MOZAMBIQUE

Table 1	2020
Population, million	31.3
GDP, current US$ billion	13.8
GDP per capita, current US$	441.9
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]	116.4
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 contracted by 1.3 percent in 2020, as the global pandemic reduced domestic activity and external demand. The poverty rate is estimated to have increased from 61.9 percent in 2019 to 63.3 percent in 2020 owing to loss of income and employment, pushing an estimated one million people into poverty. Economic recovery is expected to start in 2021, but this is subject to risks including rising COVID-19 cases, spots of military instability and delayed rollout of the COVID-19 vaccine.

Key conditions and challenges

The impact of COVID-19 has been exacerbated by Mozambique's fragile economic structure. Despite the relatively low number of infections in 2020, the economy saw its first contraction in almost 30 years. The existing growth model, characterized by high dependence on large investments in the extractive industry and exports of commodities, with weak domestic linkages, amplified the effects of the crisis. The services and extractives sectors, main growth drivers, lost steam as disruptions in global markets reduced demand for commodities and Foreign Direct Investment (FDI) flows.

Prior to 2020, Mozambique experienced a prolonged slowdown. Between 2016-2019, growth averaged 3 percent, with GDP per capita contracting by an average of 5 percent. While the slowdown was triggered by the hidden debt crisis and climatic shocks, low labor productivity and high infrastructure deficit remain persistent constraints to growth. This, together with a private sector dominated by capital intensive megaprojects and informal enterprises, have undermined the economy's ability to generate jobs and support poverty reduction. As a result, economic disparities have increased, which, combined with pre-existing political tensions, fueled the fragility that has led to sporadic military insurgencies. While government strategic plans recognize the need to promote productivity and diversification, fiscal capacity is limited. Adding to the challenge is Mozambique's vulnerability to climatic shocks, which has recurrently reversed gains in poverty reduction.

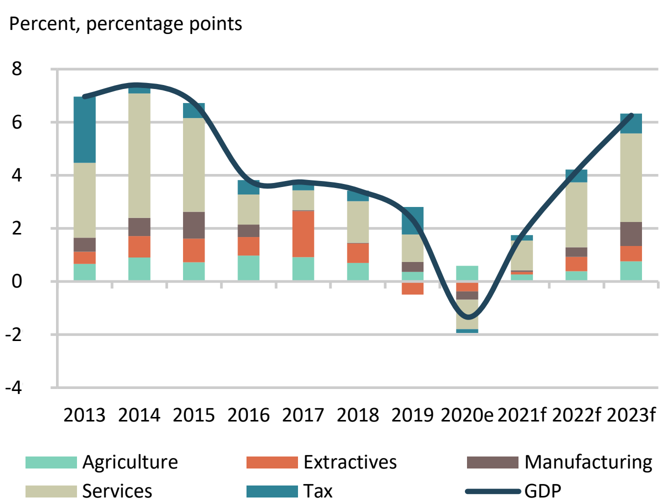
Growth prospects rely mainly on developments in the Liquefied Natural Gas (LNG) sector, which are expected to push average annual growth to above 8 percent from 2024. However, rising uncertainty associated with COVID-19 and military insurgency pose considerable risks to future growth. Poverty incidence is expected to decrease slightly, from 63.3 to 62.2 percent between 2020 and 2023, but the number of poor is projected to increase by 1.3 million, due to population growth.

The pandemic highlighted the urgency of structural transformation to reduce vulnerability to global shocks. In the shorter-term, focus should be on recovery to avoid scarring and the loss of productive capacity. This includes measures such as employment subsidies to firms to encourage worker retention, and expansion of social protection programs to support informal entrepreneurs. In the medium and long-term, Mozambique needs to diversify away from the current megaproject-driven growth toward a more interconnected and competitive economy.

Recent developments

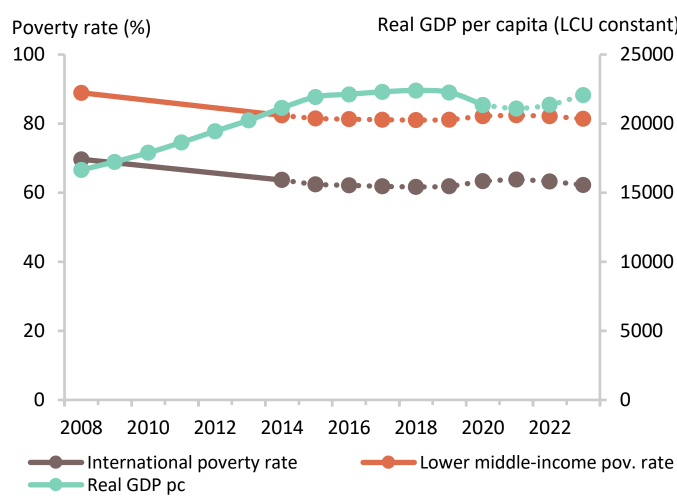
The global pandemic has substantially disrupted economic activity. Real GDP contracted by 1.3 percent in 2020, from 2.3 percent growth in 2019. While favorable weather conditions supported agricultural

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.

production, which grew by 3 percent, all other sectors recorded weak performance. Extractives sector production dropped by 17 percent due to low commodity prices and demand. The decline in domestic demand with the introduction of lockdown measures constrained manufacturing and services output. The hotel and restaurants subsectors were particularly hit, contracting by 23 percent. To support the economy, the policy rate was cut from 12.8 to 10.3 percent, but demand remained subdued. Annual average inflation stood at 3.1 percent, below the government projection of 4 percent. However, average food inflation, which affects the poor most, reached almost 9 percent. As a result, poverty is expected to increase from 61.9 in 2019 to 63.3 percent in 2020.

The external position remained largely stable in 2020. The current account deficit (CAD), excluding one-off capital gains, reached 27.3 percent of GDP in 2020, compared to 25.5 percent in 2019. Despite the drop in exports, given low global demand, the CAD improved as imports declined, largely reflecting low domestic demand, currency depreciation and delayed implementation of LNG projects. The CAD was financed by FDI, private debt and donor support. The external reserves reached US$ 3.9 billion, equivalent to 7 months of imports (excluding megaprojects).

Public finances remain under significant pressures. COVID-19 response measures and increased military spending pushed total government expenditure from 29.8 percent in 2019 to 32.5 percent of GDP in 2020. Despite weak economic activity, tax revenue collection, excluding capital gains, slightly rose from 19.4 to 20.9 percent of GDP between 2019 and 2020. This, combined with higher donor support, put estimated primary deficit at 1.3 percent of GDP in 2020 from 2.1 percent in 2019 (excluding capital gains). Total public debt increased from 108 percent of GDP in 2019 to 122 percent in 2020, due to rising financing needs and currency depreciation.

Outlook

Recovery is anticipated to be slower than expected. Growth is projected at 1.7 percent in 2021, down from the pre-COVID estimate of 5 percent, given the slow rollout of the COVID-19 vaccine, rising virus cases and deaths, and tighter containment measures. Despite the expected increase in commodity prices, muted global demand will likely keep exports low. The service sector is set to recover, but slowly, considering the still limited mobility. Agriculture will also contribute to growth recovery, as ongoing investments in irrigation, improved seeds, and distribution systems yield returns. However, unfavorable weather conditions, pose considerable risks. In the medium-term, growth is anticipated to gradually pick up, reaching 6 percent by 2023, as the LNG sector develops. However, high population growth will continue to drag per capita growth. Poverty would increase to 63.8 percent in 2021, but decline to pre-crisis level by 2023.

The CAD is projected to reach around 60 percent in the medium-term as LNG investments advance. FDI and private debt would remain the main financing sources with the external reserves position expected to remain at comfortable levels.

The fiscal outlook will likely remain challenging. Fiscal consolidation is set to resume in the medium-term. However, COVID-19, military insurgencies, and natural disasters may impede fiscal adjustment. Additionally, slower than anticipated implementation of LNG projects could delay the expected revenue. This reinforces the need for an adequate fiscal framework anchored in appropriated fiscal targets, complemented by sustainable medium-term debt objectives, and improved investment management in line with the regulatory framework.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.4	2.3	-1.3	1.7	4.2	6.3
Private Consumption	3.7	4.1	-9.9	12.2	9.3	2.3
Government Consumption	-5.7	6.1	42.2	-35.8	-1.1	-71.4
Gross Fixed Capital Investment	12.4	-8.1	106.1	-10.7	31.7	23.7
Exports, Goods and Services	36.5	-5.5	-41.1	80.7	14.5	27.0
Imports, Goods and Services	43.7	-2.5	28.5	0.1	23.4	1.4
Real GDP growth, at constant factor prices	3.4	1.4	-1.3	1.7	4.2	6.3
Agriculture	3.0	1.6	2.6	1.1	1.6	3.3
Industry	3.9	-0.6	-3.6	0.8	4.9	8.0
Services	3.4	2.2	-2.4	2.4	5.3	7.1
Inflation (Consumer Price Index)	3.9	2.8	3.1	4.0	4.4	4.8
Current Account Balance (% of GDP)	-30.3	-19.7	-27.3	-44.5	-60.6	-62.4
Net Foreign Direct Investment (% of GDP)	18.1	14.5	16.9	18.9	25.9	22.4
Fiscal Balance (% of GDP)[a]	-4.1	0.3	-4.7	-5.8	-4.8	-3.6
Debt (% of GDP)[b]	110.1	108.2	121.7	126.9	120.4	119.8
Primary Balance (% of GDP)[a]	0.3	3.6	-1.2	-2.6	-1.8	-0.7
International poverty rate ($1.9 in 2011 PPP)[c,d]	61.6	61.9	63.3	63.8	63.3	62.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	81.0	81.1	82.2	82.4	82.1	81.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Figures include once-off capital gains revenues in 2019, estimated at 5.8 percent of GDP.
(b) Calculations based on 2014-IOF.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.
(c) Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.
(d) Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.