Sovereign Debt News Update No. 135: Understanding Mozambique's Hurdles Under the Previous IMF Extended Credit Facility (ECF) Programme

By:

The African Sovereign Debt Justice Network

19 May 2025

According to an International Monetary Fund (IMF) statement released on April 18, 2025 in respect of Mozambique, the Fund stated that it had reached a mutual understanding with the country not proceed with the remaining reviews under the Extended Credit Facility (ECF) Programme. This comes about a month after the IMF issued a press release stating that it had agreed with Kenya not to proceed under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF). Not unlike Kenya, Mozambique has requested the initiation of discussions for a new IMF programme. The press release does not spell out the reasons for the mutual decision not to proceed under the ECF Programme nor how soon a new agreement will be reached. However, what could possibly be the rationale for this decision? Furthermore, what are the implications that this might have for the country?

Background of Mozambique's ECF Programme

Under a three-year agreement established in 2022, the IMF entered a USD $456 million (SDR 340.8 million) Extended Credit Facility (ECF) agreement with Mozambique. According to the IMF press release, this sum represented 150% of the country's quota. Under the ECF, USD $91 million (SDR 68.16 million) was made available for immediate disbursement at the outset. This three-year arrangement aimed to facilitate economic recovery and further policies designed to lower public debt and financing vulnerabilities. It was hoped that through this, fiscal space would be created for crucial investments in human capital development, climate adaptation initiatives, and essential infrastructure projects.

The key policy measures which the Programme was centred on were as follows. The establishment of a sovereign wealth fund for transparent management of gas resources, the mobilization of increased tax revenue, and the strengthening of public financial management and overall improvement of governance structures. According to the press release, the Facility was also expected to catalyze spending by development partners. In November 2022, the first review was completed, providing the country with access to about USD$59.26 million (SDR 45.44 million). The IMF Executive Board also finalized its review of financing assurances and approved the authorities' request for adjustments to the agreed conditions. This decision enabled the immediate disbursement of SDR 45.44 million (approximately US$59.26 million), which Mozambique could utilize for budget support. This latest disbursement brought the total amount Mozambique had received then under the Extended Credit Facility (ECF) arrangement to around US$150 million (SDR 113.6 million).

The Socioeconomic Prelude to The Termination of the ECF Agreement with the IMF

Mozambique has over the past few years, under the ECF Agreement, faced some challenges. Upon the Second Review, Mozambique had missed performance criteria on non-accumulation of external public and publicly-guaranteed arrears, as well as under the domestic primary budget at the end of

December 2022. The latter was attributed to wage bill reform overruns and revenue shortfalls due to challenges in collection. As a result, fiscal performance for 2022 fell short of expectations. On the other hand, the criterion on non-accumulation of external public and publicly guaranteed arrears was missed due to delays in debt service payments by a state-owned enterprise. However, the IMF Executive Board approved waivers for the country's nonobservance due to remedial actions taken by government authorities. According to a January 2024 IMF Country Report on Mozambique, the fiscal climate surrounding the Third Review was less inclement, as it was reported that inflation rate decelerated. However, there were still fiscal correction efforts in motion which were targeted at correcting the slippage arising from the challenges in implementing the single salary scale adopted in 2022. Overall, the report concluded that performance under the Review was mixed, with challenges arising primarily from structural reform implementation. The Fourth Review also featured challenges in debt management such as the country yet again missing performance criterion on non-accumulation of new public and publicly-guaranteed external payment arrears, and having to deal with higher costs of debt service.

In some way then, the termination of further reviews under the ECF is not entirely unsurprising. Just before the truncated ECF Review was announced in April 2025, news of the country's challenges had been in the news. In a February 2025 Bloomberg report, it was reported that Mozambique had found it difficult to meet citizen expectations alongside IMF demands. According to the report, protesters had demanded that the newly-elected Chapo government intervene in the persistent rise in cost of living, which prompted the government to extend value-added tax exemptions on basic goods until 31 December 2025. Hence, the government approved a law set to provide temporary tax relief in respect of sugar, edible oils, and soap, as well as raw materials, intermediate products, parts, and equipment manufactured by the national sugar and soap industry. This move, however, seemed to be at odds with IMF directives to the country to rein in spending as it presented a threat to revenues. While IMF assistance financing could be important in bridging budget deficit gaps for the gas-rich country, it indicates one significant thing- that perhaps the IMF ECF Programme might be incompatible with the needs of the citizens of Mozambique.

In a related development, S&P Global Ratings lowered its rating on Mozambique's local currency debt from CCC- to "selective default" (SD) in March 2025. The statement released by the credit rating institution refers to *'ongoing financing pressures and potential delays to gas projects and foreign aid, alongside broader macroeconomic uncertainties tied to the fragile political environment'*. This downgrade followed Mozambique exchanging its local currency, Mozambican metical (MZN) 3.7 billion (USD$54 million) in local currency bonds maturing in March 2025 in return for longer-dated, lower-yielding bonds maturing in March 2030. S&P Global Ratings considered it to be a distressed exchange, a sentiment echoed by Moody's, which also downgraded the country's domestic currency long-term issuer rating to Caa3 from Caa2, citing a severe liquidity crunch. Hence, Mozambique appears to be in a position where it has much to contend with in terms of fiscal policy.

Conclusion

In conclusion, the mutual decision between Mozambique and the IMF to halt the remaining reviews of the ECF Programme appears to stem from a confluence of factors that the country has grappled with over the past few years. Mozambique's struggle to balance the demands of the IMF programme with pressing domestic socio-economic and political challenges, exemplified by the rising cost of living and the government's subsequent tax relief measures, likely created significant friction. These measures, while intended to appease citizen concerns, stand in potential stark relief to the fiscal consolidation efforts mandated by the IMF. Furthermore, the recent sovereign debt downgrade by S&P Global Ratings to "selective default," triggered by the local currency bond exchange, underscores the fiscal vulnerabilities the country is currently facing. This situation suggests that the existing ECF framework may no longer be adequately suited to address Mozambique's evolving economic realities. Consequently, the move towards discussions for a new IMF programme signals a necessary recalibration, offering an opportunity to forge a more tailored and sustainable path for Mozambique's economic recovery and development, taking into account both its fiscal constraints and the urgent needs of its population. Only time will tell if this will be realized.

View online: Sovereign Debt News Update No. 135: Understanding Mozambique's Hurdles Under the Previous IMF Extended Credit Facility (ECF) Programme