The Mozambican Economy

Lower (growth) for longer

Research
March 2018

Economics
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Stuck in a lower-growth environment

After recording an average growth of 7% during 2006-16, the latest figures showed that Mozambique remained stuck in a lower economic growth environment last year. According to preliminary estimates, real GDP expanded 3.7% in the period, which is slightly less than the 3.8% in 2016. This reduced growth came despite the marked increase in coal and aluminum exports, the country's main tradeable goods, in 2017. However, this was insufficient to offset the impacts of softer demand from both the private and public sectors, reduced investment levels and high cost of credit. Weaker investor sentiment after the hidden debts revelation also hindered economic growth.

Monetary policy easing to support economic growth

Banco de Moçambique's tighter monetary policy measures and the improvement in the country's external position helped to stabilize the exchange rate of the metical, leading inflation levels to fall to 5.65% in 2017 from 23.67% in the previous year. A stronger export performance also allowed the central bank to accumulate significant amounts of foreign exchange reserves, which covered about seven months of imports of goods and services (excluding the mega-projects) at the end of 2017. Currently, there is room for faster monetary easing that could help improve credit conditions for the private sector, particularly to SMEs, and support economic activity.

Fiscal consolidation key to restoring macro stability

The government's budget proposal for 2018 incorporates a 5.3% growth assumption, which we believe is optimistic bearing in mind the country's immediate challenges. These challenges include a stronger response from the local authorities in terms of implementing fiscal consolidation measures to lower deficits and return public debt to a more sustainable trajectory over the medium-term. In particular, the government plans to (1) limit the admission of new employees to the public sector, (2) control staff costs and spending on goods and services, (3) postpone some projects like the rehabilitation and construction of public buildings and (4) manage public debt levels. On the latter, the government recently met debt holders, kicking off what promises to be quite challenging (and likely prolonged) restructuring negotiations judging from the response it received from the majority of these investors. Effective steps on this restructuring remain crucial to restore macroeconomic stability in the country.

Central bank announces new measures

The central bank introduced new capital and liquidity rules after having to intervene in four financial institutions (three of them ceasing to exist) in less than a year. These measures to improve transparency, regulation and supervision aim to ensure greater stability in the local financial system. New foreign exchange control rules were also announced at the end of 2017 that introduce significant changes. These include the end of the obligation to convert 50% of export earnings into meticais (the funds can remain in foreign currency) and certain measures to facilitate the entry of FDI.

Stuck at a crossroad

Mozambique remains at a crossroad and its near term growth perspectives lackluster considering the track-record over the last decade. Although the steps recently taken towards a sustainable peace process and the developments in the LNG sector are clearly positive for economic activity and investment, they are insufficient to reverse the current trend of lower growth that the country has fallen into in recent years.

ECONOMIC ACTIVITY

Mozambique saw sustained high rates of economic growth in the last decade (annual average of 7% during 2006-16) thanks to mineral resource discoveries that have attracted a significant amount of foreign direct investment (FDI). The country also benefited from international donor contributions (averaging 5.3% of GDP annually during 2010-16) and the government's poverty reduction program focused on combating poverty and achieving inclusive economic growth.

Economic activity expanded at an annual average growth rate of 7% during 2006-16

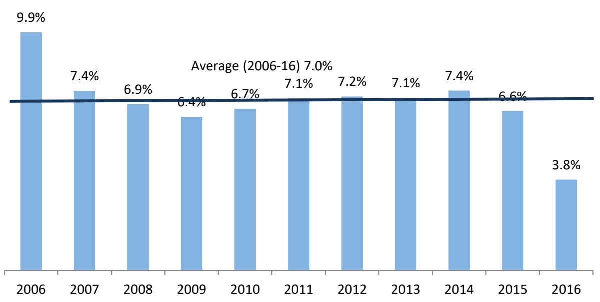
Mining was undoubtedly the fastest-growing sector during this period, expanding at an annual average of nearly 22%. Activity in the financial services, construction and retail sectors also advanced at impressive double-digit growth rates. Agriculture, which is the largest sector of he economy and represents slightly more than a fifth of GDP, recorded a more modest annual increase of about 5%.

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

Economic activity slowed considerably in 2015-16 chiefly as a result of the sharp decline in commodity prices, namely aluminum and coal (the country's two main exports) and lower FDI. Investor sentiment also deteriorated after the revelation in April 2016 of previously undisclosed public borrowing amounting to nearly US$ 2 billion (about 17.5% of GDP) that lead to donor aid freezes. Real GDP growth decelerated to 3.8% in 2016 (from 6.6% in the previous year), but still remained well above the average of 1.3% in Sub-Saharan Africa. This was the region's worst performance in more than two decades.

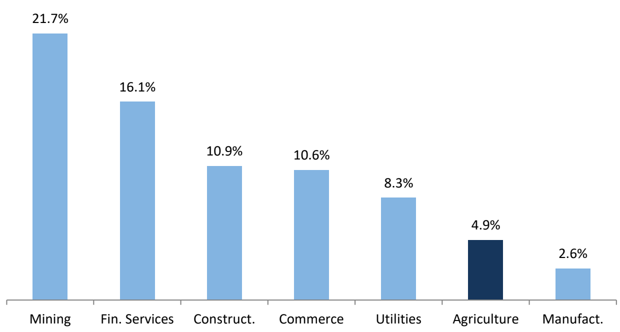
Activity slowed markedly in 2015-16 while investor sentiment deteriorated after the revelation of previously undisclosed public debt

REAL GDP GROWTH (2006-16)



Sources: INE and Eaglestone Securities.

REAL GDP GROWTH BY SECTOR (CAGR 2006-16)

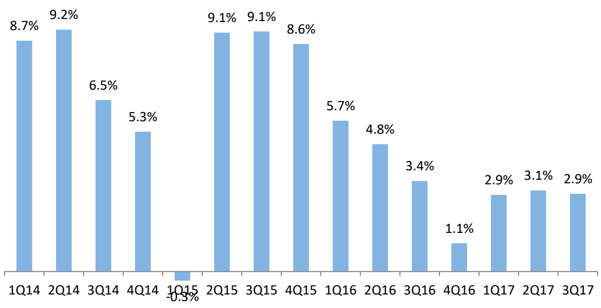


Sources: INE and Eaglestone Securities.

The latest data released by the National Statistics Institute (INE) showed that growth in the first three quarters of 2017 improved when compared with the last three months of the previous year. Real GDP growth stood at 2.9% YoY in 3Q 2017, a slight decline from the 3.1% YoY recorded in the previous quarter, but in line with the figure recorded in 1Q 2017. It was also better than the 1.1% YoY in 4Q 2016. Still, these growth rates are significantly less than the ones registered not too long ago, namely during 2014 and in the last three quarters of 2015. Total growth in 3Q 2017 was mostly supported by the expansion of 22.8% YoY in fishing and 19.4% YoY in the extractive industry. This more than offset the declines in the utilities (-4.7%), financial services (-3.8%), construction (-3.1%) and manufacturing (-1%) sectors.

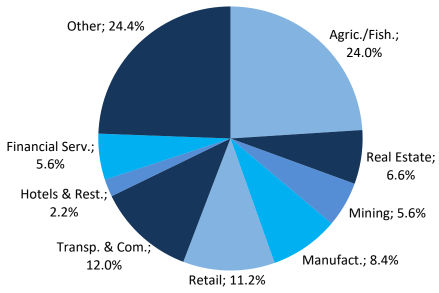
Real GDP growth improved in the first three quarters of this year when compared with the last three months of 2016

REAL GDP GROWTH (YOY; 1Q14 – 3Q17)



Sources: INE and Eaglestone Securities.

GDP STRUCTURE (9M 2017)



Sources: INE and Eaglestone Securities.

Overall, real GDP advanced 3% YoY on an accumulated basis in the first three quarters of the year. The growth recorded in the period reflects the surge in activity in the extractive industry (37.5%), but also improvements in the financial services (4.6%) and retail (3.4%) sectors. The utilities and construction sectors saw double-digit declines (-12.1% and -11.4%, respectively) while activity in the manufacturing sector fell 5.2%. Agriculture and fishing continued to have the largest contribution to GDP (24% of the total) followed by transport and communication (12%) as well as retail (11.2%).

Growth has been mainly supported by a surge in activity in the extractive industry, but also in financial services and retail

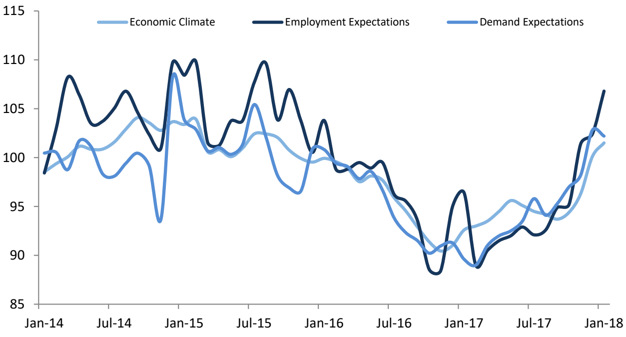
Meanwhile, the economic climate indicator released by INE saw another improvement to 101.5 in January (vs. 100.1 in the previous month). This was the fourth monthly increase and came on the back of a better evolution in the employment expectations, current employment and price expectations components, which more than offset a slight monthly correction in demand expectations. The improvement in the economic climate indicator was witnessed in the hotels and restaurants, industrial production, retail and other services sectors.

The economic climate indicator recorded another monthly improvement in January

The employment expectations component continued its upward trend for the sixth consecutive month, reaching its highest level since October 2015, with this taking place across all sectors except construction. The correction in the demand expectations component was due to a sharp fall in demand outlook in industrial production, as all other sectors rose from the prior month.

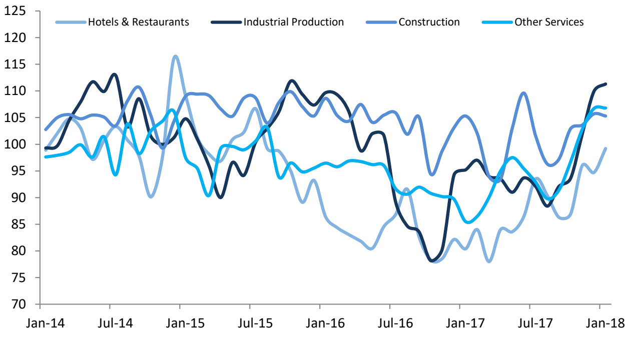
This improvement took place in the hotels and restaurants, industrial production and other services sectors

ECONOMIC CLIMATE INDICATOR



Source: INE.

ECONOMIC CLIMATE INDICATOR BY SECTOR

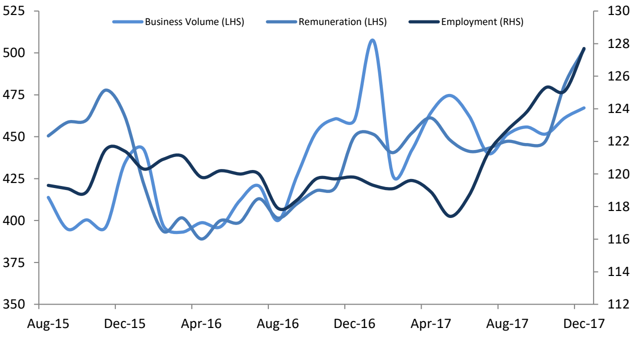


Source: INE.

The INE also releases its economic activity indexes on a monthly basis. These are broken down into three components: business volume, employment and remuneration. The latest figures are from December and showed a healthy improvement in business volume and remuneration. The employment component saw a more modest increase after a slight decline in the previous month. Business volume was better across the industrial, energy, retail and tourism sectors and lower in transports and other services. Remuneration improved in all sectors except retail and other services while the employment component only improved in the industrial sector.

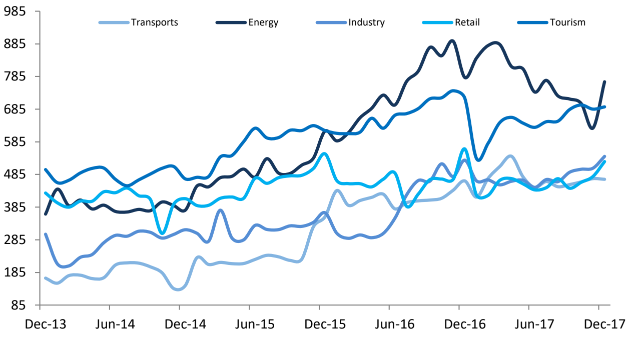
The INE's latest economic activity indexes showed a healthy improvement in the business volume and remuneration components and a more modest increase in employment

ECONOMIC ACTIVITY INDEXES



Source: INE.

BUSINESS VOLUME INDEX BY SECTOR



Source: INE.

The Mozambican government's budget proposal for 2018 incorporates a forecast of 5.3% for real GDP growth and 11.9% for average inflation. The budget also assumes that international reserves will continue to recover and represent six months of imports, a level that is materially

The 2018 budget proposal incorporates a real GDP growth assumption of 5.3%

higher than in recent years. Exports are expected to increase on the back of the improvement in economic activity in the country while FDI is anticipated to continue to decline.

MACRO ASSUMPTIONS	2015	2016	2017 (1)	2018 (1)
Nominal GDP (MZM million)	592,024	689,213	802,900	991,655
Real GDP Growth	6.6%	3.8%	5.5%	5.3%
Average Annual Inflation	3.6%	19.9%	15.5%	11.9%
Int. Reserves (months of imports)	3.8	3.6	3.1	6.0
Exports (US$ million)	3,413	3,328	3,463	4,122
Foreign Direct Investment (US$ million)	3,867	3,093	2,981	2,850
Population (thousand)	25,728	26,424	27,129	27,844

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

Economic activity is likely to be supported by the contribution of several sectors

The government foresees economic growth being mainly driven by these sectors: agriculture (4.4%), wholesale and retail (7.2%), transports (6.1%), extractive industries (13.8%), electricity and gas (7%), hotels and restaurants (5%), financial sector (4.5%), construction (3.8%) and fishing (3.8%). The local authorities also expect the end of the armed conflict to improve the commercialization of agricultural products, leading to an increase in the movement of goods and people in the country and to higher tax collection. They also foresee favorable weather conditions in the first quarter of 2018, namely in terms of precipitation, to have a positive impact on agricultural harvests.

An improvement in the logistical capacity of the ports of Beira and Nacala is expected to benefit the flow of goods, namely coal

Economic activity is also expected to be supported by the opening of new industrial units in the food and cement industries. At the same time, the extractive industry is anticipated to witness an expansion in production levels, namely in terms of coal, natural gas, rubies, heavy sands and construction materials. Finally, an improvement in the logistical capacity of the ports of Beira and Nacala is expected to increase the flow of not only coal, but also other goods.

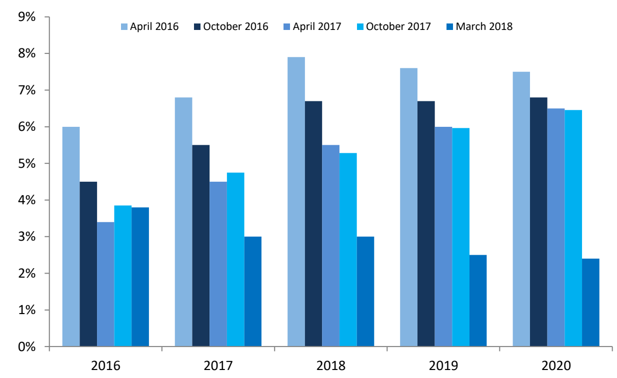
GROWTH FORECASTS	2015	2016	2017 (1)	2018 (1)
Agriculture	3.1%	2.5%	5.9%	4.4%
Fishing	4.5%	3.6%	4.4%	3.8%
Extractive Industries	22.5%	15.6%	24.0%	13.8%
Manufacturing	8.5%	3.9%	5.8%	5.0%
Electricity and Gas	12.2%	0.3%	8.9%	7.0%
Construction	12.0%	1.1%	3.2%	3.8%
Wholesale and Retail	4.4%	8.9%	4.4%	7.2%
Hotels and Restaurants	8.2%	1.9%	4.3%	5.0%
Information and Communication	10.6%	1.2%	8.7%	4.9%
Transports and Storage	7.6%	4.6%	4.3%	6.1%
Financial and Insurance Actitivies	5.9%	0.1%	3.2%	4.5%
Public Admin., Defense and Social Sec.	14.8%	1.2%	2.5%	1.3%
Education	7.4%	7.4%	3.3%	3.7%
Health and Social Act.	10.2%	4.0%	3.6%	3.6%
Other Services	5.4%	4.9%	2.6%	4.3%
Total Real GDP	**6.6%**	**3.8%**	**5.5%**	**5.3%**

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

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

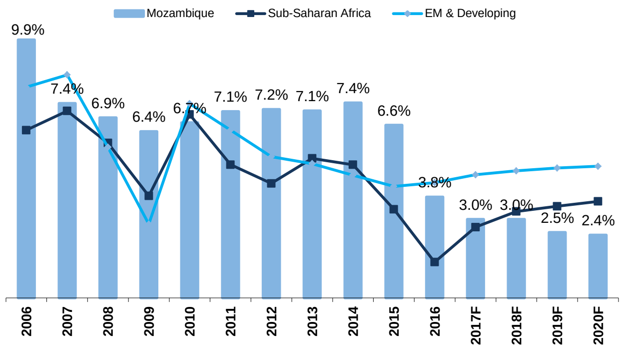
It is worth highlighting the impact that the hidden debt revelation back in April 2016 had on Mozambique's growth estimates over the next few years. These are shown in the graph below where we present the forecasts made by the International Monetary Fund (IMF) in its last four World Economic Outlook (WEO) reports as well as its latest forecasts released in March 2018. Moreover, these forecasts suggest that Mozambique is now likely to expand at a growth rate that is closer to the average of Sub-Saharan Africa (SSA) this year, but could underperform the SSA region in 2019 and Emerging Market and Developing Economies in the next few years.

IMF FORECASTS – MOZAMBIQUE



Source: IMF.

GROWTH FORECASTS – MOZAMBIQUE, SSA AND EM&D



Sources: IMF.

INFLATION

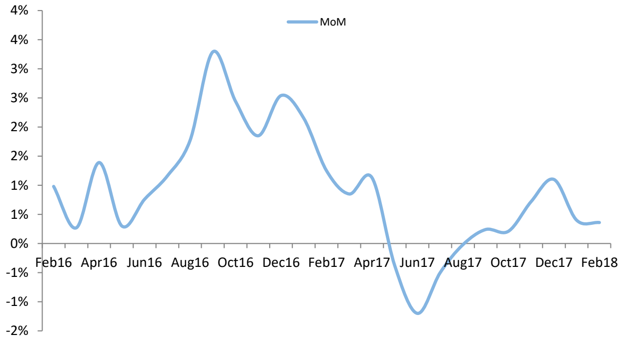
Consumer price data collected throughout the month of February 2018 for the cities of Maputo, Beira and Nampula show that monthly inflation stood at 0.36%, slightly down from the 0.40% increase in the previous month. This was mostly due to higher prices in food and non-alcoholic drinks as well as in housing and utilities, which had a contribution of 0.20% and 0.09% (of the 0.36% total price increase), respectively. Accumulated inflation for the first two months of the year stood at 0.76% and compares with 5.81% in 2016 and 3.42% in 2017.

Consumer prices rose 0.36% in February from the previous month

It is also worth noting that accumulated inflation for the entire year 2017 stood at just 5.65%. This figure is significantly lower than the 10.55% recorded in 2015 and 23.67% in 2016, which saw a sharp increase mostly due to the strong depreciation of the metical and higher food costs. Last year, consumer prices advanced mainly in the transport (1.41%), restaurants and hotels (1.03%) and housing and utilities (0.92%) divisions. There was also a more moderate increase in the price of food and non-alcoholic drinks (0.59%), as better weather conditions allowed higher crops and food production.

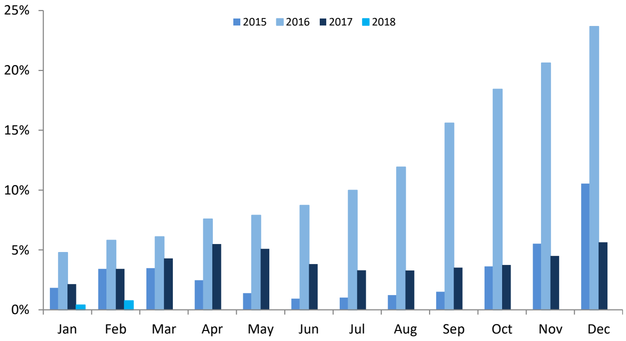
Accumulated inflation stood at 5.65% in 2017, which is much lower than in previous years

CONSUMER PRICE INDEX - MONTHLY



Source: INE.

CONSUMER PRICE INDEX – ACCUMULATED (2015-18)



Source: INE.

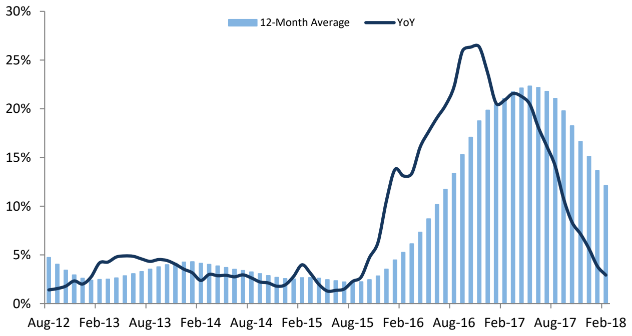
Meanwhile, the annual inflation rate stood at 2.93% in February (vs. 3.84% in the previous month), keeping intact the downward trend in the consumer price index that commenced in late 2016 when the metical exchange rate began to stabilize against the dollar, the rand and the euro. Recall that annual inflation stood at multi-year highs (north of 26%) at the end of 2016. However, an appreciation of the local currency in 2017 is helping to gradually reduce the pressure on consumer prices, as Mozambique continues to import a large share of the goods that it consumes. Data also show that the 12-month average inflation rate declined to 12.11% in the period (from 13.65% in January).

Annual inflation continued to decelerate, keeping intact the downward trend that began in late 2016

Looking now at monthly inflation for the country's three largest cities on an individual basis shows that consumer prices were up 0.28% in both Maputo and Nampula and 0.66% in Beira in February. This means that accumulated inflation in these three cities stood at 0.95%, 0.32%

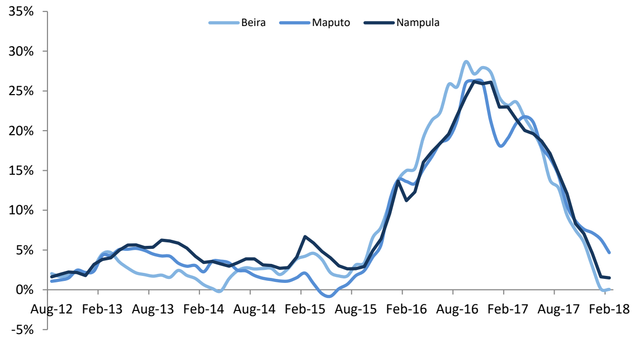
Prices rose on a monthly basis in Maputo, Nampula and Beira and 0.82%, respectively, last month. In addition, the 12-month average inflation rates reached 12.77% in Maputo, 11.73% in Nampula and 10.74% in Beira.

CONSUMER PRICE INDEX – YOY AND 12M AVERAGE



Sources: INE and Eaglestone Securities.

ANNUAL CONSUMER PRICE INDEX – CITIES



Source: INE.

MONETARY POLICY, BANKING SECTOR AND CENTRAL BANK RULES

The central bank raised interest rates aggressively to help reduce macro imbalances, limit the depreciation of the local currency and protect reserves

The Banco de Moçambique used monetary policy tightening in late-2015 and throughout 2016 to help reduce the imbalances of the local economy, limit the depreciation of the exchange rate and protect international reserves. This led to a combined increase in interest rates of 1,250bps in this period, lifting the overnight lending interest rate to 20% at the end of 2016. The central bank raised this rate a further 325bps (to a multi-year high of 23.25%) in its first two meetings of 2017, as the inflation rate remained elevated above 20%.

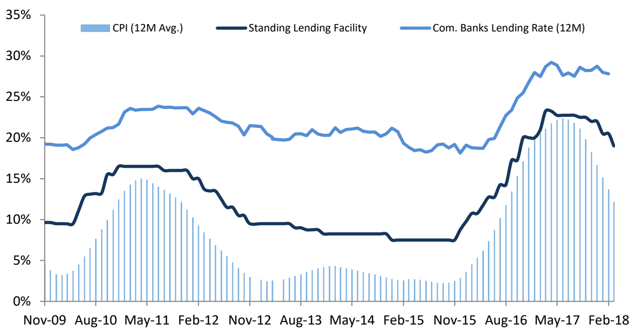
Interest rates were cut four times in 2017 and once in February 2018, remaining at still high level of 19%

The central bank signaled that the monetary policy tightening cycle had peaked when inflation pressures receded in mid-2017. The uncertainties surrounding the pace of the fiscal adjustment implemented by the government and the country's economic outlook led the central bank to move cautiously though. Interest rates were cut four times last year (to 20.5% by year-end) and a further 150bp last month, bringing the benchmark rate to a still high 19%.

Loan growth has slowed significantly and even contracted as a result of the sharp increase in interest rates

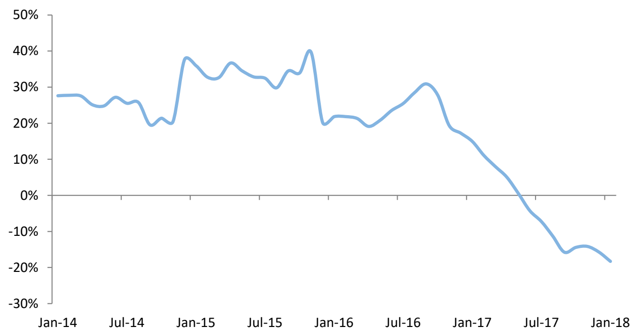
Mozambique benefitted from an expansionary monetary policy by the central bank from mid-2011 until early-2016 that led to a significant expansion in credit of around 20% annually. This also resulted in a surge in debt levels in the country during this period. However, loan growth slowed considerably (as monetary policy tightened and interest rates increased) and contracted during part of 2017 and at the start of this year. This was reflected in most sectors especially in agriculture, manufacturing, retail and individuals.

INFLATION, CENTRAL AND COMMERCIAL BANKS RATES



Sources: INE and Banco de Moçambique.

CREDIT GROWTH (YOY CHANGE)



Source: Banco de Moçambique.

Commercial banks were impacted by the economic deceleration and shortage of dollars in the country

Commercial banks benefitted from a favorable economic environment and rapid credit growth for more than a decade, recording attractive profitability levels during this period. Asset quality ratios were at low single-digits and solvency levels clearly exceeded regulatory requirements. The sector came under pressure in 2016-17 on the back of the slowdown in economic activity and the shortage of dollars in the country. Local banks were further impacted since 2016 by the announcement of the hidden public debts, as some of them held part of this debt. This is clearly reflected in the recent banking sector indicators presented in the table below.

BANKING SECTOR INDICATORS	2010	2011	2012	2013	2014	2015	2016	Sep-17
Capital adequacy								
Regulatory capital (% of RWA)	14.4%	17.1%	17.9%	16.9%	15.1%	17.0%	8.8%	20.2%
Regulatory Tier 1 capital (% of RWA)	13.7%	16.1%	16.9%	16.0%	13.6%	15.5%	14.2%	19.5%
Capital (net worth) to assets	8.0%	9.0%	9.5%	9.5%	9.6%	9.3%	5.3%	10.9%
Asset composition and quality								
Foreign exchange loans (% of total loans)	29.5%	25.1%	28.1%	21.9%	22.2%	22.1%	28.7%	26.5%
Non-performing loans (% of gross loans) (1)	1.9%	2.6%	3.2%	2.9%	3.2%	4.3%	5.5%	11.4%
Non-performing loans net of provisions to capital (1)	5.6%	6.6%	6.8%	4.5%	2.4%	3.4%	5.2%	16.0%
Earnings and profitability								
Return on assets (ROA)	2.6%	2.5%	1.9%	2.0%	2.1%	2.0%	0.7%	2.5%
Return on equity (ROE)	32.9%	26.5%	19.6%	21.0%	21.6%	20.4%	10.1%	35.7%
Net interest income (% of total revenues)	59.4%	64.9%	58.9%	55.6%	55.4%	52.7%	65.5%	71.8%
Non interest expenses (% of total revenues)	59.7%	61.3%	66.1%	65.3%	62.4%	62.8%	67.0%	58.2%
Staff costs (% non interest expenses)	45.5%	47.1%	49.1%	47.6%	47.1%	46.9%	44.1%	46.1%
Trading and fee income (% of total revenues)	23.8%	17.2%	19.5%	17.0%	20.8%	26.0%	16.6%	11.3%
Funding and liquidity								
Liquid assets (% of total assets) (2)	22.4%	27.8%	33.4%	30.7%	28.2%	32.2%	31.4%	38.8%
Customer deposits (% of total non-interbank loans)	131.2%	131.6%	143.8%	132.5%	127.0%	130.0%	124.2%	142.9%

(1) NPLs are defined according to Mozambican accounting standards (they include only part of the past-due loans); (2) Includes deposits at parent banks.
Sources: Banco de Moçambique and IMF.

The Banco de Moçambique introduced new capital and liquidity rules after having to intervene in four banks in less than a year

The central bank introduced new capital and liquidity rules after having to intervene in four financial institutions (three of which ceased operating) in less than a year. In particular, it lifted the regulatory required solvency ratio to 12% (from 8% previously) and Tier 1 to 10%. The central bank now requires financial institutions to have a daily liquidity ratio (calculated as the ratio liquid assets/short-term liabilities) of no less than 25%, with this reported on a daily basis. Local banks are now also required to disclose more information about their capital, asset quality, efficiency, profitability and liquidity situation every quarter in order to improve transparency in the sector. The central bank governor stated that these measures may lead to consolidation in the banking sector, a scenario we concur with as we believe the current 19 banks operating in the country may prove to be unsustainable in the medium-term.

The solvency levels of the financial system improved in 2017 on the back of the capital increases at some banks and the resolution of other bank, but NPLs are likely to have deteriorated

The solvency levels of the local financial system are expected to have improved following the capital increases at some banks aimed at complying with the new regulatory requirements and the resolution measures at other weaker banks. However, asset quality ratios are likely to have deteriorated throughout 2017 on the back of the slowdown in economic activity in the country and the impact that higher interest rates have had on the affordability levels of both companies and individuals. Although credit provided by the local financial system declined significantly in 2017, the increase in non-performing loans likely led local banks to raise impairment levels in the period, therefore impacting profitability.

The Banco de Moçambique announced new foreign exchange control rules at the end of 2017

The Banco de Moçambique also announced new foreign exchange control rules at the end of 2017. These new rules introduce significant changes, including:

- The registration of FX operations is mandatory and to be processed electronically and in real time by the commercial bank;

- FX residents are now required to send export earnings to Mozambique into an export earnings specific account in foreign currency that can only be utilized for specifically defined purposes. There is no longer the obligation to convert 50% of these earnings into meticais (the funds can remain in foreign currency) and FX residents only have to convert the amounts required to make payments to other residents when due;

- Capital operations are to be done through commercial banks, which will check for the identity, legitimacy and nature of the operations and the party/parties involved, before forwarding it to the central bank;

- FDI is no longer subject to the central bank’s prior authorization and is instead only required to be registered (and certified) at the commercial bank used for the operation, which will then forward the information to the central bank;

- Shareholders’ and intercompany loans made by FX non-residents to their FX resident subsidiaries or affiliates are pre-authorized and only subject to registration whenever (1) they are interest free, the repayment period is at least three years and no fees and other charges apply; or (2) the interest rate is lower than the base lending rate for the relevant currency, the repayment period is at least three years and the loan amount is a maximum of US$ 5 million;

- Financial loans contracted abroad by FX residents amounting up to US$ 5 million are pre-authorized whenever (1) the interest rate is not higher than the base lending rate in the loan denominated currency plus four basis points, (2) the sum of the base lending rate and the margin does not exceed the loan interest rate charged by local banks and (3) the repayment period is at least three years;
- FX residents are authorized to make investments abroad up to US$ 250,000 as long as they are done through a commercial bank and after filling out a central bank form;
- Special FX regimes for Oil & Gas operations and Mining activities are now in place.

EXTERNAL ACCOUNTS

Mozambique's external accounts show a large drop in the current account deficit and much lower net FDI

Preliminary data from the Banco de Moçambique showed that the country's external accounts reflected a significant drop in the current account deficit, but also much lower net FDI during 2017. The current account deficit stood at US$ 2,440 million in the period (down 36.6% YoY), as a result of lower deficits in the trade (-66.9% YoY) and services (-17.3% YoY) balances, while net FDI stood at only US$ 2,293 million (-25.9% YoY).

The lower trade deficit reflects a significant rise in exporting levels related to megaprojects

In particular, the lower trade deficit was due to a large improvement in exporting levels (41.8% YoY), namely those related to megaprojects, as coal and aluminum exports advanced 134.6% and 30.6% YoY, respectively, in the period. This reflects not only an increase in commodity prices, but also a higher volume of these commodities sold overseas. Imports were up a more modest 9.5%, with the decline in imports related to megaprojects being offset by higher "other imports". Central bank figures also showed that the strong decline in net FDI was attributable to much weaker foreign investment inflows in megaprojects (-31.1% YoY).

The current account deficit (as a % of GDP) declined markedly in 2017

Overall, the current account deficit would represent 19.2% of GDP, which, as detailed below, is significantly lower than the figures in recent years.

BALANCE OF PAYMENTS	US$ Million						YoY Change		
	2012	2013	2014	2015	2016	2017	'15/'14	'16/'15	'17/'16
Current Account	-6,790	-6,253	-5,797	-5,968	-3,846	-2,440	2.9%	-35.6%	-36.6%
Trade Balance	-4,048	-4,357	-4,035	-4,163	-1,405	-465	3.2%	-66.3%	-66.9%
Exports, f.o.b.	3,856	4,123	3,916	3,413	3,328	4,719	-12.8%	-2.5%	41.8%
Megaprojects	2,190	2,202	2,426	2,035	2,405	3,719	-16.1%	18.2%	54.6%
Other	1,665	1,921	1,491	1,378	924	1,000	-7.6%	-33.0%	8.3%
Imports, f.o.b.	-7,903	-8,480	-7,952	-7,577	-4,733	-5,183	-4.7%	-37.5%	9.5%
Megaprojects	-2,143	-1,934	-1,487	-917	-771	-733	-38.3%	-15.9%	-5.0%
Other	-5,760	-6,546	-6,465	-6,660	-3,962	-4,451	3.0%	-40.5%	12.3%
Services Balance	-3,706	-3,259	-2,932	-2,306	-2,701	-2,235	-21.3%	17.1%	-17.3%
Income Balance	-75	-59	-202	-300	-261	-420	48.6%	-13.1%	61.1%
Transfers Balance	1,039	1,421	1,372	802	520	679	-41.6%	-35.1%	30.5%
Capital Account Balance	490	423	375	288	206	194	-23.2%	-28.3%	-6.1%
Financial Account Balance	6,268	5,808	5,445	5,654	3,668	2,310	3.8%	-35.1%	-37.0%
Net Foreign Direct Investment	5,626	6,175	4,902	3,867	3,093	2,293	-21.1%	-20.0%	-25.9%
Net Errors and Omissions	32	22	-23	26	-29	-63	n.m.	n.m.	121.8%
Values as a % of GDP:									
Current Account	-44.5%	-39.0%	-33.8%	-39.8%	-35.1%	-19.2%	-6.1%	4.8%	15.9%
Trade Balance	-26.5%	-27.2%	-23.5%	-27.8%	-12.8%	-3.7%	-4.3%	15.0%	9.2%
Exports	25.3%	25.7%	22.8%	22.8%	30.4%	37.2%	0.0%	7.6%	6.8%
Imports	51.8%	52.9%	46.4%	50.6%	43.2%	40.8%	4.2%	-7.4%	-2.4%
Capital Account Balance	3.2%	2.6%	2.2%	1.9%	1.9%	1.5%	-0.3%	0.0%	-0.4%
Financial Account Balance	41.1%	36.3%	31.7%	37.8%	33.5%	18.2%	6.0%	-4.3%	-15.3%
Net Foreign Direct Investment	36.9%	38.5%	28.6%	25.8%	28.2%	18.1%	-2.8%	2.4%	-10.2%

Sources: Banco de Moçambique and Eaglestone Securities.

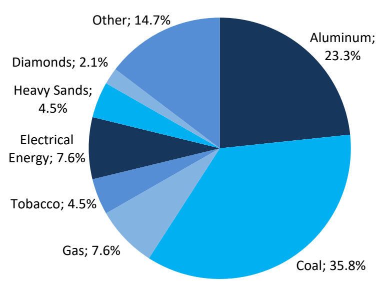
South Africa, Netherlands, India and China are the country's main trading partners

Mozambique's main trading partners include South Africa, the Netherlands, India and China. The latest central bank figures are from 2016 and show that the Netherlands accounted for just over a quarter of the country's total exports, while South Africa and India accounted for about a fifth each. In terms of imports, South Africa was by far the largest supplier of Mozambique, with 30.5% of the total in 2016, followed by China (8%) and the United Arab Emirates (7.3%).

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

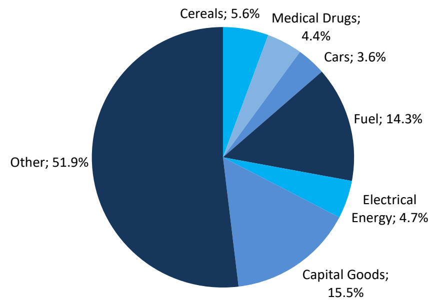
The central bank also provided trade balance figures by product, but this time it included data for 2017. Mozambique mainly exports coal and aluminum, with these representing 35.8% and 23.3% of the total, respectively. It is worth highlighting that the contribution of coal to total exports has significantly increased in the period, as it represented only 21.6% of total exports in 2016 and 11%-13% in 2012-15. We believe this is mainly due to a volume effect since coal prices have actually gone up only marginally in 2017, despite the strong volatility recorded in the year. 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 (2017)



Sources: Banco de Moçambique and Eaglestone Securities.

IMPORTS BY PRODUCT (2017)



Sources: Banco de Moçambique and Eaglestone Securities.

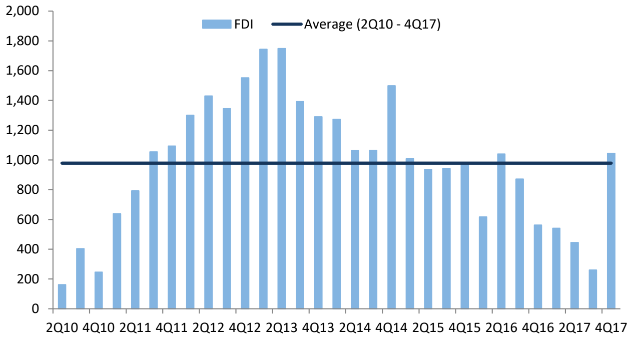
FDI has played a major role in Mozambique's economic growth and development over the years

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 following the revelation of the hidden debts in April 2016

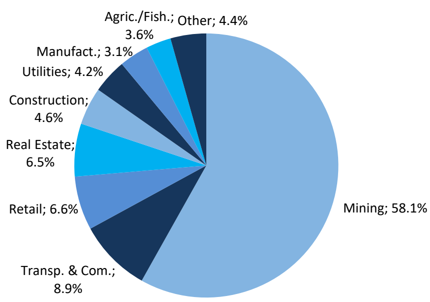
Banco de Moçambique figures show that FDI inflows declined sharply in recent quarters, but saw a strong recovery in 4Q 2017. This lifted the FDI figure for the last three months of 2017 closer to the quarterly average of near US$ 980 million recorded since 2010. Specifically, FDI stood at US$ 1,045 million in 4Q 2017 after standing at US$ 541 million, US$ 446 million and US$ 261 million in the three previous quarters, respectively. The sharp drop in FDI witnessed from 3Q 2016 largely reflects the impact that the revelation of the hidden debts in April 2016 had on investor sentiment. Central bank data also showed that 58.1% of the FDI inflows last year went to the mining sector while 8.9% was for transport and communication, 6.6% for retail, 6.5% for real estate and 4.6% for construction.

FOREIGN DIRECT INVESTMENT (US$ MILLION)



Sources: Banco de Moçambique and Eaglestone Securities.

FOREIGN DIRECT INVESTMENT BY SECTOR (2017)

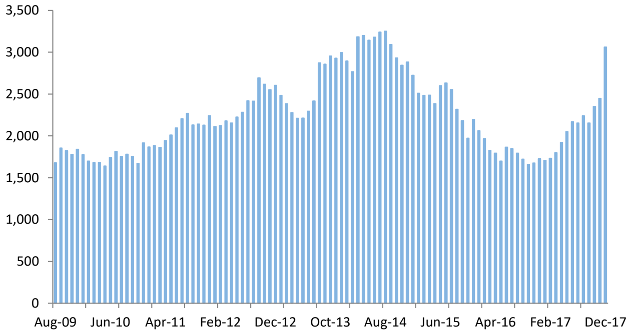


Sources: Banco de Moçambique and Eaglestone Securities.

Foreign exchange reserves increased significantly at the end of 2017

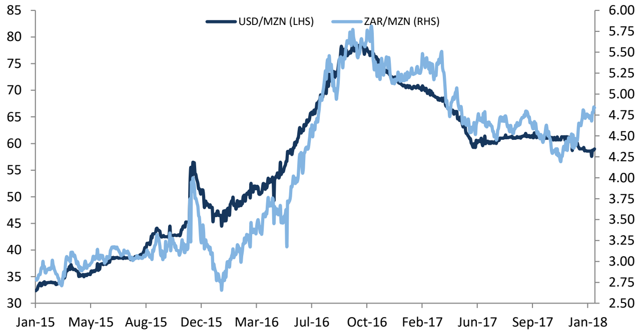
Meanwhile, other data disclosed by the Banco de Moçambique showed a strong recovery in net international reserves at the end of 2017. These stood at US$ 3,062 million in December, up 25% from the previous month and 77% from December 2016. Gross international reserves rose to US$ 3,299 million in the same period, enough to cover seven months of imports of goods and services (excluding those of large projects). This compares with three months of coverage at the end of 2016. The sharp increase in the amount of foreign reserves relates to the continued improvement in the country's external position. However, we also believe that it could reflect the impact of the capital gains tax (estimated at US$ 354.4 million) from the sale of half of Eni's stake in Area 4 of the Rovuma basin to ExxonMobil last year. Indeed, permission was still needed from Eni's existing partners for ExxonMobil to enter Area 4 at the time the deal was announced and with permission only granted near end-2017 it was only then that the door was open for the Mozambican state to collect the capital gains tax from Eni on the transaction.

NET INTERNATIONAL RESERVES (US$ MILLION)



Source: Banco de Moçambique.

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



Source: Bloomberg.

PUBLIC ACCOUNTS

The local authorities stated that they remain focused on fiscal consolidation in 2018

The Mozambican government stated in its 2018 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 self-sufficient. Some of the announced measures to improve revenue collection include the implementation of (1) a specific consumption tax to promote public health, environmental protection and domestic industries, (2) a customs tariff to help local production, (3) a tax to better control domestic fuel utilization, and (4) a new tax and benefits regime for operations in the extractive industry.

The government's fiscal policy for 2018 will be built on four pillars

In 2018, the government also plans to (1) limit the admission of new employees in the public sector, (2) control current expenditures, namely staff costs and spending on goods and services, (3) manage public debt levels, which will likely include its restructuring and (4) postpone some projects like the rehabilitation and construction of public buildings.

The 2018 budget proposal assumes a budget deficit (after grants) of 6.3% of GDP

Overall, and when compared with the 2017 reported figures, the 2018 budget proposal foresees (1) revenues improving 15.5% YoY to MZM 222,860 million (representing 22.5% of GDP), (2) grants increasing 42.2% YoY to MZM 17,373 million (1.8% of GDP) and (3) expenditures rising 25% YoY to MZM 302,928 million (30.5% of GDP). This means that the budget deficit forecast (before grants) stands at 8.1% of GDP, which is higher than the 6.1% deficit in 2017. If including grants, the budget deficit is expected to stand at 6.3% of GDP (vs. -4.6% in 2017).

STATE BUDGET					YoY Change			% of GDP			
Million MZM	2015	2016	2017	2018 Budget	'16/'15	'17/'16	'18/'17	2015	2016	2017	2018 Budget
Revenues (1)	155,893	166,285	192,891	222,860	6.7%	16.0%	15.5%	26.3%	24.1%	24.0%	22.5%
Grants	18,677	14,840	12,215	17,373	-20.5%	-17.7%	42.2%	3.2%	2.2%	1.5%	1.8%
Expenditures	200,491	220,627	242,258	302,928	10.0%	9.8%	25.0%	33.9%	32.0%	30.2%	30.5%
Deficit (before Grants)	**-44,598**	**-54,342**	**-49,367**	**-80,069**	**21.8%**	**-9.2%**	**62.2%**	**-7.5%**	**-7.9%**	**-6.1%**	**-8.1%**
Deficit (after Grants)	**-25,920**	**-39,502**	**-37,153**	**-62,696**	**52.4%**	**-5.9%**	**68.8%**	**-4.4%**	**-5.7%**	**-4.6%**	**-6.3%**

(1) Excludes a 2.7% of GDP one-off capital gains tax in 2017. Sources: Ministry of Finance and Eaglestone Securities.

Tax revenues are expected to see a strong increase, boosted especially by taxes on goods and services

As detailed in the table below, the government forecasts a strong improvement in tax revenues. These will be boosted (especially) by higher taxes on goods and services, which are estimated to represent 9.7% of GDP. The expected increase in tax on goods and services reflects a higher VAT projection for 2018, but also in other taxes.

REVENUES					YoY Change			% of GDP			
Million MZM	2015	2016	2017	2018 Budget	'16/'15	'17/'16	'18/'17	2015	2016	2017	2018 Budget
Tax Revenues (1)	129,657	136,037	151,847	186,797	4.9%	11.6%	23.0%	21.9%	19.7%	18.9%	18.8%
Income Tax	57,919	63,805	76,049	81,309	10.2%	19.2%	6.9%	9.8%	9.3%	9.5%	8.2%
Corporate	36,498	36,726	46,085	44,312	0.6%	25.5%	-3.8%	6.2%	5.3%	5.7%	4.5%
Personal	21,311	26,822	29,665	35,377	25.9%	10.6%	19.3%	3.6%	3.9%	3.7%	3.6%
Other	109	257	299	1,620	135.2%	16.2%	441.7%	0.0%	0.0%	0.0%	0.2%
Tax on Goods & Services	67,036	68,502	68,467	96,389	2.2%	-0.1%	40.8%	11.3%	9.9%	8.5%	9.7%
VAT	46,553	48,301	49,155	58,746	3.8%	1.8%	19.5%	7.9%	7.0%	6.1%	5.9%
Other	20,483	20,201	19,312	37,643	-1.4%	-4.4%	94.9%	3.5%	2.9%	2.4%	3.8%
Other Tax Revenues	4,702	3,730	7,331	9,099	-20.7%	96.5%	24.1%	0.8%	0.5%	0.9%	0.9%
Non-Tax Revenues	11,981	16,753	17,551	17,351	39.8%	4.8%	-1.1%	2.0%	2.4%	2.2%	1.7%
Capital Revenues	3,097	1,986	3,968	4,438	-35.9%	99.8%	11.8%	0.5%	0.3%	0.5%	0.4%
Other Revenues	11,158	11,509	19,525	14,274	3.1%	69.6%	-26.9%	1.9%	1.7%	2.4%	1.4%
Total Revenues	**155,893**	**166,285**	**192,891**	**222,860**	**6.7%**	**16.0%**	**15.5%**	**26.3%**	**24.1%**	**24.0%**	**22.5%**

(1) Excludes a 2.7% of GDP one-off capital gains tax in 2017. Sources: Ministry of Finance and Eaglestone Securities.

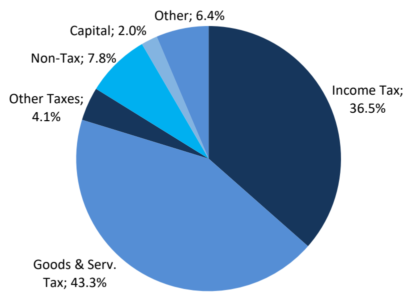
The revenue breakdown shows that receipts from income tax and taxes on goods and services account for most of the total proceeds. In particular, income tax is expected to stand at 36.5% of the total revenues and taxes on goods and services to account for 43.3% of the total in 2018. This compares with 39.4% and 35.5%, respectively, in 2017.

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

Revenues are estimated to represent 92.8% of total government receipts (if excluding domestic and external financing) and grants to account for just 7.2%. These figures are not materially different than the ones of the last couple of years. However, looking further back to 2010, one can see that the amount of grants as a percentage of receipts (excluding financing) has gradually decreased from 30.1% of the total in 2010 to the current 7.2% expected. This 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 1.8% this year.

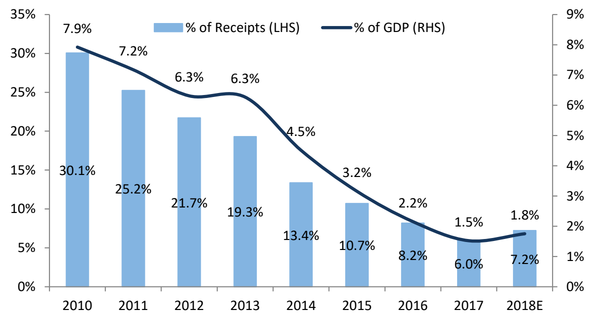
Grants are expected to account for just 7.2% of the total government proceeds in 2018 (vs. 30.1% of the proceeds in 2010)

TOTAL REVENUE BREAKDOWN (2018E)



Sources: Ministry of Finance and Eaglestone Securities.

EVOLUTION OF GRANTS (2010-18E)



Sources: Ministry of Finance and Eaglestone Securities.

Meanwhile, current expenditures are expected to rise significantly, reflecting higher spending on salaries, goods and services, debt payments and transfers whereas subsidies are anticipated to see a sharp fall from 2017. It is worth emphasizing the strong increase in spending for debt payments, which reflects the surge in debt levels in recent years. Overall, current expenditures are estimated to represent 18.6% of GDP, with staff costs accounting for half of this amount.

Current expenditures are expected to once again see a strong increase in 2018

The budget proposal foresees a material increase in capital expenditures this year. This comes after a sharp fall of 43.1% in the period 2014-17, as the execution rates of several projects was extremely low when compared with previously budgeted figures. The government stated in the past that it decided to postpone projects that had not been initiated, including the construction, repair and refurbishment of public buildings. The local authorities are instead planning to expand social infrastructures to improve essential public services to the population and those that offer potential to promote several sectors of the economy, including agriculture, industry, mineral energy and tourism. Some of the structural projects in the country expected this year include (1) construction of the Maputo-Catembe Bridge and Ponta de Ouro road, (2) Chimuara-Nacala transmission line, (3) Maputo water supply expansion project, (4) construction of the Beira-Machipanda road, (5) the construction of the Moeda-Negomano road and (6) the project for integrated management of agriculture and natural resources (known as SUSTENTA).

The government is likely to continue to postpone some projects, but expand social infrastructures to improve essential public services to the population

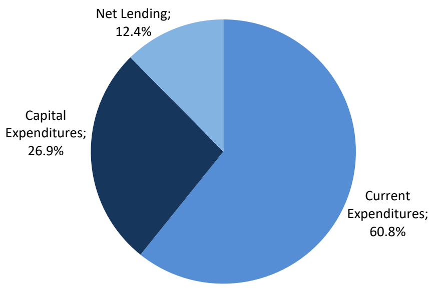
EXPENDITURES						YoY Change			% of GDP			
Million MZM		2015	2016	2017	2018 Budget	'16/'15	'17/'16	'18/'17	2015	2016	2017	2018 Budget
Current Expenditures	0	117,836	141,087	147,969	184,037	19.7%	4.9%	24.4%	19.9%	20.5%	18.4%	18.6%
Staff Costs		64,299	77,843	85,082	92,345	21.1%	9.3%	8.5%	10.9%	11.3%	10.6%	9.3%
Goods and Services		22,512	22,969	21,515	29,901	2.0%	-6.3%	39.0%	3.8%	3.3%	2.7%	3.0%
Debt Payments		7,622	16,309	18,020	33,195	114.0%	10.5%	84.2%	1.3%	2.4%	2.2%	3.3%
Current Transfers		19,860	21,508	20,177	26,195	8.3%	-6.2%	29.8%	3.4%	3.1%	2.5%	2.6%
Subsidies		2,213	2,011	2,050	736	-9.1%	1.9%	-64.1%	0.4%	0.3%	0.3%	0.1%
Other		1,329	446	1,126	1,666	-66.4%	152.2%	48.0%	0.2%	0.1%	0.1%	0.2%
Capital Expenditures		64,078	50,271	49,483	81,404	-21.5%	-1.6%	64.5%	10.8%	7.3%	6.2%	8.2%
Domstically Financed		42,677	23,629	23,700	33,695	-44.6%	0.3%	42.2%	7.2%	3.4%	3.0%	3.4%
Externally Financed		21,400	26,642	25,782	47,710	24.5%	-3.2%	85.0%	3.6%	3.9%	3.2%	4.8%
Grants		10,462	14,840	12,215	17,373	41.8%	-17.7%	42.2%	1.8%	2.2%	1.5%	1.8%
Loans		10,938	11,802	13,568	30,337	7.9%	15.0%	123.6%	1.8%	1.7%	1.7%	3.1%
Net Lending		18,577	29,270	44,806	37,487	57.6%	53.1%	-16.3%	3.1%	4.2%	5.6%	3.8%
Total Expenditures		**200,491**	**220,627**	**242,258**	**302,928**	**10.0%**	**9.8%**	**25.0%**	**33.9%**	**32.0%**	**30.2%**	**30.5%**

Sources: Ministry of Finance and Eaglestone Securities.

Current expenditures are expected to account for 60.8% of total spending

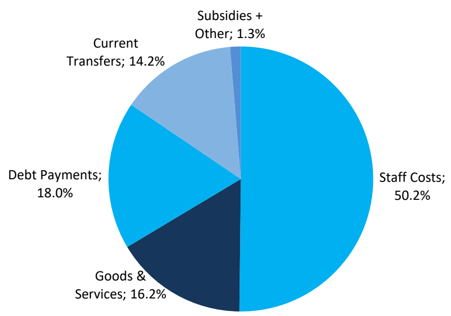
All in all, current expenditures are expected to account for 60.8% of the total spending, capital expenditures 26.9% and net lending 12.4%. In terms of the breakdown of current expenditures, we note that staff costs are still expected to account for half of this type of spending followed by spending on goods and services and on debt payments. We note that the government plans to admit 6,913 new employees into the public sector this year, including 2,213 in education and 2,019 in healthcare. This figure is much lower than the 13,733 and 13,515 workers admitted in 2016 and 2017, respectively. The local authorities plan to increase the mobility of public sector employees in order to offset the restrictions on new admissions.

TOTAL EXPENDITURES BREAKDOWN (2018E)



Sources: Ministry of Finance and Eaglestone Securities.

CURRENT EXPENDITURES BREAKDOWN (2018E)



Sources: Ministry of Finance and Eaglestone Securities.

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

The government is expected to continue to prioritize spending on education, healthcare, social work, agriculture and infrastructure (energy, water, roads and bridges). Education continues to be the area with the largest allocation of funds (more than a third of the total) followed by infrastructure (27.8%). All in all, total spending by sector is expected to represent 63.4% of total expenditures if excluding debt payments and net lending, up from 59.4% in 2017.

EXPENDITURES BY SECTOR				% Expenditures by Sector			% of Total Expenditures (*)		
Million MZM	2016	2017	2018 Budget	2016	2017	2018 Budget	2016	2017	2018 Budget
Education	46,901	51,504	52,381	44.6%	48.4%	35.6%	26.8%	28.7%	22.6%
Healthcare	20,413	18,900	26,606	19.4%	17.7%	18.1%	11.7%	10.5%	11.5%
Infrastructures	20,048	14,472	40,906	19.1%	13.6%	27.8%	11.5%	8.1%	17.6%
Roads	10,777	8,064	30,724	10.3%	7.6%	20.9%	6.2%	4.5%	13.2%
Water and Public Works	7,739	5,039	7,129	7.4%	4.7%	4.8%	4.4%	2.8%	3.1%
Mineral Resources & Energy	1,531	1,370	3,053	1.5%	1.3%	2.1%	0.9%	0.8%	1.3%
Agriculture	8,853	10,628	13,233	8.4%	10.0%	9.0%	5.1%	5.9%	5.7%
Judicial System	4,084	4,325	3,643	3.9%	4.1%	2.5%	2.3%	2.4%	1.6%
Social Work & Employment	4,784	4,973	6,764	4.6%	4.7%	4.6%	2.7%	2.8%	2.9%
Transports & Communication	n.a.	1,702	3,762	n.a.	1.6%	2.6%	n.a.	0.9%	1.6%
Total Expenditures by Sector	**105,082**	**106,505**	**147,294**	**100.0%**	**100.0%**	**100.0%**	**60.0%**	**59.4%**	**63.4%**
% of Total Expenditures (*)	*60.0%*	*59.4%*	*63.4%*						
Total Expenditures (*)	**175,048**	**179,432**	**232,246**				**100.0%**	**100.0%**	**100.0%**

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

The local authorities plan to finance the 2018 budget by continuing to rely mostly on domestic receipts, which are expected to account for 79.9% of the total (vs. 80.9% in 2017). Specifically, the government expects to use a higher share of tax income, but lower other revenues and domestic financing. Tax revenues will continue to represent the bulk of the financing needs, accounting for 61.7% of total receipts. All in all, domestic receipts are estimated to represent 24.4% of GDP, down from 29.3% of GDP in 2017.

The government plans to finance the 2018 budget by continuing to rely mostly on domestic receipts

External receipts are expected to account for 20.1% of the total financing and 6.1% of GDP. This is lower than the 6.9% of GDP in 2017, with this fall mostly explained by an appreciation of the metical. Grants are estimated to stand at 1.8% of GDP (vs. 1.5% in 2017) and external financing is expected to fall to 4.4% of GDP from 5.4% last year. We also note that the local authorities are (again) not anticipating any direct budget support in 2018.

The local authorities are not anticipating any direct budget support in 2018

RECEIPTS & EXPEND.				% of Total			% of GDP		
Million MZM	2016	2017	2018 Budget	2016	2017	2018 Budget	2016	2017	2018 Budget
Receipts:									
Domestic Receipts	**175,355**	**235,594**	**242,064**	**77.2%**	**80.9%**	**79.9%**	**25.4%**	**29.3%**	**24.4%**
Tax Revenues	136,037	172,706	186,797	59.9%	59.3%	61.7%	19.7%	21.5%	18.8%
Other Revenues	30,248	41,044	36,063	13.3%	14.1%	11.9%	4.4%	5.1%	3.6%
Domestic Financing	9,070	21,844	19,204	4.0%	7.5%	6.3%	1.3%	2.7%	1.9%
External Receipts	**51,778**	**55,639**	**60,864**	**22.8%**	**19.1%**	**20.1%**	**7.5%**	**6.9%**	**6.1%**
Grants	14,840	12,215	17,373	6.5%	4.2%	5.7%	2.2%	1.5%	1.8%
External Financing	36,938	43,424	43,492	16.3%	14.9%	14.4%	5.4%	5.4%	4.4%
Total Receipts (1)	**227,133**	**291,232**	**302,928**	**100.0%**	**100.0%**	**100.0%**	**33.0%**	**36.3%**	**30.5%**
Expenditures:									
Current Expenditures	**141,087**	**147,969**	**184,037**	**63.9%**	**61.1%**	**60.8%**	**20.5%**	**18.4%**	**18.6%**
Capital Expenditures	**50,271**	**49,483**	**81,404**	**22.8%**	**20.4%**	**26.9%**	**7.3%**	**6.2%**	**8.2%**
Domestic	23,629	23,700	33,695	10.7%	9.8%	11.1%	3.4%	3.0%	3.4%
External	26,642	25,782	47,710	12.1%	10.6%	15.7%	3.9%	3.2%	4.8%
Net Lending	**29,270**	**44,806**	**37,487**	**13.3%**	**18.5%**	**12.4%**	**4.2%**	**5.6%**	**3.8%**
Total Expenditures (2)	**220,627**	**242,258**	**302,928**	**100.0%**	**100.0%**	**100.0%**	**32.0%**	**30.2%**	**30.5%**
Difference ((1) - (2))	*6,506*	*48,975*	*0*				*0.9%*	*6.1%*	*0.0%*
TOTAL	**227,133**	**291,232**	**302,928**	**102.9%**	**120.2%**	**100.0%**	**33.0%**	**36.3%**	**30.5%**

Sources: Ministry of Finance and Eaglestone Securities.

Mozambique's public debt levels have soared in recent years, with the latest figures showing that the total amount surpassed an estimated MZM 704.5 billion at the end of 2017. This figure is 2.7 times the level recorded at end-2014 and accounted for 87.7% of the country's GDP after reaching 101.8% of GDP in 2016.

Public debt levels soared in recent years, reaching 87.7% of GDP in 2017 (down from 101.8% of GDP in the previous year)

Most of the debt is external debt (86% of the total in 2017), which means there is significant risk to currency fluctuations. Indeed, the graph below shows the sharp increase in debt levels as a percentage of GDP in recent years and, in particular, the impact that the devaluation of the metical during 2015-16 had on the external debt to GDP ratio. The sharp rise in the amount of external debt, coupled with the depreciation of the local currency, meant that this ratio reached 89.1% in 2016, significantly higher than the 42.3% at the end of 2014. Domestic debt has also increased, but it represented a more modest 12.3% of GDP in 2017.

There is significant risk to currency fluctuations as most of the country's debt is external debt

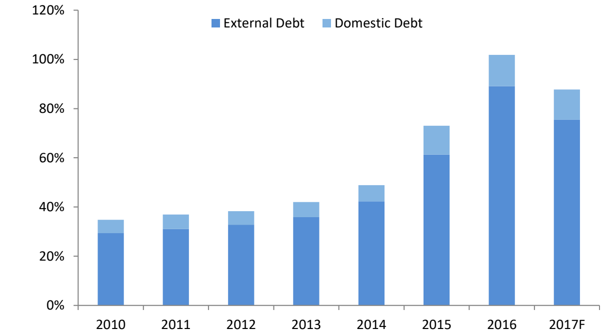
The appreciation of the metical led to a decline in the debt-to-GDP ratio to an estimated 75.5% of GDP in 2017. However, public debt remains at unsustainably high levels and represents a significant burden in terms of debt service costs for the Mozambican authorities.

Public debt remains at high levels with significant debt service costs

PUBLIC DEBT MZM MILLION	2011	2012	2013	2014	2015	2016	2017F
Total Debt	**140,960**	**165,767**	**202,748**	**257,376**	**432,233**	**701,708**	**704,534**
YoY Change	*17.5%*	*17.6%*	*22.3%*	*26.9%*	*67.9%*	*62.3%*	*0.4%*
% of GDP	*36.9%*	*38.3%*	*42.0%*	*48.9%*	*73.0%*	*101.8%*	*87.7%*
External Debt	118,630	142,028	173,022	222,554	363,000	613,998	606,037
YoY Change	*17.2%*	*19.7%*	*21.8%*	*28.6%*	*63.1%*	*69.1%*	*-1.3%*
% of Total	*84.2%*	*85.7%*	*85.3%*	*86.5%*	*84.0%*	*87.5%*	*86.0%*
% of GDP	*31.1%*	*32.8%*	*35.9%*	*42.3%*	*61.3%*	*89.1%*	*75.5%*
Domestic Debt	22,330	23,739	29,726	34,822	69,233	87,710	98,497
YoY Change	*19.1%*	*6.3%*	*25.2%*	*17.1%*	*98.8%*	*26.7%*	*12.3%*
% of Total	*15.8%*	*14.3%*	*14.7%*	*13.5%*	*16.0%*	*12.5%*	*14.0%*
% of GDP	*5.9%*	*5.5%*	*6.2%*	*6.6%*	*11.7%*	*12.7%*	*12.3%*

Sources: Mozambican authorities and Eaglestone Securities.

PUBLIC DEBT (% OF GDP)



Sources: Ministry of Finance and Eaglestone Securities.

DEBT RESTRUCTURING NEGOTIATIONS

The government recently met with investors to start restructuring negotiations of its Eurobond and external debts

The government recently met with debt holders in order to start restructuring negotiations of its Eurobond (due in 2023) and other external debts, namely the nearly US$ 1.4 billion of state-guaranteed loans to ProIndicus and Mozambique Asset Management (known as the "hidden debts"). The local authorities told investors that principal amortization on these debts will be limited until 2028 while the ability to pay coupons and other interest will be very low through 2023. The government also stated that it wanted to write-off half of the past-due interest payments and any penalties arising from them and proposed a local currency instrument to domestic holders of the debt. According to news reports, the first impression from the investors was that these proposals were a "total non-starter".

Investors were given the option of exchanging their debt into one of three instruments

Under the proposal, the government gave debt holders the option of exchanging it into one of three instruments. The first would involve no "haircut" on the debt, have a 16-year maturity and a coupon of 2% for the first five years and increasing up to 6%. The second would include a 10% "haircut", a 12-year maturity, a coupon of 1.5% for the first five years and one of 5% thereafter. And the third instrument would mature in eight years, involve a 20% "haircut" and give investors a 2.8% coupon throughout the period. All three instruments would amortize in the last three years, as detailed below.

RESTRUCTURING SCENARIOS	Currency	Exchange ratio of the eligible amount	Final Maturity	Repayment	Coupon	Frequency of coupon payment
Option 1	USD	1.0	16 years	Equal principal instalments on years 14, 15, 16	Until Y5: 2.0% Between Y5 and Y10: 3.0% After Y10: 6.0%	Semi-annual
Option 2	USD	0.9	12 years	Equal principal instalments on years 10, 11, 12	Until Y5: 1.5% After Y5: 5.0%	Semi-annual
Option 3	USD	0.8	8 years	Equal principal instalments on years 6, 7, 8	2.8%	Semi-annual

Source: Mozambican authorities.

ANNEX – ECONOMIC FORECAST SUMMARY

ECONOMIC FORECAST SUMMARY	2011	2012	2013	2014	2015	2016	2017E	2018F	2019F	2020F
Gross Domestic Product										
Real GDP growth	7.1%	7.2%	7.1%	7.4%	6.6%	3.8%	3.7%	3.2%	3.0%	3.0%
Gross Domestic Product (current prices, MZM bn)	382	433	482	535	592	689	803	895	972	1,057
Gross Domestic Product (current prices, US$ bn)	13.1	15.3	16.0	17.2	15.0	11.0	12.7	14.6	15.3	16.1
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$)	525	593	605	630	535	381	430	482	492	503
External Sector										
Exports of Goods (US$ mn)	3,118	3,856	4,123	3,916	3,413	3,328	4,719	5,072	5,199	5,459
Imports of Goods (US$ mn)	5,368	7,903	8,480	7,952	7,577	4,733	5,183	5,443	6,028	6,676
Trade Balance of Goods (% of GDP)	-17.1%	-26.5%	-27.2%	-23.5%	-27.8%	-12.8%	-3.7%	-2.5%	-5.2%	-7.0%
Current Account Balance (% of GDP)	-25.8%	-44.5%	-39.0%	-33.8%	-39.8%	-35.1%	-19.2%	-25.8%	-56.7%	-74.5%
Consumer Price Inflation										
Consumer Prices (period average)	11.2%	2.6%	4.3%	2.6%	3.6%	19.9%	15.1%	8.2%	5.8%	5.5%
Consumer Prices (end of period)	6.1%	2.0%	3.5%	1.9%	10.6%	23.7%	5.7%	8.0%	5.5%	5.5%
Government Accounts (% of GDP)										
Total Revenues	21.2%	22.7%	26.2%	29.2%	26.3%	24.1%	26.6%	22.5%	22.9%	23.1%
Grants	7.2%	6.3%	6.3%	4.5%	3.2%	2.2%	1.5%	1.8%	1.5%	1.2%
Total Expenditures	33.5%	33.5%	37.8%	42.5%	33.9%	32.0%	30.2%	30.5%	30.1%	29.6%
Interests	0.9%	1.0%	0.8%	1.0%	1.3%	2.4%	2.2%	3.3%	3.5%	3.8%
Primary Balance	-4.2%	-3.5%	-4.5%	-7.7%	-3.1%	-3.4%	0.2%	-3.0%	-2.2%	-1.5%
Budget Balance (after Grants)	-5.1%	-4.5%	-5.3%	-8.7%	-4.4%	-5.7%	-2.0%	-6.3%	-5.7%	-5.3%
Foreign Investment and Reserves (US$ mn)										
Net Foreign Direct Investment	3,580	5,626	6,175	4,902	3,867	3,093	2,293	2,526	3,348	4,289
Net Foreign Direct Investment (ex-megaprojects)	1,366	1,552	1,472	2,306	2,594	1,771	1,381	1,516	2,009	2,573
Net International Reserves	2,240	2,605	2,996	2,882	2,196	1,727	3,062	2,750	2,613	2,417
International Reserves (in months of imports)	4.7	3.0	3.4	3.4	2.7	2.9	5.0	4.5	4.2	3.3
Exchange Rate (US$/MZM)										
Exchange Rate (period average)	29.1	28.4	30.1	31.2	39.5	62.9	63.3	61.2	63.4	65.6
Exchange Rate (end of period)	27.1	29.5	30.0	31.6	45.0	71.4	58.6	61.2	63.4	65.6

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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