

**IMMEDIATE
ATTENTION**

EBS/08/159
Supplement 2

December 23, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Mozambique—Staff Report for the Third Review Under the Policy Support Instrument—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the third review under the policy support instrument for the Republic of Mozambique (EBS/08/159, 12/23/08), which was circulated for approval on a lapse of time basis by **noon on Monday, January 5, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Republic of Mozambique indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Sharer (ext. 36515) and Mr. Staines (ext. 34431) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, January 6, 2009; and to the African Development Bank, the European Commission, the Islamic Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

Third Review Under the Policy Support Instrument

Informational Annex

Prepared by the African Department
(In consultation with other departments)

December 23, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF.
- **World Bank-IMF Joint Management Action Plan.** Constitutes a matrix on work program of both the World Bank and the IMF.
- **Statistical Issues.** Assesses the quality and timeliness of statistical data and identifies areas for improvement.

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MOZAMBIQUE: RELATIONS WITH THE FUND

(as of November 30, 2008)

I. Membership Status: Joined: September 24, 1984; Article XIV

II. General Resources Account:	SDR Million	%Quota
Quota	113.60	100.00
Fund holdings of currency	113.60	100.00
Reserve Position	0.01	0.01
Holdings Exchange Rate		

III. SDR Department:	SDR Million	%Allocation
Holdings	0.09	N/A

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
PRGF Arrangements	9.74	8.57

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
PRGF	Jul 06, 2004	Jul 05, 2007	11.36	11.36
PRGF	Jun 28, 1999	Jun 28, 2003	87.20	78.80
PRGF	Jun 21, 1996	Jun 27, 1999	75.60	75.60

VI. Projected Payments to Fund ¹

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Principal			0.16	0.97	1.46
Charges/Interest	<u>0.02</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.04</u>
Total	0.02	0.05	0.21	1.02	1.50

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Original <u>Framework</u>	Enhanced <u>Framework</u>	<u>Total</u>
I. Commitment of HIPC assistance			
Decision point date	Apr 1998	Apr 2000	
Assistance committed by all creditors (US\$ Million) ¹	1,716.00	306.00	
Of which: IMF assistance (US\$ million)	124.60	18.46	
(SDR equivalent in millions)	93.17	13.73	
Completion point date	Jun 1999	Sep 2001	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	93.17	13.73	106.90
Interim assistance	--	2.31	2.31
Completion point balance	93.17	11.42	104.58
Additional disbursement of interest income ²	--	1.10	1.10
Total disbursements	93.17	14.83	108.00

¹ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

² Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR Million) ¹		106.56
	Financed by: MDRI Trust		83.05
	Remaining HIPC resources		23.51
II.	Debt Relief by Facility (SDR Million)		

<u>Delivery Date</u>	<u>Eligible Debt</u>		
	<u>GRA</u>	<u>PRGF</u>	<u>Total</u>
January 2006	N/A	106.56	106.56

¹ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Safeguards assessment

At the request of the Bank of Mozambique, FIN conducted a voluntary safeguards assessment which was concluded in June 2008. This assessment updated the findings of an earlier assessment completed in August 2004. The 2008 assessment noted progress in implementing the recommendations of the earlier assessment. However weaknesses remain in the external and internal audit functions, financial reporting, and control systems.

Exchange arrangements

Mozambique's exchange system is a managed float. Commercial banks may buy and sell foreign exchange to individual customers on a fully negotiable basis. The Bank of Mozambique introduced a foreign exchange auction system in January 2005. Auctions are held bi-weekly.

Mozambique still avails itself of the transitional arrangements under Article XIV of the Fund Articles of Agreement, but has eliminated all Article XIV restrictions. It maintains, however, restrictions on the making of payments and transfers for current international transactions subject to Fund approval under Article VIII, as evidenced by (i) the discretionary prior approval for remittances of family living expenses; (ii) the authorization for the purchase of foreign exchange in excess of US\$5,000 for certain transactions; (iii) the prohibition for the conversion of balances of nonresidents' domestic currency accounts into foreign currency or transfer abroad; (iv) the prohibition on advance payments for a service; and (v) the prohibition on advance payments for the import of goods. On June 18, 2007, the Fund granted approval for the retention of these five exchange restrictions until May 31, 2008. At the authorities' request, an Article VIII mission was conducted by LEG and PDR in March 2004. A new foreign exchange law was submitted to the Assembly in May 2007. Following enactment of the new law and issuance of related regulations, the authorities intend to accept their obligations under Article VIII sections 2, 3, and 4 of the Fund's Articles of Agreement.

Article IV consultation

In accordance with Decision No 12794–(02/76), as amended by Decision No 12854–(02/96), Mozambique is on a 24-month Article IV cycle due to the approval of a PSI in June 2007. The 2007 Article IV consultation was completed by the Executive Board on June 18, 2007 (Country Report No. 07/262).

In concluding the 2007 Article IV consultation, Executive Directors commended the Mozambican authorities on the impressive macroeconomic performance and overall satisfactory program performance since the last Article IV consultation. At the same time, they noted there are policy challenges related to sustaining Mozambique's growth takeoff and to achieving the MDGs. In this regard, they agreed that the strategy to consolidate macroeconomic stability in the context of a continued scaling-up of foreign aid and the

acceleration of a second wave of reforms outlined in the authorities' poverty reduction plan for 2006–09 (PARPA II) would be essential to overcome such challenges. In particular, they looked forward to the timely implementation of reforms to (i) increasing tax revenues; (ii) strengthening public sector operations; (iii) reducing the costs of doing business; and (iv) improving the management of natural resources.

Ex–Post Assessment of performance under Fund-Supported Programs

An ex post assessment (EPA) of Mozambique's performance under Fund-Supported Programs since 1987 was undertaken in December 2003 under the guidelines on assessments of countries with a longer-term program engagement. The EPA was circulated to the Executive Board on November 21, 2003 (Country Report No. 04/53).

Directors commended the authorities for their pursuit of sound macroeconomic policies and wide ranging structural reforms over the past fifteen years which contributed to strong growth of the economy, and a steady decline in poverty rates. Noting that despite considerable progress Mozambique remains a very poor and vulnerable country, Directors urged the authorities to persevere in their efforts to consolidate macroeconomic stability and accelerate and deepen structural reforms with a view to sustaining economic growth, encouraging employment creation, and further reducing poverty.

FSAP participation and ROSCs

A Financial Sector Assessment Program (FSAP) for Mozambique was undertaken during the first quarter of 2003. The related Financial Sector Stability Assessment was circulated to the Executive Board on November 19, 2003 (Country Report No. 04/52). An update to the FSAP is scheduled in early 2009. A ROSC on fiscal transparency was issued on February 22, 2001. This ROSC was updated in the context of the 2002 Article IV consultation (Country Report No. 02/140) and the 2003 Article IV consultation (Country Report No. 04/50). The ROSC on fiscal transparency was updated in May 2008. A Report on the Observance of Standards and Codes (ROSC) data module was prepared in June 2002 and issued on March 5, 2003. This data module was updated in August 2005.

Management's visit

At the invitation of the authorities, Mr. Kato, Deputy Managing Director, visited Maputo, Mozambique in July 2005. The Managing Director visited Mozambique on August 2007 for a meeting with the African Consultative Group on Quotas, Voice, and Representation.

IMF Technical Assistance Provided to Mozambique (2005–08)				
Departments	Timing	Form	Purpose	Counterparts
Finance	February 2008	Mission	Update of safeguard assessment	Bank of Mozambique
Fiscal Affairs	April–May 2008	Mission	Revenue Administration reform	Ministry of Finance
	Oct–Nov 2007	Mission	Tax Administration inspection	Ministry of Finance
	September 2007	Mission	Public Private Partnerships and Fiscal Risks	Ministry of Finance
	August 2007	Peripatetic expert	Tax Policy and Administration	Ministry of Finance
	August 2007	Mission	Fiscal ROSC update and Public Financial Management inspection	Ministry of Finance
	April–May 2007	Mission	Tax Administration inspection	Ministry of Finance
	April–May 2007	Mission	Petroleum Fiscal Regime	Ministry of Finance Ministry of Mineral Resources
	December 2006	Mission	Tax Administration	Ministry of Finance
	March 2006	Mission	Tax Policy review	Ministry of Finance
	November 2005	Mission	Public expenditure management	Ministry of Finance
	October 2005	Fourth multipartite review of the joint IMF/SECO/ DANIDA tax and customs administration reform project; inspection mission	Reform of the tax system and its administration	Ministry of Finance
	May 2005	Inspection mission	Public expenditure management	Ministry of Finance
	April–May 2005	Mid-term review of the joint IMF/SECO/DANIDA domestic tax and administration reform project	Reform of the tax system and its administration; advice on the creation of a Central Revenue Authority.	Ministry of Finance
Monetary and Capital Markets	May 2008	Mission	Strengthening Monetary Policy Formulation and Implementation	Bank of Mozambique
	December 2007	Mission	Implementation of IFRS for Central Bank accounts.	Bank of Mozambique
	August 2007	Mission	Post-FSAP TA assessment banking supervision, monetary Policy and operations	Bank of Mozambique
	April 2007	Short-term consultant	Banking supervision	Bank of Mozambique

IMF Technical Assistance Provided to Mozambique (2005–08)				
Departments	Timing	Form	Purpose	Counterparts
	October 2006	Mission	Post- FSAP TA assessment banking supervision, monetary Policy and operations	Bank of Mozambique
	Feb-March 2006	Mission	AML/CFT legislation	Bank of Mozambique
	Jan–Feb 2006	Short-term consultant	Monetary policy framework	Bank of Mozambique
	Jan–Feb 2006	Short-term consultant	Monetary operations	Bank of Mozambique
	January 2006	Short-term consultant	Exchange rate management	Bank of Mozambique
	September 2005	Mission	Post- FSAP TA assessment banking supervision, monetary Policy and operations	Bank of Mozambique
Statistics	March–April 2008	Mission	National accounts statistics	National Institute of Statistics
	February 2008	Mission	Balance of payments statistics	Bank of Mozambique
	December 2007	Mission	Balance of payments statistics	Bank of Mozambique
	November 2007	Mission	Monetary and financial statistics	Bank of Mozambique
	June–July 2006	Mission	Consumer price statistics	National Institute of Statistics (INE)
	August 2005– July 2006	Long-term consultant	National accounts statistics	National Institute of Statistics
	July 2005	Mission	Government finance statistics	National Institute of Statistics
	June–July 2005	Mission	Consumer price statistics	National Institute of Statistics
	May 2005	Mission	Balance of payments statistics	Bank of Mozambique

Resident Representative: Mr. Felix Fischer has been the IMF's resident representative to Mozambique since March 14, 2006.

Mozambique: World Bank-IMF Joint Management Action Plan			
Title	Products	Timing of Missions	Expected delivery date
A. Mutual information on relevant work program in next 12 months			
Bank work program	CEM on export competitiveness and regional integration	Feb-May 2008	Jan-2009
	PRSC5 supporting government reforms program in PFM, governance and economic development reforms		Nov 2008 (delivered)
	FSTAP project support to financial sector reforms	Oct-08	ongoing
	ESW on inter-governmental fiscal architecture (for decentralization)		July 2008 (delivered)
Fund work program	Third Review of the PSI	Oct-08	Dec-08
	Follow up mission on Tax Administration	Apr-08	May-08
	Inspection mission on PFM	Aug-08	Sep-08
	Follow up mission on Monetary Policy and Operations, Banking Supervision and Accounting	Sep-08	Nov-08
B. Requests for work program inputs with summary justification			
Bank request to the Fund	Updated Macro Framework data and PSI review Staff Report	PSI reviews	April 2009 - October 2009
	Board Chairman Summing up from PSI review discussion (or Assessment letter) not older than six-months		Sep-09
Fund request to the Bank	Updates on advancing structural reforms: procurement, decentralization, business environment, financial sector		March and September 2008
C. Agreements on joint products and missions			
Joint products	Policy advice on subsidies (food and energy)	May-September 2008	June 2008 (delivered)
	Policy discussion on improving the domestic benefits of large investment projects	Feb -May 2008	May 2008 (delivered)
	Policy advice on Public Sector Salary Reforms (incl. pensions)	ongoing	ongoing
	FSAP	Feb-09	Apr-09
	PFM update work plan for 2009-11 in light of findings from PEFA and ROSC	Meeting in February 2009	Apr-09
	PFM: continue to monitor consolidation and expansion of e-SISTAFE.	ongoing	ongoing
	DSA	Oct-08	Dec-08
	Support to EITI membership, and scoping report on EITI++	ongoing	Oct 2008 (delivered)

MOZAMBIQUE: STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance. Despite the increase in budget resources allocated to the compilation of official statistics, continued high reliance on external funding raises concerns about the sustainability of the programs of the National Institute of Statistics (INE). The authorities are making efforts to improve the quality and timeliness of economic and financial data through participation in the Fund's General Data Dissemination System (GDDS) and in the external sector module of the GDDS Project for Anglophone African Countries (funded by the U.K. Department for International Development (DFID)). GDDS metadata have been posted on the Fund's Dissemination Standards Bulletin Board (DSBB) since November 2003.
2. In May 2005, a STA mission updated the data module of the Report on the Observance of Standards and Codes (ROSC) prepared in June 2002. The mission noted that significant effort has been made to address previously identified shortcomings. The improvements in the institutional environment and the increased allocation of resources for the compilation of national accounts, balance of payments, and more recently, government finance statistics should help to address weaknesses in the prerequisites for the quality of the statistics. The methodological soundness, accuracy, and reliability of macroeconomic statistics are starting to show improvements as a result of these actions.

National accounts

3. The national accounts are prepared by the INE in accordance with the *1993 System of National Accounts (1993 SNA)*. In August 2007, the INE released for the first time quarterly GDP estimates at constant prices covering 2000–07, along with a revised annual GDP series for the period 1991–2006, having 2003 as the new base year. A (March–April 2008) STA mission advised the authorities on further improvements needed to advance the quarterly national accounts compilation at current prices, that could be released starting in mid-2009. The INE has launched a new household income and expenditure survey and new economic censuses leading to a new business registry. Furthermore, it is compiling more comprehensive and timely foreign trade data based on improved classification systems.

Prices and labor market

4. A revamped consumer price index for Maputo based on weights derived from the 2002–03 household survey was released in February 2006. A national index obtained by integrating the indices for Maputo, Beira, and Nampula was released in April 2006. A STA mission in June 2006 found important advances regarding the use of the COICOP classification and the strengthening of human resources in the compilation of the CPI. Several issues remain outstanding, however, such as price collection procedures not fully consolidated at the provincial level, imputation methods, and possible inconsistencies in the overlapping period between the new and old series.

5. There are insufficient sectoral labor market and employment data, and where available, they have limited coverage. A one-year labor market survey of the entire country, undertaken by INE in collaboration with the Labor Ministry, was launched in October 2004.

Monetary statistics

6. A STA mission in September 2004 prepared a work plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and the development of an integrated monetary database (IMD) to meet the needs of the Bank of Mozambique (BM), AFR, and STA. The mission recommended improving the classification and valuation of some financial instruments, estimating the full instrument and sectoral breakdown based on available information, and expanding the coverage of the survey on other depository corporations to include credit cooperatives.

7. A follow-up monetary and financial statistics mission in November 2007 assisted the authorities in finalizing the IMD, which allow the derivation of accurate and timely monthly monetary statistics, while reducing BM's reporting burden. Mozambique now reports monthly monetary data to STA using the standardized reporting forms (SRFs). As a result, five-year historical enhanced data are being published in the *International Financial Statistics (IFS) Supplement*.

External sector statistics

8. With assistance from STA, provided in the context of the GDDS regional project, the BM has made significant progress toward compiling and disseminating balance of payments (BOP) and international investment position (IIP) statistics that are fully aligned with the *Balance of Payments Manual, fifth edition (BPM5)*.

9. The BM has an adequate institutional framework for the compilation of BOP and IIP statistics, and has implemented many of the recommendations made by the four technical assistance missions conducted since mid-2003. However, in order for the work on institutional capacity building to be consolidated, the Foreign Exchange Law has to be approved (incorporating the definition of residency in line with the *BPM5* methodology), training on BOP statistics has to be sustained, and the project to computerize the balance of payments compilation system has to be completed. Although, major improvements were achieved in the basic data sources since the beginning of the project, remaining concerns include (i) the coverage and quality of the data obtained in the enterprise surveys; (ii) the quality of external trade data, especially with regard to price and volume indices; (iii) the coverage, time of recording, and classification of the data on foreign investment and private loans; (iv) completeness of data for the International Reserves Template and their reconciliation with the reserve component of the balance of payments; and (v) compiling the IIP using the sources that are used for the balance of payments compilation. To improve the collection, timeliness, and quality of merchandise trade data, a panel on foreign trade

statistics was established, comprising representatives from the Directorate General of Customs, National Statistics Institute, and BM.

10. In 2007, the BM started to compile and report to the STA comprehensive IIP data. Previously, only partial IIP data had been reported and published in the *Balance of Payments Statistics Yearbook*.

Government finance statistics

11. A July 2005 STA mission found serious weaknesses in fiscal statistics. The budget accounting system, broadly aligned to the *GFSM 1986* analytical framework, had shortcomings relating to: definitions and coverage of institutional units included in the general government sector; budgetary classifications not fully meeting GFS needs; and the omission of certain revenues and expenditures. Mozambique does not report fiscal data for publication in the *IFS* or the *Government Finance Statistic Yearbook (GFSY)*.

Mozambique: Table of Common Indicators Required for Surveillance
(As of December 4, 2008)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality – Methodological soundness ⁸	Data Quality Accuracy and reliability ⁹
Exchange Rates	Sep. 2008	Oct. 2008	D	W	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹							
Reserve/Base Money	Aug. 2008	Oct. 2008	M	M	M	LO, O, LO, O	LO, LO, O, O, LO
Broad Money	Aug. 2008	Oct. 2008	M	M	M		
Central Bank Balance Sheet	Aug. 2008	Oct. 2008	M	M	M		
Consolidated Balance Sheet of the Banking System	Aug. 2008	Oct. 2008					
Interest Rates ²	Aug. 2008	Oct. 2008	M	M	M		
Consumer Price Index	Jul. 2008	Aug. 2008	M	M	M	O, LO, LNO, O	LNO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴						LO, LNO, LO, O	LO, O, LO, O, LNO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	June 2008	Oct. 2008	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	June 2008	Oct. 2008	Q	Q	Q		
External Current Account Balance	Dec. 2007	Mar. 2008	Q	I	I	LO, LNO, LO, O	LO, LNO, LO, LO, LNO
Exports and Imports of Goods and Services	Dec. 2007	Mar. 2008					
GDP/GNP	2006	Feb. 2007	A	I	I	O, LO, O, LO	LNO, LO, LO, O, LO
Gross External Debt	Dec. 2007	Mar. 2008	A	I	I		
International Investment Position ⁶	2007	June 2008	A	A	A		

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁸ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), and Not Available (NA).

⁹ Reflects the assessment provided in the data ROSC or the Substantive Update for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).