

MOZAMBIQUE

Key conditions and challenges

Table 1 2021

Population, million	32.2
GDP, current US\$ billion	16.1
GDP per capita, current US\$	500.0
International poverty rate (\$1.9) ^a	63.7
Lower middle-income poverty rate (\$3.2) ^a	82.4
Gini index ^a	54.0
School enrollment, primary (% gross) ^b	118.4
Life expectancy at birth, years ^b	60.9
Total GHG Emissions (mtCO ₂ e)	112.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Mozambique's economy recovered moderately in 2021. Growth reached 2.2 percent, driven by agriculture and a gradual rebound in demand. Yet, the poverty rate remains high at 63.5 percent as per capita income declined. The medium-term outlook is positive with growth projected to reach 6 percent in 2023, largely reflecting the start of LNG production. However, considerable uncertainties remain, including from the pandemic, insurgency in the north, and natural disasters.

The economy was already weak when it entered the pandemic. Growth plunged from 8 percent in 1993–2015, to 3 percent in 2016–2019, due to the hidden debt crisis in 2016, the insurgency escalation in Northern Mozambique, and the cyclones in 2019. In 2020, COVID-19 led to a GDP contraction of 1.2 percent, as demand fell and liquified natural gas (LNG) investments were delayed. The pandemic exacerbated pre-existing vulnerabilities stemming from overreliance on large investments in the extractive industry and exports of commodities, with weak domestic linkages. The private sector's potential remains untapped due to weak governance, a difficult business environment, and infrastructure and human capital deficits. Structural transformation has been limited with most jobs remaining in low productivity activities. Despite considerable downside risks—including COVID-19, natural disasters, and insurgency—economic prospects remain positive. Growth is projected to average 5 percent in 2022–2024, driven by developments in the LNG sector. The poverty rate is expected to fall marginally from 63.2 to 61.1 percent between 2022 and 2024, but the number of poor will increase by some 600,000 people due to rapid population growth. Mozambique needs to capitalize on the gains from the economic recovery to

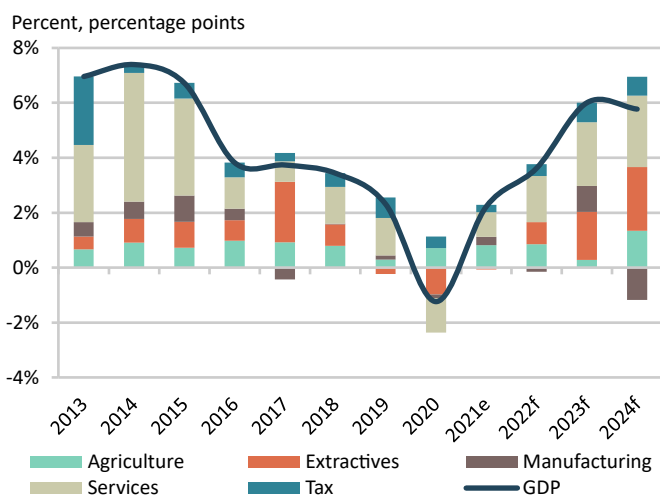
promote inclusive growth. Achieving this requires, among others, investments in infrastructure and social sectors, but the country faces substantial fiscal constraints. The public sector wage bill and debt service absorb about 90 percent of total tax revenues. In addition, significant fiscal revenues from the LNG sector may materialize only in about a decade. Mobilizing additional financing needs involve: (i) resuming fiscal consolidation, notably through wage bill reforms; (ii) increasing public spending efficiency; (iii) improving debt management and bringing public debt back to more sustainable levels; and (iv) greater private sector development.

Recent developments

Growth reached 2.2 percent in 2021, driven by increased agricultural and services output. The resumption of mobility supported the recovery of private consumption. The global recovery impacted food, energy, and fuel prices, contributing to a rise in inflation to 5.7 percent in 2021, double the rate registered in 2020. The loss of income and employment due to the pandemic meant that the poverty rate remained unchanged at 63.5 percent in 2021, but the number of poor increased by 650,000, totaling 20.4 million as of end-2021.

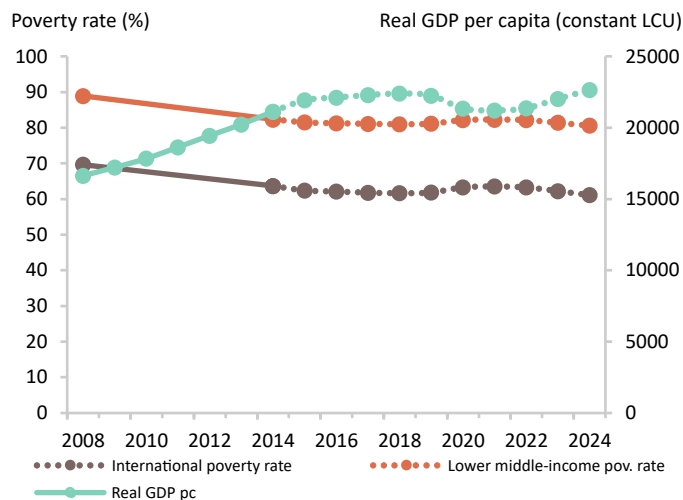
Although revenues held up well in 2021, fiscal pressures persisted. The overall fiscal deficit declined to an estimated 4.8 percent of GDP in 2021, down from 5.7 percent in

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

2020. Despite the pressures from COVID-related as well as humanitarian and security spending, total public expenditure fell to 31.6 percent of GDP in 2021 (from 33.6 percent in 2020). This was driven by lower debt service, reflecting currency appreciation and debt service deferral under the DSSI. Total public debt dropped from 125 to 117 percent of GDP in 2021, largely due to the currency appreciation. Mozambique is in debt distress with debt assessed to be sustainable in a forward-looking sense. Recovering trade and delayed implementation of LNG projects have led to a stable current account deficit (CAD). The CAD declined from 25.7 to 22 percent of GDP between 2020 and 2021. The drop was mainly driven by lower imports of services, due to the delays in LNG projects. Total exports—mainly coal and aluminum—grew by 55 percent, following a decline of 23 percent in 2020. The CAD was mostly financed by FDI and, to some extent, private borrowing. FDI was considerably high at US\$ 5.1 billion (against US\$ 3 billion in 2020), surpassing pre-pandemic levels. As a result of these developments, net external reserves closed

at US\$3.2 billion (equivalent to 6-7 months of imports, excluding megaprojects) in November of 2021—representing a drop of 14 percent (y-o-y).

Outlook

Growth is projected at 3.6 percent in 2022, before peaking at 6 percent in 2023. The start of LNG production at the Coral South offshore is expected to boost exports. Agricultural output growth is expected to remain considerable, given favorable weather conditions, and services activities will continue to steadily recover. Inflationary pressures will remain substantial as fuel and food prices continue to increase. Nonetheless, inflation is projected to remain within single digit in the medium-term, supported by a conservative monetary policy and a stable exchange rate. Poverty is expected to remain over 63 percent in 2022, despite the growth recovery and increased social transfers. Fiscal pressures are likely to persist. The deficit is projected at 6.3 percent in 2022

but expected to decline to 3.6 percent of GDP over 2023–2024, partly driven by a lower wage bill. Structural reforms, including streamlined salary and career structures, and fiscal consolidation measures are expected to reduce wage bill pressures. Revenue is projected to perform well as the economy recovers. Despite this, financing needs will remain substantial in 2022–2024, due to high debt service and short-term cost of wage bill reforms.

The CAD is expected to reach 32.5 percent of GDP in 2022, and stay close to 40 percent in 2023–2024 owing to increased imports of services and machinery for LNG development. Further, the push in fuel, and wheat will add extra US\$ 300 million to total imports. However, exports are set to grow significantly as LNG production begins and commodity prices recover. The external financing gap will be covered by FDI inflows and external loans, mainly for LNG investments. These FDI inflows, combined with the anticipated World Bank DPF and the IMF program, will allow external reserves to remain at comfortable levels.

TABLE 2 Mozambique / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.3	-1.2	2.2	3.6	6.0	5.8
Private Consumption	3.1	-2.1	18.1	0.3	7.6	3.7
Government Consumption	3.6	-19.3	-5.8	10.5	-18.7	-7.5
Gross Fixed Capital Investment	-0.6	60.1	36.1	-0.9	3.8	6.8
Exports, Goods and Services	-9.5	-15.0	24.1	9.6	15.1	6.4
Imports, Goods and Services	-1.5	-0.4	40.7	2.1	3.5	2.5
Real GDP growth, at constant factor prices	1.8	-1.9	2.2	3.6	6.0	5.8
Agriculture	1.3	3.1	3.4	3.5	1.2	5.8
Industry	-0.4	-5.8	1.3	3.6	14.9	5.8
Services	2.9	-2.7	2.0	3.7	5.1	5.7
Inflation (Consumer Price Index)	2.8	3.1	5.7	6.4	5.5	5.5
Current Account Balance (% of GDP)	-19.6	-25.7	-22.1	-32.5	-39.0	-42.0
Net Foreign Direct Investment (% of GDP)	14.4	16.7	31.8	22.2	20.6	19.1
Fiscal Balance (% of GDP)^a	-0.5	-5.7	-4.8	-6.3	-3.7	-3.5
Debt (% of GDP)	107.5	125.3	117.4	120.0	113.5	104.1
Primary Balance (% of GDP)^a	2.7	-2.3	-1.1	-2.4	0.1	0.8
International poverty rate (\$1.9 in 2011 PPP)^{b,c}	61.9	63.3	63.5	63.2	62.2	61.1
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{b,c}	81.1	82.2	82.3	82.1	81.4	80.6
GHG emissions growth (mtCO₂e)	0.9	0.7	0.3	1.1	1.7	1.5
Energy related GHG emissions (% of total)	8.0	8.3	8.0	8.2	8.7	9.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

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: 2015–2021. Forecasts are from 2022 to 2024.

c/ Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.