Sovereign Debt News Update No. 190: Mozambique and China Agree to Reschedule Debt Repayments Amid Mounting Fiscal Pressures

By:

The African Sovereign Debt Justice Network

November 14, 2026

Mozambique’s agreement with China to reschedule public debt repayments comes at a time when the country is seeking to ease immediate financing pressures, restore debt sustainability and secure additional external support. Although the agreement provides an opportunity to improve the management of public finances, it does not, in itself, establish that Mozambique’s outstanding debt has been reduced or that its overall debt burden has become sustainable. The development must be considered against the country’s early repayment of outstanding obligations to the International Monetary Fund (IMF) in March 2026, its efforts to negotiate further debt relief, and the substantial volume of external financing agreements signed during the first half of the year. These developments are unfolding alongside rising public debt, substantial government expenditure on salaries and debt servicing, and an

economic recovery that remains too weak to deliver meaningful improvements in living standards. This update examines the implications of the China debt-rescheduling agreement, Mozambique's broader debt-relief efforts, recent external financing developments and the fiscal and economic constraints shaping the country's recovery.

China Reschedules Debt Repayments to Ease Immediate Budgetary Pressures

On 26 October 2026, Mozambique and China signed a supplementary framework agreement to reschedule Mozambique's public debt repayments. The agreement was signed in Maputo by Mozambique's Finance Minister, Carla Loveira, and China's ambassador to Mozambique, Zheng Xuan, following engagements between President Daniel Chapo and Chinese President Xi Jinping during Chapo's state visit to China. The arrangement falls within Mozambique's Medium-Term Public Debt Management Strategy for 2025-2029 and is intended to align debt repayments more closely with the country's financial capacity. However, the authorities have not disclosed the amount of debt covered by the rescheduling, the revised repayment schedule or the precise financial terms of the arrangement. Implementation is also expected proceed through the formalisation of the necessary instruments with the Export-Import Bank of China (Exim Bank).

The Mozambican government expects the agreement to reduce immediate pressure on the State Budget by improving the predictability of debt-service obligations and creating additional fiscal space for economic and social priorities. Finance Minister Carla Loveira explained that the adjustment would help preserve the State's capacity to invest in infrastructure, provide essential services and respond to the population's needs, while balancing financial commitments against national development objectives. China's ambassador, Zheng Xuan, similarly reaffirmed Beijing's willingness to continue supporting Mozambique, particularly through financial cooperation. Nevertheless, the agreement should be understood primarily as a change to the timing of repayments rather than a confirmed cancellation of the underlying debt. Its ultimate impact will depend on the revised terms and the extent to which the resulting cash-flow relief enables the government to meet other expenditure obligations without accumulating further arrears.

The agreement is particularly significant given China's position as Mozambique's largest bilateral creditor. Official data cited in October 2026 indicated that Mozambique owed China approximately US$1.28 billion at the end of June, equivalent to nearly 15% of its total external debt. The country's broader debt difficulties have been compounded by the US$2 billion hidden-debt scandal that emerged in 2016, which undermined investor confidence and restricted access to financing, as well as delays to major natural gas projects expected to generate export earnings and government revenue. An IMF and World Bank joint Debt Sustainability Analysis, published in January 2026 as part of Mozambique's 2025 Article IV consultation, classified the country as being in debt distress and assessed its public debt trajectory as unsustainable. Consequently, rescheduling payments to a major creditor may ease immediate liquidity constraints, but it does not resolve the underlying challenges associated with debt sustainability, limited fiscal resources and delayed economic returns from major investments.

Mozambique Seeks Further Debt Relief Beyond the China Agreement

On 28 October 2026, Mozambique indicated that it would pursue further negotiations to reduce pressure on government finances following the agreement with China. In a statement reported by Reuters, the Ministry of Finance said: "*Mozambique is prioritising negotiated solutions aimed at improving the repayment profile and reducing pressure on government finances, while seeking, as far as possible, to avoid a comprehensive debt restructuring.*" This position suggests that the government is seeking to manage its obligations through negotiated adjustments with creditors rather than immediately embarking on a comprehensive restructuring of its debt.

The government's negotiating position reflects the distinction between improving the repayment profile of existing obligations and securing an actual reduction in the amount owed. Extending repayment periods or adjusting payment schedules may ease short-term budgetary pressures, while debt cancellation or conversion arrangements could produce different effects depending on their terms. Mozambique had already engaged China on these issues earlier in 2026. According to the Mozambican Ministry of Finance, Finance Minister Carla Loveira met her Chinese counterpart, Lan Fo'An, in Beijing on 22 April 2026, when the two sides agreed to partial debt forgiveness

amounting to 204 million yuan (approximately US$30.6 million) in interest-free loans that had fallen due by December 2024. The parties also discussed the restructuring of Mozambique's debt to China and committed to continuing technical discussions on the terms and conditions of the proposed arrangements. They further agreed to expand the possibility of converting debt into investments in strategic projects, with the government working on a project focused on children. The October 2026 agreement therefore forms part of a broader process of engagement with China rather than an isolated intervention.

Early Repayment of IMF Debt and the Search for Renewed Support

Mozambique's current negotiations with external creditors follow its decision to clear its outstanding debt to the IMF ahead of the original repayment schedule. By the end of March 2026, the country had repaid 515.04 million Special Drawing Rights (SDRs), equivalent to approximately US$630 million, reducing its outstanding credit to the Fund to zero. The repayment was reported on 2 April 2026 and effectively brought forward obligations that had otherwise been scheduled to fall due between 2026 and 2029. The debt originated from the IMF's Extended Credit Facility programme, approved in 2022 for approximately US$468 million. The programme disbursed four tranches totalling around US$343 million before being suspended in April 2025.

The early repayment was significant because it cleared Mozambique's outstanding credit to the IMF and could help improve the prospects for renewed engagement with the institution. However, repayment did not automatically guarantee a new programme or additional financing. In September 2026, an IMF staff mission reported that economic activity remained subdued despite signs of recovery and highlighted large fiscal and external imbalances, tight financing conditions, adverse climate shocks and energy-related disruptions. The mission stated that discussions on reforms needed to pave the way for a new Fund-supported programme would continue in the coming months. It also emphasised the need to restore debt sustainability and create conditions for stronger, more inclusive and resilient growth. Interestingly, Mozambique's Finance Ministry also indicated on 28 October that the country required an additional US$528 million in external financing to complement an IMF programme it hopes to secure. This financing requirement highlights the

continuing gap between the government's expenditure and financing needs and the resources currently available to meet them.

Viewed alongside the October agreement with China, the IMF repayment illustrates the complexity of Mozambique's debt position. The government has cleared its obligations to one major multilateral creditor while continuing to negotiate the repayment terms of other external liabilities and seeking additional financing. Although settling the IMF debt removed a specific outstanding obligation, it also involved a substantial payment at a time when the government faced significant fiscal constraints. The subsequent pursuit of debt relief and a prospective IMF programme indicates that the authorities continue to require a broader financing and reform framework capable of addressing both immediate liquidity needs and the longer-term sustainability of public debt.

External Financing Agreements Rise Above the 2025 Total

Mozambique's efforts to manage its debt burden are taking place alongside a substantial increase in the value of external financing agreements concluded during the first half of 2026. According to data from the Ministry of Finance reported by Club of Mozambique, the country signed 17 external financing agreements between January and June 2026, comprising grants and loans worth a combined US$891.69 million. This exceeded the US$828.6 million in grant agreements signed throughout the whole of 2025. The comparison requires some qualification because the 2026 figure includes both grants and loans, whereas the reported 2025 total refers to grants. Nevertheless, the first-half figure demonstrates the scale of external resources committed to Mozambique during the period.

The composition of the 2026 agreements is particularly important when assessing their implications for public debt. Grants accounted for US$861.35 million, or 96.6% of the total, while loans accounted for US$30.34 million, or 3.4%. The World Bank was the largest financing partner, providing US$751.3 million in grants, equivalent to approximately 84% of the total external financing mobilised during the six-month period. Its commitments included US$200 million in additional financing for a programme to accelerate access to sustainable and clean energy, US$150 million for skills development and

economic transformation, US$120 million for social protection and economic resilience, and US$100 million for the sustainable rural economy programme. The African Development Bank was the second-largest partner, providing grants totalling US$110.05 million for initiatives including the Nacala Multimodal Road Corridor, flood response in Maputo and Gaza provinces, and the Energy for All programme.

The two reported loan agreements comprised a US$20 million facility from the Arab Bank for Economic Development in Africa to finance the construction of two secondary schools in Tete and Nampula provinces, and a US$10.34 million African Development Bank loan for the Mueda–Negomano Road in Cabo Delgado province. These commitments illustrate the role of external financing in supporting infrastructure and social development. However, the distinction between agreements signed, funds disbursed and expenditure executed is essential. Although the value of financing agreements reached US$891.69 million in the first half of 2026, the government has faced difficulties translating external commitments into actual disbursements. External grants received fell by approximately half in 2025 for the second consecutive year, reaching 23.846 billion meticais, equivalent to around US$325 million. The government attributed the shortfall to low partner disbursements for investment projects. Consequently, the volume of financing agreed does not necessarily correspond to the resources immediately available to the State Budget.

Rising Public Debt and the Wage Bill Constrain Fiscal Space

Despite the substantial value of grants secured in the first half of 2026, Mozambique continues to face significant fiscal constraints arising from its outstanding debt and recurrent expenditure obligations. A report by the Ministry of Finance, as reported by AllAfrica in October 2026, estimated that public debt had exceeded 75% of gross domestic product, reaching approximately US$17.4 billion in the second quarter of 2026. The debt was reportedly divided relatively evenly between external and domestic liabilities. The report also warned that debt servicing and the payment of public-sector wages would leave only 4% of taxes and fees available for other expenditure, including healthcare, education and road construction. If sustained, this combination of debt-service and payroll commitments would sharply restrict the government’s ability to finance essential public services and development

priorities from domestic revenue.

Economic Recovery Remains Too Weak to Improve Living Standards

The constraints facing Mozambique's public finances are mirrored in the limited strength of its economic recovery. On 28 October 2026, Bank of Mozambique Governor Felisberto Dinis Navalha warned that economic growth remained insufficient to produce meaningful improvements in living standards. Speaking at the opening of the central bank's 51st Consultative Council meeting in Tete province, Navalha stated: "*With regard to our country's macroeconomic performance, it is important to highlight that our economy continues to grow at a moderate pace, which is nevertheless still insufficient to bring about an improvement in the population's living conditions.*" The economy contracted by 0.2% in 2025 before growing by only 1.7% in the second quarter of 2026, a rate the governor said remained below the country's potential and its poverty-reduction objectives. According to one source, around 60–65% of the population lives below the national poverty line, with higher rates in rural areas.

Navalha also highlighted the difficult external and domestic conditions affecting the outlook. Geopolitical tensions in the Middle East have contributed to higher international fuel, food, transport and logistics costs, with potential consequences for domestic inflation and economic activity. At home, uncertainty surrounding public debt and government arrears, limited access to credit and adverse climatic conditions, including the effects of El Niño, continue to pose risks. These pressures can weaken household purchasing power and increase the cost of doing business, while constrained access to credit can limit private-sector investment and the expansion of productive activity. Although agriculture, extractive industries and services may support a gradual recovery, the pace of growth remains a central concern for a country seeking to reduce poverty and improve living conditions.

The governor's warning highlights the gap between macroeconomic stabilisation and improvements in people's everyday lives. Even where the government secures new grants, negotiates debt relief or restores access to international financial support, these developments will not automatically translate into higher household incomes, better services or lower poverty. Their effects depend on whether financing reaches productive sectors, whether

public expenditure is implemented effectively and whether economic growth generates employment and broader economic opportunities. Mozambique therefore faces a dual challenge: managing its debt and fiscal obligations while strengthening the productive base of the economy so that the benefits of recovery extend beyond improvements in headline economic indicators.

Conclusion

Mozambique’s agreement with China to reschedule debt repayments represents a potentially important step towards easing immediate budgetary pressures, but it does not by itself resolve the country’s wider debt-sustainability challenges. The government’s pursuit of further relief and the US$891.69 million in external financing agreements signed during the first half of 2026 demonstrate both its efforts to mobilise resources and the continuing scale of its financing needs. The predominance of grants in the first-half financing total offers some scope to support development without adding substantially to debt, although persistent disbursement difficulties limit the benefits of commitments that do not translate into actual expenditure. Meanwhile, public debt above 75% of GDP, the burden of wages and debt servicing, and economic growth that remains insufficient to improve living standards underline the limits of short-term debt-management measures. Ultimately, the effectiveness of Mozambique’s strategy will depend on whether negotiated relief and external support can be combined with stronger revenue mobilisation, disciplined expenditure, timely implementation of development projects and more inclusive economic growth.

View online: Sovereign Debt News Update No. 190: Mozambique and China Agree to Reschedule Debt Repayments Amid Mounting Fiscal Pressures

Provided by Afronomicslaw