

## Still strong growth, but debt increasing



### General Information

<b>GDP</b>	USD16.386bn (World ranking 117, World Bank 2014)
<b>Population</b>	26.47mn (World ranking 47, World Bank 2014)
<b>Form of state</b>	Republic
<b>Head of government</b>	Filipe NYUSI
<b>Next elections</b>	2019, presidential and legislative



### Strengths

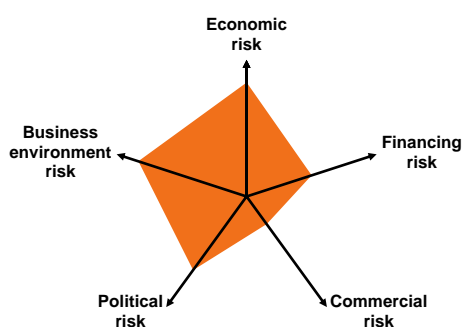
- The political system is relatively stable, with a recent track record of multi-party elections and peaceful transfers of power.
- The ruling party appears committed to market reforms.
- Strong GDP growth based on several mega-projects, which utilise the country's significant natural resources (including 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, petroleum products and related materials
Coal, coke and briquettes	12% 2	6% Road vehicles
Petroleum, petroleum products and related materials	11% 3	6% Specialised machinery
Gas, natural and manufactured	7% 4	6% Cereals and cereal preparations

Source: UNCTAD

## Economic Overview

### Political overview

The Frente de Libertação de Moçambique (Frelimo) has dominated the political environment for over 30 years, although a former rebel group, (Renamo), now provides a parliamentary opposition. Frelimo has won all multi-party elections (including the latest in October 2014) since the end in 1992 of a protracted and debilitating civil war. In concurrent presidential elections, Filipe Nyusi was elected as head of state, with the then incumbent Armando Guebuza standing down after completing his maximum allowable term under the constitution. Key policies include attempts to improve transparency in political, judicial and police administrations, as well as poverty alleviation. Regional relations focus on close links with neighbouring South Africa. Maputo is a significant port of entry and of export for the industrial hinterland around Johannesburg and South Africa has therefore a keen interest in maintaining a stable Mozambique.

### Economic overview

Despite significant overall economic progress since 1992, Mozambique remains very poor (per capita incomes have risen but remain around USD640) and the country is classified as 'low income' by the World Bank. In addition, like most countries in Southern Africa, there is a high incidence of HIV/AIDS, which puts a strain on government finances and incurs large social costs, as well as limiting the size of the effective workforce. Accordingly, Mozambique remains poor, affected by health and social problems and is aid dependent. Nevertheless, given continuation of sound economic policies, international support is highly likely in the foreseeable future. The country is prone to periodic natural disasters (including flooding and drought) and the long and debilitating civil war destroyed much infrastructure and caused significant human suffering. An economic reform agenda that eschews the previous Marxist doctrine in favour of market competition has combined with exploitation of natural resources—coal, aluminium and natural gas—to boost growth and income generation. Overall, Mozambique represents a currently dynamic high-growth market.

### Although dipping, GDP growth will remain relatively high

Annual average GDP growth in the ten-year period to end-2014 was +7.4%, with Mozambique one of the African economies consistently expanding at a rate markedly above the regional average (see chart). This rapid growth derived from recovery from a particularly debilitating and protracted civil war but also 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.

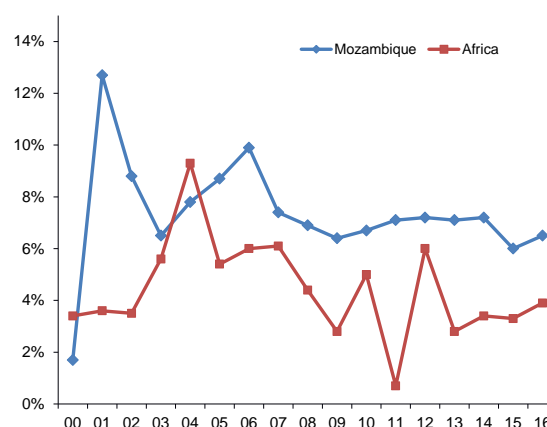
EH expects GDP growth in 2015, at +6%, will be below the recent trend, reflecting weak external demand, depressed commodity prices and general negative sentiment against emerging economies. Only a moderate rebound to +6.5% is expected in 2016. However, subject to satisfactory climatic conditions and political stability, economic expansion has the potential to remain high for several years beyond that time horizon.

### Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	7.2	6.0	6.5	6.5
Inflation (% end-year)	1.9	4.1	9.0	6.0
Fiscal balance (% of GDP)	-10.1	-8.2	-6.5	-6.0
Public debt (% of GDP)	57.5	59.0	58.0	57.0
Current account (% of GDP)	-32.6	-39.2	-41.0	-38.5
External debt (% of GDP)	47.7	56.8	58.0	55.5

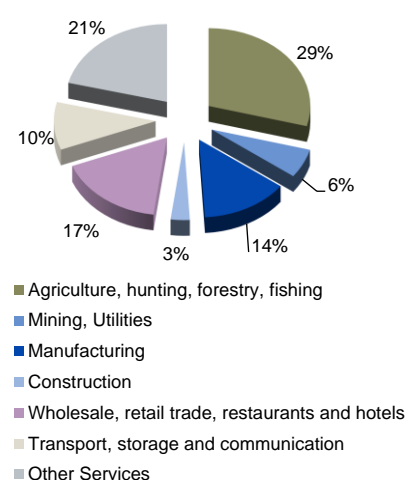
Sources: National sources, IHS, Euler Hermes

### GDP growth (%)



Sources: National sources, IHS, Euler Hermes

### GDP Distribution



Sources: UNCTAD, Euler Hermes

## Large external deficits because of inflows of capital goods to boost economic industrialisation

The current account registers (very) large annual deficits, which averaged -14.1% of GDP in 2000-08 but have since increased. Indeed, recent deficits have been in excess of -30% 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 in 2015 will be around -41% of GDP and moderate only to -38.5% in 2016.

## External debt is again increasing but servicing commitments are manageable

Mozambique was granted considerable external debt relief through the auspices of the HIPC and MDRI initiatives. However, external debt levels have again increased, partly reflecting the programme of industrialisation. Debt/GDP is currently over 50% and debt/export earnings over 125% and ratios of this magnitude require careful management. However, annual external debt servicing (repayments/foreign exchange earnings) is currently a relatively comfortable 2.3%.

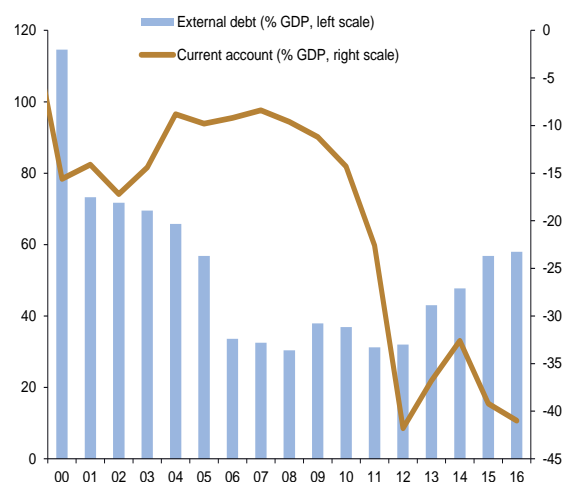
## IMF assessment

The IMF suggests that the macro-economic outlook remains favourable and the Policy Support Instrument-supported programme is broadly on track. However, the Fund notes that, while medium-term prospects remain positive, short-term challenges have become "more complex". Indeed, in October 2015 a staff-level agreement was reached on an 18-month economic framework that could be supported by a Stand-by Credit Facility (SCF). The Fund indicates that growth is expected to be sustained in the medium term by the natural resource boom and infrastructural investment.

## A relatively weak business environment

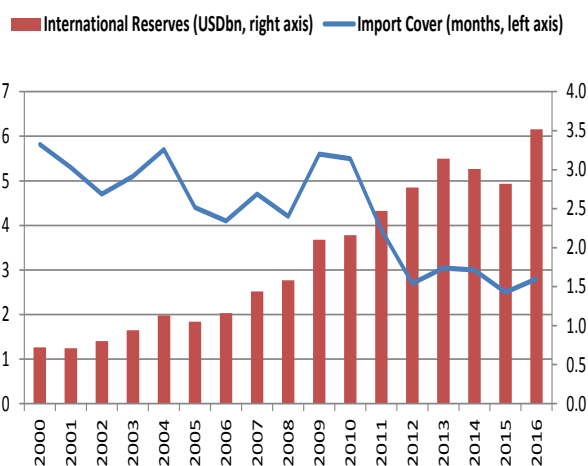
The business environment is weak. The Heritage Foundation's Index of Economic Freedom (IEF) indicates that the private sector's development is limited by extensive state controls and institutional shortcomings and that economic freedoms are fragile and uneven. The 2015 IEF ranks Mozambique 125 out of 178 countries, below Kenya and Egypt but above Malawi and India. The World Bank's Doing Business 2016 report ranks Mozambique 133 out of 189 economies for the overall ease of doing business, below Cambodia, India and Egypt but above Pakistan and Tanzania.

## Current Account Balance and External Debt (% of GDP)



Sources: National Sources, IHS, Euler Hermes

## International Reserves and Import Cover



Sources: National Sources, IHS, Euler Hermes

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