MACRO-FISCAL PROFILE

MOZAMBIQUE

May 2016

Key Indicators	
Population	25.8 million
GDP per capita (current USD, 2014)	$586
Average population growth rate (2010–2014)	2.8%
Government revenue as % of GDP (2014)	29%
Country income classification	Lower-middle

Source: Santos et al., 2015; World Bank, 2015.

Country Policy and Institutional Assessment Ratings (1 = low, 6 = high), 2014	National	SSA Mean
Efficiency of revenue mobilization	4	3.5
Equity of public resource use	3	3.3
Fiscal policy	4	3.1
Macroeconomic management	4.5	3.5
Quality of budgetary and financial management	4	3.1

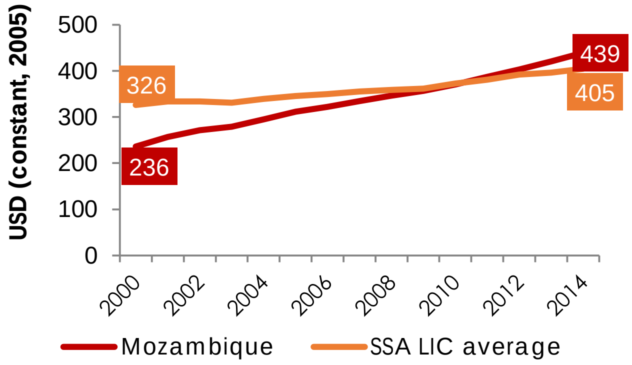
Source: World Bank, 2016.

Macroeconomic Forecasts

Indicator	2013	2014 (est.)	2015 (proj.)	2016 (proj.)
Real GDP growth	7.4%	7.6%	7.5%	8.1%
GDP per capita growth	4.9%	5.1%	5.1%	5.7%

Source: IMF, 2016a.

Figure 1: GDP per Capita Growth



Source: World Bank, 2015.

Overview

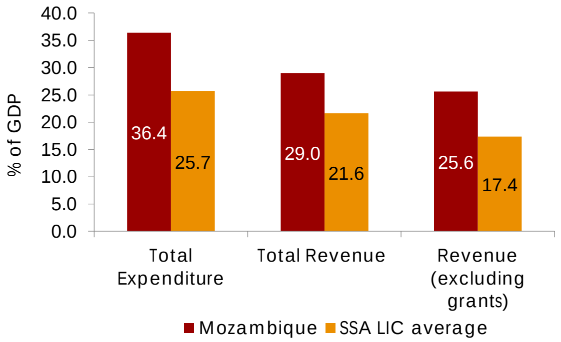
Mozambique's economy performed well in 2014, with gross domestic product (GDP) growth of 7.6%. The projected GDP growth for 2015 and 2016 remained optimistic, at 7.5% and 8.1%, respectively. The National Institute of Statistics subsequently indicated that the economy grew by only 6.3% in the first half of 2015, and a series of risks have emerged in the past year. As a result, the country's economic outlook has turned more negative.

Lower than expected coal production has prompted the government to revise the legal and fiscal framework for the mining and hydrocarbons sector to increase revenues and enlarge domestic participation. Although Mozambique is not very dependent on natural resources, resource rents account for 15.7% of GDP. Inflation is expected to increase to around 5–6%, given the recent depreciation of the metical and adjustments in administered prices. Mozambqiue is facing an external debt stock crisis; in April 2016, it was revealed that the state held undisclosed commerical liabilities, leading to suspensions in foreign aid and loss of trust and confidence in the government by investors. Long-term challenges include attracting foreign direct investment (FDI) while ensuring fiscal and debt sustainability, and adjusting to the decrease in donor funding.

Political Economy

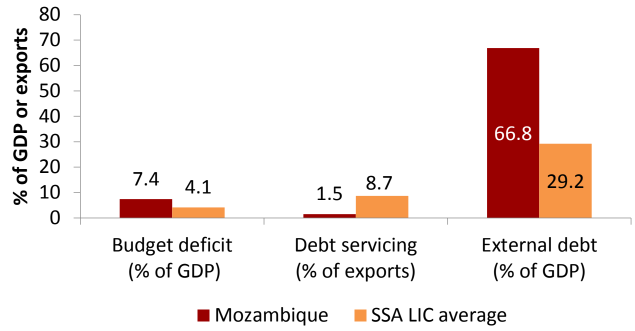
Macroeconomic and fiscal indicators for Mozambique exhibit stronger policy responses when compared with those for all of sub-Saharan Africa (SSA). The country's macroeconomic and fiscal policies are responsive to shocks, with occasional slippage, and are consistent with price, macroeconomic, and debt stability. Revenue mobilization involves mostly non-distortionary mechanisms, such as a value-added tax and personal income tax. Fiscal revenues have benefited from tax reforms, including tax code changes and increased tax collection efforts. Provisioning of public expenditure in many areas is sufficient to support medium-term growth. However, some concerns exist regarding anti-poverty measures. Public expenditure is unevenly aligned with poverty-reduction priorities, although recent improvements have occurred; overall revenue collection is regressive. The process of identifying the poor and most vulnerable must be improved. Policies and priorities are broadly reflected in the budget. Budget monitoring and control systems exist, but some deficiencies exist. There are delays in the preparation of public accounts; budget reports or audit findings result in few meaningful actions.

Figure 2: Government Revenue and Expenditure (2014)



Source: Santos et al., 2015.

Figure 3: Government Borrowing (2014)



Source: Santos et al., 2015.

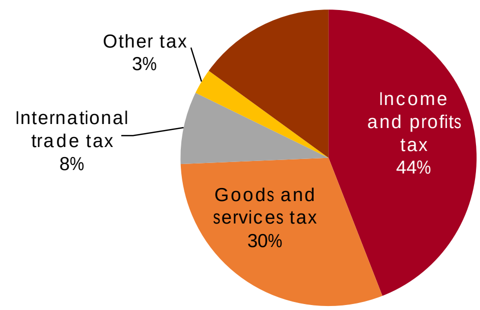
GDP and Economic Growth

Since 2000, per capita GDP in constant dollars has increased by an average of 4.5% annually, from US$236 in 2000 to US$439 in 2014, outpacing the regional average for lower-income countries (LICs) at 1.6% (Figure 1). Total government expenditure accounts for 36.4% of the GDP, whereas total revenue accounts for 29.0% (Figure 2). Fiscal deficits reached 10% of GDP in 2014, pushing public debt to 67% of GDP, which is over double that for other LICs in SSA (Figure 3). The government is attempting to decrease the debt burden by looking at restructuring options with bondholders. However, the outlook does not look promising; as of March 2016, many rating agencies have cut the country's credit rating, which will limit FDI further. Revised forecasts have lowered the projected 2015 GDP growth, due mainly to the decrease in prices for raw materials, the strengthening of the U.S. dollar, and the reduction of FDI. For 2016, growth and inflation is expected to amount to 7.0% and 5.6%, respectively. In the long run, lower prices for raw materials and slowdowns in China and other key economies might delay the expansion of coal mining projects and dampen growth. If these conditions persist, the previous forecasts of 7% to 8% growth may be delayed by a few years.

Government Revenue and Expenditure

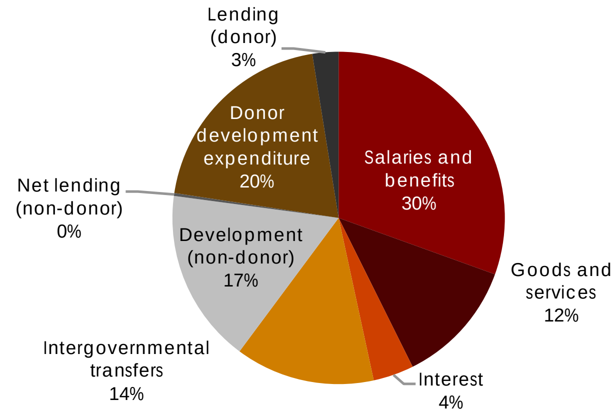
Government revenue as a percentage of GDP is estimated to decline from 32.9% to 27.6% from 2014 to 2020. Revenues are still tax-based (Figure 4). Due to the narrow tax base, there is limited scope to further progress tax collection. Gas production scale-up in the early 2020s could lead to revenues from gas projects accounting for more than half of total revenues by the late 2020s. Government expenditure increased in recent years, but the 2015 budget is 6.4% of GDP lower than in 2014. Significant portions of government expenditure are on salaries and benefits (Figure 5), but government plans to reduce the wage bill by 0.5% of GDP in 2015.

Figure 4: Revenue (2013)



Source: IMF, 2016a.

Figure 5: Expenditure (2013)



Source: IMF, 2016a.

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