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0418

BUFF/ED/92/76

December 1, 1992

Statement by Mr. Mwananshiku on the Republic of Mozambique
Executive Board Meeting 92/144
December 2, 1992

The past five years have seen a strong effort by the Mozambican authorities to implement wide-ranging macroeconomic adjustment and structural measures. Despite an environment of political and social instability created by prolonged warfare, the reform effort has been successful on several fronts. Economic management has improved and market prices are beginning to play a much more prominent role in the allocation of resources.

However, there is no question that the economy remains very fragile and many structural problems remain. The authorities are aware of this and intend to persevere in their efforts. In the meantime, the structural dependence of the economy on external assistance calls for the continued support of the international community, demonstrated by the timely disbursements of resources and the untying of aid. Government action has been forestalled in certain key areas, including the full liberalization of the exchange market, by the unavailability of freely usable foreign exchange.

Economic performance suffered some setbacks in 1992. Output declined, in contrast with the projected 3 percent increase, mainly because of the severe drought that affected the Eastern and Southern African regions and the shortfall in foreign assistance disbursements. Also, despite much restraint, public sector finances have come under considerable pressure, reflecting the adverse impact of economic contraction on revenue. The fall in receipts from import duties, due to the compression of imports, was also a contributory factor.

Against this background, the authorities face the immediate task of containing the negative effects of the exogenous shocks, by maintaining a tight reign on monetary and fiscal policies, while keeping the focus on the medium-term objective of structural reform as enunciated in the Policy Framework Paper for 1992-94.

The authorities have already adopted several additional measures to offset the imbalances that emerged during the first part of 1992. However, these measures will only have their full effect in 1993. On the revenue side, steps have been taken aimed at improving the tax administration system. Also, some new taxes have been introduced and some existing ones have been doubled or trippled. It is expected that these measures will yield revenues on the order of 24 percent of GDP in 1993. This would be a substantial effort compared with many other developing countries with similar characteristics. Meanwhile, the authorities are intensifying

efforts to curtail expenditures, with emphasis on the reduction in subsidies, containing the wage and salary bill to only one fourth of the planned increase and the further streamlining of investment expenditures.

Notwithstanding these additional efforts, the overall budget deficit before grants is estimated to increase in 1993 by a percentage point relative to GDP, due primarily to the exceptional expenditures related to the demobilization of the armies, the resettlement of displaced persons and refugees and the holding of elections as stipulated under the "Peace Agreement" that was signed last October. However, the deficit after grant could drop by two percentage points from 7.3 percent in 1992 to 5.2 percent in 1993, if external assistance is disbursed as expected.

Monetary policy will be restrictive, given the priority accorded to reducing inflation. Broad money in 1993 is expected to increase by less than the inflation rate. In this regard, measures are being taken to adjust downwards the targets for money supply and net domestic assets to minimize the effects of the slippages that occurred during the first half of 1992. The authorities will provide the productive sectors with adequate financing with a view to stimulating economic activity. This will be facilitated by the envisaged resumption in 1993 of the Government's net repayments to the banking system. Interest rates are being maintained positive in real terms and will be reviewed quarterly. They will be liberalized during 1993.

The authorities have continued to make progress in the implementation of structural reforms, especially with respect to the liberalization of the trade and exchange rate systems and the rehabilitation and privatization of public enterprises. Since the process of privatization was initiated in 1987, a total of 140 small and medium scale enterprises have been privatized, 42 are under concession contracts and 21 are constituted as joint ventures. During 1993, an additional 60 of such enterprises are expected to be privatized. As for the large enterprises, 10 are expected to be sold in early 1993. The Government intends to privatize an additional 10 during the course of the year.

The rehabilitation of the financial sector is continuing with the aim of enhancing the competitiveness of the banking system and the efficient allocation of resources. Two foreign banks are expected to begin operations in early 1993. In the meantime, Banco Commercial de Moçambique has made significant strides in updating its accounts, which will enable the Central Bank to better monitor monetary aggregates. Some of the prudential regulations that the monetary authorities were to adopt in 1993 have already been issued, thereby strengthening the supervisory role of the Central Bank.

In the external sector, significant actions have been taken to rationalize the exchange and trade regimes. However, despite the adoption last April of a single exchange rate for foreign transactions, the full unification of the exchange system which was expected to take place in October 1992 had to be postponed because of delays in untying of foreign

assistance. Apart from the tied foreign aid, the allocation of foreign resources is fully determined by market forces.

The Government has restrained recourse to external commercial borrowing, while endeavouring to normalize relations with its creditors. Significant advances are being made to reschedule the external debt with bilateral creditors other than the Paris Club members. Given that the external position will remain weak in the medium term, Mozambique will also need, in addition to increased cash flow, debt relief from official creditors on enhanced concessional terms.

Despite the unstable political circumstances that prevailed in Mozambique over the years, the authorities' commitment to undertake economic reform has remained unwavering. The task of economic and social reconstruction in the aftermath of the war remains daunting. Against this background, action is already being taken within the framework of a National Reconstruction Plan to create conditions for the resettlement of the demobilized and displaced populations; to establish the conditions for social stability in the rural areas by promoting employment; to create a favourable environment for economic expansion, emphasizing the role of the private sector; and to establish the basis for the implementation of a medium- and long-term strategy for economic and social development.

It is hoped that the current Fund-supported program will be a catalyze the requisite financial resources and technical assistance to help the country during this difficult period of transition.

