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IMF Mission Calls for Fiscal Stimulus in Mozambique

IMF Press Release No. 09/165
May 13, 2009

An International Monetary Fund (IMF) mission visited Mozambique April 28 - May 13, 2009 to conduct the 2009 Article IV Consultation and the fourth review under the Policy Support Instrument (PSI). The mission met with Minister of Finance, Hon. Manuel Chang; the Minister of Plan and Development, Hon. Aiuba Cuereneia, and the Governor of the Central Bank of Mozambique, Hon. Ernesto Gouveia Gove; other senior government officials; private sector representatives; and members of civil society.

Mr. Robert Sharer, Mission Chief for Mozambique, issued the following statement today at the end of the mission:

"After a decade of strong performance, the global financial crisis is posing a severe challenge for Sub-Saharan Africa. Economic growth is expected to reach about 2 percent in 2009, down from 5 percent last year, and the recovery is likely to be gradual in 2010, contingent on decisive measures in advanced economies to stabilize financial systems and bolster demand.

"Mozambique's record of strong economic growth will be curtailed somewhat. Exports are declining due to sharply lower commodity prices and weaker external demand. Foreign direct investment, which has played an increasingly important role in Mozambique, is affected as some international investors scale back or postpone their investment projects. Foreign borrowing by the private sector is being curtailed by tighter credit conditions. As a result, the mission estimates that economic growth could fall to about 4.3 percent in 2009, down from 6.8 percent last year, with only a gradual recovery beginning in 2010.

"In the short term, given Mozambique's low level of public debt, the mission sees scope to at least partly offset the impact of the global economic crisis on Mozambique with somewhat more expansionary fiscal and monetary policies. In 2009, relative to the budget approved by Parliament, revenue is expected to fall by 1.3 percent of Gross Domestic Product (GDP). Prudent fiscal policies in recent years provide scope to allow maintain spending at budgeted levels and raise domestic financing by 1.8 percent of GDP, compared with a repayment to the banking system of −1.9 percent last year. The mission also sees some scope for easing monetary policy in the period ahead to limit its contractionary impact on credit to the private sector. Inflation in 2009 is expected to remain low at about 5-6 percent.

"The government of Mozambique has a strong track record of prudent macroeconomic management, and has an on-track PSI. But short-term economic stimulus must not jeopardize medium-term economic stability, which remains critical for Mozambique to resume robust economic growth and make decisive progress in poverty reduction. Over the medium-term, fiscal policy must continue to be guided by a firm commitment to maintain a sustainable level of public debt and reinforce public financial management to ensure the efficiency of public spending.

"In support of these policies, and to help mitigate the exogenous shock stemming from the global economic downturn, Mozambique has requested financial support under the Exogenous Shocks Facility. It is expected that the IMF's Executive Board will discuss the request, the 2009 Article IV Consultation and the fourth review under the PSI in July."

Africa Economic Outlook 2009

Mozambique Overview

http://www.africaneconomicoutlook.org/en/countries/southern-africa/mozambique/

AFTER AVERAGING 8.6 PER CENT SINCE the beginning of the decade, growth in Mozambique fell to 6.2 per cent in 2008 because of disruptive floods and energy shortages. The economy is likely to be relatively shielded from the direct impacts of the current world financial crisis because its financial system is poorly integrated into world capital markets. However, growth is expected to slow in 2009 to 4 per cent as a consequence of falling world demand for commodities, foreign direct investment (FDI) flows and public investment financed with external assistance. It will rebound to 5.2 per cent in 2010, assuming a partial recovery of the international economy and further expansion of agriculture. Inflation rose to 10.3 per cent in 2008 because of high food and fuel prices but it is expected to fall in 2009 following the decline in international prices.

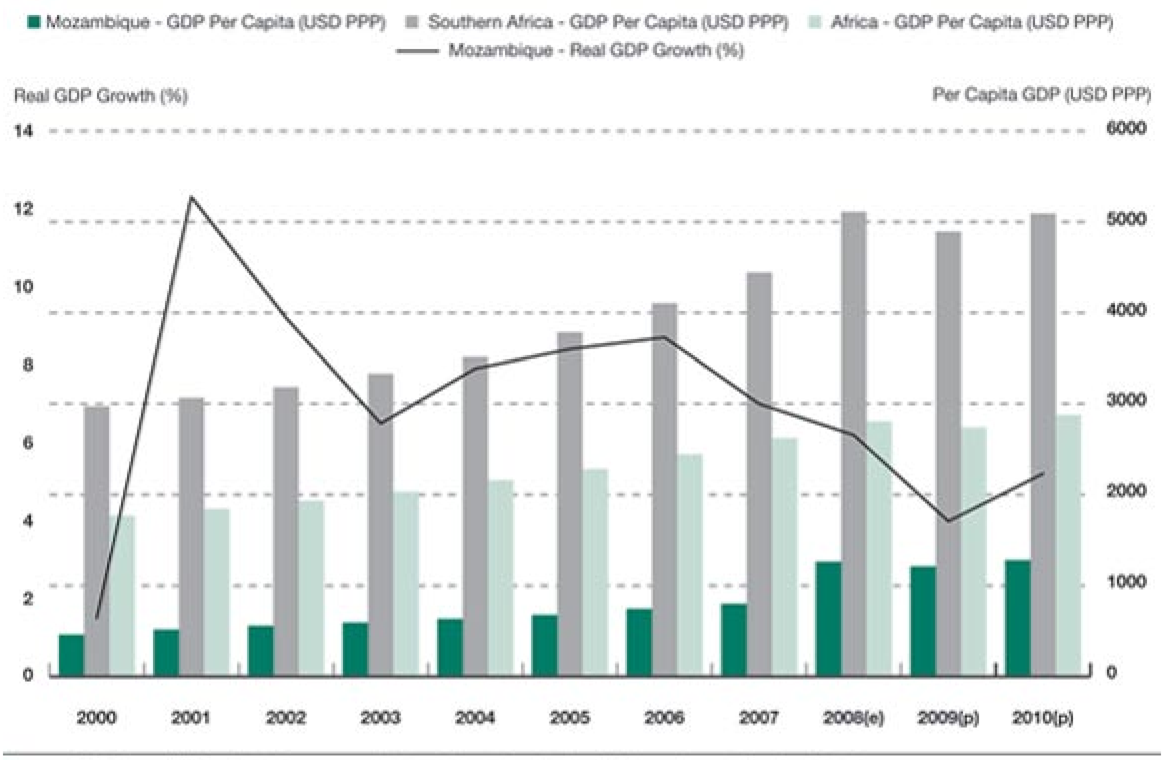
The economic structure of the country has changed, following a period of post-conflict economic catch-up that was driven by strong agricultural growth. A long track record of sound economic policies and reforms induced large inflows of FDI into Mozambique’s natural resource sectors as well as strong donor support. Today large foreign investment projects in mining and aluminium smelters have become the major drivers of growth. These projects have produced some trickle-down effects in services and construction.

However, Mozambique has also increased its dependence on external factors and, by doing so, increased its vulnerability to the current international slowdown. Moreover, the foreign-owned mega-projects consume most of the energy produced in the country, benefit from generous tax exemptions and have limited labour-creation capacities, preventing growth from being broad-based.

The government is struggling to generate domestic drivers of growth and reduce its dependence on official development assistance (ODA) by expanding its fiscal base and revising its tax policies, investing in infrastructure development and pushing forward a second generation of reforms to improve the domestic business environment. Nevertheless, domestic businesses continue to encounter difficulties in accessing electricity, procuring credit and licences, and dealing with high taxes.

In spite of huge capital inflows, poverty reduction has stalled. In 2008 Mozambique experienced social unrest caused by rising inflation from high global food and fuel prices. Social stability will be further tested in 2009, a presidential election year.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



Source: Data from IMF and local sources; estimates (e) and projections (p) based on authors' calculations