Mozambique

Macroeconomic performance

Real GDP growth was an estimated 3.5% in 2018, a dramatic decline from the average of 7% during 2004–15. The decline was due to decreased public investment and a 23% decrease in foreign direct investment in 2015–17.

The fiscal deficit was an estimated 6.7% of GDP in 2018, up from 5.5% in 2017. Since the discovery of hidden debt in 2016, Mozambique has been in default. Major donors suspended aid to the country, so it had to implement fiscal measures to gradually reduce public debt.

Following high inflation and a rapidly depreciating exchange rate during 2016–17, the Bank of Mozambique eased monetary policy, lowering the benchmark lending rate to 18% in August 2018. However, the decrease in inflation from 15.1% in 2017 to an estimated 4.6% in 2018 led to high real interest rates, resulting in a contraction in credit demand by the private sector.

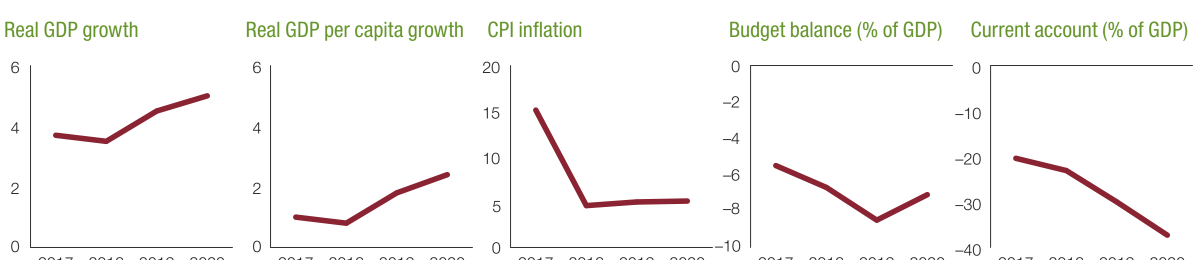
The current account deficit increased slightly to an estimated 23.1% in 2018, from 20.4% in 2017, due mainly to an increased nonmegaproject trade deficit. (Megaprojects include the Mozal aluminum smelter, the Temane gas projects in Inhambane, and the Moma titanium ore and heavy sands project in Nampula.) Nonmegaproject goods imports—80% of total goods imports—grew by an estimated 24% in 2018. Rising prices for key imports such as fuel and food also underlie growing import spending. International reserves are expected to remain at around 7 months of nonmegaproject imports in 2018–19.

Tailwinds and headwinds

Growth is projected to be 4.5% in 2019 and 5.0% in 2020, driven by agriculture, which is continuing to recover from the 2015–16 regional drought, and extractive industries, with coal exports continuing to expand. There are also bright prospects of increased foreign direct investment in gas-related megaprojects in the Rovuma Basin in 2019.

Mozambique is also addressing several of the African Development Bank's High 5s. For "Feed Africa," Mozambique's National Development Strategy aims to increase employment by enhancing productivity and competitiveness in agribusiness and value chain development. For "Industrialize Africa," the government has negotiated the development of an onshore $24 billion liquefied natural gas plant, permitting the creation of downstream value chains and the establishment of an industrial base for fertilizers, gas-to-liquids, and gas-to-power. For "Integrate Africa," Mozambique's growing contribution to the Southern Africa Power Pool could be enhanced with future gas and energy projects. And for "Improve the Quality of Life for the People of Africa," the government will continue to focus on reducing malaria, HIV, and infant and maternal mortality and will increase education spending to 5.9% of GDP in 2018—more than other countries in the region.

Downside risks to Mozambique's economic growth include rising prices for key imports such as fuel and food and economic difficulties in South Africa, Mozambique's second largest export destination. Mozambique's public debt is in distress. Failure to agree on restructuring debt and restoring investor confidence could deepen economic hardship and slow growth. High reliance on borrowing, largely domestic, has not only crowded out private investment but also led to debt distress. Key policy priorities could include an active debt management strategy to restore confidence and measures to stimulate economic growth and employment creation. Finally, Mozambique is prone to natural disasters, such as storms, floods, droughts, and earthquakes.



Source: Data from domestic authorities; figures for 2018 are estimates; figures for 2019 and 2020 are projections by the African Economic Outlook team.