



## The Mozambican Economy

### Start of LNG Production Lifts Economic Outlook

Research

December 2023

#### Government forecasts real GDP growth of 5.5% in 2024

Economic activity in the country is expected to decelerate to 5.5% in 2024 following a quicker than anticipated expansion of 7.0% this year. Despite this deceleration, real GDP growth is expected to remain above the 4.0% annual average recorded in the last decade (2014-23). It is also anticipated to surpass the forecast for Sub-Saharan Africa (4.0%). Growth will continue to be mainly driven by the fast acceleration in activity in the extractive industry (18.6% vs. 60.8% in 2023) resulting from the start of production and export of LNG from the Coral Sul FLNG Project in Area 4 of the Rovuma Basin. All the major sectors of the Mozambican economy, such as agriculture and fishing, transport, retail, and manufacturing are also expected to improve relative to 2023. Inflation, which continues to mostly reflect the higher costs of food and non-alcoholic beverages, should remain in the single digits thanks to the stability of the metical exchange rate and the proactive monetary policy followed by the central bank.

Economics

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#### Revenues from LNG sector should peak at US\$ 6 billion annually in the 2040s

The government recently unveiled a long-awaited bill (that has already been approved by parliament) to manage a sovereign wealth fund (SWF) that will oversee revenues from what it expects will amount to US\$ 91.7 billion in natural gas exports in the coming decades. The new law states that 40% of public receipts from LNG exports will go to the SWF for the first 15 years, with the rest allocated to the national budget. After that period, receipts will be evenly split between the SWF and the annual budget. The government expects that revenues will peak at more than US\$ 6 billion annually in the 2040s. The receipts will be crucial for the country's public finances and to help repay its US\$ 900 million Eurobond that starts maturing from March 2028. The creation of the SWF was also a prerequisite from the IMF, which last year agreed to a US\$ 456 million economic program with Mozambique.

#### Budget deficit is expected to widen in 2024

The 2024 budget proposal assumes that the government will reach a deficit equivalent to -4.9% of GDP after grants (higher than -4.4% projected for 2023). This evolution is largely explained by the significant increase in debt payments (+30.9%) and public investment (+47.1%) expected in 2024. The latter is justified by the higher financing for investment projects and the rehabilitation project of the National Road 1 financed by the World Bank. Income taxes and taxes on goods and services are anticipated to represent once again most of the total proceeds. The government also expects to receive the initial revenues from the LNG sector, although this is still relatively modest at only 0.3% of GDP.

#### Favorable outlook, but several risks persist

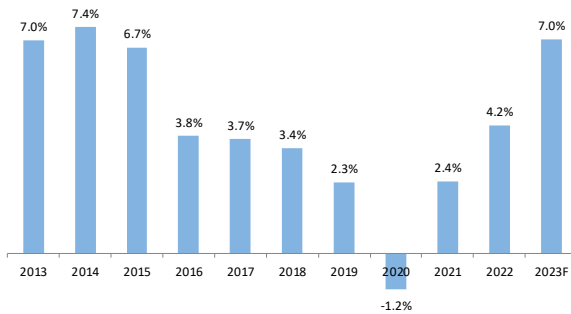
The Mozambican economy is expected to continue to grow above the average of Sub-Saharan Africa in the coming years thanks to the contribution of the LNG projects and an improved performance in other key sectors. Despite the positive outlook, several risks remain, mainly due to adverse climate events (and the impact they may have on food insecurity and prices) and a fragile security situation in some parts of the country. Fiscal consolidation and narrowing the fiscal deficit gap also remain crucial, namely towards bringing the public debt ratio to a lower level in the medium-term. Monetary policy has been appropriate in containing inflation and rebuilding reserves, but careful monitoring is still warranted due to potential external risks. All in all, the Mozambican authorities will need to continue to push through the reform agenda to help promote sustained economic growth and increase resilience to external shocks.

### ECONOMIC ACTIVITY

The Mozambican economy likely expanded at a quicker pace than initially expected in 2023. As detailed later in this report, the government now projects that economic activity in the country grew by 7.0% in the period, faster than the 5.0% forecasted in the 2023 budget. This means that, based on the figures released so far by the National Statistics Institute (INE), which showed real GDP growth of 4.9% YoY in the first nine months of the year, economic activity will have to expand 13.5% in the last quarter relative to the homologous period to meet this new growth target of 7.0% for the year.

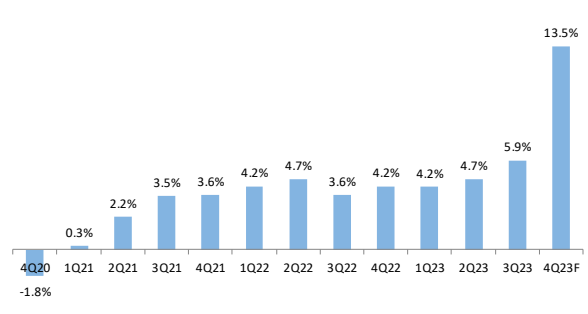
*Economic activity grew faster than initially anticipated in 2023*

REAL GDP GROWTH (2013-23F)



Sources: INE and Ministry of Economy and Finance.

REAL GDP GROWTH (4Q20-4Q23F; YOY)

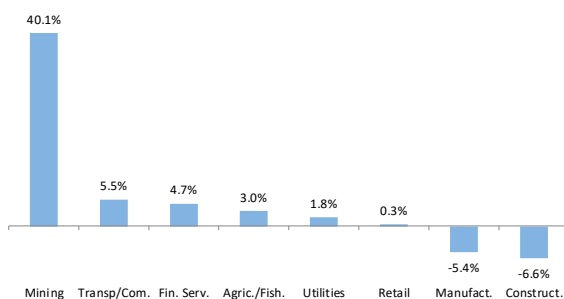


Sources: INE and Ministry of Economy and Finance.

Figures released by the INE showed that economic growth in the 9M 2023 period was mostly boosted by the impressive expansion of 40.1% YoY in the mining industry. This was due to the contributions from the production and export of LNG from the Coral Sul FLNG Project in Area 4 of the Rovuma Basin and the continued recovery of the country from the Covid-19 pandemic. Other sectors such as transport, storage, and communications (5.5%) and financial services (4.7%) also saw a healthy performance, while activity in agriculture and fishing, which combined account for roughly a quarter of the total GDP, advanced 3.0% YoY in the period.

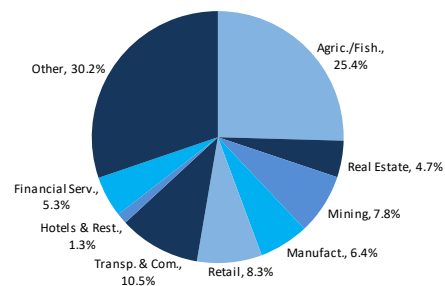
*Real GDP growth was mainly supported by the impressive expansion in the mining industry*

REAL GDP GROWTH BY SECTOR (9M 2023; YOY)



Source: INE.

GDP STRUCTURE (9M 2023)



Source: INE.

### INFLATION

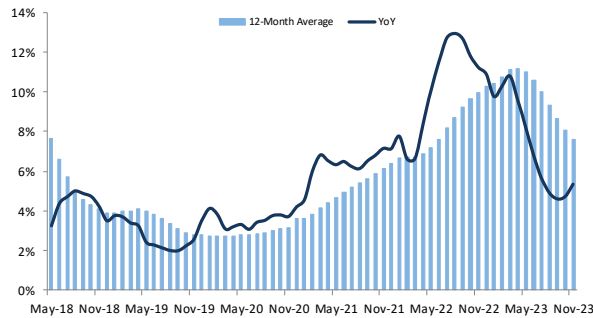
Consumer price data released by the INE show that the inflation rate in the country has slowed throughout 2023 after increasing during the second half of 2022. Annual inflation reached 5.36% in November while the 12-month average stood at 7.59%. These figures compare with 10.91% and 10.28%, respectively, in December 2022. In terms of components, the evolution of inflation continued to mostly reflect the increase in the prices of food and non-alcoholic beverages, with this accounting for a significant share of the accumulated increase, as shown in the graph below.

*Annual inflation has returned to single digits in 2023 after increasing during the second half of 2022*

The evolution of inflation has also reflected the higher prices at restaurants and hotels, as well as transport costs. Core inflation, which excludes the prices of fruits, vegetables, and the prices of administered goods, also increased in the period.

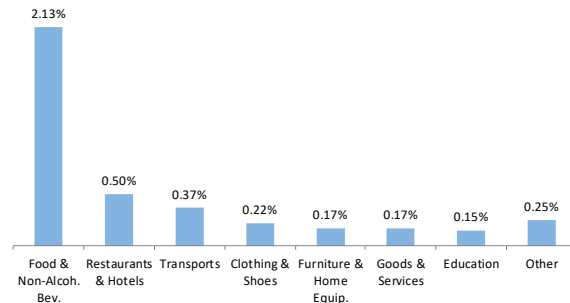
*Inflation continues to mainly reflect the increase in the prices of food and non-alcoholic beverages*

CONSUMER PRICE INFLATION – YOY AND 12M AVERAGE



Source: INE.

INFLATION – BIGGEST CONTRIBUTORS (JAN-NOV 2023)



Source: INE.

Meanwhile, the central bank (Banco de Moçambique) stated in its last monetary policy meeting in November that the annual inflation rate should remain in the single digits in the medium term mainly thanks to the stability of the metical exchange rate and the impact of the measures adopted by the monetary policy committee. However, the central bank said that the risks and uncertainties regarding the inflation outlook continue to deteriorate. Domestically, the main risks relate to the persistent pressure on public finances and the uncertainties regarding the evolution and impact of extreme climate events. On the international front, besides the conflict between Russia and the Ukraine, there are uncertainties regarding the duration and spread of the current conflict in the Middle East and its impacts on the international prices of oil and food items.

*Inflation is expected to remain in the single digits despite some risks both on the domestic and international fronts*

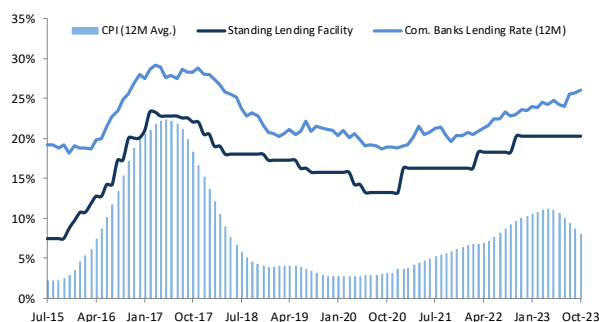
In terms of monetary policy, the central bank kept the interbank reference lending rate (MIMO) unchanged at 17.25% in 2023 after increasing it on two occasions in the previous year for a combined 400bps (200bps at each meeting in March and September). These decisions were based on the significant upward revision of the short to medium-term inflation outlook for the country. This revision resulted from the escalation of the conflict between Russia and Ukraine and the natural disasters that took place in Mozambique and their impact on fuel costs as well as food prices. The reference deposit rate (FPD) and the lending rate (FPC) were lifted by the same amount to 14.25% and 20.25%, respectively, and the mandatory reserves in local currency were kept at 10.50% and foreign currency at 11.50% in 2022.

*The central bank decided to increase interest rates on two occasions in 2022 after a significant revision in its inflation outlook*

Although the central bank kept its monetary policy interest rates unchanged in 2023, it decided to significantly increase its reserve requirements in both local and foreign currency on two occasions. In particular, the mandatory reserve ratio in local currency increased from 10.5% to 28.0% in January, while the reserve ratio in foreign currency was lifted from 11.5% to 28.5%. These coefficients were again lifted in May to 39.0% and 39.5%, respectively. The central bank stated that the decision to significantly increase these ratios aimed to help absorb the excess liquidity in the banking system that tends to generate inflationary pressures.

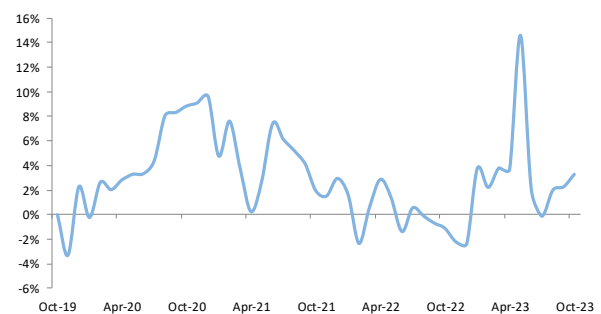
*Interest rates were kept unchanged in 2023, but the central bank decided to significantly increase the mandatory reserve ratios in both local and foreign currency*

INFLATION, CENTRAL AND COMMERCIAL BANKS RATES



Sources: INE and Banco de Moçambique.

CREDIT GROWTH (YOY CHANGE)



Source: Banco de Moçambique.

**PUBLIC ACCOUNTS - BUDGET PROPOSAL (2024)****Macroeconomic Assumptions**

The government assumed in its budget proposal for 2024 that economic growth will decelerate to 5.5% in the year following an upwardly revised projection of 7.0% for 2023 (initial estimate was 5.0%). This lower growth forecast is due to a sharp deceleration in activity in the extractive industry, which is expected to surge 60.8% in 2023 after the start of operations in the LNG sector. Still, the government expects activity in the extractive industry to expand at an impressive pace of 18.6% in the period.

*Real GDP growth is expected to decelerate in 2024, but still advance at an impressive pace of 5.5%*

It is also worth noting that growth in all the major sectors of the Mozambican economy, such as agriculture and fishing, transport, retail, and manufacturing are all expected to improve relative to 2023, as detailed below.

*All the major sectors are expected to see an improved growth performance in 2024*

<b>GROWTH FORECASTS</b>	2019	2020	2021	2022	2023 (1)	2023 (2)	2024 (1)
Agriculture	1.1%	3.9%	3.6%	5.5%	5.2%	4.7%	5.7%
Fishing	3.0%	-1.0%	3.2%	3.2%	2.5%	2.5%	2.7%
Extractive Industries	-2.6%	-15.4%	2.1%	9.0%	23.1%	60.8%	18.6%
Manufacturing	1.4%	-1.3%	1.7%	-0.7%	2.5%	1.8%	2.2%
Electricity, Gas and Water	-1.5%	4.5%	-0.4%	4.1%	3.2%	3.0%	3.5%
Construction	2.3%	-0.7%	1.0%	1.0%	5.0%	2.8%	3.7%
Wholesale and Retail	1.0%	-2.4%	2.1%	2.7%	2.3%	3.4%	4.1%
Hotels and Restaurants	1.6%	-22.1%	-4.8%	10.7%	2.4%	3.3%	3.6%
Transports, Storage and Info. & Comunic	4.0%	-1.4%	1.1%	8.9%	3.2%	3.5%	5.5%
Financial and Insurance Activities	4.1%	-0.9%	2.8%	3.1%	3.3%	3.5%	3.5%
Real Estate	4.4%	0.9%	1.3%	0.5%	3.7%	2.4%	3.1%
Public Admin., Defense and Social Sec.	4.1%	-9.7%	1.5%	2.0%	3.8%	2.1%	3.0%
Education	0.9%	-1.3%	2.6%	3.3%	3.5%	3.4%	3.7%
Health and Social Act.	6.4%	4.0%	3.8%	3.2%	8.7%	2.3%	3.0%
<b>Total Real GDP</b>	<b>2.3%</b>	<b>-1.2%</b>	<b>2.4%</b>	<b>4.2%</b>	<b>5.0%</b>	<b>7.0%</b>	<b>5.5%</b>

(1) Budget Proposal; (2) Estimate. Sources: INE and Ministry of Economy and Finance.

Meanwhile, the budget proposal assumes that the average inflation rate will continue to decline, reaching 7.0% in 2024 from a projected 8.0% in the previous year. Indeed, inflation rose to double digits in 2022 and the government initially expected that it would increase further in the following year mostly because of the higher prices of food items and administered goods. However, the stable metical and the tight monetary policy followed by the central bank kept a lid on inflation in 2023 and is expected to do the same in 2024.

*Average inflation is expected to decline to 7.0% from a projected 8.0% in 2023*

<b>MACRO ASSUMPTIONS</b>	2019	2020	2021	2022	2023 (1)	2023 (2)	2024 (1)
Nominal GDP (MZM million)	956,786	974,649	1,133,867	1,175,292	1,320,179	1,371,419	1,536,532
Real GDP Growth	2.3%	-1.3%	3.6%	4.4%	5.0%	7.0%	5.5%
Average Annual Inflation	2.8%	3.1%	5.7%	10.3%	11.5%	8.0%	7.0%
Average Exchange Rate (US\$/MZM)	62.6	74.5	63.7	63.9	65.2	65.2	64.0
Int. Reserves (US\$ million)	3,685	3,576	3,329	2,763	2,937	2,433	2,235
Int. Reserves (months of imports)	7.0	6.0	5.0	3.0	3.0	3.7	3.0
Exports (US\$ million)	4,787	3,588	5,704	8,281	8,806	9,019	9,703
Imports (US\$ million)	6,999	5,883	7,962	13,337	9,518	9,254	10,414
Current Account Balance (US\$ million)	-2,982	-3,900	-3,661	-6,383	-1,864	-1,544	-4,992
Foreign Direct Investment (US\$ million)	3,410	3,035	5,102	1,975	2,364	1,425	4,478

(1) Budget Proposal; (2) Estimate. Sources: Banco de Moçambique and Ministry of Economy and Finance.

The government's other macroeconomic assumptions for 2024 also include reaching (1) a level of international reserves to US\$ 2,235 million, corresponding to three months of imports of goods and services (excluding megaprojects), (2) exports of goods of US\$ 9,703 million (+7.6% vs. the estimated figure for 2023), which should be mainly boosted by the export of LNG from the Coral Sul FLNG Project, (3) a current account deficit to US\$ -4,992 million (equivalent to about 20.8% of GDP) and (4) foreign direct investment of US\$ 4,478 million, more than trebling the projected figure for the previous year.

*Other macroeconomic assumptions for 2024*

**Fiscal Policy (2024)**

The Mozambican government stated in the 2024 budget proposal that fiscal policy will remain focused on (1) strengthening the consolidation of public accounts, (2) reducing public debt levels and macroeconomic vulnerabilities and (3) improving the control of fiscal risks. As a result, the

*Fiscal policy will remain focused on strengthening*

government will prioritize the implementation of measures to rationalize public spending and deepen reforms to diversify revenues sources. Moreover, it aims to reach a phased autonomy of the pension fund of government employees and agents and continue the reform of state-owned enterprises (SOEs).

*the consolidation of public accounts*

In 2024, the government plans to continue the fiscal policy reform measures aimed at improving public receipts. These measures include the revision of (1) the VAT and ICE taxes (ICE is the tax code over specific consumption), (2) the IRPC tax (IRPC is the tax code on the income of individuals), broadening the tax base of the IRPS tax with the TSU (IRPS is the tax on the income of individuals and TSU is the single salary table) and (3) the customs tariff code.

*Main fiscal policy reform measures for 2024*

First, the implementation of a new VAT code implied its reduction from 17% to 16%, introduced a reduced tax of 5% for the private health and education sectors and introduced exemptions in the production of solar panels as part of the government’s set of measures aimed at accelerating economic growth. Second, the revision of the IRPC code foresees the reduction of the corporate tax from 32% to 10% in certain cases, namely, to make private investment in the agrobusiness and aquaculture sectors more attractive. The lower corporate tax will also apply to the public transport sector to boost the number of public transport providers over the medium term, mainly in urban areas, and contribute to the improvement of mobility and dignified transportation for citizens. And third, the revision of the customs tariff code foresees the increase in tariffs in certain cases from 2.5% to 7.5% and includes customs tariffs on the imports of goods and services that saw their exemption suppressed by the reform of the VAT code.

*Implementation of a new VAT code, revision of the IRPC code and revision of the customs tariff code*

In terms of the reforms on the public expenditures side, the government plans to continue to (1) reduce the reliance of domestic credit to finance the budget deficit, (2) limit the admission of new public sector employees, except in the education, health, and agriculture sectors as well as the justice administration and diplomatic areas, (3) implement selective allocation of resources in line with the government's priorities through the redirection of resources to the education, health and social action, agriculture, infrastructure sectors, and to defense and security forces, (4) ensure that the financial execution of public institutes and funds is carried out via SISTAFE (i.e., the public administration’s IT platform) and (5) consolidate the implementation of the new financial programming model that adopts the concept of proactive management of the public treasury in meeting public expenditure.

*Reforms to continue to implement on the public expenditures side*

### Budget Proposal (2024)

In terms of the 2024 budget proposal figures, the government foresees (1) total revenues rising 7.4% to MZM 383,538 million (representing 25.0% of GDP), (2) grants surging 45.0% to MZM 83,343 million (5.4% of GDP) and (3) total expenditures increasing 14.9% to MZM 542,696 million (35.3% of GDP). These percentage changes are relative to the 2023 budget proposal figures.

*Total revenues and grants are expected to increase 12.6% YoY and total expenditures to rise 14.9% YoY in 2024*

STATE BUDGET Million MZM					YoY Change			% of GDP			
	2021	2022	2023 (1)	2024 (1)	2022 / 2021	2023 (1) / 2022	2024 (1) / 2023 (1)	2021	2022	2023 (1)	2024 (1)
<b>Total Revenues and Grants</b>	<b>284,611</b>	<b>333,468</b>	<b>414,542</b>	<b>466,880</b>	<b>17.2%</b>	<b>24.3%</b>	<b>12.6%</b>	<b>25.1%</b>	<b>28.4%</b>	<b>31.4%</b>	<b>30.4%</b>
Total Revenues	265,936	285,692	357,064	383,538	7.4%	25.0%	7.4%	23.5%	24.3%	27.0%	25.0%
Grants	18,675	47,776	57,478	83,343	155.8%	20.3%	45.0%	1.6%	4.1%	4.4%	5.4%
<b>Total Expenditures</b>	<b>362,293</b>	<b>427,751</b>	<b>472,122</b>	<b>542,696</b>	<b>18.1%</b>	<b>10.4%</b>	<b>14.9%</b>	<b>32.0%</b>	<b>36.4%</b>	<b>35.8%</b>	<b>35.3%</b>
Current Expenditures	247,028	315,306	316,919	339,525	27.6%	0.5%	7.1%	21.8%	26.8%	24.0%	22.1%
Debt Payments	26,998	35,434	41,400	54,183	31.2%	16.8%	30.9%	2.4%	3.0%	3.1%	3.5%
Capital Expenditures	68,636	72,602	93,331	137,297	5.8%	28.6%	47.1%	6.1%	6.2%	7.1%	8.9%
Net Lending	46,629	39,842	61,873	65,874	-14.6%	55.3%	6.5%	4.1%	3.4%	4.7%	4.3%
<b>Primary Balance (before Grants)</b>	<b>-69,360</b>	<b>-106,625</b>	<b>-73,659</b>	<b>-104,975</b>	<b>53.7%</b>	<b>-30.9%</b>	<b>42.5%</b>	<b>-6.1%</b>	<b>-9.1%</b>	<b>-5.6%</b>	<b>-6.8%</b>
<b>Primary Balance (after Grants)</b>	<b>-50,685</b>	<b>-58,849</b>	<b>-16,181</b>	<b>-21,632</b>	<b>16.1%</b>	<b>-72.5%</b>	<b>33.7%</b>	<b>-4.5%</b>	<b>-5.0%</b>	<b>-1.2%</b>	<b>-1.4%</b>
<b>Budget Balance (before Grants)</b>	<b>-96,358</b>	<b>-142,059</b>	<b>-115,059</b>	<b>-159,158</b>	<b>47.4%</b>	<b>-19.0%</b>	<b>38.3%</b>	<b>-8.5%</b>	<b>-12.1%</b>	<b>-8.7%</b>	<b>-10.4%</b>
<b>Budget Balance (after Grants)</b>	<b>-77,683</b>	<b>-94,283</b>	<b>-57,581</b>	<b>-75,815</b>	<b>21.4%</b>	<b>-38.9%</b>	<b>31.7%</b>	<b>-6.9%</b>	<b>-8.0%</b>	<b>-4.4%</b>	<b>-4.9%</b>

(1) Budget Proposal. Sources: Ministry of Economy and Finance and Eaglestone.

Overall, this means that the budget deficit (before grants) is expected to stand at -10.4% of GDP, which compares with a deficit of -8.7% of GDP projected in the 2023 budget. If including grants, the budget deficit is expected to reach -4.9% of GDP (vs. -4.4% in the previous year). Moreover,

*The budget deficit (after grants) is forecasted to reach -4.9% of GDP, above the -4.4% of GDP in 2023*

the primary balance, which excludes debt payments, is forecasted to reach a deficit representing -6.8% of GDP (before grants) and -1.4% of GDP (after grants).

The government’s projected revenue improvement for 2024 assumes that tax receipts will rise 8.3% YoY. This evolution is due to a continued strong performance in terms of income taxes (+12.2% YoY), namely personal income tax, and a recovery in taxes on goods and services (+3.6% YoY). We also note that the government expects to start receiving taxes from the natural gas sector, namely MZM 4,268 million. Other current revenues, including non-tax income, are expected to decline 6.8% YoY, while capital revenues should continue to record a healthy performance, as detailed below.

*Total receipts are expected to improve thanks to the favorable contribution from tax revenues, which will include receipts from the gas sector for the first time in 2024*

REVENUES Million MZM					YoY Change			% of GDP			
	2021	2022	2023 (1)	2024 (1)	2022 / 2021	2023 (1)/ 2022	2024 (1)/ 2023 (1)	2021	2022	2023 (1)	2024 (1)
Current Revenues	262,279	279,916	344,059	364,033	6.7%	22.9%	5.8%	23.1%	23.8%	26.1%	23.7%
Tax Revenues	240,772	245,574	286,600	310,488	2.0%	16.7%	8.3%	21.2%	20.9%	21.7%	20.2%
Income Tax	99,933	85,858	132,801	148,965	-14.1%	54.7%	12.2%	8.8%	7.3%	10.1%	9.7%
Corporate	59,262	51,794	78,385	82,754	-12.6%	51.3%	5.6%	5.2%	4.4%	5.9%	5.4%
Personal	40,477	33,759	53,687	65,231	-16.6%	59.0%	21.5%	3.6%	2.9%	4.1%	4.2%
Other	194	304	729	979	57.0%	139.5%	34.3%	0.0%	0.0%	0.1%	0.1%
Tax on Goods & Services	109,328	146,602	137,631	142,597	34.1%	-6.1%	3.6%	9.6%	12.5%	10.4%	9.3%
VAT	81,140	117,344	91,900	92,904	44.6%	-21.7%	1.1%	7.2%	10.0%	7.0%	6.0%
Other	28,188	29,258	45,731	49,693	3.8%	56.3%	8.7%	2.5%	2.5%	3.5%	3.2%
Other Tax Revenues	31,511	13,115	16,169	18,926	-58.4%	23.3%	17.1%	2.8%	1.1%	1.2%	1.2%
Natural Gas Receipts	-	-	-	4,268	-	-	-	-	-	-	0.3%
Other Revenues	21,507	34,342	57,458	53,544	59.7%	67.3%	-6.8%	1.9%	2.9%	4.4%	3.5%
Capital Revenues	3,657	5,775	13,005	19,505	57.9%	125.2%	50.0%	0.3%	0.5%	1.0%	1.3%
<b>Total Revenues</b>	<b>265,936</b>	<b>285,692</b>	<b>357,064</b>	<b>383,538</b>	<b>7.4%</b>	<b>25.0%</b>	<b>7.4%</b>	<b>23.5%</b>	<b>24.3%</b>	<b>27.0%</b>	<b>25.0%</b>

(1) Budget Proposal. Source: Ministry of Economy and Finance.

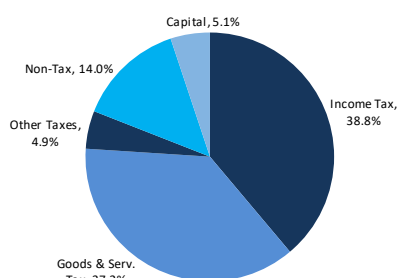
The revenue breakdown shows that receipts from income tax and taxes on goods and services account for most of the total proceeds. In particular, income tax is expected to account for 38.8% of the total revenues in 2024, while taxes on goods and services are expected to stand at 37.2% of the total revenues in the period. This compares with 37.2% and 38.5%, respectively, projected in the 2023 budget.

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

Revenues are estimated to represent 82.1% of total government receipts (if excluding domestic and external financing) and grants to account for 17.9% of the total, with the latter expected to see a strong increase from the projection of 13.9% for the previous year. We note, however, that looking back to 2013, the amount of grants as a percentage of receipts (excluding financing) is expected to stand above the average of 10.8% recorded during the period 2013-22. Also, the amount of grants as a percentage of GDP is expected to stand at 5.4% (vs. 4.4% forecasted for 2023), as detailed below.

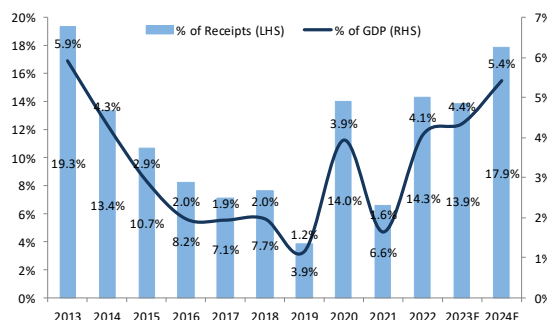
*Grants are expected to account for 17.9% of total government proceeds in 2024*

TOTAL REVENUE BREAKDOWN (2024F)



Source: Ministry of Economy and Finance.

EVOLUTION OF GRANTS (2013-24F)



Note: Total Receipts excluding Domestic and External Financing. Source: Ministry of Economy and Finance.

Meanwhile, the government is projecting a 14.9% increase in total expenditures when compared with the amount forecasted in the 2023 budget. As shown below, this increase is largely related to the sharp rise in public investment levels (47.1% YoY) projected for the period, with current

*Total expenditures are expected to increase 14.9% YoY largely thanks to the*

expenditures expected to see a more moderate increase of 7.1% YoY and net lending rising 6.5% YoY.

*sharp rise in public investment levels*

The increase in current expenditure relates to the need to continue to hire more people for the education, healthcare, and agriculture sectors, together with more employees required in the justice administration area as well as more diplomats. This is reflected in a jump of 13.0% YoY in staff costs. The government foresees total new admissions of 4,892 employees strictly for these sectors, having an estimated impact of MZM 1,500 million on the 2024 budget. This compares with the new admissions of 12,491 employees and an impact of MZM 2,500 million in the previous year's budget.

*Current expenditures are anticipated to increase due to the need to hire more people for certain sectors*

Expenditures on goods and services are expected to fall 9.9% YoY, in line with the government's commitment to contain costs. These are expected to represent 2.4% of GDP, which is below the 3.1% of GDP in the previous year. On the other hand, debt payments are anticipated to surge 30.9% YoY and represent 3.5% of GDP. This is well above the figures of recent years. Transfers are also expected to increase (12.3% YoY), with transfers to families accounting for 80.9% of the total, while subsidies are projected to remain in line with the level included in the 2023 budget proposal.

*Spending on goods and services is expected to fall due to the government's attempt to contain spending on certain items while debt payments are projected to see a marked increase*

Capital expenditures, or public investment, are projected to represent 8.9% of GDP in 2024. This is significantly higher than the previous years and is largely explained by the externally financed capital expenditures, which are expected to surge 53.1% YoY. According to the government, this is justified by the increase in financing for investment projects as well as the rehabilitation project of *Estrada Nacional 1* (National Road 1), a total of 508km, financed by the World Bank.

*Public investment is expected to increase significantly due to higher financing for investment projects*

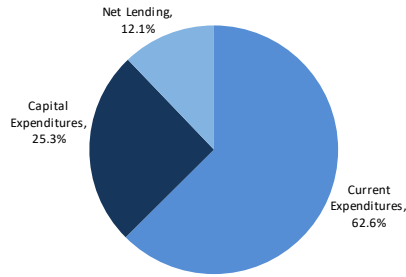
EXPENDITURES Million MZM					YoY Change			% of GDP			
	2021	2022	2023 (1)	2024 (1)	2022 / 2021	2023 (1)/ 2022	2024 (1)/ 2023 (1)	2021	2022	2023 (1)	2024 (1)
Current Expenditures	247,028	315,306	316,919	339,525	27.6%	0.5%	7.1%	21.8%	26.8%	24.0%	22.1%
Staff Costs	139,193	194,447	185,258	199,375	39.7%	-4.7%	7.6%	12.3%	16.5%	14.0%	13.0%
Goods and Services	42,378	46,160	40,839	36,794	8.9%	-11.5%	-9.9%	3.7%	3.9%	3.1%	2.4%
Debt Payments	26,998	35,434	41,400	54,183	31.2%	16.8%	30.9%	2.4%	3.0%	3.1%	3.5%
Current Transfers	34,499	35,457	38,912	43,683	2.8%	9.7%	12.3%	3.0%	3.0%	2.9%	2.8%
Subsidies	1,562	2,367	2,013	2,013	51.5%	-14.9%	0.0%	0.1%	0.2%	0.2%	0.1%
Other	2,399	1,442	8,497	3,476	-39.9%	489.3%	-59.1%	0.2%	0.1%	0.6%	0.2%
Capital Expenditures	68,636	72,602	93,331	137,297	5.8%	28.6%	47.1%	6.1%	6.2%	7.1%	8.9%
Domestically Financed	34,707	35,826	33,256	45,304	3.2%	-7.2%	36.2%	3.1%	3.0%	2.5%	2.9%
Externally Financed	33,929	36,777	60,075	91,993	8.4%	63.4%	53.1%	3.0%	3.1%	4.6%	6.0%
Net Lending	46,629	39,842	61,873	65,874	-14.6%	55.3%	6.5%	4.1%	3.4%	4.7%	4.3%
Assets	3,580	2,913	4,456	4,959	-18.6%	52.9%	11.3%	0.3%	0.2%	0.3%	0.3%
Liabilities	43,049	36,929	57,417	60,915	-14.2%	55.5%	6.1%	3.8%	3.1%	4.3%	4.0%
<b>Total Expenditures</b>	<b>362,293</b>	<b>427,751</b>	<b>472,122</b>	<b>542,696</b>	<b>18.1%</b>	<b>10.4%</b>	<b>14.9%</b>	<b>32.0%</b>	<b>36.4%</b>	<b>35.8%</b>	<b>35.3%</b>

(1) Budget Proposal. Source: Ministry of Economy and Finance.

Overall, current expenditures are forecasted to represent 62.6% of the total spending, capital expenditures 25.3% and net lending 12.1%. In terms of the breakdown of current expenditures, we note that staff costs are still expected to account for well over half of this type of spending, namely 58.7% of the total, followed by spending on debt payments (16.0%), current transfers (12.9%) and goods and services (10.8%). The remaining 1.6% relates to subsidies and other items.

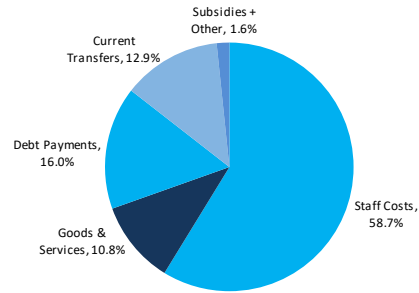
*Current expenditures are expected to represent 62.6% of total spending*

TOTAL EXPENDITURES BREAKDOWN (2024F)



Source: Ministry of Economy and Finance.

CURRENT EXPENDITURES BREAKDOWN (2024F)



Source: Ministry of Economy and Finance.

In terms of expenditures by sector, the government will continue to allocate more funds toward general public services, education and economic sectors, with these representing 44.2%, 14.7% and 14.7% of total spending, respectively. The table below provides the breakdown of the government’s planned expenditures by sector.

*The government will continue to allocate most funds to general public services, education and economic sectors*

EXPENDITURES BY SECTOR Million MZM					YoY Change			% of Total			
	2021	2022	2023 (1)	2024 (1)	2022 / 2021	2023 (1) / 2022	2024 (1) / 2023 (1)	2021	2022	2023 (1)	2024 (1)
General Public Services	96,208	141,452	221,079	239,636	47.0%	56.3%	8.4%	26.6%	33.1%	46.8%	44.2%
Defense	21,813	26,628	13,316	20,165	22.1%	-50.0%	51.4%	6.0%	6.2%	2.8%	3.7%
Security and Public Order	46,689	50,663	34,557	47,802	8.5%	-31.8%	38.3%	12.9%	11.8%	7.3%	8.8%
Economic Sector	73,420	67,430	46,415	79,698	-8.2%	-31.2%	71.7%	20.3%	15.8%	9.8%	14.7%
Environmental Protection	5,456	9,323	15,829	5,337	70.9%	69.8%	-66.3%	1.5%	2.2%	3.4%	1.0%
Housing and Collective Development	8,736	8,792	11,004	24,573	0.6%	25.2%	123.3%	2.4%	2.1%	2.3%	4.5%
Healthcare	30,842	39,091	35,834	30,113	26.7%	-8.3%	-16.0%	8.5%	9.1%	7.6%	5.5%
Recreation, Culture and Religion	1,901	2,144	2,703	1,718	12.8%	26.1%	-36.4%	0.5%	0.5%	0.6%	0.3%
Education	66,535	73,624	77,483	79,750	10.7%	5.2%	2.9%	18.4%	17.2%	16.4%	14.7%
Security and Social Action	10,693	8,604	13,903	13,904	-19.5%	61.6%	0.0%	3.0%	2.0%	2.9%	2.6%
<b>Total</b>	<b>362,293</b>	<b>427,751</b>	<b>472,122</b>	<b>542,696</b>	<b>18.1%</b>	<b>10.4%</b>	<b>14.9%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Budget Proposal. Source: Ministry of Economy and Finance.

Total public debt service payments are expected to increase 16.5% YoY to MZM 115,098 million and represent 7.5% of GDP (unchanged from 2023). Interest payments are projected to account for 47.1% of the total public debt service following an expected increase of 30.9% YoY, mainly domestic interest. The increase in capital amortization (6.1% YoY) is related to the restructuring agreement for external debt, with debt maturities expected to take place in 2024. In addition, a change in the interest rate on external debt is expected for bonds maturing in 2024.

*Public debt service payments are expected to represent 7.5% of GDP (unchanged from 2023)*

PUBLIC DEBT SERVICE Million MZM					YoY Change			% of GDP			
	2021	2022	2023 (1)	2024 (1)	2022 / 2021	2023(1) / 2022	2024 (1) / 2023 (1)	2021	2022	2023 (1)	2024 (1)
<b>Interest Payments</b>	<b>24,887</b>	<b>35,434</b>	<b>41,400</b>	<b>54,183</b>	<b>42.4%</b>	<b>16.8%</b>	<b>30.9%</b>	<b>2.2%</b>	<b>3.0%</b>	<b>3.1%</b>	<b>3.5%</b>
Domestic Interest	16,193	24,146	29,950	39,897	49.1%	24.0%	33.2%	1.4%	2.1%	2.3%	2.6%
Overseas Interest	8,694	11,288	11,450	14,287	29.8%	1.4%	24.8%	0.8%	1.0%	0.9%	0.9%
<b>Capital Amortization</b>	<b>43,723</b>	<b>36,929</b>	<b>57,417</b>	<b>60,915</b>	<b>-15.5%</b>	<b>55.5%</b>	<b>6.1%</b>	<b>3.9%</b>	<b>3.1%</b>	<b>4.3%</b>	<b>4.0%</b>
Domestic	25,135	13,062	24,217	23,523	-48.0%	85.4%	-2.9%	2.2%	1.1%	1.8%	1.5%
Overseas	18,588	23,867	33,200	37,392	28.4%	39.1%	12.6%	1.6%	2.0%	2.5%	2.4%
<b>Total Public Debt Service</b>	<b>68,610</b>	<b>72,363</b>	<b>98,817</b>	<b>115,098</b>	<b>5.5%</b>	<b>36.6%</b>	<b>16.5%</b>	<b>6.1%</b>	<b>6.2%</b>	<b>7.5%</b>	<b>7.5%</b>

(1) Budget Proposal. Source: Ministry of Economy and Finance.

The local authorities plan to finance the 2024 budget by continuing to rely mostly on domestic receipts, which are expected to account for 79.2% of the total (vs. 83.4% in the 2023 budget). Specifically, it means that 70.7% is expected to come from public receipts and 8.5% from domestic financing. All in all, domestic receipts are estimated to represent 28.0% of GDP, down from 29.8% of GDP projected in the 2023 budget.

*The government plans to finance the 2024 budget by continuing to rely mostly on domestic receipts*

External receipts are expected to account for 20.8% of the total financing and 7.3% of GDP. This is more than the 5.9% of GDP projected in 2023 budget and reflects the higher amount of grants

*Grants are expected to represent 5.4% of GDP in 2024, higher than the 4.4%*



expected in the period. Indeed, grants are anticipated to rise 45.0% YoY to MZM 83,343 million and reach 5.4% of GDP, which compares with the 4.4% of GDP in the 2023 budget. This includes MZM 7,919 million (0.5% of GDP) in direct support to the 2024 budget (up from MZM 6,800 million in 2023), while the remainder is expected to be allocated toward projects (MZM 66,571 million; 4.3% of GDP) and special programs (MZM 8,853 million; 0.6% of GDP).

*of GDP projected for the previous year*

RECEIPTS & EXPEND.					% of Total				% of GDP				
	Million MZM	2021	2022	2023 (1)	2024 (1)	2021	2022	2023 (1)	2024 (1)	2021	2022	2023 (1)	2024 (1)
<b>Receipts:</b>													
<b>Domestic Receipts</b>	<b>332,800</b>	<b>362,776</b>	<b>393,712</b>	<b>429,871</b>	<b>88.8%</b>	<b>81.6%</b>	<b>83.4%</b>	<b>79.2%</b>	<b>29.4%</b>	<b>30.9%</b>	<b>29.8%</b>	<b>28.0%</b>	
Revenues	265,936	285,692	357,064	383,538	71.0%	64.3%	75.6%	70.7%	23.5%	24.3%	27.0%	25.0%	
Other Revenues (*)	15,663	13,591	0	0	4.2%	3.1%	0.0%	0.0%	1.4%	1.2%	0.0%	0.0%	
Domestic Financing	51,201	63,494	36,648	46,333	13.7%	14.3%	7.8%	8.5%	4.5%	5.4%	2.8%	3.0%	
<b>External Receipts</b>	<b>41,931</b>	<b>81,707</b>	<b>78,411</b>	<b>112,825</b>	<b>11.2%</b>	<b>18.4%</b>	<b>16.6%</b>	<b>20.8%</b>	<b>3.7%</b>	<b>7.0%</b>	<b>5.9%</b>	<b>7.3%</b>	
Grants	18,675	47,776	57,478	83,343	5.0%	10.7%	12.2%	15.4%	1.6%	4.1%	4.4%	5.4%	
External Financing	23,255	33,931	20,933	29,482	6.2%	7.6%	4.4%	5.4%	2.1%	2.9%	1.6%	1.9%	
<b>Total Receipts</b>	<b>374,730</b>	<b>444,483</b>	<b>472,122</b>	<b>542,695</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>33.0%</b>	<b>37.8%</b>	<b>35.8%</b>	<b>35.3%</b>	
<b>Expenditures:</b>													
<b>Current Expenditures</b>	<b>247,028</b>	<b>315,306</b>	<b>316,919</b>	<b>339,525</b>	<b>68.2%</b>	<b>73.7%</b>	<b>67.1%</b>	<b>62.6%</b>	<b>21.8%</b>	<b>26.8%</b>	<b>24.0%</b>	<b>22.1%</b>	
<b>Capital Expenditures</b>	<b>68,636</b>	<b>72,602</b>	<b>93,331</b>	<b>137,297</b>	<b>18.9%</b>	<b>17.0%</b>	<b>19.8%</b>	<b>25.3%</b>	<b>6.1%</b>	<b>6.2%</b>	<b>7.1%</b>	<b>8.9%</b>	
Domestic	34,707	35,826	33,256	45,304	9.6%	8.4%	7.0%	8.3%	3.1%	3.0%	2.5%	2.9%	
External	33,929	36,777	60,075	91,993	9.4%	8.6%	12.7%	17.0%	3.0%	3.1%	4.6%	6.0%	
<b>Net Lending</b>	<b>46,629</b>	<b>39,842</b>	<b>61,873</b>	<b>65,874</b>	<b>12.9%</b>	<b>9.3%</b>	<b>13.1%</b>	<b>12.1%</b>	<b>4.1%</b>	<b>3.4%</b>	<b>4.7%</b>	<b>4.3%</b>	
Change	12,437	16,732	0	0									
<b>Total Expenditures</b>	<b>362,293</b>	<b>427,751</b>	<b>472,122</b>	<b>542,696</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>32.0%</b>	<b>36.4%</b>	<b>35.8%</b>	<b>35.3%</b>	

(\*) Includes capital gains used to finance expenditures. (1) Budget Proposal. Source: Ministry of Economy and Finance.

Finally, the latest figures indicate that total public debt rose 3.7% YoY to US\$ 14,469 million in 2022, corresponding to 78.3% of GDP (vs. 86.3% in the previous year). This evolution is mostly explained by the significant increase in domestic debt (23.7%) to US\$ 4,408 million whereas external debt declined 3.2% to US\$ 10,061 million. Overall, domestic debt represented 30.5% of total public debt and external debt 69.5% of the total.

*Total public debt represented 78.3% of GDP in 2022, down from 86.3% in the previous year*

We also highlight from the table below that the share of external debt as a percentage of total debt has gradually declined in recent years. External debt is largely held by six major creditors, with the World Bank and China standing out as the largest ones (holding 20.9% and 11.9% of total debt, respectively), while the country's Eurobonds represented 6.2% of total debt.

*The share of external debt as a percentage of total debt has declined in recent years*

In terms of domestic debt, we note that Treasury notes represented 51.1% of the total domestic debt and 15.6% of total public debt at the end of 2022, as detailed in the table below.

*Treasury notes represented 51.1% of domestic debt and 15.6% of total public debt*

PUBLIC DEBT							% of Total Debt					
	Million US\$	2017	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021
<b>External Debt</b>	<b>9 488</b>	<b>9 804</b>	<b>9 849</b>	<b>10 101</b>	<b>10 392</b>	<b>10 061</b>	<b>83.8%</b>	<b>81.1%</b>	<b>79.7%</b>	<b>78.1%</b>	<b>74.5%</b>	<b>69.5%</b>
Multilateral	4 180	4 322	4 354	4 742	5 004	5 014	36.9%	35.7%	35.2%	36.7%	35.9%	34.7%
IDA - World Bank	2 825	2 913	2 841	2 910	3 167	3 017	25.0%	24.1%	23.0%	22.5%	22.7%	20.9%
Bilateral	4 582	4 755	4 596	4 459	4 487	4 146	40.5%	39.3%	37.2%	34.5%	32.2%	28.7%
China	2 023	2 151	2 022	1 949	1 981	1 718	17.9%	17.8%	16.4%	15.1%	14.2%	11.9%
OECD	1 101	1 134	1 147	1 095	916	896	9.7%	9.4%	9.3%	8.5%	6.6%	6.2%
OPEC	519	520	515	513	548	577	4.6%	4.3%	4.2%	4.0%	3.9%	4.0%
Eastern Europe	324	343	359	360	87	87	2.9%	2.8%	2.9%	2.8%	0.6%	0.6%
Other	614	607	554	542	956	870	5.4%	5.0%	4.5%	4.2%	6.9%	6.0%
Eurobonds	727	727	900	900	900	900	6.4%	6.0%	7.3%	7.0%	6.4%	6.2%
<b>Domestic Debt</b>	<b>1 829</b>	<b>2 290</b>	<b>2 515</b>	<b>2 835</b>	<b>3 563</b>	<b>4 408</b>	<b>16.2%</b>	<b>18.9%</b>	<b>20.3%</b>	<b>21.9%</b>	<b>25.5%</b>	<b>30.5%</b>
Central Bank	588	630	688	608	661	659	5.2%	5.2%	5.6%	4.7%	4.7%	4.6%
Treasury Bills	370	344	483	637	907	1 094	3.3%	2.8%	3.9%	4.9%	6.5%	7.6%
Treasury Notes	558	767	981	1 261	1 624	2 254	4.9%	6.3%	7.9%	9.7%	11.6%	15.6%
Other	313	549	363	329	371	401	2.8%	4.5%	2.9%	2.5%	2.7%	2.8%
<b>Total Debt</b>	<b>11 317</b>	<b>12 094</b>	<b>12 364</b>	<b>12 936</b>	<b>13 955</b>	<b>14 469</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Public Debt (% of GDP)</b>												
External Debt	66,0%	70,2%	63,3%	64,3%	64,2%	54,4%						
Domestic Debt	12,7%	16,4%	16,2%	18,0%	22,0%	23,8%						
<b>Total Debt</b>	<b>78,7%</b>	<b>86,5%</b>	<b>79,4%</b>	<b>82,3%</b>	<b>86,3%</b>	<b>78,3%</b>						

Sources: Ministry of Economy and Finance and Eaglestone.

EXTERNAL ACCOUNTS

Preliminary data from the Banco de Moçambique show that the country’s current account deficit fell by -80.2% in the first three quarters of 2023 when compared with the previous year, standing at US\$ -1,144 million. This evolution largely reflects the sharp fall in the trade balance (-86.7% YoY) that resulted from the nearly 40% yearly decline in total imports, particularly the -81.9% YoY decline in imports related to megaprojects (i.e., the implementation of the Coral Sul FLNG Project). If excluding the impact of the large projects, our calculations show that the current account deficit would fall by a more modest -9.5% YoY to US\$ -4,682 million in the period. On an annualized basis, the current account deficit represented 7.5% of GDP, as detailed below.

*Mozambique’s current account deficit saw a sharp decline in 9M 2023 from the previous year*

BALANCE OF PAYMENTS US\$ Million							YoY Change			
	2019	2020	2021	2022	9M 22	9M 23	'20/'19	'21/'20	'22/'21	'23/'22
Current Account	-2,982	-3,900	-3,661	-6,383	-5,778	-1,144	30.8%	-6.1%	74.4%	-80.2%
Trade Balance	-2,212	-2,294	-2,257	-5,056	-4,778	-634	3.7%	-1.6%	124.0%	-86.7%
Exports, f.o.b.	4,787	3,588	5,704	8,281	6,108	5,936	-25.0%	59.0%	45.2%	-2.8%
Megaprojects	3,158	2,504	4,035	6,172	4,620	4,484	-20.7%	61.1%	53.0%	-3.0%
Other	1,629	1,084	1,669	2,109	1,487	1,452	-33.5%	53.9%	26.3%	-2.4%
Imports, f.o.b.	-6,999	-5,883	-7,962	-13,337	-10,885	-6,570	-15.9%	35.3%	67.5%	-39.6%
Megaprojects	-897	-774	-794	-5,448	-5,226	-946	-13.8%	2.6%	585.9%	-81.9%
Other	-6,102	-5,109	-7,168	-7,890	-5,659	-5,624	-16.3%	40.3%	10.1%	-0.6%
Services Balance	-1,857	-1,997	-1,750	-1,466	-1,138	-571	7.5%	-12.4%	-16.2%	-49.8%
Income Balance	-176	-287	-280	-931	-402	-623	63.4%	-2.4%	232.9%	55.1%
Transfers Balance	1,263	678	626	1,071	539	684	-46.3%	-7.5%	70.9%	26.8%
Capital Account Balance	123	135	203	442	245	199	9.7%	50.0%	118.2%	-18.8%
Financial Account Balance	2,839	3,762	3,493	5,660	5,348	971	32.5%	-7.1%	62.0%	-81.9%
Net Foreign Direct Investment	3,410	3,035	5,102	1,975	1,321	1,522	-11.0%	68.1%	-61.3%	15.2%
Net Errors and Omissions	20	4	-35	280	184	-26	-82.5%	-	-	-
<b>Values as a % of GDP:</b>										
Current Account	-19.4%	-27.6%	-23.2%	-37.9%	-45.7%	-7.5%	-8.2%	4.3%	-14.7%	38.2%
Trade Balance	-14.4%	-16.2%	-14.3%	-30.0%	-37.8%	-4.2%	-1.8%	1.9%	-15.7%	33.6%
Exports	31.1%	25.3%	36.2%	49.2%	48.3%	39.1%	-5.8%	10.8%	13.0%	-9.3%
Imports	45.5%	41.6%	50.5%	79.2%	86.1%	43.3%	-3.9%	8.9%	28.7%	-42.9%
Capital Account Balance	0.8%	1.0%	1.3%	2.6%	1.9%	1.3%	0.2%	0.3%	1.3%	-0.6%
Financial Account Balance	18.4%	26.6%	22.1%	33.6%	42.3%	6.4%	8.1%	-4.4%	11.5%	-35.9%
Net Foreign Direct Investment	22.2%	21.4%	32.3%	11.7%	10.5%	10.0%	-0.7%	10.9%	-20.6%	-0.4%

Sources: Banco de Moçambique and Eaglestone.

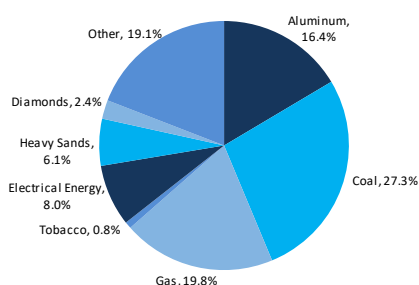
In terms of the trade balance, we also highlight that gas exports nearly quadrupled in the first nine months of 2023 after the start of operations and exports of LNG from Area 4 in the Rovuma basin, reaching US\$ 1,177 million. These are expected to continue to increase in the quarters ahead and represent a significantly higher share of the country’s total exports (19.8% in 9M 2023 vs. 5.2% in the homologous period). Coal remained the main export, accounting for 27.3% of total exports, while gas replaced aluminum (16.4%) as Mozambique’s second largest export.

*Gas exports nearly quadrupled in 9M 2023, representing nearly 20% of total exports in the period*

On the other hand, imports were more evenly balanced, with machinery, fuel and building materials (excluding cement) standing out once again as the goods that the country buys most overseas. These represented 17.3%, 15.5% and 8.8% of total imports, respectively, in the nine months. That said, we note that 2022 saw a significant increase in the import of machinery, which represented 41.9% of the country’s total imports in the period. This was due to the acquisition of the floating platform for the LNG project in the Rovuma basin.

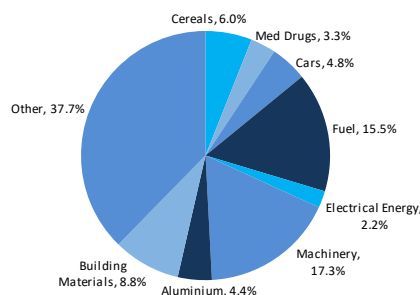
*Imports were more evenly balanced, with machinery, fuel and building materials standing out as the goods the country buys most overseas*

EXPORTS BY PRODUCT (9M 2023)



Source: Banco de Moçambique.

IMPORTS BY PRODUCT (9M 2023)



Source: Banco de Moçambique.

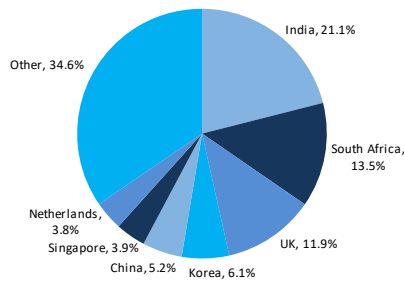
Mozambique’s main trading partners are traditionally South Africa, India, and China. The latest available figures from the central bank relate to 2022 and show that India accounted for 21.1% of the country’s total exports in the period. This was followed by South Africa (13.5%), the UK (11.9%) and Korea (6.1%).

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

In terms of imports, Korea was by far the largest supplier of Mozambique, representing 32.0% of the total imports in the period. It was followed by South Africa (15.6%), the United Arab Emirates (10.0%) and China (7.2%). Korea replaced South Africa as the largest supplier in 2022 because of the impact of the acquisition of the floating platform mentioned above.

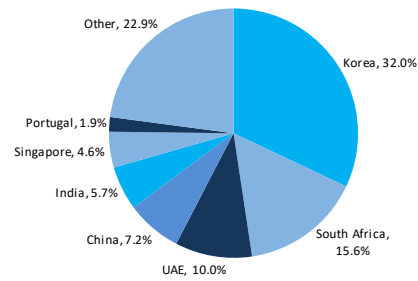
*Korea was the largest supplier in 2022 due to the acquisition of the floating platform for the LNG sector*

EXPORTS BY COUNTRY (2022)



Source: Banco de Moçambique.

IMPORTS BY COUNTRY (2022)



Source: Banco de Moçambique.

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, attention has 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*

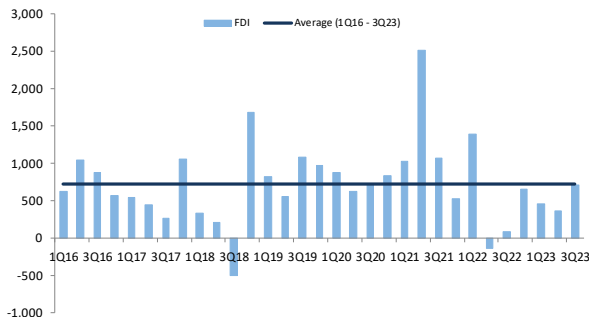
The latest available figures from Banco de Moçambique show that FDI recovered 15.2% YoY to US\$ 1,522 million in the first nine months of 2023 following a sharp decline of -61.3% YoY in 2022. This recovery was thanks to a healthy improvement in FDI related to megaprojects, in particular the extractive industry (+23.4% YoY). Nevertheless, as detailed in the graph below, the FDI quarterly figures for 2023 stood below the historical quarterly average for the period between 2016 and 2023. This evolution is explained by the end of the investment cycle of some megaprojects and the start of their operations, namely in the coal sector.

*FDI recovered in 9M 2023 thanks to a healthy improvement in FDI related to megaprojects*

Also as detailed below, FDI in the extractive industry continued to represent the largest share of the total FDI, reaching 88.7% in the first nine months of 2023.

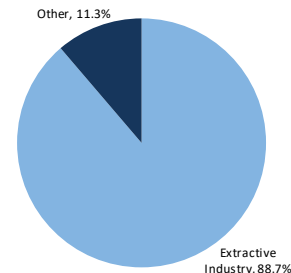
*FDI in the extractive industry represented 88.7% of the total FDI*

FOREIGN DIRECT INVESTMENT (US\$ MILLION)



Source: Banco de Moçambique.

FOREIGN DIRECT INVESTMENT BY SECTOR (9M 2023)



Source: Banco de Moçambique.

Other data from the central bank showed that the level of international reserves improved in recent months. Net international reserves reached US\$ 3,025 million in October 2023 while gross reserves stood at US\$ 3,087 million. This compares with US\$ 2,763 million and US\$ 2,850 million in September 2023 and August 2023 respectively.

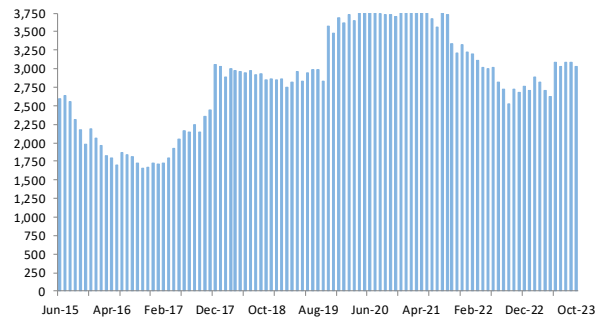
*Foreign exchange reserves have increased in recent months*

million, respectively, in December 2022. This evolution largely results from the sharp decline in imports this year that has led to lower demand for foreign currency. All in all, this means that the level of reserves is enough to cover four months of imports of goods and services (excluding those of large projects).

Moreover, we note that the metical exchange rate has been stable against the dollar since mid-2021 and has appreciated against the South African rand after a sharp correction in the first quarter of 2021. We recall the sharp depreciation of the metical against both currencies during 2020. This evolution reflected the impacts of the Covid-19 pandemic, which led to an appreciation of the dollar against most of the currencies in the world, and the military instability in the northern part of Mozambique.

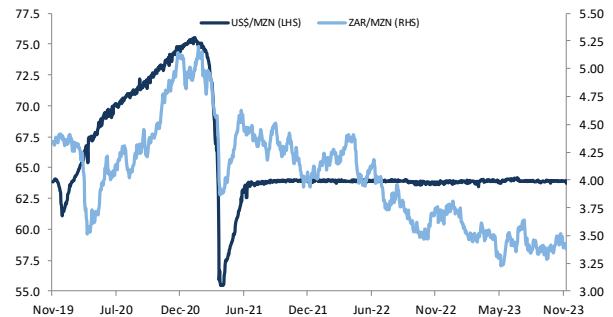
*The metical has been stable against the USD and has appreciated against the ZAR since mid-2021*

NET INTERNATIONAL RESERVES (US\$ MILLION)



Source: Banco de Moçambique.

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



Source: Bloomberg.

Meanwhile, the central bank expects the current account deficit will widen in 2024 because of the deterioration of the trade balance of goods and services. The evolution of the trade balance of goods will depend on the performance of imports, mainly from traditional sectors, while the evolution of the trade balance of services will be mainly justified by the significant increase in imports of specialized services by megaprojects resulting from the resumption of operations by Total Energies and the expansion of production plants in other projects such as Montepuez Ruby Mining, HCB and the floating LNG. These projects may require a significant increase in imports of goods and services that may exceed the expected increase in export levels resulting from the start of operations in the LNG sector.

*The central bank expects the current account deficit to widen in 2024*

In terms of FDI in Mozambique, the central bank anticipates an improvement in 2024 mainly thanks to the resumption of Total Energy’s investments in the Rovuma basin.

*FDI is anticipated to improve in 2024*

## ANNEX – ECONOMIC FORECAST SUMMARY

ECONOMIC FORECAST SUMMARY										
	2017	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F
<b>Gross Domestic Product</b>										
Real GDP growth	3.7%	3.4%	2.3%	-1.2%	2.4%	4.2%	7.0%	5.0%	5.0%	4.0%
Gross Domestic Product (current prices, MZM bn)	843	906	970	989	1,058	1,223	1,406	1,572	1,753	1,927
Gross Domestic Product (current prices, US\$ bn)	13.2	14.9	15.4	14.2	15.8	16.8	21.8	23.6	25.2	26.5
Population (million)	28.6	29.4	30.3	31.2	32.1	33.0	33.9	34.9	35.8	36.8
Gross Domestic Product per capita (US\$)	461	505	508	454	502	581	647	687	718	738
<b>External Sector</b>										
Exports of Goods (US\$ mn)	4,755	6,037	4,787	3,588	5,704	8,281	9,019	9,703	10,237	10,595
Imports of Goods (US\$ mn)	5,219	7,027	6,999	5,883	7,962	13,337	9,254	10,414	11,070	11,546
Trade Balance of Goods (% of GDP)	-3.5%	-6.7%	-14.4%	-16.2%	-14.3%	-30.0%	-1.1%	-3.0%	-3.3%	-3.6%
Current Account Balance (% of GDP)	-19.6%	-32.2%	-19.1%	-27.6%	-22.4%	-32.9%	-16.0%	-39.3%	-43.3%	-45.1%
<b>Consumer Price Inflation</b>										
Consumer Prices (period average)	15.1%	3.9%	2.8%	3.1%	5.7%	9.8%	7.4%	6.5%	6.3%	5.7%
Consumer Prices (end of period)	5.6%	3.5%	3.5%	3.5%	6.7%	10.3%	6.7%	6.5%	5.7%	5.5%
<b>Government Accounts (% of GDP)</b>										
Total Revenues	26.5%	24.3%	28.9%	24.1%	23.5%	24.3%	27.0%	25.0%	25.3%	25.7%
Grants	2.0%	2.0%	1.2%	3.9%	1.6%	4.1%	4.4%	5.4%	5.0%	5.0%
Total Expenditures	31.1%	33.1%	32.8%	36.3%	32.0%	36.4%	35.8%	35.3%	34.5%	34.0%
Interests	2.2%	3.1%	3.1%	2.8%	2.4%	3.0%	3.1%	3.5%	2.7%	2.3%
Primary Balance	-0.4%	-3.6%	0.4%	-5.5%	-4.5%	-5.0%	-1.2%	-1.4%	-1.5%	-1.0%
Budget Balance (after Grants)	-2.6%	-6.8%	-2.7%	-8.3%	-6.9%	-8.0%	-4.4%	-4.9%	-4.2%	-3.3%
<b>Foreign Investment and Reserves (US\$ mn)</b>										
Net Foreign Direct Investment	2,293	1,703	3,410	3,035	5,102	1,975	1,425	4,478	4,750	5,000
Net Foreign Direct Investment (ex-megaprojects)	1,381	-321	1,258	466	2,022	530	984	1,429	1,940	2,042
Net International Reserves	3,062	2,846	3,685	3,904	3,324	2,763	2,939	3,184	3,536	3,977
International Reserves (in months of imports)	5.0	3.3	5.0	5.9	4.1	3.2	3.9	3.7	3.8	4.1
<b>Exchange Rate (US\$/MZM)</b>										
Exchange Rate (period average)	63.6	60.3	62.6	69.5	65.5	63.9	64.5	66.5	69.6	72.7
Exchange Rate (end of period)	59.0	61.5	61.5	74.9	63.8	63.9	64.5	66.5	69.6	72.7

Sources: Mozambican authorities, World Bank, IMF and Eaglestone.

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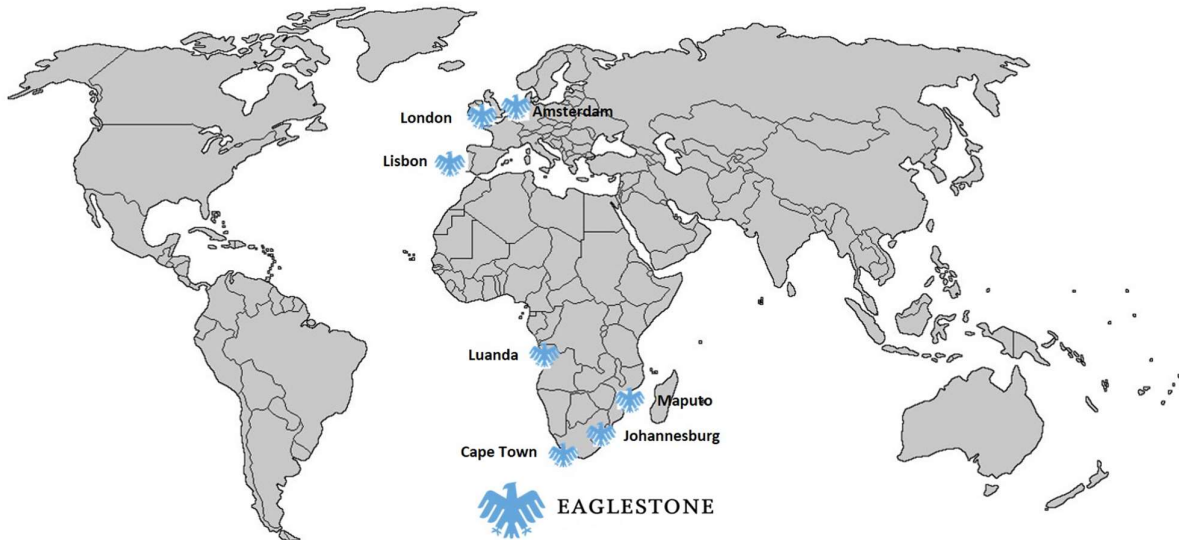
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## Disclosures

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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