JUNE **2025**
No. 06 | Year 06

FINANCIAL STABILITY REPORT

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Foreword

In accordance with its Organic Law, the Banco de Moçambique (BM) is responsible for supervising credit institutions and financial companies (CIFCs). The supervision of CIFCs is carried out using a combination of prudential tools that contribute to ensuring the stability of the financial system.

Financial stability means a sound, robust and resilient financial system, which restrains the likelihood of disruptions severe enough to hinder the real economy.

The BM implements macroprudential policy by strengthening the resilience of the banking sector to financial shocks and imbalances and preventing systemic risk. The BM has various policy instruments in place to prevent and mitigate excessive credit and leverage growth, market illiquidity, exposure concentrations and excessive risk-taking by systemically important institutions.

The banking resolution authority powers of the BM have been reinforced by Law No. 20/2020, of December 31. This legal framework strengthens the mechanisms and instruments for the resolution of institutions at risk of non-viability or insolvency, so as to ensure timely intervention and the orderly recovery or liquidation thereof to minimize the negative effects on the financial system.

The Financial Stability Report (FSR) is a communication tool of the macroprudential policy adopted by the BM. The FSR includes the drivers of the international and domestic environment, as well as the assessment of systemic risk, which contributes to influencing macroprudential policy decisions.

The Governor

Rogério Lucas Zandamela

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Acronyms

BCI	Banco Comercial e de Investimentos, S.A.
BIM	Banco Internacional de Moçambique, S.A.
BM	Banco de Moçambique
BVM	Mozambique Stock Exchange
CE/ GDP	Ratio of credit to the economy to gross domestic product
D-SIBs	Domestic Systemically Important Banks
DTI	Debt-to-income
FATF	Financial Action Task Force
GDP	Gross domestic product
MMO	Mobile money operators
INE	National Statistics Bureau
ISSM	Mozambique Insurance Supervision Institute
LTV	Loan-to-Value
MVM	Securities Market
NPL	Non-Performing Loan
ROA	Return on Assets
ROE	Return on Equity
SADC	Southern Africa Development Community
T-Bill	Treasury Bill
T-Bond	Treasury Bonds
USA	United States of America

Executive Summary

The global financial system has remained resilient despite bouts of financial market volatility associated with geopolitical, cyber and climate uncertainties and risks.

Global financial market dynamics were shaped by central banks' efforts to steer inflation toward target levels, amidst considerable macro-financial uncertainty driven by geopolitical tensions and high pressures on sovereign debt levels. Global financial markets were also affected by investor optimism regarding the US economy outlook in the post-election period.

Yields on long-term government bonds rose in the US and UK in the final months of the year, keeping them attractive relative to emerging market government bonds, influencing investor preference for their assets.

Domestically, key financial system indicators show that it remains stable, despite the slowdown in the growth rate of the financial system and the prevalence of internal and external shocks. Cumulatively, the pace of growth of the financial system slowed to 1.22% from 4.58% in 2023, amid increased risks and vulnerabilities at home and abroad.

The BM continues to normalize the MIMO policy rate[1], reinforcing the pillars of financial stability over the medium term. The ongoing decline in the prime lending rate, consistent with the trajectory of the MIMO policy rate, is also evident in retail interest rate adjustments in the banking system.

The banking sector remains profitable and with adequate levels of capitalization, liquidity, and profitability, despite a decline in asset quality. In 2024, the overall capital adequacy ratio stood at 26.11%, above the regulatory minimum of 12.00%. On the other hand, the short-term liquidity coverage ratio stood at 49.64%, also above the regulatory minimum of 25%.

[1] Monetary Policy Rate

Net income decreased by 21.99%, after a positive annual growth of 8.12% in 2023, with a significant contribution from systemically important banks, equivalent to a share of 64.63%.

In fact, the return on assets (ROA) and return on equity (ROE) ratios stood at 3.38% and 13.91% in 2024, from 4.66% and 19.11% in 2023, respectively.

The ratio of non-performing loans (NPL) remains above the conventional requirement (5.00%), standing at 9.32%, following 8.23% in 2023. Moreover, the NPL coverage ratio dropped to 60.29% in 2024 from 66.02% in the same period of 2023.

The banking sector continues to show market share concentration. In 2024, banking sector activity remains concentrated in D-SIBs, with shares of assets, deposits, and credits of 59.85%, 64.03% and 54.49%, respectively.

Pension funds proved to be a less prominent source of financing for the banking sector, albeit significant to the MVM. Pension fund deposits accounted for 0.47% of total deposits in the banking sector. Meanwhile, the share of the value of securities held by pension funds accounted for 30.47% of the total securities in the MVM sector.

The insurance segment continues to grow, reflecting the increase in turnover and the expansion of the number of operators in the market. In fact, global production grew by 3.20% compared to 2023.

The Securities Market (MVM) remains dominated by investments in government bonds. In this context, government bonds account for 87.22% of the total market capitalization.

Systemic risk remains moderate. This behavior was supported by the prevalence of sovereign, credit, liquidity and profitability and solvency risks. Contrary to this trend, macroeconomic risk increased, and market risk decreased.

The BM has decided to keep all macroprudential policy instruments in place in order to absorb potential losses resulting from the materialization of risks and vulnerabilities in the financial system. Thus, the additional capital requirements for D-SIBs and quasi-D-SIBs remained at the minimums of 2.0% and 1.0%, respectively.

In addition, the loan-to-value (LTV) ratio and the debt-to-income (DTI) ratio remained capped at 100%.

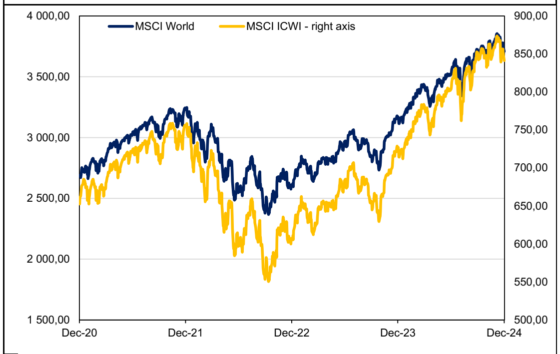
I. INTERNATIONAL FINANCIAL SYSTEM

The global financial system has remained resilient despite bouts of financial market volatility associated with geopolitical, cyber and climate uncertainties and risks.

In 2024, the dynamics of global financial markets were influenced by the stance of central banks to promote the convergence of inflation rates to their targets, amid considerable macrofinancial uncertainty, arising from geopolitical tensions and significant pressures on sovereign debt.

Capital market performance of developed countries and emerging market economies as measured by the indexes MSCI World [2] and MSCI ICWI[3] increased significantly during the year, surpassing all-time highs, in line with the favorable momentum of Global Financial Markets (Chart 1).

Chart 1: MSCI World Index and MSCI ICWI



Source: *Bloomberg*, 2024

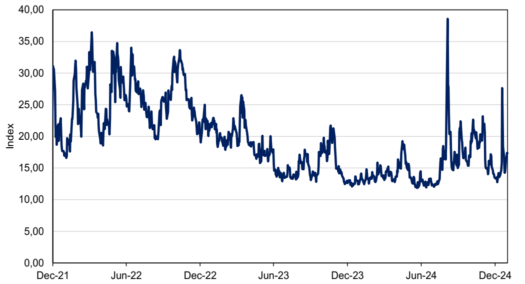
Meanwhile, equity risk premiums were below their long-term averages, although they increased slightly, while corporate bond risk premiums remained close to their long-term averages.

On the other hand, stock market dynamics influenced asset prices in financial markets making them significantly overvalued, particularly in the fourth quarter. This scenario reflects investor optimism about the outlook for the US economy in the post-election period, albeit in a challenging global risk environment (Chart 2).

[2] The MSCI World Index (Morgan Stanley Capital International) is formed by medium and large corporate stocks with global performance or in advanced economies.

[3] The MSCI ICWI Index is a more comprehensive index, encompassing both emerging market economies and advanced economies. This index tracks the development of the shares of large and medium-sized companies and the opportunities provided by them.

Chart 2: US Stock Price Volatility — VIX Index[4]



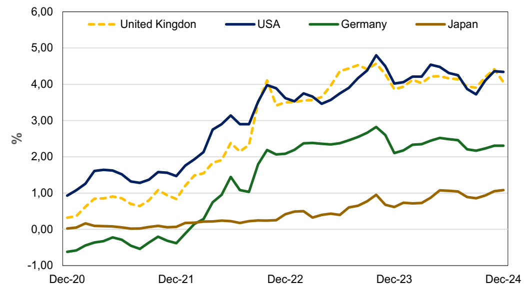
Source: *Trading Economics*, 2024

In the second half of 2024, global financial markets were driven by central banks' cautious stance on further interest rate cuts to restrain persistent inflation risks.

This dynamic took place despite the pronounced shock of volatility seen in July and August, due to changing expectations about the course of monetary policy in advanced economies.

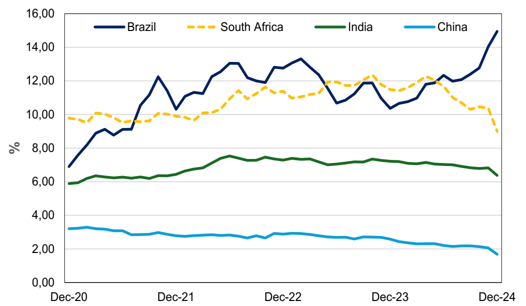
On the other hand, yields on long-term government bonds increased in the US and the UK in the second half of 2024, keeping them attractive relative to emerging market government bonds, influencing investor preference in the application of their resources (Charts 3 and 4).

Chart 3: Government Bond Yields – Advanced Economies



Source: *Bloomberg*, 2024

Chart 4: Government Bond Yields - Emerging Market Economies



Source: *Bloomberg*, 2024

The banking sectors of SADC countries remain adequately capitalized and able to absorb potential adverse shocks.

The Tier I ratios of the banking sector in the countries of the region are adequate, and comparative analysis of capitalization levels indicates that Mozambique accounts for one of the highest ratios (Chart 5).

[4] The VIX index is an indicator that estimates the expected volatility of the United States stock market.

In the reporting period, return on equity ratios in the region were satisfactory (Chart 6).

However, most countries in the region had NPL ratios above the conventional 5% threshold, which reinforces the need to improve the credit risk management process and NPL monitoring (Chart 7).

Chart 5: Basic Capital Adequacy Ratio (Tier I Capital Ratio) – SADC Countries

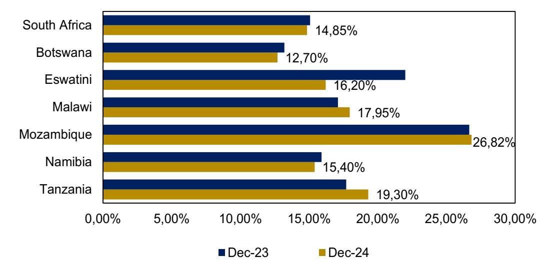


Chart 6: Return on Equity – SADC Countries

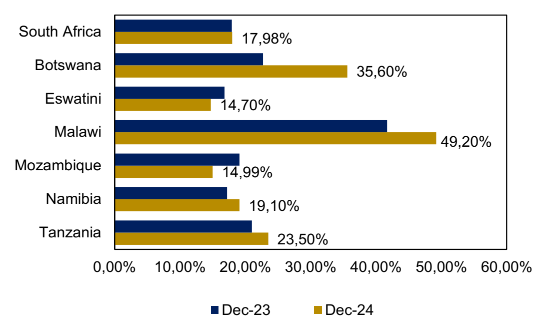
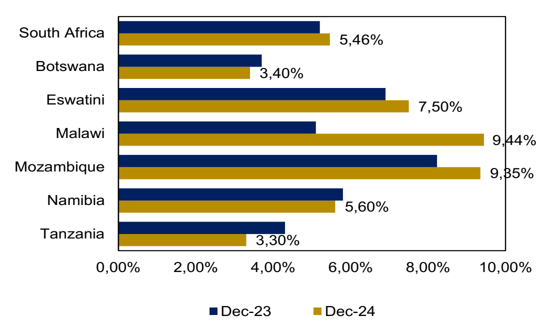


Chart 7: Non-Performing Loans Ratio – SADC Countries



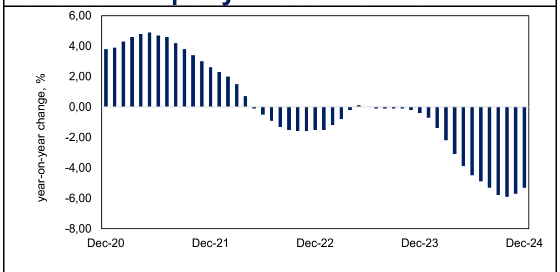
Source: International Monetary Fund, 2024

Risks and Vulnerabilities of the Global Financial System

In the reporting period, global financial markets remained significantly exposed to vulnerabilities associated with the real estate sector, sovereign (fiscal) debt levels and cyber, climate and geopolitical risks.

Indeed, the Chinese real estate market continues to transmit weaknesses to the global system, due to the persistent fall in real estate prices (Chart 8), amid a relative reduction in the concentration of real estate loans in the US and Eurozone banking sector.

Chart 8: Property Prices – China



Source: *Trading Economics*, 2024

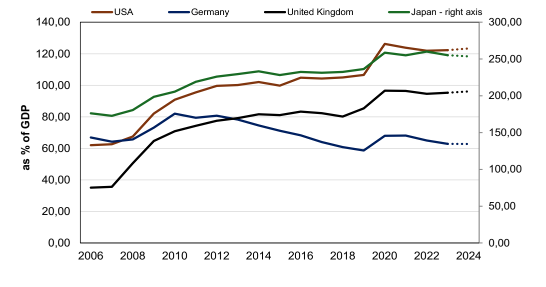
Sovereign debt levels relative to gross domestic product (GDP) have increased in advanced economies, driven by increased public expenditure.

A deterioration in market perceptions of the sustainability of the long-term trajectory of global government debt could lead to higher interest rates, longer-term premiums, and financial market volatility.

Geopolitical tensions marked by increasing risks and uncertainties, particularly the Russia-Ukraine conflict and tension in the Middle East, have put greater pressure on the public debt levels of the economies of the countries involved in the conflicts, with consequences for global financial stability (Charts 9 and 10).

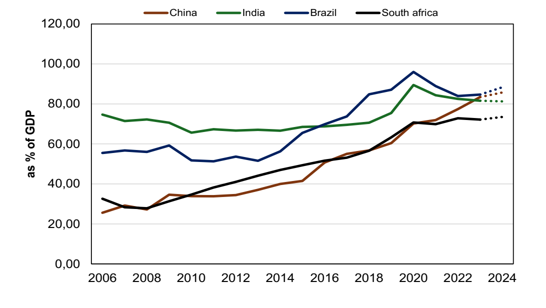
Additionally, higher geopolitical tensions have created an environment conducive to the increased risk of cyberattacks, posing additional challenges to the resilience of the financial system.

Chart 9: Public Debt – Advanced Economies



Source: *Trading Economics*, 2024

Chart 10: Public Debt – Emerging Market Economies



Source: *Trading Economics*, 2024

In 2024, climate change posed significant financial risks to banks and the overall financial system. Climate-related risks have impacted the balance sheet structure of banks in the form of increased credit, market, liquidity, and operational risks.

Notwithstanding conditioned by risks and vulnerabilities, global markets remained resilient against adverse scenarios.

II. DOMESTIC FINANCIAL SYSTEM

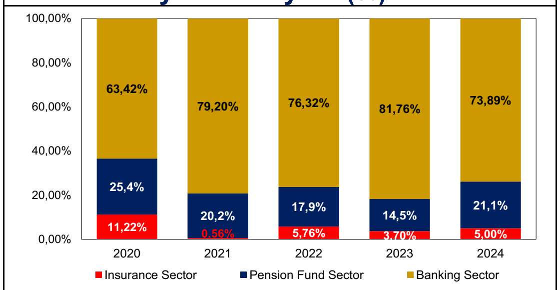
In 2024, the main indicators of the financial system show that it remains stable, solid, and well capitalized, despite the prevalence of internal and external shocks.

Additionally, the growth rate of the financial system slowed from 4.58% in 2023 to 1.22% in December 2024.

The key players in the financial system accounted for about 3.0% of economic activity, with the banking sector predominating, followed by pension funds and the insurance sector.

With regard to income, the banking sector contributed around 74.0% to the financial system in 2024, a reduction compared to last year (Chart 11).

Chart 11: Contribution to Results by Key Financial System Players (%)



Source: BM/ISSM, 2024[5]

2.1. Banking Sector

During the financial year 2024, the banking sector remained profitable and stable, with adequate levels of capitalization, liquidity and profitability, despite declining asset quality.

In this context, the overall capital adequacy ratio stood at 26.11%, above the regulatory minimum of 12% and with the capacity to ensure coverage of any shocks to the balance sheet and financial imbalances.

Net income reached 24.01 billion meticais, a contraction of 21.91% compared to the same period in 2023.

This reduction arises, on the one hand, from the increase in operating costs, highlighting on personnel expenses by 7,88% and, on the other, from the reduction in other operating results, reflecting the increase in impairment losses by 44.60%.

This result includes 16.82 billion meticais (64.63%) from three D-SIBs, namely BCI, Standard Bank and BIM.

[5] Mozambique Insurance Supervision Institute

On the other hand, the liquidity ratio of the banking sector remained satisfactory (49.64%) and above the regulatory limit of 25.00%.

Meanwhile, asset quality deteriorated, reversing the improving trend seen in previous years. Indeed, the NPL ratio stood at 9.32%, equivalent to an increase of 1.09 pp compared to 2023 (8.23%), and remains above the conventional 5.00% threshold.

2.1.1. Banking Sector Concentration

In December 2024, the three (3) D-SIBs, namely BCI, Standard Bank and BIM jointly accounted for 59.85%, 64.03% and 54.49% of the assets, deposits, and credit of the banking sector, respectively, compared to 60.78%, 66.16% and 54.37% in the same period of 2023. (Table 1).

The Herfindahl-Hirschman Index[6] remained at moderate concentration at 1,378, 1,597 and 1,368 points for assets, deposits, and credit, respectively.

In recent years, except for credit, this indicator has shown a downward trend, reflecting dynamism and competition in the sector, with some non-D-SIB banks gaining market share (Table 1).

Table 1: Banking Sector Concentration – Herfindahl-Hirschman Index

	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
HHI - Assets	**1572**	**1501**	**1533**	**1410**	**1378**
Three largest banks (D-SIBs)	65,33%	63,16%	64,45%	60,78%	59,85%
Five largest banks	83,10%	82,33%	81,38%	79,46%	74,99%
Tem largest banks	89,91%	91,05%	89,77%	88,55%	87,03%
HHI - Deposits	**1778**	**1703**	**1707**	**1657**	**1597**
Three largest banks (D-SIBs)	69,94%	67,63%	68,01%	66,16%	64,03%
Five largest banks	87,14%	86,81%	85,96%	85,77%	80,33%
Tem largest banks	93,21%	94,62%	92,14%	93,50%	94,77%
HHI - Credits	**1486**	**1388**	**1294**	**1320**	**1368**
Three largest banks (D-SIBs)	58,75%	56,80%	54,23%	54,37%	54,49%
Five largest banks	81,84%	79,45%	78,23%	76,93%	72,39%
Tem largest banks	91,12%	90,05%	89,81%	89,68%	91,06%

Source: BM, 2024

2.1.2. Balance sheet structure

2.1.2.1. Assets

Banking activity, measured by total assets, stood at 1,021.43 billion meticais in December 2024, a year-on-year growth of 11.21%.

This performance reflects the increase in investments in financial assets, namely public debt securities, by 47.64%, and in cash and cash equivalents by 20.07%.

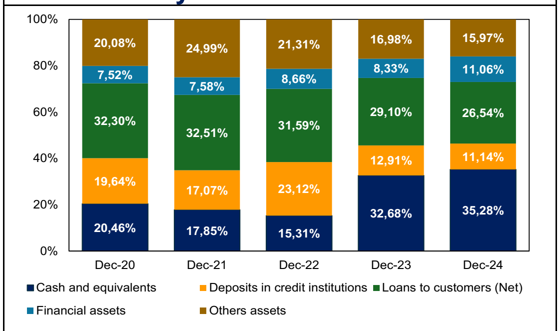
In addition, the option for investments in assets with high liquidity, profitability and lower risk prevails, consisting of cash, investments in credit institutions

[6] The Herfindahl-Hirschman Index (HHI) is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers to measure the degree of concentration in the market. Values below 1000 indicate no concentration, values above 1800 indicate high concentration, and values between 1000 and 1800 indicate reasonable concentration. "*Think Finance Forum* - Internet, February 2012".

and financial assets, jointly making up 587.15 billion meticais, i.e., 57.48% of total assets (against 53.92% in December 2023).

Net credit impairment rose to 271.12 billion meticais from 267.30 billion meticais in December 2023 and continues to place second in the equity structure, with a weight of 26.54% against 29.10% in the same period of the previous year (Chart 12).

Chart 12: Key Assets



Source: BM, 2024

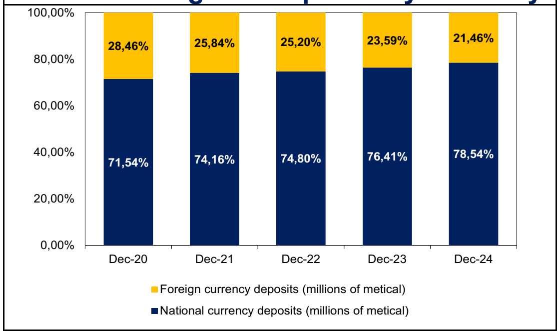
2.1.2.2. Liabilities

In December 2024, the total liabilities of the banking sector stood at 846.24 billion meticais, an expansion of 13.26% year-on-year.

This change mainly resulted from the increase in deposits by 72.78 billion meticais, equivalent to 11.45% compared to the same period in 2023.

In the reporting period, deposits maintained the growing trend seen in recent years, totaling 708.67 billion meticais, i.e., 556.60 billion (78.54%) in national currency and 152.06 billion (21.46%) in foreign currency (Chart 13).

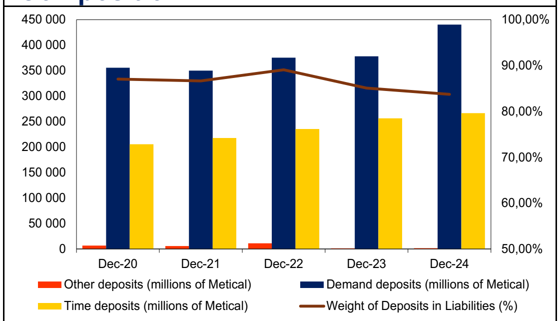
Chart 13: Weight of Deposits by Currency



Source: BM - Statistics, 2024

Meanwhile, current deposits stood at 440.5 billion meticais, i.e., 62.16% of total deposits, followed by demand deposits with a weight of 37.64%, with the remnants accounting for other deposits (Chart 14).

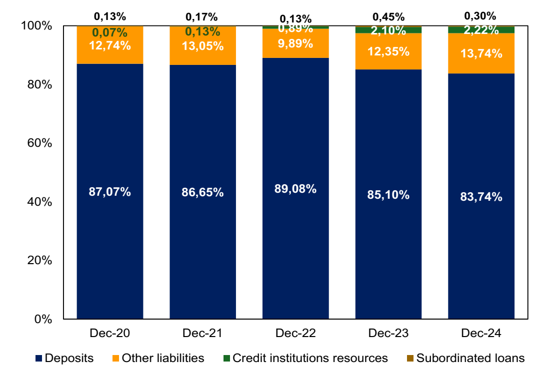
Chart 14: Deposit Developments and Composition



Source: BM, 2024

In the structure of liabilities, deposits account for 83.74% of total liabilities against 85.10% in 2023 and remain the largest source of funds for credit institutions (Chart 15).

Chart 15: Key Liabilities



Source: BM, 2024

2.1.3. Financial Soundness Indicators

2.1.3.1. Capital Adequacy

Capital adequacy indicators continue to demonstrate favorable performance.

Indeed, in December 2024, the overall capital adequacy ratio grew by 0.43 pp, remaining above the regulatory minimum of 12.00%, to 26.11% from 25.68% in the same period of 2023.

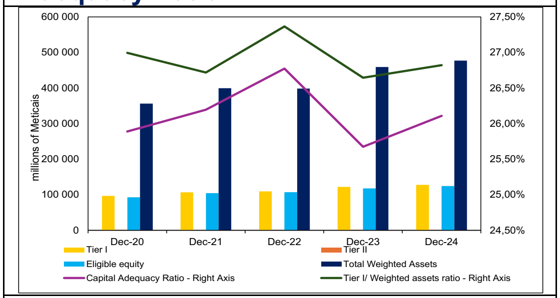
This change is the result of growth in total equity of 5.68%, despite a positive development in risk-weighted assets of 0.43%.

The Tier I ratio[7] followed the same trend, standing at 26,82% in December 2024 against 26.65% in the same period last year.

In general, the high levels of capitalization evidenced by the capital adequacy ratio show that the national banking sector remains solid and stable and that the disruptions that struck the international financial market have not exerted any noticeable pressure on the assets of institutions.

This scenario is because credit institutions operating in the country are not materially exposed to global market dynamics (Chart 16).

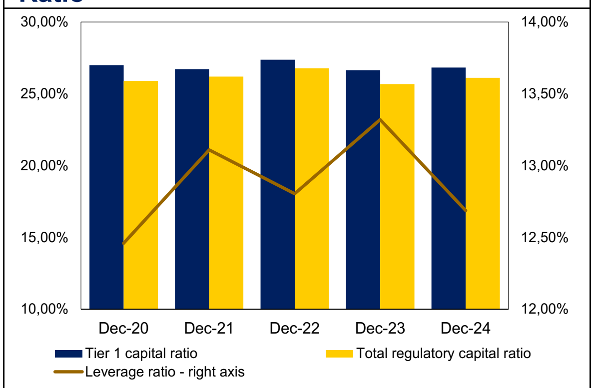
Chart 16: Developments in Tier I, Tier II, Equity, Risk-Weighted Assets and Capital Adequacy Ratio



Source: BM, 2024

In December 2024, there was a contraction in the levels of equity financing of assets, i.e., the leverage ratio stood at 12.53%, compared to 13.32% in December 2023 (Chart 17).

Chart 17: Capital Adequacy and Leverage Ratio



Source: BM, 2024

[7] Tier I over risk-weighted assets.

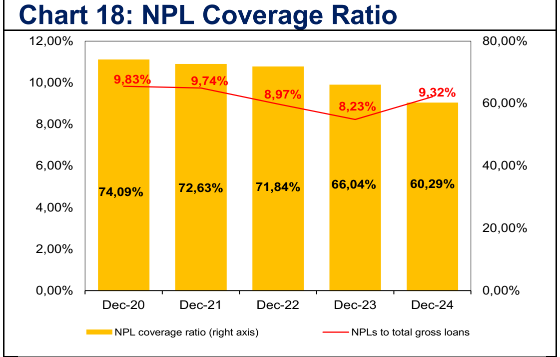
2.1.3.2. Asset Quality

The NPL ratio stood rose to 9.32% from 8.23% in the same period of 2023, remaining above the conventional 5.0% threshold. This increase reflects a deterioration in the quality of the credit portfolio and a change from the trend seen in previous years.

NPLs totaled 30.41 billion meticais, up from 26.50 billion meticais in the same period of 2023, an increase of 12.88%, with NPLs being more evident in D-SIBs.

The NPL coverage ratio shows a gradual decreasing trend over time. In 2024, it stood at 60.29%, against 66.02% in the same period of 2023 (Chart 18).

Chart 18: NPL Coverage Ratio



Source: BM, 2024

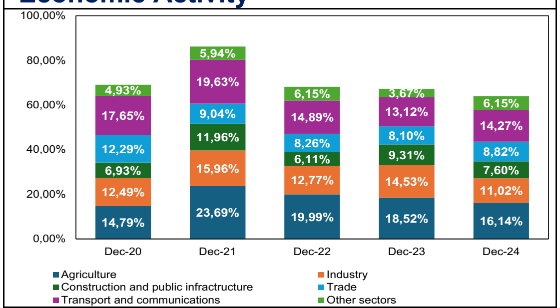
At the sectoral level, agriculture, transport and communications and trade concentrate the highest figures of non-performance.

In fact, as of December 2024, the NPL ratios of these sectors stood at 16.14%, 14.27% and 11.02%, respectively, partly reflecting the impact of climate shocks on these sectors of economic activity (Chart 19).

Agriculture remains timid in the total weight of the NPL, with 5.25% in December 2024, despite recording the highest sectoral non-performance rate.

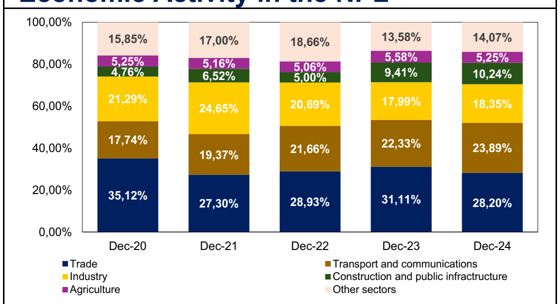
This reality reflects the prevalence of low financing risk appetite for this industry, partly driven by the sector's high exposure to climate risk (Chart 20).

Chart 19: NPL Ratio by Sectors of Economic Activity



Source: BM, 2024

Chart 20: Contribution of Sectors of Economic Activity in the NPL



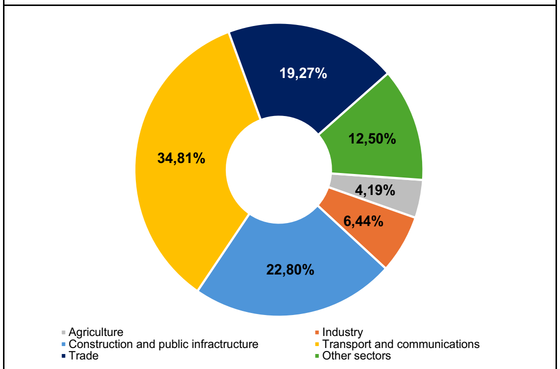
Source: BM, 2024

In the reporting period, total restructured credit amounted to 25.68

billion meticais, representing 9.47% of the total credit portfolio.

The transport and communications sector accounts for the highest figure, with a weight of 34.81% in total restructured credit, followed by construction and public works, with 19.27% and trade, with 9.68%. Agriculture registered 4.19 (Chart 21).

Chart 21: Structure of Restructured Credit by Sectors of Economic Activity - December 2024



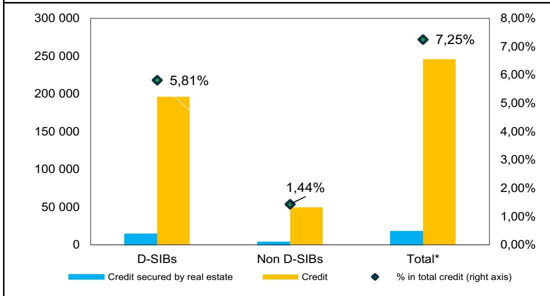
Source: BM, 2024

2.1.3.3. Credit Secured by Real Estate

The banking sector's low exposure to mortgage loans financing prevails.

In the reporting period, the volume mortgage loans stood at 17.81 billion meticais, i.e., 7.25% of the total portfolio. D-SIBs make up 80.20% of financing secured by real estate (Chart 22).

Chart 22: Weight of Credit Secured by Real Estate in Total Credit



Source: BM, 2024

2.1.3.4. Profitability

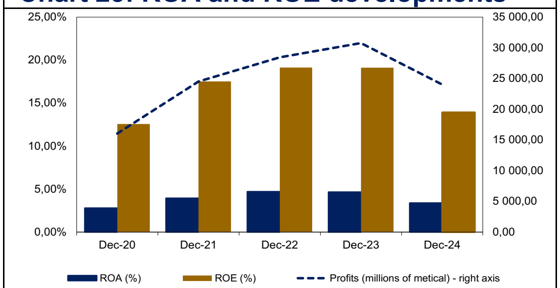
Last December, the net income of the banking sector reached 24.01 billion meticais, a reduction of 21.99% year-on-year.

This performance was reflected in the profitability indicators namely, return on assets (ROA) and return on equity (ROE) which contracted by 0.68 pp and 5.20 pp, respectively.

However, these indicators and the cost-to-income ratio remain satisfactory.

In fact, the ROA, ROE and cost-to-income ratios stood at 3.38%, 13.91% and 58.22% compared to 4.66%, 19.11% and 53.79% in the same period of 2023, respectively (Chart 23).

Chart 23: ROA and ROE developments



Source: BM, 2024

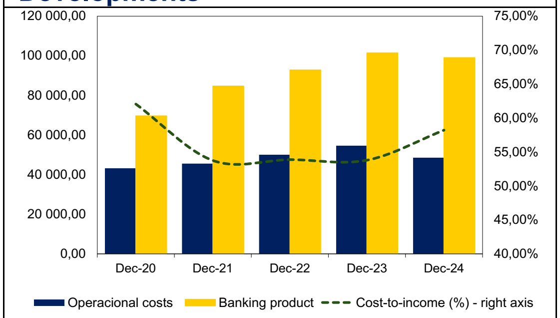
Net interest income increased by 2.81% compared to the same period in 2023, reflecting a slight increase in the contribution of financial intermediation in the results and maintaining its significant contribution to their developments.

Thus, the net interest income ratio rose to 66.68% from 63.87% in the same period of 2023.

It should be noted that the change in net interest income is essentially sustained by the volume effect of intermediation, and historical data reveal that the differential of interest rates between active and passive operations does not observe considerable variations.

The reduction in efficiency is explained by the increase in operating costs, essentially, the increase in staff costs by 7.78% (Chart 24).

Chart 24: Cost-to-Income Ratio Developments



Source: BM, 2024

2.1.3.5. Liquidity and Funds Management

In December 2024, liquidity indicators grew compared to the same period of the previous year, ensuring the continuity of financing operations in the banking sector (Table 2).

Table 2: Key Liquidity Indicators

Description	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Liquid assets to total deposits (%)	58,89%	67,98%	69,49%	49,62%	52,56%
Liquid assets to total assets (%)	42,53%	47,89%	50,50%	34,36%	36,47%
Liquid assets to short-term liabilities (%)	58,54%	68,30%	69,79%	47,42%	49,64%
Total loans to total deposits (%)	48,94%	50,22%	47,09%	44,90%	40,82%

Source: BM, 2024

The loan-to-deposit ratio shows a downward trend in recent years. This trend is mainly due to the choice of investments in assets with high liquidity, profitability and lower risk (Chart 25).

In fact, this ratio stood at 40.82% in December 2024 from 44.90% in the same period of 2023.

In addition, the more than proportional growth of customer deposits compared to credit was reflected in the reduction in the loan-to-deposit ratio and consequent improvement in the liquidity position.

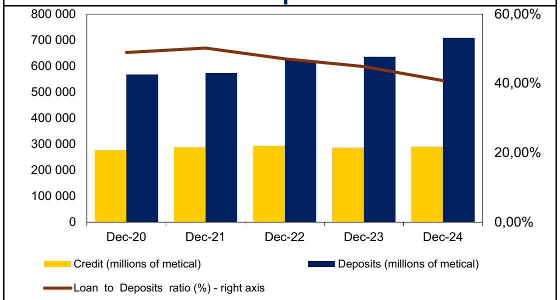
Deposits remained the main and most stable source of financing in the banking sector, with a weight of 97.07% of total investors resources, followed by resources from credit institutions with 2.57 %, while the remaining sources of financing maintained a residual weight (Table 3).

Table 3: Structure of Banking Sector Financing Sources

	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Customers deposits	**98,56%**	**98,28%**	**98,76%**	**96,37%**	**97,07%**
Demand	61,74%	59,97%	59,62%	57,30%	60,33%
Term	35,68%	37,32%	37,37%	38,87%	36,54%
Others	1,16%	1,01%	1,80%	0,20%	0,20%
Central Bank resources	0,07%	0,14%	0,10%	0,74%	0,02%
Subordinated debts	0,14%	0,20%	0,15%	0,51%	0,35%
Credit institutions deposits	1,22%	1,38%	0,99%	2,38%	2,57%

Source: BM, 2024

Chart 25: Loan-to-Deposit Ratio



Source: BM, 2024

2.1.4. Mobile Money Operators

In December 2024, banking activity continued to be marked by the development of new products, expansion of financial services and digital distribution channels, as well as growth in the activity of mobile money operators.

Cash and cash equivalents in credit institutions grew by 51.24% compared to the same period in 2023 and continue to be significant in the structure of mobile money operator assets.

In December 2024, they represented a weight of 95.68% of total assets against 93.44% in December 2023.

Customer resources show a growing trend and continue to dominate the structure of liabilities in the balance sheet of this segment of institutions, with a weight of 89.31% of the total, against 81.10% in December 2023.

Net income grew by 41.69% compared to the same period in 2023, reaching 2.37 billion meticais against 1.67 billion meticais achieved in the same period in 2023.

Commissions, which by the nature of mobile money operators, are decisive for the formation of results, contracted slightly by 2.71% from 5.61 billion meticais in December 2023, to 5.46 billion meticais in the reporting period (Table 4).

Table 4: Balance Sheet Position and Income Statement of Mobile Money Operators

MZN million

Description	Dec-23	Weight (%)	Dec-24	Weight (%)	Change (%)
Cash and equivalents in CB and C	16 297,27	0,93	24 647,44	0,96	0,51
Other assets	1 144,15	0,07	1 113,81	0,04	-0,03
Total assets	17 441,42	1,00	25 761,25	1,00	0,48
Customer claims	10 138,94	0,81	17 149,49	0,89	0,69
Other liabilities	2 362,98	0,19	2 053,62	0,11	-0,13
Total liabilities	12 501,92	1,00	19 203,11	1,00	0,54
Interest margin	410,83	0,09	613,47	0,10	0,49
Comissions	5 611,44	1,20	5 459,60	0,90	-0,03
Financial transactions income	-4,82	0,00	-24,36	0,00	4,05
Banking product	4 675,08	1,00	6 090,62	1,00	0,30
Profits	1 672,94	0,36	2 370,36	0,39	0,42

Source: BM, 2024

2.1.5. Domestic Systemically Important Banks[8]

In 2024, the BM identified three D-SIBs, namely BCI, Standard Bank and BIM, with adequate levels of capitalization, profitability, and liquidity. However, the NPL ratio is above the conventional requirement level (Table 8).

2.1.5.1. Capital Adequacy

D-SIBs continue to comply with the minimum regulatory requirements for key capital adequacy ratios.

Indeed, the overall capital adequacy ratio stood at 27.28% (27.39% in December 2023) and the Tier I ratio stood at 28.36% (28.32% in December 2023), showing robustness from a capital standpoint.

2.1.5.2. Asset Quality

In December 2024, the NPL ratio of D-SIBs stood at 7.95% from 9.32% in the banking sector. Meanwhile, the NPL coverage ratio stood at 45.12% (60.29% in the banking sector).

In these terms, the asset quality of D-SIBs remained stable and above the system average.

2.1.5.3. Profitability

In December 2024, the net income of D-SIBs decreased by 31.94% compared to the same period year-on-year, reversing the growing trend seen in previous years.

This performance results, on the one hand, from the increase in operating costs, particularly staff costs, on the other hand, from the reduction in other operating results, reflecting the increase in impairment losses.

In the reporting period, net income stood at 15.48 billion meticais, accounting for 66.63% of the total income of the banking sector. The main profitability indicators, namely ROA and ROE remain satisfactory at 2.61% and 16.31%, respectively.

2.1.5.4. Liquidity and Funds Management

In December 2024, D-SIBs customer deposits remained significant maintaining the growing trend. In fact, they amounted to 453.76 billion meticais against 413.30 billion meticais in the same period of 2023.

[8] According to Notice No. 10/GBM/2018, they are those whose financial imbalance or insolvency could cause significant disruption to the overall financial system and economic activity.

These include 227.2 billion meticais of current deposits, i.e., 50.07% and 32.06% of the total D-SIBs and the banking sector, respectively.

The liquid assets to total deposits ratio stood at 56.15% from 50.63% in December 2023, above the sector average (52.58%).

In December 2024, the short-term liquidity coverage ratio stood at 45.12% (below the industry average of 49.64%) from 50.63% in the same period of 2023 (Table 5).

The loan-to-deposit ratio observed a decreasing trajectory in line with the trend of the sector, reflecting the reduction of financial intermediation and the option for more liquid assets.

In this context, the loan-to-deposit ratio stood at 34.18% from 38.19% year-on-year (Table 5).

Table 5: Financial Soundness Indicators for D-SIBs

Description	Dec-22		Dec-23		Dec-24	
	D-SIBs	System	D-SIBs	System	D-SIBs	System
Capital adequacy						
Capital adequacy ratio	29,46%	27,37%	27,39%	25,67%	27,28%	26,82%
Tier I /Risk weighted assets ratio	30,40%	27,37%	28,32%	26,65%	28,36%	26,11%
Asset quality						
NPL ratio	3,96%	8,97%	7,17%	8,23%	7,94%	9,32%
NPL coverage ratio	62,60%	71,84%	49,09%	66,04%	45,12%	60,29%
Profitability						
ROA	4,06%	4,69%	4,16%	4,66%	2,91%	3,38%
ROE	26,31%	19,13%	23,35%	19,11%	18,19%	13,91%
Liquidy and funding						
Short-term liquidity coverage ratio	75,80%	69,79%	50,63%	47,42%	52,44%	49,64%
Net assets to total deposits ratio	75,90%	69,49%	53,60%	34,36%	56,15%	52,56%
Loan-to-deposit ratio	35,62%	47,09%	38,19%	44,90%	34,18%	40,82%

Source: BM, 2024

2.2. Pension Funds[9]

In the reporting period, the pension funds sector proved to be a relevant source of funding for the MVM sector and less significant for the banking sector, which has a broader base of funding sources.

2.2.1. Weight of Pension Fund Deposits

As of December 31, 2024, the amount of deposits of pension funds, against a backdrop of 17 supplementary pension funds[10] and of 2 Institutes of compulsory social security, reached about 3.34 billion meticais, which compared to December of the previous year (13.11 billion meticais), reflects a reduction by 74.53 %.

This scenario supports the reduction of the risk exposure of pension fund assets in these credit institutions, possibly due to a greater preference for alternative investments of their funds over bank deposits.

In the reporting period, the weight of pension fund deposits over total

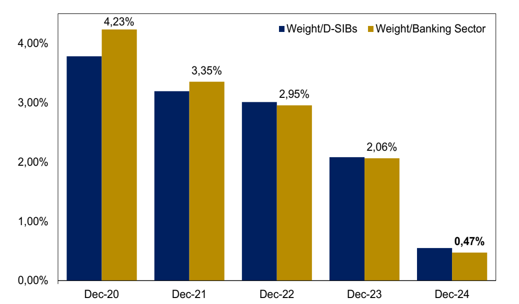
[9] It consists of compulsory and supplementary funds.

[10] The supplementary social security aims to strengthen the benefits of compulsory social security (Decree No. 25/2009, of August 17, of the Council of Ministers). As of December 2022, there were 8 pension fund management public limited companies, according to the 2022 report and accounts of the National Insurance Supervision Institute, which regulates the sector.

deposits in the banking sector dropped to 0.47%, from 2.06% in the same period of 2023.

This reduction in the weight of deposits with the banking system demonstrates that the resources of pension funds tend to be a smaller source of financing, with little impact on the assessment of liquidity risk (Chart 26).

Chart 26: Pension Fund Deposits in the Banking Sector



Source: BM, 2024

2.2.2. Weight of Pension Funds in the MVM

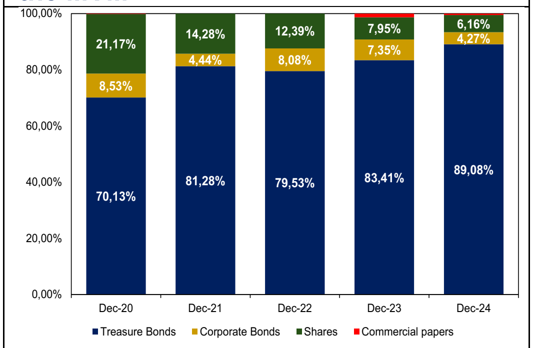
The developments in the weight of the value of securities held by pension funds over the total value of securities in the MVM showed an upward trend (Chart 27).

In fact, in the reporting period, it is estimated that the weight of the value of securities held by pension funds (compulsory plus supplementary) on the total securities of the sector stood at 30.47 % (Chart 33), which accounts for an evolution of 3.45 pp, compared to the same period in 2023 (27.02%).

This trend, contrary to the dynamics of the weight of pension fund deposits on the total deposits of the banking sector, indicates that these fund managers are increasingly investing their resources in MVM, preferably, in place of bank deposits.

Similar to the sovereign risk appetite evidenced by the banking sector, pension fund investments in MVM are also concentrated in T-Bonds, to the detriment of other securities available on the capital market, thus also being exposed to sovereign risk (Chart 27).

Chart 27: Pension Fund Investments in the MVM



Source: BM, 2024

2.3. Insurance Sector

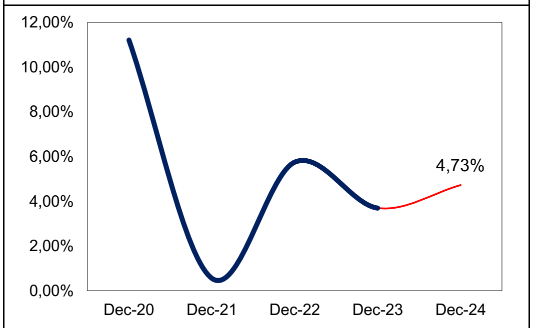
In 2024, the Mozambique insurance sector's output stood at approximately 22.5 billion meticais, an increase of 3.2% year-on-year.

This growth reflects not only the increase in turnover, but also the expansion of the number of operators in the market, which now has 20 insurers.

In 2024, in terms of results, the insurance sector made up about 5.0% of the weight of the main players in the financial system, up from 3.7% in 2023.

Additionally, from 2020 to 2024, the performance of the insurance sector in financial activity declined, with its contribution dropping from 11.22% to around 5.0% (Chart 28).

Chart 28: Insurance Sector Performance in Financial Activities



Source: BM/ISSM, 2024

2.3.1. Banking Credit in the Insurance Sector

Loans taken out by insurance companies represent 0.24% of the total credit portfolio of the banking sector. Regarding D-SIBs, this figure represents 0.29% of the total credit granted by this segment (Table 6).

Table 6: Credit to Insurers — December 2024

billion meticais

	D-SIB´s	System
Total credit granted to insurers	0,45	0,70
Total credit	**155,10**	**291,25**
Weight	0,29%	0,24%

Source: BM, 2024

On the other hand, of the total credit of the banking system in the amount of 291.25 billion, 32.35% represents insured credit. This figure amounts to 94.21 billion meticais, including 66.55% held by D-SIBs (Table 7).

Table 7: Insured Credit — December 2024

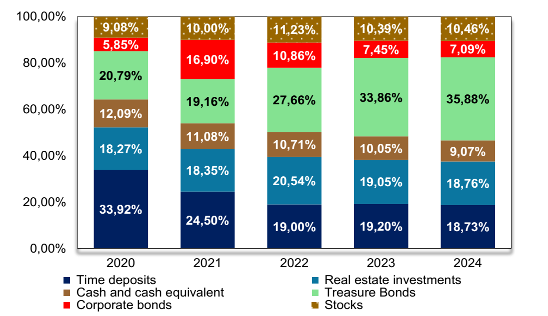
billion (metical)

	D-SIB´s	Sector
Credit insurance - Total	62,70	94,21
D-SIBs	66,55%	
Credit	**155,10**	**291,25**
Weight on Total Credit	40,43%	32,35%

Source: BM, 2024

In the context of investments representing technical provisions, preliminary data from 2020 to 2024 reveal an increase in the treasury bonds component and a trend towards a reduction in investments in corporate bonds (Chart 29).

Chart 29: Investments Representing Technical Provisions



Source: ISSM, 2024

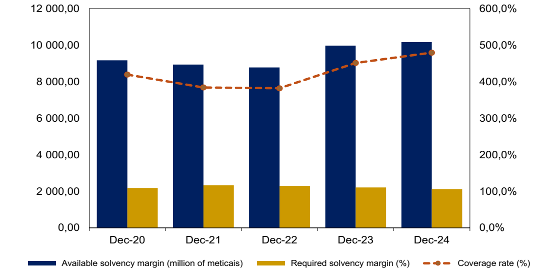
There is evidence of increased insurance sector investments in public debt securities to the detriment of investments in the banking sector, thus increasing its exposure to sovereign risk and with a potential impact on the dynamics of systemic risk.

The performance of the insurance sector has been strongly driven by the macroeconomic environment developments and the growth of the national banking sector.

Preliminary data for 2024 indicate that the insurance sector continues to have a comfortable solvency margin to absorb unforeseen losses and thus meet its obligations to its customers.

Overall, the coverage[11] rate of the solvency margin available in the insurance sector was again above 450%, while the required solvency margin remained stable and represents approximately ⅕ of the coverage rate in recent years and is well above the required benchmark (Chart 30).

Chart 30: Insurance Sector Solvency Margin Developments (MZN million)

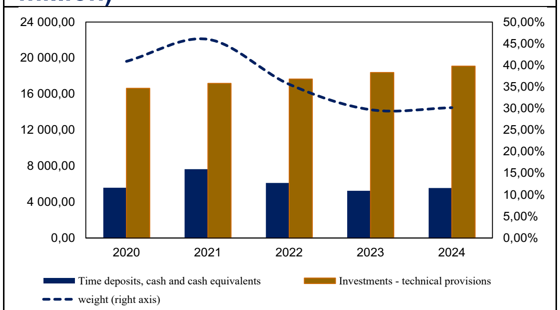


Source: ISSM, 2024

On the other hand, this sector is linked to the financial market through its investment activities, investment in bank deposits and debt issuance.

Preliminary data indicate that in 2024, the percentage of total deposits of the insurance sector in total investments stood above 25%, near the figure for 2023 (Chart 31).

Chart 31: Deposits vs. Investments (MZN million)



Source: ISSM/BM, 2024

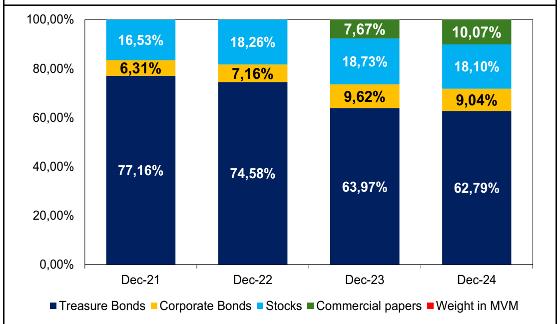
2.3.2. Insurance Sector Investments in the MVM

Similar to the sovereign risk appetite evidenced by the banking sector,

[11] A set of resources consisting of unencumbered equity available to insurance companies to address uncertainties inherent in the risk of the insurance business.

insurance investments in the MVM are also mostly concentrated in T-Bonds (62.79%) to the detriment of other securities available on the capital market, thus being equally exposed to sovereign risk (Chart 32).

Chart 32: Weight of Insurance Sector Investments in the MVM



Source: BM, 2024

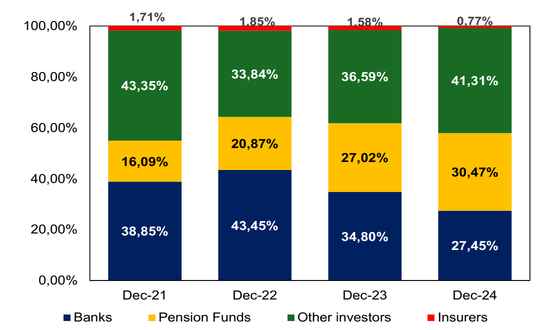
2.4. Securities Market

In December 2024, the MVM's market capitalization rose to 212.41 billion meticais from 183.83 billion meticais in December 2023, a weight of 13.82% and 13.73% in nominal gross domestic product (GDP)[12], respectively.

MVM's activity is mainly supported by institutions that are part of the financial system, which are responsible for 58.69 % (63.41% in December 2023) of the total value of investments.

Indeed, the pension funds sector holds 30.47% (27.02% December 2023) of the total value of investments in the MVM, followed by the banking sector with 27.45% (34.80% in December 2023) and finally the insurance sector with 0.77% (1.58% in December 2023). The remaining 41.31% (36.59% in December 2023) account for investors of another nature (Chart 33).

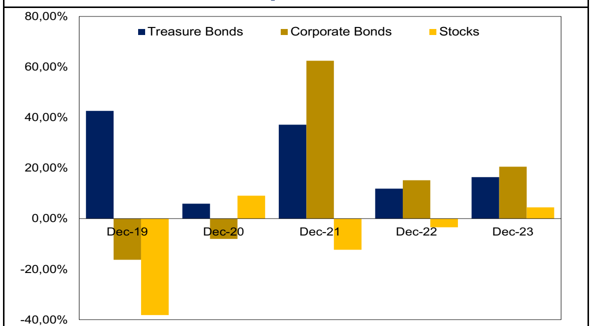
Chart 33: Weight of Financial System Sectors in the MVM



Source: BM, 2024

The dynamics seen in the reporting period arise from the increases in market capitalization across all the main MVM segments, namely, T-Bonds by 16.40% (26.10 billion meticais), corporate bonds by 20.54 % (1.10 million meticais) and equities by 4.46% (0.74 billion meticais) (Chart 34).

Chart 34: Market Capitalization



Source: BVM, 2024

[12] Calculations made considering the projection of nominal GDP of 2024, according to the economic and social plan and state budget 2024, and nominal GDP of 2023, according to data from the National Statistics Bureau.

The increase in T-Bond's market capitalization was mainly due to the State's greater use of this window to meet its financing needs, resulting in a net issuance of 14.42 billion meticais.

However, the impact resulting from this demand from the State was slightly offset by price fluctuations due to market dynamics, which led to a reduction in the market capitalization of T-Bonds by about 0.14 billion meticais.

In turn, the developments in the market capitalization of the corporate bonds was fundamentally influenced by the net issuance of securities (deducted from maturities) in the amount of 1.16 billion meticais, due to the companies making greater use of this window to meet their financing needs.

This increase was slightly offset by a reduction in market capitalization of 0.58 billion meticais as a result of price fluctuations typical of market dynamics.

With regard to the stock market, price fluctuations were the main driver of the dynamics seen over the reporting period and were responsible for the increase in the market capitalization of this segment by approximately 0.74 billion meticais.

It should be noted that the positive dynamics of share prices (share appreciation) mainly arises from the increase in income and dividends per share achieved by companies, in previous periods.

In December 2024, T-Bonds accounted for 87.22% of the market capitalization after 86.58% in December 2023, which persistently signals state financing using this market segment (Chart 35). This behavior underlying the increase in domestic public debt with the use of T-Bills, and direct financing from national banks (Chart 36), increases sovereign risk, with potential influence on systemic risk and, therefore, on financial stability.

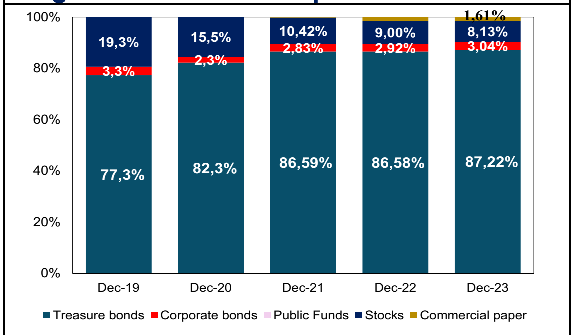
Regarding the volume of transactions by category of securities listed on the stock exchange, T-Bonds retained the largest weight, in December 2024, with 99.80% of the total, against 97.67% in December 2023 (Chart 37).
On the other hand, the low volume of transactions in the corporate shares and bonds segments suggests that the capital market continues to be less used as an alternative for financing the economy.

In addition, the T-Bonds segment holds the most instruments listed per each MVM segment (Table 8).

This dynamic does not support the expansion of financing alternatives for companies, which could, possibly, in some periods, contribute to reducing the cost of financing them.

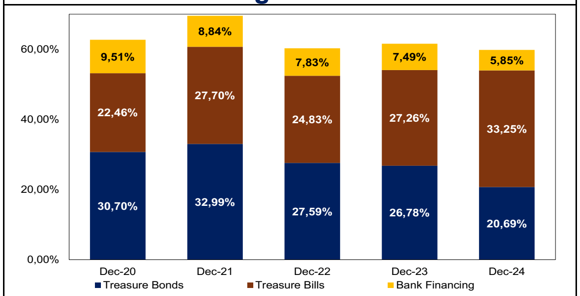
Indeed, over the past four years, corporate bond interest rates have been more attractive compared to the prime rate (Chart 38).

Chart 35: Weight of the MVM Various Segments in Market Capitalization



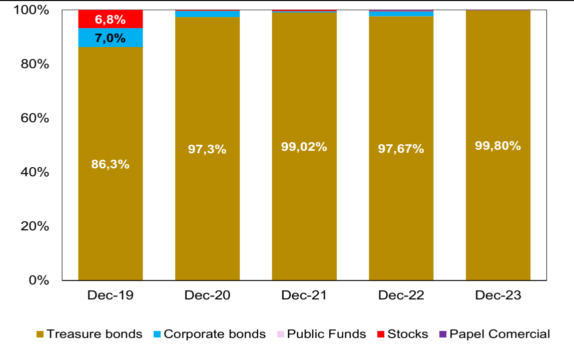
Source: BVM, 2024

Chart 36: Structure of Domestic Public Debt to the Banking Sector



Source: Ministry of Economy and Finance (MEF) and BM, 2024

Chart 37: Transaction Volume Weight by Category of Securities



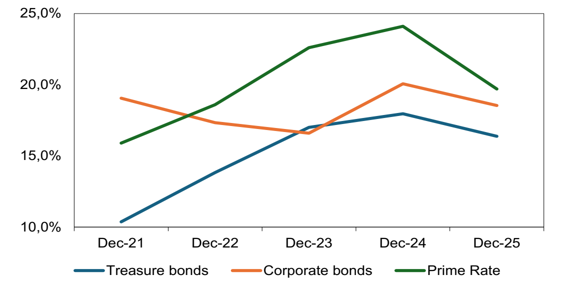
Source: BVM, 2024

Table 8: BVM-Listed Issuance

	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Treasure bonds	33	34	39	40	43
Corporate bonds	9	9	13	13	16
Public Funds	0	0	0	0	0
Shares	12	11	12	13	16
Commercial paper	0	0	1	0	9
Total	**54**	**54**	**65**	**66**	**84**

Source: BVM, 2024

Chart 38: Interest rates on BVM-Listed Bonds and the Prime Rate

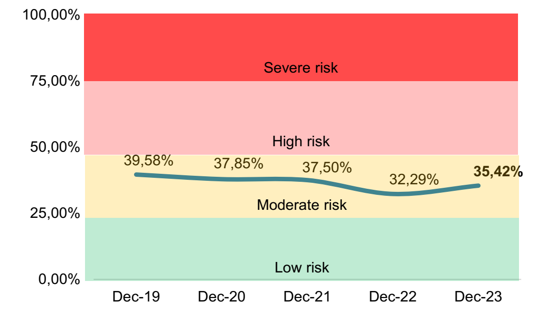


Source: BM and BVM, 2024

III. SYSTEMIC RISK ASSESSMENT

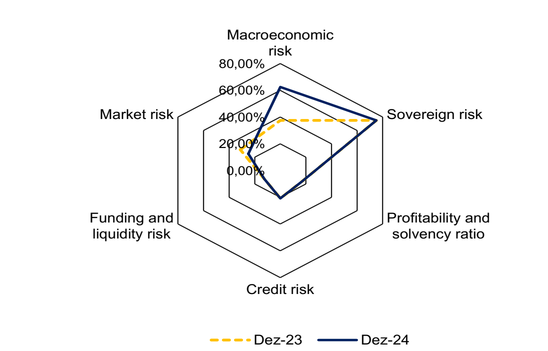
In December 2024, the systemic risk index[13] stood at 35.42%, up 3.13 pp year-on-year (32.29%), remaining moderate (Chart 39).

Chart 39: Systemic Risk Index Developments



Source: BM, 2024

Chart 40: Developments in Systemic Risk Categories



Source: BM, 2024

The increase in systemic risk essentially reflects the deterioration of macroeconomic risk, despite the reduction in market risk (Chart 40).

3.1. Macroeconomic Risk

Macroeconomic risk worsened from moderate in 2023 to high in 2024, mainly driven by the negative growth of real GDP by 4.9% in 2024, after a growth of 4.8% in 2023. However, inflation did not have a materially relevant impact on macroeconomic risk.

The negative change in GDP is mainly justified by the impact of post-election tensions and the effects of climate shocks on most sectors of activity.

3.2. Sovereign Risk

In 2024, sovereign risk remained severe.

The prevailing severe sovereign risk is underpinned by the ongoing high levels of the government credit to total credit ratio and the public debt to GDP ratio.

3.3. Profitability and solvency risk

Profitability and solvency risk remained low in 2024.

Profitability indicators (ROA and ROE) show that the banking sector had a

[13] This index ranges from 0% to 100% and as it approaches 0% reduces systemic risk, and vice versa.

positive financial performance in the period.

Regarding capital adequacy, the sector remains solid and robust, with the solvency ratio well above regulatory minimums.

3.4. Credit Risk

Credit risk remained low in 2024.

This risk category level remained unchanged, despite the slight growth in the NPL ratio and increased lending to the economy.

In addition, the CE/GDP gap remained negative, despite the expansion of credit to the economy in the last months of 2024.

3.5. Liquidity risk

Liquidity risk remained low in the reporting period.

The variables of this risk category, namely, the loan-to-deposit ratio and the liquidity coverage ratio, signaled the increase in liquidity during the year 2024, driven by the dynamics of the slowdown in financial intermediation in the reporting period.

3.6. Market Risk

Market risk remained moderate in 2024, despite the reduction of the Prime Rate of the financial system.

3.7. Systemic Risk Outlook

The outlook for systemic risk developments in the short and medium term is as follows:

Macroeconomic risk may remain high in the medium term, influenced by the rise in risks and uncertainties underlying inflation projections, despite the prospects for moderate growth in economic activity.

Meanwhile, sovereign risk is expected to remain severe owed to pressure on domestic public indebtedness, which continues to worsen.

In the short and medium term, no major fluctuations are expected for the **profitability and solvency risk**, suggesting continued low risk.

Furthermore, the BM's outlook points to continued low **credit risk**, reflecting the continued normalization of the MIMO policy rate over the medium term, which has been favorably driving the downward adjustment of the prime rate of the financial system, with an impact on the cost of credit.

Regarding **liquidity risk**, it is expected to remain low, since the reserve requirement ratio, which significantly influences the liquidity coverage ratio, has reduced.

Market risk should shift from moderate to low, over the short and medium term, due to the continued cycle of reduction of the prime rate, underpinned by the stance adopted by the Monetary Authority.

The overall outlook for developments in systemic risk components points to the systemic risk index remaining moderate.

IV. FINANCIAL SYSTEM VULNERABILITIES

The financial system proved to be stable, solid, and well capitalized, amid recurrent vulnerabilities and risks at home and abroad.

During the reporting period, several vulnerabilities are highlighted, such as the maintenance of high pressure on public indebtedness to the financial system, military instability in some districts of the Cabo Delgado province, the country's protracted placement on the gray list of the Financial Action Task Force (FATF), adverse climatic factors and post-electoral tension.

Public Indebtedness

The pressure on public indebtedness persisted in 2024, highlighting the domestic component (Table 9), driven by the increased use of T-Bonds and T-Bills to finance the treasury deficit.

Table 9: Public Debt Stock

USD million

	2021	2022	2023	2024
External debt	10 391,60	10 060,50	10 292,00	9 960,08
Domestic debt	3 563,40	4 406,60	4 910,50	6 368,26
Total da dívida	**13 955,00**	**14 467,10**	**15 202,50**	**16 328,34**

Source: MEF, 2024

Military instability in some districts of Cabo Delgado province

The prevalence of insecurity and military instability in Cabo Delgado has conditioned the normal functioning of the distribution channels of goods and services, thus hindering the business of economic agents.

The country remains on the FATF (Financial Action Task Force) gray list.

In the reporting period, progress was made regarding technical compliance (revised legal framework) and effectiveness related to the effective actions taken by the different authorities, as part of the implementation of the FATF Action Plan drawn up by the Executive Committee for Anti-Money Laundering and Counter-Terrorist Financing Policies[14].

The country's reputation in the international market remains compromised due to its continued placement on the FATF grey list, which undermines trade and financial relations, highlighting restricted access to international financial markets,

[14] Government institution responsible for coordinating and implementing the country's action strategy.

increased transaction costs and restrictions on capital flows.

Adverse Climatic Factors

In March and December 2024, the country was struck by tropical storms Filipo and Chido, respectively, which compromised public and private buildings, infrastructure, and production units, thus contributing to increased physical risks.

This scenario has influenced the ability of affected borrowers to honor their commitments to the banking sector, materializing the impact of climate change on the financial system in particular and the economy at large.

Post-Election Tension

The impact of the post-election tension on most sectors of activity influenced the performance of the economy, undermining turnover, due to restrictions on the movement of people and goods.

Box 1: Domestic Systemically Important Banks

In accordance with Notice No. 10/GBM/2018, of October 22, the Banco de Moçambique carries out an annual assessment and classification of supervised credit institutions for macroprudential purposes, with the aim of identifying those bearing systemic importance.

Domestic Systemically Important Banks (D-SIBs) concern financial institutions whose difficulties or failures can significantly hinder on the financial system and the domestic economy at large.

In accordance with the above-mentioned Notice, the classification of D-SIBs follows an approach based on an average score obtained from three indicators with different weights, namely:

- Size - 50%;
- interconnectedness - 25%; and
- Substitutability - 25%.

After calculating each indicator and its weight by the respective factor, the scores for each institution provide that:

- Those exceeding 130 points are designated D-SIBs;
- Those between 65 and 130 points are designated quasi-D-SIBs; and
- Those below 65 points will be considered of no systemic importance.

In 2024, according to the score in the second table, the following institutions were designated D-SIBs: Banco Comercial e de Investimentos (BCI); Millennium bim; and Standard Bank

ABSA and Moza Banco remain designated Quasi D-SIBs.

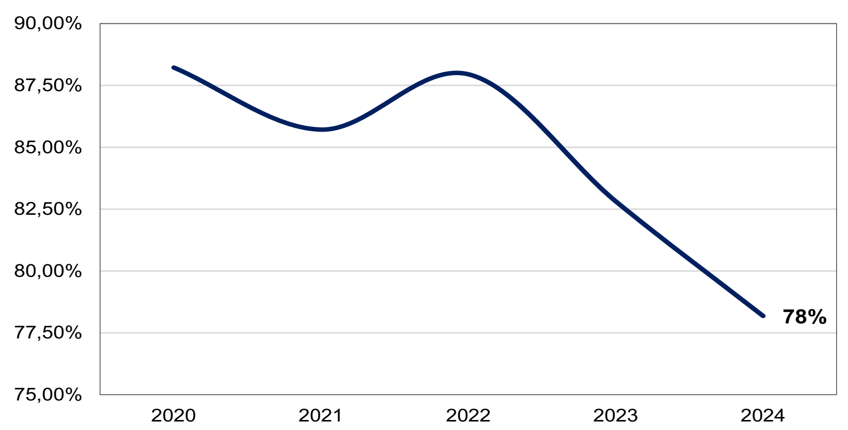
Table 10: Systemic classification of domestic banks

Banco Comercial e de Investimentos, SA.	230	Tier 2 (+3.0% capital level 1)
Standard Bank, SA.	176	Tier 1 (+2.0% capital level 1)
Banco Internacional de Moçambique, SA.	175	Tier 1 (+2.0% capital level 1)
Absa Bank Moçambique, SA.	115	Tier 0 (+1.0% capital level 1)
Moza Banco, SA.	75	Tier 0 (+1.0% capital level 1)

In 2024, the aforementioned institutions accounted for 75% of assets, 80% of deposits and 71% of total credit in the financial system, while subject to enhanced prudential supervision.

In addition, in 2024, the institutions in question held about 78% of the total government bonds portfolio and are strengthening their presence in this market segment (Chart 41).

Chart 41: Share of Government Bonds Held by D-SIBs (%)



Source: BM, 2024

V. MACROPRUDENTIAL POLICY DECISIONS

The Financial Stability and Inclusion Committee decided, amid the assessment of systemic risk and the domestic and international macro-financial environment, to keep the macroprudential policy measures in place unchanged in order to preserve financial stability, in particular:

- Capital buffer requirements for institutions identified as D-SIBs and Quasi-D-SIBs set at 2.0% and 1.0%, respectively;

- A 100.0% cap on the loan-to-value (LTV) ratio; and,

- 100% cap on the debt-to-income (DTI) ratio.

The objective of macroprudential policy is to preserve financial stability by strengthening the resilience of the financial system to financial shocks and imbalances and preventing and mitigating systemic risk.

Box 2: Stress Testing Exercises by Central Banks

Approaches worldwide

Stress tests have increasingly been an important part of the banking regulatory toolkit since the financial crisis and, in some countries, are now used to inform the decision-making of macroprudential policies and capital standards.

As discussed in previous financial stability publications by the Banco de Moçambique (BM), stress tests are a tool used to assess the health and resilience of the banking sector. They typically involve modelling the impact of an adverse macroeconomic scenario on banks ' credit losses and profitability in order to assess the potential effect on capital.

There are two types of stress testing structures, namely “bottom-up” and "top-down". In the “bottom-up” structure, individual banks must determine the impact of a common scenario using detailed data on their assets and liabilities, internal risk models and recovery plans, in a process overseen by the regulator. These stress tests usually focus on the impact on individual institutions rather than the risks to the system as a whole. In contrast, a “top-down” structure typically involves central banks and other public authorities using their own models to estimate the impact of a scenario on the banking sector without any involvement of individual banks. Each bank is expected to respond to a scenario in a uniform and predefined manner, so that the change in results between banks only reflects differences in their balance sheet structure, capital, and profitability.

The relative simplicity of "top-down" models makes them less resource-intensive and more flexible, allowing authorities to execute a wide range of scenarios. However, such simplicity comes at a cost: they abstract away differences in risk appetite, business models, and banks' behavior. In addition, they produce less granular results, as they do not use the detailed data on the balance sheet and profitability of banks available in "bottom-up” modeling.

Stress tests in Mozambique

In Mozambique, under Service Order No. 05/SCO/2013 of December 27, banks are required to carry out individual stress tests, however, based on a severe macroeconomic scenario defined by them. In fact, banks regularly carry out internal stress tests as part of their risk management processes, which are expected to improve their risk management and capital planning.

To complement this work, the BM is at an advanced stage of developing a “top-down” stress test framework for the domestic banking sector that involves assessing the resilience of banks to hypothetical severe economic shocks, with a particular focus on profitability and capital adequacy. This approach will have the advantage of applying the same macro-financial parameters and assumptions to all banks, allowing to highlight the sensitivity of the overall system to a change in these parameters. In this approach, which is macroprudential in nature, the central bank focuses on risks that affect the entire banking sector, rather than bank-specific risks, which are the focus in the prudential supervision approach.

Characteristics of the structure of the Banco de Moçambique's model

The BM's model framework maps the impact of an adverse macroeconomic scenario through the balance sheets of systemically and quasi-systemically important banks, grounded on assumptions about their credit losses, operating costs, and revenues in such a scenario, and finally generates projections of banks' profits, dividends, credit growth and capital positions.

As is standard in similar stress tests in other countries, many actions to mitigate the impact of the adverse macroeconomic scenario, such as fundraising and loan repricing, are typically not primarily incorporated into stress tests in order to isolate the impact of potential bank responses and also because the effectiveness of these actions is uncertain in times of stress. However, the effect of mitigation actions can be explored in subsequent specifications in future stress tests.

Recent stress test results, which the BM has been testing for the domestic banking sector, indicate that the system is generally resilient, with banks holding sufficient capital reserves to withstand economic shocks in the medium to long term.

However, in the short term, risks remain, particularly related to climate shocks and public indebtedness. In this last aspect, by analyzing the sensitivity of the banking sector to public debt at all levels, public debt securities and responsibilities of the state and its business sector with banks, the possibility of not honoring its commitments, compromises the solvency, liquidity and results of the sector in the short and medium term.

Notwithstanding, assuming a stabilization of public finances, including its business sector, the stress tests indicate that the Mozambican banking sector can absorb significant losses in stress scenarios.

Box 3: Recovery Plans and Their Impacts on Financial Stability

Financial stability can be defined[15] as the ability of the financial system to absorb external shocks, curbing negative effects on the real economy. From this standpoint, financial stability is a state in which the financial system can absorb economic shocks and smoothly fulfill its main functions.

On this basis, it follows that the stability of the financial system is an important catalyst for economic growth and the soundness of the banking sector is one of the vital requirements to support the health of the financial system.
In the context of the macroprudential policy adopted by the BM, financial stability is associated with the ability of the financial system to ensure the ongoing supply of financial products and services, even in situations of severe financial stress and/or adverse macroeconomic conditions.

In this context, financial stability requires that the financial system not only be able to minimize the likelihood of financial crises but also be able to proactively handle and absorb shocks, an outcome that hinges on the soundness of the banking sector. Under such conditions, the banking sector contributes to a stable financial system and, consequently, to economic growth.

Banking soundness reflects the ability of banks to remain solvent and liquid in unfavorable economic conditions. Therefore, banking soundness serves as a measure of the health of a country's financial system and represents one of the core responsibilities of regulatory bodies in any economy.

In our country, the financial system is essentially composed of banks, some of which are systemically important, playing a key role in financing the national economy.

Banking soundness is considered one of the key factors that can affect financial stability. This means that the banking sector, as one of the key players in the economy, can influence both the functioning of the financial system and the country's economic growth. Thus, a stable banking sector is a vital requirement for financial stability and, consequently, for economic stability.

In addition to the solvency and liquidity requirements imposed on banks under supervisory frameworks, a more recent obligation has been established requiring banks to prepare and submit a recovery plan. This plan must outline the measures that may be adopted to promptly address a situation of financial imbalance, or the risk thereof. [16]

Recovery plans are one of the key mechanisms for preserving the soundness of banks under stress conditions, as their primary objective is to maintain or restore the viability of institutions in such situations, while minimizing, as much as possible, adverse effects on the financial system.

Recovery plans shall take into account various adverse macroeconomic and severe financial stress scenarios appropriate to the specific conditions of the institutions, in particular systemic and stress situations, and shall be reviewed periodically and, if necessary, updated annually. On the other hand, banks should indicate recovery options and preparatory measures for their speedy and timely implementation.

The swift and effective implementation of the options set out in recovery plans, in response to stress situations, contributes to maintaining financial stability and the regular functioning of the national financial system.

The Banco de Moçambique assesses the adequacy of recovery plans submitted by banks to determine whether they contain deficiencies or potential constraints that could hinder the implementation of proposed measures or limit their effectiveness in addressing severe stress scenarios.

In this way, it is expected that with the consolidation of recovery plans by banks, they will be better prepared to re-establish their soundness quickly and in a timely manner in situations of severe stress or adverse macroeconomic conditions, ensuring the continuity of the regular functioning of the financial system and thereby preserving financial stability.

[15] Davis (2001) and Padoa Schioppa (2003).
[16] Law No. 20/2020 of December 31

Glossary

Risk-weighted assets - the result of weighting each asset by a risk coefficient for calculating the capital adequacy ratio. Its determination complies with the requirements provided by Notice No. 09/GBM/2017, of June 5.

Cost-to-income – indicator calculated by the ratio of operating costs to banking income, which measures the efficiency of the organization.

Debt-to-income – ratio between the amount of the monthly installment calculated with all loans of the customer and their monthly income.

Equity – concept used in banking supervision as a fundamental reference for applying various ratios and various prudential standards.

Impairments –the book value in financial statements to account for expected asset-related losses. This amount shall be deducted from the value of the respective asset in order to correct its value, considering the risk of associated losses.

Global share market volatility index – the S&P 500 Volatility Index, also known as the CBOE Volatility Index or VIX, is an indicator that measures the expected volatility of the US stock market. Higher values indicate an expectation of greater volatility and uncertainty, while lower values suggest greater confidence and stability.

Loan-to-value - the ratio between the total amount of credit agreements secured by a given asset and the purchase price or appraised value of the secured asset.

NPL - short for non-performing loans, that is, loans that do not generate positive flows and profitability to banks.

Banking income – set of operating income receivable by a financial institution, arising from commissions, interest, trading, interbank operations.

Regulatory provisions - amounts recognized to meet losses related to the activities of financial institutions. They shall be constituted in accordance with the prudential regime determined by the supervisory authorities.

Capital adequacy ratio - ratio of own funds to risk-weighted assets.

Risks – factors associated with uncertainties and that, should they materialize, jeopardize capital and income.

ROA – short for return on assets, obtained by dividing net income by total assets, and measures the profit generated by each monetary unit of assets.

ROE–short for return on equity, obtained by dividing net income by equity.

TIER I – core capital (Level 1), which includes the best quality capital (share capital, reserves and retained earnings) and responds primarily to the liabilities incurred by the institution.

Tier II – supplementary capital (level 2), consisting of capital elements that are not core capital, and can be mobilized to absorb losses (subordinated loans, revaluation reserves, among others).

Vulnerabilities - set of characteristics that highlight the weaknesses of a particular system.

Banking Sector - set of credit institutions aimed at financial intermediation through deposit-taking and lending.

Financial system - set of financial institutions operating in Mozambique regulated by the Banco de Moçambique and the Mozambique Insurance Supervision Institute.

Annex 1: Key Financial Soundness Indicators

Description	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Capital adequacy					
Aggregate capital adequacy ratio	26.06%	26.19%	26.96%	25.68%	26.11%
Basic capital adequacy ratio	27.18%	26,71 %	27.52%	26.65%	26.82%
Leverage ratio	12.46%	13.27%	12.97%	13.49%	12.52%
Asset quality					
NPL ratio	9.83%	10.60%	8.97%	8.24%	9.32%
NPL coverage ratio (right axis)	74.09%	72.63%	71.84%	66.04%	60.29%
Profitability					
ROA	2.20%	3.93%	4.69%	4.66%	3.38%
ROE	18.75%	25.15%	27.29%	19.11%	13.91%
Net interest income ratio	65.89%	64.08%	68.49%	63.87%	66.68%
Cost-to-income ratio	62.05%	53.75%	53.84%	53.79%	58.22%
Liquidity and funds management					
Liquid assets/total deposits ratio	58.89%	67,98 %	69.49%	49.62%	52.56%
Liquid assets/total assets ratio	42.53%	47.89%	50.50%	34.36%	36.47%
Short-term liquidity coverage ratio	58.54%	68.30%	69.79%	47.42%	49.64%
Loan-to-deposit ratio	48.94%	50.22%	47.06%	44.90%	40.82%