

Mozambique  
Setting the macroeconomic scene  
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- **Overview and predictions:** Historic vs future GDP projections
- **Economic pressure points:** Fiscal deficit, public debt & the IMF analysis
- **GDP growth drivers:** Reviewing the performance and outlook of key sectors such as Oil & Gas, Mining & Tourism
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# GDP growth will likely remain below potential until expected first full year of LNG exports targeted for 2023

*Mozambique has been severely hit by the 2016 sovereign debt saga and balance of payments shock*

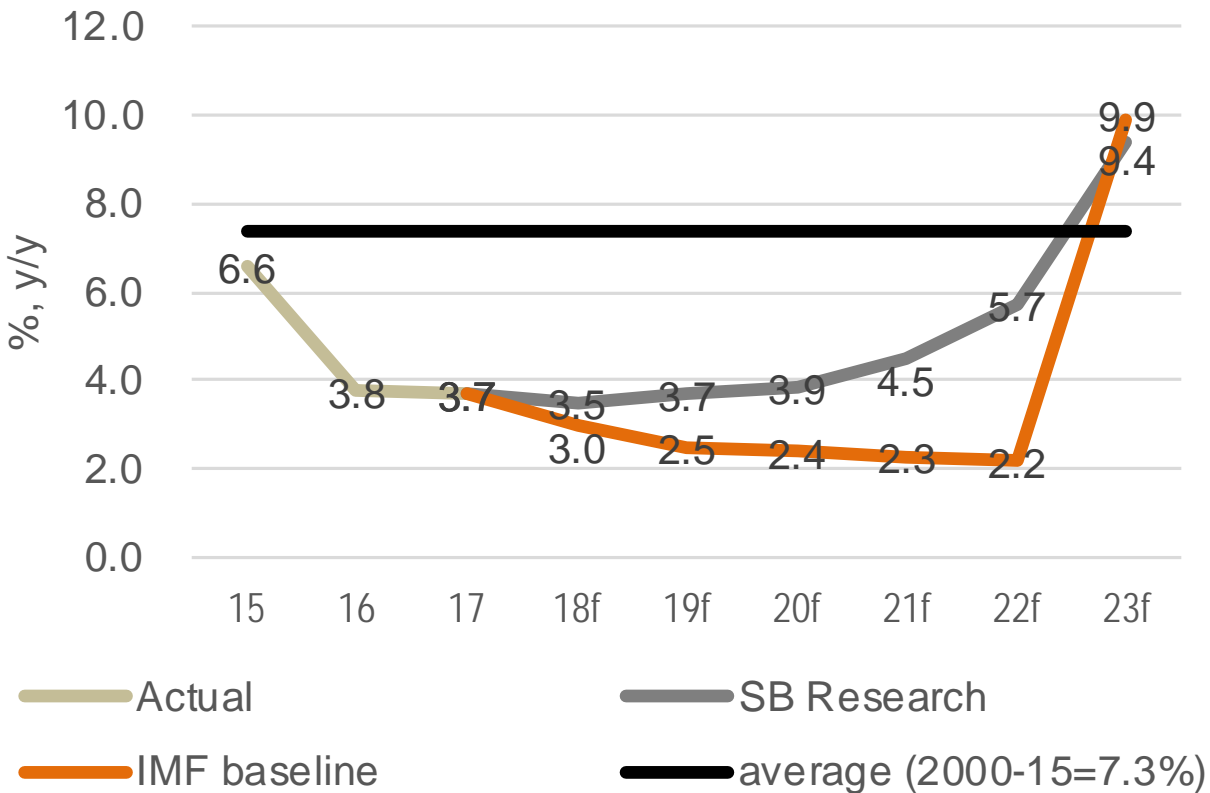
*The therapy to restore macroeconomic stability involved the adoption of monetary tightening and some degree of fiscal consolidation*

*This caused economic activity to decelerate to historic lows*

*We expect GDP growth to recover slowly, linked to prospects of natural gas final investment decisions targeted for next year*

*Growth quality is expected to come short of development needs with limited job creation*

### Real GDP Growth



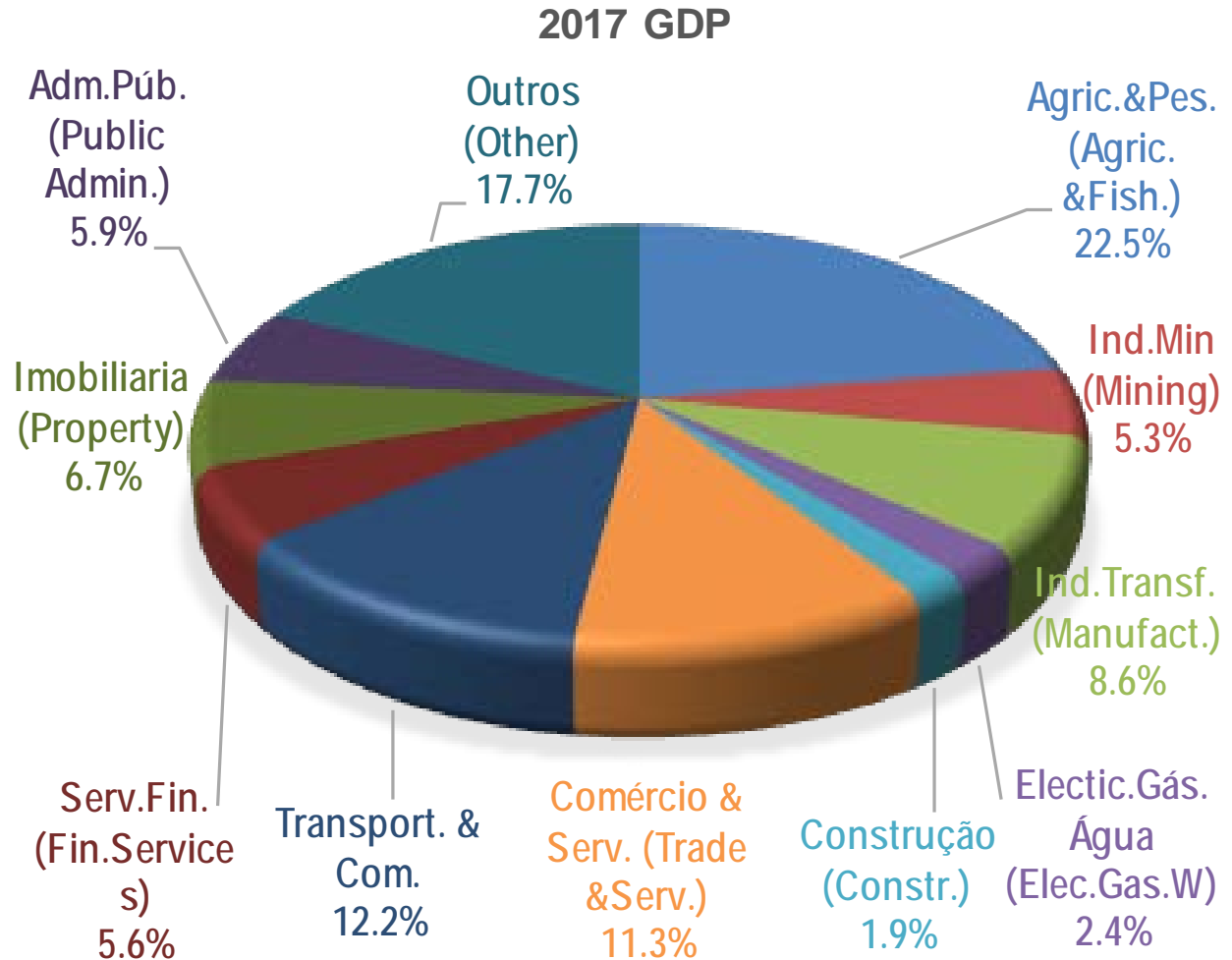
Source: INE; IMF; Standard Bank Research

# From a broad based track record, growth is increasingly driven by the resources sector with limited spill over effects to the rest of the economy

Mozambique has a relatively diversified economy with nearly 1/3 of GDP from primary activities, 13% from industry, with services accounting with more than 50%

Growth in 2017 was skewed towards the primary sector. Agriculture, which occupies more than 70% of the population, grew 4.6% y/y contributing with 1pp to GDP, mining grew 32.4% y/y adding 1.3pp to GDP on the back of a 100% increase in coal output. Industry recorded a recession subtracting 0.5pp to GDP with services adding 1.8pp.

Q1:18 data shows that GDP growth eased further to 3.2% y/y



Source: INE; Standard Bank Research

## GDP growth has been mostly driven by foreign direct investment (FDI) in resources

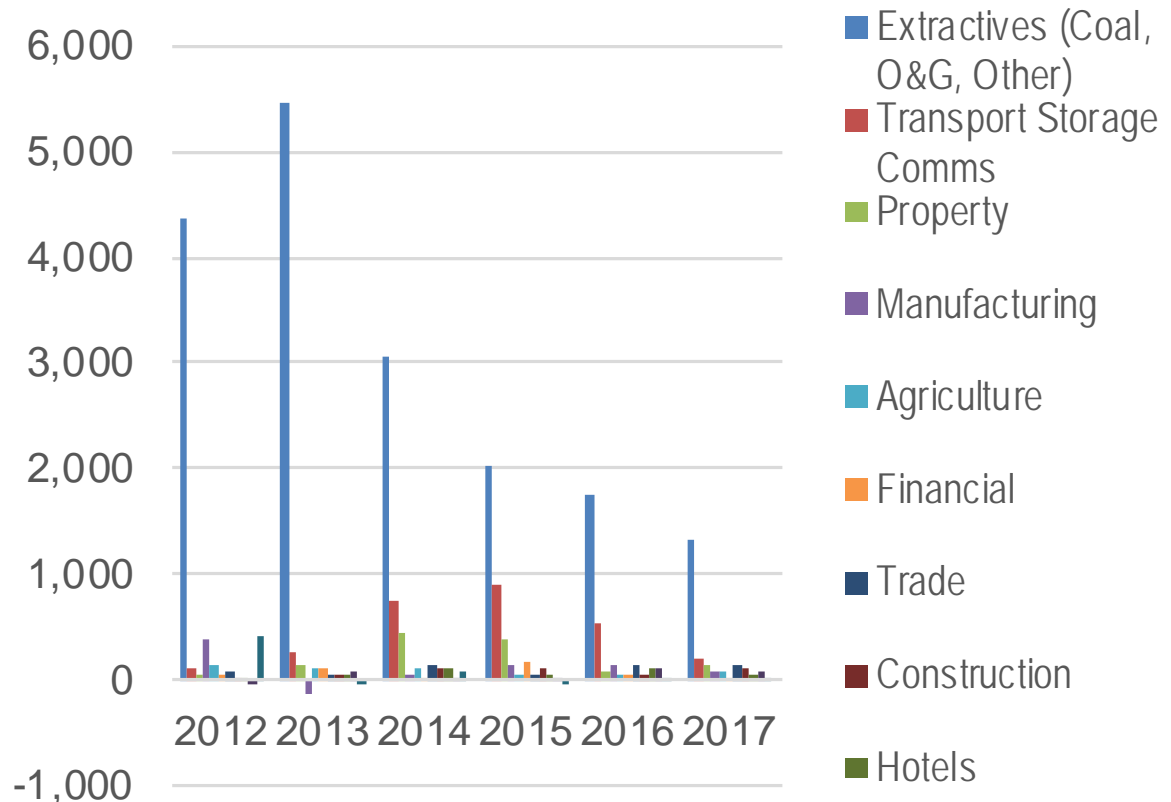
*The sharp contraction in FDI, from a peak of USD6.2bn in 2013 to a low of USD2.3bn in 2017 caused GDP to decelerate*

*Between 2012 and 2017 Mozambique received net FDI inflows of USD26bn:*

- *Extractives: 69.2%*
- *Transport: 10.6%*
- *Property: 4.8%*
- *Manufacturing: 2.5%*
- *Agriculture: 2.3%*
- *Trade: 2.3%*
- *Financial: 1.8%*

*Going forward Rovuma Basin natural gas is expected to drive FDI inflows with final investment decisions expected for 2019 worth over USD55bn*

Foreign direct investment, net (USD m)



Source: BOM; Standard Bank Research

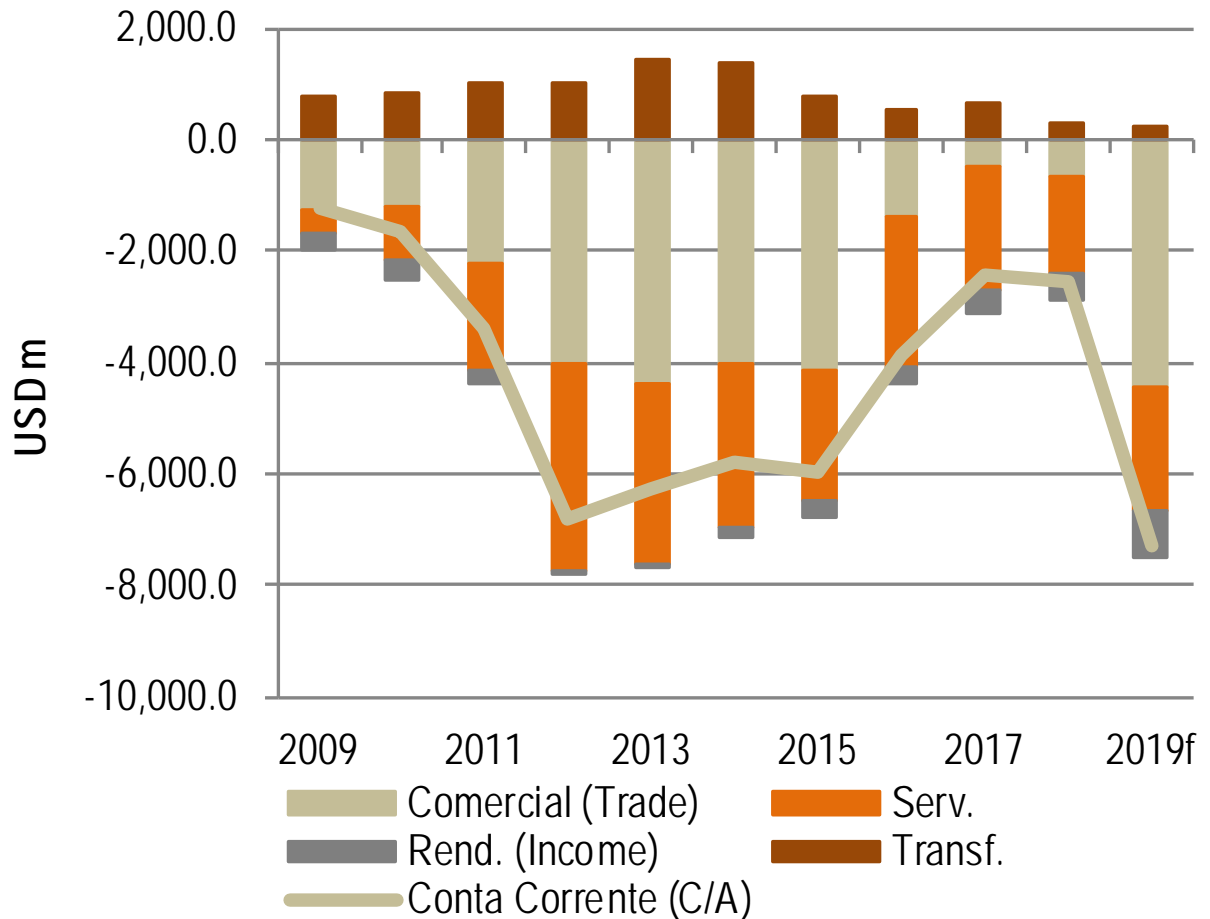
*Any delay in LNG FDI has the potential of exposing BOP vulnerabilities*

*Tight monetary policy and Metical depreciation caused goods imports to decline by 37.5% y/y in 2016, easing the C/A deficit from USD6bn in 2015 to USD3.9bn in 2016*

*Better coal prices and 100% increase in coal output caused overall goods exports to increase by 41.8% in 2017 easing further the C/A deficit to USD2.4bn, helping the Metical to stabilize at current level around USD/MZN60 from a peak near USD/MZN80 in 2016*

*BOM gross FX reserves closed Apr at USD3.3bn (7.2 months of import cover excluding large projects)*

### Current account developments



Source: BOM; Standard Bank Research

# Mozambican economy is becoming increasingly exposed to commodity prices

*Structural reforms are required to help improve business environment and maintain economic diversification*

*Which are critical to reduce dependency on resources*

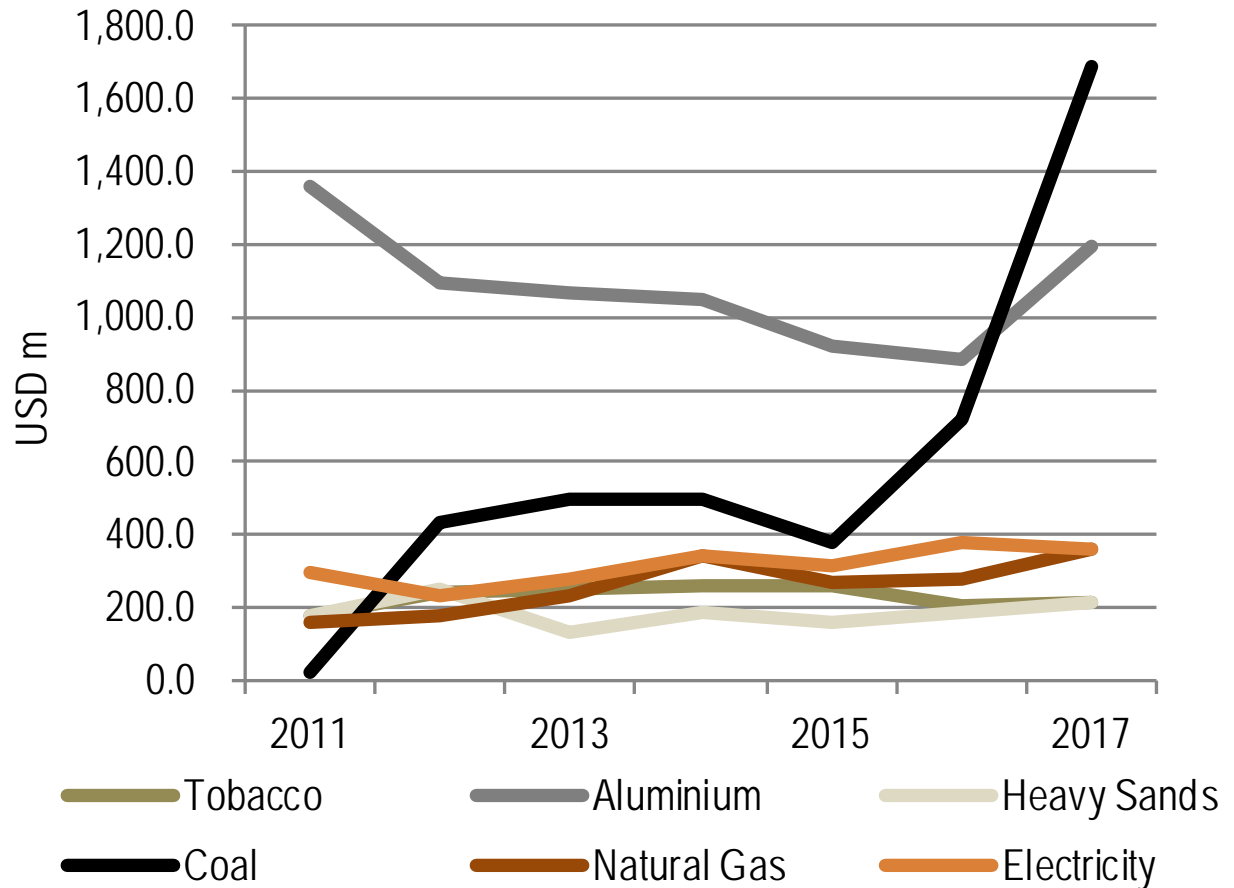
*Government elected a few sectors including:*

- *Agriculture and agro-processing*
- *Tourism*
- *Infrastructure*

*...but muddling trough seems prevailing...*

*with LNG FDI expected to help restore economic growth*

### Principal exports



Source: BOM; Standard Bank Research

# Tight monetary policy helped to fight inflation and stabilize the Metical, but caused aggregate demand to collapse

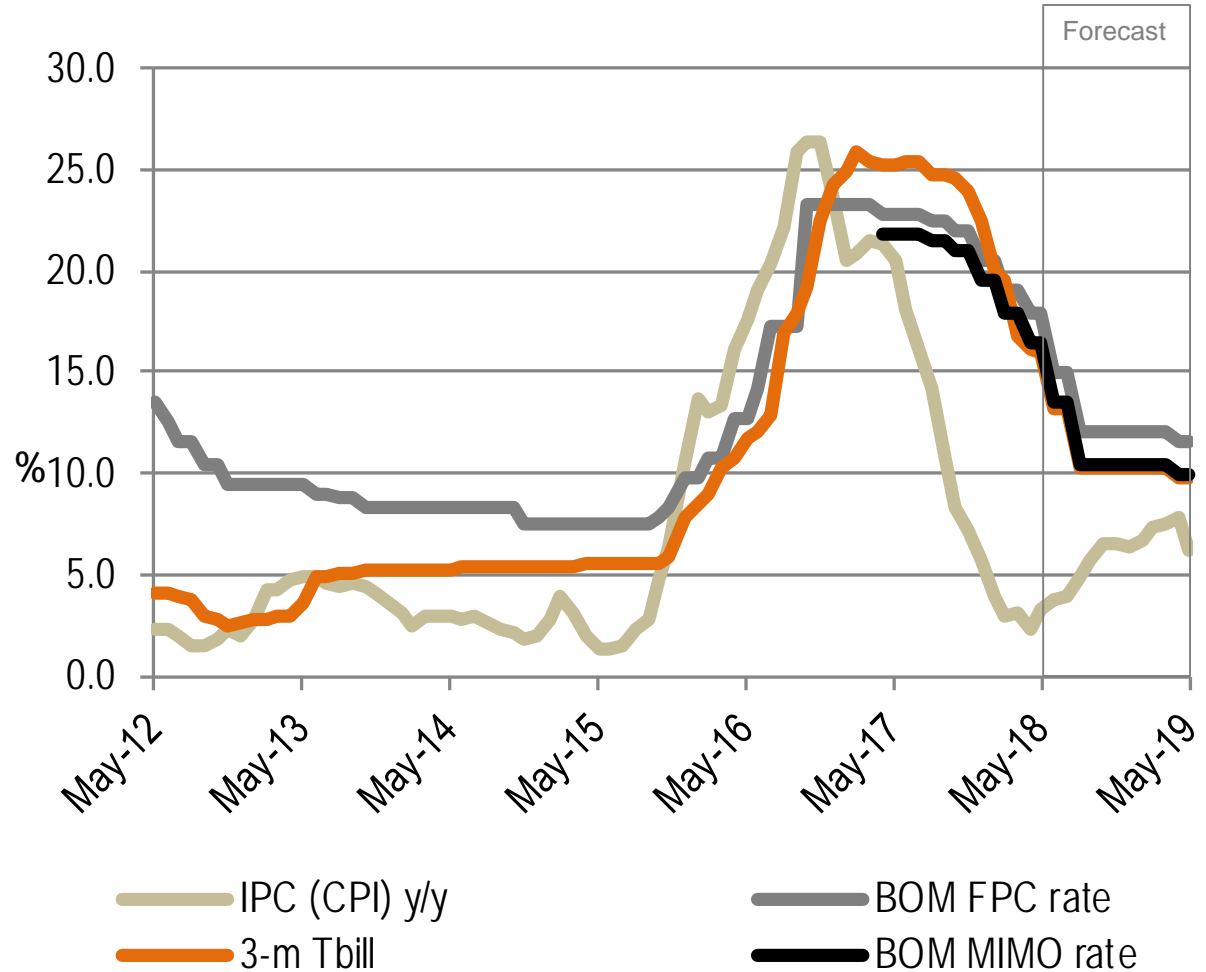
*Tight monetary policy played a critical role to help address external shocks and fight inflation*

*Metical relative stability, combined with subdued aggregate demand and better food supply from agriculture helped to bring down inflation to 3.3% y/y in May-18 from a peak of 26.4% y/y in Nov-16*

*Subdued aggregate demand also helped to ease the impact on inflation of the increases of administered prices including fuels, electricity, transport tariffs*

*We expect BOM to cut interest rates more aggressively this year*

### Inflation and interest rates



Source: BOM; Standard Bank Research



## Fiscal consolidation is required to help sustain the recovery

*Limited progress on fiscal consolidation forced BOM to ease monetary policy more prudently*

*...crowding out the private sector credit*

*Subsidy reform marked the “acceptance of a new reality”*

*Change in the management of some SOEs is bearing fruits*

*The IMF debt sustainability analysis (DSA) shows that external public and publically guaranteed (PPG) debt is unsustainably high with potential to reach 146% of GDP by 2022 from 122% currently*

### Central government budget

	2013	2014	2015	2016	2017	2018b
Total revenue	26.2	29.4	26.3	24.2	27.1	22.5
Total expenditure	37.0	41.8	31.4	29.8	28.3	28.1
- Interest	0.8	1.0	1.3	2.4	2.3	3.3
- Wages	10.3	11.3	10.9	11.3	10.8	9.3
- Capital expenditure	15.0	16.4	10.8	7.3	6.3	8.2
Net lending	2.2	3.1	0.6	2.0	3.3	1.4
Overall balance (- grants)	-10.8	-12.4	-5.0	-5.6	-1.2	-5.6
Overall balance (+ grants)	-4.6	-7.8	-1.9	-3.4	0.3	-3.9
Net external borrowing	5.5	8.9	-3.1	3.7	4.5	3.0
Net domestic borrowing	0.4	0.7	0.2	0.7	1.4	0.9
Changes in balances	-1.4	-1.8	4.7	-0.9	-6.2	0.0
Donor support (grants)	6.3	4.5	3.2	2.2	1.5	1.8

Source: IMF; MEF; Standard Bank Research

## Fiscal consolidation is required to help sustain the recovery

*Limited progress on fiscal consolidation forced BOM to ease monetary policy more prudently*

*...crowding out the private sector credit*

*Subsidy reform marked the “acceptance of a new reality”. Change in the management of some SOEs is bearing fruits*

*Revenue collection improved during 2017 benefiting the once-off capital gain tax on the ENI/Exxon-Mobil transaction*

*With municipality elections in Oct this year and legislative and presidential elections Oct next year, limited fiscal adjustment is expected*

### Central government budget

	2013	2014	2015	2016	2017	2018b
Total revenue	26.2	29.4	26.3	24.2	27.1	22.5
Total expenditure	37.0	41.8	31.4	29.8	28.3	28.1
- Interest	0.8	1.0	1.3	2.4	2.3	3.3
- Wages	10.3	11.3	10.9	11.3	10.8	9.3
- Capital expenditure	15.0	16.4	10.8	7.3	6.3	8.2
Net lending	2.2	3.1	0.6	2.0	3.3	1.4
Overall balance (- grants)	-10.8	-12.4	-5.0	-5.6	-1.2	-5.6
Overall balance (+ grants)	-4.6	-7.8	-1.9	-3.4	0.3	-3.9
Net external borrowing	5.5	8.9	-3.1	3.7	4.5	3.0
Net domestic borrowing	0.4	0.7	0.2	0.7	1.4	0.9
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Source: IMF; MEF; Standard Bank Research

## Without an IMF program we don't expect material progress on debt restructuring

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*With the low-hanging fruit of capital expenditure cuts being done, it remains to be seen how much recurrent expenditure can be cut*

*The build up in arrears on the supply of goods and services and VAT reimbursement is hurting the private sector*

*External creditors of the Eurobond and the previous hidden loans are also not being paid*

*The IMF debt sustainability analysis (DSA) shows that external public and publically guaranteed (PPG) debt is unsustainably high with potential to reach 146% of GDP by 2022 from 122% currently*

### Own estimates of government debt

		2013	2014	2015	2016	2017e	2018f
Domestic	<b>MZN bn</b>	<b>29.9</b>	<b>34.6</b>	<b>69.2</b>	<b>169.5</b>	<b>214.1</b>	<b>222.6</b>
	% PIB	6.2	6.5	11.7	24.7	27.1	24.8
External	<b>USD bn</b>	<b>7.6</b>	<b>9.4</b>	<b>11.3</b>	<b>11.5</b>	<b>10.2</b>	<b>12.2</b>
	% PIB	46.9	54.5	74.2	106.3	81.3	82.0
Total	<b>% PIB</b>	<b>53.1</b>	<b>61.0</b>	<b>85.9</b>	<b>130.9</b>	<b>108.4</b>	<b>106.8</b>
	USD bn	8.6	10.5	12.8	13.9	13.8	16.0

Source: IMF; MEF; Standard Bank Research

## Peace has been a major achievement but remains “work in progress”

- *After a prolonged period of military tension, a relatively peaceful environment has returned to Mozambique since the Dec 16 truce, which has been extended for an indefinite period*
- *The recent approval of a change in Constitution Law to allow for increased decentralization goes a long way in building up confidence for sustaining peace*
- *We also expect progress on negotiations around demilitarization of Renamo residual forces and integration*
- *The episodes of terrorism reported in Cabo Delgado province since Oct-2017 requires deeper analysis*
- *If information gaps on the Kroll report and accountability issues are addressed in a satisfactory manner, we could see uncertainty giving space to a build-up in confidence*

### Last election results

<b>Presidential election (2014)</b>	Party	% of votes
Filipe Nyusi	Frelimo	57.0
Afonso Dhlakama	Renamo	36.6
Daviz Simango	MDM	6.4
<b>Parliamentary election (2014)</b>	Seats	% of seats
Frelimo	144	57.6
Renamo	89	35.6
MDM	17	6.8
Total	250	100.0

Source: National Electoral Commission (CNE)

## Appendix: selected annual indicators and forward looking

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018f	2019f
<b>Output</b>											
Population (million)	21.8	22.4	23.0	23.7	24.4	25.0	25.7	26.4	28.9	29.6	30.4
Nominal GDP (MZN bn)	300.3	344.8	381.7	433.1	482.2	531.8	591.7	687.1	789.3	897.2	990.3
Nominal GDP (USD bn)	11.2	10.4	13.2	15.3	16.1	17.3	15.2	10.8	12.5	14.9	17.7
GDP / capita (USD)	516	463	574	645	661	691	592	410	433	503	580
Real GDP growth (%)	6.4	6.7	7.1	7.2	7.1	7.4	6.6	3.8	3.7	3.5	3.7
Coal production (MTPA)	0.0	0.0	0.6	5.0	5.9	6.3	6.6	6.1	11.1	15.3	18.1
<b>Balance Of Payments</b>											
Exports of g&serv. (USD bn)	2.9	2.6	3.5	4.6	4.8	4.6	4.1	3.8	5.4	5.8	6.0
Imports of g&serv. (USD bn)	4.5	4.7	7.6	12.4	12.4	11.6	10.6	7.9	8.1	8.2	12.7
Current account (USD bn)	-1.2	-1.7	-3.4	-6.8	-6.3	-5.8	-6.0	-3.8	-2.4	-2.6	-7.3
- % of GDP	-10.9	-16.2	-25.6	-44.4	-38.8	-33.5	-39.2	-35.5	-19.5	-17.3	-41.3
Capital & Financial acc.(USD	1.3	1.6	3.3	6.8	6.2	5.8	5.9	3.9	2.5	2.6	7.3
- FDI (USD bn)	0.9	1.0	3.6	5.6	6.2	4.9	3.9	3.1	2.3	1.5	6.0
FX reserves (USD bn) pe	2.0	2.1	2.4	2.8	3.2	3.1	2.5	2.0	3.3	3.6	3.9
- Import cover (months) pe	5.4	5.4	3.3	2.7	3.1	3.2	2.8	3.0	4.9	5.3	3.7
<b>Monetary &amp; Financial Indicators</b>											
Consumer inflation (%) pa	3.8	12.4	11.2	2.6	4.3	2.6	3.6	19.9	15.1	4.3	7.3
Consumer inflation (%) pe	3.8	17.4	6.1	2.0	3.5	1.9	10.6	23.7	5.6	6.4	7.3
BOM main policy rate (%) pa		14.1	16.2	12.2	9.0	8.1	7.8	16.0	21.3	14.0	9.8
BOM main policy rate (%) pe	11.5	15.5	15.0	9.5	8.3	7.5	9.8	23.3	19.5	10.5	9.5
3-m rate (%) pe	9.5	14.8	11.6	2.6	5.2	5.4	7.8	24.3	22.5	10.2	9.2
1-y rate (%) pe	11.0	15.5	12.2	3.7	7.2	7.3	7.6	28.8	23.8	10.4	9.4
USD/MZN pa	26.7	33.2	28.8	28.3	29.9	30.8	38.9	63.4	63.2	60.1	56.1
USD/MZN pe	27.5	32.8	27.1	29.5	30.0	31.6	45.0	71.2	59.0	59.3	55.2

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