

REPUBLIC OF MOZAMBIQUE
NOVEMBER 2009

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt recovery
3C	→	→	The use of a collection agent is advised. It has been noted that collection is difficult.

Credit Guarantee Experience

Mozambique is not a claims-free country. Recent experience in this market has been good.

Political Highlights

- ❑ Chief of state since February 2005 has been President Armando Guebuza. The next election is due by December 2009.
- ❑ President Guebuza and the other two candidates from the opposition Renamo and MDM have launched their campaigns in early October for the presidential election set for 28th October. The president called on citizens who support different political parties to avoid regarding each other as enemies and denounced the use of violence against one another. He stated that unity had been the decisive factor in defeating colonial rule and would prove an invincible force in the struggle to eradicate the current enemies of the Mozambican people such as absolute poverty. He also promised that his Government would continue to transfer funds for the accelerated development of the country's 128 districts to which he would continue to make regular visits to check on the health of the districts. He stressed that the transfer of funds to the districts, which began in 2006 with 7m meticals (\$280.000) for each district, had made a significant contribution to the social and economic advancement of previously remote and backward areas.

Recent Economic Highlights

- ❑ Mozambique has a population of 21.7m with an expected population growth rate of 1.8% in 2009.
- ❑ Mozambique was one of the world's poorest countries in the 1970s. A civil war from 1977-1992 coupled with socialist mismanagement exacerbated the situation. In the late 1980s, Government embarked on a series of macroeconomic reforms designed to stabilise the economy. With donor assistance and political stability, the country's fortunes improved dramatically.
- ❑ The IMF predicts that the economy is likely to grow 4.5% this year and a recovery in exports is expected to help stabilise its current account deficit at around 10% of GDP over 2010 to 2012. The Fund expects growth to expand to 5.5% in 2010 and 6% over the medium-term. The economy grew 6.5% in 2008, but it remains one of the poorer African countries, heavily dependent on agriculture and foreign aid. The Fund said that it was important to 'monitor closely' commercial banks' liquidity and credit quality. It forecasts inflation to have fallen in 2009 and remain below 6% over the medium-term. Inflation was 6.19% in 2008 from 10.3% in 2007.
- ❑ At the end of 2007 Government took over Portugal's controlling share in the Cahora Bassa Hydroelectricity (HCB) Company, a dam that was not transferred to Mozambique at independence due to the ensuing civil war and unpaid debts. Geological and hydrological surveys will be concluded in 2010 to determine how construction for the North Plant, upstream of the current dam, will be drawn up. Construction of the northern power plant would increase production capacity of HCB to a total of 3,300 megawatts – an increase of 1,300 MW. The project will include the installation of three or four new generators and will cost \$2bn.
- ❑ A new study has revealed that Mozambique could supply electricity to a greater percentage of its population by producing biomass-fired energy. The Mozambican sugar mills are expecting to produce 419,000 metric tonnes of sugar – a 68% increase on 2008. Environmentalists say that the waste from this and other resources could see Mozambique become a regional leader in biomass-fired electricity. There is significant potential for green biomass from five sugar farms that could generate electricity from cane waste and this could put an additional 60MW on the grid. About 85% of the population is currently living without electricity.
- ❑ A new project to construct 2,000km railway line and 6,400km of roads may link the whole of Mozambique is underway. The project is part of the Strategy for Integrated Development of the Transport System and is estimated to cost over \$11bn. The project is set to run between 2009 and 2023 and the railway line is expected to cost \$5bn, with the remaining \$6bn spent on construction of roads and bridges. The aim is to create a development corridor to make it easier to link rail transport with ports and roads.
- ❑ Nedbank Capital, a unit of Nedbank Group, has concluded a \$17m trade finance facility with UK-based Plexus Cotton to cover purchases of cotton lint in Mozambique. The facility would be used to finance cotton grown in Mozambique until the end of the season next February. Plexus operations in Mozambique account for 50% of the country's annual output.
- ❑ Tourism investment projects via the so called 'anchor projects' may attract \$1.2bn to Mozambique. The projects aim to stimulate growth and investment in the tourism sector and will create 26,000 jobs that will be created directly and indirectly by the proposed projects and 5,000 during the construction phase. A concessional proposal for the development and exploration of eco-tourism resorts at Ponta Milibangalala, Ponta Chemucwane and Ponta Dabela has been drawn up. About \$43m will be invested in these areas to build these resorts.

- ❑ As South Africa prepares for the 2010 FIFA World Cup, Mozambique travelers are already indicating a desire to visit the country. Spending by Mozambican Visa card holders in SA increased 11% from 2007, representing \$1.8bn in SA tourism revenues. In terms of Visa cardholder spend, Mozambique travelers ranked ninth. The average purchase amount for Mozambican travellers was \$130 and key categories for spending include general retail and supermarkets. Spending continued to increase in 2009 with \$21m spent during the first half of the year – 160% higher than the same period of 2008.

Trade Developments

- ❑ Major exports: aluminium, prawns, cashews, cotton, sugar, citrus, timber and bulk electricity.
- ❑ Major imports: machinery and equipment, vehicles, fuel, chemicals, metal products, food and textiles.
- ❑ Main trading partners: SA, Italy, Belgium, Spain, UK, China and Australia and Zimbabwe.
- ❑ Qatar's Emir Sheik Hamad bin Khalifa al Thani has stated that his country is interested in investing in Mozambique, particularly in tourism, energy and infrastructures. Discussion between both countries included the possibility of investing in tourism and infrastructure in the northern port of Nacala.
- ❑ South African exports to Mozambique totaled R13.5bn in 2008 from R9bn in 2007 and R6bn in 2006 and amounted to R8.2bn in the year to July 2009. Mozambique is currently SA's eighth largest export destination.

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