Statement at the End of an IMF Mission to Mozambique

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An International Monetary Fund (IMF) team, led by Doris Ross, visited Mozambique during October 16-30, 2013, to hold discussions towards the first review under the three-year Policy Support Instrument (PSI) approved in June 2013 (see Press Release 13/231). The team met with the Prime Minister, Hon. Alberto Vaquina, and held policy discussions with the Minister of Finance, Hon. Manuel Chang; the Minister of Planning and Development, Hon. Aiuba Cuereneia; the Governor of the Bank of Mozambique, Hon. Ernesto Gouveia Gove, several line ministers and other senior government officials. It also met with the President of the parliamentary Budget Commission, Hon. Eneas Comiche, as well as representatives from the private sector, civil society, and development partners. The mission also met with the Governor of the Nampula Province, Hon. Cidália Manuel Chaúque, to understand the development challenges affecting the region, and visited the Nacala Special Economic Zone to better understand the challenges of implementing large infrastructure projects and the progress in attracting private companies that can boost economic growth and employment in the region.

Ms. Ross issued the following statement in Maputo at the conclusion of the visit:

"Mozambique's economy remains buoyant and recovered quickly from the severe floods in early 2013. Growth is projected to reach 7 percent this year and to accelerate to 8.3 percent in 2014, supported by high levels of activity in extractive industries, financial services, transport and communications. Following an acceleration of inflation in the first quarter of the year, inflationary pressures abated due to the recovery of domestic agricultural production after the floods and the appreciation of the metical vis-à-vis the Rand. As a result, end-year inflation is likely to remain below the Central Bank's medium-term target of

5–6 percent. The external current account deficit is projected to reach 43 percent of GDP in 2013 due to the sustained increase in imports associated with the large investment projects, and will be financed mostly by foreign direct investment (FDI). Regarding government operations, domestic primary operations are projected to balance in 2013, supported by windfall capital gains tax receipts of over 4 percent of GDP, but are projected to turn into a deficit in 2014.

"With respect to program objectives, performance through end-June remains broadly satisfactory. Most quantitative targets for end-June 2013 were met, and all end-September indicative targets are likely to have been met. Progress on key structural reforms has continued, but with some delays. The team discussed recent work to improve the public investment management system and suggested that greater efforts will be needed to align and link public investment projects and foreign borrowing with declared policy priorities, the government budget document, and the underlying debt sustainability analysis.

"Mozambique is likely to remain one of the most dynamic economies in Sub-Saharan Africa, in part thanks to the expected natural resource boom. Within this context, it will be important to continue the focus on policies that attract investment in other sectors of the economy, including in particular agriculture, where 80 percent of the Mozambican population makes a living. This will help to ensure greater economic diversification and to share the benefits of growth more broadly, in line with the authorities' development priorities and poverty reduction strategy. Efforts to strengthen the fiscal framework well ahead of the inflow of natural resource revenues (tentatively expected for the end of the decade) will also be important. In this regard, the team advised that revenue windfalls be reserved to build buffers to help smooth spending on investment in infrastructure, health and education (within implementation capacity constraints), and for debt reduction.

"Regarding economic policies and the draft budget for 2014, the team supported the authorities' objective to enhance revenue collections and increase investment in infrastructure and social sectors further, while stepping up efforts to ensure the efficiency of the high level of public investment. Furthermore, the team advised against financing increases in current spending (especially wages and salaries) with one-off receipts, and suggested prudence in expanding public spending on goods and services. The team welcomed the authorities' plans to clear the backlog of VAT refund requests and reduce delays in VAT reimbursements which serve as a constraint on private sector activity.

"The team recommended the inclusion of government guarantees and other sources of fiscal risk in the budget document, the investment planning instruments and the debt management framework, in line with international best practices. It advised that possible non-commercial activities associated with a recently established public sector company for tuna fishing (EMATUM), which issued an $850 million Eurobond in September, be included in the 2014 budget and transparently reflected in the fiscal accounts.

"The team supported the Bank of Mozambique's continued efforts to create room for private sector credit, contain inflation, and improve inflation forecasting and monetary policy transmission mechanisms. Going forward, it will be important to dampen the rise of monetary aggregates, and closely monitor inflation developments given the relatively expansionary fiscal stance. It will also be important to reduce structural impediments to bank lending, particularly to small and medium-size enterprises, including the creditworthiness of such enterprises, the use of collateral and judicial reforms.

"The team also urged the authorities to continue to improve the business climate to allow the private sector to create employment opportunities for the large number of new entrants to the labor force each year.

"The mission would like to thank the authorities for the constructive policy discussions and outstanding hospitality."

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