The Mozambican Economy

Stuck in a lower growth environment

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Economics
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More stable economy

Mozambique's economy has stabilized in recent quarters following a period of high volatility in the aftermath of the hidden debt revelations two years ago that triggered a sharp economic downturn. The latest official figures showed that economic activity in the country expanded by 3.2% YoY in 3Q18. This is roughly the same pace as in the first two quarters of the year. Yet, it remained well below the quarterly average of 4.6% in the last four years. Figures also showed that economic growth remained mainly supported by the mining, agriculture, retail and manufacturing sectors. All in all, the 3.3% annual expansion recorded from January through September makes the government's recently revised projection of 4.1% for 2018 look overly optimistic.

Budget proposal assumes 4.7% growth in 2019

The government's budget proposal for 2019 incorporates a 4.7% growth assumption, which considering the performance in recent years could (again) be excessive. In our view, the country's economic outlook will mainly depend on further progress in the development of LNG projects as well as a gradual recovery in private consumption and investment. Lower inflation levels should also allow the Banco de Moçambique to continue easing monetary policy and, as a result, support growth. Still, we believe the pace of further interest rate cuts will depend on the central bank's assessment of macro risks, namely those related to the sustainability of the country's external position and the level of fiscal adjustments to be implemented by the government.

Fiscal consolidation efforts should continue

The budget proposal also assumes a 0.1% reduction in the fiscal deficit (after grants) to 6.2% of GDP. However, before grants, the fiscal deficit projection actually stands at 8.9% of GDP (vs. 8.1% of GDP this year). The government expects a double-digit improvement in revenues, mostly from higher corporate income taxes, and a surge in grants. On the other hand, capital expenditures, which bore the brunt of the fiscal adjustment in recent years (16.3% of GDP in 2014 to 7.1% in 2017), are expected to recover to 10% of GDP while current expenditures advance at a more moderate pace. Fiscal risks remain elevated despite the recent implementation of key reforms to strengthen fiscal management, with pressure in the near future likely to come from rising domestic debt levels, an electoral cycle in 2019 and probable decentralization arrangements that could have relevant budgetary implications.

Restructuring agreement for Eurobond

The local authorities have taken important steps in recent weeks aimed to resolve the country's current default situation. The resolution of these issues would help provide a clearer picture on the fiscal outlook of the country, help existing conversations with the IMF as well as improve investor confidence. The government announced that it had reached an agreement with creditors to restructure its US$ 726.5 million Eurobond maturing in 2023. This deal involves four creditors that control 60% of the Eurobond and would see them receive new paper maturing in 2033, with principal repayments starting in 2029. The new bonds would have a face value of US$ 900 million, with a coupon of 5.875%. Creditors would also receive 5% of future fiscal revenues from LNG projects in Area 1 and Area 4, although this would be capped at US$ 500 million a year. In addition, the government announced that it is negotiating an agreement with creditors of the syndicated debt that was arranged by Credit Suisse and VTB and that news on this matter could occur early in 2019.

ECONOMIC ACTIVITY

Economic activity slowed considerably during 2016-17 when compared with the previous decade

Mozambique's economic growth slowed considerably during 2016-17 when compared with the expansion recorded in the previous decade. This deceleration in economic activity came mainly as a result of the sharp decline in commodity prices, namely aluminum and coal (the country's two main exports) and lower foreign direct investment (FDI) in the country. Investor sentiment also deteriorated following the revelation in April 2016 of previously undisclosed public debt amounting to US$ 2 billion (about 17.5% of GDP) that lead to donor aid freezes and hindered economic activity even further.

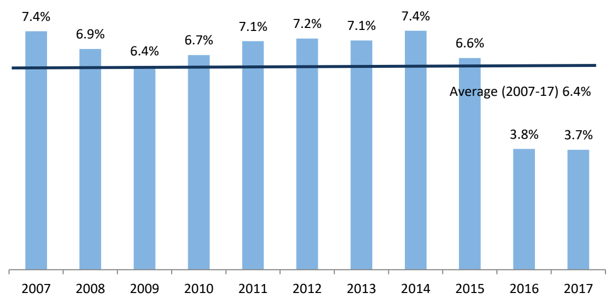
Real GDP growth stood at around 3.75% in the period, which is still well ahead of the average in Sub-Saharan Africa

Real GDP growth reached 3.8% in 2016 and 3.7% last year (down from 6.6% in 2015). Still, Mozambique's economy continued to expand at a growth rate well above the average in Sub-Saharan Africa (1.4% and 2.7%, respectively) as 2016 marked the region's worst performance in more than two decades. Moreover, the softer growth in the country came despite a sharp improvement in aluminum and coal exports during 2017, as this was insufficient to offset the impacts of softer demand from both the private and public sectors, softer investment levels and high cost of credit.

Mining was the fastest-growing sector followed by financial services, construction and retail

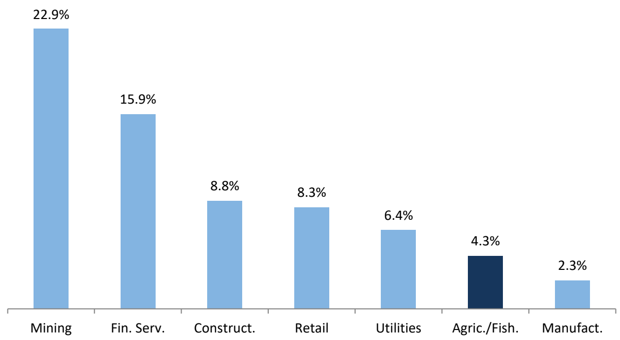
Mining was undoubtedly the fastest-growing sector in the last decade, expanding at an annual average of nearly 23%, followed by activity in the financial services (15.9%). The construction and retail sectors also advanced at impressive high single-digit growth rates while agriculture, which is the largest sector of the economy and represents nearly a quarter of GDP, recorded a more modest annual increase of 4.3%.

REAL GDP GROWTH (2007-17)



Sources: INE and Eaglestone Securities.

REAL GDP GROWTH BY SECTOR (CAGR 2007-17)

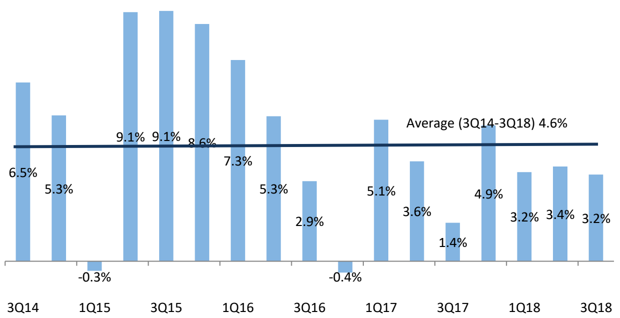


Sources: INE and Eaglestone Securities.

Economic activity grew by 3.3% YoY in the first nine months of 2018

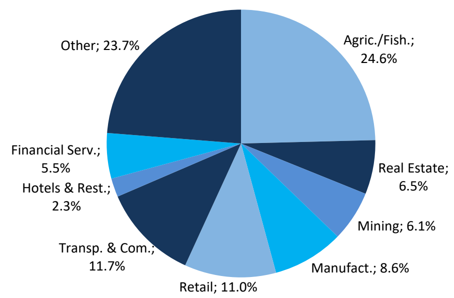
The latest data released by the National Statistics Institute (INE) showed that real GDP growth stood at 3.2% YoY in 3Q 2018. This compares with 3.2% YoY and 3.4% YoY in the first two quarters of the year, respectively. It also compares with a quarterly average of 4.6% YoY in the last four years. In the first nine months, economic activity expanded 3.3% YoY and was mostly supported by mining (11.0%), agriculture/fishing (4.5%), retail (3.7%) and manufacturing (2.4%). On the other hand, growth was hindered by the declines in the utilities (-2.1%) and construction (-1.3%) sectors. Agriculture/fishing continued to have the largest contribution to GDP (24.6% of the total) followed by transport and communication (11.7%) and retail (11%).

REAL GDP GROWTH (YOY; 3Q14 – 3Q18)



Sources: INE and Eaglestone Securities.

GDP STRUCTURE (9M 2018)



Sources: INE and Eaglestone Securities.

Meanwhile, the Mozambican government's budget proposal for 2019 incorporates a forecast of 4.7% for real GDP growth that follows a revised estimate of 4.1% for this year. Recall that the initial budget proposal for 2018 assumed a real GDP growth forecast of 5.3% that turned out to be overly optimistic. According to the local authorities, this downward revision in its growth forecast was due to a weaker than initially expected performance in the manufacturing, utilities, retail and construction sectors.

The 2019 budget proposal incorporates a real GDP growth assumption of 4.7%

The 2019 budget proposal also assumes that the average inflation rate will continue to decline (6.5% from an estimate of 6.8% in 2018) and for international reserves to continue to represent six months of imports. Exports are expected to increase in the period and support GDP growth while FDI is anticipated to see a marked recovery from the relatively weak performances in recent years, namely following the revelation of the hidden debts scandal.

Inflation is expected to continue to decline while FDI is anticipated to see a marked recovery in 2019

MACRO ASSUMPTIONS	2017	2018 (1)	2018 (2)	2019 (1)
Nominal GDP (MZM million)	804,463	991,655	921,742	1,021,028
Real GDP Growth	3.7%	5.3%	4.1%	4.7%
Average Annual Inflation	15.1%	11.9%	6.8%	6.5%
Int. Reserves (months of imports)	7.3	6.0	6.0	6.0
Exports (US$ million)	4,725	4,122	4,122	5,160
Foreign Direct Investment (US$ million)	1,271	2,850	2,850	5,769
Population (thousand)	27,129	27,844	27,844	28,571

(1) Budget Proposal; (2) Forecast. Source: Ministry of Finance.

The government foresees economic activity in the country to continue to be mainly driven by a strong performance in the extractive industry as well as in agriculture and fishing, as detailed in the table below. In particular, the expansion in the extractive industry is expected to be boosted by higher production of heavy sands, coal, rubies and natural gas. Agriculture is expected to benefit from increased levels in international trade for the country's main agricultural goods. Finally, an improvement in the logistical capacity of the port of Beira is expected to increase the flow of not only coal, but also other goods.

Economic activity is likely to continue to be driven by a strong performance in the extractive industry as well as agriculture and fishing

GROWTH FORECASTS	2017	2018 (1)	2018 (2)	2019 (1)
Agriculture	4.5%	4.4%	5.0%	5.5%
Fishing	2.6%	3.8%	5.8%	6.0%
Extractive Industries	40.8%	13.8%	13.8%	14.0%
Manufacturing	0.3%	5.0%	1.3%	3.1%
Electricity and Gas	-7.8%	7.0%	2.0%	2.0%
Construction	-12.4%	3.8%	1.0%	3.5%
Wholesale and Retail	1.5%	7.2%	1.2%	2.6%
Hotels and Restaurants	0.8%	5.0%	2.0%	3.5%
Transports, Storage and Info. & Comunic	1.1%	6.1%	7.0%	2.8%
Financial and Insurance Actitivies	1.5%	4.5%	2.0%	2.0%
Public Admin., Defense and Social Sec.	2.9%	1.3%	4.5%	4.5%
Education	2.6%	3.7%	7.0%	5.0%
Health and Social Act.	2.7%	3.6%	3.6%	4.5%
Other Services	1.9%	4.3%	4.6%	3.0%
Total Real GDP	**3.7%**	**5.3%**	**4.1%**	**4.7%**

(1) Budget Proposal; (2) Forecast. Source: Ministry of Finance.

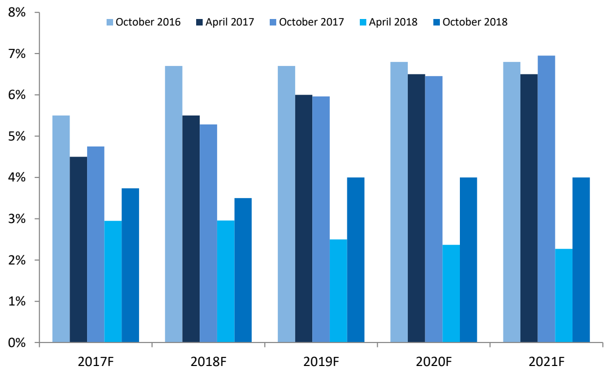
Finally, it is worth highlighting the revisions made by the International Monetary Fund (IMF) in the last couple of years to Mozambique's economic growth forecasts, namely following the hidden debt revelation in April 2016. These are shown in the graph below where we present the forecasts made by the IMF in its last five World Economic Outlook (WEO) reports dating back to October 2016 to its most recent one released in October 2018. While growth projections were clearly reduced in the reports that followed the revelation of the hidden debts in April 2016, we note that these projections were upgraded in the most recent WEO, as the IMF now expects real GDP growth of 4% in the period 2019-21.

The hidden debt revelations had a major impact on Mozambique's growth projections

These forecasts also suggest that Mozambique is now likely to expand at a growth rate that is closer to the Sub-Saharan Africa (SSA) average during this period and is expected to continue to underperform the average growth in Emerging Market and Developing Economies.

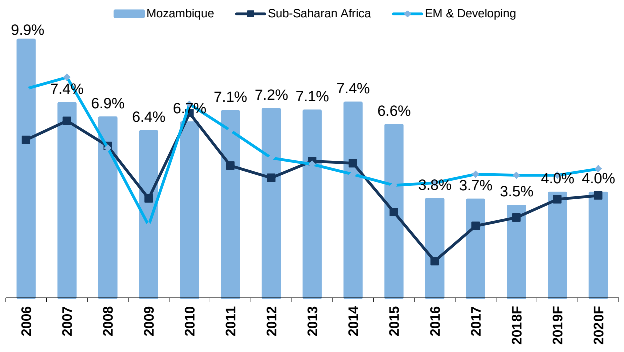
Real GDP growth is now likely to be more aligned with the growth average in SSA

IMF FORECASTS – MOZAMBIQUE



Source: IMF.

GROWTH FORECASTS – MOZAMBIQUE, SSA AND EM&D



Source: IMF.

INFLATION

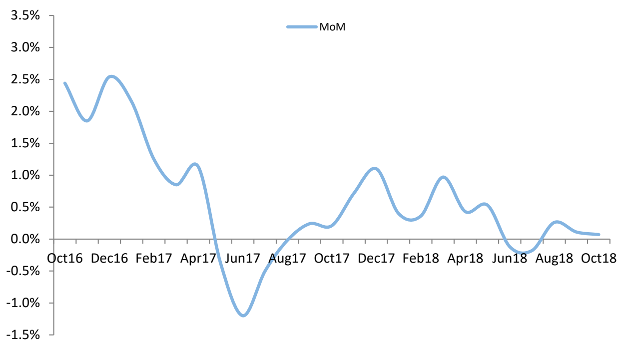
The latest consumer price data released by INE for the cities of Maputo, Beira and Nampula is from October and showed that monthly inflation stood at a very modest 0.07%, down from a 0.11% increase in the previous month. This performance came after the prices in most classes remained unchanged in the month, with food and non-alcoholic drinks (0.06%) being the only one showing a slight increase. Accumulated inflation for the ten months of the year stood at 2.87%. It compares with 18.42% and 3.75% in the same period of 2016 and 2017, respectively.

Consumer prices rose 0.07% in October from the previous month

October figures confirmed that inflation continues to decline this year. Indeed, the accumulated inflation for the whole of 2017 stood at 5.65%, which is significantly less than the 10.55% recorded in 2015 and the 23.67% in 2016. The sharp increase in 2015-16 was largely due to the strong depreciation of the metical and higher food costs. In 2017, prices advanced mainly in the transport (1.41%), restaurants and hotels (1.03%) and housing and utilities (0.92%) units. There was also a more moderate increase in the price of food and non-alcoholic drinks (0.59%), with better weather conditions allowing higher crops and food production.

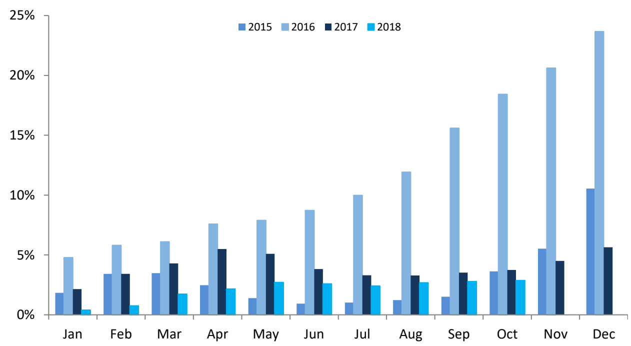
Inflation levels continue to fall in 2018

CONSUMER PRICE INDEX - MONTHLY



Source: INE.

CONSUMER PRICE INDEX – ACCUMULATED (2015-18)



Source: INE.

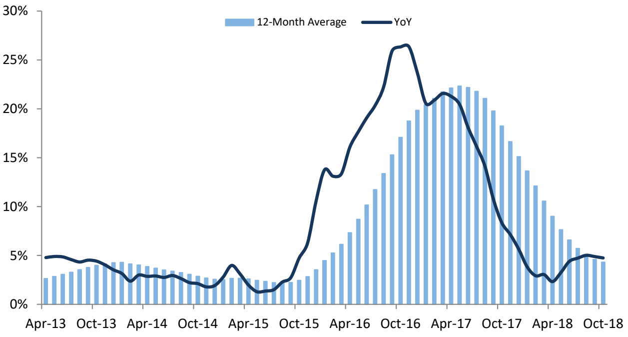
Meanwhile, annual inflation stood at 4.75% in October (vs. 4.89% in the previous month) and has remained at single-digits for the last 13 months. Recall that the annual inflation rate stood at multi-year highs (north of 26%) at the end of 2016. However, an appreciation of the metical since 2017 has helped to gradually reduce the pressure on consumer prices, as Mozambique continues to import a significant part of the goods it consumes. The latest figures also showed that the 12-month average inflation rate declined further to 4.31% (from 4.59% in September).

Annual inflation continued to decelerate, remaining at single-digits for the last 13 months

Looking now at monthly inflation for the country's three largest cities on an individual basis shows that consumer prices were up 0.02% in Maputo, 0.13% in Beira and 0.14% in Nampula in October. This means that the accumulated inflation rates in these three cities stood at 4.10%, 2.50% and 0.66%, respectively. Moreover, the 12-month average inflation rates reached 5.83% in Maputo, 2.68% in Beira and 2.42% in Nampula.

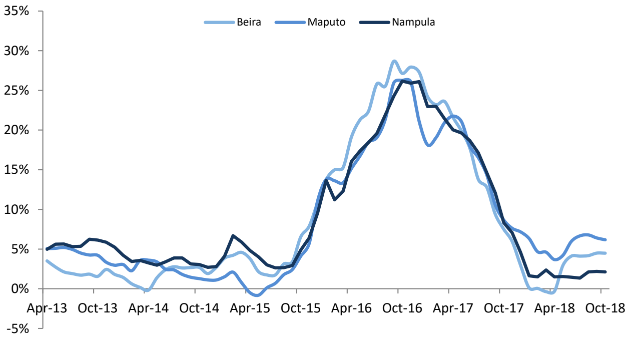
Prices rose moderately in the country's three main cities in October

CONSUMER PRICE INDEX – YOY AND 12M AVERAGE



Sources: INE and Eaglestone Securities.

ANNUAL CONSUMER PRICE INDEX – MAIN CITIES



Source: INE.

MONETARY POLICY AND BANKING SECTOR

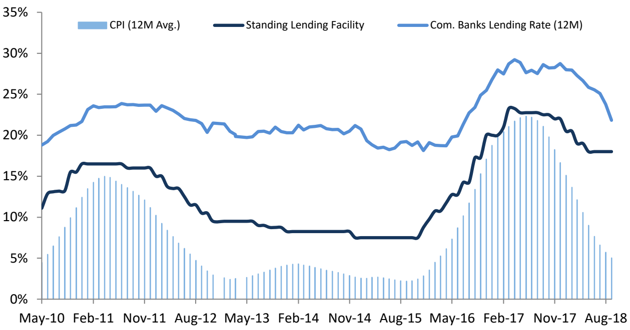
Lower inflation has allowed the Banco de Moçambique to continue easing monetary policy in 2018. The reference lending rate (FPC) was cut by 250 basis points (to 18%) since the start of the year while the interbank reference lending rate (MIMO) dropped 450 basis points (to 15%). We believe there is room for further monetary policy easing going forward. However, 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.

The central bank has room to continue to cut interest rates, but the pace of further monetary policy easing will depend on its assessment of macro risks

Commercial banks have also adjusted their interest rates in response to the cuts in central bank reference rates, with this adjustment gaining more momentum in recent months. The latest data shows that the average retail interest rate for a 12-month loan fell to 21.8% in August 2018 from 28% in December 2017. These lower rates have allowed the constant fall in credit growth witnessed since mid-2017 to be less pronounced. Recall that the sectors mostly affected by the tight monetary policy implemented in recent years were agriculture, manufacturing, retail and individuals. The latest data shows that credit to these sectors remains depressed.

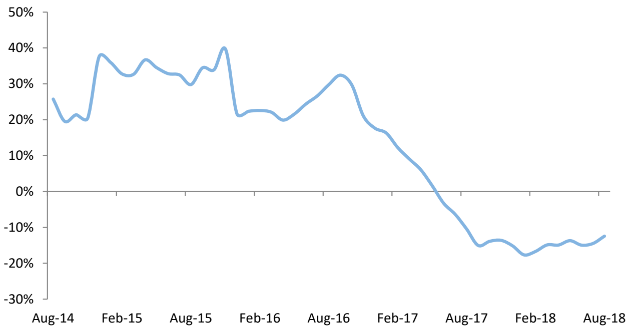
Commercial banks have begun to adjust interest rates, allowing the fall in credit growth to be less pronounced

INFLATION, CENTRAL AND COMMERCIAL BANKS RATES



Sources: INE and Banco de Moçambique.

CREDIT GROWTH (YOY CHANGE)



Source: Banco de Moçambique.

Mozambique's commercial banks have been fairly resilient to the impacts from the slowdown in economic activity and the shortage of dollars in the country in recent years. In 2017, the profitability levels of the country's six largest banks (representing 85-90% of the total assets, loans and deposits of the sector) improved significantly from the previous year while the ratio of non-performing loans remained below 7%. At the same time, the average solvency ratio of these banks recouped to 19.3% (from 5.5% in 2016) after the recapitalization of Moza Banco.

Commercial banks have been fairly resilient to the economic slowdown in the country

The latest prudential indicators relate to the second quarter of 2018 and show that, with the exception of Moza Banco, the country's largest banks remained highly profitable in the period, with ROE standing at double-digits. This performance has been supported by favorable returns from high interest rates, mainly income from government securities. That said, and despite the latest improvement in solvency ratios, the sector is vulnerable to potential further increases in non-performing loans as well as its exposure to the underperforming state-owned enterprises.

The latest indicators show that the banking sector remains highly profitable

MOZAMBIQUE BANKS								
SIX LARGEST BANKS	2010	2011	2012	2013	2014	2015	2016	2017
BALANCE SHEET RATIOS								
Loans/Deposits	74.0%	71.0%	64.5%	69.9%	73.6%	70.1%	73.4%	56.9%
Loans/Assets	55.3%	52.3%	48.5%	52.3%	54.4%	52.3%	53.1%	41.8%
Loans in Local Currency (% of Total)	69.2%	73.2%	69.2%	70.0%	73.2%	73.5%	67.4%	67.9%
Deposits in Local Currency (% of Total)	57.7%	69.2%	67.4%	71.6%	73.6%	69.9%	64.3%	71.5%
Sight Deposits (% of Total)	61.5%	62.4%	62.3%	61.2%	62.9%	61.3%	61.8%	61.2%
NPL Ratio	1.60%	2.32%	2.48%	3.05%	2.87%	2.98%	5.42%	6.76%
NPL Coverage	213.4%	182.5%	176.5%	126.0%	126.4%	125.0%	97.1%	113.2%
BS Provisions/Loans (gross)	3.42%	4.23%	4.37%	3.84%	3.63%	3.72%	5.26%	7.65%
Solvency Ratio	13.6%	17.4%	18.0%	15.1%	13.9%	16.2%	5.5%	19.3%
P&L RATIOS								
Net Interest Margin (NII/ATA)	6.60%	7.48%	5.65%	5.09%	5.09%	4.66%	6.30%	8.35%
Net Interest Income (% of Revenues)	58.7%	65.4%	57.2%	55.8%	54.9%	48.4%	64.1%	74.0%
Fees (% of Banking Income)	15.0%	16.4%	18.8%	20.7%	19.6%	17.7%	16.1%	12.0%
Staff Costs (% of Total Costs)	44.8%	47.4%	49.2%	50.9%	48.6%	50.7%	46.7%	50.9%
Cost-to-Income (incl. Depreciation)	54.2%	54.3%	59.8%	60.7%	57.2%	55.6%	58.2%	48.5%
Net LLP (% of Loans)	1.19%	1.64%	1.40%	1.12%	1.18%	1.45%	2.55%	3.79%
ROE	24.1%	22.1%	15.8%	16.2%	16.8%	16.8%	9.7%	18.4%
ROA	2.81%	3.13%	2.15%	2.05%	2.18%	2.16%	1.13%	3.10%

Sources: Annual Reports and Eaglestone Securities.

EXTERNAL ACCOUNTS

Mozambique's external account deficit widened in the first half of 2018

Preliminary data from the Banco de Moçambique showed that the country's current account deficit widened significantly in the first half of this year when compared with the homologous period, standing at US$ 1,596 million (+35% YoY). This deterioration in the external accounts was principally due to a higher deficit in the services (+61% YoY) balance, which reflected a noteworthy increase in the import of technical assistance related services in commerce (145%). We also highlight the sharp fall in net FDI to US$ 537 million (-45% YoY) in the period, as foreign investment inflows in megaprojects declined by 29% YoY and in other companies by nearly 50% YoY. The trade deficit advanced to US$ 422 million after the export and import of goods both rose by 16% YoY.

The current account deficit would represent 21.9% of GDP on an annualized basis

Overall, the current account deficit would represent 21.9% of GDP on an annualized basis in the first half of 2018 while net FDI would stand at 7.4% of GDP in the period. As detailed in the table below, these figures are significantly lower than the ones recorded in recent years.

BALANCE OF PAYMENTS	US$ Million				US$ Million		YoY Change			
	2014	2015	2016	2017	1H 17	1H 18	'15/'14	'16/'15	'17/'16	'18/ '17
Current Account	-5,797	-5,968	-3,846	-2,586	-1,182	-1,596	2.9%	-35.6%	-32.8%	35.0%
Trade Balance	-4,035	-4,163	-1,405	-498	-370	-422	3.2%	-66.3%	-64.6%	14.1%
Exports, f.o.b.	3,916	3,413	3,328	4,725	2,182	2,538	-12.8%	-2.5%	42.0%	16.3%
Megaprojects	2,426	2,035	2,405	3,657	1,767	1,874	-16.1%	18.2%	52.1%	6.0%
Other	1,491	1,378	924	1,068	415	664	-7.6%	-33.0%	15.7%	60.1%
Imports, f.o.b.	-7,952	-7,577	-4,733	-5,223	-2,552	-2,960	-4.7%	-37.5%	10.4%	16.0%
Megaprojects	-1,487	-917	-771	-733	-365	-379	-38.3%	-15.9%	-5.0%	3.8%
Other	-6,465	-6,660	-3,962	-4,490	-2,187	-2,581	3.0%	-40.5%	13.3%	18.0%
Services Balance	-2,932	-2,306	-2,701	-2,332	-684	-1,102	-21.3%	17.1%	-13.7%	61.0%
Income Balance	-202	-300	-261	-394	-250	-296	48.6%	-13.1%	51.0%	18.6%
Transfers Balance	1,372	802	520	638	122	224	-41.6%	-35.1%	22.5%	84.0%
Capital Account Balance	375	288	206	203	94	66	-23.2%	-28.3%	-1.5%	-29.3%
Financial Account Balance	5,390	5,654	3,668	2,326	1,088	1,535	4.9%	-35.1%	-36.6%	41.2%
Net Foreign Direct Investment	4,902	3,867	3,093	2,293	987	537	-21.1%	-20.0%	-25.9%	-45.6%
Net Errors and Omissions	32	26	-29	56	1	-6	-20.0%	-210.3%	-297.2%	n.m.
Values as a % of GDP:										
Current Account	-34.4%	-40.3%	-35.3%	-20.5%	-18.8%	-21.9%	-6.0%	5.0%	14.8%	-3.1%
Trade Balance	-23.9%	-28.1%	-12.9%	-4.0%	-5.9%	-5.8%	-4.2%	15.2%	8.9%	0.1%
Exports	23.2%	23.1%	30.5%	37.5%	34.7%	34.8%	-0.1%	7.5%	7.0%	0.1%
Imports	47.1%	51.2%	43.4%	41.5%	40.6%	40.5%	4.1%	-7.8%	-1.9%	0.0%
Capital Account Balance	2.2%	1.9%	1.9%	1.6%	1.5%	0.9%	-0.3%	-0.1%	-0.3%	-0.6%
Financial Account Balance	31.9%	38.2%	33.7%	18.5%	17.3%	21.0%	6.3%	-4.5%	-15.2%	3.7%
Net Foreign Direct Investment	29.1%	26.1%	28.4%	18.2%	15.7%	7.4%	-2.9%	2.3%	-10.2%	-8.3%

Sources: Banco de Moçambique and Eaglestone Securities.

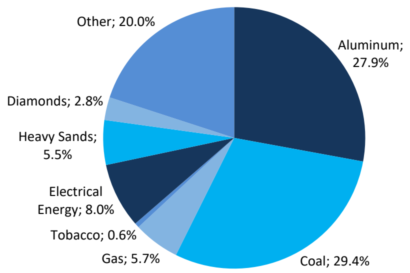
South Africa, Netherlands, India and China are the country's main trading partners

Mozambique's main trading partners include South Africa, India, the Netherlands and China. The latest central bank figures are from 2017 and show that India accounted for 34.4% of the country's total exports followed by South Africa (18.7%) and the Netherlands (10%). In terms of imports, South Africa was by far the largest supplier of Mozambique, with 28.9% of the total last year. South Africa was followed by the United Arab Emirates (9.3%), China (8.7%) and the Netherlands (8.6%).

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

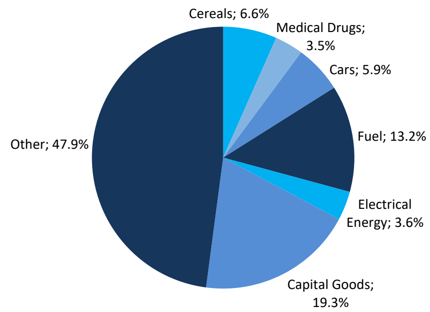
The central bank provided trade figures by product for the first half of 2018. Unsurprisingly, the country's main exports remained coal and aluminum, with these representing 29.4% and 27.9% of the total, respectively. It is worth highlighting the marked increase in the contribution of coal to total exports, particularly since 2017 and when compared with the period 2012-15. The figures for the first half of 2018 compare with a contribution of just 11-13% in 2012-15. We believe this higher contribution reflects both a volume and pricing effect, as coal prices reached multi-year highs in 2017 due to tight markets in China and supply disruptions that have been unable to meet increasing demand for coal. 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.

EXPORTS BY PRODUCT (1H 2018)



Sources: Banco de Moçambique and Eaglestone Securities.

IMPORTS BY PRODUCT (1H 2018)



Sources: Banco de Moçambique and Eaglestone Securities.

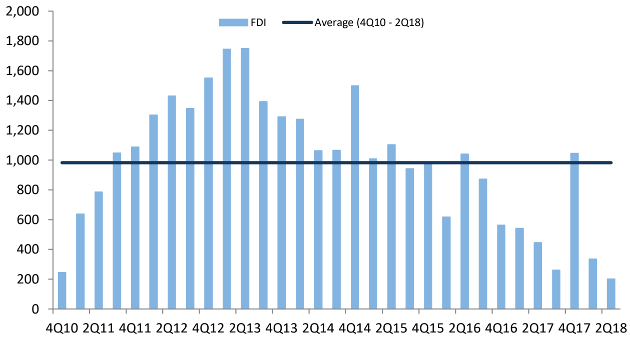
FDI has played a major role in Mozambique's economic growth and development over the years

Other balance of payments data relates to 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 sectors such as construction, utilities and real estate.

FDI inflows have fallen sharply in recent quarters, particularly following the revelation of the hidden debts in April 2016

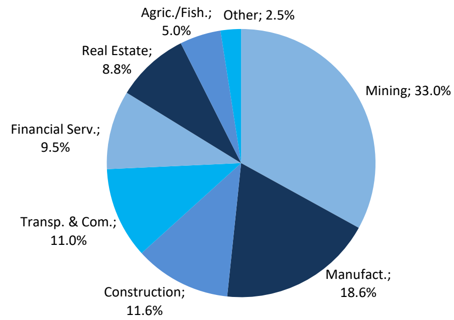
Banco de Moçambique figures show that FDI inflows have declined sharply in recent quarters, and remain well below the quarterly average of around US$ 1 billion recorded since 2010. This significant fall in FDI levels largely reflects the impact that the revelation of the hidden debts in April 2016 had on investor sentiment. The latest central bank data showed that a third of the FDI inflows in the first half of 2018 went to the mining sector while 18.6% of the total went to manufacturing, 11.6% to construction and 11% to the transport and communication sectors.

FOREIGN DIRECT INVESTMENT (US$ MILLION)



Sources: Banco de Moçambique and Eaglestone Securities.

FOREIGN DIRECT INVESTMENT BY SECTOR (1H 2018)



Sources: Banco de Moçambique and Eaglestone Securities.

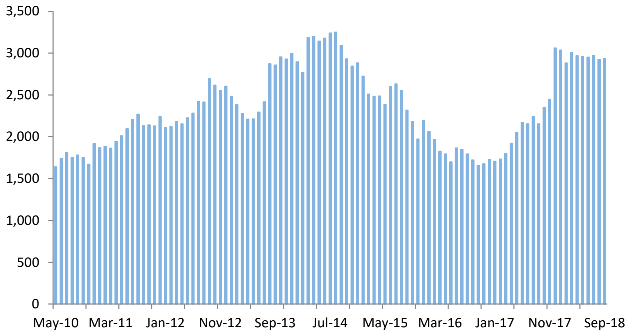
Foreign exchange reserves have stabilized in recent months at the levels recorded at end-2017

Other central bank data showed that net international reserves have stabilized in recent months after seeing some pressure and volatility for most of 2016-17. Net reserves stood at US$ 2,933 million in September, down 4% from the US$ 3,062 million in December 2017, but up nearly 70% from end-2016. Gross reserves stood at US$ 3,140 million in the same period, enough to cover six months of imports of goods and services (excluding those of large projects).

Recall that international reserves recovered significantly at end-2017 after the incorporating the impact of the capital gains tax (of around US$ 350 million) from the sale of half of Eni's stake in Area 4 of the Rovuma basin to ExxonMobil that took place last year. Moreover, we note that the metical exchange rate has stabilized against the euro and the dollar in 2018 and has actually appreciated somewhat against the South African rand.

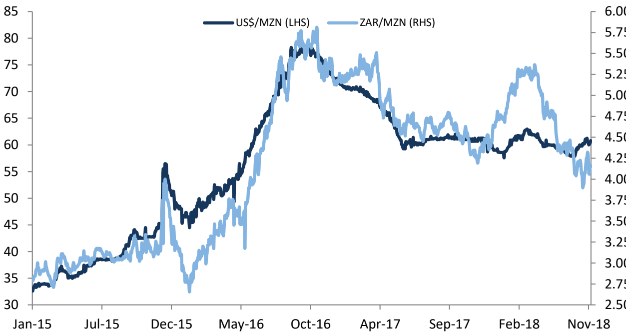
The improvement in the level of international reserves reflects the impact of the capital gains tax from the sale of Eni's stake in Area 4

NET INTERNATIONAL RESERVES (US$ MILLION)



Source: Banco de Moçambique.

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



Source: Bloomberg.

PUBLIC ACCOUNTS

The latest figures from the Ministry of Finance showed that total receipts collected in the first nine months of 2018 amounted to MZM 197,240 million, split into MZM 164,355 million in domestic receipts and MZM 32,885 million in external receipts. The total receipts collected in the period correspond to 65.1% of the projected amount for the entire year, with domestic and external receipts posting an execution rate of 67.9% and 54%, respectively. On the other hand, total expenditures rose 17.5% YoY to MZM 190,240 million, with an execution rate of 62.8%.

Total receipts collected in 9M 2018 rose18% YoY to MZM 197,240 million

Revenues collected reached MZM 152,448 million (or 68.4% execution rate) after rising 15% YoY. We note that income tax stood at MZM 66,869 million (execution rate of 81.9%) after being mainly boosted by corporate income tax (18.6% YoY) while taxes on goods and services stood at MZM 57,075 million after an annual increase of 20.2%. Expenditures were lifted by a 26.7% YoY increase in capital expenditures (execution rate of 42.8%).

Income tax and taxes on goods and services collected posted a favorable evolution in the period

RECEIPTS & EXPEND.	2017			2018			2018 vs. 2017		
Million MZM	Budget	Executed Amount 9M	Execution Rate	Budget	Executed Amount 9M	Execution Rate	Budget	Executed Amount 9M	Execution Rate
Receipts:									
Domestic Receipts	**207,436**	**138,877**	**66.9%**	**242,064**	**164,355**	**67.9%**	**16.7%**	**18.3%**	**0.9%**
Revenues	186,334	132,520	71.1%	222,860	152,448	68.4%	19.6%	15.0%	-2.7%
Domestic Financing	21,103	6,357	30.1%	19,204	11,907	62.0%	-9.0%	87.3%	31.9%
External Receipts	**64,852**	**28,174**	**43.4%**	**60,864**	**32,885**	**54.0%**	**-6.1%**	**16.7%**	**10.6%**
Grants	14,048	7,297	51.9%	17,373	9,866	56.8%	23.7%	35.2%	4.8%
External Financing	50,805	20,877	41.1%	43,492	23,019	52.9%	-14.4%	10.3%	11.8%
Total Receipts (1)	**272,289**	**167,051**	**61.4%**	**302,928**	**197,240**	**65.1%**	**11.3%**	**18.1%**	**3.8%**
Expenditures:									
Current Expenditures	**156,450**	**110,217**	**70.4%**	**184,037**	**126,833**	**68.9%**	**17.6%**	**15.1%**	**-1.5%**
Capital Expenditures	**80,381**	**27,512**	**34.2%**	**81,404**	**34,861**	**42.8%**	**1.3%**	**26.7%**	**8.6%**
Domestic	28,034	10,795	38.5%	33,695	18,320	54.4%	20.2%	69.7%	15.9%
External	52,348	16,718	31.9%	47,710	16,541	34.7%	-8.9%	-1.1%	2.7%
Net Lending	**35,458**	**24,328**	**68.6%**	**37,487**	**28,657**	**76.4%**	**5.7%**	**17.8%**	**7.8%**
Total Expenditures (2)	**272,289**	**162,057**	**59.5%**	**302,928**	**190,351**	**62.8%**	**11.3%**	**17.5%**	**3.3%**
Difference ((1) - (2))		*4,993*			*6,889*			*38.0%*	
TOTAL	**272,289**	**167,051**	**61.4%**	**302,928**	**197,240**	**65.1%**	**11.3%**	**18.1%**	**3.8%**

Source: Ministry of Finance.

Meanwhile, the Mozambican government stated in its recently presented 2019 budget proposal that fiscal policy will remain focused on the consolidation of fiscal accounts, namely by aiming to (1) improve the collection of domestic revenues, (2) contain public expenditures, (3) reform public sector companies and (4) gradually make the pension fund of public sector employees

The local authorities stated that they remain focused on fiscal consolidation self-sufficient. The government also said that the proceeds expected from revenue collection will be mainly allocated to key areas of the local economy. These include (1) the expansion of infrastructure for social and economic services, such as health units, schools and water supply systems, (2) farming infrastructures, (3) incentives to integrate local production, (4) transfers to social protection programs and (5) consolidation of the democratic process. The government added that it plans to use the proceeds from the capital gains from the sale of half of Eni's stake in Area 4 of the Rovuma basin to Exxon Mobil in 2017 (amounting to US$ 354.4 million) to finance public investment projects in areas such as the construction and rehabilitation of roads, supply of drinkable water and construction of health infrastructures.

The 2019 budget proposal assumes a budget deficit (after grants) of 6.2% of GDP

In terms of the figures, the 2019 budget proposal foresees (1) revenues improving 12.0% YoY to MZM 249,502 million (24.4% of GDP), which include MZM 5,274 million (0.5% of GDP) in capital gains from the aforementioned transaction involving Eni and Exxon Mobil, (2) grants increasing 59.7% YoY to MZM 27,741 million (2.7% of GDP) and (3) expenditures rising 12.4% YoY to MZM 340,415 million (33.3% of GDP). This means the budget deficit forecast (before grants) stands at 8.9% of GDP, which is higher than the 8.1% deficit projected in the 2018 budget. If including grants though, the budget deficit is expected to stand at 6.2% of GDP, slightly lower than the budgeted 6.3% of GDP in 2018.

STATE BUDGET					YoY Change			% of GDP			
Million MZM	2016	2017	2018 Budget	2019 Budget	'17/'16	'18/'17	'19/'18	2016	2017	2018 Budget	2019 Budget
Revenues (1)	165,595	213,223	222,860	249,502	28.8%	4.5%	12.0%	24.0%	26.5%	22.5%	24.4%
Grants	14,843	16,302	17,373	27,741	9.8%	6.6%	59.7%	2.2%	2.0%	1.8%	2.7%
Expenditures	232,335	250,514	302,928	340,415	7.8%	20.9%	12.4%	33.7%	31.1%	30.5%	33.3%
Deficit (before Grants)	**-66,740**	**-37,291**	**-80,069**	**-90,913**	**-44.1%**	**114.7%**	**13.5%**	**-9.7%**	**-4.6%**	**-8.1%**	**-8.9%**
Deficit (after Grants)	**-51,897**	**-20,989**	**-62,696**	**-63,172**	**-59.6%**	**198.7%**	**0.8%**	**-7.5%**	**-2.6%**	**-6.3%**	**-6.2%**

(1) The 2019 proposed amount includes MZM 5,274 million (0.5% of GDP) in capital gains from Eni's transaction with Exxon Mobil in 2017.
Sources: Ministry of Finance and Eaglestone Securities.

Revenues are expected to be boosted by a stronger contribution from corporate income taxes and capital revenues

The government's forecast for a double-digit improvement in revenues is expected to be led by a strong recovery in corporate income tax proceeds and in capital revenues. On the other hand, the local authorities foresee taxes on good and services remaining flat when compared with the 2018 budget, despite a 7.9% YoY expected increase in VAT proceeds, as detailed below.

REVENUES					YoY Change			% of GDP			
Million MZM	2016	2017	2018 Budget	2019 Budget	'17/'16	'18/'17	'19/'18	2016	2017	2018 Budget	2019 Budget
Current Revenues	159,453	197,407	218,422	236,323	23.8%	10.6%	8.2%	23.1%	24.5%	22.0%	23.1%
Tax Revenues	138,494	170,085	186,797	206,356	22.8%	9.8%	10.5%	20.1%	21.1%	18.8%	20.2%
Income Tax	64,273	96,892	81,309	102,101	50.8%	-16.1%	25.6%	9.3%	12.0%	8.2%	10.0%
Corporate	37,161	66,929	44,312	65,526	80.1%	-33.8%	47.9%	5.4%	8.3%	4.5%	6.4%
Capital Gains	-	20,860	-	-	-	-	-	-	2.6%	-	-
Personal	26,855	29,668	35,377	35,881	10.5%	19.2%	1.4%	3.9%	3.7%	3.6%	3.5%
Other	257	295	1,620	694	14.8%	448.3%	-57.2%	0.0%	0.0%	0.2%	0.1%
Tax on Goods & Services	68,709	65,852	96,389	95,942	-4.2%	46.4%	-0.5%	10.0%	8.2%	9.7%	9.4%
VAT	49,648	45,486	58,746	63,186	-8.4%	29.2%	7.6%	7.2%	5.7%	5.9%	6.2%
Other	19,061	20,366	37,643	32,757	6.8%	84.8%	-13.0%	2.8%	2.5%	3.8%	3.2%
Other Tax Revenues	5,512	7,341	9,099	8,313	33.2%	23.9%	-8.6%	0.8%	0.9%	0.9%	0.8%
Non-Tax Revenues	9,214	10,909	17,351	12,505	18.4%	59.0%	-27.9%	1.3%	1.4%	1.7%	1.2%
Other Revenues	11,745	16,413	14,274	17,462	39.7%	-13.0%	22.3%	1.7%	2.0%	1.4%	1.7%
Capital Revenues	6,143	15,815	4,438	7,905	157.5%	-71.9%	78.1%	0.9%	2.0%	0.4%	0.8%
Transferred Capital Gains	-	-	-	5,274	-	-	-	-	-	-	0.5%
Total Revenues	**165,595**	**213,223**	**222,860**	**249,502**	**28.8%**	**4.5%**	**12.0%**	**24.0%**	**26.5%**	**22.5%**	**24.4%**

Sources: Ministry of Finance and Eaglestone Securities.

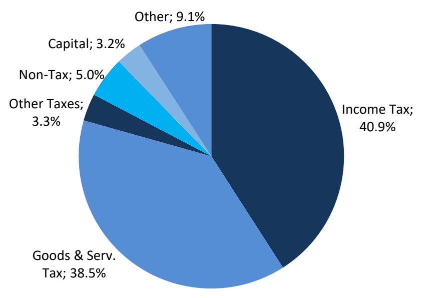
Receipts from income tax and taxes on goods and services account for most of the total proceeds

The revenue breakdown shows that receipts from income tax and taxes on goods and services account for most of the total proceeds. In particular, income tax is expected to stand at 40.9% of the total revenues and taxes on goods and services to account for 38.5% of the total in 2019. This compares with 36.5% and 43.3%, respectively, in 2018.

Grants are expected to account for just 10% of the total government proceeds in 2019 (vs. 30.1% of the proceeds in 2010)

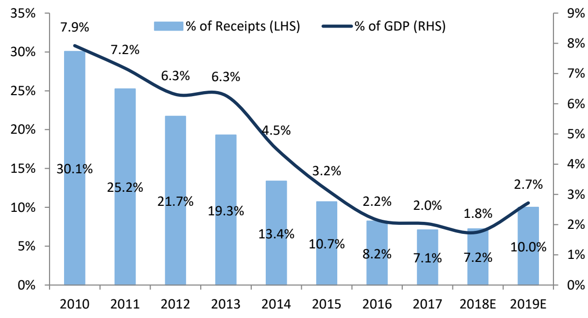
Revenues are estimated to represent 90% of total government receipts (if excluding domestic and external financing) and grants to account for 10% of the total, with the latter expected to see some improvement from the period 2016-18. We note, however, that looking back to 2010, the amount of grants as a percentage of receipts (excluding financing) has gradually decreased from 30.1% of the total in 2010 to the currently expected 10%. It is also clearly evident when looking at this indicator as a percentage of GDP, as grants are seen falling from 7.9% of GDP in 2010 to 2.7% in 2019.

TOTAL REVENUE BREAKDOWN (2019E)



Sources: Ministry of Finance and Eaglestone Securities.

EVOLUTION OF GRANTS (2010-19E)



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

Moreover, total expenditures are once again anticipated to advance at a double-digits growth rate in 2019, mainly reflecting another strong increase in capital spending (25.7% YoY) that is forecasted to represent 10% of GDP. On the other hand, current expenditures are expected to rise by a more moderate pace of 6.8% YoY, as a double-digit drop in current transfers more than offsets the impact from higher salaries and a sharp recovery in subsidies. We also note that spending for debt payments is expected to continue to increase (after an already strong increase in 2018), as this reflects the surge in debt levels in recent years. Overall, current expenditures are estimated to represent 19.3% of GDP, slightly higher than the 18.6% in the 2018 budget.

Expenditures are expected to see another strong increase in 2019, mainly boosted by higher capital spending

EXPENDITURES					YoY Change			% of GDP			
Million MZM	2016	2017	2018 Budget	2019 Budget	'17/'16	'18/'17	'19/'18	2016	2017	2018 Budget	2019 Budget
Current Expenditures	142,420	148,725	184,037	196,593	4.4%	23.7%	6.8%	20.7%	18.5%	18.6%	19.3%
Staff Costs	78,175	85,089	92,345	104,625	8.8%	8.5%	13.3%	11.3%	10.6%	9.3%	10.2%
Goods and Services	23,970	22,015	29,901	31,224	-8.2%	35.8%	4.4%	3.5%	2.7%	3.0%	3.1%
Debt Payments	16,309	18,020	33,195	35,000	10.5%	84.2%	5.4%	2.4%	2.2%	3.3%	3.4%
Domestic Interest	7,719	9,055	19,774	24,000	17.3%	118.4%	21.4%	1.1%	1.1%	2.0%	2.4%
Overseas Interest	8,590	8,964	13,421	11,000	4.4%	49.7%	-18.0%	1.2%	1.1%	1.4%	1.1%
Current Transfers	21,509	20,422	26,195	22,971	-5.1%	28.3%	-12.3%	3.1%	2.5%	2.6%	2.2%
Subsidies	2,011	2,050	736	1,101	1.9%	-64.1%	49.7%	0.3%	0.3%	0.1%	0.1%
Other	446	1,130	1,666	1,672	153.0%	47.5%	0.3%	0.1%	0.1%	0.2%	0.2%
Capital Expenditures	60,645	57,137	81,404	102,320	-5.8%	42.5%	25.7%	8.8%	7.1%	8.2%	10.0%
Domstically Financed	23,784	23,074	33,695	40,018	-3.0%	46.0%	18.8%	3.5%	2.9%	3.4%	3.9%
Externally Financed	36,862	34,063	47,710	62,302	-7.6%	40.1%	30.6%	5.3%	4.2%	4.8%	6.1%
Grants	14,843	16,302	17,373	27,741	9.8%	6.6%	59.7%	2.2%	2.0%	1.8%	2.7%
Loans	23,021	17,761	30,337	34,562	-22.8%	70.8%	13.9%	3.3%	2.2%	3.1%	3.4%
Net Lending	29,270	44,653	37,487	41,502	52.6%	-16.0%	10.7%	4.2%	5.6%	3.8%	4.1%
Total Expenditures	**232,335**	**250,514**	**302,928**	**340,415**	**7.8%**	**20.9%**	**12.4%**	**33.7%**	**31.1%**	**30.5%**	**33.3%**

Sources: Ministry of Finance and Eaglestone Securities.

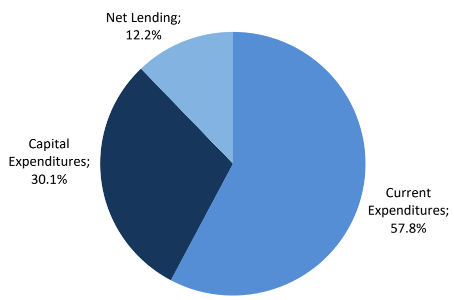
In terms of capital expenditures, the government plans to use part of the proceeds (MZM 5,274 million) from the Eni/Exxon Mobil transaction to finance projects related to the maintenance of the N1 road and to accelerate the construction of infrastructures related to water and sanitation as well as healthcare. The total projected amount of capital expenditures also includes MZM 6,500 million for the country's general elections scheduled to take place in 2019.

The government plans to use part of the proceeds from the capital gains in the Eni/Exxon Mobil deal to finance several projects

Overall, current expenditures are expected to account for 57.8% of the total spending, capital expenditures 30.1% and net lending 12.2%. In terms of the breakdown of current expenditures, we note that staff costs are still expected to account for more than half of this type of spending followed by spending on debt payments (17.8%) and on goods and services (15.9%).

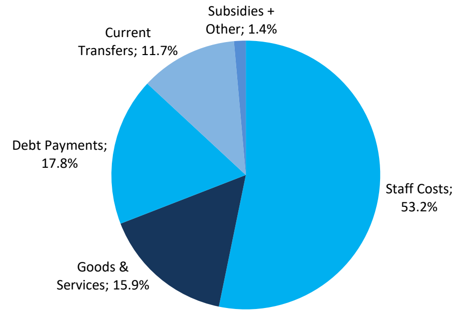
Current expenditures are expected to account for 57.8% of total spending next year

TOTAL EXPENDITURES BREAKDOWN (2019E)



Sources: Ministry of Finance and Eaglestone Securities.

CURRENT EXPENDITURES BREAKDOWN (2019E)



Sources: Ministry of Finance and Eaglestone Securities.

New admissions into the public sector are expected to reach 12,128 employees in 2019 (vs. 9,913 in 2018)

We note that the local authorities plan to admit 12,128 new employees into the public sector in 2019, with this having an estimated impact on the budget of MZM 1.5 billion. This compares with new admissions of 9,913 this year and 12,915 in 2017. As detailed below, the government will continue to prioritize admissions to the education and healthcare sectors, as they account for 70% of the total admissions expected next year. The local authorities also plan to guarantee the mobility of public sector employees in order to contain the increase in public sector wages.

ADMISSIONS	Number of Employees			Budget Impact (MZM Million)		
	2017	2018 Budget	2019 Budget	2017	2018 Budget	2019 Budget
Education	8,306	5,213	6,413	1,075	599	736
Healthcare	2,019	2,019	2,126	356	356	417
Agriculture	390	305	399	94	74	125
Other Sectors	2,200	2,376	3,190	273	216	222
Total	**12,915**	**9,913**	**12,128**	**1,798**	**1,245**	**1,500**

Source: Ministry of Finance.

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

In terms of spending by sector, the government is expected to continue to prioritize spending on education, infrastructures and healthcare in 2019. However, we note the strong increase in the amount of spending expected to be allocated to the agricultural sector (16.7% of the total vs. 9% in the 2018 budget). All in all, total spending by sector is expected to account for 66.1% of total expenditures if excluding debt payments and net lending, up from 63.5% in 2018.

EXPENDITURES BY SECTOR					YoY Chg			% Expenditures by Sector			
Million MZM	2016	2017	2018 Budget	2019 Budget	'17/'16	'18/'17	'19/'18	2016	2017	2018 Budget	2019 Budget
Education	46,901	51,504	52,630	56,658	9.8%	2.2%	7.7%	44.6%	48.4%	35.7%	32.5%
Healthcare	20,413	18,900	26,606	27,980	-7.4%	40.8%	5.2%	19.4%	17.7%	18.0%	16.0%
Infrastructures	20,048	14,472	40,906	39,247	-27.8%	182.7%	-4.1%	19.1%	13.6%	27.7%	22.5%
Roads	10,777	8,064	30,724	16,542	-25.2%	281.0%	-46.2%	10.3%	7.6%	20.8%	9.5%
Water and Public Works	7,739	5,039	7,129	19,115	-34.9%	41.5%	168.1%	7.4%	4.7%	4.8%	11.0%
Mineral Resources & Energy	1,531	1,370	3,053	3,590	-10.5%	122.9%	17.6%	1.5%	1.3%	2.1%	2.1%
Agriculture	8,853	10,628	13,233	29,130	20.0%	24.5%	120.1%	8.4%	10.0%	9.0%	16.7%
Judicial System	4,084	4,325	3,643	4,332	5.9%	-15.8%	18.9%	3.9%	4.1%	2.5%	2.5%
Social Work & Employment	4,784	4,973	6,764	7,666	4.0%	36.0%	13.3%	4.6%	4.7%	4.6%	4.4%
Transports & Communication	n.a.	1,702	3,762	9,457	n.a.	121.0%	151.4%	n.a.	1.6%	2.5%	5.4%
Total Expenditures by Sector	**105,082**	**106,505**	**147,543**	**174,470**	**1.4%**	**38.5%**	**18.3%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
% of Total Expenditures (*)	*60.0%*	*59.4%*	*63.5%*	*66.1%*	*-0.7%*	*4.2%*	*2.6%*				
Total Expenditures (*)	**175,048**	**179,432**	**232,246**	**263,913**	**2.5%**	**29.4%**	**13.6%**				

(*) Excluding Interests and Net Lending. Sources: Ministry of Finance and Eaglestone Securities.

The government plans to finance the 2019 budget by continuing to rely mostly on domestic receipts

The local authorities plan to finance the 2019 budget by continuing to rely mostly on domestic receipts, which are expected to account for 79% of the total (vs. 79.9% in 2018). Specifically, it means that 60.6% is expected to come from tax revenues, 12.7% from other revenues and 5.7% from domestic financing. Recall that the total amount of revenues (MZM 249,502 million) includes capital gains of MZM 5,275 million secured from the Eni and Exxon Mobil deal in 2017. All in all, domestic receipts are estimated to represent 26.3% of GDP, up from 24.4% of GDP in 2018.

External receipts are expected to account for 21% of the total financing and 7% of GDP. This is higher than the 6.1% of GDP in 2018, with this increase resulting from higher amount of grants expected in the period. Grants are estimated to stand at 2.7% of GDP (vs. 1.8% in 2018) and external financing is expected to remain relatively unchanged at 4.3% of GDP.

External financing is expected to remain rather unchanged at 4.3% of GDP

RECEIPTS & EXPEND.					% of Total				% of GDP			
Million MZM	2016	2017	2018 Budget	2019 Budget	2016	2017	2018 Budget	2019 Budget	2016	2017	2018 Budget	2019 Budget
Receipts:												
Domestic Receipts	**174,665**	**234,422**	**242,064**	**268,949**	**77.1%**	**79.7%**	**79.9%**	**79.0%**	**25.3%**	**29.1%**	**24.4%**	**26.3%**
Tax Revenues	138,494	170,085	186,797	206,356	61.2%	57.8%	61.7%	60.6%	20.1%	21.1%	18.8%	20.2%
Other Revenues	27,102	43,138	36,063	43,146	12.0%	14.7%	11.9%	12.7%	3.9%	5.4%	3.6%	4.2%
Domestic Financing	9,070	21,200	19,204	19,447	4.0%	7.2%	6.3%	5.7%	1.3%	2.6%	1.9%	1.9%
External Receipts	**51,781**	**59,662**	**60,864**	**71,465**	**22.9%**	**20.3%**	**20.1%**	**21.0%**	**7.5%**	**7.4%**	**6.1%**	**7.0%**
Grants	14,843	16,302	17,373	27,741	6.6%	5.5%	5.7%	8.1%	2.2%	2.0%	1.8%	2.7%
External Financing	36,938	43,360	43,492	43,725	16.3%	14.7%	14.4%	12.8%	5.4%	5.4%	4.4%	4.3%
Total Receipts (1)	**226,446**	**294,084**	**302,928**	**340,415**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**32.9%**	**36.6%**	**30.5%**	**33.3%**
Expenditures:												
Current Expenditures	**142,420**	**147,969**	**184,037**	**184,037**	**61.3%**	**59.2%**	**60.8%**	**56.1%**	**20.7%**	**18.4%**	**18.6%**	**18.0%**
Capital Expenditures	**60,645**	**57,137**	**81,404**	**102,320**	**26.1%**	**22.9%**	**26.9%**	**31.2%**	**8.8%**	**7.1%**	**8.2%**	**10.0%**
Domestic	23,784	23,074	33,695	40,018	10.2%	9.2%	11.1%	12.2%	3.5%	2.9%	3.4%	3.9%
External	36,862	34,063	47,710	62,302	15.9%	13.6%	15.7%	19.0%	5.3%	4.2%	4.8%	6.1%
Net Lending	**29,270**	**44,653**	**37,487**	**41,502**	**12.6%**	**17.9%**	**12.4%**	**12.7%**	**4.2%**	**5.6%**	**3.8%**	**4.1%**
Total Expenditures (2)	**232,335**	**249,758**	**302,928**	**327,859**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**33.7%**	**31.0%**	**30.5%**	**32.1%**
Difference ((1) - (2))	*-5,889*	*44,326*	*0*	*12,556*					*-0.9%*	*5.5%*	*0.0%*	*1.2%*
TOTAL	**226,446**	**294,084**	**302,928**	**340,415**	**97.5%**	**117.7%**	**100.0%**	**103.8%**	**32.9%**	**36.6%**	**30.5%**	**33.3%**

Sources: Ministry of Finance and Eaglestone Securities.

Mozambique's public debt levels have soared in recent years, particularly its external debt. The latest figures disclosed by the Ministry of Finance show that external debt levels reached an estimated US$ 9.5 billion in 2017. This figure is more than 2.5 times the level recorded at the end of 2010.

Public debt levels soared in recent years, particularly external debt

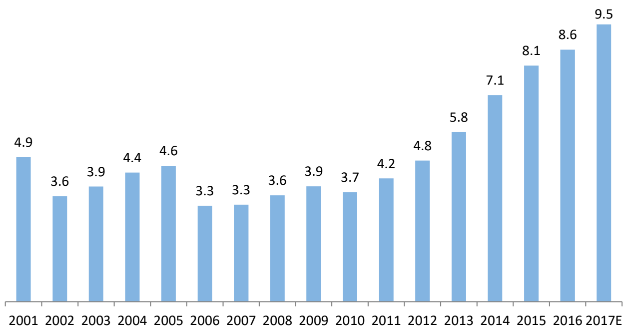
Most of the debt is external debt, which means there is significant risk to currency fluctuations. However, domestic debt levels have also recently increased, adding further pressure to the debt sustainability of the country. Indeed, rising domestic debt levels are a concern due to the high cost of domestic credit and the potential for the public sector financing to crowd out the private sector's access to credit.

Rising domestic debt levels are also a concern due to their high cost of credit

Overall, data from the Ministry of Finance and the IMF shows that gross public debt peaked at 121.6% of GDP in 2016 and has fallen slightly to an estimated 112.9% of GDP this year. Still, the IMF's latest forecasts suggest that public debt could return to a level above 120% of GDP by 2020 and could remain elevated beyond that period. As a result, it remains more imperative for the local authorities to implement major adjustments to the country's fiscal accounts in order to bring debt levels to a more sustainable trajectory.

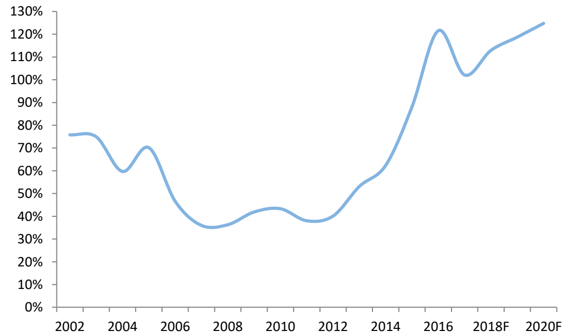
Debt levels are expected to remain elevated in 2019

EXTERNAL PUBLIC DEBT (US$ BILLION)



Source: Ministry of Finance.

GROSS PUBLIC DEBT (% OF GDP)



Sources: Ministry of Finance and IMF.

ANNEX – ECONOMIC FORECAST SUMMARY

ECONOMIC FORECAST SUMMARY	2011	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Gross Domestic Product										
Real GDP growth	7.1%	7.2%	7.1%	7.4%	6.6%	3.8%	3.7%	3.3%	3.7%	4.0%
Gross Domestic Product (current prices, MZM bn)	382	433	482	532	592	687	804	878	967	1,060
Gross Domestic Product (current prices, US$ bn)	13.1	15.2	16.0	16.9	14.8	10.9	12.6	14.6	15.6	16.6
Population (million)	25.0	25.7	26.5	27.2	28.0	28.8	29.5	30.3	31.2	32.0
Gross Domestic Product per capita (US$)	525	590	605	620	529	379	426	481	501	519
External Sector										
Exports of Goods (US$ mn)	3,118	3,856	4,123	3,916	3,413	3,328	4,725	5,080	5,308	5,574
Imports of Goods (US$ mn)	5,368	7,903	8,480	7,952	7,577	4,733	5,223	6,007	6,652	7,151
Trade Balance of Goods (% of GDP)	-17.1%	-26.5%	-27.2%	-23.5%	-27.8%	-12.8%	-3.7%	-6.3%	-8.6%	-9.5%
Current Account Balance (% of GDP)	-25.8%	-44.7%	-39.1%	-34.4%	-40.3%	-35.3%	-20.5%	-18.2%	-44.8%	-64.3%
Consumer Price Inflation										
Consumer Prices (period average)	11.2%	2.6%	4.3%	2.6%	3.6%	19.9%	15.1%	4.0%	5.5%	5.0%
Consumer Prices (end of period)	6.1%	2.0%	3.5%	1.9%	10.6%	23.7%	5.7%	4.4%	5.5%	5.0%
Government Accounts (% of GDP)										
Total Revenues	21.2%	22.7%	26.2%	29.2%	26.3%	24.0%	26.5%	22.5%	24.4%	23.5%
Grants	7.2%	6.3%	6.3%	4.5%	3.2%	2.2%	2.0%	1.8%	2.7%	2.5%
Total Expenditures	33.5%	33.5%	37.8%	42.5%	33.9%	33.7%	31.1%	30.5%	33.3%	30.5%
Interests	0.9%	1.0%	0.8%	1.0%	1.3%	2.4%	2.2%	3.3%	3.4%	3.9%
Primary Balance	-4.2%	-3.5%	-4.5%	-7.7%	-3.1%	-5.2%	-0.4%	-3.0%	-2.8%	-0.6%
Budget Balance (after Grants)	-5.1%	-4.5%	-5.3%	-8.7%	-4.4%	-7.5%	-2.6%	-6.3%	-6.2%	-4.5%
Foreign Investment and Reserves (US$ mn)										
Net Foreign Direct Investment	3,559	5,629	6,175	4,902	4,034	3,093	2,293	1,537	2,150	2,760
Net Foreign Direct Investment (ex-megaprojects)	1,366	1,552	1,472	2,306	2,594	1,771	1,381	730	1,129	1,587
Net International Reserves	2,240	2,605	2,996	2,882	2,196	1,727	3,062	2,850	2,993	3,142
International Reserves (in months of imports)	4.7	3.0	3.4	3.4	2.7	2.9	4.9	4.1	4.0	3.9
Exchange Rate (US$/MZM)										
Exchange Rate (period average)	29.1	28.4	30.1	31.2	39.5	62.9	63.3	60.2	61.9	63.9
Exchange Rate (end of period)	27.1	29.5	30.0	31.6	45.0	71.4	58.6	60.2	61.9	63.9

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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