JUNE **2026**
No. 07 | Year 07

FINANCIAL STABILITY REPORT

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Foreword

Pursuant to its Organic Law, the Banco de Moçambique (BM) is vested with the mandate to supervise credit institutions and financial companies. The supervision of credit institutions and financial companies is carried out using a combination of prudential tools that contribute to ensuring the stability of the financial system.

Financial stability presupposes a sound, robust and resilient financial system that restrains the likelihood of disruptions severe enough to adversely affect 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 a range of policy instruments aimed at preventing and mitigating excessive credit growth and leverage, as well as liquidity shortages in the market. These instruments also help limit concentration of exposures and the assumption of excessive risk by systemically important institutions.

The powers of banking resolution authority of the BM have been reinforced by Law No. 20/2020, of 31 December. This legal framework strengthens the mechanisms and instruments for the resolution of institutions at risk of non-viability or insolvency, 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 an annual publication of the BM that provides an assessment of developments in financial stability. This edition reviews developments during 2025 and covers the key drivers of the international and domestic macro-financial environment, the performance of the national financial system and payment system infrastructure, the evolution of risks and vulnerabilities, and the macroprudential policy measures in effect.

Governor

Rogério Lucas Zandamela

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Acronyms

ACH	Automated Clearing House
AI	Artificial Intelligence
ATM	Automated Teller Machine
BCI	Banco Comercial e de Investimentos, S.A.
BIM	Banco Internacional de Moçambique, S.A.
BM	Banco de Moçambique
BVM	Bolsa de Valores de Moçambique (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
GDP	Gross Domestic Product
ISSM	Mozambique Insurance Supervision Institute
LTV	Loan-to-Value
MVM	Securities Market
NPL	Non-Performing Loan
NPS	National Payment System
POS	Point-of-Sale
pp	Percentage Points
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real-Time Gross Settlement System
T-Bill	Treasury Bill
T-Bond	Treasury Bonds
USA	United States of America

Executive Summary

The global financial system remained resilient in the face of historically elevated risks, preserving its stability despite rising trade and geopolitical tensions, as well as cyber shocks that affected the performance of financial assets.

Trade uncertainties, marked by U.S. tariff adjustments and escalating conflicts in Ukraine and the Middle East, weakened global supply chains in early 2025, putting pressure on asset yields. However, in the middle of the year, strong investor risk appetite, driven by the performance of the artificial intelligence sector, reversed this trend, reducing market volatility and prompting a reallocation of capital towards higher-yielding assets.

In advanced economies, fiscal sustainability came under pressure from rising public debt incurred to finance spending on security and technology. This deterioration, particularly in the euro area, contrasted with the resilience of emerging markets, which became the preferred destination for investors owing to their more attractive real interest rates.

Domestically, the BM consolidated the normalization of monetary policy, resulting in a reduction in the MIMO policy rate[1]**, thereby strengthening the foundations of financial stability over the medium term.** The **prime rate continued its downward trajectory, in line with the evolution of the MIMO policy rate since January 2024, a trend that was also reflected in the retail lending rates of the banking sector.**

The banking sector remained stable, with satisfactory profitability and adequate capitalisation and liquidity. The quality of the banking sector's credit portfolio improved, reversing the deterioration trend observed in the previous year.

The capital adequacy ratio stood at 28.14%, above the regulatory minimum of 12.00%, providing a comfortable buffer against potential financial imbalances. Net profits amounted to MZN 15.83 billion, a 38.85% decline from the previous year.

[1] Monetary Policy Interest Rate

The return on assets (ROA) and return on equity (ROE) ratios stood at 2.16% and 8.63%, respectively. On the other hand, the short-term liquidity coverage ratio stood at 60.46%, above the regulatory minimum of 25.00%.

The non-performing loan (NPL) ratio stood at 7.47%, an improvement from 9.35% in 2024, albeit exposure to credit risk remained above international prudential benchmarks.

The level of concentration in the banking sector remained moderate in 2025, reflecting the proactive efforts of non-systemic banks to capture new market opportunities. In December 2025, D-SIBs' market shares of assets, deposits, and loans stood at 58.09%, 62.18%, and 54.04%, respectively, confirming the continued decline in the dominance of major market participants across all indicators.

The insurance sector grew by 7.61%, driven by growth in the life insurance segment. The sector maintained a comfortable solvency margin, providing sufficient capacity to absorb losses and meet its obligations.

The pension fund sector consolidated its role as a key source of funding for the Securities Market (MVM), while its contribution to the banking sector remained relatively limited. Pension fund deposits accounted for only 0.18% of total deposits in the banking sector. Meanwhile, securities held by pension funds represented 36.88% of the total value of securities listed on the MVM.

The MVM continued to be dominated by investments in government bonds. In this context, government bonds account for 85.71% of the total market capitalisation.

The country's payment infrastructure further consolidated the transition to a digital economy, as evidenced by the strong growth in the volume and value of transactions conducted through POS terminals, mobile payments, ATMs, internet banking, and mobile money operators integrated into SIMOrede, which outperformed traditional payment methods such as cheques and ordinary bank transfers.

This dynamism was accompanied by technological and regulatory developments, including the approval of new cybersecurity regulations aimed at strengthening the resilience of the financial system.

Systemic risk remained moderate, reflecting the reduction in macroeconomic risk, while sovereign, credit, liquidity, market, profitability, and solvency risks remained unchanged.

The BM kept all existing macroprudential policy instruments unchanged, in order to enable the absorption of potential losses arising from the materialisation of risks and vulnerabilities in the financial system. Additional capital requirements for D-SIBs and Quasi-D-SIBs remained at 3.0%, 2.0% and 1.0%, respectively. In addition, maximum limits of 100% remain in place for the loan-to-value (LTV) ratio and the debt-to-income (DTI) ratio, respectively.

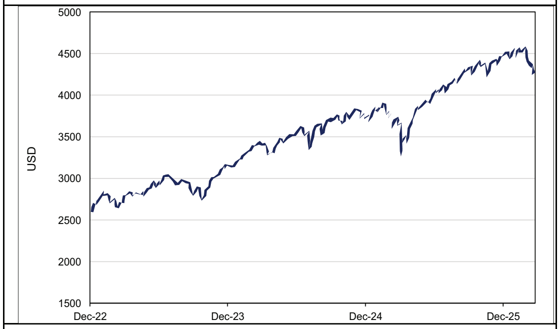
I. DEVELOPMENTS IN INTERNATIONAL FINANCIAL STABILITY

The global financial system has remained resilient despite historically high risks from escalating trade disputes, geopolitical tensions, and climate and cyber shocks, which have contributed to the volatility of financial assets.

The beginning of 2025 was marked by adjustments to U.S. foreign policy, particularly in the trade and geostrategic spheres, as well as by the persistence of military conflicts in Ukraine and the Middle East. These exogenous risk factors affected the efficiency of supply chains and trade flows, with spillover effects on the dynamics of global economic activity and financial markets.

Albeit the trade agreements concluded in the second half of the year mitigated some risks to financial stability, the global geopolitical and macro-financial environment remained uncertain. Notwithstanding this uncertainty, rising risk appetite in financial markets contributed to lower asset price volatility, particularly in the second half of 2025 (Chart 1).

Chart 1: MSCI World Index[2]

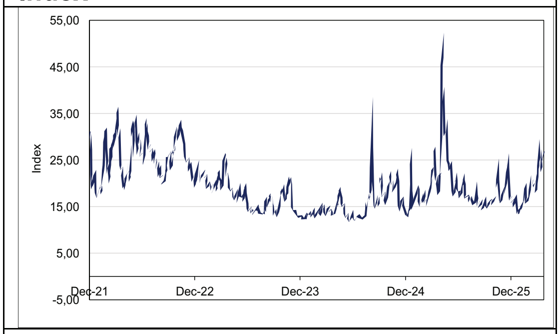


Source: *Bloomberg*, 2025

Furthermore, increased risk appetite prompted investors to expand their exposure in search of higher returns, with a particular focus on the Artificial Intelligence (AI) sector.

This shift led to a reallocation of capital from safe-haven assets to riskier assets. Meanwhile, the VIX index, a gauge of expected market volatility in the USA, followed a downward trajectory after peaking in April, driven by the turmoil triggered by the announcement of trade tariffs (Chart 2).

Chart 2: US Stock Price Volatility — VIX Index[3]



Source: *Trading Economics*, 2025

[2] About the MSCI World Index see Box 1.

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

Box 1: Morgan Stanley Capital International (MSCI) World Index

The MSCI World Index is a widely followed global equity index that measures the performance of over 1,300 large- and mid-capitalization companies across 23 developed markets.

The economies included in the MSCI World Index are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

In addition to the MSCI World Index, there are 3 other MSCI indices, namely: (i) the MSCI ACWI, which measures the performance of equities across both developed and emerging markets; (ii) the MSCI Emerging Markets Index, which measures the performance of equities in emerging market economies; and (iii) the MSCI ESG Index, which comprises companies with strong environmental, social, and governance (ESG) credentials.

MSCI indices are stock market performance indicators for a given geographic region or a global universe of equities, serving as a barometer of financial market performance by allowing investors to compare the performance of investment funds and portfolios with these benchmark indices.

The appreciation of these indexes signals investor optimism and confidence, reflecting a perception of lower risk amid economic growth and strong corporate performance.

Conversely, a decline in these indices signals an increase in investors' risk perceptions, often associated with geopolitical instability, recessions, and financial crises, with repercussions for the performance of the financial system.

The positive performance of the **MSCI World Index** reflects the stability of developed economies, underpinned by a stable and profitable business environment.

The BM reports on financial stability consider this index in assessing the dynamics of the financial market, being in line with international experiences in this field.

Investors, worried about rising public debt and fiscal imbalances in advanced economies, shifted their resources to investments in emerging market government bonds, which showed higher returns.

This fiscal deterioration has been compounded by geopolitical tensions, which have forced governments in advanced economies to prioritize spending on security and technology via public debt.

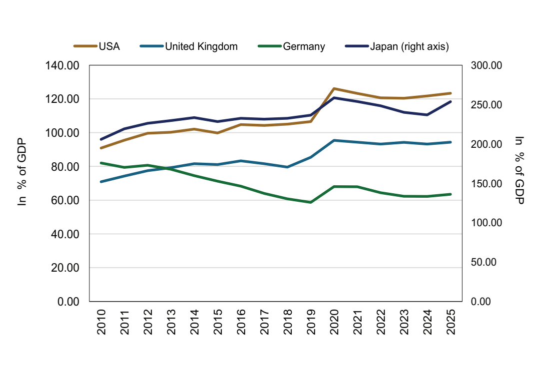
Consequently, upward revisions to public debt projections, particularly in the Euro Area, increased fiscal sustainability risks and posed a threat to global financial stability (Charts 3 and 4).

Yields on long-term government bonds in the United States trended upward, a trend that was also evident in the Euro Area, although to a lesser extent (Chart 5).

In contrast, public debt securities in emerging market economies followed a different trajectory. This dynamic has consolidated such assets as one of the main picks of investors in the period (Chart 6).

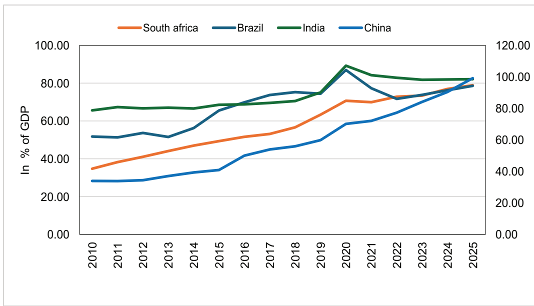
This preference reflects the fact that, while advanced economies face rising fiscal pressures and persistent inflation, many emerging markets offer high real interest rates and greater fiscal resilience. These factors make the risk premium on these securities particularly attractive.

Chart 3: Public Debt – Advanced Economies



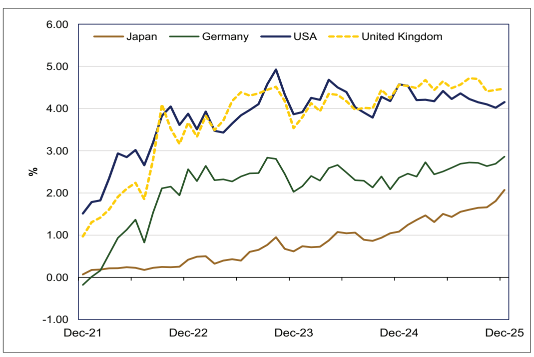
Source: *Trading Economics*, 2025

Chart 4: Public Debt – Emerging Market Economies



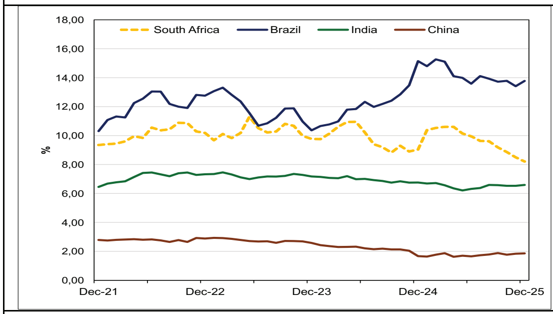
Source: *Trading Economics*, 2025

Chart 5: Government Bond Yields – Advanced Economies



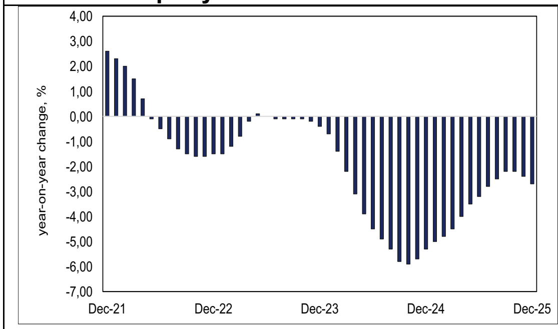
Source: *Bloomberg*, 2025

Chart 6: Government Bond Yields – Emerging Market Economies



Source: *Bloomberg*, 2025

Chart 7: Property Prices – China



Source: *Trading Economics*, 2025

Risks in the global real estate sector remain contained, despite the strong divergence across market segments. While the residential and logistics segments continue to demonstrate resilience, the office market is facing a vacancy crisis.[4]

This vacancy overhang, driven by the consolidation of remote working, which has sharply reduced physical office occupancy in major financial centres, has forced the revaluation of assets and the conversion of corporate buildings into residential properties or data centres.

This adaptation helps safeguard investors' portfolios and mitigates risks to financial stability (Chart 7).

The global financial system currently operates under a new risk paradigm, in which cyber and climate-related threats have emerged as the main sources of systemic instability.

The intensification of geopolitical tensions, coupled with the high dependence on third-party technology service providers, increased the vulnerability of banking institutions to cyberattacks, requiring an ongoing strengthening of operational resilience in both advanced economies and emerging markets.

Meanwhile, the mitigation of climate-related risks is constrained by the current geopolitical environment, which limits the implementation of policies aimed at mitigating the effects of physical risks and restricts the financing required for the energy transition.

[4] Oversupply of rental properties with insufficient demand.

II. DOMESTIC FINANCIAL SYSTEM

The main financial indicators show that the Mozambican financial system remains stable, sound and well capitalized, despite the prevalence of internal and external shocks. Growth in the financial system accelerated, rising from 2.22% in 2024 to 3.18% in 2025.

2.1. Banking Sector

In the reporting period, the banking sector remained stable, with satisfactory profitability and adequate capitalisation and liquidity.

The capital adequacy ratio stood at 28.14%, above the regulatory minimum of 12.00%, providing a comfortable margin to withstand potential financial imbalances.

Net profits amounted to MZN 15.13 billion, a 38.85% decline compared with the corresponding period of 2024. Of the total amount recorded, systemically important banks contributed 59.11% of total profits, amounting to MZN 9.36 billion.

Regarding asset quality, the NPL ratio stood at 7.47%, compared with 9.31% in December 2024, even though it remained above the internationally recommended maximum threshold of 5.00%.

2.1.1. Banking Sector Concentration

In December 2025, the three D-SIBs, namely BCI, Millennium BIM and Standard Bank, jointly accounted for 58.09%, 62.18% and 54.04% of the banking sector's assets, deposits and loans, respectively, compared with 59.85%, 64.03% and 54.49% recorded in the period of 2024 (Table 1).

The Herfindahl-Hirschman Index [5](HHI) for assets, deposits and loans stood at 1,313, 1,506 and 1,305 points, respectively, indicating moderate concentration in the sector.

In recent years, this indicator has followed a downward trend, reflecting increased dynamism and competition in the sector, as some non-D-SIB banks have expanded their market share (Table 1).

[5] 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 a market. Values below 1,000 indicate no concentration, values above 1,800 indicate high concentration, and values between 1,000 and 1,800 indicate moderate concentration. Source: Forum Think Finance, Internet, February 2012.

Table 1: Banking Sector Concentration – Herfindahl-Hirschman Index

	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
HHI - Assets	**1501**	**1533**	**1410**	**1378**	**1313**
Three largest banks (D-SIBs)	63,16%	64,45%	60,78%	59,85%	58,09%
Five largest banks	82,33%	81,38%	79,46%	74,99%	73,19%
Tem largest banks	91,05%	89,77%	88,55%	88,01%	86,93%
HHI - Deposits	**1703**	**1707**	**1657**	**1597**	**1506**
Three largest banks (D-SIBs)	67,63%	68,01%	66,16%	64,03%	62,18%
Five largest banks	86,81%	85,96%	85,77%	80,33%	78,66%
Tem largest banks	94,62%	92,14%	93,50%	94,47%	93,26%
HHI - Credits	**1388**	**1294**	**1320**	**1368**	**1305**
Three largest banks (D-SIBs)	56,80%	54,23%	54,37%	54,41%	54,04%
Five largest banks	79,45%	78,23%	76,93%	72,39%	70,14%
Tem largest banks	90,05%	89,81%	89,68%	83,00%	82,04%

Source: BM, 2025

2.1.2. Balance Sheet Structure

2.1.2.1. Assets

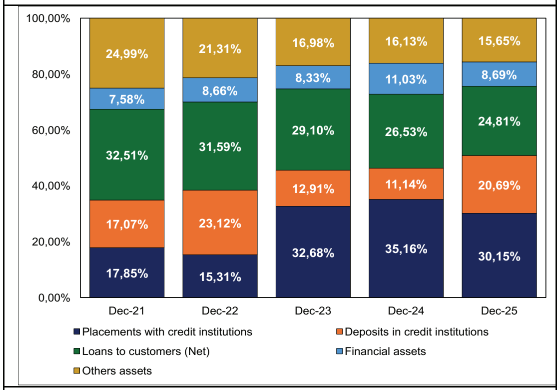
In December 2025, the banking sector's assets amounted to MZN 1,096.34 billion, representing growth of 7.39% compared with the same period in 2024.

This performance reflects the increase in placements with credit institutions, which more than doubled year-on-year, driven mainly by repurchase agreement transactions, placements in the Interbank Money Market, and notice deposits. The increase in assets was partly offset by a 7.90% decline in cash and cash equivalents.

Regarding asset composition, the banking sector continued to favour investments in highly liquid and profitable assets, particularly cash and cash equivalents, placements with credit institutions, and financial assets, which accounted for 59.52% of total assets, compared with 53.91% in December 2024.

Loans and advances, net of impairment, continued to represent the second-largest component of the balance sheet, accounting for 24.81% of total assets, despite a decline of 1.72 percentage points (pp) compared with December 2024 (Chart 8).

Chart 8: Main Asset Items



Source: BM, 2025

2.1.2.2. Liabilities

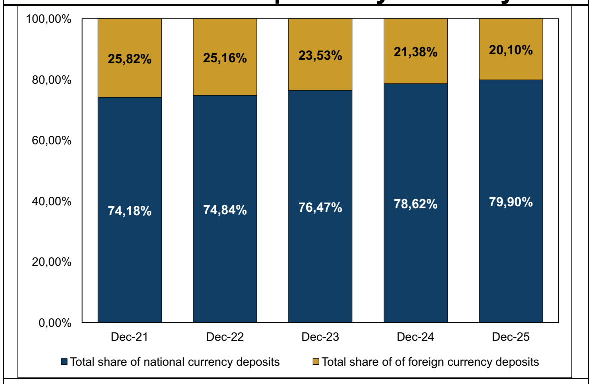
In December 2025, the banking sector's total liabilities stood at MZN 907.17 billion, an increase of 7.16% from the same period in 2024.

This change was primarily driven by a rise in deposits of MZN 76.22 billion, equivalent to 10.17% compared with the same period in 2024.

Deposits, the primary source of funding for the banking sector, stood at MZN 785.64 billion, of which 79.85% were denominated in domestic currency and the remainder in foreign currency.

Foreign currency deposits accounted for 20.15% of total deposits, extending the downward trend observed in recent years (Chart 9).

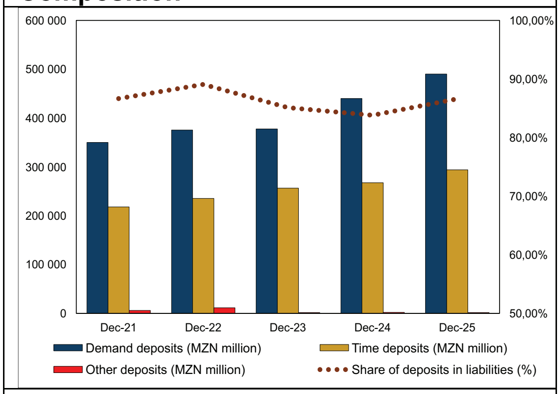
Chart 9: Share of Deposits by Currency



Source: BM, 2025

Meanwhile, demand deposits stood at MZN 490.16 billion, accounting for 62.39% of total deposits, followed by time deposits, which represented 37.41%, while the remainder consisted of other deposits (Chart 10).

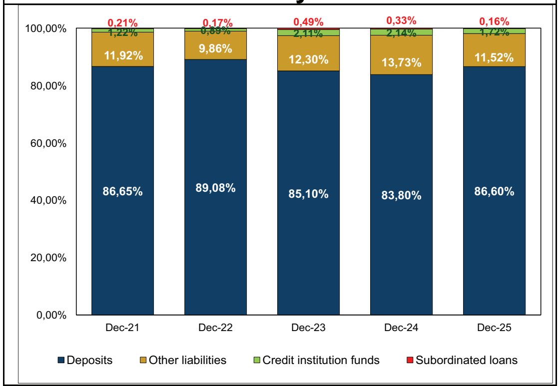
Chart 10: Deposit Developments and Composition



Source: BM, 2025

Within the liability structure, deposits accounted for 86.60% of total liabilities, up from 83.80% in 2024, and remained the primary source of funding for credit institutions (Chart 11).

Chart 11: Main Liability Items



Source: BM, 2025

2.1.3. Financial Soundness Indicators

2.1.3.1. Capital Adequacy

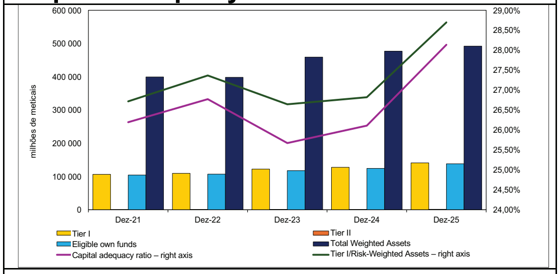
Capital adequacy indicators show that the banking sector remains strong.

Indeed, in December 2025, the capital adequacy ratio stood at 28.14%, compared with 26.11% in the corresponding period of 2024, remaining above the regulatory minimum of 12.00%.

This development was driven by an 11.18% increase in equity, reflecting the rise in legal reserves, statutory reserves, and other reserves, albeit risk-weighted assets also increased by 3.17%.

The Tier 1 capital ratio increased by 1.87 pp to 28.70%, remaining above the regulatory minimum of 10.00% (Chart 12).

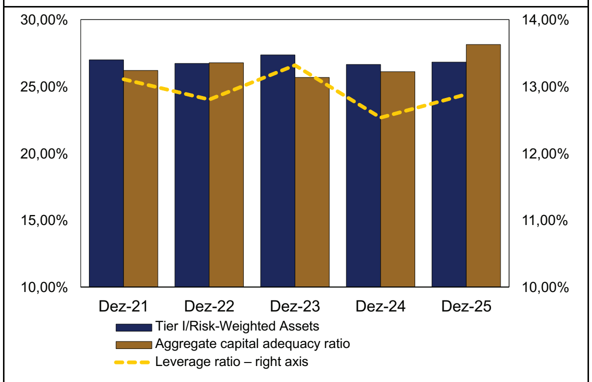
Chart 12: Developments in Tier I, Tier II, Own Funds, Risk-Weighted Assets and Capital Adequacy Ratio



Source: BM, 2025

In December 2025, the leverage ratio, which measures the extent to which total on- and off-balance-sheet exposures are supported by Tier I capital, increased by 0.35 pp compared with the same period in 2024, standing at 12.88% (Chart 13).

Chart 13: Capital Adequacy and Leverage Ratio



Source: BM, 2025

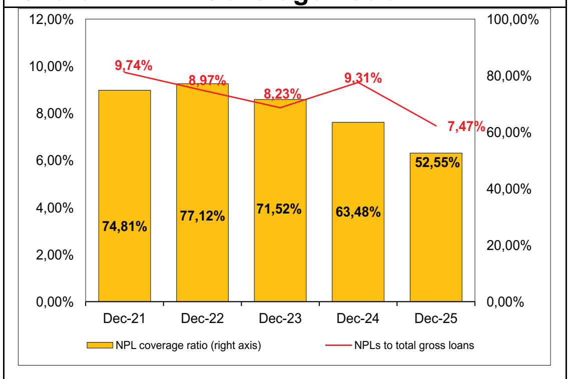
2.1.3.2. Asset Quality

The NPL ratio stood at 7.47%, down from 9.31% recorded in the corresponding period of 2024, despite remaining above the internationally recommended threshold of 5.00%. This decline reflects an improvement in the quality of the loan portfolio, driven by write-offs and regularizations, thereby resuming the downward trend that was interrupted in 2024.

NPLs stood at MZN 27.99 billion, down 7.97% from MZN 30.41 billion in the corresponding period of 2024.

The NPL coverage ratio continued its downward trend over time. In 2025, it stood at 53.21%, down from 63.48% in the corresponding period of 2024 (Chart 14).

Chart 14: NPL Coverage Ratio



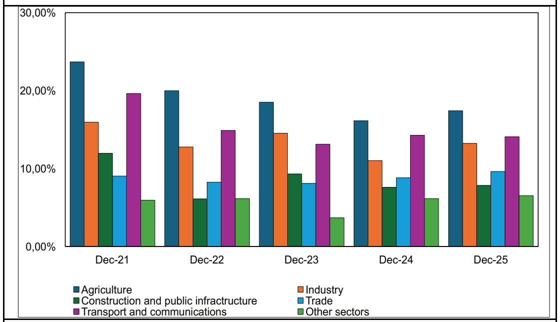
Source: BM, 2025

At the sectoral level, agriculture, transport and communications, industry, and trade accounted for the largest volumes of non-performing loans.

Indeed, in December 2025, the NPL ratios for these sectors stood at 17.42%, 14.08%, 13.23%, and 9.62%, respectively, partially reflecting the impact of post-election instability and climate-related shocks (Chart 15).

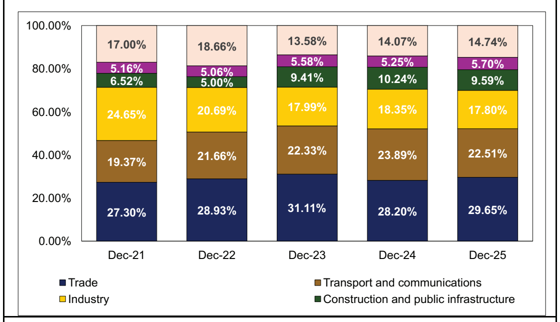
Regarding the sectoral distribution of NPL, the highest concentration was recorded in the trade sector, which accounted for 29.65% of total NPL, followed by transport and communications, with 22.51% (Chart 16).

Chart 15: NPL Ratio by Economic Activity Sectors



Source: BM, 2025

Chart 16: Contribution of Economic Activity Sectors to NPL

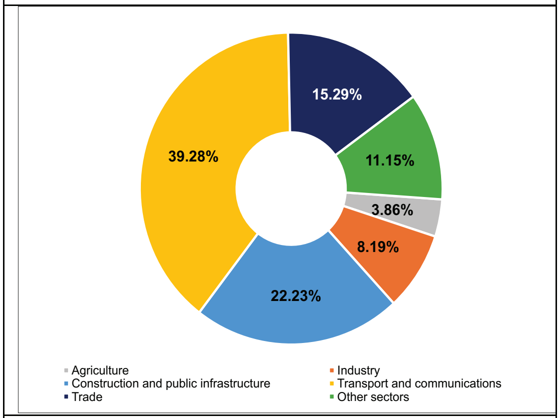


Source: BM, 2025

During the reporting period, restructured loans amounted to MZN 21.46 billion, representing 7.92% of the total loan portfolio.

The transport and communications sector accounted for the largest share of restructured loans, making up 39.28% of the total, followed by construction and public works, with 22.23%, and trade, with 15.29%. Agriculture was restructured by 3.86% (Chart 17).

Chart 17: Structure of Restructured Loans by Economic Activity Sector - December 2025

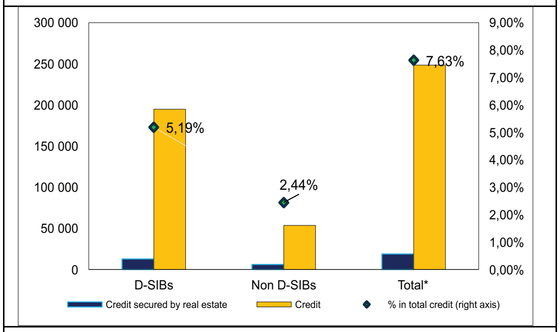


Source: BM, 2025

2.1.3.3. Loans Secured by Real Estate

The banking sector's low exposure to property-backed finance prevails. In the reporting period, the volume of loans secured by real estate stood at MZN 18.96 billion, representing 7.63% of the total credit portfolio. D-SIBs accounted for 68.00% of real estate-secured loans (Chart 18).

Chart 18: Share of Loans Secured by Real Estate in the Total Loan Portfolio



Source: BM, 2025

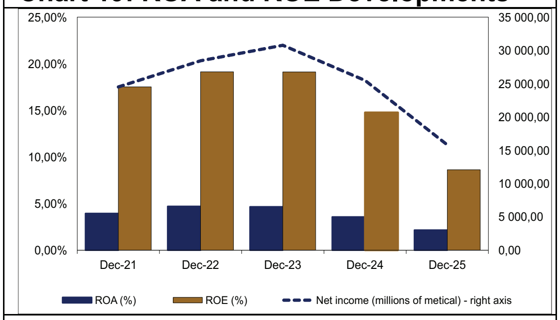
2.1.3.4. Profitability

In December 2025, the net profit of the banking sector amounted to MZN 15.83 billion, a decline of 37.86% year-on-year.

This decline was driven, on the one hand, by higher operating expenses, particularly staff costs, and, on the other hand, by lower other operating income, reflecting higher impairment losses.

Consequently, profitability indicators, namely return on assets (ROA), return on equity (ROE), and the cost-to-income ratio, declined by 1.41 pp to 2.16%, 6.14 pp to 8.63%, and 1.67 pp to 56.55%, respectively, while remaining at satisfactory levels (Chart 19).

Chart 19: ROA and ROE Developments



Source: BM, 2025

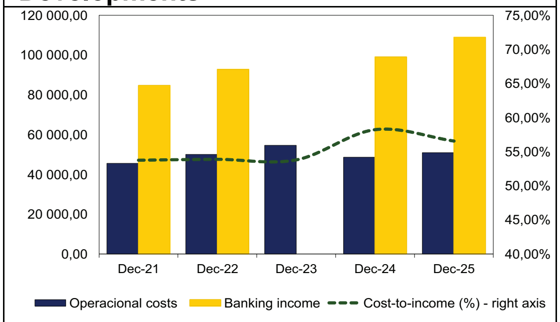
Net interest income increased by 6.17% compared with the same period of 2024, reflecting a slight increase in the contribution of financial intermediation to earnings while maintaining its contribution to overall earnings performance.

However, the net interest income ratio declined to 63.53%, from 66.65% in the same period of 2024.

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 lending and deposit operations has not changed significantly.

The decline in efficiency was driven by higher operating expenses, primarily reflecting a 5.69% increase in staff costs (Chart 20).

Chart 20: Cost-to-Income Ratio Developments



Source: BM, 2025

Liquidity and Funds Management

In December 2025, liquidity indicators improved year-on-year, supporting the continued lending activities of the banking sector (Table 2).

Table 2: Key Liquidity Indicators

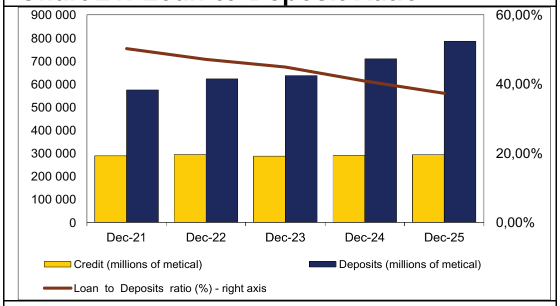
Description	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Liquid assets to total deposits (%)	67,98%	69,49%	49,62%	52,56%	62,76%
Liquid assets to total assets (%)	47,89%	50,49%	34,36%	36,49%	44,97%
Liquid assets to short-term liabilities (%)	68,30%	69,79%	47,42%	49,64%	60,46%
Total loans to total deposits (%)	50,22%	47,09%	44,90%	40,84%	37,28%

Source: BM, 2025

Banks' preference for investments in highly liquid, high-yield, and lower-risk assets has contributed to the decline in the loan-to-deposit ratio in recent years (Chart 21).

In fact, the loan-to-deposit ratio declined from 40.84% in December 2024 to 37.28% in December 2025.

Chart 21: Loan-to-Deposit Ratio



Source: BM, 2025

Furthermore, customer deposits grew at a faster pace than loans, leading to a decline in the loan-to-deposit ratio and a corresponding improvement in the banking sector's liquidity position.

The short-term liquidity coverage ratio increased by 10.82 pp to 60.46% in December 2025 (Table 2), reflecting the reduction in the reserve requirement ratio.

2.1.4. Financial Soundness Indicators of Domestic Systemically Important Banks[6]

In 2025, the D-SIBs, namely BCI, Millennium BIM, and Standard Bank, maintained adequate levels of capital, profitability, and liquidity. However, the NPL ratio is above the internationally recommended level (Table 3).

2.1.4.1. Capital Adequacy

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

Indeed, the capital adequacy ratio stood at 29.94% (27.28% in December 2024), while the Tier I capital adequacy ratio reached 30.89% (28.36% in December 2024), underscoring the banks' strong capital position.

2.1.4.2. Asset Quality

In December 2025, the NPL ratio of D-SIBs stood at 5.74%, compared with 7.47% for the banking sector, down from 5.93% for D-SIBs and 9.31% for the banking sector in December 2024. Meanwhile, the NPL coverage ratio stood at 44.73% for D-SIBs, compared with 53.21% for the banking sector,

[6] 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.

down from 45.12% for D-SIBs and 63.48% for the banking sector in the corresponding period of 2024.

The above data show that the D-SIBs' asset quality indicators remained broadly stable but below the banking sector average.

2.1.4.3. Profitability

In December 2025, the net profits of D-SIBs declined by 45.79% compared with the same period in 2024, reversing the upward trend observed in previous years.

In the reporting period, net profits of D-SIBs stood at MZN 9.36 billion, accounting for 59.11% of the banking sector's total net profits. The main profitability indicators, namely ROA and ROE, remained at satisfactory levels, standing at 1.47% and 8.58%, respectively.

2.1.4.4. Liquidity and Funds Management

In December 2025, customer deposits at D-SIBs remained significant, continuing their upward trend. In fact, these amounted to MZN 488.39 billion, compared with MZN 453.76 billion recorded in the same period in 2024.
Of this amount, MZN 308.4 billion consisted of demand deposits, accounting for 63.15% of D-SIBs' total deposits.

In December 2025, the short-term liquidity coverage ratio stood at 62.96% (above the sector average of 60.46%), compared with 52.44% recorded in the same period in 2024 (Table 3).

The loan-to-deposit ratio followed a downward trajectory, in line with the trend of the sector, reflecting reduced financial intermediation and a preference for more liquid assets.

In fact, the loan-to-deposit ratio stood at 31.70%, compared with 34.18% in the corresponding period of the previous year (Table 3).

Table 3: Financial Soundness Indicators for D-SIBs

Description	Dec-23		Dec-24		Dec-25	
	D-SIBs	Sector	D-SIBs	Sector	D-SIBs	Sector
Capital adequacy						
Aggregate capital adequacy ratio	27,39%	25,67%	27,28%	26,11%	29,94%	28,14%
Tier I/risk-weighted assets ratio	28,32%	26,65%	28,36%	26,82%	30,89%	28,70%
Asset quality						
NPL ratio	7,17%	8,24%	5,93%	9,31%	5,74%	7,47%
NPL coverage ratio	49,09%	66,04%	45,12%	60,29%	44,73%	53,21%
Profitability						
ROA	4,16%	4,66%	2,91%	3,57%	1,47%	2,16%
ROE	23,35%	19,11%	16,75%	14,77%	8,58%	8,63%
Liquidity and funding						
Short-term liquidity coverage ratio	50,63%	47,42%	52,44%	49,64%	62,96%	60,46%
Net assets to total deposits ratio	53,60%	34,36%	56,15%	52,56%	66,17%	62,76%
Loan-to-deposit ratio	38,19%	44,90%	34,18%	40,84%	31,70%	37,28%

Source: BM, 2025

2.1.5. Mobile Money Operators

In 2025, the banking sector continued to be shaped by the development of new products, the expansion of financial services and digital distribution channels, as well as the growth of mobile money operators.

Cash and cash equivalents in credit institutions rose 21.00% compared with December 2024 and continued to account for a significant share of the balance sheet assets of mobile money operators.

In December 2025, they accounted for approximately 94.00% of total assets, compared with 96.00% in December 2024.

Customer funds continued to grow and remained the dominant component of the liabilities structure of this segment, accounting for 90.00% of the total, compared with 89.00% in December 2024.

Net profits rose by 3.00% from December 2024 to MZN 2.43 billion compared with MZN 2.37 billion in the previous year.

Fees and commissions, which, given the nature of mobile money operators, are a key driver of their earnings, increased by 16.00% to MZN 6.32 billion during the period under review, compared with MZN 5.46 billion in December 2024 (Table 4).

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

MZN million

Description	Dec-24	Share (%)	Dec-25	Share (%)	variation
Availability in credit institutions	24,647.4	95.68%	29,876.3	94.23%	21.21%
Others Assets	1,113.5	4.32%	1,829.6	5.77%	64.31%
Total Assets	**25,761.3**		**31,705.9**		**23.08%**
Customers resources	17,149.5	89.31%	20,238.7	90.37%	18.01%
Other liabilities	2,053.6	10.69%	2,155.9	9.63%	4.98%
Total liabilities	19,203.1		22,394.7		**16.62%**
Net interest income	613.5	10.07%	491.1	7.24%	-19.95%
Comissions	5,459.6	89.64%	6,315.2	93.15%	15.67%
Financial transitions income	-24.4	-0.40%	-5.1	-0.08%	-79.11%
Gross banking income	**6,090.6**		**6,779.9**		**11.32%**
Net results	2,370.4	38.92%	2,437.1	35.95%	2.82%

Source: BM, 2025

2.2. Pension Funds[7]

Over the reporting period, the pension fund sector remained an important source of funding for the securities market, while playing a less significant funding role for the banking sector, which has a broader funding base.

By their nature, pension funds make a positive contribution to financial stability through several transmission channels, including: (i) increasing savings; (ii) expanding the availability of stable, long-term capital; and (iii) reducing volatility in capital markets.

[7] It consists of statutory and supplementary funds.

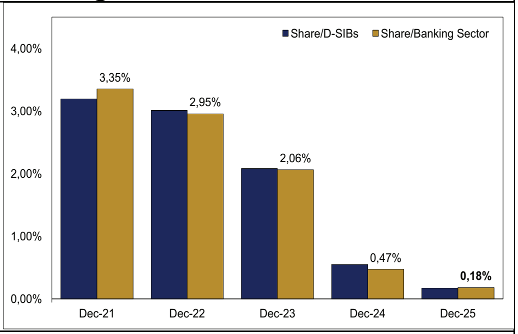
2.2.1. Share of Pension Fund Deposits in the Banking Sector

In December 2025, deposits held by pension funds (statutory and supplementary[8]) amounted to approximately MZN 1.45 billion, compared with MZN 2.69 billion in December of the previous year, reflecting a decline of 46.27%.

This reduction is associated with increased investment by pension funds in long-term instruments traded on the MVM, rather than short-term investments in the banking sector.
Over the reporting period, pension fund deposits accounted for 0.18% of total banking sector deposits, compared with 0.36% in December 2024 (Chart 22).

This decline in the share of deposits held with the banking system indicates that pension fund resources tend to represent a lower-weight source of funding, with a limited impact on the assessment of risk in the banking sector.

Chart 22: Pension Fund Deposits in the Banking Sector



Source: BM, 2025

2.2.2. Share of Pension Funds in the MVM

The share of securities held by pension funds in the total value of securities traded on the securities market continued to increase (Chart 28).

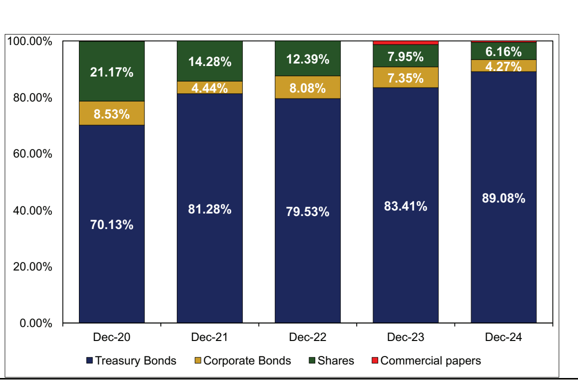
Over the reporting period, the share of the value of securities held by pension funds in the total value of securities in the securities market stood at 36.88%, representing an increase of 6.41 percentage points compared with December 2024.

This trend, in contrast to that observed in the dynamics of the share of pension fund deposits in total banking sector deposits, indicates that fund managers are increasingly allocating their resources to the MVM, rather than to bank deposits.

[8] 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).

Similarly to the appetite for sovereign risk exhibited by the banking sector, pension fund investments in the MVM are also concentrated in Treasury Bonds (T-Bonds), rather than other securities available in the capital market, thereby remaining exposed to sovereign risk as well (Chart 23).

Chart 23: Pension Fund Investments in the MVM



Source: BM, 2025

2.3. Insurance Sector

In 2025, the insurance sector's gross written premiums amounted to MZN 24.17 billion, up 7.61% from the previous year.

This growth was primarily driven by the expansion of the life insurance business.

2.3.1. Bank Loans to the Insurance Sector

Loans extended to insurance companies accounted for 0.36% of the banking sector's total loan portfolio. Regarding D-SIBs, this figure represents 0.20% of the total loans extended by this segment (Table 5).

Table 5: Credit to Insurers - December 2025

MZN billion	D-SIB´s	System
Total credit granted to insurers	0,35	1,03
Total credit	**177,85**	**287,20**
Share	0,20%	0,36%

Source: BM, 2025

Meanwhile, of the banking system's total loan portfolio of MZN 287.2 billion, 38.07% (MZN 109.35 billion) consisted of insured loans. D-SIBs account for 62.02% of the insured loans (Table 6).

Table 6: Insured Loans - December 2025

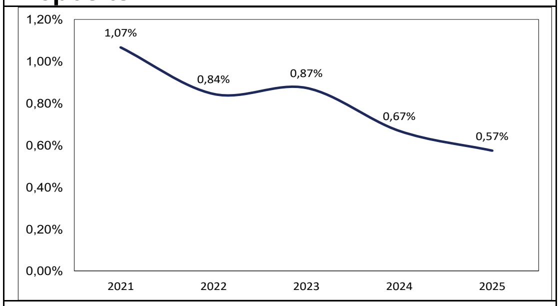
MZN billion	D-SIB´s	System	Share
Total secured loans	67,82	109,35	62,02%
Total loans	**177,85**	**287,20**	61,93%
Share of total loans	38,13%	38,07%	

Source: BM, 2025

2.3.2. Share of Insurance Sector Deposits in Total Banking Sector Deposits

The banking sector's exposure to the insurance sector has declined in recent years, with its share falling from 1.071% in 2021 to 0.57% in 2025 (Chart 24).

Chart 24: Share of Insurance Sector Deposits in Total Banking Sector Deposits

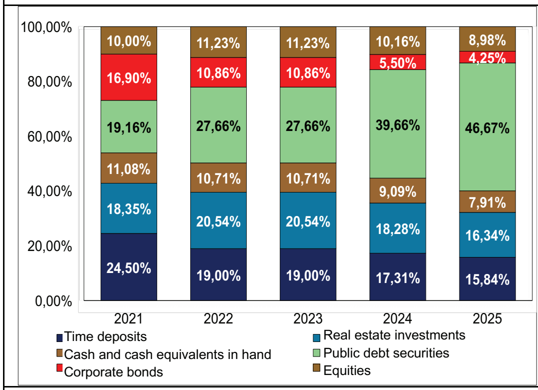


Source: BM and ISSM, 2025

2.3.3. Investments and Solvency Margin

Regarding investments Backing technical provisions, data for the period from 2021 to 2025[9] show an increase in T-Bonds and a declining trend in investments in corporate bonds and equities (Chart 25).

Chart 25: Investments Backing Technical Provisions



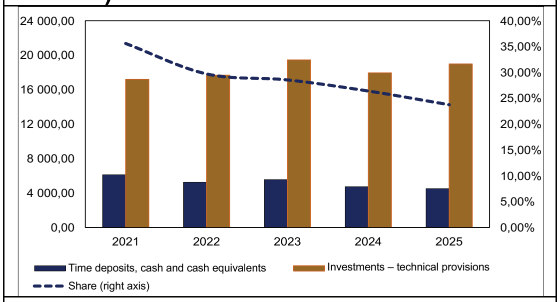
Source: BM, 2025

The increase in the insurance sector's investments in government debt securities, in lieu of placements in the banking sector, is evident, thereby increasing its exposure to sovereign risk and potentially affecting systemic risk dynamics.

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 2025, insurance sector deposits accounted for approximately 24.00% of the sector's total investments, broadly unchanged from the level recorded in 2024 (Chart 26).

Chart 26: Deposits vs. Investments (MZN million)



Source: ISSM/BM, 2025

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

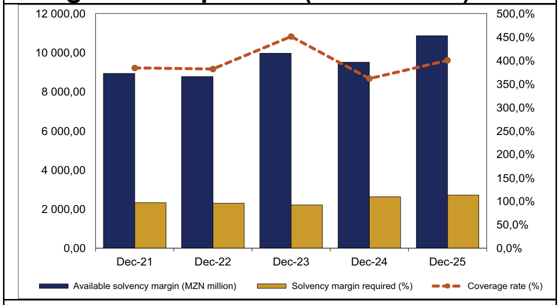
Preliminary data for 2025 indicate that the insurance sector continues to maintain a comfortable solvency margin, providing sufficient capacity to absorb unexpected losses and meet its obligations.

The solvency margin coverage ratio exceeds **400%**, meaning that insurers hold more than four times the minimum capital required to cover their underwriting and operational risks.

The required solvency margin remained stable and, over recent years, has represented approximately one-fifth of the solvency margin coverage ratio, remaining well above the regulatory benchmark (Chart 27).

[9] Preliminary data for 2025.

Chart 27: Insurance Sector Solvency Margin Developments (MZN million)

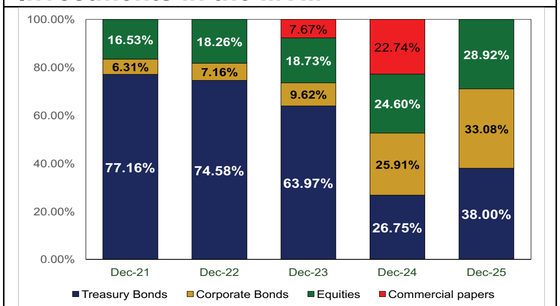


Source: ISSM, 2025

2.3.4. Share of Insurance Industry Investments in the MVM

Similar to the banking sector's appetite for sovereign risk[10], insurance sector investments in the MVM remain heavily concentrated in T-Bonds, which accounted for 38.00% of total investments (compared with 26.75% in December 2024), rather than in other securities available in the capital market, leaving the sector similarly exposed to sovereign risk (Chart 28).

Chart 28: Share of Insurance Sector Investments in the MVM



Source: BM, 2025

Meanwhile, the absence of commercial paper from the market capitalization in December 2025 – which would be another preferred instrument for insurance companies due to its nature as a more liquid or very short-term instrument (less than one year) – leads to a redistribution of the proportion of the insurance sector's investments in the MVM (Chart 28).

2.4. Securities Market

In December 2025, MVM's market capitalization stood at MZN 221.99 billion, compared with MZN 212.41 billion in December 2024, representing 14.37% and 14.61% of nominal GDP[11], respectively.

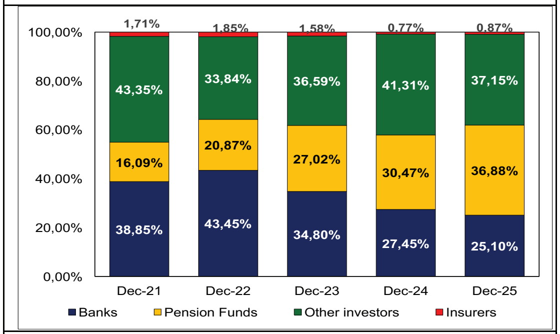
The MVM performance is primarily driven by financial institutions, which hold 62.85% of the value of investments, up from 58.69% in December 2024. Pension funds accounted for the largest share of investments in the MVM, holding 36.88% of the total value of investments (30.47% in December 2024), followed by the banking sector with 25.10% (27.45% in December 2024) and the insurance sector with 0.87% (0.96% in December 2024). The remaining 37.15% (41.31% in December 2024)

[10] Commercial paper is a short-term debt instrument (with a maturity of up to one year) traded in the capital market, through which companies obtain financing by paying interest and repaying the principal at the end of the loan period.

[11] https://www.ine.gov.mz/web/guest/d/pib_optica_despesa-30-05-2025 and PESOE 2026

was held by other categories of investors (Chart 29).

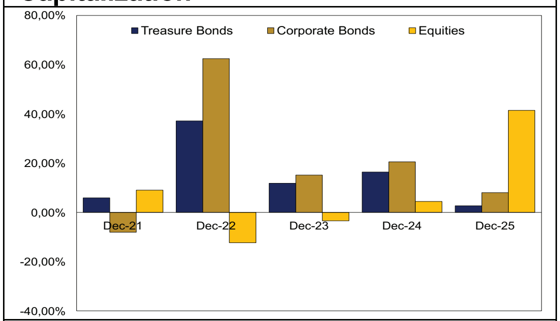
Chart 29: Share of Financial System Sectors in the MVM



Source: BM, 2025

The MVM performance over the reporting period reflected an increase in market capitalization across the equities, T-Bond, and corporate bond segments, which rose by 41.42% (MZN 7.15 billion), 2.71% (MZN 5.01 billion), and 8.04% (MZN 0.52 billion), respectively (Chart 30).

Chart 30: Changes in Market Capitalization



Source: BVM, 2025

The increase in the market capitalization of T-Bonds was primarily driven by the issuance of T-Bonds totalling MZN 42.01 billion, compared with maturities totalling MZN 37.01 billion. In addition, price movements in listed T-Bonds, reflecting market dynamics, contributed MZN 0.01 billion to the increase in their market capitalization.

Furthermore, the increase in the market capitalization of corporate bonds was primarily driven by corporate bond issuance totalling MZN 2.37 billion, compared with maturities of MZN 1.86 billion, reflecting greater use of the capital market by companies to meet their financing needs. In addition, price movements in listed corporate bonds, reflecting market dynamics, contributed MZN 0.01 billion to the increase in their market capitalization.

Regarding the equity market, price movements were the key driver of developments during the reporting period, contributing approximately MZN 7.16 billion to the increase in the market capitalization of this segment.

The positive impact of higher share prices, as discussed in the preceding paragraph, was partly offset by the delisting of several companies from the stock exchange, whose shares accounted for MZN 0.01 billion in market capitalization.

In December 2025, T-Bonds accounted for 85.71% of total market capitalization, compared with 87.22% in December 2024, underscoring the continued reliance on this market segment to finance the Government (Chart 31).

This behaviour, coupled with the increase in domestic public debt with the use of T-Bills and direct financing from national banks (Chart 32), increases sovereign risk, with a potential influence on systemic risk and, therefore, on financial stability.

Regarding the trading volume of listed securities by class, T-Bonds once again accounted for the largest share in December 2025, representing 97.99% of the total, compared with 99.80% in December 2024 (Chart 33).

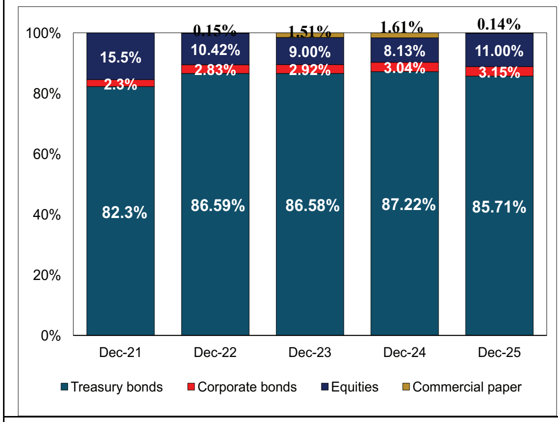
On the other hand, the low volume of transactions in the corporate shares and bonds segments suggests that the capital market continues to be less used as an alternative for financing the economy.

Moreover, the T-Bonds segment accounted for the largest share of listed instruments across MVM market segments (Table 7).

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.

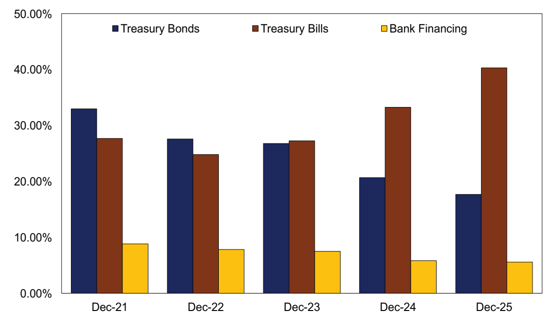
Indeed, over the past five years, interest rates on corporate bonds have remained more attractive than the prime lending rate (Chart 34).

Chart 31: Share of Market Capitalization by MVM Segment



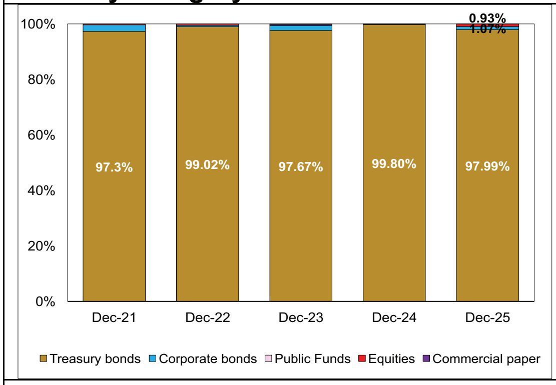
Source: BVM, 2025

Chart 32: Structure of Domestic Public Debt to the Banking Sector



Source: Ministry of Economy and Finance (MEF) and BM, 2025

Chart 33: Share of Transaction Volume by Security Category



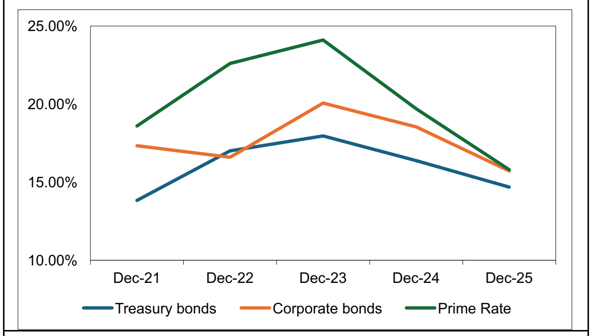
Source: BVM, 2025

Table 7: BVM-Listed Issuance

	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Treasury bonds	33	39	43	50	51
Corporate bonds	9	13	16	18	19
Public Funds	0	0	0	0	0
Equities	12	12	16	16	11
Commercial paper	0	1	9	7	2
Total	**54**	**65**	**84**	**91**	**83**

Source: BVM, 2025

Chart 34: BVM-Listed Bond Yields and the Prime Rate



Source: BM and BVM, 2025

III. PAYMENT SYSTEM INFRASTRUCTURE

In 2025, the National Payment System (NPS) maintained a strong performance, consistent with the objectives of financial stability, ensuring the continuity, security and efficiency of payment flows across the economy.

The expansion of digital payment instruments, coupled with infrastructure modernisation, strengthened the system's capacity to mitigate systemic risks, improve liquidity management and ensure the operational resilience of financial markets.

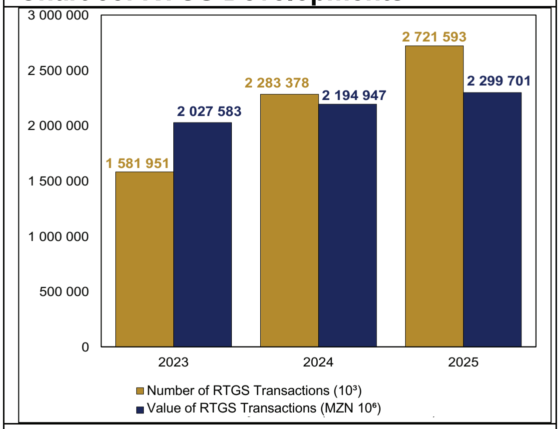
The continued modernisation of the National Payment System (NPS), particularly the Real-Time Gross Settlement (RTGS) system, reduced payment risks and enabled the secure transfer of funds between institutions and other payment service users.

The strong expansion of Point-of-Sale (POS) terminals, mobile banking and internet banking contributed to the diversification of payment instruments, the increased digitalisation of payments and the resilience of the financial system.

3.1. Real-Time Gross Settlement System (RTGS)

In 2025, RTGS transactions increased in both volume and value compared to 2024, reflecting the increased use of this payment platform by participants (Chart 35).

Chart 35: RTGS Developments

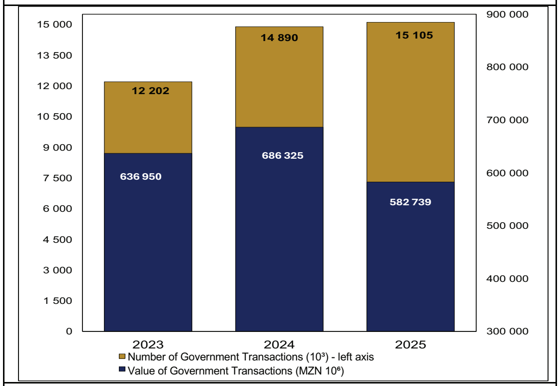


Source: BM, 2025

The RTGS system is the infrastructure that enables the real-time gross settlement of payments by the Government, individuals and businesses.

In 2025, the value of Government payments processed through the RTGS system declined by MZN 103.59 billion compared with 2024, equivalent to a decrease of 15.9% (Chart 36).

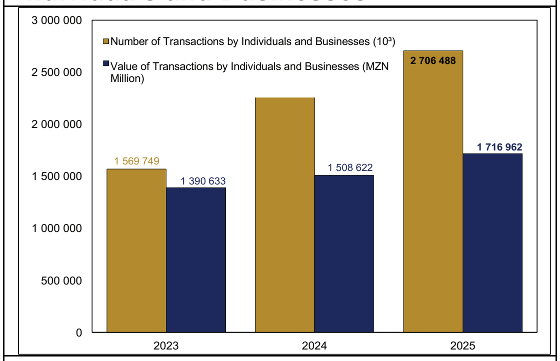
Chart 36: Value of Government Payment Transactions



Source: BM, 2025

Furthermore, the value of payments by individuals and businesses processed through the RTGS system increased by MZN 208.34 million, or 13.81%, compared with 2024 (Chart 37). This component was the main driver of the increase in the total value of transactions processed through the RTGS system.

Chart 37: Number of Transactions by Individuals and Businesses

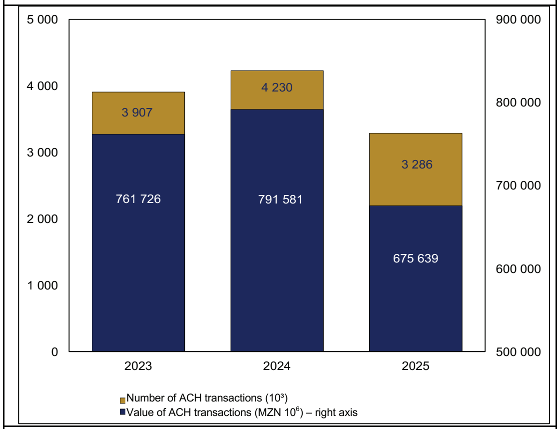


Source: BM, 2025

3.2. Automated Clearing House

During the reporting period, both the number and the value of transactions processed through the ACH system declined compared with 2024[12], by 22.31% (944 thousand transactions) and 14.65% (MZN 115.94 million), respectively. This decline reflects the modernisation of payment systems, the diversification of payment options, and the increasing adoption of faster and more convenient payment methods (Chart 38).

Chart 38: Number and Value of ACH Transactions



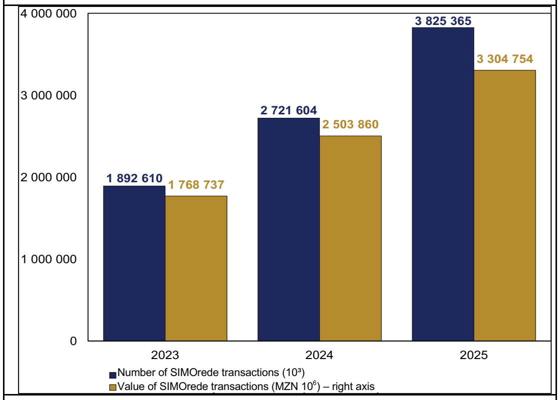
Source: BM, 2025

3.3. National Electronic Transactions via SIMOrede

The volume and value of domestic electronic transactions processed through SIMOrede increased by 40.56% to 1,103.76 million transactions and by 31.99% to MZN 800,984.36 billion, respectively, reflecting the growing adoption of the system by economic agents (Chart 39).

[12] The ACH system provides electronic clearing and settlement of payment instruments denominated in domestic currency, including cheques and payment orders, as well as transactions processed through electronic payment networks and the Mozambique Stock Exchange. It is operated by the BM and its participants comprise financial institutions.

Chart 39: Developments in National Electronic Transactions via SIMOrede



Source: BM, 2025

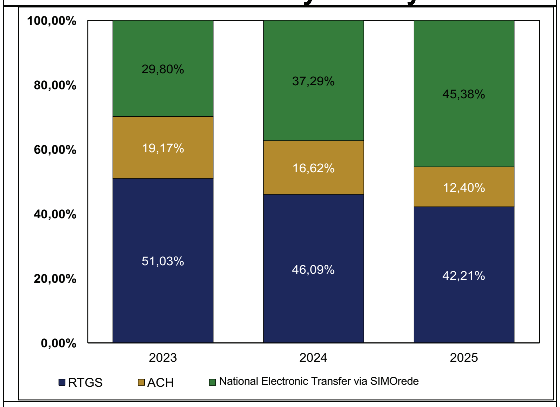
Domestic electronic transactions processed through SIMOrede comprise all transactions carried out through the following channels: (i) ATMs; (ii) Point-of-Sale (POS) terminals; (iii) mobile banking; and (iv) mobile money operators.

3.4. Relative Share of Payment Systems

In 2025, domestic electronic transfers processed through SIMOrede accounted for the largest share of transactions processed by payment systems operating nationwide. In the previous two years, the RTGS system accounted for the largest share of transactions processed nationwide.

The growth in the volume and value of domestic electronic transactions processed through SIMOrede reflects a combination of factors, including greater convenience, by enabling users to conduct transactions without visiting a bank branch; the widespread adoption of smartphones; rapid technological innovation in the financial sector; financial institutions' own strategies, as digital transactions entail lower operating costs than in-person transactions, with the potential for these cost savings to be passed on to customers; changing consumer behaviour; enhanced cybersecurity; generational shifts; and the digitalisation of everyday services, such as online shopping and delivery applications, which has facilitated users' adaptation to the digital environment (Chart 40).

Chart 40: Shares of Payment Systems



Source: BM, 2025

3.5. Regulatory Developments in 2025

In 2025, the NPS was marked by regulatory developments aimed at modernising the system, enhancing its efficiency, promoting interoperability, reducing costs, and strengthening its security and reliability. Among the main structuring regulatory frameworks, the highlights are as follows:

(i) The National Financial Inclusion Strategy 2025-2031 (officially launched in August 2025), particularly regarding expanding and consolidating digital financial services and strengthening cybersecurity;

(ii) The review of the National Payment System Law to accommodate digital transformation, strengthen oversight, and safeguard the integrity of modern financial operations culminated in the approval, by the Council of Ministers of Mozambique at its 4th Ordinary Session, held on 17 February 2026, of the draft law establishing the new National Payment System (NPS) Law;

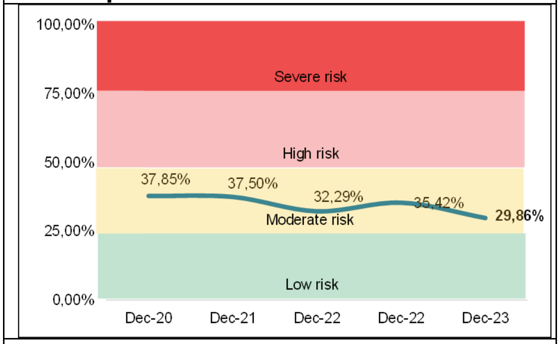
(iii) The BM consolidated the development of METIX, the new instant payment system, which enables real-time fund transfers between different banks and mobile wallets. The system was officially launched on 16 March 2026;

(iv) The BM approved Notice No. 8/GBM/2025 of 20 November, establishing enhanced requirements for the reporting of technology- and cyber-related incidents by all credit institutions and financial institutions as part of efforts to strengthen the operational and cyber resilience of the national financial system. This Notice introduces a formal, binding and enforceable framework with a direct impact on governance, operational risk management, business continuity and institutional reputation.

IV. SYSTEMIC RISK ASSESSMENT

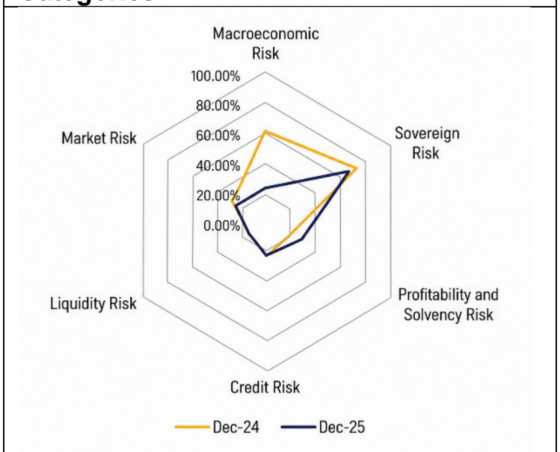
In December 2025, the systemic risk index[13] remained moderate, standing at 29.86%, representing a decline of 5.56 pp compared with December 2024 (Chart 41).

Chart 41: Systemic Risk Index Developments



Source: BM, 2025

Chart 42: Developments in Systemic Risk Categories



Source: BM, 2025

The decrease in the systemic risk index is mainly explained by the decrease in macroeconomic risk (Chart 42).

The evaluation of the different risk categories indicates the following:

4.1. Macroeconomic Risk

Macroeconomic risk declined from high in 2024 to moderate in 2025, driven by the following factors:

- Annual GDP growth of 4.67% in the fourth quarter of 2025, following a contraction of 5.68% in the same period of 2024;
- The annual inflation slowdown to 3.23% in December 2025, from 4.15% recorded in December 2024.

4.2. Sovereign risk

In 2025, sovereign risk remained severe.

The prevalence of severe sovereign risk arises from pressures on domestic public indebtedness.

Indeed, the ratio of credit to the Government to total credit and the public debt-to-GDP ratio remained high.

[13] This index ranges from 0% to 100%. As it draws nearer to 0%, systemic risk is reduced and vice versa.

4.3. Profitability and solvency risk

Profitability and solvency risk remained low.

Profitability indicators show that the banking sector maintained a positive financial performance over the reporting period[14].

In terms of solvency, the banking sector remained resilient and adequately capitalised[15].

4.4. Credit Risk

Credit risk remained low in December 2025.

This risk category remained at this level, supported by the decline in NPLs.

Moreover, the credit-to-GDP gap remained in negative territory, below its long-term trend.

4.5. Liquidity Risk

Liquidity risk remained low.

The indicators within this risk category, namely the short-term liquidity coverage ratio and the loan-to-deposit ratio, remained at low-risk levels[16], supported by weak growth in credit to the economy.

4.6. Market Risk

Market risk remained moderate.

The market risk remained unchanged, reflecting the reduction in the financial system's prime rate, while the remaining indicators, namely exchange rate volatility (Metical/USD), the ratio of foreign currency-denominated loans to total loans, and the ratio of foreign currency deposits to total deposits, remained stable.

4.7. Systemic Risk Outlook

The outlook for systemic risk over the short to medium term is based on the following factors:

Macroeconomic risk could increase, driven by (i) the prospects of slower economic growth due to the effects of climate shocks and the likely slowdown in the global economy, and (ii) the upward revision of short- and medium-term inflation expectations, reflecting, among other factors, the effects of the conflict in the Middle East.

[14] See item 2.1.3.4.

[15] See item 2.1.3.1.

[16] See item 2.1.3.5.

Sovereign risk is expected to remain severe, assuming continued pressure on domestic public debt.

Regarding **profitability and solvency risk**, no significant changes in the respective indicators are expected, signalling that this risk category is likely to remain low.

Meanwhile, **credit risk** is expected to remain low, supported by the stability of the NPL ratio within the single-digit range and the subdued growth in credit to the economy.

Liquidity risk is expected to remain low, provided that the indicators underpinning this risk category remain stable.

Market risk is expected to remain moderate, reflecting continued exchange rate stability and assuming a reversal of the downward trend in the prime lending rate following the interruption of the MIMO rate easing cycle.

Taken together, the outlook for the individual components of systemic risk points to the systemic risk index remaining at a moderate level over the short to medium term.

V. FINANCIAL SYSTEM VULNERABILITIES

In 2025, the financial system demonstrated resilience, maintaining positive performance indicators despite a multifaceted risk environment. However, vulnerabilities remain that could exacerbate both financial and non-financial risks.

Domestically, financial stability was shaped by pressure on public finances and security risks in Cabo Delgado Province, during a period also marked by post-election tensions and exposure to climate shocks, which tested the resilience and shock-absorbing capacity of financial institutions.

Public Indebtedness

Pressure on public debt persisted in 2025, particularly on the domestic component (Table 8). This dynamism reflected the intensive use of T-Bonds and T-Bills to finance the treasury deficit.

Table 8: Public Debt Stock

MZN million

	2021	2022	2023	2024	2025
External debt	663 298,00	645 295,70	645 027,00	636 549,00	621 283,80
Domestic debt	226 398,17	281 548,50	313 633,00	406 996,00	474 013,30
Total debt	**889 696,17**	**926 844,20**	**958 660,00**	**1 043 545,00**	**1 095 297,10**

Source: MEF, 2025

In December 2025, the stock of domestic debt stood at 474 billion meticais. This situation, exacerbated by delays in Government payments, undermined confidence in sovereign securities and contributed to rigidities in interbank market interest rates, thereby hampering the efficiency of the financial market.

Military Instability in Cabo Delgado Province

The security situation in Cabo Delgado continues to affect some districts, disrupting the distribution of goods and undermining investor confidence. The high risks surrounding the movement of goods continue to hinder the recovery of local economic activity, particularly in smallholder agriculture and among small businesses. As a result, the costs of security and support for displaced populations have increased remarkably.

Post-election Tension

The effects of the post-election tensions across most sectors of economic activity undermined economic performance over the reporting period. This situation disrupted business activity due to restrictions on the movement of people and goods, increased unemployment as businesses were forced to close, and ultimately undermined financial stability.

Adverse Climatic Factors

Extreme weather events, including Cyclones Dikeledi and Jude, which struck in January and March 2025, respectively, caused extensive damage to public and private buildings, infrastructure and production facilities. This backdrop significantly exacerbated the physical risks and raised the costs of national recovery and reconstruction.

The recurring occurrence of these weather events in the country directly undermines the ability of affected borrowers to meet their obligations to the banking sector. These loan defaults illustrate the impact of climate change on the financial system, translating into higher credit risk and exerting broad-based adverse effects on the economy.

Box 2: Macroprudential Policy Framework – Assessment of the Activation of the Countercyclical Capital Buffer in the Mozambican Banking Sector

The countercyclical capital buffer (CCyB) is a macroprudential policy instrument established under Basel III and used by central banks to safeguard the stability of the financial system.

The CCyB framework provides supervisors with a tool to adjust capital requirements to protect banks throughout the expansion and contraction phases of the financial cycle, taking into account the macro-financial environment in which they operate.

The Basel III guidelines published by the Basel Committee in 2010 state that the objective of the CCyB is to serve as a broad-based macroprudential measure to protect the banking sector against excessive aggregate credit growth associated with rising systemic risk.

During the expansionary phase of the credit cycle, the countercyclical capital buffer may be activated. Accordingly, financial institutions are required to maintain an additional capital buffer, comprising high-quality own funds such as Common Equity Tier 1 (CET1) capital, for precautionary purposes. This buffer may be drawn down during the cycle downturn phase.

The release of the additional capital during periods of economic downturn enables banks to absorb losses and continue extending credit to the real economy, thereby preventing the crisis from deepening.

The Bank for International Settlements (BIS) framework assigns a prominent role to the credit-to-GDP gap as an early warning indicator and a guide for policymakers, supporting assessments of whether to activate or increase the CCyB and facilitating the communication of related policy decisions. However, the relationship between the credit-to-GDP gap and the CCyB is not mechanical. Instead, the framework allows policymakers to assess when the buffer should be built up and released. Judgement should, however, complement the quantitative analysis, which may also draw on indicators other than the credit-to-GDP gap in guiding the use of the instrument.

The BIS recommends using the credit-to-GDP gap ("credit gap"), defined as the difference between the credit-to-GDP ratio and its long-term trend, as a reference indicator to guide decisions on the activation of the CCyB.

As a general rule for the implementation of the CCyB, the BIS recommends the following assessment framework:

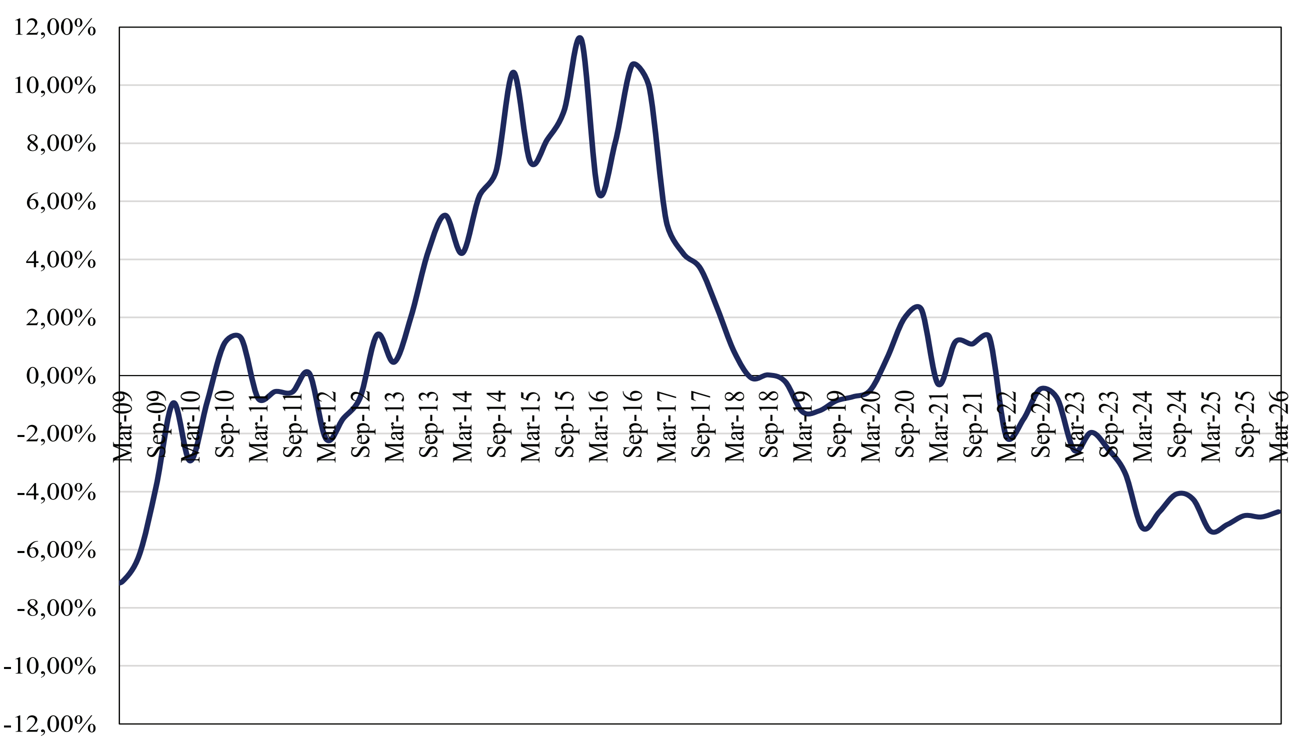
Gap	Additional Capital Buffer Requirement
< 2 p.p.	The buffer is usually set at 0%.
Between 2 p.p. and 10 p.p.	The buffer increases linearly.
> 10 p.p.	The buffer reaches its recommended maximum level of 2.5%, even though it may be set above this level in exceptional circumstances.

Considerations for the Activation of the Countercyclical Capital Buffer in the Mozambican Banking Sector

The countercyclical capital buffer is one of the macroprudential policy instruments available to the BM. It comprises an additional buffer of CET1 capital that, by ensuring the availability of capital within financial institutions, directly contributes to strengthening the resilience of the banking system.

The credit-to-GDP gap remains well below the lower threshold for activating the CCyB (Chart 43).

Chart 43: Mozambique Credit-to-GDP Gap



Source: Banco de Moçambique.

VI. 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, **namely:**

- The establishment of an additional capital buffer for institutions designated as D-SIBs and Quasi D-SIBs, set at 3.0%, 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.

Box 3: Deposit Insurance Safety Net and Bank Resolution

The Deposit Guarantee Fund (DGF) is one of the cornerstones of the financial safety net, playing a key role in maintaining public confidence in the banking system and mitigating the risk of bank runs. By protecting depositors up to a specified coverage limit, the deposit insurance scheme contributes to financial stability and reduces the likelihood of bank runs during periods of financial stress.

The effectiveness of a deposit insurance system depends largely on the adequacy of its financial resources, their proportionality to the volume of covered deposits, and its ability to respond to bank failures. These principles are enshrined in the *Core Principles for Effective Deposit Insurance Systems issued by the International Association of Deposit Insurers* (IADI).

In Mozambique, the Deposit Guarantee Fund was established by Decree No. 49/2010, with its mandate significantly strengthened by Decree No. 36/2024, which introduced the *"Paybox Plus" model.* This framework expands the Fund's role beyond reimbursing covered deposits, enabling it to participate in bank resolution measures aimed at preserving the stability of the financial system

The enactment of Ministerial Order No. 85/2024 introduced a new funding model for the Deposit Guarantee Fund (DGF), based on the quarterly average of insured deposits and a contribution rate of 0.174%. It also established a minimum coverage ratio and a target fund level of 10% of insured deposits. This regulatory change strengthens the Fund's financial discipline and provides the context for the capital accumulation trajectory reflected in the 2025 indicators.

According to the DGF, total deposits stood at **MZN 721,268.51 million** in December 2025, compared with **MZN 212,221.33 million** in December 2024, representing an absolute increase of **MZN 509,047.19 million**, or approximately 240%. The total amount covered increased from **MZN 23,870.93 million** to **MZN 31,448.29 million**, representing a **31.7% increase.** The strong growth observed reflects the dynamism of the system, but increases the challenge of capitalising the DGF.

The strong growth in the deposit base reflects factors such as:

- Increase in large institutional deposits;
- Legislative amendments expanded the scope of deposit insurance to cover all deposits held with participating institutions, including accrued interest. Coverage was also extended to both natural and legal persons, whether resident or non-resident, and to deposits denominated in both domestic and foreign currencies.

However, growth in the total deposit base outpaced that of covered deposits, resulting in a decline in the overall coverage ratio. Covered deposits account for only 4% of total deposits, well below the 20% to 40% range generally regarded as international best practice.

Table 9: Key Fund Indicators of the DGF				
Indicator	**Dec 24**	**Dec 25**	**Difference**	**International Benchmark (IADI Reference / Best Practices)**
Total Deposits	212,221.32	721,268.51	509,047.19	
Total Insured Deposits	23,870.93	31,448.28	7,577.36	20%–40% of Total Deposits
Protection Ratio	11.25%	4.36%	-6.89%	20%–40% considered sound
Fund Balance	1,847.63	2,185.34	337,71	Continuous and steady growth
Effective Coverage Ratio	7.74%	6.95%	-0.79%	10%–30% (depending on the risk model)
Total Number of Accounts	4,761.36	4,739.11	-22.26	
Fully Covered Accounts	4,275.63	4,344.22	68.59	≥ 90% of Accounts
Protected Accounts	89.80%	91.67%	1,87%	90%–95%
Exposure Ratio	92.26%	93.05%	0.79%	< 60% desirable
Target Fund Level	21,222.13	72,126.85	50,904.72	2%–5% of Insured Deposits

Source: DGF, 2025

The coverage ratio is the ratio of covered deposits to total deposits. It indicates the proportion of total bank deposits covered by the deposit guarantee scheme. This indicator declined from **11% in 2024 to 4% in 2025**, a decrease of 7 percentage points, remaining well below international best practice, which recommends a coverage ratio of between 20% and 40%. Under the DGF Regulation, reimbursement is based on the **aggregate balance of each depositor's accounts held with a participating institution, up to a maximum of MZN 40,000.** The decline in the coverage ratio suggests: (i) an increase in the proportion of deposits exceeding the coverage limit; and (ii) a greater concentration of deposits among large depositors.

A decline in the coverage ratio typically indicates disproportionate growth in large deposits.

Over the reporting period, the Fund's balance, which represents the financial resources accumulated by the DGF, derived primarily from contributions made by participating institutions and investment income, increased from **MZN 1,847.63 million** to **MZN 2,185.34 million**, representing an increase of **MZN 337.71 million** (approximately 18%). However, the effective coverage ratio declined from **8% to 7%,** remaining below the 10% to 30% range generally regarded as international best practice. Albeit the Fund recorded nominal growth, this was insufficient to keep pace with the expansion of the deposit base. The decline in the effective coverage ratio indicates a deterioration in the Fund's relative response capacity.

Fully covered accounts are those with individual balances equal to or below the coverage limit and are therefore fully protected. The total number of accounts decreased slightly from **4761.362** to **4.739.106**. The number of fully covered accounts increased from **4,275,627** to **4,344,222**, increasing the proportion of protected accounts from **90% to 92%**. This indicates that, in terms of the number of depositors, the vast majority remain fully protected within the statutory limit. However, financial value is increasingly concentrated in larger accounts.

The exposure ratio represents the percentage of total deposits that exceeds the coverage limit. It indicates the proportion of deposits potentially exposed to loss in the event of a bank failure. It increased from **92% to 93%**, reflecting a marginal increase in the proportion of uncovered deposits. High levels of exposure increase vulnerability to confidence shocks. The significant expansion of the deposit base, combined with the decline in the coverage ratio, has altered the overall risk profile by: (i) increasing the absolute volume of potentially uncovered deposits; (ii) widening the gap between the resources available to the Fund and the total deposit base; and (iii) reinforcing the need for a sustained capital accumulation path.

The target fund is the reference of resources that the DGF is expected to accumulate over a specified period, typically expressed as a percentage of insured deposits (e.g. 2% to 5%), in line with international best practices. It grew from **MZN 21,222.13 million** in 2024 to **MZN 72,126.85 million** in 2025. The degree of compliance has decreased:

- 2024: 8.7% of target fund;
- 2025: 3.0% of target fund.

Thus, the relative gap between the accumulated Fund balance and the target fund level widened, reflecting the expansion of the deposit base.

Article 9 of the aforementioned Order provides that the target fund level of the DGF shall be at least 10% of total insured deposits and shall be reached within 10 years.

Reaching the target level of 10% in 10 years is feasible under stable macro-financial conditions. However, the strong expansion of the deposit base observed in 2025 suggests that the Fund's capital accumulation should be accompanied by ongoing prudential monitoring to prevent the gap between the size of the deposit base and the Fund's available resources from widening.

Box 4: Banking Sector Resilience Analysis – Stress Testing for 2027

As part of its ongoing monitoring of financial stability, the BM carried out stress tests to assess the resilience of credit institutions and the banking sector under severe hypothetical scenarios. These exercises aim to identify latent vulnerabilities and ensure the readiness of mitigation and response mechanisms.

1. Stress Testing Framework and Scenarios

The latest stress testing exercise was based on the simulation of an adverse but plausible macroeconomic scenario for 2027, characterised by:

- External environment: Persistent global geopolitical tensions, with a direct impact on energy and fertiliser price volatility and disruptions to international trade routes.
- Domestic environment: Heightened macroeconomic pressures arising from adverse climatic conditions, particularly El Niño-related droughts[17], which could lead to a contraction in economic activity.

2. Banking Sector Performance under the Adverse Macroeconomic Scenario

Under conditions of macroeconomic stress, including higher interest rates and inflation, the domestic banking sector demonstrates a strong shock-absorbing capacity. Despite a natural narrowing of profitability (ROE) and a prudent increase in loan loss provisions, solvency ratios generally remain above the regulatory minimum requirements, supported by previously retained earnings.

3. Sensitivity Analysis: Sovereign Exposure

As a maximum resilience exercise, the stress test includes simulations of domestic public debt dynamics. The results indicate that the banking sector's high exposure to sovereign assets represents the most significant challenge to its capitalisation:

- Impact on capital: The need to recognize additional impairment losses would place significant pressure on own funds. Under an extreme scenario of total loss in the value of these assets, the solvency ratio could fall below the regulatory minimum requirements, requiring immediate recapitalisation measures.
- Transmission to the real economy: The exercise highlights that the interdependence between the State, supplier companies, and the banking sector may generate a contagion effect, leading to an increase in the NPL ratio.

4. Conclusions and Prudential Measures

The results of these stress tests do not constitute forecasts but rather serve as risk management tools. The analysis underscores the importance of:

- Portfolio diversification: Encourage institutions to diversify their exposures, thereby reducing concentration in sovereign assets.

[17] Climate forecasts for the 2026–2027 horizon indicate a significant transition, with La Niña conditions expected to weaken gradually and a high probability (above 90%) of a return to El Niño conditions from the second half of 2026.

- Capital buffer strengthening: Maintain conservative dividend distribution policies during periods of uncertainty to strengthen CET1 capital.

- Contingency plans: ensure that banks have up-to-date and tested liquidity and capital recovery plans.

The BM underscores that the banking system remains adequately capitalised and that the close monitoring of these scenarios is intended precisely to ensure that corrective measures are taken before any risks materialise.

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 5 June.

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 instalment calculated with all loans of the customer and their monthly income.

Own funds – 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 (VIX) – 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.

MSCI World (Morgan Stanley Capital International) – the Morgan Stanley Capital International World Index is composed of mid- and large-cap equities operating globally or in advanced economies, covering a universe of 23 countries: Germany, Australia, Austria, Belgium, Canada, Denmark, Spain, Finland, France, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, the United States of America, Norway, Portugal, Singapore, Sweden, Switzerland, and the United Kingdom. The MSCI World is a stock market capitalisation-weighted index, meaning that larger companies have a greater influence on its performance, thereby providing investors with broad exposure to the world's major economies.

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.

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

SIMOrede – Mozambique's National Electronic Payments Network. It interconnects commercial banks and mobile wallets, enabling transactions through automated teller machines (ATMs), point-of-sale (POS) terminals, as well as payments for goods and services.

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

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.

Annex 1: Key Financial Soundness Indicators

Description	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Capital adequacy					
Aggregate capital adequacy ratio	26.19%	26.96%	25.67%	26.11%	28.14%
Tier 1 capital ratio	26.71%	27.52%	26.65%	26.82%	28.70%
Leverage ratio	13.27%	12.97%	13.49%	12.54%	12.88%
Asset quality					
NPL ratio	10.60%	8.97%	8.24%	9.31%	7.47%
NPL coverage ratio (right axis)	72.63%	71.84%	66.04%	60.29%	51.27%
Profitability					
ROA	3.93%	4.69%	4.66%	3.57%	2.16%
ROE	25.15%	27.29%	19.11%	14.77%	8.63%
Net interest income ratio	64.08%	68.49%	63.87%	66.65%	63.53%
Cost-to-income ratio	53.75%	53.84%	53.79%	58.22%	56.55%
Liquidity and funds management					
Liquid assets to total deposits ratio	67.98%	69.49%	49.62%	52.56%	62.76%
Liquid assets to total assets ratio	47.89%	50.50%	34.36%	36.49%	44.97%
Short-term liquidity coverage ratio	68.30%	69.79%	47.42%	49.64%	60.46%
Loan-to-deposit ratio	50.22%	47.06%	44.90%	40.84%	37.28%