Economics | Mozambique

Economic Insights

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Background and outlook

Broad political stability has prevailed as the October 2024 elections loom, although the security situation in the north remains a risk. FRELIMO is predicted to retain power, which will bode well for the investment-friendly policies and the strengthening of fiscal management. The Mozambican security forces, backed by the regional and Rwandese forces, have largely subdued the threat posed by militants in the Cabo Delgado province. However, the security situation remains concerning as the rebels maintain attacks on isolated settlements. The construction of the onshore liquefied natural gas (LNG) fields remains suspended, but indications are that it could still start by the end of 2024. The economic momentum was robust and broad-based in 2023, and indications are that the upbeat momentum has spilled over into 2024, pointing to overall growth exceeding 5% from 2024. The development of more LNG fields will broaden the growth base. The domestic macroeconomic environment has continued to improve. Inflation returned to single digits in 2023, and further easing in 2024 has prompted the central bank to cut its policy interest rate, with room for more easing. The exchange rate has remained steady as foreign exchange liquidity benefitted from higher exports and official inflows. Prospects for the outlook improvement on foreign currency credit ratings have been boosted by debt settlement deals with some of the commercial creditors and rising fiscal revenue.

THE POLITICAL OUTLOOK

The anti-rebel military operations make gains as the general elections approach.

The security situation in the northern Cabo Delgado province has improved further, although militant activity continues to be reported. The military force operations have driven the al-Sunnah militants away from critical areas near the construction sites of the LNG fields, with the rebels now targeting isolated villages and settlements. In April, the security forces backed by the allied forces repelled the militants' push towards the central provinces.

Mozambique still has the support of regional partners and international donors in the fight against rebel activity. At the 43rd Heads of State Summit held in August 2023, Southern African Development Community (SADC) leaders extended the SADC Mission in Mozambique (SAMIM) by another twelve months (the regional force was deployed in July 2021). Still, they endorsed the start of a phased withdrawal of the regional forces, with troops from some of the seven Southern African nations scheduled to complete their withdrawals in July 2024. The withdrawal suggests SADC leaders assess that SAMIM has achieved its mission of restoring security stability in northern Mozambique. South Africa has extended the participation of its troops to 31 December 2024, keeping about 1 500 soldiers, while 300 Tanzanian troops will also remain in the area. Rwanda is reportedly planning an expansion of its force of 2 500 and has committed to remaining in the area without providing a withdrawal timeline. The European Union has extended its training mission, manned by troops from 13 member states training Mozambican forces, until June 2026, while the United States and China have maintained their financial support for the security operations.

Mozambique will hold general elections on 9 October 2024. The governing FRELIMO has nominated Daniel Chapo as its presidential candidate to succeed President Felipe Nyusi, who will retire as he reaches the mandatory two-term limit per the constitution. The 47-year-old Chapo is the former governor of Inhambane province (2016—May 2024), a university lecturer of constitutional law and political sciences and a radio and television anchor. Surprisingly, FRELIMO nominated an individual who has not served at the national government level or in the party executive, suggesting that the party elders were handing over to a new and younger leadership. Chapo is reported to be untainted by any government scandal. However, there is speculation that the FRELIMO opted for an individual who would protect the party and its elders from prosecution under the "hidden debt scandal". Chapo is not expected to radically change the party's or the country's course, sticking to the current government's broadly investment-friendly policies and the fiscal consolidation programme to limit recurrent spending growth and strengthen the management of budgetary resources. The opposition party, RENAMO, announced Ossufo Momade as its presidential candidate over Elias Dhlakama, the younger sibling of the former leader Afonso Dhlakama. Infighting within RENAMO and the prevailing strong support for FRELIMO point to the incumbent governing party retaining national power by a large margin. In the October 2023 local authority elections, FRELIMO won 60 of the 65 municipalities as RENAMO captured only four, with the Mozambique Democratic Movement (MDM) capturing the remaining contested locality. The MDM, a breakaway from RENAMO formed in 2009, will likely compete primarily against RENAMO, and it is unlikely to pose a serious electoral threat to FRELIMO in most of the country. The MDM secured six of the 250 legislature seats in the 2019 general elections after it won only 4.2% of the vote. FRELIMO got 184 seats, while RENAMO won 60.

The construction of the Afungi onshore LNG field remains suspended while plans are advanced for a second floating LNG platform.

In May 2024, TotalEnergies CEO Patrick Pouyanne hinted that the resumption of the construction of the Area 1 LNG field was imminent as security stability around the block had been largely restored, although he expressed concern about militant activity in the neighbouring areas. He was quoted as saying that contractors were ready to restart work, while talks with funders were underway. In July 2023, President Filipe Nyusi declared that the security environment had been restored to a level conducive for the resumption of construction, a plea echoed by the National Petroleum Institute, the energy regulatory body. However, work is still suspended, and negotiations with the project funders seem to be a stumbling block as costs have been reported to have risen substantially after the delays and the Covid-related supply disruptions.

ExxonMobil, a significant shareholder in the Coral Sul floating LNG platform, has committed to its Rovuma LNG project, indicating that it will reach a final investment decision by the end of 2025. Construction has been estimated at US$30 billion.

The construction of the Coral Norte floating platform could start in the third quarter of 2024 if the Eni-led consortium finalises its investment decision timeously. Operations at the 3.5 million tonnes LNG facility would, therefore, be on schedule to commence in 2027. The US$7 billion platform will be about 10 km north of the Coral Sul platform. The Coral Sul floating LNG platform continues to expand its output, and it was reportedly at 90% of its capacity in Q3 2023. Bank of Mozambique data shows that production by Coral Sul boosted LNG exports to US$1.7 billion in 2023 from US$541.6 million in 2022. The plant recently passed tests that indicate its maximum capacity at over 3.4 million tonnes a year, pointing to export volumes expanding further in 2024.

Legislation to tighten anti-money laundering and terrorism financing legislation enacted.

On 15 March, parliament approved new anti-money laundering and terrorism financing legislation, which extends to purchases of high-value assets. The Financial Action Task Force placed the country on its ‘grey list’ in October 2022, as it flagged shortcomings in combating the flow of illicit funds, giving the country two years to rectify the financial control shortfalls.

The Attorney General’s 2023 annual report shows that at least US$330 million was laundered through Mozambique in 2023.

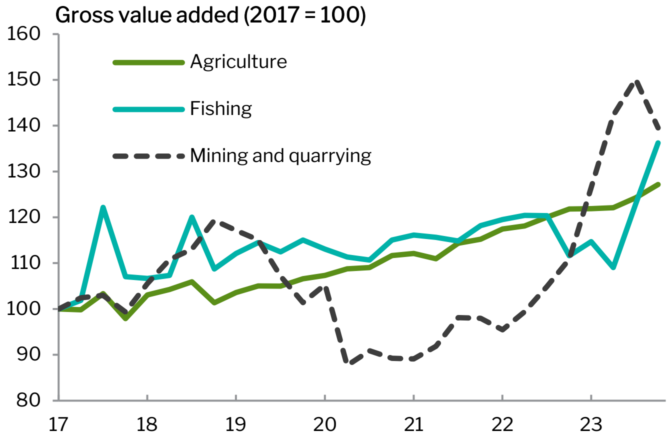
ECONOMIC GROWTH OUTLOOK

An improving global environment and improved security in the north boost local growth prospects.

The latest indications are that the broad-based economic expansion that started in 2021 and gained momentum in 2023 firmed in the early months of 2024 as the local and global environments improved.

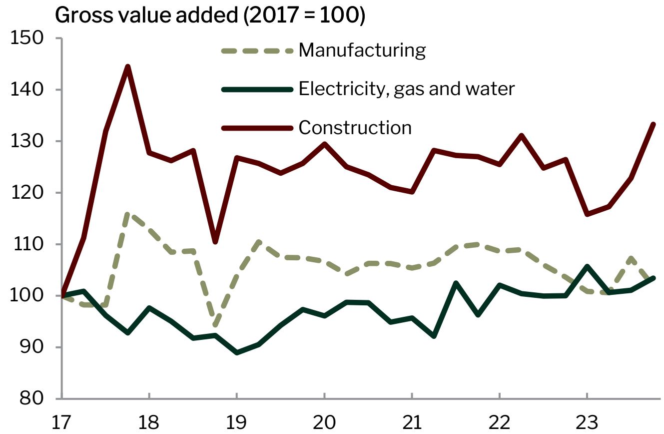
Agriculture, mining, transport, tourism and communications recorded rapid activity in 2023. The latest quarterly data show that economic growth moderated marginally to 5.4% yoy in Q4 of 2023 from 5.9% in Q3, but it remained firmer than 4.1% in Q4 of 2022. The solid economic momentum remained broad-based, with only manufacturing output making a marginal negative contribution. Encouragingly, the latest data points to manufacturing activity rebounding in the first half of this year. The Standard Bank Mozambique purchasing managers index (PMI), a monthly survey of business conditions across all private sector activity, shows the broad-based economic expansion continuing in the first half, with only a slight moderation in agriculture in May.

Chart 1: Mining slowed from the pace seen since Q1’22.



Source: Haver, Nedbank calculations

Chart 2: The megaprojects will boost construction.



Source: Haver, Nedbank calculations

In agriculture, weather conditions remained more favourable than usual in early 2024. The seasonal cyclones were moderate, with minimal damage to crops and infrastructure, pointing to a further expansion in the agricultural harvest in 2024/25. However, the United States Department of Agriculture expects a lower total harvest in 2024/25, primarily due to a slump in maize production.

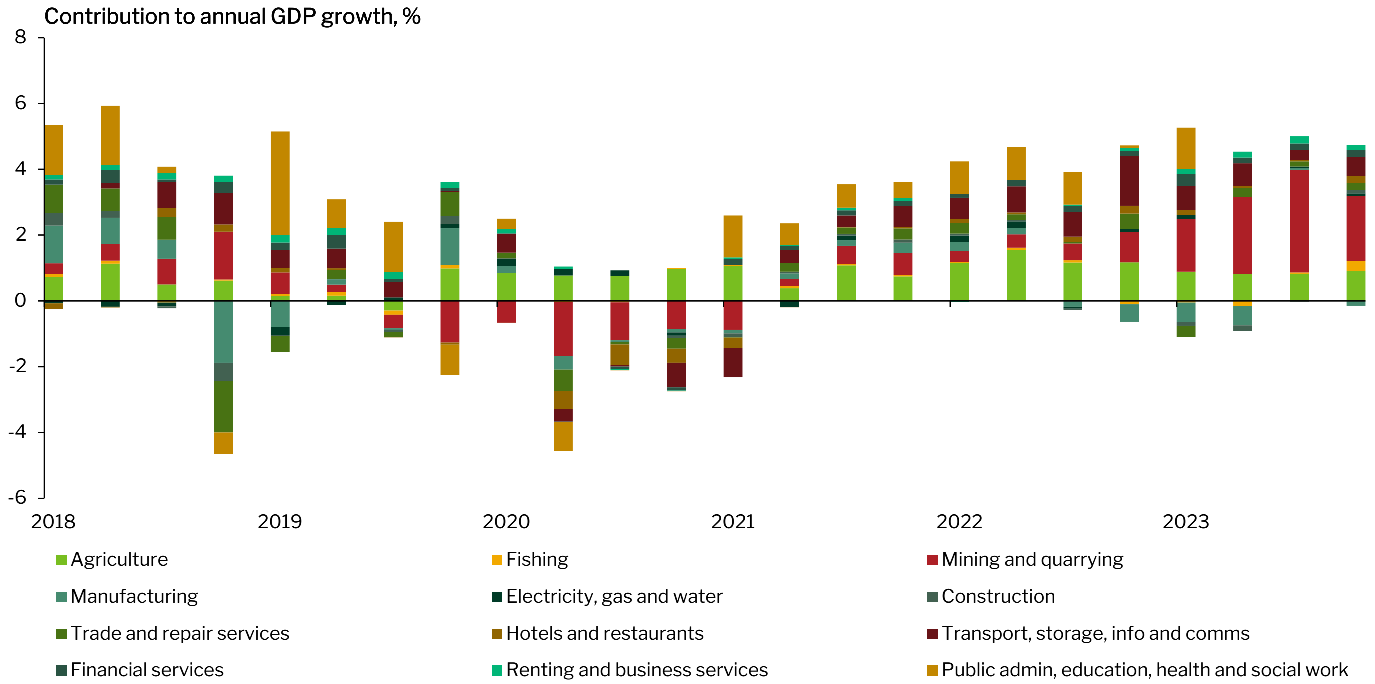
Table 1: MOZAMBIQUE CROP PRODUCTION

Crops	5-yr average (2019-2023)	2023/24	2024/25		% Change
	000 tons	000 tons	000 tons	2024/25 vs 2023/24	2023/24 vs. 5-yr average
Maize	1 802	2 150	1 000	-53.5	19.3
Rice	115	124	85	-31.5	7.8
Sorghum	149	150	90	-40.0	0.7
Peanut	129	130	130	0.0	0.8
Millet	27	25	15	-40.0	-7.4
Wheat	16	16	16	0.0	0.0
	5-yr average (2019-2023) (1000 480-lb bales)	2023/24 (1000 480-lb bales)	2024/25 (1000 480-lb bales)	2024/25 vs 2023/24	2024/25 vs. 5-year average
Cotton	115	115	115	0.0	0.0

Source: United States Department of Agriculture Foreign Agricultural Service

Output growth in mining and quarrying moderated to a still firm 10.3% yoy in the final three months of 2023, as it softened from the brisk pace recorded since Q4 of 2022, when it averaged 28.6% yoy per quarter. Construction will benefit from the Port of Maputo expansion and various mines, including coal, graphite, lithium and gemstones, according to the *Mozambique Mining Journal*, quoting the Mozambique Chamber of Mines. Mozambique's vast deposits of graphite and lithium place the economy in a favourable position to benefit from the development of renewable energy technologies.

Chart 3: A broad expansion in economic activity, with only manufacturing subtracting marginally in Q4 2023.



Source: Haver, Nedbank calculations

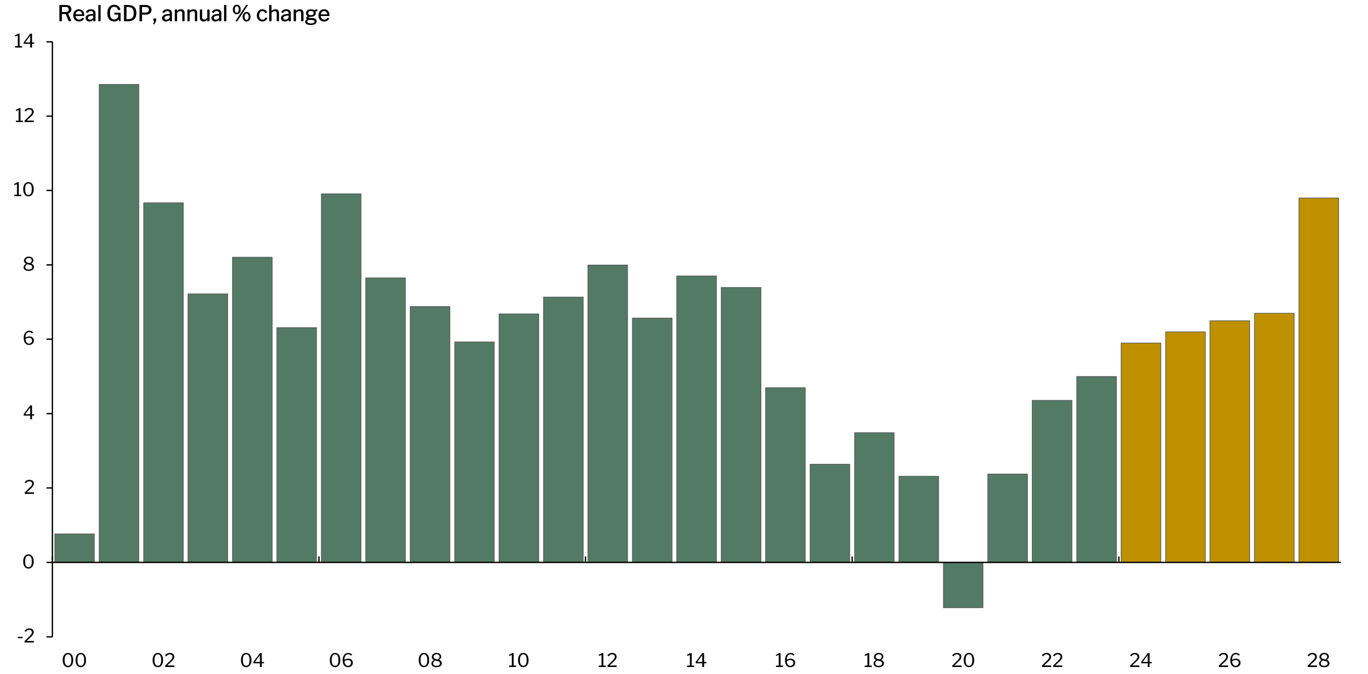
The rebound in tourism buoyed services activity. Tourist arrivals totalled 527 000 in 2023, 24% higher than in 2022, per the National Institute of Statistics. According to government data, the sector's economic contribution rose to 8.9% of GDP in 2023 from 7.4% in 2022. Foreign arrivals are projected to rebound further in 2024, although they will still be lower than 1.21 million in 2019, partly due to security concerns in the northern areas. Therefore, activity in the hotels and restaurants sector will likely reach pre-Covid levels only once security stability has been restored, probably from 2025.

The medium-term outlook for the Mozambican economy is generally positive, with all the major forecasts predicting a growth acceleration once LNG investment activity resumes and expands.

The International Monetary Fund's estimates are at the low end of the forecasts, with the multilateral agency predicting an annual growth rate of 4.6% a year between 2024 and 2026, while the World Bank projects 4.8%.

Private sector GDP growth forecasts are equally upbeat. The Economist Intelligence Unit foresees growth of 6% in 2024 and an average of 6.5% per annum between 2025 and 2027, with growth reaching 9.8% in 2028 as significant LNG shipments start. Among the credit rating agencies, Moody's forecasts 5.1% a year over the next three years, while S&P Global Ratings predicts 5.5% per annum. A resumption of construction work at the Afungi LNG field would boost overall GDP growth in 2024 and over the three-year outlook horizon, with the construction sector the primary beneficiary.

Chart 4: Economic growth will remain firm and accelerate as LNG production rises.



Source: Economist Intelligence Unit

INFLATION AND INTEREST RATES OUTLOOK

Lower food and fuel prices moderated the headline inflation rate to the lowest level since 2021.

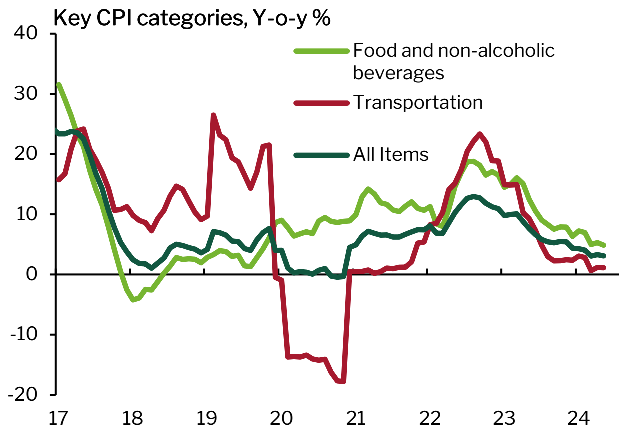
Consumer price inflation (CPI) maintained its downward trend in the first half of 2024, as the improved supply of food crops, subdued fuel prices, and the stable exchange rate contained overall price pressures. CPI fell to 3% yoy in March in April before edging marginally higher to 3.1% in April and easing to 3.1% in May. CPI has remained within the Banco de Mozambique's (BdM) 3% to 6% target band for the 10th consecutive month and has been below the 4.5% midpoint since December. Core inflation, which excludes fruit and vegetable prices and administered prices, has also been moderate, just below 4%.

Food inflation, which accounts for 26.6% of overall inflation, moderated to 4.9% in May, its lowest level since November 2019. Significant price reductions were recorded in lettuce (-25.4% yoy), unprocessed maize (-7.9%), cabbage (-7.9%), tomatoes (-6.3%), onions (-5.9%) and fresh fish (-3.3%), while increases were in okra (7.4% yoy), groundnuts (1.4%), maize flour (0.9%) and butter beans (0.6%).

Transport inflation slumped to 0.6% yoy in March after averaging 2.9% a month in the first two months of 2024 as fuel prices remained contained. It remained low at 1.2% and 1.1% in April and May, respectively. The petrol price has been steady at MZN86.25 per litre since July 2023, and it was down by 0.8% yoy in the second week of June 2024. The stable exchange rate dampened the impact of the marginally higher crude oil prices, while lower wheat prices added to the subdued pressure on imported inflation.

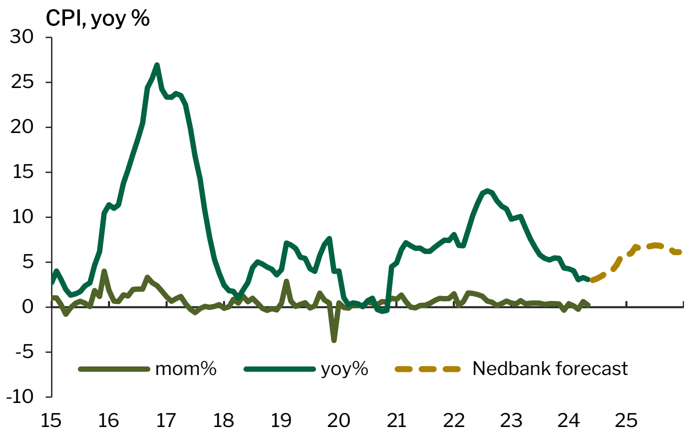
In the first quarter of 2024, all the key CPI categories remained on the downward trend that began after inflation peaked in the third quarter of 2022. Headline inflation averaged 3.8%, down from 5.1% and 9.9% in the final and first quarters of 2023, respectively. Food inflation dropped to 6.4% from 7.3% in the final quarter of 2023 and 15.2% in the first quarter of 2023. Food inflation has eased significantly since peaking at 18.5% in the third quarter of 2022, with the moderation in global food inflation, the steady exchange rate and a better supply of food crops the main factors. Transport inflation decreased to 2.2% from 7.4% in the fourth quarter of 2023, after it peaked at 19% in the third quarter of 2022.

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



Source: Haver

Chart 6: CPI to rise but remain below 6% in H2'2024.



Source: Haver, Nedbank

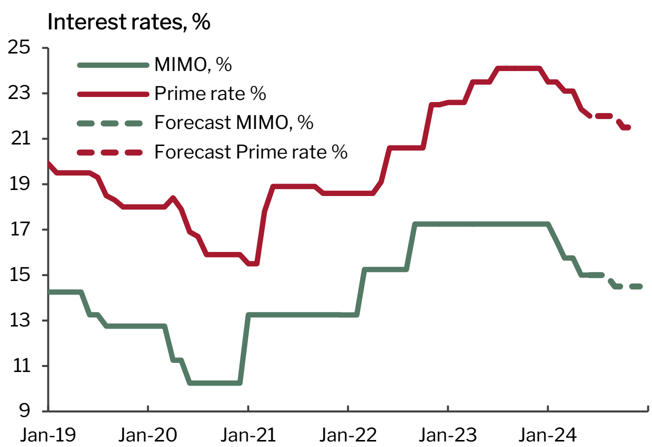
The inflation outlook is positive, with the BdM forecasting it in single digits in the medium term. In its May 2024 *Economic Outlook and Inflation Forecasts,* the BdM highlights favourable global factors as the primary reasons for the moderate medium-term inflation outlook. Inflation is falling in the major industrialised economies as monetary policy remains restrictive. CPI is projected to ease to the 2% target level in most of the large economies in 2025. Energy prices have been broadly stable amid the geopolitical tensions, the disruption of trade in the Red Sea has not significantly affected supply chains while gains in the use of technology have helped to moderate services inflation. Locally, the seasonal improvement in the supply of fruit and vegetables will dampen food inflation. At the same time, the stable exchange rate will contain the effect of higher fuel prices in South Africa, the source of Mozambique's refined fuel products.

Nedbank expects CPI to shift higher in the second half of 2024 but remain below 7%. We expect the lagged effect of the lower supply of some food crops due to unfavourable weather conditions and higher water tariffs —raised by an average of 21.2% in May — will push inflation to 5.7% at the end of the year. Our expectation is higher than the 4.5% projection of economic agents in the inflation expectations survey conducted by the BdM in May 2024.

Low inflation gives the Banco de Mozambique to ease interest rates further.

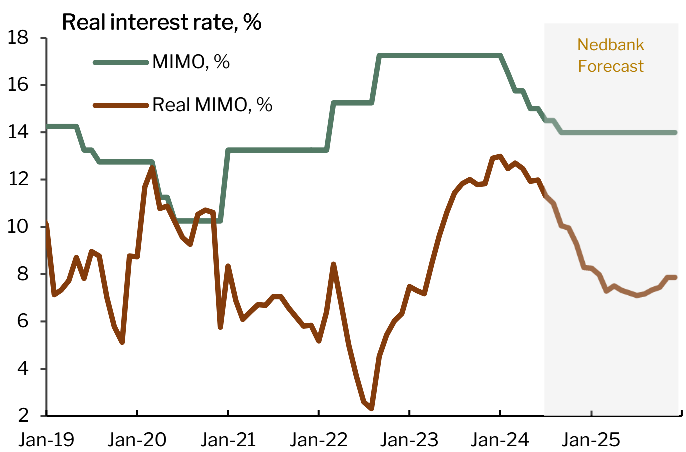
The BdM has reduced the MIMO, the policy interest rate, to 15% from 17.25% at the start of 2024, cutting to 16.5% in February, 15.75% in March and 15% in May.

Chart 7: The BdM is set to cut further in H2 2024.



Source: Bank of Mozambique, Nedbank

Chart 8: The real policy rate to decline to single digits.



Source: Bank of Mozambique, Nedbank

The BdM has hinted that it will ease its policy interest rate further as inflation remains favourable in the medium term. CPI has been close to the lower band of the BdM's 3% to 6% target band since December 2023, when it dropped from 5.4% in November to 3.1% in May, and it is forecast to remain in single digits in the second half of 2024.

Nedbank forecasts more interest rate cuts in July and September, with the MIMO ending the year at 14%.

The moderation of inflation is helping to reduce real interest rates. We expect the difference between the MIMO and CPI to drop to single digits in Q4 2024, as the MIMO rate eases further and inflation rises marginally. In 2025, we expect the real MIMO to average 7.5% from 11.2% in 2024.

Table 2: Monetary policy stances in selected Sub Saharan African economies.

Inflation and policy interest rates				
	CPI target[1] (average monthly inflation over past 3 months)	Period of last move (change in bps[2])	Current policy interest rate (Dec. 2023 level)	Expected policy bias[3]
Angola	23.4%[4] (28.2%)	May 2024 (+50 bps)	19.5% (18%)	Hold
Botswana	4.5% (3.3%)	June 2024 (-25 bps)	2.1% (2.4%)	Hold
Cote d'Ivoire[5]	2% (3.7%)	Dec 2023 (+25 bps)	3.5% (3.5%)	Hold
Eswatini	4.5% (4.2%)	Jul 2023 (-50 bps)	7.5% (7.5%)	Cut
Ghana	8.0% (24.7%)	Jan 2024 (-100 bps)	29% (30%)	Hold
Kenya	5% (5.3%)	Feb 2024 (+50 bps)	13% (12.5%)	Hold
Lesotho	4.5% (7.3%)	May 2023 (+25 bps)	7.75% (7.75%)	Cut
Mozambique	4.5% (3.1%)	May 2024 (-75 bps)	15.0% (17.25%)	Cut
Namibia	4.5% (4.7%)	June 23 (+50 bps)	7.75% (7.75%)	Cut
Nigeria	7.5% (32.9%)	May 2024 (+150 bps)	26.25% (18.75%)	Hike
South Africa	4.5% (5.4%)	May 2023 (+50 bps)	8.25% (8.25%)	Cut
Rwanda	5% (4.5%)	May 2024 (-50 bps)	7% (7.5%)	Hold
Tanzania	5% (3.1%)	April 2024 (+100 bps)	6% (4.5%)	Hold
Zambia	7% (14.1%)	May 2024 (+100 bps)	13.5% (11%)	Hike
Zimbabwe[6]	n/a	April 2024 (-11 000 bps)	20% (130%)	Hold

Source: Central banks, Nedbank calculations (based on latest CPI data)

[1] Midpoint in the case of a target band.
[2] Basis points, 100 bps = 1%.
[3] Likely direction over the coming 6 months.
[4] Year-end target.
[5] West African Central Bank policy rate.
[6] In April 2024 Zimbabwe introduced a new currency and inflation series.

EXCHANGE RATE TRENDS AND OUTLOOK

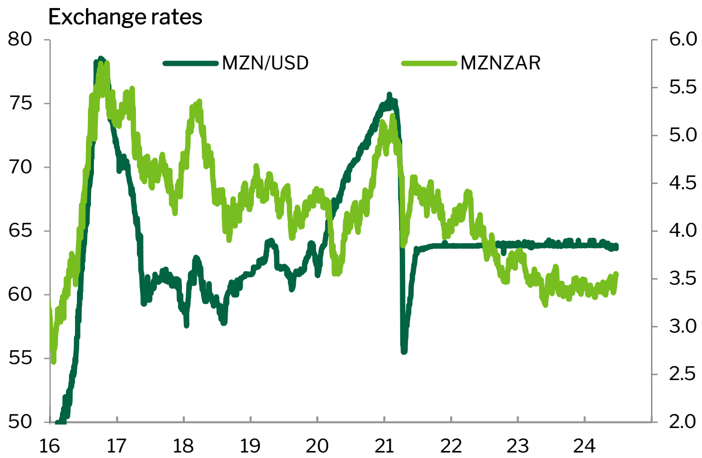
The metical remains steady, supported by the improved domestic economy and higher export earnings.

The metical has remained steady around MZN63.91/US$. The BdM has expressed confidence that the local currency will remain stable as the supply of foreign liquidity remains sufficient on the back of higher export revenue and other inflows. However, foreign currency supply shortages have been periodically reported in the banking market, although Nedbank does not expect the shortfalls to pressure the exchange rate significantly.

The BdM effectively terminated its intervention in the foreign exchange market when it suspended its hard currency provision for fuel imports in May 2023. However, it has maintained limited intervention to smooth out exchange rate fluctuations.

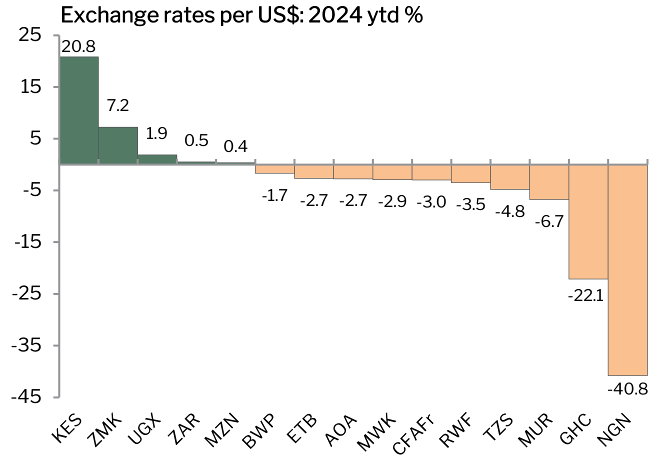
The BdM's limited FX market intervention, higher export earnings and inflows from the multilateral finance agencies have boosted official foreign exchange reserves. BdM data indicates that gross foreign exchange reserves totalled US$3.47 billion in December 2023, from US$2.7 billion at the end of 2022. The latest data puts the figure at US$3.74 billion in May 2024.

Chart 9: Improving economic fundamentals buoy the MZN.



Source: Datastream

Chart 10: The MZN/US$ to remain steady in H2 2024.



Source: Datastream

FISCAL TRENDS AND OUTLOOK

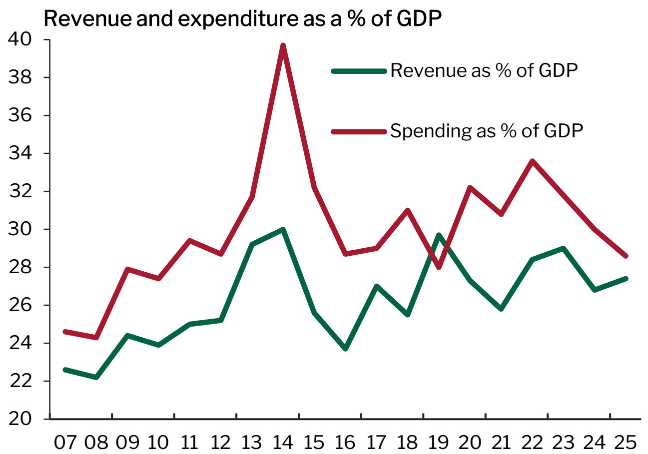
LNG exports will lift government revenue as the Coral South floating LNG platform ramps its output.

The government fiscal consolidation programme under the guidance of the International Monetary Fund (IMF)-financed macroeconomic reform programme is starting to show results. In 2023, the higher revenue collections were underpinned by receipts from the LNG exports, the Cahora Bassa hydroelectric plant, and higher cargo volumes at the Port of Maputo. Finance ministry data shows that collections were up 12.7% to MZN321 billion in 2023, although total collections fell short of the target at 92% of the budgeted amount. Corporate taxes jumped by 74% as activity in mining and services grew, while value-added taxes were down by 45.9%. In the first three months of 2024, fiscal income rose by 12.2% compared with the same period in 2023 to EUR1.06 billion. Corporate tax jumped by 31.8% yoy, while EUR87.4 million was deposited with the sovereign wealth fund in the period.

The finance ministry forecasts tax revenue from LNG operations will average MZN5.2 billion (EUR 75.2 million) a year between 2025 and 2027. In the initial years, revenue is derived from the operations of the Coral Sul platform, with additions by the Coral Norte platform from 2027 if the floating facility starts operations in that year. The Mozambican state holds a 10% stake in the Coral South floating LNG platform through the state energy company Empresa Nacional de Hidrocarbonetos de Moçambique (ENH).

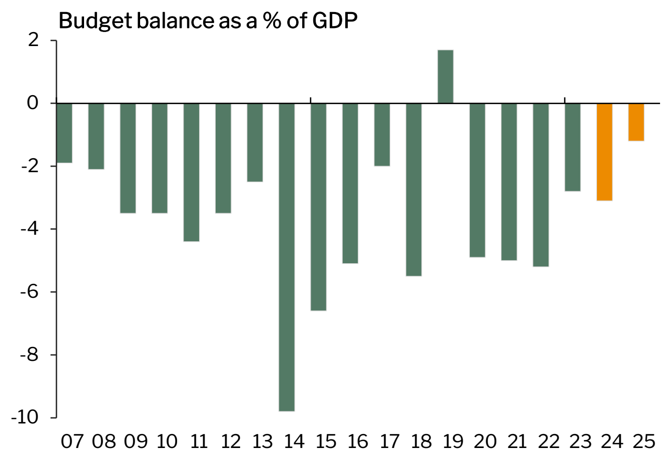
On the expenditure side, the Budget FY2024 (fiscal year runs from July to June) aims to contain the public sector wage bill at 14.6% of GDP, stable from FY2022/23. The IMF forecasts a slightly better outcome, with the wage bill dropping to 13.9% of GDP in 2024 from 14.8% in 2023 (under the IMF-financed programme, the bill will be cut to 10% of GDP by 2028). Spending pressures will emanate from election-related outlays ahead of the October 2024 polls, security spending, as well as subsidies and income transfers. Moody's forecasts the interest payments-to-revenue ratio to rise to 15.9% in 2024 from 11.9% in 2023 and an annual average of 10.8% between 2019 and 2022 before it drops to 11.8% in 2025. The FY2024 figure has been lifted primarily by the higher domestic debt stock.

Chart 11: Spending restraint to continue...



Source: Moody's forecasts for 2024 and 2025

Chart 12: ...narrowing the budget shortfall significantly.



Source: Moody's forecasts for 2024 and 2025

The fiscal deficit will also narrow as the government restricts increases in non-investment spending, and LNG earnings boost income. Therefore, expenditure restraint and faster revenue growth will reduce the budget deficit, while rising LNG earnings will switch the overall budget balance to a surplus in the later years.

The management of fiscal resources is becoming more transparent, and legislation to govern revenue management has been strengthened. In March, the cabinet passed laws that will set aside 40% of LNG revenue in a sovereign wealth fund and 60% going to state spending in the first 15 years of receipts, after which the revenue will be equally split between the investment vehicle and current expenditure. The fund, directly managed by the central bank, will report directly to parliament and publish its financial records every quarter. It is projected to earn US$91.7 billion over 30 years.

EXPORTS AND IMPORTS TRENDS

Expanding export volumes boost earnings as prices of essential commodities remain subdued.

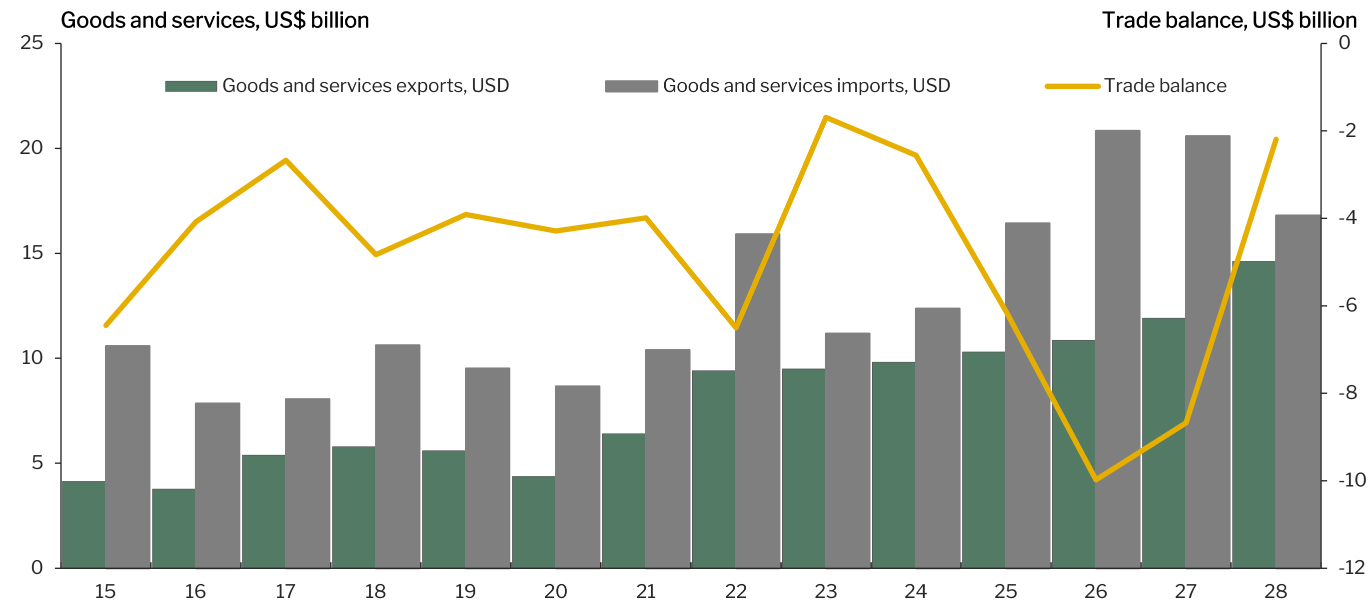
The prices of Mozambique's essential export commodities have remained lacklustre since the start of this year, but higher LNG volumes prop up aggregate export earnings. European Union natural gas prices dropped by almost 10% in the first five months of this year, while coal prices are softer by around 1% after plunging by over 60% in 2023. Encouragingly, aluminium prices have trended higher since April and are up by 17% year to date, more than offsetting the 9% drop in 2023.

Merchandise exports expanded firmly in 2023, with BdM figures showing that LNG export earnings surged to US$1.7 billion from US$541.6 million in 2022, as the Coral Sul platform ramped up its shipments. Gold earnings totalled US$111.6 million as gold output rose to 1.6 tonnes, up 32% from 2022.

BMI forecasts higher export revenue between 2024 and 2027 owing to expanding output from the Coral South floating LNG terminal. Coal and aluminium exports will be supported by rebounding global manufacturing activity, which supports energy demand and the prices of raw materials.

Imports of machinery for the mining and LNG sectors will pick up as construction activity expands. The steady exchange rate, range-bound global oil prices and lower global inflation will help to limit the increase of the aggregate import bill.

Chart 13: Higher LNG exports will drive the narrowing of the trade deficit.



Source: BMI

Services earnings will increase as international tourist arrivals increase and trade activity rises. Cargo at the Port of Maputo rose firmly again in 2023, as it benefitted from trade diversion away from the larger ports in South Africa, which were plagued by delays in processing cargo (see Textbox 1).

The current account deficit will be adequately funded by investments by the LNG companies and by improving foreign aid and credit receipts. Imports for the mining and LNG megaprojects are financed from the offshore resources of the multinational companies, so they will not significantly erode the country's foreign exchange reserves.

Textbox 1: The Port of Maputo records rapid expansion of volumes

The Mozambican port saw its handled volumes rise to 31.2 million tons in 2023, a 17% rise which followed the 21% increase to 26.7 million tons in 2022. The World Bank's Global Container Port Performance Index lists the Port of Maputo as the most efficient in Southern Africa in 2023.

The port paid more than US$41 million to the government, excluding taxes and dividends to shareholders, up by 29% from 2022, per the Maputo Port Development Company (MPDC).

In January 2024, the government extended the MPDC's contract to operate the port to 2058 from 2033, which will be accompanied by a US$2.06 billion expansion to raise its capacity to 54 million tons by 2058 from the current 37 million. Between 2024 and 2028, US$600 million will be spent on increasing the capacity of the container terminal to 1 million twenty-foot equivalents (TEUs) containers per year, the capacity of the coal terminal to 18 million tons a year and the cargo terminal to 13.6 million tons a year. According to the United Nations Conference on Trade and Development, the country's container throughput had risen to 420 500 TEUs in 2022 from 335 200 in 2015.

The government plans to spend US$70 million to boost freight traffic on the Maputo — South Africa railway line by acquiring new locomotives, wagons and rail facilities.

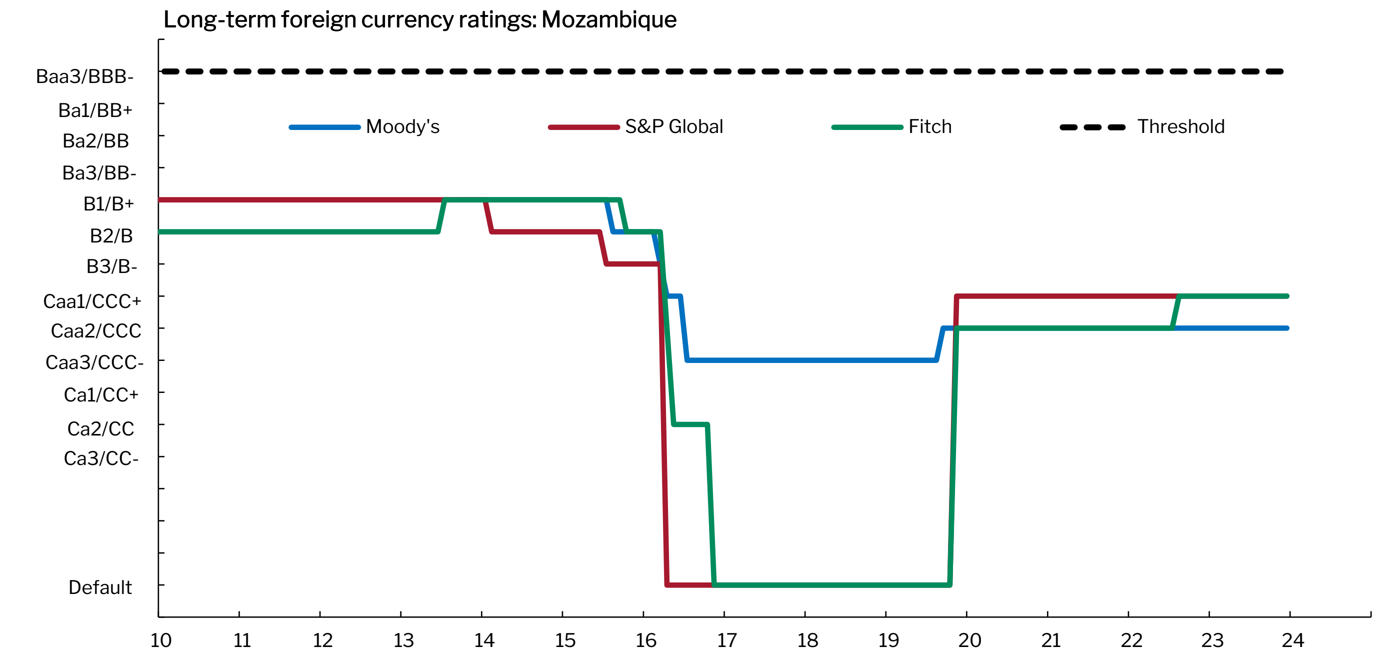
Foreign direct investment (FDI) in mining and the LNG sector will underpin the capital account surplus. According to BdM data, FDI totalled US$2.51 billion in 2023, and the government forecasts it to rise to more than US$5 billion in 2024, predicated on the early resumption of work on the LNG fields in 2024. Another major project is by Thai Mozambique Logistica, which has revised its plans to develop the coal export terminal in Macuse, raising the initial US$500 million for the US$3.3 billion project.

FOREIGN CURRENCY CREDIT RATINGS

Prospects for rating upgrades have improved following the debt deals and rising fiscal revenue.

Moody's affirmed its long-term foreign currency rating at Caa2, with a stable outlook, on 26 March. S&P Global Ratings affirmed its rating at CCC+ with a stable outlook on 19 April, while Fitch Ratings affirmed its rating at CCC+ (no rating outlook assigned).

Chart 14: Ratings maintained at low levels but prospects for upgrades have improved.



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

The current economic trajectory and settlement agreements with foreign commercial creditors have improved the prospects of rating upgrades. Firmer economic growth, lower public debt ratios, a narrower budget deficit, progress made in fiscal management under the IMF-funded macroeconomic reform programme, and the improvement of external liquidity position will likely prompt the key credit rating agencies to revise their LTFC ratings.

Fitch Ratings estimates the government debt-to-GDP ratio to decrease to 93.6% in 2024 and 90.2% in 2025, a declining trend forecasted by the other two agencies. External debt service totalled US$654.2 million in 2023, 20% higher than in 2022, comprised of US$487.7 million in principal amortisation and interest costs totalling US$166.5 million. Agreements with some commercial creditors on part of the defaulted loans under the "hidden debt scandal" have reduced the external debt repayment obligations from 2024.

Settlement agreements with foreign creditors have helped moderate public debt ratios. However, further measures to strengthen fiscal management are necessary, as delayed payments on foreign and domestic loans have persisted, pointing to underlying lapses in budgetary management. Fitch Ratings reports that the government incurred arrears totalling US$2.5 million in H2 2023 and US$20 million in early 2024.

Therefore, poor fiscal management could delay the rating upgrades, while an immediate resumption of the construction of the onshore LNG fields would boost the chances of a significant improvement in foreign currency ratings in the immediate future.

CONCLUSION AND MACROECONOMIC OUTLOOK

Mozambique's positive economic momentum is set to continue in the second half of 2024 and accelerate in 2025. Stabilising the security situation in the north and the anticipated peaceful elections in October 2024 will help solidify positive political sentiment. The next government, still to be led by FRELIMO, will maintain the favourable investment policies. Despite being best by extended delays, the construction of the onshore LNG fields is set to resume in the foreseeable future, with the energy multinationals unlikely to abandon the projects. The significant capital outlays and the attractiveness of Mozambique's natural gas reserves strengthen the case for the projects.

The broad-based economic expansion will benefit from favourable weather conditions, while the recovering prices of the essential export commodities will support mining and trade activity. The construction of the onshore and offshore LNG fields will buoy construction activity and support expansions in the related domestic services sectors. Economic growth will strengthen as FDI expands the productive capacity and non-commodity sectors as consumer spending benefits from rising incomes.

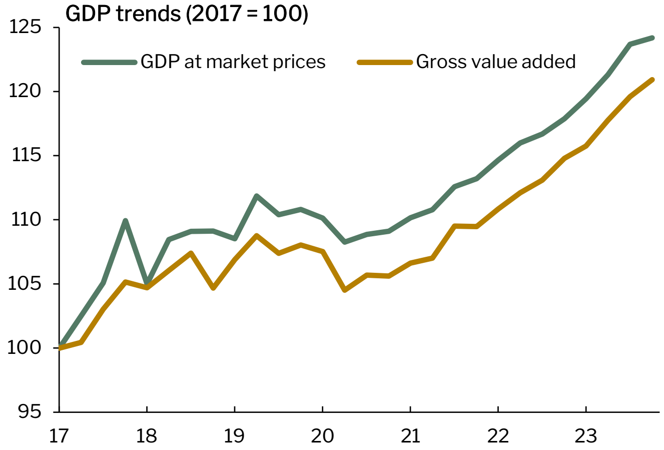
Overall, the rising export earnings, stable exchange rate, low inflation, and falling interest rates suggest that real GDP growth is likely to be firmer than current forecasts, with the upturn in global industrial activity being the critical positive factor.

FACTS AND FORECASTS OF KEY ECONOMIC VARIABLES

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Size of the economy (US dollars)									
Nominal GDP	15.5	14.2	16.2	18.4	21.4	23.0	25.2	26.7	30.8
GDP per capita	512.2	456.6	504.0	558.3	629.9	659.1	703.4	724.2	815.2
Growth (% change)									
GDP (inflation adjusted)	2.3	-1.2	2.4	4.4	6.0	5.0	5.0	4.0	13.1
Merchandise & services export volumes	-4.0	-17.8	19.5	30.3	-2.6	1.5	3.0	1.4	29.9
Merchandise & services import volumes	-8.6	-4.8	-1.7	33.9	-25.0	50.4	12.3	5.2	-3.8
Balance of payments (USD bn)									
Exports	5.6	4.4	6.4	9.4	9.5	9.8	10.3	10.9	11.9
Imports	9.5	8.7	10.4	15.9	11.2	12.4	16.4	20.8	20.6
Trade balance	-3.9	-4.3	-4.0	-6.5	-1.7	-2.6	-6.1	-10.0	-8.7
Current account as a % of GDP	-2.9	-3.9	-3.7	-6.4	-2.3	-8.9	-10.8	-11.8	-9.3
Foreign exchange reserves (USD bn)	3.7	3.8	3.6	2.7	3.3	3.2	3.1	3.3	3.8
Import cover (months)	4.7	5.3	4.1	2.0	3.5	3.1	2.3	1.9	2.2
Exchange rates (annual average)									
Dollar-metical	62.54	70.02	65.23	63.83	63.88	63.90	63.91	63.91	63.91
Euro-metical	70.00	80.46	77.09	67.11	69.21	69.10	69.10	69.10	69.10
Rand-metical	4.33	4.26	4.38	3.91	3.46	3.38	3.20	3.20	3.20
Interest rates (end of period %)									
Prime lending rate	18.00	15.90	18.60	22.50	24.1	21.50	20.00	18.00	18.00
Inflation (annual average %)									
CPI	2.8	3.1	5.7	10.3	7.1	3.8	6.5	5.9	5.8

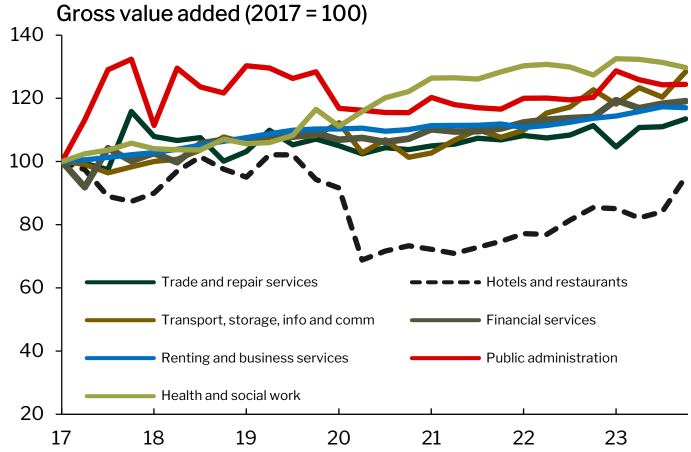
Sources: Nedbank, International Monetary Fund, Moody's, BMI

Chart 15: The rapid economic expansion continues.



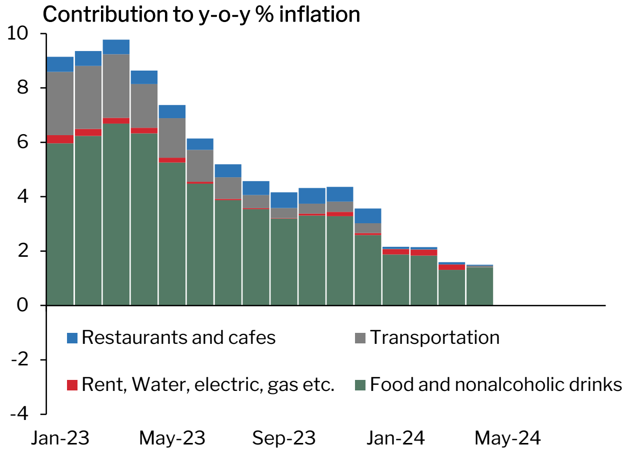
Source: Haver, Nedbank calculations

Chart 16: Services expanding after the rebound in 2023.



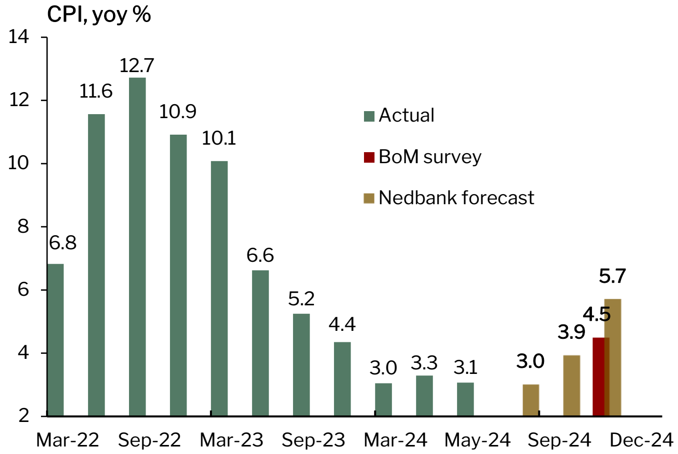
Source: Bank of Mozambique, Nedbank

Chart 17: The key inflation drivers have moderated.



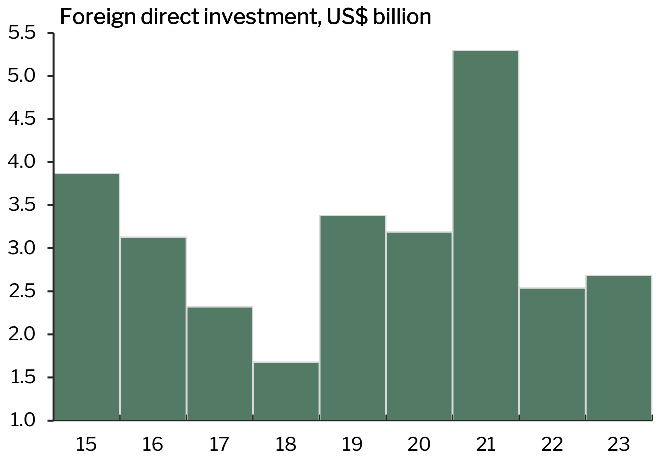
Source: Haver, Nedbank calculations

Chart 18: We expect slightly higher CPI vs. the BdM survey.



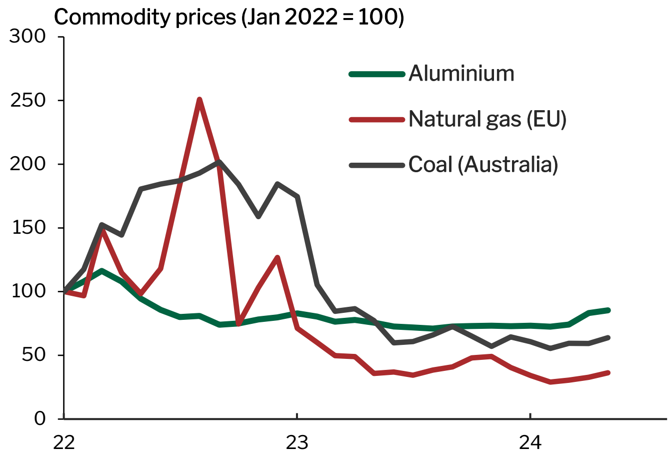
Source: Bank of Mozambique, Nedbank

Chart 19: LNG and other investments to boost FDI.



Source: BMI

Chart 20: Key commodity price trends.



Source: Datastream

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