



The Mozambican Economy

All eyes are on fiscal consolidation in 2017

Budget execution for 1H 2016 reflects deceleration in real GDP growth

The budget execution report for the first half of this year showed that the collection of revenues remains close to the levels of 2015, but that the government is spending more than it did a year ago. The significant increase in non-tax revenues as well as other revenues has been able to offset a lower collection of tax receipts namely those related to goods and services such as VAT. This reflects the slowdown in economic activity this year, with the government's current projection lowered once again to 3.9% from previous forecasts of 7% (initial budget) and 4.5% (revised budget). It is also significantly lower than 6.6% recorded in 2015. However, current expenditures rose markedly, namely on wages and goods and services and, more importantly, on interest payments due to the depreciation of the metical and the strong concentration of loan payments due in the period. Overall, the budget deficit (before grants) reached 6.7% of GDP in annualized terms (vs. 3.1% in 1H 2015).

2017 budget assumes economic recovery and lower inflation

The government's 2017 budget proposal foresees (1) some recovery in economic activity at home, (2) a deceleration in inflation levels and (3) higher foreign direct investment in the country. This translates into an acceleration of real GDP growth to 5.5% in 2017 (in line with the IMF's latest forecast) and inflation slowing to 15.5% from 18% this year. The recovery in economic activity is based on the consolidation of peace in the country and an improvement in the confidence levels between Mozambique and its main international partners through an increase in financial transparency. The government also hopes that higher foreign direct investment will help reduce the country's external account deficit.

Fiscal consolidation efforts expected to continue

The Mozambican authorities aim to continue their fiscal consolidation policy next year by containing public spending levels and improving the collection of domestic receipts. The government also plans to restructure part of the public debt in order to ensure its sustainability. Meanwhile, the efforts to reform the country's tax system and modernize the tax administration and tax collection procedures are expected to continue in 2017. This includes the revision of the import tariff system as well as the VAT code in order to promote higher domestic production. On the other hand, the government will continue to prioritize spending on the education, healthcare, social work, agriculture and infrastructure sectors.

Sharp fall in grants places 2017 budget deficit projection at 9% of GDP

The budget proposal foresees a deficit forecast (before grants) of 10.7% of GDP, lower than the 11.3% expected this year. However, due to the significant decline in the amount of grants anticipated next year, the deficit estimate (after grants) stands at 9% of GDP (vs. 8.7% in 2016). The government plans to finance the budget with a higher share of public receipts, but lower domestic financing. Domestically, tax revenues will continue to represent the bulk of public financing needs whereas, on the external front, the government hopes to offset the fall in grants with higher external financing. Meanwhile, in terms of spending, the local authorities aim to lower the relative weight of current expenditures while capital expenditures are expected to represent less of the total spending next year.

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BUDGET EXECUTION (1H 2016)

The Mozambican government’s budget execution report for the first half of the year showed that total revenues amounted to MZM 72,317 million in the period. This represents 43.7% of the annual target (roughly the same execution rate as in 1H 2015) and a 2.8% YoY increase. Collection of tax revenues were down in the period and accounted for only 41.1% of the yearly target as a result of a weaker performance in the collection of goods and services taxes, namely in VAT. This largely reflects the slowdown in economic activity witnessed this year. On the other hand, the collection of non-tax revenues and other revenues was much better than anticipated in the first half of the year, accounting for 68.4% and 63.4% of the yearly target, respectively.

The budget execution report showed that revenues in 1H 2016 represented 43.7% of the yearly target

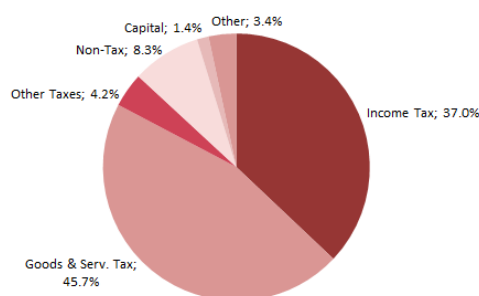
REVENUES Million MZM	1H 2015			1H 2016			YoY Change		
	Budget	Executed Amount	Execution Rate	Revised Budget	Executed Amount	Execution Rate	Budget	Executed Amount	Execution Rate
Tax Revenues	133,009	60,769	45.7%	144,450	59,427	41.1%	8.6%	-2.2%	-4.5%
Income Tax	58,390	25,912	44.4%	64,596	28,946	44.8%	10.6%	11.7%	0.4%
Corporate	35,824	15,612	43.6%	40,401	16,630	41.2%	12.8%	6.5%	-2.4%
Personal	21,963	10,249	46.7%	24,109	12,244	50.8%	9.8%	19.5%	4.1%
Other	603	50	8.4%	86	72	83.6%	-85.8%	42.5%	75.2%
Goods & Services Tax	67,967	31,941	47.0%	74,467	28,014	37.6%	9.6%	-12.3%	-9.4%
VAT	44,163	23,048	52.2%	48,407	19,716	40.7%	9.6%	-14.5%	-11.5%
Other	23,804	8,893	37.4%	26,060	8,298	31.8%	9.5%	-6.7%	-5.5%
Other Taxes	6,652	2,917	43.8%	5,388	2,466	45.8%	-19.0%	-15.4%	1.9%
Non-Tax Revenues	11,360	5,839	51.4%	9,869	6,754	68.4%	-13.1%	15.7%	17.0%
Capital Revenues	3,187	996	31.2%	3,187	1,040	32.6%	0.0%	4.4%	1.4%
Other Revenues	13,151	2,347	17.8%	8,034	5,097	63.4%	-38.9%	117.2%	45.6%
Total Revenues	160,708	70,351	43.8%	165,541	72,317	43.7%	3.0%	2.8%	-0.1%

Sources: Ministry of Finance and Eaglestone Securities.

A closer look at the revenue breakdown shows that the large majority of government receipts came from fiscal revenues, namely income tax (40% of total revenues) and taxes on goods and services (38.7% of the total), including VAT (27.3%). This compares with 37% and 45.7%, respectively, in the same period of last year. Overall, tax revenues represented 82.2% of total revenues, down from 86.4% in 1H 2015.

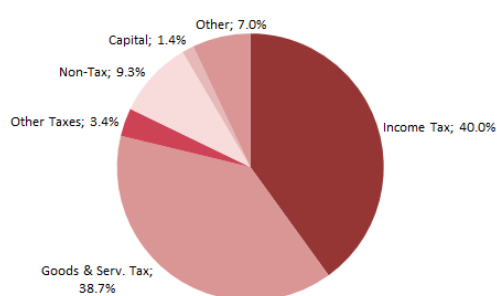
Fiscal revenues (income and goods & services taxes) account for the most part of government receipts (82.2% in 1H 2016)

TOTAL REVENUE BREAKDOWN (1H 2015)



Source: Ministry of Finance.

TOTAL REVENUE BREAKDOWN (1H 2016)



Source: Ministry of Finance.

Regarding expenditures, the amount of total spending, including net lending, reached MZM 95,166 million, rising 19.7% YoY. However, it stood at just 39.1% of the government’s target for the year (vs. 35.1% in 1H 2015). This was due to a continued weak execution rate in capital expenditures (21.7% of the yearly target) and net lending (execution of 24.6%). In terms of capital expenditures, it is worth highlighting that the external component was impacted by the suspension of the direct budget support from international partners earlier this year.

Public spending was impacted by a weak performance in capital related expenditures

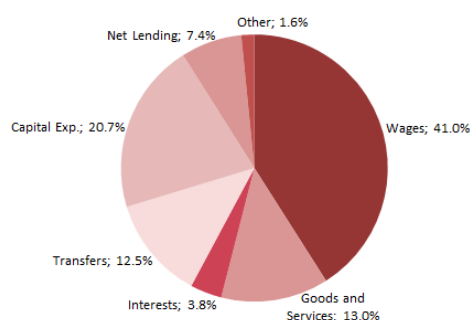
EXPENSES Million MZM	1H 2015			1H 2016			YoY Change		
	Budget	Executed Amount	Execution Rate	Revised Budget	Executed Amount	Execution Rate	Budget	Executed Amount	Execution Rate
Current Expenditures	120,352	57,155	47.5%	143,411	72,809	50.8%	19.2%	27.4%	3.3%
Staff Costs	64,441	32,577	50.6%	70,089	38,628	55.1%	8.8%	18.6%	4.6%
Goods and Services	24,495	10,368	42.3%	24,804	11,797	47.6%	1.3%	13.8%	5.2%
Debt Payments	6,923	3,049	44.0%	15,122	7,275	48.1%	118.4%	138.6%	4.1%
Current Transfers	19,280	9,912	51.4%	21,346	14,052	65.8%	10.7%	41.8%	14.4%
Subsidies	3,157	948	30.0%	942	879	93.3%	-70.2%	-7.3%	63.3%
Other Current Expenditures	2,056	301	14.7%	11,107	178	1.6%	440.4%	-41.0%	-13.1%
Capital Expenditures	83,180	16,470	19.8%	76,015	16,474	21.7%	-8.6%	0.0%	1.9%
Domstically Financed	44,881	10,816	24.1%	28,870	10,838	37.5%	-35.7%	0.2%	13.4%
Externally Financed	38,298	5,653	14.8%	47,145	5,635	12.0%	23.1%	-0.3%	-2.8%
Net Lending	22,894	5,884	25.7%	23,932	5,884	24.6%	4.5%	0.0%	-1.1%
Total Expenses	226,425	79,512	35.1%	243,358	95,166	39.1%	7.5%	19.7%	4.0%

Sources: Ministry of Finance and Eaglestone Securities.

Current expenditures accounted for 76.5% of total expenses (vs. 71.9% in 1H 2015) and were up 27.4% YoY. This was due to a strong increase in wages, higher spending on goods and services as well as significantly higher interest payments, which came on the back of the depreciation of the metical against the dollar and a strong concentration of loan payments due in the period. The significant increase in staff costs (accounting for 55.1% of the annual target) reflected the hiring of additional public sector employees mostly in the education, health, agriculture, police and public services sectors.

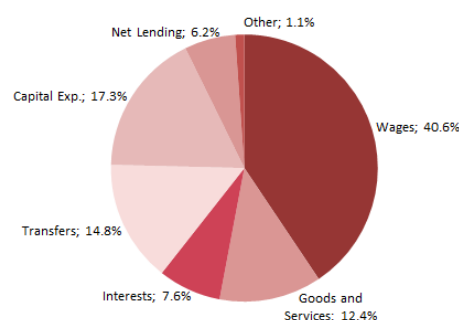
Current expenditures represented more than 3/4 of total public spending and reflected higher spending on wages, goods and services and interest payments

CURRENT EXPENDITURES BREAKDOWN (1H 2015)



Source: Ministry of Finance.

CURRENT EXPENDITURES BREAKDOWN (1H 2016)



Source: Ministry of Finance.

In sum, the budget deficit (before grants) stood at MZM 22,849 million in the first six months of 2016, which is significantly higher than the deficit figure recorded in the previous year. This represents 29.4% of the annual target. It also represents an annualized 6.7% of GDP (vs. 3.1% a year ago), as detailed in the table below.

The budget deficit (before grants) stood at 6.7% of GDP in annualized terms

STATE BUDGET Million MZM	1H 2015			1H 2016			% of GDP (1)	
	Budget	Executed Amount	Execution Rate	Revised Budget	Executed Amount	Execution Rate	Executed (1H 15)	Executed (1H 16)
Total Revenues	160,708	70,351	43.8%	165,541	72,317	43.7%	23.9%	21.1%
Tax Revenues	133,009	60,769	45.7%	144,450	59,427	41.1%	20.6%	17.3%
Non-Tax Revenues	11,360	5,839	51.4%	9,869	6,754	68.4%	2.0%	2.0%
Capital Revenues	3,187	996	31.2%	3,187	1,040	32.6%	0.3%	0.3%
Other Revenues	13,151	2,347	17.8%	8,034	5,097	63.4%	0.8%	1.5%
Total Expenses	226,425	79,512	35.1%	243,358	95,166	39.1%	27.0%	27.7%
Current Expenditures	120,352	57,155	47.5%	143,411	72,809	50.8%	19.4%	21.2%
Capital Expenditures	83,180	16,470	19.8%	76,015	16,474	21.7%	5.6%	4.8%
Net Lending	22,894	5,884	25.7%	23,932	5,884	24.6%	2.0%	1.7%
Deficit (before Grants)	-65,717	-9,162	13.9%	-77,817	-22,849	29.4%	-3.1%	-6.7%

(1) Figures for 1H are annualized. Sources: Ministry of Finance and Eaglestone Securities.

BUDGET PROPOSAL (2017)

The Mozambican government recently disclosed its budget proposal for 2017 whereby it expects (1) some recovery in economic activity at home, (2) a deceleration in inflation levels and (3) higher foreign direct investment in the country. Specifically, this means that the local authorities forecast real GDP growth of 5.5% in 2017, an increase from its current estimate of 3.9% for this year. It also sees average annual inflation slowing to 15.5% from 18% this year. Meanwhile, international reserves are expected to represent about three months of imports, a level that is very much unchanged from its current estimate for 2016, but lower than the ones in the 2016 budget and witnessed in recent years.

The local authorities expect economic activity to improve and inflation to decelerate in 2017

MACRO ASSUMPTIONS	2015	2016			2017
	Real	Initial Budget	Revised Budget	Current Estimate	Budget Proposal
Nominal GDP (MZM million)	589,294	680,487	686,718	694,462	802,900
Real GDP Growth	6.6%	7.0%	4.5%	3.9%	5.5%
Average Annual Inflation	3.6%	5.6%	16.7%	18.0%	15.5%
Int. Reserves (months of imports)	4.1	4.3	3.8	3.0	3.1
Exports (US\$ million)	3,413	3,643	3,214	3,214	3,463
Population (thousand)	25,728	26,424	26,424	26,424	27,128

Source: Mozambican authorities.

The budget proposal incorporates a recovery in economic activity based on the consolidation of peace in the country and an improvement in the confidence levels between Mozambique and its main international partners through an increase in financial transparency. The government hopes that this will lead to a recovery in foreign direct investment in the country and that it will have a positive impact on its current account. Against this backdrop, the government's current growth forecasts for next year assume a stronger expansion in the agriculture (5.9%), extractive industry (24%), electricity and gas (8.9%), wholesale and retail (4.4%), fishing (4.4%), transports (4.3%), healthcare (3.6%) and education (3.3%) sectors.

The macro forecasts for 2017 are based on the consolidation of peace in the country and an improvement in confidence levels of Mozambique's international partners

GROWTH FORECASTS	2015	2016 (Revised Budget)	2016 (Current Estimate)	2017 (Budget Proposal)
	Agriculture	3.1%	3.8%	3.8%
Fishing	4.5%	4.8%	4.8%	4.4%
Extractive Industries	22.5%	22.8%	13.2%	24.0%
Manufacturing	8.5%	5.1%	4.3%	5.8%
Electricity and Gas	12.2%	8.7%	8.7%	8.9%
Construction	12.0%	2.8%	2.8%	3.2%
Wholesale and Retail	4.4%	3.5%	3.5%	4.4%
Hotels and Restaurants	8.2%	3.1%	5.0%	4.3%
Information and Communication	10.6%	8.6%	8.6%	8.7%
Transports and Storage	7.6%	3.8%	2.5%	4.3%
Financial and Insurance Activities	5.9%	3.2%	3.2%	3.2%
Public Admin., Defense and Social Sec.	14.8%	3.0%	3.0%	2.5%
Education	7.4%	4.2%	2.9%	3.3%
Health and Social Act.	10.2%	5.5%	5.5%	3.6%
Other	5.4%	2.5%	2.5%	2.6%
Total Real GDP	6.6%	4.5%	3.9%	5.5%

Source: Mozambican authorities.

In terms of the budget itself, the government stated that its fiscal policy will remain focused on containing public expenditure levels in 2017. This includes limiting the hiring of new public sector workers to only those in the education, healthcare and agriculture sectors. It also means controlling spending on goods and services, namely fuel, communications and travelling. The government also stated that it plans to restructure part of the public debt in order to ensure its sustainability as well as postpone the rehabilitation and construction of new public buildings that have not commenced in 2016.

The local authorities will remain focused on controlling public expenditure levels in 2017

Meanwhile, the local authorities expect to continue to implement reforms in the country's tax system and modernize the tax administration and tax collection procedures. This includes the revision of the import tariff system as well as the VAT code in order to promote higher domestic production. It also means increasing the supervision of companies operating in key sectors like natural resources and beverages.

Special attention will also go to implementing reforms in the country's tax system

Overall, and when compared with the 2016 revised budget figures, the 2017 budget proposal foresees (1) total revenues increasing 12.6% YoY to MZM 186,333 million (representing 23.2% of GDP), (2) grants falling 22.8% YoY to MZM 14,048 million (or 1.7% of GDP) and (3) expenditures rising 11.9% YoY to MZM 272,289 million (or 33.9% of GDP). This means that the budget deficit forecast (before grants) stands at 10.7% of GDP, which is lower than the 11.3% foreseen this year. Still, due to the significant fall in the amount of grants expected in 2017, the deficit forecast (after grants) stands at 9% of GDP (vs. 8.7% in 2016).

The 2017 budget proposal foresees a deficit (after grants) of 9% of GDP (vs. 8.7% in 2016)

STATE BUDGET Million MZM				YoY Change		% of GDP		
	2015	2016 (1)	2017 (2)	2016/2015	2017/2016	2015	2016 (1)	2017 (2)
Revenues	155,893	165,541	186,333	6.2%	12.6%	26.5%	24.1%	23.2%
Grants	18,677	18,193	14,048	-2.6%	-22.8%	3.2%	2.6%	1.7%
Expenditures	200,491	243,358	272,289	21.4%	11.9%	34.0%	35.4%	33.9%
Deficit (before Grants)	-44,598	-77,817	-85,955	74.5%	10.5%	-7.6%	-11.3%	-10.7%
Deficit (after Grants)	-25,920	-59,625	-71,908	130.0%	20.6%	-4.4%	-8.7%	-9.0%

(1) Revised budget; (2) Budget proposal. Sources: Ministry of Finance and Eaglestone Securities.

The government expects growth in tax revenues to slow to single-digits in 2017 as a result of the impact that a weaker economic performance this year will have on the collection of income taxes, namely in the corporate sector. However, this effect is expected to be mostly offset by higher personal income tax and, more importantly, a significantly higher contribution from the “special tax on gaming”. Also worth noting is the much larger contribution from non-tax revenues, as detailed in the table below.

The contribution from corporate income tax is expected to be impacted by the deceleration in economic activity this year

REVENUES Million MZM				YoY Change		% of GDP		
	2015	2016 (1)	2017 (2)	2016/2015	2017/2016	2015	2016 (1)	2017 (2)
Tax Revenues	129,657	144,450	155,557	11.4%	7.7%	22.0%	21.0%	19.4%
Income Tax	57,919	64,596	64,232	11.5%	-0.6%	9.8%	9.4%	8.0%
Corporate	36,498	40,401	36,943	10.7%	-8.6%	6.2%	5.9%	4.6%
Personal	21,311	24,109	25,786	13.1%	7.0%	3.6%	3.5%	3.2%
Other	109	86	1,503	-21.5%	1649.8%	0.0%	0.0%	0.2%
Tax on Goods & Services	67,036	74,467	83,544	11.1%	12.2%	11.4%	10.8%	10.4%
VAT	46,553	48,407	50,414	4.0%	4.1%	7.9%	7.0%	6.3%
Other	20,483	26,060	33,130	27.2%	27.1%	3.5%	3.8%	4.1%
Other Tax Revenues	4,702	5,388	7,781	14.6%	44.4%	0.8%	0.8%	1.0%
Non-Tax Revenues	11,981	9,869	17,259	-17.6%	74.9%	2.0%	1.4%	2.1%
Capital Revenues	3,097	3,187	3,186	2.9%	0.0%	0.5%	0.5%	0.4%
Other Revenues	11,158	8,034	10,331	-28.0%	28.6%	1.9%	1.2%	1.3%
Total Revenues	155,893	165,541	186,333	6.2%	12.6%	26.5%	24.1%	23.2%

(1) Revised budget; (2) Budget proposal. Sources: Ministry of Finance and Eaglestone Securities.

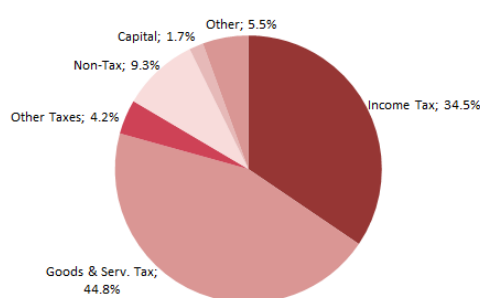
The revenue breakdown shows that receipts from income tax and taxes on goods and services account for most of the total proceeds. In particular, income tax is expected to stand at 34.5% of the total revenues and taxes on goods and services to account for 44.8% of the total next year. This compares with 39% and 45%, respectively, expected in the 2016 revised budget.

Income tax and taxes on goods and services account for most of the government proceeds

Revenues are anticipated to represent 93% of total government receipts (if excluding domestic and external financing) and grants to account for just 7%. This compares with a breakdown of 90.1% and 9.9%, respectively, expected in 2016. Looking further back to 2009, for instance, one can see that the weight of grants as a percentage of receipts (excluding financing) has gradually decreased from 34.9% of the total to the current 7% expected. This is also clearly evident when looking at this indicator as a percentage of GDP (grants are seen falling from 8.6% of GDP in 2009 to 1.7% next year).

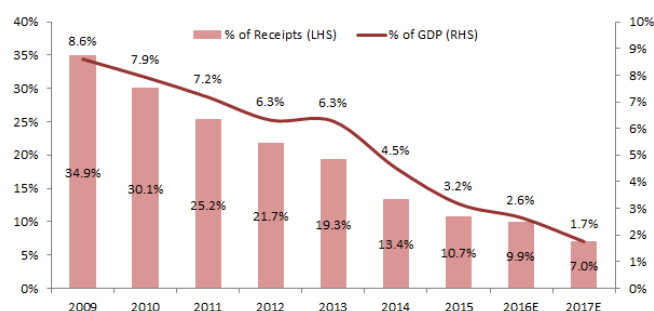
Grants are expected to account for just 7% of the total government proceeds this year (vs. 34.9% of the proceeds in 2009)

TOTAL REVENUE BREAKDOWN (2017E)



Sources: Ministry of Finance and Eaglestone Securities.

EVOLUTION OF GRANTS (2009-17E)



Sources: Ministry of Finance and Eaglestone Securities.

Meanwhile, current expenditures are forecasted to continue to increase at nearly double-digit figures boosted not only by higher staff costs and spending on goods and services but, more significantly, a large increase in interest costs and subsidies. Debt payments are expected to rise 78.1% YoY (after already nearly doubling in 2016) to MZM 26,938 million, of which MZM 18,000 million relate to foreign debt as a significant part of this debt comes due in the period. This is forecasted to represent 3.4% of GDP, a significant increase from the 2.2% and 1.3% of GDP in the previous two years, and should not come as a major surprise considering the recent marked increase in the country's debt levels.

The strong increase in interest costs reflects the surge in debt levels in recent years

Growth in capital expenditures is anticipated to slow and represent a lower 10% of GDP, as domestically financed capex is likely to contract once again in 2017. This evolution results from the decline in domestic receipts and the suspension of donor budget support this year. As stated above, the government expects to cancel new projects that have not yet been initiated in 2016, namely the construction, repair and refurbishment of public buildings. The authorities are also likely to cut public spending in several infrastructure projects such as roads and bridges.

Growth in capital spending is expected to slow as a result of the decline in domestic receipts and the suspension of donor budget support

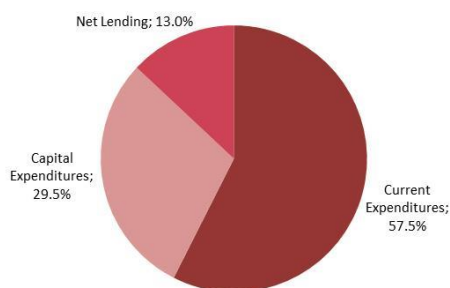
EXPENDITURES Million MZM				YoY Change		% of GDP		
	2015	2016 (1)	2017 (2)	2016/2015	2017/2016	2015	2016 (1)	2017 (2)
Current Expenditures	117,836	143,412	156,450	21.7%	9.1%	20.0%	20.9%	19.5%
Staff Costs	64,299	70,089	77,363	9.0%	10.4%	10.9%	10.2%	9.6%
Goods and Services	22,512	24,804	27,147	10.2%	9.4%	3.8%	3.6%	3.4%
Debt Payments	7,622	15,122	26,938	98.4%	78.1%	1.3%	2.2%	3.4%
Current Transfers	19,860	21,346	20,721	7.5%	-2.9%	3.4%	3.1%	2.6%
Subsidies	2,213	942	2,697	-57.4%	186.3%	0.4%	0.1%	0.3%
Other	1,329	11,107	1,584	735.6%	-85.7%	0.2%	1.6%	0.2%
Capital Expenditures	64,078	76,015	80,381	18.6%	5.7%	10.9%	11.1%	10.0%
Domestically Financed	42,677	28,870	28,034	-32.4%	-2.9%	7.2%	4.2%	3.5%
Externally Financed	21,400	47,145	52,348	120.3%	11.0%	3.6%	6.9%	6.5%
Net Lending	18,577	23,932	35,458	28.8%	48.2%	3.2%	3.5%	4.4%
Total Expenditures	200,491	243,358	272,289	21.4%	11.9%	34.0%	35.4%	33.9%

(1) Revised budget; (2) Budget proposal. Sources: Ministry of Finance and Eaglestone Securities.

All in all, current expenditures are expected to account for 57.5% of the total spending, capital expenditures 29.5% and net lending 13%. In terms of the breakdown of current expenditures, we note that staff costs are still expected to account for nearly half of this type of spending followed by spending on goods and services and on debt payments.

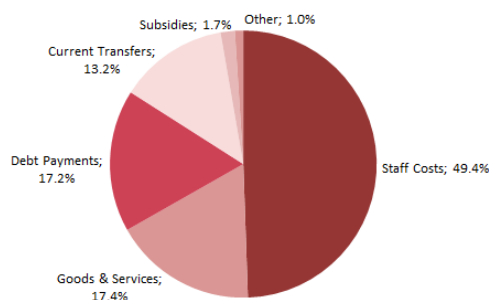
Current expenditures are expected to account for 57.5% of total spending

TOTAL EXPENDITURES BREAKDOWN (2017E)



Source: Ministry of Finance.

CURRENT EXPENDITURES BREAKDOWN (2017E)



Source: Ministry of Finance.

The table below shows the estimated expenditure by economic and social sector for 2017. The government is expected to continue to prioritize spending on education, healthcare, social work, agriculture and infrastructure (energy, water, roads and bridges). Education continues to be the area with the largest allocation of funds (a third of the total) followed by infrastructure (25.7%). All in all, total spending by sector is expected to represent 68.8% of total expenditures if excluding debt payments and net lending in 2017, up from 64.2% expected this year.

Education remains the largest beneficiary in terms of spending by economic and social sectors

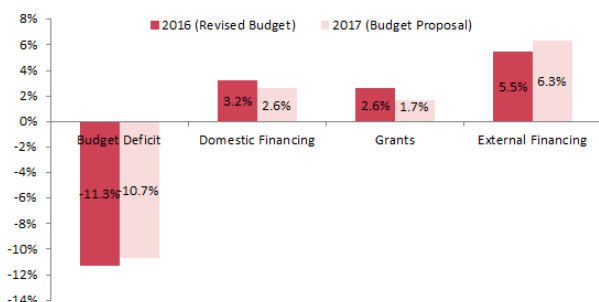
EXPENDITURES BY SECTOR Million MZM	2017 (2)		YoY Chg 2017/2016	% of Total Expend. by Sector	
	2016 (1)	2017 (2)		2016 (1)	2017 (2)
Education	44,400	48,288	8.8%	33.9%	33.4%
Healthcare	23,896	21,144	-11.5%	18.2%	14.6%
Infrastructures	34,951	37,114	6.2%	26.7%	25.7%
Roads	23,986	17,901	-25.4%	18.3%	12.4%
Water and Public Works	8,303	16,215	95.3%	6.3%	11.2%
Mineral Resources & Energy	2,661	2,997	12.6%	2.0%	2.1%
Agriculture	16,218	18,216	12.3%	12.4%	12.6%
Judicial System	3,943	3,057	-22.5%	3.0%	2.1%
Social Work & Employment	5,337	7,559	41.6%	4.1%	5.2%
Transports & Communication	2,369	9,126	285.2%	1.8%	6.3%
Total Expenditures by Sector	131,113	144,503	10.2%	100.0%	100.0%
% of Total Expenditures (*)	64.2%	68.8%			
Total Expenditures (*)	204,304	209,893	2.7%		

(*) Excluding Interests and Net Lending. (1) Revised budget; (2) Budget proposal. Sources: Ministry of Finance and Eaglestone Securities.

The local authorities plan to finance the 2017 budget with a higher share of public receipts (tax and other revenues), but lower domestic financing (through the banking system). Tax revenues will continue to represent the bulk of the government’s financing needs, accounting for 57.1% of the total receipts. On the external front, the government is not expecting any direct budget support while grants are forecasted to see a marked decline in the period (from 2.6% to 1.7% of GDP). The local authorities hope to offset this with much higher external financing, including for project loans. However, it is worth noting that this significant increase in external financing mostly reflects an exchange rate effect, namely from converting dollar-denominated loans into meticaais, as the effective availability of overseas resources has declined markedly.

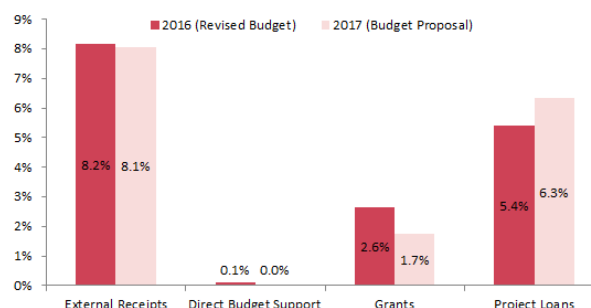
The government plans to finance its budget through a higher share of public receipts, with taxes still representing the bulk of its financing needs

BUDGET FINANCING (% OF GDP)



Source: Ministry of Finance.

EXTERNAL RECEIPTS (% OF GDP)



Source: Ministry of Finance.

Meanwhile, in terms of spending, the government aims to lower the relative weight of current expenditures in order to try to reduce the size of the public sector by limiting the hiring of new workers to key sectors like education, healthcare and agriculture. Capital expenditures are also expected to represent less of the total spending next year as a result of lower domestic capex, which relates to the impact of more limited domestic receipts and the suspension of the budget support. The government hopes to offset this and maintain public investment levels by raising the external component of capital expenditures.

Current and capital expenditures are expected to represent less of total spending in 2017

RECEIPTS & EXPEND.				% of Total			% of GDP		
	2015	2016 (1)	2017 (2)	2015	2016 (1)	2017 (2)	2015	2016 (1)	2017 (2)
Million MZM									
Receipts:									
Domestic Receipts	165,025	187,309	207,436	76.9%	77.0%	76.2%	28.0%	27.3%	25.8%
Tax Revenues	129,657	144,450	155,557	60.4%	59.4%	57.1%	22.0%	21.0%	19.4%
Other Revenues	26,236	21,091	30,777	12.2%	8.7%	11.3%	4.5%	3.1%	3.8%
Domestic Financing	9,132	21,768	21,103	4.3%	8.9%	7.8%	1.5%	3.2%	2.6%
External Receipts	49,677	56,043	64,852	23.1%	23.0%	23.8%	8.4%	8.2%	8.1%
Grants	18,677	18,193	14,048	8.7%	7.5%	5.2%	3.2%	2.6%	1.7%
External Financing	31,000	37,850	50,805	14.4%	15.6%	18.7%	5.3%	5.5%	6.3%
Total Receipts	214,702	243,352	272,289	100.0%	100.0%	100.0%	36.4%	35.4%	33.9%
Expenditures:									
Current Expenditures	117,836	143,411	156,450	58.8%	58.9%	57.5%	20.0%	20.9%	19.5%
Capital Expenditures	64,078	76,015	80,381	32.0%	31.2%	29.5%	10.9%	11.1%	10.0%
Domestic	42,677	28,870	28,034	21.3%	11.9%	10.3%	7.2%	4.2%	3.5%
External	21,400	47,145	52,348	10.7%	19.4%	19.2%	3.6%	6.9%	6.5%
Net Lending	18,577	23,932	35,458	9.3%	9.8%	13.0%	3.2%	3.5%	4.4%
Total Expenditures	200,491	243,358	272,289	100.0%	100.0%	100.0%	34.0%	35.4%	33.9%

(1) Revised budget; (2) Budget proposal. Sources: Ministry of Finance and Eaglestone Securities.

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Disclosures

Eaglestone was founded in December 2011 with the aim to be a committed partner for the development of businesses located primarily in Sub-Saharan Africa and to support the development of renewable energy projects on a global basis.

The company has three business activities - financial advisory services, asset management and brokerage - and currently has offices in Amsterdam, Cape Town London, Lisbon, Luanda and Maputo

Eaglestone is committed to operating and behaving according to the highest standards of corporate governance. Its subsidiary in the United Kingdom is authorized and regulated by the Financial Conduct Authority.

Eaglestone operates with a clear vision and mission to act on behalf of and in the best interests of all its stakeholders, whether they are investors, employees or users of its services.

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