**[Making the Most of Demographic Change: Mozambique Economic Update](http://www.worldbank.org/en/news/press-release/2017/12/22/making-the-most-of-demographic-change-mozambique-economic-update%22%20%5Ct%20%22_blank)**

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**MAPUTO, December 22, 2017—**The second half of this year indicates the slowdown in Mozambique’s economic performance may be taking hold and shifting this once fast-growing economy to a more modest pace of growth, bringing economic growth down to a level barely above that of population growth.

**Mozambique is shifting to a period of slowing growth and increasing concentration.**

GDP growth is expected to dip to 3.1 percent in 2017, despite increases in coal and aluminum exports. Whilst these exports boomed, small and medium enterprises (SMEs) have fallen back even more, especially in the manufacturing sector, which contracted for this first time since 1994. The World Bank’s new Mozambique Economic Update notes that SMEs are crowded out, and not even growth in commodity exports is sufficient to counteract the effects this is having on the economy.

**(Definition** of '**Crowding Out** Effect' **Definition**: A situation when increased interest rates lead to a reduction in private investment spending such that it dampens the initial increase of total investment spending is called **crowding out** effect. ... This leads to an increase in interest rates).

A few commodities dominate exports and represent a larger share of foreign currency inflows, which heightens Mozambique’s exposure to external shocks. The concentration of output in the extractive and minerals sector keeps Mozambique on the path of a two-speed economy, one less capable of generating enough jobs to absorb a net inflow of the almost 500,000 people entering the labor force each year.

Trends observed in 2017 make it clear that Mozambique needs to double its efforts to support small and medium enterprises and look beyond the extractive sector for more balanced growth.

**A stronger fiscal policy response and increased transparency are key for recovery.k**

The scale of the shocks faced by Mozambique’s economy over the past two years has been immense. However, as commodity prices and conditions for agriculture improve, and external factors become less of an impediment, the economy turns to the policy response to pursue recovery. Decisive monetary policy measures and strong commodity export performances have helped to stabilize the *Metical* and bring inflation down in 2017. Fiscal policy also began responding, but at a slower pace.

**Making the most of demographic change.**

The special focus section of this December’s Economic Update discusses the challenge of transforming Mozambique’s growing and youthful population into a demographic dividend. This is ever more urgent given the drift towards a natural resource extraction based economy with low employment generation.

**Mozambique lags behind other sub-Saharan African countries in kicking off its demographic transition**. By 2011, its total fertility rate was estimated at an average of 5.9 children per woman, one of the highest in the world. The World Bank estimates that reducing fertility rates would represent an enormous boost to prosperity: an estimated increase in real per capita GDP of 31 percent by 2050.

Mozambique could actively promote policies to trigger the transition, with jobs for women and better family planning services. A sharper focus is also needed on building skills for youth and an economy that grows.