



The Mozambican Economy

Sound Fundamentals, But Politics To Be Monitored

Research

January 2015

Economic activity remains robust

The Mozambican economy expanded 7.4% YoY during 3Q14, a slight improvement from the 7.3% registered in the previous three months. The key economic growth drivers included the manufacturing industry (14.8% YoY), mining (11.5% YoY) and construction (11.4% YoY). Overall, real GDP improved 7.4% during the first three quarters of 2014 and is therefore keeping the same growth pace as in recent years. Current forecasts from the Central Bank and the IMF suggest that the growth rate for the whole of 2014 will stand at near 7.5%, one of the highest in sub-Saharan Africa.

Economics

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Consumer price inflation continues its downward trend

Data from the country's national statistics office (INE) showed that consumer prices rose 0.71% MoM in December 2014 (vs. 0.36% MoM in the previous month). The food & non-alcoholic beverages segment was the one mostly responsible for this increase. Consumer prices were up 1.93% YoY while the 12-month average stood at 2.56% (vs. 3.54% and 4.26%, respectively, in the same period of 2013). Data also showed that inflation in Maputo remained below the national average in 2014.

Domestic receipts (mostly taxes) finance government expenditures

The government recently disclosed its budget execution report for the first three quarters of 2014. Total revenues saw a 31.5% YoY improvement and stood at 75.8% of the government's yearly target. The large majority of receipts came from fiscal revenues, namely income tax (43.2%) and goods & services (40.6%) related taxes. If including capital gains of the companies operating in the oil sector, the contribution from megaprojects would reach 19% of total revenues (vs. 10.6% in 2013). On the other hand, total expenditures (including lending) increased 27.6% YoY, but stood at 59.7% of the yearly target. Overall, the budget deficit (ex-grants) stood at 8.1% of GDP while if including grants it would stand at 4% (annualized figures).

Frelimo wins October general elections

The ruling Frelimo party won the country's general elections, despite the allegations of fraud coming from the opposition parties. The results were approved by the elections committee (CNE) and recently validated by the Constitutional Council. As expected, Mr. Filipe Nyusi was elected president, but with only 57% of the votes (vs. 75% of his predecessor in 2009). The elections also showed increased support for the opposition parties in the national parliament and provincial assemblies. We highlight that there have been protests in some parts of the country, which are not unusual after the release of election results. We believe this should not escalate into violence (as seen in the recent past), but Mozambique is at an important crossroad in the stage of its development due to the tremendous potential offered by its natural resources. As a result, the political and security environment in the country will be something that will surely be carefully regarded (and ensured) by the local authorities.

ECONOMIC ACTIVITY (JULY-SEPTEMBER 2014)

The Mozambican economy has posted an impressive growth performance in the last decade. Figures from the country’s National Statistics Institute (INE) show that real GDP expanded at an average annual rate of 7.5% during this period with the economy largely benefitting from international donor contributions and the government’s poverty reduction plan. Income per capita has risen 5.3% annually in the same period, but remains at around US\$ 600, one of the lowest in the world.

Real GDP growth in Mozambique has averaged 7.5% in the last decade, but GDP per capita remains one of the lowest in the world

More recently, the country’s growth has reflected a rapid expansion in the extractive industry, namely coal (one of Mozambique’s main exports) and a more favorable evolution of the global economy after the latest financial crises in 2007-08. Other areas such as transport and communication and an improving agricultural sector have also been important growth drivers for the country.

The extractive industry (namely coal) has played an important role in the country’s economic performance

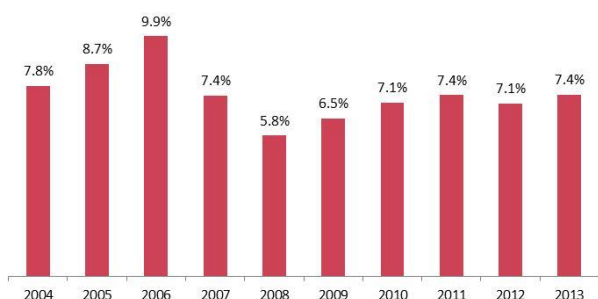
In 2014, figures from the INE show that real GDP advanced 7.6% in the first quarter and 7.3% in the second quarter (revised from an initial estimate of 6.9%) when compared with the same periods of the previous year. Apart from mining, the manufacturing industry (representing c. 11% of the country’s GDP) saw a robust performance in the first half of the year after a relatively weaker evolution (2.6%) in 2013. The construction and the financial services sectors also posted strong growth, although these sectors continue to represent a modest contribution to the local GDP structure (about 2% for construction and 6% for financial services).

Economic activity has remained upbeat in the first half of 2014, namely in the mining sector and in manufacturing

Meanwhile, the statistics office announced that economic activity expanded at 7.4% YoY in the third quarter, a slight improvement from the 7.3% registered in the previous three months. This shows that the Mozambican economy has expanded 7.4% in the first three quarters of 2014 and is therefore keeping the same growth rate as in the whole of 2013. We highlight that governor of the Bank of Mozambique recently stated that he expects real GDP growth to be of around 7.5% in 2014. This figure is in line with the forecast recently indicated by the International Monetary Fund (IMF) in its latest review of the country.

The governor of the Bank of Mozambique and the IMF expect real GDP growth of 7.5% in 2014

ANNUAL REAL GDP GROWTH (2004-13)



Source: National Statistics Institute (INE).

ANNUAL REAL GDP GROWTH (1Q12 – 3Q14)

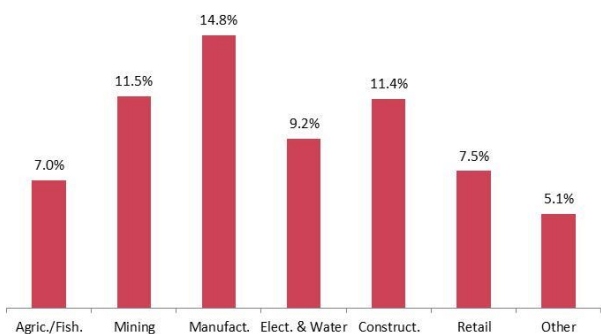


Source: National Statistics Institute (INE).

A closer look at the INE figures suggests that the manufacturing industry remained one of the key drivers of economic growth during the third quarter, as it expanded 14.8% YoY. It was followed by the mining (11.5% YoY) and the construction (11.4% YoY) sectors. Agriculture and fishing represents the largest share of the GDP structure with 25.2% and improved 7% YoY. The retail sector, which also accounts for an important part of the GDP structure, saw a healthy improvement of 7.5% from the homologous period. On the other hand, the transports and communication sector (8.7% of GDP) posted a relatively weak 3.1% YoY increase.

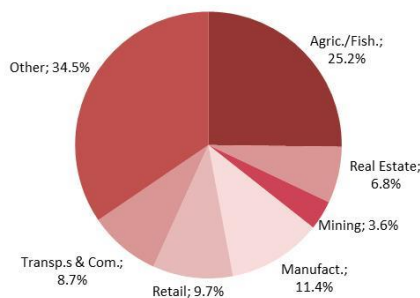
Manufacturing, along with mining and construction, were the fastest growing sectors in the third quarter

REAL GDP GROWTH BY SECTOR (3Q14)



Source: National Statistics Institute (INE).

GDP STRUCTURE (3Q14)



Source: National Statistics Institute (INE).

INFLATION

Data from the INE shows that the consumer price index (CPI) for the cities of Maputo, Beira and Nampula (used as a proxy for the inflation in the country) increased 0.71% in December 2014 relatively to the previous month. This figure compares with a 0.36% MoM rise posted in November. The food and non-alcoholic beverages segment was the one mostly responsible for this increase in consumer prices, as it saw a 0.54% MoM rise in December.

CPI in Mozambique was up 0.71% MoM in December (vs. 0.36% MoM in the previous month)

Consumer prices rose 1.93% YoY in December while the 12-month average stood at 2.56%. These figures compare with 3.54% and 4.26%, respectively, in December of 2013, evidencing that inflation in the country has recorded a constant downward trend in recent years.

Inflation was up 1.93% YoY while the 12-month average stood at 2.56%

As depicted in the graph below, the food and non-alcoholic beverages segment was the strongest contributor to inflation, as it was up 1.71% in the year. It was followed by housing and utilities (0.94%) and clothing and shoes (0.26%).

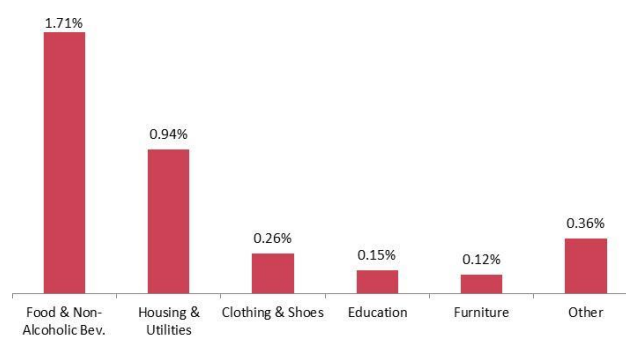
Food & non-alcoholic beverages were the largest contributors to inflation

CONSUMER PRICE INDEX (12-MONTH AVERAGE AND YOY)



Source: National Statistics Institute (INE).

STRONGEST CONTRIBUTORS TO CPI (2014)



Source: National Statistics Institute (INE).

Looking at the monthly inflation (0.71%) in each of the three cities, we note that prices were up 1.43% in Beira, 0.64% in Maputo and 0.52% in Nampula. On an accumulated basis, Maputo posted an inflation rate of 1.40% in 2014 while Beira and Nampula saw 2.68% and 2.78% price increases, respectively. Finally, the 12-month average for these three cities stood as follows: following: Maputo (2.29%); Beira (1.75%) and Nampula (3.35%).

Consumer price inflation in the city of Maputo has been well under control in 2014

BUDGET EXECUTION (JANUARY-SEPTEMBER 2014)

The Mozambican government disclosed the State budget for 2014 at the beginning of the year. The initial document (Law 1/2014 of 24 January) envisaged total revenues of MZM 147,372 million and total expenditures of MZM 240,891 million. This translated to a forecasted budget deficit (before grants) of MZM 93,520 million, representing 16.2% of the country's GDP. The macro assumptions in the budget included (1) a real GDP growth rate of 8%, (2) an average annual inflation of 5.6% and (3) a real depreciation of the Metical against the currencies of country's main trading partners.

However, during the first quarter of the year, the government faced additional spending needs, namely related to (1) the general elections to be held later in the year, (2) financing for several government projects and (3) expenditures in other priority sectors. On the other hand, there were extraordinary revenues coming mostly from capital gains taxes of companies operating in the extractive sector (reportedly about MZM 15 billion, or US\$ 490 million). This led the local authorities to revise their initial budget estimates and to release a new document in October 2014. This newly revised budget assumed total revenues of MZM 153,075 million (ex-grants) and expenditures of MZM 249,094 million for the whole of 2014. It meant an increase in revenues and expenditures of 3.9% and 3.4%, respectively, from the initial budgetary forecasts.

It also resulted in a deterioration of the forecasted budget deficit to MZM 96,019 million (or a 2.7% increase from the initial deficit target). This represented a 26.5% YoY increase from the revised deficit target of MZM 75,880 million set for 2013. Overall, the local authorities now expected a budget deficit (before grants) that represented 17.9% of GDP. This compares with a deficit of 17.5% of GDP initially expected for 2014 and 16.2% of GDP in the previous year.

We also note that the 2014 State budget estimates included grants of MZM 30,402 million in the year. If including these grants, the new budget deficit estimate would stand at MZM 65,617 million (+24.6% YoY). It would also represent a deficit of 12.3% of GDP, which compares with 11.8% of GDP in the initial budget and 11.2% of GDP in 2013.

The State budget for 2014 initially included a deficit (before grants) of 93,520 million (17.5% of GDP)

Additional spending needs and extraordinary revenues namely from capital gains taxes in the extractive industry led authorities to revise their budget forecasts

The new budget deficit assumption (before grants) stood at 17.9% of GDP

Including grants, the new budget deficit assumption would stand at 12.3% of GDP

STATE BUDGET	2013			2014				% of GDP			
	Initial Budget	Revised Budget	Change	Initial Budget	Revised Budget	Change	Revised Budget (YoY)	Initial Budget (2013)	Revised Budget (2013)	Initial Budget (2014)	Revised Budget (2014)
Million MZM											
Total Revenues and Grants	133,773	143,724	7.4%	177,774	183,477	3.2%	27.7%	28.5%	30.6%	33.2%	34.3%
Total Revenues	113,962	120,492	5.7%	147,372	153,075	3.9%	27.0%	24.3%	25.7%	27.5%	28.6%
Tax Revenues	95,492	100,830	5.6%	126,558	132,262	4.5%	31.2%	20.4%	21.5%	23.7%	24.7%
Non-Tax Revenues	8,896	9,210	3.5%	9,405	9,405	0.0%	2.1%	1.9%	2.0%	1.8%	1.8%
Capital Revenues	2,817	2,817	0.0%	3,187	3,187	0.0%	13.1%	0.6%	0.6%	0.6%	0.6%
Other Revenues	6,757	7,635	13.0%	8,221	8,221	0.0%	7.7%	1.4%	1.6%	1.5%	1.5%
Grants	19,811	23,232	17.3%	30,402	30,402	0.0%	30.9%	4.2%	5.0%	5.7%	5.7%
Total Expenditures	174,955	196,372	12.2%	240,891	249,094	3.4%	26.8%	37.3%	41.8%	45.0%	46.6%
Current Expenditures	97,264	100,877	3.7%	115,666	121,207	4.8%	20.2%	20.7%	21.5%	21.6%	22.7%
Staff Costs	48,809	50,759	4.0%	56,959	58,441	2.6%	15.1%	10.4%	10.8%	10.6%	10.9%
Goods and Services	18,457	19,931	8.0%	25,018	26,656	6.5%	33.7%	3.9%	4.2%	4.7%	5.0%
Debt Payments	5,622	5,622	0.0%	6,347	6,069	-4.4%	7.9%	1.2%	1.2%	1.2%	1.1%
Current Transfers	15,904	16,046	0.9%	18,078	18,204	0.7%	13.4%	3.4%	3.4%	3.4%	3.4%
Subsidies	3,372	3,372	0.0%	2,671	2,671	0.0%	-20.8%	0.7%	0.7%	0.5%	0.5%
Other Current Expenditures	5,099	5,146	0.9%	6,593	9,166	39.0%	78.1%	1.1%	1.1%	1.2%	1.7%
Capital Expenditures	69,425	80,999	16.7%	100,770	104,540	3.7%	29.1%	14.8%	17.3%	18.8%	19.5%
Domestically Financed	30,780	35,627	15.7%	42,490	46,260	8.9%	29.8%	6.6%	7.6%	7.9%	8.6%
Externally Financed	38,645	45,373	17.4%	58,280	58,280	0.0%	28.4%	8.2%	9.7%	10.9%	10.9%
Net Lending	8,266	14,496	75.4%	24,456	23,347	-4.5%	61.1%	1.8%	3.1%	4.6%	4.4%
Deficit (before Grants)	-60,993	-75,880	24.4%	-93,520	-96,019	2.7%	26.5%	-13.0%	-16.2%	-17.5%	-17.9%
Deficit (after Grants)	-41,182	-52,648	27.8%	-63,118	-65,617	4.0%	24.6%	-8.8%	-11.2%	-11.8%	-12.3%

Sources: Ministry of Finance and Eaglestone Securities.

Meanwhile, the government recently disclosed its budget execution report for the first three quarters of 2014. Total revenues in the period amounted to MZM 116,103 million, representing a 31.5% YoY improvement. Revenues stood at 75.8% of the government's target for the year, which is slightly higher than the execution rate of 73.3% recorded in the homologous period. Also worth noting is that if we annualize the total revenues in the period January-September 2014 they would account for 28.9% of the expected GDP for the year (vs. 25.1% in 2013).

The government recently disclosed its budget execution report for the period January-September of 2014

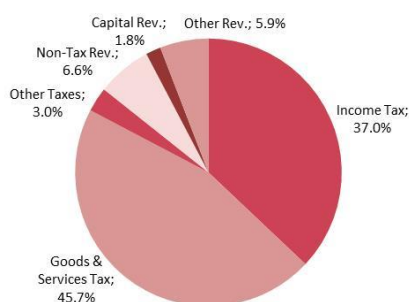
REVENUES (JAN-SEP)	2013		2014		YoY Change	% of GDP (1)	
	Executed Amount	Execution Rate	Executed Amount	Execution Rate		Executed Amount (2013)	Executed Amount (2014)
Million MZM							
Total Revenues	88,303	73.3%	116,103	75.8%	31.5%	25.1%	28.9%
Tax Revenues	75,634	75.0%	100,315	75.8%	32.6%	21.5%	25.0%
Income Tax	32,696	83.6%	50,100	84.4%	53.2%	9.3%	12.5%
Goods & Services Tax	40,311	71.1%	47,151	69.8%	17.0%	11.5%	11.8%
VAT	28,494	71.5%	33,558	70.0%	17.8%	8.1%	8.4%
Other	11,817	70.1%	13,593	69.2%	15.0%	3.4%	3.4%
Other Taxes	2,627	52.3%	3,063	57.1%	16.6%	0.7%	0.8%
Non-Tax Revenues	5,860	63.6%	6,999	74.4%	19.4%	1.7%	1.7%
Capital Revenues	1,617	57.4%	2,231	70.0%	38.0%	0.5%	0.6%
Other Revenues	5,193	68.0%	6,558	79.8%	26.3%	1.5%	1.6%

(1) Annualized figures; 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 (43.2% of the total) with the capital gains from the megaprojects related to the extractive industry playing an important role, as detailed below. Taxes on goods and services continued to show a healthy improvement and also accounted for a large share of fiscal revenues (40.6% of the total), particularly VAT. Overall, tax revenues represented 25% of GDP (annualized) in the period (vs. 21.5% in 2013).

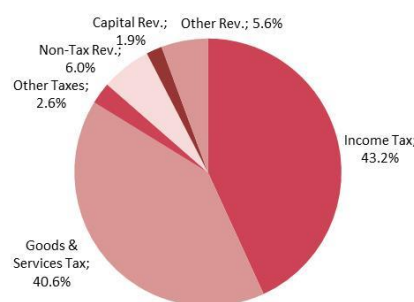
Fiscal revenues (income and goods & services taxes) account for a large part of government receipts

TOTAL REVENUE BREAKDOWN (JAN-SEP 2013)



Source: Ministry of Finance.

TOTAL REVENUE BREAKDOWN (JAN-SEP 2014)

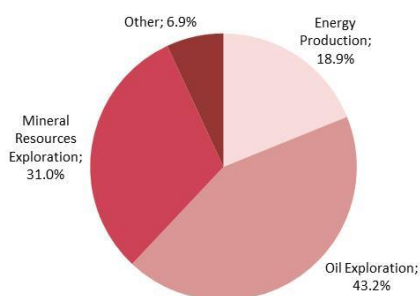


Source: Ministry of Finance.

The contribution from megaprojects to total revenues (excluding capital gains) reached MZM 7,163 million until September (+26.5% YoY) and accounted for 6.2% of total revenues (6.4% in 2013). The strongest improvement was seen in the energy production sector (+61.9% YoY), ahead of oil exploration (+35.9% YoY). On the other hand, the revenues from the mineral resources exploration sector were down 3.5% YoY due to the fall in coal prices in international markets. We note that if including the capital gains of the companies operating in the oil sector (MZM 14,918 million), the contribution from megaprojects would reach 19% of total revenues in the period (vs. 10.6% in 2013).

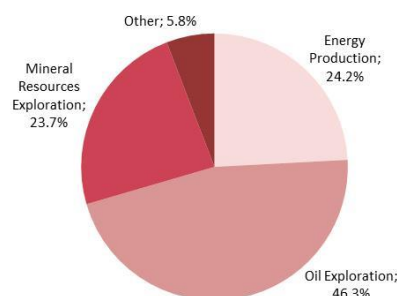
Contribution (excl. capital gains) from megaprojects improved 26.5% YoY

MEGAPROJECTS CONTRIBUTION (JAN-SEP 2013)



Source: Ministry of Finance.

MEGAPROJECTS CONTRIBUTION (JAN-SEP 2014)



Source: Ministry of Finance.

Regarding expenditures, the amount of total spending, including net lending, reached MZM 148,713 million, a 27.6% YoY increase. However, it stood at just 59.7% of the government's target for the year (vs. 59.3% in 2013) and accounted for 37.1% of GDP. Current expenditures were 57.1% of total spending and were up 24.8% YoY mostly due to higher spending on goods and services, namely in activities related to the preparations of the October elections. Capital expenditures amounted to MZM 51,730 million, with more than 52% financed domestically.

Total expenditures were up 27.6% YoY, representing 37.1% of GDP

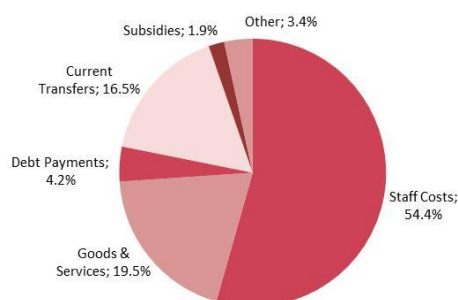
EXPENDITURES (JAN-SEP)	2013		2014		YoY Change	% of GDP (1)	
	Executed Amount	Execution Rate	Executed Amount	Execution Rate		Executed Amount (2013)	Executed Amount (2014)
Total Expenditures	116,528	59.3%	148,713	59.7%	27.6%	33.1%	37.1%
Current Expenditures	68,017	67.4%	84,913	70.1%	24.8%	19.3%	21.2%
Staff Costs	37,004	72.9%	44,224	75.7%	19.5%	10.5%	11.0%
Goods and Services	13,284	66.7%	18,764	70.4%	41.3%	3.8%	4.7%
Debt Payments	2,862	50.9%	3,689	60.8%	28.9%	0.8%	0.9%
Current Transfers	11,236	70.0%	13,380	73.5%	19.1%	3.2%	3.3%
Subsidies	1,298	38.5%	1,572	58.8%	21.2%	0.4%	0.4%
Other Current Expenditures	2,333	45.3%	3,283	35.8%	40.7%	0.7%	0.8%
Capital Expenditures	36,397	44.9%	51,730	49.5%	42.1%	10.3%	12.9%
Domestically Financed	18,736	52.6%	27,024	58.4%	44.2%	5.3%	6.7%
Externally Financed	17,662	38.9%	24,707	42.4%	39.9%	5.0%	6.2%
Net Lending	12,114	83.6%	12,070	51.7%	-0.4%	3.4%	3.0%

(1) Annualized figures; Sources: Ministry of Finance and Eaglestone Securities.

The breakdown of current expenditures is detailed in the graphs below. We note that more than half of the spending relates to staff costs and a fifth was for goods and services. They were up 19.5% YoY and 41.3% YoY, respectively, during January-September 2014.

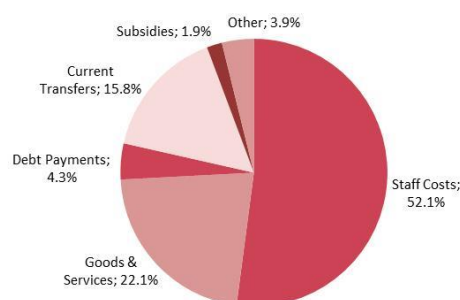
Three fourths of current expenditures relates to staff costs and spending on goods & services

CURRENT EXPENDITURES BREAKDOWN (JAN-SEP 2013)



Source: Ministry of Finance.

CURRENT EXPENDITURES BREAKDOWN (JAN-SEP 2014)



Source: Ministry of Finance.

In sum, the budget deficit (before grants) for the first three quarters of the year stood at MZM 32,610 million, which is 34% higher than in the previous year. If including grants, the deficit would stand at MZM 15,946 million. This is significantly worse than the deficit of MZM 6,783 million of a year ago. If analyzing these figures as a percentage of GDP, the deficits would stand at 8.1% and 4.0%, respectively.

The budget deficit until September has deteriorated relatively to the same period of 2013

STATE BUDGET	2013		2014		YoY Change	% of GDP (1)	
	Executed Amount	Execution Rate	Executed Amount	Execution Rate		Executed Amount (2013)	Executed Amount (2014)
Total Revenues and Grants	109,745	76.4%	132,767	72.4%	21.0%	31.2%	33.1%
Total Revenues	88,303	73.3%	116,103	75.8%	31.5%	25.1%	28.9%
Grants	21,443	92.3%	16,665	54.8%	-22.3%	6.1%	4.2%
Total Expenditures	116,528	59.3%	148,713	59.7%	27.6%	33.1%	37.1%
Current Expenditures	68,017	67.4%	84,913	70.1%	24.8%	19.3%	21.2%
Capital Expenditures	36,397	44.9%	51,730	49.5%	42.1%	10.3%	12.9%
Net Lending	12,114	83.6%	12,070	51.7%	-0.4%	3.4%	3.0%
Deficit (before Grants)	-28,225	37.2%	-32,610	34.0%	15.5%	-8.0%	-8.1%
Deficit (after Grants)	-6,783	12.9%	-15,946	24.3%	135.1%	-1.9%	-4.0%

(1) Annualized figures; Sources: Ministry of Finance and Eaglestone Securities.

All in all, the government mostly used the higher domestic receipts to finance its expenditures in the period, as both the amount of grants and domestic financing were well below their target. Specifically, as seen in the table below, external receipts (grants and external financing) were down 12.9% YoY and stood at just 39.9% of the target for the full year (vs. 56.9% in 2013). The government has also taken advantage of a much lower execution rate in terms of capital expenditures (49.5% of the yearly target) and was able to save MZM 4,953 million (although this figure is materially less than the one recorded in the previous year).

The government mostly used domestic receipts (namely tax revenues) to finance its expenditures

RECEIPTS & EXPENDITURES	2013			2014			YoY Change	% of GDP (1)	
	Executed Amount	% of Total	Execution Rate	Executed Amount	% of Total	Execution Rate		Executed Amount (2013)	Executed Amount (2014)
Receipts:									
Domestic Receipts	90,156	69.1%	71.8%	118,625	77.2%	73.5%	31.6%	25.6%	29.6%
Revenues	88,303	67.7%	73.3%	116,103	75.6%	75.8%	31.5%	25.1%	28.9%
Transferred Balance	0	0.0%	0.0%	0	0.0%	0.0%	n.m.	0.0%	0.0%
Domestic Financing	1,853	1.4%	51.9%	2,522	1.6%	44.1%	36.1%	0.5%	0.6%
External Receipts	40,226	30.9%	56.9%	35,041	22.8%	39.9%	-12.9%	11.4%	8.7%
Grants	21,443	16.4%	92.3%	16,665	10.8%	54.8%	-22.3%	6.1%	4.2%
External Financing	18,783	14.4%	39.5%	18,376	12.0%	32.0%	-2.2%	5.3%	4.6%
Total Receipts	130,381	100.0%	66.4%	153,665	100.0%	61.7%	17.9%	37.0%	38.3%
Expenditures:									
Current Expenditures	68,016	58.4%	67.4%	84,913	57.1%	70.1%	24.8%	19.3%	21.2%
Capital Expenditures	36,397	31.2%	44.9%	51,730	34.8%	49.5%	42.1%	10.3%	12.9%
Domestic	18,736	16.1%	52.6%	27,024	18.2%	58.4%	44.2%	5.3%	6.7%
External	17,662	15.2%	38.9%	24,707	16.6%	42.4%	39.9%	5.0%	6.2%
Net Lending	12,114	10.4%	83.6%	12,070	8.1%	51.7%	-0.4%	3.4%	3.0%
Total Expenditures	116,528	100.0%	59.3%	148,713	100.0%	59.7%	27.6%	33.1%	37.1%
Change in the Balance	13,854		n.m.	4,953		n.m.	-64.3%	3.9%	1.2%
Total Receipts & Expenditures	130,381		66.4%	153,665		61.7%	17.9%	37.0%	38.3%

(1) Annualized figures; Sources: Ministry of Finance and Eaglestone Securities.

GENERAL ELECTIONS 2014

Mozambique's Electoral Administration Technical Secretariat (STAE), the executive body of the National Elections Committee (CNE), announced on 30 October the official results of the general elections held on 15 October. Around 5.3 million people reportedly voted, leading to a participation rate of 48.64%. According to the official results, Mr. Filipe Nyusi, the candidate of the ruling Frente de Libertação de Moçambique (Frelimo) party, was elected President of Mozambique with 57.0% of the votes.

Official results of the Mozambican presidential elections showed the candidate of the ruling Frelimo party winning with 57% of the votes

Frelimo also comfortably won the parliamentary and provincial elections with 144 seats (out of 250 seats) in the parliament and 485 seats (out of 811 seats) in the provincial assemblies. The results showed persistent regional disparities, as Frelimo was clearly dominant in the southern provinces while support for the opposition parties was stronger in the center and northern parts of the country as well as among younger urban voters.

Frelimo also won the parliamentary and provincial elections

Despite Frelimo's victory, these electoral results also clearly evidenced that the opposition parties are becoming stronger in Mozambique. The gap between Frelimo and the opposition fell shorter than what was initially suggested by opinion polls. In the presidential election, the opposition reached 43.0% of the votes against just 25.0% in the 2009 elections won by Mr. Armando Guebuza. On the other hand, parliamentary seats held by the opposition parties increased to 106 seats (59 in 2009) while in the provincial assemblies the opposition now holds 326 seats (108 in the 2009).

Opposition parties gaining some momentum following the 2014 elections

These results were officially approved by the CNE with 10 votes in favor and seven against. They were also validated by the country's Constitutional Council, which is the body in charge of election issues, at the end of 2014. However, the opposition parties are still questioning the outcome of these elections, alleging fraud due to a number of irregularities. This fact, together with the improved results by the opposition this time around, led to protests in some parts of the country, which are not unusual after the release of election results.

Election results were approved by the CNE and validated by the Constitutional Council

Protests have intensified in recent weeks though. Mr. Dhlakama of the opposition Resistência Nacional Moçambicana (Renamo) party has threatened to create a parallel government. The latest press reports also indicate that the Renamo lawmakers are planning to boycott both the national and provincial parliaments due to be sworn in in early January.

Opposition questions outcome of elections and protests have intensified in recent days

Although the risk of the latest protests and demonstrations continuing in the foreseeable future still exists, we believe the course of action of the local authorities is not likely to materially change going forward. Mozambique remains one of the poorest countries in the world and, as a result, the government is expected to remain very much committed to combating poverty and achieving inclusive economic growth. In the short-term, the main goal of the authorities should be to maintain the country's growth momentum and preserve the country's rather sound macro fundamentals.

The course of action of the local authorities is not likely to materially change going forward

As recently noted by the IMF, fiscal consolidation needs to be initiated in the 2015 budget to restore prudent fiscal management. The Fund also warns that key structural reforms include (1) improving VAT and overall tax administration, (2) continuing public financial management, (3) strengthening institutional capacity to ensure transparent public investment management and borrowing, (4) enhancing the business environment and (5) financial sector development.

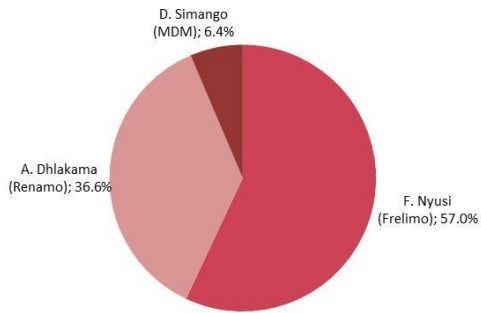
IMF warns for the need of implementing key structural reforms

Another key challenge for the Mozambican authorities is the development of structural sectors like coal and liquefied natural gas (LNG) where Mozambique is expected to become one of the world's largest exporters before the end of the decade. Completion of the contract negotiations for the production of LNG is therefore a critical milestone for the launch of this project.

The development of structural sectors like coal and LNG will be extremely important for the country

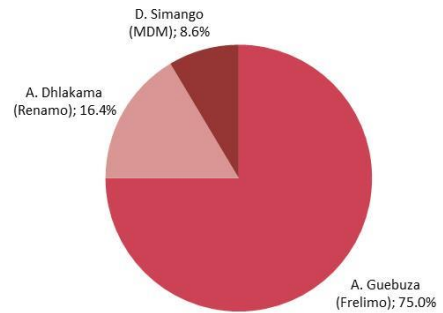
GENERAL ELECTIONS (2014 vs. 2009)

PRESIDENTIAL ELECTIONS - 2014



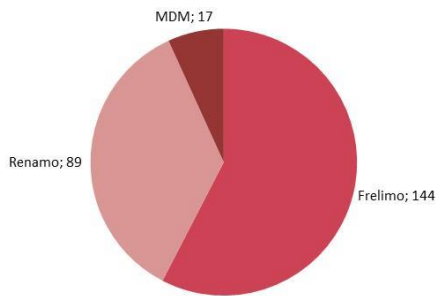
Source: CNE.

PRESIDENTIAL ELECTIONS - 2009



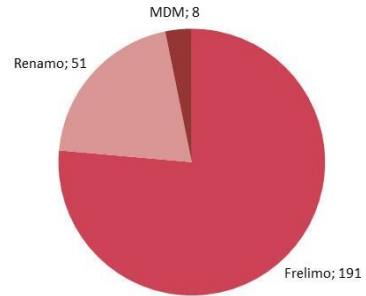
Source: CNE.

PARLIAMENTARY SEATS - 2014



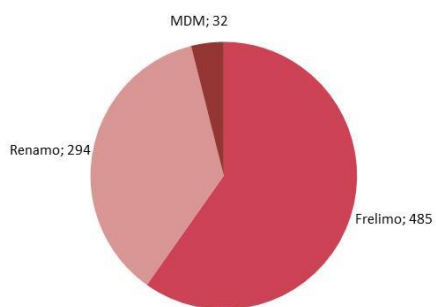
Source: CNE.

PARLIAMENTARY SEATS - 2009



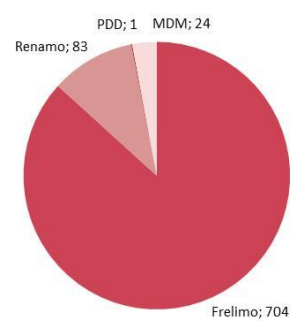
Source: CNE.

PROVINCIAL ASSEMBLIES (SEATS) - 2014



Source: CNE.

PROVINCIAL ASSEMBLIES (SEATS) - 2009



Source: CNE.

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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 Services Authority. The first of its six Luxembourg based funds has received approval from la Commission de Surveillance du Secteur Financier.

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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