MOZAMBIQUE

Table 1	2022
Population, million	33.0
GDP, current US$ billion	17.9
GDP per capita, current US$	543.5
International poverty rate ($2.15)[a]	64.6
Lower middle-income poverty rate ($3.65)[a]	83.1
Gini index[a]	54.0
School enrollment, primary (% gross)[b]	118.4
Life expectancy at birth, years[b]	61.2
Total GHG emissions (mtCO2e)	109.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ Most recent WDI value (2020).

Economic recovery has strengthened, growth reached 4.1 percent in 2022, driven by strong export performance and services, as mobility fully resumed. Growth is expected to accelerate further in the medium term, supported by liquefied natural gas (LNG) production and good agricultural performance. As a result, poverty is projected to fall from 64.3 percent in 2022 to 60.6 percent by 2025. However, medium-term prospects are subject to substantial downside risks, including Russia's invasion of Ukraine, natural hazards, and conflict in the north.

Key conditions and challenges

Economic growth slowed down in recent years owing to multiple shocks, including the hidden debt crisis, the escalation of insurgency in northern Mozambique, tropical cyclones, and the COVID-19 pandemic. The country is endowed with rich natural resources, but widespread poverty and inequality, vulnerability to climate shocks, and fragility and conflict pose substantial development challenges. The economy's dual focus on labor-intensive, low-productivity agriculture and capital-intensive extractives, with weak sectoral links, constraints inclusive development. About two thirds of the population remain poor, and inequality is among the highest in Sub-Saharan Africa.

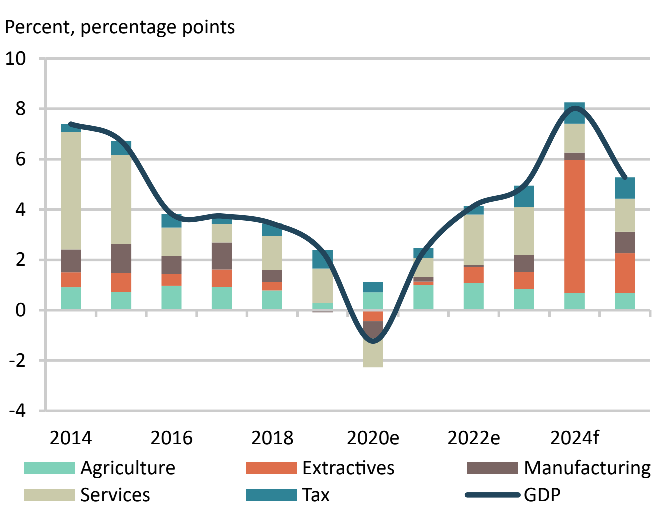
With over half a million people entering the labor force but only 25,000 new formal jobs each year, creating more and better jobs is a pressing need for Mozambique. However, the private sector's potential to create jobs and transform the economy is hampered by regulatory bottlenecks, large infrastructure deficits, and the high cost of credit. Lending interest rates in Mozambique are among the highest in Sub-Saharan Africa, reflecting a thin financial sector, rising government domestic borrowing, and high credit risks. The global economic slowdown and elevated inflation led to a further rise in the cost of credit, limiting growth opportunities outside extractives. Mozambique is at high risk of debt distress, with the country lacking access to international capital markets, and concessional financing remains limited. The government's capacity to finance development is heavily constrained, worsened by wage, pension, and debt-service costs that absorb 90 percent of total revenues.

Mozambique needs to diversify its sources of growth and jobs. Sustained, broad-based, and inclusive growth will require raising agricultural productivity and accelerating economic transformation by bolstering the services sector and strengthening intersectoral links. Policy priorities include enhancing macroeconomic stability, improving governance, strengthening resilience to shocks, and leveraging private sector potential. In the short to medium term, Mozambique needs to improve the business environment, expand private financing, and enhance labor market performance. Supporting access to skilled labor requires alleviating restrictions on the recruitment of foreign labor and encouraging knowledge transfer programs.

Recent developments

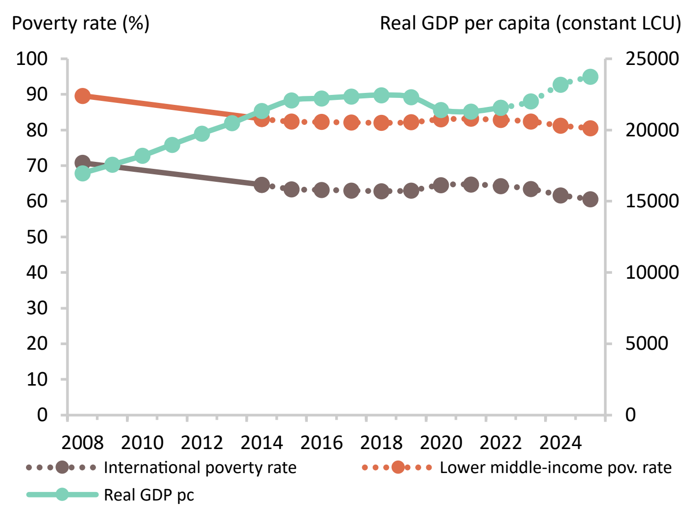
The economy is recovering from the pandemic, with growth increasing from 2.3 percent in 2021 to 4.1 percent in 2022. Services and agriculture performed well, thanks to higher farm productivity and the full resumption of mobility. Increased external demand and prices for Mozambique's key export commodities (notably, coal and aluminum) have supported the recovery further. However, inflation hit a five-year high as global fuel and food

FIGURE 1 Mozambique / Real GDP growth and contributions to real GDP growth



Source: World Bank estimates.

FIGURE 2 Mozambique / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

prices surged, and adverse weather reduced domestic food production, disproportionally affecting the poor. In response to the inflation hike, the Bank of Mozambique raised policy interest rates by 400 basis points to 17.3 percent in 2022. The nominal and real effective exchange rates remained stable, reflecting a comfortable supply of foreign currency. Low per capita income growth and high inflation have undermined poverty reduction, with the number of poor rising by half a million between 2021 and 2022.

Expenditure pressures persist owing to higher spending associated with ongoing wage bill reforms, debt service, and social transfers. The overall fiscal deficit increased from 4.8 percent of GDP in 2021 to 5.9 percent in 2022. Revenue performance remains strong thanks to improved income tax collection, and coupled with the under-execution of capital spending and budget support, moderated fiscal pressures. Public debt has been declining, but domestic debt has continued to rise, with the government resorting to the expensive domestic debt market to cover financing needs.

The current account deficit (CAD) increased from an average of 23.6 percent of GDP over 2017-21 to 36 percent in 2022, reflecting LNG equipment imports, and higher fuel and food import bills. The external financing gap was covered by World Bank Development Policy Financing, International Monetary Fund credits, debt, and a drawdown in reserves. Gross international reserves fell from US$3.3 billion in 2021 to US$2.5 billion (equivalent to 3.4 months of non-megaproject imports), as the central bank covered foreign currency needs for fuel imports.

Outlook

Medium-term prospects remain positive, but downside risks are substantial. Real GDP growth is expected to accelerate, averaging 6.2 percent between 2023-2025 as the offshore Coral South LNG terminal reaches full capacity and the Area 1 LNG project resumes. High commodity prices will continue to favor export growth. As international oil prices decline, inflation is also projected to decline, averaging 7.4 percent between 2023 and 2025. Poverty is projected to fall from 64.3 to 63.5 percent between 2022 and 2023. Downside risks, including a protracted war in Ukraine, a continued rise in fuel prices, and natural hazards, could lower medium-term GDP growth to 4.5 percent.

As revenue grows, the fiscal deficit is projected to decline to an average of 3.8 percent between 2023 and 2025. In the short term, revenue increases will be underpinned by collections from LNG resource revenue and increased grants. The fiscal outlook also hinges on successfully implementing the fiscal consolidation program. However, considerable challenges remain, notably the upfront costs of the ongoing wage bill reform and elections in 2024. If the wage bill continues to grow at the current pace, the overall fiscal deficit could reach 5 percent of GDP in the medium term. Unplanned fiscal financing needs will likely be met by domestic financing, adding to the high debt burden. The country will remain at high risk of debt distress, but debt is deemed sustainable in a forward-looking sense.

The CAD is poised to increase, projected at 29.3 percent of GDP in the medium term, as LNG projects advance. Total imports of goods are expected to average 45 percent of GDP over 2023-25, from 30 percent in 2019-21, largely due to LNG-related imports. Gas exports will partly offset this increase. Trade credits and foreign direct investment will continue to be the main financing sources for the CAD. Gross reserves are expected to stay at the equivalent of 4 months of imports, excluding megaprojects.

TABLE 2 Mozambique / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.2	2.3	4.1	5.0	8.3	5.3
Private Consumption	-2.2	17.3	2.9	0.9	13.1	4.4
Government Consumption	-19.1	-7.8	17.2	-18.9	-3.9	-4.0
Gross Fixed Capital Investment	60.9	32.5	-6.4	10.3	2.5	10.5
Exports, Goods and Services	-14.9	23.8	10.2	19.5	4.7	5.1
Imports, Goods and Services	0.0	37.2	1.9	3.3	4.1	5.0
Real GDP growth, at constant factor prices	-1.8	2.3	4.1	5.0	8.3	5.3
Agriculture	3.6	3.7	4.4	4.5	3.4	3.9
Industry	-5.7	1.6	3.8	9.4	33.3	13.0
Services	-2.9	1.9	4.2	3.4	0.5	1.8
Inflation (Consumer Price Index)	3.1	5.7	9.8	7.3	7.5	7.4
Current Account Balance (% of GDP)	-27.4	-22.8	-36.0	-14.5	-34.5	-38.8
Net Foreign Direct Investment Inflow (% of GDP)	21.5	32.2	10.5	18.9	16.9	11.6
Fiscal Balance (% of GDP)[a]	-5.3	-4.8	-5.9	-4.4	-3.7	-3.3
Revenues (% of GDP)	27.7	27.0	28.9	26.8	25.7	26.9
Debt (% of GDP)	118.9	106.4	102.7	101.6	101.2	100.2
Primary Balance (% of GDP)[a]	-2.2	-2.1	-2.4	-1.4	-0.6	-0.6
International poverty rate ($2.15 in 2017 PPP)[b,c]	64.5	64.7	64.3	63.5	61.7	60.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	83.0	83.2	82.9	82.4	81.2	80.5
GHG emissions growth (mtCO2e)	1.0	1.4	0.0	1.0	2.9	2.7
Energy related GHG emissions (% of total)	8.5	9.2	8.7	8.8	10.1	11.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Figure includes once-off capital gains revenues in 2017, estimated at 2.7 percent of GDP.
b/ Calculations based on 2014-IOF. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.