

Mozambique Business Forecast Report Q1 2015

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Abstracts

Core Views

Opposition concerns about the Mozambican election's credibility are shared by many observers, but the result – a victory of ruling party Frelimo – will not be overturned. A negotiated settlement, which gives Renamo leaders more status, will nonetheless be necessary. The chances of a successful agreement are bolstered by the consensusbased approach President-elect Felipe Nyussi.

Mozambique's growth forecasts are unchanged following the ruling party's widely expected victory at the October 2014 elections. However, the strong performance of the opposition increases security and policy risks, and these could result in lower growth than we are currently forecasting. Mozambique's monetary policy committee will cut rates by 25 basis points to 8.00% in 2015 as it balances low inflation and growth concerns against an uncertain outlook for the currency. A pronounced slowdown for economic growth would lead to more aggressive cuts, however.

The outlook for Mozambique's external accounts has been clouded by falling prices for coking coal, an increasingly important export. However, the impact of this will be offset by lower oil prices which will constrain the growth of the import bill and the net effect will therefore be marginal.

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Frelimo Victory To Be Confirmed, Negotiations Ahead

Opposition concerns about the Mozambican election's credibility are shared by many observers but the result - a victory of ruling party Frelimo - will not be overturned. A negotiated settlement, which gives Renamo leaders more status, will nonetheless be necessary. The chances of a successful agreement are bolstered by the consensus-based approach President-elect Felipe Nyussi.

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Poverty And Corruption At The Top Of The Agenda

Frelimo's dominance of the Mozambican political landscape bodes well for policy continuity, although the lack of a credible opposition party reduces the scope for checks and balances to ensure accountability and transparency. This means that corruption, which is rife in all levels of Mozambican society, is one of the most difficult and pressing issues to be addressed over the coming decade. Poverty reduction and ensuring that all income groups and regions benefit from economic development are similarly serious concerns for the government.

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Mozambique's growth forecasts are unchanged, following the ruling party's widely expected victory at October 2014 elections. However, the strong performance of the opposition increases security and policy risks and these could well result in lower growth than we are currently forecasting.

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The outlook for Mozambique's external accounts has been clouded by falling prices for coking coal, an increasingly important export. However, the impact of this will be offset by lower oil prices which will constrain the growth of the import bill and the net effect will therefore be marginal.

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Mozambique's monetary policy committee will cut rates by 25 basis points to 8.00% in 2015 as it balances low inflation and growth concerns against an uncertain outlook for the currency. A pronounced slowdown for economic growth would lead to more aggressive cuts, however.

Table: Monetary Policy

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The outlook for Mozambican banking sector asset growth is bright owing to low penetration and a robust economic growth outlook. However, challenges in accessing finance and deficient physical infrastructure mean asset growth will come from service offered to large corporates rather than small and medium enterprises and individuals.

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Mozambique has seen consistently spectacular rates of real GDP growth since the end of the civil war in 1992, averaging 8.0 %between 1993 and 2011, driven by the first generation of post-conflict reforms. Prudent macroeconomic and fiscal management and an investment-orientated president determined to reduce the country's dire level of poverty, Armando Guebuza, will, in our opinion, help sustain ongoing robust average annual GDP growth at around 10.0 % over the coming decade.

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