

I. THE ECONOMIC ENVIRONMENT

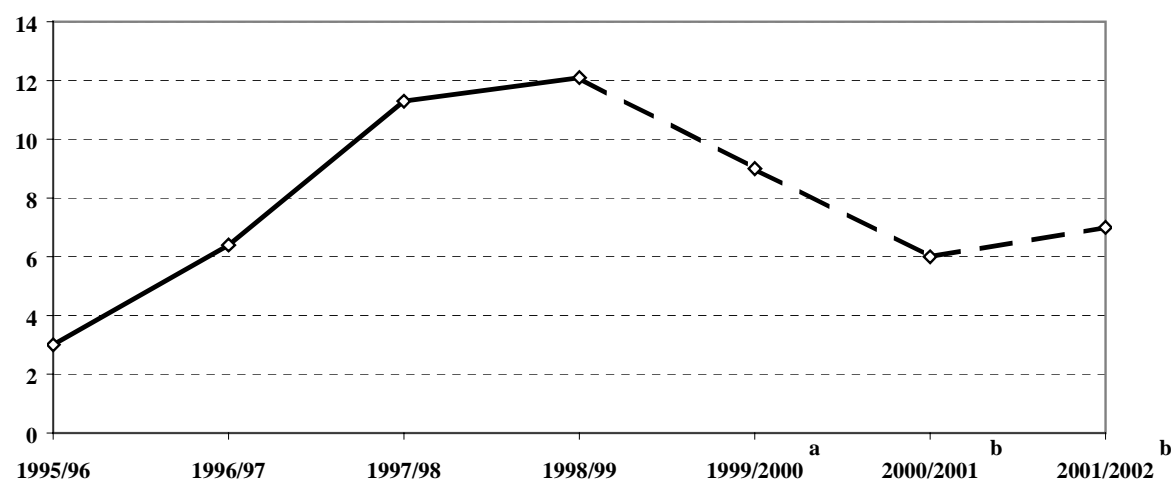
(1) MAJOR FEATURES OF THE ECONOMY

1. The Republic of Mozambique is a coastal country in south-eastern Africa bounded on the north by Tanzania, on the east by the Indian Ocean, on the south by Swaziland and South Africa, and on the west by Zimbabwe, Zambia, and Malawi. The total area of Mozambique is 799,380 sq. km. Maputo is the largest city and serves as Mozambique's capital.

2. With a per capita GNP of US\$210, Mozambique is one of the least developed countries. The economy is essentially dependent on agriculture, which currently accounts for around 44% of GDP (30% of GNP). Although 45% of the total landmass is arable, only a small portion, 4% by some estimates, of the arable land is used. Agriculture is sharply divided between highly mechanized state-owned, and private plantations on the one hand, and subsistence farming on the other. The fluctuating nature of agricultural production, due both to climatic conditions – the country suffered massive flooding in early 2000 – and ongoing but incomplete economic reforms, along with variations in commodity prices have had a major impact on Mozambique's economic performance. Because Mozambique is dependent on commodities for its export earnings, its terms of trade have deteriorated as commodity prices have generally declined. Mozambique's prospects depend heavily on the development of its strong natural resource base, with a few major mining projects soon to come on stream. Although Mozambique's manufacturing sector has experienced strong performance improvements, it is underdeveloped and suffers from a variety of inefficiencies. The services sector, approximately 37% of GDP, is predominately characterized by construction, tourism, transportation, and communication. Mozambique's GDP growth has been among the highest in the world, at over 10% in 1997-99 (Chart I.1).

Chart I.1
Real GDP growth, 1995-2002

Per cent



a Estimate
b Projection

Source: Bank of Mozambique, *Statistical Bulletin 1995-99*.

3. Mozambique's population was about 17 million in 1999. Since 1990, the average, annual population growth rate has been approximately 2% (Table I.1). The urban population increased from 1.6 million (13% of the total) in 1980 to 6.0 million (38%) in 1998.¹ The percentage of public expenditure on health between 1990 and 1997 was 4.6% of GDP.² Mozambique's official language is Portuguese; English is taught in secondary school. In addition, the thirteen main national languages are recognized. According to the UNDP, Mozambique ranked 168th of 174 countries on the basis of the human development index (HDI). Mozambique has one of the highest incidences of HIV infection in the world; it is estimated that 700 new infections occur daily, and that at least 1.4 million Mozambicans are infected with HIV.

4. The currency unit is the Mozambique metical (Mt). The official exchange rate is determined on the basis of the rate established in the interbank market for foreign exchange. While the Bank of Mozambique allows the exchange rate to be determined freely, it is an active participant in the foreign exchange market. The Government intends that intervention policy will be directed only at smoothing exchange rate fluctuations, subject to attaining the desired reserves target. The Bank of Mozambique has officially targeted a 5% annual depreciation of the metical against a basket of currencies to preserve competitiveness. In September 2000, the exchange rate was Mt 15,320 for US\$1.

5. Mozambique is one of the most heavily indebted countries in the world. The debt servicing requirements of its approximately US\$8.2 billion of debt, are enormous obstacles to Mozambique's economic development.³

6. On 27 March 2000, the International Monetary Fund (IMF) completed the first review under the Poverty Reduction and Growth Facility (PRGF) for Mozambique⁴, and augmented Mozambique's access under the PRGF arrangement by enabling the country to draw up to the equivalent of SDR 36.8 million, approximately US\$50 million.⁵

7. Mozambique qualified for additional debt relief to cushion the adverse effects of its foreign debt under the Heavily Indebted Poor Countries (HIPC) Initiative. On 12 April 2000, the IMF and the World Bank Group's International Development Association (IDA) agreed to provide Mozambique with additional debt relief under the enhanced HIPC Initiative. Mozambique's inclusion in the HIPC programme is, in part, the result of the recognition that it has consistently implemented stringent measures laid down by the World Bank and the IMF. Mozambique's total debt reduction under the Initiative is currently US\$4.3 billion.⁶

¹ World Bank (1999a), Table A.2.

² World Bank (1999a), Table 7.

³ EIU (2000).

⁴ On 22 November 1999, the IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was renamed the Poverty Reduction and Growth Facility (PRGF) and its purposes were redefined. It is intended that PRGF-supported programmes will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a poverty reduction strategy paper (PRSP). This is intended to ensure that each PRGF-supported programme is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. The PRSP, once broadly endorsed by the Executive Boards of the IMF and World Bank, is intended to provide the policy framework for future reviews under the country's PRGF arrangement.

⁵ IMF *News Brief* No. 00/18, 27 March 2000.

⁶ IMF *Press Release* No. 00/28, April 12, 2000.

Table I.1
Mozambique at a glance, 1980-99
(US\$ and per cent)

	1980	1990	1995	1997	1998	1999
GDP per capital (US\$)	..	..	..	217	236	256
Real GDP growth (per cent)	..	..	4.3	11.1	9.9	10.0
Population (million)	12.1	14.2	15.8	16.5	16.9	17.3
Growth of population (percentage change)	..	1.6	2.3	2.3	2.3	2.2
Fertility rate (births per woman)	6.5	6.5	6.1	5.9	..	..
Life expectancy	44.4	45.9	46.9	47.7	..	..
School enrolment ratio, secondary (per cent)	5.0	7.6	7.0	..	..	..
Share of GDP (per cent)						
Agriculture, hunting, forestry and fishing	37.3	44.5	51.1	51.1	..	44.0
Industry	57.7	24.1	28.1	32.6	..	19.0
Services	5.0	31.4	20.7	16.4	..	37.0
Private consumption	82.1	70.5	99.0	90.3	84.1	79.7
Government consumption	17.9	20.2	9.7	9.0	9.8	11.2
Gross domestic investment	19.2	59.0	23.8	17.8	22.5	..
Export of goods and services	..	15.9	12.5	10.9	10.3	10.7
Import of goods and services	..	65.7	49.0	28.2	26.9	39.4
Share in employment (per cent)						
Agriculture, hunting, forestry and fishing	85.0	82.3	81.2	..	..	..
Industry	7.4	9.0	9.8	..	..	..
Services	8.2	8.8	9.0	..	..	..

.. Not available.

Source: EIU (2000), *Country Report: Mozambique*, May; African Development Bank (1999), *Selected Statistics of African Countries*; and IMF (1995 and 2000), *IFS Yearbook*.

(2) ECONOMIC DEVELOPMENTS

8. A one-party State based on a socialist model of economic development was established in Mozambique after its independence in 1975. Private enterprises were nationalized, collective farms created, and centralized planning adopted. A civil war began in 1976, causing a rapid choking off of trade and industry through systematic sabotage of the country's infrastructure. By the mid 1980s, the economy was in disarray. In 1987, the Government embarked on a programme of economic reforms moving away from the socialist model of economic development. Known as the Economic Rehabilitation Programme (PRE), the reforms were aimed at achieving fiscal stability and reactivating the economy in a sustainable form through improved fiscal management, reform of the public sector, restructuring and privatizing of state enterprises, and reform of the civil service.

9. Progress of the economic reforms was slow until after the civil war ended.⁷ Since 1993, the pace of market-oriented reforms has quickened, and further efforts to reduce government control over the economy and to encourage private sector activity have been undertaken.

10. A programme for privatizing large enterprises was completed in 1998, while a similar programme for small and medium-sized enterprises will be completed in the near future. Significant

⁷ A General Peace Accord was signed in October 1992; the last peacekeeping force (ONUMOZ) contingents departed Mozambique in early 1995.

further progress was made during the period 1996-99 under Mozambique's Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF.⁸ Macroeconomic performance improved markedly, furthering the consolidation of Mozambique's recovery from civil war and from severely depressed per capita income. The economic growth rate rose from an average of 6.7% per year during 1987-95 to 10% a year during 1996-98, while inflation declined from 55% in December 1995 to virtual price stability in 1998 (Table I.2). A new value-added tax (VAT) of 17% and supplementary excise taxes became effective in June 1999, replacing the turnover and consumption taxes. Corporate and personal income tax rates were lowered, and reforms to improve the budgetary process and strengthen the civil service were initiated.

Table I.2
Domestic inflation, cumulative growth rate, 1995-99
(Per cent change)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1995	10.0	20.0	22.0	18.0	17.0	23.0	24.0	27.0	30.0	34.0	45.0	55.0
1996	9.0	18.0	21.0	18.0	17.0	17.0	15.0	13.0	13.7	14.0	16.0	16.5
1997	6.0	7.0	6.0	5.0	4.0	3.5	3.0	3.0	2.5	3.0	5.0	6.0
1998	2.2	3.0	2.0	1.0	0.0	-1.5	-2.5	-3.8	-4.2	-3.0	-2.0	-1.5
1999	4.0	5.0	4.2	4.0	3.0	2.0	1.8	1.0	0.0	-0.5	0.0	5.0

Source: Bank of Mozambique (1995-99), *Statistical Bulletin*, Maputo.

11. Mozambique has also made significant strides in liberalizing the various components of its trade regime. In 1997, Mozambique signed a three-year contract with a U.K. company, Crown Agents, with the aim of improving revenue mobilization and modernizing customs management. The Crown Agents contract was recently extended for one year, after which the customs department will be returned to government control. Although the programme has raised customs revenue, the complexity of import procedures continues to be criticized by the business community.⁹ The top tariff rate has been reduced repeatedly, reaching 30% in April 1999. Currently, among the southern African countries, Mozambique has the lowest import tariff rates.

(3) TRADE PERFORMANCE

12. Mozambique's balance of trade has been consistently in deficit despite the continuing process of economic reform. The trade balance is expected to have deteriorated somewhat in 1999 due to the construction of the Mozal aluminium smelter (Table I.3). The external current account deficit (before grants) narrowed substantially in 1996-97, but widened to 21% of GDP in 1998 as a result of higher imports in the first year of construction of the US\$1.3 billion smelter. The current account deficits were financed by large inflows of foreign aid and private financing for the Mozal project, and gross international reserves rose from the equivalent of 2.7 months of imports in 1995 to 6.7 months in 1998.

⁸ Previously the Enhanced Structural Adjustment Facility (ESAF).

⁹ EIU (2000).

Table I.3
Mozambique's balance of payments, 1994-2000
 (US\$ million)

Items	1994	1995	1996	1997	1998	1999 ^a	2000 ^b
Trade account	-717.0	-552.7	-556.5	-530.0	-572.7	-902.0	-222.4
Exports (f.o.b.)	164.0	174.3	226.1	230.0	244.6	268.1	48.2
Imports (c.i.f.)	881.0	727.0	782.6	760.0	817.3	1,171.0	270.6
Services (net)	-147.3	-124.1	-90.1	-80.7	-176.3	-195.7	-3.9
Receipts	245.9	291.7	314.2	343.3	332.5	353.4	97.0
Payments	393.2	415.8	404.3	423.0	508.8	549.1	100.9
Current account	-299.7	-337.6	-421.9	-297.8	-435.8	-682.9	-123.9
Capital account	-9.7	63.8	248.0	180.8	262.7	445.4	20.9
Financial account							
Direct investment	35.0	45.0	72.5	64.4	212.7	384.7	12.5
Errors and omissions							
Overall balance	-376.7	-263.7	-41.0	-97.6	-204.4	-206.6	-112.7
Financing	375.8	-263.7	41.0	97.6	204.4	206.7	112.8
Exceptional financing	..	..	..	..	0.0	0.0	0.0
Net change in arrears	147.3	173.6	-48.9	-3,932.2	20.4	0.0	0.0
Debt forgiveness	203.2	120.9	262.4	4,177.9	261.2	253.5	90.6
Use of fund credit (net)	10.6	-14.3	-14.0	19.6	(9.5)	2.8	(45.3)

.. Not available.

a Preliminary.

b First quarter.

Source: Bank of Mozambique (2000), *Statistical Bulletin*, No. 27 Year 8, March; and data provided by the Mozambique authorities.

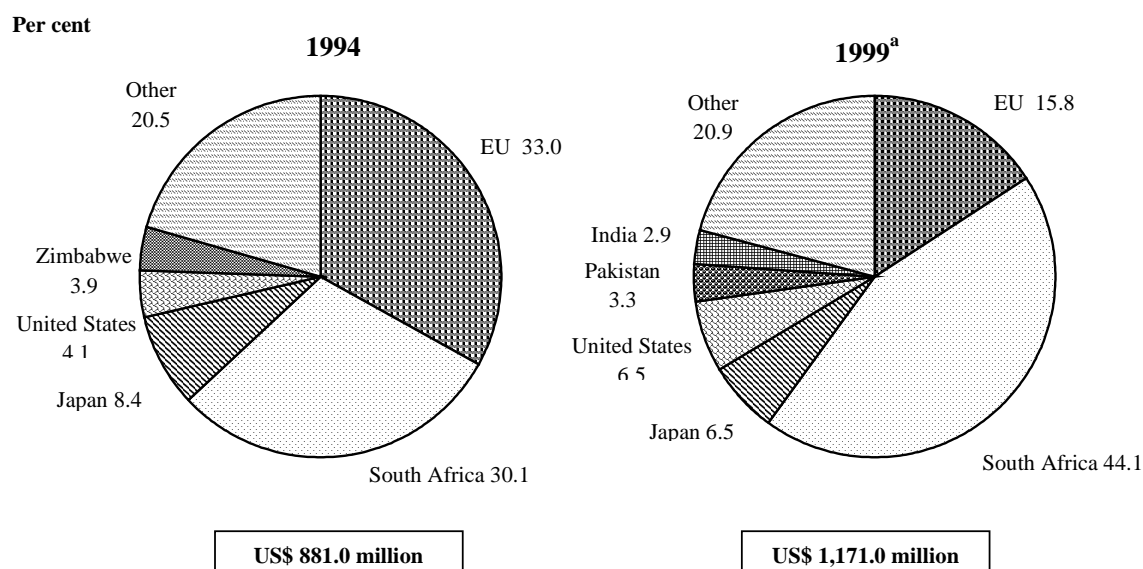
(i) Trade in goods

13. In 1994, the top ten sources for Mozambique's imports were South Africa, Japan, the United Kingdom, Portugal, Germany, the United States, Zimbabwe, Denmark, Italy, and the Netherlands. Between 1994 and 1999, South Africa overtook the European Union as the leading source for imports to Mozambique (Chart I.2).

14. Imports in 1994 were characterized by machinery, food and foodstuffs, and transport equipment. Fuel and chemicals also accounted for a significant proportion of imports. In 1999, transport equipment accounted for slightly more than 25% of imports; other significant imports were machinery, mineral products, and food and foodstuffs (Chart I.3).

15. The top destinations for Mozambique's exports in both 1994 and 1999 were Spain, South Africa, India, Portugal, Japan, the United States and Zimbabwe. As a result of a relative decline in exports to the EU (overall), to Japan and to the United States, and increases in exports to India, South Africa and Zimbabwe, the share of merchandise exports from Mozambique to other developing countries has increased significantly since 1994 (Chart I.4).

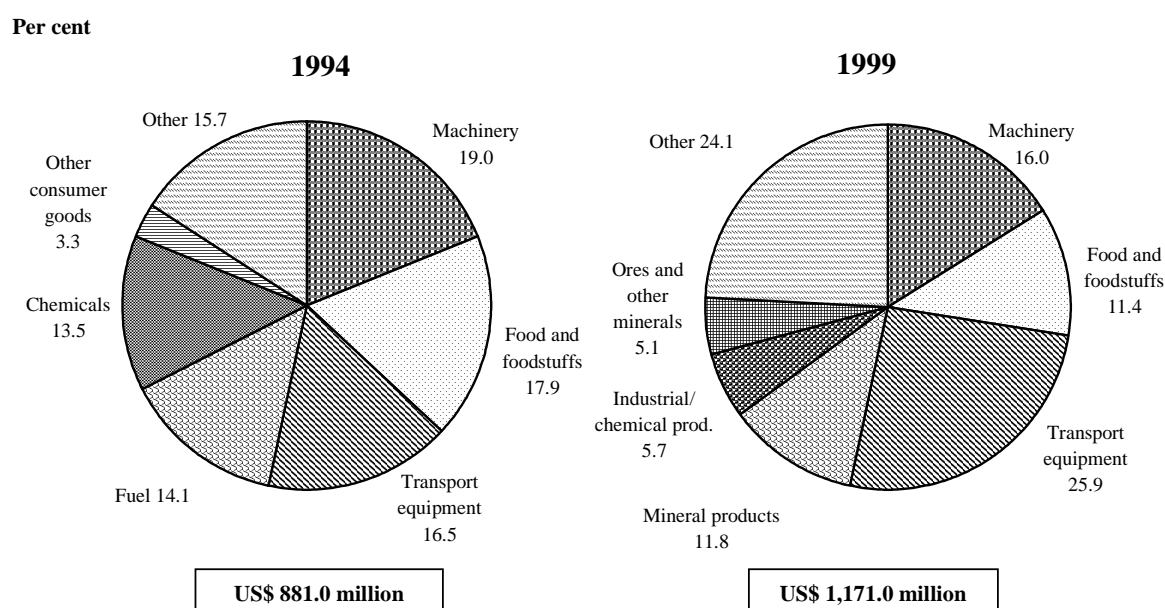
Chart I.2
Imports by origin, 1994 and 1999



^a 1st half and not including MOZAL.

Source: Data provided by the Mozambique authorities; and WTO Secretariat estimates.

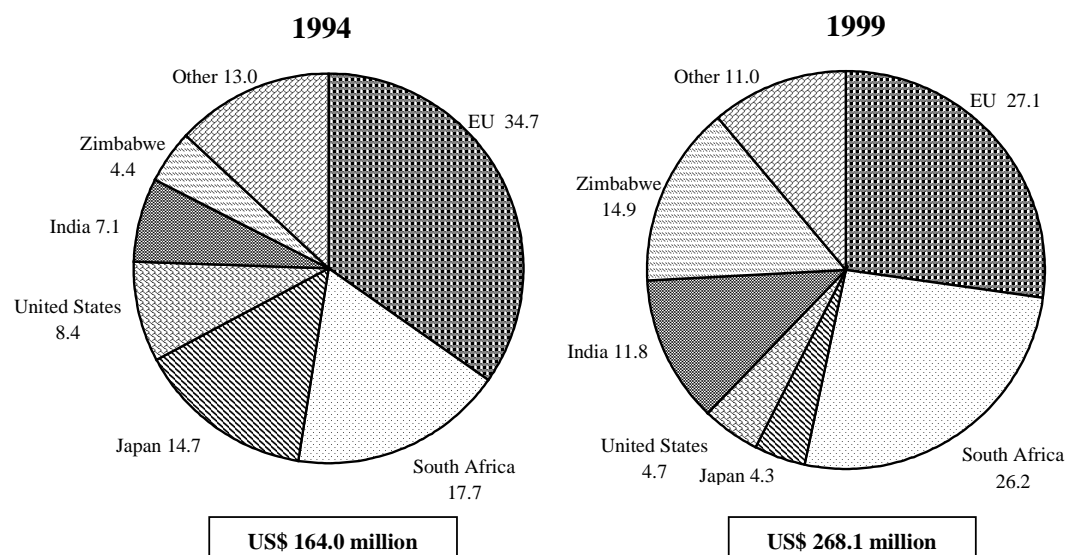
Chart I.3
Imports by major commodity group, 1994 and 1999



Source: Data provided by the Mozambique authorities; and WTO Secretariat estimates.

Chart I.4
Exports by destination, 1994 and 1999

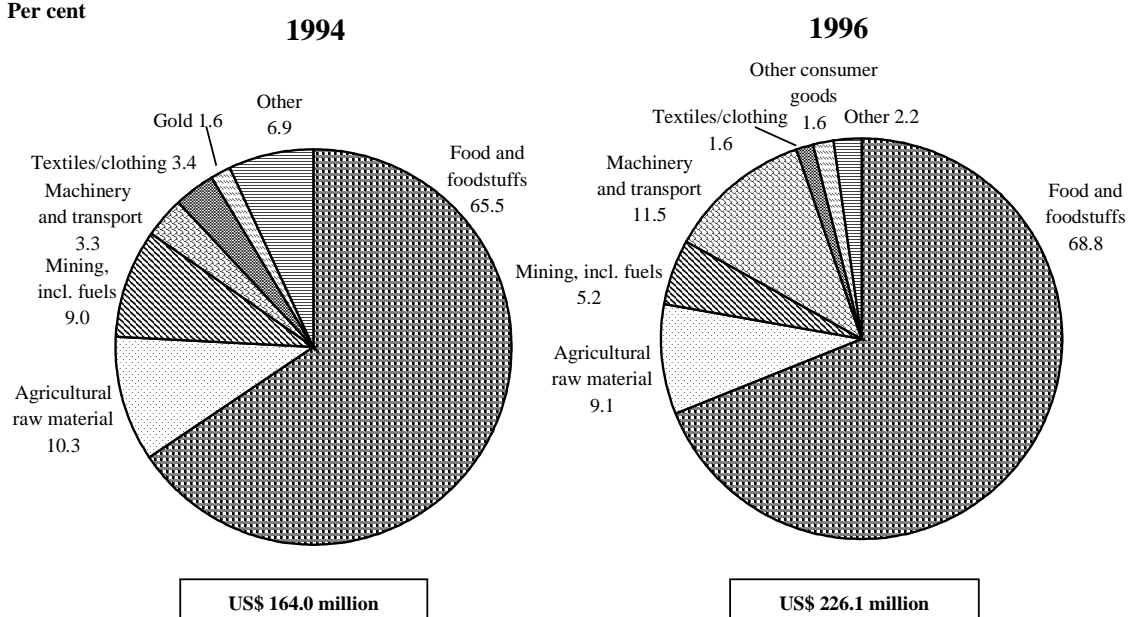
Per cent



Source: Data provided by the Mozambique authorities; and WTO Secretariat estimates.

Chart I.5
Exports by major commodity group, 1994 and 1996

Per cent



Source: Data provided by the Mozambique authorities; and WTO Secretariat estimates.

16. Mozambique's commodity exports rely heavily on agricultural products, especially food products, such as non-frozen crustaceans, and fresh and dried nuts. In 1996, exports of machinery and transport equipment accounted for 11.5% of exports, up from 3.3% in 1994 (Chart I.5). Exports of ores and other minerals are likely to increase significantly in 2001 when exports of MOZAL aluminum are expected to begin.

(ii) Trade in services

17. Mozambique is a net importer of services. Services receipts come primarily from the tourism sector, which has grown since 1996. Mozambique's payments reflect the substantial debt burden that the country is servicing (Table I.4).

Table I.4
Mozambique's services account, 1994-2000
(US\$ million)

	1994	1995	1996	1997	1998	1999 ^a	2000 ^b
Services receipts	245.9	291.7	314.2	343.3	332.5	353.4	97.0
Transportation	67.1	50.2	59.1	62.8	58.3	97.2	28.9
Compensation of employees	54.8	59.1	61.0	63.6	46.3	38.0	10.1
Travel/tourism	..	..	49.4	61.3	60.9	61.2	10.1
Interests on deposits abroad	..	..	..	..	24.9	19.8	4.6
Other services	124.0	182.4	144.7	154.6	142.1	137.2	43.3
Services payments	393.2	415.8	404.3	423.0	508.8	549.1	100.9
Interest payments	165.5	147.4	143.1	141.5	163.3	118.3	30.6
Scheduled	0.0	98.5	143.1	141.5	163.3	118.3	30.6
Refinancing	0.0	45.7	0.0	0.0	..	..	..
New borrowing	0.0	3.2	0.0	0.0	..	..	..
Profits and dividends	..	..	..	..	6.1	5.8	0.1
Transportation	48.2	35.0	33.5	32.2	33.4	28.4	12.6
Compensation of employees	19.4	20.6	15.7	22.9	31.1	31.3	5.7
Investment services	..	78.8	68.7	74.7	67.6	53.7	20.2
Travel/tourism	..	..	68.1	68.1	94.1	134.0	5.4
Services on large project	..	..	..	..	40.4	81.2	0.0
Other services	88.3	137.2	70.5	65.3	72.8	96.4	26.3

.. Not available.

a Preliminary.

b First quarter.

Source: Bank of Mozambique (1994-2000), *Statistical Bulletin*, Maputo.

(4) SAVING AND INVESTMENT

18. Gross domestic savings in Mozambique, both by the Government and by the private sector, are insufficient to meet the needs of Mozambique's growing economy. In 1998-99, government saving was approximately 7% of GDP; it reached 9.2% of GDP in 1999/2000. The private saving rate increased from 2.5% of GDP in 1997/98 to 4% in 1999/2000. The total saving rate (government and private) is estimated to be around 10% of GDP in 2002. Investment in Mozambique peaked in 1999/2000 at some 29% of GDP, of which 19% was private investment, with government investment (relatively constant since 1997) accounting for the remaining 10% (Table I.5). Foreign investment flows have traditionally been the source of most investment funds.

Table I.5
Mozambique's savings and investment, 1996-2000
 (Per cent of GDP)

	1996/97	1997/98	1998/99	1999/00
Gross domestic savings				
Government	..	5.2	7.0	9.2
Non-government	..	2.5	3.0	4.0
Investment				
Public	9.9	10.0	10.1	10.2
Private	8.5	10.0	15.2	19.0

.. Not available.

Source: Bank of Mozambique.

(5) OUTLOOK

19. The objective of the Government's economic programme is to maintain real growth of the economy at approximately 10% through 2002. Inflation, which has been declining steadily, is targeted to remain under control. However, the disruption to agricultural marketing wrought by the 2000 floods is expected to push inflation in 2000 up to 10%, compared with previous forecasts of 5%. Inflation should begin to ease later in the year, and is expected to be 5% in 2001, subject to normal weather conditions.¹⁰

20. The outlook for Mozambique's commodity-based exports in 2000-01 is mixed: while cotton prices are expected to recover and rise by 28% from 1999 prices, the price of prawns is expected to fall by approximately 7% in 2000 before recovering somewhat in 2001. The increase in international oil prices in 2000 is expected to worsen Mozambican inflation.¹¹

21. Mozambique has made significant progress in implementing a comprehensive reform of its fiscal and monetary policies, and the Government is expected to continue with the policies of macroeconomic stability and ambitious market-based reforms that have underpinned the strong economic performance of recent years. Foreign exchange reserves are expected to remain robust while monetary policy is not expected to be conducive to prolonged exchange rate weakness. Fiscal policy is likely to be expansionary during the immediate period, driven by the inflow of assistance for the post-flood reconstruction programme. Much of this additional expenditure will be disbursed through state institutions. Moreover, the value-added tax (VAT), introduced in 1999 and expected to improve fiscal revenue, is scheduled to replace the tourism accommodation tax in 2000.

22. Despite its high potential and progress in recent years, Mozambique continues to be constrained by a number of key factors such as inadequate infrastructure, insufficient managerial and administrative expertise, fiscal mismanagement, corruption, lack of accountability, and poor governance. Moreover, the country is quite susceptible to economic setbacks brought about by climatic variations that have a detrimental impact on Mozambique's crucial agricultural sector. Even with increased agricultural production, the vagaries of the commodities markets can jeopardize Mozambique's economic progress. For these reasons, continued trade liberalization and parastatal reform, coupled with progress in attracting foreign investment and promoting non-traditional exports, will be important for Mozambique's development prospects.

¹⁰ EIU (2000).

¹¹ EIU (2000).