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THE INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
THE INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

Final Document on the Initiative for Heavily Indebted Poor Countries (HIPC)

Prepared by the Staffs of IDA and the IMF[1]

March 31, 1998

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[1]Approved by Evangelos A. Calamitsis and Thomas Leddy (IMF) and Masood Ahmed and Phyllis Pomerantz (IDA).

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I. INTRODUCTION

1. On September 9 and 10, 1997, the Executive Boards of IDA and the IMF, respectively, considered the preliminary document on the Heavily Indebted Poor Countries (HIPC) Initiative for Mozambique (IDA/SecM97-407, 8/20/97, and EBS/97/158, 8/21/97).[2] The present document updates the debt sustainability analysis (DSA) and the discussion of the government's adjustment record and policy reform agenda, and reports on consultations with creditors, the status of debt reconciliation, and burden sharing in the light of the updated DSA and consultations with creditors.[3] The paper contains the staffs' and managements' recommendations regarding the decision point, the debt sustainability targets, the completion point, and the level of assistance to be provided by the IMF and by IDA in light of the Boards' views expressed during the discussions of the preliminary document in September.

2. During the discussion of the preliminary document, Executive Directors of the IMF and IDA agreed that Mozambique was eligible for assistance under the Initiative in view of its heavy external debt burden and vulnerability to external shocks, its strong track record of adjustment over a long period, its receipt of Paris Club debt relief on Naples terms, and its status as an ESAF-eligible and IDA-only country. They indicated that the decision point could take place in the fourth quarter of 1997, or as soon as creditors were ready to make the necessary commitments, and emphasized that at the decision point the Mozambican authorities would be expected to identify critical structural and social policies that would be needed by the completion point to help ensure a robust exit from further debt relief. Most Directors at the IMF and at IDA supported a completion point of mid-1999. However, some favored mid-2000 to provide additional time for Mozambique to finish the necessary structural reforms, whereas several other Directors supported a completion point of end-1998. Directors agreed that the net present value (NPV) of the debt should be reduced to 200–210 percent of exports—and most favored a target at the lower end of that range—and that the ratio of debt service to exports should be reduced below 20 percent soon after the completion point. Several Directors noted the importance of providing interim assistance to Mozambique in the period up to the completion point.

3. Section II describes the outcome of the data reconciliation exercise and updates the DSA, and Section III summarizes Mozambique's adjustment record. Section IV describes the economic and social reforms currently being supported by the IMF and by IDA and identifies

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[2]A summary of the status of early cases considered by the Boards under the HIPC Initiative is contained in Appendix Table 1.

[3]The debt sustainability analysis was finalized on IDA and IMF missions in October 1997 and in February 1998, with further consultation and elaboration in Washington. The IMF staff team involved in its finalization comprised Messrs. Leite, Piñon-Farah, and Ramlogan, Ms. Fabrizio and Ms. Udovicki (AFR), and Ms. Daseking (PDR). The IDA staff team comprised Ms. Castro (AFTM1) and Mr. Stephens (AFTD1).

key policy reforms to be implemented by the completion point. Section V discusses the timing of the decision and completion points and proposes the debt-sustainability target. Section VI determines the assistance needed to bring the NPV of Mozambique's external debt down to the proposed target level and discusses the issue of burden sharing, reflecting consultations with Mozambique's creditors and particularly the Paris Club. Finally, Section VII contains issues for discussion.

II. DATA RECONCILIATION AND UPDATE OF THE DEBT SUSTAINABILITY ANALYSIS

4. Following the Boards' discussions of the preliminary document in September 1997, the authorities contacted all multilateral creditors and successfully exchanged and reconciled information on end-1996 debt outstanding and disbursed. A joint IDA-IMF-AfDB/AfDF mission visited Maputo in October 1997 and worked with the authorities to reconcile discrepancies in their databases, agree on end-1996 debt figures and incorporate in the debt sustainability analysis the outcome of the reconciliation exercise with other creditors.

5. In January 1998, the Mozambican and Russian authorities completed the first phase of the reconciliation of Russian claims and discussed the application of the terms of the September 1997 Memorandum of Understanding between Russia and the Paris Club. As an outcome of these and subsequent discussions, reconciled data differ from those used in the preliminary document regarding the breakdown into pre- and post-cutoff date debt. Consequently, the NPV of Russian claims after Naples terms exceeds the original estimates by about US$100 million in 1997. However, Russia committed in the September 1997 Memorandum to provide special treatment for a small number of countries, including Mozambique, where post-cutoff date arrears posed problems for these countries' payments capacity. Against this background, the Russian authorities have indicated their willingness to apply concessional terms to arrears on post-cutoff date debt, involving an NPV reduction of 50 percent.[4] [5] This action would result in a further reduction in the NPV of debt of about US$80 million, and constitutes a crucial element in the broader international effort to assure debt sustainability for Mozambique.[6]

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[4]With regard to post-cutoff date maturities, the current analysis assumes that these are paid on nonconcessional terms.

[5]This indication was obtained only after issuance of the staff report (EBS/98/57), which assumed a different treatment of post-cutoff date arrears to Russia. Consequently, the debt indicators shown in the staff report differ from those presented in this document.

[6]The Paris Club has requested the Russian authorities to consider providing additional debt relief, so as not to increase the residual bilateral gap beyond the US$100 million in the earlier calculations.

6. Regarding the reconciliation of other bilateral debt, the authorities have now signed bilateral agreements with all but two of the creditors participating in the November 1996 Paris Club flow rescheduling agreement on Naples terms. Furthermore, in December 1997, the authorities negotiated a flow rescheduling of their Brazilian official and commercial debt on comparable terms.

7. The debt sustainability analysis contained in the preliminary document has been revised to reflect the reconciled data as well as new export projections and other modifications to the macroeconomic framework resulting from the February 1998 program discussions. (Selected economic and financial indicators in 1995–98 are presented in Table 1, and the main assumptions on the medium-term macroeconomic framework are summarized in Box 1.) The revisions in the net present value (NPV) of debt by main creditor, as well as in exports, between the preliminary HIPC document and the current document are discussed below and summarized in Table 2.

8. Bilateral debt data in the preliminary document was based on creditor records, since at the time creditor and debtor records had not yet been reconciled.[7] Updated information indicates that Mozambique owed US$2,545 million to Russia at end-1997 (before the up-front discount of 80 percent and any further treatment), which is about US$270 million higher than the figure used in the preliminary DSA.[8] Of this debt, about US$2,433 million was in arrears. After the treatment discussed in paragraph 5, Russian claims, in present value terms, exceed the estimates in the preliminary document by US$107 million at end-1997 and US$26 million at end-1998. Brazilian debt has been modified, firstly by reclassifying two of three official loans as commercial debt (thus lowering Paris Club debt), and secondly by applying the actual terms of the rescheduling agreements reached in December 1997 with the Brazilian government and commercial banks, respectively.

9. The main adjustments to the multilateral debt comprise: (i) correction of IDA repayment profiles in a number of cases and adoption of the SDR discount rate for new IDA disbursements; (ii) modification of actual and projected disbursements for IDA and AfDB/AfDF in 1997 and beyond; (iii) correction of AfDB/AfDF debt data to reflect revisions in the government's database following the joint IMF-IDA-AfDB/AfDF mission to Maputo in

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[7]The Mozambican Government had agreed that the preliminary DSA could be based on creditor records.

[8]The Russian and Mozambican authorities have agreed to use an exchange rate of Ruble 0.6 per U.S. dollar to value the debt.

Table 1. Mozambique: Selected Economic Indicators, 1995-98 1/

	1995	1996	1997				1998		
			Sept.		Dec.		March		Dec.
			Prog.	Prel.	Prog.	Est.	Prog.	Proj.	Proj.
			(Annual percentage change)						
National income and prices									
Real GDP 2/	1.4	6.2	...	...	6.0	7.9	...	...	9.4
Real GDP (excluding large projects) 2/	1.4	6.2	...	...	5.0	7.9	...	...	6.5
Real GDP per capita 2/	-3.3	2.7	...	...	3.2	5.0	...	...	6.5
GDP deflator 2/	50.4	38.1	...	...	14.2	7.4	...	...	6.4
Consumer price index (annual average)	54.4	44.6	15.5	11.2	13.2	6.4	13.0	4.3	3.9
Consumer price index (end of period)	54.1	16.6	11.8	4.2	14.0	5.8	10.2	2.2	8.0
External sector									
Merchandise exports (total)	6.3	29.8	...	...	3.9	3.7	...	...	38.5
Merchandise exports (excluding large projects)	6.3	29.8	...	...	-3.2	3.7	...	...	13.9
Merchandise imports (excluding large projects)	-17.5	7.6	...	...	11.6	-1.0	...	...	24.5
Merchandise export volume (excluding large projects)	-2.9	31.0	...	...	-6.0	3.6	...	...	10.3
Merchandise import volume (excluding large projects)	-25.3	8.2	...	...	15.1	9.2	...	...	23.6
Terms of trade (excluding large projects)	-1.0	-0.4	...	...	3.5	10.3	...	...	2.6
Nominal exchange rate (average, US$/Mt)	-33.1	-20.1	-12.6	-3.2	-11.9	-2.2	-12.2	...	...
Real effective exchange rate (dep. = -)	-4.4	14.9	...	10.5	...	14.7	...	...	...
Government budget									
Total revenue	58.1	44.2	29.0	26.5	28.8	31.8	16.8	23.7	18.7
Total expenditure and net lending	25.9	31.3	29.4	19.0	39.9	34.3	21.1	-10.6	14.0
Current expenditure	10.6	40.6	35.6	30.7	38.6	37.9	15.1	11.7	18.7
Capital expenditure and net lending	40.1	24.5	24.6	10.0	40.9	22.5	25.1	-27.1	28.1
Money and credit (in percent of opening M2)									
Net domestic assets, of which:	23.0	-22.7	-10.1	8.4	-2.5	-3.1	-4.9	-4.6	14.8
Net credit to the government	-4.3	-10.2	-2.9	-5.9	-4.1	-10.2	1.9	1.5	-1.4
Credit to the rest of the economy	25.9	22.5	11.7	19.1	23.4	28.5	1.1	3.8	30.2
Broad money (M2) 3/	54.7	21.1	11.9	19.2	19.9	25.4	2.6	2.9	22.0
Velocity (GDP/M2)	2.7	3.2	3.3	3.1	3.2	3.0	3.3	3.0	2.9
Rediscount rate (end of period)	57.8	32.0	...	20.0	...	13.0	...	...	...
			(In percent of GDP)						
Saving-investment balance									
Gross domestic investment	51.2	48.2	...	...	48.6	45.2	...	...	52.3
Public	21.7	19.0	...	...	20.2	21.5	...	...	19.7
Private	29.5	29.2	...	...	28.4	23.7	...	...	32.6
Gross national savings	28.5	27.5	...	...	29.0	31.8	...	...	31.3
Public	17.5	12.9	...	...	14.7	15.9	...	...	13.6
Private	11.0	14.6	...	...	14.3	15.9	...	...	17.7
External current account (after grants)	-22.7	-20.7	...	...	-19.6	-13.4	...	...	-21.0
Government budget 4/									
Total revenue	18.3	18.0	13.4	13.6	19.3	20.4	3.7	4.3	21.4
Total expenditure and net lending	39.1	35.0	28.9	27.9	40.8	40.5	10.2	8.3	40.8
Overall balance before grants	-20.8	-17.0	-15.5	-14.3	-21.5	-20.1	-6.5	-4.0	-19.4
Total grants	15.8	11.8	11.0	10.1	15.3	14.4	3.5	2.6	13.2
Overall balance after grants	-5.0	-5.2	-4.5	-4.0	-6.2	-5.7	-6.5	-1.5	-6.2
Domestic primary balance	-17.4	-14.4	-13.0	-12.6	-17.6	-16.5	-5.9	-8.4	-16.4
Domestic bank financing	-1.0	-2.2	-0.7	-1.4	-1.1	-2.5	0.5	0.4	-0.4
			(In percent of exports of goods and nonfactor services)						
NPV of total external debt outstanding 5/	1,661.4	1,345.8	...	...	709.0	708.5	...	...	624.6
Total external debt service 6/									
Scheduled, including IMF debt 7/	103.7	74.7	...	...	72.9	68.6	...	...	72.7
Actual, including IMF debt	27.5	28.4	...	...	20.8	23.9	...	...	29.9
Actual, excluding IMF debt	23.7	21.3	...	...	17.6	20.7	...	...	25.9
			(In percent of government revenue)						
External nonfinancial public debt service 8/									
Scheduled 7/	132.9	91.9	...	...	75.4	68.7	...	...	82.1
Actual	25.8	31.8	...	...	22.6	19.9	...	...	23.8
			(In months of imports of goods and nonfactor services)						
Gross international reserves (end of period)	2.7	4.4	...	...	5.1	6.4	...	...	6.6
			(In millions of U.S. dollars unless otherwise specified)						
External current account (after grants)	-338	-359	...	...	-377	-260	...	...	-455
Overall balance of payments	-251	-63	...	...	-168	-78	...	...	-257
Total external debt (end of period)	8,911	9,406	...	...	6,765	7,439	...	...	7,200
External arrears (public sector,end of period) 9/	2,664	2,671	...	...	0	619	...	...	0
Gross international reserves (end of period)	225	383	...	...	507	560	...	...	715
			(In millions of SDRs)						
Use of Fund resources									
ESAF disbursements	0.0	12.6	...	25.2	25.2	25.2	...	...	25.2
ESAF repayments	9.5	22.3	...	9.4	11.0	11.0	...	...	18.1
Outstanding amount	135.8	126.1	...	141.9	140.3	140.1	...	...	147.2
Quota	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0
			(In units specified)						
Nominal GDP (Mt billions) 2/	13,195	19,363	...	...	23,435	22,446	...	...	26,140
Market exchange rate (12-month average, Mt/US$)	9,022	11,294	12,752	11,517	12,871	11,546	...	...	...

Sources: Mozambican authorities, and staff estimates and projections.

1/ For price, exchange rate, and trade data, percentage changes are over the preceding twelve months; for fiscal data, they are over the same period a year earlier. Fiscal and monetary data are cumulative for the year.
2/ National Planning Directorate (official) figures.
3/ Includes foreign currency deposits.
4/ In percent of nonenergy GDP.
5/ Refers to public and publicly guaranteed debt after rescheduling, in percent of three-year export average.
6/ Including nonguaranteed private sector debt.
7/ Before debt relief.
8/ Excludes IMF debt.
9/ In view of the best efforts being undertaken by Mozambique to conclude debt rescheduling agreements, the country is deemed to have no arrears outstanding for programming purposes.

October 1997; and (iv) modification of other multilateral debt to reflect reconciled debtor and creditor records.[9]

Box 1. Assumptions Used in the Debt Sustainability Analysis (DSA)

- Real nonenergy[1] GDP growth is projected to average 6.5 percent per year in the period 1998–2005. Growth is expected to be broad-based with agriculture—including export crops and food—and construction taking the lead. Energy output arising from the coming on stream of large investments in electricity (from 1998) and other large projects are expected to raise the growth rate by another 2–3 percentage points. Per capita GDP is projected to increase on average by 4.4 percent, in real terms.

- Inflation (end-period) is projected to remain below 10 percent, averaging 8 percent in the 1998–99 period and 6.5 percent thereafter.

- Gross investment is projected to increase from 28 percent of GDP in 1997 to 38 percent by the year 2000, declining to 24 percent toward 2005. The increase from 1997 to 2000 reflects the impact of large investments in the energy sector. This will be mostly financed by external private capital flows. Gross national savings are projected to average around 17.5 percent of GDP throughout the forecast period.

- Exports of goods and nonfactor services, excluding energy, are expected to grow at an annual average rate of 8.1 percent in nominal terms between 1998–2005. Nonenergy merchandise exports will increase at an average annual rate of 7.6 percent (5.6 percent in volume terms). Energy exports are expected to account for more than 25 percent of exports of goods by the year 2000.

- Imports of the nonenergy sector are projected to increase by 7.3 percent a year in the 1998–2005 period (5.6 percent in volume, slightly lower than GDP growth from the nonenergy sector), while imports related to the investments in the energy sector will increase sharply through 2000.

- The current account deficit, before grants, after peaking at 36 percent of GDP in 1998, is projected to decline to 13 percent by 2005. These deficits will be financed through (i) grants and official foreign borrowing on concessional terms, which are assumed to decline gradually, in nominal terms, throughout the forecast period; (ii) increased foreign investment; and (iii) debt relief. Gross international reserves are projected to average 5.3 months of imports of goods and nonfactor services between 1998–2005.

[1]For the purpose of the macroeconomic framework, "energy" is used as a shorthand for large projects, of which the most important are in the energy sector; however, "energy" also includes, for example, the aluminum smelter.

[9]While the authorities were able to reconcile fully debtor and creditor records for multilateral debt for end 1996, reconciliation for end 1997 was not possible, since the Ministry of Finance typically receives final confirmation of disbursements by creditors, and hence debt outstanding and disbursed, with a three to four month lag. The current figures are therefore based on reconciled end-1996 debt stocks and creditor records for actual disbursements in 1997 in the case of IDA, IMF, AfDB/AfDF, IFAD and the Nordic Development Fund (covering about 95 percent of total multilateral debt, in NPV terms) and estimated disbursements in the case of the other multilateral creditors.

Table 2. Mozambique: Revisions in the NPV of Debt and Export Projections, 1997-1999

	Preliminary HIPC Document (Sept. 1997)			Final HIPC Document (March 1998)		
	1997	1998	1999	1997	1998	1999
NPV of external public debt 1/	3,296	3,468	2,651	3,305	3,390	2,613
Multilateral	859	932	985	837	923	986
IMF	156	161	149	151	157	146
World Bank (IDA)	486	552	617	469	539	604
AfDB/AfDF 2/	154	162	168	155	169	180
Other 3/	63	57	52	62	59	56
Bilateral	2,436	2,537	1,667	2,468	2,467	1,628
Paris Club, excluding Russia 4/	1,947	2,053	1,186	1,775	1,863	1,082
Post-cutoff date	126	119	111	119	112	104
Pre-cutoff date 5/	1,821	1,934	1,075	1,656	1,751	978
Russia 6/	188	188	188	295	214	220
Post-cutoff date	54	54	54	182	97	99
Pre-cutoff date	135	135	134	113	117	121
Non-Paris Club official bilateral	251	248	248	273	258	256
Commercial	49	47	45	125	132	69
Current-year exports	509	681	719	513	636	713
Three-year average of exports	465	556	636	466	543	621
NPV of debt-to-exports ratio 7/	709	624	417	709	625	421

1/ Refers to public and publicly guaranteed debt and assumes the implementation of a Naples terms stock-of-debt operation (67 percent present value reduction) at end-June 1999, the end of the current Paris Club rescheduling agreement, and comparable treatment from other official bilateral and commercial creditors.

2/ Includes Nigerian Trust Fund.

3/ Comprises: European Investment Bank, European Fund for Economic Development, IFAD, Arab Bank for Economic Development in Africa (BADEA), OPEC Fund, and Nordic Development Fund.

4/ Includes Brazil.

5/ Includes ODA debt of about US$3 million, in nominal terms.

6/ In both documents it is assumed that from 1997 on, debt to Russia disbursed before 1992 is subject to an up-front discount of 80 percent and a rescheduling of pre-cutoff date claims on Naples terms, with a 67 percent NPV reduction. In the final document, it is further assumed that post-cutoff date arrears are rescheduled in 1998, with a 50 percent NPV reduction. Post-cutoff date maturities are assumed to be repaid on nonconcessional terms over 10 years.

7/ In percent of three-year export average.

10. In addition, lower discount rates, reflecting end-1997 commercial interest reference rates, led to an increase in the overall NPV of debt in U.S. dollar terms. However, this was largely offset by the appreciation of the U.S. dollar against other currencies. (See Appendix Table 2 for discount and exchange rate assumptions used in this document). As a result of all of the above changes, the NPV of external public and publicly guaranteed debt at end-1997 is now estimated at US$3,305 million, compared with the previous estimate of US$3,296 million in the preliminary document. On average, the revised figures for the NPV of debt are lower than the estimates in the preliminary document by about US$36 million a year over the period 1997–99, with multilateral debt revised downward by US$10 million and bilateral debt by US$26 million. (See Table 3 for a detailed breakdown of the nominal and net present value of debt outstanding at end-December 1997.)

11. The export projections have been revised downward because of a lower-than-expected level of electricity exports, as well as reduced export prices throughout the projection period. In the period 1997–99, exports are lower by an average of US$16 million a year. As a result of all the above changes, the NPV of the public and publicly guaranteed external debt is now projected at 421 percent of exports in 1999 after a hypothetical stock-of-debt operation on Naples terms, compared with 417 percent in the preliminary document.

12. Notwithstanding the above revisions to the debt figures and export projections, the basic conclusions of the analysis remain broadly in line with those contained in the preliminary document and are summarized in Table 4 for the baseline scenario as well as the three downside scenarios illustrated in the preliminary document. As mentioned above, the NPV of debt-to-exports ratio in the baseline scenario is projected at 421 percent in 1999, after the impact of traditional debt-relief mechanisms and is expected to remain above 250 percent through 2003. On the same basis, the debt-service ratio, after peaking at 22 percent in 2000, is expected to remain below 20 percent through the remainder of the projection period and below 15 percent from 2003. (Appendix Tables 3 and 4 provide detailed updated balance of payments and external debt service projections over the medium and long term.)

III. SUMMARY OF ADJUSTMENT RECORD[10]

13. Since 1987 the Government of Mozambique has been implementing a wide-ranging program of economic stabilization and structural reform, involving a shift towards market-oriented policies and a sharp reduction in the size of the public sector. The adjustment effort has been supported by the IMF and by IDA through financial and technical assistance, and has been sustained with only two exceptions: a delay in 1993–94 in completing the negotiations on a program to be supported by a one-year extension of the first ESAF arrangement, and failure in 1995 to complete the midterm review under the fourth-year arrangement (see Annex II). In both cases corrective actions were taken and the program was

[10]The adjustment record is discussed in detail in the preliminary HIPC document.

Table 3. Mozambique: Nominal and Net Present Value (NPV) of Public and Publicly Guaranteed Debt Outstanding, End-December 1997

	Nominal debt at end-1997			NPV of debt at end-1997		
	US$ millions	Percent of total debt	Percent of multilateral debt	US$ millions	Percent of total debt	Percent of multilateral debt
Total	5,526.3	100.0		3,304.8	100.0	
Multilateral creditors	1,813.6	32.8	100.0	837.2	25.3	100.0
IDA 1/	1,162.5	21.0	64.1	469.2	14.2	56.0
African Development Bank Group 1	347.3	6.3	19.2	155.1	4.7	18.5
o/w AfDB 2/	38.9	0.7	2.1	44.9	1.4	5.4
AfDF	308.5	5.6	17.0	110.2	3.3	13.2
IMF 1/	189.4	3.4	10.4	150.8	4.6	18.0
IFAD 1/	33.6	0.6	1.8	16.1	0.5	1.9
European Investment Bank 3/ 4/	33.5	0.5	1.4	18.7	0.6	2.2
BADEA 3/	18.5	0.3	0.8	13.0	0.4	1.6
OPEC Fund 3/	14.8	0.2	0.6	9.7	0.3	1.2
Nordic Development Fund 1/	14.1	0.1	0.3	4.6	0.1	0.6
Bilateral creditors	3,712.7	67.2		2,467.6	74.7	
Paris Club	2,798.8	50.6		2,069.7	62.6	
o/w Russia 5/	516.9	9.4		294.9	8.9	
Non-Paris Club Official Bilateral	733.6	13.3		272.5	8.2	
Commercial	180.4	3.3		125.4	3.8	
Memorandum item:						
Private non-guaranteed debt	1,912.5					

1/ Figures are based on reconciled end-1996 data and creditor records for disbursements in 1997.

2/ Includes Nigerian Trust Fund.

3/ Estimates based on reconciled 1996 figures.

4/ Includes European Fund for Economic Development.

5/ Assumes an upfront discount of 80 percent on all claims disbursed before 1992 and a rescheduling of pre-cutoff date claims on Naples terms at end-1997, with a 67 percent NPV reduction. Further action on post-cutoff date debt is assumed in 1998, only.

Table 4. Mozambique: Balance of Payments Scenarios, 1997-2017 1/
(In millions of U.S. dollars, unless otherwise specified)

		Projections								Outer years		Averages	
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2010	2017	1998-07	2008-17
Baseline Scenario													
Debt-service ratio 2/ 3/	19.6	19.3	20.6	22.1	18.4	15.5	14.7	14.4	13.8	11.3	10.4	16.5	11.1
Including private sector	23.9	29.9	33.2	36.3	31.1	27.8	27.9	27.6	27.2	26.1	25.1	29.4	26.1
NPV of debt-to-exports ratio 3/	708.5	624.6	421.0	377.2	338.6	299.5	265.1	244.8	233.6	190.8	116.1	324.6	164.8
Including private sector	846.3	763.9	575.1	519.5	470.2	418.0	372.7	347.3	335.3	297.5	201.0	444.9	267.5
Current account, after grants	-260	-455	-656	-727	-519	-302	-286	-301	-312	-453	-625	-426	-526
Overall balance of payments	-78	-257	-267	-438	-379	-319	-311	-260	-202	-88	-56	-261	-93
Financing gap 4/	0	16	53	74	71	70	73	68	68	81	104	62	88
Scenario II (lower unrequited official transfers) 5/													
Debt-service ratio 2/ 3/	19.6	19.3	20.6	22.1	18.4	15.5	14.8	14.4	13.9	11.4	10.7	16.5	11.3
Including private sector	23.9	29.9	33.2	36.3	31.1	27.8	27.9	27.6	27.2	26.2	25.3	29.5	26.2
NPV of debt-to-exports ratio 3/	708.5	624.8	421.4	377.9	339.8	301.0	266.9	247.0	236.3	196.2	123.4	326.4	171.2
Including private sector	846.3	764.1	575.5	520.3	471.3	419.4	374.5	349.5	338.0	302.9	208.4	446.7	273.9
Current account, after grants	-260	-458	-662	-736	-532	-318	-304	-323	-337	-493	-684	-443	-572
Overall balance of payments	-78	-261	-273	-448	-392	-335	-329	-282	-226	-128	-119	-278	-141
Financing gap 4/	0	19	59	83	83	86	92	89	93	120	167	79	137
Scenario III (lower growth of exports) 6/													
Debt-service ratio 2/ 3/	19.6	19.6	21.2	22.9	19.2	16.3	15.5	15.3	14.8	12.7	12.6	17.3	12.8
Including private sector	23.9	30.4	34.2	37.7	32.4	29.1	29.3	29.2	28.9	28.6	29.1	30.8	29.2
NPV of debt-to-exports ratio 3/	708.5	630.7	430.1	390.3	354.6	317.0	283.3	264.3	255.1	224.6	159.9	341.7	203.8
Including private sector	846.3	771.1	586.9	536.7	490.9	440.4	395.8	371.8	362.2	339.4	254.7	466.5	315.7
Current account, after grants	-260	-467	-676	-757	-559	-353	-346	-370	-390	-597	-945	-481	-728
Overall balance of payments	-78	-270	-288	-468	-419	-370	-371	-329	-280	-233	-390	-316	-301
Financing gap 4/	0	28	74	104	111	122	133	136	146	225	438	117	296
Scenario IV (one time decline in volume of exports) 7/													
Debt-service ratio 2/ 3/	19.6	20.3	20.9	22.4	18.7	15.7	14.9	14.6	14.0	11.6	10.7	16.8	11.3
Including private sector	23.9	31.5	33.7	36.8	31.4	28.1	28.2	27.9	27.5	26.5	25.5	29.9	26.5
NPV of debt-to-exports ratio 3/	708.5	638.9	432.5	388.6	345.1	305.3	270.4	249.9	238.9	197.0	122.1	332.2	171.1
Including private sector	846.3	781.0	590.0	534.5	478.3	425.1	379.1	353.5	341.6	304.8	208.0	454.3	274.9
Current account, after grants	-260	-487	-665	-737	-530	-313	-298	-315	-326	-473	-656	-440	-550
Overall balance of payments	-78	-290	-276	-448	-390	-331	-323	-274	-216	-109	-91	-275	-119
Financing gap 4/	0	48	62	84	81	82	85	81	82	102	139	77	114

Sources: Bank of Mozambique; and staff estimates.

1/ Incorporates the terms of the November 1996 Paris Club agreement (including with Brazil) and of a hypothetical stock-of-debt operation on Naples terms (67 percent NPV reductio in mid-1999. In the case of Russia, after an 80 percent up-front discount on all claims disbursed before 1992, Naples terms are applied to pre-cutoff date debt in 1997 and post-cutoff date arrears in 1998, with a 67 percent and 50 percent NPV reduction, respectively. Non-Paris Club official bilateral and commercial creditors are assumed to reschedule eligible debt o comparable terms.

2/ After debt relief and as a percentage of exports of goods and nonfactor services.

3/ As a percentage of the three-year moving average of exports of goods and nonfactor services.

4/ After the full application of traditional debt relief mechanisms, as specified in footnote 1; assumed to be filled on IDA terms.

5/ Assumes a sharper decline in official unrequited transfers by 1 percentage point per year in relation to the baseline.

6/ Assumes lower growth of exports of goods and services by 1 percentage point per year in relation to the baseline.

7/ Assumes a decline of 10 percent in the volume of nonenergy exports in 1998 due to unfavorable climatic conditions. This scenario replicates the effect that the 1992 drought had on exports (i.e., a 11 1/2 percent cumulative decline of export volume in the 1992-93 period).

put back on track.[11] A second three-year ESAF arrangement was approved in June 1996, and the midterm review under the second annual arrangement thereunder will be considered by the IMF Executive Board in April 1998. IDA's fifth adjustment credit, the Third Economic Recovery Credit (TERC), was approved in February 1997. IDA's adjustment credits have not required any waiver.

14. All the objectives of the 1997/98 economic program are being achieved. Economic growth, which has been strong since the start of adjustment in 1987, was 8 percent in 1997. Inflation has declined sharply since 1995; in 1997 it fell (on end-period basis) to 5.8 percent, well below the targeted increase of 14.0 percent and the lowest inflation rate since independence in 1975. The external current account has strengthened and the nominal exchange rate is stable. The difference between the parallel and the market exchange rates is now less than two percent.

15. All the end-September 1997 quantitative performance criteria were observed, except two relating to the net domestic assets (NDA) and net foreign assets (NFA) of the banking system. There was an unexpectedly strong increase in the demand for money (spurred by high real deposit rates and a more dynamic economy), which the authorities accommodated through higher credit expansion. The authorities' action had no discernible impact on prices, and avoided the negative effect on growth that would have ensued by keeping to the original net domestic assets target. All the quantitative performance benchmarks for December 1997 were met, except that on NDA. The IMF staff agrees that the less restrictive stance of monetary policy was justified, and is recommending waivers of the nonobservance of the September 1997 performance criteria on NDA and NFA so as to allow Mozambique to complete the midterm review.

16. Fiscal policy is tighter than programmed. In 1997 government savings were 0.6 percentage points of GDP higher than programmed, as higher revenue more than offset slightly higher current expenditure. The overall deficit before grants was 1.4 percentage points of GDP less than programmed, reflecting shortfalls in foreign-financed capital expenditure and net lending. Net external financing was slightly more than programmed, as unexpected inflows of counterpart funds compensated for a shortfall of project financing, and net government repayments to the banking system (NGR) exceeded the program target by 1.4 percentage points of GDP.

17. All the structural benchmarks of the program are being observed, and the policy reforms incorporated in the Policy Framework Paper (PFP) (EBD/97/51, May 8, 1997)

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[11]All IMF arrangements and IDA adjustment credits to date are listed in Annex I. Interruptions and waivers under ESAF arrangements are explained in Annex II.

generally are being implemented as expected.[12] Customs management was privatized in 1997 and a system of full reconciliation of import taxes due and taxes paid has been set up, preparations are underway for the introduction of a value added tax, and new budgetary recording and monitoring procedures have been introduced. A civil service reform is being prepared for implementation in 1999. The privatization program is on track. Over 100 small and medium enterprises were privatized in 1997, and about 32 large enterprises (against a program target of 16). The last remaining state-owned bank was privatized in September 1997; a new Financial Institutions Law has been submitted to the Assembly of the Republic; banking supervision is being strengthened; and an interbank money market was introduced in September 1997.

IV. POLICY REFORMS AND CONDITIONALITY

18. The government's current medium-term economic program covers the period 1997–99. The program will be revised in mid-1998, and updated to cover the period through 2000, during the discussions on the third annual ESAF arrangement and the Fourth Economic Recovery Credit. At that time, the staff will incorporate in the new policy framework paper the additional measures that the authorities have agreed to take to reinforce the structural reform effort, thereby further supporting the case for an early completion point.

A. Macroeconomic Policies

19. The following policy framework will form the basis for discussion of the 1998/99 program: (i) end-period inflation of 6–10 percent in 1998 and 8 percent in 1999;[13] (ii) real nonenergy GDP growth of about 6.5 percent in both 1998 and 1999; (iii) gross international reserves of approximately 6.5 months of projected imports of goods and nonfactor services in 1998 and somewhat below 6 months in 1999; and (d) net government repayments to the banking system amounting to 0.4 percent of GDP in 1998 and zero in 1999. The program will assume a slight decrease in the velocity of circulation of money during the next two years, consistent with an increase in money demand. Monetary growth is projected at 22 percent in 1998.

20. Quarterly performance benchmarks for net foreign assets and net domestic assets of the banking system, net government repayments to the banking system, external borrowing on nonconcessional terms, the increase in public and publicly-guaranteed short-term debt, and the nonaccumulation of external payments arrears will be used in connection with the third annual ESAF arrangement. The arrangement will cover the period July 1998–June 1999. The

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[12]Details on the main reforms are provided below.

[13]The 1998 program will be based on inflation of 8 percent.

December 1998 benchmarks will constitute performance criteria for the purposes of the midterm review under the arrangement.

B. Structural Policies

21. Structural reforms to be monitored by IDA and the IMF as conditions for reaching the completion point will be based on successive PFPs that will be prepared in connection with the annual ESAF arrangements. The reform program monitored under the HIPC Initiative is summarized in Table 5. Key areas comprise fiscal, financial, and trade reform; strengthening of public administration; privatization; private sector development; and reforms in the agricultural, transportation, and water sectors. These are discussed below.

22. A key element of **tax reform** is the introduction of a value added tax (VAT) in July 1998 to replace the cascading consumption and turnover taxes. An amendment to the revenue law to permit the introduction of the VAT was submitted to the National Assembly in September 1997, and the VAT regulations were submitted to the Council of Ministers by December 1997. The government is reviewing the direct tax structure with the objective of reducing personal and corporate income tax rates in 1998. A comprehensive three-year overhaul of customs administration was initiated in 1997, when a private firm took over customs management.

23. With assistance from IDA and other donors, in 1997 the government began implementing a medium-term **Expenditure Management Reform Strategy** (EMRS). In its first phase, the EMRS involves adoption of a new budget law and development of a medium-term expenditure program to match better policy priorities and resource availability. Efforts will be made to improve the monitoring of donor-financed projects, eliminate off budget operations, decompose expenditure into its current and capital components, and forecast better the recurrent cost implications and the local financing needs of the investment program. The 1998 budget has been prepared using the new budgetary framework. The medium-term expenditure program (to be prepared during 1998) will provide the framework for the development of sustainable sector investment programs.

24. An important aspect of the government's effort to strengthen public administration is **civil service reform**. This involves reclassification of career streams, revision of the compensation system, decompression of salaries, and increased training. The new career streams and compensation structure are expected to be finalized by June 1998, and will be fully implemented by April 1999. They are intended to make government remuneration, particularly at senior levels, more competitive with comparable jobs in the private sector, and thus help the government attract and retain qualified staff. Also, nonwage incentives will be given to employees working in the provinces, as part of an overall strategy to improve the delivery of social services in rural areas, strengthen local administration, and prepare the way for the creation of local government assemblies. Salary decompression to reflect the new

Table 5. Mozambique: Key Structural Reforms Under IDA and IMF-Supported Programs, 1998-99

	Policy Measures	Expected Date of Completion
1.	**Privatization and public enterprise reform**	
	Complete privatization of large enterprises under UTRE	mid-1998
	Complete privatization of small and medium enterprises	mid-1999
	Establish a private oil importing company to replace PETROMOC	mid-1998
	Privatize the management of five major water companies	end-1998
	Concessioning of CFM's ports and railways	1998-99
2.	**Fiscal reform**	
	Introduce a value added tax (VAT)	July 1998
	Revise personal and corporate taxes	mid-1998
	Reduce dispersion of import duties	1998-99
	Develop a medium-term expenditure framework	end-1998
3.	**Civil service reform**	
	Finalize a new career stream and compensation structure	June 1998
	Complete salary decompression according to new structure	April 1999
4.	**Social sector reforms and poverty**	
	Approve integrated sector expenditure program for education	end-1998
	Review ongoing health sector recovery program	April 1998
	Increase the shares of health and education in the recurrent budget	1998-99
	Complete poverty assessment and action plan	end-1998

compensation structure is expected to be completed by April 1999. The objective is to raise the wage compression ratio (the ratio of the highest to the lowest salary), which at present is less than 10:1.

25. **The program of privatization** of large enterprises (those that are on the list of enterprises to be privatized by the Technical Unit for Enterprise Restructuring) is expected to be completed by mid-1998. All small and medium-size enterprises are expected to be fully privatized by mid-1999. By the end of the privatization program in mid-1999, the government will have privatized over 1,200 enterprises, including 85 large enterprises. A total of nearly 900 enterprises have been privatized to date.

26. There will remain about 20 major public enterprises after the privatization program is completed.[14] Of these, the ports and railways are being concessioned out to the private sector. The importing and marketing functions of the oil company have been separated, the company's import monopoly has been eliminated, and a joint venture is being set up with other oil companies to take over importation of petroleum products. Tenders were issued for the privatization of the airline company, but the bids were considered unsuitable and were rejected. Instead, the airline and oil companies are being converted into limited liability companies in preparation for the possible sale of some of their shares on the forthcoming stock exchange. The management of the five major water companies is being privatized. A study is being undertaken to help set government policy in the telecommunications sector; privatization and demonopolization of the telephone company are possible options. A law was passed in 1997 allowing private sector participation in the electricity sector. Finally, the Maputo bus company is being restructured, with the intention of making the Beira subsidiary an independent entity in 1998.

27. To promote **private sector development**, the government will continue to simplify the legal and regulatory framework, in close consultation with the private sector. A number of specific actions are being taken, based on the findings of a recent study of administrative barriers to investment prepared in collaboration with the World Bank. In 1997, licensing procedures for domestic and external trade were simplified, and issuing responsibility was assigned to the provincial and local administration. The commercial code is being revised. Finally, the role of the Center for Investment Promotion (CPI) was modified to reduce its approval function in favor of its promotion and facilitation functions.

28. **Financial reform** will focus on financial deepening, shifting to indirect instruments of monetary policy, and strengthening of banking supervision. In early 1999, the system of

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[14]They include the post office; the electricity, telephone, and five major water companies; the national airline and the airports authority; the Maputo bus transport company and its subsidiary, the Beira bus transport company; the ports and railways company; the oil distribution and marketing company (PETROMOC); the dredging company; and two news media companies (radio and television).

quarterly bank-by-bank credit ceilings will be replaced by biannual ceilings with quarterly limits becoming indicative only, and from 1999 onward, the financing needs of the government will be met exclusively through the money market. The Bank Supervision Department is being strengthened, and on-site and off-site supervision of banks are being stepped up.

29. A major **trade reform** was initiated in November 1996, when the import tariff structure was simplified, the average nominal tariff rate lowered from 18 percent to 11 percent, and exemptions limited. This represented an important step toward improving economic incentives for producers and simplifying customs administration. However, the tariff dispersion remains high, with a tariff on consumer goods of 35 percent and tariffs of 2.5 percent and 7.5 percent on producer goods. The authorities have accepted in principle the idea of reducing the tariff spread by lowering the top rate, but are concerned about the revenue implications. As the revenue base is widened and tax administration strengthened, the scope for reducing the top rate will increase. The import tax base could be widened by further curtailing exemptions, particularly those provided to firms under the investment law. A study on the effective rate of protection, supported by the World Bank, will be conducted in 1998 and should help guide further trade liberalization steps. Mozambique also recently signed the protocol creating the Southern African Development Community (SADC) free trade area, and will therefore be committed to eventually eliminating import tariffs on intra-SADC trade.[15]

30. An increase in rural incomes through the promotion of **agricultural development and natural resource management** is fundamental to the alleviation of poverty. The government will implement an agricultural sector expenditure program (PROAGRI), scheduled to start in 1998. This program will rationalize expenditure in the sector and improve the effectiveness of government services (research, extension, disease prevention) and regulation (quarantines, land, forest and wildlife management). The program will support a policy agenda directed at strengthening tenure security over land and natural resources for smallholders, and at raising smallholder returns from cash crop production by improving access to markets, marketing information, and rural infrastructure.

31. Reform and investments in the **transportation** sector are also aimed at fostering rapid growth in rural areas through the reduction of transportation costs, while generating substantial foreign exchange earnings. The ongoing integrated roads and coastal shipping program (ROCS) will continue to rehabilitate priority roads and bridges and improve maintenance, while revising the legislative framework needed to effectively liberalize the shipping sector. The Maputo Corridor development initiative, being undertaken jointly with the Government of South Africa, will link the port of Maputo with Gauteng province in South Africa.

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[15]The SADC protocol will become effective when two-thirds of signatory members have ratified it. The protocol sets a period of 8 years for the elimination of tariffs on goods originating within the trading area after it becomes effective.

32. The **National Water Policy** seeks to increase the population's access to safe water beyond the current coverage of about 30 percent nationally. The policy calls for privatization of the management of the five major urban water companies by end-1998. To ensure the future sustainability of these urban water systems, tariffs have been increased sharply in real terms over the past 18 months and are to be increased even further prior to the signing of management contracts. The government is concurrently implementing a program of reform in the provision of water to rural areas and small towns. That program emphasizes decentralization of management and improved sustainability of these systems.

C. Social Policies

33. The government's medium-term social objective is to improve poverty indicators to levels that at least match those of sub-Saharan African countries (Table 6). Its strategy is to (i) promote poverty-reducing growth, particularly through support of rural development as mentioned above; (ii) develop human resources through an increase in the quantity and quality of social services (health and education); and (iii) strengthen safety nets aimed at assisting the poorest and most vulnerable groups. The social performance criteria for assistance under the HIPC Initiative will be based on the implementation of key aspects of the government's agenda for poverty reduction. Emphasis will be on ensuring that adequate provision is made in the budget for recurrent health and education expenditures, that the health and education budgets are executed as programmed, and that expenditures are better prioritized through the development of integrated sector expenditure programs.

Table 6. Social Indicators for Mozambique and Sub-Saharan Africa[16]

Mozambique		Sub-Saharan Africa
90	GNP per capita (US$; 1996)	490
47	Life expectancy at birth (years)	52
134	Infant mortality (per 1,000)	92
1,100	Maternal mortality (per 100,000)	700
60	Illiteracy (% population age 15+)	43
62	Gross primary enrollment (% age group)	71
45	Of which: Female	64

Sources: Government of Mozambique and staff estimates.

[16]Unless otherwise noted, these indicators are for the most recent available year.

34. A summary of the social development indicators and targets that will be monitored under the HIPC Initiative is provided in Appendix Table 5. Satisfactory progress towards the achievement of these targets constitutes a condition for reaching the completion point. Monitoring will take place in the context of ongoing and new IDA lending operations, and through regular contacts with the authorities.

Health

35. The government's integrated Health Sector Recovery Program, launched in late 1995 with the support of IDA and other donors, aims at decreasing Mozambique's infant, child, and maternal mortality rates to sub-Saharan levels by the turn of the century. This is to be achieved by expanding health coverage, particularly primary health care, from an estimated 40 percent of the population to 60 percent by 2000. The program focuses on (i) increasing access to and the quality of health care services through the rehabilitation and construction of first level care facilities and rural hospitals, the provision of adequate medical supplies and pharmaceuticals, and the support of the nutrition program for severely malnourished children; (ii) improving institutional and management capacity at the Ministry of Health, at both the central and provincial levels; and (iii) developing human resources through the training of health workers and enhancement of university medical training.

36. The progress and impact of the program will be measured against specific targets and actions set out in the Health Sector Recovery Program and in annual implementation reports prepared by the Ministry of Health. A joint midterm review of program implementation, objectives, and targets is planned for April 1998. In the meantime, key targets for mid-1999 include:

- an increase in DPT(3)[17] coverage from 58 percent to 60–65 percent;
- an increase in the proportion of health posts/centers stocked with the Essential Drugs Program Kit from 40 percent to over 50 percent;
- an increase in the proportion of health posts/centers staffed with trained personnel from 70 percent to over 80 percent; and
- a reduction in the index of geographical inequality in the provision of health care services from 3.6 to 2.6.[18]

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[17]Diphtheria, pertussis, and tetanus.

[18]This index is defined as the number of health units servicing the 25 percent most favored population divided by the number of units servicing the 25 percent least favored population.

To support the implementation of the program, public health expenditures, including those financed by external donors, are projected at US$356 million over the period 1996–2000 (or around 3.6 percent of GDP per year). The share of health in total recurrent expenditure in 1998 will increase to 8 percent. Future increases will be determined in line with the government's medium-term expenditure framework, currently under preparation.

Education

37. The government is in the process of preparing an integrated education sector expenditure program for adoption in 1998. The draft sector strategy on which the program will be based, the *Plano Estratégico de Educação, 1997–2001*, was discussed with donors in September 1997 and will be completed by mid-1998 along with a public expenditure review for the sector. The ultimate objective of the program is to achieve education coverage for all by the year 2010, coupled with substantial quality improvements. The program will support a considerable expansion of the school network to increase access to primary and secondary education, and to promote greater enrollment rates for girls and for those living in under-served regions. In addition, a number of measures will be carried out to improve the quality of education, including a comprehensive revision of the curriculum (within the next five years), and a major overhaul of the teacher training system to increase the number of qualified teachers. Attainment of the program objectives will require coordinated support from donors, nongovernmental organizations, and local communities.

38. While the details of the program are yet to be defined, progress will be measured against monitorable targets. Key targets for mid-1999 include:

- an increase in the primary gross admission rate by 2–3 percentage points a year (from 75 percent in 1996);
- an increase in the number of primary school teachers by 10 percent a year, while maintaining the share of qualified teachers at around 70 percent;
- an increase in primary school completion rates by at least one percentage point a year (from 6 percent in 1996); and
- maintenance of the availability of textbooks to one per pupil.

39. The share of education in total recurrent expenditures is projected at 18 percent in 1998. To secure adequate financing to implement the program, this share will continue to increase over the program period (mainly for teacher recruitment and training). Future budgetary allocations will be determined in the context of the government's medium term expenditure framework to be adopted in 1998.

Poverty Action Plan

40. The Department of Population and Social Development (DPSD) is responsible for integrating poverty issues in the planning and policy making processes. With peace and the ensuing recovery in agriculture, emergency assistance (including free distribution of food) is being phased out and, as an interim measure pending the formulation of a comprehensive poverty action plan, the remaining safety nets are being restructured to improve cost-effectiveness and the targeting of benefits.[19] The first national household survey was recently completed, and its results are being processed. The household survey, together with an assessment of existing safety nets, will provide the basis for development of a national poverty assessment (including the definition of a poverty line) by June 1998 and a poverty action plan by end-1998. The intention of the poverty action plan will be to create an integrated social safety net for the entire country to replace the fragmented and uncoordinated safety nets existing now.

V. DECISION POINT, COMPLETION POINT, AND DEBT SUSTAINABILITY TARGET

41. Mozambique's track record since the September 1997 discussion of the preliminary document has remained strong, and the staffs recommend that the **decision point** take place in April 1998. With regard to the completion point, the HIPC Initiative includes flexibility, on an exceptional basis, to shorten the second stage for countries with sustained records of strong performance. In light of Mozambique's solid performance record, and the view of the majority of Executive Directors of the IMF and IDA during the preliminary discussion on Mozambique's eligibility under the HIPC Initiative, the staffs recommend that the **completion point** take place in mid-1999, provided policy implementation remains strong. This will represent a period of two years from June 1997, the time of approval of the second-year ESAF arrangement, when Executive Directors discussed that Mozambique should not be penalized if delays were incurred in reaching a decision point pending agreement on the treatment of Russian claims in the context of its participation as a creditor in the Paris Club.

42. Under a mid-1999 completion point, eligibility and assistance would be based on actual debt, debt service, and export data for end-1998. To benefit from assistance under the HIPC Initiative, Mozambique would need to agree on a third annual ESAF arrangement and complete the midterm review thereunder (in addition to completing the current midterm review under the second annual arrangement), and agreement would need to be reached on a successor ESAF arrangement. In addition, IDA would need to be satisfied with the progress

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[19] Formal social safety nets currently include a Social Fund for Medicines, a School Book Fund, a Food Supplement program, and a cash transfer scheme by the *Instituto Nacional de Acçao Social.*

made on the above-mentioned social and other structural reforms monitored under IDA lending operations.

43. In light of Mozambique's external and fiscal vulnerability and the efforts that would need to be made in national reconstruction and the improvement of social indicators, Executive Directors were in broad agreement during their discussions of the preliminary HIPC document that an **NPV of debt-to-exports target** at the lower end of the 200–210 percent range would be appropriate. Consistent with this view, staff and managements suggest a target for Mozambique's NPV of debt-to-exports ratio of **200 percent**. They further share Executive Directors' preference for an assistance delivery profile that would permanently bring debt-service ratios to below 20 percent soon after the completion point.

VI. ASSISTANCE UNDER THE INITIATIVE AND BURDEN SHARING

44. Bilateral and multilateral assistance to Mozambique under the HIPC Initiative would be additional to debt relief provided by bilateral creditors under traditional debt-relief mechanisms, including a stock-of-debt operation on Naples terms with a 67 percent reduction in the NPV of eligible debt. In the case of Mozambique, such an operation would reduce the debt burden by an estimated US$1.5 billion, in NPV terms, after the 80 percent up-front discount on Russian claims, with about US$1.1 billion from the Paris Club. While this issue is still under discussion between Russia and other Paris Club creditors, the following presentation assumes that—in line with the Paris Club's request described in paragraph 5, footnote 6, and without prejudice to the outcome—Russia would expand the 50 percent NPV reduction from post-cutoff date arrears to all post-cutoff date debt. Under this scenario, total assistance to Mozambique under the HIPC Initiative (i.e., in addition to traditional mechanisms) is shown in Table 7 for alternative completion points at end-1998, mid-1999, and mid-2000, and NPV of debt-to-exports targets in the range of 200–210 percent, reflecting Executive Directors preliminary recommendations.[20] In the case of a mid-1999 completion point and a 200 percent NPV of debt-to-exports target, Mozambique would require assistance under the Initiative of US$1,442 million, in present value terms.[21]

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[20] For this calculation, the up-front discount on Russian claims of 80 percent and the application of Naples terms to both pre-cutoff date and post-cutoff date debt (involving an NPV reduction of 67 percent and 50 percent, respectively) are considered to be traditional mechanisms in the context of Russia's participation as a creditor in the Paris Club.

[21] If the 50 percent NPV reduction by Russia were to cover only post-cutoff date arrears, the assistance required by Mozambique under the Initiative would increase by US$10 million (in line with the increase in the NPV of debt after Naples terms), and the residual bilateral gap would be US$8 million higher (see paragraph 47).

Table 7. Mozambique: HIPC Initiative--Alternative Assistance Levels Under a Proportional Burden-Sharing Approach 1/

NPV of debt-to-exports-target (in percent)	Assuming an end-1998 completion point 2/				Assuming a mid-1999 completion point 3/				Assuming a mid-2000 completion point 4/			
	Total	Bilateral 5/	Multilateral	Multilateral	Total	Bilateral 5/	Multilateral	Multilateral	Total	Bilateral 5/	Multilateral	Multilateral
	(in millions of U.S. dollars)			(in percent of NPV at decision point)	(in millions of U.S. dollars)			(in percent of NPV at decision point)	(in millions of U.S. dollars)			(in percent of NPV at decision point)
200	1,567	1,042	525	62.7	1,442	916	526	62.9	1,364	848	515	61.6
205	1,544	1,027	517	61.8	1,415	899	516	61.7	1,332	829	504	60.2
210	1,520	1,011	509	60.8	1,388	882	506	60.5	1,301	809	492	58.8
Memorandum items												
NPV of debt 6/	2,500	1,663	837		2,528	1,606	922		2,605	1,620	985	
Paris Club (ex. Russia; inc. Brazil)	...	1,052	...		...	1,076	...		...	1,082	...	
Russia 7/	...	284	...		...	205	...		...	213	...	
Other official bilateral	...	257	...		...	256	...		...	256	...	
Commercial	...	69	...		...	69	...		...	69	...	
3-year average of exports	466	...	...		543	...	...		621	...	...	
NPV of debt-to-exports ratio 8/	536	...	...		466	...	...		420	...	...	

Sources: Bank of Mozambique and staff estimates.

1/ The proportional burden sharing approach is described in "HIPC Initiative--Estimated Costs and Burden Sharing Approaches" (EBS/97/127, 7/7/97 and IDA/SEC M 97-306, 7/7/97).

2/ Applies a hypothetical stock-of-debt operation on Naples terms and appropriate comparable treatment at end-1997.

3/ Applies a hypothetical stock-of-debt operation on Naples terms and appropriate comparable treatment at end-1998.

4/ Applies a hypothetical stock-of-debt operation on Naples terms and appropriate comparable treatment at end-June 1999.

5/ Includes official bilateral and commercial creditors.

6/ Based on latest data available at completion point after full application of traditional debt relief mechanisms.

7/ After an up-front discount of 80 percent on all claims disbursed before 1992, the application of Naples terms is assumed on pre-cutoff date debt in 1997 and post-cutoff date debt in 1998, with an NPV reduction of 67 and 50 percent, respectively.

8/ In percent of three-year export average.

45. Under proportional burden sharing, multilateral assistance would be US$526 million, equivalent to a reduction of 62.9 percent in the NPV of each multilateral creditor's claims at the decision point.[22] Of this, the Bank and Fund would contribute about US$295 million and US$95 million, respectively. The bilateral share of total assistance under proportional burden sharing would amount to US$916 million. However, as discussed in the two Information Notes issued to the Boards in December 1997 and February 1998, respectively, the assistance required from bilateral creditors under proportional burden sharing exceeds an 80 percent NPV reduction in eligible debt.[23] [24] Reflecting updated debt and export figures, the gap between bilateral assistance under proportional burden sharing and an 80 percent NPV reduction in eligible debt is now estimated at US$363 million for the suggested completion point in mid-1999 and an NPV of debt-to-exports target of 200 percent (see Table 8). This compares with US$349 million stated in the Information Notes.

46. The staff has discussed the issue of the remaining financing gap with Paris Club and other creditors as part of its consultation process with all of Mozambique's creditors, and Paris Club creditors have considered possible additional assistance to Mozambique on several occasions. In their meeting on January 21 and 22 they agreed to (a) provide a stock-of-debt operation involving 80 percent NPV reduction in eligible debt at the completion point; and (b) broaden the coverage of the existing flow-rescheduling agreement and top up the NPV reduction to 80 percent with effect from July 1, 1997.[25] The stock-of-debt operation together with the topping up of the existing flow rescheduling involves an estimated reduction in the NPV of debt at the completion point of US$432 million. Broadening the coverage of the existing flow rescheduling and topping this up to 80 percent is estimated to provide an

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[22] Under proportional burden sharing, the contributions of multilateral and bilateral creditors, as a group, are shared in proportion to the NPV of their claims at the completion point after the full application of traditional debt-relief mechanisms (i.e., Naples terms stock-of-debt operation on all eligible bilateral debt with a 67 percent reduction in present value terms).

[23] See *Republic of Mozambique—Information Note on the Status of Discussions Under the HIPC Initiative*, EBS/97/247 and IDA/SecM97-581, 12/29/97; and *Republic of Mozambique—Further Information Note on the Status of Discussions Under the HIPC Initiative*, EBS/98/21 and IDA/SecM98-56, 2/11/98.

[24] The reduction in eligible debt consistent with proportional burden sharing is now estimated to be 89 percent, compared with 88 percent in the Information Notes.

[25] See Paris Club *Chairman's summing up—Mozambique's case under the HIPC Initiative* of January 21, 1998, attached to the February Information Note.

Table 8. Mozambique: Calculation of Residual Bilateral Gap

Assuming a Completion Point in Mid-1999 and an NPV of Debt-to-Exports Target of 200 Percent

(In millions of U.S. dollars)

	Assistance under proportional burden-sharing 1/ (1)	Bilateral assistance with 80 percent NPV reduction of eligible debt (2)	Bilateral shortfall (3) = (1) - (2)	Additional action proposed by the Paris Club and comparable treatment on other official bilateral and commercial debt 2/			Residual bilateral shortfall (7) = (3) - (6)
				Broadening and topping up of flow coverage (4)	Additional contributions (5)	Total including comparable action (6) = (4) + (5)	
Total	1,442	...	...	...	...	...	...
Multilateral	526	...	...	...	...	...	...
Bilateral	916	553	363	...	...	247	116
Paris Club 3/	716	432	284	23	170	193	91
Other bilateral 4/	200	121	79	...	...	54	25

1/ Assumes the same NPV reduction of about 89 percent in all eligible bilateral debt to achieve proportional burden sharing.

2/ Comparable action assumes the same additional NPV reduction from other official bilateral and commercial creditors on the basis of eligible debt, which is equivalent to about 18 percent after Naples terms.

3/ Including Russia and Brazil, and assuming an up-front discount of 80 precent on all Russian claims disbursed prior to 1992, a 67 percent NPV reduction on pre-cutoff date debt, and a 50 percent NPV reduction on all post-cutoff date claims by Russia.

4/ Including non-Paris Club official bilateral and commercial creditors.

additional NPV reduction of US$23 million.[26] Moreover, Paris Club creditors have agreed, on an exceptional basis and in the context of further action by multilateral creditors, to provide an additional debt reduction of US$170 million, in NPV terms, by the completion point.

47. The above measures proposed by the Paris Club (including Russia) are equivalent to an NPV reduction of US$625 (= 432+23+170) million, or about 86 percent of eligible debt, at a mid-1999 completion point. Comparable treatment on non-Paris Club official bilateral and commercial claims would provide an NPV reduction of US$175 (= 121+54) million. Thus, overall bilateral assistance would amount to US$800 million, thereby reducing the gap to US$116 million.[27] [28]

48. Bank and Fund staff together with government representatives in many countries have engaged in an international effort to bridge this gap in order to ensure debt sustainability for Mozambique and safeguard the continued credibility of the HIPC Initiative as a whole. The focus of this effort has been on mobilizing additional bilateral contributions complemented, in the context of such further exceptional efforts, by possible combined Bank/Fund action.[29] A number of bilateral creditors and donors have already reacted positively to this request for additional finance, including the Paris Club by agreeing to permit individual creditors to provide an above 80 percent NPV reduction on their claims, on a voluntary basis.[30] As an additional means for mobilizing bilateral contributions, the Bank has proposed to its

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[26]The NPV reduction of US$23 million at the completion point is achieved on the assumption that cash-flow savings (i.e., the original payments due minus the moratorium interest payments resulting from the rescheduling) are used to reduce debt at or beyond the completion point.

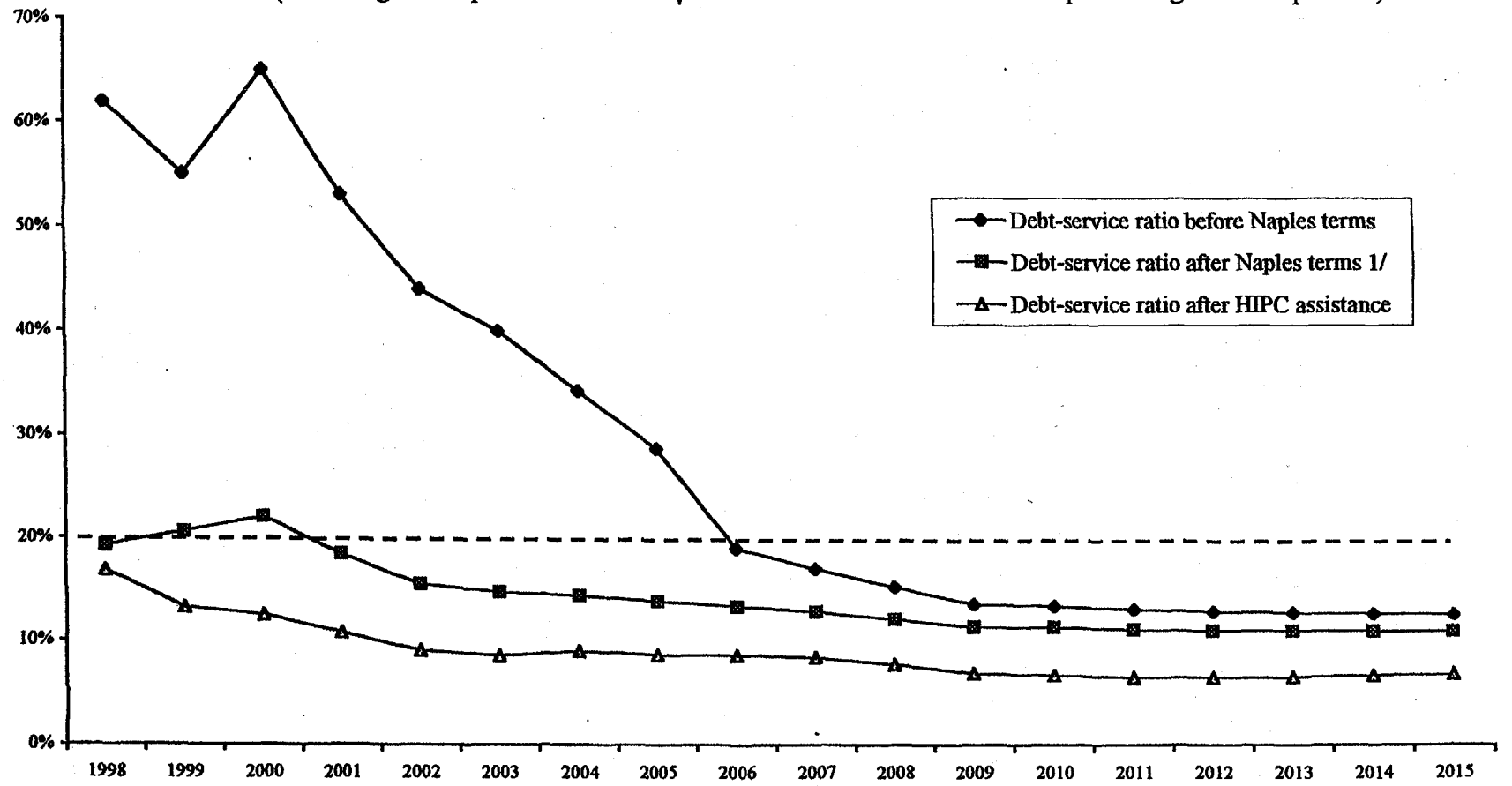
[27]The gap has been revised from the earlier figure of US$100 million included in the information note of February 11, 1998, due to adjustments in the debt and export figures as discussed in Section II.

[28]This assumes that multilateral creditors will not lower their assistance to maintain proportionality to the assistance now committed by bilateral creditors (i.e., 80 percent NPV reduction in eligible debt, additional action of US$170 million and the broadening of coverage and topping up of the existing flow rescheduling agreement by the Paris Club together with comparable action by non-Paris Club creditors).

[29]The Bank/Fund contributions would be shared in rough proportion to their exposure in NPV terms.

[30]Currently, it is assumed that non-Paris Club official bilateral and commercial creditors provide comparable action to that of the Paris Club. However, action by these creditors consistent with fully proportional burden sharing would reduce the financing gap by another US$25 million.

Figure 1: Debt-Service Ratio Before and After Naples Terms and Possible HIPC Assistance
(Assuming a Completion Point in Mid-1999 and an NPV of Debt-to-Exports Target of 200 percent)



1/ Assumes implementation of the current Paris Club flow rescheduling and a hypothetical stock-of-debt operation on Naples terms (67 percent NPV reduction) in mid-1999 with comparable action from non-Paris Club official bilateral and commercial creditors.

Executive Directors an amendment to the Interest Subsidy Fund (ISF) which would permit individual contributors to utilize their share of the surplus ISF holdings in support of the HIPC Initiative. A number of contributors have already confirmed their willingness to use their ISF surplus funds to support the HIPC Trust Fund and the HIPC Initiative for Mozambique.

49. In order for the IDA and IMF Boards to approve, in principle, Mozambique's eligibility for assistance under the Initiative, reliable indications on the availability of resources sufficient to finance the total amount of assistance would be required. These indications would need to become firm, with satisfactory assurances provided for the decision in principle to become effective. The staff will therefore issue a supplement to the Boards prior to the discussion of this document, specifying the details of the prospective financing plan, including possible additional contributions from the Bank and the Fund. In this context, the Bank and the Fund, as part of an additional multilateral effort, could together provide up to one third of the resources needed to fill the financing gap. In addition, the Bank is considering a further commercial debt buyback under the IDA Debt Reduction Facility.

50. The above proposal on burden sharing was discussed during the recent meeting of multilateral development banks on March 2–3, 1998. During these discussions, Mozambique's other multilateral creditors indicated their willingness to participate in the concerted action to reduce Mozambique's debt burden to a sustainable level by the completion point, and welcomed the additional efforts to finance the residual gap.

51. Under the assumptions used in this document, and with a completion point in mid-1999 and an NPV of debt-to-exports target of 200 percent, overall assistance to Mozambique under the HIPC Initiative would amount to US$1,442 million, in present value terms. Total savings in debt service are tentatively estimated to amount to US$2.9 billion, of which US$1.3 billion would be to multilateral creditors. Figure 1 illustrates an appropriately front-loaded delivery profile of assistance, resulting in debt-service payments equivalent to about 60 percent of payments due after Naples terms. These savings would be sufficient to reduce Mozambique's debt-service ratio permanently below 20 percent.

VII. ISSUES FOR DISCUSSION

52. The debt sustainability analysis presented in the paper suggests that Mozambique is eligible for relief under the HIPC Initiative. While considerable progress has been made since the country embarked on economic reform in 1987, its situation is still fragile and more remains to be done. The additional debt relief that might be available under the Initiative could free up critical resources to support the reform and reconstruction strategy in a way that is consistent with the maintenance of the country's hard-won macroeconomic stability. The staff would appreciate guidance from Executive Directors on the following issues:

53. **Eligibility**. Do Directors consider that Mozambique meets the eligibility requirements for assistance under the Initiative?

54. **Decision point**. Do Directors agree that Mozambique has reached its decision point and is therefore eligible to receive interim assistance from IDA under the Initiative?

55. **Completion point**. In their preliminary discussions in September, the majority of Executive Directors favored a completion point in mid-1999, provided that implementation of macroeconomic policies and structural reforms under the third annual ESAF arrangement and IDA lending operations remains strong. Do Directors confirm that the completion point could take place in mid-1999, subject to these conditions being met?

56. **Target**. In view of Mozambique's external and fiscal vulnerability, the staff recommends that the target for the NPV of debt-to-exports ratio for Mozambique be set at 200 percent, and that the target for the debt-service ratio be set at 20 percent, consistent with the Boards' preliminary recommendations. Do Directors agree?

57. **Burden Sharing**. Subject to Russian action as described in paragraph 44, in order to fill a residual financing gap of US$116 million, staff and managements have proposed supplementing additional bilateral resources with a combined Bank/Fund contribution of up to one-third of the overall gap. The details of the financing plan will be specified in a supplement to this report. Do Directors endorse this proposal on sharing the burden of assistance in the specific case of Mozambique, including the exceptional efforts of the Bank and Fund to provide a voluntary contribution additional to what would be required under proportional burden sharing?

IMF Arrangements and IDA Structural Adjustment Credits, 1987-97

Type of Arrangement/Credit	Approval Date	Expiration Date	Amount Approved	Amount Drawn/Disbursed
	(in millions of SDRs)			
IMF				
ESAF	6/21/96	6/20/99	76	38
ESAF	6/01/90	12/31/95	130	115
SAF	6/08/87	6/07/90	43	43
Total			249	196
	(in millions of U.S. dollars)			
IDA				
Rehabilitation credit	08/04/87	06/30/91	70	72
Rehabilitation credit	05/18/94	04/30/94	90	91
Economic recovery credit	06/11/92	06/30/96	180	188
Second economic recovery credit	06/16/94	08/30/97	200	208
Third economic recovery credit	02/04/97	12/31/98	100	50
Total			640	609

Sources: International Monetary Fund and International Development Association.

Interruptions and Waivers Under ESAF Arrangements

1. Mozambique's adjustment effort has been supported by the Fund and the IDA through continued financial and technical assistance since 1987. The Fund has provided one (three-year) Structural Adjustment Facility (SAF) and two (three-year) Enhanced Structural Adjustment Facility (ESAF) arrangements. The adjustment effort has been sustained with two exceptions: a delay in completing the negotiations of the additional year of the ESAF arrangement in 1993–94, and the failure to complete the 1995 midterm review of the fourth year under the first ESAF arrangement.[1] In the first instance, discussions on a 1994 program were started in November 1993, but Executive Board approval was obtained only in June 1994. The problem was a major inflationary upswing in late 1993 caused by difficulties with the largest state-owned bank, the BCM, and significant quasi-fiscal subsidies to state-owned banks in connection with the opening of letters of credit. While the authorities took corrective measures as soon as the problem was identified, the results of these policies became clear only in the second quarter of 1994. In the second instance, in 1995, the midterm review was not completed due to revenue shortfalls that could not be corrected within the arrangement period. However, the government undertook remedial measures in late 1995, the program was put back on solid footing, and subsequently two more annual ESAF arrangements were approved by the Fund's Executive Board, in June 1996 and 1997. IDA has been actively engaged in supporting the reform agenda with investment financing and with five adjustment credits. The last adjustment credit, the Third Economic Recovery Credit (TERC), was approved on February 4, 1997, and is currently ongoing.

2. Under the ESAF programs through the end of 1997, Mozambique requested a total of seven waivers. On two occasions, these waivers had to do with brief delays in adopting structural measures (the widening of the system of open general import licenses in 1991, and the signing of the contract for the private management of customs in 1996). On two other occasions, in 1992 and 1993, real interest rates were not kept at positive levels for short periods because the authorities had miscalculated the expected deceleration in inflation. In 1992, a severe drought year, a waiver was given on government net repayments to the banking system owing to an unexpected shortfall in foreign aid as the government could not curtail its large emergency expenditures. In 1993, a waiver was given on net domestic assets of the banking system, as a result of the introduction and rapid expansion of the use of guaranteed checks, which overwhelmed the Mozambican payments system and created a significant interbank float. The remaining waiver, given in 1996, was related to the temporary emergence of small external payment arrears. In addition, the IMF staff is recommending waivers of the September 1997 performance criteria on the net domestic and net foreign assets of the banking system, so as to allow Mozambique to complete the midterm review under the current ESAF arrangement (see paragraph 15 of the text). IDA adjustment credits have never required any waivers.

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[1]Only in the latter case were funds committed under the ESAF arrangement not fully disbursed.

Table 1. HIPC Initiative: Status of Early Cases

Country (in order of expected decision point within groups)	Decision point	Completion point	NPV of debt-to-export target (in percent)	Assistance at completion point (US$ millions, present value at completion point)					Percentage reduction in NPV of debt 1/	Estimated total nominal debt service relief (in US$ mn.)	Satisfactory assurances from other creditors
				Total	Bilat-eral	Multi-lateral	IMF	World Bank			
Mozambique 2/	early 98	mid 99	200	1,442	916	526	95 3/	295 3/	57	2,900	. . .
Decision point reached and assistance committed by Fund and Bank:											
Uganda	Apr-97	Apr-98	202	338	67	271	69	160	19	700	Mostly received
Burkina Faso	Sep-97	Apr-00	205	115	21	94	10	44	14	200	Being sought
Bolivia	Sep-97	Sep-98	225	448	157	291	29	54	13	600	Being sought
Guyana	Dec-97	Dec-98	107 4/	253	91	161	35	27	25	500	Being sought
Côte d'Ivoire	Mar-98	Mar-01	141 4/	345	163	182	23	91	6 5/	800	Being sought
Debt judged sustainable:											
Benin	Jul-97	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .

Sources: Fund and Bank Board decisions, final HIPC documents, preliminary HIPC documents, and staff calculations.

1/ In percent of NPV of debt at completion point, after full use of traditional debt relief mechanisms.
2/ Figures were updated to reflect the most recent estimates based on proportional burden sharing.
3/ Excludes voluntary contributions by the World Bank and the IMF to fill the bilateral financing gap.
4/ Eligible under fiscal/openness criteria; NPV of debt to exports target chosen to meet NPV of debt-to-revenue target of 280 percent.
5/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club which was already subject to a high concessional restructuring are excluded from the NPV of debt at the completion point for this ratio.

APPENDIX

Table 2. Mozambique: Exchange Rate and Discount Rate Assumptions

	Exchange Rates 1/ (currency per U.S. dollar)	Discount Rates (CIRR) 2/ (in percent)
Paris Club		
Austrian Schilling	12.49	5.79
French Franc	5.99	5.91
German Mark	1.79	5.88
Japanese Yen	130.11	2.50
Portuguese Escudo 3/	181.36	6.06
Russia Rouble 4/	0.60	7.31
Spanish Peseta	150.06	6.52
Swedish Kroner	7.76	6.81
Swiss Franc	1.46	5.91
UK Pound	0.61	7.95
US Dollar	1.00	7.31
Non-Paris Club		
Bulgarian Leva 3/	70.83	6.06
Chinese Yen 3/	8.28	6.06
Indian Rupee 3/	39.28	6.06
Iraqi Dinar 5/	0.31	7.31
Kuwaiti Dinar 3/	0.30	6.06
South African Rand 3/	4.87	6.06
Multilateral		
ECU 6/	0.90	5.88
SDR 7/	0.74	6.06
U.S. dollar 8/	1.00	7.31
UA 9/	0.74	6.06

Sources: OECD and IFS.

1/ Exchange rate at December 31, 1997.
2/ Six-month average of Commercial Interest Reference Rate (CIRR) for July-December 1997.
3/ Discount rate based on SDR CIRR.
4/ Reflects rate agreed in September 17, 1997 Paris Club Memorandum of Understanding.
5/ Discount rate based on U.S. dollar CIRR, reflecting exchange rate peg.
6/ Applied to loans from the European Investment Bank and European Fund for Economic Development.
7/ Applied to loans from IDA, IMF, IFAD, and Nordic Development Fund.
8/ Applied to loans from the OPEC Fund and BADEA.
9/ African Development Bank/Fund Unit of Account, applied to all AfBD/AfDF loans.

Table 3. Mozambique: Medium- and Long-Term Balance of Payments, 1997-2017
(In millions of U.S. dollars, unless otherwise specified)

		Projections								Outer Years		Averages	
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2010	2017	1998-07	2008-17
Trade balance	-541	-640	-824	-875	-655	-431	-437	-489	-535	-866	-1,534	-613	-1,096
Exports (f.o.b.)	234	325	380	407	532	665	731	757	784	938	1,262	623	1,048
Imports (c.i.f.)	-775	-965	-1,204	-1,282	-1,187	-1,096	-1,168	-1,245	-1,319	-1,804	-2,796	-1,236	-2,144
Services (net)	-74	-138	-148	-167	-178	-184	-161	-124	-87	107	610	-125	267
Receipts	342	375	397	423	452	483	517	554	595	860	1,497	512	1,073
Expenditures	-417	-513	-544	-590	-630	-667	-678	-678	-682	-752	-887	-638	-807
Of which: interest 1/	-142	-181	-200	-237	-228	-219	-209	-200	-194	-211	-249	-205	-231
Private transfers	0	0	0	0	0	0	0	0	0	0	0	0	0
Current account, excluding grants	-615	-778	-971	-1,042	-833	-615	-598	-612	-622	-759	-925	-739	-829
Unrequited official transfers 2/	355	324	316	315	314	313	312	311	310	306	299	313	303
Current account, including grants	-260	-455	-656	-727	-519	-302	-286	-301	-312	-453	-625	-426	-526
Capital account	163	197	389	288	140	-17	-25	41	110	365	569	164	433
Foreign borrowing	294	325	409	381	310	240	246	266	280	341	471	306	389
Public sector	227	210	193	151	151	153	146	150	147	107	47	159	88
Of which: IDA	148	150	140	130	130	125	120	120	120	90	30	127	70
Private sector	67	115	216	230	159	88	101	116	133	235	425	147	301
Amortization	-195	-256	-253	-342	-350	-370	-401	-374	-341	-278	-449	-317	-343
Direct investment (net)	64	129	232	249	180	113	130	149	171	302	547	176	387
Short term and errors and omissions (net)	19	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-78	-257	-267	-438	-379	-319	-311	-260	-202	-88	-56	-261	-93
Financing	78	257	267	438	379	319	311	260	202	88	56	261	93
Net foreign assets	-137	-30	-32	34	-12	-61	-63	-56	-63	-28	-67	-38	-32
Net change in arrears (increase +)	-3,933	-619	0	0	0	0	0	0	0	0	0	-62	0
Financing gap	4,147	907	299	404	391	381	374	317	265	117	123	361	125
Debt relief 3/	4,147	229	101	0	0	0	0	0	0	0	0	33	0
Remaining gap 4/	0	677	198	404	391	381	374	317	265	117	123	328	125
Memorandum items :													
Current account deficit in percent of exports 5/													
Before grants	120	122	136	136	90	57	50	49	47	44	34	78	41
After grants	51	72	92	95	56	28	24	24	24	26	23	46	26
Gross international reserves	560	715	729	661	640	673	709	740	777	909	1,049	728	936
(in months of imports of goods and services)	6.4	6.6	5.7	4.9	4.8	5.2	5.2	5.2	5.2	4.7	3.7	5.3	4.2
Debt service ratio 5/													
Before debt relief	64.3	62.1	55.1	65.1	53.2	44.1	40.1	34.3	28.7	13.4	11.2	41.9	13.0
Including private sector debt	68.6	72.7	67.7	79.3	65.8	56.4	53.2	47.5	42.1	28.1	25.8	54.8	27.9
After assumed debt relief on Naples terms 6/	19.6	19.3	20.6	22.1	18.4	15.5	14.7	14.4	13.8	11.3	10.4	16.5	11.1
Including private sector debt	23.9	29.9	33.2	36.3	31.1	27.8	27.9	27.6	27.2	26.1	25.1	29.4	26.1

Sources: Mozambican authorities; and Fund staff estimates and projections

1/ Excludes late interest on old loans extended to the Cahora Bassa Hydropower Company in the 1970s.
2/ Excludes technical assistance.
3/ Includes the impact of the 1996 Paris Club flow rescheduling on Naples terms, including rescheduling of the debt to Russia after an upfront discount of 80 percent. Also includes the 1997 commercial debt rescheduling with the Bank of Brazil, and assumes that debt service payments by the Cahora Bassa hydropower company will be equivalent to 75 percent of exports starting in 1998.
4/ Financing gaps through mid-1999 could be covered by topping up of existing Paris Club flow rescheduling to 80 percent NPV reduction and debt relief from non-Paris Club creditors on comparable terms. Filling of gaps beyond mid-1999 would require exceptional assistance from bilateral and multilateral creditors under the HIPC Initiative.
5/ In percent of exports of goods and nonfactor services.
6/ Assumes Naples terms flow rescheduling through mid-99 and a hypothetical stock-of-debt operation (67 percent NPV reduction) on all eligible bilateral claims thereafter.

Table 4. Mozambique: Medium- and Long-Term External Debt Service, 1997-2017
(In millions of U.S. dollars)

		Projections									Outer years		Averages	
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2010	2017	1998-07	2008-17
Total debt service	352.2	461.9	483.2	608.8	606.7	612.5	631.9	594.2	555.1	489.8	698.3	546.0	574.6
Principal	210.6	280.8	283.6	371.9	378.5	393.4	422.6	394.4	361.4	278.5	449.0	340.6	343.6
Interest	141.6	181.1	199.6	236.9	228.2	219.0	209.3	199.8	193.7	211.4	249.4	205.4	231.1
Scheduled debt service 1/	346.2	415.1	403.0	480.0	464.7	441.8	426.9	369.1	315.7	144.5	134.2	368.5	147.5
Principal	208.7	277.1	279.1	366.4	365.5	357.4	357.4	314.0	272.3	121.6	126.0	289.2	129.9
Multilateral	31.7	44.5	50.3	53.4	50.7	46.6	43.7	40.5	40.5	35.9	48.5	44.4	41.3
o/w IDA	1.5	3.1	5.3	8.3	9.0	11.2	14.0	16.7	19.8	28.6	39.7	13.0	32.9
AfDB/AfDF	8.6	9.0	8.5	8.5	8.1	7.4	7.5	6.6	5.3	5.7	7.7	7.1	6.6
IMF	15.4	24.4	30.8	29.9	28.4	23.1	18.3	12.2	10.2	0.0	0.0	18.9	0.0
Bilateral	158.1	178.3	160.2	253.7	258.2	260.2	262.3	221.5	179.0	29.4	20.4	189.5	32.1
Paris Club (excl. Russia and Brazil)	56.7	62.4	81.4	171.5	173.8	173.4	172.5	165.7	159.7	27.6	20.4	127.2	30.9
post-cutoff date	12.3	9.9	11.2	11.8	13.6	12.5	10.8	9.1	8.8	5.9	3.3	10.3	4.4
pre-cutoff date	44.4	52.5	70.2	159.7	160.2	160.9	161.7	156.6	151.0	21.7	17.1	116.8	26.5
Of which: PRD on Toronto terms	1.1	1.1	1.1	104.2	104.2	104.2	104.2	104.2	103.7	5.3	0.0	63.8	4.8
Of which: PRD on London terms 2/	3.3	3.5	10.0	16.7	17.3	18.0	18.8	13.6	8.6	15.9	17.0	12.8	20.2
Russia	62.6	57.8	11.3	7.7	5.2	2.8	1.1	0.4	0.2	0.0	0.0	8.7	0.0
Brazil	22.8	26.9	32.6	37.5	40.7	44.0	47.3	24.4	0.0	0.0	0.0	25.3	0.0
Other official	3.3	16.9	17.9	17.7	17.8	17.8	17.8	17.8	17.2	0.4	0.0	14.7	0.4
Commercial	12.7	14.3	17.0	19.2	20.7	22.2	23.7	13.2	2.0	1.4	0.0	13.6	0.7
Private sector 3/	18.9	54.3	68.6	59.3	56.6	50.7	51.4	52.1	52.8	56.3	57.1	55.3	56.5
Interest	137.5	137.9	123.8	113.6	99.3	84.4	69.5	55.1	43.4	22.9	8.2	79.3	17.7
Multilateral	18.0	20.8	14.1	13.3	12.4	11.6	11.0	10.4	9.9	8.1	5.8	12.2	7.3
o/w IDA	8.1	10.4	7.6	7.5	7.5	7.4	7.3	7.2	7.1	6.2	4.4	7.6	5.6
AfDB/AfDF	6.1	6.3	4.6	4.1	3.5	3.0	2.7	2.3	2.1	1.6	1.2	3.2	1.5
IMF	1.0	0.9	0.7	0.6	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.3	0.0
Bilateral	116.2	109.1	102.1	92.9	79.7	66.3	52.7	39.5	29.0	13.4	2.5	61.2	9.7
Paris Club (excl. Russia and Brazil)	82.9	79.2	76.0	70.9	62.2	53.5	44.7	36.2	28.0	13.3	2.5	49.0	9.6
post-cutoff date	5.8	4.4	3.9	3.4	2.9	2.5	2.1	1.8	1.6	0.7	0.2	2.5	0.5
pre-cutoff date	77.1	74.7	72.1	67.5	59.3	51.0	42.6	34.4	26.4	12.7	2.3	46.5	9.1
Of which: PRD on Toronto terms	35.5	35.4	35.3	34.0	28.9	23.8	18.7	13.6	8.5	2.9	0.0	20.7	1.8
Of which: PRD on London terms 2/	17.0	17.0	16.8	16.2	15.4	14.5	13.5	12.6	12.1	9.6	2.3	14.1	7.1
Russia	2.1	1.3	0.8	0.5	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.3	0.0
Brazil	17.7	16.1	14.3	12.1	9.6	6.8	3.9	1.2	0.0	0.0	0.0	6.4	0.0
Other official	4.5	4.3	3.7	3.2	2.7	2.2	1.6	1.1	0.6	0.0	0.0	2.0	0.0
Commercial	9.0	8.2	7.3	6.2	5.0	3.7	2.3	1.0	0.4	0.1	0.0	3.5	0.1
Private sector 3/	3.2	8.0	7.6	7.5	7.1	6.5	5.8	5.2	4.6	1.4	0.0	6.0	0.7
Debt service on new borrowing and rescheduled debt	6.0	46.9	80.2	128.7	141.9	170.7	205.0	225.1	239.4	345.3	564.1	177.5	427.1
Principal	1.9	3.7	4.5	5.5	13.0	36.0	65.2	80.4	89.1	156.9	323.0	51.4	213.7
On rescheduled debt	1.9	3.7	4.5	5.5	7.6	11.9	19.8	21.1	22.6	48.3	118.4	15.9	71.7
On new borrowing 4/	0.0	0.0	0.0	0.0	5.4	24.1	45.4	59.3	66.5	108.6	204.6	35.5	142.0
Of which: Private sector 3/ 5/	0.0	0.0	0.0	0.0	5.4	24.1	42.0	46.8	52.3	95.1	166.9	29.5	119.2
Interest	4.1	43.2	75.7	123.3	128.9	134.6	139.8	144.7	150.3	188.4	241.1	126.1	213.4
On rescheduled debt	4.1	36.3	59.6	77.0	76.6	76.2	75.8	75.2	74.7	70.2	52.1	69.9	64.4
On new borrowing 4/	0.0	6.9	16.1	46.3	52.3	58.5	64.1	69.4	75.6	118.2	189.0	56.2	149.0
Of which: Private sector 3/ 5/	0.0	5.0	13.7	42.4	47.3	52.3	56.8	61.1	66.2	104.0	172.5	49.6	133.7
Memorandum items:													
Debt service after debt restructuring 6/	100	123	147	169	170	168	175	180	183	197	282	168.8	227.8
In percent of exports	19.6	19.3	20.6	22.1	18.4	15.5	14.7	14.4	13.8	11.3	10.4	16.5	11.1
Debt after restructuring 6/	5,526	5,208	4,913	4,974	5,034	5,096	5,148	5,209	5,275	5,436	4,855	5,158	5,266
NPV of debt after restructuring 6/	3,305	3,390	2,613	2,661	2,712	2,772	2,825	2,877	2,926	3,139	2,943.3	2,876	3,106
NPV of debt-to-exports ratio after restructuring 6/ 7/	708.5	624.6	421.0	377.2	338.6	299.5	265.1	244.8	233.6	190.8	116.1	324.6	164.8

Sources: Mozambican authorities; and Fund staff estimates and projections

1/ Debt service on stock of debt outstanding as of December 31, 1997. Excludes late interest on loans extended to the Cahora Bassa hydropower company in the early 1970s.

2/ Includes debt service on about US$3 million of ODA claims.

3/ Debt service not contracted or guaranteed by the Government or the Bank of Mozambique. Includes amortization of loans extended in the early 1970s, and servicing of loans extended in 1995 and 1996 to the Cahora Bassa hydropower company.

4/ Disbursed after December 31, 1997. Includes debt service on financing gap.

5/ Includes servicing of new loans to the Cahora Bassa hydropower company and debt service on loans to a prospective natural gas project.

6/ Refers to public and publicly guaranteed debt only. Incorporates the terms of the November 1996 Paris Club agreement (including with Brazil) and of a hypothetical stock-of-debt operation on Naples terms (67 percent NPV reduction) in mid-1999. In the case of Russia, after an 80 percent up-front discount on all claims disbursed before 1992, Naples terms are applied to pre-cutoff date debt in 1997 and post-cutoff date arrears in 1998, with a 67 percent and 50 percent NPV reduction, respectively. Non-Paris Club official bilateral and commercial creditors are assumed to reschedule eligible debt on comparable terms.

7/ In percent of the 3-year moving average of exports of goods and nonfactor services.

Table 5. Mozambique: Social Development Performance Indicators

Objective	Verifiable indicator	Means of Verification	Target
A. Health			
1. Increase public spending in health sector	Share of health in total recurrent expenditures	Budget allocation and execution data (MPF)	Increase to 7.8 % in 1997 and 8 % in 1998. Future increases consistent with medium term expenditure framework
2. Improve monitoring of spending in the health sector	Systematic monitoring of internally and externally financed expenditures	Install pilot and information system by 1998 (MOH and MPF)	Annual reports on estimates of executed expenditures
3. Increase the efficiency and effectiveness of expenditures in the health sector	Implementation of sector expenditure program adopted in late 1995	Regular monitoring (MOH) Review of the Program (MOH) Prepare action plan to correct identified problems (MOH)	Annual reports completed in June every year Joint review with donors by April 1998 Start implementation by January 1999
4. Increase access to basic health services, especially in rural areas	Service unit per inhabitant[1] Vaccination coverage Coverage first level health facilities per inhabitant	Semi-annual monitoring (MOH) Annual monitoring (MOH) Annual monitoring (MOH)	Increase from 2.64 in 1996 to 3.93 in 2000 Increase DP T coverage from 58% in 1996 to 80% in 2000 Decrease geographical inequity index[2] from 3.6 in 1996 to near 1 in 2000
5. Increase quality of health services	Proportion of first level facilities staffed with trained personnel Proportion of first level facilities properly stocked with Essential Drugs Program Kit	Annual monitoring data (MOH) Annual monitoring data (MOH)	Increase to over 95% in 2000, from 70% in 1995 Increase from 40% in 1996 to 80% in 2000
6. Increase sustainability of health expenditures over the medium term	Cost-recovery Cost-sharing	Preparation and formal approval of new user fees legislation and annual adjustment of user fees to reflect inflation. Formulation of cost-sharing strategy (MOH)	Increase the share of receipts in recurrent health expenditure to 10% by 2000, from 2% in 1995 Complete cost-sharing strategy by January 1999

[1]Measured in terms of "service units", which is a weighted sum of inpatient days, hospital deliveries, vaccination doses, outpatient consultations, and MCH visits.

[2]This index is defined as the number of health units servicing the 25 percent most favoured population divided by the number of units servicing the 25 percent least favoured population.

Table 5. Mozambique: Social Development Performance Indicators (concluded)

Objective	Verifiable Indicators	Means of verification	Target
B. Education			
1. Increase public spending in education	Share of education in total recurrent expenditures	Budget allocation and execution data (Ministry of Planning and Finance)	17% in 1997; 18% in 1998. Future increases consistent with medium term expenditure framework
2. Improve monitoring of spending in education	Installation of information system to monitor internally and externally financed expenditures	Annual reports on estimates of executed expenditures (Ministry of Education and of Planning and Finance)	Installation of information system by 1998
3. Increase effectiveness and efficiency of public expenditures in education	Develop an integrated sector expenditure program in coordination with donors	Education Sector Strategy and Public Expenditure Review (Ministry of Education) Education Sector Expenditure Program (Ministry of Education)	Complete by mid-1998 Approval by World Bank in 1998
4. Increase access to primary education	Gross admission rate Gross enrollment rate	Annual monitoring data (Ministry of Education) Same as above	Increase to 82-86% in 2000, from 75% in 1996 Increase to 79% in 2000, from 62% in 1996
5. Improve quality of primary education	Share of qualified teachers Pupil: teacher ratio Content of curriculum	Annual monitoring data (Ministry of Education) Semi-annual monitoring data (Ministry of Education) Annual revisions (Ministry of Education and UNESCO)	Maintain at least at 70% throughout No higher than 60 throughout Complete revision by year 2000
6. Increase internal efficiency of primary education	Repetition rate Drop-out rate Completion rate	Semi-annual monitoring data (Ministry of Education) Same as above Same as above	Reduce to 27-29% by 2000, from 33% in 1996 Reduce to 5-6% by 2000, from 8% in 1996 Increase to 10% by 2000, from 6% in 1996