Euler Hermes Economic Research

Country Risk Analysis

Mozambique

Strong GDP growth and natural resource base

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	Armando Emilio GUEBUZA
Next elections	2014, presidential and legislative

Strengths

- The political system is relatively stable, with a recent track record of multi-party elections and peaceful transfer 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.
- Weak structural business environment.
- Fiscal and current account deficits.

Country Rating

C3

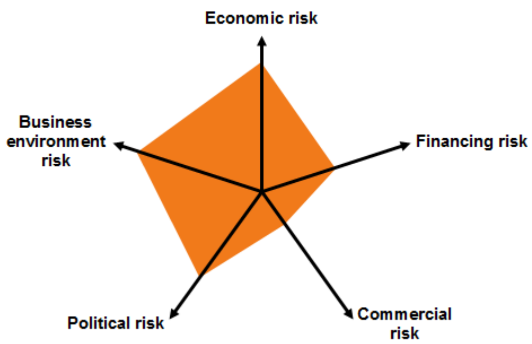
Country Grade

High risk

Low risk

Country Risk Level

Risk Dimensions



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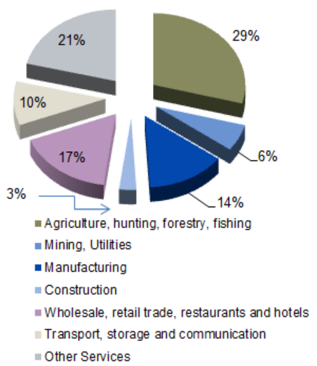
Economic Structure

GDP breakdown (% of total, 2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
South Africa	25%	1	34%	South Africa
Netherlands	13%	2	11%	China
Belgium	11%	3	9%	India
Italy	7%	4	7%	United States
Spain	6%	5	6%	Australia

By product

Exports		Rank		Imports
Non-ferrous metals	38%	1	13%	Petroleum, petroleum products and related
Electric current	8%	2	9%	Road vehicles
Petroleum, petroleum products and related	8%	3	7%	Specialised machinery
Gas, natural and manufactured	6%	4	6%	Cereals and cereal preparations
Metalliferous ores and metal scrap	6%	5	4%	Electric current

Economic Forecast

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	6.3	6.8	7.1	7.4	6.5	8.0
Inflation (%, end-year)	2.1	19.1	4.5	2.2	6.4	3.5
Fiscal balance (% of GDP)	-15.5	-12.9	-12.2	-9.4	-11.3	-10.2
Public debt (% of GDP)	51.9	49.3	45.1	39.5	38.2	34.7
Current account (% of GDP)	-12.9	-17.2	-19.0	-27.1	-22.6	-22.8
External debt (% of GDP)	42.8	40.5	31.9	37.7	43.1	48.5

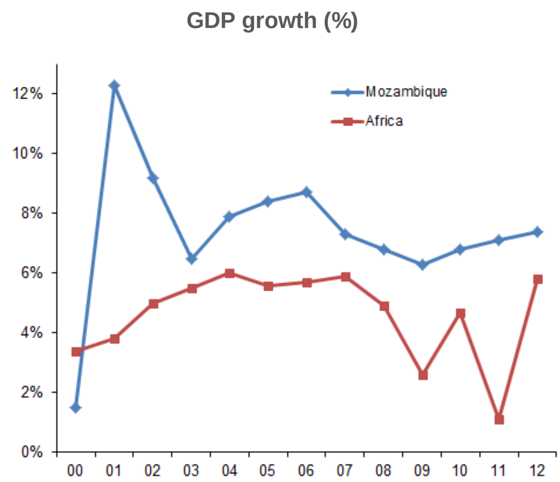
Sources: IHS Global Insight, National sources, Euler Hermes

Economic Overview

Annual average GDP growth in the period 2000-08 was +7.6%, with Mozambique one of the African economies consistently expanding at the fastest rate. 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, EH expects GDP growth of around +6.5% in 2013 as the coal export trade expands and infrastructure repairs and improvements take hold and then a rebound to +8% in 2014, subject to the prevailing climatic conditions.

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Monetary policy was loosened through the course of 2012, with the central bank reducing its key policy interest rate eight times and by a cumulative 6.5pps. This largely reflected a benign inflationary environment. 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 2.2% y/y (the lowest rate in the SADC region). Since then, food prices have risen as a result of floods in early 2013 and EH expects inflation to end 2013 at around 6.4% y/y and then to ease through the course of 2014.

The current account records large deficits (averaging -14.1% of GDP in 2000-08), which have increased significantly in recent years (over -27% of GDP in 2012). Indeed, deficits will remain large throughout the forecast period and into 2015, reflecting 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.

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 180% in 2013) require careful management. However, annual external debt servicing (repayments/foreign exchange earnings) is currently a relatively comfortable 2%. As a result, foreign exchange reserves have accumulated and, at over USD3 billion, cover over five months of imports.

Development of the country's energy sector has increased popular expectations and the government needs to manage effectively potential windfalls from future revenues from natural gas reserves. In its latest assessment of progress within an overall PSI programme, the IMF reported that macro-economic performance remains strong and that the government's economic reform agenda and its implementation are satisfactory.

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