

Mozambique

Recent macroeconomic and financial developments

Mozambique's economy is gradually recovering from the impact of COVID-19 and the Cabo Delgado conflict, which displaced 780,000 people and caused 3,800 deaths. GDP grew by 2.2% in 2021 from a 1.2% contraction in 2020, aided on the supply side by recovery in agriculture and mining, and on the demand side by exports and government expenditure. A higher population growth rate led to 0.8% smaller GDP per capita growth in 2021, and an estimated 600,000 people fell below the poverty line in 2021. Inflation nearly doubled to 5.7% in 2021 from 3.1% in 2020 due to higher food and fuel prices, prompted the central bank to raise the policy rate by 300 basis points in January 2021.

The fiscal deficit narrowed to 6.0% of GDP in 2021 from 7.0% in 2020, aided by increased revenues as activity improved. However, public debt is estimated to have risen to 130% of GDP in 2021 from 122% in 2020, fueled by spending on security and humanitarian needs related to the conflict. The current account deficit narrowed to 20.8% in 2021 of GDP from 25.8% in 2020, aided by an upswing in commodity exports, largely financed by FDI. International reserves remained at 7 months of imports in 2021; the \$306 million SDR allocation will expand them by 9%. The banking sector's NPL ratio declined to 9.9% in 2021 from 12.6% in June 2020.

Outlook and risks

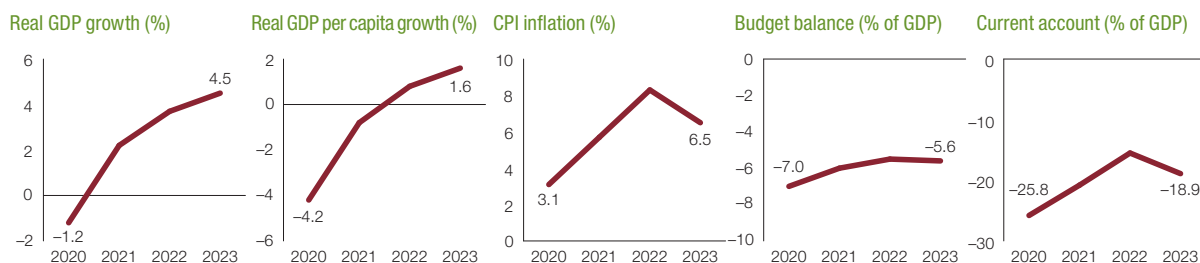
GDP growth is projected to surpass pre-pandemic levels by 3.7% in 2022 and 4.5% in 2023, partly reflecting mineral projects. Inflation will peak at 8.3% in 2022 due to the disruptive effects of the Russia-Ukraine conflict before falling to 6.5% in 2023. The fiscal deficit is projected to widen to 5.5% of GDP in 2022 and 5.6% of GDP in 2023 owing to public sector wage increases.

The current account deficit is projected to widen to 15.5% and 18.9% in 2022 and 2023 due to related imports from liquefied natural gas (LNG) investments. GDP per capita is projected to grow by 0.8% and 1.6% in 2022 and 2023, reducing poverty to 60.3%, below pre-COVID-19 levels. The pandemic, climate change, and the conflict in the north are major risks as 2022 continues unfolding. The government is seeking a \$470 million IMF program to help mitigate financing vulnerabilities from those risks. Economic boosts include completion of LNG projects and the peace settlement with the RENAMO military arm of the opposition, helping unlock agriculture and tourism.

Climate change issues and policy options

The 2021 GCRI classified Mozambique as the country most affected by climate change—for instance, cyclones Idai and Kenneth caused damage in 2019 worth \$3.2 billion. As grants only covered 47% of financing needs, Mozambique issued \$118 million in sovereign bonds, worsening its fragile debt situation. Cyclones also hit economic activity, food security, and rural livelihoods.

The NDC targets lower emissions of 99 MtCO₂eq between 2020 and 2030. Mozambique is also fast-tracking funding mobilization while implementing the National Climate Change Adaptation and Mitigation Strategy 2013–2025, while aiming to expand energy access and the matrix focusing on renewable energy and natural gas, but a large financing gap remains. The estimated cost of NDC implementation is \$53 billion for 2020–30, far above the \$3.7 billion mobilized in 2011–20. Mozambique is on track to achieve SDG 13 on climate action by 2030 but faces impediments.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.