Sovereign Debt News Update No. 178: Clearing Old Debt, Accumulating New Pressures: Mozambique’s Worsening Debt Crisis

By:

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September 08, 2026

Mozambique’s debt crisis has entered a new and troubling phase. In recent months, the country has taken seemingly bold steps to restore creditor confidence, including the early repayment of its debt to the International Monetary Fund (IMF) and renewed engagement with international financial institutions for fresh financial support. At first glance, the full early settlement of IMF obligations appeared to signal fiscal recovery and improved macroeconomic management. However, developments since then suggest a more complicated reality. Rather than marking the end of Mozambique’s debt difficulties, the repayment has been followed by urgent requests for a new IMF-supported programme, renewed efforts to secure direct budget support from the World Bank, and the appointment of a French restructuring advisory firm to help manage mounting public debt burdens.

These developments raise serious questions about whether Mozambique is truly stabilising or merely restructuring its dependence on external creditors. The country remains burdened by legacy debt from the hidden debt scandal, declining fiscal space, high financing costs, and growing vulnerability to climate and external shocks. The central concern is not simply debt levels, but whether Mozambique is moving toward sustainable recovery or deeper financial distress. Recent developments indicate that the crisis may be moving from bad to worse, with debt management increasingly focused on securing liquidity rather than addressing structural vulnerabilities. This update examines the latest developments and what they reveal about the trajectory of Mozambique's debt crisis.

Early Repayment of IMF Debt: Symbolic Victory or Strategic Necessity?

In April 2026, Mozambique announced that it had fully repaid its debt to the IMF ahead of schedule, clearing 515.04 million Special Drawing Rights (approximately US$630 million) in outstanding obligations. Mozambique was scheduled to repay the IMF 98 million dollars in 2026, 107.5 million in 2027, 129.3 million in 2028, and 136.4 million dollars in 2029. This schedule can now be thrown away, since Mozambique opted to pay the debt in advance. According to reports, this repayment was completed well before maturity and was presented by authorities as evidence of improved debt management and stronger fiscal credibility. Early repayment of IMF obligations is relatively rare among highly indebted low and middle-income countries and was interpreted by some observers as a sign that Mozambique was regaining financial footing.

Yet, beneath the symbolic value of this repayment lies a more complex reality. Clearing IMF debt did not eliminate Mozambique's broader debt vulnerabilities. Public debt remains elevated, financing needs remain substantial, and domestic fiscal pressures have intensified. Instead, it may have served primarily as a strategic move to reopen the door to fresh IMF support. In effect, Mozambique repaid the IMF only to return shortly afterward seeking a new programme, raising concerns that the repayment represented tactical debt recycling rather than genuine debt resolution. If anything, this development reflects a recurring pattern in sovereign debt crises where early repayments or liability management exercises generate positive headlines but fail to fundamentally improve debt sustainability. For Mozambique, the key question is not whether one creditor has been paid off, but whether the country has meaningfully reduced its exposure to debt distress. Current evidence suggests otherwise:

IMF Mission to Maputo Concludes and the Push for a Fund-Supported Programme

From 8 to 12 June 2026, an IMF staff mission led by Mission Chief Pablo Lopez Murphy visited Maputo to assess recent macroeconomic developments and to discuss the "*best way*" to support the country. The visit came at a critical moment, as Mozambique faces worsening fiscal stress, subdued growth, and increasing concerns about debt sustainability.

At the conclusion of the mission, Murphy stated: *"Mozambique faces a challenging economic situation. Economic activity is gradually recovering from a contraction in 2025, but growth remains subdued."* He further explained that the mission's objective was to review economic developments, assess the authorities' plans to restore fiscal and debt sustainability, and explore how the Fund could best support Mozambique going forward. This language is particularly significant because it signals that the IMF sees debt sustainability, not merely liquidity, as a central concern.

The IMF statement also highlighted discussions around revenue mobilisation, expenditure control, governance reforms, and measures to strengthen fiscal discipline. While no formal programme was approved during the visit, the mission laid the groundwork for continued negotiations toward a financing arrangement. Such a programme would likely come with policy conditionalities aimed at fiscal consolidation, debt management reforms, and governance improvements.

Mozambique's request for a new IMF arrangement is particularly notable; the Staff said they will return to Maputo in coming months to further discuss the request and the authorities' policy plans. Returning to the IMF within such a short period suggests that Mozambique's fiscal challenges have intensified rather than eased. Reuters reported that the IMF reclassified Mozambique's debt as unsustainable in February 2026 due to worsening public finances. This is a major red flag, as IMF debt sustainability classifications strongly influence broader creditor confidence and access to financing.

Seeking World Bank Budget Support as Fiscal Pressures Mount

Parallel to IMF negotiations, Mozambique is pushing to restore direct budget support from the World Bank. This represents one of the clearest signs that fiscal pressures have become severe. Finance Minister Carla Louveira confirmed that the government is seeking renewed World Bank budget support as part of a broader macroeconomic stabilisation effort. The IMF mission overlapped with a visit by senior World Bank leadership, who attended a signing ceremony at the Office of the Prime Minister on Tuesday, where five financing agreements worth a combined $450 million were concluded across social protection, agriculture, water and sanitation, and education and skills. However, these remain project-based and do not address the government's broader budget financing gap.

Direct budget support from the World Bank was halted following the hidden debt scandal. Unlike project financing, budget support provides governments with flexible funding that can be used to support general public expenditures. Its suspension deprived Mozambique of an important source of fiscal space. According to Louveira, the restoration of this support depends on meeting key benchmarks related to macroeconomic stability, debt sustainability, and financial integrity. These benchmarks are closely tied to IMF assessments, meaning progress with the IMF is likely essential for unlocking World Bank budget financing. This interdependence between multilateral lenders effectively increases the policy leverage of both institutions over Mozambique's fiscal decisions. Overall, the government's desire for direct treasury support signals deeper liquidity stress. Put simply, Mozambique is not only seeking development financing but immediate fiscal breathing room.

Hiring Alvarez & Marsal: External Debt Management Under Pressure

Interestingly, in April 2026, Mozambique hired Alvarez & Marsal, a French-linked international advisory firm known for restructuring and turnaround work, to advise on public debt management. This decision attracted significant attention considering such appointments often occur when governments anticipate heightened debt stress or complex restructuring challenges.

The firm's mandate reportedly includes implement Mozambique's 2025-2029 public debt strategy, improving liability management, and helping authorities navigate difficult creditor relations. While officials described the move as proactive technical strengthening, the hiring itself suggests serious concern within government about debt management capacity and future financing risks.

For observers of sovereign debt governance, this raises important questions about domestic institutional capacity and the growing role of private advisory firms in public debt decision-making. While technical expertise can be valuable, reliance on external consultants also raises accountability concerns. Who shapes debt strategy, and in whose interests, becomes an increasingly important question.

Furthermore, the use of external advisory firms such as Alvarez & Marsal can impose significant intermediary costs, often involving high consultancy and restructuring fees that place additional strain on already constrained public finances. In sovereign debt contexts, such costs can divert scarce resources away from essential public spending while raising concerns about whether expensive external expertise delivers commensurate long-term value. As highlighted in Afronomicslaw's Quarterly Report on Intermediaries, Transaction Costs & Sovereign Debt Sustainability in Africa, advisory, restructuring, and transaction fees can significantly increase the fiscal burden on distressed African states, diverting scarce public resources while offering no guarantee of improved debt sustainability. The paper notes that African sovereigns frequently face higher intermediation costs because of perceived risk, market asymmetries, and dependence on foreign expertise. This creates a structural disadvantage in debt markets. One of the sharper critiques is that intermediaries often get paid regardless of whether the debt strategy ultimately improves sustainability. In other words, consultants and advisers may profit even when countries emerge with continued or worsened debt vulnerabilities.

Why the Crisis May Be Going from Bad to Worse

Recent reporting by Reuters suggests Mozambique's crisis is worsening due to a convergence of structural and external shocks. Reuters' May 2026 analysis described a country under severe fiscal strain, facing rising debt, weak growth, and shrinking policy space. Several factors explain this deterioration. First, growth remains weak following the 2025 contraction. Economic recovery has been slower than expected, reducing tax revenues and limiting fiscal space. Second, climate-related shocks including severe flooding have imposed major reconstruction costs and disrupted economic activity. Third, global geopolitical instability, particularly conflict in the Middle East, has contributed to higher fuel and import costs.

At the same time, domestic borrowing capacity appears increasingly constrained. Reuters reported in March 2026 that Mozambique's reliance on domestic borrowing was nearing its limits, raising concerns that continued government financing through local markets could crowd out private sector lending and intensify liquidity pressures within the financial system. Sovereign spreads also remain at distress levels, reflecting investor concerns over repayment risk. This combination leaves Mozambique with limited options outside multilateral support.

Civil society organisations and debt justice advocates have long cautioned that repeated reliance on external financial support without deeper structural reform can entrench dependency rather than resolve underlying vulnerabilities. Previous IMF-supported programmes across developing economies have also shown that liquidity relief may come with fiscal consolidation measures, potentially shifting adjustment costs into the future and constraining social spending.

Conclusion

Mozambique's recent debt developments reveal a troubling paradox. The early repayment of IMF debt initially appeared to signal financial recovery, yet subsequent events point to deepening fiscal distress. Within weeks of clearing IMF obligations, the country returned to negotiations for a new IMF programme, sought renewed World Bank budget support, and hired external debt advisors to manage mounting pressures. These are not signs of durable recovery. They are signs of a state urgently seeking fiscal stabilisation amid escalating debt vulnerability.

The IMF's June 2026 mission made clear that Mozambique faces a challenging economic environment marked by subdued growth and serious debt sustainability concerns. The central issue is no longer whether Mozambique can secure new financing, but whether that financing will support meaningful structural transformation or simply prolong cycles of dependency and austerity.

Mozambique's experience demonstrates that debt management cannot be reduced to repayment alone. Early payment may improve optics, but it does not resolve structural debt injustice. Without stronger transparency, accountability, and development-centred fiscal policy, Mozambique risks remaining trapped in a cycle where old debt is paid only to make room for new debt. For AfSDJN, this underscores a fundamental lesson: sovereign debt solutions must prioritise economic justice, democratic accountability, and long-term resilience rather than short-term creditor confidence.

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