuit in the U.K. against Mozambique, arguing that the government guarantee remained valid. Recently, the authorities have informed staff that in their defense against the VTB lawsuit, the government has disputed the validity of the government guarantee on the VTB loan—which was deemed illegal by Mozambique's Assembly of the Republic—and does not intend to support MAM.

5. Mozambique continues to accumulate external debt service arrears on the defaulted loans. The overall stock of external arrears on public and publicly guaranteed external debt service is estimated to have reached US$1,375 million (9.3 percent of GDP) at end-2019 (Text Table 3).

B. Macroeconomic Forecasts

6. **While the COVID-19 pandemic is expected to hit Mozambique hard and the macroeconomic assumptions underlying the baseline scenario, particularly for the next two years, have worsen relative to the last DSA, the medium-term outlook remains positive due to the LNG megaprojects** (Text Table 4). GDP growth projections for 2020 and 2021 have been revised to 2.2 percent and 4.7 percent, respectively, owing to COVID-19 related disruptions within the economy and much worse external environment. Risks to growth in 2020 are on the downside, as the impact of the COVID-19 pandemic could be more pronounced and significant delays could happen in the Area 1 LNG project. The overall fiscal deficit is expected to increase significantly in 2020 owing to lower revenues—resulting from lower activity and fiscal measures to support the private sector—and higher spending on health and social transfers to the poorest segments in society. From 2021 onward, the overall fiscal deficit is expected to improve as the authorities implement gradual fiscal consolidation, with the objective to largely eliminate the primary fiscal deficit after grants by 2022. The current account deficit is expected to increase until 2022, reflecting a surge in imports of goods and services mainly related to the construction of processing facilities for the LNG megaprojects. Approximately one-third of all imports related to such projects will be financed by (frontloaded) FDI, with the remainder financed by Export Credit Agencies (ECAs) and private banks. With the start of LNG production in 2023, real GDP growth will pick up significantly and fiscal and external indicators will start improving dramatically.

Text Table 3. Mozambique: Evolution of the Stock of External Arrears
(Millions of U.S. dollars)[1]

	End-2017 Est.	End-2018 Est.	End-2019 Est.
Commercial debt	**592.86**	**970.61**	**1080.24**
Mozam/ EMATUM	97.90	174.18	-
MAM	343.06	499.12	644.02
Proindicus	151.90	297.31	436.22
Bilateral debt	116.80	207.33	295.29
Paris Club: Brazil	22.93	37.65	51.86
Non-Paris Club [2]	93.87	169.68	243.43
Total	**709.66**	**1177.94**	**1375.53**

[1] Staff estimates based on information received by the authorities on their debt strategy. Contractual penalty fees or rates have not been included.

[2] Data reported by the authorities for Libya, Iraq, Angola, Poland and Bulgaria on the reconciled debt.

7. **The severe impact of the COVID-19 pandemic has created additional financial needs**. The authorities are seeking US$700 million from the international community to fight the adverse economic effects of the COVID-19 pandemic. An RCF disbursement is expected to close about 45 percent of the external and fiscal financing gaps whereas the rest is expected to come from other development partners of Mozambique, including US$170 million from the World Bank and US$54 million from the EU.

Text Table 4. Mozambique: Evolution of Selected Macroeconomic Indicators Between DSA Updates

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2029	2038	2039
				Projections								
Real GDP growth (Percent)												
Previous DSA: RCF (April 2019)	3.7	3.3	1.8	6.0	4.0	4.0	9.2	11.5	26.9	2.6	2.7	...
Current DSA	3.7	3.4	2.2	2.2	4.7	4.0	8.6	11.0	11.2	2.7	2.6	2.0
Nominal GDP (US$ billion)												
Previous DSA: RCF (April 2019)	12.6	14.4	15.1	16.7	17.9	19.0	21.3	24.2	31.3	43.3	72.8	...
Current DSA	13.2	14.6	14.9	14.8	15.7	17.3	19.9	22.6	25.6	40.2	67.7	70.4
Overall fiscal deficit (Percent of GDP)												
Previous DSA: RCF (April 2019)	3.4	5.5	6.5	4.8	3.7	2.6	1.9	0.1	-1.4	-2.3	-14.0	...
Current DSA	3.2	7.2	0.2	5.6	3.8	2.9	1.2	0.8	0.5	-1.8	-11.3	-12.1
Current account deficit (Percent of GDP)												
Previous DSA: RCF (April 2019)	20.0	30.4	58.0	66.7	62.9	75.6	61.6	39.3	11.3	-1.9	-5.8	...
Current DSA	19.1	30.9	20.7	63.3	66.1	78.3	64.1	43.0	31.3	-6.1	-9.5	-9.6
FDI (Percent of GDP)												
Previous DSA: RCF (April 2019)	18.2	18.7	18.5	21.2	20.1	23.9	17.1	13.5	4.4	3.7	6.0	...
Current DSA	17.4	18.5	14.9	20.4	23.5	27.9	20.7	15.5	12.3	4.9	9.0	9.8

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

8. **The baseline assumes a standstill on all interest and principal payments, as well as arrears due in 2020 to G20 official bilateral creditors**. This is in line with the G20 initiative to help poor countries channel resources reserved for debt service payments to policy responses to the COVID-19 pandemic. It considers rescheduling debt service payments due from May 1 to end-2020 to G20 official lenders at the existing interest rates in the loans with one-year grace period and a repayment over the next three years.

9. **Considering the recent communication to staff that the government does not intend to support MAM, which will follow the normal course of commercial bankruptcy without backing, the VTB loan to MAM has been removed from the DSA baseline**. Further, given the authorities' representation to staff that the validity of the government guarantee on that loan is in dispute, the guarantee has also been removed from the DSA baseline as of 2020 and is instead treated as a contingent liability in accordance to IMF policy. Together with the government guarantee on the loan contracted by Proindicus, which is in dispute as well, the contingent liability from SOE's debt now amounts to 7.6 percent of GDP (Text Table 5).

Text Table 5. Mozambique: Calibration of the contingent liability stress test

1	**The country's coverage of public debt**	The central, state, and local governments plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt		
		Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	**Other elements of the general government not captured in 1.**	0 percent of GDP		
3	**SoE's debt (guaranteed and not guaranteed by the government) 1/**	2 percent of GDP	7.60	SOE sovereign guarantee in dispute
4	**PPP**	35 percent of PPP stoc	3.21	
5	**Financial market (the default value of 5 percent of GDP is the mini**	5 percent of GDP	5.00	
	Total (2+3+4+5) (in percent of GDP)		15.81	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

10. With regards to the LNG sector, relative to the last DSA, the baseline scenario assumes a delay of the ExxonMobil-led LNG megaproject by two years. ExxonMobil and its partners have yet to reach a final investment decision (FID) on this project. Under the challenging global environment of lower energy prices and tighter financing conditions, it is plausible to assume that ExxonMobil and its partners will delay the FID to 2021 and start LNG production only in 2026. The LNG megaprojects led by Total and ENI, however, are assumed to move ahead as scheduled because their FIDs have already been reached, contracts to deliver LNG have been signed and financial penalties for non-delivery are substantial.

11. Risks are tilted to the downside, although larger than expected LNG production and revenues constitute an important upside risk. The main risks include (i) a more pronounced than envisaged COVID-19 pandemic in Mozambique, (ii) delays in the implementation of the LNG megaprojects that have already reached their FID, and (iii) delayed normalization of the global economy and protracted trade disruptions. Previously identified risks remain, including (i) a deterioration in the security situation in the North, (ii) backtracking of peace negotiations with the main opposition party, Renamo, and (iii) extreme climate events.

12. According to the debt sustainability framework's realism tools, the baseline projections are reasonable (Figures 3 and 4). The growth projections are relatively lower than suggested by the alternative fiscal-growth multiplier analysis due to the adverse growth effects related to COVID-19. The baseline fiscal adjustment in the primary balance seems credible as it does not fall in the upper quartile of the distribution of past adjustments of LICs. The contribution of public investment to growth seems reasonable in comparison to historical contributions and the gradual economic recovery following the 2016 economic downturn.

COUNTRY CLASSIFICATION

13. Mozambique's debt carrying capacity is assessed as weak, unchanged from the last DSA. Mozambique's Composite Indicator score is 2.60, indicating that the country's debt-carrying capacity is weak. The reason for the weak debt carrying capacity assessment is the huge scale of LNG megaprojects under development (these projects amount to over three times Mozambique's GDP) and their related imports.[5] Accordingly, the relevant indicative thresholds for the weak category are 30 percent for the PV of debt-to-GDP ratio, 140 percent for the PV of debt-to-exports ratio, 10 percent for the debt service-to-exports ratio, and 14 percent for the debt service-to-revenue ratio. These thresholds are applicable to the public and publicly guaranteed external debt.

[5] Mozambique's debt carrying capacity assessment would have been medium if only non-megaproject imports were considered in the calculation of the Composite Indicator. Megaproject imports are fully financed through special investment vehicles outside the country and included in the balance of payments statistics, with no potential bearing on international reserves. This argues for the exercise of judgment in assessing sustainability.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

14. Under the baseline scenario, all external debt indicators breach the policy relevant thresholds in the near and medium term (Table 1, Text Table 6 and Figure 1).[6]

- **The PV of external public debt in terms of GDP** would reach 68 percent at end-2020 and is projected to remain above the prudent threshold until 2027. This is partially driven by ENH borrowing to finance its equity participation in the LNG megaprojects, and the issuance of a sovereign guarantee to ENH to cover its share in the borrowing package for Area 1 Golfinho project.[7] The ratios would drop below the prudent threshold by 2028, as the sovereign guarantee contractually lapses in 2026 (after the start of LNG production).

- After worsening in 2020, **the PV of external public debt in terms of exports** would gradually decline, albeit above the 140 percent prudent threshold until 2023. It would improve rapidly thereafter as LNG exports pick up over the long term.

- **External public debt service in terms of revenue** would drop below the prudent threshold temporarily in 2020 but would breach again the threshold the following year and up to 2030. The uptick around 2025 is a result of ENH starting to service its debt as LNG production is expected to start.

- **External public debt service in terms of exports** would drop below the prudent threshold in 2024 and would remain below it during the rest of the projection period.

Text Table 6. Mozambique: PPG of External Debt

(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Prel.	Prel.				Projections			
Public sector debt									
Nominal stock of total debt	106.6	110.0	108.4	113.7	113.1	106.2	101.1	91.9	81.7
Of which: external	87.4	92.4	89.4	97.1	97.4	91.4	88.3	80.8	72.6
Nominal stock of total debt, excl. ENH's debt	100.6	103.1	98.6	98.8	93.4	83.0	74.9	66.7	59.1
Of which: external debt, excl. ENH's debt	81.5	85.4	79.6	82.1	77.7	68.2	62.1	55.6	50.0

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

[6] As in the last DSA, the historical scenario has been excluded from Figure 1. Such a scenario shows unrealistically fast declines in the public debt-to-GDP ratio, as the non-interest current account deficit at the historical average is much lower than projected because of LNG investments. Meanwhile, private debt accumulation is assumed to remain unchanged compared to the baseline.

[7] In the baseline, the guarantee is phased-in in line with the expected flow of disbursements as the LNG megaproject led by Total (Golfinho project) is implemented, and that contractually the guarantee does not give rise to debt service payments and it ceases to exist in the first year after LNG production starts.

15. External public debt and public debt service ratios are most sensitive to exchange rate and export shocks (Table 3). The stress tests illustrate that a nominal export growth (in U.S. dollars) set to its historical average minus one standard deviation, or the baseline projection minus one standard deviation (whichever is the lower) in 2020 and 2021, would increase the PV of external public debt-to-GDP ratio by 26 percentage points (to 93 percent) in 2021. Similarly, the PV of external public debt-to-export ratio would double to 369 percent in 2021 (compared to 180 percent under the baseline). The export shock has a similar effect on the two debt service ratios. Vulnerability to exchange rate movements is an expected outcome for a commodity exporter like Mozambique with a relatively low export-to-exchange-rate elasticity and a relatively high share of external public debt in the total. External debt service indicators are also sensitive to the assumptions around ENH's future debt service profile.

B. Public Sector Debt Sustainability Analysis

16. The PV of debt-to-GDP ratio is projected to surpass the 35 percent of GDP benchmark until 2028 (Table 2 and Figure 2). Total public and publicly guaranteed debt amounted to about 110 percent of GDP as of end-2019, with external debt accounting for about four-fifths of the total. The evolution of public debt is driven mainly by the same factors influencing external debt, including those related to ENH's share in the LNG megaprojects. The debt service (including rollover of T-bills for cash flow management) is expected to absorb nearly 37 percent of expected revenues and grants in 2020 and decline in the following years.

17. The standardized sensitivity analysis shows public debt indicators are highly sensitive to primary balance, exports as well as changes in current transfers and FDI (Table 4). A shock to the primary balance would lead the PV of debt-to-GDP ratio to reach 107 percent (compared to 84 percent under the baseline scenario) by 2021. A shock to exports or current transfers-to-GDP and FDI-to-GDP ratios would increase the PV of debt-to-GDP ratio to about 100 percent in 2021.

RISK RATING AND VULNERABILITIES

18. Mozambique's debt is assessed to remain in distress, but sustainable in a forward-looking sense. This assessment is unchanged relative to the last DSA. Considering that, to a large extent, future borrowing and government guarantees reflect state participation in the sizable LNG developments, debt is deemed sustainable in a forward-looking sense. Participation in the recently announced G20 initiative would provide debt service relief in the near term, thus flattening the projected sharp deterioration in debt liquidity indicators due to the COVID-19 pandemic. The possibility of an extension of the G20 initiative into 2021 would be a further mitigating factor for the debt sustainability assessment. Moreover, as noted above, debt carrying capacity is likely to be stronger than signaled by the CI rating because international reserves do not need to cover imports related to megaprojects (which are fully funded through special investment vehicles outside the country). This assessment is also anchored in the authorities' strong commitment to implement fiscal consolidation and a prudent borrowing strategy. Together with the coming on-stream of the LNG projects, this is expected to put public debt indicators on a firmly downward trajectory over the medium term. In line with the previous DSA, stress test results underscore the downside risks for debt sustainability originating from negative export and primary fiscal balance shocks that could hit the Mozambican economy. These results further emphasize the need to diversifying the economy and broadening the export base as well as implementing a prudent borrowing strategy.

19. Debt management and oversight needs to be strengthened further. While the authorities have already taken important steps, including to improve the transparency of the process of considering and granting sovereign guarantees, the MEF debt unit needs to be strengthened with respect to both its capacity and clout to exercise effective oversight over the entire public debt portfolio and to implement stronger safeguards. In addition, building on the new SOE Law, oversight over the entire SOE sector needs to be substantially strengthened.

Authorities' Views

20. The authorities broadly agree with the analysis and recommendations above. They noted that their debt strategy is being implemented with the aim to bring Mozambique's debt risk to moderate levels over the medium term. This would be achieved through debt reduction as well as medium-term fiscal consolidation. The authorities emphasized their commitment to strengthen governance, transparency, and accountability along the lines of the Government's Diagnostic Report prepared with IMF technical assistance. In addition, the authorities expressed their intention to request forbearance from creditors under the recently-announced G20 initiative, which would deliver debt service relief in the near term, thus providing an additional cushion to respond to the COVID-19 pandemic and flattening the projected sharp deterioration in debt liquidity indicators due to the COVID-19 pandemic.

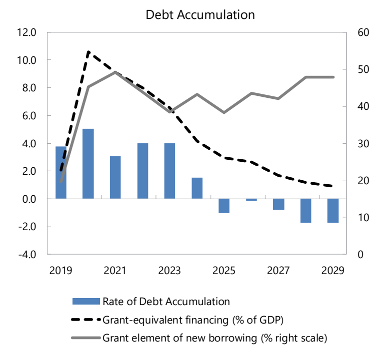
Table 1. Mozambique: External Debt Sustainability Framework, Baseline Scenario, 2016–2039

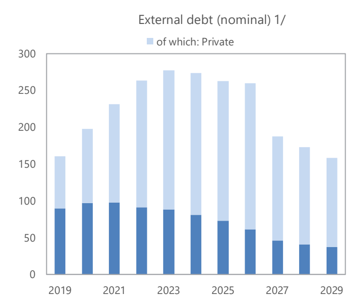
(In percent of GDP, unless otherwise indicated)

(In percent of GDP, unless otherwise indicated)

	Actual			Projections									Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2029	2039	Historical	Projections
External debt (nominal) 1/	164.2	143.9	154.9	160.0	197.5	230.8	263.3	277.1	273.7	262.1	158.2	16.9	104.5	222.0
of which: public and publicly guaranteed (PPG)	104.3	87.4	92.4	89.4	97.1	97.4	91.4	88.3	80.8	72.6	36.8	11.2	59.4	72.9
Change in external debt	42.6	-20.3	11.0	5.1	37.5	33.3	32.5	13.8	-3.4	-11.6	-14.4	-7.7		
Identified net debt-creating flows	50.6	-13.5	-1.7	2.4	39.3	33.8	41.9	23.7	0.7	-8.0	-15.4	-19.8	6.3	3.2
Non-interest current account deficit	32.5	16.8	28.7	18.0	59.6	62.5	74.8	60.6	39.8	27.7	-11.3	-11.1	27.5	29.6
Deficit in balance of goods and services	34.4	21.5	31.2	26.7	65.1	67.5	79.1	64.4	42.4	24.9	-18.4	-21.6	32.8	31.3
Exports	31.6	41.1	41.0	38.0	29.2	37.2	37.7	40.5	45.7	49.6	60.5	57.7		
Imports	66.0	62.6	72.1	64.7	94.3	104.6	116.8	104.9	88.1	74.5	42.1	36.0		
Net current transfers (negative = inflow)	-2.0	-4.8	-2.3	-8.4	-5.3	-4.8	-3.8	-3.1	-1.7	-1.5	-0.5	-0.4	-5.7	-3.6
of which: official	-1.3	-3.5	-0.7	-6.6	-3.6	-3.2	-2.3	-1.7	-0.4	-0.3	-0.2	0.0		
Other current account flows (negative = net inflow)	0.1	0.1	-0.1	-0.3	-0.2	-0.2	-0.5	-0.7	-1.0	4.2	7.6	10.9	0.4	1.9
Net FDI (negative = inflow)	-25.9	-17.4	-18.5	-14.9	-20.4	-23.5	-27.9	-20.7	-15.5	-12.3	-4.9	-9.8	-22.6	-14.6
Endogenous debt dynamics 2/	44.0	-12.8	-12.0	-0.7	0.1	-5.2	-4.9	-16.1	-23.5	-23.4	0.8	1.1		
Contribution from nominal interest rate	3.1	2.3	2.2	2.7	3.7	3.6	3.5	3.5	3.3	3.6	5.3	1.6		
Contribution from real GDP growth	-6.2	-5.6	-4.4	-3.4	-3.5	-8.7	-8.4	-19.6	-26.8	-27.0	-4.5	-0.5		
Contribution from price and exchange rate changes	47.1	-9.6	-9.7	...	...	...	...	...	...	...	...	...		
Residual 3/	-7.9	-6.8	12.7	2.7	-1.8	-0.6	-9.4	-9.9	-4.1	-3.6	1.1	12.1	2.6	-2.9
of which: exceptional financing	-1.5	-2.8	-2.2	-1.6	-0.6	-0.5	-0.5	-0.4	-0.2	-0.2	-0.1	0.0		
Sustainability indicators														
PV of PPG external debt-to-GDP ratio	...	...	60.1	62.6	68.1	66.9	64.6	59.4	53.7	46.5	25.8	8.6		
PV of PPG external debt-to-exports ratio	...	...	146.6	164.9	233.2	180.0	171.3	146.8	117.6	93.7	42.7	15.0		
PPG debt service-to-exports ratio	12.2	10.3	12.2	10.8	9.6	10.7	10.4	10.1	8.0	8.1	5.8	2.0		
PPG debt service-to-revenue ratio	17.5	16.9	20.8	13.9	12.7	16.3	15.5	15.7	14.7	16.7	16.6	3.3		
Gross external financing need (Million of U.S. dollars)	1662.9	709.0	2432.6	1534.5	6896.8	7452.0	9504.3	9556.9	7127.7	5834.3	-107.3	-8894.2		
Key macroeconomic assumptions														
Real GDP growth (in percent)	3.8	3.7	3.4	2.2	2.2	4.7	4.0	8.6	11.0	11.2	2.7	2.0	6.0	7.6
GDP deflator in US dollar terms (change in percent)	-27.9	6.2	7.2	-0.2	-2.7	1.6	5.5	6.3	2.2	2.0	2.0	1.9	-3.4	2.2
Effective interest rate (percent) 4/	1.9	1.6	1.7	1.8	2.3	1.9	1.7	1.5	1.3	1.5	3.2	6.7	1.4	2.1
Growth of exports of G&S (US dollar terms, in percent)	-8.9	43.4	10.5	-5.5	-23.6	35.5	11.4	24.0	28.0	23.1	2.8	3.2	8.2	15.9
Growth of imports of G&S (US dollar terms, in percent)	-25.8	4.5	27.9	-8.5	44.9	18.0	22.5	3.7	-4.8	-4.0	1.7	-1.2	11.9	5.5
Grant element of new public sector borrowing (in percent)	...	...	...	19.6	45.2	49.2	43.8	38.4	43.2	38.2	47.8	47.8	...	41.7
Government revenues (excluding grants, in percent of GDP)	22.0	25.1	24.0	29.5	22.1	24.5	25.4	26.1	24.8	24.1	21.2	34.4	21.5	24.0
Aid flows (in Million of US dollars) 5/	671.1	1450.0	558.3	337.6	1620.0	1616.0	1574.3	1498.2	1104.8	906.9	394.1	236.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.1	10.6	9.1	8.0	6.6	4.1	3.0	0.9	0.3	...	4.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	31.9	66.7	68.1	60.9	55.8	58.9	57.2	84.5	75.7	...	62.5
Nominal GDP (Million of US dollars)	11,937	13,150	14,583	14,870	14,782	15,723	17,251	19,923	22,598	25,625	40,208	70,379		
Nominal dollar GDP growth	-25.2	10.2	10.9	2.0	-0.6	6.4	9.7	15.5	13.4	13.4	4.8	4.0	2.4	10.0
Memorandum items:														
PV of external debt 7/	...	...	122.6	133.2	168.5	200.3	236.5	248.2	246.6	236.0	147.3	14.4		
In percent of exports	...	...	299.3	350.8	577.5	539.0	627.1	613.2	540.0	475.8	243.6	24.9		
Total external debt service-to-exports ratio	23.3	14.8	15.7	18.9	25.5	22.6	22.0	20.1	16.0	14.8	26.3	14.4		
PV of PPG external debt (in Million of US dollars)			8758.6	9310.3	10059.8	10516.7	11142.9	11836.2	12142.1	11913.4	10376.4	6085.5		
(PVt-PVt-1)/GDPt-1 (in percent)				3.8	5.0	3.1	4.0	4.0	1.5	-1.0	-1.7	-0.5		
Non-interest current account deficit that stabilizes debt ratio	-10.1	37.1	17.7	12.9	22.1	29.2	42.3	46.8	43.2	39.2	3.0	-3.4		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

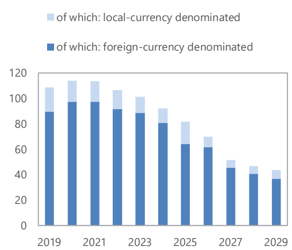
Table 2. Mozambique: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–2039

(In percent of GDP, unless otherwise indicated)

	Actual			Projections									Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2029	2039	Historical	Projections
Public sector debt 1/	**126.9**	**106.6**	**110.0**	**108.4**	**113.7**	**113.1**	**106.2**	**101.1**	**91.9**	**81.7**	**43.6**	**18.1**	**69.6**	**84.3**
of which: external debt	**104.3**	**87.4**	**92.4**	**89.4**	**97.1**	**97.4**	**91.4**	**88.3**	**80.8**	**72.6**	**36.8**	**11.2**	**59.4**	**72.9**
				19.0	16.6	15.7	14.8	12.9	11.1	9.1	6.8	6.9		
Change in public sector debt	39.5	-20.3	3.5	-1.6	5.3	-0.7	-6.9	-5.0	-9.3	-10.2	-3.1	-3.2		
Identified debt-creating flows	**27.3**	**-25.9**	**4.1**	**-5.0**	**7.6**	**-3.1**	**-10.5**	**-9.5**	**-11.5**	**-10.9**	**-4.4**	**-13.4**	**-14.1**	**-6.9**
Primary deficit	**1.8**	**0.0**	**2.3**	**-3.3**	**2.4**	**0.8**	**0.1**	**-1.6**	**-1.8**	**-2.6**	**-4.1**	**-13.4**	**-14.7**	**-1.8**
Revenue and grants	23.9	27.1	26.0	30.4	28.3	29.5	29.4	29.4	26.7	25.7	21.9	34.6	**25.9**	**26.5**
of which: grants	1.9	1.9	2.0	1.0	6.2	5.0	4.0	3.3	1.9	1.6	0.8	0.2		
Primary (noninterest) expenditure	25.7	27.0	28.3	27.2	30.7	30.3	29.6	27.8	24.9	23.1	17.9	21.2	**11.2**	**24.6**
Automatic debt dynamics	**25.5**	**-25.9**	**1.7**	**-1.7**	**5.2**	**-3.9**	**-10.7**	**-7.9**	**-9.7**	**-8.3**	**-0.4**	**0.0**		
Contribution from interest rate/growth differential	-2.9	-3.5	-1.4	-1.9	-2.0	-4.5	-3.8	-7.9	-9.6	-8.3	-0.3	0.0		
of which: contribution from average real interest rate	0.3	1.1	2.1	0.5	0.3	0.6	0.5	0.5	0.4	0.9	0.9	0.4		
of which: contribution from real GDP growth	-3.2	-4.6	-3.5	-2.4	-2.3	-5.1	-4.3	-8.4	-10.0	-9.2	-1.2	-0.4		
Contribution from real exchange rate depreciation	28.4	-22.4	3.1	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**12.2**	**5.5**	**-0.6**	**3.5**	**4.9**	**3.0**	**-3.3**	**4.5**	**2.1**	**0.7**	**1.3**	**10.2**	**21.8**	**0.8**
Sustainability indicators														
PV of public debt-to-GDP ratio 2/	**...**	**...**	**78.4**	**80.9**	**85.9**	**84.0**	**78.0**	**73.5**	**66.1**	**56.6**	**33.1**	**15.7**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**301.7**	**265.6**	**303.9**	**285.2**	**264.9**	**249.7**	**247.0**	**220.2**	**150.8**	**45.3**		
Debt service-to-revenue and grants ratio 3/	**22.6**	**25.1**	**31.7**	**31.9**	**37.0**	**37.7**	**33.5**	**28.8**	**28.7**	**28.9**	**25.9**	**11.0**		
Gross financing need 4/	4.5	3.4	10.6	8.0	13.5	12.5	10.5	7.3	6.0	5.0	1.7	-9.6		
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	3.8	3.7	3.4	2.2	2.2	4.7	4.0	8.6	11.0	11.2	2.7	2.0	**6.0**	**7.6**
Average nominal interest rate on external debt (in percent)	1.9	2.5	2.5	1.7	1.2	1.3	1.3	1.5	1.6	2.5	3.3	2.2	**1.3**	**2.1**
Average real interest rate on domestic debt (in percent)	-2.6	-1.4	9.0	6.1	6.6	7.3	7.2	6.0	5.5	5.5	6.6	6.1	**3.1**	**6.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	38.2	-22.0	3.7	...	...	...	...	...	...	...	...	...	**7.3**	**...**
Inflation rate (GDP deflator, in percent)	13.7	7.6	2.1	3.4	6.0	5.6	5.5	6.4	6.8	6.7	5.3	5.2	**5.1**	**6.0**
Growth of real primary spending (deflated by GDP deflator, in percent)	-14.2	9.0	8.5	-2.0	15.5	3.3	1.6	2.2	-0.6	2.9	3.2	5.0	**1.1**	**3.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-37.7	20.3	-1.1	-1.7	-2.9	1.5	7.1	3.4	7.5	7.6	-1.0	-10.2	**-6.2**	**4.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

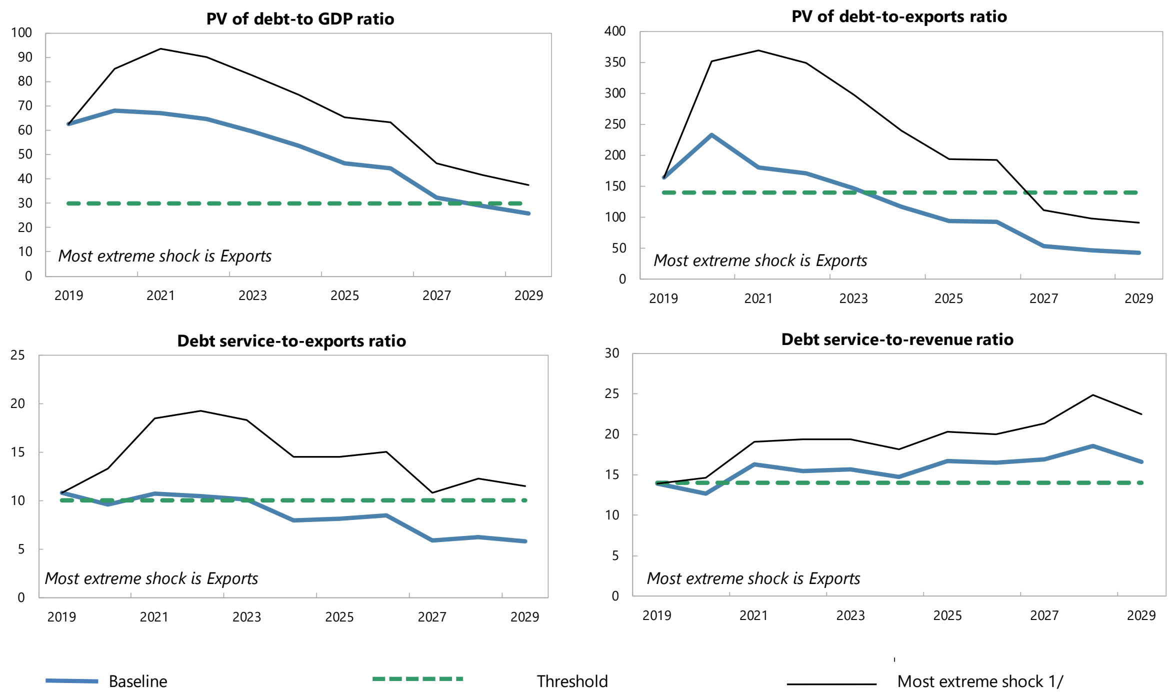
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Mozambique: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2019–2029



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	No	No
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	24
Avg. grace period	10	6

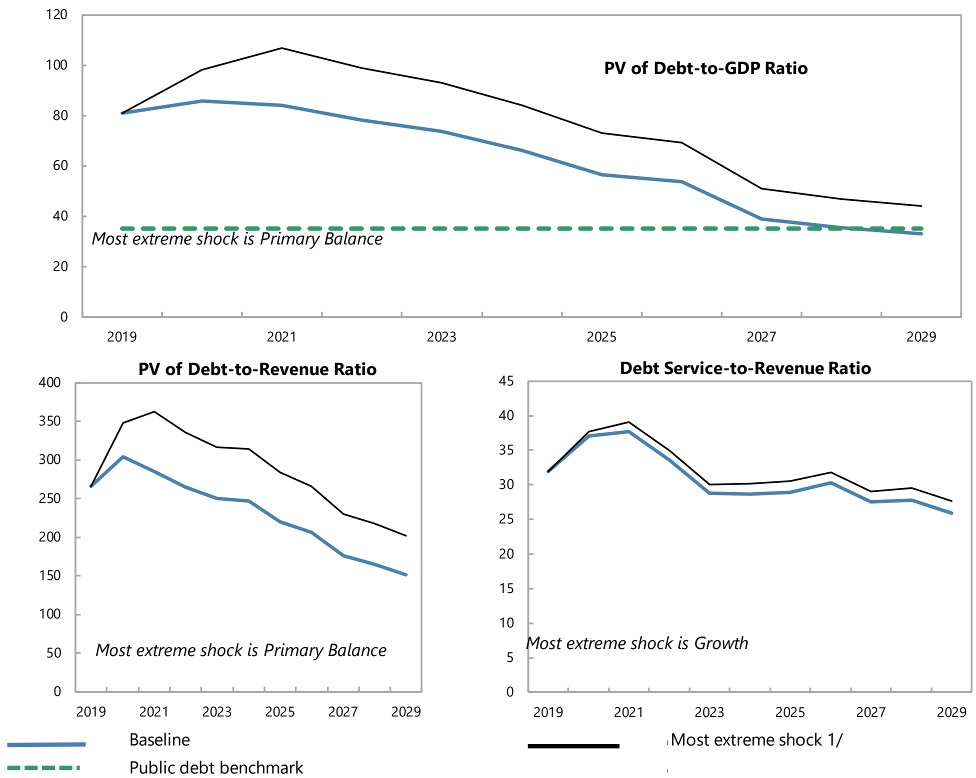
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Mozambique: Indicators of Public Debt Under Alternative Scenarios, 2019–2029



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	53%	99%
Domestic medium and long-term	36%	1%
Domestic short-term	11%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
Avg. maturity (incl. grace period)	30	24
Avg. grace period	10	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.1%	10.7%
Avg. maturity (incl. grace period)	4	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	3%	12.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Mozambique: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029

(In percent)

	Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	**62.6**	**68.1**	**66.9**	**64.6**	**59.4**	**53.7**	**46.5**	**44.5**	**32.4**	**28.8**	**25.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	62.6	42.3	18.8	-12.4	-43.3	-65.5	-84.5	-96.8	-71.7	-53.9	-30.8
B. Bound Tests											
B1. Real GDP growth	62.6	69.9	70.4	68.0	62.5	56.6	48.9	46.8	34.2	30.3	27.2
B2. Primary balance	62.6	78.2	87.0	83.3	76.2	69.1	60.5	58.4	43.1	38.9	35.7
B3. Exports	62.6	85.3	93.4	89.9	82.4	74.7	65.4	63.1	46.4	41.5	37.5
B4. Other flows 2/	62.6	76.5	83.6	80.5	73.7	66.9	58.6	56.5	41.5	37.1	33.6
B5. One-time 30 percent nominal depreciation	62.6	86.8	70.4	68.2	63.0	56.8	48.5	45.9	33.0	29.0	25.8
B6. Combination of B1-B5	62.6	87.5	85.9	82.8	76.0	68.9	59.9	57.6	42.0	37.4	33.7
C. Tailored Tests											
C1. Combined contingent liabilities	62.6	78.8	77.1	74.0	67.7	61.2	53.3	51.1	37.6	33.7	30.7
C2. Natural disaster	62.6	76.0	74.5	71.8	66.0	59.9	52.3	50.4	37.2	33.5	30.7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio											
Baseline	**164.9**	**233.2**	**180.0**	**171.3**	**146.8**	**117.6**	**93.7**	**92.5**	**53.0**	**46.7**	**42.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	164.9	145.1	50.5	-33.0	-107.0	-143.4	-170.4	-201.4	-117.1	-87.5	-51.0
B. Bound Tests											
B1. Real GDP growth	164.9	233.2	180.0	171.3	146.8	117.6	93.7	92.5	53.0	46.7	42.7
B2. Primary balance	164.9	267.9	234.0	221.0	188.1	151.2	121.9	121.5	70.4	63.2	59.1
B3. Exports	164.9	351.8	368.7	349.6	298.4	239.9	193.4	192.6	111.3	98.8	91.1
B4. Other flows 2/	164.9	262.3	225.1	213.4	182.2	146.5	118.1	117.7	67.9	60.2	55.6
B5. One-time 30 percent nominal depreciation	164.9	233.2	148.5	141.8	122.0	97.5	76.7	74.9	42.3	37.0	33.4
B6. Combination of B1-B5	164.9	306.5	200.7	240.7	205.8	165.2	132.5	131.4	75.2	66.5	61.0
C. Tailored Tests											
C1. Combined contingent liabilities	164.9	270.2	207.4	196.1	167.2	134.0	107.4	106.4	61.4	54.8	50.8
C2. Natural disaster	164.9	268.8	207.1	196.6	168.4	135.4	108.9	108.3	62.8	56.2	52.4
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	**10.8**	**9.6**	**10.7**	**10.4**	**10.1**	**8.0**	**8.1**	**8.4**	**5.8**	**6.2**	**5.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	10.8	9.3	8.9	7.4	6.2	3.3	4.0	3.6	1.5	1.7	-1.4
B. Bound Tests											
B1. Real GDP growth	10.8	9.6	10.7	10.4	10.1	8.0	8.1	8.4	5.8	6.2	5.8
B2. Primary balance	10.8	9.5	11.4	11.9	11.2	8.9	8.9	9.1	6.8	7.6	7.2
B3. Exports	10.8	13.3	18.5	19.2	18.3	14.5	14.5	15.0	10.8	12.2	11.5
B4. Other flows 2/	10.8	9.6	11.4	11.7	11.1	8.8	8.8	9.1	6.7	7.5	7.0
B5. One-time 30 percent nominal depreciation	10.8	9.6	10.7	9.6	9.4	7.4	7.6	8.0	5.6	5.3	4.9
B6. Combination of B1-B5	10.8	11.2	14.4	13.9	13.3	10.5	10.6	11.0	8.2	8.5	8.0
C. Tailored Tests											
C1. Combined contingent liabilities	10.8	9.5	11.5	11.1	10.6	8.4	8.5	8.8	6.0	6.4	6.0
C2. Natural disaster	10.8	9.9	11.7	11.4	10.9	8.6	8.7	9.1	6.3	6.7	6.2
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
Debt service-to-revenue ratio											
Baseline	**13.9**	**12.7**	**16.3**	**15.5**	**15.7**	**14.7**	**16.7**	**16.5**	**16.9**	**18.5**	**16.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	13.9	12.3	13.5	11.0	9.7	6.0	8.2	7.0	4.4	5.1	-4.1
B. Bound Tests											
B1. Real GDP growth	13.9	13.0	17.1	16.3	16.5	15.5	17.6	17.3	17.8	19.5	17.4
B2. Primary balance	13.9	12.5	17.4	17.6	17.4	16.4	18.2	17.7	19.6	22.7	20.5
B3. Exports	13.9	14.7	19.1	19.4	19.4	18.2	20.3	20.0	21.4	24.9	22.4
B4. Other flows 2/	13.9	12.7	17.3	17.3	17.3	16.2	18.1	17.8	19.4	22.3	20.0
B5. One-time 30 percent nominal depreciation	13.9	16.2	20.8	18.1	18.5	17.4	20.0	19.8	20.5	20.3	18.0
B6. Combination of B1-B5	13.9	14.4	20.0	18.8	18.9	17.7	20.0	19.7	21.7	23.3	20.9
C. Tailored Tests											
C1. Combined contingent liabilities	13.9	12.5	17.4	16.5	16.5	15.5	17.4	17.1	17.5	19.1	17.1
C2. Natural disaster	13.9	12.5	17.0	16.1	16.2	15.2	17.2	16.9	17.4	19.0	17.0
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

Table 4. Mozambique: Sensitivity Analysis for Key Indicators of Public Debt, 2019–2029

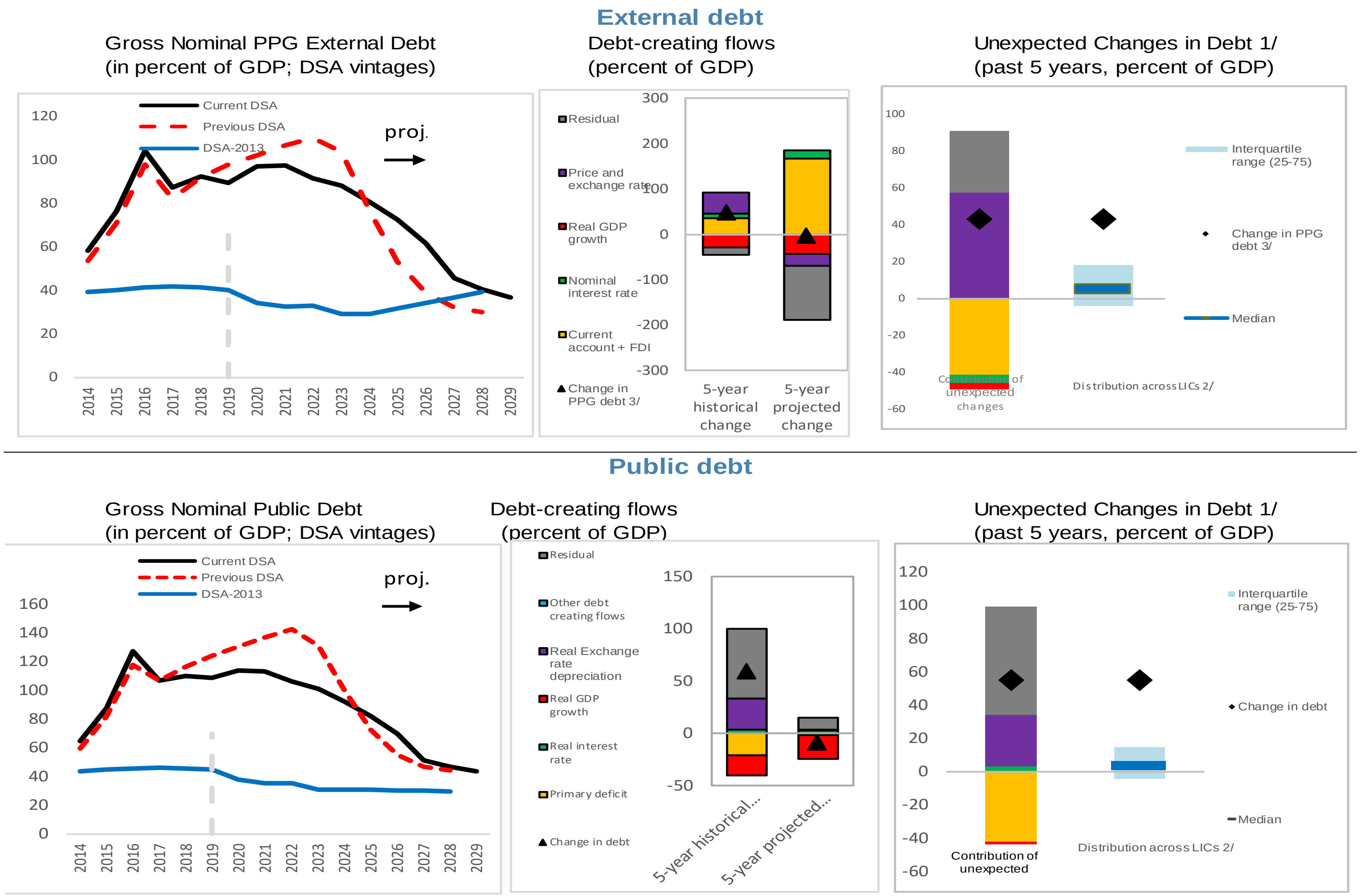
	Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	PV of Debt-to-GDP Ratio										
Baseline	**80.9**	**85.9**	**84.0**	**78.0**	**73.5**	**66.1**	**56.6**	**53.7**	**38.9**	**35.4**	**33.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	81	72	59	44	33	22	8	-4	-15	-24	-32
B. Bound Tests											
B1. Real GDP growth	81	93	94	88	84	76	67	64	47	44	42
B2. Primary balance	81	98	107	99	93	84	73	69	51	47	44
B3. Exports	81	92	100	93	88	79	69	66	48	44	41
B4. Other flows 2/	81	95	101	94	88	80	69	66	48	44	41
B5. One-time 30 percent nominal depreciation	81	100	95	85	78	68	57	55	39	34	31
B6. Combination of B1-B5	81	92	91	77	73	66	56	53	39	35	33
C. Tailored Tests											
C1. Combined contingent liabilities	81	99	97	90	84	76	66	62	45	42	39
C2. Natural disaster	81	96	94	88	83	75	65	61	45	41	39
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
	PV of Debt-to-Revenue Ratio										
Baseline	**265.6**	**303.9**	**285.2**	**264.9**	**249.7**	**247.0**	**220.2**	**206.1**	**176.2**	**164.6**	**150.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	266	256	201	149	113	81	31	-16	-65	-110	-146
B. Bound Tests											
B1. Real GDP growth	266	326	316	297	284	284	258	244	214	205	193
B2. Primary balance	266	348	362	336	316	314	283	266	230	218	201
B3. Exports	266	325	341	316	298	296	267	252	217	203	186
B4. Other flows 2/	266	334	343	318	299	297	268	253	218	204	187
B5. One-time 30 percent nominal depreciation	266	358	326	293	268	258	224	211	176	160	141
B6. Combination of B1-B5	266	328	311	264	249	247	220	204	174	163	149
C. Tailored Tests											
C1. Combined contingent liabilities	266	350	328	305	287	284	255	238	205	193	179
C2. Natural disaster	266	340	320	298	282	280	252	236	204	193	179
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	**31.9**	**37.0**	**37.7**	**33.5**	**28.8**	**28.7**	**28.9**	**30.3**	**27.5**	**27.8**	**25.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	32	36	35	30	25	25	26	26	26	23	18
B. Bound Tests											
B1. Real GDP growth	32	38	39	35	30	30	30	32	29	30	28
B2. Primary balance	32	37	39	35	31	31	30	31	30	32	30
B3. Exports	32	37	38	35	30	30	30	32	29	31	29
B4. Other flows 2/	32	37	38	35	30	30	30	32	30	31	29
B5. One-time 30 percent nominal depreciation	32	36	38	34	30	29	30	31	28	29	26
B6. Combination of B1-B5	32	36	37	33	28	28	28	30	27	27	25
C. Tailored Tests											
C1. Combined contingent liabilities	32	37	39	34	30	29	30	31	28	28	26
C2. Natural disaster	32	37	39	34	30	30	30	31	28	29	27
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Figure 3. Mozambique: Drivers of Debt Dynamics – Baseline Scenario



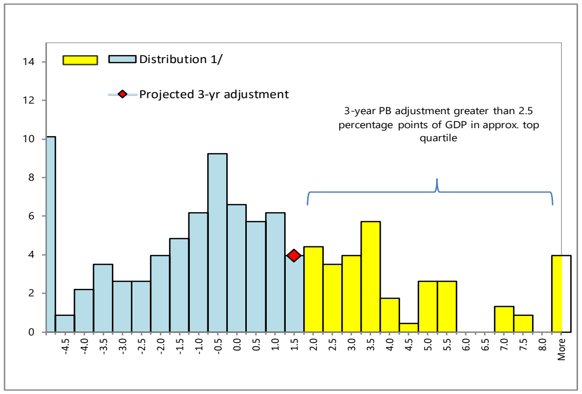
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

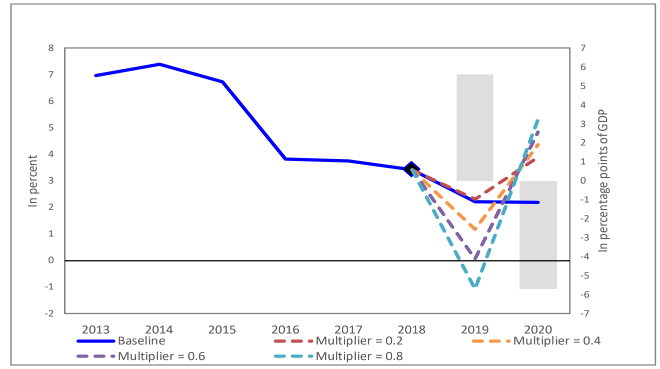
Figure 4. Mozambique: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



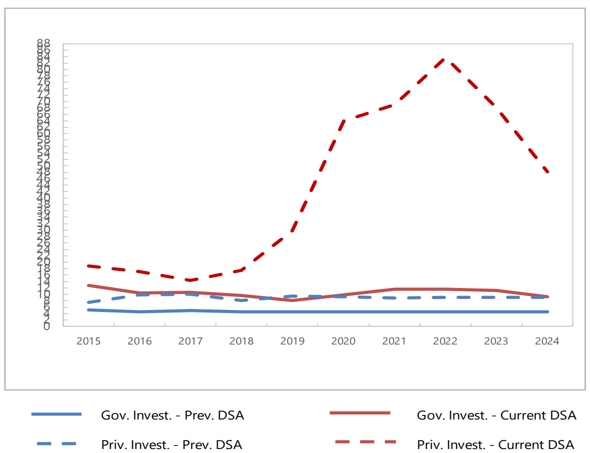
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

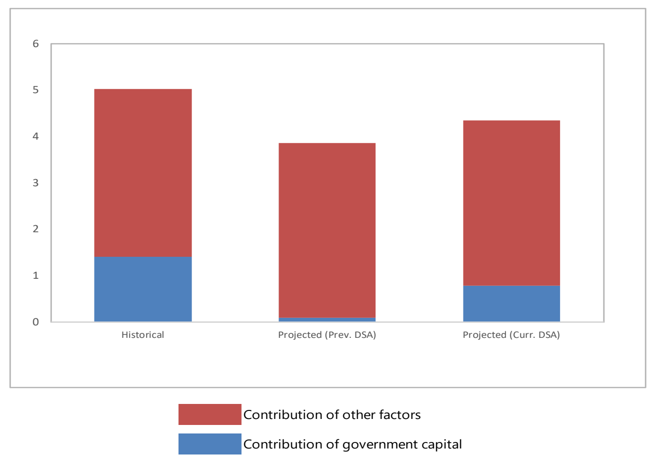


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)



Statement by Mr. Dumisani Hebert Mahlinza, Executive Director for Mozambique and Mr. Jorge Essuvi, Advisor to Executive Director
April 24, 2020

I. Introduction

1. Our Mozambican authorities thank management and staff for their timely response to the request for emergency financial assistance under the Rapid Credit Facility (RCF) to help meet urgent balance of payment (BOP) needs created by the COVID-19 pandemic. They consider the RCF important to catalyze grant and concessional financing from development partners to help contain the spread of the pandemic.

2. The impact of the pandemic on Mozambique has been severe. It has dampened economic prospects and stalled the nascent recovery from the devastating impact of two tropical cyclones that hit the country in 2019. Considering the urgent BOP needs arising from COVID-19, the authorities request emergency financing from the Fund in the amount of SDR 227.2 million (100 percent of the quota).

II. Impact of the COVID-19 Pandemic

3. The global pandemic has heightened uncertainty, with negative repercussions to the Mozambican economy. As a result, economic growth is expected to decline by 1.8 percentage points to 2.2 percent in 2020 reflecting the negative impact of the crisis on the agriculture, manufacturing, tourism and mining sectors. In turn, the contraction in economic activity and associated declines in tax revenue, will worsen the overall fiscal balance from -0.2 percent of GDP to -5.6 percent in 2020. On the external front, the decline in international commodity prices is expected to depress export earnings and widen the current account deficit to 63.3 percent of GDP from 20.7 percent in 2019.

4. To tackle the effects of COVID-19, the authorities expect disbursements from donors estimated at $491 million compared to an estimated total financing need of $700 million. The authorities have also received support from the World Bank, AfDB, Islamic Development Bank and others development partners. Most of the assistance from development partners will be in the form of budget support, hence the need to strengthen public financial management and controls. In this respect, the authorities are committed to ensuring effective and transparent use of donor resources. They will undertake an audit of crisis-mitigation spending and related procurement processes once the crisis abates and publish the results of the audit.

III. Policy Response to the Pandemic

5. To contain the pandemic and support the economy, the authorities have responded swiftly and forcefully through measures articulated in their COVID-19 National Prevention Plan. Key mitigation measures include the closure of national borders,

schools, bars and restaurants, and restrictions to international flights. Further, the government is scaling up health expenditures to strengthen tracking and testing capacity. The authorities acknowledge that the financing gap created by the pandemic has placed a significant strain on the economy and they intend to continue to work closely with their development partners to secure the health of the people of Mozambique.

6. On the fiscal front, the authorities have re-allocated resources from the current budget to finance increased health sector spending. Measures adopted thus far include: i) increased spending on epidemic prevention and treatment; and ii) investments in new hospitals. In addition, to provide relief to local businesses they are offering tax relief, suspending government fees and waiving social contributions. They are also supporting households through cash transfers to the most vulnerable segments of the population and providing financial support to micro, small and medium enterprises.

7. On monetary policy, the authorities remain committed to cautious normalization of monetary policy and safeguarding financial stability. To this end, the *Banco de Moçambique* (BM) has announced several measures to reassure markets and build confidence through the provision of liquidity, while preserving the stability of the financial system. Specific measures include lowering reserve requirements by 150 basis points for both domestic and foreign currency to free-up liquidity in the banking sector. In addition, the central bank opened a $500 million foreign currency credit facility for commercial banks. Moreover, some regulatory provisions in the banking system have been relaxed. Further, the BM stands ready to intervene to smoothen disorderly market conditions and remains committed to exchange rate flexibility.

IV. Post-Pandemic Policy Measures

8. The authorities remain committed to safeguarding macroeconomic stability and fostering economic growth. They are determined to eliminate the primary fiscal deficit after grants by 2023 through a combination of revenue enhancing and spending rationalization measures to ensure fiscal and debt sustainability. In addition, they will continue to calibrate the policy mix to anchor inflationary expectations, preserve exchange rate flexibility, and improve financial sector resilience.

9. While Mozambique has been assessed to be in debt distress, staff's assessment confirms that debt is sustainable in a forward-looking sense. The authorities expect substantial revenue from state participation in the sizable liquified natural gas (LNG) development, starting in 2023. Further, they are committed to fiscal consolidation to bring debt to moderate levels over time as well as strengthening debt management capacities to ensure effective oversight over the entire debt portfolio.

10. The authorities are committed to strengthen governance, in line with the recommendations of the Government's Diagnostics Report published in August 2019. To this end, they intend to intensify efforts to enforce existing laws aimed at fighting corruption and reinforce the rule of law with IMF technical assistance. At the same time, the Attorney General's Office will continue to work cooperatively with bilateral partners

to expedite the ongoing investigations related to the undisclosed loans. Similarly, the authorities intend to prepare and submit to Parliament a Law to permit recovery of assets related to corruption practices.

V. Conclusion

11. The Mozambican authorities greatly appreciate the provision of debt relief under the Catastrophe Containment Relief Trust (CCRT). They remain committed to pursuing policies geared at preserving macroeconomic stability. Fund assistance under the RCF would be important to complement fiscal space created by debt relief and help cushion the economy and pave the way for a potential ECF program.