MOZAMBIQUE

Table 1	2021
Population, million	32.2
GDP, current US$ billion	15.8
GDP per capita, current US$	490.7
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]	61.4
Total GHG emissions (mtCO2e)	108.7

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

Following a contraction in 2020, the economy saw moderate growth of 2.3 percent in 2021, reflecting a rebound in aggregate demand. Growth is projected to average 5.6 percent during 2022-2024, driven by the start of LNG exports and high commodity prices. Poverty is projected to decline from 64.2 to 61.7 percent through 2022-2024. However, the Ukraine war has exacerbated inflation, triggering social unrest and fiscal pressures given spending on targeted subsidies to mitigate the rising cost of living.

Key conditions and challenges

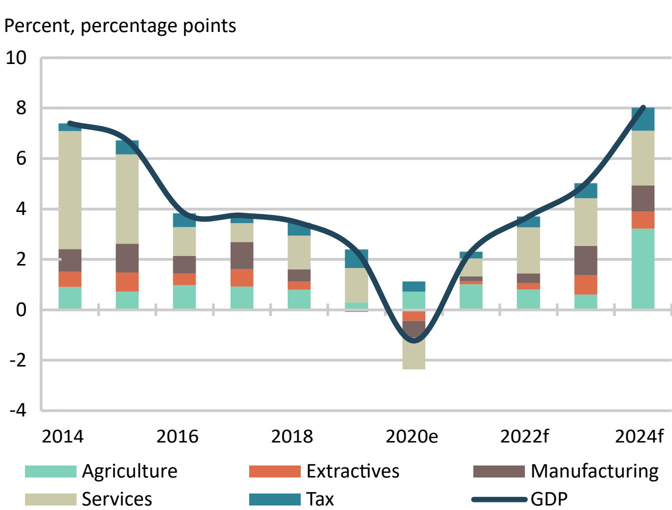
Mozambique has seen slow growth, limited structural transformation and widespread poverty. Growth plunged from 8 percent in 1993–2015 to 3 percent in 2016–2019, owing to multiple shocks, including the hidden debt crisis, insurgency, and tropical cyclones. The pandemic exacerbated the slowdown. Poverty reduction and job creation have been slow given the economy's dual focus on low-productivity subsistence agriculture and capital-intensive megaprojects with limited economic linkages. Low investments in human capital and infrastructure continue to inhibit productivity and inclusive growth. About 64.2 percent of the population remains poor in 2022, nearly half of which live in the northern provinces. Inequality is high, aggravating fragility and conflict. The private sector's potential for job creation and economic transformation is hampered by a challenging business environment, weak governance, and high credit cost. Nonetheless, the country's economic prospects are positive, reflecting the start of LNG exports and high commodity prices. However, the Ukraine war exacerbates downside risks, including weak global growth, potential social protests, and additional spending pressures to mitigate the increased cost of living.

Mozambique needs to accelerate its economic recovery and make growth more inclusive. Policy priorities include accelerating structural reforms to ensure macroeconomic stability, improve governance, boost competitiveness to attract private investment and strengthen resilience to shocks. Making growth more inclusive requires promoting human capital, agricultural productivity, and inter-sectoral linkages. However, Mozambique faces considerable fiscal constraints, namely large wage bill and debt service costs, and limited access to global financial markets. Further, fiscal revenues will only become significant after 2030 when LNG projects complete cost recovery. Therefore, in the short- to medium-term, Mozambique needs to generate fiscal space and reduce the public debt burden by improving spending efficiency and domestic revenue mobilization, minimizing SOEs fiscal risks and reducing commercial debt issuance.

Recent developments

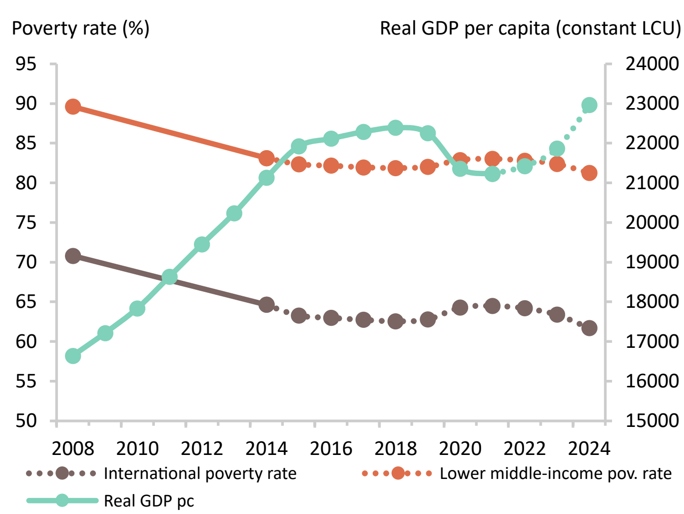
The economy is recovering from a prolonged slowdown, with real GDP growth at 2.3 percent in 2021. Growth reached 4.4 percent in June 2022 (year-on-year)—a four-year high—driven by strong agricultural growth, underpinned by investments in productivity and recovery across all other sectors. High commodity demand and prices and increased coal production boosted extractives. The resumption of mobility supported consumption, fostering services and manufacturing growth in the first half of 2022 (year-on-year). Information from the Purchasing Managers' Index (PMI)

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



Source: World Bank. Notes: see Table 2.

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



Source: World Bank. Notes: see Table 2

shows that employment levels among Mozambican companies have steadily increased in the first half of 2022.

Despite the monetary tightening (policy rate increased from 10.3 to 15.3 percent between 2021 and 2022), inflation reached a 4-year high at 11.8 percent in July (year-on-year), driven by higher food, fuel, and transportation costs. The contractionary monetary stance hampers credit growth, limiting output and job creation, with negative implications for the poor.

Despite persistent spending pressures, the overall fiscal deficit declined from 5.4 to 5.0 percent of GDP between 2020 and 2021, reflecting a positive revenue performance, contained capital expenditure and debt service —the latter partly due to the debt service deferral initiative. Currency appreciation supported a drop in total public debt from 120 to 106.4 percent of GDP between 2020 and 2021. Mozambique is at high risk of debt distress, with debt assessed to be sustainable in a forward-looking sense. Fiscal performance deteriorated in the first half of 2022 due to lower grants disbursement. The overall fiscal deficit increased by 33 percent to US$180million, leading to increased domestic financing.

The import of the Coral LNG offshore platform in the first quarter of 2022, and costly imports, increased trade and current account deficits (CAD). The platform is fully financed by project financing. The CAD reached US$ 5.4bn (30 percent of GDP) in the first quarter, compared to US$ 927 million (7 percent of GDP) during the same period in 2021. Excluding the one-off LNG-related import, the CAD declined to US$907 million due to a hike in coal and aluminum exports. Owing to higher fuel imports, international reserves fell from US$3.3bn to US$3 billion, between December 2021 and June 2022.

Outlook

Growth is projected at 3.7 percent in 2022 and is expected to accelerate in the medium term, reaching 8 percent in 2024, reflecting agricultural growth, favorable commodity prices, start of LNG exports, and Totalenergies-led LNG project resumption from 2023. Continued demand recovery will support services and manufacturing growth. Inflation will likely hit double digits in 2022 before stabilizing around 8 percent between 2023 and 2024, as international fuel prices ease. However, domestic prices, particularly of food, will remain high, affecting the purchasing power of the poor, who on average, spend a larger share of their budget on food. The poverty rate is expected to remain high, averaging 63.1 percent in 2022-2024.

Fiscal pressures will remain significant, but the overall fiscal deficit is projected to decline, averaging 3.8 percent of GDP in 2022-2024 (below 5.0 percent in 2021). Stable revenue (at 25 percent of GDP), increased grants, and a relatively lower wage bill—due to the ongoing reform—will offset the debt service, security and humanitarian spending pressures, and spending on targeted subsidies to protect vulnerable households from inflation. The resumption of budget support will minimize financing needs.

The CAD will accelerate, averaging 42.1 percent of GDP in 2022-2024, reflecting LNG developments and high fuel and food import prices. Imports pressures will be partially offset by higher export volumes, driven by high demand and gas, aluminum, and coal prices. The CAD financing is expected from FDI, and debt (including IMF support). International reserves are projected to remain comfortable at $3.3bn over the medium-term, about 4 months of non-megaproject imports.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.3	-1.2	2.3	3.7	5.0	8.0
Private Consumption	3.1	-2.1	18.2	11.0	1.5	10.4
Government Consumption	3.6	-19.3	-5.8	11.7	-14.6	-4.3
Gross Fixed Capital Investment	-0.6	60.1	36.1	-16.8	11.0	-1.8
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	2.3	3.7	5.0	8.0
Agriculture	1.3	3.1	4.2	3.3	2.5	7.9
Industry	-0.4	-5.8	1.7	3.5	10.7	13.5
Services	2.9	-2.7	1.6	4.0	4.1	5.7
Inflation (Consumer Price Index)	2.8	3.1	5.7	11.3	8.6	8.2
Current Account Balance (% of GDP)	-19.6	-25.7	-23.2	-46.6	-39.7	-40.0
Net Foreign Direct Investment Inflow (% of GDP)	14.4	16.7	32.4	21.7	20.0	17.8
Fiscal Balance (% of GDP)[a]	-0.5	-5.4	-5.0	-3.9	-4.2	-3.4
Debt (% of GDP)	107.5	120.0	106.4	102.6	101.4	100.0
Primary Balance (% of GDP)[a]	2.7	-2.2	-2.3	-0.4	-1.1	-0.1
International poverty rate ($2.15 in 2017 PPP)[b,c]	62.8	64.3	64.5	64.2	63.4	61.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	82.0	82.9	83.0	82.8	82.4	81.3
GHG emissions growth (mtCO2e)	-4.0	0.7	1.1	-0.3	0.6	2.6
Energy related GHG emissions (% of total)	7.9	8.3	8.8	8.0	7.8	9.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
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.