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INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF MOZAMBIQUE

Completion Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

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I. INTRODUCTION

1. In April 2000, the Executive Boards of IDA and the IMF agreed that Mozambique had met the requirements for a decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The debt relief agreed was US$254 million in net present value terms (NPV), calculated to bring the NPV of debt to the equivalent of 150 percent of exports as of 1998. This agreed relief was in addition to the US$1,716 million NPV relief provided under the original HIPC Initiative when Mozambique reached its completion point in June 1999. The total relief for Mozambique under the original and enhanced initiatives of US$1,970 million represents a reduction of 72 percent of the NPV of debt at end-1998. The Boards also agreed in April 2000 that interim period debt relief would be provided to Mozambique by IDA and the IMF equivalent to 100 percent of the debt service due over the following year, in view of the exceptional conditions resulting from the floods that hit Mozambique in early 2000. Paris Club creditors took similar action.

2. This paper recommends that additional assistance of US$53 million in NPV terms (10 percent of exports) be provided in the light of revisions that have been made to the debt data as of the decision point. This paper also recommends that the Boards approve the completion point for Mozambique under the enhanced HIPC Initiative. The Boards had agreed that this completion point should be reached on the basis of (i) satisfactory performance under the program supported by the IMF's Poverty Reduction and Growth Facility (PRGF); (ii) completion of a poverty reduction strategy paper (PRSP), endorsed by the Boards of the IDA and the IMF as a context for concessional assistance; and (iii) satisfactory progress in implementing the social and structural reforms monitored under the Initiative and outlined at the decision point. With respect to these conditions, the IMF Executive Board will consider the completion of the third review under the PRGF arrangement along with this paper; Mozambique has prepared a PRSP, which, along with the Joint Staff Assessment (JSA), will be considered by the Boards at the same time as this document; and, as discussed in this paper, Mozambique's progress in implementing the reforms specified for reaching the completion point has been satisfactory.

3. The paper is organized as follows. Section II assesses Mozambique's performance in meeting the requirements for reaching the completion point, as set out in the decision point documents. It includes a discussion of the impact of debt relief on expenditures during the interim period. Section III reviews the status of creditor participation, discusses the corrections to debt data and the delivery of debt relief to Mozambique under the HIPC Initiative, and presents the results of the debt sustainability analysis, taking into account HIPC Initiative assistance. This assessment includes a review of longer-term debt sustainability issues. Sections IV and V present the conclusions and issues for discussion.

II. Assessment of Requirements for Reaching the Completion Point

4. As set out in the decision point document, the conditions for reaching the completion point include (i) completion of a full PRSP; (ii) continued observance of the PRGF-supported program; and (iii) satisfactory performance on a set of key policy areas,[2] which are summarized in Box 1. In monitoring these conditions, the decision point document indicated that particular attention would be paid to strengthening the tracking of budgetary resources for poverty reduction, to developing strategies and budgetary allocations in the health and education sectors, the national HIV/AIDS strategy, and progress on a set of key social indicators. It was also noted that due regard would be paid to the impact of the 2000 floods in making the assessment for the completion point.

A. Poverty Reduction Strategy Paper

5. Mozambique's PRSP, officially designated as Action Plan for the Reduction of Absolute Poverty, 2001–05, (or PARPA under its Portuguese acronym), was approved by the Council of Ministers in April 2001. It draws on (i) previous work undertaken for the Interim PRSP (PARPA 2000–04), which was discussed by the Boards of the IDA and the IMF on April 6 and 7, 2001; (ii) inputs from the representatives of civil society, private sector, and donor community through a broad consultative process; and (iii) new analytical work focusing, in particular, on the relationship between poverty reduction and growth, and on the key determinants of the latter.

6. Poverty reduction has been a key objective of the economic reform process in Mozambique for over a decade. The PARPA makes explicit the key role of accelerated and broad-based economic growth as a powerful element in Mozambique's poverty eradication effort and focuses on six priority areas: (i) education; (ii) health; (iii) agriculture and rural development; (iv) basic infrastructure; (v) good governance; and (vi) macroeconomic and financial management.

7. Both PARPA-related measures for the enhanced HIPC Initiative Completion point were successfully implemented: the completion of regional poverty profiles, of which results were incorporated and clearly articulated in the PARPA; and the completion of the three-year policy matrix and macroeconomic framework underpinning the poverty reduction strategy, which were approved by the Council of Ministers in April 2001, as part of the PARPA.

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[2] See decision point document EBS/00/62 and IDA\R2000–35 (3/30/2000), para. 61, Box 2, and Tables 2-4.

Box 1. Key Policy Measures for the Completion Point

Measures	Status
Poverty reduction strategy	
Completion of regional poverty profiles	Done
Completion of a reformulated three-year policy matrix, and macroeconomic framework underpinning the poverty reduction strategy	Done
Social development	
Development and approval of a new Health Sector Strategic Plan	Done
Implementation of the National Multisectoral Strategic Plan on HIV/AIDS	Ongoing
Increase in current health and education expenditures as a share of total current expenditure	Done
Public sector reform	
Publication of quarterly budget execution reports, including a sectoral classification of expenditures	Done
Review of system of tax and customs exemptions	Done
Development of strategic plan for public sector reform, including a functional review of ministries	Done
Development of policy regarding remaining public enterprises and companies with majority public ownership	Done
Legal and regulatory framework	
Adoption of a strategic plan for the justice system	Satisfactory progress
Drafting of new commercial code covering company and contract law	Done
Adoption of regulations for private sector involvement in the telecommunications and energy sectors	Done

8. The PARPA is presented as "an instrument for medium-term programming within the public planning system" that will function alongside both medium-term instruments (such as the medium-term expenditure framework (MTEF) and the Tri-Annual Public Investment Program) and short-term instruments (such as the yearly Economic and Social Plan or PES—and the state budget). Overall, as indicated in the JSA, the PARPA contains a sound strategy for poverty reduction in Mozambique identifying policy priorities and the appropriate instruments for their implementation; making good use of inputs provided by key stakeholders during the consultation process; laying out an adequate financing plan, linked to the MTEF; and describing plans for the participation of stake-holders in monitoring implementation. Nevertheless, there are risks to the strategy, as noted in the JSA. In particular, careful

monitoring will be needed to ensure, inter alia, that it is adapted if budgetary revenues fall short of expectations or institutional weaknesses impede the implementation of policies needed to sustain growth and poverty reduction.

B. Economic Program

9. Performance under the PRGF-supported program has been satisfactory. At the time of the decision point, in April 2000, it was feared that serious flooding would be a major setback to social and economic progress. Despite tragic flood-induced destruction and loss of life, the economy grew by 2.1 percent in real terms in 2000 reflecting aid-financed reconstruction, new foreign direct investment, and the start of production at a new state-of-the-art aluminum smelter. These same forces have continued to drive the economy, and a return to near double-digit growth is expected during 2001.

10. The government's primary deficit in 2000 (6.5 percent of GDP) was smaller than programmed due to lower than expected expenditures stemming from lack of capacity to implement the capital budget in full and step up social spending during the year. In the aftermath of the floods, shortages of basic goods and an accommodating monetary policy brought inflation to 11.4 percent at the end of 2000. Consumer prices stabilized in the latter part of 2000, but new inflationary pressures developed in mid-2001 and, in July 2001, the 12-month rate of inflation rose to 7 percent. The external current account deficit (after grants) narrowed from 18 percent of GDP in 1999 to 12 percent in 2000, as exceptionally high imports for flood relief were more than offset by higher net exports from large aluminum and electricity projects. The central bank has continued to steadily accumulate foreign reserves, which, at end-June 2001, stood at the equivalent of 6 months of imports of goods and services.

11. All quantitative performance criteria were met for the PRGF-supported program at end-December 2000, although the higher than expected buildup of net international reserves led to an expansion in reserve money in excess of the corresponding benchmark. This pattern was repeated at end-June 2001, with the observance of all quantitative performance criteria, but with a continuation of monetary growth in excess of the program benchmark. In response to renewed pressure on prices and on the exchange rate, the central bank has tightened monetary policy by raising reserve requirements, with effect from July, and increasing interest rates.

12. Implementation of structural reforms under the PRGF-supported program continued, albeit with some setbacks. The major achievements since the decision point were recorded in the areas of (i) tax policy and administration, including completion of a review of tax and customs exemptions, approval of the legal basis for a special section to handle large taxpayers, and preparation of a plan to create a central revenue authority; (ii) fiscal transparency and accountability, including completion and publication of a review of transparency of fiscal management in relation to the Code of Good Practices on Fiscal Transparency, the initiation of publication of quarterly budget execution reports including, in 2001, poverty-focused spending, and preparation of a new public financial management law; and (iii) public enterprise reform, including the submission to the Council of Ministers of a policy statement on the future of public enterprises and companies with majority state ownership.

13. Recapitalization of two large commercial banks, both with minority government shareholdings, was partly accomplished in the case of one, Banco Comercial de Moçambique (BCM). However, rather than provide additional capital to bring the bank into compliance with prudential requirements, the private shareholder of the other bank, Banco Austral (BA), decided instead to sell its majority holding to the government for a nominal amount. In view of the need to resolve the BA issue and the implications of this operation for public finances and the soundness of the financial system, the staffs of the Bank and the Fund worked closely with the government to find a way forward to address these issues while minimizing the delay in completing the third review under the PRGF. With the assistance of an international consulting firm, BA was put up for sale in May 2001 and at end-July two bids were received. The government has entered into negotiations for the sale. Safeguards have been put in place to minimize losses before a sale is concluded and the government has stressed its commitment to an effective and transparent process to recover BA's nonperforming loans.

14. In June 2001, agreement was reached with the Fund staff on the program through end-2001, including the resolution of BA. The program aims to ensure macroeconomic stability with inflation at end-year held to 7 percent. In support of this objective, the domestic primary balance, net of the costs of bank restructuring, is to be held to 6.2 percent of GDP as originally programmed and the rate of monetary growth is to be brought down to 19 percent by end year. The major structural measure envisaged is the introduction of a comprehensive reform of income taxes that will simplify tax administration procedures and broaden the revenue base. The law is expected to be in place by end-2001, so as to achieve the envisaged revenue gains as early as possible. Other reforms expected in 2001 include enhanced banking supervision procedures and a tightening of regulations on connected lending in the banking system. In line with program objectives, the government is working closely with donors on fully executing social expenditures in the 2001 budget and on reinforcing social expenditure appropriations in the 2002 budget.

C. Key Policy Measures and Reforms

15. The status of implementation of the key policy measures to be monitored for the HIPC Initiative completion point is summarized in Box 1 and assessed below.

Social development

Health sector

16. A major focus of the government in the health sector has been to develop a Health Sector Strategic Plan for 2001–04. This effort, which included extensive consultation with stakeholders, led to the approval in May 2001 by the Council of Ministers of a plan,[3] which will be discussed further, with the provinces and the donor community. The plan establishes sectoral policies and programs within a policy framework for the development of a sector-wide

[3] Ministério de Saúde, 2001, *Plano Estratégico do Sector Saúde (PESS) 2001–05.*

approach in which the government and the donors will work together on joint procedures for budgetary support to the sector.

17. The delivery of health services has continued to improve, as have key indicators in the sector (Table 1). Two of the four targets[4] set out in the decision point document were achieved by wide margins: (i) DPT (diphtheria, pertussis and tetanus) coverage was raised from 77 percent to 92 percent in 2000, compared with the target of 80 percent; and (ii) the proportion of health posts staffed with trained personnel was raised from 86 percent to 93 percent in 2000, compared with the target of 90 percent. A third objective, raising by two percentage points the proportion of health posts/centers stocked with Essential Drugs Program kits, was also achieved. The government has indicated that future improvement in this indicator will require special efforts to target drug kit availability in lagging provinces, and is undertaking such efforts. The fourth key indicator, the index of geographic inequality (the ratio of resources going to the most-and least-favored geographical units) was brought down from 3.6 in 1998 to 3.5 in 1999 and 2.9 in 2000. Improvement in this indicator reflects the higher weighting to the poorer districts in the allocation formula used by the Ministry of Health for recurrent costs, as well as the extension of the health system in rural areas.

Table 1. Mozambique: Progress in the Implementation of the Health Sector Recovery Program, 1998–2000

Indicators	1998	Goal for HIPC Completion Point	Actually Achieved as of 2000
Vaccination coverage with DPT third dose	77 percent	80 percent	92 percent
Index of geographic inequality	3.6 [1]	Reduce by 0.2 [1]	2.9
Proportion of health posts/centers stocked with essential drugs program kits	84 percent [2]	Increase by 2 percent [2]	86 percent
Proportion of health posts/centers staffed with trained personnel	86 percent	90 percent	93 percent

Sources: Health Sector Strategic Plan (p. 17), unless otherwise mentioned. Index of geographic inequality: WHO.
[1/] Originally reported in the decision point document as 3.0 (estimated), with the objective of reducing it to below 2.8. Data revisions indicated that the actual outcomes were 3.6 in 1998 and 3.5 in 1999.
[2/] Reported in the HIPC decision point document as 88 percent (estimated based on WHO survey) in 1998 (with a target 2 percentage point improvement for 2000, i.e. 90 percent). Actual data for 1998 show coverage as 84 percent, implying a target of 86 percent.

Education sector

18. The government has continued to implement its US$717 million Education Sector Strategic Program (ESSP), launched in 1998 and supported by IDA and other donors. The program gives priority to increased and equitable access to higher quality basic education and focuses on the following objectives: (i) improving the quality of education by increasing enrollment in preservice teacher training institutions, upgrading underqualified teachers, and

[4] As noted in Table 1, the targets have been adjusted to reflect data revisions in the 1998 base year.

enhancing pedagogical support and the supply of materials; (ii) expanding access to education by building and rehabilitating classrooms, boosting internal efficiency, and launching a number of initiatives to support girls' enrollment; and (iii) reinforcing the institutional capacity for financial management, planning, policy development, as well as monitoring and evaluation. In addition, the ESSP supports the development of strategies for technical and vocational training as well as tertiary education, in order to promote a broad-based development of human capital that will contribute to sustained economic growth.

19. The ESSP targeted improvements of 1-2 percentage points per year in the gross enrollment rate and in the proportion of students passing key examinations, as well as a 1-2 percentage point reduction in the average repetition rate in primary and lower secondary schools per year; these targets were reflected in the decision point document. Recent data (Table 2) indicate that these objectives are being met. In particular, the transition rates at various key nodes, e.g. from lower EP1 to higher EP1 (grade 5 to grade 6), and from grade 7 to grade 8, rose between 1998 and 2000. However, continuing high repetition rates, particularly in primary schools, remain a cause for concern.

Table 2. Mozambique: Progress in Implementation of the Education Sector Strategic Program, 1995–2000

	1995	1996	1997	1998	1999	2000
Gross admission rate (grade 1)	57	62	67	70	85	113
Gross enrollment rate (EP1 grades 1-5)	57	69	75	78	84	91
Gross enrollment rate (EP1 grades 6-7)	14	18	19	20	21	24
Transition rate (grade 5 to grade 6)	55	61	62	63	79	80
Transition rate (grade 7 to grade 8, viz., EP1 to EP2)	34	39	45	51	69	64
Repetition rate (primary schools)	26	25	25	25	25	23
Repetition rate (lower secondary schools)	30	28	28	28	27	23

Sources: Grade 1 admission rate (previously termed "enrollment rate") and repetition rates, 1995-1998: HIPC decision point document, Table 3, in turn from the Ministry of Education; 1999-2000: the Ministry of Education. Transition rates, 1995-2000: Ministry of Education.

20. The government has prepared strategies for technical, vocational and tertiary education to address acute skill shortages. A new ministry for tertiary education was created in 2000 and the strategy for expanding access to tertiary education is being implemented with assistance from a World Bank-funded Higher Education Project.

The response to HIV/AIDS

21. The government has strengthened its response to the HIV/AIDS pandemic by implementing its National Strategic Plan for Fighting STDs/HIV/AIDS. Nationally about 16 percent of adults carry the virus, but in some regions, particularly in the transport corridors, the infection rate may exceed 20 percent. The strategic plan was launched in September 1999 and has been followed up by the establishment of a National Council on HIV/AIDS with an executive secretariat. In November 2000, a donor conference was held to fund the plan, and

pledges of US$100 million were made to cover three years. In several ministries special AIDS units have been set up, including a unit in the Roads Authority that works on HIV/AIDS prevention measures. The Ministry of Education has drafted a strategy on HIV/AIDS prevention, to reach all primary and secondary school students and teachers. These ministerial efforts are being coordinated through mechanisms set up by the HIV/AIDS executive secretariat. The government is also carrying out sectoral impact studies and an analysis of the impact of AIDS on economic growth.

Expenditures

22. In the context of HIPC Initiative debt relief, the Government undertook to increase its current spending on education and health. As shown in Table 3, the Government's budgeted and actual spending rose, as a share of total spending, in both education and health. Current spending on education rose from 18.1 percent of total current expenditure in 1998 to 20.6 percent in 1999 and to 23.6 percent in 2000. Current health spending rose from 7.1 percent of the total in 1998 to 9.0 percent in 1999 and to 10.1 percent in 2000. In dollar terms, combined current expenditures on health and education increased by over US$60 million in the two years to 2000, accounting for more than 80 percent of the total increase in current spending over this period.

Table 3. Mozambique: Current Planned and Actual Expenditures in the Social Sectors, 1998-2000
(In units indicated)

	1998	1999	2000	1998	1999	2000
	% of total current spending, budgeted			*% of total current spending, actual*		
Education	16.9	18.9	23.3	18.1	20.6	23.6
Health	7.7	9.9	12.4	7.1	9.0	10.1
Total (health and education)	24.6	28.7	35.7	25.2	29.6	33.7
Memorandum items:						
Total current spending (Mt bn)	4,651	5,699	8,116	5,268	6,321	7,836
Total current spending (curr. US$ mn)	392	449	535	445	498	516
Current Health and Educ. (US$ mn)	96	129	191	112	147	174

Sources: Budgeted figures for 1998, and 1999: *Orçamento do Estado*. Budgeted figures for 2000: Ministry of Planning and Finance, "*Despesa nas Áreas Prioritárias do PARPA*" (dated July 27, 2001), table "*Orçamento Corrente*". Actual spending numbers in the social sectors for 1998: *Conta Geral do Estado*, 1998, p. 19, quadro J. Actual spending numbers in the social sectors for 1999 and 2000: Ministry of Planning and Finance, *ibid.*

23. The contribution of debt relief to total PARPA priority spending[5] is indicated in Box 2. Domestically financed spending in these areas increased by the equivalent of US$78 million or 2.1 percent of GDP, between 1999 and 2000. Over the same period, actual debt-service payments from the budget declined by the equivalent of US$37 million or 0.9 percent of GDP while HIPC Initiative assistance from the IMF transferred to the budget by the central bank increased by US$32 million, or 0.8 percent of GDP. Thus, the increase in spending in PARPA priority areas in 2000 exceeded the resources made available by the reduction in the combined debt service of the budget and the central bank.

Box 2. Debt Relief and Priority Spending, 1999-2000

	1999	2000	Difference
Domestically financed PARPA expenditures			
In billions of meticais	3,790	5,654	1,864
In millions of U.S. dollars	298	376	78
As a percent of GDP	7.3	9.4	2.1
External debt service paid by the budget			
In billions of meticais	801	386	-415
In millions of U.S. dollars	63	26	-37
As a percent of GDP	1.5	0.6	-0.9
Transfer to the budget of HIPC assistance from the IMF			
In billions of meticais	0	485	485
In millions of U.S. dollars	0	32	32
As a percent of GDP	0.0	0.8	0.8

Source: Ministry of Planning and Finance

Public sector reforms

Strengthening public accounting of poverty-related expenditures

24. The authorities have stepped up their efforts to address the urgent need to improve financial management, and thereby enhance efficiency, transparency and accountability in the public sector. In May 2000, the Government began publishing quarterly budget execution reports, including a sectoral classification of expenditure. These were enhanced in May 2001 to include a detailed breakdown of poverty related expenditures, including those financed by debt relief.

[5] The PARPA defines priority areas in health and education, infrastructure development, agriculture and rural development, and governance. In 2000 health and education accounted for 55 percent of domestically financed PARPA spending.

25. In 2000, the government initiated a public expenditure review (PER) and a Country Financial Accountability Assessment (CFAA), which will define an action plan for further reform of the budget and financial management system. While the PER is focused on issues related to budget planning, execution and reporting, the CFAA is focused on public accounting and auditing. This work is already producing results. For example, it helped the government in revising the budget classification system, which, starting with the 2002 budget, will allow greater transparency and control, in particular as regards social expenditures.

26. The government is designing a new law on public financial management, which it intends to submit to parliament in 2001. Moreover, a Country Procurement Assessment Review (CPAR) is also planned to be launched in 2001. In addition, the IMF has completed a Report on Observance of Standards and Codes (ROSC) on fiscal transparency that has been published with the authorities' agreement.

27. Finally, the government plans to pursue its goal of expanding budget coverage to all donor contributions and ministerial "own funds." The investment account in the budget execution reports is understated because many donor disbursements, particularly those to regional governments, are not recorded in the accounting system. Plans are in hand to incorporate all the information on these flows from the largest seven donors in the 2002 budget and the subsequent budget execution reports. The government is also developing measures to ensure that all unreported ministerial "own funds" and their spending counterpart are managed, spent and accounted for.

Reform of tax and tax administration

28. Reform of the tax system and its administration began with the introduction of a new Customs Code with fewer and lower rates and exemptions (1996), the contracting of an international company to manage customs (1997), and the computerization of several customs posts. In 1999, the government replaced the cumbersome and evasion-prone system of indirect taxes with a value-added tax (VAT). This was followed by a review of the system of tax and customs exemptions and in May 2001 the drafting of new code of fiscal incentives setting comprehensive and transparent guidelines on exemptions and other benefits for domestic and foreign investors.

29. The next major objective of tax reform is an overhaul of the country's personal and corporate income tax system, which is envisaged under the government's program for 2001-02. With technical assistance from the Fund and a bilateral donor, the authorities are drafting a new income tax law for submission to the National Assembly by end-December 2001. The main thrust of this reform will be to simplify income tax administration and expand the revenue base by unifying the multiple existing taxes into single personal and corporate income taxes and simplifying computation and payment procedures, such as tax withholding at source, self-assessment, and self-liquidation. The administrative gains from simplification of the income tax law are expected to be enhanced by the creation of a central revenue authority and the establishment of a special unit to handle large taxpayers in Maputo.

Reform of public sector administration

30. Among the key policy measures for the completion point was the government development of a strategic plan for public sector reform, including a functional review of ministries. The strategic plan was developed over a two-year period by an especially created unit (UTRESP) that reports to the Prime Minister. UTRESP's reform program was discussed with permanent secretaries and national directors, and the final plan was approved by the Council of Ministers in May 2001, and was announced publicly by the President in June. Funding has been promised by several of the donors.

31. The first, three-year phase of the plan would establish the basic conditions for reform by rationalizing and decentralizing public service delivery. This will include revising the system of incentives so as to motivate public servants, including a medium term pay strategy. The implementation strategy will focus on the link between policy and resources, drawing on the medium-term expenditure framework (MTEF) and the PARPA. It will include measures to further improve allocation and accountability, notably by introducing an Integrated Management Information System on a pilot basis and by making e-mail available throughout the public service. Full implementation of the management information system throughout the public sector will be accomplished in the second phase.

32. Meanwhile other reforms have been under way. Work has started on the actuarial analyses of the pension scheme of the public sector and the National Social Security Institute. The Prime Minister made a major speech on anticorruption in May 2001. Other reforms adopted under a "quick wins" program include facilitation of the issuance of visas so as to encourage tourism (a reduction in fees and elimination of visa requirements for certain nationals), and the establishment of a "one-stop shop" for company registration in the Ministry of Commerce and Industry.

Public enterprise policy

33. The government has followed up the completion of the first phase of its privatization program with a new policy regarding the remaining public enterprises and companies with majority public ownership, which was approved by the Council of Ministers in May 2001. The principles embodied in the policy are to promote private sector provision of public goods and services, as well as basic infrastructure, while maintaining the state's role in supervision, regulation and inspection. According to the policy, there will be three categories of firms. The first category comprises seven enterprises[6] providing basic services that will remain in state hands, even though in certain cases the service involved may be provided by a concessionaire. In the second category, the state will continue to retain minority shares in firms that provide

[6] The seven companies to remain under state ownership are: the national railways and airports (infrastructures management, concessioning), the public television and radio channels, the fuel distribution company (ENH), and two urban transport companies.

basic services or have "strategic importance."[7] The third category comprises 122 firms where government holdings (varying from 1 percent to 100 percent) are to be sold outright.

Legal and regulatory reform

Reform of the justice system

34. The need for reform of the justice system has taken on greater visibility over the past year. Political violence in the latter half of 2000 highlighted the weakness of law enforcement and of the court system. In particular, the tardiness of the judicial system—stemming from antiquated law, deficient capacity and corruption—is exemplified by the backlog of cases at the Supreme Court that rose from 130,000 at the end of 1999 to 142,000 at the end of 2000. This state of affairs is increasingly an obstacle to new business enterprise, inter alia because it hampers the ability of banks to use collateral in order to extend loans to new clients.

35. In response to this situation, the government has begun a process of comprehensive judicial reform. At the time of the decision point, a strategic plan for the sector was expected to have been completed in 2000. The nature of this plan has since been clarified to encompass not just the Ministry of Justice but also the independent judiciary and the Attorney General, and its scope has been broadened with the participation of key stakeholders. The plan is now expected to be finalized by the end of 2001 and the Government has drawn up detailed terms of reference for this task. These include (a) a policy statement on law reform in general which *inter alia* anticipates the formation of intermediate courts to lighten the burden on the Supreme Court; (b) overall terms of reference for the strategic plan for all justice-related institutions including the Ministry itself, and separate terms of reference for each of the components: Supreme Court, Administrative Tribunal and the Attorney General; (c) a commitment to consult various civil society institutions, including the lawyers' association, the private sector and non-governmental organizations active in the area. In respect of the Administrative Tribunal, the plan will provide for strengthening of its role in the "contencioso administrativo", viz. the ability of citizens to appeal to the Tribunal against actions of government. Support for the development of the strategic plan is being provided by a bilateral donor and background studies for the plan have been completed.

36. In the meantime, progress has been made in defining the future orientation of the Ministry of Justice, a necessary step towards the preparation of the strategic plan for the justice system. After completing several studies, the Ministry of Justice issued a policy statement on the future role and functions of the ministry, entitled *Política da Defesa da Legalidade e Organização da Justiça* (April 2001). The Ministry of Justice has started to implement measures to strengthen itself and the related agencies.

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[7] These include the post office, the electrical utility, the national airline, and the telecommunications company.

37. In addition, several reform initiatives are under way. New legislation that has been prepared includes (i) a new commercial code, updating that of 1896; (ii) a new civil code; (iii) a penal code; and (iv) a money laundering law. The commercial code is now undergoing a process of public review. These draft laws are expected to be submitted to parliament in 2001. Regulations will be issued to support the 1999 law on arbitration, conciliation and mediation. New courts are planned to be opened in 2001, including at least one community court in each province and five labor courts. The framework for broader legal reform is being developed though the establishment of a Commission on Law Reform to bring together the various arms of government involved in law, as well as civil society and the universities.

38. In sum, the government is on track to complete the strategic plan for the sector by the end of the year, and has in the meantime made progress in implementing a number of reform measures in the sector that, taken together, the staff believes are adequate to constitute observance of the undertakings at the decision point. However as the government recognizes, in relation to the overall need for reform in the sector, the process is still at an early stage.

Regulatory reform

39. The Government undertook in March 2000 to adopt regulations for private sector involvement in the energy and telecommunications sectors. In the **energy sector**, a decree of April 2000 laid out the regulatory framework for granting concessions (competitive bidding) and setting tariffs, and permitted differential regulatory treatment for small systems. A national "energy strategy" was issued in October 2000 that incorporated the policy targets of (i) "unbundling" main grid tariffs; (ii) cost-based, regionally differentiated tariffs for the main grid; and (iii) explicit, transparent cross-subsidies.

40. In the **telecommunications sector**, significant progress is being made. A new telecommunications law was passed in 1999. On the advice of World Bank staff, the government took additional time to revisit the legal and regulatory framework, rather than issue regulations on the basis of the 1999 law, so as to arrive at a high-quality set of regulations well adapted to modern conditions. As a result, the government has developed a forward-looking sector policy document, which is now in draft and will be published in September 2001. An amendment to the telecommunications law will be submitted to the National Assembly in September, eliminating the monopoly on long-distance calls held by the incumbent Telecomunicações de Moçambique (TDM) and thus facilitating the entry of private operators. A new telecommunications law will be submitted to parliament by March 2002. This legislative effort is part of a far-reaching reform of the sector now under way that will include the issuance of two new mobile licenses (for which the tender documents will be released in September 2001) and the privatization of TDM by December 2002.

III. Delivery of Debt Relief and Debt Sustainability over the Medium Term

41. This debt sustainability analysis was prepared jointly by the Fund and IDA staffs and the Mozambican authorities on the basis of loan-by-loan data provided by the authorities for

debt outstanding at end-2000. The nominal debt data have been reconciled with creditor statements from all multilateral creditors and the Paris Club creditors, as well as most of Mozambique's non-Paris Club official bilateral and commercial creditors. The exchange rate and interest rates used for the calculation of the debt are presented in Table 4.

A. Status of Creditor Participation

42. Mozambique began benefiting from debt relief under the HIPC Initiative following the completion point under the original HIPC Initiative, which was reached in June 1999 (Table 5). All of Mozambique's multilateral creditors, except the OPEC Fund, have concluded debt relief agreements; the OPEC Fund has proposed a single operation that would provide debt relief as required under the original and enhanced HIPC Initiatives (Table 6). The Paris Club agreed in July 1999 to provide relief to Mozambique under the original HIPC Initiative. Furthermore, the Paris Club has granted Mozambique exceptional debt relief in the wake of the floods in early 2000, deferring all payments to the Paris Club creditors until the earlier of June 2001 or the enhanced HIPC Initiative completion point.[8] Among non-Paris Club creditors, South Africa has forgiven all official loans and Algeria granted a rescheduling comparable to the Lyons terms (80 percent NPV reduction) applied by the Paris Club in 1998.

Multilateral creditors

43. The HIPC Initiative assistance required from the multilateral creditors amounts to US$641 million in NPV terms under the original framework and US$95 million in NPV terms under the enhanced framework, as agreed at the decision point (Table 7). Among multilateral creditors, debt relief under the original HIPC Initiative was fully implemented by IDA, African Development Bank (AfDB), IMF, European Union, International Fund for Agricultural Development (IFAD), and the Nordic Development Fund (NDF), while the Arab Bank for Economic Development in Africa (BADEA) has delivered a substantial portion of the relief due. BADEA has indicated that the residual amount of debt relief under the original HIPC Initiative would be delivered together with the debt relief due under the enhanced HIPC Initiative.

44. Mozambique also began benefiting from interim debt relief after it qualified for additional assistance under the enhanced HIPC Initiative in April 2000. IDA and the IMF granted an interim debt-service reduction, including a complete forgiveness of debt service for the first year in light of the unexpected financing needs for post-flood rehabilitation activities. In early 2001, AfDB granted a debt-service reduction of about 80 percent, applicable retroactively to April 2000. Other multilateral creditors have indicated their commitment to provide the required debt relief under the enhanced HIPC Initiative as soon as Mozambique successfully reaches the completion point.

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[8] This deferral was subsequently extended to end-December 2001 or the Completion Point under the enhanced HIPC Initiative whichever came sooner.

45. **IDA assistance**. Original HIPC Initiative assistance amounted to US$381 million in NPV terms. It was in part delivered during the first interim period (1998-99) by providing a grant in lieu of an IDA credit of US$154 million, an operation that provided an effective debt relief of about US$54 million in NPV terms. The remaining US$327 million was delivered after Mozambique reached its first completion point, using resources from the HIPC Trust Fund to purchase and cancel eight IDA credits at their net present value price, equivalent to a face value of about US$684 million. The enhanced HIPC Initiative assistance from IDA is being delivered through a 100 percent debt-service reduction in the first year and ongoing debt-service relief thereafter. Debt-service relief from IDA under the enhanced HIPC Initiative, which will become irrevocable when Mozambique reaches the completion point, will provide a cumulative debt service reduction of US$67 million through 2009. Direct debt-service savings for Mozambique from the original and enhanced HIPC Initiative will amount to US$875 million (including the revisions recommended in paragraph 57). Including the effect of the conversion of an IDA credit of US$154 million into a grant, the total savings to Mozambique amounts to US$1,055 million (Table 8).[9]

46. **Assistance from the Fund** under the original HIPC Initiative amounted to US$125 million in NPV terms and took the form of a grant from the PRGF/HIPC Trust deposited into an escrow account at the initial completion point in 1999. This amount, plus accrued interest, is being used to cover part of Mozambique's debt service to the Fund under an agreed schedule. The enhanced HIPC Initiative assistance from the Fund amounts to US$18.5 million, and is being delivered through the PRGF HIPC Trust in conjunction with the original HIPC Initiative assistance. In response to the exceptional financing needs in 2000 as a result of the floods, the IMF's assistance was front-loaded with 35 percent of total assistance under both the original and enhanced initiatives being delivered between 2000 and 2001. It is expected that the average savings from this assistance would amount to about 77 percent of the debt service due on obligations to the IMF between 2000 and 2009 (Table 9).

47. **African Development Bank Group (AfDB)**. At the end of 1999, AfDB cancelled 21 loans, including all outstanding nonconcessional loans, worth US$119 million in NPV terms to deliver the debt relief due under the original HIPC assistance. Under the enhanced HIPC Initiative framework, AfDB is providing interim relief backdated to the April 2000 decision point, yielding a debt service reduction of about 80 percent. The interim assistance would be followed by a commitment at the completion point to provide a further debt service reduction of 80 percent until the beginning of 2009. Combined with the assistance under the original HIPC Initiative assistance, the cumulative savings on debt service to the AfDB would amount to US$260 million until 2042, averaging about US$6 million annually.

48. **The European Union** is delivering its HIPC Initiative assistance through direct debt reduction worth US$23.8 million. The assistance under the original HIPC Initiative framework

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[9] The savings include the interest that would have been payable had the grant of US$154 million been provided as a credit.

(US$20.6 million in NPV terms) is being delivered through the full cancellation of five loans and partial reduction of one risk capital loan. At the completion point, the enhanced HIPC Initiative assistance would enable partial cancellation of more debt equivalent to US$3.2 million in NPV terms.

49. **IFAD and NDF** are using front-loaded, 100 percent relief of debt service due to provide their assistance under the original HIPC Initiative equivalent to US$12.6 million and US$2.4 million in NPV terms respectively. IFAD's assistance is administered through its own HIPC Trust Fund, which pays the debt service on behalf of Mozambique as it falls due until the Trust Fund resources for Mozambique are exhausted. NDF provides debt-service reduction in the same manner, but operates through the HIPC Trust Fund administered by the World Bank. Both IFAD and NDF have committed themselves to providing additional enhanced HIPC Initiative assistance at the completion point equivalent to US$1.9 million and US$0.4 million in NPV terms respectively. It is estimated that the debt-service reduction under both HIPC Initiative frameworks could be provided by IFAD and NDF until about 2012, with the cumulative debt-service savings amounting to US$17 million and US$4.5 million, respectively.

50. In 1999, **BADEA** delivered debt relief worth US$8.1 million in NPV terms, committed at the original decision point, and intends to combine the residual assistance from the original HIPC Initiative framework with the delivery of the enhanced HIPC Initiative assistance. The remaining HIPC Initiative assistance at the completion point, thus amounting to US$2.8 million, is assumed to be delivered through a further reduction in debt service. The cumulative assistance under the original and enhanced HIPC Initiative frameworks is expected to be US$19 million.

51. The Mozambican authorities are discussing with the **OPEC Fund** a revision of its original proposal, so as to consolidate assistance due under the enhanced HIPC Initiative. Assistance committed at the original decision point would have provided relief of about US$6.8 million in NPV terms; together with topping up committed at the completion point, this yields a required total under the original HIPC Initiative framework of US$7.7 million. A revised proposal would be expected to provide this NPV reduction of US$7.7 million under the original HIPC Initiative framework and a further US$1.2 million under the enhanced HIPC Initiative framework.

52. The **Islamic Development Bank** did not have any exposure to Mozambique at end-1998, the DSA reference year, and thus is not required to provide assistance to Mozambique under the HIPC Initiative.[10]

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[10] The outstanding debt to Islamic Development Bank at end-2000 amounted to US$3.7 million (US$1.9 million in NPV terms) stemming from disbursements made during 1999–2000.

Bilateral and commercial creditors

53. The Paris Club decided in July 1999 to grant Mozambique the full relief due under the original HIPC Initiative, consisting of a stock-of-debt operation with a 90 percent NPV reduction of eligible debt. In March 2000, the **Paris Club creditors** decided to provide exceptional relief as a response to the flood emergency, by providing a 100 percent debt-service deferral during the interim period under the enhanced HIPC Initiative, while also reaffirming their intention to provide a stock-of-debt operation at the completion point. This stock-of-debt operation, in conjunction with the assistance provided during the interim period, would deliver combined assistance under both HIPC Initiative frameworks worth US$962 million in NPV terms. The 100 percent deferral, granted initially for 15 months, has recently been extended until December 2001. A number of Paris Club creditors indicated that they would provide debt relief beyond that required under the terms of the HIPC Initiative (Table 10).

54. The Mozambican authorities solicited the participation of **non-Paris Club official creditors** in writing after Mozambique reached the completion point under the original HIPC Initiative, and again after the second decision point in 2000. Several creditors have responded positively, including South Africa, which cancelled all its public sector loans to Mozambique worth US$9 million. Mozambique also signed a bilateral agreement with Algeria on terms comparable to the Paris Club Lyons terms (80 percent NPV reduction). However, the authorities have suspended the implementation of this agreement, pending negotiations to secure a higher NPV reduction as required under the enhanced HIPC Initiative. Currently, the Fund for Arab Economic Development and Poland have indicated their intention to engage the Mozambican Government in negotiations for the delivery of HIPC Initiative assistance. However, despite their best efforts, the authorities have not been able to conclude satisfactory agreements with the other non-Paris Club bilateral creditors on comparable terms.[11]

55. The authorities are also exploring a possible use of the IDA Debt and Debt Reduction Facility to buy back and retire commercial debt that is in arrears and was not treated under Mozambique's first buyback of commercial debt in 1991. The IDA buyback, if approved, would aim to secure for Mozambique debt-reduction terms at least comparable to those required under the HIPC Initiative.

B. Data Reconciliation and Assistance

56. As part of the process of preparing the debt sustainability analysis, the staffs and the authorities solicited new creditor debt statements and reviewed the calculations of net present

[11] Actual debt-service payments to these creditors have been minimal pending agreements on debt relief. In 2000, Mozambique made no debt service payments to bilateral creditors except to those that had indicted their intention to engage in negotiations for the delivery of HIPC assistance.

value based thereon. Based on this review, some revisions to the debt outstanding as of end-1998 (after original relief) were considered to be warranted, specifically with regard to debt owed to a number of bilateral creditors. Overall, the revised NPV of debt outstanding at end-1998 after original HIPC Initiative relief is US$1,095 million, an increase of US$53 million over the amount indicated at the decision point (Table 11). The revisions relate both to Paris Club and non-Paris Club creditors and arise from new information on the amount or type of debt, as well as revisions to calculations.[12] The original data on debts to multilateral creditors were confirmed.

57. The staffs recommend that the decisions on debt relief under the enhanced HIPC Initiative be amended to take into account these data revisions. The amount of additional assistance, US$53 million in NPV terms as of the decision point, would be equivalent to 10 percent of exports in 1998 (on a three-year average basis), and would bring the NPV of the debt-to-export ratio as of the reference year to 150 percent, in line with the enhanced HIPC Initiative framework. The common reduction factor that would be applied by all creditors to their end-1998 NPV debt would become 72.7 percent (inclusive of assistance provided under the original framework), compared with 72.1 percent as agreed at the decision point. Financing assurances are being sought from Mozambique's other creditors for their participation in this amended assistance level. Strengthened professional training in the court and prison systems as well as physical improvements of the prison system have already begun, and would be expanded with the implementation of the strategic plan.

C. Updated Debt Sustainability Analysis

58. **This updated debt sustainability analysis (DSA) is based on a long-term macroeconomic framework developed jointly by the authorities, the Fund, and IDA staff.** This framework is derived from and extends the medium-term framework presented in Mozambique's first full PRSP (EBD/01/74, 8/29/01; IDA/SecM2001-0550).[13] The joint staff assessment of the PRSP, notes that there are risks to the ambitious growth target of 8 percent per annum established in the PARPA. In view of this, and in line with the slowdown in the growth rate in the outer years of the PARPA projection through 2010, a more cautious approach was taken as a central assumption for the purpose of assessing whether the level of debt and debt service is sustainable through 2020. The central scenario in the DSA therefore assumes that the growth rate averages 6.5 percent per annum through 2020. In addition, it is assumed that the nominal dollar value of external grants stabilizes at a somewhat lower level than projected in the PRSP. The detailed macroeconomic assumptions of the DSA are set out in Box 3, and the medium-term balance of payments in Table 12.

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[12] New information was obtained for Japan and Libya, and calculations were revised for China, Iraq, and Poland.

[13] The PRSP includes an annual projection for 2010, while this DSA is based on projections through 2020.

Box 3. Macroeconomic Assumptions Underlying the Debt Sustainability Analysis

The following assumptions have been made:

- **GDP grows at** 6.5 percent—somewhat lower than experienced during the period 1987-99. Unlike the 1990s when growth represented a bounce back from the war and structural reforms, growth in the next 20 years is projected to be driven by a substantial rise in investment (primarily foreign financed).
- Annual **inflation** is 5 percent, reflecting sound fiscal, monetary, and exchange rate policies.
- **Government revenues** rise from 12 percent of GDP in 2001 (Table 13) to 19 percent by 2020 as a result of reforms to the tax system, improved administration, and royalties from natural resource extraction projects.
- The **domestic primary fiscal deficit** including grants falls steadily to less than 1 percent of GDP in 2020.
- The **external current account deficit**, after grants, initially widens very sharply, reflecting imports for the construction of large projects before improving as exports from these projects come on line. From 2010 to 2020 the current account deficit will average 2 percent of GDP.
- **Exports of goods and nonfactor services (GNFS)** rise at an average of 18 percent a year through 2010 (reflecting large projects) and at 4 percent a year from 2011 to 2020, reflecting the lumpiness of large project exports.
- **GNFS exports excluding large projects** grow at an average rate of 8 percent through 2020, marginally lower than the 9.5 percent experienced over the last 10 years.
- The **current account deficit excluding** the impact of **large projects** narrows steadily over the period from just over 10 percent of GDP in 2001 to just over 6.5 percent of GDP in 2020, reflecting an improvement in domestic savings led by the public sector.
- The **capital account** surplus, which includes private inflows from the large projects, peaks at 34 percent of GDP in 2002 and averages 11 percent of GDP through 2010. From 2010 onward, the capital account is close to balance as amortization offsets new inflows.
- **Loans from the official sector** decline from their current level of 8 percent of GDP to 1 percent in 2020. The grant element of new debt declines from 60 percent to 50 percent.

59. **Under the enhanced HIPC Initiative framework, Mozambique's debt is projected to be reduced to sustainable levels.** The net present value (NPV) of Mozambique's official debt stood at US$3.4 billion at end-2000—after partial delivery under the original HIPC Initiative (Table 14). It is projected to fall in 2001 to US$1.1 billion after full delivery under traditional debt-relief mechanisms and original and enhanced HIPC Initiatives (Table 15). Bilateral relief beyond that required under the HIPC Initiative is projected to reduce the NPV of Mozambique's debt by a further US$140 million in 2001. The NPV of official debt is projected to rise gradually over the next twenty years as new debt is taken on—reaching US$2.1 billion by 2020. However, as a proportion of GDP, the NPV of official debt is projected to fall steadily from 28 percent in 2001–02 to 14 percent by 2020 (Table 16). Given that exports are expected to rise much faster than GDP as a result of a number of large foreign-

financed investment projects (Box 4), the ratio of NPV of debt-to-exports will fall even more sharply, from 114 percent in 2001 to 41 percent in 2020.

60. **Debt reduction is projected to keep official debt service within sustainable limits.** Prior to the HIPC Initiative assistance, in 1998, Mozambique's actual debt-service payments amounted to US$104 million (equivalent to 20 percent of exports of goods and nonfactor services). In response to the devastating floods that hit Mozambique in 2000, donors have heavily front-loaded their assistance in 2000 and 2001 as a result of which debt service has fallen to only US$18 million in 2000 and US$28 million in 2001. As this front-loading comes to an end, debt service rises but peaks at only 5 percent of exports (US$55 million) in 2002 before falling to 3 percent in 2020 (Table 17).

61. **As a check on the robustness of the projections, debt-service ratios were calculated excluding exports of large projects** (see Table 16). This was done because exports from the large projects have an unusually large import component and are associated with large private debt service. Thus a smaller proportion than usual of the export revenue could be considered "available" to finance debt service. Excluding exports of large projects from the denominator raises the debt-service ratio from 5 percent to 11 percent in 2002. This is still only 55 percent of the debt-service ratio before HIPC Initiative relief. The difference between these alternative measures of debt service declines over time as exports from large projects decline as a percentage of total exports. By 2020, the debt-service ratio excluding large projects is 6 percent, just 3 percentage points higher than debt service including large project exports.

62. **Although debt service is projected to be higher in relation to government revenues than projected at the time of the decision point for most of the period, it will be less than half the level without debt relief.** In 1998, debt service paid was 23 percent of revenues, excluding grants. If official grants were included in revenues, the ratio would have been only 13 percent. Since then, the sharp depreciation of the metical has reduced the dollar value of government revenues so that they are now 30 percent lower than projected at the time of the decision point.[14] Nevertheless, debt service is projected to be 7 percent of government revenues excluding grants in 2001 and 13 percent in 2002, when the full year effect of the depreciation is apparent and the deferral of debt service to Paris Club creditors comes to an end. As a result of steady GDP growth and tax reforms designed to increase the tax base and improve tax administration, tax revenues are projected to more than triple in dollar terms in the next ten years. Debt service as a percentage of revenues is projected to fall to below 6 percent by 2020.

[14] The projection assumes a constant real effective exchange rate from end-2001 onward.

Box 4. Implications of Large, Foreign-Financed Investment Projects in Mozambique

Aided by its proximity to South Africa, the return to operation of the Cahora Bassa hydroelectric power dam, and impressive structural reforms, Mozambique is one of the few HIPC countries to have attracted substantial foreign private sector investment. In 2001, an aluminum smelter worth US$1.3 billion was completed and six projects representing a further US$6.5 billion in foreign investment are in the pipeline. These projects will have a profound impact on economic growth and the balance of payments of Mozambique over the medium term. This debt sustainability analysis is based on the assumption that the six new projects are completed as planned, but it does not take into account a number of other possible projects that are being discussed but for which the necessary financing may not yet have been secured by the private investors.

The six new projects comprise the construction of the world's largest steel slab production facility, the extraction of natural gas, the construction of a gas pipeline to South Africa, mining, processing and smelting of titaniferous mineral sands, as well as the expansion of the MOZAL smelter and the hydroelectric power plant. Although most of the projects are expected to benefit from fiscal inducements, government policy is firmly opposed to providing any guarantees for the financing of the projects. It is estimated that revenues from the projects could reach 3 percent of GDP by 2010. The government's strategy, as set out in the PRSP, envisages that these projects will assist in the growth of development corridors linking Mozambique to South Africa and Zimbabwe.

Impact on the balance of payments

In the early stages of these projects, large-scale investment (with a substantial import component) is due to be financed by capital inflows (both borrowing and foreign direct investment). As the projects come onstream, exports will rise sharply—in 2010, exports from these large projects are projected to be nearly 30 percent of GDP. However, this positive impact on the balance of payments will be offset to a large extent by higher imports of raw materials and outflows in the form of interest payments and amortization on loans used to finance the project, as well as remittances of profits and wages of foreign workers. The net impact on the balance of payments, will, by 2010, be only 13 percent of the increase in exports. This relatively low net impact reflects the fact that the projects are import and capital intensive and will be built primarily by foreign workers and contractors.

Implications for private debt

While some of the investment in the large projects will be non-debt-creating foreign direct investment, roughly 60 percent of the inflows will be debt creating. Private borrowing has already risen from an average of US$36 million a year between 1990 and 1998 to an average of US$340 million in the last two years and is expected to average US$420 million in the next four years. While this investment promises to generate sufficient returns to enable the debt to be repaid, it illustrates the need for the authorities to improve their monitoring of private sector debt. The central bank is currently establishing a database to track private foreign debt that will allow the bank to observe if this debt reaches levels that could cause concern. Despite the projected sharp rise in the level of private debt, private debt service is projected to remain within reasonable bounds. Private sector debt service, which was 11 percent of exports of goods and nonfactor services in 2000, will rise to 20 percent before declining to 12 percent by 2020.

D. Comparison of Revised DSA with the DSA as of the Decision Point

63. **The debt sustainability analysis presented here has been revised from that done at the time of the decision point to take into account new data and new projections;** these reduced the NPV debt-to-exports ratio for 2000 from 163 percent estimated in April 2000 to 127 percent estimated now based on current exchange and discount rates. The revisions reflect new information on the debt stock in 1998, revisions to the macroeconomic and debt projects, pledges of additional assistance from bilateral creditors beyond HIPC Initiative relief, and the amended assistance under the enhanced HIPC Initiative in light of the revisions to the 1998 data. These elements are detailed below.

64. **The debt stock at the end of 2000 before assistance under the enhanced HIPC Initiative was higher by US$234 million than projected at the time of the decision point** (Table 18). As discussed in Section B, the estimated level of the debt stock at end-1998 was revised upward by US$53 million as a result of new information provided by creditors and revisions to the calculations. This carried over into a higher level in 2000. In addition, the impact of the Paris Club deferral and changes in the timing and modalities of delivery of bilateral assistance was to raise the end-2000 stock by about US$49 million. The NPV of new borrowing in 1999 and 2000 was higher by US$35 million than projected at the time of the decision point, adding further to the stock. In addition, there was an error in the methodology for incorporating new borrowing into the 2000 projections, which led to an underestimate in the projection for end-2000 of US$90 million at the time of the decision point.[15] The remaining difference of about US$7 million can be explained by changes in the timing and modality of the delivery of assistance from multilateral creditors.[16]

65. **Higher debt relief, a higher discount rate, and higher exports than projected at the time of the decision point offset these changes in the stock of debt at end-2000.** The staffs are recommending an increase in assistance under the enhanced HIPC Initiative of US$53 million to compensate for the revision to the end-1998 debt stock. Additional bilateral debt

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[15] These corrections affect the projection of the debt stock in 2000 but do not have an impact the level of debt in 1998 (the reference year for the calculation of enhanced HIPC Initiative relief).

[16] The projection for the NPV of debt at end-2000 made at the decision point assumed as a convention that debt relief was delivered as of the reference year, that is, end-1998. However, the HIPC Initiative framework more precisely provides for debt relief to have been delivered at the completion point under the original HIPC Initiative (i.e., July 1999) and as of the decision point under the enhanced framework (i.e., April 2000). The difference between the assumed delivery dates and those that actually apply imparted a downward bias to the projection of debt remaining after debt relief. In addition, Mozambique received more interim assistance than projected. To the extent that this was in the form of debt-service reduction rather than a change to the stock of debt, it means that the NPV of relief post-2000 is higher than previously projected.

relief beyond the HIPC Initiative is expected to reduce the debt stock in NPV terms by US$138 million calculated at end-2000. The discount rate and exports of goods and nonfactor services are also higher than those projected at the time of the decision point. The net impact is that the NPV of debt is now estimated to be 127 percent of exports.

66. **The sharp depreciation of the metical against the dollar in 2000-01 and the lower-than-projected growth in 2000 mean that GDP in dollars in 2001 is projected to be US$3,309 million compared with US$4,698 million forecast at the time of the decision point (a reduction of 30 percent).** Debt service as a percentage of GDP is consequently higher. GDP estimates for years have been revised to reflect the impact of the large projects that is captured by the authorities projections for the PRSP, and new work by the World Bank on potential growth including an assessment of the impact of HIV/AIDS. [17] The net effect is an upward revision of the average annual growth rate over the period through 2020 from 6 percent to 6.5 percent.[18]

67. **Projections for exports have been revised upwards to reflect new information on large projects.** Exports in 2001 are now projected to be US$1,081 million compared to US$823 million at the time of the decision point—reflecting the completion of the MOZAL aluminum smelter ahead of schedule. Other large projects help to boost projected exports to US$4 billion by 2010, compared to just over US$2 billion at the time of the decision point.

68. **Government revenue (expressed in U.S. dollars) is expected to be 30 percent lower in 2001 than projected at the time of the decision point—primarily because of the depreciation of the metical.** Revenues are thereafter projected to grow at a marginally lower rate than assumed at the time of the decision point. This is despite the higher growth rate and reflects the fact that a higher proportion of the growth will come from the large projects, which will generate less revenue per dollar of GDP than other sources of growth. As a result, revenues are 60 percent of those projected at the time of the decision point by the end of the period.

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[17] "Country Economic Memorandum: Growth Prospects and Reform Agenda," (20601-MZ). The impact of HIV/AIDS on the growth rate in Mozambique is still very uncertain. However, work on the impact of the disease in South Africa, which was used in the CEM suggests that it could reduce growth by around 1 percent of GDP a year. Although the prevalence rate in Mozambique is similar to that in South Africa, the structure of the economy is very different suggesting that the impact may be rather different in Mozambique. The government is currently undertaking further analysis to estimate the likely impact of the disease on growth in Mozambique.

[18] The DSA undertaken at the time of the decision point terminated in 2017, while the current projection extends to 2020.

69. **As a result of these revisions, debt service as a percentage of exports is projected to be lower for most of the period than projected at the time of the decision point** while debt service as a percentage of government revenues is forecast to be higher for most of the period. By 2017, debt service is projected to be 2.7 percent of exports and 6.0 percent of revenues, compared with 3.4 percent and 3.0 percent, respectively, at the time of the decision point.

E. Sensitivity Analysis

70. **The projections presented above are subject to a number of risks including, in particular, the possibility of lower growth, less foreign investment, and more limited grant funding from donors.** This section examines the implications for debt sustainability under more pessimistic assumptions than included in the baseline. Two specific scenarios are analyzed below. The first examines the likely impact of lower growth and lower exports on the balance of payments and debt service indicators. The second looks at the case where a larger proportion of government assistance comes in the form of concessional loans and less is in the form of grants. Given the large cushion created by the exports from the large projects, the debt service to export ratios is very healthy for most of the period but under both scenarios starts to climb from 2010 onward. In comparison, debt service as a percentage of revenues declines more slowly but also rises less in later years under both scenarios (Table 19 and Figure 1).

Scenario 1: lower growth

71. **While Mozambique has experienced impressive rates of growth of income and exports over the last 10 years, the country is vulnerable to natural disasters and has a high and growing incidence of HIV infection.** Both these factors have been incorporated into the baseline macro framework but their impact is difficult to estimate. It is therefore possible that income and exports will grow more slowly than projected. Under the scenario presented here, it is assumed that one of the large projects is not completed. In addition, exports of goods and nonfactor services excluding large projects grow at an average of 8 percent a year compared with 9 percent under the baseline. Imports, including imports of raw materials, are also somewhat lower. GDP grows at 5 percent, compared with 6.5 percent under the baseline. The net impact is a current account surplus excluding interest of 3 percent, by 2010 compared to a surplus (excluding interest) of 5 percent of GDP under the baseline. It is assumed that the shortfall in the current account is accompanied by higher borrowing from the official sector. It is assumed that the authorities will not be able to secure this additional borrowing on as good terms as under the baseline and that, as a result, the average grant element of new borrowing falls from 54 percent under the baseline to 51 percent in this scenario. This higher borrowing requires US$100 million in additional debt-service payments by 2020.

72. **Under this scenario, debt service rises steadily from 2010 (when the export growth from the large projects slows down).** While the 6 percent level in 2020 is not a cause for concern, the upward trend could be. In comparison, because the growth in revenues comes later in the period than the growth in exports (both in the baseline and this scenario) and

therefore coincides with the increase in debt service, the ratio of debt service to revenues rises less rapidly than the debt-service ratio in outer years.

Scenario 2: lower grants and more foreign borrowing

73. **Mozambique has benefited from unusually high levels of foreign assistance, and particularly grants, over the last ten years.** This level of assistance reflects Mozambique's low level of income per capita, the need to rebuild following the devastating civil war and natural disasters, as well as an impressive record of political and economic reform. Foreign assistance[19] is projected to represent 21 percent of GDP in 2001, with 64 percent of this assistance coming in the form of grants. The baseline projection assumes a decline in assistance as a percentage of GDP to 10 percent in 2010 and 2 percent in 2020. The proportion of assistance represented by grants, however, is projected to remain roughly constant reflecting the intention of the government, as set out in the PRSP, to keep its foreign borrowing, even on concessional terms, to a minimum.

74. **It is possible, however, that Mozambique will not be able to attract the projected level of grants and will have to rely on a higher level of foreign borrowing.** Under scenario 2, it is assumed that grants fall to US$300 million in 2005 and US$100 million by 2015 and then stay constant in nominal terms (compared with US$350 million throughout the period under the baseline). Thus grants are 6 percent of GDP in 2005 and 1 percent of GDP by 2020. The shortfall is made up by additional borrowing. As in scenario 1, this additional borrowing is assumed to be secured on less concessional terms with the average grant element falling to 49 percent. Additional borrowing is also required to cover the higher debt-service costs with total debt service US$140 million above the baseline by 2020.

75. **While debt service is higher than under scenario 1, exports are the same as under the baseline so that the debt-service ratio is between that under the baseline and scenario 1.** Both the debt-service ratio and debt service-to-revenues ratios, while well below the current levels, are on an upward trend from 2013 onward.

76. **This sensitivity analysis underlines the importance of Mozambique following prudent debt management polices.** In particular, to avoid a new build up in debt, the authorities will need to continue to rely on grants and highly concessional loans.

IV. Conclusions

77. **The staffs of the Fund and IDA consider that Mozambique has met the conditions established in April 2000 for reaching the completion point.** Mozambique's adjustment and reform efforts since the decision point have been satisfactory, and its progress in poverty reduction has been broadly acceptable. All quantitative performance criteria under the PRGF arrangement have been met through end-June. There were some delays in structural policy

[19] Grants and foreign borrowing from official sources.

implementation. However, on the most important of these, the difficult and multifaceted policy challenge of resolving a large insolvent bank, the authorities have worked closely with the staff of the Bank and the Fund to find an appropriate and cost effective way forward. Performance under the IDA lending program has also been satisfactory. Sharp increases in spending on priority programs, which will supported by further improvements in the monitoring of these expenditures, and improvements in key social indicators also attest to the authorities' progress in poverty reduction. Mozambique has also prepared it first full PRSP, which the staffs consider provides an adequate framework for continued support under the PRGF and IDA. Finally, Mozambique has also made satisfactory progress on a key set of policy reforms. All of these have been completed as indicated above. As regards the adoption of a strategic plan for the judicial system and new regulations for the telecommunications sector, the staffs consider that the progress made so far is adequate to constitute observance of the understandings at the decision point.

78. **The updated debt sustainability analysis indicates that, based on revised debt data and calculations, the NPV of debt at end–1998 (after full application of traditional relief) has been revised upwards by US$53 million**, equivalent to 10 percent of exports in 1998 (three-year average). Consequently, an upward revision of enhanced assistance of US$53 million is recommended to achieve the target NPV of debt-to-export ratio of 150 percent as of the decision point.

79. **Participation by creditors in delivering assistance under the original HIPC Initiative framework has been very broad**, with only a few non-Paris Club creditors yet to conclude agreements. Assurances have been obtained regarding participation in the enhanced Initiative from creditor representing more than 80 percent of the relief to be provided. Assurances regarding the amended amounts recommended in this paper are also being sought. It is anticipated that all necessary satisfactory assurances will be in place by mid-September.

80. **The staffs consider that with the assistance provided under the original framework and expected to be provided under the enhanced Initiative Mozambique will achieve a sustainable debt and debt service profile**. After full delivery of enhanced HIPC Initiative assistance, the NPV of debt would remain well under 150 percent of exports; possible additional debt relief from some Paris Club creditors would reduce the debt ratio below 120 percent from 2001 affording some additional margin for Mozambique to accommodate possible unfavorable developments. Accordingly, there is no issue of topping up of enhanced HIPC Initiative relief on the basis of the DSA at the completion point, as the debt ratios are below the enhanced Initiative's sustainability thresholds and there has not been a fundamental worsening of Mozambique's economic circumstances due to the adverse impact of exogenous shocks. While the sensitivity analysis provides some confidence that the debt position is robust to exogenous shocks, Mozambique will remain dependent on substantial concessional assistance over the medium term. In addition, economic performance will need to be carefully monitored and the macroeconomic policies adapted appropriately if growth, and, hence, revenue performance, fall short of expectations.

81. **In the light of the above, the staffs of the IMF and IDA *recommend that the* Executive Directors determine that the conditions for reaching the completion point under the enhanced HIPC Initiative have been met, once they have endorsed the joint staff assessment of the PRSP.**

V. Issues for Discussion

Executive Directors may wish to focus on the following issues and questions:

- Do Directors agree with the proposed revision to the enhanced HIPC Initiative debt relief agreed to at the decision point?

- Do Directors agree that Mozambique has met the floating conditions for reaching the completion point?

- Do Directors agree that assistance agreed at the decision point (as revised) will provide Mozambique with a solid basis for debt sustainability over the medium term, within the framework of the HIPC Initiative, as discussed in Section III?

- Do Directors agree that Mozambique should continue to seek debt relief from its non-Paris Club creditors within the framework of the HIPC Initiative and that the staffs should continue to monitor the delivery of debt relief from all creditors?

- Do Directors agree with Mozambique's plans to strengthen debt-management capacity and policy, and that it is appropriate for Mozambique to continue to rely on concessional assistance to meet its development requirements?

Table 4. Comparison of Discount Rate and Exchange Rate Assumptions at end-1998 and end-2000 1/

	Discount Rates 1/ 2/ (In percent per annum)		Exchange Rates 2/ (Currency per U.S. dollar)	
	At Completion Point	At Decision Point	At Completion Point	At Decision Point
Currency				
Austrian schilling	6.25	5.28	14.79	11.75
Belgian franc	6.25	5.59	43.35	34.57
Canadian dollar	7.00	6.25	1.50	1.53
Swiss franc	5.33	4.05	1.64	1.38
Chinese yuan	6.09	5.25	8.28	8.28
Deutsche mark	6.25	5.16	2.10	1.67
Danish kroner	6.73	5.64	8.02	6.39
Domestic currency: Metical	6.09	5.25	17140.50	12,322.21
European currency unit	6.25	5.00	1.07	0.86
Spanish peseta	6.25	5.31	178.81	142.61
Finnish markaa	6.25	5.35	6.39	5.10
French franc	6.25	5.36	7.05	5.62
Indian rupee	6.09	5.25	46.75	42.48
Iraqi dinar	6.09	5.25	0.31	0.31
Irish punt	6.25	5.33	0.85	0.67
Italian lira	6.25	5.58	2080.89	1,653.10
Japanese yen	2.03	2.22	114.90	115.60
Kuwaiti dinar	6.09	5.25	0.31	0.30
Netherland guilder	6.25	5.78	2.37	1.89
Norwegian kroner	8.02	6.54	8.85	7.60
Portuguese escudo	6.25	5.25	215.46	171.83
Russian rubble	7.19	6.23	0.60	0.60
Special drawing rights	6.09	5.25	0.77	0.71
Swedish kroner	6.20	5.66	9.54	8.06
United Kingdom pound sterling	6.73	6.81	0.67	0.60
United States dollar	7.19	6.23	1.00	1.00
Memorandum item:				
Paris Club cut-off-date is February 1, 1984				

Sources: OECD; and IMF, *International Financial Statistics.*

1/ The discount rates used are the average commercial interest reference rates (CIRRs) for the respective currencies over the six-month period ending in December 2000 for the completion point and in December 1998 for the decision point.

2/ For all currencies for which the CIRRs are not available, the SDR discount rate is used as the proxy.

Table 5: Mozambique - Status of Creditor Participation Under the Original HIPC Initiative

	Debt Relief *in NPV Terms* (US$ mil.)	*Percentage of* Total Assistance	*Satisfactory* Reply	Modalities To Deliver Debt Relief	Implemented
IDA 1/	353	20.6	Yes	An IDA grant of US$154 million (equivalent to the provision of US$54 million of debt relief in NPV terms) was provided during the interim period. An additional US$327 million of debt relief (in NPV terms) was provided by the HIPC Trust Fund, drawing on IBRD net income transfers, through purchase and cancellation of 8 IDA credits.	Yes
AfDB Group	120	7.0	Yes	The African Development Bank Group purchased and cancelled 21 loans (7 AfDB loans and 14 AfDF credits) with a face value of US$221 million to deliver the full NPV relief required. This required the use of AfDB's own contribution of UA 33 million (equivalent to about US$45 million), as well as a grant from the HIPC Trust Fund of US$87 million to the AfDB to support this operation.	Yes
IMF 1/	115	6.7	Yes	HIPC assistance is being provided through debt service reduction, using a grant from HIPC/PRGF Trust deposited into an escrow account in the name of the government.	Yes
EU / EIB	21	1.2	Yes	Debt relief is being provided through combination of cancellation of outstanding balances of 5 loans and a partial cancellation on a risk capital loan.	Yes
IFAD	13	0.7	Yes	Debt service is limited to a token US$30,000 per year with the rest being forgiven until the required NPV debt reduction is achieved. Mozambique would resume payments under normal terms thereafter.	Yes
BADEA	10	0.6	Yes	Debt relief of US$8.1 million in NPV terms was provided through concessional rescheduling of the disbursed and outstanding balances of seven loans at a reduced interest rate of 0.5 percent with a maturity of 33 years, including a six-year grace period. The remainder is expected to be provided in combination with the enhanced HIPC relief at the completion point, yielding a reduction in the NPV of debt of US$2.8 million.	Yes
OPEC Fund	8	0.4	Yes	The original debt relief proposed by the OPEC Fund included a combination of extension of maturity on selected loans as well as provision of a concessional loan to be used for debt service. The Government is discussing the possibility of obtaining the original and enhanced HIPC assistance in one debt restructuring operation.	No
Nordic Development Fund	2.4	0.1	Yes	Debt service due from Mozambique is being paid by the NDF through the HIPC Trust Fund, using the funds initially deposited by NDF into the HIPC Trust Fund plus the accrued interest.	Yes
Islamic Development Bank	0	0.0	Not applicable	Islamic Development Bank did not have any exposure to Mozambique at the completion point, and was not required to provide any relief under the HIPC Initiative.	Not applicable
Total Multilateral 1/	**641**	**37**			
Paris Club Creditors	845	49.3	Yes	Stock-of-debt operation under Lyon terms (80 percent NPV reduction) on October 30, 1998.	Yes
Non-Paris Club Creditors	190	11.1			
Algeria			Yes	Flow rescheduling under Lyon terms	Yes
Poland			Yes	Poland indicated that it will initiate bilateral discussions to provide HIPC relief to Mozambique.	No
South Africa			Yes	All official loans to Mozambique has been cancelled after the original completion point.	Yes
Others			No	Being contacted by Mozambique	No
Commercial Creditors	41	2.4	No	Being contacted by Mozambique	No
Total Bilateral and Commercial 1/	**1076**	**63**			
TOTAL	**1716**	**100**			

Source: "HIPC Debt Initiative, The Chairman's Summary of the Multilateral Development Banks' Meeting – March 14-15, 2001", IDA/SecM2001-0225, March 28, 2001; and Bank/Fund staff estimates.

1/ Amounts shown for bilateral creditors include, and for IDA and IMF exclude, US$29 million and US$10 million in NPV terms committed by IDA and IMF respectively as part of the gap-filling exercise at the decision point under the original HIPC Initiative.

Table 6: Mozambique - Status of Creditor Participation Under the Enhanced HIPC Initiative

	Debt Relief in NPV Terms (US$ mil.)	Percentage of Total Assistance	Satisfactory Reply	Modalities To Deliver Debt Relief	Implemented
IDA	52.4	20.6	Yes	HIPC assistance is currently being provided through an interim debt service reduction covering 100 percent of debt service due between April 2000 and March 2001, and 50 percent of debt service due until Mozambique reaches the completion point. The irrevocable delivery of completion point HIPC assistance would enable the 50 percent debt service reduction to continue until 2009.	Yes
AfDB Group	18.8	7.4	Yes	Debt service reduction of about 80 percent starting at the decision point until the beginning of 2009, part of which would be made irrevocable when Mozambique reaches the decision point. The relief under this modality is expected to be funded through the HIPC Trust Fund and AfDB's own resources.	Yes
IMF	15.6	6.1	Yes	HIPC assistance is being provided through debt service reduction, including a 100 percent debt service reduction in the first year to support the Government's flood rehabilitation. The assistance is being provided using a grant from HIPC/PRGF Trust.	Yes
EU / EIB	3.2	1.3	Yes	Debt relief to be provided through a partial cancellation on a risk capital loan at the completion point.	No
IFAD	1.9	0.8	Yes	Debt service is limited to a token US$30,000 per year with the rest being forgiven until the required NPV debt reduction is achieved. This relief, to be provided at the completion point, would extend the debt service reduction period granted under the original framework.	No
BADEA	1.2	0 5	Yes	BADEA management has indicated its intention to provide the topped-up relief under the original HIPC framework as well as the enhanced HIPC assistance at the completion point. The modality of debt relief is expected to be similar to the original framework.	No
OPEC Fund	1.2	0 5	Yes	The original debt relief proposed by the OPEC Fund included a combination of extension of maturity on selected loans as well as provision of a concessional loan to be used for debt service. The Government is discussing the possibility of obtaining the original and enhanced HIPC assistance in one debt restructuring operation.	No
Nordic Development Fund	0.4	0.2	Yes	Debt service due from Mozambique is being paid by the NDF through the HIPC Trust Fund, using the funds initially deposited by NDF into the HIPC Trust Fund plus the accrued interest. The enhanced HIPC assistance would allow the debt service reduction to be extended by [4] years.	No
Islamic Development Bank	0.0	0 0	Not applicable	Islamic Development Bank did not have any exposure to Mozambique at the completion point, and was not required to provide any relief under the HIPC Initiative.	Not applicable
Total Multilateral	94.7	37			
Paris Club Creditors	125	49 2	Yes	Total deferral of debt service until the completion point under the enhanced HIPC framework.	Yes
Non-Paris Club Creditors	28	11.1			
Algeria			No	Flow rescheduling under Lyon terms; Mozambique is requesting enhanced HIPC assistance.	Yes
Poland			Yes	Poland indicated that it will initiate bilateral discussions to provide HIPC relief to Mozambique.	No
South Africa			Yes	All official loans to Mozambique has been cancelled after the original completion point.	Yes
Others			No	Being contacted by Mozambique	No
Commercial Creditors	6	2.4	No	Being contacted by Mozambique	No
Total Bilateral and Commercial	159	63			
TOTAL /1	254	100			

Source: "HIPC Debt Initiative, The Chairman's Summary of the Multilateral Development Banks' Meeting – March 14-15, 2001", IDA/SecM2001-0225, March 28, 2001; and Bank/Fund staff estimates.

1/ The total HIPC assistance presented here correspond to the amount committed at the decision point under the enhanced HIPC framework, and does not reflect the additional US$53 million required as a result of decision point data revision.

Table 7. Mozambique: Estimated Assistance at Enhanced Decision Point (amended) 1/
(In millions of U.S. dollars in NPV terms at end-1998, unless otherwise indicated)

HIPC Initiative Framework	NPV of debt-to-Exports Target (percent)	Assistance 2/ 3/							Common Reduction Factor (percent of end-1998 NPV of debt)
		Total	Bilateral 4/	Multilateral	*Of which*				
					IDA	IMF	AfDB	Other	
Original Framework	200	1,716	1,076	641	352	115	119	55	62.8 5/
Enhanced Framework (Decision Point document)	150	254	159	95	53	16	19	8	
Enhanced Framework (amended)	150	306	194	112	62	18	22	9	
Total (amended)	150	2,023	1,270	753	414	133	141	64	72.7
Memorandum items									
NPV of debt at end-1998 2/		2,784	1,764	1,019	564	168	202	86	
Paris Club (incl. Brazil)		...	1,386	...					
Of which: pre-cutoff date debt		...	1,144	...					
Non-Paris Club & Commercial		...	378	...					
Of which: pre-cutoff date debt		...	349	...					
3-year average of exports (1996-98)		507	...	...					
NPV of debt-to-exports ratio 6/		549	...	...					

Sources: Mozambican authorities; 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/ Based on latest data available at end-1998 after full application of traditional debt relief mechanisms.

3/ Amounts shown for bilateral creditors include, and for IDA and IMF exclude, US$29 million and US$10 million in NPV terms committed by IDA and IMF respectively as part of the gap-filling exercise at the decision point under the original HIPC Initiative.

4/ Includes official bilateral and commercial creditors.

5/ The reduction factor for multilateral creditors under the original HIPC Initiative, based on end-1997 data, was 75.5 percent.

6/ In percent of three-year export average.

Table 8. Mozambique: Delivery of IDA Assistance Under the Original and Enhanced HIPC Initiative, 1999-2035

(In millions of U.S. dollars, unless otherwise indicated)

	NPV relief required	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulative 2011-23	Cumulative 2024-35	Cumulative 1999-2035
Debt service before HIPC Assistance 1/		15.6	19.8	20.5	22.9	27.0	30.6	34.5	35.7	37.5	39.9	42.1	45.9	748.3	498.5	1618.7
Debt Service after HIPC Assistance																
Original HIPC Framework		10.9	9.0	9.6	10.3	12.5	14.3	15.6	16.3	17.4	18.1	19.5	22.0	373.0	275.4	824.0
Original & Enhanced HIPC Framework		10.9	1.7	3.6	3.8	4.8	5.6	6.2	6.8	7.1	6.9	16.4	22.0	373.0	275.4	744.2
Savings on debt service to IDA																
Original HIPC Framework 2/ 3/	381	4.7	10.8	10.8	12.6	14.4	16.3	18.9	19.4	20.1	21.8	22.6	23.9	375.3	223.0	794.8
Enhanced HIPC Framework	63	0	7.3	6.1	6.5	7.7	8.7	9.4	9.5	10.3	11.3	3.1	0.0	0.0	0.0	79.8
Original & Enhanced HIPC Framework	444	4.7	18.1	16.9	19.2	22.1	25.0	28.3	28.9	30.4	33.1	25.7	23.9	375.3	223.0	874.6
Savings as percent of debt service due																
Original HIPC Framework		30	55	53	55	53	53	55	54	54	55	54	52	50	45	49
Original & Enhanced HIPC Framework		30	91	83	84	82	82	82	81	81	83	61	52	50	45	54

Source: IDA staff estimates.

1/ Debt service due based on end-2000 stock of existing credits, and credits purchased and cancelled by the HIPC Trust Fund under the original HIPC framework.
2/ Required NPV reduction under the original HIPC Initiative was achieved through a purchase and cancellation of 8 credits (NPV reduction US$327 million) by the HIPC Trust Fund, and a US$150 million IDA grant provided to Mozambique in 1999 with an NPV value of $54.22 million.
3/ The relief under the original HIPC framework (US$381 million in NPV terms) includes an additional contribution of US$29 million in NPV terms committed by IDA toward filling the financing gap.

Table 9. Mozambique: Delivery of IMF Assistance under the HIPC Initiative 1/

(In millions of SDRs, unless otherwise indicated)

	Actual												
	2000	2001			2001	2002	2003	2004	2005	2006	2007	2008	2009
		Jan. -Mar.	Apr.-Aug.	Sep.-Dec.	Est. Total								
Profile of total assistance under the HIPC(original and enhanced; in percent)	19.4	2.1	5.6	8.0	15.7	10.6	7.0	7.5	9.5	9.7	6.7	3.6	0.6
Delivery schedule of IMF assistance: original HIPC Initiative (in percent)	20.2	2.1	6.3	6.5	14.9	10.0	7.0	7.6	9.7	10.0	6.5	3.1	--
Delivery schedule of IMF assistance: enhanced HIPC Initiative (in percent)	13.9	2.2	0.7	18.1	21.1	15.0	7.0	7.0	8.0	8.0	8.0	7.0	5.0
Debt Service due on current IMF obligations 2/	23.0	3.1	9.5	9.1	21.7	17.6	15.2	15.6	17.0	15.7	11.8	8.0	2.9
Principal - as of second decision point	22.2	3.1	9.1	8.8	21.0	17.1	14.8	15.3	16.8	15.5	11.8	8.0	2.9
Interest	0.8	--	0.4	0.3	0.7	0.5	0.4	0.3	0.2	0.2	0.1	0.0	0.0
IMF assistance--deposits into member's account													
Completion point assistance - Original HIPC 3/	93.2												
Interim assistance - Enhanced HIPC	2.3												
Completion point assistance - Enhanced HIPC 4/				11.4									
IMF assistance under original HIPC Initiative	21.0	2.7	8.6	6.0	17.4	12.3	8.9	9.1	10.7	10.5	6.8	3.2	0.1
IMF assistance without interest	18.9	2.0	5.8	6.0	13.8	9.3	6.5	7.1	9.0	9.3	6.1	2.9	--
Interest earnings	2.1	0.8	2.8	--	3.6	3.0	2.4	2.0	1.6	1.2	0.7	0.3	0.1
IMF assistance under enhanced HIPC Initiative 5/	2.0	0.3	0.2	2.5	3.0	2.5	1.7	1.6	1.4	1.3	1.3	1.1	0.8
IMF assistance without interest	1.9	0.3	0.1	2.5	2.9	2.1	1.0	1.0	1.1	1.1	1.1	1.0	0.7
Estimated interest earnings	0.1	0.0	0.1	--	0.1	0.4	0.7	0.6	0.3	0.2	0.2	0.1	0.1
Total IMF assistance under the HIPC Initiative	23.0	3.1	8.8	8.5	20.4	14.8	10.6	10.6	12.0	11.8	8.0	4.3	0.8
IMF assistance without interest	20.8	2.3	5.9	8.5	16.7	11.4	7.5	8.0	10.1	10.4	7.2	3.8	0.7
Estimated interest earnings	2.2	0.8	2.9	--	3.6	3.4	3.1	2.6	1.9	1.4	0.9	0.4	0.1
Debt service due on current IMF obligations after IMF assistance 5/	--	--	0.7	0.6	1.3	2.8	4.6	5.0	5.0	3.9	3.8	3.7	2.1
Share of debt service due on current IMF obligations covered by IMF assistance (in percent) 5/	100.0	100.0	92.6	93.8	94.1	84.1	69.5	68.0	70.6	75.4	67.8	53.3	28.1
Memorandum Items:													
Proportion (in percent) of each repayment falling due during the period to be paid by IMF HIPC Initiative assistance from the principal deposited in member's account	93.8	74.2	65.3	96.7	79.8	66.4	50.5	52.5	60.3	67.0	60.8	48.2	23.4
of which: under the original HIPC Initiative	85.1	64.2	64.2	68.5	66.0	54.4	44.0	46.2	53.8	60.0	51.5	36.2	--
Total debt service due (millions of U.S. dollars) 6/	118.7	42.6	71.0	56.8	170.5	185.7	187.4	187.9	193.2	193.5	177.3	178.7	176.9
of which: debt service due on IMF obligations (millions of U.S. dollars)	29.5	3.9	12.2	11.7	27.8	22.6	19.5	20.1	21.9	20.1	15.2	10.3	3.8
Debt service due on current IMF obligations after IMF assistance 5/													
In millions of U.S. dollars	--	--	0.9	0.8	1.7	3.5	5.8	6.3	6.3	4.8	4.8	4.7	2.6
In percent of exports	--	--	0.2	0.2	0.2	0.3	0.5	0.3	0.2	0.2	0.2	0.1	0.1
Share of total debt service covered by IMF assistance (in percent) 5/	24.8	9.2	15.9	19.2	15.3	10.3	7.3	7.4	8.1	7.9	5.9	3.1	0.7

Source: Member authorities; and Fund staff estimates.

1/ Total IMF assistance under the HIPC Initiative is SDR 106.9 million calculated on the basis of data available at the enhanced HIPC decision point, excluding interest earned on member's account and on committed but undisbursed amounts as described in footnotes 4 and 5. Please note, the monthly breakdown for 2001 is presented to show the delivery of 100 percent of debt service coverage through early 2001, and the delivery prior to and after the proposed completion point in September 2001.

2/ Forthcoming obligations estimated based on rates and principal schedules in effect as of March 31, 2000 (excluding debt service due on the PRGF disbursement of SDR 36.8 million approved on March 27, 2000). Interest obligations include SDR Department charges and fees.

3/ Amount of assistance actually disbursed into member's account at original HIPC completion point in June 1999.

4/ A final disbursement of SDR 11,415,709 assumed to be disbursed into member's account at the enhanced HIPC completion point in September 2001.

5/ Includes estimated interest earnings on: (1) amounts held in member's account; and (2) amounts committed but not yet disbursed up to the second completion point. It is assumed that these amounts earn a rate of return of 5 percent in SDR terms; actual interest earnings may be higher or lower. Interest accrued on (1) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward the repayment of obligations falling due during the three years after the completion point.

6/ After traditional debt relief mechanisms.

Table 10. Paris Club Creditors' Delivery of Debt Relief Under Bilateral Initiatives Beyond the HIPC Initiative

	Countries Covered	ODA (In percent)		Non-ODA (In percent)		Provision of Relief	
		Pre-COD	Post-COD	Pre-COD	Post-COD	Decision Point	Completion Point
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Australia	HIPCs	100	100	100	100 1/	1/	1/
Austria	HIPCs (case-by-case)	Case-by-case (100)	Case-by-case (100)	Case-by-case (100)	-	Case-by-case	Case-by-case
Belgium	HIPCs	100	100	Case-by-case	-	flow	Stock
Canada	HIPCs 2/	- 3/	- 3/	100	100	100 flow	Stock
Denmark	HIPCs	100	Case-by-case	-	-	-	Stock
France	HIPCs	100	100	100	-	100 flow 7/	Stock
Finland	HIPCs	95	98	-	-	-	-
Germany	HIPCs	100	100	100	-	100 flow	Stock
Ireland	-	-	-	-	-	-	-
Italy	HIPCs	100	100	100	100	100 flow	Stock
Japan	HIPCs	100	100	100	-	-	Stock
Netherlands	HIPCs	100	100	100	-	90–100 flow 5/	Stock 5/
Norway	HIPCs	- 3/	- 3/	100	100 8/	100 flow	Stock
Russia	Case-by-case	-	-	-	-	-	Stock
Spain	HIPCs	100	Case-by-case	Case-by-case	Case-by-case	-	Stock
Sweden	Case-by-case	- 3/	- 3/	Case-by-case (100)	-	-	Stock
Switzerland	HIPCs	- 3/	- 3/	Case-by-case	Case-by-case	Case-by-case, flow	Stock
United Kingdom	HIPCs	100	100	100	100 6/	100 flow 6/	Stock
United States	HIPCs	100	100	100	100 4/	100 flow	Stock

Source: Paris Club Secretariat.

1/ Australia: (a) post-COD non-ODA relief to apply to debts incurred before a date to be finalised; (b) timing details for both flow and stock relief are to be finalised.

2/ Canada: including Bangladesh. Canada has granted a moratorium of debt service as of January 2001 on all debt disbursed before end-March 1999 for 11 out of 17 HIPCs with debt service due to Canada. The debt will be written off at the completion point. The countries to be covered are: Benin, Bolivia, Cameroon, Ethiopia, Guyana, Honduras, Madagascar, Mali, Sengal, Tanzania, and Zambia.

3/ 100 percent of ODA claims have already been cancelled on HIPCs, with the exception of Myanmar's debt to Canada.

4/ United States: 100 percent post-COD non-ODA treated on debt assumed prior to 06/20/99 (the Cologne Summit).

5/ The Netherlands: (a) ODA: 100 percent ODA pre- and post-cutoff date debt will be cancelled at decision point; (b) non-ODA: in some particular cases (Bolivia, Burkina Faso, Mali, Ethiopia, Nicaragua, and Tanzania), the Netherlands will write off 100 percent of the consolidated amounts on the flow at decision point; all other HIPCs will receive interim relief up to 90 percent reduction of the consolidated amounts. At completion point, all HIPC countries will receive 100 percent cancellation of the remaining stock of the pre-COD debt.

6/ United Kingdom: "beyond 100%": full write-off of all debts of HIPCs as of their decision points, and reimbursement at the decision point of any debt service paid before the decision point.

7/ France: cancellation of 100 percent of debt service on pre-cutoff date commercial claims as they fall due starting at the decision point.

8/ On debt assumed before December 31, 1997.

Note: Columns (1) to (7) describe the additional debt relief provided following a specific methodology under bilateral initiatives and need to be read as a whole for each creditor. In column (1), "HIPCs" stands for eligible countries effectively qualifying for the HIPC process. A "100 percent" mention in the table means that the debt relief provided under the enhanced HIPC framework will be topped up to 100 percent through a bilateral initiative.

Table 11. Mozambique: External Public and Publicly-Guaranteed Debt, end-December 1998 (revised)
(In millions of U.S. dollars)

	NPV of Debt			
	After traditional debt relief mechanisms (revised) 1/	After original HIPC Initiative 2/		After enhanced HIPC Initiative (revised) 3/
		As in Decision Point document	Revised	
Total Debt	**2,784**	**1,042**	**1,095**	**841**
Multilateral creditors	**1,019**	**395**	**395**	**303**
IDA 4/	564	237	237	182
AfDB Group	202	83	83	63
IMF	168	43	43	33
EU/EIB	35	14	14	11
IFAD	21	8	8	6
BADEA	13	3	3	3
OPEC Fund	13	5	5	4
Nordic Development Fund	5	2	2	2
Paris Club creditors	**1,386**	**511**	**552**	**424**
Austria	10	2	2	2
Brazil	117	30	30	23
France	263	119	119	91
Germany	112	34	34	26
Italy	249	85	85	65
Japan 5/	76	6	47	36
Portugal	226	79	79	61
Russia	205	110	110	84
Spain	28	21	21	16
Sweden	5	1	1	1
United Kingdom	72	16	16	12
United States	25	7	7	5
Non-Paris Club creditors	**313**	**112**	**124**	**95**
Algeria	127	47	47	36
Angola	15	6	6	4
Bulgaria	9	3	3	2
China	7	1	6	4
Cuba	2	1	1	1
Former Yugoslavia	1	0	0	0
Hungary	5	2	2	2
India	3	1	1	1
Iraq	25	9	10	8
Kuwait	25	9	9	7
Libya	40	13	18	14
Romania	34	13	13	10
North Korea	0	0	0	0
Poland	5	1	3	2
Slovak Republic	10	4	4	3
South Africa	5	2	2	1
Commercial creditors	**65**	**24**	**24**	**19**
Brazil	53	20	20	15
France	7	3	3	2
Portugal	5	2	2	1

Sources: Mozambican authorities; and staff estimates.

1/ The NPVs of debt for bilateral and commercial creditors reflect a hypothetical stock-of-debt operation on Naples terms at end-1998. Actual stock-of-debt operations on Naples, Lyon, and Cologne terms have not been implemented but are expected to be consolidated into one operation at the completion point, and could result in some revisions.

2/ Assuming a hypothetical stock-of-debt operation on Lyon terms at end-1998, and delivery of HIPC debt relief at the completion point under the original HIPC Initiative.

3/ Assuming a hypothetical stock-of-debt operation on Cologne terms at end-1998, and delivery of HIPC debt relief at the decision point under the enhanced HIPC Initiative.

4/ Excludes the impact of debt relief provided by through an IDA grant of US$150 million during the interim period under the origianl HIPC Initiative.

5/ Includes 3 loans previously classified as debt to commercial creditors.

(In millions of U.S. dollars, unless otherwise specified)

	1999	2000	Proj. 2001	2002	2003	2004	2005	Outer years 2010	2020	Average 2006-2010	2011-2020
Trade balance	-916.1	-793.2	-608.1	-1,352.3	-1,250.0	-106.6	211.5	457.1	-346.4	60.3	60.6
Exports (f.o.b.)	283.7	364.0	744.0	778.6	809.6	1,804.8	2,233.4	3,367.1	4,187.2	2,726.5	3,753.8
Large projects	75.8	127.2	487.0	489.0	496.2	1,472.6	1,873.0	2,825.1	2,856.1	2,263.0	2,842.2
Other exports	207.9	236.8	257.0	289.6	313.4	332.2	360.4	542.0	1,331.1	463.5	911.7
Imports (c.i.f.)	-1,199.8	-1,157.2	-1,352.1	-2,131.0	-2,059.6	-1,911.4	-2,022.0	-2,910.0	-4,533.7	-2,666.2	-3,693.3
Large projects	-514.4	-176.5	-391.1	-1,117.1	-1,030.5	-861.8	-893.6	-1,336.3	-1,341.3	-1,278.4	-2,727.5
Other imports	-685.4	-980.7	-961.0	-1,013.9	-1,029.1	-1,049.6	-1,128.4	-1,573.7	-3,192.4	-1,387.8	-2,354.2
Services (net)	-236.0	-213.5	-376.4	-708.7	-520.6	-648.8	-697.9	-812.5	-420.6	-986.6	-654.6
Receipts	355.6	405.1	374.1	395.8	420.3	445.5	473.7	646.0	1,429.1	569.7	1,005.4
Expenditures	-591.6	-618.6	-750.5	-1,104.5	-940.9	-1,094.2	-1,171.6	-1,458.4	-1,849.7	-1,556.3	-1,660.0
Of which: interest	-197.7	-204.7	-220.4	-214.4	-225.1	-290.0	-291.9	-337.2	-380.0	-300.9	-362.0
Of which: interest on public debt	-161.6	-160.8	-145.9	-146.6	-133.6	-121.2	-110.5	-97.8	-92.8	-98.2	-95.2
interest on private debt	-36.1	-43.9	-74.5	-67.9	-91.5	-168.8	-181.4	-239.4	-287.2	-202.7	-143.7
Current account, excluding grants	-1,152.1	-1,006.7	-984.5	-2,061.0	-1,770.6	-755.4	-486.5	-355.4	-767.1	-926.3	-594.0
Unrequited official transfers 1/	434.1	563.9	446.4	448.3	400.0	350.0	350.0	350.0	350.0	350.0	350.0
Current account, including grants	-718.0	-442.8	-538.1	-1,612.7	-1,370.6	-405.4	-136.5	-5.4	-417.1	-576.3	-244.0
Current account, excluding large projects	-172.7	-309.0	-339.6	-323.0	-335.0	-364.1	-392.3	-585.1	-991.7	-505.7	-820.9
Capital account	613.4	279.0	131.1	1,214.5	978.5	81.2	-76.9	-104.6	185.5	509.8	43.3
Foreign borrowing	472.0	483.8	374.0	825.5	845.7	366.0	291.0	260.3	333.1	633.5	303.8
Public	111.7	161.7	238.7	185.5	159.0	160.0	160.0	180.0	180.0	176.0	180.0
Private 2/	360.3	322.1	135.3	640.0	686.7	206.0	131.0	80.3	153.1	457.5	123.8
Amortization	-240.3	-344.0	-396.3	-409.5	-479.7	-463.2	-443.7	-437.2	-622.6	-359.6	-548.5
Public	-200.7	-306.5	-305.9	-319.1	-326.4	-286.6	-244.5	-131.3	-239.4	-121.6	-203.5
Private	-39.6	-37.5	-90.4	-90.4	-153.3	-176.6	-199.2	-306.0	-383.3	-238.0	-154.2
Direct investment (net)	381.7	139.2	153.4	798.5	612.5	178.5	75.8	72.3	475.1	235.9	288.0
Net impact of large projects	52.5	15.7	16.1	60.9	68.9	104.6	229.1	376.9	366.8	362.3	371.3
Short-term capital and errors and omissions (net)	-151.5	-187.4	-17.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: commercial banks (NFA; increase -)	-231.4	-209.4	-17.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-235.9	-351.2	-424.4	-398.2	-392.2	-324.2	-213.4	-109.9	-231.5	-66.5	-200.7
Financing excluding debt relief	-808.4	-98.0	0.0	-12.4	-13.3	-30.9	-84.2	110.0	-23.8	-96.7	200.7
Bank of Mozambique (NFA; increase -)	-46.9	-98.0	0.0	-12.4	-13.3	-30.9	-84.2	-61.7	-23.8	-96.7	-28.9
Gross international reserves (increase -) 3/	-44.1	-129.1	16.8	-11.0	-4.4	-10.8	-57.3	-45.8	0.0	-68.3	-11.4
Use of IMF credit (net)	-2.8	31.1	-16.8	-1.4	-8.9	-20.1	-26.9	-15.9	-23.8	-28.4	-17.5
Other (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	15.0	3.0	10.5
Net change in arrears (increase +)	-761.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap prior to debt relief	1,044.3	449.2	424.5	410.6	405.4	355.1	297.6	171.6	255.4	163.2	229.6
Debt relief 4/	1,044.3	449.2	424.4	410.6	405.5	355.0	297.6	171.6	255.3	163.2	229.6
Debt relief on traditional mechanisms	972.5	299.0	281.0	279.2	271.7	219.1	161.0	42.1	69.5	36.6	63.4
Assistance under the original HIPC Initiative	51.3	103.6	98.9	92.8	95.3	96.5	96.1	101.6	146.5	91.1	133.4
Assistance under the enhanced HIPC Initiative	0.0	10.0	17.4	27.1	27.3	28.4	29.6	22.0	29.9	28.9	25.2
Additional bilateral assistance	0.0	0.0	0.9	11.6	11.3	11.0	10.8	5.9	9.6	6.6	7.6
Paris Club deferral (flood relief)	20.5	36.6	26.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap after debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Current account deficit (in percent of GDP)											
Before grants	28.1	26.3	29.8	57.8	44.5	16.9	10.0	5.0	5.1	15.2	5.4
After grants	17.5	11.6	16.3	45.2	34.5	9.1	2.8	0.1	2.8	9.5	2.1
Excluding large projects	4.2	8.1	10.3	9.1	8.4	8.2	8.1	8.2	6.6	8.2	7.5
Gross international reserves	669.3	745.4	728.6	739.6	744.0	754.8	812.1	1,153.4	1,267.6	1,029.6	1,261.5
(in months of imports of GNFS)	5.5	6.1	5.5	3.7	3.9	4.2	4.3	4.3	3.0	4.2	3.7
(in months of imports of GNFS, excl large proj.)	8.5	7.0	7.3	7.1	7.0	7.0	7.0	7.2	4.0	7.3	5.5
GDP in US dollars millions	4,104	3,831	3,309	3,564	3,977	4,459	4,864	7,161	15,100	6,179	11,069

Sources: Mozambican authorities; and staff estimates and projections.

1/ In 1999 includes US$150 million of grants provided by IDA as interim assistance under the original HIPC Initiative.

2/ Private borrowing, not guaranteed by the government or the Bank of Mozambique.

3/ Defined as monetary gold, untied foreign exchange deposits, foreign banknotes, and SDRs

4/ Includes the 1996 Paris Club flow rescheduling on Naples terms; the rescheduling of the debt to Russia after an up-front discount of 80 percent; the 1997 commercial debt rescheduling with the Bank of Brazil; total assistance under the HIPC Initiative; the recent Paris Club deferral; and the application of traditional rescheduling mechanisms by non-Paris Club creditors.

Table 13. Mozambique: Selected Economic and Financial Indicators, 1998-2001

	1998	1999	2000		2001	
			Prog.	Est.	Prog.	Rev. Prog.
	(Annual percentage change, unless otherwise specified)					
National income and prices						
Nominal GDP (in billions of meticais)	46,908	52,079	58,887	60,103	68,939	70,178
Nominal GDP (in billions of U.S. dollars)	3.96	4.10	3.92	3.83	4.20	3.31
Real GDP	12.6	7.5	3.8	2.1	10.4	9.6
GDP per capita (in U.S. dollars)	234	237	222	217	232	183
GDP deflator	2.4	2.0	11.6	13.1	6.0	6.6
Consumer price index (annual average)	0.6	2.9	12.3	12.7	5.7	5.1
Consumer price index (end of period)	-1.3	6.2	11.0	11.4	7.0	7.0
External sector						
Merchandise exports (in U.S. dollars)	6.3	16.0	15.4	28.3	119.0	104.4
Merchandise imports (in U.S. dollars)	7.5	46.8	-3.2	-3.6	1.4	16.8
Terms of trade (in U.S. dollars)	-1.5	1.5	-1.5	1.7	1.5	0.9
Nominal effective exchange rate (end of period) 1/	-3.8	-0.7	-8.2	-10.9	...	...
Real effective exchange rate (end of period) 1/	-7.7	2.0	3.4	2.3	...	...
	(Annual change in percent of beginning-period broad money, unless otherwise specified)					
Money and credit						
Net domestic assets	9.3	23.9	25.0	11.6	13.3	7.4
Of which: net credit to the government	-16.0	0.0	12.5	4.1	9.8	2.4
credit to the economy (in percent)	17.8	22.9	26.3	30.1	16.5	19.7
Broad money (M2)	17.6	35.1	34.0	42.4	16.0	19.0
Velocity (GDP/ average M2)	5.7	5.2	4.3	4.2	4.0	3.8
Prime rate (in percent; end of period)	19.6	19.6	18.4	19.6	...	...
	(In percent of GDP)					
Investment and saving						
Gross domestic investment	23.2	31.8	29.7	29.8	27.3	31.6
Government	9.8	11.5	12.8	13.0	13.1	16.0
Other sectors	13.5	20.3	16.9	16.7	14.2	15.6
Gross national savings	12.2	14.3	12.1	18.2	17.7	15.3
Government	3.1	3.7	9.3	5.1	7.8	4.4
Other sectors	9.1	10.6	2.8	13.1	9.9	10.9
Current account (after grants)	-11.0	-17.5	-17.6	-11.6	-9.6	-16.3
Government budget						
Total revenue	11.4	11.9	12.7	12.4	12.3	12.4
Total expenditure and net lending (incl. residual)	21.6	24.6	29.1	27.8	30.0	35.3
Overall balance before grants	-10.5	-13.1	-16.7	-15.8	-17.7	-23.0
Total grants	8.1	11.7	10.5	11.4	11.5	14.1
Overall balance after grants	-2.3	-1.4	-6.2	-4.4	-6.2	-8.9
Domestic primary balance	-0.6	-3.4	-7.5	-6.5	-7.4	-10.1
Excluding bank restructuring	-0.6	-3.4	-5.2	-4.9	-6.2	-6.2
External financing (incl. debt relief)	4.6	1.7	3.7	3.6	4.0	7.5
Domestic bank financing	-2.3	-0.3	2.5	0.8	2.2	1.4
	(In percent of exports of goods and nonfactor services)					
Net present value of total external debt outstanding 2/	549.1	212.0	163.0	194.4	150.0	113.2
External debt service (nonfinancial public sector)						
Scheduled, before HIPC Initiative assistance (Naples te	20.0	26.1	31.3	25.2	20.2	21.9
Scheduled, after original HIPC Initiative assistance	...	15.3	12.2	5.5	8.2	4.4
Scheduled, after enhanced HIPC Initiative assistance	...	...	4.4	2.5	5.8	2.8
Scheduled, after additional bilateral assistance	...	...	...	...	...	2.7
	(In millions of U.S. dollars, unless otherwise specified)					
External current account after grants	-435	-718	-690	-443	-403	-538
Overall balance of payments	-204	-236	-478	-351	-488	-425
Gross international reserves (end of period)	625	670	700	745	634	729
In months of imports of goods and nonfactor services	7.8	5.5	5.7	6.1	5.0	5.5
In percent of broad money	88.6	75.6	70.5	76.1	56.8	83.9
Exchange rate (meticais per U.S. dollar; end of period)	12,366	13,300	16,244	17,140	...	...
Use of Fund resources (in millions of SDRs)						
Purchases/disbursements	25.2	21.0	45.2	45.2	16.8	8.4
Repurchases/repayments, before HIPC Initiative assista	18.1	22.8	22.2	23.0	21.0	21.0
Credit outstanding	147.2	145.4	168.4	167.6	163.4	155.0
Quota	84.0	113.6	113.6	113.6	113.6	113.6

Sources: Mozambican authorities; and staff estimates and projections.

1/ A minus sign indicates depreciation.

2/ Public and publicly guaranteed, in percent of the three-year average of exports.

Table 14. Mozambique: Nominal and Net Present Value of External Debt Outstanding at End-2000 1/

	Legal Situation 2/ 3/		NPV of Debt After Original HIPC Relief 4/	
	Nominal Debt	NPV of Debt		
	Millions of U.S. Dollars	Millions of U.S. Dollars	Millions of U.S. Dollars	Percent of Total
Total	**5,125.4**	**3,350.5**	**1,208.0**	**100.0**
Multilateral creditors	1,348.2	570.7	546.1	45.2
World Bank	759.3	322.5	322.5	26.7
African Development Bank group	221.2	87.7	87.7	7.3
of which: African Development Bank	1.9	2.0	2.0	0.2
of which: African Development Fund	218.0	84.4	84.4	7.0
of which: Nigeria Trust Fund	1.3	1.2	1.2	0.1
IMF	219.5	85.2	85.2	7.1
European Union	47.6	31.2	13.8	1.1
IFAD	42.4	11.3	11.3	0.9
BADEA	22.7	12.0	12.0	1.0
OPEC Fund	19.1	15.8	8.6	0.7
Nordic Development Fund	12.7	3.3	3.3	0.3
Islamic Development Bank	3.7	1.9	1.9	0.2
Official bilateral creditors	3,630.5	2,635.1	626.2	51.8
Paris Club	2,754.6	2,075.7	534.5	44.2
Pre-cutoff date	2,478.7	1,894.6	379.9	31.4
ODA	145.9	114.2	106.2	8.8
Non-ODA	2,332.8	1,780.4	273.8	22.7
Post-cutoff date	275.9	181.1	154.6	12.8
ODA	86.5	69.7	58.1	4.8
Non-ODA	189.4	111.3	96.5	8.0
Austria	17.4	14.6	1.7	0.1
Brazil	389.8	301.8	27.0	2.2
France	477.9	393.3	103.4	8.6
Germany	157.9	157.4	43.4	3.6
Italy	483.2	371.2	55.0	4.6
Japan	102.2	109.1	60.0	5.0
Portugal	377.8	301.7	82.1	6.8
Russia	526.8	225.1	138.5	11.5
Spain	16.2	13.8	1.2	0.1
Sweden	8.5	8.4	1.6	0.1
United Kingdom	142.7	128.4	14.0	1.2
United States	54.1	50.7	6.4	0.5
Non-Paris Club	875.8	559.5	91.7	7.6
Algeria	382.0	83.7	27.5	2.3
Angola	45.0	45.0	3.2	0.3
Bulgaria	29.9	29.9	5.9	0.5
China	32.8	26.7	7.0	0.6
Former Yugoslavia	15.4	15.4	7.3	0.6
Hungary	10.6	10.6	0.6	0.0
India	9.8	9.8	2.4	0.2
Iraq	74.4	74.4	5.8	0.5
Kuwait	27.7	23.4	3.9	0.3
Libya	131.7	124.2	16.3	1.4
Romania	99.7	99.7	8.9	0.7
North Korea	0.5	0.4	0.0	0.0
Poland	16.4	16.4	2.8	0.2
Commercial creditors	146.7	144.6	35.7	3.0
Brazil	122.6	120.8	33.9	2.8
Czech Repubilc	6.7	6.5	1.3	0.1
Portugal	16.5	16.5	0.5	0.0
South Africa	0.9	0.8	0.0	0.0

Sources: Mozambican authorities; and Bank and Fund staff estimates.

1/ Figures are based on data at end-2000. Some data reconciliation is needed for certain creditors.

2/ Does not include the impact of grants disbursed to cover debt service payments to some multilateral creditors.

3/ Reflects the external debt situation as of end-2000, and includes the 1996 Paris Club flow rescheduling on Naples terms, and its 1998 amendment providing a flow rescheduling on Lyon terms under the original HIPC Initiative. (except for Brazil for which the bilateral agreement to the 1998 amendment had not been signed; this would have lowered the official debt owed to Brazil by US$66.0 million in nominal terms).

4/ After full use of traditional debt relief mechanisms, and full delivery of assistance under the original HIPC Initiative.

Table 15. Mozambique: Net Present Value of External Debt, 2000-2020
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2020	2000-2010	2011-2020
	Actual	Estimate					Projections					Outer years	Averages	
I. After original HIPC assistance 1/														
1. NPV of total debt (2+6) 2/	1,208.0	1,338.2	1,410.0	1,473.3	1,541.3	1,605.2	1,671.2	1,739.6	1,802.2	1,860.2	1,921.3	2,074.3	1,597.3	2,121.2
2. NPV of outstanding debt (3+4)	1,208.0	1,235.0	1,221.0	1,206.9	1,192.6	1,171.6	1,143.6	1,128.4	1,110.2	1,090.9	1,076.5	450.9	1,162.2	856.5
3. Official bilateral and commercial	661.9	678.9	656.9	638.2	620.8	602.8	584.0	579.7	574.4	567.3	559.5	66.3	611.3	400.2
3a. Paris Club	534.5	551.3	529.0	509.7	492.9	475.5	457.4	454.2	450.3	445.1	438.5	0.0	485.3	301.1
3b. Other official bilateral	91.7	91.9	92.2	92.9	92.3	91.7	91.1	90.2	89.0	87.5	86.8	52.0	90.7	73.2
3c. Commercial	35.7	35.7	35.7	35.7	35.6	35.6	35.6	35.4	35.2	34.7	34.2	14.3	35.4	25.9
4. Multilateral	546.1	556.1	564.1	568.7	571.7	568.8	559.6	548.7	535.8	523.6	517.0	384.6	550.9	456.3
IDA	322.5	331.7	340.7	347.9	353.7	358.3	362.5	365.7	367.8	369.1	367.9	272.7	353.4	328.1
IMF	85.2	85.0	83.1	79.7	75.7	66.9	52.2	36.8	21.0	6.6	0.0	0.0	53.8	0.0
African Development Bank Group	87.7	88.8	89.9	90.8	92.2	94.1	95.9	97.6	99.0	99.9	100.4	88.7	94.2	96.7
Others	50.8	50.5	50.4	50.3	50.1	49.6	49.0	48.5	48.1	47.9	48.7	23.2	49.5	31.5
5. Nominal stock of total debt	2,258.5	2,492.9	2,626.2	2,746.8	2,866.3	2,976.7	3,079.9	3,195.8	3,307.4	3,418.2	3,529.6	3,917.3	2,954.4	3,915.5
II. After enhanced HIPC assistance														
1. NPV of total debt (2+6) 2/	1,109.0	1,054.7	1,132.5	1,202.3	1,278.4	1,352.1	1,429.3	1,511.1	1,589.3	1,656.2	1,722.7	2,051.3	1,367.1	1,984.2
1b. NPV of total debt after full delivery 3/	929.9	1,054.7	1,132.5	1,202.3	1,278.4	1,352.1	1,429.3	1,511.1	1,589.3	1,656.2	1,722.7	2,051.3	1,350.8	1,984.2
2. NPV of outstanding debt (3+4)	1,109.0	951.5	943.5	935.9	929.7	918.5	901.7	899.9	897.3	886.9	877.9	427.9	932.0	719.5
3. Official bilateral and commercial	661.9	488.5	465.7	446.0	428.0	409.5	390.7	386.9	382.6	377.2	371.4	44.3	437.1	265.8
3a. Paris Club	534.5	403.9	380.9	360.8	343.2	325.2	306.9	303.9	300.6	296.6	291.6	0.0	485.3	301.1
3b. Other official bilateral	91.7	56.0	56.3	56.8	56.3	55.9	55.4	54.7	53.9	52.8	52.5	32.8	90.7	73.2
3c. Commercial	35.7	28.5	28.5	28.5	28.5	28.4	28.4	28.3	28.1	27.8	27.3	11.4	35.4	25.9
4. Multilateral	447.1	463.0	477.8	489.9	501.7	509.0	511.0	513.0	514.8	509.8	506.5	383.6	494.9	453.7
IDA	268.3	280.4	292.8	304.8	316.6	328.3	340.1	352.4	364.9	369.1	367.9	272.7	326.0	328.1
IMF	70.8	72.7	72.9	70.6	67.8	60.4	47.4	33.7	19.5	6.3	0.0	0.0	47.5	0.0
African Development Bank	68.7	70.9	73.2	75.6	78.5	81.9	85.5	89.2	93.0	97.0	100.4	88.7	83.1	96.7
Others	39.2	39.0	38.9	38.8	38.8	38.4	38.0	37.7	37.4	37.3	38.2	22.2	38.3	28.9
5. Nominal stock of total debt	2,177.6	2,142.2	2,280.3	2,407.3	2,534.6	2,653.7	2,766.6	2,893.7	3,018.5	3,137.6	3,255.3	3,889.0	2,660.7	3,724.4
III. After bilateral debt relief beyond HIPC assistance 4/														
1. NPV of total debt (2+6) 2/	1,109.0	915.7	998.6	1,073.4	1,154.6	1,233.4	1,315.9	1,398.0	1,476.7	1,544.4	1,611.8	2,131.4	1,257.4	1,920.4
1b. NPV of total debt after full delivery 3/	792.0	915.7	998.6	1,073.4	1,154.6	1,233.4	1,315.9	1,398.0	1,476.7	1,544.4	1,611.8	2,131.4	1,228.6	1,920.4
2. NPV of outstanding debt (3+4)	1,109.0	812.5	809.6	807.0	805.8	799.7	788.3	786.8	784.7	775.1	766.9	507.9	822.3	655.7
3. Official bilateral and commercial	661.9	349.5	331.7	317.1	304.1	290.8	277.2	273.8	270.0	265.3	260.5	124.3	327.4	202.0
3a. Paris Club	534.5	264.9	247.0	231.9	219.4	206.5	193.5	190.8	188.0	184.7	180.7	80.1	240.2	136.3
3b. Other official bilateral	91.7	56.0	56.3	56.8	56.3	55.9	55.4	54.7	53.9	52.8	52.5	32.8	58.4	45.0
3c. Commercial	35.7	28.5	28.5	28.5	28.5	28.4	28.4	28.3	28.1	27.8	27.3	11.4	28.9	20.7
4. Multilateral	447.1	463.0	477.8	489.9	501.7	509.0	511.0	513.0	514.8	509.8	506.5	383.6	494.9	453.7
IDA	268.3	280.4	292.8	304.8	316.6	328.3	340.1	352.4	364.9	369.1	367.9	272.7	326.0	328.1
IMF	70.8	72.7	72.9	70.6	67.8	60.4	47.4	33.7	19.5	6.3	0.0	0.0	47.5	0.0
African Development Bank	68.7	70.9	73.2	75.6	78.5	81.9	85.5	89.2	93.0	97.0	100.4	88.7	83.1	96.7
Others	39.2	39.0	38.9	38.8	38.8	38.4	38.0	37.7	37.4	37.3	38.2	22.2	38.3	28.9
5. Nominal stock of total debt	2,177.6	1,978.0	2,121.4	2,253.7	2,386.2	2,510.7	2,629.2	2,756.9	2,882.4	3,002.4	3,121.4	4,012.6	2,529.1	3,652.9
Memorandum items:														
6. NPV of new borrowing	...	103.2	189.0	266.4	348.8	433.6	527.6	611.2	692.0	769.3	844.8	1,623.4	478.6	1,264.7
Official bilateral	...	8.6	17.5	18.3	19.0	19.9	20.8	20.7	19.7	18.6	17.4	2.8	18.0	9.9
Multilateral	...	94.6	171.5	248.1	329.7	413.8	506.8	590.5	672.3	750.7	827.4	1,620.6	460.6	1,254.8

Sources: Mozambican authorities; and Bank and Fund staff estimates and projections.

1/ Refers to public and publicly guaranteed external debt only and assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) at the end of 1998, and at least comparable action by other official bilateral creditors. Includes a flow rescheduling under Lyon terms. Also assumes a Lyon stock deal in July 1999.

2/ Discounted on the basis of the average commercial interest reference rate for the respective currency, derived over the six-month period prior to the latest date for which actual data are available (December 2000). The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the base date (December 31, 2000) exchange rate.

3/ NPV of total debt assuming the entire HIPC Initiative assistance is fully delivered as of end-2000.

4/ After debt relief beyond HIPC offered by some of the Paris Club creditors.

Table 16. Mozambique: External Debt Indicators, 2001–2020 1/
(in percent, unless otherwise indicated)

	2001 Estimate	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Outer years 2020	Averages 2000-2010	Averages 2011-2020
After original HIPC assistance 2/																							
NPV of debt to GDP ratio	40.4	39.6	37.0	34.6	33.0	31.8	30.6	29.3	28.0	26.8	25.7	24.4	23.1	21.9	20.8	19.6	18.5	17.4	14.4	13.7	13.7	33.1	20.0
NPV of debt to exports ratio 3/ 4/	166.3	143.4	129.8	102.0	79.5	64.6	61.3	60.0	59.6	55.7	53.0	50.3	50.2	49.8	49.4	48.8	48.0	46.9	40.2	39.5	39.5	92.2	47.6
NPV of debt to revenue ratio 5/	327.3	298.6	260.0	232.8	215.0	202.3	191.1	180.5	169.9	160.2	151.1	141.9	133.1	124.5	116.6	109.1	101.9	94.8	77.6	73.1	73.1	223.8	112.4
Debt service ratio	4.4	8.6	8.3	4.5	4.0	3.9	3.6	3.7	3.7	3.1	3.1	3.4	3.5	3.5	3.4	3.4	3.5	3.5	3.5	3.5	3.5	4.8	3.5
Debt service to revenue ratio 5/	11.7	20.7	17.3	14.9	14.2	13.7	11.6	11.6	11.1	10.2	9.6	9.9	9.5	9.1	8.4	8.0	7.6	7.4	7.1	6.8	6.8	13.7	8.3
After enhanced HIPC assistance																							
NPV of debt to GDP ratio	31.9	31.8	30.2	28.7	27.8	27.2	26.6	25.9	25.0	24.1	23.2	22.2	21.1	20.1	19.2	18.3	17.4	16.4	14.2	13.6	13.6	27.9	18.6
NPV of debt to exports ratio 3/ 4/	131.0	115.2	105.9	84.6	67.0	55.3	53.2	52.9	53.1	49.9	47.8	45.7	45.8	45.8	45.6	45.4	44.9	44.2	39.6	39.1	39.1	76.8	44.4
NPV of debt to exports ratio (existing debt only)	118.2	96.0	82.4	61.5	45.5	34.9	31.7	29.9	28.4	25.4	23.2	21.2	20.2	19.0	17.9	16.7	15.4	14.0	9.0	8.1	8.1	55.4	16.5
NPV of debt to exports ratio after full delivery in 2000 3/ 4/ 7/	131.0	115.2	105.9	84.6	67.0	55.3	53.2	52.9	53.1	49.9	47.8	45.7	45.8	45.8	45.6	45.4	44.9	44.2	39.6	39.1	39.1	76.8	44.4
NPV of debt to revenue ratio 5/	258.0	239.8	212.2	193.1	181.1	173.0	166.0	159.2	151.3	143.6	136.3	128.9	121.6	114.4	107.8	101.5	95.5	89.4	76.6	72.3	72.3	187.7	104.4
Debt service ratio	2.8	6.2	6.0	3.2	2.9	2.9	2.5	2.6	2.9	2.5	2.6	2.9	3.0	3.0	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.4	2.9
Debt service to revenue ratio 5/	7.5	14.9	12.5	10.6	10.2	10.0	8.1	8.2	8.7	8.3	8.0	8.3	8.1	7.7	7.1	6.7	6.4	6.3	6.0	5.8	5.8	9.9	7.0
After bilateral debt relief beyond HIPC assistance 6/																							
NPV of debt to GDP ratio	27.7	28.0	27.0	25.9	25.4	25.0	24.6	24.0	23.3	22.5	21.7	20.9	20.0	19.1	18.2	17.4	16.6	15.8	14.9	14.1	14.1	25.3	17.9
NPV of debt to exports ratio 3/ 4/	113.8	101.6	94.5	76.4	61.1	50.9	49.3	49.2	49.5	46.7	44.9	43.0	43.3	43.3	43.3	43.2	42.9	42.3	41.6	40.6	40.6	69.3	42.8
NPV of debt to exports ratio after full delivery in 2000 3/ 4/ 7/	113.8	101.6	94.5	76.4	61.1	50.9	49.3	49.2	49.5	46.7	44.9	43.0	43.3	43.3	43.3	43.2	42.9	42.3	41.6	40.6	40.6	69.3	42.8
NPV of debt to revenue ratio 5/	224.0	211.5	189.4	174.4	165.2	159.3	153.6	147.9	141.1	134.4	128.0	121.3	114.7	108.3	102.3	96.6	91.2	85.6	80.3	75.1	75.1	170.1	100.3
Debt service ratio	2.7	5.2	5.0	2.7	2.5	2.5	2.3	2.4	2.8	2.4	2.4	2.7	2.8	2.8	2.8	2.7	2.7	2.8	2.8	2.8	2.8	3.0	2.8
Debt service to revenue ratio 5/	7.2	12.5	10.5	9.0	8.8	8.7	7.5	7.7	8.2	7.8	7.5	7.8	7.6	7.3	6.8	6.3	6.0	5.9	5.7	5.4	5.4	8.8	6.6
Debt service ratio excluding large projects	5.1	10.9	10.2	9.6	9.7	9.8	8.2	8.5	9.1	8.9	8.6	9.1	8.9	8.5	7.9	7.4	7.0	6.9	6.6	6.3	6.3	9.0	7.7
Memorandum items:																							
NPV of debt after enhanced HIPC assistance (in millions of US dollars)	1,055	1,133	1,202	1,278	1,352	1,429	1,511	1,589	1,656	1,723	1,790	1,847	1,900	1,950	2,002	2,054	2,104	2,144	1,998	2,051	2,051	1,393	1,984
Debt service after enhanced HIPC assistance (in millions of US dollars)	30	71	71	70	76	83	74	82	96	100	104	119	126	132	133	136	140	151	158	164	164	75	136
GDP	3,309	3,564	3,977	4,459	4,864	5,263	5,689	6,145	6,635	7,161	7,726	8,333	8,985	9,686	10,437	11,244	12,109	13,037	14,033	15,100	15,100	5,107	11,069
Exports of goods and services 3/	1,081	1,136	1,189	2,207	2,661	2,890	2,962	3,158	3,245	3,951	4,041	4,140	4,255	4,388	4,523	4,673	4,846	5,034	5,242	5,479	5,479	2,448	4,662
Exports of goods and services (3-year mvg. avg.) 3/	805	983	1,135	1,511	2,019	2,586	2,838	3,003	3,122	3,451	3,745	4,044	4,145	4,261	4,389	4,528	4,681	4,851	5,041	5,252	5,252	2,145	4,494
Government revenue 5/	409	472	567	662	747	826	910	998	1,095	1,199	1,313	1,433	1,563	1,704	1,858	2,024	2,204	2,398	2,610	2,838	2,838	788	1,994

Sources: Mozambican authorities, and Bank and Fund staff estimates.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated

2/ Reflect a hypothetical stock-of-debt operation on Naples terms at end-1998 for Paris Club creditors as calculated in the HIPC Second Decision Point Document (EBS/00/62)

It includes a flow rescheduling under Lyon terms and Lyon stock deal in July 1999.

3/ As defined in IMF, *Balance of Payments Manual*, 5th edition, 1993.

4/ Based on a three-year average of exports on the previous year (e.g., export average over 1999-01 for NPV of debt-to-exports ratio in 2001)

5/ Revenue is defined as central government revenue, excluding grants.

6/ Some Paris Club creditors have agreed to extend additional debt relief beyond HIPC assistance.

7/ Assuming full delivery of HIPC assistance at end-2000.

Table17. Mozambique: External Debt Service After Full Implementation of Debt-Relief Mechanisms,2001-2020

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2020	2001-2010	2011-2020
	Estimate										Outer years	Averages	
Total debt service													
after original HIPC assistance 1/	45.6	93.8	93.0	92.2	97.9	103.6	89.1	91.3	91.4	85.3	116.2	88.3	101.9
Multilateral	22.9	25.4	29.3	31.1	37.3	43.4	44.6	45.8	44.4	37.9	43.6	36.2	41.4
Of which													
IDA	10.4	11.2	13.6	15.4	16.9	17.7	18.8	20.2	21.1	23.7	33.0	16.9	30.1
IMF	5.3	7.1	8.5	8.8	13.5	18.7	18.5	18.1	15.7	7.0	0.0	12.1	0.0
African Development Bank	3.5	3.6	3.9	3.5	3.0	3.2	3.6	3.9	4.5	5.0	7.7	3.8	6.7
Others	3 6	3.5	3.4	3.4	3.8	3.8	3.6	3.6	3.2	2.3	2.9	3.4	4.7
Official bilateral	20 1	65.8	61.1	58.5	58.0	57.6	41.8	42.7	44.0	44.3	67.7	49.4	56.4
Paris Club	11.3	57.2	52.7	48.9	48.4	48.0	31.9	32.4	33.4	34.5	51.7	39.8	43.7
Of which: Official Development Assistance	4.1	16.7	15.3	14.4	14.0	13.2	8.6	8.1	8.0	7.9	7.5	11.0	8.3
Other official bilateral	8.8	8.7	8.4	9.6	9.6	9.6	10.0	10.3	10.7	9.8	16.0	9.6	12.8
Of which: Official Development Assistance	0.7	0.7	0.7	1.7	1.7	1.7	1.7	1.7	1.7	0.7	1.3	1.3	0.9
Commercial	2.6	2.6	2.6	2.6	2.6	2.6	2.7	2.8	2.9	3.1	4.9	2.7	4.0
Total debt service													
after enhanced HIPC assistance 2/	28 2	66.7	65.7	63.8	68.3	73.1	57.0	57.6	65.3	63.3	86.4	60.9	76.7
Multilateral	10.9	12.9	16.6	17.6	22.8	28.5	28.7	29.0	35.8	33.9	43.4	23.7	40.3
Of which													
IDA	4.3	4.6	5.8	6.8	7.6	8.2	8.5	8.9	18.0	23.7	33.0	9.6	30.1
IMF	2.4	4.2	6.7	7.1	11.6	16.7	16.5	16.3	14.3	6.7	0.0	10.3	0.0
African Development Bank	1.4	1.4	1.4	1.1	0.8	0.8	0.9	1.0	1.1	1.9	7.7	1.2	6.7
Others	2.8	2.7	2.6	2.6	2.9	2.9	2.8	2.7	2.4	1.5	2.7	2.6	3.5
Official bilateral	14.8	51.7	47.1	44.2	43.4	42.5	26.2	26.4	27.1	27.0	39.0	35.0	33.2
Paris Club	9.3	48.1	43.6	39.7	39.0	38.1	21.6	21.7	22.3	23.0	32.4	30.7	28.0
Of which: Official Development Assistance	7.7	0.0	4.0	16.7	15.3	14.4	14.0	13.2	8.6	8.1	8.9	10.2	7.8
Other official bilateral	5.4	3.7	3.5	4.4	4.4	4.4	4.5	4.7	4.8	4.0	6.6	4.4	5.2
Of which: Official Development Assistance	0.7	0.5	0.5	1.2	1.2	1.2	1.2	1.2	1.2	0.5	0.9	0.9	0.6
Commercial	2.5	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.3	2.4	3.9	2 2	3.2
Total debt service													
after bilateral debt relief beyond HIPC 3/	27.3	55.1	54.5	52.8	57.5	62.4	51.7	52.1	59.6	57.4	76.8	53.0	69.1
Multilateral	10.9	12.9	16.6	17.6	22.8	28.5	28.7	29.0	35.8	33.9	43.4	23.7	40.3
Official bilateral	13.8	40.1	35.8	33.2	32.7	31.9	20.8	20.9	21.4	21.1	29.4	27.2	25.7
Paris Club	8.4	36.5	32.3	28.8	28.3	27.5	16.3	16.2	16.6	17.1	22.9	22.8	20.5
Of which: Official Development Assistance	3.9	14.9	13.5	12.6	12.2	11.5	7.4	6.8	6.7	6.6	5.4	9.6	6.4
Other official bilateral	5.4	3.7	3.5	4.4	4.4	4.4	4.5	4.7	4.8	4.0	6.6	4.4	5.2
Commercial	2.5	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.3	2.4	3.9	2.2	3.2
Memorandum items:													
Debt service of new debt	2.3	3.8	5.2	6.6	8.0	9.6	16.8	24.5	30.2	36.5	77.6	14.3	59.5
Multilateral	2.2	3.6	4.9	6.4	7.7	9.3	15 5	22.3	28.0	34.3	75.6	13.4	57.4
IDA	0.9	1.9	3.1	4.1	5.1	6.0	6.8	7.8	8.7	9.7	42.0	5.4	26.6
IMF	0.1	0.2	0.3	0.4	0.5	0.6	2.7	6.9	11.0	15.0	0.0	3.7	8.0
African Development Bank	0.6	0.7	0.7	0.8	0.8	1.0	1.3	1.5	1.7	1.9	8.3	1.1	5.3
Others	0.6	0.9	0.9	1.1	1.3	1.8	4.8	6.2	6.6	7.7	25.4	3.2	17.5
Official bilateral	0.1	0.2	0.2	0.2	0.2	0.2	1.2	2 2	2.2	2.2	2 0	0.9	2.1
Nominal HIPC relief													
Under the original HIPC Initiative	98.9	92.8	95.3	96.5	96.1	90.8	88.8	88.0	86.2	101.6	146.5	93.5	133.4
Under the enhanced HIPC Initiative	17.4	27.1	27.3	28.4	29.6	30.5	32.1	33.7	26.1	22.0	29.9	27.4	25.2

Sources: Mozambican authorities; and Bank and Fund staff estimates and projections.

1/ Assumes a stock-of-debt operation under Naples terms at end-December 1998 for Paris Club creditors and full delivery of original HIPC assistance.

2/ Include debt relief from original HIPC Initiative.

3/ After debt relief beyond HIPC offered by some of the Paris Club creditors.

Table 18. Mozambique: Comparison of Net Present Value of External Public Debt Between Decision Point and Completion Point

(In millions of U.S. dollars, unless otherwise indicated)

	Stock at End-2000					
	Decision Point DSA (Projection) 1/		Amended Decision Point	Completion Point DSA 2/		
	After Original HIPC relief	After Enhanced HIPC Relief	After Enhanced HIPC Relief	After Original HIPC relief	After Enhanced HIPC Relief	After Additional Bilateral Relief 3/
NPV of debt using end-1998 parameters	1,162	896	1,027	1,396	1,080	927
Multilateral	524	425	515	656	544	544
Official bilateral and commercial	638	471	512	740	537	383
NPV of debt using end-2000 parameters	...	...	...	1,208	930	792
Multilateral	...	...	...	546	447	447
Official bilateral and commercial	...	...	...	662	483	345
NPV of debt to exports ratio (in percent) 4/						
Using end-1998 parameters	212.1	163.4		224.6	173.9	149.1
Using end-2000 parameters	...	...		194.4	149.6	127.4
Memorandum items:						
NPV of enhanced HIPC assistance 5/						
Using end-1998 parameters 6/	...	267		...	315	...
Using end-2000 parameters	...	...		...	278	...
Exports of goods and services 7/						
Decision point	548	548		...	...	...
Completion point	...	...		621	621	621

Sources: Mozambican authorities; and Bank/Fund staff estimates.

1/ Debt sustainability analysis (DSA) based on stock of debt reconciled as of end-1998, assuming full (hypothetical) delivery of enhanced HIPC assistance.

2/ Based on stock of debt reconciled as of end-2000, assuming full (hypothetical) delivery of enhanced HIPC assistance.

3/ After debt relief beyond HIPC offered by some of the Paris Club creditors.

4/ Based on the average of three consecutive years of exports of goods and services ending in the current year. The NPV includes a portion of IDA relief delivered through a US$150 million IDA grant.

5/ The value of assistance under the enhanced HIPC framework was determined at its March 2000 decision point, namely US$254 million in using end-1998 parameters (exchange rates and discount factors). The corresponding values for enhanced HIPC relief expressed as of end-2000 are provided for information only.

6/ The estimate of US$338 million expresses the value of the agreed assistance (US$254 million in NPV terms of February 2000) in NPV

7/ Average of three consecutive years of exports of goods and services ending in the current year. Data and projections at the time of the decision and completion points under the enhanced HIPC framework.

Table 19. Mozambique: Sensitivity Analysis, 2000-2020 1/

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2020	2001-2010	2011-2020
	Estimates										Outer years	Averages	
Baseline scenario													
NPV of debt to exports ratio 3/	131.0	115.2	105.9	84.6	67.0	55.3	53.2	52.9	53.1	49.9	39.1	76.8	44.4
Debt service to exports ratio 3/	2.8	6.2	6.0	3.2	2.9	2.9	2.5	2.6	2.9	2.5	3.0	3.4	2.9
Debt service to revenue ratio 4/	7.5	14.9	12.5	10.6	10.2	10.0	8.1	8.2	8.7	8.3	5.8	9.9	7.0
Grant element in total debt	50.8	50.3	50.1	49.6	49.0	48.3	47.8	47.3	47.2	47.1	47.3	48.8	46.7
Grant element in new debt	60.3	58.6	58.1	57.3	56.5	55.1	54.7	54.4	54.3	54.1	50.4	56.3	52.4
Alternative scenario - Lower growth 2/													
NPV of debt to exports ratio 3/,	131.0	117.2	110.6	101.0	87.1	76.0	75.3	78.5	81.5	80.1	77.7	93.8	80.7
Debt service to exports ratio 3/	2.8	6.3	6.2	4.1	3.6	3.7	3.3	3.7	4.3	3.9	6.1	4.2	5.3
Debt service to revenue ratio 4/	7.5	15.2	13.1	11.5	11.4	11.5	9.7	10.2	11.2	11.6	12.4	11.3	12.3
Grant element in total debt	50.8	50.4	49.9	49.1	48.3	47.8	47.2	46.6	46.3	46.1	45.3	48.2	45.2
Grant element in new debt	60.3	58.2	56.7	54.8	53.2	52.5	52.0	51.3	50.8	50.5	47.0	54.0	48.5
Alternative scenario - Lower project grants 5/													
NPV of debt to exports ratio 3/	131.0	115.2	105.9	85.8	69.2	58.0	57.9	60.0	63.0	62.6	92.5	80.9	79.6
Debt service to exports ratio 3/	2.8	6.2	6.0	3.2	2.9	2.9	2.6	2.7	3.1	2.8	6.2	3.5	4.5
Debt service to revenue ratio 4/	7.5	14.9	12.5	10.7	10.3	10.2	8.4	8.6	9.3	9.2	11.9	10.2	10.6
Grant element in total debt	50.8	50.3	50.1	49.4	48.8	47.9	47.0	46.2	45.6	45.0	38.2	48.1	41.0
Grant element in new debt	60.3	58.6	58.1	56.6	55.2	53.6	52.3	51.1	50.0	48.9	38.9	54.5	43.0

Sources: Mozambican authorities; and Bank and Fund staff estimates.

1/ Including new debt.
2/ Growth of real GDP is assumed at 4 percent per year from 2000 onwards, instead of 6.3 percent in the baseline. Export and import volume have been lowered, consistently with the lower GDP growth.
3/ As defined in IMF, Balance of Payments Manual, 5th edition, 1993. Based on a three-year average of exports on the previous year (e.g., export average over 1999-01 for NPV of debt-to-exports ratio in 2001).
4/ Revenue is defined as central government revenue, excluding grants.
5/ The share of grants in external project financing declines gradually from 60 percent in 2000 to 50 percent in 2010.

Table 20. HIPC Initiative: Status of Country Cases Considered Under the Initiative, August, 2001

Country	Decision Point	Completion Point	Target NPV of Debt-to- Export (in percent)	Target NPV of Debt-to- Gov. revenue (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilat-eral	Multi-lateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
Completion point reached under enhanced framework											
Bolivia					1,302	425	876	84	194		2,060
original framework	*Sep. 97*	*Sep. 98*	*225*		*448*	*157*	*291*	*29*	*54*	*14*	*760*
enhanced framework	*Feb. 00*	*Jun. 01*	*150*		*854*	*268*	*585*	*55*	*140*	*30*	*1,300*
Uganda					1,003	183	820	160	517		1,950
original framework	*Apr. 97*	*Apr. 98*	*202*		*347*	*73*	*274*	*69*	*160*	*20*	*650*
enhanced framework	*Feb. 00*	*May 00*	*150*		*656*	*110*	*546*	*91*	*357*	*37*	*1,300*
Decision point reached under enhanced framework											
Benin	Jul. 00	Floating	150		265	77	189	24	84	31	460
Burkina Faso					398	56	342	42	162		700
original framework	*Sep. 97*	*Jul. 00*	*205*		*229*	*32*	*196*	*22*	*91*	*27*	*400*
enhanced framework	*Jul. 00*	*Floating*	*150*		*169*	*24*	*146*	*20*	*71*	*27*	*300*
Cameroon	Oct. 00	Floating	150		1,260	874	324	37	179	27	2,000
Chad	May. 01	Floating	150		170	35	134	18	68	30	260
Gambia, The	Dec. 00	Floating	150		67	17	49	2	22	27	90
Guinea	Dec. 00	Floating	150		545	215	328	31	152	32	800
Guinea-Bissau	Dec. 00	Floating	150		416	212	204	12	93	85	790
Guyana					585	220	365	74	68		1,030
original framework	*Dec. 97*	*May 99*	*107*	*280*	*256*	*91*	*165*	*35*	*27*	*24*	*440*
enhanced framework	*Nov. 00*	*Floating*	*150*	*250*	*329*	*129*	*200*	*40*	*41*	*40*	*590*
Honduras	Jun. 00	Floating	110	250	556	215	340	30	98	18	900
Madagascar	Dec. 00	Floating	150		814	457	357	22	252	40	1,500
Malawi	Dec. 00	Floating	150		643	163	480	30	331	44	1,000
Mali					523	162	361	58	182		870
original framework	*Sep. 98*	*Sep. 00*	*200*		*121*	*37*	*84*	*14*	*44*	*9*	*220*
enhanced framework	*Sep. 00*	*Floating*	*150*		*401*	*124*	*277*	*44*	*138*	*28*	*650*
Mauritania	Feb. 00	Floating	137	250	622	261	361	47	100	50	1,100
Mozambique					1,970	1,235	736	140	434		4,300
original framework	*Apr. 98*	*Jun. 99*	*200*		*1,716*	*1,076*	*641*	*125*	*381*	*63*	*3,700*
enhanced framework	*Apr. 00*	*Floating*	*150*		*254*	*159*	*95*	*16*	*53*	*9*	*600*
Nicaragua	Dec. 00	Floating	150		3,267	2,145	1,123	82	189	72	4,500
Niger	Dec. 00	Floating	150		521	211	309	28	170	54	900
Rwanda	Dec. 00	Floating	150		452	56	397	44	228	71	800
Sao Tome & Principe	Dec. 00	Floating	150		97	29	68	-	24	83	200
Senegal	Jun. 00	Floating	133	250	488	193	259	45	124	19	850
Tanzania	Apr. 00	Floating	150		2,026	1,006	1,020	120	695	54	3,000
Zambia	Dec. 00	Floating	150		2,499	1,168	1,331	602	493	63	3,820
Decision point reached under original framework											
Côte d'Ivoire	Mar. 98	Mar. 01	141	280	345	163	182	23	91	6 3/	800
Total assistance provided/committed					**20,833**	**9,779**	**10,955**	**1,755 4/**	**4,951**		**34,680**
Preliminary HIPC document issued 5/											
Ethiopia	...	...	150		1,028	352	649	37	395	42	1,650
Ghana	...	...		250	2,096	1,002	1,095	122	767	55	3,200
Sierra Leone	...	...	150		551	188	326	121	119	79	867

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

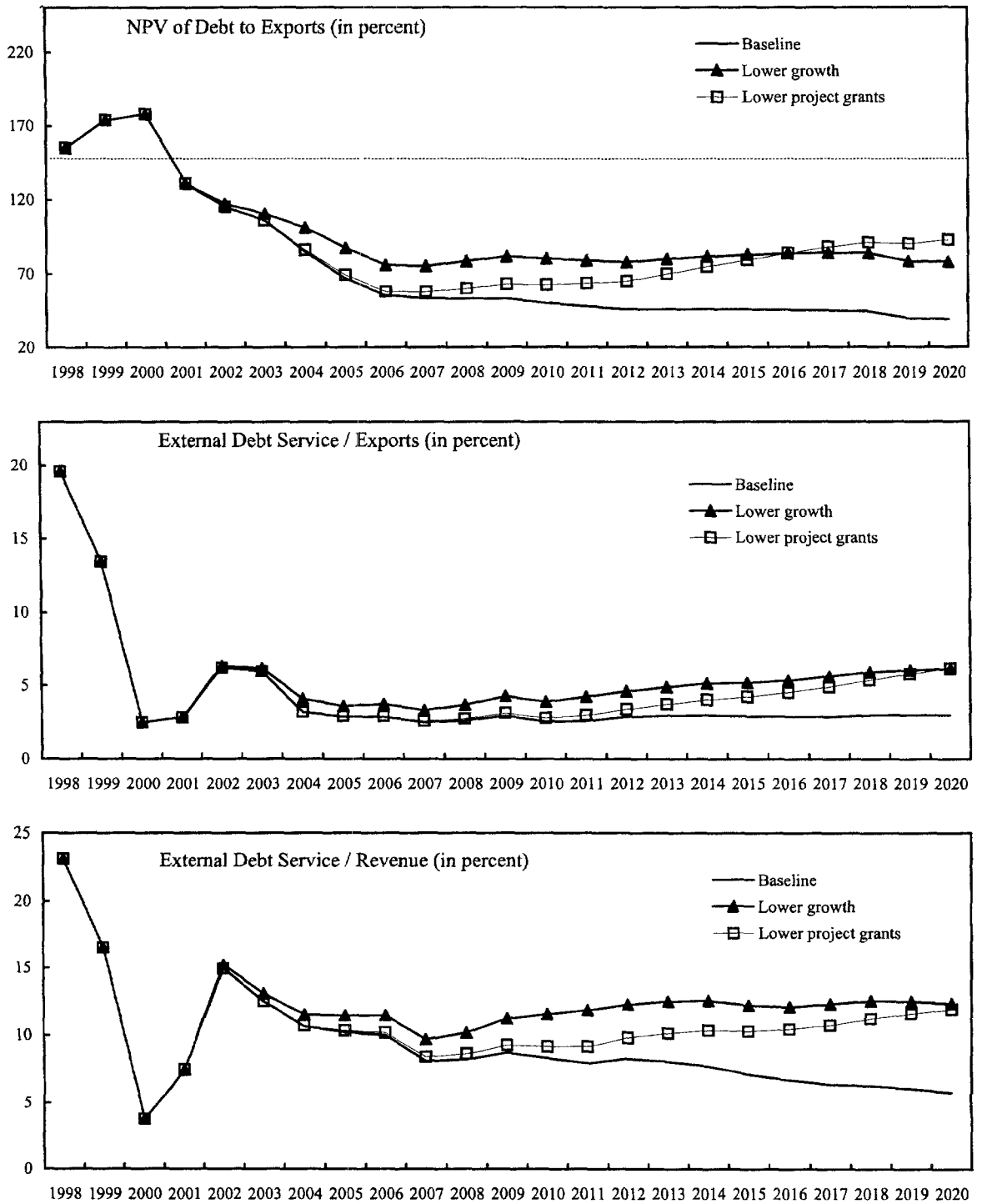
2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

3/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPVof debt at the completion point in the calculation of this ratio.

4/ Equivalent to SDR 1,386 million at an SDR/USD exchange rate of 0.7900, of May 1, 2001.

5/ Figures are based on preliminary assessments at the time of the issuance of the preliminary HIPC document; and are subject to change.

Chart 1. Mozambique: Sensitivity Analysis, 1998 - 2020 1/



Source: Mozambican authorities and staff estimates.

1/ Debt service indicators under different scenarios assuming full delivery of enhanced HIPC but before additional bilateral relief.

Mozambique: Debt Management

Institutional framework

Debt management is the responsibility of the Ministry of Planning and Finance in Mozambique. Public or publicly guaranteed debt can only be contracted with the approval of the Ministry. The Ministry maintains the database for multilateral debt while the Bank of Mozambique maintains the database for bilateral debt. Coordination between the two agencies is good. Efforts are being made to strengthen the capacity within the Ministry so that all monitoring of public debt can be united within the Ministry at a later date.

Debt recording and reporting

Monitoring of recently acquired public and publicly-guaranteed debt has been good. The authorities have made a concerted effort to reconcile data on older debts with creditors and, with a few minor exceptions, this process has now been completed. This data is maintained using the Commonwealth Secretariat database system CS-DRMS. The database is generally up-to-date and is regularly maintained by both the Ministry of Planning and Finance and the central bank. However, the current system is not able to produce data directly in an analytical form. The Bank of Mozambique is in the process of establishing a computerized database to track external private sector debt stocks (currently comprehensive information on stocks is only available in hard copy although information on a few large private projects has been monitored more closely). Flows related to private sector debt and its repayment are already relatively well monitored by the Bank of Mozambique.

Analytical capacity

The technical staff at both the Ministry of Finance and the Bank of Mozambique are experienced and knowledgeable about debt issues and have carried out numerous debt restructuring negotiations. There is more limited capacity within the debt teams to integrate debt and macroeconomic simulations and these have tended to be produced in conjunction with the Bank and the Fund.