



AFRICAN ECONOMIC OUTLOOK

Mozambique: Macroeconomic Policy and Development Challenges

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Mozambique: Country facts



1. Population: 14 million (1990)
22.4 million (2010)
2. GDP: USD 2.5 billion (1990)
USD 9.7 billion (2009)
3. life expectancy: 42 years (1990)
47 years (2008)
4. Sector Value Added (% GDP):
Agriculture (37.1% in 1990); (25.3% in 2009)
Industry (18.4% in 1990); (23.4% in 2009)
Services (44.5% in 1990); (51.4% in 2009)
5. Poverty rates: 69.7% (1996); 54.1% (2002); 54.7 % (2009)
6. Inequality (Gini coefficient): 0.42 (2002); 0.41 (2009)
7. Unemployment: 21% (1997); 18.7% (2010)
- 8 . Access to services: Primary education (NER): 66.8% (2002); 76.5 (2009);
rural water: 35% (2002); 51.2% (2009)
9. A rich natural endowment (aluminium; gas, coal; timber; water; land)
10. Human Development Index: 0.310 (1995); 0.402 (2007)



Mozambique: Country Facts



1. Colonial Period

- Source of raw material
- Labour force for mining sector in South Africa
- Corridor for export of raw materials to Europe and Asia

2. Post-Independence

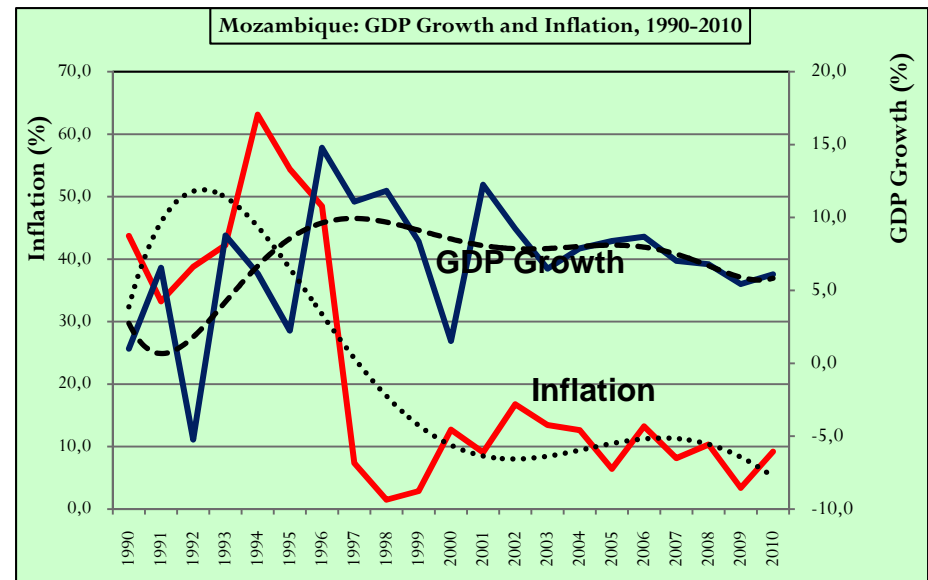
- Severe 16 years of civil war
- Central planned economy until country's adherence to Bretton Woods Institutions (1986)

3. Key Post-Conflict Reforms

- Neo-liberal economic policies based on:
 - (i) Privatization of state owned enterprises;
 - (ii) liberalization of financial sector;
 - (iii) adoption of structural policies for economic stabilization (prudent monetary and fiscal policies); business friendly regulatory environment; investment in human capital

4. Results

- Strong economic growth: Mozambique is the 7th fastest growing economy during last 15 years and macro-stability.



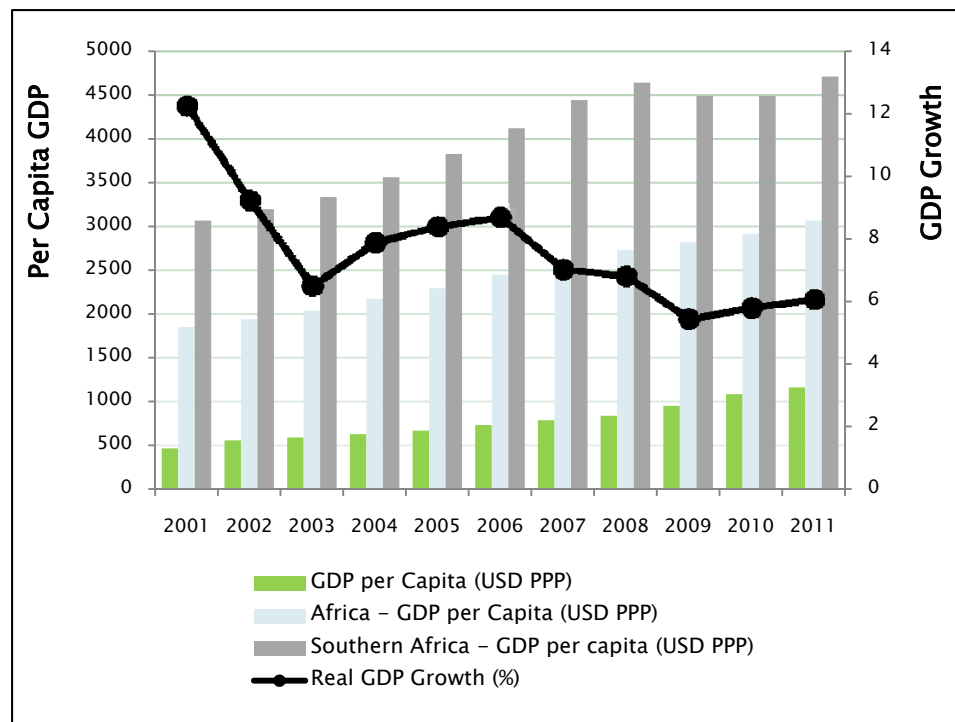
Recent Developments



- Mozambique weathered well the impact of financial crisis
- GDP fell to 5.4% in 2009 from 6.8 in 2008
- Growth drivers: Foreign Direct Investment in mineral resources and services; agro-industry, energy and construction sectors which benefit from strong donor support
- Growth is expected to pick up to 5.8% in 2010 and 6.1% in 2011, strong but still below trend because of the impact of the global financial crisis on exports and commodity prices; a fall in remittances, especially from mining workers in South Africa; and weaker FDI
- Economic structure changed dramatically, due to impact of “foreign Owned” megaprojects in mining sector. This has been positive for overall growth in Mozambique but raises the risk of a two-tier economy.

Table 1 - Macroeconomic Indicators

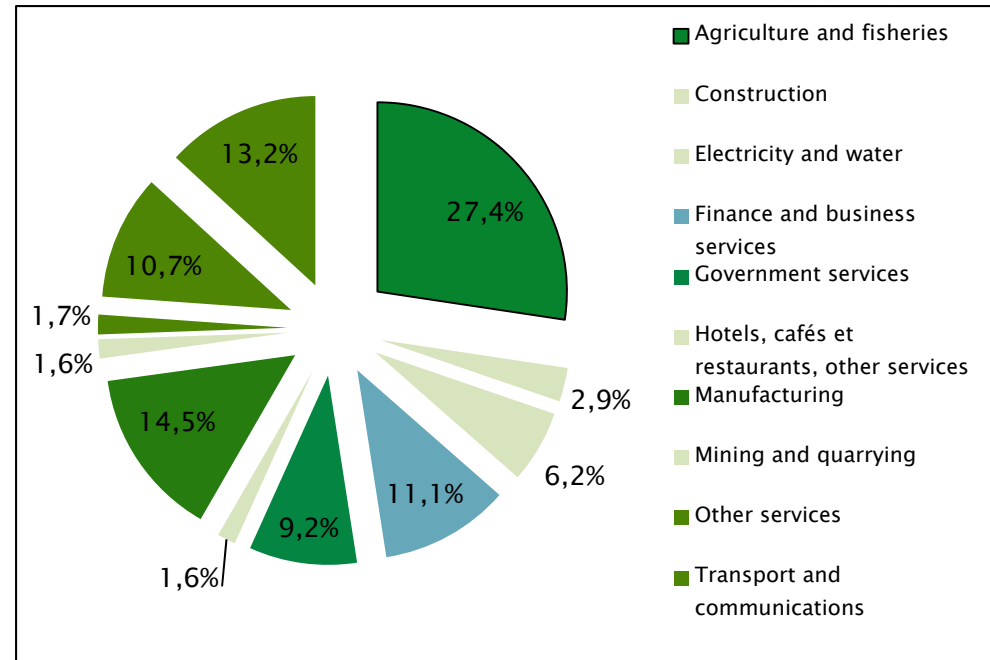
	2008	2009(e)	2010(p)	2011(p)
Real GDP growth	6.8	5.4	5.8	6.1
CPI inflation	10.3	3.4	9.2	4.4
Budget balance % GDP	-2.5	-5.7	-3.3	-2.2
Current account % GDP	-12.2	-14.2	-12.3	-9.5



Recent Economic Developments and Prospects



- Investment in large infrastructure projects: bridges, upgrade of Maputo airport; vanduzi-changara road; implementation of USD 506 million basic infrastructure project (Nampula, Cabo Delgado, Niassa and Zambezia)
- Coal mining investments – Moatize (Vale) and Mbenga (Riversdale) in Tete
- Low agricultural production and productivity (late planting and pest infestation in Center region), output was up only by 8.8% against 14.5% expected
- Massive investments in coal: Riversdale (USD 800 million) and Vale (USD 1.2 billion)
- Investments in construction, transport and energy sectors: USD 112 Nacala International Airport; USD 1.6 billion Nacala Railway; and USD 1 billion rural electrification (2007-2017)



- New power facilities planned in Moamba, Mpanda Nkuwa, Lupata, Moatize and Mbenga; and Center-South electricity backbone
- Expansion of telecommunication and mobile network (market growth of 22.7% in 2010);
- Mozambique linked to rest of the world through EASSY Optical Fiber.

Table 2 – Demand Composition

	Percentage of GDP		Percentage changes, volume			Contribution to real GDP growth		
	2001	2008	2009(e)	2010(p)	2011(p)	2009(e)	2010(p)	2011(p)
Gross capital formation	26.1	18.5	5.9	15.2	12.0	1.2	3.1	2.7
Public	15.5	11.6	7.0	20.0	12.0	0.9	2.6	1.8
Private	10.5	6.9	4.0	7.0	12.0	0.3	0.5	0.9
Consumption	91.0	93.9	6.0	3.8	5.7	5.6	3.6	5.2
Public	9.7	12.1	7.0	5.4	4.2	0.7	0.5	0.4
Private	81.3	81.7	5.9	3.7	5.9	4.9	3.1	4.8
External sector	-17.0	-12.4				-1.3	-0.9	-1.8
Exports	28.3	33.3	0.4	4.6	5.8	0.2	1.7	2.1
Imports	-45.3	-45.7	2.9	5.2	7.8	-1.5	-2.6	-3.9
Real GDP growth rate						5.4	5.8	6.1

• Increase in investment (public –infrastructure); reduction in consumption in 2010 – high food prices; import's increase outpace export's growth.

Table 3 – Public Finances (percentage of GDP)

	2001	2006	2007	2008	2009(e)	2010(p)	2011(p)
Total revenue and grants	26.3	25.6	25.2	25.5	26.4	27.5	27.9
Tax revenue	11.0	12.9	14.0	14.2	14.3	14.7	15.3
Oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	13.8	10.6	9.3	9.5	9.9	10.9	10.8
Other revenues	1.4	2.0	1.9	1.8	2.1	1.9	1.8
Total expenditure and net transfers	32.4	27.2	28.2	28.0	32.1	30.8	30.0
Current expenditure	13.7	14.4	15.5	15.7	17.6	16.3	15.7
<i>Excluding interest</i>	<i>13.1</i>	<i>13.7</i>	<i>14.8</i>	<i>15.2</i>	<i>17.0</i>	<i>15.7</i>	<i>15.0</i>
Wages and salaries	6.5	7.2	7.7	8.1	9.5	8.6	8.1
Goods and services	3.2	3.5	4.0	4.1	4.1	4.0	3.8
Interest	0.6	0.8	0.6	0.5	0.6	0.5	0.7
Capital expenditure	15.5	11.8	11.7	11.6	12.5	13.3	13.4
Primary balance	-5.5	-0.9	-2.5	-2.0	-5.1	-2.8	-1.4
Overall balance	-6.2	-1.6	-3.1	-2.5	-5.7	-3.3	-2.2

• Overall balance expected to improve due to tax revenue increase and public expenditure rationalization (current expenditure)

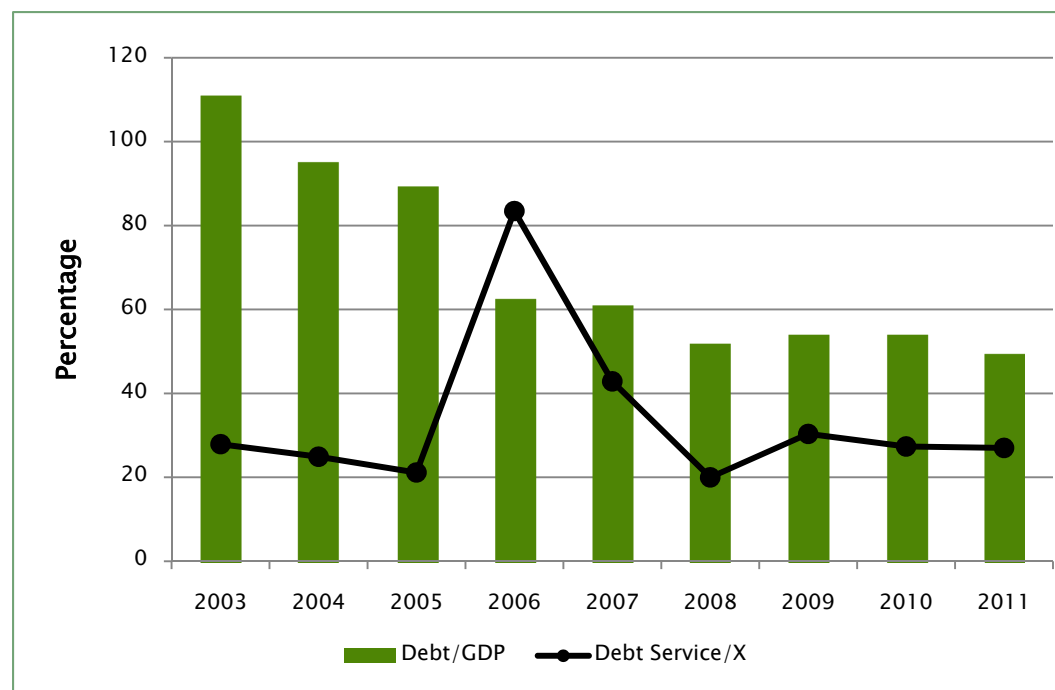
Country's Outlook – Current Account



Table 4 - Current Account (percentage of GDP)

	2001	2006	2007	2008	2009(e)	2010(p)	2011(p)
Trade balance	-9.8	-7.4	-7.8	-12.0	-20.3	-12.9	-9.0
Exports of goods (f.o.b.)	19.1	33.0	32.3	29.4	18.5	24.0	26.2
Imports of goods (f.o.b.)	29.0	40.4	40.2	41.5	38.8	36.9	35.2
Services	-8.2	1.5	1.7	0.5	-0.1	0.7	0.6
Factor income	-8.3	-9.6	-9.2	-8.5	-2.8	-9.7	-9.5
Current transfers	6.7	6.3	6.4	7.9	9.0	9.6	8.4
Current account balance	-19.6	-9.2	-8.9	-12.2	-14.2	-12.3	-9.5

- Prospects for medium term improvement in current account as export recovers
- Country's debt ratio are expected to remain stable (low debt distress)



Country's Development Challenges



- ▶ Diversification of Exports Base (exports are highly concentrated and aluminium exports larger than all commodity exports combined – only 14 products with exports greater than USD 1 million)
- ▶ Need to create jobs in formal sector
- ▶ Need to use land more efficiently
- ▶ Need to reinforce good governance and transparency to avoid resource curse of natural resources
- ▶ Need to create sustainable social safety nets to deal with unexpected social and financial crisis
- ▶ Infra-structure development (roads, ports, railways, electricity, telecommunications)
- ▶ The Scourge of HIV/AIDS
- ▶ Need to create linkages between Megaprojects and the rest of the economy

Bacia do Rovuma – Gás (e Petróleo?)

Central de Moatize

Cahora Bassa

Mpanda Nkuwa

Carvão de Moatize

Carvão de Benga

Central de Benga

Potencial Florestal

Moma - Titânio

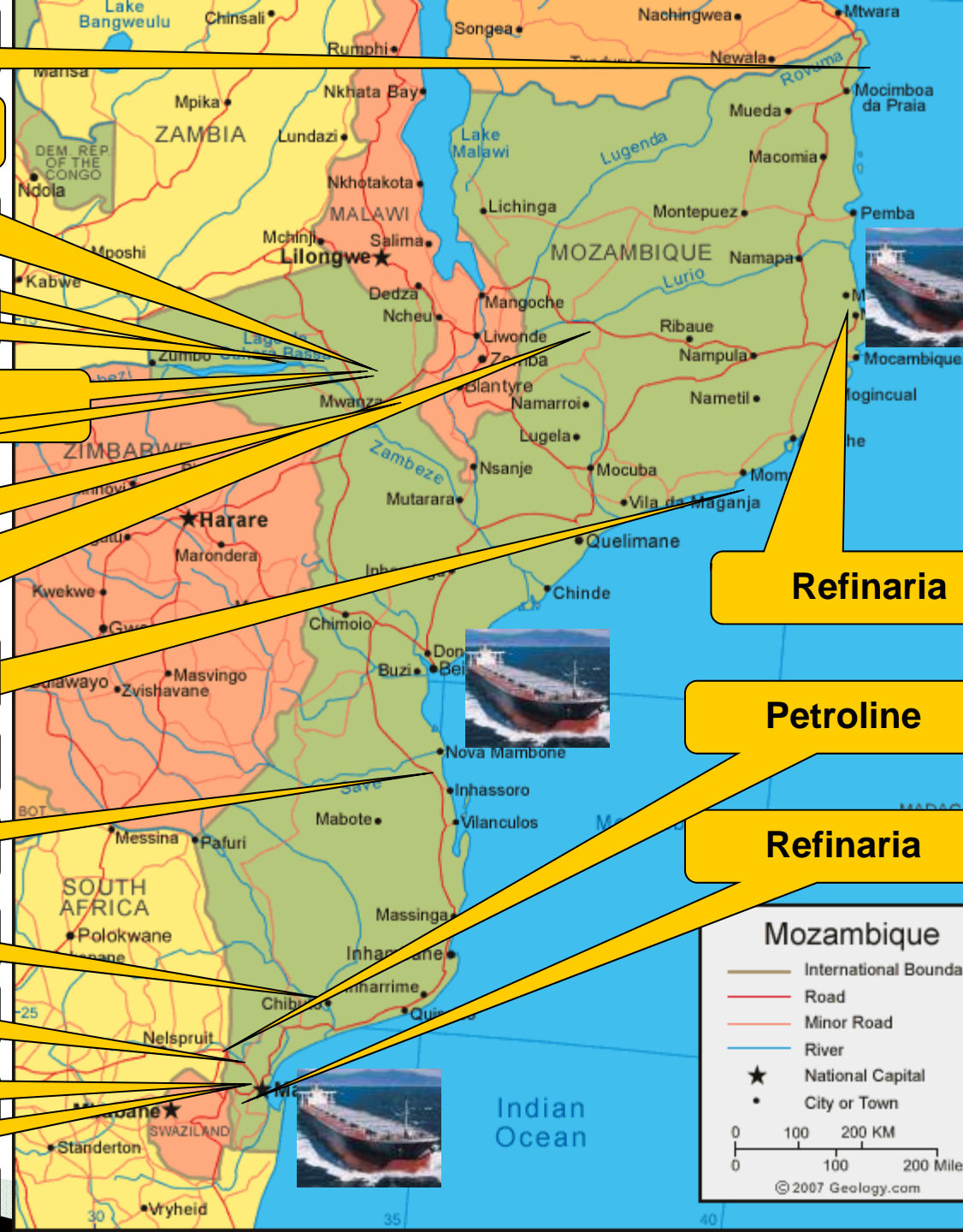
Campos de Gás

Chibuto - Titânio

Central da Moamba

Mozal

Complexo Metalúrgico de Maputo





Thank You!
Obrigado!