

## Mozambique in debt distress

### General Information



<b>GDP</b>	USD14.7bn (World Ranking 115, World Bank 2015)
<b>Population</b>	28 Million (World Ranking 47, World Bank 2015)
<b>Form of state</b>	Republic
<b>Head of government</b>	Filipe NYUSI
<b>Next elections</b>	2019, presidential elections



### Strengths

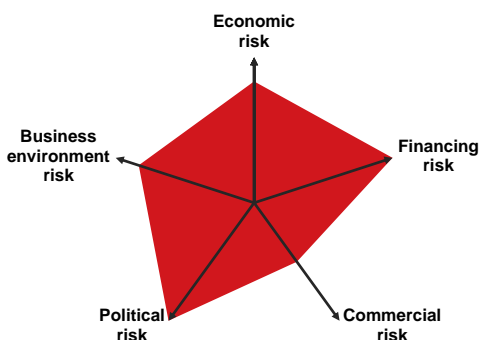
- Strong net FDI in recent years
- Strong donor support in recent years.
- Immense natural gas reserves, and substantial oil reserves
- Rapidly urbanizing population offers growth and consumer potential

### Weaknesses

- Sovereign debt crisis in the making (undisclosed figures were discovered)
- Growth collapse
- Weak structural business environment and infrastructure.
- Vulnerable 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

### Country Rating

**D4**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	23% 1	26% South Africa
South Africa	19% 2	17% China
Netherlands	6% 3	16% India
India	6% 4	5% Bahrain
Belgium	5% 5	4% Portugal

By product (% of total)

Exports	Rank	Imports
Non-ferrous metals	22% 1	21% Petroleum, petroleum products and related materials
Non metallic mineral manufactures, n.e.s.	14% 2	7% Road vehicles
Coal, coke and briquettes	9% 3	5% Iron and steel
Gas, natural and manufactured	9% 4	4% Cereals and cereal preparations

Source: UNCTAD (2015)

## Economic Overview

### Growth prospects subdued

Mozambique has been one of the fastest growing countries in Africa, with average growth from 2006-16 at 7%. Despite this, an unfolding sovereign debt crisis triggered by undisclosed government debt levels and a series of resource project delays hamper growth prospects for the coming years. EH expects growth to slow to 4.0% in 2016, 1.0% in 2017, and 2.0% in 2018. This implies substantial risk (see chart 1 and 2).

Following the discovery of the world's largest natural gas reserves in 2011 and the premature expectation of a windfall, the government went on a borrowing spree. Yet much of the receipts have been misspent with the Tuna bond saga being a case in question. Negotiations on exploitation terms between the government and operators have taken longer than expected and subdued commodity price forecasts have decreased project investments. The Rovuma-basin gas mega-projects are not expected to come on stream until late 2018. If there are no further delays, the projects could potentially boost government revenue by an average of USD2bn a year between 2021 and 2025. This means that Mozambique's government will have to sustain fiscal consolidation and postpone vital capital expenditures until the next decade.

### Sovereign debt crisis

In April 2016, undisclosed loans to state-owned enterprises worth USD2bn were discovered. Authorities only disclosed this in October 2016, when they announced they could not afford payments on foreign loans in 2017. With exchange rate depreciation running over 40% y/y against the dollar in 2016, the discovered debt has led to a substantial increase in debt ratios (public debt at 130% of GDP, see chart 3) and the debt service burden.

The IMF, which walked out on a potential aid package, requires an independent audit and a debt restructuring as preconditions to enter any potential loan agreement. With the current debt burden unsustainable, Mozambique's efforts to restructure public debt before the end of the year have so far proven unsuccessful.

### Government in confidence crisis

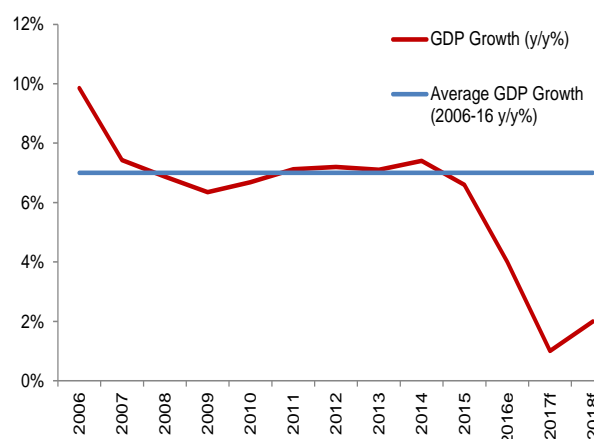
For frontier economies like Mozambique, a government that projects confidence is an imperative. The implications of the breach of trust associated with the undisclosed debt levels will have long-run consequences for the real economy. Donor support, investor appetite for the country's natural resources, and potential economic partnerships will take a hit.

### Key economic forecasts

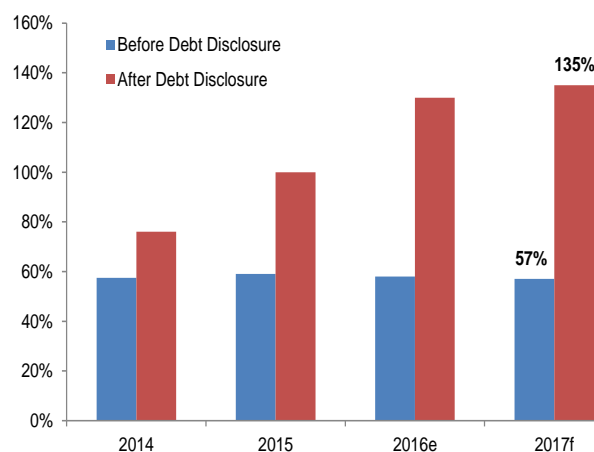
	2015	2016e	2017f	2018f
GDP growth (% change)	6.6	4.0	1.0	2.0
Inflation (% end-year)	3.6	17.0	15.0	12.0
Fiscal balance (% of GDP)	-7.4	-5.5	-3.5	-3.0
Public debt (% of GDP)	100.0	130.0	135.0	135.0
Current account (% of GDP)	-39.2	-34.0	-35.0	-30.0
External debt (% of GDP)	70.0	82.5	90.0	95.0

Sources: National statistics, IHS, Euler Hermes

### GDP Growth



### Public Debt (%GDP)



Sources: National statistics, IHS, Euler Hermes

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