

Mozambique: a strong case for debt cancellation

Mozambique is grappling with a severe debt crisis that is hindering its development and limiting important investments in sectors like health and education – which are crucial for improving the lives of its population. This brief explores the root causes of high debt, the impact it has on people's lives, and presents debt cancellation as a compelling solution. It explains how debt cancellation would alleviate Mozambique's financial constraints and free up the funds for essential services, improving access to healthcare, education and other critical needs. This would pave the way for a more equitable, sustainable, and prosperous future for all Mozambicans.

Mozambique faces a severe debt crisis. Over the past decade, Mozambique's debt has skyrocketed due to a mix of hidden loans, poor governance, and increased reliance on external debt. In 2023, the public debt reached around USD 11.3 billion, equivalent to more than half of the country's gross domestic product (GDP). This burden restricts investments in critical areas like health, education and infrastructure, leaving Mozambique in a precarious position, with limited resources to support its people and inhibiting the country's economic stability and development.

History and causes of the debt crisis

Mozambique's current debt crisis has roots in both long-term factors and specific events. Historically, Mozambique has had periods of high debt, but it was able to reduce this burden in the early 2000s with the help of international debt relief. However, between 2011 and 2014, three state-owned companies took on undisclosed loans totaling USD 2.2 billion, without Parliament approval or public oversight. This scandal, referred to as Mozambique's 'hidden debts', not only increased the country's external debt dramatically, but it heavily damaged its reputation and credibility with international lenders, causing aid cuts from development partners and reducing Mozambique's access to global financial markets.

Because of the scandal, the Mozambican government took on commercial debt at higher interest rates due to limited access to cheaper credit. The result is a public debt level that now creates severe fiscal pressure and limits the government's ability to address urgent public needs.

Mozambique's public debt sustainability is subject to several risks that can jeopardize the country's ability to meet its obligations. One of the main risks is the exchange rate: given that a significant part of the debt is in foreign currency, it is vulnerable to exchange rate fluctuations. In addition, variable interest rates can increase debt service costs.

How does debt impact people's lives?

Mozambique's ability to repay its debt depends directly on its tax revenue and economic growth. The debt burden forces the country to dedicate a large portion of its public earnings and revenues to debt servicing. As a result, limited budget remains for social programmes and public services that improve everyone's lives, like health and education.

In 2023, the external debt-to-GDP ratio was 35.5%, while health and education spending together only accounted for 9.5% of the GDP.

For many Mozambicans, this means limited access to essential services and worsening health outcomes. Infectious diseases such as malaria, as well as chronic child malnutrition, continue to pose significant challenges to the population. This is further exacerbated by an underfunded health system.

A snapshot of Mozambique's debt

Mozambique's debt is composed of both domestic and external obligations. Around 68% of the debt is held by international creditors. These include multilateral institutions such as the International Monetary Fund (IMF), the African Development Fund, and the International Development Association (IDA) – the arm of the World Bank that provides low-interest loans and grants to the world's poorest countries. Together, these organizations hold almost 90% of the country's total multilateral debt and therefore significant influence over Mozambique's debt terms. They also have the potential to support debt restructuring efforts. Additionally, Mozambique has bilateral debt to countries like China and Portugal, adding further layers of repayment complexity and risk.

Debt cancellation: a path towards sustainable fiscal recovery

Mozambique's debt crisis highlights a strong and compelling case for debt cancellation. It would free Mozambique from a devastating 'debt trap', a cycle where high-interest payments hamper investments in development and drive the need for more borrowing, perpetuating more debt. It would also end the country's vulnerability to debt crisis caused by currency fluctuations of the external debt.

Redirecting resources from debt repayment to essential public services would improve social welfare, create jobs and eventually boost sustainable economic growth. The ability to reinvest in its people and infrastructure would help Mozambique build human capital and long-term economic resilience.

A potential debt cancellation would bring transformative changes to the country's economic and social welfare:

- 1 Increased spending on social services. Debt relief would enable Mozambique to increase spending on the social sectors, including healthcare, education, and social protection. These investments would have immediate benefits for the population, particularly the most vulnerable, by improving access to quality services and reducing poverty.
- 2 Economic recovery and growth. By reducing fiscal pressure, debt cancellation would allow Mozambique to channel funds toward productive investments, promoting economic recovery and self-sufficiency. Investing in sectors like agriculture and energy could provide long-term growth opportunities, making Mozambique less reliant on external aid.
- 3 More financial stability and trust. Reduced debt obligations would enhance Mozambique's financial stability and creditworthiness, restoring trust with international investors. This improvement could open doors to new investments, further helping Mozambique to rebuild its economy sustainably.

Debt cancellation is a viable solution to restore fiscal sustainability and free up resources for essential sectors such as health and education. It enables equitable development that improve the social well-being of citizens.

The role of international actors and the way forward

Mozambique's debt crisis is not just a national issue – it has significant global implications. Several organizations, including the United Nations Conference on Trade and Development (UNCTAD), have argued that debt cancellation for low-income countries is essential, particularly in the post-pandemic context where many economies, including Mozambique's, are struggling to recover. Debt cancellation aligns with the broader international sustainable development goals of reducing poverty and promoting stability in low- and lower-middle-income countries.

International actors, including creditors, development banks and multilateral organizations, have a key role in supporting debt cancellation or restructuring programmes to ensure that resources are redirected towards social and economic investments. They

should offer more favorable loan conditions and reduce financial pressures on countries to avoid that social spending is jeopardized during periods of fiscal adjustment or debt restructuring.

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Mozambique has the potential to set a powerful example of recovery and resilience. Its crisis underscores the urgent need for debt cancellation as a means to achieve sustainable development. By reducing its debt, Mozambique can redirect resources to pressing social and economic needs, paving the way for a more stable, equitable and healthy future. For Mozambique and its creditors, debt cancellation represents not only a financial adjustment but an investment in the nation's potential to grow, thrive and offer its citizens a better quality of life.

About this brief

This brief is based on the findings of the [policy note](#) '*Navigating the debt challenges and unlocking the paths for sustainable growth. Analysis of the sustainability of Mozambique's external public debt*', drafted by [N'weti](#) and [Wemos](#) in November 2024. It analyses Mozambique's debt crisis and describes debt cancellation as a necessary solution to free up resources for public services that can improve the lives of Mozambicans, like health. This brief is part of the project '*Equitable Health Financing for a Strong Health System in Mozambique*', funded by Sint Antonius Stichting Projecten.

