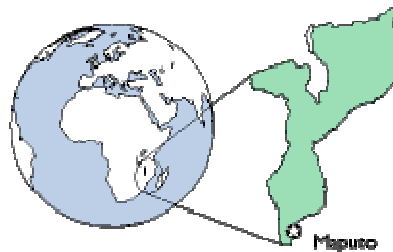


COUNTRY REVIEW

Mozambique



26 August 2011

ANALYST: Andrew Atkinson

EULER HERMES COUNTRY RISK GRADE: C

EULER HERMES COUNTRY RISK LEVEL: SENSITIVE

Country Risk Grades are on a scale of AA, A, BB, B, C, D

Country Risk Levels are on a scale of LOW, MEDIUM, SENSITIVE, HIGH

COUNTRY PROFILE

Capital city:	Maputo
GDP:	USD9.3bn (2010e)
Population:	23.41mn (2010e)
GDP per capita:	USD400 (2010e)
Currency:	Metical (MZN)
Form of state:	Republic
Head of government:	President Armando Emilio Guebuza
Next elections:	Legislative, presidential and provincial by end October 2013

The Frente de Libertação de Moçambique (Frelimo) has dominated the political environment for over 30 years, although a former rebel group, Resistência Nacional Moçambicana (Renamo), provides a parliamentary opposition. Frelimo has won all four multi-party elections since the end in 1992 of a protracted and debilitating civil war. President Armando Guebuza became head of state in February 2005, following 18 years of rule by Joaquin Chissano, who stepped down after completing his maximum allowable term under the constitution. **Guebuza and Frelimo won renewed mandates to govern, with convincing victories in elections in October 2009.** Key policies include attempts to improve transparency in political, judicial and police administrations, as well as poverty alleviation.

Despite significant overall economic progress since 1992, Mozambique remains very poor (per capita incomes have risen but remain around USD400-600) and the country is classified as 'low income' by the World Bank. In addition, like most countries in Southern Africa, there is a **high incidence of HIV/AIDS**, which puts a strain on government finances and incurs large social costs, as well as limiting the size of the effective workforce. Accordingly, **despite significant economic advances in recent years, Mozambique remains poor, affected by health and social problems and is aid dependent.** Nevertheless, given continuation of sound economic policies, international support is highly likely in the foreseeable future. Regional relations focus on a close link with neighbouring South Africa. Maputo is a significant port of entry and of export for the industrial hinterland around Johannesburg and Pretoria and South Africa has therefore a keen interest in maintaining a stable Mozambique.

The country is **prone to periodic natural disasters** (including flooding, which was particularly severe in 2000, and drought) and only in 1992 did it emerge from a long and debilitating civil war that destroyed much infrastructure and caused significant human suffering. An economic reform agenda that eschews the previous Marxist doctrine in favour of market competition has combined with exploitation of natural resources—aluminium and natural gas—to boost growth and income generation. **Real economic growth was an annual average 6.5% between 1991 and 2000 and 8% between 2001 and 2008.** A weak global economy and accompanying reduced demand for the products of Mozambique's "**mega-projects**"—including the export of gas under a pipeline arrangement with South Africa's Sasol, production from Mozal II, a large aluminium concern with its own smelter, and output from a titanium mine—reduced growth to around 3% in 2009 but renewed project-led investment should allow **annual GDP expansion of around 6% in 2011 and 2012.**

External financing requirements have been covered adequately in recent years by international donor support and multilateral inflows. Accordingly, foreign exchange reserves (USD2.3bn by mid-August 2011) have doubled since end-2007 and provide **import cover of over five months.** Other external liquidity indicators indicate the need to manage the external accounts carefully over the next two years. Mozambique was **a principal beneficiary of debt relief** under the extended HIPC initiative. It reached its completion point under the scheme in September 2001. External debt ratios have therefore improved significantly, with debt/GDP falling to 46% in 2011 (135% in 2002), debt/exports to 180% (417%) and the debt service ratio to 3% (7%). The IMF remains supportive and generally positive in its assessment of policies adopted and progress to date and it is **highly likely that the Fund would provide a fast-disbursing facility to give financial support, in need.**

Andrew Atkinson

London: +44 (0)20 7860 2577