

IMF Executive Board Concludes 2009 Article IV Consultation with Mozambique

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On June 30, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mozambique.¹

Background

Mozambique has continued its record of strong macroeconomic performance since the mid-1990s and its performance compares well with other countries in the region. Output growth in Mozambique over the past decade averaged almost 8 percent. Growth has been sustained by investment financed by large aid and private capital inflows, mainly into the natural resource sector. It has also been sustained by a strong trade sector—merchandise exports' share of Gross Domestic Product (GDP) more than tripled to nearly 30 percent of GDP, eliminating a trade deficit of about 30 percent of GDP.

However, even before the current global crisis, growth had been weakening, with projections about 1 percentage point lower than in the past decade. In recent years, these flows contributed to an appreciation of currency in real effective terms. Growth has also been unevenly distributed and a recent survey suggests that poverty may have increased in recent years, particularly in rural areas.

Against a backdrop of a highly uncertain global economic environment, Mozambique's macroeconomic prospects remain positive, but have weakened. Mozambique's growth in 2009 could fall several percentage points below trend. In view of the World Economic Outlook projections for a slow global recovery, growth is projected to strengthen in 2010, but will probably remain below 6 percent until 2011. Similarly, the external overall balance is projected to turn negative in both 2009; before returning positive in 2011 and stabilizing external reserves around 3.4 months of imports.

The scope for supportive macroeconomic policies to offset the impact of the global economic slowdown is curtailed by the large projected decline in external reserves. Most of the deterioration in the external overall balance is the direct result of the external shock; the fiscal expansion is estimated to account for only US\$42 million of the reserve loss in 2009 through higher import demand.

Executive Board Assessment

Executive Directors welcomed Mozambique's continued strong macroeconomic performance in 2008, despite a challenging external environment. Directors commended the authorities' flexible policy response to higher fuel and food import prices, which helped to mitigate the impact of these shocks. Looking forward, they noted that Mozambique remains vulnerable to the global economic slowdown and encouraged the authorities to monitor international and domestic developments closely.

Directors agreed that Mozambique's strong track record of prudent macroeconomic policy implementation has provided room to ease fiscal and monetary policy in the near-term, while remaining within its prudent medium-term strategy. In this context, they welcomed the authorities' commitment to expenditure restraint in the approach to elections, and encouraged them to protect the most vulnerable from the consequences of the economic crisis.

In the medium-term, Directors underscored the importance of further strengthening

macroeconomic stability, and supported efforts to enhance domestic revenue mobilization and to improve public financial management. Recourse to domestic budget financing should be avoided so as to provide room for credit to the private sector. Monetary policy should aim to keep inflation low. Directors welcomed steps to strengthen monetary policy formulation and implementation. They encouraged the authorities to intensify their efforts to diversify the sources of growth and to accelerate structural reforms to boost Mozambique's competitiveness, promote investment, and improve financial intermediation. Directors took note of the staff's assessment that Mozambique's currency is overvalued in real effective terms, while recognizing the methodological constraints affecting this evaluation, particularly in the context of an economy undergoing significant structural changes, and emphasized the potentially adverse impact this could have on competitiveness and economic diversification. They encouraged the authorities to fulfill their commitment to exchange rate flexibility.

Directors commended the authorities on Mozambique's continued advances on its structural reform agenda. They welcomed the progress in strengthening fiscal and monetary operations and called for urgent and rigorous reforms to strengthen the private sector and reduce the costs of doing business. Directors were encouraged by the authorities' efforts to improve governance including the development of anti-corruption policies and by Mozambique's formal acceptance by the Extractive Industries' Transparency Initiative Board.

Directors welcomed the Financial Sector Assessment Program Update's finding that Mozambique has made significant progress towards developing and strengthening the financial sector and improving banking operations. They also welcomed the authorities' commitment to move ahead quickly to assess and finalize an action plan to implement the FSAP Update's recommendations, including strengthening risk monitoring, home-host cooperation on banking supervision, and crisis management arrangements.

Directors welcomed the authorities' intention to accept the obligations under Article VIII.

Table 1. Mozambique: Selected Economic and Financial Indicators, 2007–10

	2007	2008	2009	2010
	Act.	Est.	Proj.	Proj.
	<ul style="list-style-type: none"> (Annual percentage change, unless otherwise indicated) 			
Nominal GDP (billions of MT)	208	239	261	288
Nominal GDP growth	15.4	15.0	9.1	10.2
Real GDP growth	7.4	6.8	4.3	5.0
GDP per capita (U.S. dollars)	398	477	440	445
Consumer price index (annual average)	8.2	10.3	6.1	5.6
Consumer price index (end of period)	10.3	6.2	5.8	5.7

External sector				
Merchandise exports	1.3	10.0	-29.3	25.7
Merchandise exports, excluding megaprojects	-17.9	41.1	-14.7	6.2
Merchandise imports	4.8	23.0	-3.5	-1.8
Merchandise imports, excluding megaprojects	4.7	26.9	-11.6	14.1
Terms of trade	4.2	-15.5	-21.2	6.4
Nominal effective exchange rate (end of period) ¹	2.2	22.5
Real effective exchange rate (end of period) ¹	6.5	24.3

(Annual changes in percent of beginning-of-period stock of money-M3, unless otherwise indicated)

Money and credit ²				
Net foreign assets	11.8	4.0	-0.1	...
Net domestic assets	13.4	16.3	15.1	...
<i>Of which:</i> net credit to the government ³	3.0	-2.5	5.8	...
credit to the economy	6.5	21.1	15.6	...
Broad money-M3 (12-month percent change)	25.2	20.3	15.0	...
M2 (12-month percent change)	23.0	26.0	15.8	...
Velocity (GDP/M2)	4.9	4.4	4.2	...
Interest rate for 90-day treasury bills (percent; end of period)	14.8	14.0

(Percent of GDP)

Investment and saving

Gross domestic investment	17.9	18.5	21.9	22.7
Government	11.7	11.6	15.6	16.8
Other sectors	6.2	6.9	6.3	5.9
Gross domestic savings (excluding grants)	-1.5	-1.9	-1.1	-0.5
Government	0.6	0.3	-1.0	-0.6
Other sectors	-2.1	-2.2	-0.1	0.1
Current account, before grants	-19.4	-20.4	-22.9	-23.2
Government budget				
Total revenue	15.9	16.0	15.7	16.0
Total expenditure and net lending	28.1	27.9	33.1	34.4
Overall balance, before grants	-13.1	-11.6	-17.4	-18.4
Total grants	9.3	9.5	11.8	14.0
Overall balance, after grants	-3.8	-2.2	-5.6	-4.3
Domestic primary balance	-3.4	-3.1	-5.6	-5.2
External financing (incl. debt relief) ³	3.6	4.0	3.4	3.5
Net domestic financing ⁴	0.2	-1.9	1.8	0.8

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

External current account, before grants	-1,576	-2,021	-2,135	-2,229
Overall balance of payments	136	159	-223	-146
Net international reserves (end of period)	1,508	1,644	1,421	1,275
Gross international reserves (end of period)	1,520	1,660	1,440	1,294
In months of imports of goods and nonfactor services	4.7	4.4	3.9	3.6

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

¹ Minus sign indicates depreciation.

² Data from 2008 onwards based on data following technical revisions to monetary survey finalized in January 2008.

³ Includes movement in the government account set abroad with the proceed of the Moatize coal mine concession.

⁴ Includes World Bank disbursement of 2009 budget support in 2008.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.