MOZAMBIQUE

Table 1	2023
Population, million	33.9
GDP, current US$ billion	21.4
GDP per capita, current US$	632.5
International poverty rate ($2.15)[a]	74.5
Lower middle-income poverty rate ($3.65)[a]	88.6
Upper middle-income poverty rate ($6.85)[a]	96.1
Gini index[a]	50.5
School enrollment, primary (% gross)[b]	121.2
Life expectancy at birth, years[b]	59.3
Total GHG emissions (mtCO2e)	106.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2021).

Economic recovery gained momentum in 2023, with real GDP growth reaching 5 percent, largely driven by liquefied natural gas (LNG) production. The country is grappling with substantial fiscal pressures arising from the high public sector wage bill and increasing debt service cost. Growth is projected to remain at 5 percent over the medium term, while poverty is projected to decline from 73.4 percent in 2023 to 70.9 percent in 2026. Downside risks include volatility in global markets, natural disasters, and the conflict in northern Mozambique.

Key conditions and challenges

Mozambique faces substantial development challenges, including limited structural transformation and widespread poverty, which affected roughly 74.4 percent of the population in 2019 [when measured by the US$2.15 per day poverty line (2017 PPP)]. Most of the labor force is employed in low-productivity agriculture and services sectors. The main drivers of growth are capital-intensive megaprojects, with limited spillovers to the rest of the economy.

Fiscal space is significantly constrained. With over 90 percent of tax revenues in 2021-22 absorbed by the wage bill and debt-service costs, the country allocates only limited resources to public investment and social spending. Additional constraints to financing Mozambique's large development needs include lack of access to international financial markets, high risk of sovereign debt distress, a shallow domestic financial market, and lending rates that are among the highest in Sub-Saharan Africa. These challenges are compounded by fragility and conflict and high vulnerability to climate shocks.

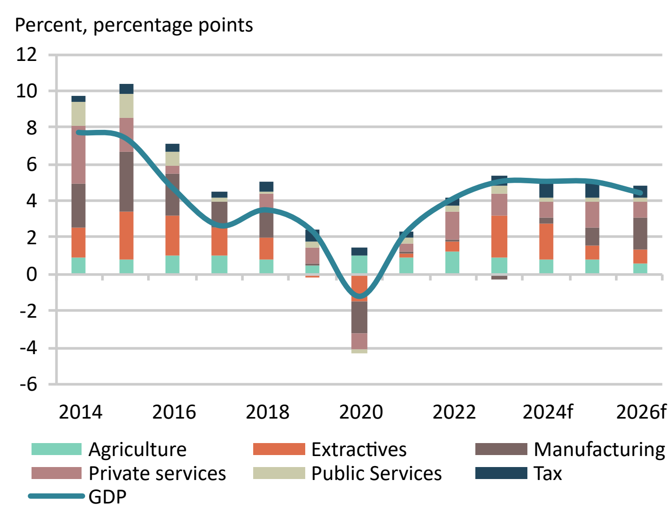
Mozambique has the opportunity to implement reforms to broaden its economic base and job creation sources, with a focus on sustainable growth. The private sector's growth could be fostered by improving access to capital, and adequate infrastructure, and by addressing regulatory challenges. Strengthening fiscal management and governance and facilitating greater private sector participation in labor-intensive sectors such as agriculture and services are crucial. Considering the fiscal constraints, it is critical to enhance spending efficiency and debt management practices to improve fiscal discipline and establish credibility within financial markets. The benefits from future LNG revenues can be maximized through a robust fiscal framework, including the sound use of the recently established Sovereign Wealth Fund, to ensure effective resource management and promote long-term economic resilience.

Recent developments

The economy grew by 5 percent in 2023, primarily driven by the start of LNG production at the Coral South offshore facility. Strong growth in agriculture and services, particularly transport, also contributed to the expansion of the economy, offsetting the impact of lower manufacturing and construction activity. Inflation, which had reached a five-year high of 9.8 percent in 2022, moderated to 7.1 percent in 2023. This moderation supported a 3-percentage-point drop in poverty to 73.4 percent in 2023. Despite the 100-basis-point cut in the monetary policy rate to 16.3 percent in January 2024, the overall monetary policy stance remains tight, with high statutory reserves (39 percent).

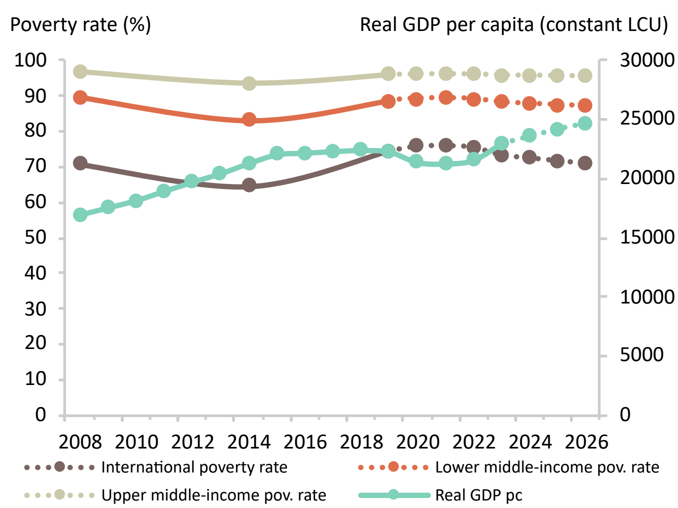
Fiscal pressures remain elevated, as measures to reduce the wage bill only had a limited impact in 2023. The primary deficit improved from 2 percent of GDP in 2022 to

FIGURE 1 Mozambique / Real GDP growth and sectoral 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.

an estimated 0.2 percent in 2023. Total expenditures in 2023Q3 surged by 14 percent due to pressures from the wage bill, interest payments, and election-related spending. Total revenue growth was low at 6 percent in the first three quarters of 2023 because of lower value-added tax (VAT) collection after the VAT rate was cut to 16 percent from 17 percent previously. Public debt declined from 95 percent of GDP in 2022 to an estimated 91 percent in 2023, even though domestic debt stood at 27 percent of GDP in 2023, up from 22 percent in 2020, indicating rising financing needs amid limited access to international capital markets.

The current account deficit narrowed from US$5.8 billion in the first three quarters of 2022 to US$1.1 billion over the same period in 2023 due to a combination of lower imports for megaprojects, lower fuel prices, and an increase in LNG exports. The deficit was primarily financed through trade credits and foreign direct investments in the extractive sector, which totaled US$1.5 billion by September 2023. As a result, gross international reserves increased from US$2.8 billion in December 2022 to US$3.2 billion in November 2023, covering four months of imports if megaprojects imports are excluded.

Outlook

GDP growth is projected to average 5 percent over 2024-26, supported by increasing offshore LNG production, the resumption of the Total-led LNG project, and dynamism in agriculture and services. The stabilization of global commodity prices could help contain inflation, enabling further easing of monetary policy. Growth is expected to support a decline in the national poverty rate, from 73.4 percent in 2023 to 70.9 percent by 2026. However, the absolute number of Mozambicans living in poverty is projected to increase by 1 million people during the same period, given the fast population growth.

The fiscal balance is projected to decline from 3.4 percent of GDP in 2023 to an average of 1.6 percent over 2024-26, partly driven by higher revenues linked to LNG revenue. Expenditure is projected to decrease from 31.3 percent of GDP in 2023 to 26.5 percent in 2026 due to consolidation measures to reduce the wage bill. These include limiting hiring in non-priority sectors, reducing the 13th-month salary bonus, and auditing the public sector workforce. Public debt is projected to stabilize at about 92 percent of GDP in the medium term, but Mozambique is expected to remain at high risk of debt distress in the short term.

The current account deficit is projected to widen sharply, averaging 44.1 percent of GDP over 2024-26, mainly driven by LNG-related imports. Financing is projected to come from trade credits and foreign direct investment. Gross reserves are expected to remain at adequate levels of about US$3.5 billion, which is equivalent to nearly four months of imports when excluding megaprojects.

The outlook is subject to substantial downside risks from extreme climate events, waning commitment to fiscal reforms in the run-up to elections, and uncertainty around the security situation in the north. On the fiscal side, the high public sector wage bill and increasing debt service will continue to limit the fiscal space, increasing the risks of refinancing and debt rollover.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	2.3	4.2	5.0	5.0	5.0	4.4
Private consumption	17.3	3.0	3.1	9.8	7.5	6.1
Government consumption	-7.8	17.2	-25.4	-3.5	-8.1	-8.1
Gross fixed capital investment	32.5	-6.4	10.1	4.9	8.4	8.6
Exports, goods and services	23.8	10.2	19.5	3.0	2.0	2.0
Imports, goods and services	37.2	1.9	3.3	6.0	5.0	5.0
Real GDP growth, at constant factor prices	2.2	4.2	5.0	5.0	5.0	4.4
Agriculture	3.7	4.4	6.0	4.0	4.0	4.0
Industry	1.6	3.8	7.6	8.2	8.1	8.1
Services	1.6	4.3	3.4	4.2	4.2	3.0
Inflation (consumer price index)	6.4	10.3	7.1	5.7	5.6	5.3
Current account balance (% of GDP)	-22.3	-32.9	-16.0	-38.4	-42.0	-44.1
Net foreign direct investment inflow (% of GDP)	31.6	10.3	4.4	13.6	14.5	12.7
Fiscal balance (% of GDP)[a]	-4.6	-4.9	-3.4	-2.3	-1.6	-0.8
Revenues (% of GDP)	27.4	27.4	27.9	26.4	25.8	25.7
Debt (% of GDP)	105.0	95.2	91.9	94.4	92.0	81.6
Primary balance (% of GDP)[a]	-1.9	-2.0	-0.2	0.6	1.1	1.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	76.1	75.6	73.3	72.5	71.6	70.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	89.3	89.1	88.1	87.7	87.3	87.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	96.5	96.4	95.9	95.7	95.6	95.4
GHG emissions growth (mtCO2e)	0.8	0.7	0.7	0.9	1.0	0.9
Energy related GHG emissions (% of total)	8.1	8.4	8.5	9.0	9.5	9.9

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 2019-IOF. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.
c/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.