MOZAMBIQUE

Table 1	2019
Population, million	29.5
GDP, current US$ billion	15.3
GDP per capita, current US$	518.6
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]	112.6
Life expectancy at birth, years[b]	60.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2018).

The economy is projected to contract by 0.4 percent in 2020 due to disruptions caused by COVID-19. The economic fallout from the pandemic has adversely affected firms, employment and households. As a result, the poverty rate is expected to increase to 64 percent in 2020, from 62.5 percent in 2019. While there is great uncertainty about the future course of the pandemic, the economy is expected to gradually recover starting 2021 as LNG investments and extractive production gain momentum.

Key conditions and challenges

COVID-19 reached the shores of Mozambique as it attempted to recover from the economic slowdown triggered by the hidden debt crisis and tropical cyclones in 2019. Growth declined from an average of 8 percent in 2001–2015 to 3 percent in 2016–2019. The aforementioned shocks exacerbated existing vulnerabilities stemming from overreliance on the exports of primary commodities and capital-intensive mega-investments with limited local linkages. Large infrastructure deficit and low labor productivity, especially in rural areas where most of the population resides, pose additional challenges for growth, job creation, and poverty reduction.

Improved macroeconomic stability and liquified natural gas (LNG) investments were expected to support economic recovery in the medium-term, but COVID-19 derailed expectations. The combination of weak global demand, low commodity prices, and strict containment measures constrained trade and domestic economic activities. The crisis also caused a sudden income loss for many households.

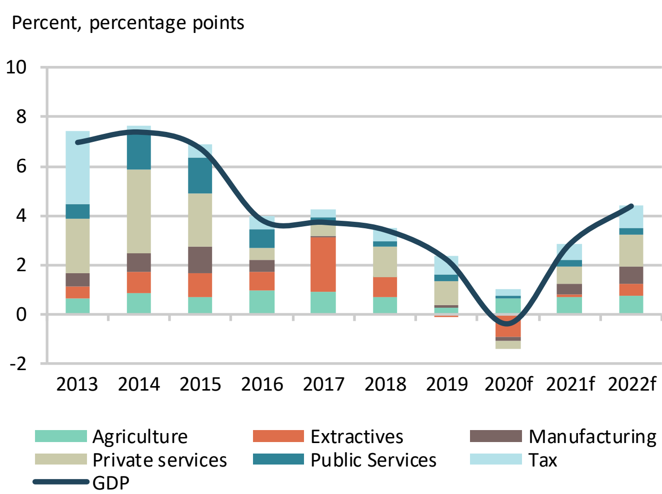
Real GDP is expected to contract by 0.4 percent in 2020. However, downside risks remain given the uncertainty around the course of the pandemic. Projections suggest that debt levels and service remain elevated over the next five years. Moreover, escalating insurgency attacks in regions where most of the poor live create added fiscal pressures and could push more people into poverty due to displacement and limited access to social services.

Mozambique's immediate priority involves protecting lives and livelihoods, while setting the path for recovery. Measures to support households and viable firms affected by COVID-19 need to be strengthened. This should be complemented by awareness campaigns to ensure a safe gradual lifting of the containment measures. In the medium-term, it is critical to ensure that gains from the LNG sector support inclusive growth. This would require, among others, strengthening economic management to prevent adverse effects from the upcoming large foreign currency inflows, and linking the local economy with the LNG industry. Further, vulnerabilities to external shocks and climatic conditions call for diversification, resilience and more inclusive growth.

Recent developments

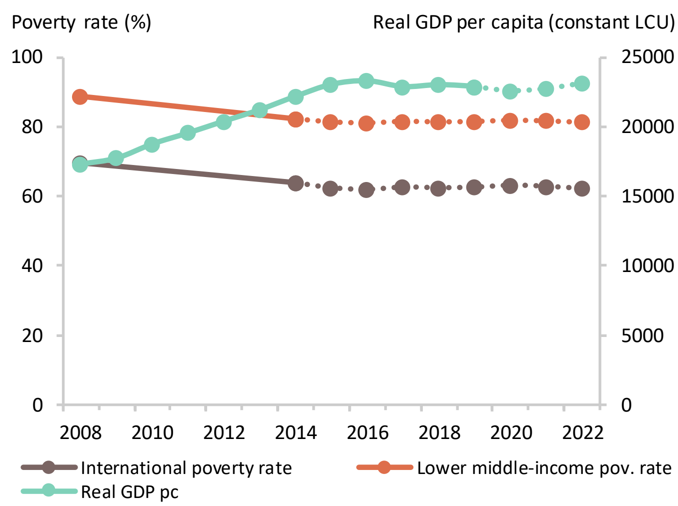
COVID-19 has significantly worsened economic conditions. Real GDP contracted by 3.3 percent in the second quarter of 2020 (year-on-year) owing to a decline in exports and private consumption. Favorable weather conditions led to higher agricultural output while electricity production increased. However, these positive developments were offset by weaker performance in other sectors. Private services contracted by 5 percent, with output in hotels and restaurants dropping by almost 40 percent as a result of travel restrictions.

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



Source: World Bank Staff Estimates.

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



Source: World Bank. Notes: see Table 2.

Global supply chain disruptions resulted in a decrease in extractive and manufacturing production. The coal industry has been particularly hit, with *Vale-do-Rio-Doce* production in the largest mine being suspended in June. As of June 2020, firms reported losses estimated at 7 percent of GDP. About 120,000 jobs were also lost. Overall inflation was below 3 percent, whereas annual food inflation rose, reaching 7 percent in August 2020. As a result of these pressures, about 852 thousand people are expected to fall into poverty.

The current account deficit (CAD) increased by 17 percent in the first half of 2020 (year-on-year) reflecting the combined effects of a fall in exports and commodity prices. At US$ 700 million, FDI, mostly from LNG megaprojects, financed about 34 percent of the CAD. This, together with private external borrowing, helped to keep half-year gross international reserves at 7 months of imports.

The fiscal situation remains difficult. COVID-19 response measures, estimated to cost an equivalent of 2.2 percent of GDP, would push the primary and overall fiscal deficits to 3.6 and 6.9 percent in 2020, from pre-COVID estimates of 1.1 and 4.6 percent, respectively. Tax relief measures and economic slowdown will likely reduce revenues by a percentage point of GDP. At the same time, escalating insurgency has led to a sharp increase in defense spending, which doubled to 1 percent of GDP in the first semester (year-on-year). As a result, domestic debt rose to 18 percent of GDP in the first half of 2020, from 16 percent in 2019. This would push total public debt to a projected 121 percent in 2020, from 108 percent in 2019.

Outlook

GDP growth would be negative in 2020 for the first time in 28 years. The sharp economic contraction reflects a decline in exports, reduced domestic consumption and delayed implementation of LNG investments. The extractives sector is expected to contract as low prices and muted demand halved coal production. Services output is projected to decrease as social distancing measures curtail private consumption. Household earnings would decline, leading to an increase in the poverty rate from 62.5 percent in 2019 to 64 percent in 2020. Nonetheless, recovery is expected from 2021, with growth reaching 4 percent in 2022, assuming a rebound in global demand, the roll-out of a COVID-19 vaccine in 2021 and additional stimulus to the business environment from LNG projects. The poverty rate is expected to gradually fall to 63 percent by 2022.

The CAD is projected to increase from 20 percent of GDP in 2019 to 61 percent in 2020, driven by higher imports of LNG-related services. An external financing gap of 8 percent of GDP is expected in 2020 which would be financed by donor support, debt service suspension, revenue savings from capital gains, and reserves. The CAD will remain high through mid-2020s and would be financed by FDI and external private debt.

The fiscal outlook remains challenging. Besides COVID-19 spending pressures, Mozambique would continue to grapple with growing wage bill, defense spending, and debt service. Nonetheless, fiscal consolidation is expected to resume in 2021. Efforts to enhance domestic revenue , including from early stages of LNG production, and improve expenditure efficiency are expected to help the country achieve its primary surplus target by 2024. Further, improved debt and fiscal risks management, and debt restructuring would help reduce debt vulnerabilities and enhance debt sustainability.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.7	3.4	2.2	-0.4	2.8	4.4
Private Consumption	0.6	3.7	4.0	-1.1	4.3	8.1
Government Consumption	3.2	-5.7	6.1	24.3	-9.3	1.6
Gross Fixed Capital Investment	-5.8	12.4	-8.1	117.7	2.2	32.4
Exports, Goods and Services	3.9	36.5	-5.5	-14.2	19.1	2.5
Imports, Goods and Services	-12.9	43.7	-2.5	43.6	2.8	18.9
Real GDP growth, at constant factor prices	3.8	3.4	2.2	-0.4	2.8	4.4
Agriculture	4.0	3.0	1.2	0.6	2.9	4.8
Industry	9.6	3.9	-0.2	0.0	2.0	2.9
Services	1.6	3.4	3.8	-1.0	3.0	4.9
Inflation (Consumer Price Index)	15.1	3.9	2.8	3.0	3.3	3.6
Current Account Balance (% of GDP)	-19.9	-31.0	-20.4	-61.0	-72.0	-86.7
Net Foreign Direct Investment (% of GDP)	17.4	18.1	14.5	17.9	24.2	30.4
Fiscal Balance (% of GDP)[a]	-3.6	-4.1	0.3	-6.9	-5.4	-3.5
Debt (% of GDP)[b]	106.6	110.1	108.4	120.4	122.0	116.7
Primary Balance (% of GDP)[a]	-0.3	0.3	3.6	-3.5	-2.3	-0.5
International poverty rate ($1.9 in 2011 PPP)[c,d]	62.6	62.4	62.5	63.7	63.7	63.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	81.6	81.5	81.6	82.3	82.4	82.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
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 2014-IOF.Actual data: 2014. Nowcast: 2015-2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.