



The Mozambican Economy

Economic recovery likely to be postponed

Research

April 2020

Economic growth decelerated further in 2019

Mozambique's economy has slowed markedly since 2016 when compared with the growth recorded in the previous decade. This deceleration came mainly as a result of the sharp drop in commodity prices, namely aluminum and coal (the country's two main exports) and lower FDI in the country. Investor sentiment also deteriorated following the revelation in April 2016 of previously undisclosed public debt amounting to US\$ 2 billion (17.5% of GDP) that led to donor aid freezes and hindered economic activity further. Real GDP growth averaged 3.3% in the last four years (down from 6.7% in 2015). Still, apart from 2019, Mozambique continued to expand at a growth rate above the average in Sub-Saharan Africa, as economic activity in the region remained quite subdued in the period

Economics

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Activity evidenced signs of some recovery in early-2020

Economic activity was recovering from the impact of cyclones Idai and Kenneth that devastated parts of the country last year. Recent projections indicated that growth could improve to c5% in 2020 on the back of the continued reconstruction efforts and further progress in the development of LNG projects. Growth would also benefit from a gradual recovery in private consumption and investment. However, recent developments related to Covid-19 raise risks and uncertainties about the country's economic outlook. The current pandemic will likely put pressure on its balance of payments due to the recent sharp fall in commodity prices and could even delay the implementation of LNG projects, derailing this recovery trajectory

Government cuts economic growth forecasts for 2020

The Mozambican authorities have already lowered their growth projections for this year to 2.2% (worst case) and 3.8% (best case) from their previous forecast of 4.8%. They added that the sharp deceleration in global economic growth expected in 2020 will impact all sectors of the economy, from the extractive industry to agriculture. On the domestic front, risks to the economic outlook have also increased following the latest intensification of military instability in the north of the country as well as the uncertainties related to the duration and impact of floods and droughts

Central bank measures to help soften impact from Covid-19

The central bank announced a credit line of US\$ 500 million in foreign currency for the banking sector and waived the requirement for local financial institutions to build extra provisions in case customers affected by the pandemic need to restructure their loans. These two policy measures aim to improve liquidity conditions in foreign and domestic currencies to help mitigate the impact of the Covid-19 on local companies and households

Fiscal consolidation efforts need to remain intact

The government has not disclosed its budget for 2020 due to the general elections that took place late last year. Recent developments related to Covid-19 are more than likely to lead to a strong reduction in public expenditures levels that were initially planned for this year as the pandemic will have an impact on economic activity and public receipts. A reallocation of expenditures is also likely to take place. Still, the local authorities will need to show that they remain committed to their recent fiscal consolidation efforts. Only this, together with the possibility of the country seeing significant debt relief from investors, will hopefully bring public debt levels on a declining path

ECONOMIC ACTIVITY

Mozambique’s economic growth continued to slow in 2019 after an already sharp deceleration in the previous three years, particularly when compared with the country’s growth performance during the decade of 2006-15 (annual growth average of 7.3% in the period). Real GDP growth reached 2.2% last year, down from 3.75% in 2016-17 and 3.4% in 2018. This slowdown was mostly due to a contraction in the mining industry (-1.8%) and moderate growth in agriculture (1.2%), which still reflects the negative impact from the cyclones that took place at the start of 2019. Agriculture remained by far the largest sector of the economy accounting for just below 23% of GDP last year.

Economic activity continued to decelerate in 2019 after a contraction in the mining industry and weak growth in agriculture

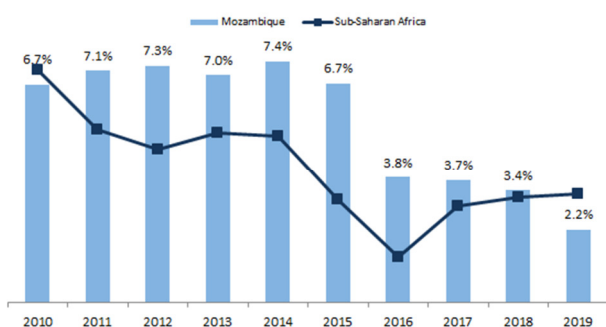
Despite the contraction recorded in 2019, the country’s mining industry has clearly remained the fast-growing area of the economy in recent years, with figures from the National Statistics Institute (INE) showing an annual average growth rate of 16.8% during 2012-19. This was followed by an expansion in activity in financial services (9.8%) and retail (5.6%). Agriculture saw a more modest average annual growth of 2.9% in the period.

The mining industry has expanded at an average annual growth rate of 16.8% during 2012-19

It is worth noting that Mozambique expanded at a slower pace than the average of Sub-Saharan Africa in 2019. According to the IMF, growth in the region stood at 3.3% last year, above the 2.2% in the country. This was the first time that economic activity underperformed the average of the region since 2010 and comes despite the challenging economic environment in the two largest economies (Nigeria and South Africa) in the last few years.

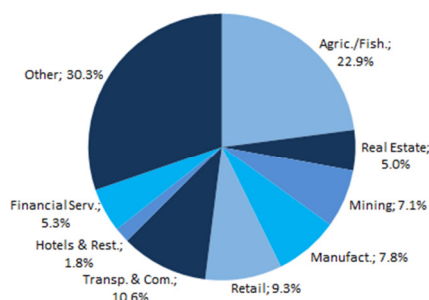
Mozambique expanded at a slower pace than the average in Sub-Saharan Africa for the first time since 2010

REAL GDP GROWTH (2010-19)



Sources: INE and IMF.

GDP STRUCTURE (2019)

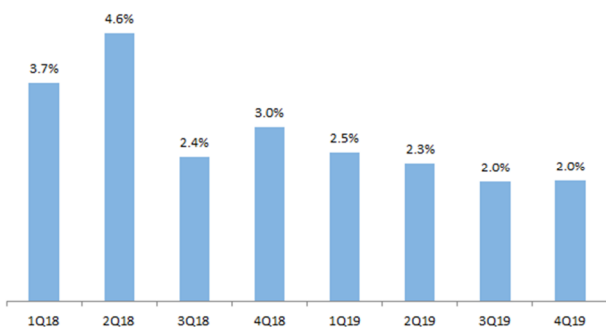


Source: INE.

Data from INE showed that real GDP growth reached 2.0% YoY in 4Q 2019, the same rate as in the previous quarter. This compares with average growth of 2.4% in the first half of the year, which saw a better performance in key sectors like mining, retail and manufacturing. These sectors roughly represent about a quarter of GDP and posted a contraction of 2.7% YoY in the last three months of 2019.

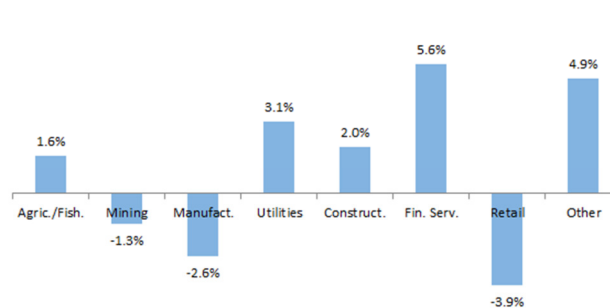
Economic activity slowed further in the second half of 2019

REAL GDP GROWTH (1Q18 – 4Q19; YOY)



Source: INE.

REAL GDP GROWTH BY SECTOR (4Q19; YOY)



Source: INE.

INFLATION

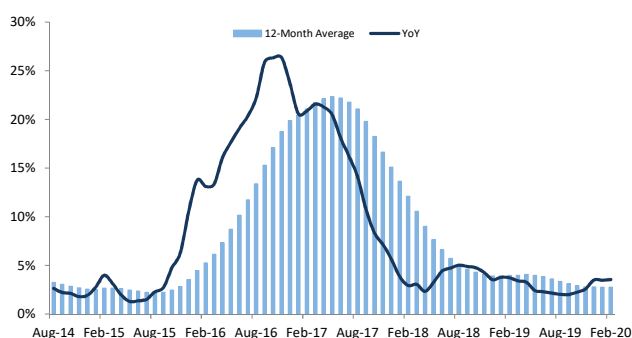
Consumer price data released by the INE show a slight increase in annual inflation towards the end of 2019, remaining nevertheless at a relatively low level in the period. Annual inflation reached 3.50% in December while the 12-month average was 2.78%. These figures compare with 3.52% and 3.91%, respectively, in December 2018. In terms of components, the evolution of annual inflation during 2019 largely reflected the increase in the prices of food and non-alcoholic beverages. According to the INE, this was due to the lower supply of agricultural goods produced domestically, in particular fruits and vegetables.

Annual inflation showed a slight increase towards end-2019, but remained at relatively low levels (below 4%)

The increase in inflation was smoothed by the relative stability in the prices of administered goods, which benefitted from the decline in fuel costs as a result of the favorable evolution in average crude prices, especially in the second half of 2019.

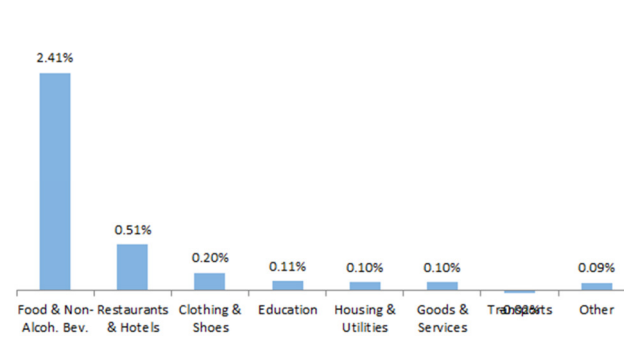
The increase in inflation was smoothed by some stability in fuel prices

CONSUMER PRICE INDEX – YOY AND 12M AVERAGE



Source: INE.

ANNUAL INFLATION – BIGGEST CONTRIBUTORS (2019)



Source: INE.

Meanwhile, the latest figures show that annual inflation increased slightly to 3.55% in February 2020 while average inflation reached 2.75%. Inflation is expected to accelerate slightly in the first part of this year, but remain at single-digits. This acceleration is largely explained by (1) the direct and indirect impacts of the Covid-19 virus on domestic prices, (2) a likely seasonal depreciation of the metical against the main currencies and (3) the adverse weather conditions, including heavy rains in the middle and northern parts of the country and drought in the southern region, and its impact on the prices of fruit and vegetables.

Consumer prices are expected to accelerate slightly in the first part of 2020

MONETARY POLICY

Low inflation levels allowed the Banco de Moçambique to continue easing monetary policy in 2019. The reference lending rate (FPC) and the interbank reference lending rate (MIMO) were both cut by 150 basis points (bps) during the year and currently stand at 15.75% and 12.75%, respectively. The interest rate cuts occurred on two different occasions, namely June (100bps) and August (50bps).

The central bank continued to lower interest rates in 2019 due to the benign inflation outlook

The latest monetary policy meeting took place in February 2020 and the central bank decided to keep these rates unchanged. Despite some deterioration in the risks and uncertainties in the short to medium-terms, this decision was justified by the fact that current projections continue to suggest that inflation will remain in single-digits. The Banco de Moçambique also decided to keep the reserve requirements for commercial bank liabilities in local and foreign currencies at 13% and 36%, respectively.

Interest rates remain unchanged so far this year, despite some deterioration in risks and uncertainties in the short to medium-terms

In particular, the central bank considers that risks and uncertainties have deteriorated following the increase in military instability in the northern part of the country as well as the continuation and the impact that floods and droughts are having on the country. On the external front, it sees an eventual continuation of the recent outbreak of the Covid-19 as a potential threat to the outlook of the global economy that could affect external demand and impact domestic prices.

These risks include (1) increased military instability, (2) adverse climatic conditions and (3) outbreak of Covid-19

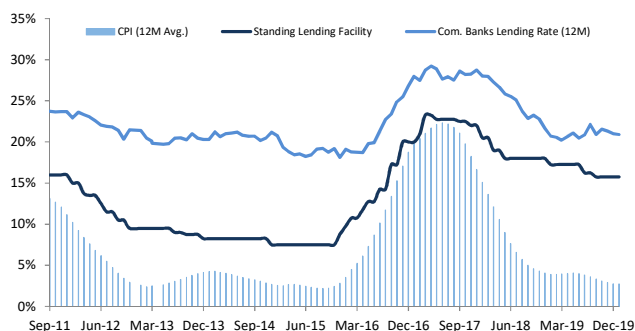
The next regular monetary policy meeting is scheduled for the end of April. However, the central bank said that it will continue to monitor closely the evolution of risks and uncertainties that could affect its inflation projections and could take necessary corrective measures before then.

The central bank could take corrective measures before its next ordinary meeting at end-April

It is worth noting that the board of the central bank recently held an extraordinary meeting where it announced two key measures to improve liquidity conditions in foreign and domestic currencies and help mitigate the impact of the Covid-19 on local companies and households. In particular, the central bank (1) introduced a credit line of US\$ 500 million in foreign currency for banks operating in the interbank market during a period of nine months and (2) waived the requirement for local financial institutions to build additional provisions in case customers affected by the pandemic need to restructure their loans (from March 23 until end-2020).

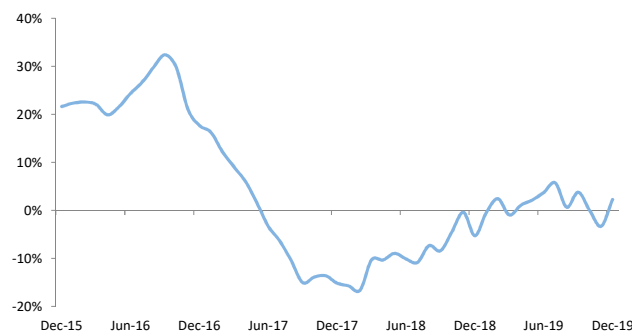
The central bank announced two key measures to help mitigate the impacts from Covid-19

INFLATION, CENTRAL AND COMMERCIAL BANKS RATES



Sources: INE and Banco de Moçambique.

CREDIT GROWTH (YOY CHANGE)



Source: Banco de Moçambique.

EXTERNAL ACCOUNTS

Preliminary data from the Banco de Moçambique show that the country's current account deficit fell by nearly a third in 2019 when compared with the homologous period, standing at US\$ 3,088 million. This mostly reflects a 47% yearly decline in the services balance deficit to more normalized levels. Recall that the services balance deficit significantly increased in 2018 following the higher level of expenditures with technical assistance and other services related to mega-projects (deficit of US\$ 2,970 million).

Mozambique's external account deficit fell by nearly a third in 2019 after a sharp drop in the services balance deficit

| BALANCE OF PAYMENTS | US\$ Million | | | | | YoY Change | | | |
|-------------------------------|--------------|--------|--------|--------|--------|------------|---------|---------|---------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | '16/'15 | '17/'16 | '18/'17 | '19/'18 |
| Current Account | -5,968 | -3,846 | -2,586 | -4,499 | -3,088 | -35.6% | -32.8% | 74.0% | -31.4% |
| Trade Balance | -4,163 | -1,405 | -498 | -972 | -2,081 | -66.3% | -64.6% | 95.2% | 114.2% |
| Exports, f.o.b. | 3,413 | 3,328 | 4,725 | 5,197 | 4,718 | -2.5% | 42.0% | 10.0% | -9.2% |
| Megaprojects | 2,035 | 2,405 | 3,653 | 3,949 | 3,278 | 18.2% | 51.9% | 8.1% | -17.0% |
| Other | 1,378 | 924 | 1,072 | 1,249 | 1,439 | -33.0% | 16.1% | 16.5% | 15.3% |
| Imports, f.o.b. | -7,577 | -4,733 | -5,223 | -6,169 | -6,799 | -37.5% | 10.4% | 18.1% | 10.2% |
| Megaprojects | -917 | -771 | -733 | -1,277 | -1,405 | -15.9% | -5.0% | 74.2% | 10.0% |
| Other | -6,660 | -3,962 | -4,490 | -4,892 | -5,394 | -40.5% | 13.3% | 8.9% | 10.3% |
| Services Balance | -2,306 | -2,701 | -2,332 | -3,570 | -1,891 | 17.1% | -13.7% | 53.1% | -47.0% |
| Income Balance | -300 | -261 | -394 | -296 | -361 | -13.1% | 51.0% | -24.9% | 22.1% |
| Transfers Balance | 802 | 520 | 638 | 338 | 1,245 | -35.1% | 22.5% | -47.0% | 268.3% |
| Capital Account Balance | 288 | 206 | 203 | 164 | 106 | -28.3% | -1.5% | -19.2% | -35.5% |
| Financial Account Balance | 5,654 | 3,668 | 2,328 | 4,338 | 2,986 | -35.1% | -36.5% | 86.3% | -31.2% |
| Net Foreign Direct Investment | 3,867 | 3,093 | 2,293 | 2,692 | 1,991 | -20.0% | -25.9% | 17.4% | -26.0% |
| Net Errors and Omissions | 26 | -29 | 54 | -3 | -3 | n.m. | n.m. | n.m. | 5.8% |
| Values as a % of GDP: | | | | | | | | | |
| Current Account | -40.3% | -35.3% | -20.5% | -31.3% | -20.5% | 5.0% | 14.8% | -10.7% | 10.8% |
| Trade Balance | -28.1% | -12.9% | -4.0% | -6.7% | -13.8% | 15.2% | 8.9% | -2.8% | -7.0% |
| Exports | 23.1% | 30.5% | 37.5% | 36.1% | 31.3% | 7.5% | 7.0% | -1.4% | -4.8% |
| Imports | 51.2% | 43.4% | 41.5% | 42.9% | 45.0% | -7.8% | -1.9% | 1.4% | 2.2% |
| Capital Account Balance | 1.9% | 1.9% | 1.6% | 1.1% | 0.7% | -0.1% | -0.3% | -0.5% | -0.4% |
| Financial Account Balance | 38.2% | 33.7% | 18.5% | 30.1% | 19.8% | -4.5% | -15.2% | 11.6% | -10.4% |
| Net Foreign Direct Investment | 26.1% | 28.4% | 18.2% | 18.7% | 13.2% | 2.3% | -10.2% | 0.5% | -5.5% |

Sources: Banco de Moçambique and Eaglestone Securities.

On the other hand, the trade deficit continued to widen significantly as a result of the combined effect of lower exports and increasing import levels, including capital goods. The decline in exports was due to a reduction in exporting levels and lower average international prices for the country's main exports (coal and aluminum). Exports were also affected by cyclone Kenneth and its impact on the production of rubies, heavy sands as well as mineral coal. Overall, the current account deficit represented 20.5% of GDP and the trade deficit stood at 13.8% of GDP.

The current account deficit represented 20.5% of GDP

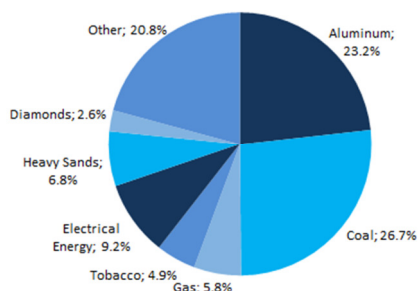
Mozambique’s main trading partners include South Africa, India, the Netherlands and China. Central bank figures show that South Africa accounted for 18.9% of the country’s total exports in 2019 followed by India (17.0%), China (6.9%) and Italy (6.4%). In terms of imports, South Africa was by far the largest supplier of Mozambique, with 28.5% of the total last year. It was followed by China (11.5%), the United Arab Emirates (8.1%) and Singapore (6.9%).

South Africa, Netherlands, India and China are the country’s main trading partners

The central bank also provided trade figures by product for 2019. The country’s main exports remained coal and aluminum, representing 26.7% and 23.2% of the total, respectively. It is worth highlighting the marked increase in the contribution of coal to total exports, particularly since 2017 and when compared with the period 2012-15 (they represented 11-13% of the total). On the other hand, imports are more evenly balanced, with capital goods (mostly machinery) and fuel standing out as the goods that the country buys more overseas.

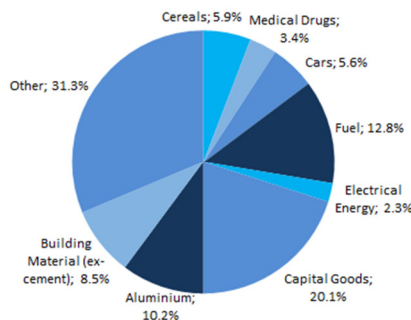
Mozambique mainly exports coal and aluminum while its biggest imports include machinery and fuel

EXPORTS BY PRODUCT (2019)



Sources: Banco de Moçambique and Eaglestone Securities.

IMPORTS BY PRODUCT (2019)



Sources: Banco de Moçambique and Eaglestone Securities.

Other balance of payments data relates to foreign direct investment (FDI), which has largely contributed to Mozambique’s economic growth over the years. Mining has been responsible for a major part of FDI inflows, with large investments initially being made in the coal sector. More recently, attentions have turned to the vast natural gas reserves in the Rovuma basin, in the north of the country. These recent investments have boosted other activity sectors such as construction, utilities and real estate.

FDI has played a major role in Mozambique’s economic growth and development over the years

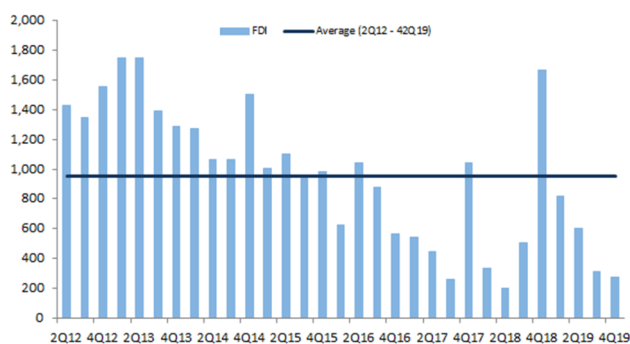
Figures from the Banco de Moçambique show that net FDI levels were generally lower in the period 2013-17 when compared with the previous years as a result of the end of the investment cycle for some mega-projects and the start of their operations. This trend was reversed in 2018 (particularly in Q4), where net FDI rose 17.4% YoY as a result of a significant increase in net FDI in mega-projects. Investment in these projects rose 121% YoY to US\$ 2,013 million and accounted for 74.8% of the total net FDI in the period. Specifically, net FDI in the extractive industry reached US\$ 2,080 million (77.3% of the total), with 83% absorbed by the gas sector.

Net FDI recovered in 2018 as a result of a significant increase in investment in mega-projects in the extractive industry

Net FDI fell 26% YoY to US\$ 1,991 million last year on the back of lower investment in the extractive industry, which declined 46.5% to US\$ 1,112 million. This is the lowest net FDI figure recorded since 2010. As detailed below, net FDI in the extractive industry accounted for 55.8% of the total followed by the transport and communications sector with 18.4%.

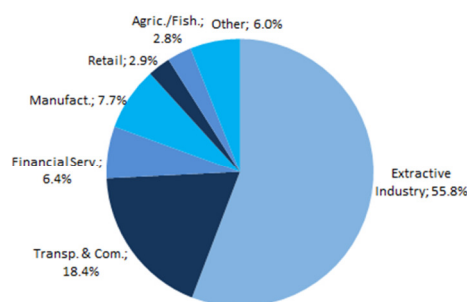
Investment levels declined last year, with net FDI in the extractive industry accounting for 55.8% of the total

FOREIGN DIRECT INVESTMENT (US\$ MILLION)



Sources: Banco de Moçambique and Eaglestone Securities.

FOREIGN DIRECT INVESTMENT BY SECTOR (2019)



Sources: Banco de Moçambique and Eaglestone Securities.

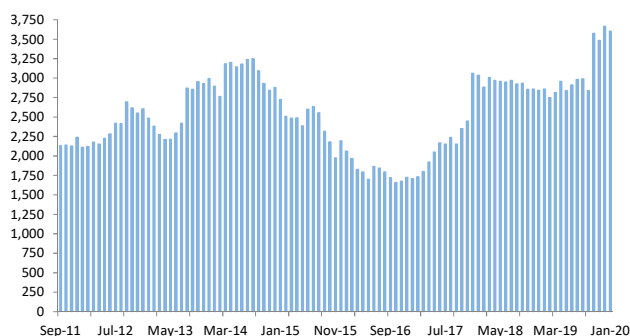
Other central bank data shows that net international reserves rose significantly towards the end of 2019, with these standing close to US\$ 3.7 billion in December after remaining close to US\$ 3 billion during most of 2018-19. This sharp increase reflects the impact of the capital gains of US\$ 880 million from the sale of Anadarko Moçambique’s assets to Total registered in October. Gross reserves stood at US\$ 3.8 billion in the same period, enough to cover more than six months of imports of goods and services (excluding those of large projects).

Foreign exchange reserves rose significantly towards end-2019, reflecting the impact of the capital gains from the sale of Anadarko Moçambique’s assets to Total

Moreover, we note that the metical exchange rate was relatively stable against the dollar in 2018-19 and has shown more stability against the South African rand especially since the second half of last year.

The metical has been relatively stable against the USD

NET INTERNATIONAL RESERVES (US\$ MILLION)



Source: Banco de Moçambique.

AVERAGE EXCHANGE RATE (US\$/MZN & ZAR/MZN)



Source: Bloomberg.

PUBLIC ACCOUNTS

Figures from the Ministry of Finance show that total receipts collected in 2019 amounted to MZM 358,287 million, split into MZM 310,252 million in domestic receipts and MZM 48,035 million in external receipts. This is a 22.8% increase from the previous year. The total receipts collected in the period correspond to 105.3% of the projected amount for the entire year, with domestic and external receipts posting an execution rate of 115.4% and 67.2%, respectively. On the other hand, total expenditures advanced 5.5% YoY to MZM 305,852 million, with an execution rate of 89.8%. Current expenditures were roughly in line with the government’s projections for the year while capital expenditures stood at 70.1% of the estimated amount.

Total receipts collected in 2019 rose 22.8% YoY to MZM 358,287 million

| RECEIPTS & EXPEND. | 2018 | | | 2019 | | | 2019 vs. 2018 | | |
|-------------------------------|----------------|-------------------|----------------|----------------|-------------------|----------------|---------------|-------------------|----------------|
| | Budget | Execution Jan-Dec | Execution Rate | Budget | Execution Jan-Dec | Execution Rate | Budget | Execution Jan-Dec | Execution Rate |
| Receipts: | | | | | | | | | |
| Domestic Receipts | 246,279 | 239,151 | 97.1 % | 268,949 | 310,252 | 115.4% | 9.2% | 29.7% | 18.3% |
| Revenues | 222,860 | 213,032 | 95.6% | 244,227 | 276,431 | 113.2% | 9.6% | 29.8% | 17.6% |
| Other Revenues (*) | 4,215 | 7,067 | 167.7% | 5,275 | 5,275 | 100.0% | 25.1% | -25.4% | -67.7% |
| Domestic Financing | 19,204 | 19,051 | 99.2% | 19,447 | 28,546 | 146.8% | 1.3% | 49.8% | 47.6% |
| External Receipts | 60,864 | 52,588 | 86.4% | 71,465 | 48,035 | 67.2% | 17.4% | -8.7% | -19.2% |
| Grants | 17,373 | 17,672 | 101.7% | 27,741 | 9,328 | 33.6% | 59.7% | -47.2% | -68.1% |
| External Financing | 43,492 | 34,916 | 80.3% | 43,725 | 38,707 | 88.5% | 0.5% | 10.9% | 8.2% |
| Total Receipts (1) | 307,143 | 291,739 | 95.0% | 340,415 | 358,287 | 105.3% | 10.8% | 22.8% | 10.3% |
| Expenditures: | | | | | | | | | |
| Current Expenditures | 180,966 | 178,187 | 98.5% | 196,593 | 195,890 | 99.6% | 8.6% | 9.9% | 1.2% |
| Capital Expenditures | 81,404 | 67,151 | 82.5% | 102,320 | 71,748 | 70.1% | 25.7% | 6.8% | -12.4% |
| Domestic | 33,695 | 32,938 | 97.8% | 40,018 | 45,824 | 114.5% | 18.8% | 39.1% | 16.8% |
| External | 47,710 | 34,213 | 71.7% | 62,302 | 25,923 | 41.6% | 30.6% | -24.2% | -30.1% |
| Net Lending | 44,773 | 44,552 | 99.5% | 41,502 | 38,215 | 92.1% | -7.3% | -14.2% | -7.4% |
| Total Expenditures (2) | 307,143 | 289,890 | 94.4% | 340,415 | 305,852 | 89.8% | 10.8% | 5.5% | -4.5% |
| <i>Difference ((1) - (2))</i> | | <i>1,849</i> | | | <i>52,435</i> | | | <i>2736.5%</i> | |
| TOTAL | 307,143 | 291,739 | 95.0% | 340,415 | 358,287 | 105.3% | 10.8% | 22.8% | 10.3% |

(*) Capital gains used to finance expenditures. Sources: Ministry of Finance and Eaglestone Securities.

Revenues collected reached MZM 276,431 million after rising 29.8% YoY, standing 13.2% above the targeted amount, while grants stood well below expectations as they fell by 47.2% from the previous year. Domestic financing rose nearly 50% YoY to a level much higher than projected for the year and external financing advanced a more modest 10.9%, covering 88.5%

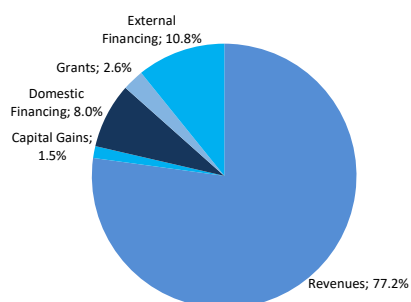
Revenues collected stood 13.2% above the budgeted figure

of the budgeted figure.

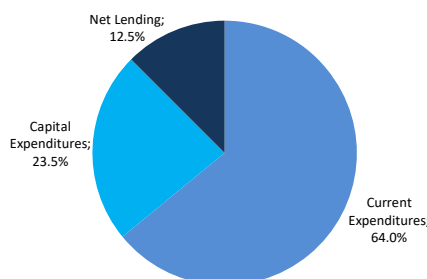
Unsurprisingly, revenues represented the lion’s share of government receipts, as they stood at 77.2% of the total. External financing reached 10.8% of the total and domestic financing 8.0%. Grants represented an unusually low 2.6%. On the expenditures side, current expenditures represented nearly two-thirds of the total followed by capital expenditures (23.5%) and net lending (12.5%).

Revenues accounted for 77.2% of total receipts while current expenditures represented nearly two-thirds of total expenditures

TOTAL RECEIPTS BREAKDOWN (2019)



TOTAL EXPENDITURES BREAKDOWN (2019)



Sources: Ministry of Finance and Eaglestone Securities.

Sources: Ministry of Finance and Eaglestone Securities.

A closer look at the total revenue breakdown shows that current revenues rose 29.1% YoY and beat the government’s target by 16.2%. This was due to a very strong performance in income tax collection, which offset lower than expected taxes on goods and services. The table below also shows that other current revenues stood well above projections, despite falling 22.3% from the previous year, while capital revenues clearly underperformed the budgeted number.

Income tax collection had a very strong performance that offset lower than expected taxes on goods and services

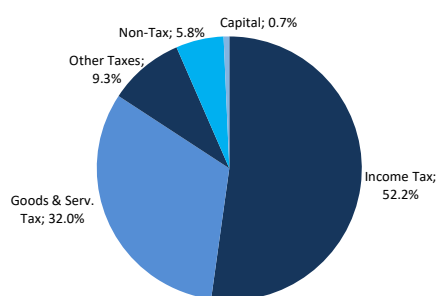
| REVENUES Million MZM | 2018 | | | 2019 | | | 2019 vs. 2018 | |
|-------------------------|----------------|-------------------|----------------|----------------|-------------------|----------------|---------------|-------------------|
| | Budget | Execution Jan-Dec | Execution Rate | Budget | Execution Jan-Dec | Execution Rate | Budget | Execution Jan-Dec |
| Current Revenues | 218,128 | 212,746 | 97.5% | 236,254 | 274,582 | 116.2% | 8.3% | 29.1% |
| Tax Revenues | 211,602 | 191,993 | 90.7% | 228,499 | 258,452 | 113.1% | 8.0% | 34.6% |
| Income Tax | 81,674 | 90,379 | 110.7% | 101,581 | 144,323 | 142.1% | 24.4% | 59.7% |
| Corporate | 50,652 | 56,937 | 112.4% | 64,625 | 106,625 | 165.0% | 27.6% | 87.3% |
| Personal | 30,380 | 33,052 | 108.8% | 36,555 | 37,327 | 102.1% | 20.3% | 12.9% |
| Other | 642 | 391 | 60.9% | 401 | 371 | 92.5% | -37.5% | -5.0% |
| Tax on Goods & Services | 92,786 | 78,589 | 84.7% | 96,627 | 88,554 | 91.6% | 4.1% | 12.7% |
| VAT | 61,208 | 55,450 | 90.6% | 66,555 | 61,616 | 92.6% | 8.7% | 11.1% |
| Other | 31,578 | 23,139 | 73.3% | 30,072 | 26,939 | 89.6% | -4.8% | 16.4% |
| Other Tax Revenues | 37,142 | 23,024 | 62.0% | 30,291 | 25,575 | 84.4% | -18.4% | 11.1% |
| Other Revenues | 6,526 | 20,753 | 318.0% | 7,755 | 16,130 | 208.0% | 18.8% | -22.3% |
| Capital Revenues | 4,732 | 287 | 6.1% | 7,973 | 1,849 | 23.2% | 68.5% | 545.4% |
| Total Revenues | 222,860 | 213,032 | 95.6% | 244,227 | 276,431 | 113.2% | 9.6% | 29.8% |

Sources: Ministry of Finance and Eaglestone Securities.

The revenue breakdown also shows that receipts from income tax and taxes on goods and services account for most of the total proceeds. In particular, income tax stood at 52.2% of the total revenues and taxes on goods and services accounted for 32% of the total in 2019. We also note that grants represented a relatively modest 3.2% of total government receipts (if excluding domestic and external financing) and 1.0% of GDP when compared with recent years.

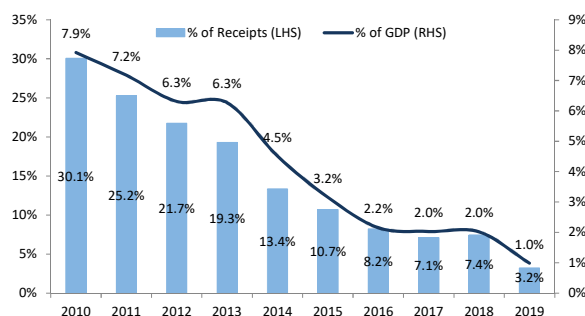
Receipts from income tax and taxes on goods and services accounted for most of the total proceeds

TOTAL REVENUE BREAKDOWN (2019)



Sources: Ministry of Finance and Eaglestone Securities.

EVOLUTION OF GRANTS (2010-19)



Note: Total Receipts excluding Domestic and External Financing.
Sources: Ministry of Finance and Eaglestone Securities.

Meanwhile, a breakdown of total expenditures for 2019 and, in particular, current expenditures shows that staff costs were nearly 8% higher than the government’s initial projection, rising 17% YoY. Spending on goods and services and debt payments stood below expectations, with the former falling more than 10% from the 2018. Capital expenditures financed externally stood well below projections.

Total expenditures rose 5.5% YoY and stood almost 10% below forecasts

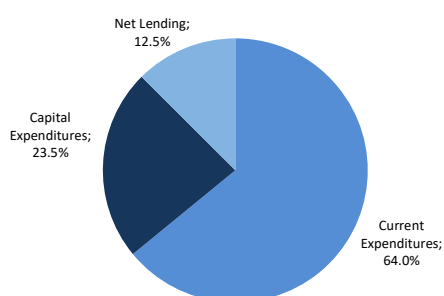
| EXPENDITURES Million MZM | 2018 | | | 2019 | | | 2019 vs. 2018 | |
|-----------------------------|----------------|-------------------|----------------|----------------|-------------------|----------------|---------------|-------------------|
| | Budget | Execution Jan-Dec | Execution Rate | Budget | Execution Jan-Dec | Execution Rate | Budget | Execution Jan-Dec |
| Current Expenditures | 180,966 | 178,188 | 98.5% | 196,593 | 195,890 | 99.6% | 8.6% | 9.9% |
| Staff Costs | 96,795 | 96,465 | 99.7% | 104,625 | 112,837 | 107.8% | 8.1% | 17.0% |
| Goods and Services | 29,901 | 28,703 | 96.0% | 31,224 | 25,769 | 82.5% | 4.4% | -10.2% |
| Debt Payments | 28,225 | 27,250 | 96.5% | 35,000 | 29,755 | 85.0% | 24.0% | 9.2% |
| Domestic Interest | 17,911 | 16,936 | 94.6% | 24,000 | 17,300 | 72.1% | 34.0% | 2.1% |
| Overseas Interest | 8,644 | 8,644 | 100.0% | 11,000 | 11,652 | 105.9% | 27.3% | 34.8% |
| Other Debt Payments | 1,670 | 1,670 | 100.0% | 0 | 804 | n.m. | n.m. | -51.9% |
| Current Transfers | 24,089 | 24,065 | 99.9% | 22,971 | 25,621 | 111.5% | -4.6% | 6.5% |
| Subsidies | 914 | 914 | 100.0% | 1,101 | 1,064 | 96.6% | 20.5% | 16.4% |
| Other | 1,042 | 790 | 75.9% | 1,672 | 844 | 50.5% | 60.5% | 6.8% |
| Capital Expenditures | 81,404 | 67,151 | 82.5% | 102,320 | 71,748 | 70.1% | 25.7% | 6.8% |
| Domestically Financed | 33,695 | 32,938 | 97.8% | 40,018 | 45,824 | 114.5% | 18.8% | 39.1% |
| Externally Financed | 47,710 | 34,213 | 71.7% | 62,302 | 25,923 | 41.6% | 30.6% | -24.2% |
| Grants | 25,919 | 17,595 | 67.9% | 27,741 | 14,388 | 51.9% | 7.0% | -18.2% |
| Loans | 21,791 | 16,618 | 76.3% | 34,562 | 11,536 | 33.4% | 58.6% | -30.6% |
| Net Lending | 44,773 | 44,552 | 99.5% | 41,502 | 38,215 | 92.1% | -7.3% | -14.2% |
| Total Expenditures | 307,143 | 289,890 | 94.4% | 340,415 | 305,852 | 89.8% | 10.8% | 5.5% |

Sources: Ministry of Finance and Eaglestone Securities.

Overall, current expenditures accounted for 64% of the total, capital expenditures 23.5% and net lending 12.5%. In terms of the breakdown of current expenditures, we note that staff costs represented more than half of this type of spending (57.6%) followed by spending on debt payments (15.2%) and on goods and services (13.2%).

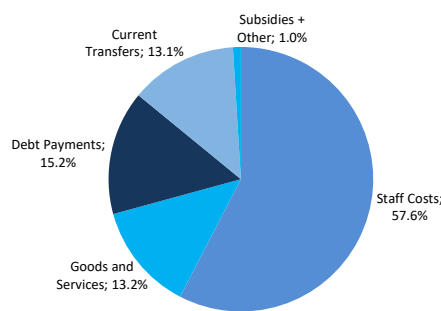
Current expenditures accounted for 64% of total spending

TOTAL EXPENDITURES BREAKDOWN (2019)



Sources: Ministry of Finance and Eaglestone Securities.

CURRENT EXPENDITURES BREAKDOWN (2019)



Sources: Ministry of Finance and Eaglestone Securities.

In terms of spending by sector, the government continued to prioritize spending on education, rising 10.6% YoY and representing 45.6% of the total expenditures. Despite falling from the previous year, spending on healthcare and infrastructure still represented roughly 17% of the total each.

Education remains the largest beneficiary in terms of government spending

| EXPENDITURES BY SECTOR Million MZM | 2018 | | | | 2019 | | | | 2019 vs. 2018 | |
|---------------------------------------|----------------|-------------------|----------------|----------------------|----------------|-------------------|----------------|----------------------|---------------|-------------------|
| | Budget | Execution Jan-Dec | Execution Rate | Execution % of Total | Budget | Execution Jan-Dec | Execution Rate | Execution % of Total | Budget | Execution Jan-Dec |
| Education | 59,819 | 55,840 | 93.3% | 41.2% | 56,658 | 61,756 | 109.0% | 45.6% | -5.3% | 10.6% |
| Healthcare | 28,370 | 24,119 | 85.0% | 17.8% | 27,980 | 23,561 | 84.2% | 17.4% | -1.4% | -2.3% |
| Infrastructures | 30,772 | 28,677 | 93.2% | 21.2% | 39,247 | 23,336 | 59.5% | 17.2% | 27.5% | -18.6% |
| Roads | 17,986 | 17,245 | 95.9% | 12.7% | 16,542 | 11,248 | 68.0% | 8.3% | -8.0% | -34.8% |
| Water and Public Works | 10,540 | 9,395 | 89.1% | 6.9% | 19,115 | 9,822 | 51.4% | 7.3% | 81.4% | 4.5% |
| Mineral Resources & Energy | 2,247 | 2,037 | 90.7% | 1.5% | 3,590 | 2,266 | 63.1% | 1.7% | 59.8% | 11.2% |
| Agriculture | 15,253 | 13,151 | 86.2% | 9.7% | 29,130 | 11,768 | 40.4% | 8.7% | 91.0% | -10.5% |
| Judicial System | 5,350 | 5,284 | 98.8% | 3.9% | 4,332 | 6,360 | 146.8% | 4.7% | -19.0% | 20.4% |
| Social Work & Employment | 7,250 | 5,807 | 80.1% | 4.3% | 7,666 | 6,280 | 81.9% | 4.6% | -5.7% | 8.2% |
| Transports & Communication | 2,644 | 2,512 | 95.0% | 1.9% | 9,457 | 2,243 | 23.7% | 1.7% | 257.7% | -10.7% |
| Total Expenditures by Sector | 149,457 | 135,391 | 90.6% | 100.0% | 174,470 | 135,304 | 77.6% | 100.0% | 16.7% | -0.1% |

Sources: Ministry of Finance and Eaglestone Securities.

Mozambique's public debt levels have soared in recent years, particularly its external debt that represents about 85% of total debt. This means there is greater risk to currency fluctuations. Domestic debt levels have also recently increased, adding further pressure to country's debt sustainability.

Public debt levels soared in recent years, particularly external debt

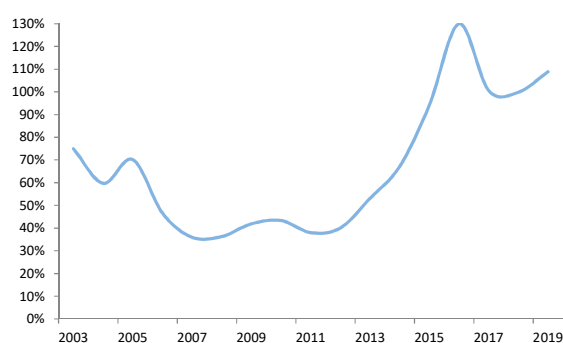
The latest figures from the Ministry of Finance show that the stock of domestic debt reached MZM 154,957 million at the end of 2019. This corresponds to about 16.4% of GDP, which compares with 15.9% of GDP in the previous year and 6.5% of GDP in 2014. Indeed, rising domestic debt levels are also a concern due to the high cost of domestic credit and the potential for public sector financing to crowd out the private sector's access to credit.

Domestic debt reached about 16.4% of GDP in 2019 (vs. 6.5% of GDP in 2014)

| DOMESTIC DEBT Million MZM | 2018 | | 2019 | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | Issued | Amortized | Issued | Amortized |
| Treasury Notes | 46,708 | 19,433 | 5,821 | 60,320 |
| Budget Financing | 39,306 | 15,831 | 5,821 | 49,317 |
| Restructuring and Consolidation | 7,402 | 3,602 | 0 | 11,004 |
| Treasury Bills | 20,957 | 115,317 | 106,603 | 29,672 |
| Others | 71,712 | 10,200 | 16,948 | 64,964 |
| Central Bank | 38,313 | 10,200 | 6,200 | 42,313 |
| Restructuring and Consolidation | 15,709 | 0 | 10,193 | 5,516 |
| Banking Sector Financing | 17,690 | 0 | 555 | 17,135 |
| Total | 139,377 | 144,950 | 129,371 | 154,957 |

Source: National Treasury.

GROSS PUBLIC DEBT (% OF GDP)



Source: IMF.

ANNEX – ECONOMIC FORECAST SUMMARY

| ECONOMIC FORECAST SUMMARY | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020F | 2021F |
| Gross Domestic Product | | | | | | | | | | |
| Real GDP growth | 7.3% | 7.0% | 7.4% | 6.7% | 3.8% | 3.7% | 3.4% | 2.2% | 2.0% | 4.5% |
| Gross Domestic Product (current prices, MZM bn) | 433 | 482 | 535 | 592 | 689 | 803 | 860 | 910 | 988 | 1,089 |
| Gross Domestic Product (current prices, US\$ bn) | 15.3 | 16.0 | 17.2 | 15.5 | 11.0 | 12.6 | 14.3 | 14.5 | 14.6 | 16.0 |
| Population (million) | 25.7 | 26.5 | 27.2 | 28.0 | 28.8 | 29.5 | 30.3 | 31.2 | 32.0 | 32.8 |
| Gross Domestic Product per capita (US\$) | 590 | 605 | 620 | 529 | 379 | 426 | 475 | 484 | 522 | 544 |
| External Sector | | | | | | | | | | |
| Exports of Goods (US\$ mn) | 3,856 | 4,123 | 3,916 | 3,413 | 3,328 | 4,725 | 5,197 | 4,718 | 5,763 | 6,141 |
| Imports of Goods (US\$ mn) | 7,903 | 8,480 | 7,952 | 7,577 | 4,733 | 5,223 | 6,169 | 6,799 | 8,394 | 8,395 |
| Trade Balance of Goods (% of GDP) | -26.5% | -27.2% | -23.5% | -27.8% | -12.8% | -3.7% | -6.7% | -13.8% | -15.8% | -12.6% |
| Current Account Balance (% of GDP) | -44.7% | -42.9% | -38.2% | -40.3% | -39.0% | -20.0% | -30.4% | -58.0% | -66.7% | -62.9% |
| Consumer Price Inflation | | | | | | | | | | |
| Consumer Prices (period average) | 2.6% | 4.3% | 2.6% | 3.6% | 19.9% | 15.1% | 3.9% | 2.8% | 7.6% | 6.0% |
| Consumer Prices (end of period) | 2.0% | 3.5% | 1.9% | 10.6% | 23.7% | 5.6% | 3.5% | 3.5% | 6.5% | 5.5% |
| Government Accounts (% of GDP) | | | | | | | | | | |
| Total Revenues | 22.7% | 26.2% | 29.4% | 26.3% | 24.1% | 26.5% | 24.3% | 29.2% | 25.1% | 25.8% |
| Grants | 6.3% | 6.3% | 4.5% | 3.2% | 2.2% | 2.0% | 2.0% | 1.0% | 4.9% | 3.0% |
| Total Expenditures | 33.5% | 37.8% | 42.7% | 33.9% | 33.8% | 31.1% | 33.1% | 32.3% | 34.7% | 32.6% |
| Interests | 1.0% | 0.8% | 1.0% | 1.3% | 2.4% | 2.2% | 3.1% | 3.1% | 3.8% | 3.2% |
| Primary Balance | -3.5% | -4.5% | -7.8% | -3.1% | -5.2% | -0.4% | -3.6% | 1.0% | -0.9% | -0.6% |
| Budget Balance (after Grants) | -4.5% | -5.3% | -8.8% | -4.4% | -7.6% | -2.6% | -6.8% | -2.1% | -4.7% | -3.8% |
| Foreign Investment and Reserves (US\$ mn) | | | | | | | | | | |
| Net Foreign Direct Investment | 5,626 | 6,175 | 4,902 | 3,867 | 3,093 | 2,293 | 2,692 | 1,991 | 3,532 | 3,585 |
| Net Foreign Direct Investment (ex-megaprojects) | 1,552 | 1,472 | 2,306 | 2,594 | 1,771 | 1,381 | 679 | 1,258 | 897 | 925 |
| Net International Reserves | 2,605 | 2,996 | 2,882 | 2,196 | 1,727 | 3,062 | 2,846 | 3,664 | 2,756 | 2,843 |
| International Reserves (in months of imports) | 3.0 | 3.4 | 3.4 | 2.7 | 2.9 | 4.9 | 3.7 | 5.4 | 3.7 | 3.8 |
| Exchange Rate (US\$/MZM) | | | | | | | | | | |
| Exchange Rate (period average) | 28.4 | 30.1 | 31.2 | 38.3 | 62.6 | 63.6 | 60.3 | 62.5 | 67.5 | 68.2 |
| Exchange Rate (end of period) | 29.5 | 30.0 | 31.6 | 45.0 | 71.4 | 59.0 | 61.5 | 64.1 | 68.0 | 68.2 |

Sources: Mozambican authorities, World Bank, IMF 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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