Euler Hermes Economic Research

Country Report

Mozambique

In the vanguard of Sub-Saharan Africa rising

General Information

GDP	USD14.588bn (World ranking 116, World Bank 2012)
Population	25.2 million (World ranking 48, World Bank 2012)
Form of state	Republic
Head of government	Filipe Nyusi, president-elect takes office in early 2015
	Current President, Armando Guebuza
Next elections	2019, presidential and legislative

Strengths

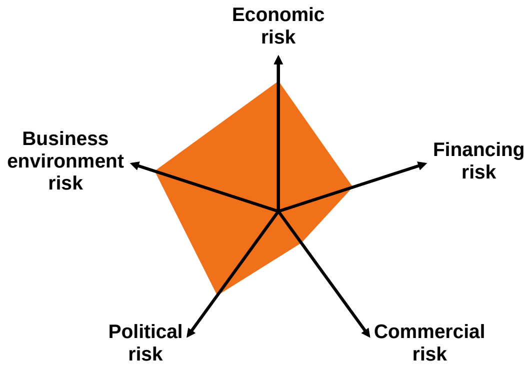
- The political system is relatively stable, with a recent track record of multi-party elections and peaceful transfers of power.
- The ruling party appears committed to market reforms.
- Strong GDP growth based on several mega-projects, which utilise the country's significant natural resources (including coal and natural gas).
- Strong net FDI in recent years.
- Strong IFI and donor support.
- Low public sector external debt service following HIPC completion.

Weaknesses

- Susceptible to natural disasters, including floods.
- Democratic credentials have a limited track record and, in particular, hand-over of power to opposition forces after elections has yet to be tested.
- Although poverty indicators have improved, UN development indicators suggest that the quality of life remains generally poor.
- High incidence of HIV/AIDS, with associated social and economic costs.
- Dependence on aid flows and grants & loans.
- Weak structural business environment and infrastructure that requires investment to cope with rapid economic advances.
- Large fiscal and current account deficits.

Country Rating

C3



Source: Euler Hermes

Trade structure

By destination/origin (% of total)

Exports		Rank		Imports
South Africa	27%	1	29%	South Africa
China	11%	2	12%	China
Belgium	10%	3	11%	India
Netherlands	7%	4	5%	United States
Italy	5%	5	5%	Portugal

By product (% of total)

Exports		Rank		Imports
Non-ferrous metals	28%	1	16%	Petroleum and related materials
Coal, coke and briquettes	12%	2	6%	Road vehicles
Petroleum and related materials	11%	3	6%	Specialised machinery
Gas, natural and manufactured	7%	4	6%	Cereals and cereal preparations
Metalliferous ores and metal scrap	7%	5	5%	Other industrial machinery and parts

Source: UNCTAD (2012)

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Recent data suggest a larger economy

A recent development in Sub-Saharan African countries (notably Nigeria) is the rebasing of GDP calculations to a more recent year and to encompass developments such as growth in the service sectors and advent of new technologies. In Q1 2014, Mozambique rebased its GDP (to 2009 values) and, as a result, the economy in real local currency terms is around 17% larger than previously estimated. Even so, poverty levels remain pervasive and a challenge for the authorities is to ensure the benefits of rapid economic advancement filter down to the population at large.

GDP growth is among the highest in the Sub-Sahran Africa region

Annual average GDP growth in the ten-year period to end-2011 was +8%, with Mozambique one of the African economies consistently expanding at a rate markedly above average. This rapid growth derives from recovery from a particularly debilitating and protracted civil war but also results from the development and output from the country's "mega-projects", including the export of gas under a pipeline arrangement with South Africa's Sasol, production from Mozal II, a large aluminium concern with its own smelter, output from a titanium mine and substantial output (including for export) from coal reserves. Growth in 2012 was +7.4% and broad-based, with positive contributions from agriculture and construction, as well as the onset of coal output for export.

Severe floods in the early part of 2013 destroyed large areas of agricultural crops in the south and severely damaged infrastructure, particularly roads, railways and the power transmission line to neighbouring South Africa. Nevertheless, GDP growth was +6.9% in 2013 as the coal export trade expanded and some improvements were made to infrastructure. EH expects GDP growth of +7% in 2014 and +7.5% in 2015, with upside potential. Moreover, subject to satisfactory climatic conditions and political stability, economic expansion has the potential to remain high for several years beyond that time horizon.

Inflationary environment is much improved

In the period 2003-07, inflationary pressures were higher in Mozambique than the average for the region (see chart). Monetary policy assisted in producing a lower inflationary environment in 2008-10 and again by end-2011. The rate of inflation subsided in 2012, supported by lower-than-expected prices for imported foodstuffs and by stable administered prices for fuel, utilities and public transport. At end-2012, inflation had fallen to only 2.2% y/y (the lowest rate in the SADC region). Since then, domestic food prices have risen (partly as a result of floods in early 2013) but inflation at end-2013 was still below 3%. EH expects inflation to end 2014 at 3.2% and 2015 at 4.8%.

Public finances

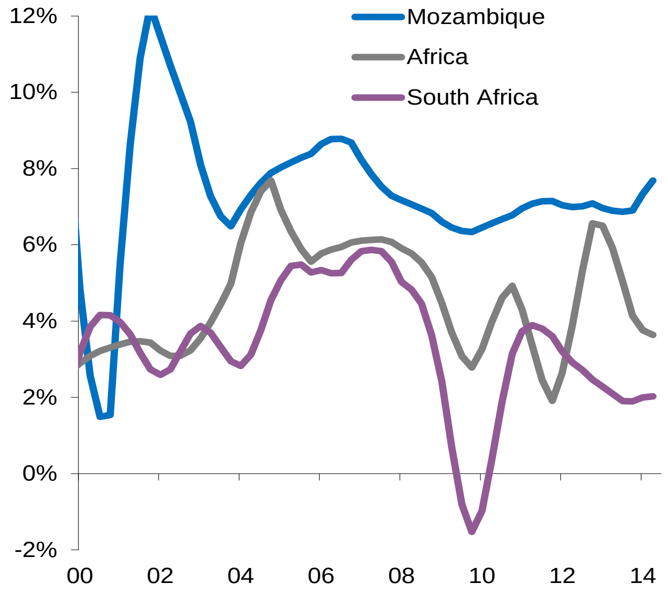
The fiscal accounts remain dependent on external budgetary support but this has been declining since 2010. In the projections for the 2014 budget, 66.5% of expenditures was projected to come from domestic sources and 33.5% from foreign grants and loans, although EH expects these targets will be missed. Education, health and agricultural development are priorities in spending plans. EH expects the fiscal deficit will remain challenging at over -9% of GDP in 2014 and -14% in 2015, thereby limiting the country's aim of further reducing dependence on external agencies.

Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	7.4	6.9	7.0	7.5
Inflation (%, end-year)	2.2	3.0	3.2	4.8
Fiscal balance (% of GDP)	-4.0	-3.4	-9.4	-14.0
Public debt (% of GDP)	42.7	53.1	56.5	58.3
Current account (% of GDP)	-43.6	-38.2	-33.3	-31.6
External debt (% of GDP)	32.8	39.3	43.4	46.9

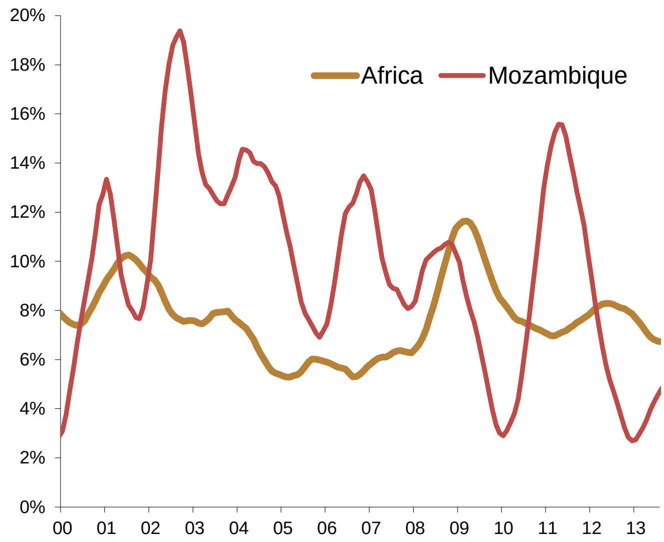
Sources: IHS, national sources, Euler Hermes

GDP growth profile (y/y, 4 quarters cumulated, %)



Sources: IHS, Euler Hermes

Inflation (%)



Sources: IHS, Euler Hermes

External accounts indicate the rapid industrialisation of the economy, necessitating large inflows of capital goods

The current account registers (very) large annual deficits, which averaged -14.1% of GDP in 2000-08 but have since increased. Indeed, the deficit in 2012 was over -43% of GDP (see chart). These deficits reflect the inflow of large capital investments relating to energy (including commercial development of substantial natural gas reserves), mining and infrastructure projects. The funding for a large proportion of the deficits will remain in the form of significant inflows of FDI and private-financing in mining operations. EH expects the current account deficit will moderate this year and in 2015 but will remain over -30% of GDP.

External debt relief resulted in lower servicing commitments and higher international reserves

Despite considerable relief granted through the auspices of the HIPC and MDRI initiatives, external debt levels (debt/GDP of over 43% and debt/export earnings over 99% in 2014) require careful management. However, annual external debt servicing (repayments/foreign exchange earnings) is currently a relatively comfortable 1.6%. As a result, foreign exchange reserves have accumulated and, at almost USD4 billion, cover around four months of imports.

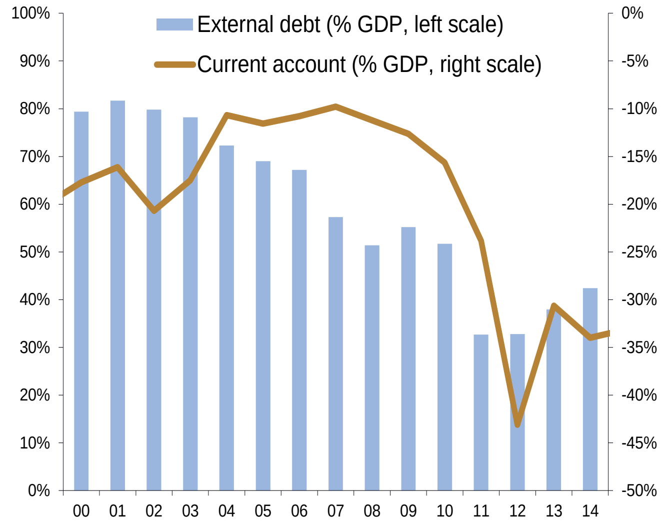
Planning for the future

Development of the country's energy sector has increased popular expectations and the government needs to manage effectively potential windfalls from current and future revenues from exploitation of natural gas reserves.

The latest IMF assessment (mid-2014) indicates that the macro-economic outlook remains favourable and the Policy Support Instrument-supported programme (a financial facility is not in place after a 3-year ESF expired in June 2010) is broadly on track, with all assessment criteria met and the structural reform programme on track. The Fund indicates that growth is expected to be sustained in the medium term by the natural resource boom and infrastructural investment.

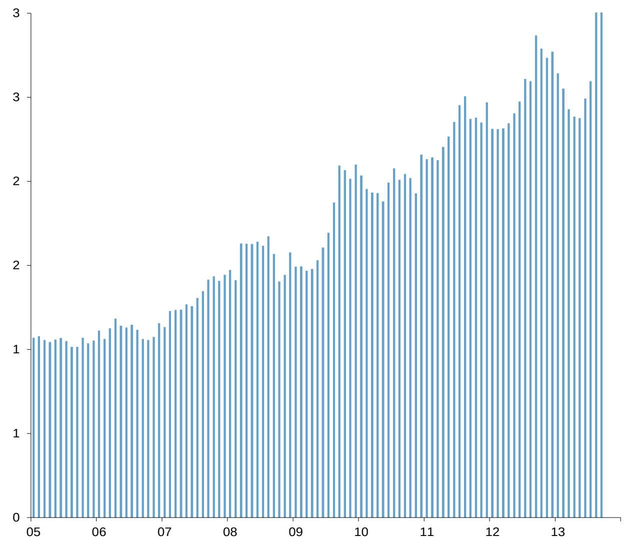
The IMF is working with the Central Bank on plans to introduce a policy of inflation targeting at some future (unspecified) date. The current policy focus is one that balances control of the growth in reserve money by sterilising the large inflows of FX from development partners and maintaining the value of the metical exchange rate.

External debt and current account balance (% of GDP)



Sources: IHS, Euler Hermes

Foreign exchange reserves (USD bn)



Sources: IHS, Euler Hermes

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Last review: 2014-12-10
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