



COOLING THE “HEAD” OF BAD MACROECONOMIC GOVERNANCE?

## The curious reassessment by the IMF on the sustainability of the Mozambican public debt



Credits: Reuters Agency

Mozambique’s debt “is assessed to remain in distress, but sustainable in a forward-looking sense”. This is one of the main findings of the International Monetary Fund (IMF), as shown in point 18 of its report on the assessment of the macroeconomic situation in Mozambique, for the grant of emergency financial support under the Rapid Credit Line (RCF)<sup>1</sup>.

This report, released on April 29, culminated in the disbursement of US \$ 309 million to the Government of Mozambique to fight COVID-19. The Center for Democracy and Development (CDD) considers this positioning of the IMF curious, as it is completely contrary to the principles of rigor, clarity and objectivity that have characterized the analyses of this prestigious international financial institution.

<sup>1</sup> <https://www.imf.org/en/Publications/CR/Issues/2020/04/29/Republic-of-Mozambique-Request-for-Disbursement-Under-the-Rapid-Credit-Facility-Press-49383>



Credits: Club of Mozambique

Why the IMF, which has always been critical of the dangerous evolution of the unsustainability of Mozambican public debt, due to the fact that our country owes more than its annual production, mainly since contracting the so-called hidden debts, appears today to minimize this fact with the introduction of the concept of “sustainable public debt in forward-looking”?

In its report, the IMF considers that the Mozambican public debt is “sustainable forward-looking” due to the good medium-term prospects it has in relation to the revenues that can be obtained from the exploitation of liquefied natural gas (LNG) in the Rovuma Basin. Here is exactly where lies the problem of this innovative way that the IMF uses to assess the sustainability of the Mozambican public debt.

Contrary to what the IMF suggests, the outlook for the future of LNG projects in Mozambique is not encouraging. For example, in mid-

-March, Fitch Solutions wrote that LNG projects in Mozambique “started to lose their lustre<sup>2</sup>” due to the drop and prospect of the price crash of oil & gas in the international market that makes these projects less profitable.

The outbreak and spread of the COVID-19 pandemic have aggravated the already difficult business situation for multinationals that exploit hydrocarbons around the world, precipitated by the “price war” between Saudi Arabia and Russia, which has forced historic drops of the prices of commodities<sup>3</sup>. In this context, for example, Angola lost, in just 1 month, 5 drilling rigs due to the suspension of activities of some of oil and gas companies such as the American ExxonMobil, the Italian ENI, the British BP and the French Total<sup>4</sup>. In the same line of expenditure cuts, Qatar, the world’s largest producer of natural gas, has postponed a major expansion project in which ExxonMobil is a major partner.

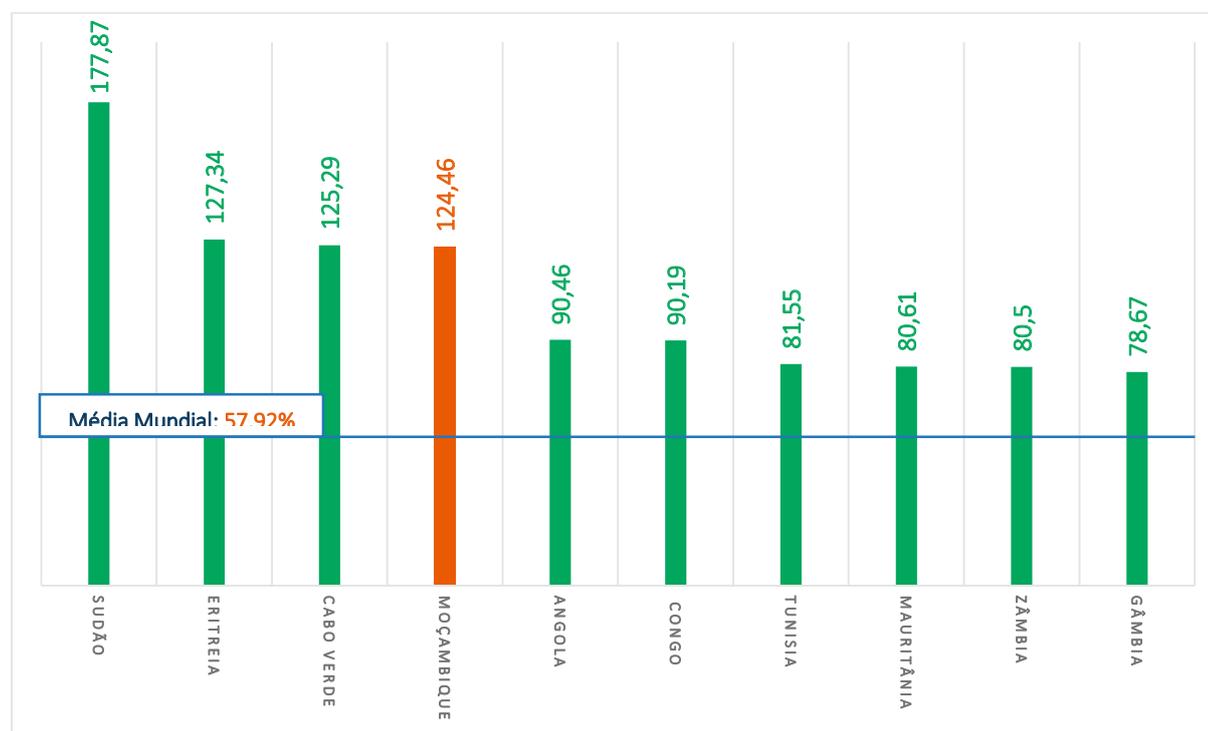
In Mozambique, the events described above led

<sup>2</sup> <https://noticias.sapo.mz/economia/artigos/investimentos-no-gas-em-mocambique-comecam-a-perder-brilho-considera-a-fitch-solutions>

<sup>3</sup> <https://www.esquerda.net/artigo/preco-do-petroleo-sofre-maior-queda-desde-1991/66272>

<sup>4</sup> <https://www.angonoticias.com/Artigos/item/64510/angola-perde-5-sondas-de-perfuracao-em-um-mes>

## Ranking of the 10 African countries with the most unsustainable public debts in 2020 (% of GDP)



Source: International Monetary Fund: World Economic Outlook Database (2020) and United Nations: National Accounts Main Aggregates Database (2020)

to the postponement of the Final Investment Decision, with no expected return, of the area 4 project that is led by ExxonMobil, one of the largest LNG exploration projects in the Rovuma Basin<sup>5</sup>. Other multinationals, such as ENI, announced a partial halt to their activities<sup>6</sup>.

The military insurgency in Cabo Delgado and the lack of transparency in governance are other adverse factors for the extractive industry in Mozambique, which limits its contribution on the collection of revenues for Mozambique so that the country can pay its debts with the IMF and other international financial institutions. The military insurgency has increased in recent weeks, and according to Darias Jonker, director of Eurasia Group Ltd<sup>7</sup> in London: “the (Mozambican) government seems to be losing the fight”<sup>8</sup>. So, we cannot foresee a bright future in such a disturbing macroeconomic scenario.

The IMF report advances also with downward prospects for the evolution of the weight of public debt in the gross domestic product (GDP), having decreased to 113.7% and 113.1%, respectively.

Even so, as shown in the graph above, Mozambique remains in the top 10, at the world level, and in the top 4, at the African context, countries with unsustainable public debts indexes, with 124.5% of GDP against 57.9% of the world average.

Furthermore, this IMF assessment is based on the assumption that Mozambican economic growth will maintain at 2.2% and accelerate to 4.7% in 2021. However, the Economist Intelligence Unit (EIU)<sup>9</sup> anticipates a recession of 2.4% in the Mozambican GDP for 2020, and an acceleration towards an average growth of 4.3% in 2021, with the GNL projects being the main driver of the economic expansion. Regardless of which forecast is the closest to reality, the truth is that the uncertainties in international markets, due to the partial or total paralysis of economic activities, are a factor that does not allow optimistic conclusions about the sustainability of the Mozambican public debt in a “forward-looking sense”.

If all the advanced economies in the world, with the exception of China, are facing great economic

<sup>5</sup> Empresa líder mundial em pesquisa e consultoria na área de risco político.

<sup>6</sup> <https://business.financialpost.com/pmn/business-pmn/deadly-triple-threat-douses-mozambiques-60-billion-Ing-hopes>

<sup>7</sup> <https://www.lusa.pt/article/1g1Y2oQc979ydgZtotqzODMSZM5iuS11/mo%C3%A7ambique-enfrenta-recess%C3%A3o-de-2-4-este-ano-consultora-economis-t-intelligence-unit>

<sup>8</sup> <https://macaclub.com.mo/pt/2020/04/14/pt-adiamento-da-exxonmobil-de-decisao-de-investir-em-mocambique-reduz-ide-previsto-para-2020/>

<sup>9</sup> <https://business.financialpost.com/pmn/business-pmn/deadly-triple-threat-douses-mozambiques-60-billion-Ing-hopes>

difficulties to recover from this deep crisis that COVID-19 is generating, what can one say about developing economies, as is the case of Mozambique, which are structurally dependent on Foreign Direct Investment (FDI), which in turn, will be scarce in the post-COVID-19?

In the press release over the approval of the US \$ 309 million to support Mozambique's efforts to mitigate the impact of the pandemic and preserve macroeconomic stability, the IMF indicated that the government "has taken several measures to increase health spending, strengthen protection for the most vulnerable and support micro, small and medium-sized enterprises". Is the IMF aware that such measures have not benefited whom they should? Does the IMF know that, because they are not receiving financial support from the Government, companies are operating at only 25% of installed capacity and, in fact, thousands of Mozambicans have already lost their jobs? Did the IMF note that, even with the "injection" of US \$ 500 million into the banking system by the Bank of Mozambi-

que, no company has access to such a special line of credit and the metical continues to depreciate sharply in relation to the US dollar? Is it known to the IMF that, with the implementation of restrictive measures under the decree of the State of Emergency, Mozambican families that depend on informal activity are already starting to go hungry because they do not have the income to buy food and other basic necessities?

Therefore, CDD exhorts the IMF not to limit itself to analysing macroeconomic indicators, most often of a purely monetary and financial nature that does not have the necessary correspondence on the real side of the economy. The transmission mechanisms of the bank of Mozambique's monetary and exchange rate policies have very weak links with the real side of the economy. In Mozambique, the reduction in reference interest rates and the stability of the exchange rate does not necessarily imply greater liquidity for small and medium-sized enterprises and, much less, a reduction in the cost of living, especially for the low-income population.

COVID-19

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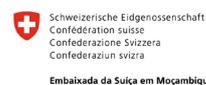
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