FOR AGENDA

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October 21, 1987

To: Members of the Executive Board

From: The Secretary

Subject: People's Republic of Mozambique - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with the People's Republic of Mozambique, which is proposed to be brought to the agenda for discussion on Wednesday, November 18, 1987. A draft decision appears on page 22.

Mr. R. Williams (ext. 7643) or Mr. Niebling (ext. 6943) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF MOZAMBIQUE

Staff Report for the 1987 Article IV Consultation

Prepared by the African Department
and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and
Treasurer's Departments)

Approved by A.D. Ouattara and H.B. Junz

October 20, 1987

I. Introduction

The 1987 Article IV consultation discussions with Mozambique were held in Maputo during August 8-22. The Mozambican representatives included Mr. Abdul Magid Osman, Minister of Finance, Mr. Manuel Aranda da Silva, Minister of Commerce, Mr. Eneas de Conceição Comiche, Governor of the Bank of Mozambique, and Mr. Francisco Caravelo, Secretary of State for Food and Light Industries. The staff team consisted of Messrs. R.C. Williams (head-AFR), M.C. Niebling (AFR), J. Kakoza (AFR), E. Matayoshi (STA), and A. Santos (EP-ETR) and Ms. L. Choy-Luy (secretary-ADM).

Mozambique became a Fund member on September 24, 1984 with a quota of SDR 61.0 million. It avails itself of the transitional arrangements of Article XIV, Section 2. The national currency is the metical (plural: meticais), and its exchange rate since June 27, 1987 has been Mt. 404 (midpoint) = US$1. Mozambique has not made use of ordinary Fund resources. On June 8, 1987 the Executive Board approved a three-year and the first annual arrangements under the structural adjustment facility (SAF) in support of a program for 1987 and a policy framework for 1987-89; a disbursement equivalent to SDR 12.2 million for the first year followed on June 11. Mozambique has also received considerable technical assistance from the Fund in statistics and banking, as well as Institute training.

The World Bank approved an SDR 45.5 million IDA Rehabilitation Credit in June 1985, of which all but the equivalent of SDR 12.6 million was disbursed by end-September 1987. A second IDA rehabilitation credit and African Facility credit totaling the equivalent of SDR 69.0 million were approved in August 1987, from which disbursements equivalent to some SDR 31 million are projected by end-1987. Bank activities also include an energy sector credit for the equivalent of SDR 15.6 million in May 1987 and credits equivalent to about SDR 10 million each under appraisal for technical assistance and education. Bank and Fund staff have collaborated closely in preparing the policy framework paper (PFP) for the SAF, with overlapping missions in March 1987, and have begun similar preparations for the expected 1988 program.

Further information on Mozambique's relations with the Fund and Bank are given in Appendices I and II, respectively. Statistical issues are covered in Appendix III. All statistical tables and a chart in this report are provided in Appendix IV.

The last Article IV consultation report for Mozambique was considered by the Executive Board on November 17, 1986. Executive Directors expressed deep concern that the economic and financial situation of Mozambique had deteriorated further during 1986, owing to the security situation and the limited progress made in implementing corrective policies. They were particularly concerned about Mozambique's immediate and prospective balance of payments situation, which was projected to continue to be burdened with heavy debt service payments for the foreseeable future. They urged the authorities to move quickly in instituting a more realistic exchange rate, allowing distortions in relative prices to be corrected, reducing budgetary and financial imbalances, and bringing about a substantial improvement in the operations of public enterprises. They noted the large increases in some agricultural prices and the freeing of others, but stressed that, while welcome as initial steps, these measures fell short of the major policy reform that was required.

II. Background

Despite a favorable resource endowment, the structure of the Mozambican economy at independence was oriented mainly toward the provision of services--transport, tourism, and labor--to neighboring countries, mainly South Africa and the former Rhodesia (now Zimbabwe). Although most of the indigenous population had been brought partly into the money economy, training and literacy levels were minimal. The abrupt departure of most colonists left a dearth of skills, and additional burdens were placed on the economy by sanctions against Rhodesia as well as by the loss of labor and transit trade earnings from South Africa. Meanwhile, state intervention in the economy was intensified, and centralized administrative allocation and physical planning were introduced.

A partial economic recovery, supported in part by heavy external borrowing, was achieved toward the end of the 1970s, but output peaked in 1980-81, and a protracted decline, accompanied by the emergence of major financial imbalances, ensued over the next few years (Table 1). By 1985, production had fallen substantially from 1980-81 levels (Table 2), and extensive parallel markets had emerged, with prices of goods 3-10 times their official equivalents and foreign exchange selling for up to 40 times its official price. Government revenues were declining in nominal terms, owing to erosion of the tax base, a current budgetary surplus had turned into a deficit in 1985, and the widening of the overall deficit was curtailed only by a retrenchment in capital outlays (Table 3). Domestic credit and domestic liquidity more than doubled during 1982-85, and net foreign assets fell to negligible levels (Table 4); much of the overall credit increase reflected virtually open-ended financing of enterprise operating losses, which led to a major accumulation of doubtful domestic debts. In the external accounts, exports had fallen by nearly three fourths since the early 1980s, imports had been compressed by nearly half, capital inflows had dropped severely, debt service obligations had mounted sharply, and substantial arrears had emerged. External public debt had reached US$2.8 billion by the end of 1985. Debt relief agreed upon under the auspices of the Paris Club in October 1984 1/ and with OPEC country creditors in early 1985 reduced the debt service ratio for 1985 from 215 percent to 110 percent, but meeting even the reduced obligations proved infeasible.

The economic contraction and growing imbalances of this period reflected in part adverse developments on the international economic environment and the effects of prolonged drought followed by floods, particularly in the vulnerable southern areas of Mozambique. In the meantime, however, an amorphous insurgency increasingly disrupted rural production, marketing, power distribution, transport, and exports. At the same time, difficulties were encountered with centralized economic administration, the effects of neglect of smallholder family agriculture and private enterprise, and expansionary financial policies. Following a major policy reappraisal in early 1983, a number of reforms were introduced during the next two years, including the a option of an investment code, the introduction of an export retention scheme, the freeing of certain agricultural producer prices, and increases in other fixed prices, but these piecemeal measures were not sufficient to arrest the ongoing economic deterioration.

III. Recent Economic and Policy Developments

1. Developments in 1986

Although at the time of the last consultation discussions it appeared that the economy had continued to stagnate, revised aggregate data now indicate that there was some upturn in production, reversing the downward trend. This development, however, was due partly to exceptionally large investments in certain areas as well as to a beginning of rehabilitation activity, and the outturn was at best mixed. Owing mainly to a strong (45 percent) rebound in construction activity associated with intensified work on two large irrigation dams and other infrastructure investments, global social product (the gross value of output in "productive" sectors) is provisionally estimated to have risen by 4 1/2 percent in constant prices in 1986. Similarly, gross domestic

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1/ After Mozambique became a member of the Fund but, exceptionally, without a Fund program having been arranged.

product (GDP) at constant prices 1/ is estimated to have risen by 2 1/2 percent, reflecting a large upturn in investment; real private consumption is estimated to have declined slightly. Agricultural output rose only modestly; although there were upturns in cashew and cotton production because of improved incentives, these gains were offset by large declines in marketed quantities of maize, reflecting renewed drought, and by a fall in tea and sugar output caused by destruction of facilities. The earlier steep decline in industrial activity was nearly halted in 1986, and output of light industries actually recovered somewhat. Modest upturns also occurred in transport activity (mainly rail freight) and in commerce.

Increases in consumer prices also appear to have decelerated in 1986, the rise in the available index (compiled annually from expenditure surveys that partly reflect parallel-market purchases) slowing from 29 percent to 17 percent. In contrast to 1985, there were virtually no adjustments in fixed prices in 1986, and the recently freed fruit and vegetable prices eased as supplies increased in response to the improved production incentives. Reflecting some wage drift in enterprises and despite a continuing wage freeze, the wage bill of the economy rose by 7 1/2 percent in 1986, twice the rate of each of the previous two years. Global data are not available on employment or unemployment. Employment of Mozambicans in South African mines, which had recovered somewhat in the previous two years, was reduced in 1986.

The year 1986 also witnessed some changes from past trends in the external accounts, notably a sharp upturn (28 percent in U.S. dollar terms) in imports despite a decline in petroleum costs, and corresponding increases in grant receipts and concessional loan inflows (Table 5). Over half of the rise in imports related to consumer goods (more for nonfood items than foodstuffs), and another third of the increase consisted of equipment; imports of spare parts also rose considerably. A modest increase in exports in 1986 halted the long downtrend, but resulted entirely from improved prices for Mozambique's two leading exports, prawns and cashew nuts; earnings from many other products continued to decline, in large part reflecting further decreases in volume. Service earnings rose in 1986, apparently because of transfers by returning miners. With the trade deficit nevertheless widening and interest obligations and other service payments growing, the current deficit rose sharply to a record level of about US$620 million. 2/ Debt repayment obligations also rose, offsetting much of the increase in grant and loan inflows. Hence, the overall deficit also reached a record level of about US$490 million, financed almost entirely by a further buildup of arrears.

1/ See Appendix III for caveats regarding the GDP estimates and other data.

2/ This figure also reflects inclusion of an estimated US$50 million for investment services financed from project loans and grants, for which comparable earlier estimates are not available.

Mozambique's external debt was placed at nearly US$3.2 billion at the end of 1986, up 13 percent from 1985; of the total, US$0.7 billion represented payments arrears. Only a small portion of the total debt was short term, but a sizable amount of the longer-term maturities was owed to banks and suppliers. Of total external debt, about two fifths was owed to OECD member countries, one third to centrally planned economies, one fifth to OPEC members and other countries, and the remainder (5 percent) to multilateral agencies. Arrears were concentrated more heavily in OECD countries (one half) and "other" countries (one fourth).

With respect to fiscal developments, revenue performance improved somewhat in 1986, with total receipts rising by 14 percent, but as total expenditures rose more rapidly (23 percent), the overall deficit widened; although the budget benefited from considerable growth in grant receipts and net foreign borrowing, recourse to domestic bank credit increased (Table 3). Steep increases in consumption taxes on beverages and tobacco introduced with the 1986 budget accounted for most of the revenue upturn. An 18 percent increase in current expenditures was fairly widely distributed, with defense accounting for the largest part. Sharply higher spending on the two irrigation dams was largely responsible for a 39 percent rise in capital outlays, along with spending on railroad rehabilitation, power lines, telecommunications, and a major new textile factory. Although emphasis in principle was being placed on rehabilitation rather than new projects, the composition of the investment budget continued to reflect the availability of external financing (often secured long before) and the completion of ongoing projects as well as the current national priority on rehabilitation. The investment level reflected in the budgetary accounts in 1986 would have been even higher had not financing of most productive enterprise investments been transferred from the budget to the banking system or the enterprises' own funds.

The operating losses of enterprises nevertheless continued to be covered directly by credit from the banking system in 1986; such financing is estimated to have exceeded Mt. 14 billion, or more than three fourths of credit extended to the economy, compared with Mt. 9 billion in 1985. Given the weaknesses of accounting standards and practice as well as the large number of units involved, no comprehensive or consolidated accounts exist for the enterprise sector. The operating losses, however, appear to have been concentrated in roughly a score of firms--chiefly the sugar, tea, and cotton estates, the railroads, the electricity company, and coal, mineral, and cement industries--most of which have been affected severely by security conditions as well as by the shortage of foreign exchange.

Monetary and credit expansion continued at about the same rates in 1986 as the year before. Bank of Mozambique external borrowing for domestic on-lending declined sharply despite the banking system's increased role in financing enterprise investments, and, as noted, the bulk of nongovernment credit appears to have gone to cover enterprise operating losses. Net claims on Government rose by 22 percent, about the same rate as the year before and well under the pace anticipated at the time of the 1986 consultation discussions. Little concrete progress appears to have been made toward regularizing overdue bank debts of enterprises, as attention was directed toward improving future performance. Interest rates, which had been lowered sharply in 1980, remained substantially negative in real terms until the end of 1986, with deposit rates ranging up to 3 percent and lending rates around 5-7 percent.

2. Program and developments in early 1987

In January 1987 the Mozambican authorities launched an Economic Rehabilitation Program (ERP) intended to overcome the major disequilibria, distortions, and economic decline that had come to exist over the past several years. 1/ The principal objectives of the ERP, as indicated in the authorities' policy framework paper, are: (1) to reverse the decline in production and restore a minimal level of income and consumption, particularly in rural areas; (2) to curtail domestic financial imbalances and strengthen the external payments position; and (3) to establish the conditions for sustainable economic growth once security conditions and other exogenous constraints permit. Broad structural goals include the restoration of economic incentives and coherent price signals, the reintegration of official and parallel markets, and a reduction of centralized administrative allocation and control in favor of indirect macroeconomic policy instruments and decentralized microeconomic decision-making. Enhanced demand management is to supplement resource mobilization and efficiency-promoting measures.

Central to the program are major, stepwise adjustments of the exchange rate, together with a full pass-through of their effects to domestic prices. Thus, the metical was devalued from some Mt. 39 to Mt. 202 per U.S. dollar at the end of January 1987 and to Mt. 404 per U.S. dollar in late June 1987, for a cumulative devaluation of more than 90 percent in foreign currency terms (see chart). In the weeks following the first devaluation, fixed prices were increased by proportions ranging from 100 percent for a few consumer staples to 200-400 percent in most other cases and as much as 500 percent for some agricultural commodities. Increases in "conditioned" prices (markup-regulated) were also permitted, and these reportedly were approved for amounts well above the impact of the devaluation on costs. During this period, a transition was gradually made to a system under which most such price adjustments became subject only to ex-post review. Initial rough estimates placed the average increase in official prices at some 200 percent in the first half of 1987. After the second devaluation in late June, further increases in fixed prices of 50-100 percent were made during July-September.

1/ The elements of the program have been described at length in the recent Fund staff report "Request for Arrangements under the Structural Adjustment Facility," EBS/87/101 (May 12, 1987).

An early indication of the impact of the devaluations was a substantial appreciation (35-40 percent) in the parallel-market exchange rate in Maputo (reported to be substantially more depreciated than elsewhere). Its differential fell from almost 40 times the old official rate in 1985-86 to 2 1/4-2 1/2 times the current official rate after mid-1987. Parallel-market prices for goods were also reported generally to be fairly stable or in some cases declining, a trend visible in free-market produce prices.

A general wage increase of 50 percent went into effect in January 1987, and higher raises and bonuses were permitted to compensate and retain more valuable employees. The combination reportedly led to an average wage increase on the order of some 70 percent in the first half. At the same time, provisions allowing layoffs for economic reasons were put into effect, with the aim of reducing redundant labor. As a result, the civil service rolls in the Maputo area were reduced by some 10 percent in the first half of 1987. No definitive estimates are yet available for the enterprise sector; significant layoffs were reported in some state farms and plantations, but layoffs among most other enterprises were reportedly fairly small. A second general wage increase of 50 percent was granted after the end-June devaluation, effective in August, bringing the cumulative average raise for salaried employees to some 155 percent; for the year as a whole, average wage earnings would be somewhat more than 100 percent above 1986 levels, and, after the effects of reductions in force, the aggregate wage bill probably would be about 90 percent higher than in 1986. The effects of divergent movements in official and parallel-market prices on the cost of living, and hence on real incomes, were less clear, and were subject to considerable discussion (see below).

Fiscal policy for 1987 was aimed at strengthening the revenue base and capturing the benefits of pricing measures, holding current expenditure growth well below that of revenues, limiting capital outlays mainly to rehabilitation undertakings and completion of ongoing projects, and restoring discipline to enterprise financing. Transfers to cover enterprise operating losses were now to be paid only through the budget and were set slightly below the nominal level provided by banks for this purpose the year before (Mt. 14.4 billion). A cap was also placed on the price subsidies that had arisen from holding increases in consumer prices of some staples, especially in the two largest cities, below those in producer prices. 1/ On the revenue side, a substantial revision of much of the domestic tax code was introduced with the budget in January, which streamlined personal income taxation while extending the revenue net, substantially increased turnover and consumption tax rates, and accelerated business income tax payments. Although virtually

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1/ Six staple commodities are subsidized: maize, flour, rice, sugar, edible oil, and soap, and prices for the first three are fixed well below the national level in Maputo and Beira. The six staples and a few other goods (depending on availability) are rationed in Maputo and Beira.

all budgetary aggregates were expected to rise by multiples due to the ongoing price and exchange rate measures, the overall deficit was to be reduced relative to total expenditure from 60 percent in 1986 1/ to 56 percent in 1987, and the target for recourse to domestic bank financing was set at a level only slightly higher in nominal terms than the comparable figure (including the financing of enterprise losses) the year before.

Fiscal results in the first half of 1987 were well within expected margins, 2/ although not necessarily entirely indicative of prospects for the year as a whole. Total revenues were on target in the first half, although with considerable variations from forecasts in the components. Current outlays were well below projected levels, but the shortfall was due mainly to procedural delays resulting from careful screening of requests for enterprise and consumer subsidies. Wage outlays were also lower than allowed for, while defense outlays somewhat exceeded expectations. Recorded investment outlays were falling far behind indicated levels, reflecting mainly lags in external grant and loan receipts. Domestic bank financing amounted to only about Mt. 6 billion, one third of the level allowed for in the first half.

Monetary and credit policy for 1987 sought to reduce liquidity substantially and to improve the efficiency of credit use. Interest rates were raised sharply at the end of December 1986, before introduction of other elements of the ERP, to a range of 3-20 percent for deposit rates (18 percent on one-year time deposits) and of 12-35 percent for lending rates. For funds borrowed externally by the Bank of Mozambique for on-lending, interest charged would correspond with the external loan, but the exchange risk would be borne by the borrower. In a significant change from past practices, strictly commercial criteria were instituted for assessing enterprise credit requests, and collateral was sought. Restraint on aggregate credit expansion was designed to limit the increase in broad money to less than that needed to accommodate the effects of the increases in official prices, after allowance for a substantial increase in velocity. Specifically, monetary expansion was targeted at under 45 percent, requiring total domestic credit expansion other than that from external borrowing to be held below 25 percent.

Credit developments in the first half of 1987 were well within the desired range, as indicated by benchmarks established for the SAF program (Table 4). Given the large shortfall in government recourse to the banking system, domestic credit expansion (8 percent) was only about half the rate anticipated; enterprises borrowed nearly as much as targeted, but did not make use of the amounts not taken by the budget. In contrast to earlier expectations, no external resources were borrowed by the Bank of Mozambique for on-lending domestically during this period.

1/ Based on data available in early 1987. The actual ratio for 1986 turned out to be 58 percent.

2/ References are to SAF program assumptions; the original budget took into account the first devaluation but not the second.

Owing in part to a strong export performance (see Section IV), net foreign assets rose by more than anticipated, offsetting much of the impact of the credit shortfall. Monetary expansion amounted to 20 percent during the six-month period, not much below the 23 1/2 percent envisaged.

The immediate objectives of the ERP with respect to external transactions included the regularization of external debt servicing within feasible parameters, the mobilization of additional external resources, and improvements in the efficiency and flexibility of foreign exchange allocation. At the end of March 1987, a conference of food aid donors was organized in Geneva under UNDP auspices that garnered pledges of US$209 million equivalent in foodstuffs and related equipment to offset the shortfall in marketed grain output and provide for rural relief operations. With respect to external debt, at the end of May 1987, representatives of the London Club agreed to recommend that participating banks provide Mozambique with a rescheduling of all principal repayments due up to then and full refinancing of interest due, amounting in total to some US$250 million. The terms included interest rates of 1 1/8-1 1/4 percentage points above LIBOR, grace periods of 5-8 years, and maturities of 8-15 years. In mid-June, Paris Club participants, in the first meeting organized solely on the basis of a SAF program, agreed to reschedule all eligible official debt service falling due during June 1987-December 1988 and payments arrears accumulated through May 1987, providing in general for repayment of these amounts over 20 years with 10 years' grace. 1/ A Consultative Group meeting, the first for Mozambique, was subsequently organized under World Bank auspices in mid-July, at which it was indicated that grant and loan disbursements would be sufficient to cover projected external requirements for 1987 and that adequate financing would be forthcoming in 1988 as well. With a view to improving the debt profile through strengthened debt management, external borrowing on nonconcessional terms is being strictly limited; such borrowing in the 1-12-year maturity range so far remains well within the maximum of US$20 million foreseen for the year. 2/

Mozambique continues to maintain comprehensive restrictions on current international transactions, including as yet unresolved payments arrears to some creditors. Agreements with a few neighboring Fund member countries have bilateral payments features, although in most cases the outstanding balances are small. All exports are subject to licensing and surrender of foreign exchange earned, and imports are subject to trade and exchange licensing in accordance with priorities and financing established in the annual economic plan. Under the export

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1/ Eligible payments arrears and current maturities included amounts due under the former Paris Club agreement of October 1984, but excluded those on loans contracted after February 1, 1984, the cutoff date established at that meeting. See SM/87/202, August 7, 1987.

2/ During the first nine months of 1987, public contracting or guaranteeing of such debt amounted to US$12.5 million, and disbursements were considerably lower.

"retention" scheme introduced in 1984, however, an increasing number of enterprises have been permitted to retain access to a variable percentage of the export earnings they have surrendered, for use in importing inputs and spare parts needed to maintain or increase exports. In addition, permission is granted freely for own-exchange imports (where official exchange is not needed) up to US$500 per transaction, and for more if the goods are not for resale. Comprehensive controls are also maintained on capital transactions, although the investment code enacted in 1984 provided certain guarantees regarding repatriation of capital and earnings by prospective investors.

IV. Report on the Discussions

The discussions with the Mozambican representatives were conducted seven months after the launching of their Economic Rehabilitation Program, which had subsequently been supported by the Fund under the SAF. Accordingly, the discussions covered not only the general stance and appropriateness of the Government's economic and financial policies, but also focussed on the progress made so far in implementing the program.

1. Production, pricing, and labor policies

A modest further recovery in overall output was under way in 1987, the Mozambican representatives stated, that was based more on an industrial upturn than on construction. With an increased availability of imported inputs, light industrial output had risen significantly and industrial capacity utilization had about doubled to a level of roughly 40-45 percent. In agriculture, no significant overall expansion in output was envisaged in 1987, as an expected substantial increase in cotton production would be offset by a poorer cashew nut crop. In transport, there had been a sharp reduction in South Africa's shipments via Mozambican railways and ports, but it was being largely offset by increases in traffic from Zimbabwe, Zambia, and Malawi. The growth of consumption and investment was expected to pick up during the second half of the year, when an upturn in aid disbursements would allow for increased imports of consumer goods, inputs, and equipment. The authorities estimated that the overall real growth rate of GDP would be in the range of about 2-4 percent in 1987.

Commenting on the impact of the policy reforms at the enterprise level, the Mozambican representatives explained that in 1987 managers had been given greatly enhanced responsibility in enterprise operations. At the same time, the new guidelines for extending domestic credit, as well as the sharp increase in interest rates, had forced enterprises to pay more attention to their costs and receivables. Enterprises had been given substantial latitude to increase prices to cover costs and had done so, but they were now beginning to experience limits of the market; effective demand was reduced in urban areas because wages had not risen commensurately with sales prices. In rural areas, despite the large positive effects of increases in farmgate producer prices, purchasing power in some areas had suffered as a result of the security situation and drought. Improvements in enterprise efficiency were the necessary solution, but obsolete or inoperative equipment often required expensive outlays on maintenance and rehabilitation before a positive output response could be obtained. Asked about the possible emergence of inter-enterprise domestic arrears, the Mozambican representatives acknowledged the possibility in light of credit restraint, but indicated that none had as yet been detected to any quantifiable extent.

With a pickup occurring in capacity utilization, the Mozambican representatives explained, the problem of excessive manning had been reduced considerably. In the past, industrial labor had been drifting into other occupations or emigrating to other countries, but the demand for skilled workers was now growing while formerly redundant labor was no longer so. For enterprises where rehabilitation would take several years, however, or where redundant labor was still prevalent, current policies allowed managers to reduce employment to economic levels. The Government was in the very first stages of formulating a plan to deal with excess labor in towns by offering alternative rural employment. Local organizations were being mobilized to this end, and the next step would be to elicit support from the creditor community to assist with financing such projects. In the meantime, however, both the unemployment situation in urban areas and the circumstances of those dislocated by the security situation continued to pose difficult social problems and strains on economic management and resources.

Despite recent lags in aid disbursements, substantial rehabilitation work had commenced in several areas. With assistance from the World Bank, the operations of the electricity and petroleum distribution companies were being revamped. The textile industry was being rehabilitated with assistance from the Caisse Centrale de Coopération Economique and the World Bank. Several other rehabilitation works were also under way in industry, agriculture, and transport, including major railroad lines to neighboring landlocked countries.

With regard to the impact of exchange rate and pricing measures, the Mozambican representatives noted that a substantial reduction in the volume of parallel market operations had occurred, particularly in urban areas. The increase in official prices of some 200 percent overall in the first half of 1987 was estimated provisionally to have led to an overall increase of about 170 percent in the consumer price index during the same period. The staff questioned whether such a large increase in actual consumer prices could have occurred. Taking into consideration that some of the rationed and controlled-price goods had previously been unavailable in the official markets and that most people had little choice but to buy some goods from the parallel market, no more than half of consumer outlays were likely to have actually been expended at the artificially low controlled prices prevailing before the devaluations. Given these proportions and the reported behavior of parallel market prices, the increase in average consumer prices could be placed at about

100 percent during the half. The Mozambican representatives took note of the assessment but believed that it considerably underestimated the cost of living increase.

Despite the general wage increases of 50 percent after each of the January and June 1987 devaluations and additional selective increases, the Mozambican representatives believed that there had been a reduction in real wages at most levels of employment, and particularly at the lower income levels. These poorer segments of the population, they emphasized, were largely dependent on official-market supplies, which now absorbed most of their incomes. Indeed, while the authorities had expected some adverse effect on real incomes, its extent had proven to be cause for concern. The staff team in reply acknowledged that the effect on lower-income city dwellers could be relatively heavy and recognized the need to offer some protection. The degree of hardship for these groups and others, however, depended on actual developments in effective consumer prices. If due consideration were given to parallel markets, it would appear that a substantial erosion was not taking place on average real wages, although the position of the more vulnerable groups called for special attention. The staff team also urged the authorities not to lose sight of the benefits to the rural population stemming from the realignment of relative prices and a positive shift in their terms of trade, which would facilitate reabsorption of redundant urban workers in productive farm employment.

With regard to price controls, the Mozambican representatives reiterated the policy that enterprises were free in principle to change the prices for most products without prior government approval, even by the sectoral ministry responsible for them, and that changes were subject only to ex-post review. They explained that, while this policy was fully in effect, some enterprises had had difficulty in determining their costs while others had raised prices by the full extent of devaluation, necessitating some guidance from the Government. It was explained that this intervention had been necessary only to iron out transitional difficulties and that the basic policy remained unchanged. Centrally fixed producer and consumer prices had also been raised substantially in early 1987; a second round of increases in these prices had begun in July and would continue through September, and was accompanied by the freeing or transfer to the conditioned regime of several items. 1/ The price increases for the six staples were held to 100 percent or less in the first round and 50 percent more in the second, and prices in the two main cities for three of these goods (maize, maize flour, and rice) were kept well below the national level. With respect to the six subsidized goods and urban rationing,

1/ Producer price increases of 50-75 percent were announced for most main crops in mid-September, effective for the new season. Of the 46 (revised up from 44) items with fixed prices at the end of 1986, the transfer of 9 to conditioned status was approved at midyear. In mid-September--in addition to program understandings--the prices of prawns, shellfish, and other seafoods except fish were fully freed.

government policy was to ensure the availability of a minimum quantity of essential goods to the average consumer while at the same time keeping budgetary subsidies small; substantial food aid was easing the budgetary impact. In this regard, the mission cautioned against growing budgetary and social dependence on donated foodstuffs, a concern broadly shared by the authorities. In light of the extent of these subsidies, the authorities were in fact planning substantial further increases in fixed prices at the beginning of 1988.

2. Domestic financial policies

In reviewing fiscal performance during the first half of 1987 and the revised budget estimates for the year as a whole, the Mozambican representatives stated that developments were generally on track and that they expected that the annual fiscal targets would be met. Bank financing of the budget was substantially below the midyear benchmark, but for the year as a whole it was expected to be about as targeted. The staff team noted that revenues from "price differentials" (ad hoc excises on undervalued imports) appeared to be overestimated for the year, while on the expenditure side there had so far been some overage on defense, subsidy payments appeared likely to accelerate, and no interest payments had been recorded as yet. In addition, net external financing for the budget seemed to be running below planned levels. In view of these factors, the staff team inquired about the prospects for attainment of the fiscal targets for the year as a whole, particularly the limit on access to bank borrowing.

The Mozambican representatives indicated that the slow pace of foreign disbursements during the first half of the year--about which they were very concerned--could result in capital outlays falling well below the budgeted levels; the shortfalls, however, would be offsetting and would not lead to additional domestic borrowing. More generally, it was intended as a matter of policy that the limits on government borrowing from the banking system would be observed.

With respect to government external debt service, the Mozambican representatives explained that the amounts assumed in the program were based on early working assumptions regarding debt rescheduling, and it continued to be their intention that the budget benefit fully from the rescheduling of the Government's obligations. The staff team emphasized the importance of careful coordination and centralization of external debt management. In this regard, they encouraged the authorities to establish as originally planned a special (sterilized) account in the Bank of Mozambique into which the local currency counterpart (at current exchange rates) of government debt service actually to be paid would be placed on a periodic and timely basis. The mission also emphasized the importance of completing the planned expenditure review and in the meantime of clearly enunciating priorities and holding the investment budget to them.

Noting that monetary expansion during the first half of 1987 was in line with program requirements but acknowledging that the unexpectedly small flow of net credit to the Government was probably transitory, the Mozambican representatives indicated that there was strong credit demand in sectors such as agriculture, transport, and commerce, partly on account of the increase in working capital requirements resulting from devaluation. They expected that the rate of credit expansion would pick up during the second half of the year but were confident that the annual benchmarks for credit would be met. They considered that the target for credit to enterprises would prove unduly tight, however, unless there were a marked increase in the on-lending of the proceeds of long-term external loans through the domestic banking system. 1/ At present, the demand for such loans was dampened by the perceived exchange risk of potential domestic borrowers. It was noted that under the program not only were credit requests scrutinized much more closely, but enterprises were also obliged to behave more rationally in respect of borrowing because of the much higher interest rates on domestic funds as well as the exchange risk on funds of external origin. This new caution was consistent with the authorities' desire to improve the efficiency of credit allocation, although it raised the risk that some productive activities might be constrained. The staff emphasized that aggregate bank credit expansion should be kept in line with the projected incremental flow of deposit resources through the system in the circumstances foreseen in the program. The enterprise sector would be benefiting from a significant amount of funds from the budget that previously was borrowed from the banking system, and this should be taken into account in assessing enterprise credit demand. Fundamentally, the availability of bank credit for the production enterprise sector would depend on success in limiting the Government's access to the banking system, including the amounts channeled through the budget to cover enterprise operating losses.

The Mozambican representatives indicated that the new policy of evaluating credit requests on the basis of commercial viability and availability of collateral had been largely put in place. They added, however, that full implementation of the policy required extensive training, managerial reorganization, and new equipment for banks, all of which would take time to undertake. They mentioned that expected technical assistance would help in rectifying some of these difficulties. A new plan of accounts for the banking system, developed with Fund technical assistance, had been designed, approved, and put into operation parallel to the existing one; it would be fully implemented at the beginning of 1988.

As for the adequacy of the newly increased interest rate levels, the Mozambican representatives stated that banks were liquid at present and, therefore, did not want to compete aggressively for deposits; the supply of credit meanwhile was constrained by the new commercially

1/ As noted previously, such amounts are outside of the SAF benchmark.

oriented lending criteria, as well as bank and sector subceilings. The authorities felt that it was inappropriate to judge the level of real interest rates by reference to the rate of price increase arising from the devaluation and removal of price distortions. They preferred to wait for the economy to absorb these marked policy changes and then to re-evaluate the question of the level of interest rates. The staff agreed, but indicated that the rate structure should be reviewed in the context of preparing for the 1988 program.

3. Balance of payments prospects

In assessing the likely balance of payments outturn for 1987, the Mozambican representatives noted that export performance in the first half of the year had been somewhat better than forecast, owing to improved prices for prawns and cashews, the two leading exports, and increased supplies of cashews from last year's crop. There had also been a shortfall of imports associated with much lower than projected disbursement of aid funds during the half. On the service account, workers' remittances had been higher than projected while transport receipts were lower, owing to the diversion of South African traffic from Mozambican ports and railways. For the year as a whole, the staff have suggested that export performance could well prove much better than had been assumed, but the Mozambican representatives were less sanguine, citing a seasonal slowdown in the second half and the poorer cashew crop this year; they expected export receipts to be approximately on target. Imports would increase substantially during the second half of the year only if the hoped-for acceleration of aid inflows were to materialize; they would end up at least somewhat below projected levels, and the authorities were concerned that the shortfall could be considerable. The authorities expressed satisfaction in many respects with the apparent results of the debt rescheduling and donor meetings, although they were concerned that actual disbursement of promised aid involved unexpectedly long delays and were very disappointed that most creditors insisted on rescheduling at market-related interest rates. Preliminary talks with OPEC and centrally planned economy countries (CPEs) regarding the rescheduling of debt owed to these countries had been initiated.

Preliminary discussions were held on a set of medium-term balance of payments projections prepared by the staff. The projections took into account the terms of the mid-1987 debt rescheduling agreements and donor meetings and developments thus far in 1987, and were based on a continuation of the policies outlined in the ERP and supported by the SAF. They also reflected the usual working assumption of an approximately unchanged security situation in the country. Despite an unusually high margin of error arising from the special circumstances of Mozambique, not only is the balance of payments fully financed in 1987 but also the financing gap in 1988 will be small and manageable. The overall deficit is projected to decline from more than US$400 million in 1987 to well under US$300 million by the early 1990s. Nevertheless, without additional and/or further exceptional financing, the financing gap in 1989-92 would average about US$320 million annually, which is well below total projected debt service in the period.

With regard to exports, the projections are based on the staff's more favorable assessment of 1987 prospects, while on the import side it is assumed that no substantial shortfall will materialize, owing in part to high levels of food aid as well as a step-up in input and equipment imports. For subsequent years, it was assumed that cashew nut exports would grow by 10 percent annually in volume terms, on account of improved production incentives but that prawn exports grow by only 2 percent in volume terms due to natural constraints; for both, unit values would grow at 5 percent per annum. The totals for imports are consistent with the projections described for unrequited transfers and foreign borrowing. Food imports should decelerate in volume terms as domestic production rebounds, while primary material imports are projected to increase by 7 percent annually, spare parts by 5 percent, and equipment by 6 percent--all in volume terms. In this scenario, unrequited official transfers are assumed to grow by 10 percent annually (in nominal U.S. dollar terms), in reflection of continued strong donor support of ERP policies, whereas foreign borrowing is assumed to grow by 5 percent annually--with all on highly concessional terms. International reserves are targeted to increase on average by US$15 million per annum in order to attain a level of reserves equivalent to about two months of imports by 1990. Arrears are to be eliminated in 1987, and there is to be no accumulation of arrears subsequently.

Although there was agreement that the balance of payments was fully financed in 1987, the authorities believed that the staff's export projections were too optimistic. For 1988 and beyond, the authorities felt that the less optimistic export projections and additional import requirements would produce a higher financing gap than the mission projected. The medium-term projections show that the amounts and terms of debt relief will remain crucial to balance of payments manageability in the foreseeable future. For 1987 alone, scheduled debt service represents over 250 percent of current earnings. Although cash payments on debt service will be substantially lower on account of the reschedulings, they still amount to over 40 percent of current earnings. Even with continued rescheduling on terms comparable to those granted in 1987, this ratio is likely to rise considerably rather than decline.

The balance of payments outcome is quite sensitive to changes in some assumptions for the period 1988-92: (a) an increase of 1 percentage point in interest rates over the baseline assumptions (excluding SAF money) would increase the financing gap on average by US$37 million a year; (b) a permanent increase of 1 percent in imports would increase the financing gap on average by US$27 million a year; and (c) a permanent reduction of 1 percent in transfers and loans would increase the financing gap on average by US$26 million a year.

4. Policy prospects for 1988

In light of the foregoing, the mission also discussed in very general terms the broad macroeconomic policies for 1988, in part to facilitate an early dialogue on the annual program for 1988 and updated PFP covering 1988-90. The thrust of external policies relating to 1988 was already embodied in the original PFP, the mission noted, consistent with the objective of attaining a realistic exchange rate by 1989. The expeditious further reduction in the remaining price distortions and administrative controls would be a critical element in raising economic efficiency and output. A complementary wage policy should be oriented toward an improvement in labor productivity, employment considerations, and external competitiveness. There were no major differences of views on those broad policy objectives. It was also generally accepted that in the near and medium term, further progress would depend importantly on, inter alia, a reduction in financial imbalances, the elimination of price distortions and administrative controls, the strengthening of the financial position and management of enterprises, and the adoption by the banking system of adequate risk assessment procedures.

On the budget, the authorities indicated in principle that the broad objectives of the ERP should continue to be pursued vigorously, namely buoyancy and efficiency of revenue, containment of low-priority expenditure and the streamlining of public investment, and the reduction of domestic bank financing. They looked forward to the forthcoming technical assistance mission from the Fund, which was to review the tax system. Important studies were also being undertaken on government expenditures and public enterprises in cooperation with the World Bank, which would assist them in rationalizing public sector operations and in setting public investment priorities.

With regard to reduction of price distortions, including exchange rate policy, the Mozambican representatives emphasized that the broad direction of policy as outlined in the PFP would be continued. They believed; however, that the speed of adjustment needed to be kept under review in the light of the social impact of the policies and the administrative capacity to carry through on major policy initiatives. The authorities were still considering the configuration of wage and price measures required for 1988. It would be necessary to reduce the implied subsidy on food aid sold at low prices while also containing the explicit subsidy on staples bought locally, but they would not want a further compression of already low real consumption levels in the period. The staff team reiterated that the evidence on price and wage developments in 1987 did not point to a marked reduction in average real earnings, particularly when the agricultural sector was taken into account. They also emphasized that, consistent with the Government's desire to rationalize employment while avoiding excessive layoffs, wage policy had to continue to be cautious. It was agreed that the dialogue on these issues would continue in coming months, looking forward to an updated PFP later in the year.

V. Staff Appraisal

Notwithstanding its favorable resource endowment and the progress achieved after independence in extending education, skills training, and basic health care, Mozambique remains among the least developed economies in the world. It has suffered from a number of unfavorable exogenous economic factors and a security situation resulting in grave economic dislocation. There have also been serious problems in economic management, in the context of overcentralization and control, with inefficiencies in resource allocation and severe rigidities and distortions in the pricing and distribution systems. The first half of the 1980s recorded a marked contraction of the economy and weakening of the external accounts. By the time of the last consultation, the scale of the internal and external imbalances was well beyond critical dimensions, and the authorities were in the process of formulating a comprehensive adjustment and structural reform program.

The comprehensive Economic Program launched in early 1987 has drawn Fund and Bank support through SAF arrangements and IDA rehabilitation credits and a strong international response, as reflected in London and Paris Club debt rescheduling exercises on relatively favorable terms and a successful Consultative Group meeting. The program combines pricing and other structural and administrative reforms with restrained demand management to improve economic efficiency, increase supply and output, and help restore financial balance. Although necessarily phased over several years, the program included very strong initial policy actions, particularly in the central areas of exchange rate and other official price adjustments.

In assessing the impact of these adjustments on the actual effective price level, it is necessary to take into consideration the relative scarcity of many goods in official markets at the earlier suppressed prices, and the relative stability or even modest decline in the price of goods in the parallel and free markets. The sketchy data available suggest that the average level of real wages is declining only modestly in 1987, but it seems likely that the incidence is much greater for lower-income city dwellers; their situation should be monitored carefully. At the same time, the positive effects of the realignment of relative prices on rural incomes should benefit a large proportion of the population. This underscores the need to improve the supply of consumer goods to the rural areas in order to make effective the enhanced producer price incentives. These measures would also facilitate the reabsorption of workers in the countryside. From the perspective of economic rehabilitation and longer-term production and employment considerations, it is crucial that momentum be maintained toward removal of price distortions, reform of the price formulation system, and attainment of adequate financial incentives in the traded goods sector, particularly in agriculture.

The staff welcomes the bold steps taken up to now in bringing prices in Mozambique closer in line with international prices and the progress toward unification of the official and parallel markets. The authorities are strongly encouraged to continue their effort in this area. This should permit a phased reduction in the scope of restrictions and administration allocation in the exchange and trade system.

It is important that the evolving system of price determination, which better reflects market forces, permit timely adjustment of domestic prices to reflect the impact on costs of the necessary adjustment in the exchange rate. Whereas in the past, adjustments of markup-regulated commodity prices by enterprises required prior approval and were often seriously delayed, in the new system, enterprises are in principle free to make the necessary adjustments according to an agreed formula for measuring costs, subject in most cases only to ex-post review by the sectoral ministry. Uncertainty in assessing costs and weakness in accounting standards may be delaying the full implementation of this desirable adaptation of the pricing system. The staff would urge that the authorities ensure that this more flexible system is fully operational as soon as possible, while rendering assistance to particular enterprises as necessary.

Public finance in recent years has been dominated by a shrinking revenue base, the pressures of defense requirements, efforts to maintain social and investment expenditure, and deterioration in the financial position of public enterprises. The 1987 budget addressed these issues through major measures to strengthen the revenue base, increase revenue buoyancy, limit current expenditure growth, and focus capital expenditure on rehabilitation and the earning or saving of foreign exchange. Subsidies for public enterprise operating losses were made explicit by providing them only through the budget and were curtailed sharply in order to instill financial discipline. The authorities are also to be commended for pursuing rigorously in very difficult circumstances their plan to rationalize employment levels in the civil service.

While the fiscal results thus far are encouraging, attainment of the planned outcome for all of 1987 is nevertheless far from assured. In particular, the major changes in price levels and relationships, together with modifications in the revenue system, make it difficult to project revenue with any degree of precision for even a few months ahead, while some of the unexpected gains in current expenditure containment would appear transitory. Thus, the staff would urge the authorities to monitor fiscal developments closely in the closing months of 1987 and be prepared to implement remedial measures should this prove necessary to execute the fiscal program as planned. The planned establishment of a blocked government debt service account should be carried out as soon as possible, as an important element of improved debt and budgetary management.

Looking ahead to 1988 and beyond and considering developmental priorities, revenue enhancement would appear to be the appropriate vehicle for strengthening the public finances. The Fund has responded to the authorities' request for technical assistance in this area, and the staff believes that this will be helpful both in facilitating a more comprehensive assessment of the present revenue system and in identifying possible ways to further strengthen it. Over a somewhat longer time period, a key element in strengthening the public accounts must be fundamental improvement in the financial position of public enterprises. The staff welcomes the study of the enterprise sector being undertaken with the assistance of the World Bank, the first phase of which is scheduled for completion in October 1987, and looks forward to the introduction in 1988 of applicable recommendations from this review. The comprehensive review of public expenditure being undertaken in conjunction with the World Bank is not, however, likely to be completed before late 1988. The staff would expect, nevertheless, that the expenditure program to be incorporated in the next budget will reflect and be consistent with the continuing dialogue with the Fund and the Bank on this subject, including sectoral investment priorities. A tight prioritization of investment choices is essential now, if only on an interim basis, in view of future obligations incurred by most projects for recurrent spending and debt service.

The limited budgetary recourse thus far to domestic bank financing has facilitated the implementation of a monetary policy aimed at absorbing excess liquidity, with aggregate bank credit expansion running well below program benchmark amounts. In the staff's view, the authorities have been appropriately cautious in limiting nongovernmental credit flows to amounts assumed in the program, both because the additional margin afforded by the shortfall in government borrowing is likely to be transitory and because the evolution of broad money itself was closely in line with program requirements. The marked reduction in real money balances in 1987, together with the substantial increase in interest rates, should have a favorable impact on the flow of financial savings through the system in the period ahead. The action on interest rates is to be welcomed as a step in the evolution of a more efficient credit allocation mechanism, which itself will be facilitated by removal of price distortions in the economy. It also underscores the need for major efforts to strengthen the financial management and position of enterprises to permit them to regularize their position vis-à-vis the banking system, as well as the importance of efforts to reorient the banking system toward commercially oriented risk assessment procedures. The adequacy of interest rates should be kept under review.

With the favorable response of the international community to the rehabilitation program, adequate financing for the balance of payments seems assured for 1987 and prospects for next year appear good as well. Aid-financed imports are permitting an urgently needed increase in food consumption as well as providing for needed spare parts and equipment for rehabilitation purposes, necessary for the consolidation of the economic recovery. In addition, and although the base is small, the outlook for exports is more encouraging than it has been for some time. However, the balance of payments remains structurally very weak, with exports covering only about 15 percent of imports; the economy remains heavily dependent on aid inflows, and domestic production and exports are subject to the uncertainties of a difficult geopolitical position. There is no quick and easy solution to these protracted problems, particularly in light of the severe distortions in the economy, which have built up over many years. The same favorable response of the international community clearly will continue to be needed in years to come, as will continuity in economic policy implementation in Mozambique. It is important that the donor community cooperate in assisting Mozambique to get the full benefit of this aid, not only by associating project assistance with carefully screened, high-priority undertakings but also by providing for sufficient nonproject aid and timely disbursement in support of the rehabilitation program.

It is recommended that the next Article IV consultation with Mozambique be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to the exchange measures of the People's Republic of Mozambique subject to Article VIII, Sections 2 and 3, and in concluding the 1987 Article XIV consultation with the People's Republic of Mozambique, in the light of the 1987 Article IV consultation with the People's Republic of Mozambique conducted under Decision No. 5392-(77/63), adopted April 29, 1977 as amended (Surveillance over Exchange Rate Policies).

2. As described in SM/87/245, the People's Republic of Mozambique continues to maintain restrictions on payments and transfers for current international transactions in accordance with Article XIV, Section 2. In addition, exchange restrictions evidenced by external payments arrears are subject to approval under Article VIII, Section 2(a). The Fund welcomes the authorities' efforts under their present adjustment program toward the elimination of these restrictions, and at the same time urges the authorities to eliminate the restrictive features of the bilateral payments agreements that the People's Republic of Mozambique maintains with Fund members.

MOZAMBIQUE - Relations with the Fund
(As of August 31, 1987)

I. Membership Status

(a)	Date of membership:	September 24, 1984
(b)	Status:	Article XIV

A. Financial Relations

II. General Department

(a)	Quota:	SDR 61.0 million
(b)	Total Fund holdings of meticais:	SDR 61.0 million (100.0 percent of quota)
(c)	Fund credit (SAF):	SDR 12.2 million (20.0 percent of quota)
(d)	Reserve tranche position:	-- 1/

III. Current Arrangements and Special Facilities:

Structural adjustment facility (1987-89)
Approved on June 8, 1987 for a total of SDR 28.67 million (47 percent of quota)
First-year loan disbursed on June 11, 1987, of SDR 12.20 million (20 percent of quota)
Total raised per first review of facility to SDR 38.735 million (63.5 percent of quota)

IV. SDR Department

(a)	Net cumulative allocation:	None
(b)	Holdings:	None

V. Administered Accounts: None

VI. Overdue Obligations to the Fund: None

B. Nonfinancial Relations

VII. Exchange Rate Arrangement: Since January 31, 1987, Mozambique's currency, the metical (plural: meticais) has been pegged to the U.S. dollar, the former peg to a weighted basket of six currencies having been suspended on that date. Fixed buying and selling rates for telegraphic transfers, in effect since June 27, 1987, have been Mt. 400 and Mt. 408, respectively, per U.S. dollar. Rates based on market quotations for 20 other currencies are published daily.

1/ SDR 7,184.

MOZAMBIQUE - Relations with the Fund (continued)

VIII. Consultation with the Fund: The second Article IV consultation discussions were held in Maputo during July 5-28, 1986.

Executive Board discussion of the staff reports (SM/86/259 and SM/86/268) took place on November 17, 1986, and the following decision was adopted:

1. The Fund takes this decision relating to the exchange measures of the People's Republic of Mozambique subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with the People's Republic of Mozambique, in the light of the 1986 Article IV consultation with the People's Republic of Mozambique conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The People's Republic of Mozambique continues to maintain restrictions on payments and transfers for current international transactions in accordance with Article XIV, Section 2. In addition, exchange restrictions evidenced by external payments arrears are subject to approval under Article VIII, Section 2(a). The Fund urges the authorities to adopt adjustment policies that will permit the elimination of these restrictions, and to terminate the bilateral payments agreement that is maintained with a Fund member.

It was expected that consultations with Mozambique would take place on the standard twelve-month cycle.

IX. SAF Arrangements: The Executive Board took the following decision on June 8, 1987:

1. The Government of the People's Republic of Mozambique has requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the Structural Adjustment Facility.

2. The Fund approves the arrangements set forth in EBS/87/101.

X. Technical Assistance

1. Statistics. An initial Bureau of Statistics mission in August 1985 assessed Mozambique's needs for technical assistance in statistics and provided an initial report on balance of payments methodology in December 1985.

MOZAMBIQUE - Relations with the Fund (concluded)

Technical assistance on compiling monetary statistics and developing a more suitable basic plan of accounts was provided to the Bank of Mozambique in early November 1985, and a report thereon was issued in February 1986. A subsequent joint Bureau of Statistics and Bureau of Computing Services mission in April-May 1986 followed up on these matters, provided training in the use of microcomputers to speed data compilation, and assessed the banking system's needs and plans for further computerization. Work on preparation of an IFS country page took place during the August 1987 consultation mission. A technical assistance mission on the balance of payments also took place concurrently with the first two weeks of the August 1987 consultation mission.

2. CBD Advisors. Following a Central Banking Department staff visit in August 1985 to assess needs for banking advisors, a Macroeconomic Advisor from the panel of experts was provided to the Bank of Mozambique in February 1986; his initial term has been renewed for a second year. Since May 1986 an Accounting Advisor has been assigned to help revise the banking system's plans of accounts; his initial term has recently been extended for a second year. An Advisor in Organization and Methods is being provided to the Bank of Mozambique for an initial one-year term beginning in November 1987.

3. IMF Institute. A two-week seminar on techniques of economic analysis was conducted in Maputo for senior Mozambican officials from June 23 to July 4, 1986 under the direction of the IMF Institute, with participation by the Bureau of Statistics and the African Department. Mozambican participants in Institute courses at Headquarters numbered 1 in 1985, 4 in 1986, and 4 in 1987 (through year-end).

MOZAMBIQUE - Relations with the World Bank

The first World Bank economic mission to Mozambique took place in November 1984, and an Introductory Economic Survey was issued on June 6, 1985. IDA approved a first Rehabilitation Credit of SDR 45.5 million on June 18, 1985, to help meet Mozambique's priority needs in the industrial, transport, and agricultural sectors; cumulative disbursements amounted to SDR 32.9 million by end-September 1987, and are expected to reach SDR 36 million by end-1987. The Norwegian and Italian Governments have recently provided an additional US$22 million in cofinancing with the credit. On May 29, 1986, IFC provided about US$2.5 million in financing for the LOMACO company, a major commercial agricultural producer, and on July 28, 1987, IFC took an equity position of up to US$7.75 million in a Xai-Xai offshore oil exploration program with British Petroleum. On May 26, 1987, the Executive Board approved an IDA credit of SDR 15.6 million for a project in the energy sector (based on the conclusions of a recently issued Energy Assessment Report for Mozambique) which incorporates reforms in the areas of energy pricing, investment planning, and financial management for the electricity and petroleum subsectors. A second IDA Rehabilitation Credit of SDR 54.5 million, together with SDR 14.5 million from the Special Fund for Africa, was approved by the Bank's Executive Board on August 4, 1987; Bank staff project disbursements of SDR 31 million by end-1987. A Swiss Special Joint Financing grant (Bank-administered) of Sw F 16.9 million and a Swiss cofinancing grant of Sw F 10.0 million are associated with these credits.

Bank assistance to Mozambique is being focused primarily on rehabilitation of the economy, in the context of the Government's efforts to improve the overall policy environment. The Bank's dialogue with the Government over the last two years has moved consistently toward agreement on a comprehensive program for economic reforms. An IDA credit for about SDR 10 million is being appraised to provide complementary technical assistance in economic and financial management to assist the Government in identifying and carrying out future policy adjustments. At the sector level, an education project focusing on primary schooling is under appraisal, with a view to an IDA credit of about SDR 10 million. Future lending operations are also expected for the education, transport, health, industry, and urban sectors.

The agenda for economic and sector work is designed primarily to support the efforts of the Government to adopt more appropriate economic policies. A Review of Enterprises (financed by the Special Project Preparation Facility--SPPF), covering 25 industrial and 15 agricultural enterprises is now under way, and is expected to result in initial recommendations by October 1987. A review of four key agricultural subsectors (cashews, irrigation, forestry, and cotton), also financed with SPPF funds, was completed in September 1987 and is providing a basis for operations in the agricultural sector. The Bank expects to initiate a Public Expenditure Review in fiscal year 1988, which will assess the efficiency pattern of recurrent expenditures and investments, and make appropriate recommendations. Technical assistance has also been initiated in external debt management and reporting.

MOZAMBIQUE--Statistical Issues

Despite recent improvements, Mozambique continues to have a rather weak statistical data base. There is not yet a system in place for the regular reporting of statistical data to the Fund's Bureau of Statistics, and there is not yet a country page for Mozambique in IFS, the GFS Yearbook, or Balance of Payments Statistics. There remain unresolved discrepancies between fiscal, monetary, balance of payments, and external debt accounts, and substantial lags in compilation and reporting of some data. During the course of the mission, the possibility of producing an IFS page for Mozambique was discussed with the authorities.

1. General economic data

In national accounts, estimates of gross domestic product are available only in terms of expenditure; value-added estimates are not yet prepared. The current-price estimates of private consumption (accounting for most of GDP) in large part reflect parallel-market prices for purchased items and official producer prices for autoconsumption (on-farm consumption, etc.); hence, ratios of variables valued at official prices (budget, balance of payments) to GDP tend to be distorted and misleading. As appropriate deflators are not available for some components, the constant-price (1980-based) GDP estimates should be considered provisional. The prototype of a consumer price index, providing annual observations on the basis of family expenditure surveys and reflecting purchases at parallel-market as well as official prices, is published, and monthly sampling of some items has begun, but a conventional, monthly CPI is not yet available. While a reliable indicator of export prices is available from volume and value data, compilation of an import price index based on customs data is still under way. Technical assistance will be provided before the end of this year by the World Bank on national accounts, and by the United Nations on consumer and producer prices.

2. Government finance

Government finance statistics are judged to be relatively reliable, particularly those relating to the current state budget, but data on investment outlays and on external grants and loans and debt service are less so. Financial accounts of most public enterprises are weak or not available, and no consolidated accounts of the public sector exist. For the GFS Yearbook, data compiled entirely according to the GFS methodology have not been obtained at this stage.

3. Monetary accounts

Available monetary data are based on outdated and ambiguous systems of accounts, and compilation is also hindered by communications difficulties and equipment shortages. A draft new plan of accounts for the banking system and a simplified balance sheet for the financial institutions, produced and discussed during technical assistance missions in late 1985-early 1986, have been further reviewed and refined with the CBD accounting expert, and approved for implementation on a trial basis in the latter half of 1987 and in full from 1988. At present, the available money and banking data consist of year-end accounts for 1980-83, somewhat more refined quarterly accounts for 1984-86, monthly data in early 1987, and estimates extrapolated from these and other data through mid-1987; a lag of several months remains for complete accounts. Improvements in the quality of monetary data are contingent on the full implementation of the new plan of accounts during 1988.

4. Balance of payments

Although a serviceable balance of payments statement has been assembled from exchange control and trade data, substantial problems of timing and coverage remain, as well as a lack of comparability with fiscal and external debt data. Despite the initial technical assistance mission in 1985, data submissions are not yet made to the Bureau of Statistics. A technical assistance mission from the Bureau of Statistics has recently taken place to assist the authorities in solving methodological problems of balance of payments statistics.

5. External debt

A commercially developed external debt reporting and management system was provided to the Bank of Mozambique under bilateral assistance in 1985-86, but the information within it remains subject to frequent revision and additions and is not linked with related financial accounts. Data are available by creditor, but debtor institutions are not identified. Reliable data on bank external debt, integrated with the monetary statistics, are expected to result from implementation of the new plan of accounts in 1988. Parallel efforts are under way regarding government external debt and the limited amounts of direct enterprise external debt, and to reconcile the sets of data. Mozambique does not yet provide data under the World Bank's debtor reporting system, and the aforementioned data do not meet Bank requirements. The IBRD has initiated technical assistance in this area.

Table 1. Mozambique: Selected Economic, Financial, and Social Indicators, 1981-87

Economic and financial indicators	1981	1982	1983	1984	1985	1986	1987 Prog. 1/	1987 Rev. 2/
	(Annual percentage changes, unless otherwise specified)							
Production and prices								
GDP at 1980 prices 3/	0.6	-3.5	-12.7	1.8	-9.2	2.6	1.2	3.0
GDP deflator 3/	3.6	17.6	13.4	17.2	49.0	4.5	...	182.0
Consumer prices	2.0	17.6	29.2	30.3	29.2	16.9	...	125.0
External trade (based on US$ values)								
Exports, f.o.b.	--	-18.4	-42.6	-27.3	-19.9	3.2	8.9	25.3
Imports, c.i.f.	0.1	4.4	-23.9	-15.2	-21.5	28.1	18.8	19.3
Export volume	-9.8	-1.8	-43.4	-35.8	-18.3	-2.8	3.7	16.1
Import volume	-0.6	16.4	-21.9	-13.8	-15.8	37.0	10.8	11.5
Terms of trade	10.1	-7.3	4.1	15.2	5.0	13.6	-2.1	0.9
Exchange rate								
Annual average (US$/Mt.)	-8.3	-6.4	-6.2	-5.3	-1.7	6.8	-83.8	-86.1
Nominal effective 4/	9.3	6.0	6.9	17.8	7.3	-9.3	-90.8	-90.9
Government budget (cash basis)								
Revenue	23.1	36.1	-11.2	-2.3	-15.2	13.8	297.6	271.8
Tax revenue	6.1	18.0	6.2	1.5	-15.6	14.7	389.4	348.9
Total expenditure	24.9	23.9	5.1	4.2	-21.2	22.5	258.2 5/	265.1 5/
Current expenditure	17.7	19.0	11.3	-0.3	8.4	17.9	150.8 5/	148.5 5/
Money and credit								
Domestic credit	25.6	17.1	41.0	20.7	16.1	17.1	23.8	23.7
Government (net)	278.2	-39.1	251.8	64.1	21.4	21.7	71.6 6/	76.0 6/
Economy	16.8	23.5	29.2	14.1	14.9	16.1	11.2 7/	11.0 6/ 7/
Money and quasi-money	29.3	30.3	21.9	15.4	15.4	15.5	43.7	44.6
	(In units stated)							
Overall balance of payments deficit (US$ millions)	68.2	143.6	363.4	355.7	353.4	488.0	444.0 8/	465.9
Gross foreign reserves (months of imports, c.i.f.)	3.1	1.0	0.9	1.7	1.2	1.5	1.6 8/	1.6
External debt (US$ millions)	...	...	1,834	2,388	2,794	3,157	3,560 8/	3,556
Of which: arrears	(...)	(...)	(285)	(454)	(589)	(711)	(--)	(--)
Debt service ratio 9/								
Before debt relief	75.1	97.3	129.4	195.9	215.4	247.4	237.7	254.0
After debt relief	75.1	97.3	129.4	96.2	110.4	247.4	45.3	41.9

Social and other indicators	1973 10/	1986 10/	Reference low-income group
GDP per capita (U.S. dollars)	...	210 11/	260
Area (thousand sq. km.)	801.6	801.6	...
Percentage agricultural	58.7	58.7	...
Population			
Total population (millions)	10.1	14.2	...
Rate of growth (percent)	2.3	2.6	2.1
Urban (percent of total)	7.0	19.0	22.0
Population density (per sq. km.)			
Total land area	12.6	17.7	...
Agricultural area	21.5	30.1	349
Vital statistics			
Life expectancy at birth (years)	41	47	60
Infant mortality (percent)	16.7	12.3	7.2
Child (aged 1-4) death rate (percent)	2.8	2.2	0.9
Health and nutrition			
Population per physician (thousands)	62.1	50.7	8.9
Population per hospital bed (thousands)	1.0	1.2	1.1
Daily calorie supply per capita	1,981	1,617	2,339
Daily protein supply (grams) per capita	37	28	55
Access to safe water (percent of population)	10	9	...
Urban (percent of urban population)	62	82	...
Rural (percent of rural population)	2	2	...
Education			
Literacy rate (percent age 7+)	93	70	...
Primary school enrollment rate (percent)	87	83	97
Secondary school enrollment rate (percent)	3	6	32

Sources: Data provided by the Mozambican authorities; the World Bank (1987 Social Indicator Data Sheet); and staff estimates.

1/ Percent changes from data used for program, i.e., revisions to 1986 data not reflected.
2/ Mainly staff estimates, except for government budget and money and credit.
3/ Provisional estimates based on expenditure accounts and limited available price indicators (see Appendix III).
4/ December averages compared.
5/ Reflects inclusion of enterprise losses in both 1986 and 1987 expenditure data.
6/ Reflects shift of financing of enterprise losses from banks to budget.
7/ Does not include foreign borrowing on-lent through domestic credit.
8/ Adjusted for consistency in coverage with revised series shown.
9/ External debt service as percent of exports of goods and services (including workers' remittances).
10/ Or nearest available date.
11/ As adjusted by World Bank staff for international comparability. Official GDP estimate and exchange rate yield US$277, unadjusted.

Table 2. Mozambique: Summary of Production Indicators, 1982-86

	1982	1983	1984	1985	1986	Ratio of 1986 to 1980-81 average
	(Changes in percent)					(In percent)
National accounts						
Global social product at 1980 prices	-6.3	-18.3	-9.6	-7.4	4.3	67.6
GDP at constant 1980 market prices 1/	-3.6	-12.7	1.8	-9.2	2.6	80.1
GDP at current market prices	13.4	-1.1	19.4	35.3	7.3	198.4
Gross fixed investment at 1980 prices	4.7	-24.0	-17.4	-18.7	46.4	81.5
Gross fixed investment at current prices	11.9	-18.6	-12.5	-11.4	56.8	119.1
Marketed production						
Cashew nuts	-36.7	-68.2	39.8	20.2	31.9	45.1
Seed cotton	-17.6	-59.3	-20.2	-71.7	87.7	15.6
Tea	10.6	-53.4	-17.0	-58.2	-74.4	6.8
Sugar	-29.1	-41.4	-46.7	-36.6	-32.4	9.7
Rice	43.6	-58.3	10.4	-6.3	6.1	52.3
Maize	13.9	-37.4	48.0	-29.1	-63.3	30.0
Industrial production 2/						
Heavy industry and energy	-3.7	-20.4	-41.7	-33.6	-4.2	26.2
Light industry and food	-13.3	-3.7	4.8	-19.0	2.6	75.8
Total (including others)	-13.8	-20.0	-21.4	-18.4	-0.8	44.7
Energy						
Domestic energy supply	-2.2	-16.0	-24.0	12.2	-2.6	32.4
Electricity generated	-15.3	103.9	-91.0	28.0	-31.1	6.4 3/
Coal production	-31.2	-73.9	-6.4	12.0	5.0	23.4
Petroleum products	7.9	-39.5	-60.9	... 4/	...	...
Transportation						
Rail freight (ton-km)	-20.4	-39.2	-30.1	-46.1	4.8	21.3
Port handling (shipping tons)	--	-26.7	-21.2	-13.5	-6.7	44.4

Source: Directorate General of National Statistics.

1/ Provisional estimates based on expenditure accounts and limited available price indicators. IBRD staff estimates in terms of value added show lower (or more negative) rates.

2/ At constant 1980 prices.

3/ Based on 1980 only (i.e., before damage to Cahora Bassa transmission lines).

4/ Refinery closed during 1984.

Table 3. Mozambique: Summary of Government Finance, 1984-87

	1984	1985	1986	1987 Prog.	1987 Rev. bud. 1/	First half of 1987 Prog.	First half of 1987 Prov.
	(In billions of meticais)						
Revenue	22.3	18.9	21.5	80.5	80.1	22.3	22.5
Tax revenue	16.2	13.7	15.1	73.9	70.4	19.7	18.2
Income and profits	(4.4)	(4.4)	(4.3)	(9.6)	(10.2)	(2.1)	(5.1)
Goods and services	(9.3)	(6.7)	(9.0)	(47.4)	(45.6)	(13.1)	(9.7)
International trade	(1.8)	(1.5)	(1.0)	(13.2)	(11.9)	(3.1)	(2.5)
Other taxes	(0.8)	(1.0)	(1.4)	(3.6)	(2.8)	(1.5)	(0.9)
Nontax revenue	6.1	5.3	5.9	6.6	9.7	2.6	4.2
Enterprise surpluses	(3.0)	(1.7)	(2.7)	(--)	(--)	(--)	(...)
Housing rents	(1.4)	(1.5)	(1.6)	(1.6)	(2.9)	(0.8)	(0.8)
Other nontax revenue	(1.7)	(2.1)	(1.5)	(5.0)	(6.8)	(1.8)	(3.4)
Current expenditure	22.0	23.9	28.2	105.6	105.2	43.9	33.0
Total, budget year 2/	22.9	24.4	28.2	108.1	107.7	41.5	30.1
Defense and security	(10.3)	(11.0)	(12.4)	(42.4)	(42.0)	(14.8)	(15.9)
Other wages and salaries	(7.2)	(7.6)	(8.0)	(17.6)	(17.2)	(7.0)	(5.1)
Other goods and services	(4.0)	(4.3)	(5.0)	(14.4)	(14.3)	(4.8)	(4.8)
Interest	(0.1)	(0.1)	(0.8)	(7.4) 3/	(7.4)	(2.5)	(--)
Consumer subsidies	(0.4)	(0.5)	(0.5)	(6.8)	(7.0)	(3.4)	(0.1)
Enterprise subsidies	(--)	(--)	(--)	(14.0)	(14.0)	(7.0)	(3.7)
Pensions and other	(0.9)	(1.0)	(1.4)	(5.5)	(5.8)	(2.0)	(0.6)
Complementary periods (net) 4/	-0.9	-0.5	--	-2.5	-2.5	2.4	2.9
Current deficit (surplus -)	-0.3	5.0	6.6	25.1	25.2	21.6	10.6
Capital expenditure	16.7	6.7	9.3	78.5	83.2	17.1	7.9
Total, budget year 2/	10.6	8.1	11.6	119.8	118.9	13.0	4.1
Complementary periods (net) 4/	6.1	-1.5	-2.3	-41.3	-35.7 5/	4.1	3.8
Total expenditure	38.8	30.5	37.4	184.1	188.5	61.0	41.0
Overall deficit (before grants)	16.5	11.6	15.9	103.6	108.4	38.7	18.5
Grants received	2.9	3.0	3.9	63.6	59.1	11.6	6.1
External borrowing (net)	4.7	5.1	5.9	15.3	24.3	9.1	4.8
Disbursements	4.8	6.1	6.1	24.4 6/	33.3 5/	11.5	8.7
Repayments	-0.1	-0.1	-0.2	-9.1 6/	-9.0	-2.4	-3.9
Domestic bank financing (net)	8.7	4.8	5.9	25.0	25.0	18.0	6.1
Other financing and discrepancy	0.1	-1.2	0.2	-0.3	-0.1	--	1.6
Memorandum items:							
Grants + net foreign borrowing	7.6	8.1	9.1	78.9	83.4	17.2	10.9
Enterprise losses (est.) 7/	...	9.0	14.2	14.0	14.0	7.0	3.7
Items including enterprise losses							
Total expenditure	...	39.6	51.6	184.1	188.5	61.0	41.0
Overall deficit (before grants)	...	20.6	30.1	103.6	108.4	38.7	18.5
Domestic bank financing	...	13.8	20.1	25.0	25.0	21.5	6.1
	(In percent)						
Ratios to total expenditure (items include enterprise losses):							
Overall deficit	...	52.2	58.3	56.3	57.5	63.4	45.1
Domestic bank financing	...	34.8	39.0	13.6	13.3	35.2	14.9

Sources: Ministry of Finance; and staff estimates.

1/ Original budget of January 1987 as revised in midyear to reflect second devaluation and developments to date.
2/ Not adjusted for timing, i.e., includes complementary period spending after calendar year indicated.
3/ Includes domestic debt service for first time (Mt. 2.3 billion).
4/ Timing adjustments to offset net effects of complementary period spending.
5/ Assumes rapid disbursements of project loans; delays (as well as cancellations) could substantially reduce calendar-year (cash-basis) investment outlays and external financing.
6/ Revised to treat rescheduling as deduction from repayments rather than addition to disbursements (or refinancing).
7/ For 1985 and 1986, authorities' estimates of enterprise losses financed from bank credit; from 1987, budgetary transfers to cover such losses (as shown above), with no bank credit for this purpose.

Table 4. Mozambique: Monetary and Credit Developments, 1984-87

	1984	1985	1986	1987			
				March	June		Dec.
				Prov.	Prog. 1/	Prov.	Prog.
Balances, end of period				(In billions of meticais)			
Net foreign assets	1.0	0.6	0.4	1.0	5.3	10.6	9.7
Assets	4.0	2.9	3.5	17.6	35.5	44.1	39.9
Liabilities	-3.0	-2.3	-3.1	-16.6	-30.2	-33.5	-30.2
Domestic credit	124.2	144.2	168.9	174.0	194.9 2/	182.3	208.9 2/
Credit to Government (net)	22.3	27.0	32.9	34.6	50.9	39.0	57.9
Credit to the economy	102.0	117.2	136.0	139.5	144.0 2/	143.3	151.0 2/
Foreign funds on-lent 3/	(27.2)	(34.2)	(36.8)	(36.8)	(36.8)	(36.8)	(36.8)
Domestic-source credit	(74.8)	(82.9)	(99.2)	(102.7)	(107.2)	(106.5)	(114.2)
Money and quasi-money	83.6	96.5	111.5	119.9	138.4	133.7	161.2
Currency in circulation	27.0	29.8	32.3	34.2	37.7	33.6	42.0
Demand and savings deposits	53.8	62.8	75.1	81.6	96.7	96.0	115.1
Time deposits	2.8	3.9	4.1	4.1	4.0	4.1	4.1
Foreign borrowing	27.2	34.2	36.8	191.8	376.9	389.5	377.0
For domestic on-lending 3/	27.2	34.2	36.8	191.7	370.6 2/	383.1	370.6 2/
SAF 4/ and other	--	--	--	0.1	6.3	6.4	6.4
Valuation adjustments	--	--	--	-154.6	-329.8	-344.0	-329.8
Other items (net)	14.4	14.0	21.1	18.0	14.7	13.8	10.3
Flows during year 5/							
Net foreign assets	2.6	-0.4	-0.2	0.3	0.9	4.7	5.3
Domestic credit	21.3	19.9	24.7	5.2	26.0	13.4	40.0
Credit to Government (net)	8.7	4.8	5.9	1.7	18.0	6.1	25.0
Credit to the economy	12.6	15.2	18.8	3.5	8.0	7.3	15.0
Foreign funds on-lent 3/	(1.5)	(7.0)	(2.6)	(--)	(...)	(--)	(...)
Domestic-source credit	(11.1)	(8.2)	(16.3)	(3.5)	(8.0)	(7.3)	(15.0)
Money and quasi-money	11.1	12.9	15.0	8.4	26.9	22.3	49.7
Foreign borrowing	1.5	7.0	2.6	0.1	6.3	3.1	6.4 4/
For domestic on-lending	1.5	7.0	2.0	--	...	--	--
SAF 4/ and other	--	--	--	0.1	6.3	3.1	6.4
Other items (net)	11.3	-0.4	7.0	-3.0	-6.3	-7.3	-10.8
Rates of change 5/				(In percent)			
Domestic credit	20.7	16.1	17.1	3.0	15.4	7.9	23.7
Credit to Government (net)	64.1	21.4	21.7	4.9	54.7	18.5	76.0
Credit to the economy	14.1	14.9	16.1	2.6	5.9	5.4	11.0
Domestic-source credit	17.5	10.9	19.6	3.5	8.1	7.4	15.1
Money and quasi-money	15.4	15.4	15.5	7.6	24.1	20.0	44.6

Sources: Bank of Mozambique; and staff estimates.

1/ Based on program flows and revised end-1986 stocks.
2/ Plus foreign funds borrowed and on-lent during 1987 (see below).
3/ Amounts borrowed abroad by Bank of Mozambique on-lent domestically; excluded from SAF credit benchmarks.
4/ Reclassified from other items (net) in program presentation.
5/ Flows and resulting percent changes exclude valuation changes resulting from January and June 1987 metical devaluations. Data for 1987 are cumulative from end-1986.

Table 5. Mozambique: Balance of Payments, 1984-92

(In millions of U.S. dollars)

	1984	1985	1986	Est. 1987	Projections 1988	1989	1990	1991	1992
Trade balance	-444.0	-347.1	-463.6	-548.1	-593.9	-644.8	-690.3	-737.1	-785.2
Exports (f.o.b.)	95.7	76.6	79.1	99.2	121.6	136.0	152.6	171.3	192.3
Imports (c.i.f.)	-539.7	-423.8	-542.7	-647.3	-715.5	-780.8	-842.9	-908.4	-977.5
Services (net)	-32.1	-92.9	-158.7	-198.8	-192.2	-217.0	-200.7	-200.5	-194.1
Receipts	118.1	107.1	119.0	122.2	127.9	134.2	140.9	148.2	158.5
Transportation	34.5	39.4	45.0	33.8	36.5	39.4	42.5	45.9	49.6
Workers' remittances	57.0	40.8	50.0	50.0	50.0	50.0	50.0	50.0	52.5
Other service receipts	26.6	26.9	24.0	38.4	41.5	44.8	48.4	52.2	56.4
Expenditures	-150.2	-200.0	-277.7	-320.9	-320.2	-351.2	-341.6	-348.6	-352.6
Interest 1/	-80.9	-117.3	-154.7	-193.1	-196.9	-230.6	-227.5	-239.8	-245.8
Other transportation	-24.5	-38.7	-34.0	-40.8	-42.4	-44.1	-45.9	-47.7	-49.6
Workers' remittances	-25.7	-25.0	-23.0	-23.0	-23.9	-24.9	-25.9	-26.9	-28.0
Investment services	...	...	-50.0	-40.0	-32.0	-25.6	-15.4	-6.1	—
Other service expenditure	-19.1	-19.0	-16.0	-24.0	-25.0	-26.0	-27.0	-28.1	-29.2
Current account	-476.1	-440.1	-622.3	-746.9	-786.1	-861.8	-891.0	-937.6	-979.3
Unrequited official transfers	167.8	139.0	213.0	349.3	384.3	422.7	464.9	511.4	562.6
Capital account	-73.0	-39.7	-51.5	-68.3	-5.0	91.0	75.9	137.4	152.5
Foreign borrowing	264.8	238.8	284.0	300.7	315.7	331.5	348.0	365.4	383.7
Amortization 1/	-337.8	-278.5	-335.5	-369.0	-320.7	-240.5	-272.1	-228.1	-231.2
Errors and omissions (net)	25.6	-12.7	-27.2	—	—	—	—	—	—
Overall balance	-355.7	-353.4	-488.0	-465.9	-406.8	-348.1	-350.1	-288.7	-264.2
Financing	355.7	353.4	488.0	465.9	406.8	348.1	350.1	288.7	264.2
Net foreign assets	-63.0	7.7	5.8	-19.0	-25.0	-15.0	-15.0	-15.0	-10.0
Assets (increase -)	-32.0	22.3	-19.0	-19.0	-25.0	-15.0	-15.0	-15.0	-10.0
Reserve assets	-23.0	20.5	-23.5	-19.0	-25.0	-15.0	-15.0	-15.0	-10.0
Bilateral payments	-1.4	2.3	4.9	—	—	—	—	—	—
Other	-7.7	-0.4	-0.4	—	—	—	—	—	—
Liabilities	-31.0	-14.6	24.8	—	—	—	—	—	—
Use of IMF credit (net)	—	—	—	15.4	23.1	10.4	—	—	—
Net change in arrears	205.6	152.7	482.2	-711.2	—	—	—	—	—
Exceptional financing	213.1	193.0	—	1,180.7	408.8	352.7	365.1	303.7	274.2
Debt relief 2/	213.1	193.0	—	1,180.7	397.3	...	...	...	...
Residual gap	—	—	—	—	11.5	352.7	365.1	303.7	274.2
Memorandum items:									
Official debt service 3/	...	...	...	451.1	397.3	326.8	329.5	274.9	241.2
Gross international reserves	69.0	48.5	72.0	91.0	116.0	131.0	146.0	161.0	171.0
(In months of imports)	1.7	1.2	1.5	1.6	1.9	1.9	2.0	2.0	2.0
Actual debt service payments	—	50.1	8.0	92.6	120.3	144.3	170.1	193.0	235.8
Debt service ratio 4/									
Before debt relief	195.9	215.4	247.4	254.0	207.4	174.4	170.2	146.4	135.9
After debt relief	96.2	110.4	247.4	41.9	48.2	...	...	...	...

Sources: Bank of Mozambique; and staff estimates.

1/ Details in Table 6.
2/ Reflects Paris Club and similar agreements in principle, not ultimate bilateral agreements. Reflects (1) October 1984 Paris Club agreement on approximately US$60 million in end-1983 arrears, US$153.1 million in 1984 maturities, and US$70.4 million in first half 1985 maturities; (2) OPEC member agreements in 1985 on US$96 million in arrears and US$26.6 million in 1985 maturities; (3) May 1987 London Club agreement on US$253.3 million (mainly arrears); (4) June 1987 Paris Club agreement on US$240.3 million for 1987 and US$120.4 million for 1988; and (5) other agreements on US$687.1 million for 1987 and US$276.9 million for 1988.
3/ Corresponds to debt service to official creditors; for Paris Club participants applies to debt contracted after the cutoff date of February 1984.
4/ As percentage of exports of goods and total service receipts.

Table 6. Mozambique: Debt Service Projections on External Debt, 1985-92

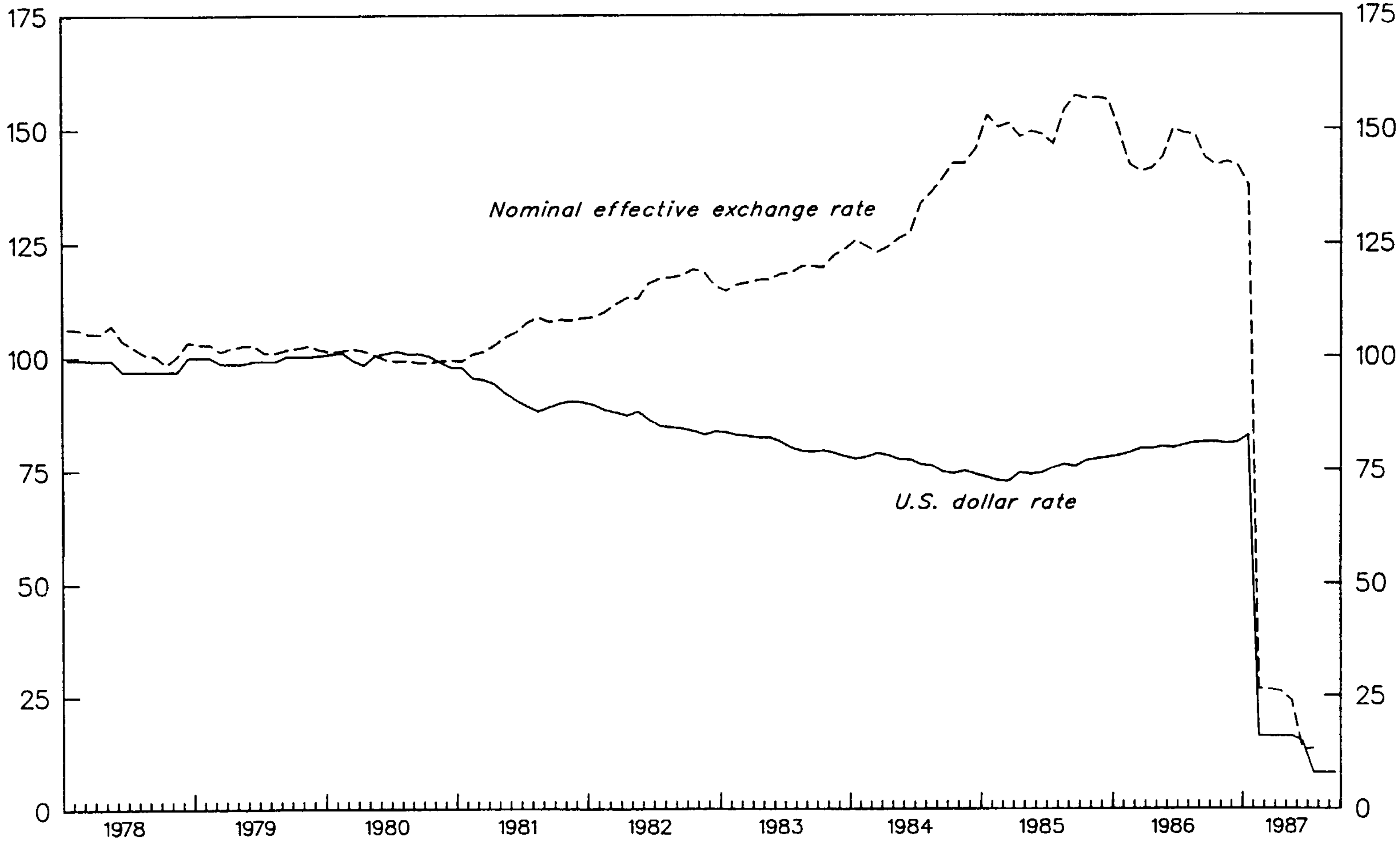
(In millions of U.S. dollars)

	1985	1986	Est. 1987	Projections 1988	1989	1990	1991	1992
Original debt service	352.8	447.6	520.8	421.6	350.2	352.9	297.7	263.0
Principal	278.5	335.5	369.0	320.7	240.5	272.1	228.1	208.7
Multilateral	(3.3)	(3.5)	(6.2)	(7.8)	(7.3)	(8.3)	(8.1)	(8.0)
Bilateral	(275.2)	(332.0)	(362.8)	(312.9)	(233.2)	(263.8)	(220.0)	(200.7)
Interest	74.3	112.1	151.8	100.9	109.7	80.8	69.6	54.3
Multilateral	(3.6)	(2.8)	(4.3)	(4.1)	(3.7)	(3.4)	(2.8)	(2.7)
Bilateral	(70.7)	(109.3)	(147.5)	(96.8)	(106.0)	(77.4)	(66.8)	(51.6)
New debt service	43.1	42.6	41.3	96.0	120.9	146.7	170.2	214.0
Principal	--	--	--	--	--	--	--	22.5
On refinancing	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(22.5)
On new borrowing	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Interest	43.1	42.6	41.3	96.0	120.9	146.7	170.2	191.5
On refinancing 1/	(40.2)	(39.0)	(37.5)	(84.2)	(100.5)	(117.0)	(130.8)	(142.0)
On new borrowing	(2.9)	(3.6)	(3.8)	(11.7)	(20.4)	(29.7)	(39.4)	(49.5)
Total debt service	395.9	490.2	562.1	517.6	471.1	499.6	467.9	477.0
Principal	278.5	335.5	369.0	320.7	240.5	272.1	228.1	231.2
Interest	117.4	154.7	193.1	196.9	230.6	227.5	239.8	245.8

Sources: Bank of Mozambique; and staff estimates.

1/ Includes imputed interest on arrears as well as interest on exceptional financing (consolidated arrears, rescheduled current debt service maturities, and other).

CHART
MOZAMBIQUE
EXCHANGE RATE DEVELOPMENTS, JAN. 1978–SEPT. 1987
(Foreign currency per metical)
(Period average: 1980=100)



Sources: Bank of Mozambique: and staff estimates.