

COUNTRY PROFILE:**REPUBLIC OF MOZAMBIQUE****DATED:****JULY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
3C	→	→	Debt recovery may be more successful when utilising a good collection agent.

Credit Guarantee Experience

We are open for cover with no restrictions in this market, where exposure continues to grow steadily. Whilst there are good business opportunities in this market, it has yielded claims and as such it is important for exporters not to conduct business at arms length. When dealing on open account terms, it is important to manage payment risks prudently.

Recent Political Highlights

- Chief of state since February 2005 has been President Armando Guebuza. The president is elected by popular vote for a five-year term. The next election is scheduled for December 2009.

Recent Economic Highlights

- Mozambique has a population of 21m that grew at an expected rate of 1.8% in 2007. The IMF forecast 7% GDP growth in 2007 and 2008 from 8% in 2006. According to Finance Minister Manuel Chang, Mozambique wants to attract investment in agriculture and tourism to help it reach an 8% economic growth target in 2008, up from an earlier projected 7%. The World Bank stated that despite the floods and cyclones, Mozambique's growth expectations were realistic. The Bank remains upbeat about the economy and stated that inflation, which reached 8.4% in 2007, could be kept in single digits in 2008. Inflation is expected closer to 10% in 2008. Overall inflation was almost entirely driven by food prices in the past twelve months and is not expected to decline in the short term.
- Mozambique's national statistical office began issuing monthly bulletins that reported on economic climate, job expectations and confidence indicators. The economic climate indicators improved from 108 in March to 111.7 in April. Business confidence has been rising since November 2007 and is largely due to buoyant activity in services, strong projections of demand prospects in commerce and expectations of a significant pickup in the volume of business in construction. Confidence in the transport sector declined, while confidence in the services sector has reached a record in April in the history of the survey.
- Work on the fuel pipeline from the port of Maputo to South Africa is expected to begin in June 2008. The project is budgeted at \$537m and involves building a pipeline to carry refined fuels from the Matola oil terminal to the SA city of Kendal. The pipeline will carry 5m cubic metres of liquid fuel a year boosting Mozambique's exports to SA. It will reduce the number of petrol tankers on the roads. The pipeline operating company is Petroline Holdings registered in SA.
- The project to build an oil refinery at Nacala-a-Velha in the northern province of Mozambique is taking off with the transport of equipment and machinery to the building site. The first production of refined fuels from this project, budgeted at around \$5bn, is expected in 2010. This initial phase also includes building an Arts and Crafts School, intended to train local people. The school will be supported by the Mozambican and Brazilian Governments. The refinery is justified due to the rail links from Nacala to Malawi and eventually into Zambia and Angola, making it possible to supply a vast market with refined fuels. A series of other industries complementary to the refinery including plants producing chemicals, plastics and fertilizer could be developed. The largest investor is a US-registered company called Ayr Logistics that owns 70% of refinery. It would be able to produce over 300,000bpd and employ 450 workers.
- The Mozambican Agriculture Ministry signed an agreement with the European Commission under which the institution is to finance the second phase of measures to cope with the reform of the EU's sugar regime. The agreement signed grants €6m for a three year period starting in 2008. The funds would be used to bring the sugar sector into line with the new realities of the world market. Under the EU reforms, the price is likely to collapse, but the EU stated that the reforms would strengthen the competitive and market orientation of this sector guaranteeing a viable future in the long term. Over a four-year period, the EU's guaranteed price for refined sugar would fall by 36%, but from 2009 Mozambique would be able to export unrestricted quantities of sugar to Europe.
- Mozambique experienced early and heavy seasonal rains which displaced over 100,000 people in the Zambezi River Valley. Over 250,000 people who have been affected by the recent flooding in central Mozambique are in need of humanitarian assistance. It was not only households who had lost homes, fields and livestock this year, but also those who had been resettled after the floods of 2001 and 2007 and who found areas in the Tete district of Mutarara were not built on high enough ground.
- The Fisheries Minister stressed the importance of the sustainable development of fishing and of aquaculture, and particularly the development of small scale fisheries in the fight against poverty. The Minister also declared their commitment to fight against illegal, undeclared and unregulated fishing. They pledged to encourage partnerships between fishing companies of the various Portuguese speaking countries and promised to invite these companies to participate in future events organised by the community's member states.
- The Australian company Riversdale Mining plans to open its first coal mine in the western Mozambique province of Tete by the end of 2010. Riversdale describes Tete as the next major coking coal basin and has entered into a joint venture with TATA Steel of India under which the Indian company will take a 35% stake in Tete amounting to about \$95m. The Sena railway line connecting Tete to Beira is only expected to be reconstructed by mid-2009.
- The Government of the central Mozambique province of Sofala has lifted the ban on gold mining at Tsiquir in Gorongosa district that was decreed in 2004 following a fatal accident. The Government insisted that the resumption of mining is conditional on the use of new technologies and respect for the environment.

Latest Trade Developments

- Major exports: aluminium, prawns, cashews, cotton, sugar, citrus, timber, bulk and electricity.
- Major imports: machinery and equipment, fuel, chemicals, metal products, food and textiles.
- Main trading partners: Netherlands, SA, Zimbabwe, Portugal.
- The Dutch prime minister guaranteed that Holland would continue its development aid to Mozambique. Holland was willing to explore new areas for cooperation and investment with Mozambique. Tourism, banking and energy are potential areas. Holland was also interested in expanding its cooperation to agro-industry, science and technology, infrastructure and biofuels.
- As South Africa's 20th largest export destination, exports to Mozambique totaled R6.4bn in 2005, R6.2bn in 2006, R9bn in 2007 and R467m in January 2008. Imports from Mozambique rose from R318m in 2006 to R2.4bn in 2007 and R120m In January 2008.