

# Mozambique Business Forecast Report Q2 2014

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## Abstracts

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### Core Views

Although a positive sign that progress to end violence in Mozambique can be made, the announcement by opposition party Renamo that it will participate in the October 2014 general election should be treated with caution. Clashes between the government forces and Renamo have continued during early 2014 and this could harden the government's position. Even if Renamo do take part in the vote, we believe that the party will fare poorly. Strong economic growth and the central bank's tendency to be prudent lead us to believe that Mozambique's benchmark interest rate will be held at 8.25% in 2014. However, we are expecting inflation to remain benign and this could prompt the authorities to loosen policy further, especially if global economic activity presents any negative surprises. We maintain our view that FDI will cover Mozambique's massive current account deficit, leaving the country's external accounts in a sustainable position. However, risks stem from tensions between the government and opposition party Renamo, and from foreign donor concerns about government policy.

### Major Forecast Changes

We have downgraded our 2014 growth forecast from 8.1% to 6.9% owing to signs that political instability is harming private consumption. The relatively modest downgrade, and the fact that we see growth rebounding in 2015, reflects our belief that the negative effect will not be too significant or long-lasting. However, we note that downside risks remain.

The issuance of US\$850mn worth of government-backed bonds in late 2013 has led us

to increase our forecasts for Mozambique's fiscal deficit, which we now see reaching 10.1% of GDP (including grants) in 2014. We expect the shortfall to narrow in 2015 and to flip into surplus following the onset of gas production, likely in 2020. However, we note that controversy surrounding the bond issuance could pose a threat to donor support and therefore could impact Mozambique's short to medium term fiscal outlook.

### **Key Risks To Outlook**

Mozambique is vulnerable to adverse weather specifically too much or too little rain and this will continue to pose a risk to the agricultural lybased economy.

The security situation poses a major threat to economic growth, the external accounts and government revenue as a significant deterioration would likely lead to reduced foreign investment inflows. A failure to address deficient infrastructure is the most pressing risk to our upbeat view on the Mozambican economy. Transport infrastructure in particular is currently inadequate to get Mozambique's natural riches to international markets. Failure to address this would negatively impact our expectation that exports will be a major driver of growth over the coming years.

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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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Strong economic growth and the central bank's tendency to be prudent lead us to believe that Mozambique's benchmark interest rate will be held at 8.25% in 2014. However, we are expecting inflation to remain benign and this could prompt the authorities to loosen policy further, especially if global economic activity presents any negative surprises.

Fiscal Deficit To Increase On Fishing Investment the issuance of US\$850mn worth of government-backed bonds in late 2013 has led us to increase our forecasts for Mozambique's fiscal deficit, which we now see reaching 10.1% of GDP (including grants) in 2014. We expect the shortfall to narrow in 2015 and to flip into surplus following the onset of gas production, likely in 2020. However, we note that controversy surrounding the bond issuance could pose a threat to donor support and therefore could impact Mozambique's short to medium term fiscal outlook.

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