

mozambique



Demographics

Population:	24 692 144 (July 2014 est.)
Population: world ranking	51 out of 240 countries (CIA)
Life expectancy (years)	Total population: 52.6, male: 51.85, female: 53.37 (2014 est.)
Main ethnic groups	African 99.66% (Makhuwa, Tsonga, Lomwe, Sena, and others), Europeans 0.06%, Euro-Africans 0.2%, Indians 0.08%
Business language	Emakhuwa, Portuguese (official), Xichangana, Cisena, Elomwe, Echuwabo
Urban population	31.5%
Population below national poverty line	54.7% (2009 est.)

Sources: CIA, World Bank

Geography

Area in sq km	799 380
Area: World ranking	35 out of 252 countries (CIA)
Climate	Tropical to subtropical
Natural resources	Coal, titanium, natural gas, hydropower, tantalum, graphite

Sources: CIA, World Bank

Sovereign ratings

S&P	B/Stable
Fitch	B+/Stable
Moody's	B1/Stable

Source: NKC Research

Economy in 2013

Nominal GDP (US\$bn)	15.64	Total government debt as % of GDP	43.92
Nominal GDP: World ranking	116 out of 188 countries (IMF)	Total external debt as % of GDP	35.87
Real GDP (% y.o.y)	7.00	Consumer price inflation (average, %)	4.26
GDP growth: World ranking	22 out of 189 countries (IMF)	Current account balance as % of GDP	-43.51
GDP per capita (US\$)	605.36	Equity market: Size in US\$	US\$534.69m
Agriculture as % of GDP	30.10	Equity market: Listed companies	4 primary listings
Industry as % of GDP	22.37	Bond market size	US\$1.19bn govt bonds outstanding in the domestic market
Services as % of GDP	47.53		

Sources: IMF, NKC Research, Mozambique Stock Exchange, Reuters

Political environment

Government type	Republic
Head of state	President Armando Emilio Guebuza
Head of government	Prime Minister Alberto Clementino Vaquina
Ruling political party	Frente de Libertacao de Mocambique (Frelimo)
Main opposition parties	Resistencia Nacional Mocambicana-Uniao Eleitoral (RENAMO-UE), Mozambique Democratic Movement (MDM)
Elections	Elections due next in 2014

Source: NKC Research

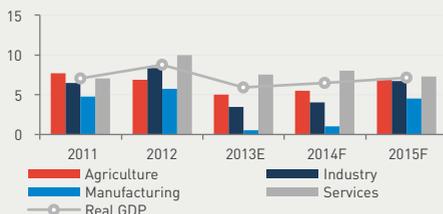
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



Source: NKC Research

The Mozambican economy has expanded by more than 6% in real terms in every year since 2001, with the average real GDP growth at 7.7% per annum during 2001-12.

While this is an impressive performance, real GDP growth has come from a very low base; as a result, estimated GDP per capita was still below US\$600 in 2013. Poverty levels are also still extremely high, and infrastructure remains of poor quality. There continues to be a favourable outlook for the country's economic growth performance over the coming years, with growth rates of over 7% being projected. Therefore, Mozambique's GDP per capita should improve considerably over the medium to long term. The extensive flooding in the first quarter of last year resulted in a disappointing growth figure of 4.3% y-o-y in the corresponding quarter, followed by strong growth figures during the rest of the year. Preliminary data published by the Instituto Nacional de Estatistica (INE) indicates that the Mozambican economy grew by a revised 8.1% y-o-y and 8.2% y-o-y in the second and third quarters respectively, and then expanded by an estimated 7.1% y-o-y in the last quarter of 2014. The extractive sector continued to show exceptionally strong growth, expanding by 58.7% y-o-y in the fourth quarter, after averaging 31.7% growth in the first three quarters.

Our view is that it will take some time before the supply of infrastructure in Mozambique catches up with the sharp increase in demand created by the increased capacity of coal production.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

Overall, we expect Mozambique's economic growth performance to remain strong over the short to medium term, sustained by the natural resource boom and infrastructure investment. As such, real GDP growth is projected to increase from an estimated 7% last year to 8.2% in 2014, before decreasing slightly to 7.9% in 2015.

International trade

Imports into Mozambique are forecast to continue to rise substantially in coming years, with imports related to the liquefied natural gas (LNG) sector in particular forecast to increase significantly. Imports are projected to increase by 9.7% from an estimated US\$8.6 billion last year to US\$9.5 billion in 2014, and by a substantial 14.5% to US\$10.9 billion next year. While the sizable increase may appear to be alarming, the majority of the costs are projected to be financed externally by foreign companies, and should therefore

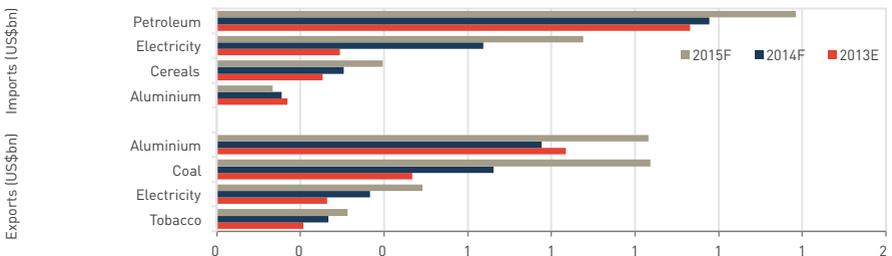
have minimal domestic impact. Furthermore, once LNG exports commence (the earliest projections are for 2018), the trade deficit should narrow considerably. In addition to an increase in exports, imports will show a steep decline once the construction phase of the LNG plants is completed (around 2023). In the short to medium term, however, Mozambique's trade deficit is projected to widen from an estimated US\$4.6 billion last year to US\$4.9 billion in 2014, before increasing further to US\$5.4 billion next year.

Foreign trade flows, 2013

Main exports	(US\$ billion)	Main imports	(US\$ billion)
Aluminium	0.83	Petroleum	1.13
Coal	0.47	Electricity	0.29
Electricity	0.26	Cereals	0.25
Tobacco	0.21	Aluminium	0.17

Source: NKC Research

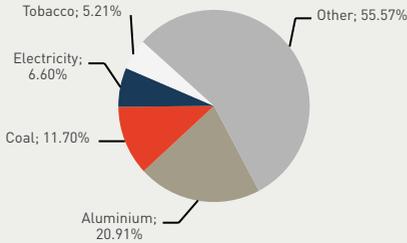
Mozambique top four exports and imports (US\$ billion)



Source: NKC Research

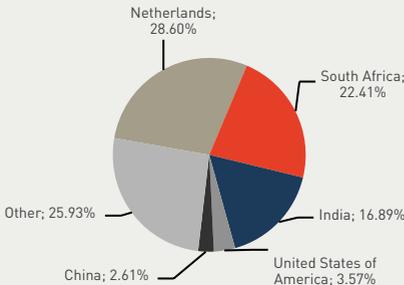
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

2013 exports (% of total)



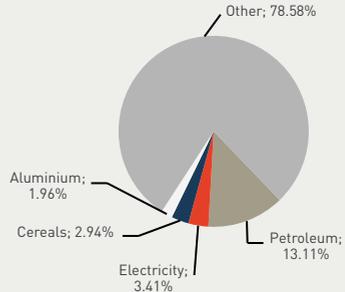
Source: NKC Research

2013 top destinations of exports (% of total)



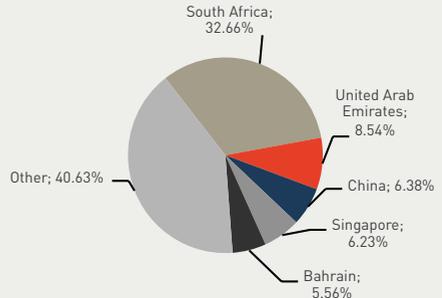
Source: Trade Map

2013 imports (% of total)



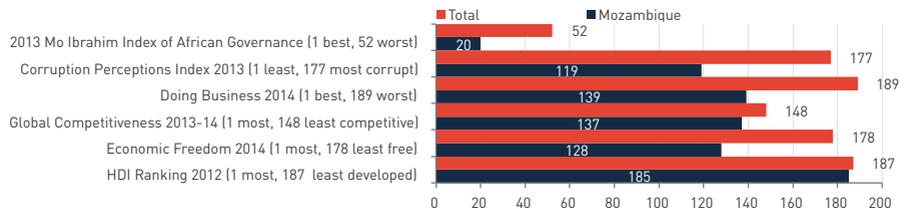
Source: NKC Research

2013 top origins of imports (% of total)



Source: Trade Map

Business development indicators



Source: NKC Research

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Policy environment

Monetary policy:

Mozambique's benign inflation environment reflects the central bank's continued adherence to prudent monetary policy. The Banco de Moçambique's (BdM, the central bank) Monetary Policy Committee (MPC) has held the benchmark interest rate steady at 8.25% since October last year, while also managing to constrain money supply growth. Credit to the economy grew by 13.9% y-o-y during the first quarter of 2014, compared to 26% y-o-y growth during the same period a year earlier. Similarly, the monetary base expanded by 18.7% y-o-y in Q1 2014, compared to 21.8% y-o-y in Q1 2013. With that said, inflationary pressures are expected to pick up somewhat during the latter part of the year, in part due to a weakened local unit, expansionary fiscal policies, and base effects.

Exchange rate policy:

Monetary authorities have, on numerous occasions, reiterated their commitment to a flexible exchange rate regime. However, regular intervention in the foreign exchange market to smooth seasonal fluctuations and provide foreign exchange liquidity means the exchange rate regime can more accurately be described as a managed float.

Fiscal policy:

The Mozambican Parliament approved the country's budget for the 2014 fiscal year (FY, 1 January to

31 December) in December 2013. According to the World Bank, the budget authorises expenditure amounting to MT241 billion this year, while fiscal revenues are budgeted at MT147 billion – representing a budget deficit of MT93.52 billion. The expansionary 2014 budget reflects the allocation of the sizable capital gains tax received last year towards once-off needs, including election costs and capital expenditures. The local authorities reiterated commitments to the IMF during their recent visit that continuing efforts will be made to improve revenue collections, value added tax (VAT) administration, and management of windfall receipts (like capital gains taxes from the natural gas sector).

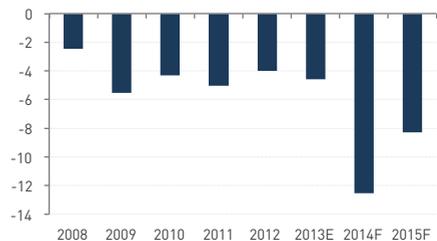
The most important pitfall for the government to avoid is to not increase recurrent expenditure with the expectation of further sizable revenues from once-off receipts. These receipts should rather go towards investment spending, or paying back accumulated VAT arrears. Priority spending, according to the IMF, budgeted for the 2014 FY include an allocation of 0.5% of GDP to social protection, while public investment spending is set to accelerate to 15% of GDP (of which approximately half is to be financed externally).

Consumer price inflation and monetary policy rate



Sources: Instituto Nacional de Estatística, Banco de Moçambique

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

Economic policy formulation in Mozambique is dominated by developments in the extractive sector. The government is in the process of preparing the economy for the oncoming natural resource boom, with a focus on modernising the fiscal regime, while enhancing the country's macroeconomic management capacity to support a stable economy. The Mozambican government has several medium to long-term plans in place to address the issues of the impact of the coal and gas industries on the economy, public investment spending, external competitiveness, debt sustainability, and investment planning. These plans include the 2010-14 plan (Plano Quinquenal do Governo), the 2011-14 Poverty Reduction Strategy (PARP), and the longer term plan – Agenda 2025. With regard to the development of the financial sector, the authorities are implementing a strategy stretching from 2013-22, which 'includes a broad range of targeted measures to enhance financial inclusion and deepening competition, consumer protection, and financial literacy.'

Political environment

Afonso Dhlakama, the leader of the National Resistance of Mozambique (Renamo), and his more rambunctious party members have received much of the political headlines in Mozambique of late. There have been threats of violence emanating from the main opposition party, although very little violence has materialised.

The violence that has occurred – including a series of raids on convoys in central Mozambique – is being treated as outright criminal activity, masquerading as 'political activism'. That said, the exaggerated potential of Renamo's aging bandits does have a negative impact on the risk perceptions about the country – an impact that the economy can ill afford due to its increasing dependence on foreign investment inflows.

With elections due in October, and with Mr Dhlakama staying trapped in the bush and unable to

see his way clear to competing on an electoral level, the dismal and declining support for Renamo will ebb further. That is going to make Renamo more dangerous in the short term, but its activities will remain largely criminal and no greater than banditry before the final inevitable disappearance of this blot on Southern Africa's political landscape.

A victory for the Liberation Front of Mozambique (Frelimo) in October is a foregone conclusion, with the military threat from Renamo insignificant in the medium to long term.

Economic environment

Ratings:

S&P downgraded Mozambique's long-term sovereign credit rating on 14 February 2014. The rating was lowered from 'B+' to 'B', with a stable outlook [S&P had placed Mozambique's rating on a negative outlook in August 2013]. The stable outlook reflects S&P's expectation that 'investment spending will continue to weigh on Mozambique's fiscal and external imbalances, but that the pace of economic growth will remain high'. The rating agency noted the following as key drivers of the downgrade: increased government spending has resulted in much higher fiscal deficits and faster debt accumulation than previously expected; and external commercial borrowing increased significantly in 2013, with a government-owned agency issuing debt equivalent to 5% of GDP under a government guarantee.

Fitch Ratings affirmed Mozambique's foreign currency sovereign credit rating at 'B+' on 16 May 2014. According to the rating agency, the affirmation reflects 'the development of Mozambique's significant mineral resources, infrastructure investment following the country's three-decade long civil war as well as a favourable macroeconomic policy environment'. Fitch also noted the lessened inflationary pressures in Mozambique, which was supported by an appreciating currency and improved monetary policy.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.



Along with the country's long-term foreign and local currency Issuer Default Ratings (IDRs) being maintained at 'B+' with a stable outlook, Fitch also affirmed the country ceiling at 'B+' and short-term IDR at 'B'.

Moody's Investors Service announced on 20 September 2013 that it had assigned debut local and foreign-currency issuer ratings to the government of Mozambique. The agency provided the sovereign with a 'B1' rating with a stable outlook, equivalent to 'B+' on our scale. Moody's commented that the 'B1' rating is based on the following: the country has a small and undiversified economy with high levels of poverty and very low

GDP, but also favourable economic growth prospects given its vast natural resources; high levels of public debt given significant infrastructure development needs that translate into low fiscal strength; there is a likely decline in external donor support over the coming years and a resulting shift to commercial borrowing from abroad; low institutional strength with weak governance indicators, although these are likely to improve over time given the support from the IMF; moderate external risks given the very large current account deficits, which are financed by inflows of FDI into the natural resources sectors; and political risks, in particular emanating in the context of the future distribution of the natural resource wealth.

Key indicators to watch

External debt accumulation	While the Mozambican authorities are accumulating debt at an increasing pace in order to finance infrastructure projects, the private sector is set to accumulate external debt aggressively in order to finance the vast imports needed to develop the natural gas sector. Vulnerabilities to Mozambique's debt sustainability include shocks to foreign investment inflows and the exchange rate.
Coal Exports	Infrastructure constraints have severely limited coal exports, with Vale Mozambique (as an example) only able to export some three million tonnes of the four millions tonnes produced last year. Exports are expected to pick up significantly as infrastructure projects reach completion in 2014 and 2015.
Monetary policy and inflation	Consumer Price Index (CPI) inflation was recorded at 2.91% y-o-y in May 2014, compared to 2.87% y-o-y in April 2014. On a monthly basis, however, the index registered the first decrease of 2014, with the CPI declining by 0.38% m-o-m in May, compared to an increase of 0.12% m-o-m the preceding month. The indicator showing the highest decrease in May was the cost of food and non-alcoholic beverages, which contributed -0.37 percentage points to the m-o-m decrease.

Source: NKC Research

Key vulnerabilities

What is the government doing to address this?

External debt levels are forecast to increase significantly in the short to medium term.	The majority of the external debt being accumulated by the government is on concessional terms, thereby mitigating risk of debt distress.
Business environment is challenging and corruption rampant.	Reforms have led to a vast improvement over the past five years, and this is expected to continue in the coming years.

Source: NKC Research

Market participation

Foreign investors	Participation is limited. Foreigners can only invest in fixed-income instruments that are listed on the domestic stock exchange.
Local investors	Participation is limited. The financial sector remains underdeveloped compared to neighbouring economies like South Africa and Botswana.

Source: NKC Research

Financial market

Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/maturity	Quotation/settlement	Reuters page	Additional information
Spot	US\$0.5m to US\$2m	US\$5m to US\$15m	50 bps to 200 bps	-	T+2	MZN=	Main cross is US\$/MZN
Forwards (deliverable)	Order basis	-	50 bps to 200 bps	Liquid up to 6 months	T+2	-	-

Sources: NKC Research, Reuters

The BdM reiterated its commitment to a flexible exchange rate regime to the IMF during the Fund's latest country visit to Mozambique. According to the central bank, the metical's relative stability against the US dollar in 2013 was mostly due to an increased availability of foreign exchange in the local economy. More recently, after the Mozambican metical struggled against the greenback during the first quarter of 2014, reaching its lowest point against the US dollar since late 2010 of MT32.25/US\$ on 27 February, the local unit recovered somewhat – averaging MT31.33/US\$ during May.

Despite the seemingly worrisome depreciation of the local unit, the metical performed better against the South African rand. South Africa is

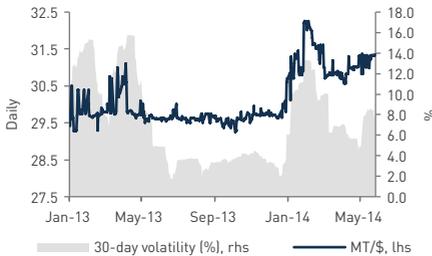
Mozambique's largest trading partner, and the depreciation of the rand against the dollar has outstripped the depreciation of the Mozambican currency, thereby making the metical relatively stronger against the rand. Overall, our outlook for the metical against the dollar remains bearish, considering the likely pressure that will be asserted on the local unit from Mozambique's sizable current account deficit, expansionary fiscal policies, and rising external debt levels.

As such, the metical is projected to weaken from an average of MT29.73/US\$ in 2013 to an average of MT32.54/US\$ this year, before depreciating to an average of MT33.20/US\$ in 2015.



Exchange rate

Mozambique metical



Source: Reuters

South African rand



Source: Reuters

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Bolsa de Valores de Moçambique (BVM)	4 primary listings	Limited	US\$532m	N/A	N/A	N/A

Sources: Bloomberg (Stock market), Reuters (Bond market)

Mozambique’s stock market, the Bolsa de Valores de Moçambique (BVM), was launched in October 1999 with assistance from the World Bank and the Lisbon Stock Exchange. The BVM is a public institution under the guardianship of the Minister of Finance, while the BdM is responsible for supervision and surveillance in both the primary and secondary securities market.

A remote trading network system was installed in 2000, providing stockbrokers with direct access to the trade session without the need to physically be in the stock exchange. Still, the bourse remains extremely illiquid and hampered by a lack of physical infrastructure and a poor legal framework.

According to the BVM, stocks of four companies are listed on the bourse, namely Mozambican Hydrocarbons Company (CMH), Beers of Mozambique

Top-five listed companies	Market capitalisation
Beers of Mozambique	US\$441.95m
Construction and Services	US\$67.09m
Empresa Moçambicana de Seguros	US\$10.03m
Mozambican Hydrocarbons Company	US\$7.58m

Source: Bolsa de Valores de Moçambique

(CDM), Empresa Moçambicana de Seguros (EMOSE), and CETA (Construction and Services). Following an initial public offering (IPO) by EMOSE between 23 September and 14 October last year, the company’s market capitalisation reached MT314m by 13 June. The IPO consisted of 15.7 million shares at a par value of MT1/share and a subscription price of MT20/share.

According to their website, EMOSE is the largest and oldest insurance company in Mozambique. Total market capitalisation reached MT16.48 billion (US\$532 million) on 13 June 2014, commensurate with levels seen at the beginning of the year.

The bourse is dominated by CDM and CETA, accounting for 84% and 13% of total market capitalisation respectively. Trading activity on the exchange is in general very low compared to other stock exchanges in the region.

Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
treasury bills	91, 182 and 364days	Weekly	N/A	N/A	N/A	N/A
Treasury bonds	3 to 10 years	No predefined frequency	N/A	N/A	N/A	N/A

Source: NKC Research

Mozambique’s short-term Treasury yields have declined substantially since 2011, partly due to global liquidity conditions, but largely due to a significant reduction in consumer price inflation.

After averaging 12.43% in 2010 and 10.94% in 2011, consumer price inflation fell to an average of 2.82% in 2012. In addition, the global hunt for yield, given liquidity conditions in developed markets, has further encouraged lending to the country, which also put downward pressure on yields.

The government has increased efforts to develop domestic capital markets. The issuance of government bonds by auction in the domestic stock exchange began in 2013, and a financial market education programme has been designed. In 2014, the registry of security holdings will be centralised in order to increase transparency, facilitate trading, investor protection, and taxation. There are currently 25 debt securities listed in the stock exchange by companies.

The BdM primarily issues 91 and 182 day treasury bills to raise domestic public debt, while occasionally also selling 364-day tenors. According to Bloomberg, the central bank auctioned the 91-day security on six occasions so

far in 2014 – most recently on 11 June. The weighted average rate (WAR) on the three-month tenor has remained relatively steady, rising from 5.24% at the first auction of the year on 15 January to 5.34% at the most recent auction. The local authorities attracted bids amounting to MT8.55 billion for the shortest-dated security over the corresponding period, of which MT7.24 billion was accepted.

The BdM favoured the 182-day tenor with regard to raising domestic debt, selling the six-month instrument on 11 occasions – also most recently on 11 June. Similar to the yield on the 91-day security, the borrowing costs on the 182-day instrument has stayed relatively stable so far this year, rising from 6.59% on 8 January to 6.61% at the most recent auction.

The central bank attracted bids for the six-month tenor amounting to MT23 billion over the corresponding period, of which MT16.98 billion was accepted.

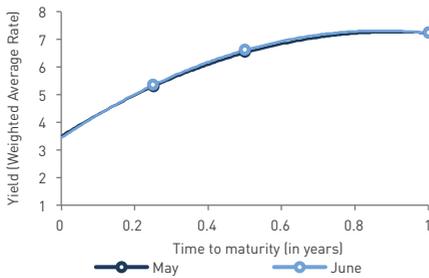
Finally, the BdM sold the 364-day instrument on four occasions so far this year – most recently on 4 June.



The WAR on the instrument saw a marginal rise from the 7.2% recorded at the first auction the security was sold at this year, on 5 March, to 7.25% at the most recent auction. The central bank

attracted bids amounting to MT5.15 billion for the one-year tenor over the corresponding period, of which MT4.55 billion was accepted.

Mozambique yield curve



Sources: NKC Research, Reuters

Mozambique treasury bills



Sources: NKC Research, Reuters

Macroeconomic data and forecasts

2009	2009	2010	2011	2012	2013E	2014F	2015F
Real GDP (% change)	6.33	7.09	7.32	7.25	7.00	8.21	7.94
Nominal GDP (US\$bn)	9.67	9.27	12.69	14.63	15.64	16.22	18.19
Consumer price inflation (average, %)	3.79	12.43	10.94	2.82	4.26	6.42	6.25
Budget balance, incl grants (% of GDP)	-5.51	-4.30	-5.05	-4.00	-4.56	-12.52	-8.30
- Revenue (% of GDP)	27.06	28.56	28.62	28.63	31.43	27.59	27.43
- Expenditure (% of GDP)	32.57	32.87	33.67	32.64	35.99	40.11	35.73
Government debt (% of GDP)	45.60	45.81	39.63	41.91	43.92	46.91	49.07
Current account balance (% of GDP)	-16.16	-16.29	-24.11	-43.96	-43.51	-46.14	-46.06
Trade balance (% of GDP)	-16.72	-14.25	-17.73	-27.67	-29.67	-29.99	-29.64
Metical/US\$	27.16	34.03	28.75	27.89	29.73	32.54	33.20
Short-term interest rate (%)	15.68	16.26	19.10	18.50	17.00	17.50	17.50
Foreign reserves (US\$bn)	2.10	2.03	2.35	2.72	3.14	3.32	3.73
Months of import cover	5.44	5.35	4.00	2.86	3.14	3.00	3.01

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% , yoy)	17.44	6.14	2.02	3.54	3.57	2.87	2.91
Monetary policy rate (%)	16.50	15.00	9.50	8.25	8.25	8.25	8.25
Foreign reserves (US\$bn)	2.10	2.43	2.80	3.19	3.39	N/A	N/A
91-day treasury bill rate (% , eop)	N/A	N/A	N/A	6.60	6.41	6.40	6.51
Metical/US\$ (eop)	32.15	26.65	29.47	29.71	30.79	30.56	31.31
Aluminium (US\$/tonne , eop)	2,460.75	1,994.50	2,041.00	1,754.75	1,744.25	1,756.25	1,806.50

Sources: NKC Research, Bloomberg, Reuters, Banco de Mocambique, Instituto Nacional de Estatística

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