

## Many challenges ahead

### General Information



<b>GDP</b>	USD11.02bn (World Ranking 127, World Bank 2016)
<b>Population</b>	29 Million (World Ranking 47, World Bank 2016)
<b>Form of state</b>	Republic
<b>Head of government</b>	Filipe NYUSI
<b>Next elections</b>	2019, presidential elections



### Strengths

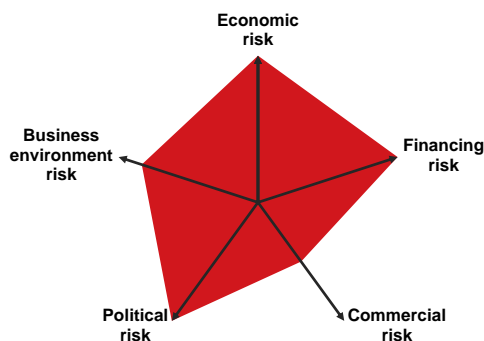
- Strong net Foreign Direct Investment (FDI) in recent years
- Immense natural gas reserves, and substantial oil reserves
- Rapidly urbanizing population offers growth and consumer potential

### Weaknesses

- Sovereign debt crisis
- 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
Netherlands	18% 1	32% South Africa
South Africa	15% 2	14% China
India	12% 3	8% India
China	7% 4	4% Netherlands
Italy	6% 5	4% United Arab Emirates

By product (% of total)

Exports	Rank	Imports
Non-ferrous metals	28% 1	14% Petroleum, petroleum products and related materials
Coal, coke and briquettes	16% 2	5% Road vehicles
Tobacco and tobacco manufactures	6% 3	5% Cereals and cereal preparations
Non metallic mineral manufactures, n.e.s.	6% 4	5% Iron and steel
Vegetables and fruits	6% 5	4% Metalliferous ores and metal scrap

Source: UNCTAD (2016)

## Economic Overview

### Subdued growth and two-digit inflation

While the country saw a +7.2% average growth over the 2000-2016 period, it experienced a loss of momentum as growth declined to +3.8% in 2016 due to the sovereign debt crisis. EH expects Mozambique's economic activity to grow at a faster pace of +4.5% in 2017, driven by higher coal production and prices. However this is not meant to last since we only expect a 3% growth in 2018 that is below Africa's growth.

Inflation's yearly average skyrocketed in 2016 to 19.2%. This was caused by sharp metical depreciation combined with poor harvests following the drought. It is, however, expected to decline to 16% in 2017 and 10.5% in 2018 thanks to the monetary policy tightening since late 2016.

### Debt and public deficit to be addressed

From a public finance standing point, the fiscal deficit narrowed to -5.7% of GDP in 2016 thanks to the removal of wheat and fuel subsidies. Yet it is expected to widen to -9% in 2017 and -8% of GDP in 2018. Reasons include poor tax collection, high debt servicing, and larger wage and salaries spending.

Mozambique's current account deficit narrowed to -38.2 percent of GDP in 2016, due to lower imports and higher coal exports – leading to improved foreign exchange reserves which now cover four months of imports. EH expects the former to narrow to -27% of GDP in 2017 and reach -30% in 2018.

Revelations regarding hidden debt pushed public debt to 115% of GDP in 2016. External debt skyrocketed as well, reaching 100% of GDP, made worse by a 33% exchange rate depreciation in 2016. In January 2017, Mozambique announced a default on a coupon payment for its 2023 dollar-denominated Eurobond. EH expects external debt to increase to 102% of GDP in 2017 and 103% of GDP in 2018. On a y/y basis, the metical gained 22% against the US dollar. A strengthening of the local currency, supported by a restrictive monetary policy should contain external debt in the medium term. 2016 was with no doubt a year of rupture in Mozambique's economy, but also of creditor's confidence. A bailout program with the IMF will only be possible if the country manages to restore trust.

### Business environment to be improved

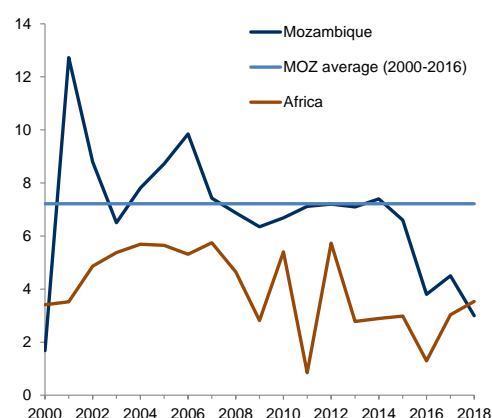
Despite some reforms, Mozambique is weakened by a poor business environment. In the World Bank Doing Business 2018 survey, Mozambique ranks 138 out of 190 countries. Further reforms are thus necessary to increase the country's attractiveness over the long-run.

### Key economic forecasts

	2015	2016	2017f	2018f
GDP Growth (% change)	6.6	3.8	4.5	3
Inflation (% , yearly average)	2.4	19.2	16	10.5
Fiscal Balance (% of GDP)	-7.2	-5.7	-9	-8
Public Debt (% of GDP)	90	115	100	90
Current Account (% of GDP)	-40.3	-38.2	-27	-30
External Debt (% of GDP)	70	100	102	103

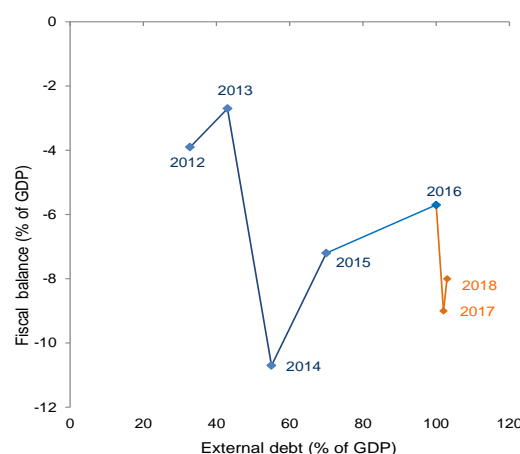
Sources: National statistics, IHS, Euler Hermes

### GDP Growth



Sources: National statistics, IHS, Euler Hermes

### Fiscal balance vs. External Debt (%GDP)



Sources: National statistics, IHS, Euler Hermes

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