Sovereign Debt News Update No. 170: Mozambique’s Debt Paradox: A Turning Point Masking Structural Fragility

By:

The African Sovereign Debt Justice Network

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Mozambique has entered 2026 with a seemingly positive milestone, having fully repaid its outstanding obligations to the International Monetary Fund (IMF) ahead of schedule. This development, which might ordinarily signal improved fiscal health and strengthened macroeconomic stability, instead unfolds against a backdrop of intensifying domestic debt pressures, constrained fiscal space, and growing socio-economic strain. While authorities have framed the early repayment as evidence of sound financial management and renewed credibility, emerging data suggests a more complex and concerning reality. Domestic borrowing has surged, external financing conditions remain tight, and key development projects face increasing uncertainty. Mozambique’s trajectory mirrors a wider trend across African sovereigns, where headline debt milestones often sit alongside intensifying structural vulnerabilities and fiscal

strain. Against this backdrop, this update explores the country's recent full repayment of its IMF obligations in parallel with rising domestic debt pressures and tightening fiscal space.

Mozambique Clears IMF Debt

On the 1st of April 2026, Mozambique confirmed that it had fully repaid approximately US$701 million owed to the IMF, bringing its outstanding credit to zero. This repayment included 514 million Special Drawing Rights and was completed ahead of schedule, a move that government officials have framed as a demonstration of fiscal discipline and improved debt management capacity. Mozambique is the only nation that has fully cleared its debt among 85 listed countries, according to the document titled "Total IMF Credit Outstanding – Movement from 1 March 2026 to 31 March 2026." Authorities, including officials from the Government of Mozambique and the Bank of Mozambique, underscored that clearing IMF obligations strengthens Mozambique's sovereign credibility and potentially improves access to international capital markets. The early repayment also reflects a strategic effort to reposition the country in the eyes of creditors following the legacy of the hidden debt scandal that severely damaged investor confidence.

However, while the IMF exit may carry symbolic weight, it does not necessarily translate into improved fiscal sustainability. The repayment itself draws attention to the trade-offs inherent in Mozambique's fiscal strategy, particularly the reallocation of scarce resources toward external debt servicing at a time when domestic pressures are intensifying. The absence of IMF exposure may also reduce immediate policy oversight, raising questions about the trajectory of fiscal discipline going forward.

Rising Domestic Debt

Beneath the headline achievement of IMF debt clearance lies a significant and concerning trend: the rapid accumulation of domestic debt. According to Mozambique's central bank, the country's domestic debt has reportedly tripled since 2020, reaching 487.266 billion meticais (US$6.627 billion) and accounting for nearly 30% of Gross Domestic Product (GDP). According to the Bank of Mozambique, the level of domestic public debt continues to deteriorate, negatively affecting the functioning of the financial market, as noted in its

Economic Outlook and Inflation Prospects report. The report further indicates that the total stock of domestically issued public debt, including Treasury Bills (BT), Treasury Bonds (OT), and advances to the State from the central bank, stood at 155.973 billion meticais (US$2.121 billion) in December 2020, equivalent to 14.7% of Gross Domestic Product (GDP) at the time.

This is reflecting increased reliance on local borrowing to finance budget deficits and maintain public expenditure. This shift from external to domestic financing is not unique to Mozambique but carries distinct risks. Domestic borrowing often comes at higher interest rates and shorter maturities, creating rollover risks and placing pressure on local financial markets. The expansion of domestic debt also has direct implications for the banking sector, as increased government borrowing can crowd out private sector credit and constrain economic growth. In Mozambique's case, this dynamic is particularly concerning given the country's ongoing need for investment in infrastructure, social services, and post conflict recovery. The tripling of domestic debt thus underscores a deeper fiscal imbalance, where the apparent reduction in external obligations is offset by growing internal liabilities.

IMF Concerns and Calls for Fiscal Consolidation

Before Mozambique's repayment of IMF debt, the Fund had continued to express concern about the country's fiscal trajectory. In a February 2026 assessment, the IMF emphasized the need for fiscal consolidation to mitigate worsening debt dynamics, delays in debt servicing and limited external financing that weigh on the economy. IMF officials pointed to the limits of domestic financing, noting that reliance on local markets cannot indefinitely substitute for external support.

As such, the IMF has indicated plans to conduct a visit to Mozambique to assess economic conditions and engage with authorities on policy options. This continued engagement suggests that, despite the absence of outstanding credit, Mozambique remains under close scrutiny. A Fund spokesperson said the visit was necessary as Mozambique seeks help shoring up its increasingly strained finances and grapples with mounting public debt.

World Bank Warnings and the LNG Project Risk

Parallel to IMF concerns, the World Bank has raised alarms about Mozambique's fiscal deficits and their potential impact on critical economic projects. In particular, the Bank has warned that persistent deficits could jeopardize the viability of the country's $50 billion liquefied natural gas (LNG) project, a cornerstone of Mozambique's long term economic strategy. The Mozambique LNG project, led by Total Energies, is a major liquefied natural gas initiative located in the Cabo Delgado province, It was initially launched following the discovery of substantial natural gas reserves in the Rovuma Basin. The project involves a total investment of approximately US$20 billion and aims to produce over 13 million tonnes of LNG annually. The LNG project is therefore widely viewed as a transformative opportunity for Mozambique, with the potential to generate substantial revenues and drive economic growth.

However, the World Bank has stressed that fiscal instability and governance challenges could undermine investor confidence and delay project implementation. In addition, the Bank has indicated that it is exploring various options to support Mozambique in addressing its debt challenges, highlighting the need for coordinated international assistance. The World Bank has already begun mobilising substantial financial support for Mozambique, with officials confirming that the institution is preparing a package of approximately US$6 billion in largely concessional financing to be disbursed over a five-year period. This planned support, as highlighted by World Bank Regional Director Fily Sissoko, forms part of a broader effort to stabilise the country's macroeconomic position, address fiscal imbalances, and support recovery amid mounting debt pressures. The financing is also expected to be complemented by efforts to crowd in an additional US$4 billion in private sector investment through the World Bank's private arm (the International Financial Corporation), signalling a coordinated approach that combines public and private capital mobilisation in response to Mozambique's deepening fiscal constraints. These warnings reflect a broader recognition that Mozambique's fiscal situation poses risks not only to its immediate economic stability but also to its long-term development prospects.

Market Perceptions: Mozambique as a Distressed Credit

Financial markets have responded to Mozambique's fiscal challenges with increasing caution. Recent reports indicate that Mozambique has become

Africa's most distressed sovereign as yields hit 16.29%. When sovereign yields exceed 15 percent, governments generally lose access to external financing and must rely on domestic borrowing or multilateral assistance. Mozambique has therefore overtaken Senegal, reflecting heightened concerns among investors. This designation is significant, as it signals a deterioration in market confidence and may translate into higher borrowing costs and reduced access to financing. Mozambique's sovereign spread, which reflects the premium investors demand to hold its hard currency debt over United States Treasury bonds, has widened sharply, sitting at 1,473 points (surpassing the 1,000-basis point threshold) and reaching a ten-month high according to JPMorgan data. This level is widely regarded as a signal of severe financial distress and reflects both country specific risks and broader shifts in global investor sentiment, including a retreat from emerging market assets amid heightened geopolitical uncertainty. S&P Global Ratings has cautioned that foreign currency shortages could intensify, while recent domestic debt exchange operations have heightened concerns regarding potential default.

The classification of Mozambique as a distressed debtor underscores the disconnect between the narrative of IMF debt clearance and the reality perceived by markets. Investors are focusing not on the absence of IMF obligations, but on the underlying fiscal dynamics, including rising domestic debt, persistent deficits, and uncertainty surrounding key revenue generating projects. This divergence highlights the limitations of symbolic debt milestones in altering fundamental market assessments.

Domestic Pressures: Wage Negotiations and Social Strain

Mozambique's fiscal challenges are increasingly manifesting in domestic socio-economic tensions. According to the World Bank, the public wage bill and debt servicing consumed 87% of tax revenue in 2025. The government has initiated wage negotiations with civil servants amid growing economic difficulties, reflecting pressures on public finances and the need to balance competing demands These negotiations are taking place in a context of constrained fiscal space, with the government appealing to the parties involved to *"consider the balance*" in the face of socioeconomic difficulties aggravated by extreme weather events and recent weak economic performance.

At the same time, reports of potential strikes by healthcare workers, including doctors in Nampula, highlight the strain on public service delivery. The Doctors at Nampula Central Hospital (HCN) (the largest health unit in northern Mozambique) are threatening to go on strike in protest against delays in paying their wages of recent months and non-payment of debts for overtime worked in 2023 and 2024. These developments point to the human impact of fiscal stress, where budgetary constraints translate into delayed payments, reduced service quality, and increased social unrest. The intersection of fiscal policy and social outcomes is particularly acute in Mozambique, where poverty levels remain high and public services are critical to livelihoods.

The Limits of Domestic Financing and Structural Constraints

Mozambique's increasing reliance on domestic financing reflects both necessity and constraint. With limited access to concessional external funding and high costs in international capital markets, the government has turned inward to sustain expenditure. However, as the IMF has noted, domestic financing has its limits, particularly in a relatively shallow financial system The expansion of domestic borrowing risks crowding out private investment and weakening the broader economy. Moreover, structural challenges such as limited revenue mobilization, governance concerns, and vulnerability to external shocks continue to constrain Mozambique's fiscal capacity. These underlying issues cannot be resolved through shifts in financing sources alone and require comprehensive policy reforms and sustained international support.

Conclusion

Mozambique's full repayment of IMF debt marks an important milestone, but it does not resolve the deeper challenges facing the country's public finances. The simultaneous rise in domestic debt, persistent fiscal deficits, and mounting social pressures reveal a complex and fragile fiscal landscape. International institutions, including the IMF and World Bank, have highlighted the need for fiscal consolidation and structural reform, while markets have signalled increasing concern through Mozambique's classification as a distressed credit.

Ultimately, Mozambique's experience illustrates the limitations of focusing on headline debt metrics without addressing underlying structural issues. Sustainable debt management requires not only the reduction of external

obligations but also the careful management of domestic liabilities, enhanced revenue mobilization, and improved governance. Without such reforms, the gains from IMF debt clearance may prove short-lived, and the country risks remaining trapped in a cycle of fiscal vulnerability and constrained development.

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