

Mozambique



Mozambique flag: colour green represents the land, white peace, black the African continent, yellow the minerals, red the efforts for independence, rifle the defense, hoe agriculture, open book the importance of education, and star the Marxism and internationalism.

Economic Indicators	
GDP (USD bn) (2019 FMI proj.)	14.9
GDP/Capita (USD, nominal) (2019 FMI proj.)	477
GDP growth (2019 FMI proj.)	2.2%
Inflation (2019 annual avg FMI proj.)	2.8%
Unemployment (World Bank 2019)	3.2%
Agriculture weight (% GDP 2Q2019 INE)	26.9%
Industry weight (% GDP 2Q2019 INE)	15.7%
Services weight (% GDP 2Q2019 INE)	49.4%
PMI Whole Economy (Apr 2019 Markit)	37.1

Source: INE; Markit; FMI

Description

Mozambique has a big opportunity for development and growth through the exploration of its huge gas reserves. These would represent not only an excellent source of revenues for public investments by the government, but also have the potential to attract other foreign investment. There are however several risks that need to be handled, including conflicts with the Islamic State in the north, a loss of confidence from foreign investors due to 2016 debt crisis, occurrence of frequent natural disasters and now the Covid-19 pandemic.

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Summary of main topics

Natural Gas reserves: Several companies committed huge amounts of investment in the country to develop these resources which correspond to around 5x the annual gas consumption of the world. If the projects succeed, in 2022, Mozambique may start to ramp up production in Coral South Field which has an annual capacity for 3.4 mtpa (around USD 800 mn in revenues per year) and in 2024 the ramp up of Golfinho/Atum fields (around 100 mcf/d or around USD 200 mn per year).

Conflicts in Cabo Delgado: In North of Mozambique, in Cabo Delgado region, there have been severe and violent conflicts between Islamic insurgents and the government forces. Recently there were discussions with South Africa regarding external help to solve this situation. If unsolved, may cause disruption of the gas projects in the region.

Covid-19: The virus appears to not have spread significantly in the region. Furthermore, the population of Mozambique is very young (only 6% has 55 years old or more) as there are more severe causes of death as HIV which have increased the mortality rate to high levels.

Debt crisis in 2016: The discovery of secret loans with state guarantees in 2016 and withdrawal of support from IMF led to a debt default in 2017. Meanwhile in the end of 2019 an agreement was reached with the majority of bondholders of the Eurobond. It would be very important for the development of the country to regain the international investors' confidence to finance infrastructures and other public projects in the country.

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Geopolitics

Capital city: Maputo

Total land: 786,380 sq km

Land use: Agriculture (~56%), forest (44%).

Population: around 30 million (growth 2.6%); life expectancy 56 years.

Population Distribution: Cluster along southern coast between Maputo and Inhambane; central between Beira and Chimoio; north from Nampula to Pemba.

Languages: Portuguese (official) 17%; Emakhuwa 26%; Xichangana 9%; Cisena 7%; and others.

Religions: Roman Catholic (27%), Muslim (18%), Zionist Christian (16%); Evangelical (15%).

Borders: Malawi, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.

Natural disasters: Droughts, cyclones and floods.



Source: United Nations

After attaining its independence in 1975, the country suffered a high level of emigration, a severe drought and prolonged civil war. These events allied to its dependence on South Africa delayed the country's development to the mid-1990s.

The two main political forces in the country, Front of the Liberation of Mozambique (FRELIMO) and rebel Mozambique National Resistance (RENAMO) fought for the leadership of Mozambique until a peace agreement in 1992 mediated by UN, followed by minor conflicts until a comprehensive peace deal in August of 2019.

Mozambique has a very young population (around 45% under 15, and only 6% are 55 or more years old) due to high fertility but high mortality rate (due in part to HIV), so population growth is capped.

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▲ Government

Mozambique is a Presidential Republic, the chief of state is President Filipe Nyusi (FRELIMO) and the Prime Minister is Agostinho do Rosario. The cabinet (including prime minister) is appointed by the president, which is elected by an absolute majority, for a 5 year term (2 consecutive terms maximum). The unicameral assembly has 250 seats.

President Filipe Jacinto Nyusi was elected in 2014 and re-elected in 2019. He joined FRELIMO in 1973. He has a degree in mechanical engineering from University of Defence in Czech Republic, and a postgraduate degree in management from Victoria University of Manchester in England.

Last election was held in October 2019 and President Filipe Nyusi was elected in the first round with 73% of the votes vs 21.9% of Ossufo Momade (RENAMO). The legislative election was held in the same date of which FRELIMO got 71% of the votes and RENAMO 23%, followed by MDM 4%. Next elections are in October of 2024.

Constitutional amendments require 2/3 of majority vote by the Assembly and approval in referendum, and may be submitted by the president of the republic or at least 1/3 of the assembly.

The Supreme Court president and vice-president is appointed by the president of the Republic, and the other 5 judges by the assembly. Vice President has to be ratified also by the assembly.

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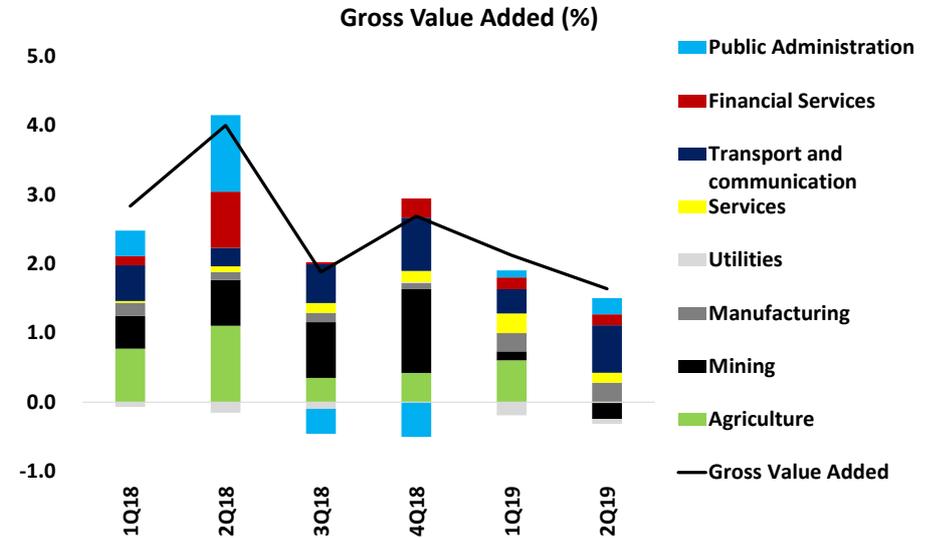
▲ Economic Analysis

GDP

Mozambique’s GDP growth depends greatly on Agriculture, Mining and Transport & Communication activities. Public administration also had a significant impact.



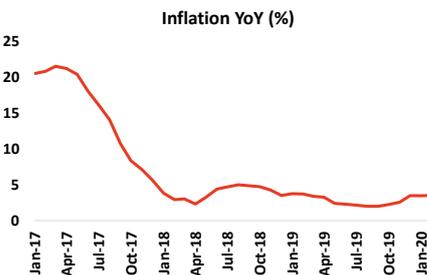
Source: INE Moçambique



Source: INE

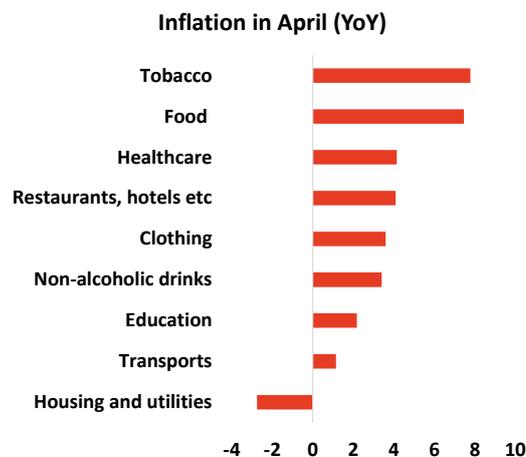
In 2019 there was a slowdown in growth to around 2% vs 3.4% in 2018, mainly because of the 2 cyclones negative impact in agriculture and infrastructures, and the decline in external demand which hurt exports.

In 2020 growth will be severely affected by Covid-19, which will decrease tax revenues and disrupt construction, transportation, mining and demand for exports. So growth is estimated to remain around 2% vs previous estimates around 6%.



Source: INE Moçambique

Inflation: The target for inflation is between 5% to 6%, and in April registered 3.3% yoy. For 2020 however is expected that inflation may increase due to foreign exchange depreciation and supply shocks due to Covid-19.



Source: INE Moçambique

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▲ Government Budget

The Covid-19 crisis will demand a higher spending in healthcare and subsidies while cutting short the revenues from exports and tax. The Economist Intelligence Unit predicts a drop of fiscal deficit to 13.3% of GDP in 2020 vs 8.4% estimated in 2019.

Fiscal reforms: Despite the health crisis, the government intends to implement a series of reforms to balance the budget:

- **Wage freeze:** To be implemented in 2020 and enable saving of around 1.2% of GDP
- **VAT reform:** To be implemented in 2021, and expected to reduce exceptions and zero rates in order to generate 0.5% in GDP in 2021 and 0.75% in 2022.
- **Reduce debt:** Government intends gradually to reduce domestic debt and increase deposits.

Reserves: International reserves rose to USD 3.9 bn at end of 2019, vs USD 3.1 bn in 2018 (mainly due to capital gain tax on the Total deal with Anadarko). However, in 2020, IMF estimates reserves will drop to USD 3 bn.

▲ Government Debt

Given the impact of cyclones in 2019, the government had to increase its domestic debt

IMF: In April of 2019 the institution approved a USD 118 mn loan for Emergency Assistance under the Rapid Credit Facility, due to the cyclones. In April of 2020 approved further USD 309 mn in order to help the country cope with the COVID-19 pandemic.

▲ Debt Crisis in 2016

Due to the revelation that state-owned companies contracted illegally government-guaranteed loans, the IMF suspended the stand-by credit facility. This situation led to a steep depreciation of Mozambique's currency. The country entered into an official default in February of 2017, by missing a coupon payment on its sole sovereign bond.

In June of 2019, Mozambique's constitutional court declared illegal the USD 850 mn Eurobond issued by state-owned company Ematum, despite in 2016, the state having agreed to swap the outstanding amount of this bond (USD 697 mn) for a sovereign bond.

By September 2019, the majority of bondholders accepted the proposal to restructure the USD 727 mn Eurobond. It will involve the issuance of USD 900 mn of new bonds maturing in 2031 with a 5% interest rate until 2023 and 9% onwards until maturity. A previous proposal in 2018 included linking coupons to gas revenues, but that condition was dropped.

In May 2020, Mozambique's constitutional court declared void the two loans of the state-owned companies. These corresponded to more than USD 1 bn of hidden debt. The loans were taken by ProIndicus and Mozambique Asset Management for a USD 2 bn tuna fishing project and maritime security, of which US authorities say were a bribery and kickback scheme. Credit Suisse and VTB (Russian bank) were involved and state that the government is liable, respectively for USD 622 mn and USD 535 mn. BCP (Portuguese bank) contributed with USD 100 mn for the VTB loan and has filed a proceeding in London's High Court against both the government and Mozambique Asset Management.

Government finances (USD mn; 2019 est. FMI)	
Total Revenues	4,023
Tax on Income and profits	2,100
Tax on Goods and Services	1,041
Tax on International Trade	249
Other tax and non tax revenues	635
Total expenditure and net lending	4,180
Compensation to employees	1,707
Goods and services	600
Interest on public debt	454
Subsidies and transfers	325
Capital Expenditure	1,001
Net Lending	93
Balance	157

Source: FMI

▲ Mozambique's Central Bank

Commercial Banks Credit (Feb 2020)	
Agriculture, Fishing, livestock	120
Mining	96
Manufacturing	432
Construction and Public works	290
Trade & tourism	453
Transport, Storage and Comm	326
Individuals	800
Housing	113
Other	797
Total	3,428

Source: Mozambique Central Bank

Mozambique Central Bank Balance Sheet (USD mn; February 2020)	
International Gross Reserves	3,898
Foreign liabilities	- 317
Credit to Government	- 1,623
Credit to Banks	- 883
Credit to Economy	63
Other	1,181
Monetary Base	2,319

Source: Mozambique Central Bank

Last decision: On 16th of April, 2020, Mozambique's Central Bank decided to cut the reference interest rate (MIMO) by 1.5% to 11.25%, due to low expected inflation due to a decline in demand caused by Covid-19 situation and low oil prices. The FPD (Deposit Facility) and FPC (Loan Facility) were cut by 1.5% also, to 8.25% and 14.25% respectively.

▲ Banking sector

The sector in Mozambique has still much room for development with approximately only around 18% of the population with bank accounts. For banks there is a strong opportunity as ROE achieves around 25%. The financial strength of the sector, is evident from both the ratio of deposits to loans, as well as capital to RWA and provisions, despite NPLs to Gross Loans being around 10%.

Financial Indicators Banking sector (Dec19)	
ROE	24.9%
ROA	3.0%
Interest mg to gross income	67.6%
Fee and Commission to Total Income	21.4%
Customer deposits to total loans	182.7%
FX Loans to FX deposits	47.8%
Liquid Assets to total deposits	20.7%
Regulatory Capital to RWA	29.1%
NPLs to Gross Loans	10.2%
Provisions to NPLs	93.0%

Source: Mozambique Central Bank

Average interest rates (February 2020)	
Non financial institutions (loan > 145,500 USD; 181-365 days)	21%
Individuals (Housing >365 days)	19%
Individuals (Consumption 181-365 days)	23%
Deposits to Corporations (181 - 365 days)	9%
Deposits to Individuals (181-365 days)	9%

Source: Mozambique Central Bank

Commercial Banks BS (USD mn; February 2020)	
Net Foreign Assets	625
Net Domestic Assets	6,067
Banks reserves	1,739
Liabilities to MCB	861
Credit to Government	1,982
Credit to the Economy	3,494
Other	- 2,009
Deposits	6,692

Source: Mozambique Central Bank

Commercial Banks (June 2017)	
Number of bank accounts	5,443,164
Number of bank cards	3,526,012
Banking stations	642
ATMs	1,701
POS	25,689

Source: Mozambique Central Bank

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▲ Current Account

Current Account (USD mn; 2019 est. FMI)	
Trade Balance of Goods	- 2,081
Exports	4,717
Imports	6,798
Services	- 1,895
Primary income	- 347
Interest on public debt	- 222
Secondary Income	1,245
Current Account Balance	- 3,078

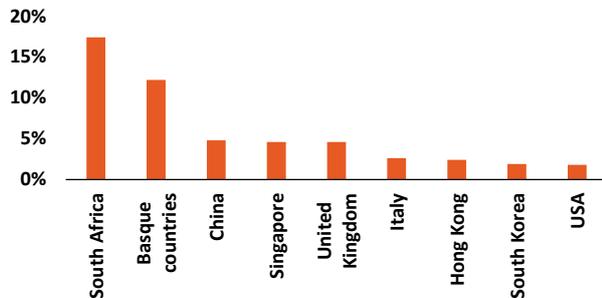
The current account deficit improved in 2019 to around 21% of GDP vs around 31% in 2018, mainly due to lower imports of services related to megaprojects and a large payment of USD 800 mn of one-off capital gain taxes due to the purchase of Anadarko stake by Total of Area 1 (secondary income). Trade Balance was negatively affected by lower coal exports, higher import of goods related to the megaprojects and to the cyclones destruction. Mozambique also received Foreign Direct Investment, FMI RCF and international aid.

Source: FMI

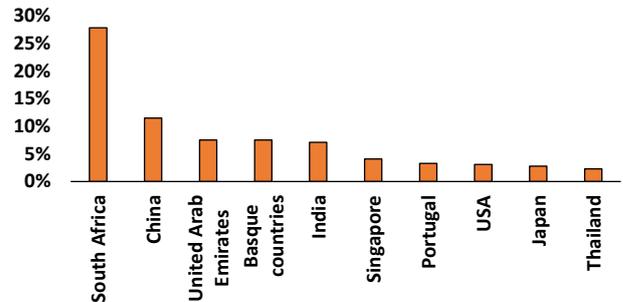
▲ External trade

Exports of Mozambique are not diversified and rely mainly on coal production to India, gas and electricity to South Africa and aluminium for Basque countries. The decline in prices of commodities and stoppages at Vale’s mine will probably have negative effect in exports in 2020. In the future, natural gas should be one of the main products exported.

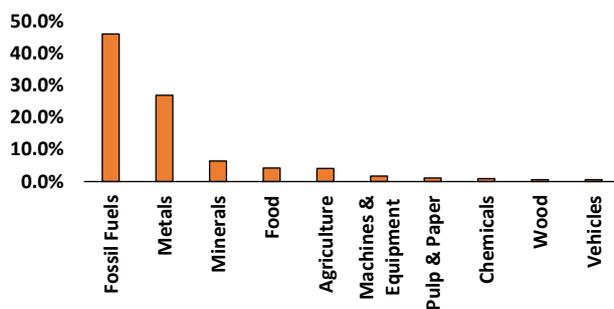
Main Export Partners



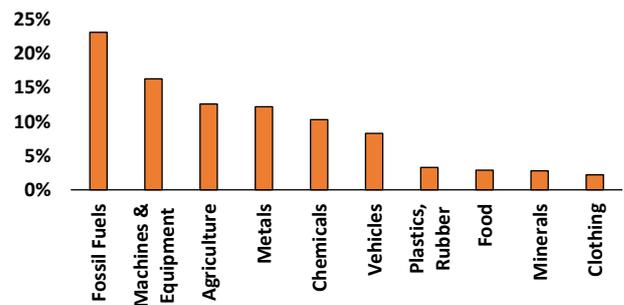
Main Import Partners



Main Export Products



Main Import Products



Source: INE

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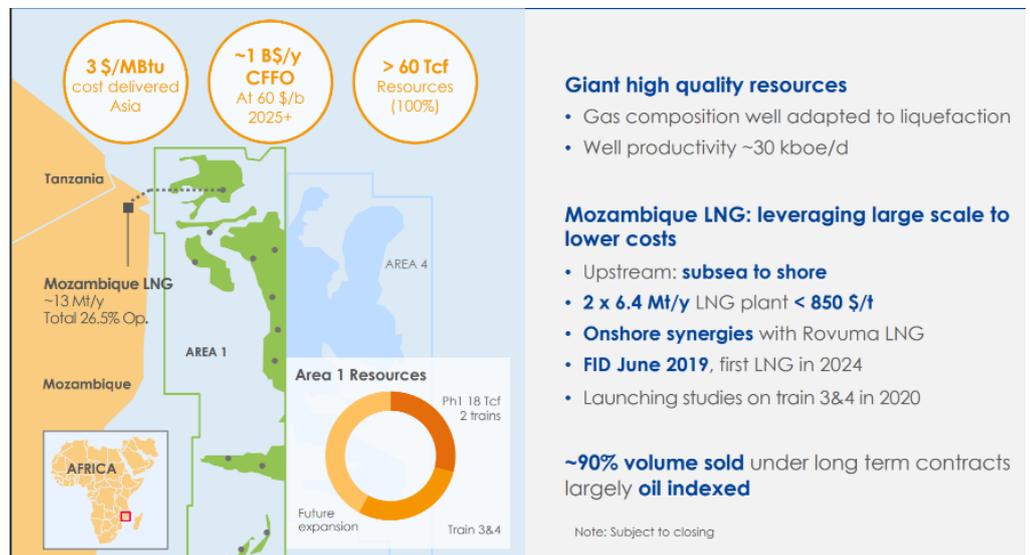
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Gas projects in Mozambique

Area 1 (Mozambique LNG project): This area in North of Mozambique is estimated to have gas reserves of 60 tcf (roughly 2x annual world consumption) in a water depth of 1600 meters.

- **Companies involved:** Total (26.5%, operator), Empresa Nacional de Hidrocarbonetos (ENH, national oil company, 15%), Mitsui (20%), ONGC Videsh (16%), Bharat PetroResources (10%), PTTEP Mozambique Area (8.5%) and Oil India (4%). Total entered the project by purchasing the stake from Anadarko for USD 3.9 bn, committing to develop Golfinho and Atum fields as well as construction of a liquefaction plant with 12.9 mtpa capacity.
- **SPAs (Sale & Purchase Agreements):** EDF (1.2 mtpa for 15 years); Tohoku Electric (0.28 mtpa for 15 years); CNOOC (1.5 mtpa for 13 years); Pertamina (1 mtpa for 20 years); Bharat (1 mtpa for 15 years); Shell (2 mtpa for 13 years); Tokyo Gas and Centrica (2.6 mtpa until 2040s); Jera and CPC (1.6 mtpa for 17 years).



Source: Total

- **Golfinho/Atum fields:** Estimated to produce initially around 100 mn cubic feet of natural gas per day, in 2024.
- **Onshore LNG facility:** Started construction in August of 2019 near Palma in Cabo Delgado. It will have 2 LNG trains, each with a capacity of 6 mtpa, and 2 LNG storage tanks with capacity each for 180 thousand cubic meters. A liquefaction plant with 12.9 mtpa capacity will also be built.

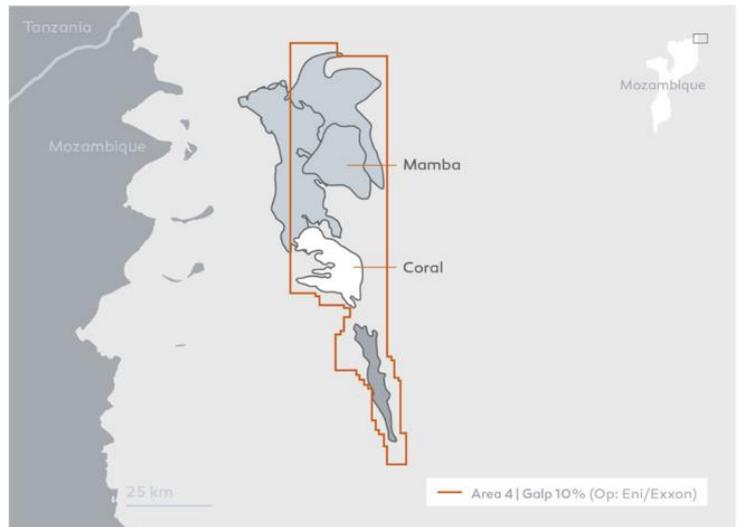
Area 4 (Rovuma LNG project): This area in North of Mozambique is estimated to have gas reserves of 85 tcf (roughly 2.7x annual world consumption) in a water depth of 2000 meters.

- **Companies involved:** Mozambique Rovuma Venture (Eni 35.7%, ExxonMobil 35.7%, CNPC 28.6%) owns 70% of area 4 permits, while ENH, Galp and Kogas have each 10%. Eni and ExxonMobil are in charge of the development and operation of the projects in this area, being Eni responsible for upstream facilities and South Coral LNG and ExxonMobil by the construction and operation of future liquefaction trains and associated onshore facilities.

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Source: Galp

- **Coral South field:** This field was discovered in 2012, and is estimated to hold 16 trillion cubic feet of gas reserves. Eni is building the South Coral FLNG capable of offloading 3.4 million tonnes of LNG per year (mtpa). Total capex for upstream and midstream is estimated at USD 7bn of which USD 5 bn was financed by a syndicate of banks and Export Credit Agencies. In 2016 BP signed an agreement to purchase 100% of the LNG from Coral South for 20 years. Start up expected in 2022.



Source: Eni

- **Onshore LNG facility:** Will be located near Palma and it will have 2 LNG trains, each with a capacity of 7.6 mtpa. ExxonMobil delayed the Final Investment Decision for 2021 due to Covid-19 and low oil prices.

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COVID-19

Confirmed cases: 162 / Deaths: 0 / Recoveries: 48

Main measures imposed by the government were at first to quarantine people arriving from high risk countries and screening visitors, however allegedly borders were not strictly controlled and limits to crossings were quite relaxed. Government also imposed isolation for people suspected to be infected, before implementing a state of emergency on April 1st. Also implemented the closure of schools, banned gatherings (including religious) of more than 50 people and limited activity in non-essential shops.

Covid-19 main impact will be in exports and tax revenues, while government approved an increase in spending in healthcare. IMF approved a Rapid Credit Facility of USD 309 mn to help the country.

Other measures include a foreign currency credit line of USD 500 mn to support institutions participating in the interbank foreign exchange market and waiver until the end of the year for provisions by financial sector in cases of renegotiation of loans for clients affected by Covid-19.

Central Bank decreased interest rates to help counter the negative effects of the pandemic.

Cabo Delgado conflicts

In North of Mozambique, in Cabo Delgado region, there have been severe and violent conflicts between Islamic insurgents and the government forces. The Islamic insurgents are composed by the native extremist faction Ansar al-Sunna and recently also ISIL (Islamic State of Iraq and the Levant). The majority of its members are locals, but there are also reports of citizens from Tanzania and Somalia.

These Islamic insurgents captured the town of Quissanga on March of 2020, which has an important port used to transport commodities to Quirimba archipelago. Days before, the city of Mocimboa da Praia but only occupied it for 2 days. Also occupied territories near Bilibiza, which limited the access in main north-south roads to the energy fields of Palma where the LNG onshore facilities are being built.

Government has not been able to provide a significant response, and Wagner Group (private security company from Russia) appears to not be intervening as expected. Wagner group is also battling IS in Syria, and there have been reports that its deployment in Cabo Delgado besides being ineffective, has contributed for deployment of international IS forces. Mozambique's army force meanwhile is estimated to have only 11 thousand people in personnel.

On May 14th, Mozambique's interior minister said 50 insurgents were killed in the previous days, and in the end of the month, news came out suggesting South Africa would help Mozambique in this conflict.

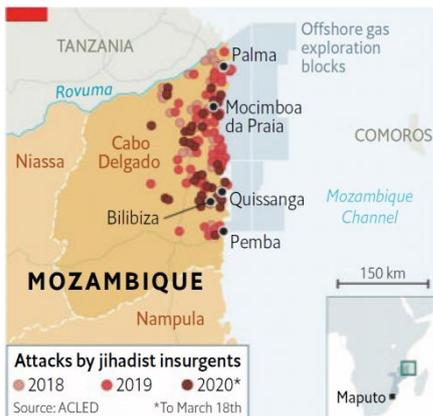
Natural disasters

In 2019, Mozambique was struck by 2 violent natural disasters, tropical cyclone Idai in March and cyclone Kenneth 6 weeks later. Idai made landfall at the center of Mozambique near Beira city and Kenneth in the north.

Idai caused more than 1,300 deaths in Mozambique, Zimbabwe and Malawi, being classified as one of the worst tropical cyclones to affect Africa. The estimated damage in infrastructure and homes was around USD 800 million.

Kenneth led to the evacuation of 30 thousand people and destroyed more than 2500 houses in Cabo Delgado, while causing 45 deaths in Mozambique.

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Source: ACLED; The Economist

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Government Bonds (examples)

Name	Ticker	Coupon	Maturity	Maturity Type	Currency	YTM
Mozambique International Bond	MOZAM	5	15/09/2031	SINKABLE	USD	10.90%
Mozambique Government Bond	MOZGB	10	13/06/2021	CALLABLE	MZN	1.20%
Mozambique Government Bond	MOZGB	12.6875	08/05/2022	CALLABLE	MZN	4.40%
Mozambique Treasury Bills	MOZTB	0	14/10/2020	AT MATURITY	MZN	0.02%
Mozambique Government Bond	MOZGB	14	24/04/2025	AT MATURITY	MZN	14%
Mozambique Government Bond	MOZGB	16	22/12/2027	SINKABLE	MZN	0%

Source: BVM; Bloomberg

Corporate Bonds (examples)

Name	Ticker	YTM	Coupon	Maturity	Maturity Type	Currency
Bayport Financial Services Mozambique MCB SA	BAYPRT	22%	23.75	17/07/2021	CALL/PUT	MZN
Banco Nacional de Investimento SA	BNIR	15.30%	16.5	15/09/2021	CALLABLE	MZN
Bayport Financial Services Mozambique MCB SA	BAYPRT	21.80%	22	16/08/2021	AT MATURITY	MZN
Standard Bank Sarl	STNBMZ	18.80%	20.25	08/08/2025	CALLABLE	MZN
Moza Banco SA	MOZABC	14.30%	15.75	27/12/2023	CALLABLE	MZN
Cia de Mocambique SA	CODEMZ	14.20%	14.25	13/12/2021	AT MATURITY	MZN
BIM - Banco Internacional de Mocambique SA	BNCIMZ	15.70%	15.75	26/10/2022	CALLABLE	MZN
Opportunity Bank SA	MBCGR	21.40%	21.5	29/06/2021	AT MATURITY	MZN

Source: BVM; Bloomberg

Equity market (examples)

Ticker	Name	Industry	Market cap (mn MZN)	Market Cap (mn USD)
CDM	Cervejas de Mozambique	Beer and soft drinks	17,439	253.8
HCB	Hidroeléctrica de Cahora	Renewable Energy	7,212	105.0
CETA	Ceta Construção e Serviços	Engineering	2,100	30.6
CMH	Cia Mozambicana de Hidrocarbonetos	Oil	1,484	21.6
REVIMO	Rede Viária de Moçambique	Infrastructures	842	12.2
EMOSE	Empresa Moçambicana de Seguros	Insurance	314	4.6
ZERO	Zero Investimentos	Financial	271	3.9
ARKO SEGUROS	Arko Seguros	Insurance	50	0.7
ARCO	Arco Investimentos	Financial	24	0.3
TOUCH	Touch Publicidade	Marketing	14	0.2

Source: BVM

Sources

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- World Bank:
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