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Republic of Mozambique and the IMF

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July 2, 2015

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Republic of Mozambique: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 12, 2015

The following item is a Letter of Intent of the government of Republic of Mozambique, which describes the policies that Republic of Mozambique intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Republic of Mozambique, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Republic of Mozambique

Letter of Intent

Maputo, Mozambique
June 12, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Lagarde:

The Government of Mozambique requests the completion of the fourth review under the Policy Support Instrument (PSI) and the modification of three assessment criteria and one indicative target for June 2015 to account for our revised projections, which aim to correct the trends observed since late 2014: a substantial decline in net international reserves amid strong balance of payment pressures, valuation changes on reserves, and slightly higher-than-projected expansion of monetary aggregates. We also request (i) to set assessment criteria and indicative targets for end-December 2015, and indicative targets for end-September, (ii) to reschedule one existing structural benchmark and set new structural benchmarks for 2015-16, in part reflecting delays in the implementation of earlier benchmarks. In support of this request, we are transmitting the attached Memorandum of Economic and Financial Policies (MEFP), which reviews the implementation of the program supported by the current PSI and establishes policy objectives and assessment criteria and indicative targets for the short and medium term.

The Government in April approved its five-year program for 2015-19 which aims to improve the living standards of Mozambicans through prudent macroeconomic management, efficient public investment, and inclusive growth. Mozambique is also taking decisive steps to be a reference in Sub-Saharan African on fiscal risk management, after becoming the first country in the region to request and publish a Fiscal Transparency Evaluation from the IMF.

The Government is of the view that the policies outlined in the MEFP are adequate to achieve the objectives of the PSI-supported program. We stand ready to take any additional measures necessary to achieve our policy objectives.

The Government will consult with the IMF on the adoption of these measures—at its own initiative or whenever the Managing Director requests such a consultation—in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The Government will provide the IMF with such information as the IMF may request to be able to assess the progress made in implementing the economic and financial policies and achieving the objectives of the program.
The Government authorizes the publication of this Letter of Intent, its attachments and the associated staff report.

Sincerely yours,

/s/	/s/
Adriano Maleiane	**Ernesto Gouveia Gove**
Minister of Economy and Finance	**Governor**
	Bank of Mozambique

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies (MEFP)

June 12, 2015

1. This MEFP describes recent developments and performance under the Government's economic program supported by the three-year Policy Support instrument (PSI) and elaborates on economic and structural policy objectives. It builds on the MEFP underlying the third PSI review of January 2015.

I. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

2. The Mozambican Economy remains strong, despite fragile prospects in the global commodity market

- **Economic growth remains high**. In 2014 the economy performed well, with an estimated growth rate of 7.4 percent that was in line with program projections. This robust growth was mainly driven by the rebound in agriculture (a recovery from the 2013 floods) and manufacturing, and a vibrant financial services sector. Growth also remained high in the mining sector, albeit somewhat decelerating due to a less favorable outlook in the global coal market.

- **Inflation and monetary policy.** Inflation fell to 1.1 percent at end-December 2014, lower than the 3 percent observed in the same period in 2013. Average inflation reversed the trend of acceleration observed in 2013 and also declined to 2.3 percent in 2014. Low inflation was influenced by unchanged administered prices, increases in agricultural production, and relative stability of the metical during large part of the year. However, given the specificities of 2014, monetary aggregates exceeded initial program projections reflecting a higher demand for money, particularly for currency in circulation.

- **Exchange rate**. In the fourth quarter of 2014 and first quarter of 2015, there was a remarkable increase in the demand for foreign currency in the domestic market, which led to a depreciation of the metical *vis-à-vis* the US dollar of 14 percent in the interbank market which, together with FX transactions between commercial banks and the public, account for about 85 percent of all FX transactions. Pressures on the metical reflected several factors, including (i) the strengthening of the US dollar in international markets; (ii) a high level of imports (excluding megaprojects); (iii) a lower level of non-megaproject exports, which are one of the most important sources of foreign exchange. In order to prevent excessive volatility in the exchange rate, the Central Bank intervened by selling USD 320 million in the last quarter of 2014 and USD 469 million in the first quarter of 2015, but FX sales were moderated substantially (reaching only USD 12 million in April). This led to a reduction in net international reserves, which nonetheless remain at broadly adequate levels.

- **External current account.** Despite a 5 percent fall in merchandise exports due to lower commodity prices, the current account deficit declined by 7 percent to USD 5,797 million in

2014. This represents a current account deficit of 36 percent of GDP compared to 42 percent in 2013. However, the non-megaproject current account balance provides a more direct indication of the sustainability of the external position and deteriorated during 2014. This was driven mainly by a decrease of 2½ percent of GDP in merchandise exports on the back of declining commodity prices. Meanwhile non-megaproject imports remained broadly stable as lower fuel import prices are still to pass through to the domestic economy given the impact of the existing long term contract for fuel imports. This explains in part the exchange rate depreciation pressures that emerged in late 2014.

- **Budget implementation**.
  - The overall fiscal deficit after grants increased from 2.8 percent in 2013 to 10.4 percent of GDP in 2014, while the domestic primary balance decreased from 0.9 percent to -4.1 percent of GDP. The fiscal expansion supported growth and was also associated with one-off factors that will not be repeated in 2015, including electoral spending (0.9 percent of GDP) and the inclusion in the budget of the maritime security component of the loan to EMATUM (2.8 percent of GDP).
  - Revenue collection remained buoyant throughout the year, reaching 27.8 percent of GDP in 2014. Robust performance was supported by strong collection of taxes on income and goods and services.
  - Total public spending at end-December 2014 reached 43.3 percent of GDP, an increase of 8.4 percent of GDP compared with 2013.
- **FDI, aid flows and international reserves**. In 2014, cumulative FDI inflows declined by 21 percent to USD 4,902 million reflecting megaproject cycles, although non-megaproject FDI increased. Gross aid flows stood at USD 1,466 million, with budget support representing USD 393 million. The stock of reserves declined to USD 2,882 million at end-December, a decline of $113 million compared with 2013.

3. Program Performance

- **Three assessment criteria (AC) were not met and all indicative targets were met through end-December 2014**. The reserve money target was exceeded by a small margin (1.5 percent faster growth than the program) due to higher than expected demand for currency in circulation following the electoral process and higher than expected incidence base reflecting the dynamics of the economic activity. Net International Reserves target was missed by US$ 265 million, while the cumulative flow of Net Credit to Government exceeded the target by about 0.2 percent of GDP as a result of unexpected expenditures in the context of the electoral process and the peace agreement.
- **Recent Developments indicate that the performance through end-March 2015 was mixed.** The net international reserve target continued to fall short by a substantial amount in 2015Q1,

suggesting that foreign exchange market pressures continued, and the reserve money target was not observed by a smaller margin 0.1 percent of GDP reflecting difficulties in the process of currency return to the banking system following the floods in central and northern Mozambique in early 2015. The NCG target was met by a large margin.

- **Structural Benchmarks.** The end-March structural benchmark related to the payment or securitization of the stock of VAT refund requests was met. The transaction was completed in March, though a revision on the amounts was introduced in early April 2015 due to a reassessment of some claims by certain companies. The remaining measures expected for June and September of 2015 are on track.

II. MACROECONOMIC POLICIES

A. Economic Objectives

4. The Government's Five Year Program (2015-2019). The Government Program was approved in February 2015, and it outlines the main priorities and strategic actions for the next five years. Emphasis is placed on employment creation, poverty reduction, and greater competitiveness through higher productivity. The national development strategy focuses on five priorities: (i) consolidation of national unity, peace and sovereignty; (ii) development of human and social capital; (iii) promotion of employment, productivity and competitiveness; (iv) development of economic and social infrastructure; and (v) sustainable and transparent management of natural resources and the environment. These priorities are supported by the three following pillars: (i) democratic rule of law, good governance and decentralization; (ii) promoting balanced and sustainable macroeconomic environment; and (iii) strengthening international cooperation.

5. Economic outlook for 2015 and the medium-term.

Macroeconomic policy in 2015-19. Fiscal policy will be geared towards maintaining debt at sustainable levels, gradually reduce dependence on external financing, as well as minimizing the exposure of the debt portfolio to currency risk. In addition to ensuring price stability, monetary policy will create an environment conducive to high growth of credit to the private sector and maintaining adequate reserve levels. In particular,

- **GDP growth**. The government expects growth to reach 7.0 percent in 2015 and accelerate towards the 7-8 percent range during 2016-2019, supported by agriculture, construction and financial services, and spearheaded by expanding coal productions and construction works for LNG projects.

- Average **Inflation** is projected at 4.0 percent and end of period at 5.5 percent in 2015, and will subsequently remain within our medium-term objective of 5-6 percent.

- **External Current account**. The current account deficit will remain high in 2015 (38.2 percent of GDP), but will be financed by FDI.

- **Fiscal Policy**. The overall fiscal deficit (after grants) will decline from 10.4 percent of GDP in 2014 to 6.5 percent of GDP in 2015. Over the medium-term, it will remain in the 5-6 percent of GDP range—a level that will help stabilize public debt while providing adequate fiscal space to reach the government's development objectives.

B. Monetary and Exchange Rate Policy

6. Monetary policy stance for 2015. The Bank of Mozambique (BM) will continue to intervene in the money and foreign exchange markets in order to ensure reserve money growth consistent with our price stability and NIR objectives. The BM will seek to keep reserve money growth at 16.5 percent in 2015, slightly above nominal GDP growth and will aim at maintaining reserves in 2015 at least at the level observed at end-2014.

7. We remain committed to a flexible exchange rate regime. The BM will allow the exchange rate to adjust freely to evolving patterns of trade and financial flows and closely monitor developments in the real effective exchange rate vis-à-vis a broad basket of currencies, with a view to ensuring external competitiveness and a comfortable level of international reserves.

8. The Mozambican authorities remain committed to their obligations under Article VIII, sections 2, 3, and 4 of the Fund's Articles of Agreement. The BM will continue to monitor the implementation of the new foreign exchange regulations, its implementation norms, as well as the functioning of the foreign exchange market, with a view to avoiding practices that could turn out to be inconsistent with Article VIII principles. We will keep IMF staff informed of any developments that could potentially run against those principles.

C. Fiscal Policy

9. Fiscal policy objectives. Revenue is expected to grow by 0.8 percent of GDP (excluding any possible one-off revenues from capital gain taxes and VAT refunds) in 2015, in line with past historical averages and the revenue effort potential demonstrated. Expenditures are expected to decline by 6.4 percent of GDP.[1] As a result, the overall fiscal deficit (after grants) is expected to decline to 6.5 percent of GDP.

10. Revenue outlook. We are committed to continuing our efforts to strengthen revenue collections gradually, continuing our trajectory of improving revenue administration over the medium term. The Revenue Authority is currently updating its reform program after the report of the recent Tax Diagnostic Assessment Tool (TADAT) mission from the IMF.

11. Expenditure policy. The 2015 budget will contribute to poverty reduction by prioritizing the allocation of resources to economic and social infrastructure, human capital, expansion and

[1] One-off expenditures in 2014 will not be repeated this year. This includes the maritime security component of the initial borrowing by EMATUM (2.8 percent of GDP), and the temporary component of election related spending (0.8 percent of GDP).

diversification of public goods and services and public sector reforms. Spending priorities include (i) post-flood reconstruction and social reintegration; (ii) implementation of technological Pilot Census to ensure more efficient and effective planning; (iii) provision of basic infrastructure (roads, bridges, power, water and sanitation); (iv) continuation of social protection programs; and (v) operationalization of the Fund for Peace and National Reconciliation.

- **Wage bill policy**. We expect a reduction in the wage bill in the medium term through (i) a deceleration in the pace of new hiring and in the creation of new institutions in Public Administration; (ii) payment of wages via direct bank transfer in order to prevent circumvention of the salary fund; (iii) enhancing the rigor of the institutions in the payment of allowances related to extra hours; and (iv) verification of the civil servants registry (e-CAF) in 2015.The wage bill is expected to decline to 10.9 percent of GDP in 2015. This will be made possible through a reduced number of new hiring of civil servants (about 11,019 new hires) with focus on the education and health sectors. The bulk of the wage increase in 2015 will be associated with salary adjustments for primary school teachers, nurses and police guards, given their comparatively low wages.

- **Strengthening social protection**. The number of beneficiaries of social protection programs will increase by 25 percent, from 439,144 in 2014 to 550,000 in 2015. Continuous implementation of the Basic Social Protection program in 2015 will absorb about 0.6 percent of GDP. Over the 2016-19 period, the percentage of GDP for Basic Social Protection programs will gradually increase by around 0.1 percent per year, achieving a percentage of one percent of GDP by the end of this period.

- **Subsidies for petroleum products**. The Government continued to subsidize only diesel prices for general consumption (other than megaprojects, construction, public works and other large consumers), but not other fuels. The amount of compensation paid to fuel importers in 2014 was 0.14 percent of GDP related to fuel sales in 2013; the amount due in 2014 was (4.6 billion meticais) to be paid in 2015 through a combination of budget payments and/or cost recovery through the price-setting formula.

- The fuel price for large consumers including megaprojects was adjusted on April 16, 2015 to equalize the price with general consumer market prices. Meanwhile, the Government continues to monitor trends in international markets and domestic market dynamics. The government is studying ways to make the system of fuel imports more transparent and limit the impact on net international reserves, and we intend to adjust the price formula if domestic and international market factors justifies.

- **Other subsidies.** The Government continues to subsidize the price of bread flour, public transportation, and school feeding programs in order to hold down the cost of living for the population and increase school enrollment and learning. These subsidies play an important social role and have a modest impact on the budget – estimated at 0.5 percent of GDP in 2015 (the same level as in 2014).

- **Electricity tariffs.** Current electricity tariffs from 2010 make EDM financially unsustainable. The discussion on tariff adjustment study is ongoing with a view to restoring the financial position of EDM and protecting low income consumers. It is expected that the revised tariff proposal will be submitted to the cabinet by June 2015.

- **EDM performance contract**. According to the public enterprise law, the new board of EDM already submitted the proposal to the Government and it is expected to be signed by July 2015. This is an opportunity to disclose cross transfers between the Government and EDM.

III. PUBLIC FINANCE STRUCTURAL REFORMS

Investment Planning and Debt Management

12. Public Investment Management. We developed budget guidelines for a mandatory technical assessment of investment projects exceeding the value of $50 million for inclusion in the revised integrated investment plan. All new projects added to the revised Integrated Investment Plan, and subject to budget allocations starting in the 2016 budget will be required to have a mandatory assessment by the Investment Evaluation Committee, or any other governmental body created to replace this Committee in the new MEF structure (**structural benchmark**). The Government will continue to improve public investment management, including through a closer analysis of the relationship between public investment and debt sustainability. In addition, institutions in charge of the design and implementation of public investment projects will be strengthened so that public investment project selection and evaluation conforms to sound practices. A mission was sent to Chile in November 2014 to learn from their successful experience in public investment management.

13. Strengthening public debt management: We upgraded our debt management software (CSDRMS2000+) in September 2014, and we continue to reconcile the stock of public external debt with creditors. The annual debt reports include the analysis of the cost and risk associated with the public debt portfolio. We also remain committed to including such analysis in the budget execution reports. By end August 2015, we will revise our Debt Management Strategy with technical assistance from the World Bank, which will consider domestic borrowing strategies to develop the domestic capital markets. The 2015 budget was approved by the Parliament, and the 2015 domestic borrowing plan will be elaborated by end June 2015.

14. Guarantee management policy. The projects that benefit from guarantees are regularly monitored by the Ministry of Economy and Finance to minimize the risk of default. We have built a database to manage all guarantees and we plan to develop capacity to assess the probability and impact of potential default of this exposure with technical assistance from the World Bank and IMF.

Public Financial Management (PFM)

15. PFM Reform Process. We prepared the Terms of Reference to establish the SISTAFE National Meeting and the SISTAFE User Forum, to allow the analysis, discussion, evaluation and dissemination of SISTAFE reforms, which in the future will cover the whole spectrum of PFM reforms.

These instruments are intended to enhance the communication channels and consultation between line ministries, provinces, private sector and development partners. We will also revise our PFM vision by end 2015, updating the underlying macroeconomic assumptions and the action plan according to the lessons learned during the first phase of its implementation (2010-2014).

16. Expenditure coverage and tracking. We registered progress in the coverage of the integrated financial management system (e-SISTAFE). By end 2014 the share of expenditures paid through e-SISTAFE directly to the beneficiary reached 67.83 percent of total spending, more than the 65 percent initially planned. We remain committed to increasing the coverage of the expenditures paid directly and, achieve the target of 70 percent planned for end 2015, and 75 percent in 2016. This requires completion by end 2015[2] of the system's geographical roll out, technical conditions permitting.

17. Real time registration of commitments. This reform will improve the efficiency in the management of the expenditure tracking software (e-SISTAFE) and allow greater control of budget execution. We conducted the test phase with the payment of debt service, and now we are discussing the use of the different stages of the expenditure chain for the payment of wages. Work is in progress to implement the revised procedures for the payment of wages established in the Ministerial Diploma no. 210/2014, of December 9. To make further progress in this regard, the government intends to develop and make operational the asset module of e-SISTAFE by making the real-time recording of the commitment and verification of expenditures mandatory for all units operating within e-SISTAFE by January 2016 **(structural benchmark)**. This reform will make it possible to better align the stages of commitment, verification and payment with the timing of the various economic transactions.

18. Wage bill management. The process of expansion of e-Folha for State agencies and institutions that have e-SISTAFE is under way. At end of March 2015, 294,322 civil servants and State agents had been registered in the e-CAF system. Of the total staff registered in e-CAF, 254,016 are paid through direct transfers, including 232,085 which are paid through e-Folha. Our plan is to increase the percentage of staff registered in e-CAF being paid by e-Folha to 95 percent by end-2015. We intend to undertake a Proof of Life audit to all registered civil servants in 2015.

19. Cash management. We remain committed to extending the use of the treasury single account (CUT). In order to reduce the number of bank accounts outside the CUT (Circular No. 02/GAB-MF/2014), consultations are ongoing with all line ministries and commercial banks to map all government bank accounts outside the CUT. This process is expected to be concluded by June 2015 and it will be followed by an action plan to ensure that all revenues are transferred into the CUT, including own revenues of budgetary institutions.

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[2]81.1 percent of spending units (UGB's) currently have direct access to the system (1,247 of a total of 1,538).

20. Scope of the public sector. The revision of the SISTAFE Law which is expected to take place by January 2016 will broaden the scope of the public sector and make it consistent with international standards. In addition, a new law defining the statute of public funds and autonomous entities has been drafted and is under revision.

21. Fiscal risk management. The new Government recently merged the Ministries of Finance and Planning and Development into the Ministry of Economy and Finance. A new structure for the Ministry is being designed. It will incorporate a fiscal risk management unit by end December 2015. We are also committed to preparing an initial statement of fiscal risks for inclusion in the 2016 budget documentation by October 2015. The statement will be prepared with IMF technical assistance and will highlight general risks to the budget stemming from possible changes in macroeconomic assumptions, and possible risks associated with state guarantees, PPPs, and large public sector, or public sector participated, corporations (**structural benchmark**). Follow up technical assistance from the IMF should also help implement the recommendations of the 2014 fiscal transparency evaluation report.

22. Fiscal rule for windfall revenue. Large and regular influx of natural resource revenue from LNG is expected to start in a decade. But we expect that additional capital gain taxes associated with transactions involving transfers of ownership stakes in large natural resource projects might occur in the next few years. To ensure the use of these resources only for public investment, debt repayment, and national emergencies[3], the Draft 2015 Budget Law includes an ex-ante rule for the use extraordinary revenues, including windfall revenue (structural benchmark June 2015).

23. **Public Expenditure and Financial Accountability (PEFA)**. We plan to conduct the Fourth PEFA evaluation to cover 2012 -2014, given that in 2015 we are initiating a new programming cycle of 5 years, and the fact that 4 years have already passed since the last PEFA assessment. The assessment intends to provide an independent assessment of progress on public financial management (PFM) in Mozambique based on the current PEFA methodology using information over the period 2012-2014 and comparing the results with the 2011 last PEFA exercise.

Revenue administration

24. VAT administration. The securitization of the stock of unpaid VAT refund requests for a total amount of about 8.2 billion meticais (cumulative stock as of end 2014 reconciled with creditor companies) occurred through a private placement of debt (securitization) that was completed in April 2015, with a slight delay due to the need for data reconciliation between the revenue authority and one of the major creditor companies. All the technical work had been completed by March as

[3] In case of temporary severe cash constraints generated by unexpected shortfalls in budget support, windfall deposits could be used on a temporary basis.

planned. The net VAT system was also successfully introduced in the 2015 budget. We plan to conduct an assessment of the VAT system for megaprojects with technical assistance from the IMF by end September 2015, and an action plan is expected in order to revise the VAT Code accordingly.

25. Implementation of e-Tax. The registration of taxpayers into the new electronic system advanced considerably, reaching 55 percent of all VAT taxpayers by March 2015. Further progress is expected to achieve our target of 65 percent by end-2015, which is a considerable achievement given that this is the first year of implementation of this reform. Starting in November 2014, we rolled-out the e-tax collection system for VAT and ISPC, with a current coverage that includes 14 of the largest tax offices. We are committed to expanding collections of the VAT and ISPC taxes through e-tax by end-2015 in 32 tax offices of a total of 66 offices, technical conditions permitting Work is also ongoing to publicly launch the online taxpayers' portal connected to e-tax by end November 2015.

26. Tax payment through banks. We successfully worked on the alignment of procedures to validate and conduct bank payment reconciliations with two banks. We are currently preparing the contracts to be signed with other commercial banks to formalize the process. With a view to launching the facility to the public, we will conduct public campaigns through the media and invite taxpayers to join the system. By end 2015 we expect to cover the majority of tax payers. This will allow having electronic control of the revenue collected by DGI.

27. Modernizing the Revenue Authority (AT) to improve revenue collection. We assessed the revenue administration using the TADAT diagnostic tool with technical assistance from the IMF in March and a report was concluded in May 2015. We will elaborate an action plan by the third quarter of 2015 to address the recommendations from the diagnostic. Main weaknesses are related to the integrity of the registered taxpayers base, and low ratios of ontime filling of tax returns and payment of tax obligations. Through the task force created, we remain committed to assessing the AT current organization structure with a view to improving managerial practices, with the IMF technical assistance, also by the third quarter of 2015. We also plan to revise the customs tariffs with a view to promoting the agriculture sector, namely, to reduce costs of production factors and agricultural inputs.

Natural Resource Management

28. Extractive Industry Transparency Initiative (EITI). The 5th EITI Report (based on 2012 data) was prepared and published on the Mozambican EITI website according to the calendar of the International EITI Secretariat. It was launched to the public in Maputo in April, 2015 and will be disseminated throughout the country shortly. The report contains information about 56 companies (gas sector and mining) and the overall discrepancy between payments and receipts is less than 1.5 percent, below the limits stipulated by the EITI Coordination Committee in Mozambique (which is 3 percent). The report covers comprehensive information on the sector, including legal regime, production and employment data, and other requirements of the new EITI standards. Mozambique fully complies with the new EITI standards. We already started the preparation of the 6th EITI report, which will incorporate 2013 and 2014 data.

29. Mining and Hydrocarbon Legislation. The Law on Hydrocarbon and Mining was approved in August 2014. The preparation of its regulations is ongoing and expected to be submitted to the Cabinet by end-July 2015 for approval.

30. Strengthening the Mining and Hydrocarbon Tax Regime. The regulations of the mining and hydrocarbon fiscal regimes which benefited from IMF technical assistance are under consultation with all stakeholders and are expected to be submitted to the Cabinet for approval by end-June 2015.

31. Development of natural gas liquefaction. The Decree-Law as the instrument to operationalize the development of natural gas liquefaction plants in the Rovuma Basin Project was approved in December 2014. At present, discussions are ongoing to amend the Exploration and Production Concession Contract (EPCC) requested by the Concessionaire of Area 1. Both concessionaires of Area 1 and 4 are currently engaged in discussions of trade agreements with a view to implementing LNG projects in the Rovuma Basin, focus on the development of deposits in the fields of Golfinho and Coral, respectively, and further develop the unused deposits of Prosperidade and Mamba, which will require a unitization agreement.

Public Enterprises and Enterprises with State Participation

32. Strengthening supervision of public enterprises and enterprises with State participation.

- The 2013 Annual Reports and financial accounts of the six largest State Owned Enterprises (SOE's) were published as envisaged in December 2014 MEFP; and the summary report on the operations and fiscal risks of all 14 SOEs was elaborated and is expected to be submitted to the Council of Ministers by end September 2015.

- The proposal for a Law on the Corporate Sector of the State, with a focus on the companies were the state has a participation below 100 percent, was submitted to the Council of Ministers at end-2014 and is expected to be discussed in June 2015. Then it will be submitted to Parliament for approval.

- Furthermore, with respect to enterprises with State participation, IGEPE is consolidating the State portfolio including through privatization and liquidation. A stronger system to follow-up and control of state corporations is also being introduced. In particular, a new software to report financial information will become operational by end-July 2015. This software will allow the collection and analysis of financial statements and the identification of potential fiscal risks. Beginning in August 2015, a pilot system will start with the 5 largest corporations, which will also be subject to performance contracts.

33. EMATUM. In an effort to increase transparency associated with the operations for this company, (i) the external audit report on EMATUM 2013 operations was published in December 2014, and (ii) the additional defense equipment purchased by the company for the Ministry of Defense ($150 million) has been added transparently into the 2014 State financial accounts (CGE), bringing the total portion of spending for maritime security to $500 million. The 2014 external audit report of EMATUM was published on May 29th 2015. The company will also publish its revised business plan by end-July 2015. The Government will take over the part of the loan ($500 million) that was not associated with commercial tuna fishing activities and will monitor the operations of EMATUM through the company's quarterly reports.

FINANCIAL SECTOR POLICIES

Strengthen Monetary Policy Formulation and Implementation

34. Monetary policy framework. The BM will continue to strengthen the monetary policy framework and to improve its analytical tools and communication as part of its monetary policy decision-making process, including by improving its inflation forecast model with technical assistance from the IMF.

35. **Inflation forecasting model**. The Forecasting and Policy Analysis System that includes a money block has been finalized and the analysis of the properties of the new system has been tested successfully. Shadow forecasts under the new framework have been monitored by the BM Monetary Policy Committee since December 2014.

36. The BM has made considerable progress towards improving its liquidity management framework. A new liquidity forecasting framework has been developed, with the support of IMF technical assistance. The preliminary results show that the new framework performs better than the previous model in terms of forecasting for currency demand and the impact of government operations. However, technical work is still in progress in order to further improve the forecast of impact stemming from government operations as well as to extend the forecasting horizon. We plan to adopt the new liquidity forecasting framework by December 2015.

37. Information sharing and coordination between the MEF and BM. Progress has been achieved in the coordination between the MF and BM in recent years to improve liquidity management. Under the MoU between BM and MF, the latter has been sharing, on a weekly basis, relevant short-term statistics on government operations with BM. The MF will provide the BM with historical information on classifications of payments to help improve its forecasting accuracy.

38. Money market management. The legal issues pertaining to the functionality of the money market under the reform towards allowing T-bonds as collateral in money market operations have been resolved and wait for approval. The IT issues are not concluded yet, as some adjustments need to be done to the BM IT platform. This action is expected to be completed by September 2015 **(structural benchmark).** We also remain committed to increasing the level of trading activity in the monetary market, especially for the secured transactions. In this regard, we expect to implement fully by end-January 2016 the law that requires 20 percent withholding tax on interests earned on T-bills, OTs, secured and unsecured interbank transactions **(structural benchmark)**.

Financial Sector Surveillance

39. The BM remains committed to strengthening of banking system supervision and crisis management

40. Stress testing and non-performing loans (NPLs). Stress testing has been carried out on a quarterly basis and the BM continues to strengthen the data collection process in order to obtain more granular data. The December 2014 stress test report was produced and submitted to the Board of BM. While the results show low risk of financial sector distress, credit concentration remains the largest source of risk. The adoption of the revised NPL definition started in January 2014. At end-December 2014, the NPL ratio remained relatively low at 3.3 percent.

41. Risk-based supervision and Basel II adoption. By end-February 2015, four large banks had been subject to on-site inspections. Four new inspections are currently taking place and expected to be finalized by end-June 2015, one in a large bank and three in medium-size banks. The on-site inspection activity will gradually cover the whole banking sector under the new methodology. In order to complete the revision of the draft regulation on concentration limits, including investment abroad, by end-September 2015, a study assessing the compatibility of the draft regulation with Basel II principles has been finalized and an analysis is ongoing to determine the prudential weights to be under the new regulation.

42. Financial Sector Contingency Plan. Following the approval by the Board of BM of an action plan in November 2014, the first crisis simulation exercise was carried out on April 25, 2015, with the technical support from the World Bank. We expect that a detailed report from this exercise will be submitted to the BM board by end-September 2015, and an action plan will be developed later to address the risks identified in the simulation exercise.

43. Deposit Insurance Fund (DIF). The Executive Board of DIF plans to submit its report on funding and implementing the DIF to the BM Board by June 2015. The Government has committed its initial contribution of MT 60 million in the 2015 budget, which is expected to be disbursed in the third quarter of 2015. The commercial banks have already made their initial contributions of MT 15 million in January 2015, while the Executive Board of DIF continues to work with KfW to secure its disbursement of €3.5 million. The remaining funding gap will be closed through investment returns on the initial contributions of these three sources, which is expected to take 4-5 years. However, the Executive Board of DIF is actively seeking additional financial support from the government and international institutions, which would shorten the period before the DIF becomes fully functional.

Financial Sector Development

44. Financial Sector Development. The Financial Sector Development Strategy (FSDS) 2013-2022 main objectives are to: (i) maintain financial sector stability; (ii) increase access to financial services and products, eliminating structural constraints in the economy, specifically those that limit financial intermediation and access to financial services; and (iii) increase the supply of private capital to support private sector development. On the implementation of the FSDS in the first half of 2014 the findings were that most of the planned activities were implemented, some of them as prior actions of the World Bank's DPO I. These actions were focused on adopting reforms in the areas of (i) financial stability; (ii) financial inclusion and education; and (iii) debt market as detailed below. While some activities could not be undertaken due to insufficient financial resources, the World Bank has committed technical assistance to support the development of debt market and preparation of the national financial inclusion strategy. Consistent with the new Government structure, a proposal is under consideration for the revision of the FSDS Steering Committee Membership.

- **Promoting financial inclusion.** The BM intends to submit to the Council of Ministers the National Financial Inclusion Strategy by end-December, 2015 **(structural benchmark)**. Two regulations, Notice 1/GBM/2015 on "bank agencies opening criteria" and Notice 2/GBM/2015 on "connection to the single national electronic payment network", were published in the official Gazette in April 2015. The Notice on the "Regime of Access and practicing of banking agents activity" was approved in April 2015 while the Notice on "cash recirculation" is expected to be finalized by end-September 2015. These 3 governor´s notices are intending to contribute in the improvement of the access and usage of financial services throughout the country.

- **Establishing credit registry bureaus** (CRB). The proposal of Law on the creation of private credit registry bureaus was submitted to Parliament in February 2014, but was not discussed due to a very heavy parliamentary agenda in 2014. Given the change in Government, the Law will be resubmitted to the Parliament by end-June 2015.

- **Promotion of mobile banking**. A new regulation on electronic money has been drafted and submitted to the BM board for approval expected by end-June 2015. The new regulation imposes a requirement for the E-money issuers to deposit the funds received against issuing of E-money in a custody account (termed "trust account") as a mean of protection of the money owed to E-money holders, should they need to redeem it.

- **Promotion of competition within the banking sector.** The first stage of the revision of the Notice 05/GBM/2009 has been completed. The new Notice seeks to include a new and broad list of denomination of free of charge financial products and services.
  The draft Notice will follow a process of dissemination amongst the main stakeholders, before its final approval by end-December 2015.

- **Centralizing the registry of security holdings**. The establishment of the Central Securities Depository in June 2014 allowed all transactions to be done through the central securities depository. This improved the process of (i) clearing and settlement trading; (ii) coding of securities; (iii) registration of securities and holders; (iv) registration of issuer entities not listed in Mozambique Stock Exchange; and (v) payments of interest and dividend. As a result, the volume of transactions increased as they now occur in every working day rather than 3 days a week. The number of securities listed in the Stock Exchange increased from 34 in early 2014 to 43 at end-2014; in 2014 the trading volume increased by 127 percent (to 4,606 million MT) relative to 2013. The capitalization level increased to about 42,214 million MT at end-December 2014, corresponding to an increase of 17 percent compared to 2013. The Stock Exchange is in the process of drafting the terms of reference for the acquisition of a new system with the view to modernize the existing trading system, as a way to complement the improvements brought by the Central Securities Depository.

- **Moveable collateral framework**. The draft Law on the moveable collateral will be finalized by end-June 2015, following the discussions with the technical assistance from GIZ. Given the cross-cutting nature of the draft Law, a workshop is envisaged to take place in July 2015 in order to consult with the main stakeholders, which will delay its submission to Council of Ministers by mid-November 2015 **(rephased structural benchmark for September 2015).**

45. AML/CFT Framework. The guidelines for commercial banks on AML/CFT have been finalized and approved by the BM Board in May 2015. The Guidelines include standards to promote compliance with the obligations described in Law no. 14/2013 and its Regulation.

Payment System

46. Reforms in the Payment System

- **Developing the retail payments network (SIMO).** A new regulation on the connection to the single national electronic payment network has been approved, awaiting its publication. The new regulation (Notice 02/GBM/2015) includes, among other issues, the migration schedule within 12 months agreed with the banks.

Business Environment

47. The implementation of the Business Environment Improvement Strategy (EMAN II 2013-2017) is underway.

- **The registration and licensing of economic activities is speeding up.** The e-BAU platform is currently being installed in Maputo (Matola), Gaza, Inhambane, Sofala, Tete, Nampula and Cabo Delgado, and completion is expected by June 2015. The installation phase will be followed by on-the-job training activities for front and back offices officials. In order to improve disclosure of business-relevant information to the private sector, the website www.portaldocidadão.gov.mz will also be upgraded by June 2015.
- The time for licensing commercial activities reduced and can be done in one day or next day, if there is a need to conduct inspections in the business locations. This is being implemented in the provinces and City of Maputo, Xai-Xai, Inhambane, Beira Nampula, Pemba and Tete. The Industrial licensing of big projects is now done on average within 15 days and the simplified licensing reduced to 1 day.

- The process of interoperability between institutions is underway, including the Ministry of Justice, Constitutional Affairs and Religious, Revenue Authority, Ministry of Agriculture and Food Security, Ministry of Labour, Employment and Social Security and Ministry of Land, Environment and Rural Development

- In the medium term we are committed to review the policies and strategies for the industry and small and medium business;

Program Monitoring

48. The proposed assessment criteria and indicative targets up to December 2015 are shown in Table 1. Table 2 included a list of existing and proposed structural benchmarks. The 5th PSI review is expected to be completed by end-December 2015 (as specified in the MEFP date December 12, 2014) and the 6th review by June 15, 2016.

Table 1. Assessment Criteria and Indicative Targets

(Millions of meticais, unless otherwise specified)

	2014				2015											
	End-Dec Assessment Criteria				End-Mar Indicative Target				End-June Assessment Criteria		End-Sept Indicative Target		End-Dec Assessment Criteria			
	Prog.	Adj. Target	Act.	Status	Prog.	Adj. Target	Prel.	Status	Prog.	Proposed	Prog.	Proposed	Proj.	Proposed		
Assessment Criteria for end-June/December																
Net credit to the central government (cumulative ceiling)	2,594	2,594	4,122	NM	4,146	4,146	-2,532	M	-1,902	-2,826	-5,675	-3,785	6,391	4,895		
Stock of reserve money (ceiling)	55,299	55,299	56,969	NM	53,559	53,559	54,112	NM	58,866	58,230	62,940	61,938	65,529	64,411		
Stock of net international reserves of the BM (floor, US$ millions)	3,147	3,147	2,881	NM	2,990	2,990	2,512	NM	3,048	2,550	3,201	2,650	3,398	2,889		
New nonconcessional external debt contracted or guaranteed by the central government or the BM or selected state-owned enterprises with maturity of one year or more (cumulative ceiling over the duration of the program, US$ millions)[2]	1,500	1,500	1,298	M	1,500	1,500	1,298	M	1,500	1,500	1,500	1,500	1,500	1,500		
Stock of short-term external debt contracted or guaranteed by the central government (ceiling)[2]	0	0	0	M	0	0	0	M	0	0	0	0	0	0		
External payments arrears of the central government (ceiling, US$ millions)[2]	0	0	0	M	0	0	0	M	0	0	0	0	0	0		
Indicative targets																
Government revenue (cumulative floor)	143,957	143,957	146,397	M	30,200	30,200	30,833	M	69,460	70,093	110,230	110,230	151,000	151,000		
Priority spending (cumulative floor)[3]	119,000	119,000	115,698	NM	…	…	…	…	…	…	…	…	…	…		

Sources: Mozambican authorities and IMF staff estimates.

[1] For definition and adjustors, see the Program Monitoring Section of the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding.

[2] Assessed on a continuous basis.

[3] Targets will be set in the 5th PSI review after the authorities revise the definition.

Table 2. Mozambique: Structural Benchmarks for 2015-16

Structural Benchmarks	Date of Implemen-tation	Comment	Macroeconomic Relevance
The Government will issue budget guidelines requiring a mandatory technical assessment by the Investment Evaluation Committee for new public investment projects to be included in the 2016 and subsequent budgets of a value of $50 million or more. (¶17 of the MEFP dated December 12, 2014)	End-May 2015	Not met. Proposed to be rescheduled to July 2015	Strengthening public investment management
The government will either pay or securitize the stock of valid VAT reimbursement requests submitted up to end-2014. (¶ 27 of the MEFP dated December 12, 2014)	End-March 2015	Met	Strengthening tax administration
The Government will finalize and fully operationalize the IT application for payments of VAT, ISPC, and corporate and personal income taxes through banks. (¶29 of the MEFP dated December 12, 2014)	End-June 2015	Approved in 3rd Review	Strengthening tax administration
The use of T-bonds as collateral in money market operations will become operational. (¶41 of the MEFP dated December 12, 2014)	End-September 2015	Approved in 3rd Review	Deepening capital markets
The Government will include in the draft 2015 budget a fiscal rule on the use of windfall revenue only for investment spending, debt reduction and exceptional needs. (¶26 of the MEFP dated December 12, 2014)	End-June 2015	Approved in 3rd Review	Ensuring fiscal sustainability
The draft law on the establishment of a movable collateral registry will be submitted to the Council of Ministers. (¶47 of the MEFP dated December 12, 2014 and ¶44 of this MEFP)	End-September 2015	Not expected to be met. Proposed to be rescheduled to November 2015	Deepening financial markets

Table 2. Mozambique: Structural Benchmarks for 2015-16 (concluded)

Produce an assessment on fiscal risks for inclusion in the 2016 budget documents. (¶21 of this MEFP)	End-October 2015	Proposed	Improving the management of fiscal risks (PFM)
Complete mandatory assessments by the Investment Evaluation Committee (or any other government body created to replace this Committee in the new MEF structure) of all public investment projects exceeding $50 million that are included in the 2016 budget and/or the revised integrated investment program (IIP). (¶12 of this MEFP)	End-December 2015	Proposed	Strengthening public investment management (PFM)
Submit to the Council of Ministers the National Financial Inclusion Strategy by the Bank of Mozambique. (¶44 of this MEFP)	End-December 2015	Proposed	Increasing access to financial services
Issue a decree or administrative order that makes the real-time recording of the commitment and verification of expenditures mandatory for all units operating within e-SISTAFE. (¶17 of this MEFP)	End-January 2016	Proposed	Strengthening expenditure coverage and tracking (PFM)
Enforce the law that requires 20 percent withholding tax on interests earned on T-bills, OTs, secured and unsecured interbank transactions. (¶38 of this MEFP)	End-January 2016	Proposed	Developing the Interbank Money Market

Sources: IMF staff and the Mozambique authorities.

Attachment II. Technical Memorandum of Understanding

June 12, 2015

1. This Technical Memorandum of Understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable Fund staff to monitor program implementation.

DEFINITIONS

A. Net credit to the central government

2. Net credit to the central government (NCG) by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in project accounts with the banking system, recapitalization bonds issued to the Bank of Mozambique (BM), and proceeds from the signing fee for mineral resource exploration. Credits comprise bank loans, advances to the central government and holdings of central government securities and promissory notes. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The limits on the change in NCG by the banking system will be cumulative from end-December of the previous year.

3. The central government encompasses all institutions whose revenue and expenditure are included in the state budget (*Orçamento do Estado)*: central government ministries, agencies without financial autonomy, and the administration of 11 provinces. Although local governments (43 municipalities or *autarquias*) are not included in the definition because they are independent, part of their revenue is registered in the state budget as transfers to local governments.

4. For program purposes, net disbursements on the nonconcessional Portuguese credit line are excluded from the assessment criterion of NCG since the corresponding expenditure is not covered under the definition of central government specified in paragraph 3.

B. Government revenue and financing

5. Revenue is defined to include all receipts of the General Directorate of Tax (*Direcção Geral dos Impostos*, DGI), the General Directorate of Customs (*Direcção Geral das Alfândegas,* DGA), and nontax revenue, including certain own-generated revenues of districts and some line ministries, as defined in the budget. Revenue is gross revenue net of verified VAT refund requests (*pedidos verificadas de reembolsos solicitados*). Net receipts from privatization received by the National Directorate of State Assets (*Direcção Nacional do Património do Estado*) and unrealized profits transferred by the central bank to the treasury will not be considered as revenue (above the line) and will be accounted for as other domestic financing (below the line).

6. For the purpose of program monitoring, revenue is considered as collected at the time when it is received by the relevant government collecting agencies, in cash or checks, or through transfers into the respective bank account.

C. Priority social spending

7. Priority social spending is based on the PARPA program categories expanded to incorporate all areas under the new PARP. Accordingly, it will include total spending in the following sectors: (i) education; (ii) health; (iii) HIV/AIDS; (iv) infrastructure development; (v) agriculture; (vi) rural development; a (vii) governance and judicial system, and (viii) social action, labor and employment.

D. Reserve money

8. For the purposes of program monitoring reserve money is defined as the sum of currency issued by the BM and commercial banks' holdings at the BM. The target is defined in terms of the average of the daily end-of-day stocks in the month of the test date. The reserve money stock will be monitored and reported by the BM.

E. Net international reserves

9. Net international reserves (NIR) of the BM are defined as reserve assets minus reserve liabilities. The BM's reserve assets include (a) monetary gold; (b) holdings of SDRs; (c) reserve position at the IMF; (d) holdings of foreign exchange; and (e) claims on nonresidents, such as deposits abroad (excluding the central government's savings accounts related to mineral resource extraction concessions). Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guarantee for a third–party external liability (assets not readily available). The BM's reserve liabilities include: (a) all short-term foreign exchange liabilities to nonresidents with original maturity of up to and including one year; and (b) all liabilities to the IMF.

F. New nonconcessional external debt contracted or guaranteed by the central government, the BM, and selected state-owned enterprises, with maturity of more than one year

10. The ceiling on nonconcessional external debt applies to external debt contracted or guaranteed by the central government, the BM, the Road Fund, the water authorities (FIPAG), the electricity company (EDM), and the hydrocarbon company (ENH), or by enterprises and agencies in which the above entities hold a majority stake. It also applies to debt contracted by these four state-owned enterprises from domestic banks or from other state-owned enterprises that is contractually inter-related to external nonconcessional loans.

11. The ceiling applies to external debt with original maturity of one year or more and with a grant element below 35 percent. The grant element is calculated using a discount rate of 5 percent.

The term 'debt' will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted on August 3, 1979, as amended August 31, 2009, effective December 1, 2009. The concept of external debt is defined on the basis of the residency of the creditor. This assessment criterion is defined cumulatively from the beginning of the program and will be assessed on a continuous basis.

G. Stock of short-term external debt contracted or guaranteed by the central government

12. The central government will not contract or guarantee external debt with original maturity of less than one year. This assessment criterion applies to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted on August 3, 1979, as amended August 31, 2009, effective December 1, 2009. The concept of external debt is defined on the basis of the residency of the creditor. Excluded from this assessment criterion are short-term, import-related trade credits. This assessment criterion will be assessed on a continuous basis.

H. External payments arrears of the central government

13. The government undertakes not to incur payments arrears on external debt contracted or guaranteed by the central government, with the exception of external payments arrears arising from central government debt that is being renegotiated with creditors. This assessment criterion will be assessed on a continuous basis.

I. Foreign program assistance

14. Foreign program assistance is defined as grants and loans received by the Ministry of Finance through BM accounts excluding those related to projects (Table 1).

J. Actual external debt service payments

15. Actual external debt service payments are defined as cash payments on external debt service obligations of the central government and central bank, including obligations to Paris Club and other bilateral creditors rescheduled under enhanced HIPC Initiative completion point terms, multilateral creditors, and private creditors, but excluding obligations to the IMF (Table 1).

ADJUSTERS

K. Net international reserves

16. The quantitative targets (floors) for net international reserves (NIR) will be adjusted:

- downward by the shortfall in external program aid less debt service payments (up to US$200 million), compared to the program baseline (Table 1);
- upward by any windfall capital gain tax receipts in excess of US$30 million collected during the program period;

- downward/upward for any revision made to the end-year figures corresponding to the previous year; and
- downward to accommodate higher external outlays because of natural disasters, up to US$20 million.

L. Net credit to central government

17. The quantitative targets (ceilings) for net credit to the central government (NCG) will be adjusted:

- upward by the shortfall in the MT value of external program aid receipts less debt service payments (up to the MT equivalent of US$200 million at exchange rates prevailing at the respective test dates), compared to the program baseline (Table 1);
- downward by any windfall capital gain tax receipts in excess of US$ 30 million collected during the program period;
- downward by privatization proceeds in excess of those envisaged in the program, unless these proceeds are deposited in the government's savings accounts abroad;
- downward (upward) for any increase (decrease) in domestic financing from the nonfinancial private sector; and
- upward to accommodate the higher locally-financed outlays because of natural disasters, up to the MT equivalent of US$20 million at exchange rates prevailing at the respective test dates.

M. Reserve money

18. The ceiling on reserve money for every test date will be adjusted downward/upward to reflect decreases/increases in the legal reserve requirement on the liabilities in commercial banks. The adjuster will be calculated as the change in the reserve requirement coefficient multiplied by the amount of commercial banks' liabilities subject to reserve requirement, considered at the end of the period of constitution of the required reserves prior to the change in regulation.

N. Government revenue

19. The quantitative targets (floors) for government revenue will be adjusted upward by any windfall capital gain tax receipts in excess of US$ 30 million collected during the program period.

DATA AND OTHER REPORTING

20. The Government will provide Fund staff with:

- monthly and quarterly data needed to monitor program implementation in relation to the program's quantitative targets and broader economic developments;
- weekly updates of the daily data set out in Table 1;

- weekly data set out in Table 4 of the TMU dated May 26, 2005;
- monthly updates of the foreign exchange cash flow of the BM;
- monthly data on government revenues (in detail according to the fiscal table) with a lag not exceeding one month;
- monthly data on verified VAT refund requests;
- monthly information on the balance of government savings accounts abroad;
- monthly data on domestic arrears;
- monthly data on external arrears;
- monthly budget execution reports (that will also be published) with a time lag not exceeding 45 days;
- the "mapa fiscal" with a time lag not exceeding 60 days;
- monthly monetary survey data with a time lag not exceeding 30 days;
- monthly data on gross international reserves, with the composition by original currencies and converted to US dollars at the actual exchange rates; and
- quarterly balance-of-payments data with a time lag not exceeding 65 days;
- monthly disbursements on the nonconcessional Portuguese credit line with a time lag not exceeding 30 days.

21. The monetary survey made available by the BM will clearly identify donor-financed project deposits (with a breakdown between foreign and domestic currency) included in net credit to the government in both the central bank's and commercial banks' balance sheets.

22. The Government will provide Fund staff with documentation concerning external loan agreements once these have been signed and become effective.

TMU Table 1. Mozambique: Net Foreign Assistance, 2014Q4-2015Q4

	2014	2015			
	Q4	Q1	Q2	Q3	Q4
	Act.	Act.	Projections		
Net foreign program assistance (US$ mn)	90	69	-56	-54	221
Gross foreign program assistance	176	103	19	36	268
Program grants	122	80	19	36	95
Program loans	54	24	0	0	173
External debt service	86	35	75	90	47
Cumulative net foreign program assistance in US dollars	113	69	13	-41	181
Gross foreign program assistance	394	103	123	159	427
External debt service	281	35	109	200	247
Net foreign program assistance (MT mn)	2,924	2,355	-1,943	-1,890	7,746
Gross foreign program assistance	5,705	3,540	676	1,274	9,380
Program grants	3,956	2,731	676	1,274	3,332
Program loans	1,750	809	0	0	6,048
External debt service	2,781	1,185	2,619	3,165	1,634
Cumulative Net foreign program assistance in MTN millions	3,610	2,355	412	-1,478	6,268
Gross foreign program assistance	12,490	3,540	4,217	5,491	14,870
External debt service	8,880	1,185	3,804	6,969	8,602

Source: Mozambican authorities and IMF staff estimates.