

ECONOMIC DEVELOPMENTS IN MOZAMBIQUE

CURRENT AND STRUCTURAL PERSPECTIVES

PRESENTATION TO THE FRANCE-MOZAMBIQUE BUSINESS CLUB AND THE
EUROPEAN BUSINESS CLUB
HOTEL POLANA - MAPUTO
31 May 2018



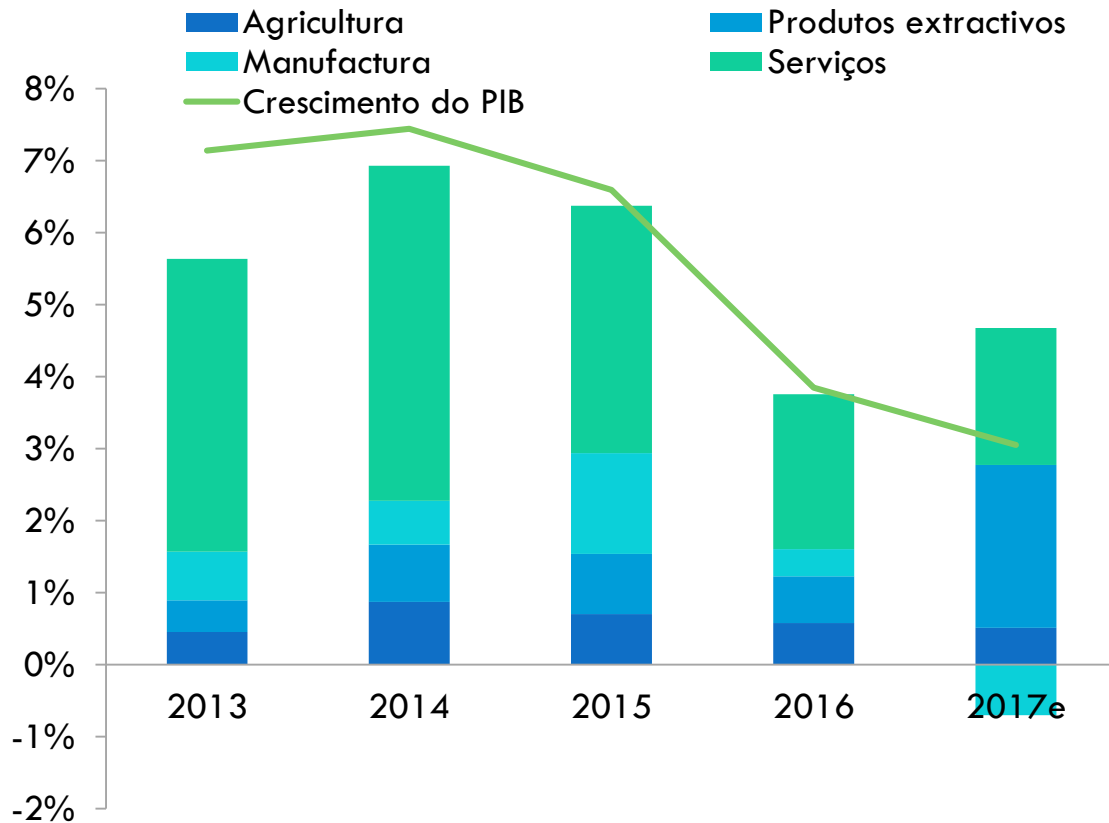
Shireen Mahdi
World Bank
31 May 2018

CURRENT PERSPECTIVES

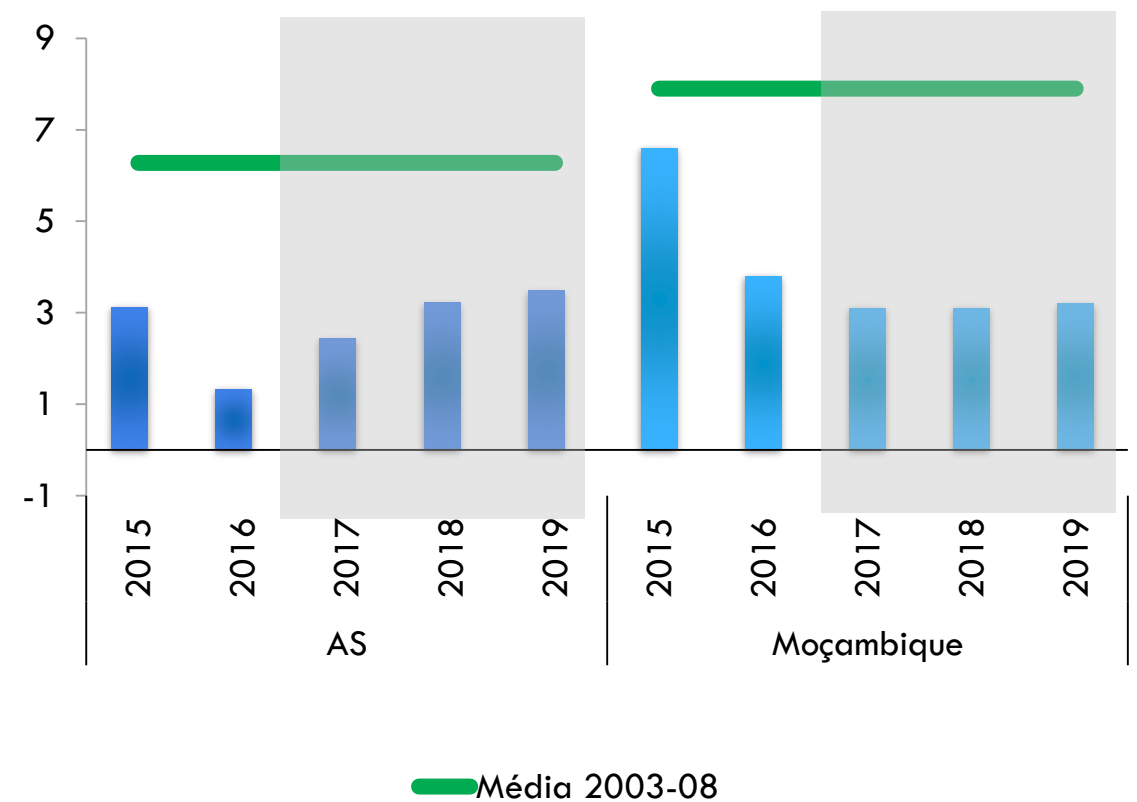
MOZAMBIQUE HAS SHIFTED TO A LOWER GROWTH TRAJECTORY

GDP growth is expected to be between 3-4 percent in the near term despite the recente ramp-up in coal production, but to pick up in the 2020s as large LNG investments and exports get underway

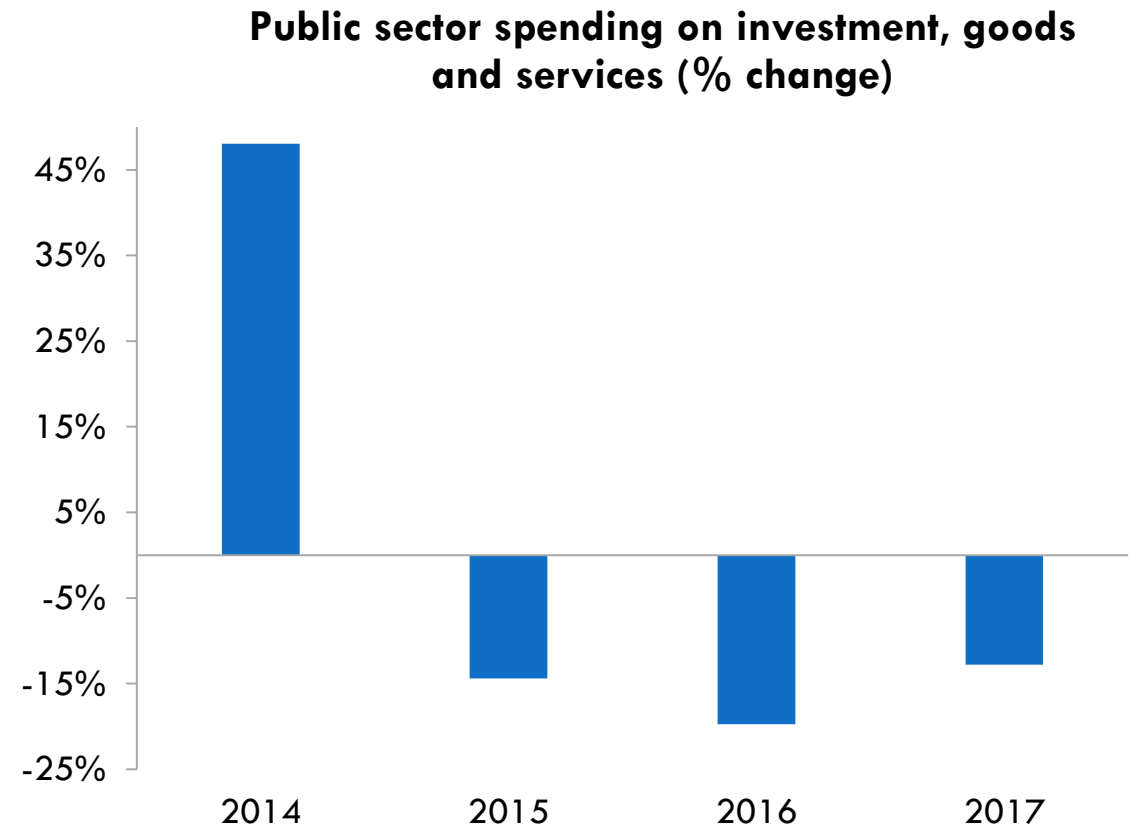
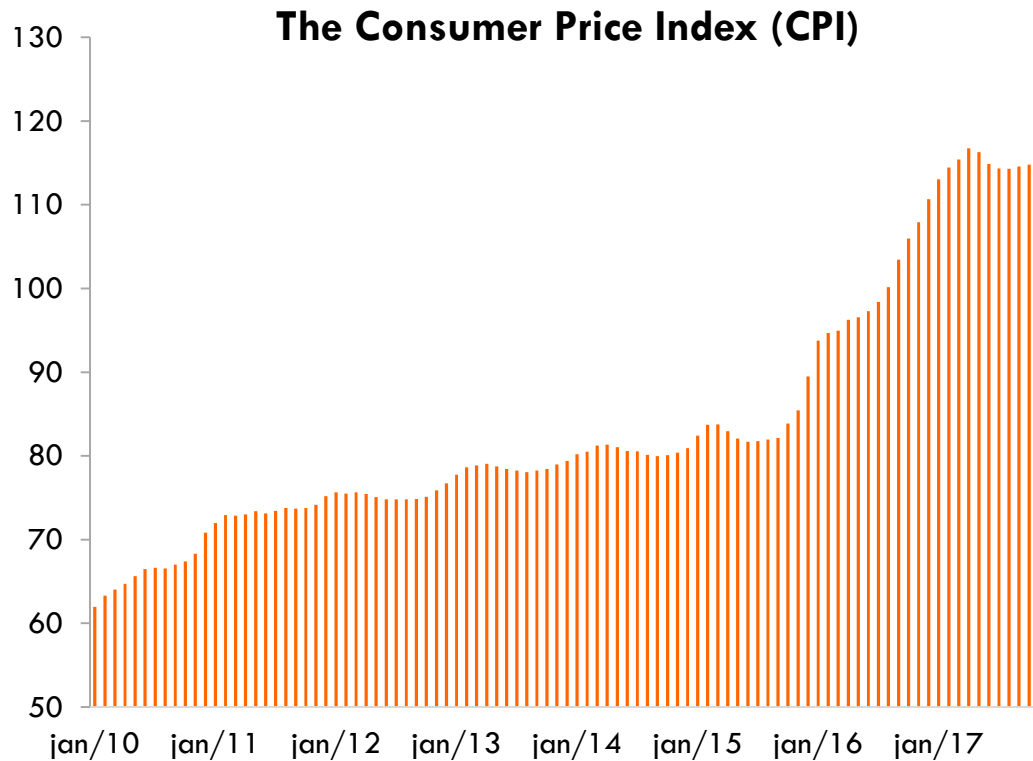
Contributions to GDP growth



Real GDP growth – Mozambique and Africa(%)

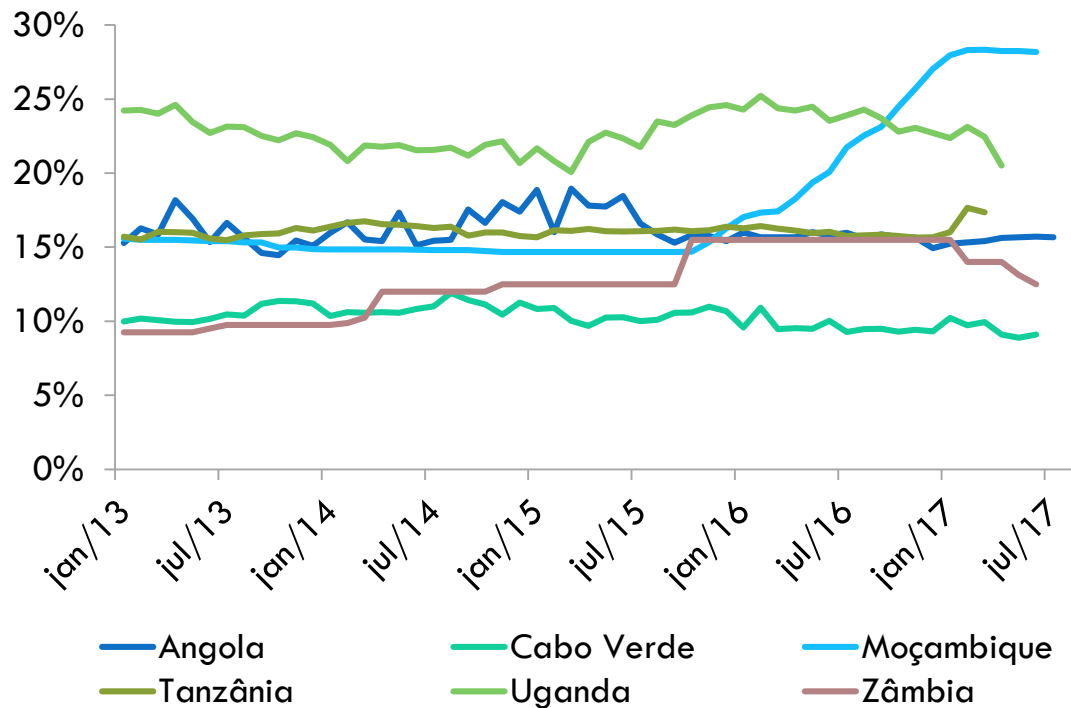


CONTRIBUTING FACTORS: A DROP IN PUBLIC DEMAND AND IN PRIVATE PURCHASING POWER

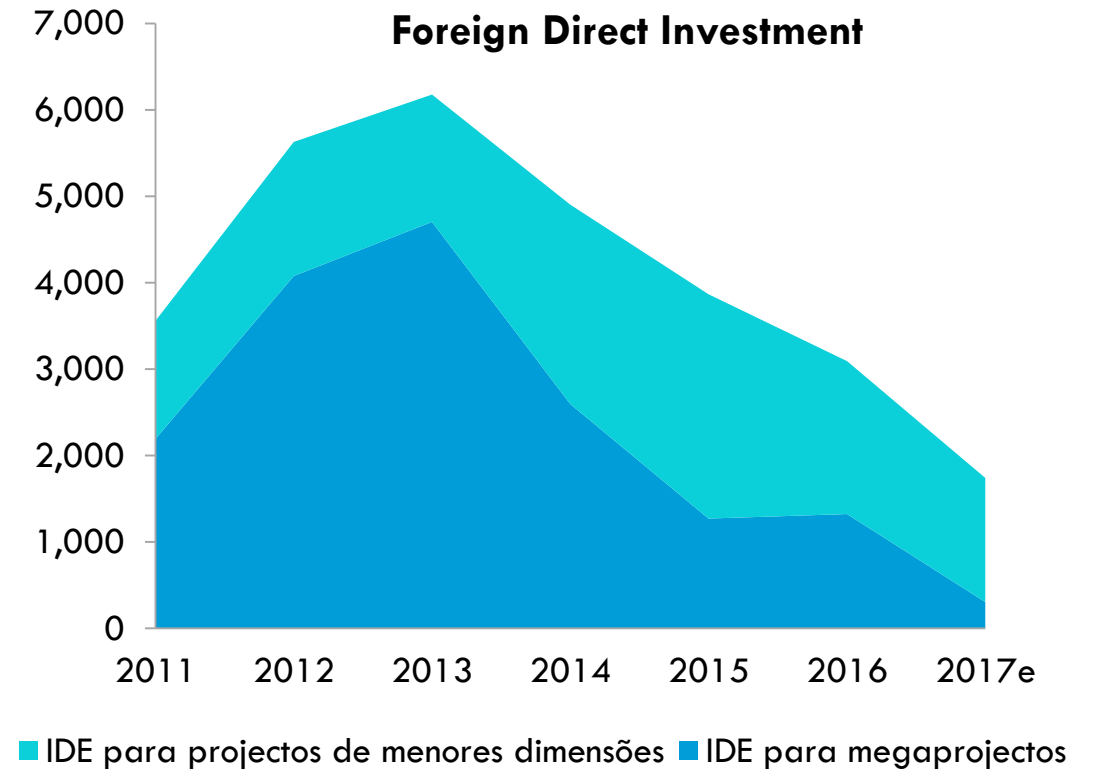


CONTRIBUTING FACTORS: LOWER INVESTMENT AND THE HIGH COST OF CREDIT

Interest rates in selected countries

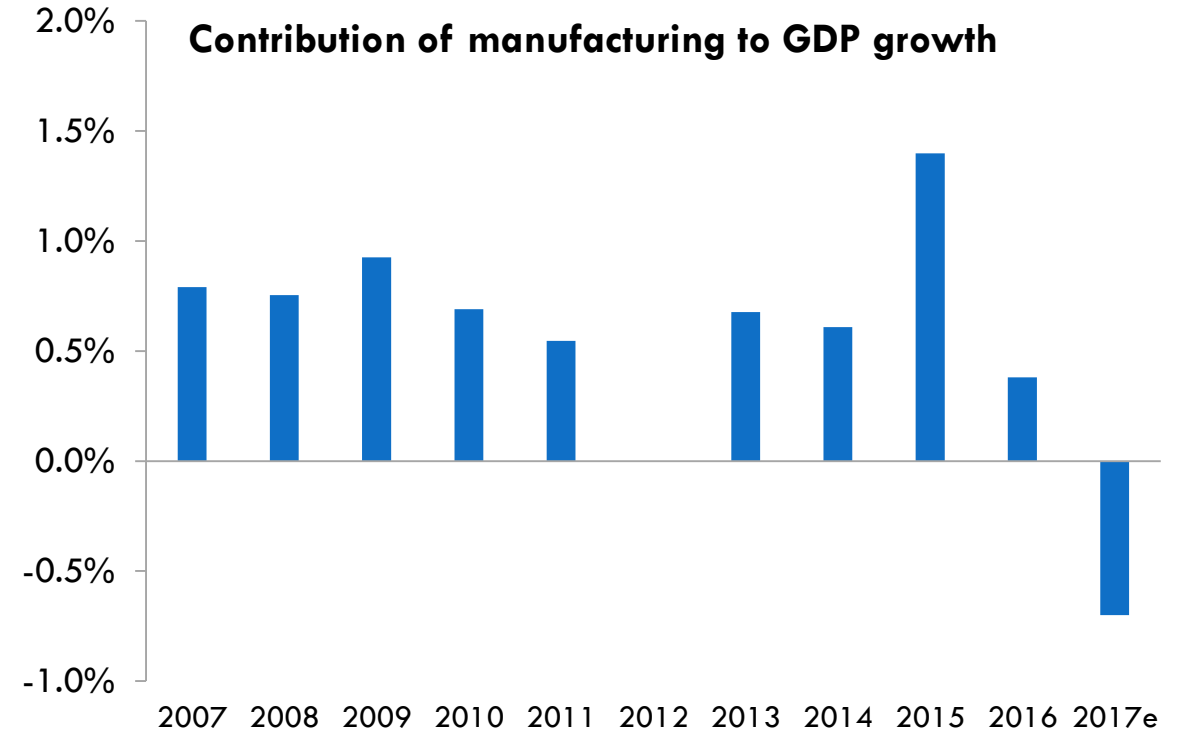
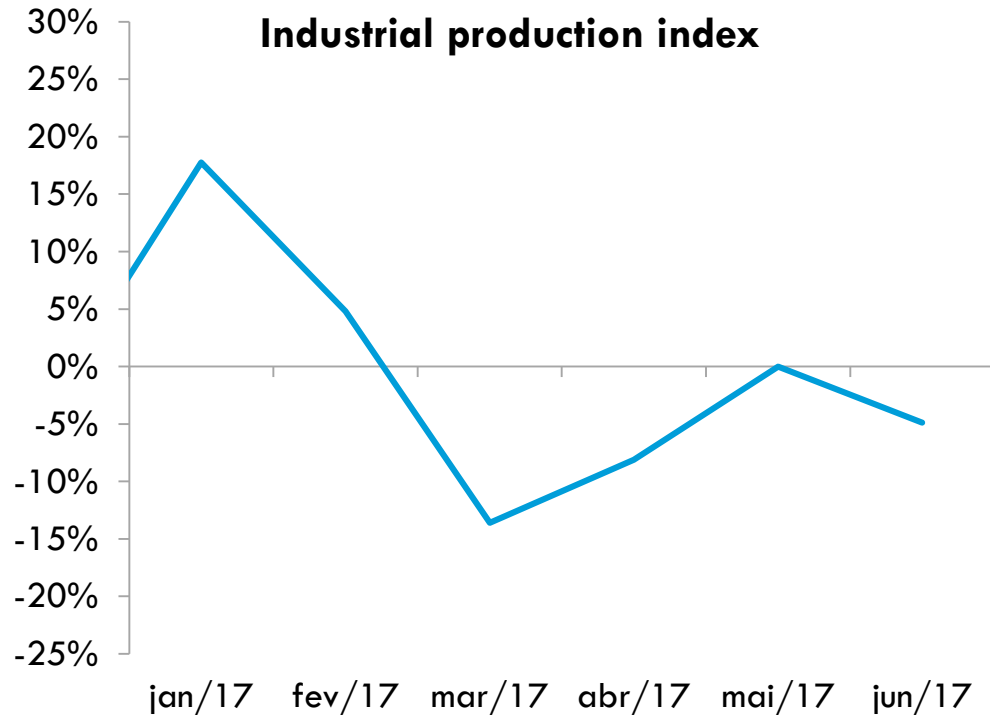


Foreign Direct Investment



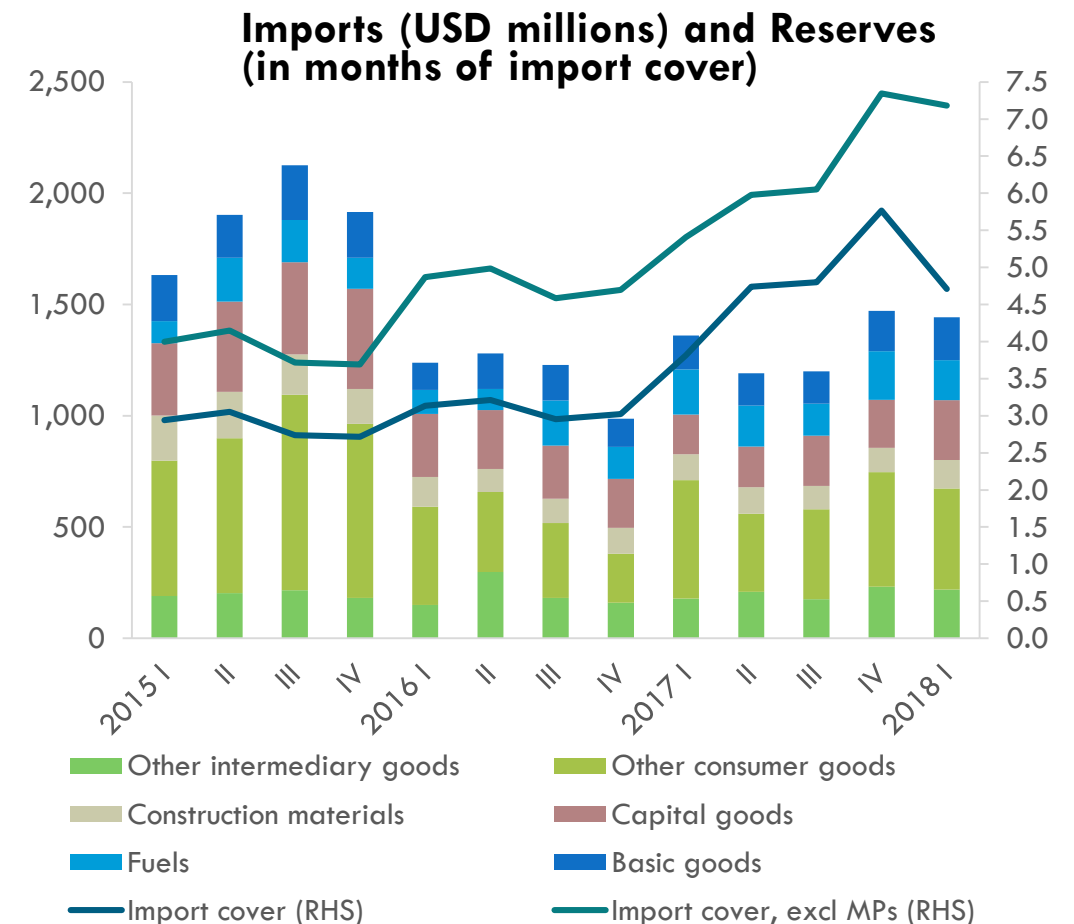
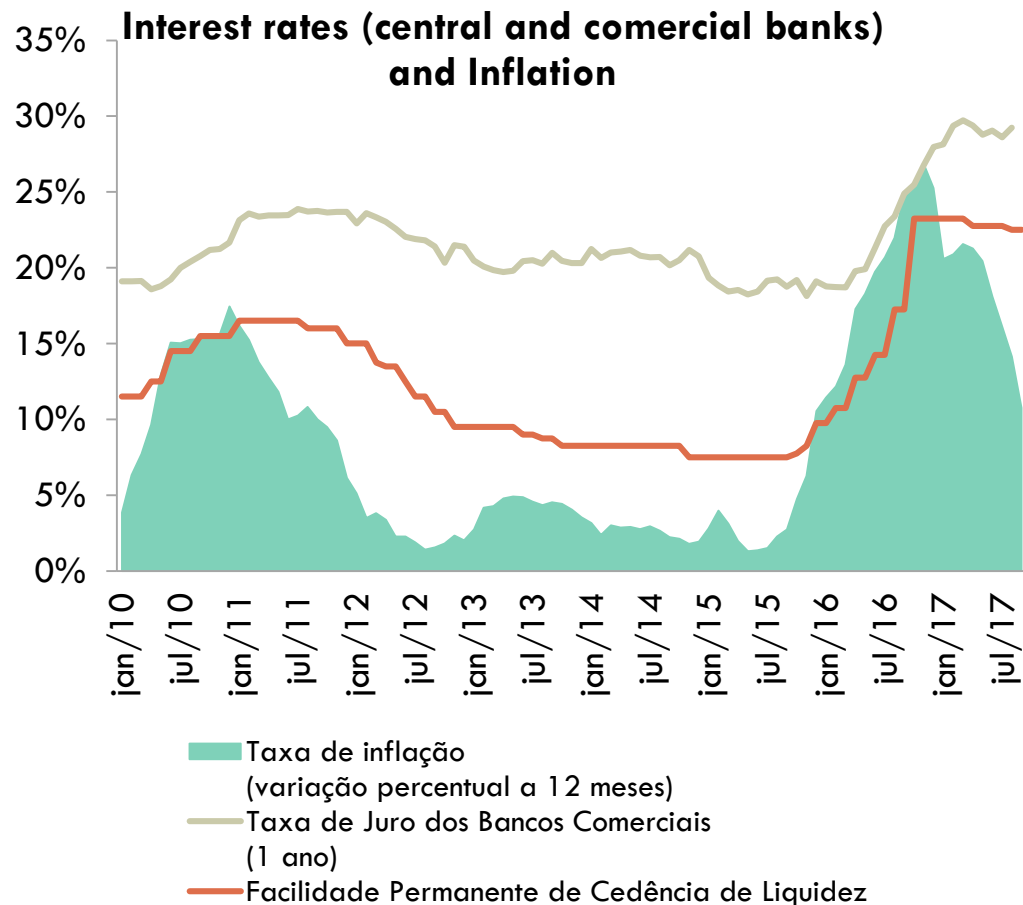
CONTRIBUTING FACTORS: THE DROP IN INDUSTRIAL PRODUCTION

Manufacturing made a negative contribution to GDP in 2017 for the first time since 1994 as a result of declining industrial output, signaling a difficult context for firms.



MONETARY POLICY HAS ADJUSTED THROUGH THE RECENT ECONOMIC DOWNTURN TO STABILIZE THE CURRENCY AND LIMIT INFLATION

Monetary policy helped to stabilize the metical and supported an external adjustment; it is now becoming less restrictive as inflation slows but remains cautious due to uncertain macroeconomic outlook.



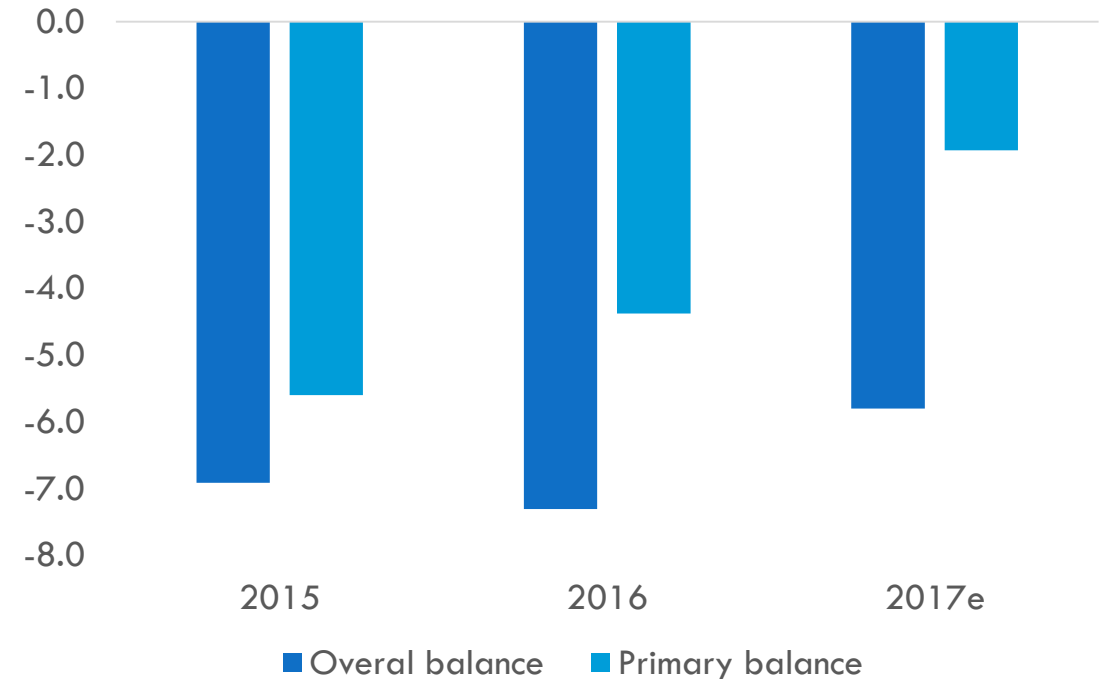
FISCAL POLICY HAS ALSO ADJUSTED IN RESPONSE TO SHRINKING FISCAL SPACE, BUT FINANCING REMAINS A CONCERN

Since 2015, the budget has faced major shocks, including a reduction in revenues, a reduction in donor aid, a significant increase in public debt, and a rise in the cost of domestic financing. Fiscal adjustment continues ...

**Change in budget receipts and expenditures
(2015 – 2017; % GDP)**

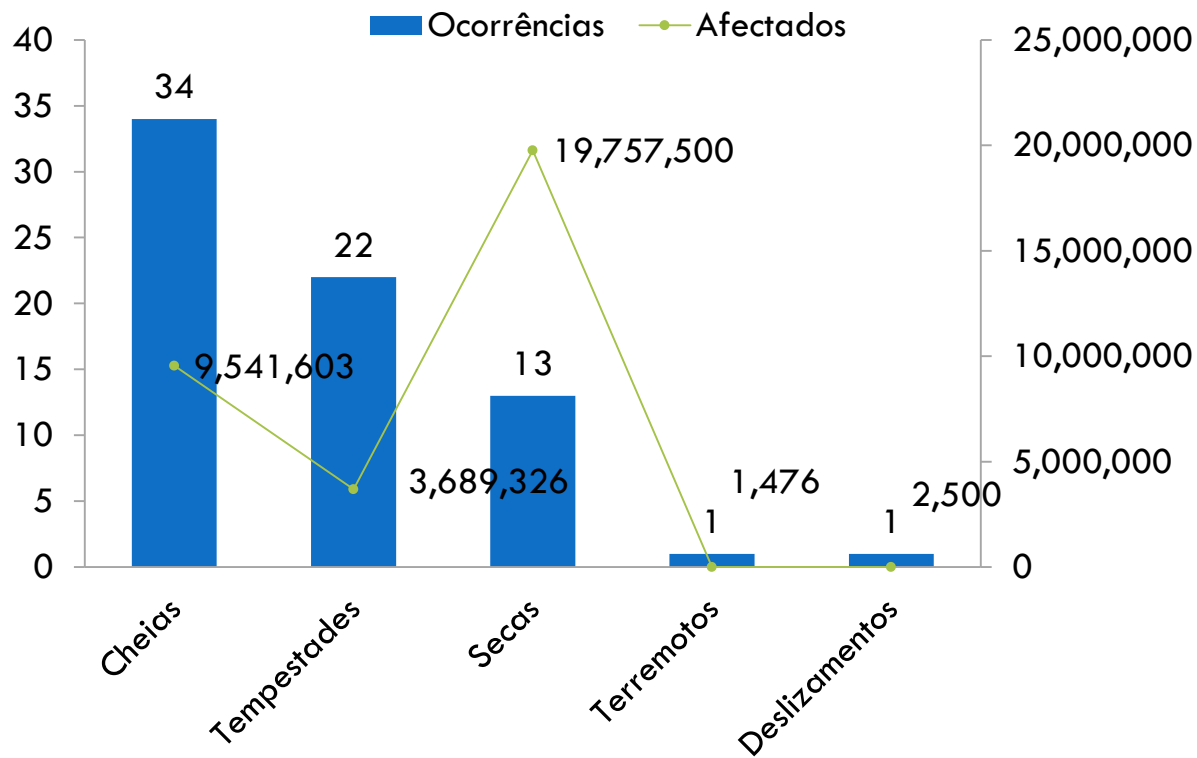


Fiscal Balances (% GDP)

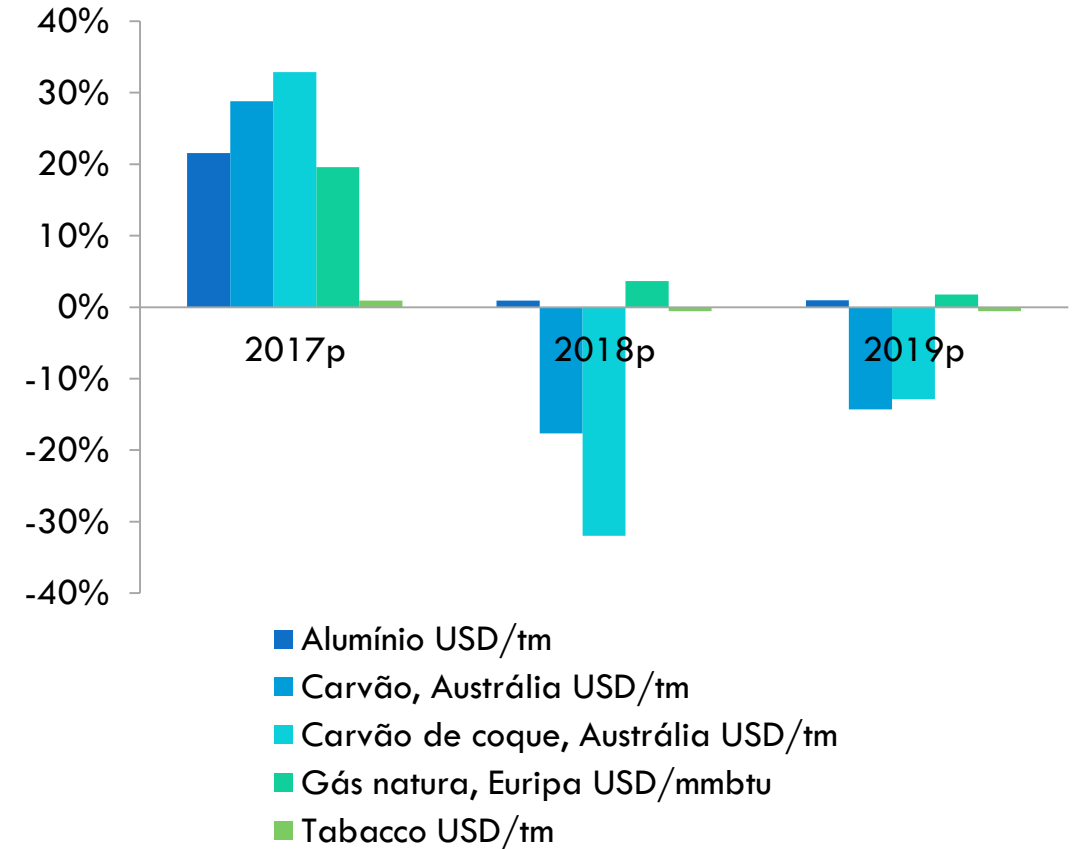


NATURAL DISASTERS AND COMMODITY PRICES CONTINUE TO BE A SOURCE OF RISK

Occurrence of natural calamities in Mozambique (1956 - 2016)

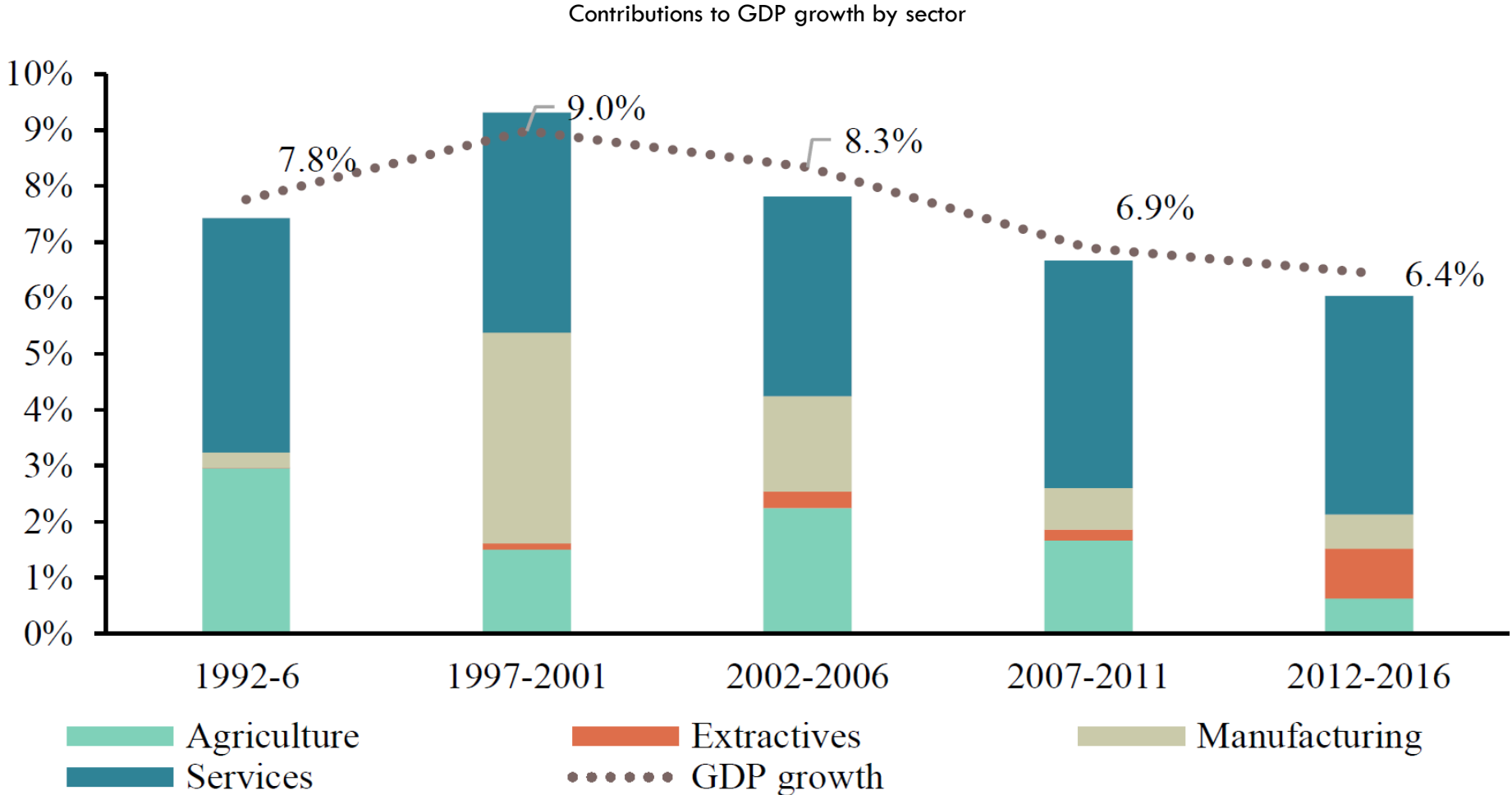


Commodity prices



STRUCTURAL PERSPECTIVES

THE STRUCTURE OF THE ECONOMY HAS BEEN CHANGING...

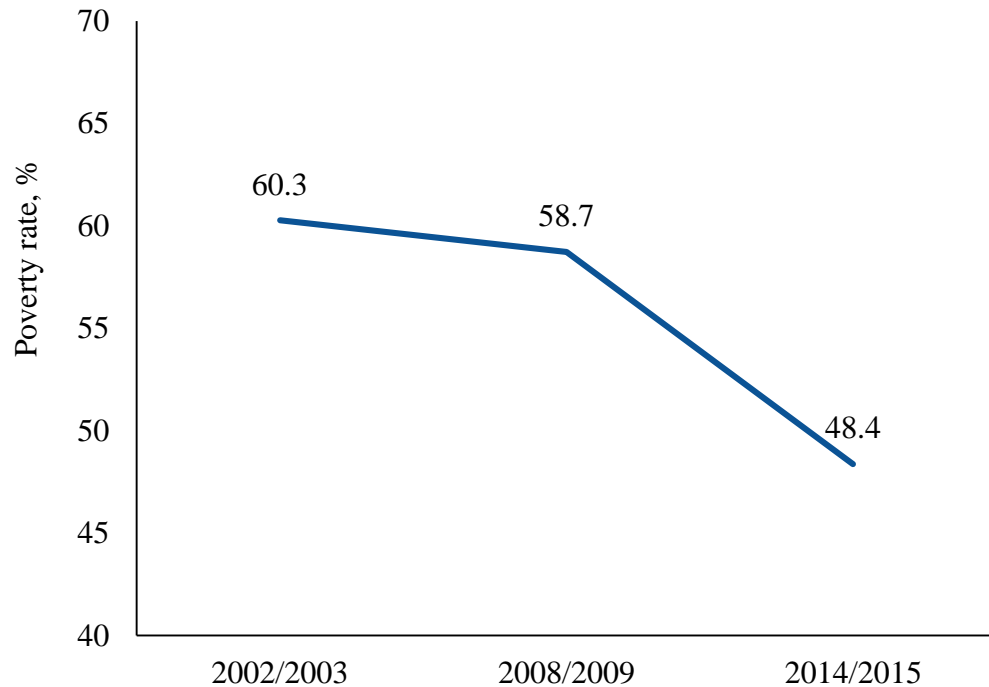


Source: National Institute of Statistics of Mozambique (INE)

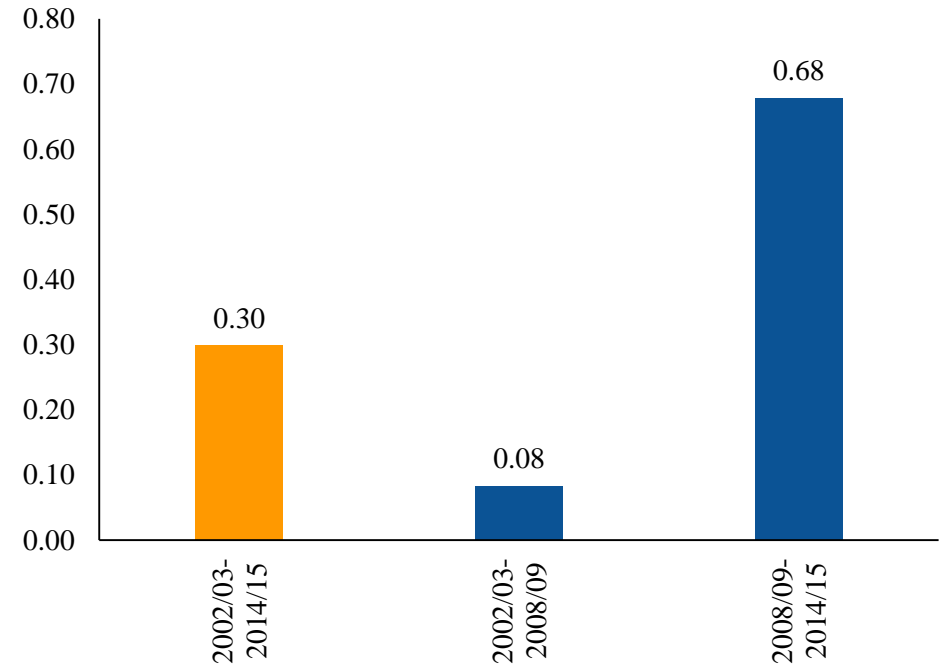
...AND HAS CONTRIBUTED TO INCREASED PROSPERITY...

Poverty levels have been falling, and at a faster pace than in the past

(Poverty rates based on official methodology)



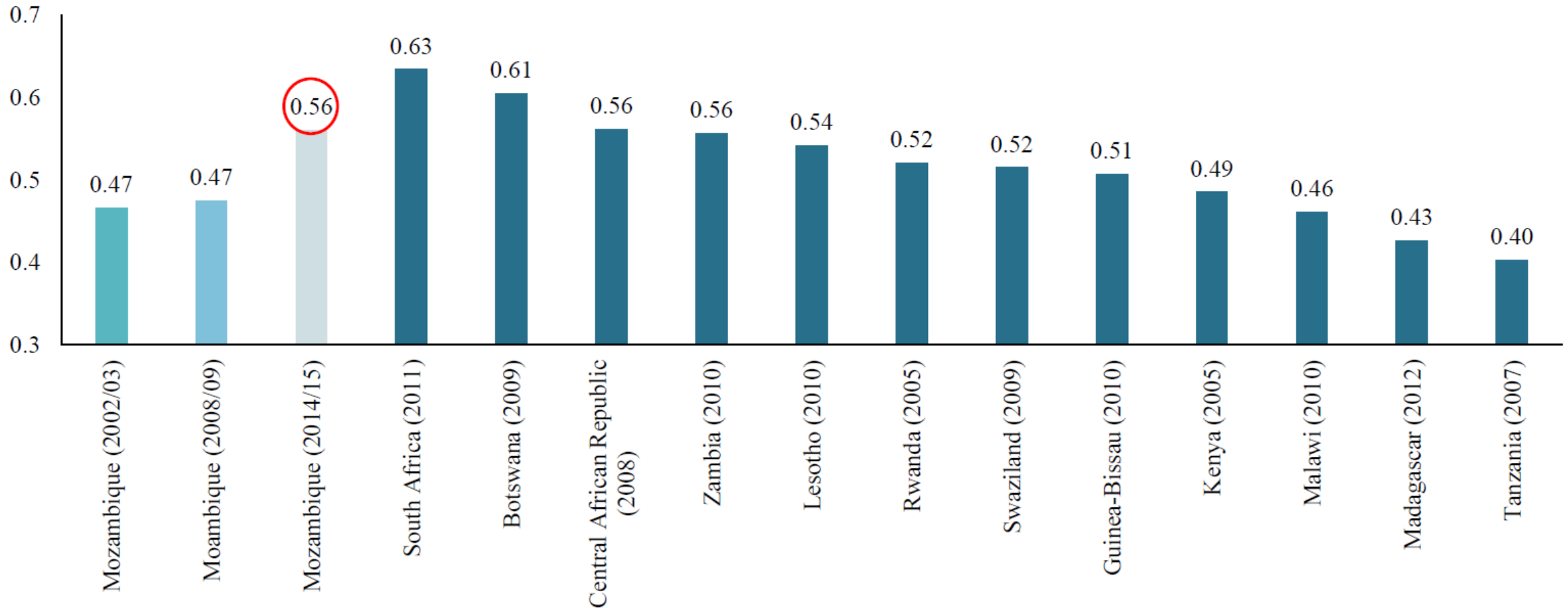
(GDP per capita growth elasticity of poverty, Mozambique)



... BUT RISING INEQUALITY IS A CONCERN...

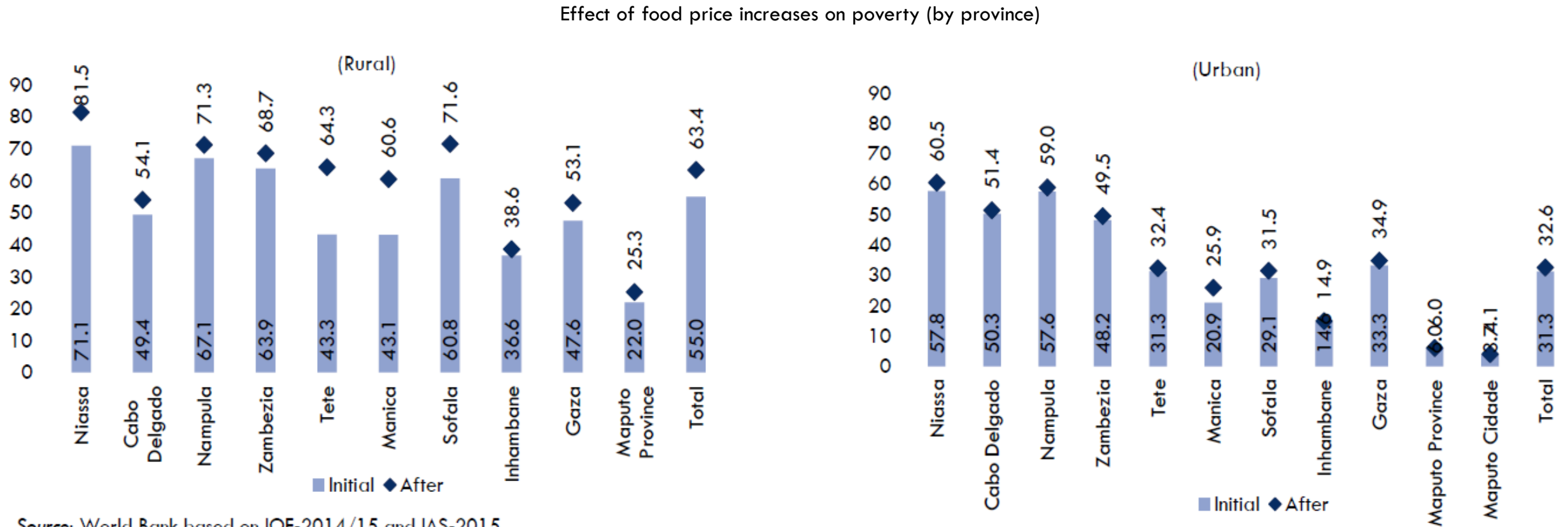
A large share of Mozambique's recent growth and poverty reduction occurred in urban areas – which widens the gap between the poor and rich

(Gini coefficient for selected countries and years)



... AND RECENT GAINS ARE AT RISK

The recent spike in inflation caused an increase in poverty across all provinces, but mostly in rural areas

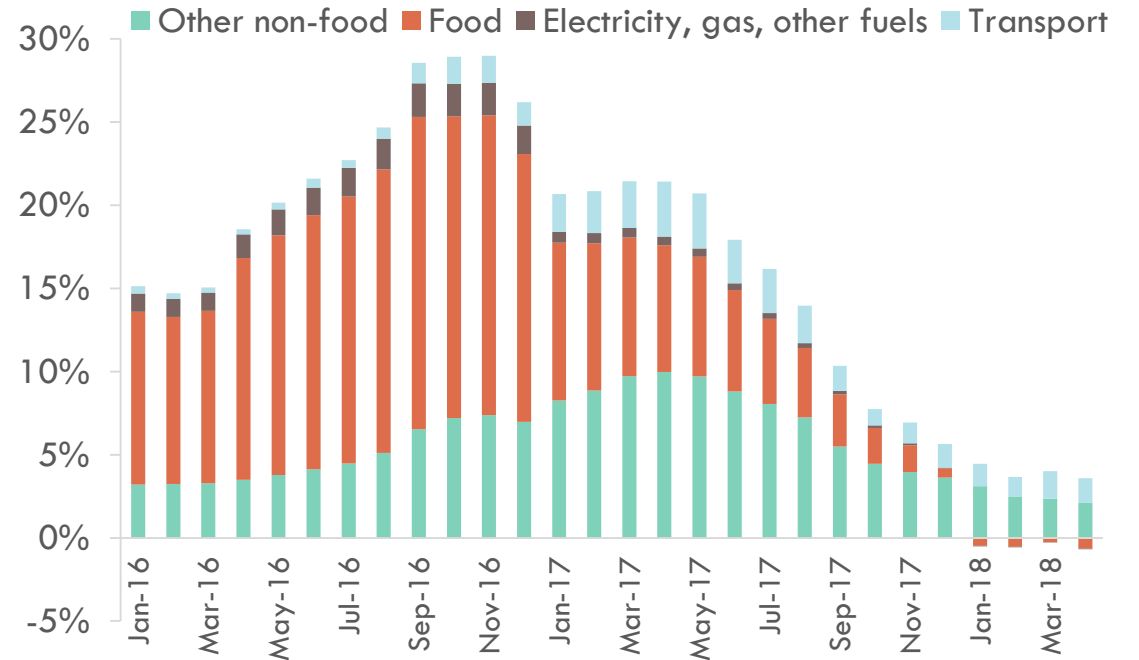
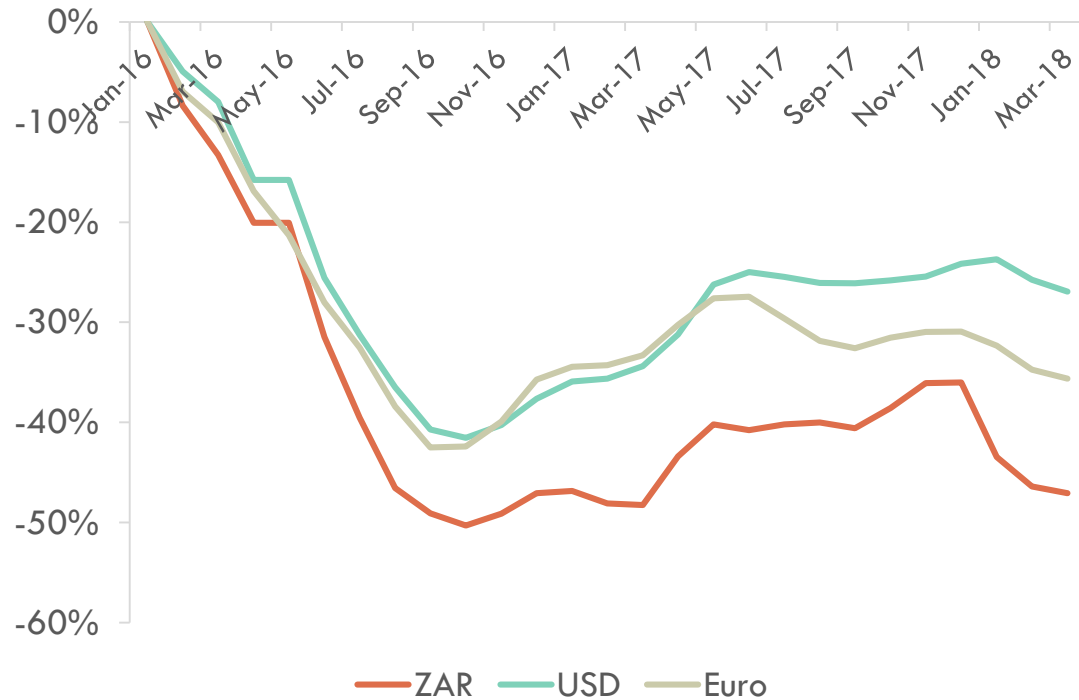


Source: World Bank based on IOF-2014/15 and IAS-2015

**CAN THE ECONOMY (AND THE PRIVATE SECTOR) SHIFT TO A MORE
DIVERSIFIED AND INCLUSIVE GROWTH MODEL?**

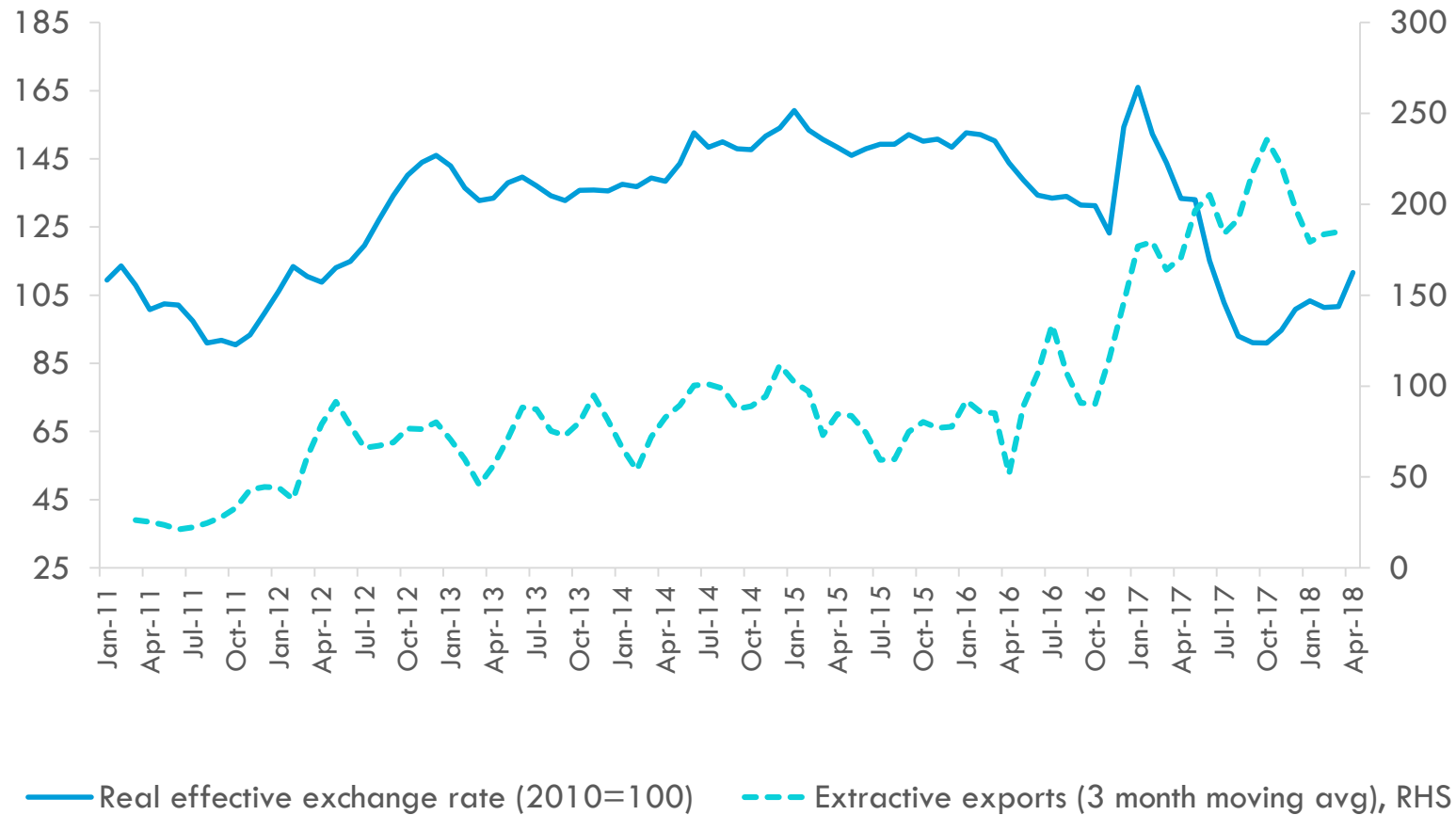
SOME SILVER LININGS ...

A more stable currency and lower inflation



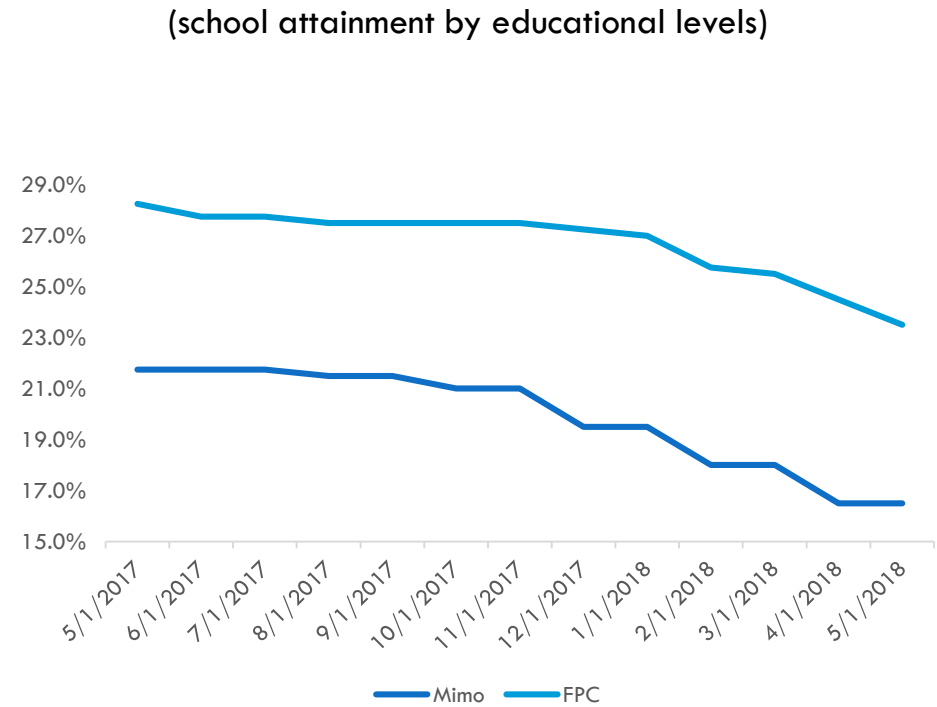
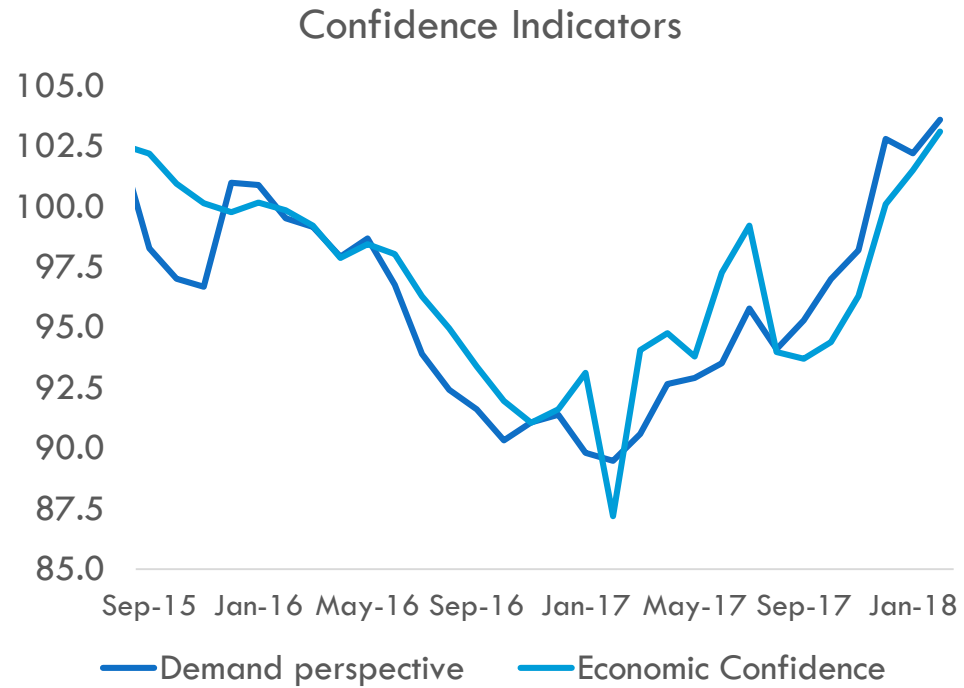
SOME SILVER LININGS ...

A more competitive real exchange rate



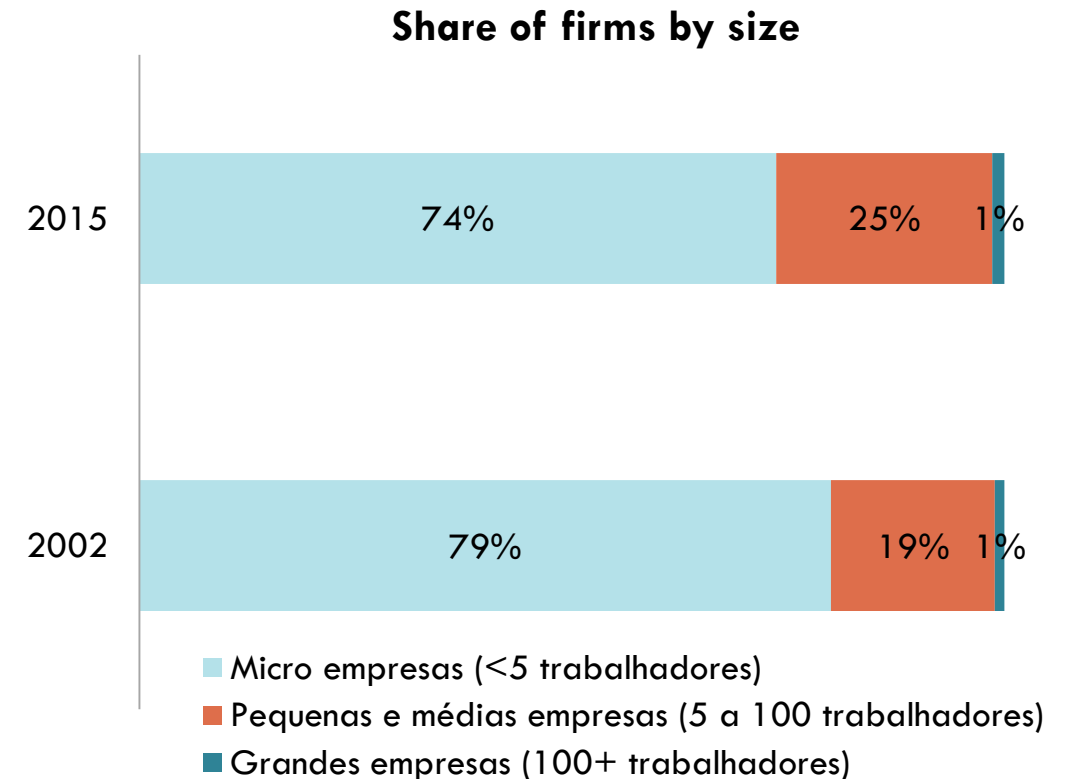
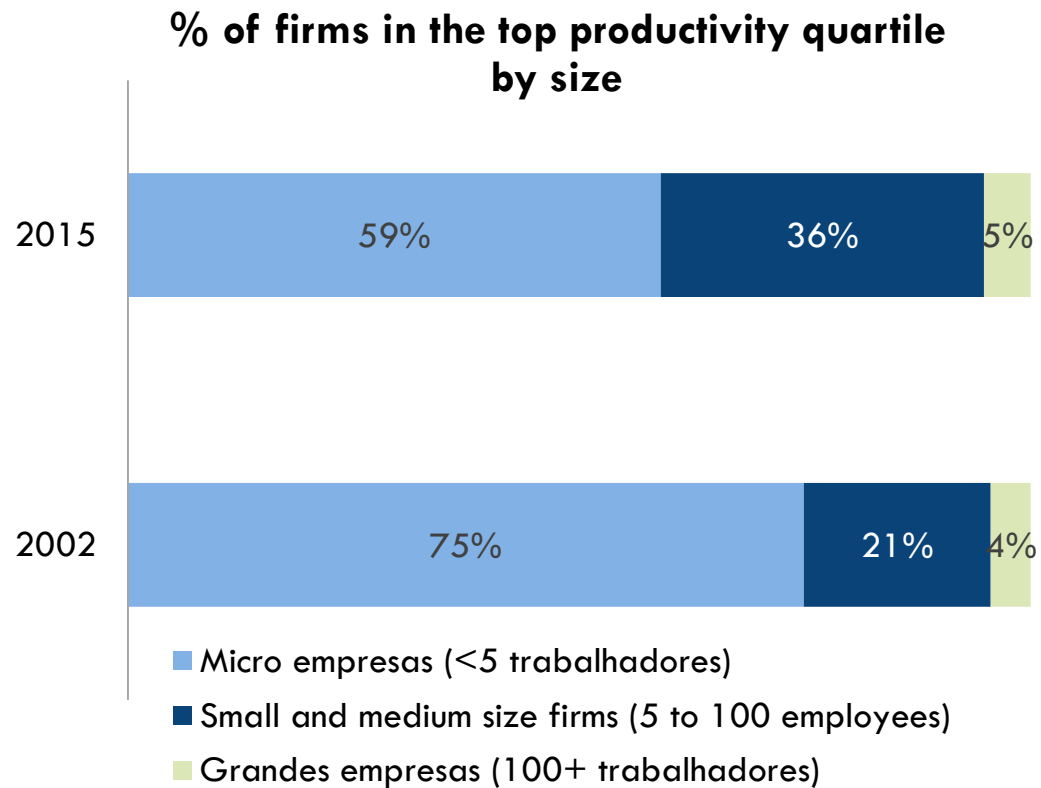
SOME SILVER LININGS ...

Improving confidence levels and easing monetary policy



SOME SILVER LININGS ...

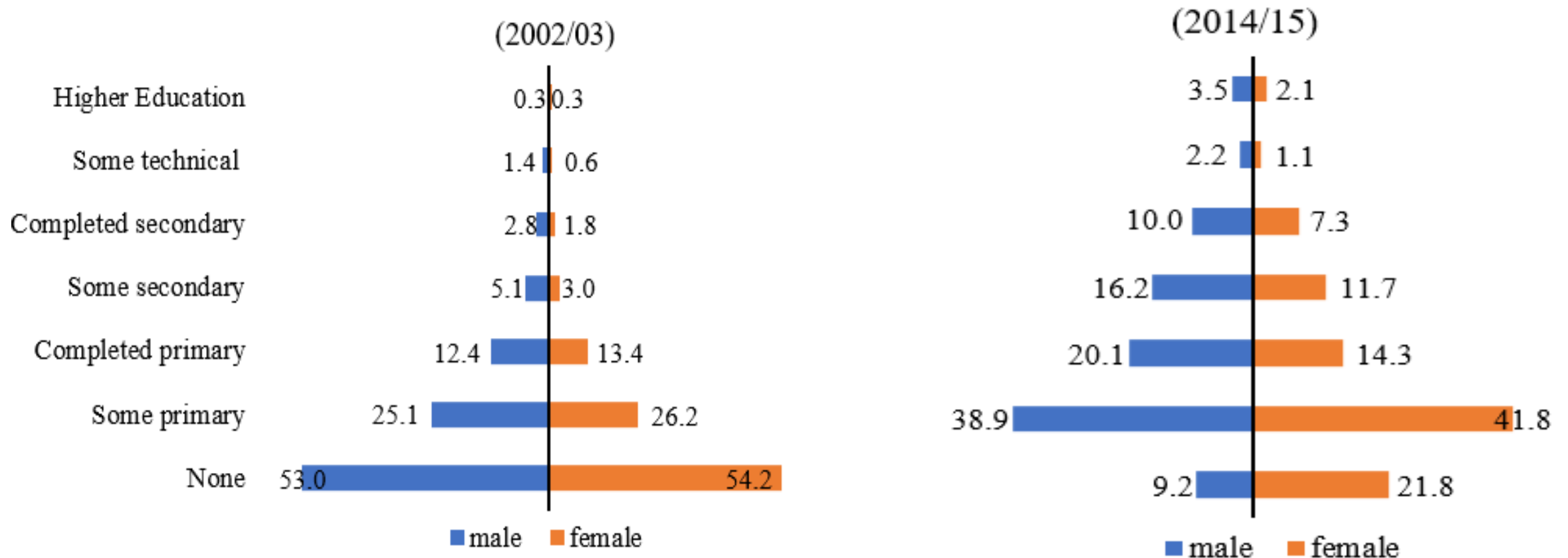
The proportion of small and medium-sized enterprises has been increasing, and the share of companies in the higher productivity category has also increased.



SOME SILVER LININGS ...

A [slowly] improving educational context

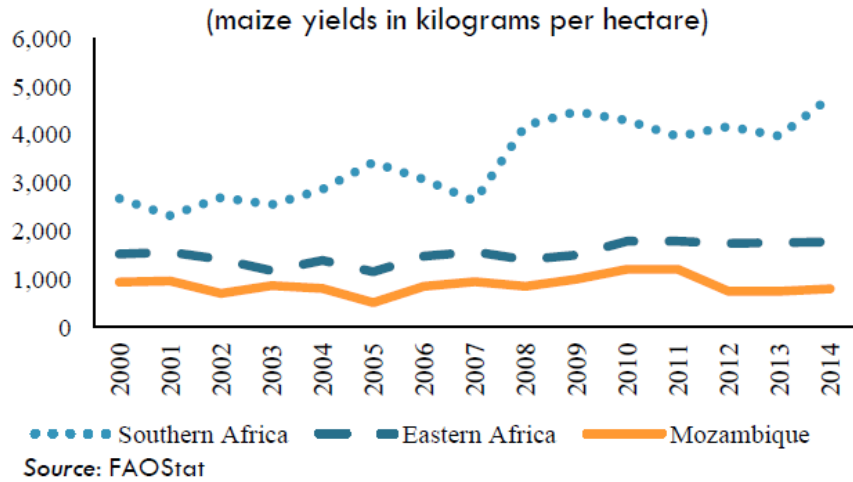
(school attainment by educational levels)



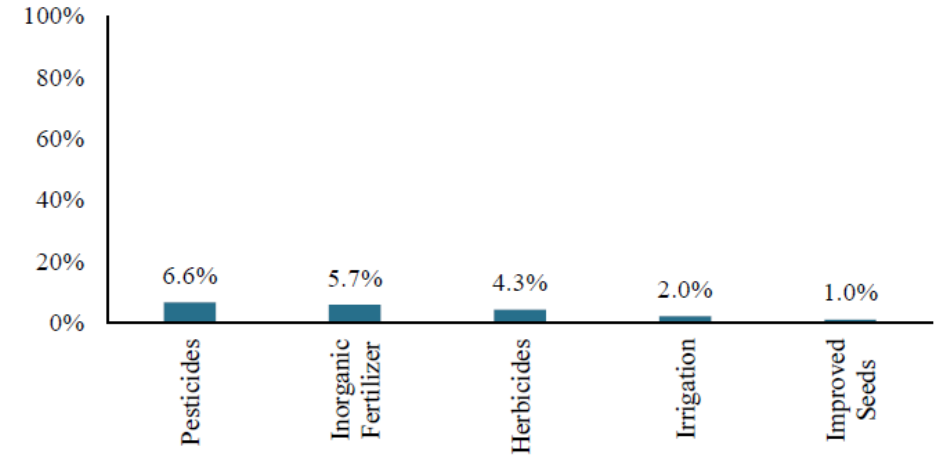
**PERSPECTIVES ON:
AGRICULTURAL PRODUCTIVITY
EXPORT QUALITY: COMPLEXITY AND LINKAGES
AND EDUCATION**

AGRICULTURAL PRODUCTIVITY

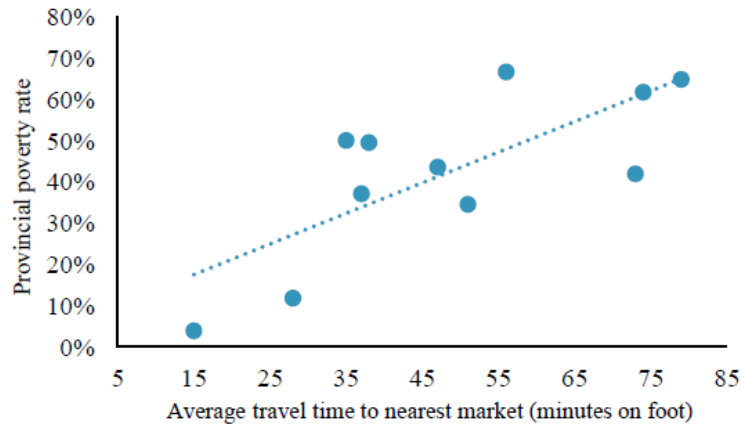
Average maize yields are lower in Mozambique than in the region, ...



... largely because of low adoption of modern agricultural inputs

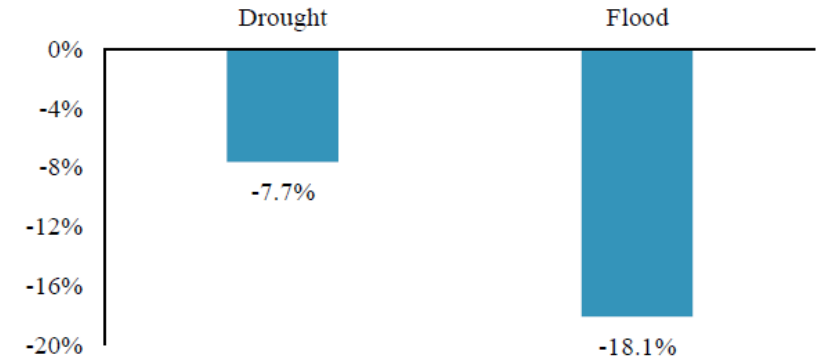


Isolation is a major barrier for farmers to access input and output markets, ...



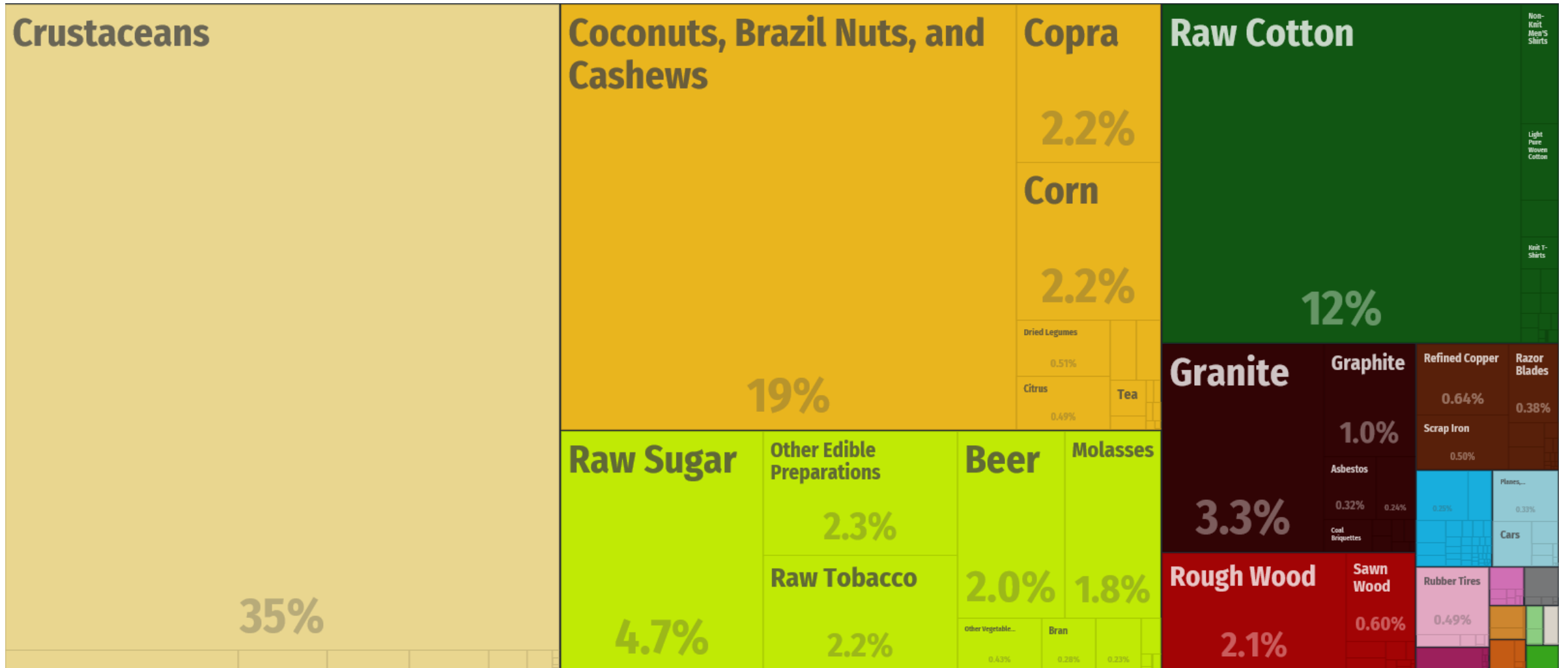
... and agricultural productivity is highly vulnerable to weather shocks

(Productivity of farmers affected by shocks relative to non-affected farmers)



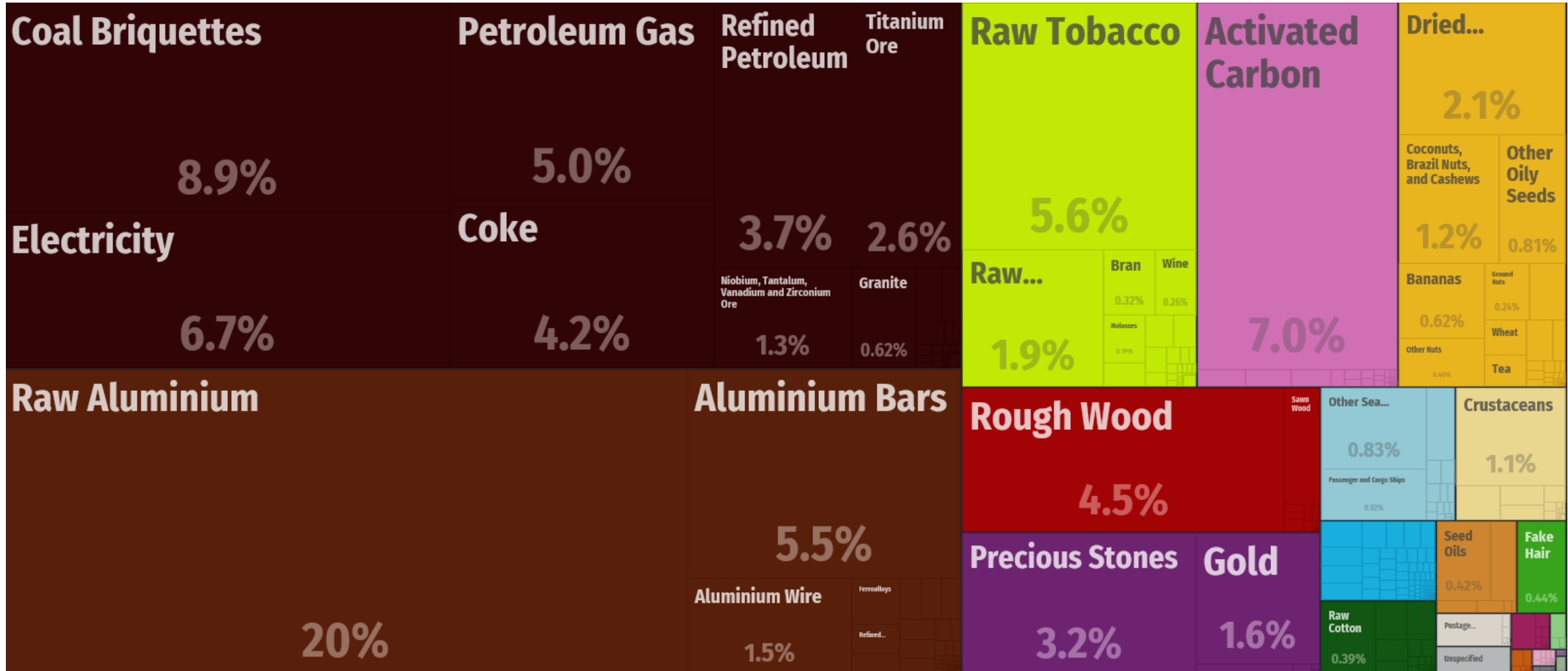
EXPORT DIVERSITY

In 1996, Mozambique exported a low volume/ variety of primary products



EXPORT DIVERSITY

In 2016, Exports have become more diverse, but remain dominated by primary products



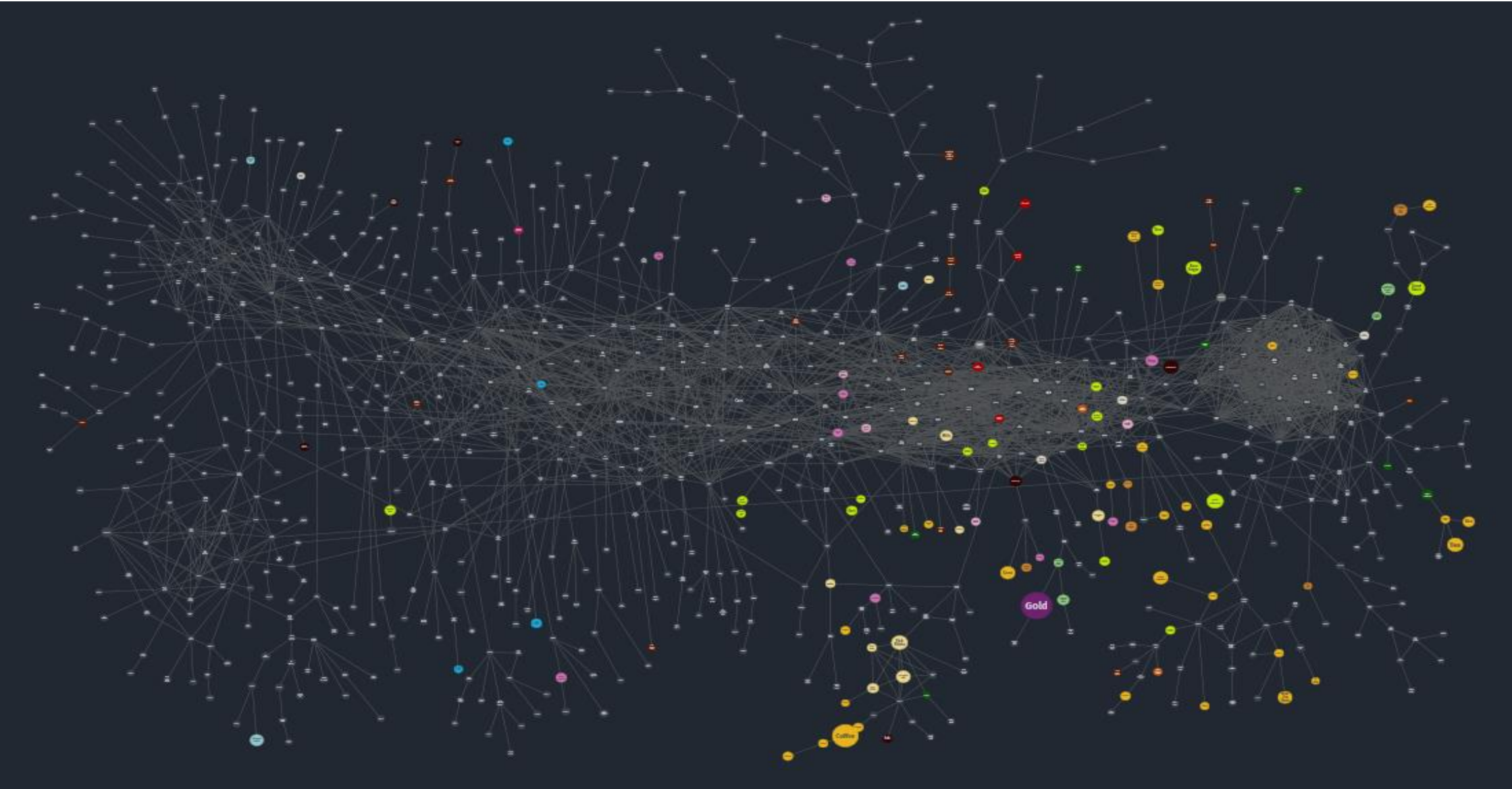
CHINA: EXPORT COMPLEXITY AND LINKAGES

Export product linkages in 2016



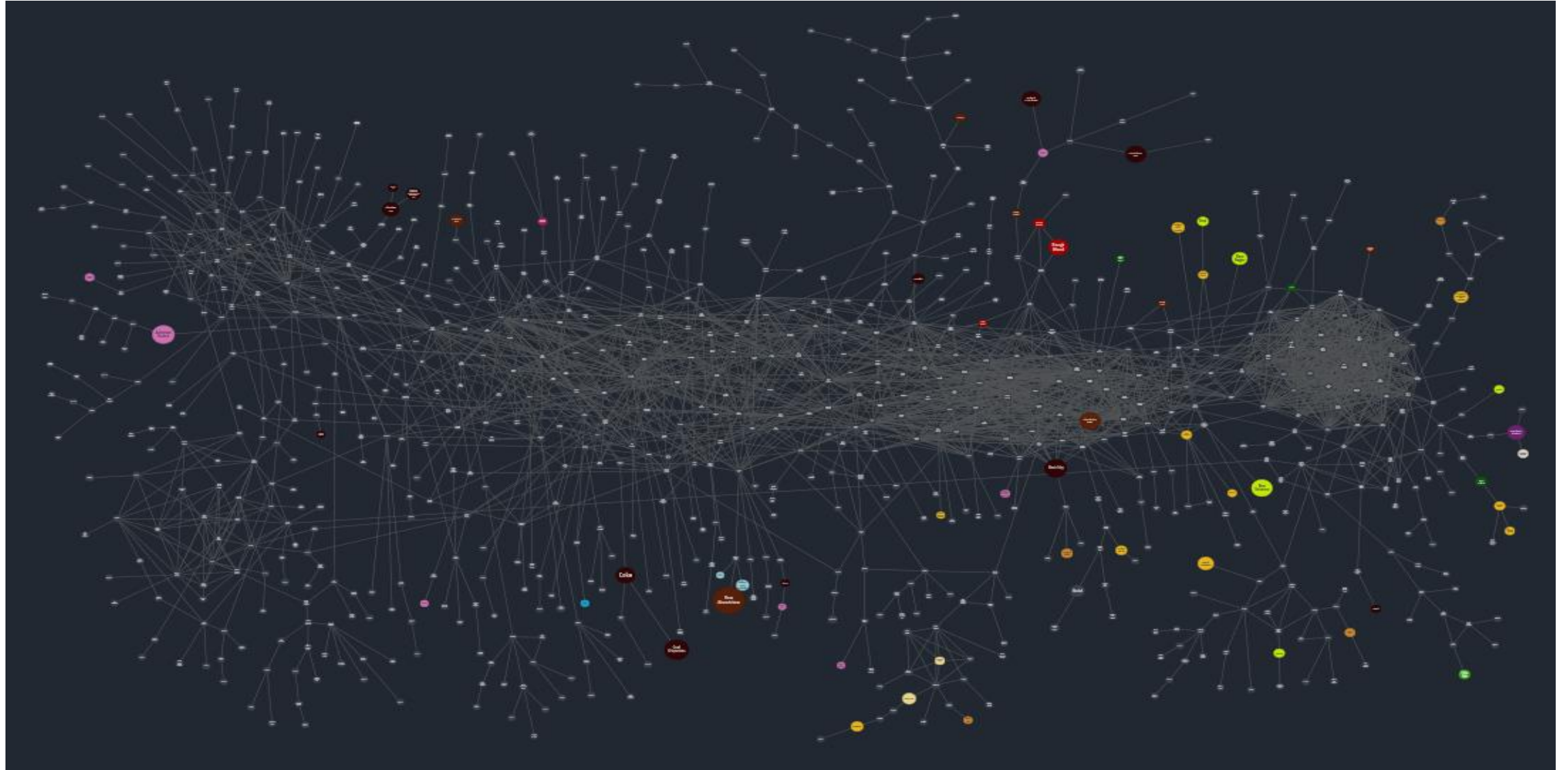
UGANDA: EXPORT COMPLEXITY AND LINKAGES

Export product linkages in 2016



MOZAMBIQUE: EXPORT COMPLEXITY AND LINKAGES

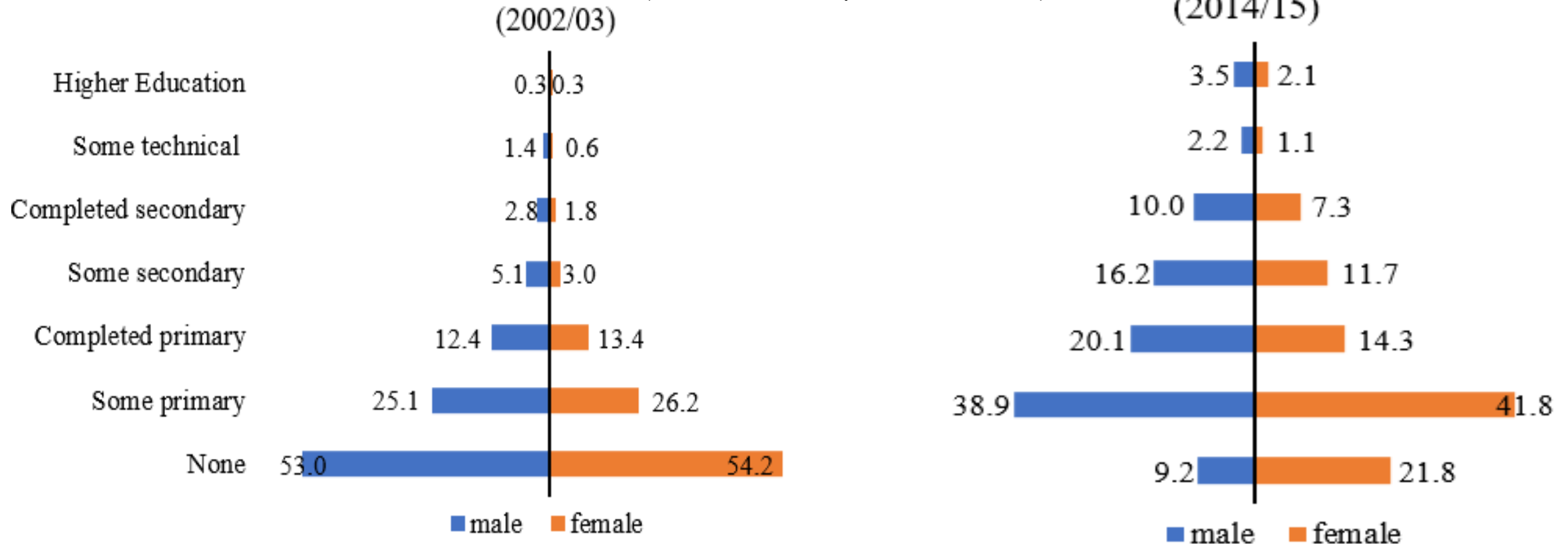
Export product linkages in 2016



EDUCATION: SOME GAINS, BUT SLOW, AND FROM A LOW BASE

[Slowly] improving educational context

(school attainment by educational levels)

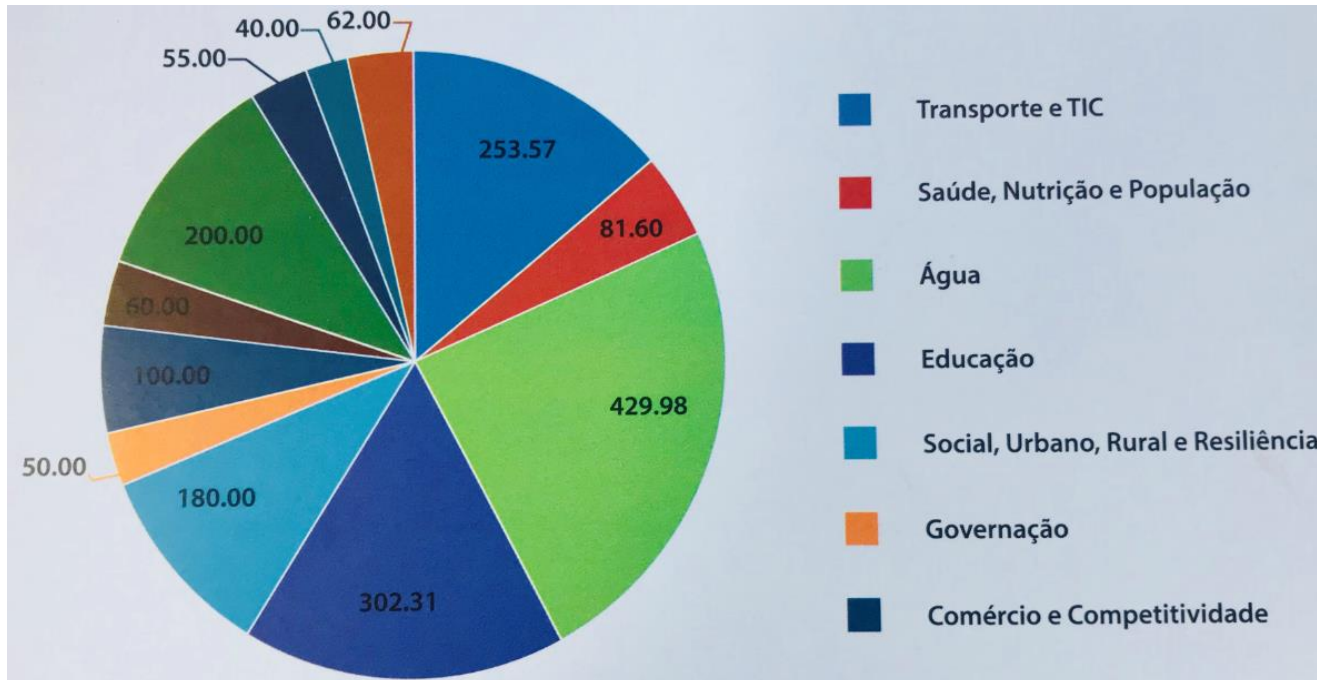


THE WORLD BANK PROGRAM

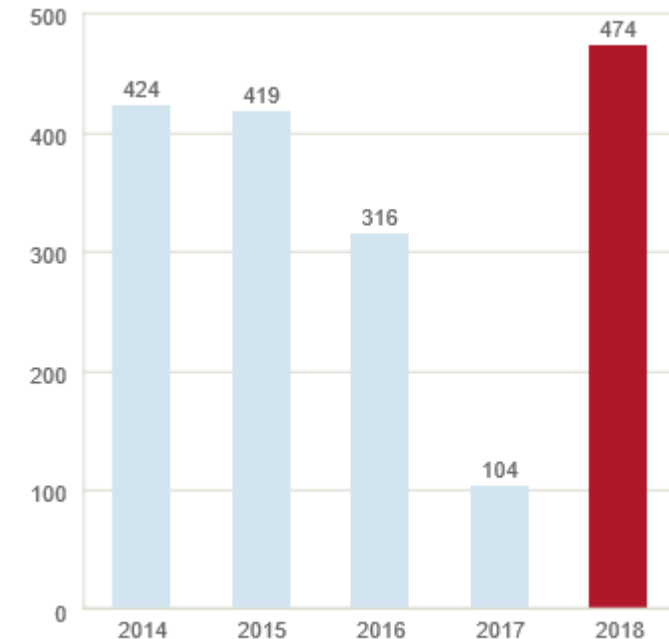
- World Bank Country Partnership Framework for Mozambique 2017 – 2021: A focus diversified growth, human capital development, sustainability and resilience.
- Multi-sectoral analytical and technical assistance activities

- Current portfolio: Around 20 ongoing projects representing over \$2 billion in investments.
- Since July 2017, all new commitments are grants.

Commitments by sector



Commitments by fiscal year



THANK YOU