

# Mozambique



## Outlook

|                                    | Average<br>10-14 | 2015  | 2016  | 2017  | 2018  | 2019  | 2020     | Forecasts |       |
|------------------------------------|------------------|-------|-------|-------|-------|-------|----------|-----------|-------|
|                                    |                  |       |       |       |       |       |          | 2021      | 2022  |
| GDP growth (%)                     | 7.1              | 6.7   | 3.8   | 3.7   | 3.4   | 2.3   | -1.3     | 1.2       | 4.2   |
| CPI inflation (%)*                 | 6.6              | 3.6   | 19.9  | 15.1  | 3.9   | 2.8   | 3.1      | 5.5       | 6.2   |
| Fiscal balance (% of GDP)          | -4.9             | -6.7  | -5.5  | -2.9  | -6.8  | -0.2  | -7.1(e)  | -5.3      | -3.4  |
| Public debt (% of GDP)             | 45.3             | 87.4  | 119.9 | 102.4 | 106.2 | 104.4 | 121.3(e) | 123.5     | 123.4 |
| Reference rate (%)*                | 11.9             | 7.8   | 16.0  | 22.5  | 16.3  | 13.5  | 11.0     | 13.3      | 13.9  |
| Exchange rate (MZN/USD)*           | 30.6             | 39.4  | 62.8  | 63.4  | 60.5  | 62.5  | 69.5     | 76.7      | 79.0  |
| Current account balance (% of GDP) | -31.3            | -37.4 | -32.2 | -19.7 | -29.6 | -20.4 | -60.0(e) | -68.9     | -83.7 |
| External debt (% of GDP)           | 58.0             | 86.9  | 116.1 | 115.0 | 103.4 | 138.3 | 178.0(e) | 215.1     | 241.6 |

Notes: \* Annual average. (e) estimation.

Source: CaixaBank Research, based on data from national statistical agencies and Refinitiv and Bloomberg.

- COVID-19 has intensified the challenges that Mozambique has been facing in the past years**, namely persistently weak public finances and one of the highest public debt ratios among low-income developing countries, a heavy dependence on the extractives sector and global commodity prices (i.e., coal, aluminum and gas), high levels of poverty, and violent conflicts in the North and Centre of the country. Restrictions to contain the spread of the COVID-19 pandemic and depressed global demand triggered a recession in 2020 and, while the economy is projected to recover in 2021 supported by global growth, increasing infections continue to affect the country at the start of 2021 and vaccination prospects remain highly uncertain (no vaccines are yet available, and even though the country has applied for the WHO's COVAX initiative it would be difficult to achieve group immunity before 2023).
- COVID shock.** GDP contracted in 2020 (-1.3%) for the first time since 1992 due to a global recession and the domestic restrictions imposed to control de pandemic. The biggest impact was recorded in Q2 2020, when GDP declined 3.2% year-on-year. In this adverse context, Metical depreciated more than 10% against the US dollar in 2020, but inflation was restrained by administered prices, lower international oil prices and weak domestic demand.
- Economic policy response.** Government implemented VAT and import tariff exemptions in some essential goods, administered essential goods' prices, increased cash transfers and subsidies to the poorest households as well as micro-businesses and SMEs, and reached an agreement with the IMF for a 309 million dollars program to meet urgent balance of payments and fiscal needs due to COVID-19. Additionally, the central bank adopted a more accommodative monetary policy, decreasing the reference rate, and eased some requirements for the banking system.
- Macrofinancial imbalances**
  - Public debt.** Significant fiscal deficits, state-owned enterprises' debt and debt guarantees, and the Metical depreciation have pressured the public debt in last years, with the ratio above 100% since 2016, when hidden debts were disclosed. The COVID-19 crisis added pressure to debt levels, leading Mozambique to join the G20 Debt Service Suspension Initiative. The expected future fiscal revenues from liquefied natural gas (LNG) exports could attenuate the risks about debt sustainability in the medium-term.

**Outlook** (continued)

- › **Inflation.** The upward pressure on inflation is still very noticeable. The main pressing factors are the effects of the metical depreciation, the end of several administered prices and the increasing international energy and food prices. These factors will be only partially offset by the more restrictive monetary policy.
- › **External accounts.** The considerable deficit of the current account is explained by the weak productive capacity of the economy and the need to import the majority of its essentials, and the impact of megaprojects in imports of capital goods and services. In this context, the downward pressure against the currency will continue in 2021. A significant improvement should occur in the long-term, as gas production begins.

**Main risks**

The pandemic is the key risk in Mozambique's economic outlook. Directly, it plays out through the domestic need to keep restrictions in place –especially given the poor vaccination outlook. Indirectly, it will also affect Mozambique through its impact on commodity prices at the global level. Other risks:

- **Macroeconomic and financial risks**

- › **Delays in extractive investment projects, such as gas,** would drag on the economic recovery and public finances -raising concerns about debt sustainability. This risk is underscored by violent conflicts prevailing in the country.
- › **Substantially higher depreciation of the currency** would add additional pressure on prices, likely forcing the central bank to take a more restrictive monetary policy, restraining credit to the private sector and limiting the economic activity. In fact, the central bank has already raised interest rates in 2021 –highlighting higher risks for an acceleration of prices.
- › **Extreme climate events,** destroying infrastructures and agricultural harvests, with the adverse impact on public accounts and economic activity. Mozambique has already suffered the impact of Eloise cyclone in January 2021.

- **Social and political**

- › **Violent conflicts** have been contributing to an increasing number of displaced people, worsening the already high levels of poverty in the country.
- › Additionally, high economic inequality is fuelling adhesion to violent and radical groups and question the action of the Government. Finally, the high vulnerability of the country to adverse climate conditions worsens the scarcity of some essential goods and, as a result, the poverty in the country.

|                              | Rating                                   | Last changed | Outlook | Last changed |
|------------------------------|--|--------------|---------|--------------|
| <b>STANDARD &amp; POOR'S</b> | <input checked="" type="checkbox"/> CCC+ | 22/11/19     | Stable  | 22/11/19     |
| <b>MOODY'S</b>               | <input checked="" type="checkbox"/> Caa2 | 20/09/19     | Stable  | 15/02/19     |
| <b>FitchRatings</b>          | <input type="checkbox"/> CCC             | 07/11/19     | –       | 07/11/19     |

Indicates that the country has "investment grade".

Indicates that the country does not have "investment grade".

**CaixaBank  
in the world**

- Branches
- Representative offices
- Spanish Desks
- CaixaBank Group

