Fifteenth Sovereign Debt News Update: Mozambique's Crisis in Context

By:

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Currently, according to Fitch ratings, Mozambique's sovereign debt rating stands at CCC. The rating is largely underpinned by factors such as high fiscal and external financing needs, its scarce options for funding and the high levels of general government debt. As the country grapples with these odds, and hopes to leverage in its natural resources to stay afloat its debt, Fitch's pessimism is further strengthened by the recent seizure of Mozambique's Palma town by Islamic fundamentalists. Palma town, which is located at the northern region of the province of Cabo Delgabo houses a major LNG project development. Although the area has been retaken by the Government, the setback that the attack caused is still evident as some of the exploration companies are seen withdrawing their staff ostensibly as a result of a sense of insecurity.

In responding to the incidence at Cabo Delgabo, the World Bank has approved the eligibility of Mozambique to the Prevention and Resilience Allocation (PRA) which affords the country up to $700 Million in funding. The fund is designed to improve the country's resilience in and preempting another escalation of the conflict. In addition, the International Development Association (IDA) branch of the World Bank also approved a grant of $100 Million for this purpose. This is particularly tailored at the Government of Mozambique's Norther Crisis Recovery Project.

Under the Southern Africa Trade and Connectivity Project of the International Development Association, the World Bank approved on Thursday, 27th April, a finance of $380 Million to Malawi and Mozambique. The finance is aimed at facilitating the countries' regional trade coordination, reducing trade costs, boosting regional value chains and improving access to infrastructure. It is expected that the funds will be applied to developing such activities around the Ponta do Ouro region which borders North - central area of Mozambique and the South – central area of Malawi where the youth and women can adequately participate in cross border activities while attenuating poverty levels.

In a virtual meeting of some members of the IMF staff and some representative of the Guinea government pursuant to the financing agreements between the two entities, the preliminary findings of the IMF staff were gathered. These indicate that the country faces economic shocks from both the second wave of the corona virus and Ebola, yet there is an expected 5.2% economic growth rate by the end of 2021 which is largely attributable to the strength of the country's mining sector. The IMF staff also lauded the Guinea authorities' implementation of its Covid-19 Plan de Riposte, its focus in increasing domestic revenues, particularly through digitalized taxation, and the implementation of the June 2020 Rapid Credit Facility in improving governance of business climate.

In a recent IMF analysis of the fiscal condition and debt profiles of Middle Eastern and North African countries made in the light of the pandemic, it was noted that most of the countries were already facing high sovereign debt before the pandemic, with about half of them up to 70% debt to GDP ratio, and this was only further amplified by the pandemic outbreak. Only a handful of the countries resorted to the international financial markets for respite as much of the financing was sought domestically. The report suggests that the countries may explore policies such as the development of domestic capital market, broadening of investor base, and expansion of avenues for diversification of bank assets, in order to reduce their debt vulnerability.

An infographic designed by the European Network on Debt and Development (EURODAD demonstrated that the International Monetary Fund could do more in resolving the debt crisis faced by developing countries. For example, developing countries received new credits from external creditors totaling $178 billion in 2020, but these countries paid $ 372 billion in debt service that year. In essence, developing countries made a net transfer of $ 194 billion to external creditors in 2020. This $ 194 billion is sufficient to vaccinate everybody living in developing countries with more than $ 133 billion remaining to finance health care and debt cancellation.

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