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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/27-1

10:00 a.m., April 19, 2019

1. Republic of Mozambique—Request for Disbursement Under the Rapid Credit Facility

Documents: EBS/19/20 and Supplement 1 ; EBS/19/21; and Correction 1; and Supplement 1; and Supplement 1, Correction 1

Staff: Velloso, AFR; Gemayel, SPR

Length: 1 hour 1 minute

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors Alternate Executive Directors

D. Mahlinza (AE)

M. Raghani (AF)

J. Di Tata (AG)

G. Johnston (AP)

A. Tombini (BR)

P. Sun (CC)

A. Del Cid-Bonilla (CE), Temporary

A. McKiernan (CO)

C. Just (EC)

H. de Villeroché (FF)

S. Meyer (GR)

S. Gokarn (IN)

D. Fanizza (IT)

Y. Saito (JA)

J. Mojarrad (MD)

D. Fadhel (MI), Temporary

R. Doornbosch (NE)

T. Ostros (NO)

L. Palei (RU)

M. Mouminah (SA)

J. Agung (ST)

P. Trabinski (SZ)

J. Stockill (UK), Temporary

P. Pollard (US), Temporary

S. Bhatia, Acting Secretary

H. Malothra, Summing Up Officer

D. Alcantara, Board Operations Officer

L. Nagy-Baker, Verbatim Reporting Officer

Also Present

African Department: N. Carvalho, S. Delepierre, M. El Said Ibrahim, D. Owen, A. Selassie, R. Velloso, H. Zavarce Rovero. Communications Department: A. Akuamoah Boateng, L. Mbotto Fouda. Finance Department: M. Mohlala. Legal Department: J. Ams, W. Bergthaler. Strategy, Policy, and Review Department: Y. Endegnanew, D. Hakura, E. Gemayel. Executive Director: L. Villar (CE). Alternate Executive Director: P. Fachada

(BR), B. Saraiva (BR), F. Sylla (AF). Senior Advisors to Executive Directors: Z. Abenoja (ST), A. Muslimin (ST), S. Evjen (NO), N. Jost (NE), O. Odonye (AE), T. Ozaki (JA), S. Potapov (RU), A. Tivane (AE), G. Vasishtha (CO). Advisors to Executive Directors: P. Al-Riffai (MI), E. Boukpassi (AF), S. Buetzer (GR), X. Cai (CC), J. Essuvi (AE), T. Gade (NO), J. Garang (AE), M. Ismail (AE), G. Khurelbaatar (AP), U. Latu (ST), H. Mori (JA), M. Mulas (CE), A. Nainda (AE), L. Nankunda (AF), K. Osei-Yeboah (MD), T. Persico (IT), S. Vitvitsky (US), D. Vogel (AG), C. Wehrle (SZ), A. Sode (FF).

1. REPUBLIC OF MOZAMBIQUE—REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

Mr. Mahlinza and Mr. Tivane submitted the following statement:

Introduction

Our Mozambican authorities thank the Fund Staff, Management and the Executive Board for their continued engagement and support, especially in the aftermath of the devastating effects of Cyclone Idai, which necessitated a quick change in objectives and focus by Fund Staff who were already in Mozambique for AIV Consultations when the Cyclone struck. Against this background, the authorities are requesting emergency financing under the Rapid Credit Facility (RCF) to address the effects of the Cyclone Idai.

Impact of Cyclone Idai

Following a series of shocks in 2015-16, the pace of economic recovery has regained momentum, with inflationary pressures subsiding, the exchange rate remaining stable, and external imbalances slowly declining. However, on March 15, 2019, a devastating tropical cyclone struck the central region of Mozambique, near the city of Beira - the country's second largest city - resulting in significant loss of life, injuries, and mass displacement, as well as considerable destruction of socio-economic infrastructure. Preliminary estimates put the number of fatalities at about 602 deaths, the number of persons with varying degrees of injuries at 1,641, and the number of displaced households at over 306,000. Regrettably, these estimates are expected to rise as the effects of the cyclone continue to dissipate. With respect to physical infrastructure, the country's National Disaster Management Institute estimates that the ensuing floods resulted in the destruction of over 111,000 homes, 3,435 classrooms, 54 health facilities, 715,378 hectares of crops, and several hundreds of kilometers of paved roads.

Given the devastation, real GDP growth in 2019 could decline by a range of 1.8 – 2.8 percent, down from a pre-cyclone projection of 3.8 percent, reflecting significant losses in agriculture production and disruptions to transportation and electricity networks, communications and services. Similarly, inflation is now projected to pick up to 8.5 percent in 2019, from a pre-cyclone projection of 5.5 percent. In parallel, the primary fiscal deficit after grants is expected to rise to 2.5 percent of GDP in 2019 - one percentage point of GDP higher than earlier anticipated. Furthermore, owing to an increase in imports of foodstuff, medical supplies, fuel and intermediate and capital goods, the current account deficit excluding megaprojects is projected

to rise to 32 percent of GDP, down from a pre-cyclone projection of about 26 percent of GDP.

Immediate Post- Idai Response

To minimize recourse to borrowing and further debt accumulation, the authorities are actively seeking external grant finance. In the immediate aftermath of the natural disaster, they launched a global appeal for immediate support of about US\$282 million. The United Nations and its humanitarian partners, the World Bank, the African Development Bank, the European Union, the U.K. Department of International Development, India, China, Brazil and other bilateral and multilateral partners responded swiftly to the appeal, by providing both financial and non-financial support. On Wednesday, March 20, 2019, the World Bank approved a grant of US\$90 million to support the Government's Disaster Risk Management and Resilience Building Program. In addition, the government has set up a high-level Committee tasked to undertake a full assessment of the reconstruction needs that will be presented at an international donor conference scheduled for late May 2019. Preliminary official estimates indicate that the emergency response as well as post-disaster reconstruction costs could reach up to US\$1.5 billion (roughly 10 percent of GDP), of which US\$800 million will be needed in 2019, US\$500 million in 2020, and US\$200 million in 2021. As floodwaters subside, the emergency operations remain focused on providing shelter and means of subsistence for the affected households, while deploying adequate resources to contain the propagation of water-borne diseases.

Request for a Rapid Credit Facility

Given the unprecedented level of damage caused by Cyclone Idai and the resultant urgent BOP needs, the support of international financial institutions and development partners will be critical to sustaining recovery efforts and gradually normalizing socio-economic conditions in the affected areas. While external grants are expected to cover most of the external financing needs, the disbursements under the Rapid Credit Facility (RCF) will cover the remaining financing gap and play a catalytic role in unlocking additional grant funding from other bilateral and multilateral partners. Against this background and given the urgent BOP needs arising from Cyclone Idai, the authorities are seeking the Board approval for a loan disbursement in an amount equivalent to SDR 85.2 million (37.5 percent of quota) under the RCF, to support their efforts in addressing the reconstruction financing needs and to catalyze donor support in the aftermath of the cyclone. Indeed, the

donor community pledged further in-kind and financial assistance during a roundtable held on the margins of the 2019 Spring Meetings.

Short and Medium-Term Policy Priorities

Going forward, the authorities remain steadfast in the implementation of reforms and preserving the hard-won gains in macroeconomic stability achieved in recent years, including addressing fiscal vulnerabilities, bolstering productivity growth, building resilience to natural disasters, and buttressing institutions. To this end, policy priorities remain geared towards maintaining fiscal prudence in 2019 while increasing, to the extent feasible, room for emergency-related expenditures by reallocating lower priority spending and eliminating the primary fiscal deficit by 2022. In addition, they will continue to calibrate the policy mix to anchor inflationary expectations, preserve exchange rate flexibility, and improve financial sector resilience, by inter alia, upgrading the monetary policy framework, reinforcing crisis preparedness tools and strengthening risk-based supervision. In this respect, they remain vigilant about the possible second-round effects on inflation of the supply shock caused by the cyclone.

Recognizing that the country's public debt is in distress, the authorities are pursuing a strategy to bring down debt to moderate levels. This includes through good-faith discussions with private creditors to restructure the country's foreign debt. An agreement in principle was reached with a group of Eurobond holders in November 2018 to provide debt service relief and extend principal repayments. At the same time, discussions with other creditors are ongoing.

Likewise, the authorities are cognizant that further progress in governance reforms are paramount to accelerate sustained inclusive growth, improve intragenerational distribution of natural resource wealth, and reinforce the primacy of the rule of law. In this context, they are committed to invigorate efforts with a view to address governance vulnerabilities, and work diligently towards the completion, publication, and implementation of the diagnostic report on governance, transparency, and accountability with IMF technical assistance. Further, the authorities remain committed to pursue investigations aimed at holding accountable those responsible for the undisclosed loans.

Concluding Remarks

The Mozambican authorities reiterate their commitment to advance reforms aimed at improving macroeconomic fundamentals, laying the foundation to achieve sustained inclusive growth, and strengthening institutions. They greatly appreciate the swift response by Fund staff to recalibrate the objectives of the Article IV consultation mission to accommodate the authorities' request for support under the RCF. They also underscore the critical role the RCF will play in unlocking funding from other development partners, as the country grapples with urgent and medium-term post-Idai recovery efforts.

Mr. Tombini and Mr. Fachada submitted the following statement:

We thank Mr. Velloso and his team for quickly putting together a proposal to help Mozambique face the tragic effects of Tropical Cyclone Idai, which struck the central region of the country in mid-March. We also thank management for the leadership and agility, and Mr. Mahlinza and Mr. Tivani for their statement.

We express our deepest sympathies to the authorities and people of Mozambique for the loss of life and extensive devastation caused by Cyclone Idai. This was one of the worst tropical cyclones on record to affect the Southern Hemisphere. According to recent estimates, the death toll exceeds 1000 people. In addition to the loss of life, Beira—one of the largest cities in Mozambique—has been essentially destroyed. Idai has also caused intense damage to transportation, energy, and communications infrastructure. Government services have been disrupted and schools and hospitals have closed. Large areas of the country have been flooded, affecting the livelihood of families that depend on farming and livestock. The recent outbreak of cholera represents an additional threat to the country.

Against this background, we fully support Mozambique's request for access under the Rapid Credit Facility (RCF), amounting to 37.5 percent of quota (about USD 118.4 million). We take note of the urgent fiscal and BOP needs arising from the humanitarian assistance, as well as the upcoming reconstruction needs. We expect that the approval of the RCF will have a catalytic role in helping the authorities obtain additional external support from bilateral and multilateral partners. The governments of the three Portuguese-speaking countries in our chair (Brazil, Cabo Verde and Timor-Leste) have already pledged financial support and their civil society

have also mobilized to respond to Mozambique's humanitarian and reconstruction needs.

Planning and prioritization will be essential for the adequate use of the humanitarian and reconstruction financial support. A strong and transparent public financial management strategy, and coordination between different areas of the government and development partners will help ensure that the resources are appropriately used. Given that Mozambique remains highly vulnerable to natural disasters, the authorities should take the opportunity to build more resilient structures, including housing and infrastructure, especially in Beira. Over the medium-term, it would be important to build contingency buffers, especially if windfall resources arising from the exploration of hydrocarbons in the North materialize.

We encourage the authorities to complement their reconstruction efforts with reforms to improve the long-term prospects of the Mozambican economy. In this regard, strengthening the dialogue with staff would help. We expect that the RCF will not only facilitate a closer engagement of the authorities with the IMF, but also renew their determination to pursue sound economic policies and good governance.

Mr. Sun and Ms. Cai submitted the following statement:

We thank staff for the concise report and Messrs. Mahlinza and Tivane for the informative buff statement. We express our sincere sympathy to the people of Mozambique for the loss of lives and severe damages caused by Tropical Cyclone Idai. Urgent balance of payments and fiscal difficulties should be addressed to assist the affected population and the reconstruction efforts. We support Mozambique's request for emergency financial assistance under the Rapid Credit Facility (RCF). The bilateral and multilateral partners including China have responded rapidly by pledging in-kind and financial support. We wish that the facility could help further catalyze resources from development partners and donors.

A continuation of prudent fiscal policies is essential to support the rehabilitation and reconstruction efforts. Given the pressure the public finance is facing, strong commitment to eliminating the primary fiscal deficit after grants by 2022 is welcomed, and policy actions are needed to make concrete progress toward its elimination. We encourage the authorities to do so in a growth-friendly way. Enhancing revenue mobilization is critical to a successful fiscal consolidation. We take positive note of the significant progress the authorities have made in securing debt relief provided by the

international private creditors. Could staff shed more light on the new restructuring terms of the loans contracted by Mozambique Asset Management? Is there any contingent plan should the agreement not be finalized as envisaged?

More policy efforts are needed to enhance the economy's resilience and competitiveness over the medium term. Monetary policy should be carefully calibrated to support reconstruction efforts on the one hand, and to be mindful of potential implications for inflation in the future on the other hand. The central bank's gradual and cautious monetary policy normalization strategy is appropriate to enhance resilience and support growth. We encourage the authorities to maintain exchange rate flexibility as a first line of shock defense. More efforts are also needed to build ex ante resilience to natural disasters, including establishing a contingency fund. We encourage the Fund to provide more TA to increase the authorities' capacity in this regard.

With these remarks, we wish the authorities every success in their challenging endeavors.

Mr. Di Tata submitted the following statement:

We thank staff for the timely report and Mr. Mahlinza and Mr. Tivane for their helpful buff Statement.

In mid-March Mozambique suffered the impact of Tropical Cyclone Idai on the central region of the country, which resulted in significant loss of life, widespread damage to crops and infrastructure, and a substantial disruption of productive capacity. We concur with staff that the severity of the damage, the country's urgent BOP needs, and the authorities' policies to address the external shock, including by seeking external concessional support, warrant financial assistance from the Fund. Therefore, we support the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR 85.2 million (37.5 percent of quota).

Mozambique's economic situation was improving gradually before the cyclone. Real GDP growth was recovering, inflation had declined to the low single digits in response to tight monetary policy and exchange rate stability, the non-megaproject current account deficit had narrowed, and international reserves had been rebuilt to a comfortable level. At the same time, although the overall fiscal deficit is still high, in 2017-18 the authorities implemented a substantial fiscal effort that included the elimination of fuel and wheat

subsidies, the adoption of an automatic fuel price adjustment mechanism, and increases in electricity and public transportation tariffs.

The public debt is in distress, however, reaching 110 ½ percent of GDP at end-2018. The authorities are in good faith discussions with private creditors to restructure Mozambique's Eurobond and previously hidden loans. Accounting for the authorities' debt restructuring strategy and the share of the National Hydrocarbons Company (ENH) in the large LNG megaprojects, staff considers the debt to be sustainable in a forward-looking sense. Could staff comment on the size of the debt relief envisaged in the agreements in principle reached with private creditors and on the expected timing of finalization of these agreements?

Reflecting the impact of the cyclone, real GDP growth is projected to decelerate in 2019 before recovering in subsequent years, while inflation is expected to pick up temporarily to around 8 ½ percent. Based on the staff's estimates, the fiscal primary deficit after grants is projected to rise to 2 ½ percent of GDP in 2019, from 1.9 percent in 2018, with the overall fiscal deficit increasing to 6 ½ percent of GDP, from 5 ½ percent in 2018 due to lower tax collections and higher spending on emergency relief and reconstruction. Overall, staff estimates that the total financing needs associated with the cyclone could amount to US\$800 million in 2019, declining in 2020 and 2021. We notice that the authorities have already launched an initial global appeal for support of US\$282 million. Could staff elaborate further on how the total needs of US\$800 million are expected to be covered through reallocation of budgetary expenditures, external grants, and Fund support?

Looking ahead, we welcome the authorities' intention to eliminate the primary fiscal deficit after grants by 2022. This is expected to be achieved through a combination of revenue enhancing measures, including removal of VAT exemptions on selected products and tax administration reforms, as well as by reallocating lower priority spending to emergency assistance and reconstruction. However, downside risks involve, among other things, weak policy implementation regarding the planned fiscal consolidation. On a related matter, could staff elaborate on the main features of the envisaged reforms of wage and hiring policies in the public sector? To what extent can the political calendar affect the implementation of these reforms?

We support the planned gradual and cautious normalization of monetary policy and encourage the central bank to monitor developments closely to be able to mitigate the possible second-round effects of the supply

shock on inflation. We also agree on the importance of maintaining exchange rate flexibility and limiting intervention in the foreign exchange market to avoiding excessive exchange rate volatility. In addition, we encourage the authorities to seek prompt approval of the amendments to the BM Organic Law to strengthen the BM mandate and review its organizational and decision-making structure.

On average, the banking sector remains liquid, well capitalized, and profitable. We welcome the steps taken by the central bank to address vulnerabilities, including the new regulations that increased capital adequacy ratios and established minimum liquidity requirements, as well as the strengthened supervision and enforcement of prudential requirements. We notice, however, that NPLs reached 11 percent of total loans in January 2019, reflecting in part government and SOEs arrears to suppliers. Could staff comment on the expected timing of regularization of these arrears?

We encourage the authorities to continue with the efforts under way to strengthen governance and fight corruption. Addressing these issues will improve credibility, with positive effects on pledging support. Box 1 of the report presents a useful discussion of this topic. In this regard, we welcome the ongoing preparation of a diagnostic report on governance, transparency, and accountability with IMF technical assistance, which is expected to be published by mid-year. Going forward, further work is needed to enhance implementation capacity to fight corruption in a uniform and effective way; strengthen judicial accountability; improve the oversight of SOEs; strengthen tax administration and oversight capacity in the extractive sector; and improve the business environment. Also, notwithstanding recent progress, it would be important to decisively address several deficiencies regarding AML/CFT. The banking law should also be reviewed to modernize the safety net and crisis management framework.

To enhance preparedness to natural disasters, the government should integrate climate change within its broader development agenda. In particular, there is a need to complete the National Resilience Strategy being prepared with World Bank support; build further capacity at the National Disaster Management Institute; strengthen the Disaster Management Fund with budget and donor support; and define a clearer disaster risk financing and insurance strategy for the medium and long term.

With these comments, we wish the Mozambican authorities all the best in their future endeavors.

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

At the outset, we would request Mr. Mahlinza and Mr. Tivane to convey to the Mozambican authorities our deep sympathy for the loss of human lives and the devastating damage from the tropical cyclone Idai. We also thank staff for their agile approach and work, which is allowing the Fund to provide its timely and catalytic support to the country at a time when it faces urgent BOP needs. To this end, we support the authorities' request for disbursement under the rapid credit facility (RCF).

Mozambique experienced severe damages from natural disasters. In addition to human loss, the impact of the cyclone on infrastructure, housing, and agriculture is large, requiring emergency assistance and reconstruction costs of about US\$1.5 billion or 10 percent of GDP. Economic growth in 2019 is expected to be lower, compared to the pre-cyclone conditions, and inflation and the fiscal deficit will be higher.

The country has limited fiscal space and its public debt is at a distress level. We agree with staff and the authorities on the need for grant financing to minimize recourse to borrowing and we thank the international community for its rapid response and pledges of support. We appreciate the authorities' efforts to reallocate resources to emergency spending and social assistance to the most vulnerable.

The authorities continue to face important challenges. In addition to its high public debt, the country needs to continue its efforts to address governance vulnerabilities and promote sustainable and inclusive growth to reduce poverty. We hope that the ECF will help in strengthening IMF engagement in Mozambique and the authorities' resolve to address the challenges facing the country. We look forward to the 2019 Article IV consultation and would appreciate if staff could indicate the timing of the Board meeting.

With these comments, we wish the authorities all the success.

Mr. Geadah and Ms. Fadhel submitted the following statement:

We would like to express our deepest sympathy to the people and government of Mozambique for the significant human loss and damage caused by Cyclone Idai. We thank management and staff for their rapid response in support of Mozambique and Messrs. Mahlinza and Tivane for the useful brief statement.

Tropical cyclone Idai has resulted in significant loss of life, injuries, and mass displacement, as well as considerable destruction of socio-economic infrastructure, as noted in the buff. Given the damage caused by Cyclone Idai and the resultant urgent balance of payments need associated with the humanitarian and reconstruction needs, we support Mozambique's request for a disbursement under the Rapid Credit Facility. The cyclone will adversely affect the fiscal accounts through both lower tax collections and higher emergency spending, including increased social assistance to the most vulnerable. External grants are expected to cover most of the external financing shortfalls for 2019. The Mozambican authorities hope that the RCF disbursement could help in unlocking additional grant funding from other bilateral and multilateral partners.

We welcome efforts to reallocate lower priority spending in the budget to emergency assistance and reconstruction and join staff in encouraging the authorities to create fiscal space to better prepare and deal with the consequences of future natural disasters.

Mr. Ostros and Mr. Evjen submitted the following statement:

We thank staff for a well written set of reports and Mr. Mahlinza and Mr. Tivane for their buff statement. We broadly support staff's assessment of Mozambique's challenging situation and staff's recommendations. The cyclone Idai has caused significant loss of life and infrastructure damage which has severely impacted productive capacity in key economic sectors. The GDP growth projections for 2019 are downgraded by 1-2 percentage points mainly owing to the damage, and inflation is projected to increase significantly owing to the adverse supply shock to food availability. The adverse effects of the cyclone will affect the fiscal accounts both through lower tax collection and higher spending related to emergency relief and reconstruction. The projected fiscal primary deficit is revised upwards by one percentage point of GDP. While most of the external finance shortfall is expected to be covered by external grants, the authorities aim to close the remaining BOP gap projected for 2019 with the requested RCF disbursement. Against this backdrop, we support the proposed decision to approve the disbursement in the amount of SDR 85.2 million under the Rapid Credit Facility in accordance with the Republic of Mozambique's request.

There is an urgent need for post-disaster support, preferably in form of grants to minimize further debt accumulation. While we fully support the authorities' request for disbursement under the Rapid Credit Facility, the

outcome of the Post-Disaster Needs Assessment (PDNA) to be presented May 10th, together with the completion of the Article IV could have given the Board a fuller picture of the balance of payment needs and policy recommendations. Staff's comments are welcome.

We strongly encourage the authorities to continue their efforts in fighting corruption. Addressing governance and vulnerabilities to corruption will have a potentially large positive impact on inclusive growth prospects. The 2018 Article IV report made it clear that the annual cost of corruption was substantial, and that corruption was a threat to macroeconomic stability. Could staff elaborate on how the IMF will continue to monitor the package of issues related to governance and anti-corruption raised in the previous Article IV? Is there a risk that RCF approval will divert attention from these reforms?

The ongoing preparation with IMF technical assistance of a diagnostic report of governance and corruption vulnerabilities is an important step towards ensuring that scarce public resources are put to good use. The report should be published as soon as it's finalized. We take note of, and appreciate, staff's analysis and assessments of Mozambique's governance and corruption challenges in Box 1 of the report. We recognize that legislative and institutional measures have been adopted by the authorities, but more work is needed. Moreover, we welcome the steps taken to address the deficiencies in the AML/CFT framework, while noting that improvements are still needed also in this area.

We agree that the IMF's involvement in the international effort to assist the Mozambique will play a catalytic role. However, given the recent financial history of Mozambique it may be that other factors—such as addressing governance issues, enhancing transparency, accountability, and trust—are even more important for the reengagement of investors and donors.

Debt management and oversight needs to be strengthened further. We note that Mozambique's debt remains in distress and discussions are ongoing with international private creditors to restructure Mozambique's Eurobond and previously hidden loans. We welcome the work on strengthening debt management capacities, including through improved oversight over the entire SOE sector. Although Mozambique's debt is deemed sustainable in a forward-looking sense (according to the DSA), its debt carrying capacity is weak. Hence, we welcome the authorities' aim to bring Mozambique's debt risk to moderate levels over the medium term. Medium term fiscal consolidation is needed to help ensure that public debt-to-GDP ratios remain

on a downward path, and to help create fiscal buffers which can be used when dealing with future natural disasters.

Building resilience to climate change is imperative going forward. Mozambique is one of the most vulnerable countries to natural disasters and climate change. The economic cost of natural disasters in Mozambique has been substantial. We welcome the authorities' plans to enhance resilience against future adverse weather events, by improving emergency response capabilities and enhancing the robustness of physical infrastructure.

Mr. Saito and Mr. Ozaki submitted the following statement:

We thank staff for comprehensive papers and Mr. Mahlinza and Mr. Tivane for their helpful buff statement. We deeply appreciate staff's hard work and Managing Director's strong leadership to expedite the program discussion within a short period of time after the hit of Cyclone Idai.

We commiserate with Mozambican people over the serious damage from the cyclone. We would like to express our sincerest condolences to the victims. Upon the request of the authority, Japanese authority have dispatched the Japan Disaster Relief (JDR) Expert Team and Medical Team to Mozambique.

We fully support the proposed decision, based on the severity of the damage, urgent BOP needs, and the authorities' existing and prospective policies to address this external shock. IMF involvement in the international effort to assist Mozambique will surely play a catalytic role in unlocking funding from other development partners.

While we welcome the progress in several areas including macroeconomic stability and undisclosed loans, we take note of several challenges including creating fiscal space, improving governance, transparency and accountability, and implementing the recommendation of safeguards assessment of the Bank of Mozambique, which we will discuss further in the next Article IV discussion.

We sincerely wish for the earliest possible recovery and restoration of the areas affected.

Mr. Palei and Mr. Potapov submitted the following statement:

We thank staff for their rapid response to the damages from the recent tropical Cyclone Idai in Mozambique. We also thank Mr. Mahlinza and Mr. Tivane for providing additional background information in their buff statement. We take this opportunity to offer our condolences to the people of Mozambique for the human losses and severe damages to physical infrastructure caused by the disaster.

We support Mozambique's request for a disbursement under the Rapid Credit Facility. The Fund's support will help to address immediate financing needs associated with the impact of the cyclone. The approval of the facility will help catalyze additional concessional financing from donors and other multilateral institutions.

We welcome the authorities' efforts to restore macroeconomic stability and debt sustainability. Following multiple negative shocks to the economy in 2015-16, conditions in Mozambique have improved over the recent years. The primary fiscal deficit has been reduced to around 2 percent of GDP in 2018. Inflation has declined to around 4 percent, reflecting tight monetary policy stance and stabilization of the exchange rate. The external position has been strengthened. The banking system remains stable. We encourage the authorities to maintain fiscal discipline, strengthen governance, improve transparency and accountability, and enhance preparedness to natural disasters.

According to the DSA, public debt remains in distress due to the ongoing debt restructuring discussions with international private creditors. The overall stock of external arrears on public and publicly guaranteed external debt service is estimated to have reached around 1.2 billion U.S. dollars at the end of 2018. The PV of external public debt in percent of GDP is projected to remain above the prudent threshold over the medium term. At the same time, public debt is deemed sustainable in a forward-looking sense amid the sizable LNG developments. Against this background, we encourage the authorities to continue their debt restructuring efforts in good faith with the aim of reaching a collaborative and timely agreement with Mozambique's creditors.

We encourage staff to continue close engagement with the authorities and facilitate necessary reforms to put the economy on a sustainable path.

Mr. Kaya and Mr. Just submitted the following statement:

We extend our sympathy to the people of Mozambique and thank Messrs. Mahlinza and Tivane for their buff Statement.

We commend staff for responding quickly and with a sound program proposal. The RCF is timely and complements well the humanitarian efforts by development partners. We fully support Mozambique's request for an RCF to support the authorities' catastrophe relief work.

Cyclone Idai was yet another shock in a country that has only recently started to address the legacies of recent corruption shocks. We see the provision of budget support by the IMF as an excellent opportunity for the authorities to ensure that the Fund's financial aid will be used for disaster relief, public health and to start rebuilding the affected areas. However, we stress that our support for today's RCF should not be seen as a green light for further program engagement, which would require significant efforts by the authorities to adequately address concerns about the strength and effectiveness of Mozambique's governance framework and anti-corruption efforts. We also see a fiscal policy which supports sustained debt reduction as equally needed for possible program engagement. We take note of staff's more positive assessments in that regard.

We wish the people of Mozambique strength and unity during these challenging times.

Mr. Villar and Mrs. Del Cid-Bonilla submitted the following statement:

We thank staff for the report and Mr. Mahlinza and Mr. Tivane for their useful buff statement. We deeply regret the damages caused by Cyclone Idai, in particular the significant loss of human life, injuries and displacement, and the considerable destruction of socio-economic infrastructure. We support the authorities' request for an SDR 85.2 million under the Rapid Credit Facility (RCF). We broadly share the thrust of the staff's appraisal and offer the following comments for emphasis.

Fiscal policy must accommodate near- and medium-term needs while preserving discipline. In the short term, emergency needs, and other costs associated to the damages caused by Cyclone Idai need to be prioritized, supported by significant contributions from the international community. For the medium term, it is important to continue with gradual fiscal consolidation to create fiscal buffers and give space to social and climate change spending.

Resources to strengthen the institutional framework for climate resilience should have also priority. Can staff explain if the allocation of the agreed 0.1 percent of the State Budget for the Disaster Management Fund created in 2017 is being considered in the fiscal projections?

Debt is in distress according to the DSA. We welcome the ongoing discussions with private creditors and hope for a positive outcome that afford important debt relieve to Mozambique. To keep fiscal discipline and avoid materialization of fiscal contingencies is essential to complement this effort. In this regard, we commend the authorities for the progress in assessing fiscal risks and join staff in encouraging its publication this year as well as regular updating. Can staff inform on the implementation of the decree approved in 2017 to control public corporation borrowing and the issuance of government guarantees? Can staff also explain which concrete steps are being taken to strengthen the MOF debt unit in charge of the oversight of the entire public debt portfolio? Are stronger safeguards in place?

Strong governance is critical to improve medium- term socio economic perspectives. We welcome the authorities' ongoing preparation, with IMF's technical assistance, of a diagnostic report on governance and corruption challenges and their commitment to publish it by mid-year. According to the 2018 SIPs on governance, while Mozambique has created agencies to support anti-corruption efforts, it has not provided them with enough authority or adequate resources to be effective. Oversight over the entire SOE sector needs to be substantially strengthened building on the new SOE law. Can staff provide information on any progress in this regard?

Mozambique's high vulnerability to natural disasters and climate change possess enormous challenges for its growth perspectives and poverty reduction. We share staff's view on the importance to integrate climate change within the broader developmental agenda. Besides mobilization of internal resources, private sector participation and international community support will be needed to develop a comprehensive agenda to build resilience to climate change. Reducing red tape and other obstacles to private investment should then be a top priority.

With these remarks we wish the Mozambican authorities the best with the current challenging juncture.

Mr. Dairi and Mr. Osei Yeboah submitted the following statement:

We offer our sincere condolences and sympathy to the people of Mozambique for the significant loss in life and population displacement and widespread damage to crops and infrastructure from the catastrophic Idai cyclone. We thank staff for a well-balanced report and Mr. Mahlinza and Mr. Tivane for their helpful but sobering buff statement. We also thank Fund management and staff for their early engagement with the authorities to help assess the damage and the size of humanitarian and reconstruction needs. We support the authorities' request for disbursement under the Rapid Credit Facility (RCF), which will not only help meet the urgent needs in this area but will also hopefully catalyze adequate additional support from the international community.

The pre-cyclone macroeconomic conditions in Mozambique were gradually improving, with important steps being taken to hold accountable those responsible for the hidden borrowing. Growth has been stable around 3.25 percent on the back of the agriculture and mining sectors, the primary deficit has significantly narrowed, monetary policy stance has remained tight and consistent with the disinflation path, and the banking sector is liquid, well capitalized and profitable. The current account deficit widened due to significant megaproject imports, though reserves remained at comfortable level. As projected by staff, there will be significant disruptions in economic activities, if immediate and appropriate assistance is not extended to Mozambique. Since the agricultural and transportation sector were particularly affected, ensuing shortage of food could drive inflation upward from pre-cyclone rate of 5.5 percent to 8.5 percent in 2019.

We welcome authorities' agreement with staff to cap primary deficit for 2019 at 2.5 percent, through re-prioritization of spending and mobilization of external grants while avoiding arrears accumulation or central bank financing. We recognize authorities' fiscal effort at bringing down the risk of debt distress from high to moderate by strengthening debt management capacities and seeking significant debt relief from creditors. Enhanced oversight of state-owned enterprises and limiting the issuance of government guarantees will help mitigate fiscal risks. We welcome the progress made in this area and, like staff, encourage authorities to publish the 2019 fiscal risk assessment.

We recognize the challenging environment for the central bank in resetting monetary policy, noting significant supply shocks and increased external and domestic vulnerabilities after Idai. We agree with staff that

caution is needed as authorities proceed with restoring the policy rate back to the pre-cyclone level. It is encouraging that staff and authorities agree on the need to maintain exchange rate flexibility and preserving an adequate level of reserves.

Prospects are bright for ensuring higher inclusive growth in the medium-term, when most of the projects in the extractive sector come to fruition. The authorities have adopted a number of legislative and institutional measures to strengthen governance, transparency and accountability, and further reforms in these areas will be crucial for achieving the authorities' objectives. We look forward to completion and publication of the governance and corruption diagnostic report being prepared with IMF technical assistance. As indicated by Mr. Mahlinza and Mr. Tivane, the authorities remain resolute in continuing with reforms to preserve economic gains and building resilience to future natural disasters.

We wish the authorities success in dealing with these challenging circumstances.

Mr. Meyer and Mr. Buetzer submitted the following statement:

We express our heartfelt sympathies to the people of Mozambique for the terrible destruction, hardship, and loss of life that tropical cyclone Idai and its aftermath have brought over the country. The natural disaster has hit in a situation characterized by gradual economic stabilization and recovery, with moderate but sustained growth, lower inflation, and enhanced reserve coverage. The estimated costs for emergency assistance and reconstruction are substantial, widening budgetary and external financing gaps.

To address the urgent balance of payments need and facilitate a swift recovery, we support the authorities' request for financial assistance under the Rapid Credit Facility. With the requested disbursement, the Fund would cover a large part of the authorities' initial appeal for support, further adding to its already substantial exposure to Mozambique. Regarding the latter, we also take note that repayments to the IMF amount to US\$45 million this year (US\$151 million until 2023) and significantly add to the BoP need that underlies the Fund's engagement. In the absence of institutionalized ex-post conditionality and given the country's repeated struggle with severe governance and corruption challenges, could staff elaborate on how the appropriate use of the funds disbursed could be ensured? Does staff envisage any specific measures, including as regards pending recommendations from the safeguards assessment of the Bank of Mozambique?

The global community's commitment to provide support is encouraging. We welcome staff's emphasis on the catalytic role of the Fund's involvement and take note of staff's assessment that additional support is required in the form of grants and highly concessional financing.

At the same time, Mozambique's macroeconomic vulnerabilities and (structural) adjustment needs remain sizeable and necessary policy action should not be deferred. While we understand that it is unfeasible to negotiate a comprehensive program at the current juncture, could staff provide an update on the reengagement process with the Fund?

We look forward to an in-depth discussion of the fiscal strategy at the time of the next Article IV consultation, not least given that credibility has been damaged by intransparent and imprudent borrowing practices in the past. Against the backdrop of the authorities' stated aim to "bring over time public debt to moderate risk of debt distress levels", we would welcome if staff could provide additional comments on the authorities' fiscal consolidation strategy.

Debt restructuring discussions should be continued in good faith. Given the high level of external debt and the dubious circumstances under which large parts of it were acquired, we welcome the ongoing discussions with private creditors and legal proceedings as significant debt relief will be indispensable to put debt-to-GDP on a firmly declining path as staff rightly notes.

We welcome the emphasis that the staff report puts on bolstering the economy's resilience and strengthening governance, transparency and accountability. The authorities' commitments to consolidate public finances and pursue a cautious approach to monetary policy with a watchful eye for potential inflationary pressures will be key to promoting resilience to natural disasters and ensuring macroeconomic stability. The flexible exchange rate remains a crucial shock absorber, safeguarding an adequate level of foreign exchange reserves. Going forward, we agree with staff that a policy mix of response and mitigation strategies is needed to address natural disaster related risks.

Decisive progress on improving governance, strengthening oversight of SOEs, and fighting corruption are of the essence, not least with a view to the imminent inflow of substantial funds in the form of emergency assistance and reconstruction financing, as well as increasing revenues from LNG over the medium term. We highly appreciate staff's comprehensive and outspoken appraisal of current challenges in Box 1 and their advice on necessary policy

action in this regard such as strengthening the rule of law, improving the business environment, enhancing fiscal transparency, and addressing conflicts of interests in the extractive industries sector. We call on staff to closely monitor implementation going forward.

Ms. Pollard and Mr. Vitvitsky submitted the following statement:

We offer condolences to Mozambique's people and authorities following the devastating impact of Cyclone Idai. This chair hopes for a fast delivery of humanitarian aid and a speedy economic recovery. We thank staff for their quality work in quickly assembling a Rapid Credit Facility (RCF) and a corresponding debt sustainability analysis (DSA) following Cyclone Idai. We support the RCF request and offer a few comments on the DSA.

Mozambique's DSA under the RCF falls under the Fund's new LIC Debt Sustainability Framework (DSF) and significantly differs from the last one conducted in 2017. Although debt remains in distress, recent progress on the debt restructuring processes and the large fiscal adjustment to-date—as well as the projected fiscal adjustment—appears to have underpinned staff's assessment that debt is sustainable under the baseline. We applaud the authorities for their ambitious fiscal consolidation in recent years and encourage further progress once humanitarian and infrastructure needs for cyclone recovery have subsided. We agree with staff that creating fiscal buffers will be needed to reduce debt and allow space for responding to future natural disasters.

We support staff's cautious approach in the 2019 baseline growth projection given the extent of the damage from Cyclone Idai, as highlighted by Figure 4 in the DSA on realism tools. Still, staff forecast a v-shaped recovery between 2020 and 2022 and then project growth to increase markedly in 2023 when LNG production is expected to begin. Staff elaboration on their 2020–2022 and 2023+ economic forecasts would be welcome, including the integration of realism tools.

We note recent progress on the three debt restructuring processes and urge the authorities to seek expeditious resolutions. Recognizing the ongoing litigation and diligent work by Mozambique's Prosecutor General to identify and recover missing loan proceeds, we underscore the need for the authorities to deepen and accelerate efforts to make progress in improving governance. Indeed, fiscal transparency and public financial management will be particularly important when LNG production begins. In this context, we strongly support the messages in Box 1 on Governance and Corruption

Challenges in the report. Staff comments on their work on preparing a diagnostic on governance and corruption challenges would be welcome.

Finally, staff posit in paragraph 29 that engaging in discussions on a multi-year program would be unfeasible at this juncture given the urgent need for financial assistance and that this is the last year of the current administration. We agree and believe additional time is also needed to make progress on debt restructuring, improve debt transparency, and identify and recover loan proceeds.

Mr. Agung, Ms. Latu and Ms. Rauqueque submitted the following statement:

We thank staff for their reports and expeditious efforts to urgently assist Mozambique with the aftermath of Tropical Cyclone Idai, and Mr. Mahlinza and Mr. Tivane for their buff statement.

Mozambique has made commendable progress in restoring macroeconomic stability following the 2015-16 shocks. Decisive steps have been undertaken by the authorities to address the country's high public debt, enhance governance and foster anti-corruption efforts. These efforts have yielded much-reduced inflation, bolstered foreign reserves, and reduced the primary fiscal deficit as the authorities continue to progress their reform agenda. Given the country's vulnerability to natural disasters and the devastating impact of Tropical Cyclone Idai, the Fund's support will be crucial in meeting emergency needs and helping to fund the projected balance of payment gap in 2019. Equally important is the Fund's catalytic role in securing international support for the much-needed external grants and/or concessional loans to support the recovery efforts. We welcome the authorities' strong commitment to pursue sound policies in terms of fiscal consolidation, bringing the public debt risk to moderate levels in the medium term, and promoting good governance. We therefore support their request for a loan disbursement under the Rapid Credit Facility of the Poverty Reduction Growth Trust.

Ongoing steadfast fiscal consolidation is required to strengthen fiscal and debt sustainability. Besides prioritizing spending on emergency assistance and reconstruction in the near term, creating the necessary fiscal space to deal with future natural disasters and maintain the downward trend of public debt in the medium and long term is vital. We welcome the authorities' commitment to a combination of revenue-enhancing measures and spending rationalization to cap the fiscal primary deficit in 2019 and eventually eliminate the primary fiscal deficit after grants by 2022. We also take positive

note of the fiscal risk assessment that has been undertaken and ongoing efforts to improve on this assessment. Notwithstanding Mozambique's distressed public debt assessment, the ongoing negotiations of debt restructuring and expected proceeds from the LNG projects in the medium term, coupled with persistent fiscal consolidation, should put debt on a declining path. The authorities' strong commitment to fostering debt transparency is also crucial in bolstering their efforts to secure external grants and concessional facilities.

Monetary policy can continue to remain accommodative to support economic activity while being mindful of the implications of the significant supply shock from the cyclone and external and domestic risks. Inflation has eased to single digits at end-2018 however the supply shock caused by the cyclone is expected to raise inflation in the near term and poses second-round effect risks. Since the external public debt and public debt service ratios are most sensitive to exchange rate and export shocks, we welcome the authorities' commitment to maintaining an adequate international reserve cover that supports exchange rate flexibility.

Persistent efforts to strengthen governance and resilience to natural disasters and implement reforms are key to fundamentally promoting inclusive growth prospects and preserving the positive developments in macroeconomic stability achieved in recent years. We support the authorities' ongoing efforts to enhance governance and address corruption vulnerabilities (Box 1). In the near term, this should support effective management of the cyclone relief funds and resources. Furthermore, this would be an important input into developing an appropriate framework for managing efficiently and transparently the country's expected fiscal revenue from the LNG projects in the medium and long-term, and thereby contribute to improving debt sustainability. Building on the current efforts to enhance resilience and response capacity (Box 2) is particularly important given Mozambique's high vulnerability to natural disasters and climate change. Ongoing engagement with the Fund to leverage on the Fund's expertise would also be beneficial for addressing the BOP challenges and progressing with the reform agenda.

With these comments, we wish the authorities continued success in their future endeavors.

Mr. Fanizza and Mr. Persico submitted the following statement:

We would like to express our deep sympathies to the authorities and the people of Mozambique for the loss of lives and the tremendous impact of the Idai cyclone. We strongly support their request for a disbursement under

the Rapid Credit Facility (RCF). We are thankful to the Fund staff for their prompt and constructive reaction.

As detailed by Mr. Mahlinza and Mr. Tivane in their helpful buff statement, the facility will support the recovery efforts and the gradual normalization of the socio-economic conditions in the affected areas while addressing the urgent balance of payments' needs. We fully share these aims and believe that the Fund will play a catalytic role. Grants from key development partners are necessary to face the emergency and to ease the related fiscal pressure.

We believe that the agreed fiscal strategy is appropriate as it will support the emergency response spending without resorting in arrears or central bank financing. We encourage the authorities to focus on prioritization of expenditures in order to maximize the impact of the financial support of development partners and multilateral financial institution. In this sense, efforts to improve public financial management would be essential. We welcome the ongoing initiatives to enhance the country's resilience and response capacity to natural disasters.

We hope the work of staff related to the RCF will also help the authorities to properly address the challenges related to governance and debt management, which constitute a pre-requisite for resuming Fund's support to the country medium-term reform strategy.

Mr. Trabinski and Ms. Wehrle submitted the following statement:

We support the Mozambican authorities' request for a disbursement under the Rapid Credit Facility. The tropical cyclone that recently struck Mozambique caused significant loss of life and damaged key sectors in the economy, disrupting productive capacity particularly in services and agriculture. The urgency and severity of the situation make it important to restore basic infrastructure to facilitate reconstruction efforts. The emergency response spending to deal with the immediate effects of the cyclone has added pressure to an already tight budget. We support the request, given the importance of an immediate response to the natural disaster shock. Moreover, the RCF also has a key role to play in catalyzing further external grants from development partners and we welcome contributions from the international community.

Given Mozambique's debt being in distress, extreme caution will be needed when contracting new debt going forward. Mozambique has by far the

highest debt to GDP ratio in Africa. Going forward, implementing the planned reforms aimed at improving public financial management oversight will be essential to rebuild trust with the Fund and development partners. In this context, the authorities should commit to fiscal consolidation and avoid fiscal slippages, especially in the election year. To ensure a sustainable path toward macroeconomic stability, we encourage the authorities to build upon the joint World Bank-IMF technical work program on macro-critical structural reforms. Also, in view of the increasing intensity and frequency of weather-related disasters, we encourage the authorities to consider measures that contribute to ex-ante resilience once the situation improves.

The lack of debt transparency, governance vulnerabilities, and possible spillovers stemming from Mozambique's hidden loans case remain a fundamental issue. Further efforts to achieve sound debt management capacities are critically important. Technical assistance to enhance the framework to contract public debt and issue guarantees of non-concessional external borrowing should be increasingly results-based. In this context, it would be important to be more explicit on the monitoring framework and tools that should be used. Further, proper recording and transparent reporting of debt are essential. To ensure comprehensiveness, it is important for all debtors and creditors to be transparent, also with respect to international transparency norms. Similarly, the authorities should increase the transparency of public finances and continue strengthening the governance framework through adequate and focused institutional and legislative measures.

Lastly, it is important to take into consideration the findings of the Post Disaster Needs Assessment that will become available in May. This should also provide critical information on where additional resources for emergency and reconstruction are most needed to ensure their efficient use. We also believe that the use of all resources that were made available should be subject to close monitoring.

Mr. Gokarn submitted the following statement:

We thank staff for their informative report and Mr. Mahlinza and Mr. Tivane for their helpful buff statement.

We extend our sincere sympathies to the people of the Republic of Mozambique for the human suffering and economic losses inflicted by Cyclone Idai. This disaster hit the country at a time when the authorities were making concerted efforts to stabilize the economy. Growth had been picking

up, while inflation had decelerated quite significantly in response to an effective monetary policy stance, but also as a result of a favorable food supply situation. While the fiscal situation was still a cause for concern, several important measures to curb subsidies had been taken.

The impact of the cyclone is assessed to hinder, if not reverse, many of these positive developments. Growth will slow, both because of the loss of current output and the damage to infrastructure and other physical and social capital. The Balance of payments situation will worsen, as necessities will need to be imported, while exports will suffer because of the damage to productive resources. Financial stability will also be impacted by the large-scale disruption of business activity.

Nevertheless, the priority in the global response to the tragedy in Mozambique and other affected countries should be to provide immediate relief to people impacted by the disaster and revive economic activity as soon as possible. The macroeconomic consequences of the disaster will have to be dealt with, but this can only happen once there is some degree of normality brought back into the everyday lives of citizens.

The buff statement provides a reassuring account of the response of the global community, through both bilateral and multilateral channels, to the tragedy. Significant resources have been committed to, which should contribute to speeding up the recovery process. The request by the authorities for an RCF and immediate disbursement of the committed amount is in line with this broad response. We strongly support the proposed decision to meet the request.

Finally, we welcome the commitment shown by the authorities to keep their stabilization and structural reform efforts on track. We wish them the very best for their recovery efforts and dealing with the policy challenges that lie ahead.

Mr. de Villeroché, Ms. Levonian, Mr. Ray, Mr. Doornbosch and Mr. Ronicle submitted the following joint statement:

We thank staff for the comprehensive set of papers and Mr. Mahlinza and Mr. Tivane for their informative buff statement. We support the proposed decision and share staff's main policy recommendations. We convey our sympathies and condolences to the authorities in light of the catastrophic impact of Cyclone Idai in mid-March. Cyclone Idai is one of more than one hundred natural disasters that have occurred in Mozambique over the last

thirty years. The widespread damage to productive capacity and economic infrastructure necessitates the support of the international community—both to respond to this crisis and to strengthen preparedness, adaptation efforts and responsiveness to future disasters.

We welcome the Fund's responsiveness to the authorities' request for financial assistance in light of the urgent BOP needs following the occurrence of a severe natural disaster roughly six weeks ago. Previous disbursements under the Rapid Credit Facility have not been as rapid and we very much appreciate the efforts of staff and management to expedite consideration of this arrangement and deliver much needed assistance to the people of Mozambique. In this light, and in the context of proposed improvements to low-income facilities currently under consideration by the Board, are there lessons that can be learned from this experience that could help to reduce the time between the occurrence of a natural disaster and approval of an RCF? Further, we wonder for countries who are identified as being 'highly vulnerable to natural disasters' if it is possible to expedite access to the RCF by undertaking some preparatory work as a part of the annual Article IV consultation?

We encourage the authorities to prepare the way for a long-term reengagement with the international community. We welcome the commitments made by the authorities in the Letter of Intent, including increased social assistance to the most vulnerable and a commitment to fiscal consolidation over the medium term. In the short term it is critical to reallocate lower priority spending to emergency assistance and reconstruction. We note the downside risks related to fiscal discipline in an election year. Governance and transparency challenges should continue to be addressed, which will likely contribute to attracting further concessional and private sector financing. We welcome the request for Technical Assistance for a diagnostic on governance and corruption challenges. We encourage the authorities to publish this report which could pave the way for reforms that support good governance and strengthen trust with international partners and creditors. Looking ahead, can staff provide further details regarding prospects for constructive medium-term engagement between the Fund and the Mozambican authorities?

Public debt is currently in distress and the external arrears on public and publicly guaranteed debt have reached significant levels. In this challenging context, we note positively some progress as an agreement in principle was reached recently with a group of Eurobond holders. We urge the authorities to remain committed to their debt restructuring strategy with private creditors. Debt transparency and sound debt management practices

remain of the utmost importance to achieving debt sustainability. Related efforts are all the more relevant in regions vulnerable to natural disasters as weak fiscal positions can adversely impact preparedness and the responsiveness of recovery efforts. Last year, staff noted in its Article IV report that information gaps remained about undisclosed loans and sought for a full disclosure of the missing information related to the audits of the public companies involved in these loans. Could staff update the board about what progress has been achieved since the last Article IV review?

Regrettably, the case of Mozambique is a stark reminder of the adverse impact climate related developments can have on the membership, including, but not limited to, economic development. We agree with staff that the authorities should try to increase the resilience to weather related shocks, for instance when designing infrastructure investment policies. At the same time, and as the staff report highlights, the fiscal position of Mozambique will make such an adaptation strategy difficult to implement, regardless of the positive cost-benefit consideration in the medium and long term. In this context, climate change remains a risk for the largest part of the membership and mitigation efforts should be global.

Mr. Raghani and Mr. Sylla submitted the following statement:

We thank staff for a comprehensive report and Mr. Mahlinza and Mr. Tivane for their helpful buff statement.

From the outset, we would like to offer to the people and the authorities of Mozambique our heartfelt condolences for the loss of lives. We also express our deepest sympathy for those injured and the destruction of infrastructure. The central region of Mozambique including the city of Beria has essentially been devastated by Tropical Cyclone Idai. Moreover, Idai has severely disrupted government services, which is deeply concerning and the recent outbreak of cholera is cause for further alarm. In this context we greatly appreciate staff's swift response to the authorities' request for urgent assistance.

We fully support the Mozambique's request for access under the Rapid Credit Facility, in the amount of SDR 85.2 million (37.5 percent of quota). We agree that the proposed assistance meets the qualification criteria under this facility. We very much welcome the international community's response to this tragedy as well as the funds that have been pledged and those that have already been disbursed. We hope that the Fund's catalytic role will play a significant role in assisting the authorities access much needed additional

resources to address the humanitarian emergency and meet reconstruction needs that are already weighing heavily on the fiscal and BOP positions. In this regard, Fund communication with the approval of this request will be of the essence.

We take positive note that prior to the cyclone, the authorities were making good progress in sound macroeconomic policy implementation and appreciate their commitment to remain steadfast going forward as conveyed in Mr. Mahlinza and Mr. Tivane's buff statement. We share the view that pursuing prudent fiscal policy is warranted insofar as it does not hinder emergency and humanitarian expenditures and, in the extent possible, the consolidation remains focused on eliminating the primary fiscal deficit after grants by 2022 and restoring debt sustainability over the medium to long run. This can be achieved through a mix of spending rationalization and revenue-enhancing measures. We encourage the authorities to continue their efforts on debt restructuring, including by obtaining debt relief from major international creditors.

While acknowledging the impressive results achieved in curbing inflation and building-up of international reserves, we encourage the Bank of Mozambique to pursue its prudent normalization of monetary policy stance. Indeed, the tight monetary policy stance and low food price increases took annual inflation down from 23.7 percent in 2016 to 3.5 percent in 2018. Furthermore, the stabilization of the foreign exchange market and rebuilding of the international reserves must be commended. However, we highlight the importance of an appropriate pace of decrease in the policy rate while remaining vigilant on possible second-round effects of Idai on inflation. We also concur that preserving exchange rate flexibility is suitable for Mozambique as it can be an effective shock absorber and agree, that maintaining an adequate level of international reserves is warranted.

Tackling climate change and its effects should remain at the forefront of the authorities' policy agenda. We commend the authorities for the long-term policy set forth in their National Climate Change Strategy for 2013-2025 and their Master Plan for Risk and Disaster Reduction (2017-2030). We encourage their steadfast implementation and continued support from the donor community. In addition, the institute to manage natural disasters and enhance resilience (INGC) should be reinforced in order to provide better and adequate response to these challenges.

With these remarks, we wish the Mozambican people and authorities every success during these challenging times.

The Acting Chair (Mr. Zhang) made the following statement:

The subject of this session is on Republic of Mozambique, request for disbursement under the Rapid Credit Facility (RCF). World Bank staff is also attending this meeting. Before I open up the floor for discussion, let me say something first.

First, let me offer my condolences to the authorities for the significant loss of life and large destruction caused by the tropical Cyclone Idai. To my knowledge, this is the worst and possibly the most costly natural disaster to ever strike Mozambique. Of course, this is sad. On the other hand, we are also pleased that we have been able to bring the authorities' request for RCF emergency financial assistance to the Board very quickly. I welcome that the authorities have taken actions to improve transparency, governance, and accountability, including the case of the previously hidden loans. This work is ongoing, including the ongoing preparation of the diagnostic report of the governance and the corruption challenges, with the Fund's technical assistance (TA). Hopefully this report will provide the roadmap for further improvement in this area.

I will take this opportunity to assure the authorities that the Fund stands ready to support Mozambique, even beyond this emergency financial assistance, including through policy dialogue and capacity building. The Article IV consultation has been scheduled. We will touch upon it later, as this is a part of the engagement with the authorities. I also notice that Directors' gray statements expressed wide support for this RCF request, and I thank Directors for that.

Mr. Tombini made the following statement:

We have issued a gray with a strong message of support for Mozambique's RCF request. We would like to raise three points for emphasis.

First, we all must acknowledge the outstanding work done by the staff and management to bring this request to the Board in the shortest time possible. This is exactly what we expect from the Fund in the face of extreme events like tropical Cyclone Idai, which caused enormous human and material losses not only to Mozambique, but also Malawi and Zimbabwe. We commend Mr. Velloso and his team for the hard work. We also thank the Managing Director for mentioning Mozambique, as well as the two neighbor countries, in the beginning of her press conference during the Spring

Meetings. Her words contributed to raising global awareness of the tragic situation in these countries.

Second, I would like to highlight that our constituency, comprising three Portuguese-speaking countries, Timor Leste, Cabo Verde, and Brazil, is deeply touched by the losses of the Mozambican people. Beyond the deepest condolences, the three countries have offered bilateral donations and support to Mozambique. We hope that the Fund's disbursement will have a catalytic role in helping the authorities to obtain additional external support from other development partners.

Third, extreme weather events are unfortunately not unexpected and isolated incidents anymore. Climate change is a reality, and its effects are all too visible around the world. Just one year ago, Mozambique was praying for rain amid a severe drought. Now large parts of the country are flooded. This situation must prompt us to step up and build up a clear policy agenda to deal with the devastating economic effects of climate change and natural disasters, particularly in low-income countries (LICs) and vulnerable countries. Therefore, we welcome the upcoming Board meeting on building resilience in developing countries vulnerable to large natural disasters scheduled for May 4. We encourage the staff to step up analytical efforts on the definition of adequate levels of fiscal and external buffers to face extreme climate events, which should be increasingly incorporated into our policy priorities.

Let me finish by underscoring that this chair hopes that the RCF represents the beginning of a renewed and more positive engagement between the Mozambican authorities, the Fund, and the international community. We look forward to the comprehensive discussion on the challenges facing Mozambique in the Article IV consultation in early June.

Finally, I commend management and the staff for launching just a few days after the cyclone the IMF Giving Together campaign in support of the people of Mozambique.

Mr. Di Tata made the following statement:

We thank the staff for its efforts to issue this timely report, and Mr. Mr. Mahlinza and Mr. Tivane for their helpful buff statement. We want to express our deep sympathy to the people of Mozambique, who in mid-March suffered the impact of tropical Cyclone Idai on the central region of the country, which resulted in significant loss of life, widespread damage to crops and infrastructure, and a substantial disruption of productive capacity. We

concur with the staff that the severity of the damage, the country's urgent balance of payments needs, and the authorities' policy to address external shocks warrant financial assistance from the Fund. Therefore, we support the authorities' request for a disbursement under the RCF in the amount of SDR 85.2 million, or 35.5 percent of quota.

Mozambique's economic situation was improving gradually before the cyclone. Real GDP growth was recovering; inflation has declined to the low single digits, and international reserves had been rebuilt to a comfortable level. At the same time, although the overall fiscal deficit is still high, in 2017 and 2018, the authorities' implemented a substantial fiscal effort that included the elimination of fuel and wage subsidies, the adoption of an automatic fuel price adjustment mechanism, and increases in electricity and public transportation tariffs. Moreover, the authorities are in good faith discussions with private creditors to restructure Mozambique's Eurobond and previously hidden loans.

Based on the staff's estimates, the fiscal primary deficit after grants is projected to rise to 2½ percent of GDP in 2019 from 1.9 percent in 2018 due to lower tax collections and higher spending on emergency relief and reconstruction. Looking ahead, we welcome the authorities' intention to eliminate the primary fiscal deficit after grants by 2022. This is expected to be achieved through a combination of revenue-enhancing measures, including removal of VAT exemptions and selected products and tax administration reforms, as well as by reallocating lower priority spending to emergency assistance and reconstruction.

We support the planned gradual and cautious normalization of monetary policy and encourage the central bank to mitigate the possible second-round effects of the supply shock on inflation. In addition, we encourage the authorities to seek prompt approval of the amendment to the Bank of Mozambique's Organic Law to strengthen the central bank mandate and review its organizational and decision-making structure.

We encourage the authorities to continue with the efforts underway to strengthen governance and fight corruption. In this regard, we welcome the ongoing preparation of the diagnostic report on governance, transparency, and accountability with Fund technical assistance (TA), which is expected to be published by mid-year. The authorities should integrate climate change within the broader development agenda to enhance preparedness to natural disasters.

Mr. Fanizza made the following statement:

We have issued a gray statement, and I have only three points to make.

First, we hope that the RCF will succeed to provide momentum to economic reforms that eventually the Poverty Reduction and Growth Trust (PRGT) will be able to support with a medium-term program. We believe that is a first step toward resuming a program and long-term and medium-term engagement with the country.

The second point does not concern Mozambique directly. We are very glad that the staff did what it did so fast and so well. Kudos to the staff. My point is that other countries, like Zimbabwe, have been hit in a major way, and we should find a way to help them. We cannot say we do a Staff-Monitored Program (SMP) and that is emergency assistance. It is not. It is still very preliminary. I know the situation perfectly. I know that there are difficulties, but within the RCF, there are exceptional circumstances and judgment could be used.

Finally, I was pleasantly surprised by the exemplary way in which monetary policy has been conducted in Mozambique, and its success in bringing down inflation from 30 percent to 3.5 despite adjustment in administrated price. This is remarkable and shows that when monetary policy is conducted well, it succeeds in bringing down inflation and stabilizing the exchange market. A few other times we have discussed monetary policy in countries that have not been successful, and I wanted to highlight the fact that Mozambique has done very well and could be a good example.

We fully support the proposal, and we fully support the staff. I commend the staff for the great job.

Mr. Agung made the following statement:

I echo other Directors in offering our sympathies to the authorities and people of Mozambique for the loss of life and devastating impact of tropical Cyclone Idai. We welcome the Fund's quick response to the authorities' request in light of the urgent emergency assistance needs and balance of payment gaps, which we fully support.

We have a few remarks to offer. In view of Mozambique's distressed public debt assessment and risk of policy slippages that may unwind the positive macroeconomic developments that took place prior to the cyclone, continued strong engagement between the staff and the authorities is important. I am referring to developments in the implementation of fiscal

consolidation measures, debt restructuring, efforts to strengthen governance, and enhancing resilience to natural disasters. Any slippages can therefore be promptly identified and addressed.

The authorities should continue to foster debt transparency to avoid the recurrence of the previously undisclosed loans and also secure the support of international agencies and development partners for the cyclone recovery effort.

Mr. Meyer made the following statement:

We would also like to express our heartfelt sympathies to the people of Mozambique. We support the authorities' request for financial assistance under the RCF to address the urgent balance of payments need and facilitate the recovery. The global community's commitment to provide support is encouraging, and Germany has just pledged an additional US\$29 million in financial assistance on the sidelines of the Spring Meetings last week, on top of the existing development aid.

At the same time, Mozambique's macroeconomic vulnerabilities and structural adjustment needs remain sizeable, and necessary policy actions should not be deferred. I am looking ahead, so to say. In particular, we would like to stress the importance of making progress on improving governance, including by enhancing transparency, accountability, and the rule of law, as well as strengthening oversight of state-owned enterprises (SOEs) and fighting corruption on all levels. This will also be crucial to ensure an appropriate use of the disbursed funds and other emergency aid. Accordingly, we would like to underline that tackling corruption and governance issues needs to be a cornerstone of any future Fund engagement. In this context, we greatly appreciated the staff's detailed and outspoken assessment of associated challenges in Box 1 and look forward to the publication of the diagnostic report and the intended roadmap for reforms, which is currently being prepared by the authorities with TA by the Fund. Against this backdrop, we were somewhat surprised that risks pertaining to governance and corruption have not been included in the risk assessment matrix. In our view, these risks fare among the most pertinent ones that the country faces, not least with a view to managing the projected increase in liquefied natural gas (LNG) resources and procurement issues surrounding the mega projects.

Lastly, we welcome the steps that the authorities have taken to seek debt relief. Given the high level of external debt and the dubious circumstances under which large parts of it were acquired, we welcome the

ongoing discussions with private creditors and legal proceedings, as significant debt relief will be indispensable to put debt-to-GDP on a declining path, as the staff rightly notes. With this, I wish all the best to the authorities.

Mr. Saito made the following statement:

We thank staff for the informative paper and Mr. Mahlinza and Mr. Tivane for their helpful buff statement. We would like to express our deepest sympathy to the authorities and people of Mozambique for the significant human loss and severe damage caused by Cyclone Idai. Just yesterday, the Japanese government handed over emergency relief goods to the Mozambican authorities to meet their humanitarian needs.

We fully support the proposed decision based on the severity of the damage, urgent balance of payments needs, and the authorities' policies to address this external shock. In addition to that, we welcome the authorities' commitment to reforms aimed at improving macroeconomic fundamentals, laying the foundation to achieve sustained, inclusive growth, and strengthen institutions. At the same time, several challenges remain, including creating fiscal space, strengthening governance, transparency, and accountability, and addressing hidden loans problem. In this regard, we are looking forward to the Article IV discussion in early June.

Mr. Ostros made the following statement:

Let me take the opportunity to offer our condolences to the people of Mozambique for the human losses caused by the disaster. Countries in my constituency are engaged in supporting the people of Mozambique. We fully support the request for a disbursement under the RCF. We have issued a gray statement with our main comments. I would like to emphasize one cornerstone for long-term inclusive growth, and that is strengthening governance. As Mr. Agung alluded to, the undisclosed loans have been a prominent topic in our Board discussions. Debt transparency \will be extremely important in the future.

Mozambique is a resource-rich country with large natural gas reserves. The country has a unique chance to build up the institutions and mechanisms needed to manage this resource wealth and ensure it generates sustainable and inclusive growth that benefits the country and its people as a whole. Bearing in mind that resource-rich countries often can be more susceptible and vulnerable to corruption, I strongly encourage the authorities to continue their efforts to strengthen governance, transparency, and accountability. In this

respect, we welcome the authorities' ongoing preparations with the Fund's TA of a diagnostic report on governance and corruption challenges. By publishing the report, alluded to also by Mr. Meyer, the authorities will signal a commitment to fight corruption and improve governance.

Mr. de Villeroché made the following statement:

We are fully supportive of this RCF for Mozambique. We believe it is timely, and we hope that it will give some relief to a country facing this natural disaster that has a huge macroeconomic impact, and a huge human impact as well.

The question I have is similar to what my colleagues asked, whether the staff could frame the possible medium-term relationship with Mozambique. We understand that an Article IV will come soon, but beyond this, we see the need for possible reengagement of the Fund with the country. I would be happy to hear from the authorities on what could be the conditions that we will need for such reengagement. Like many, I would like to stress the issue of the hidden loans and how we can solve this issue, how we can foster governance, and address the corruption challenges in the country. Regarding the debt, we note that there are ongoing discussions on private debt and that there is an ongoing restructuring process. But I would be happy to hear more details on how the staff assesses the debt sustainability going forward.

Mr. Johnston made the following statement:

We would like to express our sympathy and condolences to the people of Mozambique following this devastating cyclone, and we are pleased that the Fund is able to assist in these circumstances through the RCF. We fully support the proposed decision.

I want to make one point today, which is that it is to the huge credit of the staff that we are here discussing the RCF only a month or so after the devastating cyclone. That is not always possible. I completely understand that the authorities themselves can be reeling from the effects of a disaster, and I know in the case of Vanuatu in our constituency, which had a devastating cyclone in 2015, one of the factors was that the authorities were dealing with their own personal circumstances at the time.

But if one looks at RCF requests over the last four or five years, it shows that the time to disbursement has definitely been going down. We would be interested in the staff's view about whether there are lessons from

Mozambique that could be drawn upon to increase the Fund's responsiveness or to maintain that trend following natural disasters. Is there something the staff could be doing in Article IV consultations for disaster-prone countries that might help to expedite access?

Finally, we also note that the two-week circulation time for Board consideration was strictly adhered to in this case, maybe in part because of the Spring Meetings, but I am sure if we need to put the "rapid" in "Rapid Credit Facility," then I believe no one will be too upset if the two-week timeframe is reduced through a waiver.

Mr. Mouminah made the following statement:

I would like to take this opportunity to invite Mr. Mahlinza and Mr. Tivane to convey to the Mozambican authorities my authorities' deep sympathy for the loss of human life and the devastating damages from the tropical Cyclone Idai. I also thank the staff for the agile approach and work, which is allowing the Board to agree on timely and catalytic Fund support to the country at a time when Mozambique faces urgent balance of payment needs. To this end, we support the authorities' request for disbursements under the RCF. I agree with the staff on the need to grant financing to minimize resources to borrowing, and I thank the international community for its rapid response and pledges of support. We appreciate the authorities' efforts to reallocate resources for emergency spending and social assistance to the most vulnerable.

I thank management for launching the IMF Giving Together campaign, which let everyone help when they can. I look forward to the forthcoming Article IV discussions to review the recent economic developments in Mozambique and the Fund's policy advice to help the countries address the important challenges it is still facing, including high public debt, governance vulnerabilities, and the need to promote sustainability and inclusive growth to reduce poverty. With these remarks, I wish the authorities all the success in this difficult endeavor.

Ms. Pollard made the following statement:

I commend Mr. Velloso and his team for the rapidity with which they brought this request to the Board. It turned out to be quite good timing that they happened to be on an Article IV mission at the time of the cyclone, which aided their ability to engage with the authorities. I also want to add my sympathies to the people of Mozambique at this very difficult time and would

like to note that the U.S. Government is committed to continuing to provide humanitarian assistance to Mozambique as it recovers from the cyclone.

We fully support the RCF, and like others, look forward to the upcoming Article IV consultation to be able to engage more fully in key issues facing the economy, particularly those related to debt and anti-corruption; and I would like to echo Mr. Agung's comments that close engagement between the Fund and the authorities is very important at this time.

I also want to appreciate Mr. Mahlinza and Mr. Tivane's buff statement, where they noted that the authorities are pursuing a strategy to reduce debt to moderate levels, including working with the private creditors. We also welcome the note on the agreement in principle that has been reached with the Eurobond holders, and we will look for more updates in the coming months.

Mr. Palei made the following statement:

I also express our condolences to the authorities and the people of Mozambique for the loss of lives and economic destruction caused by the Cyclone Idai. My Russian authorities have provided assistance, including through the deliveries of medical supplies to the affected areas.

I also thank the staff for the prompt response, and I agree with some other speakers who mentioned that we should ensure a similar timely reaction from the Fund in other situations when countries are affected by natural disasters.

We fully support the RCF and look forward to the Article IV discussion in June. I have only one question based on the staff's written responses. I was a little confused by the references to the diagnostic report on governance in answer to question No. 9, and here the staff referred to the diagnostic report prepared by staff, and noted that it will be published. In question No. 10, the staff referred to the report prepared and published by the authorities themselves. This is a new tool we are using, and there are some innovative elements in this TA, so could the staff clarify if there are two reports, and will both of them be published? Is there one report to be published? The issue of governance is important, and the question of ownership is central in this area. We would like to hear the answers to this question.

Mr. Just made the following statement:

We would like to express our sincere sympathy to the people of Mozambique. We are encouraged by the rapid response of the international community and commend the staff for the timely and reasonable proposal, which we fully support. We would like to make two more general observations.

We share the concerns of other Directors about corruption and the governance framework in Mozambique. We are encouraged that the staff sees some progress in terms of the authorities' commitment to ensure debt transparency and accountability for how financial assistance will be used for relief and reconstruction. We look forward to the diagnostic report that the staff has foreshadowed. However, we wonder whether we are missing an essential external supply dimension. Those involved in the misreporting of hidden loans could not have executed the scam without the necessary infrastructure, legal regulatory expertise, and an understanding of loopholes and arbitrage opportunities. We welcome the staff's comments on whether they envisage a forensic assessment of factors that are outside Mozambique's control.

The incidence and severity of weather-related events and climate change has increased dramatically, not only in Mozambique, but in Africa as a whole. We appreciate the box outlining the steps that could increase the resilience to climate change, which make sense on paper. We still struggle to grasp what climate resilience would mean in practice, whether it is feasible and realistic. Focusing on disaster relief and having the necessary institutions in place to respond and coordinate reconstruction efforts would already be an ambitious target, in particular in a low-income country (LIC) context. We would also see a role for the staff to explore the more active use of insurance against risks arising from climate change and weather.

Ms. McKiernan made the following statement:

Let me start by extending our sympathies to the government and people of Mozambique in the face of the devastating impact of this most recent natural disaster. With an average of close to 4 climatic events per year for the last 30 years, clearly Mozambique is in a much more vulnerable position than many. We would also like to echo the comments made by other Directors who have praised staff on its speedy response, so I will use this intervention to emphasize a few points.

First, we fully support the proposed disbursement under the RCF and would like to thank Mr. Mahlinza and Mr. Tivane for the insightful buff statement, which provided such useful context to the challenging situation emanating from the cyclone. We concur that Mozambique needs a strong international response that would not just address immediate humanitarian needs but also the longer-term recovery and reconstruction efforts. Having said that, we support other Directors and the concerns that they have expressed regarding the situation to stabilize the economy and move it forward. We would like to stress that support for the RCF should not be seen or viewed as a tacit endorsement of a future lending program. We strongly believe that the authorities need to demonstrate stronger commitment to reforms. That will be critical to rebuild trust and credibility with development partners and to support the RCF's catalytic role. Addressing debt vulnerabilities will be key, and we urge the authorities to vigorously pursue their ongoing efforts, including on fiscal consolidation, debt transparency, and debt restructuring.

Third, we welcome the recent progress on governance, but we urge further and sustained efforts, and we particularly look forward to the completion and implementation of the Fund's supportive diagnostic report on governance, transparency, and accountability.

Last, and I would echo Mr. Just's comments on this, we stress the need to build resilience to natural disasters and climate change, and we look forward to the Fund's increased work on this, and in particular the upcoming Board discussion, to have a clearer articulation of what it is that can be done on this issue. I will conclude by offering best wishes to the authorities and the people of Mozambique.

Mr. Raghani made the following statement:

Let me offer our condolences to the people of Mozambique for loss of life and damage caused by the devastating cyclone.

We strongly support the Fund's assistance to Mozambique under the RCF. Like other chairs, we view the RCF and the Fund's involvement as an important catalytic tool to attract additional international resources beyond what has been delivered or pledged. I would like to echo the point made by Mr. Fanizza and Mr. Palei about other countries hit by this devastating cyclone. I would appreciate some clarification on the support that could be provided to these countries, what the Fund is planning to do.

We welcome the commitment shown by the authorities to pursue the implementation of sound macroeconomic policies and their structural reform efforts under these particular circumstances, as indicated Mr. Mahlinza and Mr. Tivane's insightful buff statement.

The authorities should be commended for the national climate change strategy and their master plan for risk and disaster reduction, which lay out a long-term vision to address the effects of climate change. Like many chairs, we believe that mitigation and adaptation measures in member countries should be supported at the global level. We commend the Fund for the ongoing work on this issue and encourage further assistance to the membership in helping address these vulnerabilities.

Finally, we look forward to the findings of the post-disaster needs assessment (PDNA) which are expected in May. They would be key in outlining the priorities in the reconstruction process and in preparing for the end-May international donor conference. With this, we wish the Mozambican people and the authorities the best in their recovery efforts.

Mr. Sun made the following statement:

This RCF is a good demonstration of the Fund's ability to help members in need due to such natural disasters. The international community has responded rapidly to support Mozambique, and China has also responded quickly, including by sending medical equipment and personnel to the country.

Going forward, we encourage the authorities to pursue the needed reforms and policy actions, and we sincerely hope the authorities, together with the people and with help from the international community, will overcome these difficulties. With that, we wish the Mozambique people all the best.

The Acting Chair (Mr. Zhang) expressed sympathy for the other countries in the region that had been affected by the cyclone and noted that the Board would discuss those countries when the opportunity arose.

The staff representative from the African Department (Mr. Velloso), in response to questions and comments from Executive Directors, made the following statement:¹

¹ Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

I thank Directors for the words of encouragement and praise to the team.

We answered most of the technical questions yesterday. We still have six more to answer plus the additional questions raised today by Directors at the Board meeting. We have a few questions on the terms of the agreements in principle, or tentative agreements, with the Eurobond holders and with the holders of Mozambique Asset Management (MAM) debt.

In terms of the Eurobond holders, there was a public announcement last November, and a detailed press release, including the new Eurobond terms, was posted on the Ministry of Economy and Finance web page. This agreement envisages a reduction in the annual coupon from 10½ percent to 5.875 percent and an extension of maturity from a single bullet payment in 2023 to five equal annual payments, starting 2029. It also envisages a value recovery instrument (VRI) that is equal to 5 percent of LNG-related tax revenue until maturity, with an overall cap in total payments coming from this instrument of US\$500 million.

The terms of the agreement in principle, or tentative agreement, on restructuring the MAM loan were shared with Fund and Bank staff on a strictly confidential basis for the purposes of updating the Debt Sustainability Analysis (DSA). The authorities and their debt advisors are currently conducting due diligence at deliberate speed to mitigate the risks of future legal challenges, and currently there is no firm timetable to conclude this work.

We received a question on the lessons that can be learned from the experience of putting together the RCF. I will start with some facts. Essentially, 20 days elapsed between receiving the RCF request from the authorities and sending the RCF documents—the letter of intent, staff report, and DSA—to the Board. Our estimate is that about half of this time was spent evaluating the costs and estimating the impact of the cyclone on the economy and preparing first drafts of these documents. The other half was spent clearing draft documents within the Fund and, in the case of the DSA, within the Fund and with our World Bank colleagues.

One lesson, and perhaps the biggest lesson, is that flexibility from reviewers in providing comments and clearing documents under tight deadlines is critical to moving the process ahead quickly. We believe it is possible to further streamline the review process by focusing on big-picture issues, particularly in emergency situations like the one facing Mozambique. I

would like to praise the work of our Legal Department (LEG), which provided not only timely but also focused comments that helped the process move along.

We had a few questions on the way forward in terms of our engagement with the authorities. There is no doubt that staff will continue to engage with the authorities through policy advice and a robust capacity development program. Mozambique is one of the top users of Fund TA and training, covering pretty much all areas of IMF technical expertise. The country has a very good track record of making good use of capacity development.

I would like to point out also that there is currently no request from the authorities for Fund program discussions. However, with elections in October, the new government to take office in the New Year may request Fund program discussions. These discussions will need to include gradual medium-term fiscal consolidation that is needed to create fiscal space, including to mitigate and deal with the cost of future natural disasters and to put public debt as a share of GDP on a clear declining path.

In addition, it will need to include a credible set of reforms to improve transparency, governance, and accountability in line with recommendations of the upcoming diagnostic report on governance and corruption challenges. Since we received today a question on who prepares the report, let me clarify that there is just one report. It is prepared by the authorities with Fund TA. This is important because we put great emphasis on the issue of ownership of this study. Note that this study will not only provide a diagnostic, but it will also include several recommendations that will need to be implemented over time. I apologize for any confusion with the language but, to be clear, there is one diagnostic report coming from the authorities. The Legal Department (LEG) is now in the process of finalizing a revised draft. This draft will be discussed with the authorities before finalization. It is a process that takes time, but once done, it will create momentum for further reform in these areas.

We also got a question today on the forensic evaluation or assessment of the previously hidden loans. This was conducted by Kroll some time ago. The summary of that report was published, and we do not have anything further to add to what was uncovered by the Kroll report.

The staff representative from the Strategy, Policy, and Review Department (Mr. Gemayel), in response to questions and comments from Executive Directors, made the following statement:

There was a question on how we could expedite the process between the time the natural disaster occurs and our disbursement. Clearly this case has shown that the Fund has flexibility. Within five weeks, we are here at the Board. Another case was Haiti in 2016, which took about six weeks, and as the mission chief has mentioned, we could have been even faster now had it not been for the blackout period around the Spring Meetings.

Ultimately, there are three issues that need to be dealt with for us to move very fast. The first is how fast can we move with assessing the damages from the natural disaster. The second is the authorities' requesting assistance, and the third is the time it takes to agree on policy undertakings. All these three things would influence how fast we can move.

Having said that, there are two workstreams that the Fund is working on that would hopefully increase flexibility and agility in this area. One is the Board paper which was mentioned—Building Resilience in Developing Countries Vulnerable to Natural Disasters—where we are looking at a three-pillar strategy for infrastructure, financial, and post-disaster resilience. That would be important for countries to have, and it could be discussed as part of the Article IV consultation or an ongoing basis with the countries. The other workstream which will also come to the Board late in May is the Review of LIC Facilities. That will not look into the flexibility, but we are considering increasing the access under the RCF for similar cases. Hopefully that will allow us to be more agile in these situations.

Mr. Mahlinza made the following concluding remarks:

On behalf of the Mozambican authorities, I thank Directors for their unwavering support to the people and government of Mozambique during their period of hardship. My authorities would also like to express their appreciation to Fund staff, management, and the Board for the swift response to their request for emergency financing under the RCF. The support under the RCF will help in supporting the authorities in meeting the urgent balance of payments needs. The RCF will also play a catalytic role in mobilizing additional financing from development partners to address humanitarian and reconstruction efforts. We have taken positive note of Directors' constructive views and advice. This will be conveyed swiftly to the authorities, and in closing I would like to make three comments.

First, I would like to reassure the Board that my authorities are committed to advance the reform agenda to achieve durable macroeconomic stability, address governance and corruption challenges, and build resilience

to natural disasters. In this context, the immediate policy priorities include ensuring a speedy recovery from the devastation caused by Cyclone Idai through deployment of adequate resources to support resettlement of the population in the affected areas, contain the spread of water-borne diseases, and gradually rebuild the infrastructure destroyed by the floods. At the same time, they recognize that the intensity and frequency of weather-related shocks will increase. They will step up efforts to implement the national climate change strategy for 2013-2025 and the master plan for risk reduction.

Second, my authorities recognize that improving transparency of public finances is essential to restore trust with the international financial institutions and development partners. In this respect, they are determined to strengthen public finance management, improve debt management and transparency, and enhance capacity for the oversight of risks emanating from SOEs. These measures will help bring debt to moderate levels in the medium term. In the same vein, they will continue to hold good-faith discussions with creditors to achieve timely debt restructuring.

Lastly, I want to reassure the Board that my authorities are determined to advance governance reforms because they believe that these are necessary to improve the countries' growth prospects. In this regard, they will continue with legal proceedings to hold accountable those responsible for the undisclosed loans. At the same time, they are working expeditiously toward the completion, publication, and implementation of the report on governance, transparency, and accountability.

To conclude, I wish to convey special thanks to the mission chief, Mr. Velloso, and his team for the invaluable support to the authorities and fruitful engagement. I also thank them for providing comprehensive responses to the questions raised by Directors.

Finally, I wish to thank the international community and development partners for their early and timely response to Mozambique's humanitarian and reconstructive needs.

The following summing up was issued:

Executive Directors expressed deep sympathy for the significant loss of life and widespread damage to crops and infrastructure caused by Tropical Cyclone Idai that recently struck Mozambique. They noted that reconstruction costs are expected to be high, leading to an urgent balance of payments need. Directors agreed that the timely disbursement under the Fund's Rapid Credit

Facility will help address the country's immediate financing needs and play a catalytic role in securing grants from donors and the international community.

Directors commended the authorities' efforts to provide emergency assistance and the swift response by the international community. However, they agreed that significant additional financial support will be needed to restore normalcy in the affected areas and strengthen resilience to future natural disasters. Given Mozambique's limited fiscal space and high public debt, Directors encouraged the authorities to rely mainly on grants and highly concessional loans to avoid further debt accumulation.

Directors emphasized that continued prudent fiscal policy is essential to support rehabilitation and reconstruction efforts. They welcomed the steps being taken by the authorities to create fiscal space in the near term by reallocating lower priority spending in the annual budget to emergency assistance and reconstruction. Directors stressed the importance of achieving significant debt relief from private creditors to put public debt on a declining path. They welcomed the authorities' commitment to medium-term fiscal consolidation which will be key to reducing the deficit and creating buffers, especially to deal with future natural disasters.

Directors encouraged the authorities to continue to cautiously normalize the monetary policy while being vigilant about possible second-round effects on inflation of the supply shock caused by the cyclone. They agreed that maintaining exchange rate flexibility is also crucial as a shock absorber and preserving adequate foreign reserves.

Directors welcomed the authorities' focus on improving transparency, governance, and accountability. They also welcomed the authorities' ongoing preparation, with IMF technical assistance, of a diagnostic report on governance and corruption challenges in the areas most relevant for economic activity and encouraged publication of the report soon after its finalization. Directors stressed that further improvements in the governance and anti-corruption framework, including addressing the deficiencies in the AML/CFT framework, would lead to better use of scarce public resources and increase the spending envelop for natural disaster preparedness.

Directors emphasized that increasing the economy's resilience and preparedness to natural disasters and climate change is critical going forward.

The Executive Board took the following decision:

Republic of Mozambique—Request for Disbursement Under the Rapid Credit Facility

1. Republic of Mozambique has requested a loan disbursement in an amount equivalent to SDR 85.2 million (37.5 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.

2. The Fund notes the intentions of the Republic of Mozambique as set forth in the letter from the Minister of Economy and Finance and the Governor of the Bank of Mozambique, dated April 10, 2019, and approves the disbursement in accordance with the request. (EBS/19/21, 4/18/19)

Decision No. 16503-(19/27), adopted
April 19, 2019

APPROVAL: April 13, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and risks

1. *Staff elaboration on their 2020-2022 and 2023+ economic forecast would be welcome, including the integration of realism tools.*
 - After decelerating sharply in 2019 due to the cyclone-induced supply shock to productive capacity, growth is projected to rebound strongly in 2020 in response to a recovery in agricultural production to normal levels as well as reconstruction, and to reach 4 percent annually in 2021-22. The very sharp acceleration in growth projected for 2023-24 reflects the start of LNG production; other economic activity (non-LNG) is conservatively assumed to continue to grow at a steady rate of 4 percent per year. Given the cyclone-induced supply shock and LNG-related structural change, the ‘realism tools’ are not very helpful for economic analysis in this particular case.

Fiscal policy and debt sustainability

2. *On a related matter, could staff elaborate on the main features of the envisaged reforms of wage and hiring policies in the public sector? To what extent can the political calendar affect the implementation of these reforms?*
 - The envisaged reforms include streamlining allowances and bonuses, curtailing overtime pay, and reducing employment through attrition. Other reforms could include: structural pay reforms to align job-specific requirements with compensation and restore parity between public and private sector remuneration; systematic review of compensation with the objective of simplifying remuneration, eliminating nonessential allowances and other supplements, and increasing the share of basic salaries in compensation; and functional reviews and restructuring of ministries, departments, and agencies to identify areas of overlap or duplication.
 - We do not expect the political calendar to adversely affect implementation. Many of these reforms, meant to create additional fiscal space including to deal better with the costs of recurring natural disasters, are already being implemented.

3. ***Could staff elaborate further on how the total needs of US\$800 million are expected to be covered through reallocation of budgetary expenditures, external grants, and Fund support?***
 - US\$65 million from 2019 budget reallocations; US\$120 million from the RCF; US\$280 million in external grants for emergency assistance (UN first call); and the remainder from external grants to be identified in the May/June International Donor Conference to be held in Beira, Mozambique. The AfDB and WB are expected to be major contributors.
4. ***We notice, however, that NPLs reached 11 percent of total loans in January 2019, reflecting in part government and SOEs arrears to suppliers. Could staff comment on the expected timing of regularization of these arrears?***
 - Half has already been cleared and the other half is expected to be cleared by end-year.
5. ***Can staff explain if the allocation of the agreed 0.1 percent of the State Budget for the Disaster Management Fund created in 2017 is being considered in the fiscal projections?***
 - Yes, the 0.1 percent of State Budget revenues is considered.
6. ***We look forward to an in-depth discussion of the fiscal strategy at the time of the next Article IV consultation, not least given that credibility has been damaged by lack of transparent and imprudent borrowing practices in the past. Against the backdrop of the authorities' stated aim to "bring over time public debt to moderate risk of debt distress levels", we would welcome if staff could provide additional comments on the authorities' fiscal consolidation strategy.***
 - Eliminating the primary fiscal deficit (after grants) by 2022 is the keystone of the authorities' medium-term fiscal consolidation strategy. It would be achieved through a combination of revenue enhancing and spending rationalization measures. These include removing most VAT exemptions (except on selected items most consumed by the poor), and wage bill rationalization measures (see above).

Previously undisclosed loans

7. ***Last year, staff noted in its Article IV report that information gaps remained about undisclosed loans and sought for a full disclosure of the missing information related to the audits of the public companies involved in these loans. Could staff update the board about what progress has been achieved since the last Article IV review?***

- Following the Kroll audit report, prosecutors in Mozambique and elsewhere have made substantial progress in bringing accountability to the case, with twenty people currently in jail in Mozambique and formally charged with a crime. In addition, the US DOJ has indicted eight people in connection with the case.
- The authorities are working with IMF TA on a comprehensive diagnostic on governance and corruption challenges that will provide a roadmap for reform to further strengthen transparency, governance and accountability (see below).

Balance of Payments

- 8. *Under the Rapid Credit Facility, the outcome of the Post-Disaster Needs Assessment (PDNA) to be presented May 10th, together with the completion of the Article IV could have given the Board a fuller picture of the balance of payment needs and policy recommendations. Staff's comments are welcome.***
- The RCF LOI and Staff Report already provide a comprehensive picture of BOP needs, which are substantial. Updated information from the PDNA on BOP needs is unlikely to alter the thrust of policy recommendations but will help to prioritize better the allocation of resources for emergency assistance and reconstruction. The Article IV consultation that will be taken up by the Board in early June will discuss surveillance issues that are not covered in the RCF request.

Governance and anti-corruption issues

- 9. *Staff comments on their work on preparing a diagnostic on governance and corruption challenges would be welcome.***
- Over two missions, staff has discussed governance and corruption issues with the authorities, CSOs, the private sector, and the donor community. The authorities have provided input on staff's aide-memoire, which laid out key governance and corruption vulnerabilities, and on possible reform measures. The diagnostic report, which will build on the aide-memoire and will describe the authorities' planned reforms, will be sent to the authorities shortly for their final review and comments before publication. The authorities have been very open and collaborative throughout the process, and staff appreciates the close cooperation from all counterparts.
- 10. *Could staff elaborate on how the IMF will continue to monitor the package of issues related to governance and anti-corruption raised in the previous Article IV? Is there a risk that RCF approval will divert attention from these reforms?***

- The authorities are taking steps and are committed to take additional steps to strengthen transparency, governance and accountability. A case in point is the passage of the SOE Law and recent approval of its regulation that will bring increased transparency and accountability to the entire SOE sector, which was the epicenter of the previously undisclosed loans. Also, the forthcoming publication of the authorities' governance diagnostic report will frame the recommendations related to governance in the last Article IV into a comprehensive strategy with a prioritized set of reforms.
- We do not believe the RCF disbursement will divert attention from these reforms. The RCF disbursement will help push forward these reforms, by signaling that the Fund is a reliable partner, committed to work closely with the authorities.

11. *According to the 2018 SIPs on governance, while Mozambique has created agencies to support anti-corruption efforts, it has not provided them with enough authority or adequate resources to be effective. Oversight over the entire SOE sector needs to be substantially strengthened building on the new SOE law. Can staff provide information on any progress in this regard?*

- The authorities are committed to strengthen transparency of SOE management and sustainability of their debt and investment decisions. In this connection, Cabinet has recently empowered the Institute for Management of State Holdings (IGEPE) to be the sole entity envisaged in the SOE Law to oversee the entire SOE sector. IGEPE is currently evaluating the financial viability of the main SOEs.

12. *Can staff inform on the implementation of the decree approved in 2017 to control public corporation borrowing and the issuance of government guarantees? Can staff also explain which concrete steps are being taken to strengthen the MOF debt unit in charge of the oversight of the entire public debt portfolio? Are stronger safeguards in place?*

- Implementation of the 2017 Decree has been strong, including in the case of the extension of a government guarantee to ENH related to its participation in the development of the LNG megaprojects, with all the steps envisaged in the decree being followed.
- While the authorities have already taken important steps to strengthen public debt management, including to improve the process of evaluating and granting guarantees, debt management needs to be further strengthened with respect to both capacity and clout to exercise effective oversight over the entire public debt portfolio. The authorities have indicated their intention to address these issues, including through IMF and WB technical assistance.

- 13.** *In the absence of institutionalized ex-post conditionality and given the country's repeated struggle with severe governance and corruption challenges, could staff elaborate on how the appropriate use of the funds disbursed could be ensured? Does staff envisage any specific measures, including about pending recommendations from the safeguard's assessment of the Bank of Mozambique?*
- The authorities have indicated that an internationally-recognized audit firm will be contracted to ensure that all the resources received for emergency assistance and reconstruction are properly accounted for and directed to the affected areas.
 - As noted in the LOI, the Bank of Mozambique is committed to undergo a safeguards assessment (expected in the second half of the year) in connection with the RCF disbursement.

Fund engagement

- 14.** *We look forward to the 2019 Article IV consultation and would appreciate if staff could indicate the timing of the Board meeting.*
- Currently planned for June 3, 2019.