Economics | Mozambique

Economic Insights

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Background and outlook

The security forces have made further progress in countering the threat of militants in the north. However, the rebels have continued to attack villages and isolated settlements. In 2024, the firm economic momentum was disrupted by post-election violence in Q4 which led to widespread infrastructure destruction, disruption to business operations and subdued demand. Additionally, unfavourable weather conditions, particularly the cyclone in the northern region, hampered activity. The economic weakness persisted in Q1, albeit at a softer pace, as the impact of the disruptions continued to filter through the economy. Nevertheless, the economy is expected to recover meaningfully in 2025, although the pace may be partially constrained by lingering effects of the unrest and ongoing global uncertainties. Inflation, which edged higher between December and March, began to ease in April. However, it is set to resume the upward trend towards the upper limit of the target range due to potential residual pressures from supply disruptions and modestly higher food and transport prices. Despite this, the Banco de Moçambique (BdM) has maintained an accommodative policy stance, cutting rates by a combined 175 basis points over the past three meetings and constantly reaffirming its commitment to supporting the economy. The exchange rate has remained steady but foreign exchange liquidity constraints intensified at the start of the year. To mitigate these risks, the BdM reduced the proportion of foreign exchange that exporters can retain to 50% from 70%, providing short-term relief for local businesses and ensuring stability.

THE POLITICAL OUTLOOK

Political stability has been restored, and the new president strives for an inclusive political deal.

The political environment has stabilised after violence broke out in October 2024, triggered by the leading opposition party's rejection of the official results that gave FRELIMO a comfortable victory. President Daniel Chapo's efforts to accommodate opposition leader Venancio Mondlane have continued. Mondlane, who has formed a new party after the PODEMOS party abandoned him in favour of joining parliament, expressed confidence in the president's leadership. The post-election violence, which claimed an estimated 300 lives and displaced 13 000, was a major setback for a nation that made significant progress in stabilising the security situation in the northern region. Encouragingly, all the opposition parties have committed to promoting peace, reconciliation and stability. The 48-year-old president has brought a renewed vigour to the government and politics. The former governor of Inhambane province (2016 - May 2024), a university lecturer of constitutional law and political sciences and a radio and television anchor is reported to be untainted by corruption allegations. FRELIMO has expressed its commitment to implement measures to strengthen institutional governance through better administration of public institutions, rationalising state resources, reviewing the tax system to exempt basic goods and services, and expanding tax collections. On 14 May, parliament approved the inclusion of sugar, oil and soap in the basket of goods exempted from value-added tax (VAT). The additional exemptions will cost an estimated US$31.3 million a year in tax revenue. The legislature is reviewing the permanent VAT exemption of raw materials and machinery in some sectors after temporary exemptions were extended to the end of 2025. A process to reform the national elections agency is underway.

There is also a renewed focus on socioeconomic development. The Government Five-Year Plan (2025-2029) has set an annual economic growth target of 5.5% a year. Access to healthcare will be raised to 73% of the population from 70.2%. The construction of 7 440 km of power transmission lines will increase access to electricity for 88% of the population from 60.1%. Other goals are 1 766 rural water supply systems, 14 district hospitals and 3 492 classrooms for primary education. The government has started to raise financing for the projects. The African Development Bank (AfDB) has granted a US$43.6 million loan for electricity infrastructure, mainly transmission lines, from the 332 gigawatt Namaacha-Boane wind farm.

Chapo's presidential term promises to set the country on a path of civil cooperation. However, grievances about harsh socioeconomic conditions will likely persist for an extended period. In the central provinces, RENAMO remains influential, and although the party has demonstrated a willingness to work towards lasting peace, its rogue members still threaten to destabilise the area. In the north, the al-Sunnah militants still pose a significant threat.

The security forces have continued to stabilise the situation in Cabo Delgado province. Although the al-Sunnah militant group has been weakened, they still pose a significant security threat. The militants have largely been driven away from areas that are strategic for the liquefied natural gas (LNG) projects. Still, their sporadic attacks in isolated villages have disrupted activity around Mocimboa da Praia, a logistical hub, and blockaded the N14 and N380 highways. Reports indicate that the militants have killed at least 30 civilians this year, although the number is likely much higher. They have also killed at least 11 security personnel, while the number of militants killed and captured by the security forces is unclear. Worryingly, the militants attacked a Russian research vessel off the coast of Cabo Delgado on 10 May, marking the first maritime assault. However, the militants lack the capacity to strike the Coral South floating LNG platform, which is located in deep waters 80km from the shore.

Foreign partners have maintained their support for the security to stabilise the northern regions. The European Union (EU) has disbursed more military equipment to the local army. The EU will continue to finance Rwandese troops in Cabo Delgado despite the EU's push for Rwanda to stop its involvement in the conflict in the eastern Democratic Republic of Congo. The Rwandese troops, reported to have increased to 4 000 personnel after 2 000 were initially deployed in 2021, have been credited with driving the al-Sunnah militants away from most of the strategic areas in the north.

Overall, Nedbank expects the political environment and security situations to improve further in the second half of this year, which will facilitate a further rebound in economic activity.

The construction of the Afungi onshore LNG field set to resume in July 2025, while initial work on the construction of a second floating LNG platform is underway.

The construction of the Afungi Area 1 LNG onshore field remains suspended, but its resumption seems imminent. On 20 May, TotalEnergies CEO Patrick Pouyanne said that the company would seek the government's approval to restart construction activity at its onshore field in July 2025. Pouyanne cited the sufficient stabilisation of the security situation in areas close to the construction site while the company has secured financial guarantees for the US$20 billion project. TotalEnergies has confirmed that the US Export-Import Bank has approved its financing package totalling US$4.7 billion. This was after fears of extended delays in construction due to shortfalls in financing. In February, US President Donald Trump's order that all non-essential aid and US government-funded projects around the world be reviewed raised fears that the US Export-Import Bank would likely delay releasing its portion of the project cost.

Reports indicate that work on the second floating LNG platform is advancing. The Eni-led consortium is about to finalise production contracts. The Coral Norte floating platform construction is scheduled to start in South Korea soon, and production is planned to begin in 2028, per Signal Risk. The platform, with a peak capacity of 3.55 million cubic metres a year, will cost US$7.2 billion.

The Coral Sul floating LNG platform has been operating since November 2022, with 104 shipments of LNG exceeding five million tonnes. It has raised US$206 million for the fiscus, and it is forecasted to generate US$1.3 billion a year for the fiscus when it reaches its full capacity of .4 million tonnes a year.

The Mozambican government plans to renegotiate contracts and concessions in the extractive sector to boost revenue derived from natural resources. The focus will primarily be on idle projects, with the country having issued 3 000 exploration licenses. Nedbank does not expect the contract review to adversely affect existing operations, as the government will be cognisant of its high reliance on the revenue it currently draws from the sector.

ECONOMIC GROWTH OUTLOOK

Geoeconomic shocks and domestic risks have dimmed domestic growth prospects

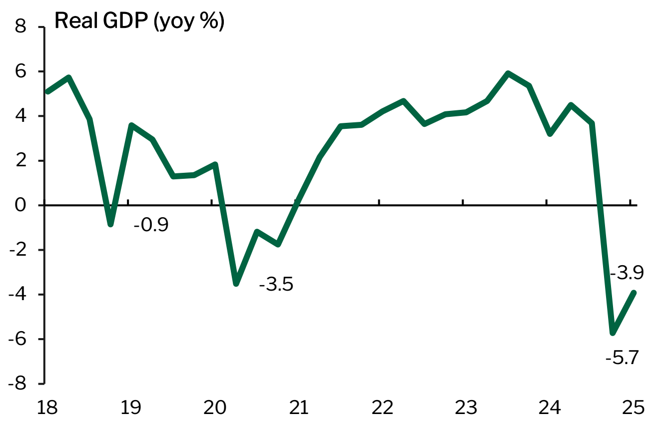
Economic growth slowed notably in 2024, easing to 1.9%, a sharp decline from the 5.4% expansion in 2023. A challenging domestic environment primarily drove this downturn, though a weaker global environment also played a role. Much of the weakness was confined to the final quarter of the year as post-election violence led to widespread destruction of infrastructure, disruption to business operations and subdued demand. Before the Q4 political instability, the economy was on course to record another year of solid growth in 2024, with quarterly economic growth averaging 4.5% over the first three quarters. According to the Confederation of Economic Associations of Mozambique (CTA), the unrest impacted more than 950 companies, resulting in the loss of more than 17 000 jobs and an estimated US$500 million in revenue. Government data indicates that the fiscus lost about US$560 million in tax revenue.

The impact of the cyclone in the northern part of the country also weighed on growth. As a result, the economy contracted by 5.7% yoy in Q4, the deepest contraction since the height of the Covid-19 pandemic, when aggregate output declined by 3.5% in the second quarter of 2020.

Most industries slowed, either contracting or easing significantly during Q4. Agriculture, a key sector which accounts for about 70% of employment, slowed successively in 2024 as extreme weather conditions, including cyclones and droughts, dampened output. The industry is highly vulnerable to climate-related risks, with low productivity, lack of inputs and insufficient infrastructure investment further constraining its development. While farms were not directly targeted during the post-election demonstrations, the broader impact of the disruption to supply chains, displacement of workers and general insecurity further strained agricultural productivity and revenues.

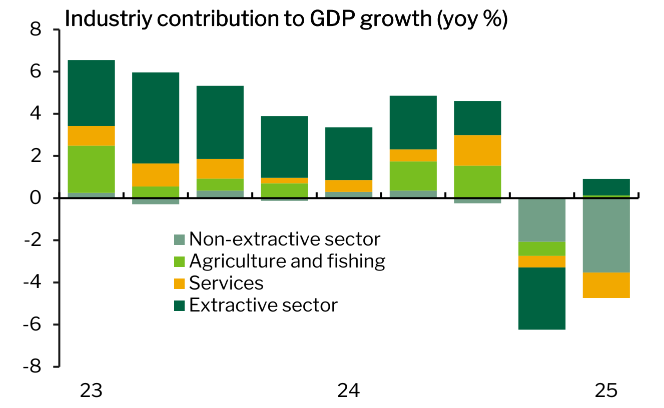
After slowing in Q1 2024 and despite generally subdued commodity prices, the extractive sector performed relatively well in Q2 and Q3. However, the political disruptions derailed the recovery, with output contracting by 1.6% in Q4. Various companies, including those in the gas, coal, graphite and aluminium industries, halted activity or declared force majeure to ensure the safety of their employees, raw materials and assets. Manufacturing also suffered, with its already lacklustre performance worsening.

Chart 1: Real GDP slumped the most since Q2 2020



Source: Haver, Nedbank calculations

Chart 2: Most sectors dipped due to post-election violence

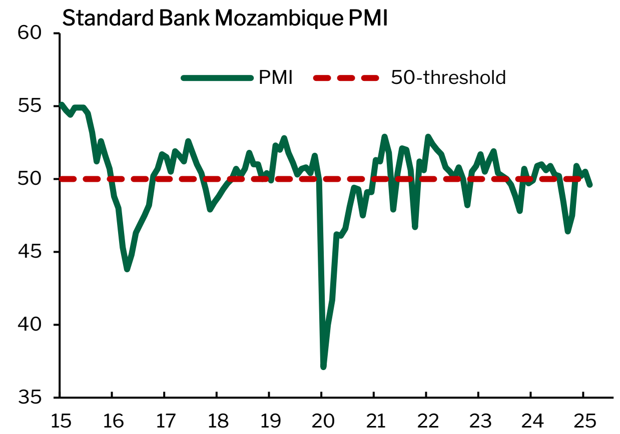


Source: Haver, Nedbank calculations

Services, which account for the most significant portion of the country's output, bore the brunt of the impact of the post-election violence. In particular, the tourism sector saw the protests coincide with the peak travel season, resulting in a dip in tourist arrivals and a spike in booking cancellations. Despite the downturn in the quarter, annual tourism growth was boosted by strong numbers in the first three quarters of 2024.

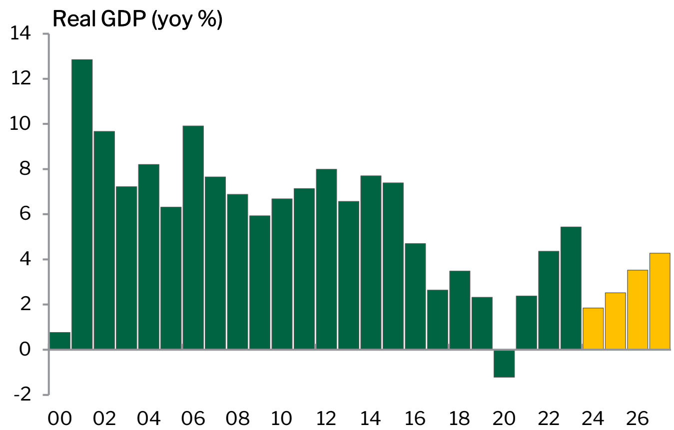
Disappointingly, the latest data shows that the effects of the Q4 disruptions persisted in the first three months of 2025. The economy contracted by 3.9% yoy in Q1. The main drag was lower output in the electricity, gas, and water (-22.5%), manufacturing (-14.8%) and construction (-10.8%), which resulted in a 16.2% contraction in the secondary sector. The services sector (-8.3%) was weighed by contractions in hospitality and catering (-21.6%), transport and communications (-21.3%), and wholesale and retail trade (-18.1%). The primary sector bucked the trend, with expansions in mining (6.5%) and fishing (1.3%), lifting output by 2.1%. Domestic demand contracted by 0.2% as personal consumption softened. Exports dropped by 2.3%, while imports expanded by 6.1%.

Chart 3: Economic activity likely expanded in Q1



Source: Haver, Nedbank calculations

Chart 4: Growth will trend higher as investment picks up



Source: Haver, Nedbank calculations

Despite the negative GDP data for Q1, high-frequency indicators point to a rebound in economic activity in recent months, albeit with some fluctuations. The Standard Bank Mozambique Purchasing Manager's Index (PMI) recovered between February and April, touching a high of 50.9 in February from a low of 46.4 in December. However, this positive momentum was interrupted in May, with the PMI dropping to 49.6 from 50.5 in April, primarily due to seasonal factors. Nevertheless, output and new orders remained in expansionary territory, indicating easing logistical constraints, normalising business operations and recovering demand.

The optimistic growth outlook presented at the start of the year has dimmed, mainly due to an increasingly uncertain and weaker global environment. The US implemented several policy changes in the past few months. While reordering its trade policy presents the most noteworthy change, the Trump administration's order to freeze foreign aid and financing by federal agencies will also impact Mozambique negatively. Fortunately, Mozambique has limited trade exposure to the US; however, the economy will be indirectly affected by the drag on some of its key trade partners (See Box 1) or a dampening in foreign investment.

The domestic environment also faces some downside risks, including a potential resurgence in social unrest due to socioeconomic grievances, extreme weather conditions that would reduce the harvest, a worsening of the security situation in the north and a constrained fiscal position which restricts the government's capacity to develop infrastructure. A prolonged delay in resuming the construction of the onshore LNG fields would further dampen the growth outlook.

Encouragingly, there are quite a few upside factors to the outlook. While inflation will edge slightly higher on account of the impact of post-election disruptions, Banco de Moçambique (BdM) will likely cut policy rates further to support domestic demand. According to the United States Department of Agriculture, the agricultural sector is expected to recover, with higher maise and sorghum production leading the expansion. Services activity will rebound amid an ongoing normalisation of business operations. Much support is also expected to stem from the extractive sector, with the anticipated resumption of operations at the Area 1 LNG construction site driving construction activity. We expect that the easing in political tensions will enable tourism to resume its recovery to pre-pandemic levels.

Table 1: MOZAMBIQUE CROP PRODUCTION

Crops	5-yr average (2020-2024)	2024/25	2025/26	% Change	
	000 tons	000 tons	000 tons	2025/26 vs 2024/25	2025/26 vs. 5-yr average
Maize	1873	1400	1800	28.6	-3.9
Peanut	146	175	175	0.0	19.9
Rice	117	124	124	0.0	6.0
Sorghum	137	90	150	66.7	-34.3
Millet	20	15	30	100.0	-25.0
Wheat	13	5	17	240.0	-61.5
	5-yr average (2020-2024) (1000 480-lb bales)	2024/25 (1000 480-lb bales)	2025/26 (1000 480-lb bales)	2025/26 vs 2024/25	2025/26 vs. 5-year average
Cotton	115.0	115.0	115.0	0.0	0.0

Source: United States Department of Agriculture Foreign Agricultural Service

Given the downside risks, most international institutions revised their economic growth forecasts lower. The International Monetary Fund (IMF) expects growth of 2.5% in 2025 and 3.5% in 2026. The IMF downgraded its growth forecast for 2025 from 4.3%, citing the less favourable global environment that could impact small commodity exporters notably. The World Bank is slightly more optimistic, with a growth forecast of 3%, down from 4%. Following the disappointing Q1 GDP data, the government revised its growth forecast for 2025 to 2.9% from 5%. Nedbank forecasts growth of 2.5% in 2025 and 4.5% in 2026, with economic activity accelerating as global trade recovers and domestic demand strengthens. Our 2025 forecast does not incorporate the resumption of the Area 1 LNG construction, a development that would boost construction and related activities and aggregate economic activity. If construction resumes in 2025 and progresses without any further disruption, shipments of LNG would start in 2030, according to Total Energies. The IMF projects Mozambique's growth to surge only in 2029, rising to 9.3% and 11.4% in 2030 as the exports of LNG expand significantly.

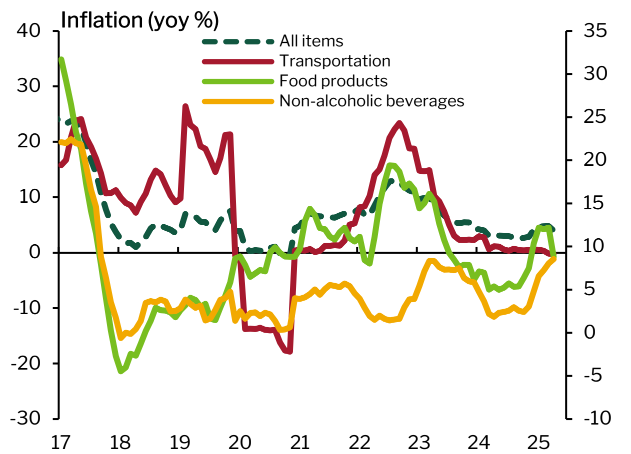
INFLATION AND INTEREST RATE OUTLOOK

Inflation surprises to the downside in April following two months of acceleration

Consumer price inflation (CPI) slowed to 4% yoy in April from 4.8% in March and 4.7% in February. The moderation points to a notable easing in supply disruptions after the post-election violence and the December flood damage caused shortages of some food items and drove prices higher. The downside pressure mainly emanated from the food and non-alcoholic and the restaurants and hotels sub-categories. Other inflation categories also eased during the month, with further downside pressure from subdued global oil prices and a generally stable currency. Core inflation has remained steady and within target, suggesting moderate underlying price pressures.

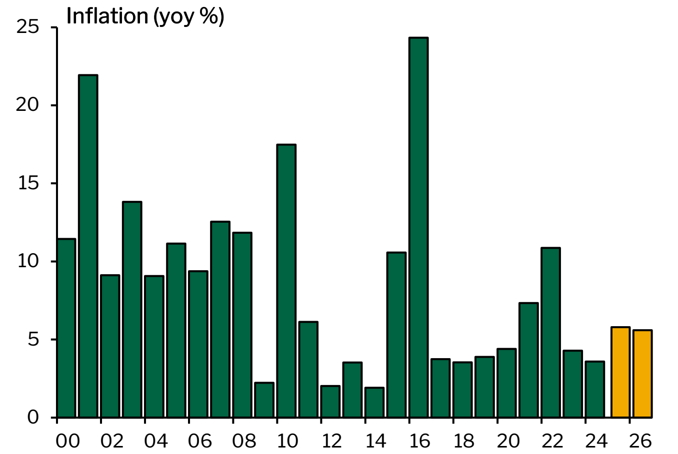
Food prices, which account for over 28% of the inflation basket, surged in the previous four months, climbing by double digits from December to March. Encouragingly, food inflation eased to 8.8% in April, notably lower than 12.2% in March. Though softer, transport inflation contracted for a 3rd straight month, partially offsetting the pressure from the still relatively elevated food prices. The cost of transport contracted by 0.1% yoy in April from 0.3% previously as fuel prices dropped amid generally softer global crude oil prices and a stable exchange rate. The petrol price has been steady at MZN85.82 per litre over the past three months, down by about 0.5% from January.

Chart 5: Lower CPI on softer food and transport trends.



Source: Haver

Chart 6: CPI to rise but remain below 6% in H2'2025.



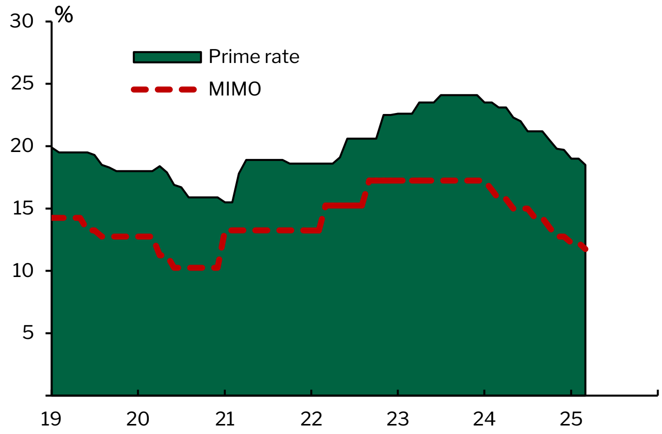
Source: Haver and Nedbank

Overall, local price dynamics have been favourable in the past year, with inflation remaining within the 3% to 6% target range since July 2023. Headline CPI averaged 3.2% in 2024, down notably from an average of 7% and 10.4% in 2023 and 2022, respectively. While inflation will remain within target in 2025 and 2026, it will accelerate and trend quite close to the upper limit of the range. The upside will reflect a stabilising base from last year's lows, potential residual pressures from supply disruptions and modestly higher food and transport prices in key trade partner, South Africa. In addition, the impact of unfavourable weather conditions amid the cyclone season, which runs between November and April, also remains a significant upside risk to the inflation outlook. Fortunately, the upside pressures will be partially contained by a stable exchange rate, lower global commodity prices and lacklustre credit demand. Nedbank expects CPI to average 5.8% and 5.7% in 2025 and 2026, respectively. The latest forecasts from the BdM also show inflation remaining at a single-digit level in the medium term.

Policy rates have eased significantly following favourable inflation outcomes

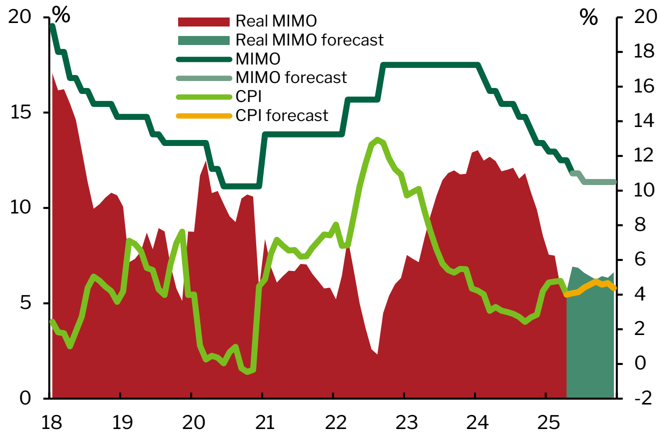
The BdM cut its key policy rate by an aggressive 75 basis points (bps) to 11% from 11.75% in May. This is the 9th consecutive cut and the lowest policy rate since 2020. The latest decision follows a 50-bps reduction at its March meeting, bringing the cumulative cuts from January 2024 to 550 bps. According to the central bank, the deep cut primarily reflects the stabilisation of inflation expectations within single digits over the medium term amid generally muted global inflation. The benchmark commercial bank lending rate decreased to 18% from 22.3% a year ago and will drop further in line with lower central bank policy rates. The BdM has maintained the reserve requirement ratios (RRR) for local and foreign currency deposits at 29% and 29.5% after reducing them from 39% and 39.5%, respectively, in January to bolster liquidity and restore productive capacity.

Chart 7: The BdM likely to cut further in 2025.



Source: Bank of Mozambique and Nedbank

Chart 8: The real policy rate to remain in single digits.



Source: Bank of Mozambique and Nedbank

Given the recent policy decision, the BdM will likely cut interest rates further this year as the central bank prioritises supporting economic activity. Forecasts indicate that inflation will remain contained in 2025 despite trending quite close to the upper limit of the target range. The risks to the inflation outlook appear broadly balanced, with pressures from the post-election violence having eased significantly. However, some upside risks remain. Domestically, this includes risks related to a worsening fiscal position and climate shocks. Externally, heightened uncertainty about the impact of US protectionist measures could also pose inflationary risks, mainly through the currency.

Given this backdrop, Nedbank foresees a further cut from the BdM, reducing the MIMO to 10.5% in the second half of 2025. The real MIMO rate, the difference between the MIMO and CPI, is set to remain in positive territory but also at the lowest since December 2022. Further monetary support is expected from a further reduction in the RRRs for the local and foreign currency deposits, with predictions for the central bank to cut them to 2023 levels. While the lower real rates are demand and growth supportive, there are concerns that they may not be sufficient to bolster credit growth beyond the extractive sector.

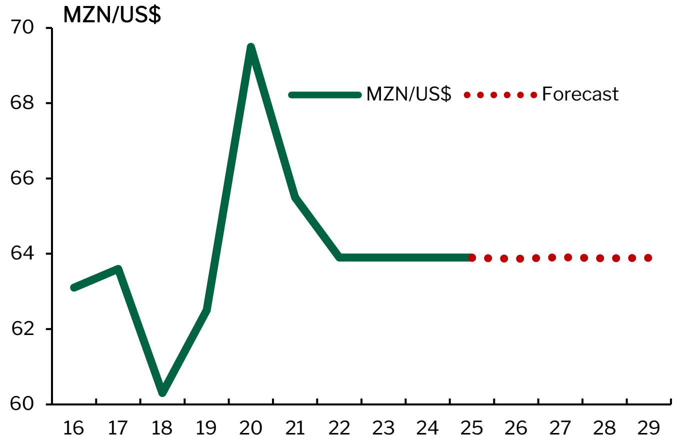
EXCHANGE RATE TRENDS AND OUTLOOK

The metical remains steady, while foreign-exchange shortages intensify

The metical has remained steady around MZN63.9/US$, and the BdM is expected to maintain this rate throughout 2025. Despite the currency's stability and the reduction in the RRR for foreign currency deposits, foreign exchange (FX) shortages intensified at the start of 2025. Businesses faced increased difficulty importing raw materials and goods, hitting fuel supplies and threatening to trigger basic food shortages. These liquidity constraints emerged in 2024, making it extremely difficult for local businesses to honour their external debt obligations. In April, the BdM received complaints from the CTA, with the organisation claiming that the shortages threaten local businesses' survival. To contain these risks, the BdM reduced the percentage of FX that Mozambican exporters can retain to 50% from 70%. This ultimately means that exporters must convert 50% of their revenues to local currency. This will inject approximately US$750 million into the economy, more than covering the estimated shortage of approximately US$373 million. The measure will be in force for 18 months, providing short-term relief for local businesses and ensuring economic and currency stability.

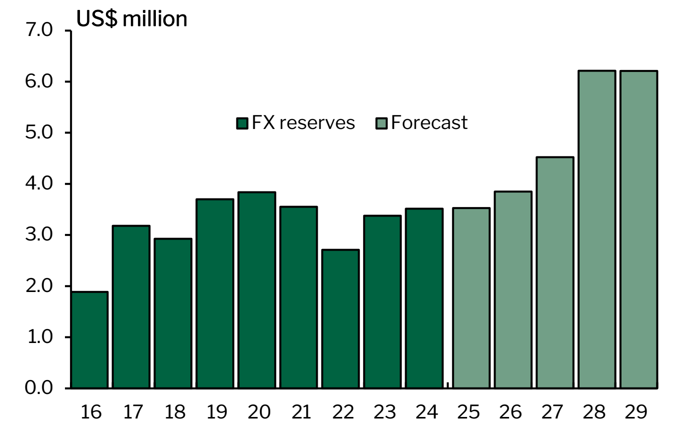
The country's foreign exchange reserves will recover, albeit modestly, over the next few years. Reserves will be bolstered by relatively tight monetary policy, limited FX intervention, rising exports, concessional finance inflows and foreign investment linked to key export-orientated projects, particularly in the LNG sector. The downside pressures will mainly emanate from potential delays to LNG projects and subdued global demand, given a dimmer growth outlook. A more robust increase in reserves is expected from 2028 to 2029 due to gains from LNG production. BdM data indicates that gross foreign exchange reserves totalled US$3.51 billion in December 2024, from US$3.42 billion at the end of 2023. The latest data shows that reserves fell to a 1-year low of US$3.59 billion in February but recovered to US$3.62 billion in March.

Chart 9: Metical to remain steady over coming years.



Source: Economist Intelligence Unit

Chart 10: LNG gains will boost exports in the medium term.



Source: Economist Intelligence Unit

EXPORTS AND IMPORTS TRENDS

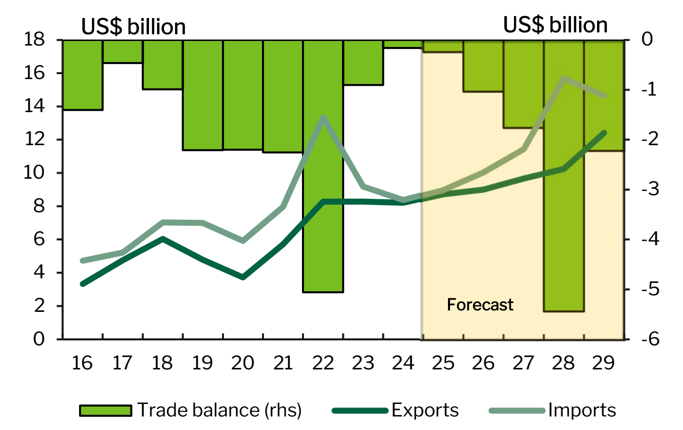
Export volumes bolstered by aluminium, LNG and gold prices

Trade performance was generally subdued in 2024, weighed down by weak domestic and global demand and the muted prices of some key commodities. Nonetheless, exports outperformed imports. Merchandise exports advanced by 1.5% yoy in 2024, only slightly higher than the 0.9% recorded in 2023. In contrast, the contraction in merchandise imports deepened to 7.6% from 6.7%. Aluminium, LNG and gold predominantly drove the modest growth in exports, while coal contracted at a slower pace. Aluminium shipments (bars and cables) were up by 10.9% from a contraction of 12.1% in 2023, bolstered by generally robust prices throughout the year. LNG exports continue to drive export volumes, with shipments advancing by 40.3% as the Coral Sul floating LNG platform continued to increase its production. Gold output fell marginally to 1.62 tonnes in 2024 from 1.66 tonnes. Despite the slightly lower volumes, gold earnings still greatly benefitted from robust global demand and higher prices. Coal exports contracted at a slower 8.1% following a 15.3% fall in 2023, while the price of coal averaged US$123 per tonne in 2024, notably lower than the US$151.4 average in 2023.

Trade conditions showed some recovery in the first three months of 2025, but exports continued to outpace imports due to significantly muted domestic demand. Exports grew by an average of 5.6% yoy in Q1, following a 9.4% contraction in Q4. Although imports also showed some signs of recovery, they remained in contractionary territory, decreasing by an average of 7.5% compared to a 26.4% drop previously.

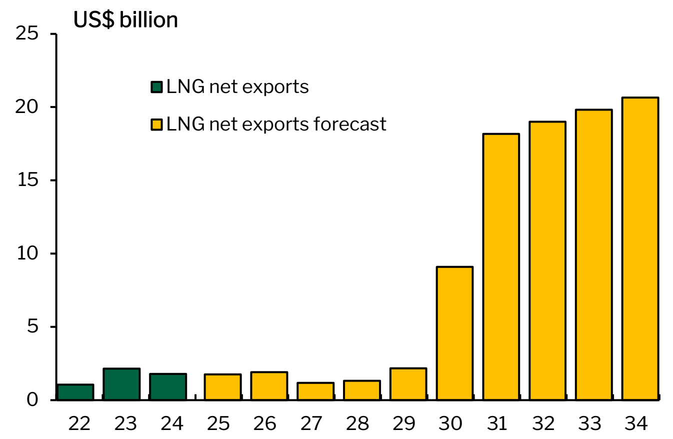
Looking ahead, merchandise exports will be bolstered by LNG revenue and higher gold and aluminium prices. The main downside risk to the trade outlook could emanate from a shift in demand from the country's key export destinations, given tariff impositions by the US. While LNG production at the Area 1 site is only expected post-2029, export revenue is set to reach over US$12 billion in 2029, bolstered by coal, aluminium and LNG gains from the Coral North and Coral South floating terminals. Unfortunately, the gains from coal will be limited as prices trend below last year's levels due to weaker global demand, particularly from China. However, some support could stem from power generation in other emerging markets and developing economies. The long-term outlook for coal will remain dim given the growing transition to renewable energy; however, the increasing demand for LNG will offset losses. Aluminium exports could slow sharply over the next 2 years due to heightened trade tensions and a deceleration in global industrial activity. Gold should continue to offer upside support as prices continue to rally on the back of increased global uncertainty and geoeconomic tensions. Imports of machinery for extractive sectors, mainly the LNG industry, will pick up as construction activity resumes. While high real interest rates, the de-facto currency peg, muted oil prices and lower global inflation should contain the import bill, shipments could increase slightly faster than exports between 2025 and 2029.

Chart 11: The trade deficit narrowed notably in 2024.



Source: Economist Intelligence Unit

Chart 12: LNG gains to boost exports over the long term.



Source: Economist Intelligence Unit

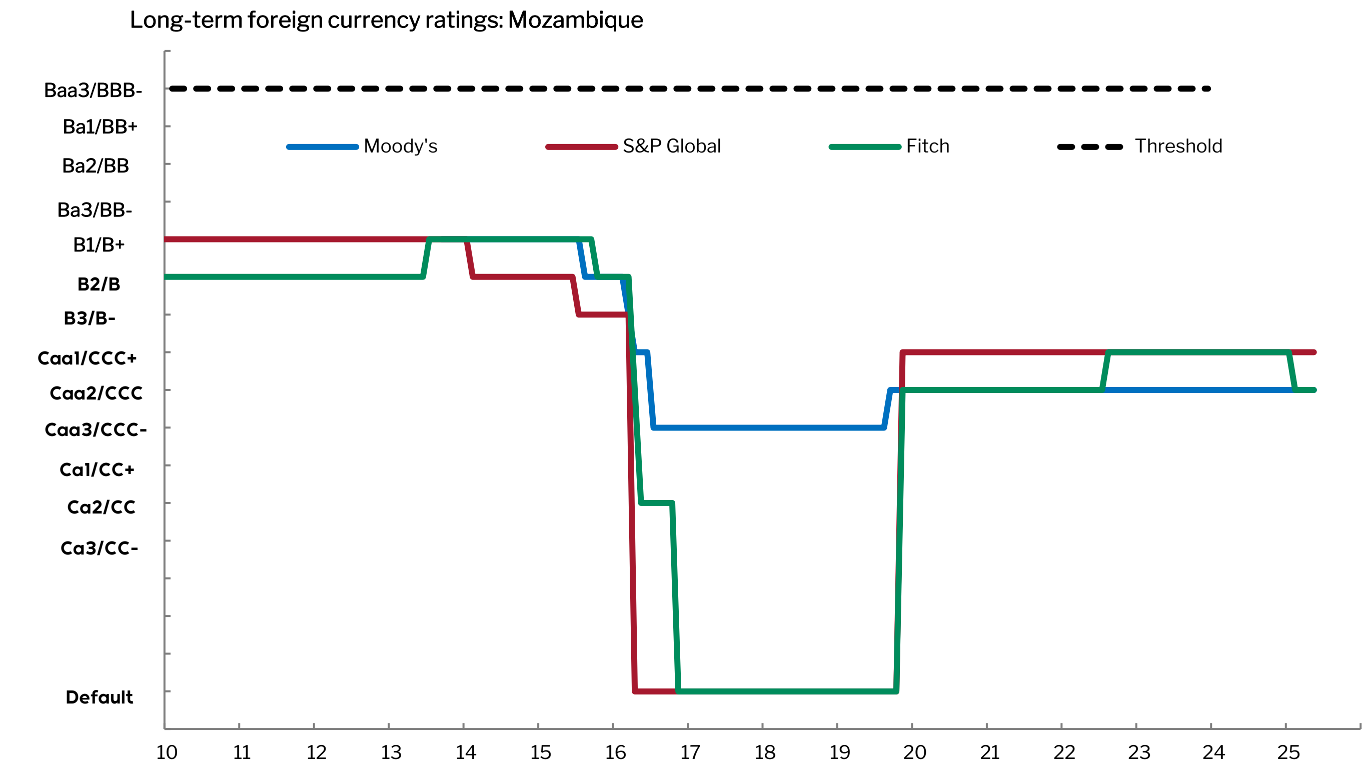
Foreign tourist arrivals and, consequently, services earnings should recover in 2025 and beyond as long as political and social tensions remain contained. Given this outlook, the World Bank forecasts the current account deficit will stabilise at around 12.1% of GDP from 2025-2027. The deficit will be financed by LNG-linked foreign direct investment (FDI) and external borrowing and will not significantly impact the official foreign exchange holdings.

FOREIGN CURRENCY CREDIT RATINGS

Further downgrades as the political instability worsens the fiscal liquidity crunch.

Moody's affirmed its long-term foreign currency rating at Caa2, with a stable outlook, on 26 March. S&P Global Ratings affirmed its long-term foreign currency rating at CCC+ on 19 April but revised the outlook to negative from stable. The local currency rating was lowered to 'Selective Default' on 21 March, as the rating agency assessed the US$54 million domestic debt swap as a distressed exchange. Fitch Ratings downgraded its rating to CCC (no rating outlook assigned) from CCC+ on 7 February 2025, citing the negative impact of the political violence on fiscal revenue as the sovereign grapples with a tight liquidity situation.

Chart 17: Ratings maintained at low levels but prospects for upgrades have improved.



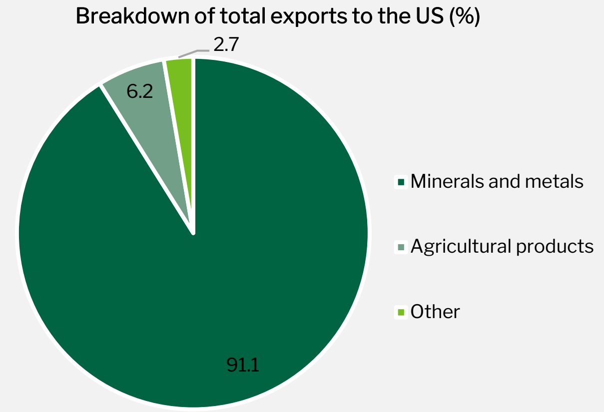
Source: Moody's, S&P Global, Fitch Ratings

Box 1: The impact of US tariffs and potential expulsion from AGOA on Mozambican economy

In February 2025, President Donald Trump imposed the first wave of tariffs on China, Mexico, Canada, and other key trade partners, with some countries retaliating - or threatening to retaliate - against the US. By early April, the Trump administration extended the tariffs to approximately 60 additional countries, further intensifying global trade tensions. Mozambique was among the countries on the expanded list, with a 16% tariff imposed under Trump's 'reciprocal tariffs" policy. Although this was not explicitly communicated, Trump's executive orders raising the baseline import tariff to 10% effectively terminate sub-Saharan Africa's duty-free access to the US under the African Growth and Opportunity Act (AGOA). The Trump administration later delayed the implementation of the reciprocal tariffs until early July to allow for negotiations with interested trade partners.

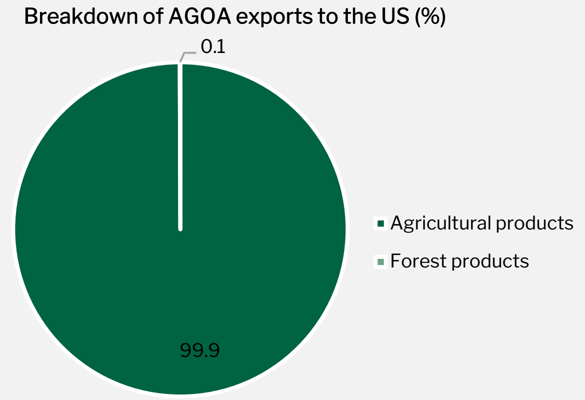
Mozambique will be impacted either directly or indirectly by these changes in US trade policy. Through the direct channel, local producers could face higher levies on exports to the US, making those goods more expensive, less competitive, and thus weighing on demand and export sales. The extent of the direct impact depends on the importance of the US as an export destination for Mozambique. Fortunately, the US is a relatively small trading partner, accounting for only 1.4% of Mozambique's total exports in 2023 - equivalent to US$113.9 million, or 0.5% of GDP. This suggests that the 16% tariff on exports to the US would have a limited effect on overall export performance. Similarly, the impact of AGOA is limited, with exports under the agreement accounting for just 3.7% of total Mozambican exports to the US. At a general level, the main exports to the US were minerals and metals, accounting for over 91% of shipments. On the other hand, AGOA exports are wholly dominated by agricultural products.

Chart 13: Mozambique mainly exported minerals to the US



Source: USITC and Nedbank calculations

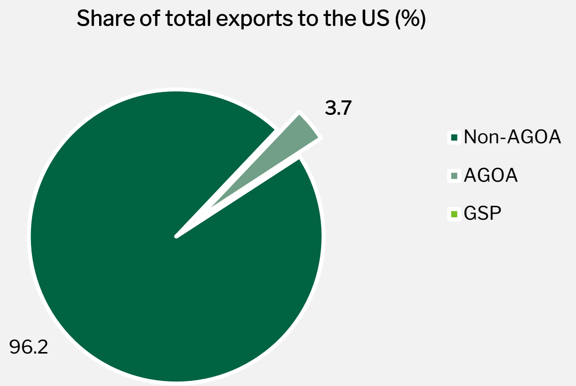
Chart 14: Agricultural goods are the main AGOA export



Source: USITC and Nedbank calculations

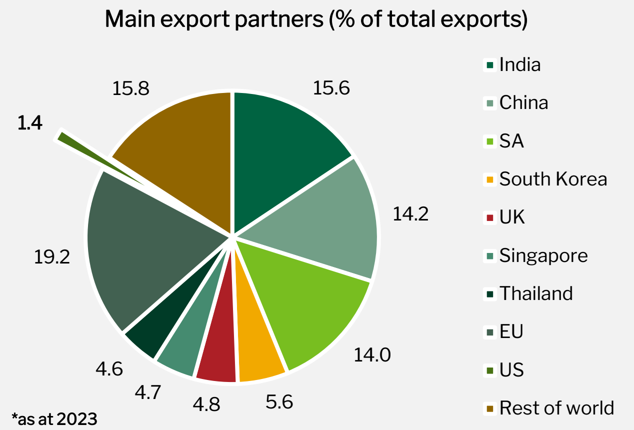
The indirect channel considers the impact of tariffs on Mozambique's key trade partners, many of which have significant trade relationships with the US. In 2023, the US accounted for 17%, 14.8%, and 7.6% of total exports from India, China, and South Africa, respectively. These three countries, in turn, account for almost 44% of Mozambique's total exports. As such, US tariffs on these economies could significantly reduce their export volumes and real GDP, potentially dampening their demand for Mozambican goods.

Chart 15: Only 3.7% of exports benefit from AGOA



Source: USITC and Nedbank calculations

Chart 16: The US accounts for a negligible share of exports



Source: Haver and Nedbank calculations

A few weeks ago, the US reached a short-term agreement with its main adversary, China. The two economies agreed to suspend the previously imposed tariffs for 90 days. The US committed to temporarily lowering its overall tariffs on Chinese goods from 145% to 30%, while China agreed to cut its levies on US imports from 125% to 10%. Although this agreement eased immediate concerns of a global trade war, confirmed that tariffs remain a potent tool in ongoing trade negotiations and are unlikely to be removed entirely. Unfortunately, tensions between the countries resurfaced recently, resulting in renewed global trade concerns

CONCLUSION AND MACROECONOMIC OUTLOOK

President Chapo's efforts at political inclusion will help avoid a resurgence of the violence in late 2024. Opposition party leaders have broadly supported the president's outreach. Regarding the security situation in the north, international support for the security forces will ensure that the rebels' capacity to disrupt the construction of onshore fields is dissipated. The government has hinted at dialogue with local communities to ensure their support for the projects.

The imminent resumption of the construction of onshore LNG fields is a significant development that signals foreign investors' confidence in Mozambique's overall economic potential, not only the country's abundant LNG reserves. Construction activity will contribute positively across all sectors and boost fiscal revenue. Economic growth will strengthen in the coming years, resuming the positive momentum disrupted by the political violence.

On the trade front, Mozambique will have to secure a favourable trade deal with the US, either bilaterally or as part of a southern African grouping, to ensure that cordial financial relations are maintained.

Overall, Mozambique's economic prospects remain solid.

FACTS AND FORECASTS OF KEY ECONOMIC VARIABLES

	2021	2022	2023	2024	2025	2026	2027	2028
Size of the economy (US dollars)								
Nominal GDP (bn)	16.2	18.9	21.0	21.9	23.8	25.4	27.1	28.7
GDP per capita	504.0	572.8	618.2	629.5	663.3	689.6	715.9	739.3
Growth (% change)								
GDP (inflation adjusted)	2.4	4.4	5.4	1.9	2.5	3.5	4.3	4.0
Merchandise & services export volumes	17.2	30.1	0.4	1.5	-3.8	3.5	5.8	18.4
Merchandise & services import volumes	-2.6	33.1	-24.6	-5.3	71.9	2.8	-0.7	-0.2
Balance of payments (USD bn)								
Exports	6.5	9.4	9.4	9.4	9.8	10.2	10.7	11.4
Imports	10.5	15.9	11.2	10.5	12.2	15.8	19.0	17.8
Trade balance	-4.0	-6.5	-1.8	-1.1	-2.5	-5.5	-8.3	-6.4
Current account as a % of GDP	-21.2	-33.7	-10.5	-10.7	-16.1	-27.0	-36.1	-25.5
Foreign exchange reserves (USD bn)	3.6	2.7	3.3	3.4	3.2	3.3	3.5	4.6
Import cover (months)	4.0	2.0	3.5	3.9	3.1	2.5	2.2	3.1
Government finances (% of GDP)								
Total revenue	26.9	27.7	29.0	27.5	26.6	27.2	27.3	27.2
Total expenditure	32.1	32.9	33.3	33.9	32.2	31.7	31.7	31.6
Budget balance	-5.2	-5.2	-4.2	-6.4	-5.6	-4.5	-4.4	-4.3
Primary budget balance	-2.7	-2.3	-0.4	-2.3	-1.2	-0.5	-0.2	0.0
Exchange rates (annual average)								
Dollar-metical	65.23	63.85	63.88	63.88	63.91	63.88	63.88	63.88
Euro-metical	77.09	67.17	69.10	69.10	72.12	69.10	69.10	69.10
Rand-metical	4.38	3.19	3.20	3.20	3.41	3.20	3.20	3.20
Interest rates (end of period %)								
Prime lending rate	18.60	22.60	24.10	19.70	17.19	17.00	17.00	17.00
Inflation (annual average %)								
CPI	6.6	10.4	7.0	3.2	4.5	4.6	4.8	5.2

Sources: Nedbank, International Monetary Fund, Moody's, BMI

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