WORLD / AFRICA / MOZAMBIQUE

# Mozambique pins hopes on gas transformation

**John Everington** | 1/08/2019 9:00 am

**Mozambique has endured a difficult few years, with GDP growth slowing and natural disasters devastating parts of the country. However, major developments in its gas industry provide hope of better times to come. John Everington reports.**

This year will be remembered as a landmark for Mozambique, for both tragic and positive reasons.

In March and April, the country was hit by Cyclones Idai and Kenneth, two of the worst disasters ever experienced in Mozambique's history, resulting in thousands of lost lives and millions of dollars worth of damage.

At the other end of the spectrum, June saw the landmark agreement of a final investment decision (FID) by Anadarko Petroleum for the $20bn development of the Area 1 Mozambique LNG project, the largest in Africa.

Mozambicans are hopeful that gas revenues will prove transformational for the country's economy, which is still struggling to reverse a four-year slowdown in growth.

### LNG progress

Anadarko's FID is not the first of its kind in Mozambique; Italy's ENI gave the final go-ahead for its $10bn Coral South floating liquefied natural gas (LNG) project in 2017. But while that project is expected to have an annual production capacity of about 3.4 million tonnes, Anadarko's development is expected to have an annual capacity of 12.9 million tonnes.

"It is truly one of the most important and transformational projects in our country's history," said Mozambique's president, Filipe Nyusi, on the day of the signing.

A further FID for the development of the Rovuma LNG project, led by Exxon Mobil, is expected by the end of 2019, for two plants with a capacity of more than 15 million tonnes per year.

The signing of the FIDs are the clearest sign yet of progress in the long-awaited development of Mozambique's gas reserves, nearly 10 years after they were first discovered. "The major point is we can finally see that things are moving," says José Reino da Costa, CEO of Millennium bim, the country's second largest bank by assets. "This is important for international investors and the financial community, [as] expectations have changed completely."

Such gas projects are expected to generate $95bn of revenue over 25 years for Mozambique – more than seven times the country's current gross domestic product (GDP). "In four or five years we're finally likely to see the real money flowing into the economy," adds Mr da Costa.

### Cyclone damage

The development of the country's gas infrastructure and the wider ecosystem surrounding it is seen as giving a much-needed boost to Mozambique's economy, which suffered fresh setbacks following the devastating impact of Cyclones Idai and Kenneth earlier in 2019.

Cyclone Idai hit the coastal city of Beira in mid-March, with months-worth of rain falling in a matter of hours. In all, the cyclone and subsequent flooding across central and western Mozambique claimed about 600 lives, injured an estimated 1600, and caused about $773m in damages to buildings, infrastructure and agriculture.

Weeks later, Cyclone Kenneth, the strongest tropical storm to hit the country since records began, made landfall in the coastal provinces of Cabo Delgado and Nampula, damaging or destroying about 35,000 homes, with 38 people known to have died.

The death toll from the two storms was the worst experienced by the country since the end of the civil war in 1992. The economic impact is widely forecast to bring significant economic pain in the short term, despite relief pledges from the UK, the EU, the International Monetary Fund (IMF) and others.

### Economic challenges

"Economic activity is expected to decelerate sharply in 2019 due to the supply shock to productive capacity," the IMF said in a statement in June. The fund predicts the country's GDP will grow by just 2.5% in 2019 – compared with a previous forecast of 4% made in April – and down from 3.3% in 2018.

Such a slowdown in 2019 would be Mozambique's fifth consecutive year of shrinking growth. The country's economy had previously been one of the fastest growing in the world between 2001 and 2014, with annual growth of more than 6% per annum, thanks to reforms including lower trade barriers and simplified tax regulations, combined with rising commodity prices.

But a slowdown that began with the fall in commodity prices in 2015 turned into a full-blown crisis the following year, over a $2bn loan to three state-owned firms. Of the total figure, $1.2bn had not been disclosed to the Mozambique parliament, or the country's donors and creditors, leading the IMF to suspend aid payments.

An independent audit revealed that $500m was unaccounted for, with state-owned borrowers overcharged by $700m for equipment financed by part of the loans. What is more, money originally earmarked to finance a fishing fleet was instead used to buy naval patrol boats.

The impact of the scandal on the Mozambican economy was seismic, and significantly hindered the government's ability to raise finance for investment and general expenditure. The local currency devalued sharply, interest rates rose, with consumption and credit demand falling.

A US Department of Justice probe into the scandal has led to several arrests, including Mozambique's former finance minister, Michael Chang, and three bankers from Credit Suisse, which helped arrange the loans. Detelina Subeva, a former vice-president at the bank's global financing unit, pleaded guilty in May to handling alleged kickbacks over the loan.

Efforts to restructure the outstanding debt are ongoing; the government reached an agreement with a majority of holders of $727m-worth of Eurobonds in November, while Bloomberg reported in May that the government had reached an agreement in principle with Russia's VTB on a $535m loan.

The government meanwhile has filed a case in London to cancel a government guarantee for a $626m loan, arranged by Credit Suisse, with Debtwire in March reporting a similar lawsuit against Credit Suisse over a separate $525m loan, claiming the bank should repay the loan even Russia's VTB Capital was its lead arranger.

**Signs of improvement**

While concerns over debt restructuring and the impact of the cyclone remain, both local banks and the IMF concur that Mozambique's economy is turning a corner. "Following a series of shocks in 2015 and 2016, economic recovery has begun to emerge," said the IMF's executive director for Mozambique Dumisani Mahlinza in a June statement. "Going forward, growth is expected to remain positive, in line with a rebound in consumption and investment related to the LNG projects."

Inflation in Mozambique fell to 3.9% in 2018 from 15.1% in the previous year, allowing the Banco de Moçambique to cut interest rates three times during the year by a combined 325 basis points.

"The pace of further rate cuts by the central bank will depend on its assessment of macroeconomic risks, namely those related to the sustainability of the country's external position as well as the level of fiscal adjustments to be implemented by the government," says Tiago Bossa Dionísio, assistant director of Eaglestone Securities, a financial services company that specialises in sub-Saharan Africa.

The IMF praised Mozambique's government for its fiscal policy efforts, which has seen subsidies on fuel and wheat eliminated, with electricity and public transportation tariffs increased during 2017 and 2018. Such cuts, together with reductions in public investment, reduced the country's primary fiscal deficit to about 2% of GDP in 2018, compared with 4.75% in 2016.

The country's overall fiscal deficit remained relatively high at 5.5% of GDP in 2018, with budget financing relied primarily on expensive domestic financing due to tighter monetary policy and the limited availability of external financing.

"It's still early days and there is still a long way to go," says Paulo Pereira, deputy CEO of FNB, one of Mozambique's smaller banks. "But there's a steady pace of recovery with structural changes and institutional changes in the country that give it positive sign of inflection going forward."

**Investor appeal**

Such signs of improvement are gradually drawing the international investment community back to the country. "Mozambique has been a very attractive place for FDI, although this stopped for some years," says Paolo Sousa, CEO of BCI, the country's largest bank by assets. "[International players] are starting to come back now though."

Such investment is not confined to oil and gas, with several other sectors attracting investment. "Mining, agriculture and tourism are all areas attracting a lot of interest. The minerals industry in particular hasn't been as developed as much as it could be. You have some of the biggest and best deposits in the world for graphite and many other minerals," adds Mr Sousa.

## More stories from this section


Mozambique's bourse takes a giant step with hydropower listing

Mozambique's banking sector inches regains stability

Rogério Zandamela: Restructuring Mozambique for a post-debt crisis revival

Mozambique's economy awaits a gas-powered revival

Mozambique's banks swim against the tide

Mozambique looks to gas reserves in aid recovery from 2016 blip