



## The Mozambican Economy

### Trying to Return to More Solid Ground

#### Research

October 2020

#### **Economic activity expected to improve in 2021**

The 2021 budget proposal recently announced by the government assumes that real GDP growth will improve to 2.1% next year as the economic sectors currently being more affected by the Covid-19 pandemic are anticipated to see a rebound in growth. This forecast compares with a downwardly revised 0.8% growth projection for 2020 (the worst on record in many years) after economic activity contracted 0.8% in H1 from a year earlier. That said, the government admits downside risks to this forecast, namely related to a possible prolonged impact from the pandemic and the recent instability in the central part of the country and Cabo Delgado region delaying the execution of LNG projects. The budget proposal also assumes that inflation will remain in single-digits, despite the risk of some volatility in the exchange rate of the metical against the currencies of the country's main trading partners and higher oil prices in international markets. This low inflation rate environment should allow the central bank to keep monetary policy accommodative to support economic growth.

#### **Economics**

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#### **Better manage public accounts and reduce public debt**

The government remains focused on implementing measures that will help to increase and diversify domestic revenue sources and on the rationalization of public spending considering the limited available receipts and a new reality imposed by Covid-19. Still, the authorities will continue to prioritize investments in key areas (education, healthcare, agriculture and infrastructures) and focus on generating employment to ensure the well-being of the population. Another key priority is the management of public debt, including the creation of mechanisms to better manage SOEs. The aim is to gradually reduce public debt to more sustainable levels over the medium-term.

#### **Budget deficit to decline after surging in 2020**

The 2021 budget proposal foresees a recovery in public revenues and a slight decline in expenditures when compared with the 2020 revised budget forecasts. This reflects the favorable contribution of an expected improvement in economic growth together with a correction in spending levels following their strong increase this year aimed at mitigating the impact of Covid-19. Grants are also anticipated to fall by double-digits, as direct budget support returns to more normalized levels. This means the government projects a budget deficit (after grants) corresponding to 6.1% of GDP. It compares with a revised estimate of -13.5% this year and a reported -2.7% in 2019.

#### **Debt service relief to continue (possibly beyond 2021)**

Mozambique asked foreign creditors for debt service relief in order to allocate much-needed funds to several areas of the economy more affected by Covid-19. This relief did not include the Eurobonds in the so-called "hidden debt" case, as negotiations with private creditors for the restructuring of this debt allegedly took two years and the government wants to avoid further instability. Mozambique also asked China for relief on interest payments on its debt (amounting to US\$ 1.3 billion) and, according to the government, is awaiting a response. Meanwhile, the IMF announced earlier this month a second six-month tranche of debt service relief for 28 countries, including Mozambique. This means that debt service relief will last until April 2021 and could even be extended for an additional year (April 2022). These are positive news, as the latest figures provided by the government suggest that the first tranche of debt service relief (April through October 2020) provided savings corresponding to nearly 1% of GDP this year.

## MACROECONOMIC ASSUMPTIONS

The Mozambican government's 2021 budget proposal incorporates a real GDP growth forecast of 2.1%. This compares with a recently revised growth projection of 0.8% for this year from an initial forecast of 2.2%. This revision is due to the negative impact of Covid-19 on economic activity, especially during Q2 2020, and the instability in the central and northern parts of the country. Indeed, according to the latest data released by the National Statistics Institute (INE), real GDP fell by 0.8% during H1 2020 from the previous year with sectors such as hotels and restaurants, extractive industry, commerce, manufacturing and transports and communications being the ones more affected by the pandemic.

The real GDP growth projection for 2021 reflects a recovery in most sectors of the economy. In particular, the sectors that were more affected by the pandemic are expected to see a rebound in growth after contracting this year. That said, the government admits that the current economic backdrop presents some uncertainties namely those related to Covid-19 and the aforementioned insecurity concerns, suggesting that there are downside risks to its growth forecast.

The government anticipates that agriculture, which remains by far the largest sector of the local economy (representing more than 20% of GDP), will see growth improve to 4% from 3% this year. Activity in the other key sectors like commerce, manufacturing and mining is expected to rebound next year as well, as detailed below.

*The government's budget proposal for 2021 includes a real GDP growth forecast of 2.1%*

*Next year is expected to see a recovery in most sectors of the local economy*

*Activity in the agriculture sector is expected to improve in 2021*

GROWTH FORECASTS	2017	2018	2019	2020 (1)	2020 (2)	2021 (1)
Agriculture	4.0%	3.1%	1.1%	1.8%	3.0%	4.0%
Fishing	3.9%	2.1%	2.3%	1.0%	1.0%	1.5%
Extractive Industries	32.1%	10.7%	-3.7%	1.5%	-5.2%	1.5%
Manufacturing	2.6%	1.7%	1.4%	1.0%	0.7%	1.6%
Electricity and Gas	-3.5%	-2.8%	-1.1%	1.5%	2.5%	3.7%
Construction	-3.2%	-1.0%	2.2%	3.0%	2.3%	3.0%
Wholesale and Retail	-2.4%	1.1%	0.0%	0.5%	0.5%	1.6%
Hotels and Restaurants	-0.7%	3.8%	1.0%	0.0%	-9.6%	1.0%
Transports, Storage and Info. & Comunic	4.6%	5.1%	4.2%	2.0%	0.5%	2.5%
Financial and Insurance Activities	4.1%	5.8%	4.0%	2.0%	0.8%	1.3%
Public Admin., Defense and Social Sec.	2.1%	1.7%	4.1%	2.0%	-1.0%	1.3%
Education	1.5%	0.8%	0.9%	0.8%	-1.0%	1.2%
Health and Social Act.	3.1%	4.7%	4.1%	2.0%	4.5%	5.0%
<b>Total Real GDP</b>	<b>3.7%</b>	<b>3.4%</b>	<b>2.3%</b>	<b>2.2%</b>	<b>0.8%</b>	<b>2.1%</b>

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

The budget proposal also assumes that the average inflation rate for 2021 will remain in single-digits, despite a slight increase to 5% from 4% this year. This increase is mostly due to (1) the impact of the depreciation of the metical, (2) the upward revision in oil prices in international markets and (3) the inflation rate recorded in July 2020, which stood slightly above the initial estimates.

*Inflation is expected to increase slightly in 2021, but remain well within single-digits*

Regarding the foreign exchange market, the government stated that the central bank will adopt measures that will ensure an adequate level of gross international reserves to cover at least six months of imports of goods and services (excluding imports for the megaprojects) as well as prevent the excessive volatility in the exchange rate of the metical against the currencies of the country's main trading partners. The budget proposal assumes an US\$/MZM average exchange rate of 69.0, which is unchanged from this year's forecast.

*The budget proposal assumes that the average exchange rate of the metical against the dollar will remain unchanged*

MACRO ASSUMPTIONS	2018	2019	2020 (1)	2020 (2)	2021 (1)
Nominal GDP (MZM million)	887,806	956,786	1,018,955	892,958	1,133,867
Real GDP Growth	3.4%	2.3%	2.2%	0.8%	2.1%
Average Annual Inflation	3.5%	2.8%	6.6%	4.0%	5.0%
Average Exchange Rate (US\$/MZM)	60.3	62.6	66.6	69.0	69.0
Int. Reserves (months of imports)	6.3	7.0	5.8	6.4	6.8
Exports (US\$ million)	5,197	4,718	4,410	3,677	3,769
Imports (US\$ million)	6,169	6,799	7,166	5,896	6,920
Current Account Balance (US\$ million)	-4,499	-3,025	-3,764	-3,029	-4,381
Current Account Balance (% of GDP)	-30.6%	-20.2%	-24.6%	-23.4%	-26.7%
Foreign Direct Investment (US\$ million)	2,692	2,212	2,264	1,469	1,909
Primary Balance (% of GDP)	0.7%	3.6%	1.4%	-4.4%	1.0%

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

The government is anticipating a deterioration in the country's external accounts, namely in the trade deficit. This is due to the expected increase in imports related to megaprojects, but also in overall import levels as economic activity improves in 2021. Overall, it means that the current account deficit is projected to widen to 26.7% of GDP from 23.4% this year. Moreover, net foreign direct investment is only expected to recover to US\$ 1,909 million, corresponding to an increase of almost US\$ 441 million from this year's projection. However, this increase remains rather modest (30%) and continues to reflect, among other things, the concerns about making a final investment decision in gas exploration projects in the Rovuma Basin.

*The country's external accounts are expected to deteriorate while foreign direct investment is only likely to show a modest recovery*

## PUBLIC ACCOUNTS

### EXECUTION OF 2020 BUDGET

The latest figures disclosed by the Ministry of Finance showed that total receipts collected in H1 2020 amounted to MZM 174,492 million, representing 50.5% of the budgeted target for the full-year and an increase of 23.8% YoY. This amount is split between MZM 139,661 million in domestic receipts and MZM 34,832 million in external receipts, which corresponds to 50.2% and 52.0% of the targeted figure for 2020, respectively.

*Total receipts collected in 1H 2020 amounted to 50.2% of the full-year target*

The sharp increase in external receipts (80.0% YoY) is mostly due to the support from the country's partners in combating, preventing and mitigating the socioeconomic impact of the Covid-19 pandemic. In terms of revenues collected, they amounted to 46.8% of the full-year projection and increased 5.4% YoY, despite the expectation that they would be affected by the impact of the pandemic. This reflected (1) a favorable contribution from income taxes (+13.1% YoY) that resulted from a positive performance from SOEs and the hiring of new labor for gas projects in the Rovuma Basin and (2) a better than expected evolution from taxes on goods and services, which fell by just 3.6% YoY after being impacted by the reduction in international trade due to the export restrictions related to the pandemic.

*As expected, the pandemic had an impact on receipts collected*

Total expenditures amounted to MZM 141,873 million, corresponding to 41.1% of the annual target and an increase of 6.5% YoY. Net lending recorded the highest execution rate in the period (49.4%) after increasing 45.9% YoY, while current expenditures reached 45.0% of the target (rising 8.9% YoY). Capital expenditures fell by nearly 30% YoY (execution rate of only 23.0%) as a result of the late approval of this year's budget, which impacted the execution of investment projects.

*Total expenditures stood at only 41.1% of the annual target for 2020 after being impacted by the delay in the execution of investment projects*

BUDGET EXECUTION	2019			2020			2020 vs. 2019		
Million MZM	Budget	Execution Jan-Jun	Execution Rate	Budget	Execution Jan-Jun	Execution Rate	Budget	Execution Jan-Jun	Execution Rate
Domestic Receipts	268,949	121,546	45.2%	278,375	139,661	50.2%	3.5%	14.9%	5.0%
Revenues	244,227	104,607	42.8%	235,590	110,206	46.8%	-3.5%	5.4%	3.9%
Capital Gains	5,275	5,275	100.0%	14,274	14,274	100.0%	170.6%	170.6%	0.0%
Domestic Financing	19,447	11,664	60.0%	28,510	15,180	53.2%	46.6%	30.1%	-6.7%
External Receipts	71,465	19,351	27.1%	67,007	34,832	52.0%	-6.2%	80.0%	24.9%
Grants	27,741	4,848	17.5%	31,034	4,186	13.5%	11.9%	-13.7%	-4.0%
External Financing	43,725	14,503	33.2%	35,973	30,646	85.2%	-17.7%	111.3%	52.0%
<b>Total Receipts (1)</b>	<b>340,415</b>	<b>140,897</b>	<b>41.4%</b>	<b>345,382</b>	<b>174,492</b>	<b>50.5%</b>	<b>1.5%</b>	<b>23.8%</b>	<b>9.1%</b>
Current Expenditures	196,593	94,344	48.0%	228,349	102,780	45.0%	16.2%	8.9%	-3.0%
Capital Expenditures	102,320	23,328	22.8%	70,992	16,342	23.0%	-30.6%	-29.9%	0.2%
Domestic	40,018	13,395	33.5%	29,585	9,993	33.8%	-26.1%	-25.4%	0.3%
External	62,302	9,932	15.9%	41,407	6,349	15.3%	-33.5%	-36.1%	-0.6%
Net Lending	41,502	15,596	37.6%	46,041	22,752	49.4%	10.9%	45.9%	11.8%
Assets	9,490	2,179	23.0%	4,810	4,422	91.9%	-49.3%	102.9%	69.0%
Liabilities	32,012	13,417	41.9%	41,231	18,330	44.5%	28.8%	36.6%	2.5%
<b>Total Expenditures (2)</b>	<b>340,415</b>	<b>133,268</b>	<b>39.1%</b>	<b>345,382</b>	<b>141,873</b>	<b>41.1%</b>	<b>1.5%</b>	<b>6.5%</b>	<b>1.9%</b>
Difference (1) - (2)	0	7,630		0	32,619			327.5%	

Source: Ministry of Finance.

### REVISED BUDGET FOR 2020

The Mozambican government revised its 2020 budget to take into consideration the impact that the slower economic growth now projected for this year (0.8% vs. an initial estimate of 2.2%) will have on public accounts, namely in terms of receipts. The revised budget also reflects the

*The 2020 revised budget reflects the impact of slower economic growth on public receipts and higher*

need to raise the level of public expenditures in order to mitigate the impact from the Covid-19 pandemic on the local economy.

As detailed below, the newly revised budget incorporates a projection for total revenues that is 9.1% below the initial budget forecast. This revision comes from the impact that the expected deceleration in economic activity, together with the customs and fiscal measures adopted to combat the impact of Covid-19, will have on public receipts. The government also anticipates that the amount of grants this year will stand significantly above the initial estimates (26.5%).

In terms of expenditures, we note that current expenditures, which represent more than 60% of total spending, are not expected to be materially different than the initial projection. However, the mix will be different than previously thought. The government now expects to spend more on goods and services (+16.5%) in order to meet the greater needs in sectors like education and healthcare as well as current transfers (9.8%) for social protection programs aimed at tackling the impact from the pandemic. On the other hand, debt payments are anticipated to stand 23.2% below the initial estimate, reflecting the relief on public debt service provided by the IMF to 28 low-income countries, including Mozambique. We note that the IMF has recently announced that it was extending for another six months this debt service relief until mid-April 2021.

The government expects higher capital expenditures (27.6%) to strengthen certain sectors of the economy. These include education, water, energy, agriculture, roads, transports and defense and security forces. Net lending is also anticipated to stand 14% above the initial amount, as the government increases the support to SOEs and tries to move forward with debt payments to suppliers. This means that the new budget foresees total expenditures standing 8.3% above the initial projection for the year.

Overall, the budget deficit (after grants) is now expected to stand at 13.5% of GDP in 2020, which is well above the 7.7% previously anticipated. It is also significantly above the deficit of 2.7% of GDP reported in 2019.

*spending to mitigate the impact of Covid-19*

*Total revenues are now projected to stand 9.1% below the initial forecast for 2020*

*Public expenditures are expected to reflect the efforts to mitigate the impact from the pandemic*

*Capital expenditures are now expected to stand materially above the initial projection for 2020*

*The budget deficit (after grants) is expected to widen to 13.5% of GDP this year*

STATE BUDGET				YoY Change			% of GDP		
Million MZM	2019	2020 (1)	2020 (2)	2020 (1)/ 2019	2020 (2)/ 2019	2020 (2)/ 2020 (1)	2019	2020 (1)	2020 (2)
<b>Total Revenues and Grants</b>	<b>287,894</b>	<b>266,624</b>	<b>253,415</b>	<b>-7.4%</b>	<b>-12.0%</b>	<b>-5.0%</b>	<b>30.1%</b>	<b>26.2%</b>	<b>28.4%</b>
Total Revenues	276,788	235,590	214,142	-14.9%	-22.6%	-9.1%	28.9%	23.1%	24.0%
Grants	11,106	31,034	39,273	179.4%	253.6%	26.5%	1.2%	3.0%	4.4%
<b>Total Expenditures</b>	<b>313,819</b>	<b>345,382</b>	<b>374,097</b>	<b>10.1%</b>	<b>19.2%</b>	<b>8.3%</b>	<b>32.8%</b>	<b>33.9%</b>	<b>41.9%</b>
Current Expenditures	195,802	228,349	231,046	16.6%	18.0%	1.2%	20.5%	22.4%	25.9%
Capital Expenditures	72,250	70,992	90,571	-1.7%	25.4%	27.6%	7.6%	7.0%	10.1%
Net Lending	45,768	46,041	52,481	0.6%	14.7%	14.0%	4.8%	4.5%	5.9%
<b>Budget Balance (before Grants)</b>	<b>-37,031</b>	<b>-109,792</b>	<b>-159,955</b>	<b>196.5%</b>	<b>331.9%</b>	<b>45.7%</b>	<b>-3.9%</b>	<b>-10.8%</b>	<b>-17.9%</b>
<b>Budget Balance (after Grants)</b>	<b>-25,925</b>	<b>-78,758</b>	<b>-120,682</b>	<b>203.8%</b>	<b>365.5%</b>	<b>53.2%</b>	<b>-2.7%</b>	<b>-7.7%</b>	<b>-13.5%</b>

(1) Initial Budget; (2) Revised Budget. Source: Ministry of Finance.

## BUDGET PROPOSAL FOR 2021

The Mozambican government stated in the 2021 budget proposal that fiscal policy will remain focused on implementing measures that will help to increase and diversify revenue sources and on the rationalization of public spending considering the limited available receipts and a new reality imposed by the Covid-19 pandemic. Despite the strong need to finance public spending, the government will try to limit the use of non-concessional external financing in order to safeguard the sustainability of public debt levels. The government also said that it will privilege the allocation of resources to key areas of the economy, namely healthcare, education, agriculture and infrastructures.

In terms of the 2021 budget proposal figures, the government foresees (1) total revenues rising 24.0% YoY to MZM 265,596 million (23.4% of GDP), (2) grants falling 13.4% YoY to MZM 34,006 million (3.0% of GDP) and (3) total expenditures declining 1.5% YoY to MZM 368,595 million (32.5% of GDP). These percentage changes are relatively to the 2020 revised budget figures.

Overall, this means that the budget deficit forecast (before grants) stands at 9.1% of GDP,

*Fiscal policy will remain focused on increasing and diversifying revenue sources and rationalizing public spending*

*Total revenues and grants are expected to increase 18.2% YoY and total expenditures to fall 1.5% YoY in 2021*

*The budget deficit (after grants) is projected to*



which compares with 17.9% of GDP projected in the 2020 revised budget. If including grants, the budget deficit is expected to stand at 6.1% of GDP (vs. -13.5% this year). Moreover, the government anticipates that the primary balance, which excludes debt payments, will reach a deficit representing 6.0% of GDP (before grants) and 3.0% of GDP (after grants), as detailed in the table below.

*reach 6.1% of GDP, below the deficit of 13.5% of GDP expected this year*

STATE BUDGET					YoY Change			% of GDP			
Million MZM	2019	2020 (1)	2020 (2)	2021 (1)	2020 (2)/ 2019	2020 (2)/ 2020 (1)	2021 (1)/ 2020 (2)	2019	2020 (1)	2020 (2)	2021 (1)
<b>Total Revenues and Grants</b>	<b>287,894</b>	<b>266,624</b>	<b>253,415</b>	<b>299,602</b>	<b>-12.0%</b>	<b>-5.0%</b>	<b>18.2%</b>	<b>30.1%</b>	<b>26.2%</b>	<b>28.4%</b>	<b>26.4%</b>
Total Revenues	276,788	235,590	214,142	265,596	-22.6%	-9.1%	24.0%	28.9%	23.1%	24.0%	23.4%
Grants	11,106	31,034	39,273	34,006	253.6%	26.5%	-13.4%	1.2%	3.0%	4.4%	3.0%
<b>Total Expenditures</b>	<b>313,819</b>	<b>345,382</b>	<b>374,097</b>	<b>368,595</b>	<b>19.2%</b>	<b>8.3%</b>	<b>-1.5%</b>	<b>32.8%</b>	<b>33.9%</b>	<b>41.9%</b>	<b>32.5%</b>
Current Expenditures	195,802	228,349	231,046	238,291	18.0%	1.2%	3.1%	20.5%	22.4%	25.9%	21.0%
Debt Payments	29,703	37,323	28,675	35,115	-3.5%	-23.2%	22.5%	3.1%	3.7%	3.2%	3.1%
Capital Expenditures	72,250	70,992	90,571	83,782	25.4%	27.6%	-7.5%	7.6%	7.0%	10.1%	7.4%
Net Lending	45,768	46,041	52,481	46,523	14.7%	14.0%	-11.4%	4.8%	4.5%	5.9%	4.1%
<b>Primary Balance (before Grants)</b>	<b>-7,328</b>	<b>-72,469</b>	<b>-131,280</b>	<b>-67,884</b>	<b>1691.6%</b>	<b>81.2%</b>	<b>-48.3%</b>	<b>-0.8%</b>	<b>-7.1%</b>	<b>-14.7%</b>	<b>-6.0%</b>
<b>Primary Balance (after Grants)</b>	<b>3,778</b>	<b>-41,435</b>	<b>-92,007</b>	<b>-33,878</b>	<b>n.m.</b>	<b>122.1%</b>	<b>-63.2%</b>	<b>0.4%</b>	<b>-4.1%</b>	<b>-10.3%</b>	<b>-3.0%</b>
<b>Budget Balance (before Grants)</b>	<b>-37,031</b>	<b>-109,792</b>	<b>-159,955</b>	<b>-102,999</b>	<b>331.9%</b>	<b>45.7%</b>	<b>-35.6%</b>	<b>-3.9%</b>	<b>-10.8%</b>	<b>-17.9%</b>	<b>-9.1%</b>
<b>Budget Balance (after Grants)</b>	<b>-25,925</b>	<b>-78,758</b>	<b>-120,682</b>	<b>-68,993</b>	<b>365.5%</b>	<b>53.2%</b>	<b>-42.8%</b>	<b>-2.7%</b>	<b>-7.7%</b>	<b>-13.5%</b>	<b>-6.1%</b>

(1) Initial Budget; (2) Revised Budget. Source: Ministry of Finance.

The government's revenue projection for 2021 assumes a recovery in total receipts of 24.0% YoY after a projected decline of 22.6% this year. This is based on the assumption that tax revenues, which are anticipated to record a sharp fall of 27.6% YoY this year, will improve by well above 20% both in terms of income tax (coming mostly from individuals) and taxes on goods and services (namely from VAT). Other current revenues, including non-tax income, are expected to continue to record a healthy performance, with the same being said for capital revenues.

*Total receipts are expected to improve in 2021, as current revenues (mostly related to tax proceeds) recover in the period*

REVENUES					YoY Change			% of GDP			
Million MZM	2019	2020 (1)	2020 (2)	2021 (1)	2020 (2)/ 2019	2020 (2)/ 2020 (1)	2021 (1)/ 2020 (2)	2019	2020 (1)	2020 (2)	2021 (1)
Current Revenues	269,199	225,690	204,112	252,775	-24.2%	-9.6%	23.8%	28.1%	22.1%	22.9%	22.3%
Tax Revenues	239,292	193,500	173,239	214,551	-27.6%	-10.5%	23.8%	25.0%	19.0%	19.4%	18.9%
Income Tax	144,234	96,801	84,908	104,866	-41.1%	-12.3%	23.5%	15.1%	9.5%	9.5%	9.2%
Corporate	106,542	62,911	48,662	62,498	-54.3%	-22.6%	28.4%	11.1%	6.2%	5.4%	5.5%
Personal	37,321	33,205	35,824	41,498	-4.0%	7.9%	15.8%	3.9%	3.3%	4.0%	3.7%
Other	371	686	422	870	13.7%	-38.5%	106.2%	0.0%	0.1%	0.0%	0.1%
Tax on Goods & Services	88,385	87,012	80,673	100,824	-8.7%	-7.3%	25.0%	9.2%	8.5%	9.0%	8.9%
VAT	64,117	56,786	56,786	68,884	-11.4%	0.0%	21.3%	6.7%	5.6%	6.4%	6.1%
Other	24,268	30,226	23,887	31,940	-1.6%	-21.0%	33.7%	2.5%	3.0%	2.7%	2.8%
Other Tax Revenues	6,673	9,687	7,658	8,861	14.8%	-20.9%	15.7%	0.7%	1.0%	0.9%	0.8%
Other Revenues	29,907	32,190	30,873	38,223	3.2%	-4.1%	23.8%	3.1%	3.2%	3.5%	3.4%
Capital Revenues	7,589	9,900	10,030	12,822	32.2%	1.3%	27.8%	0.8%	1.0%	1.1%	1.1%
<b>Total Revenues</b>	<b>276,788</b>	<b>235,590</b>	<b>214,142</b>	<b>265,596</b>	<b>-22.6%</b>	<b>-9.1%</b>	<b>24.0%</b>	<b>28.9%</b>	<b>23.1%</b>	<b>24.0%</b>	<b>23.4%</b>

(1) Initial Budget; (2) Revised Budget. Source: Ministry of Finance.

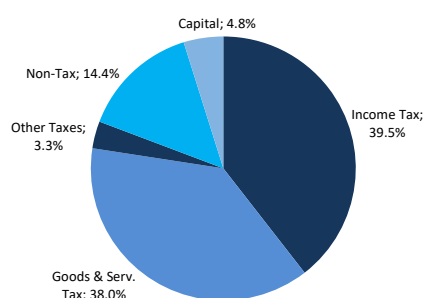
The revenue breakdown shows that receipts from income tax and taxes on goods and services account for most of the total proceeds. In particular, income tax is expected to stand at 39.5% of the total revenues and taxes on goods and services to account for 38.0% of the total in 2021. This compares with 39.7% and 37.7%, respectively, projected in the 2020 revised budget.

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

Revenues are estimated to represent 88.6% of total government receipts (if excluding domestic and external financing) and grants to account for 11.4% of the total, with the latter expected to see some improvement from the period 2016-19. We note, however, that looking back to 2012, the amount of grants as a percentage of receipts (excluding financing) has gradually decreased from 21.7% of the total in 2012 to the currently expected 11.4%. It is also clearly evident when looking at this indicator as a percentage of GDP, as grants are seen falling from 6.3% of GDP in 2012 to 3.0% in 2021 (the same level as this year).

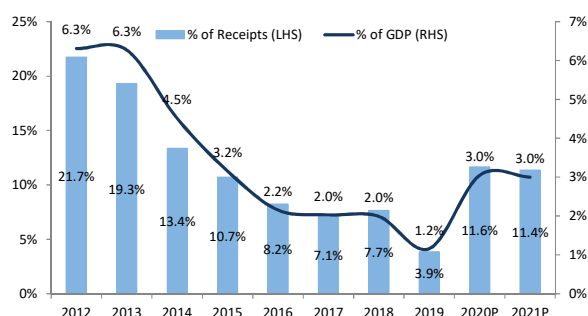
*Grants are expected to account for 11.4% of the total government proceeds in 2021 (vs. 21.7% of the proceeds in 2012)*

## TOTAL REVENUE BREAKDOWN (2021E)



Source: Ministry of Finance.

## EVOLUTION OF GRANTS (2012-21E)

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

Meanwhile, the government is projecting slightly lower expenditures in 2021 when compared with the amount forecasted in this year's revised budget. As shown below, this is due to lower capital expenditures (-7.5%) and net lending (-11.4%) in the period after these are expected to see a sharp increase in 2020. The government said that it will continue to give priority to those projects in economic and social areas, including education, healthcare, infrastructures (roads, water and public works), agriculture and fishing as well as transports and communication.

Current expenditures are anticipated to increase 3.1% YoY, as the need to hire more people for the health, education and agriculture sectors is reflected in higher staff costs (7.9% YoY). The government foresees new admissions of 17,180 employees strictly for these sectors, with an estimated impact of MZM 2,709 million (+49.8% YoY) on the 2021 budget. Debt payments are also expected to see a material increase of 22.5% from the 2020 revised budget figures and represent 3.1% of GDP in the period. Still, we believe this projection may not include the extension of the debt service relief recently announced by the IMF, which would allow for significant savings for the government once again next year.

Transfers and subsidies are expected to return to levels more in line with the ones forecasted in the 2020 initial budget, as the government is likely to reduce the support provided this year to mitigate the impact of the Covid-19 pandemic.

*Capital expenditures and net lending are expected to decline following their strong increase in 2020*

*Debt payments are projected to see a material increase from the 2020 budget forecast*

*The government expects to reduce the support provided in 2020 to mitigate the impact of Covid-19*

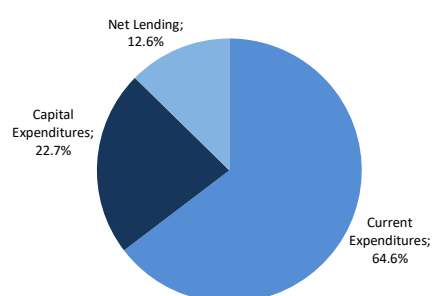
EXPENDITURES					YoY Change			% of GDP			
Million MZM	2019	2020 (1)	2020 (2)	2021 (1)	2020 (2)/ 2019	2020 (2)/ 2020 (1)	2021 (1)/ 2020 (2)	2019	2020 (1)	2020 (2)	2021 (1)
Current Expenditures	195,802	228,349	231,046	238,290	18.0%	1.2%	3.1%	20.5%	22.4%	25.9%	21.0%
Staff Costs	112,837	124,085	124,217	134,089	10.1%	0.1%	7.9%	11.8%	12.2%	13.9%	11.8%
Goods and Services	25,735	34,588	40,308	37,349	56.6%	16.5%	-7.3%	2.7%	3.4%	4.5%	3.3%
Debt Payments	29,703	37,323	28,675	35,115	-3.5%	-23.2%	22.5%	3.1%	3.7%	3.2%	3.1%
Current Transfers	25,620	28,645	31,466	28,579	22.8%	9.8%	-9.2%	2.7%	2.8%	3.5%	2.5%
Subsidies	1,064	1,113	3,765	1,113	254.0%	238.3%	-70.4%	0.1%	0.1%	0.4%	0.1%
Other	844	2,595	2,616	2,046	210.1%	0.8%	-21.8%	0.1%	0.3%	0.3%	0.2%
Capital Expenditures	72,250	70,992	90,571	83,782	25.4%	27.6%	-7.5%	7.6%	7.0%	10.1%	7.4%
Domestically Financed	44,747	29,585	44,969	30,734	0.5%	52.0%	-31.7%	4.7%	2.9%	5.0%	2.7%
Externally Financed	27,503	41,407	45,601	53,048	65.8%	10.1%	16.3%	2.9%	4.1%	5.1%	4.7%
Net Lending	45,768	46,041	52,481	46,523	14.7%	14.0%	-11.4%	4.8%	4.5%	5.9%	4.1%
Assets	13,943	4,810	11,987	3,966	-14.0%	149.2%	-66.9%	1.5%	0.5%	1.3%	0.3%
Liabilities	31,825	41,231	40,494	42,557	27.2%	-1.8%	5.1%	3.3%	4.0%	4.5%	3.8%
<b>Total Expenditures</b>	<b>313,819</b>	<b>345,382</b>	<b>374,097</b>	<b>368,595</b>	<b>19.2%</b>	<b>8.3%</b>	<b>-1.5%</b>	<b>32.8%</b>	<b>33.9%</b>	<b>41.9%</b>	<b>32.5%</b>

(1) Initial Budget; (2) Revised Budget. Source: Ministry of Finance.

Overall, current expenditures are expected to represent 64.6% of the total spending, capital expenditures 22.7% and net lending 12.6%. 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 goods and services (15.7%) and on debt payments (14.7%).

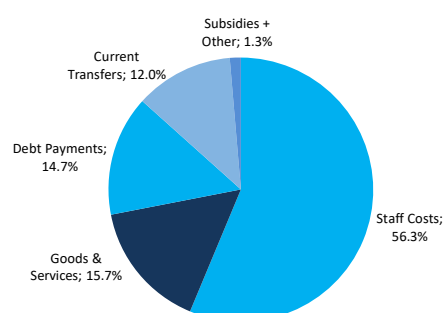
*Current expenditures are expected to represent nearly 65% of total spending*

TOTAL EXPENDITURES BREAKDOWN (2021E)



Source: Ministry of Finance.

CURRENT EXPENDITURES BREAKDOWN (2021E)



Source: Ministry of Finance.

In terms of expenditures by sector, the government will continue to focus on the allocation of funds to priority areas such as education, healthcare and agriculture and rural development. As a result, the local authorities plan to maintain the commitments made internationally to allocate about 20%, 15% and 10% of total expenditures to these sectors, respectively.

*The priority areas for the government remain education, healthcare and agriculture and rural development*

Education will continue to absorb the largest share of public resources, maintaining the share of 23.9% of total expenditures (excluding debt amortization and net lending) that is planned for 2020, while healthcare is expected to receive 14.0% (vs. 12.6% this year). Agriculture and rural development is anticipated to keep roughly 10% of the total expenditures, as detailed below.

*Education will continue to absorb the largest share of public resources*

EXPENDITURES BY SECTOR	2020 Budget			2020 Revised Budget			2021 Budget		
Million MZM	Internal	External	Total	Internal	External	Total	Internal	External	Total
Education	60,627	5,650	66,277	61,188	6,057	67,245	58,243	5,731	63,974
Healthcare	24,664	2,053	26,716	27,537	7,900	35,437	30,615	6,800	37,415
Agriculture and Rural Development	17,738	7,152	24,890	20,254	6,272	26,526	15,882	10,869	26,751
<b>Total Sector Commitments</b>	<b>103,029</b>	<b>14,854</b>	<b>117,883</b>	<b>108,979</b>	<b>20,229</b>	<b>129,208</b>	<b>104,740</b>	<b>23,400</b>	<b>128,140</b>
<b>Total Expenditures (*)</b>	<b>203,011</b>	<b>41,407</b>	<b>244,417</b>	<b>235,422</b>	<b>45,601</b>	<b>281,024</b>	<b>214,739</b>	<b>53,048</b>	<b>267,787</b>
<b>% of Total Expenditures (*)</b>									
Education (20%)	29.9%	13.6%	27.1%	26.0%	13.3%	23.9%	27.1%	10.8%	23.9%
Healthcare (15%)	12.1%	5.0%	10.9%	11.7%	17.3%	12.6%	14.3%	12.8%	14.0%
Agriculture & Rural Development (10%)	8.7%	17.3%	10.2%	8.6%	13.8%	9.4%	7.4%	20.5%	10.0%
<b>Total Sector Commitments</b>	<b>50.8%</b>	<b>35.9%</b>	<b>48.2%</b>	<b>46.3%</b>	<b>44.4%</b>	<b>46.0%</b>	<b>48.8%</b>	<b>44.1%</b>	<b>47.9%</b>

(\*) Excluding Debt Amortization and Net Lending. Source: Ministry of Finance.

The local authorities plan to finance the 2021 budget by continuing to rely mostly on domestic receipts, which are expected to account for 83.8% of the total (vs. 75.9% in the 2020 revised budget). Specifically, it means that 72.1% is expected to come from public receipts and 11.1% from domestic financing, with the remaining 0.7% coming from capital gains retained from previous years (possibly still including capital gains from the Eni and Exxon Mobil deal in 2017). All in all, domestic receipts are estimated to represent 27.3% of GDP, down from 31.8% of GDP projected in the 2020 revised budget.

*The government plans to finance the 2021 budget by continuing to rely mostly on domestic receipts*

External receipts are expected to account for 16.2% of the total financing and 5.3% of GDP. This is significantly less than the 10.1% of GDP projected in 2020 revised budget and reflects the lower level of external financing expected next year. Moreover, grants are anticipated to amount to MZM 34,006 million and reach 3.0% of GDP in the period, again much lower than the 4.4% of GDP projected in the 2020 revised budget, after an abnormally low level recorded in 2018-19 (1-2% of GDP). This includes MZM 3,434 million (0.3% of GDP) in direct support to the 2021 budget. Recall that the government expected to receive MZM 21,038 million (2.1% of GDP) in direct budget support this year through financing from the IMF and the World Bank to assist in combating the impact of Covid-19 on the local economy.

*Grants are expected to represent 3.0% of GDP in 2021, below the 4.4% of GDP projected for this year*

RECEIPTS & EXPEND.					% of Total				% of GDP			
Million MZM	2019	2020 (1)	2020 (2)	2021 (1)	2019	2020 (1)	2020 (2)	2021 (1)	2019	2020 (1)	2020 (2)	2021 (1)
<b>Receipts:</b>												
Domestic Receipts	310,609	278,375	283,786	309,054	86.6%	80.6%	75.9%	83.8%	32.5%	27.3%	31.8%	27.3%
Revenues	276,788	235,590	214,142	265,596	77.2%	68.2%	57.2%	72.1%	28.9%	23.1%	24.0%	23.4%
Other Revenues (*)	5,275	14,274	16,631	2,500	1.5%	4.1%	4.4%	0.7%	0.6%	1.4%	1.9%	0.2%
Domestic Financing	28,546	28,510	53,013	40,958	8.0%	8.3%	14.2%	11.1%	3.0%	2.8%	5.9%	3.6%
External Receipts	47,997	67,007	90,311	59,541	13.4%	19.4%	24.1%	16.2%	5.0%	6.6%	10.1%	5.3%
Grants	11,106	31,034	39,273	34,006	3.1%	9.0%	10.5%	9.2%	1.2%	3.0%	4.4%	3.0%
External Financing	36,891	35,973	51,038	25,536	10.3%	10.4%	13.6%	6.9%	3.9%	3.5%	5.7%	2.3%
<b>Total Receipts</b>	<b>358,606</b>	<b>345,382</b>	<b>374,097</b>	<b>368,595</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>37.5%</b>	<b>33.9%</b>	<b>41.9%</b>	<b>32.5%</b>
<b>Expenditures:</b>												
Current Expenditures	195,802	228,349	231,046	238,291	62.4%	66.1%	61.8%	64.6%	20.5%	22.4%	25.9%	21.0%
Capital Expenditures	72,250	70,992	90,571	83,782	23.0%	20.6%	24.2%	22.7%	7.6%	7.0%	10.1%	7.4%
Domestic	44,747	29,585	44,969	30,734	14.3%	8.6%	12.0%	8.3%	4.7%	2.9%	5.0%	2.7%
External	27,503	41,407	45,601	53,048	8.8%	12.0%	12.2%	14.4%	2.9%	4.1%	5.1%	4.7%
Net Lending	45,768	46,041	52,481	46,523	14.6%	13.3%	14.0%	12.6%	4.8%	4.5%	5.9%	4.1%
Total Expenditures	313,819	345,382	374,097	368,595	100.0%	100.0%	100.0%	100.0%	32.8%	33.9%	41.9%	32.5%
Difference	44,787	0	0	0								
<b>TOTAL</b>	<b>358,606</b>	<b>345,382</b>	<b>374,097</b>	<b>368,595</b>	<b>114.3%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>37.5%</b>	<b>33.9%</b>	<b>41.9%</b>	<b>32.5%</b>

(\*) Capital gains used to finance expenditures. (1) Initial Budget; (2) Revised Budget. Source: Ministry of Finance.



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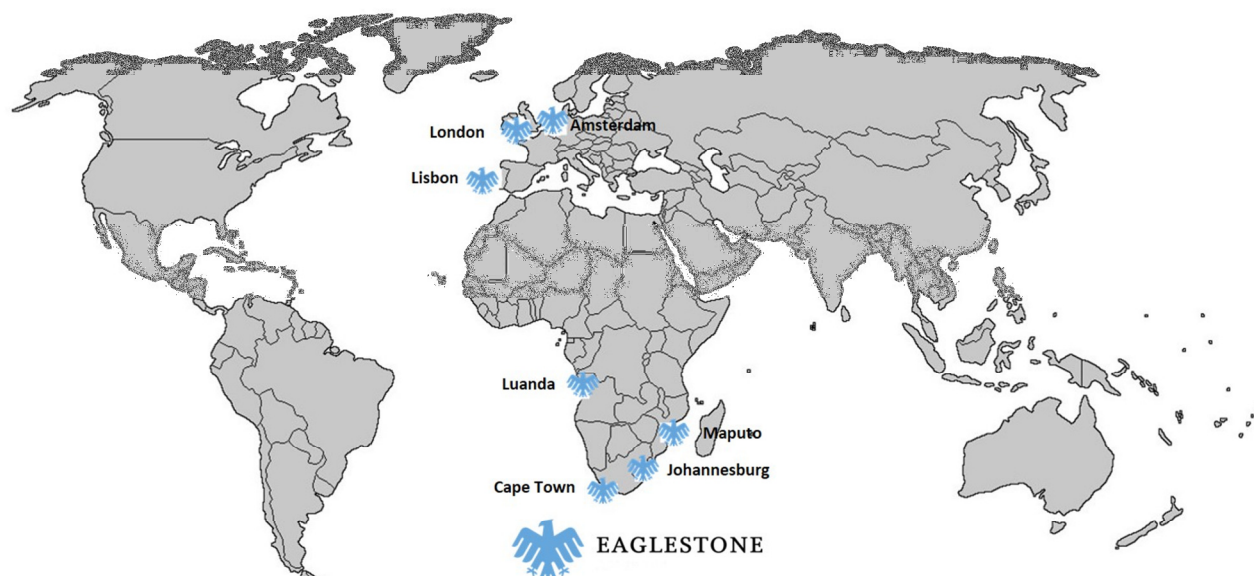
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## Disclosures

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.

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## EAGLESTONE SECURITIES

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