



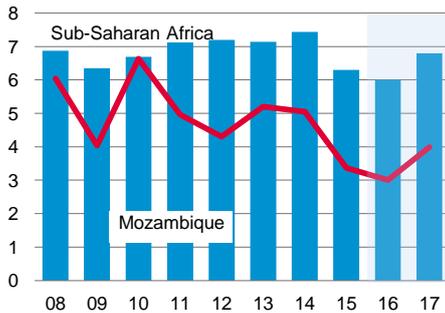
Mozambique

Frontier country report | April 29, 2016

Growth prospects remain robust

1

Real GDP growth, % yoy

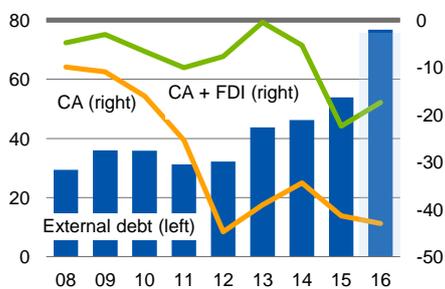


Sources: IMF, Deutsche Bank Research

Rising external debt, large current account deficit

2

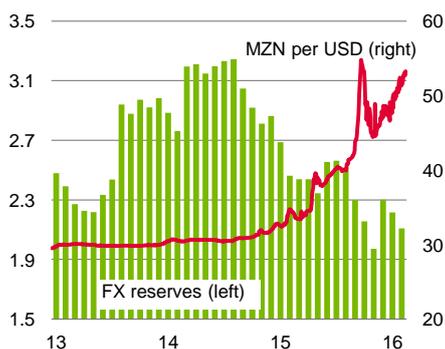
% of GDP



Sources: EIU, IFS, World Bank, Deutsche Bank Research

Weak metical, low FX reserves

3



Source: IHS Global GmbH, Deutsche Bank Research

Robust growth and large FDI inflows

We expect growth to remain robust in Mozambique (6% in 2016), although depressed by reduced government spending and the impact of El Niño, with drought and flooding affecting agricultural production. Development continues in the coal and gas sectors, although it is slowed down by the commodity slump and tight financing conditions. We expect FDI inflows to remain high, only slightly lower than the average of 30% of GDP recorded over the past five years. Mozambique has the potential to become a top exporter of LNG in a few years.

Weak external accounts

Mozambique continues to experience very large current account deficits (over 40% expected in 2016, 18% when factoring in FDI). This partly reflects large imports of capital goods for megaprojects in the resources and transport sector. Moreover, prices are low for aluminium and coal, Mozambique's main exports, with respective export shares of 26% and 11% in 2015. External debt has risen rapidly over the past years and is set to exceed 70% of GDP in 2016, after including the amount in excess of USD 1 bn (8% of GDP) recently disclosed to the IMF. The metical lost 30% to the USD in 2015 and 15% year-to-date. It is likely to weaken further given the wide current account deficit. Rising steadily since mid-2015, inflation has been in double digits since December. The central bank has hiked the policy rate 5 times since October, to 12.75% currently. FX reserves have fallen by 1/3 over the past 18 months and cover only around 3 months of imports at the moment.

Rising public debt and reduced investor confidence

Public debt has been growing and we expect it to exceed 80% of GDP in 2016. The recent rise has been largely driven by currency depreciation, since around 60% of public debt is denominated in foreign currency. The fiscal deficit is expected to come down in 2016 (to 4% of GDP) as a result of spending cuts – on public investment, wage bill and utility subsidies – and rising revenue from the coal industry. Foreign aid amounts to one-third of government revenues. The recent disclosure to the IMF of previously unknown debt has resulted in dented investor confidence and funding suspension from the IMF (affecting the second tranche of a USD 283 m emergency loan approved last December) and from the World Bank (for direct financial aid). Discussions are taking place between the Fund and Mozambique's government to tackle the issue and restore the relationship, which is crucial given the country's high financing requirements and the rising cost of commercial borrowing. A few weeks ago the government carried out a debt exchange of the controversial EMATUM bond (used to finance naval security rather than fishing operations as initially intended) against sovereign bonds maturing in 2023, which was largely endorsed by investors and will be easing debt servicing.

Relative political stability

The ruling Frelimo party continues to dominate the political landscape. Elected state president in October 2014 and Frelimo's president in March 2015, Felipe Nyussi maintains an open dialogue with the historical opposition party Renamo, who have been asking for more decentralisation of political power. However, tensions between the two parties are likely to continue.

Low economic development and poor business climate

GDP per capita is very low (USD 450 in 2015) and Mozambique ranks 180 out of 188 in the UN Human Development Report. Governance indicators are also weak and the country scores 133 out of 189 in the World Bank's Doing Business survey.



Mozambique

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