

# Mozambique

July 2013

## THE NATURAL RESOURCES ERA

- ⚡ In 2012, the economy has grown 7.4%, with a diversified contribute of various sectors, figuring one of the highest growth rates worldwide. Previous years have been particularly positive for Mozambique; the country has been surpassing the growth of the Sub-Saharan area and has approximated China's growth rates. However, the rapid growth is still boosted mainly by a very narrow base, given that Mozambique is still one of the poorest countries in the world.
- ⚡ Human development indexes and gender equality in Mozambique are still among the lowest worldwide. Government authorities have been applying considerable efforts to improve the main indexes of human and social development, giving special focus to reducing rates of maternal and infant mortality and increasing enrollment rates. These efforts have, nevertheless, revealed as insufficient to higher the level of Mozambique's development.
- ⚡ The ability to attract foreign investment and natural resources exploration have been determinant to boost the economy's growth. Despite the fact that agriculture still maintains a heavy contribute to GDP, recent discoveries of wide coal and natural gas reserves have served as the main attraction for wide investment projects and turned possible an extraordinary economic development of the extractive industry. Despite that, the potential for exploration of coal mines is still very limited by transportation constraints.
- ⚡ Growth forecasts are very favorable, predicting a fast expansion trajectory. Official projections point to an 8.4% growth in the current year, which should be very influenced by increases in extractive industry production, due to a rising exploration of natural resources and an expansion of financial activities. Nevertheless, heavy floods have been significantly affecting the country during the first months of the year and may compromise more optimistic predictions. The rise of uncertainty in commodities markets and a slow economic recovery of developed countries may also put in jeopardy the economy's performance.
- ⚡ There is still an expansionist fiscal policy, as the Government maintains its efforts on the construction of basic facilities and on increasing social benefits to the population, in an attempt to stimulate economic growth. On its end, monetary policy should remain constrained by the recent rise of prices and short-term inflation risks. Should these risks come to life, further cuts on the reference interest are unlikely.
- ⚡ Update: the International Monetary Fund has just lowered its growth projections for the economy in 2013 to 7.0%, from 8.4%, reflecting the devastating effects of the floods during the beginning of the year. Nonetheless, growth for 2014 was revised upwards to 8.5% (from 8.0%) against the background of more favorable prospects for the mining sector. The new report of the IMF also presents a study to assess the impact of megaprojects on growth and fiscal revenue. According to those estimates, coal and gas production could add 2 percentage points to annual growth in the next decade and fiscal revenues from the sector may reach a quarter of total fiscal revenues.

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Mozambique Island

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**HIGH REAL GROWTH BOOSTED BY AN EXPANSION ON MINING PRODUCTION**

In 2012, Mozambique was one of the highest growing economies. Internal production rose by 7.4% (in volume), sustained by an acceleration of 8.3% y/y in the last quarter (2.3% q/q seasonally adjusted). Therefore, the country remains among the group of countries with the highest real growth rates in the last years, surpassing largely the Sub-Saharan region that had a growth rate of 4.8% last year. The ability to attract foreign investment and strong efforts to explore natural resources have made large contributions to boost growth potential. Official IMF estimates indicate that Mozambique shall be among the 15 economies with highest real growth until 2018. However, the rapid growth is still boosted mainly by a very narrow base, given that Mozambique is still one of the poorest countries in Sub-Saharan Africa.

During last year, economic growth was widely diversified, with a strong contribution of various sectors. In particular the following:

- **Extractive Industry production** rose by 40.8% in volume, giving a strong contribution to Gross Value Added (GVA) of 0.8 percentage points (p.p.). The sector's performance is strongly related to the fast development of coal production in Moatize and Benga, but is also a reflection of the increase in production of several minerals, such as Tantalite and Zircon. Nevertheless, this sector is only responsible for 1.7% of total internal production.

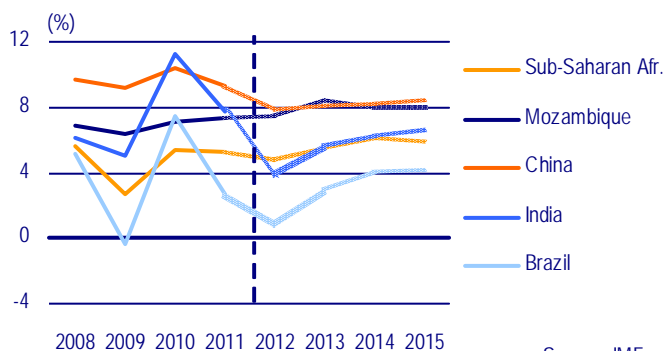
- The agricultural, animal production, **hunting and forestry sector** contributed with 2.0 p.p. to the growth of GVA. In 2012, the agricultural production was responsible for 23.4% of total production, increasing 7.1%.

- **Production in transportation and communication sectors**, corresponding to 12.3% of GDP, increased by 10.4% and contributed to the rising of GVA with 1.4 p.p. The introduction of a third mobile operator and the increment in total investment contributed significantly to the performance. Part of the investments has been applied in the modernization of the transportation network and infrastructures.

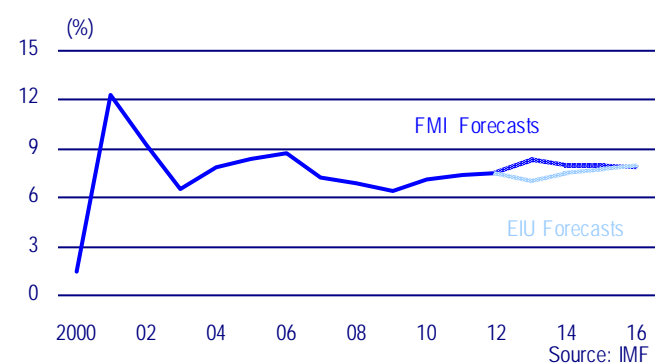
- The **manufacturing industry** was responsible for 1.1 p.p. in the growth of GVA, registering an expansion of 13.4%. It was the third heaviest sector in this economy, weighed approximately 12% of GDP. The performance of this sector benefited from production of food and beverages industry, the start of a new cement plant and the rise of production capacity in cement plants in Matola and Beira.

In the coming years, the economy should maintain high real growth rates. The government, on its Economic and Social Plan for 2013, predicts a GDP expansion of 8.4%, to which there should be large contributions made by the increase in production of the extractive industry due to increasing exploration of natural resources (the extraction of coking coal, that is estimated to be fixed in 5 million tons in 2012, should grow 20% in the upcoming year; on its turn, the extraction of thermal coal, that started in 2012 when 930 thousand tons were extracted, is predicted to grow 61.2%) and the expansion of financial activities, through the increase in loans to the economy, as a consequence of an expected expansion of the production sector.

**Mozambique has one of the highest rates of real GDP growth**

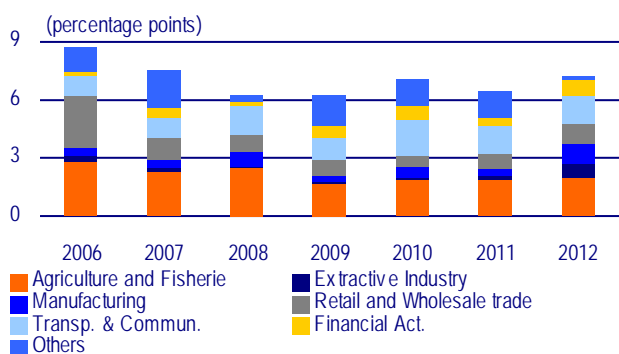


**Real GDP growth rates have kept above 6% since 2001**



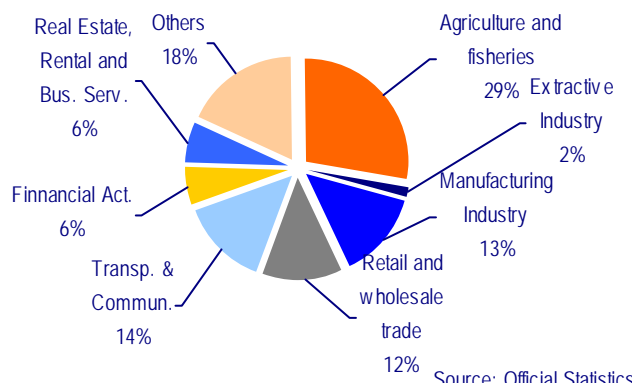
**ECONOMIC ACTIVITY**

**Higher Contribution of the Extrative Industry in 2012 for GVA**



Source: Official Statistics

**Mozambique's economic structure activity is widely diversified (weight in GVA in 2012, prices of 2003)**



Source: Official Statistics

Predictions for 2013 are, however, strongly compromised by heavy floods that stroke through the nation in the first months of the year, deeply injuring agriculture, transportation activities and the extractive industry. The increasing uncertainty in commodities markets and the slow recovery of developed countries should also put in jeopardy the performance of the economy.

**Growth forecasts in 2013 supported by coal industry and investment in transport infrastructures**

In accordance with the Social and Economic Plan 2013, the official strategic document on economic and social policies, defined in the 5-year Government's Program, respecting 2010-14, the government predicted that real internal production should increase by 8.4% in 2013. This forecast is supported essentially on the extractive industry and financial activity dynamism. Transport and Communications, real estate, rental and other business services are sectors that should also be giving a large contribution to economic performance in the current year.

**Table 1. Growth forecasts, production approach (constant prices)**

GVA by sectors	2012 Value <sup>(1)</sup> (millions MZN)	2013 forecasts
<b>Primary Sector</b>		
Agriculture, animal production and forestry	49,744	+4.6%
Fishery	2,976	+4.5%
Extractive Industry	3,516	+18.6%
<b>Secondary Sector</b>		
Manufacturing	25,435	+5.8%
Water and Electricity	9,450	+5.1%
Construction	7,166	+5.6%
<b>Tertiary Sector</b>		
Trading and repairing services	23,581	+5.9%
Accommodation, Restaurants and similar	3,042	+6.2%
Transportation and Communication	26,168	+14.1%
Financial Activities	11,966	+17.7%
Real Estate, Rentals and Business Services	12,272	+11.8%
Public Administration	8,059	+4.1%
Others	6,975	+2.4%
<b>GDP</b>	<b>212,232</b>	<b>+8.4%</b>

Source: Mozambique's Government, BPI.

Note: <sup>(1)</sup>GDP equals the sum of Gross Value Added by each sector plus taxes on products minus subsidies (excluded from the table for simplification).

According to official projections, production in the extractive industry should increase 18.6% in relation to 2012, as a result of the intensification of production in Moatize, Benga and Cahora Bassa mines. Coal production, for its global mining production importance, is due to contribute significantly towards the expansion of the sector (increases of 20.0% in coking coal production

and of 61.2% in thermal coal production are expected). However, such forecasts may have been largely compromised by the devastating effects of floods in the beginning of the year, which forced authorities to close the Sena railway (the only one that connects the mines and a seaport - the mines of Moatize and Beira's Port) during a couple of weeks of February. Vale, a Brazilian company with a very determinant position on the sector, reduced its projections for coal exports by about 30.0%, from 4.9 m/t (close to 65% of the 2013 ESP's forecasted coal production), to only 3.4 m/t after being unable to keep up business agreements due to the stoppage of railway circulation. The 2013 ESP also forecasts an increase of 6.3% in natural gas production due to the recent discovery of reserves (estimated to be the fourth largest reserves worldwide). Mozambique has already climbed up to fourth biggest natural gas producer in the world, according to a French consulting company StrategiCo, and the exploration of such resource may put the country among the most important references in the energetic sector in the upcoming years.

The expansion of coal extraction and exportation shall give a significant contribute to the transportation sector, making large investments to improve transport networks as well as to increase cargo transport in railways. In fact, core production and exportation is still deeply weakened by the need for better network of infrastructures that will allow better connections between mines and seaports, whereas currently mines keep producing below their true potential. The construction of the railway of Nacala should boost coal production, which may grow at a pace of 30% a year in the mid-term<sup>1</sup>. Transportation and communications sectors, still the second largest component of GDP, are expected to increase 14.1% in 2013, as rail and road transportation is expected to rise by 65.2% and 10.6%, respectively.

The declining trend of coal prices in international markets should also constitute an important challenge for the exportation value during the current year. Rises of production in the USA and consequently the increase in exports have created a negative pressure on coal's price, adding to the post financial crisis anemic global demand. In this context, producers may see their returns drastically decrease.

Lastly, the predicted expansion of financial activities, of 14.1%, is directly entwined with the remaining productive sectors' dynamism. The volume of credit shall rise to finance the rising number of investment projects and private consumption.

#### MAJOR INVESTMENT PROJECTS ARE A SIGNIFICANT CONTRIBUTION TO GDP

Net Foreign Direct Investment (FDI) in Mozambique was close to doubling in 2012, in relation to the previous year, increasing from USD 2.7 billion (bn.) to 5.2 bn., representing 35.7% of GDP this current year. Megaprojects<sup>2</sup> have been the main use of net foreign investment, with special focus on mining industry - 83% of total net FDI in Mozambique, last year, was absorbed by the extractive industry, and 76% was used on megaprojects. Natural resources exploration, mainly of coal and gas, has been the main center of attention for FDI and justified the extraordinary expansion of the sector, supporting very high economic growth rates.

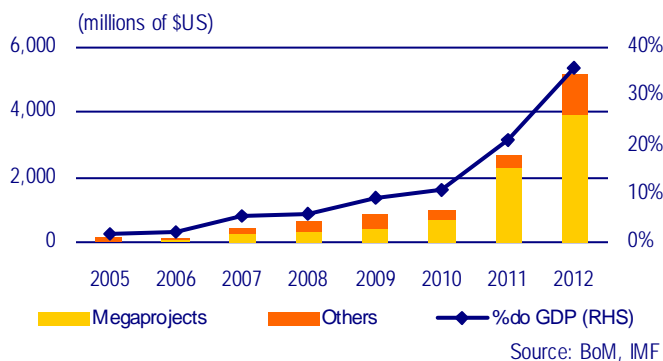
In 2011, according to UNCTAD official data, Mozambique was counted as the 14th African nation with the highest gross FDI stock and the 13th with largest share of FDI on GDP. Further data has not yet been revealed, nevertheless, judging from net FDI's evolution (as revealed by the Bank of Mozambique), the country may have joined the top-10 African economies.

The ability to attract foreign investment is mainly entwined with the abundance of natural resources, but is also stimulated by fiscal incentives for major investments, such as VAT exemption over capital assets and reduced taxes over business. There are also plenty Special Economic Industrial Zones that exempt locally established enterprises from specific taxes and tariffs payment and grant a special scheme to support development and exploration of infrastructures. In fact, despite generating high turnover rates, the companies associated with megaprojects pay very low taxes (in 2012, the total of eight megaprojects in Mozambique only contributed to 3% of Government's revenues, the equivalent to MZN 513 million).

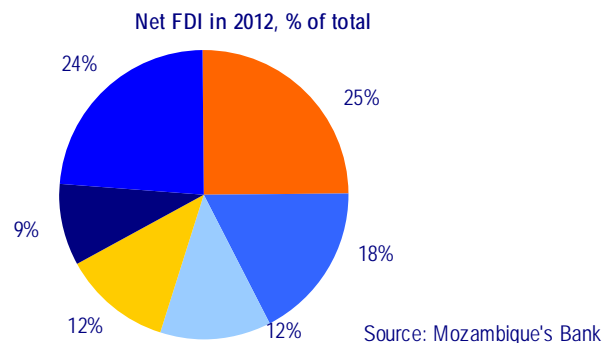
<sup>1</sup> For more details, see Box 1 of the "Fifth Review under the Policy Support Instrument and Request for Modification of Assessment Criteria" of the IMF, available since 3 January 2013; <sup>2</sup> Megaprojects are investments with initial capital of USD 500 thousand.

**ECONOMIC ACTIVITY**

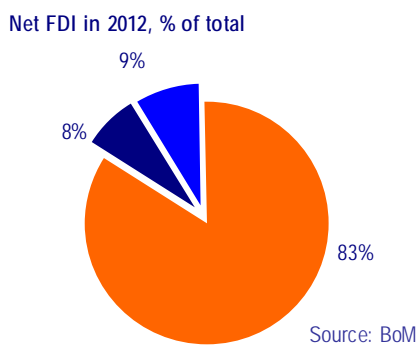
**The Increase in FDI due to Megaprojects Investment**



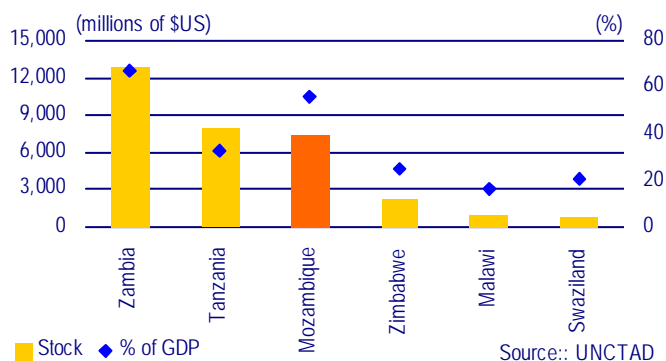
**Brazil is the country with the biggest investments in Mozambique**



**A major portion of FDI is used in the exploration of natural resources**



**Reg. comparison of FDI stocks (gross): in 2011, Mozambique was the 14th african country with the highest FDI stock**



**FOREIGN INVESTMENT INFLUENCED NEGATIVE REVISIONS TO THE CURRENT ACCOUNT DEFICIT**

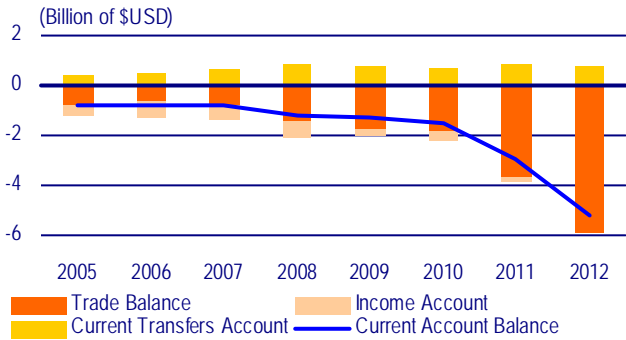
The current account deficit was fixed at USD 5.17 bn., the equivalent to 26.2% of GDP (according to official IMF statistics) and 72% above 2011's deficit. This deficit is explained mainly by the high level of imports of goods (USD 6.17 bn., from which USD 2.14 bn. directly associated to megaprojects), much larger than total exports (USD 3.47 bn., of which 63% were driven by megaprojects) and by external construction services hiring (which represented USD 1.98 bn.). Deficit financing was mostly covered by FDI - the value of foreign investment exceeded the current deficit, with a total sum of USD 5.22 bn.

The current account deficit was revised upwards in 2011, from 13.3% to 25.8% of GDP, reflecting mostly an upward revision of total imports related to the increase by two times of imports of investment goods (in part due to subcontract services by megaprojects), cars, cereals (due to the start of grain milling operations) and electricity (these last to compensate the fact that internal demand had surpassed the share of internal hydropower production of Cahora Bassa in rush hours). The current account deficit is expected to worsen in upcoming years, reflecting increasing activity of investment related imports. The deficit may even rise to a value of 40.6% of GDP in 2014, after lowering to 25.4% the current year, and should not be below 30% until 2018. These forecasts are based on a favorable scenario for mining extraction, mainly coal extraction, that should contribute to increase FDI directed to the sector.

A very positive behavior was registered in exports, compared to the previous year, caused mostly by the extraordinary rise of coal exports, that started in 2011 (coal exports rose from USD 21.2 million to 435.5 million). Despite recent discoveries of vast coal reserves and the rapid outset for its exploration, potential exploration of coal is still deeply limited by transport related constraints. Aluminum is still the main exported good, even though its exports reduced 20% as a consequence of falling international prices. Aluminum's share in total exports also shrank from 43% to 31%, as the share of coal exports rose from 0.6% to 13%.

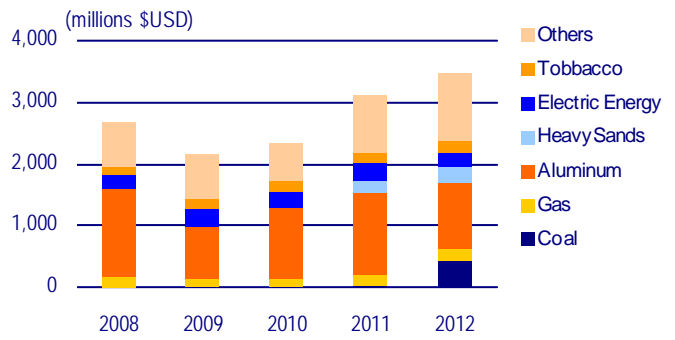
ECONOMIC ACTIVITY

Megaprojects activity has been contributing to increase current deficit



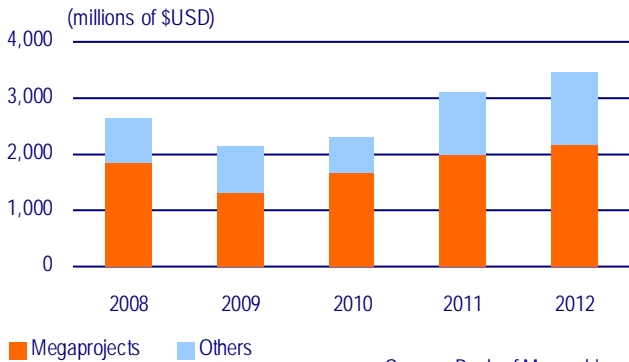
Source: Bank of Mozambique

Aluminum is still the most exported good, but has been losing share in exports to coal



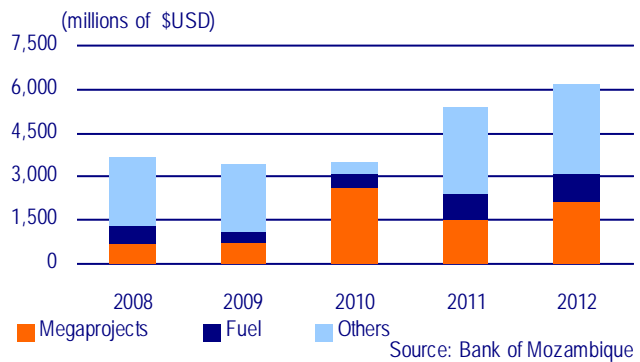
Source: Bank of Mozambique

Megaprojects are responsible for more than half of exports



Source: Bank of Mozambique

Megaprojects are also responsible for a large share of the imports of goods



Source: Bank of Mozambique

## **POLITICAL CONTEXT**

### **A DEAD-LOCK STILL REMAINS BETWEEN THE TWO MAJOR PARTIES**

Negotiations are still underway between the government and the most important opposing party, the Resistência Nacional de Moçambique (Renamo), to put an end to the climate of violence that was initiated in April, involving members of both major parties and police forces.

In the end of the fourth round of negotiations, which came to an end on 27th of May, it was announced that the first requests of Renamo had been surpassed, Renamo was demanding, among other, the presence of international observers in further negotiations. It was also defined that negotiations would come to a resolution in a month's time. However, the fifth round of negotiations has ended (in June 11th) absent agreement on divergences around electoral legislation.

The absence of political stability may put in jeopardy the ability to attract foreign investment, reason that should incentive both parties to maintain essential dialog for economic and social development in Mozambique.

### **PRESIDENTIAL ELECTRIONS SCHEDULED FOR 2014**

Armando Guebuza, the current Mozambique's president, was reelected as leader of the commanding party, Frelimo (Frente de Libertação de Moçambique), during the tenth party's congress, that occurred between the 23rd and the 28th of September of 2012 in the city of Pemba, in the north.

Given Armando Guebuza's reelection, who is ending his second and last term of office as president of Mozambique, there has been some uncertainty around who shall be the candidate of Frelimo for the upcoming presidential elections, in the end of 2014. Since the independence date, back in 1975, the commanding party has seen its presidential candidate elected. However, according to the Constitution, each President cannot exercise more than two consecutive mandates, for which Guebuza shall, in 2014, open space for succession. This transition should be closely followed by international observers, since how it shall occur will give very concrete signs of the increase in democratic experience in Mozambique. Notwithstanding the success granted by appeasement policies across the nation, the absence of political opposition with strength and power to come up with alternative policies and to evoke confrontation able to contribute to enhancing national development shall compromise the progress achieved up until this point. A lack of political competition tends to go against democracy, as shown by some experiences in other African countries.



Mozambique's fiscal policy in the next three years will continue to be guided by the Policy Support Instrument, led by the IMF. In the beginning of May the sixth and last evaluation of the PSI 2010-13 came to an end with an agreement for the creation of a new program until 2016 (though it is still subject to FMI's executive council approval). The request for a new program is aligned with efforts to end poverty and implement a strategy for development, for which the new PSI should focus mainly in supporting public investment in infrastructures, in reinforcing the tax base and in improving public administration in order to increase public expenditure directed to priority areas (agriculture, healthcare, education and social protection development).

The fight against poverty and the promotion of more-inclusive growth remain top priorities for the current government in its proposal for 2013 State Budget, consistent with the Action Plan for the Reduction of Absolute Poverty (PARPA) for 2011-13 and with the 5-year Government Program (PQG) for 2010-14<sup>3</sup>. In line with PQG, the government should perform a major role in stimulating human capital development, ensuring the constant adequacy of infrastructures of economic and social support, and supplying basic goods and services for the general population.

#### **EXPANSIONIST FISCAL POLICY ORIENTED TOWARDS ECONOMIC GROWTH**

Expansionism shall remain the motto for fiscal policy, as the government should maintain its bet on developing infrastructures of basic need and increasing social benefits to the general population, seeking to stimulate economic growth. Public debt is due to increase 10% to a total of 175 billion MZN, reflecting the government's commitment to reduce poverty levels and promote private investment. The government budget for 2013 dictates that around 30% of public debt shall be used towards infrastructures - 17.3% for construction and repairing of roads, 9.5% for the water and public works sectors, while mineral and energetic resources shall be granted 2.1% - in an attempt to improve the internal competitiveness of Mozambique. Education is planned to represent 30% of public spending, whereas rural development will receive 20.3% and healthcare 19.6%. Spending with personnel, which is forecasted to be as close to half of total spending, shall be heavily influenced by worker's negotiating capacity. More qualified workers shall seize the opportunity to demand salary rises, due to the increase of minimum wage for public workers in 7%, putting additional pressure over this component of expenditure.

The proposal for the Government Budget for 2013 predicts a deficit of 61.0 billion MZN before grants, the equivalent to 12.6% of GDP, which is below the 16.3% predicted for 2012 (the final values still remain unknown). Nevertheless, this deficit may have been compromised by the increase in debt in response to the floods that devastated large areas of the country during January and February.

The government expects to acquire 114.0 billion MZN through tax revenue during the current year, corresponding to a rise of about 7% in relation to 2012's law. This increase should reflect a positive evolution of economic activity and the increasing payments of mining royalties' by companies of the sector.

The deficit should be mainly financed through foreign debt (equivalent to 7.8% of GDP, around 62% of the total deficit) and grants (representing 4.1% of GDP), while the remaining 0.7% should be financed through domestic borrowing. External aid should be drastically reduced (the Government Budget for 2013 predicts a reduction of 43% in relation to 2012), partially explained by the lingering recession in the euro area and by the weak progress in reducing of poverty, fighting corruption and improving governance, factors that have been disappointing the main international donors. Still, Mozambique shall remain among the group of countries with highest inflows of official foreign aid, way above the Sub-Saharan Africa's average.

#### **PUBLIC DEBT REMAINS STABLE**

The public debt-to-GDP ratio has remained stable at 40% ever since 2006, when the IMF approved the Multilateral Debt Relief Initiative that established the debt relief for the remaining amount in debt towards the institution before 2005. Upcoming years shall see an increase in investment in public infrastructure and other priority sectors which will lead to the rise of debt and public deficit in nominal value, but its effect over ratios to GDP should be softened by the large growth rates predicted for economic activity.

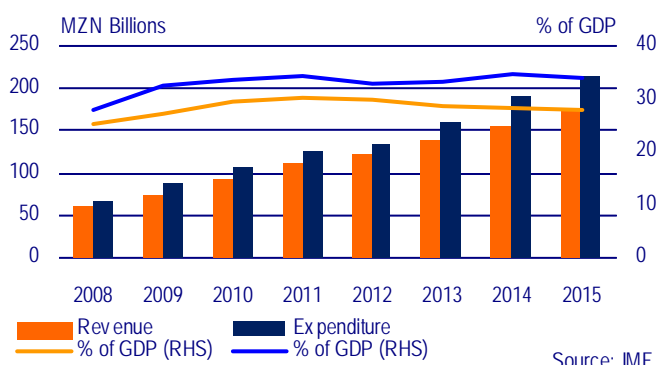
The risk level given by the most important rating agencies to Mozambique's public debt (in foreign currency) has remained unchanged since 2007, at the second highest classification within speculative investment. Nevertheless, since July 2012, Fitch has changed its

<sup>3</sup> According to the PQG, the government should perform an important role in stimulating human capital, and guaranteeing the adequacy of infrastructures of economic and social support, and in supplying primary goods and services to the population.

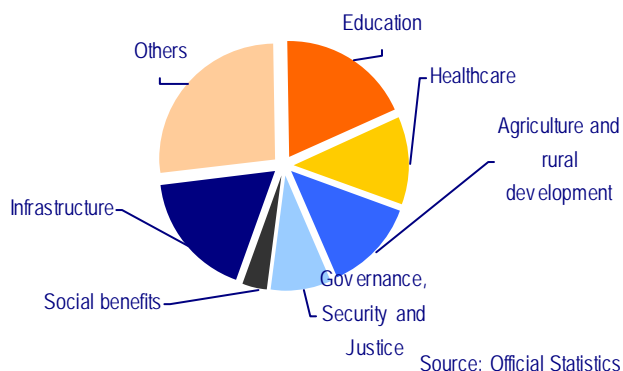
**FISCAL POLICY**

outlook over Mozambique's public debt to positive, indicating that its views on rating improvement are bright. This positive outlook is mainly supported by the expansion of natural resources' exploration, particularly by the rapid start of coal production in the end of 2011 and by good perspectives of starting gas production. This agency, however, has alerted towards the need to complement high growth rates with the creation of the necessary environment for the business activity to prosper with more significant progress in the reduction of poverty and promotion of human progress.

**In the upcoming years public revenues and expenditure should continue to rise**



**Public expenditure in 2013**

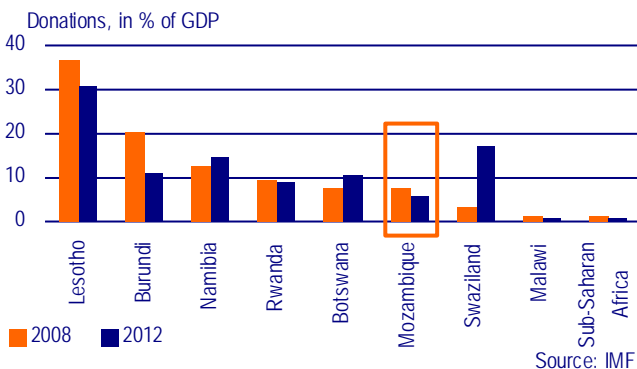


**Public funding**

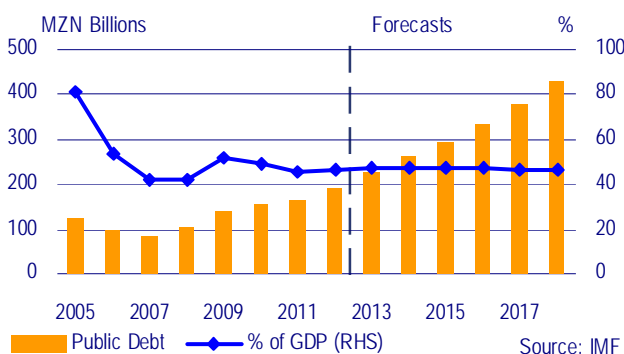
	MZN millions		% of GDP	
	2012	2013	2012	2013
Primary deficit	34.6	43.0	8.3	8.9
Donations	34.7	19.1	8.4	4.1
External loans	29.6	37.6	7.2	7.8
Internal credit	3.2	3.6	0.8	0.7

Source: Mozambique's Ministry of Finance.

**Official aid shrank in 2012 as a consequence of world's economy slowdown**



**Debt-to-GDP ratio should remain stable in the upcoming year**



**MONETARY AND FINANCIAL SECTOR**

**INFLATION AT THE BEGINNING OF THE YEAR WAS DUE TO THE FLOODS' EFFECT, START OF THE SCHOOL YEAR AND IMPORTED INFLATION**

Consumer prices regained momentum during the first months of 2013, after registering an average annual variation of 2.6% in 2012, explained mostly by price stability in the second half of the year. In May, inflation hasted to 4.9%, which compares with 2.0% in December, mostly due to the impact of the heavy floods during January and February that destroyed agricultural crops, damaged railways and reduced food supply.

The annual rise of the global price level has also been significantly influenced by the increase of prices in education services, namely in tuition fees and school supplies, associated to the beginning of the school year (in January); to the rise of international prices for some commodities with significant impact in internal inflation (such as rice, wheat and cooking oil) and by the effect of imported inflation, through the rise in prices in South Africa (main supplier of food), and through the depreciation of the national currency in relation to the US dollar.

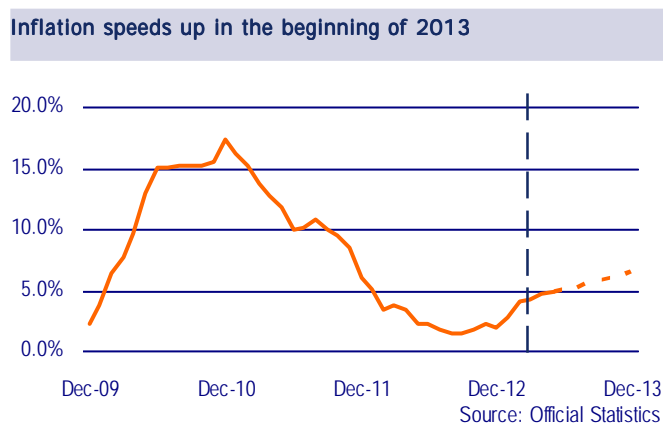
For 2013, the Bank of Mozambique predicts the persistency of the risk for inflation, which should materialize in an annual average inflation rate of 7.0% or an annual inflation of 6.5% at end of period, in line with the government's objective. This forecast should be mainly determined by imported inflation from the most important trading partners, principally South Africa, and by the expectations for stability of the metical (MZN). Other factors should also influence the evolution of inflation, namely the recovery of global economic activity (with likely impact over external commerce), the probability of floods or the change in prices for administered goods (mainly the price of fuels and transportation).

**MONETARY POLICY: TRADE-OFF BETWEEN EXPANSION OF MONETARY BASE AND INFLATION**

The recent rise of the price level has led to cautious monetary policy, whose main goal is to guarantee price stability<sup>4</sup>. Should the risks for inflation come to life, it shall be unlikely that the central bank will apply further cuts of the reference rate until the end of the year.

The Bank of Mozambique (BoM) has initiated a cycle of cuts in the reference rate in July 2011, when inflation returned to levels in line with the monetary policy's objectives. The rate applicable to marginal lending facility was reduced by 7 percentage points to the current 9.0% and the interest rate for deposits was reduced in 3.25 p.p. to 1.75%. The main market rates - the Maibor rates (interbank money market rate) and the Treasury bill's rate - have suffered sharp declines in this period, as a consequence of monetary policy accommodation.

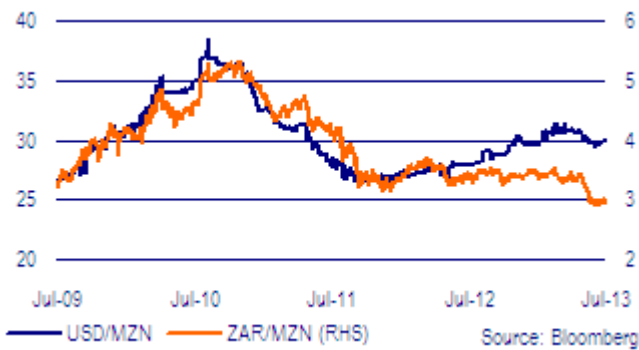
In the last months, Maibor rates have remained stable. Nevertheless, interest demanded by the primary market for TB's have been gradually rising since November, as expectations for inflation shrink expected real returns. The intervention of the BoM has consisted in maintaining interest rate for lending/deposit facilities unchanged and in keeping a controlled expansion of money base, consistent with the expansion of credit that does not compromise price stability in the mid-term.



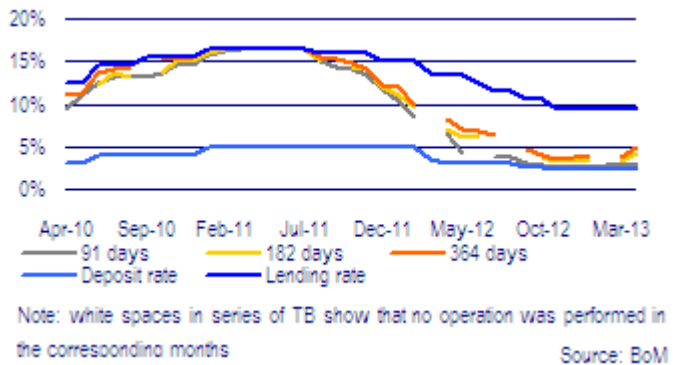
<sup>4</sup>The objective for inflation is announced annually by the government in the Economic and Social Plan and in the law proposal for Government Budget, maintaining the Bank of Mozambique independence to act in accordance to the defined objectives through their instruments of monetary policy - operations of open market (based on Treasury Bills auctions, operations of purchase of TB with resale - Repo - and operations of TB sales with repurchase - Reverse Repo), control of mandatory reserves and intervention in the interbank money market. Absorption and deposit facilities, whose rate is fixed by the BoM, have the objective of suppressing liquidity excess and satisfy the need for overnight liquidity.

**MONETARY AND FINANCIAL SECTOR**

**Recent currency appreciation threatens price stability**



**Treasury Bills interest rates are limited by monetary policy**

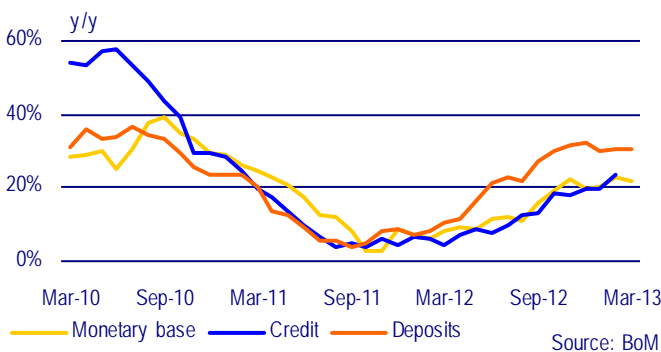


**LOANS AND DEPOSITS**

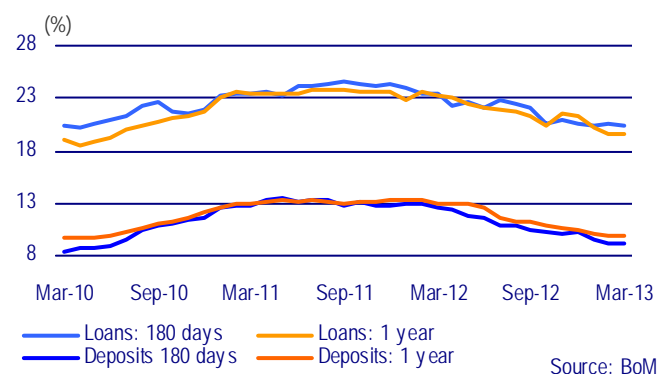
The rise in loans granted by credit institutions to the economy has been hastening since mid-2012, mainly due to the lagged effects of monetary policy and the expansion of productive sectors.

Cuts in reference interest rate and expansion of money base have been transmitted to a reduction in lending rates charged by banks that has contributed to the rise in the stock of loans: in March of 2013, loans had raised 23.5% y/y that compares with a small rise of 6.3% y/y in March of the previous year. Apart from interest rate cuts, demand has also been heavily influenced by the dynamism in the economic activity, especially the growth in trade with the rest of the world.

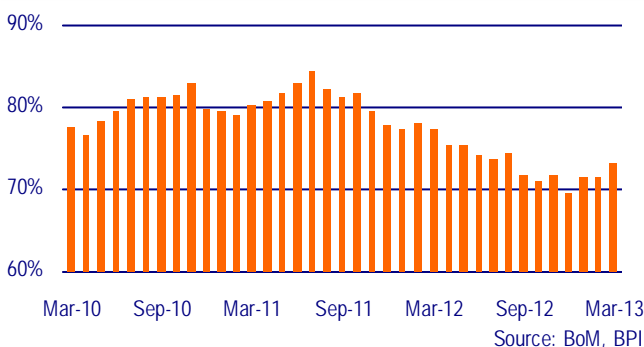
**Lagged effect of monetary policy: loans, deposits and monetary base appear to be gaining momentum**



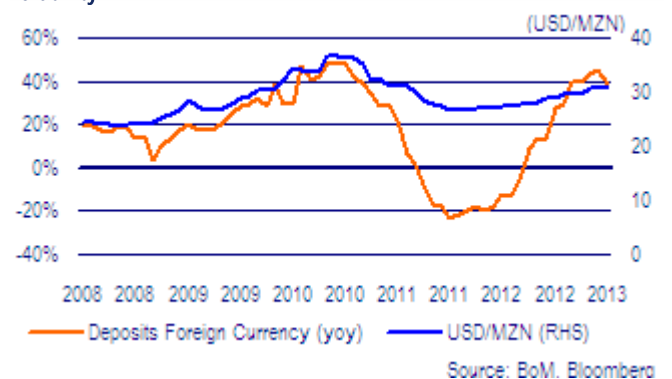
**Bank interest rates are declining, reacting to monetary policy**



**Loan-to-deposit Ratio**



**Foreign currency deposits remain very sensible to exchange rate volatility**



**MONETARY AND FINANCIAL SECTOR**

The rise in deposits in credit institutions has been a determinant force to finance the expansion of loans (loans stock in relation to GDP has doubled between 2005 and 2012, increasing from 14% to 28%). This increase has been superior to the growth of loans, despite the reduction in rates applicable to deposits. If, on one hand, the diversity of financial products to invest savings is short, on the other hand deposits have been influenced by growing investment in the country and currency volatility. In fact, deposits in foreign currency sum up to 33% of total deposits. Lastly, the banking sector is not excessively leveraged: the deposit-to-loans transformation ratio is still at 73%, which means that for each metical in deposits there are 0.73 meticals in outstanding credit.

**HUMAN AND SOCIAL DEVELOPMENT****HUMAN DEVELOPMENT HAS NOT BEEN KEEPING UP WITH ECONOMIC GROWTH**

Human development and gender equality indexes in Mozambique remain among the lowest worldwide. National authorities have been developing considerable efforts in order to improve the main indicators of human and social development, particularly with the objective of reducing infant mortality and maternal mortality rates and improving enrollment rates. Nevertheless, these efforts have not revealed sufficient to higher the standards of development in the country. Mozambique is positioned as the 185th country in the Human Development Report of 2013, in a list of 187 countries, only ahead of Niger and the Democratic Republic of Congo.

Even though Mozambique has registered significant progress in social context since 1990, it is still far behind the rest of the sub-Saharan countries in all social indicators. In what concerns healthcare, life expectancy at birth is only 50.7, a value that is only smaller in the Democratic Republic of Congo. In the sub-Saharan region average life expectancy is 54.9 years. Extreme poverty also affects the majority of Mozambique's population. Per capita GDP stood at USD 906 (at 2005 prices) PPP in 2012, which was only 45% of the average of the sub-Saharan region's average. Between 1980 and 2012, per capita GNP rose by 106%, but still remains very low. Additionally, in 2008 around 81.8% of the population lived with less than 2 USD (PPP) per day and 59.6% was in a situation of extreme poverty, living with less than 1.25 USD (PPP) per day (according to the most recent data estimates of the World Bank).

Mozambique is also far behind the rest of African countries in the level of education. The average years of schooling in the adult population is the smallest worldwide: the 1.2 years of average schooling in adults largely contrasts with the 4.7 years of the sub-Saharan Africa's average, even though the expected value of schooling at birth, 9.2 years, is in line with the rest of the region (with an average of 9.3). The dropout rate is still very high; it is estimated that around 64.6% of students attending primary school don't conclude their studies and the adult literacy rate is only 56.1%.

Inequality between genders is outstanding, taking Mozambique to the 125th place in the Gender Inequality Index (in a list of 148 countries). Only 39.2% of parliament seats are occupied by women and only 1.5% of women have at least the secondary school level completed (that compares to a rate of 6% in men), although the rate of participation in the labor market is higher among women than among men (86% vs. 82.9%).

<b>Social Indicators, 2012</b>						
	<b>HDI Ranking (out of 187 nations)</b>	<b>Life expectancy at birth</b>	<b>Expected years of schooling (children)</b>	<b>Average years of schooling (adults)</b>	<b>GNP per capita (2005 US\$ PPP)</b>	
Mozambique	185	50.7	9.2	1.2	861	
Niger	186	55.1	4.9	1.4	701	
Dem. Rep of Congo	187	48.7	8.5	3.5	319	
Angola	148	51.5	10.2	4.7	4,812	
Sub-Saharan Africa	-	54.9	9.3	4.7	2,010	
For comparison:						
Portugal	43	79.7	16	7.7	19,907	

Source: United Nations Program for Development.

With the objective of reducing the levels of poverty and achieve inclusive economic growth rates, the government created the Action Plan for Reducing Absolut Poverty (PARPA) 2011-14, which defines broad lines for government's strategy and predicts a reduction of the rate of incidence of poverty to 54.7% in 2014. This program was created to support the achievement of the Millennium Objective Goals, whose main objective is to halve the percentage of population living in extreme poverty until the year of 2015. Promoting gender equality, reducing infant mortality and guaranteeing that all children conclude primary schooling are other objectives to reach until 2015.

**DOING BUSINESS AFFECTED BY THE SOCIAL-ECONOMIC SURROUNDING**

The social and economic context of Mozambique is the main obstacle to the completion of business in the country, which currently occupies the 146th position in the Doing Business ranking for 2013 (that ranks a total of 185 countries), published annually by the World Bank, regressing 7 positions since last year.

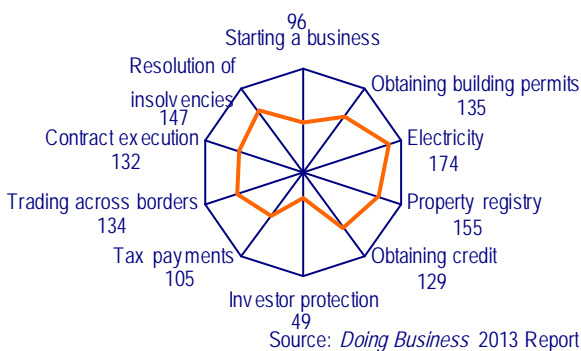
Access to electricity (ranked 174) and property registry (ranked 155) are the most problematic factors to business activity in Mozambique. Entrepreneurs need up to 117 days and a cost of 2,395% of per capita income to obtain a permanent electricity connection (comparing with 103 days and a cost of 92.5% of per capita income in the OECD). Additionally, it is necessary 42 days and a cost of 8% of the property's value, almost double what is necessary in OECD, to obtain a legal property's license, a value that may be effectively higher, since only official costs are taken into account.

Still, investors' protection is one of the factors that more profoundly aid the creation of new business. Investor protection index is only 0.1 points below the OECD's average: in a scale of 0 to 10, Mozambique presents a value of 6.0. Ease of investor to sue directors and executives for improper conduct almost receives full quotation: 9.0.

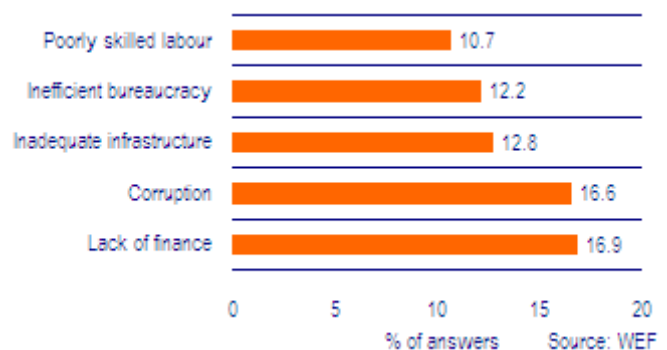
The major factors against doing business are related to the access of financing, corruption and bad quality of existing infrastructures, as stated by the World Economic Forum. On the contrary, instability in government's policies and weak public health are the factors that least harm business activity.

External competitiveness is particularly affected by infrastructures, public healthcare, education and financial sector development. Mozambique occupies the 138th position (in a total of 144 countries) in the Global Competitiveness Index of 2012-13, published by the World Bank, in which the global quality of infrastructures, mainly roads, and the reduced number of communication lines subscriptions are the pillars that more negatively weigh on its classification where infrastructures is concerned. The healthcare's ranking is mostly affected by high rate of malaria affliction, tuberculosis and HIV and by heavy rate of maternal and infant mortality and low average life expectancy, whereas the attendance of superior education (secondary and tertiary) and the weak quality of primary schooling are the factors that make the least damage to education.

**Mozambique's position in the pillars of the Doing Business ranking (146/185)**



**Main obstacles to doing business**







**Main economic indicators**

	2010	2011	2012	2013	2014
Population (million)	22.4	23.0	23.7	24.4	25.0
GDP per capita (USD PPP)	1,014.2	1,089.9	1,169.2	1,263.0	1,363.8

Source: Statistics Mozambique (INE), IMF.

**Gross domestic product**

	2010	2011	2012	2013	2014
GDP (MZN billion)	315.0	365.3	414.4	482.9	550.7
GDP (USD billion)	9.5	12.6	14.6	15.8	17.2

**GDP composition (sectoral approach)**

	2010	2011	2012	2013	2014
Agriculture, livestock, forestry and fishery	25.1%	24.9%	24.8%	-	-
Property rentals and business services	6.5%	6.2%	5.8%	-	-
Trade and repair services	11.2%	11.0%	11.1%	-	-
Education	4.0%	4.0%	3.8%	-	-
Electricity and water	4.8%	4.8%	4.5%	-	-
Mining	1.2%	1.3%	1.7%	-	-
Manufacturing and construction	15.8%	15.2%	15.4%	-	-
Other	14.4%	15.2%	15.0%	-	-
Financial services	5.4%	5.4%	5.6%	-	-
Transport and communications	11.6%	12.0%	12.3%	-	-

Source: Statistics Mozambique (INE), BPI.

**Real growth forecasts (%)**

	2012	2013	2014	2015
Draft State Budget for 2013	7.5	8.4	-	-
IMF (Country Report July 2013)	7.4	7.0	8.5	8.5
Economist Intelligence Unit (June 13)	7.4	7.0	7.6	7.8

Source: Mozambique Ministry of Finance (DNO), Economist Intelligence Unit, IMF.

## Database

**Consumer prices**

	2010	2011	2012	2013	2014
Inflation rate (annual average)	12.7%	10.4%	2.1%	5.5%	5.6%
Inflation rate (end-period)	16.6%	5.5%	2.2%	6.1%	5.4%

Source: INE Mozambique, IMF.

**External sector**

	2010	2011	2012	2013	2014
Exports (USD billion)	2.3	3.1	3.5	4.0	4.8
Imports (USD billion)	3.5	5.4	6.2	7.1	7.9
Current account, incl. grants (%GDP)	-11.7	-24.3	-36.5	-39.9	-41.3
Current account, excl. grants (%GDP)	-18.5	-31.2	-40.3	-43.4	-44.8
Official grants (%GDP)	7.4	6.5	6.1	6.2	6.1
Reserve assets (USD billion)	2.1	2.4	2.8	2.9	3.2

Source: Bank of Mozambique, IMF.

**Public finances**

	2010	2011	2012	2013	2014
Total expenditure (%GDP)	33.4	34.4	32.7	33.4	34.7
Total revenue, excl. grants (%GDP)	20.5	22.2	23.9	23.1	23.3
Fiscal balance, incl. grants (%GDP)	-3.9	-4.3	-3.0	-4.7	-6.6
Fiscal balance, excl. grants (%GDP)	-12.9	-12.2	-8.8	-10.2	-11.4

Source: IMF.

**Financial indicators**

	2010	2011	2012	2013 (*)
Exchange Rate				
End-period				
USD/MZN	32.40	27.13	29.70	30.05
EUR/MZN	43.31	35.15	39.20	38.67
ZAR/MZN	4.92	3.36	3.50	3.00
Average				
USD/MZN	34.34	29.02	28.26	30.36
EUR/MZN	45.52	40.38	36.34	39.84
ZAR/MZN	4.71	4.03	3.45	3.29
Central bank rates (end-period)				
Standing lending facility	15.50	15.00	9.50	9.00
Deposit facility	4.00	5.00	2.25	1.75
Money market rates (average of period)				
Maibor 3-month	16.2	16.9	14.6	13.3
Maibor 12-month	17.9	18.5	16.3	15.0
Active rates (average of period)				
180 days	21.0	23.9	22.3	20.3
> 2 year	21.0	23.5	22.9	21.3

Source: Source: Bloomberg, Bank of Mozambique, BPI

Note: (\*) Based on data available on July 9th.



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