

Mozambique



Outlook

	Average 11-15	2016	2017	2018	2019	2020	2021	Forecasts	
								2022	2023
GDP growth (%)	7.2	3.8	3.7	3.4	2.3	-1.2	2.3	3.9	4.7
CPI inflation (%)*	4.8	17.4	15.4	3.9	2.8	3.1	5.7	10.0	9.0
Fiscal balance (% of GDP)	-5.4	-5.1	-2.0	-5.6	0.1	-5.4	-3.7	-3.4	-4.3
Public debt (% of GDP)	54.8	126.2	104.2	106.7	99.0	120.0	106.4	102.4	102.6
Reference rate (%)**	9.3	23.3	19.5	14.3	12.8	10.3	13.3	17.3	15.3
Exchange rate (MZN/USD)*	31.6	62.9	63.5	60.3	62.5	69.5	65.5	63.9	65.1
Current balance (% of GDP)	-35.8	-32.2	-19.6	-30.3	-19.1	-27.3	-22.9	-45.9	-39.6
External debt (% of GDP)	64.9	116.1	119.1	125.8	130.7	147.6	128.6	107.4	107.6

Note (*): annual average; (**) End of period, except for the average of 2011-2015. Source: BPI Research, based on data from national statistical agencies and Refinitiv Datastream. BPI forecasts for GDP, inflation rate, exchange rate and reference rate; for other variables, IMF and Oxford forecasts.

- **After the impact of COVID-19 on the economy, Mozambique has recovered, but below the historical pace.** In fact, GDP grew 4.4% in the first half of 2022, with the contributions of agriculture, mining and transports & storage. In the case of mining, it was important the recovery of coal and aluminum production (+256% and +68% year-on-year, respectively), with exports increasing significantly in H1 as global economy recovered after the end of COVID-19 restrictions. We are expecting a 3.9% GDP growth rate in 2022, benefiting also from the start of gas exploration through the Coral floating platform. However, the economy should have decelerated in the second half of 2022, given the slowdown in global economy (lower demand for coal and aluminum), as well as the high inflation rate and the restrictive monetary policy (which limits domestic demand).
- **Consumer prices accelerated in H1, due to food and fuel prices.** In fact, the increasing oil prices in the international markets led the national energy regulator to increase domestic fuel prices in three different occasions. Additionally, the adverse climate conditions at the beginning of the year exacerbated food prices. On the other hand, the Metical stabilization has helped to mitigate the upward pressure on inflation coming from these factors: since the beginning of the year, Metical has appreciated 0.3% against USD, to levels slightly below 64.
- The global context of high prices (food and energy), together with the expected currency depreciation, the start of gas production (although delayed) and the recovery of domestic demand will add upward pressure on inflation rate. In this context, the Bank of Mozambique should maintain a restrictive monetary policy stance in the short-term, but should start to loosen in order to stimulate the economy. Considering this, GDP should accelerate next year, with inflation and the impact on domestic demand standing out as negative factors. Even so, coal, aluminum and gas exports and slightly less restrictive monetary policy will support economic growth.
- However, **the risks for Mozambique are noticeably negative.** In the short-term, we highlight the heavy dependence on commodities (especially coal, aluminum and gas), domestic security concerns, a scenario of higher depreciation of the currency (which would add additional pressure on prices, probably forcing the central bank to take a more restrictive monetary policy, restraining credit to the private sector and limiting economic activity). For the medium/long-term, delays in gas projects related to the insecurity in Cabo Delgado may defer the expected positive effects for the economy. On the social front, the Islamic attacks have been contributing to an increasing number of displaced people, worsening the already high levels of poverty in the country. Additionally, it is important that people in the North can benefit from the gas revenues in order to avoid social unrest. Finally, the high vulnerability of the country to adverse climate conditions worsens the scarcity of some essential goods and, as a result, poverty levels.

Closing date of this edition: 07 December 2022

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