

Country outlook

Mozambique



Closing date of this issue: 30/09/2018



Mozambique



Form of Government: Semipresidentialist republic

Capital: Maputo

Official language: Portuguese

Population: 29 million inhabitants (2017)

Currency: Mozambican metical (MZN)

Exchange rate: 1 EUR = 70.15 MZN (30/09/2018)
1 USD = 61.20 MZN (30/09/2018)

GDP: \$12 billion (0.0% of world GDP)

GDP per capita: \$429 (\$1.244 purchasing power parity)

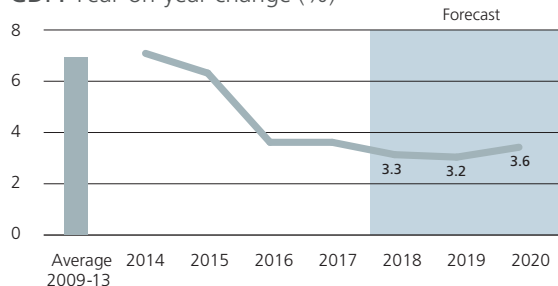
Ease of doing business: 138 in the world out of 190 according to the World Bank (Doing Business)

Religion: Catholic: 28%

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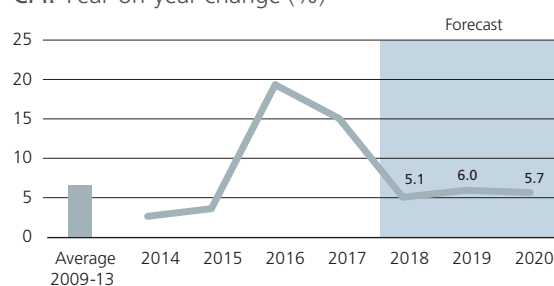
Economic forecast

GDP. Year-on-year change (%)



- Mozambique's economy will continue to grow by above 3% in upcoming years, backed by the good performance of the mining industry (coal), an improved agricultural sector (following poor harvests in 2017 and 2016) and sizeable infrastructure investments related to gas megaprojects. However, the growth pace will remain low from a historical perspective. The country suffers from the loss of credibility generated by numerous defaults on bonds following the State-backed "hidden loans" scandal uncovered in 2016 (totaling around 11% of GDP) which led to the suspension of the IMF assistance program.

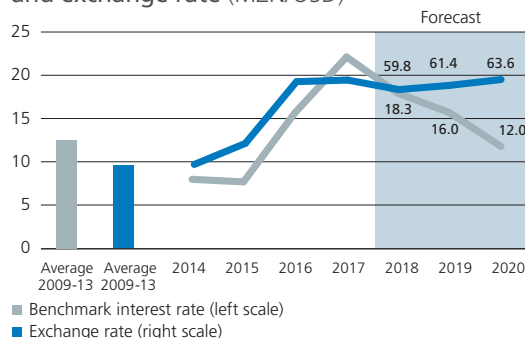
CPI. Year-on-year change (%)



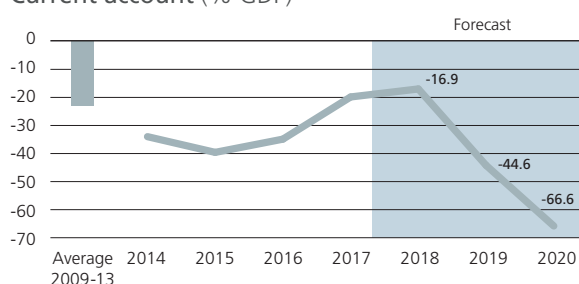
- Inflation has been decreasing significantly during 2018, thanks to a highly restrictive monetary policy, the stabilization of the metical and the lower increase of food prices in comparison to the past figures. Looking ahead to 2019, we expect inflation to continue stable, around 5-6% as a result of a monetary policy that will remain restrictive (although less than in the past) and food prices getting back to normal (reversing the upward trend in recent years).

Economic policy

Benchmark interest rate (%) and exchange rate (MZN/USD)

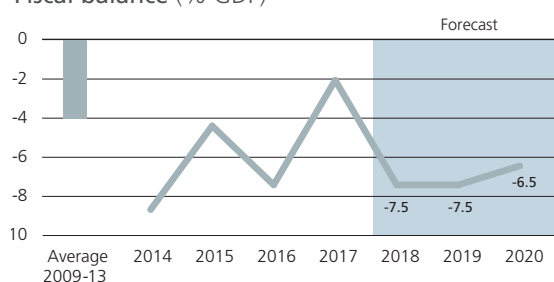


Current account (% GDP)

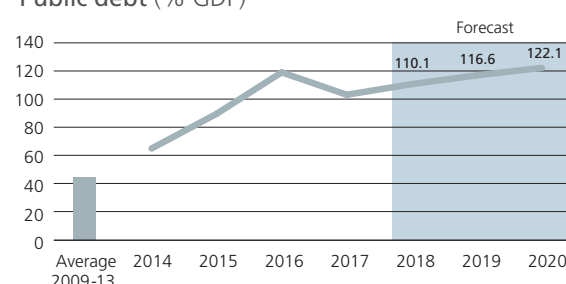


- On the monetary side, we expect that Bank of Mozambique will continue to adopt a less restrictive policy gradually, to continue lowering reference rates, though the policy will still remain fairly restrictive. This strategy will depend on inflation trajectory and flows related to the international trade, FDI and financing by donors. On the fiscal side, we expect somewhat tighter controls on spending, given that the public debt level is unsustainable in the medium term. However, the 2019 legislative elections will make it difficult to pass highly ambitious measures.

Fiscal balance (% GDP)



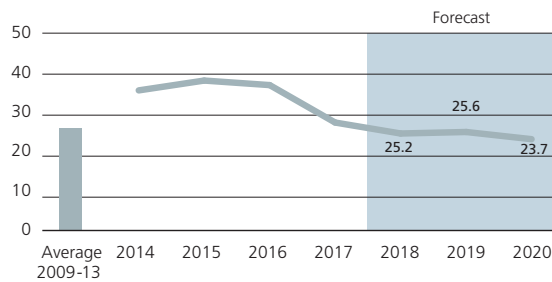
Public debt (% GDP)



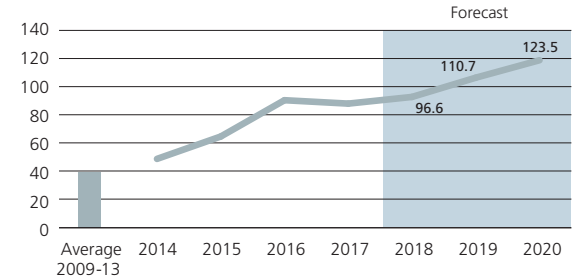
- We do not foresee a new IMF program in the short-term, as it would require a strong fiscal adjustment (the only thing that could ensure a stable evolution of public debt in the future). In this context, the Government began the process of restructuring its debt in late March, following the multiple defaults that had been building up since 2016. It is expected to be a lengthy process, given that the conditions proposed by the executive branch impose strong losses on creditors and the last conditions presented were rejected.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



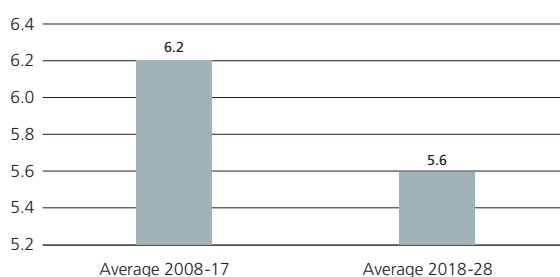
- In the banking sector, the non-performing loans rate rose sharply (11.4% in Sept. 2017, from 5.5% in Dec. 2016) after a period of strong instability in 2016, which led to the liquidation of two country's banks. Although the instability has reduced significantly and banks seem, in general, well capitalized, the banking's high exposure to the public sector, weak economic growth and high interest rates constitute a major macro-financial vulnerability.
- The high current account deficit is mainly due to gas-related megaprojects, which have brought in major imports. In the medium-term, the deficit should deteriorate even more, in line with the start of gas-related projects. In the long term, however, it should improve significantly once the projects become operational and exports increase. Additionally, the economic recovery should put pressure on imports.

Political situation

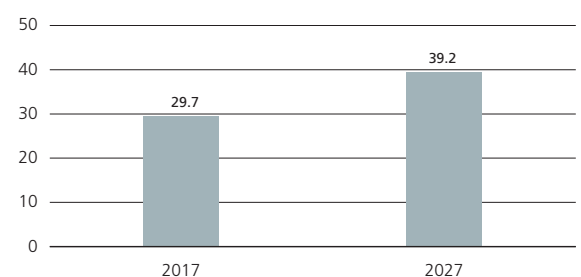
- The Frelimo Party (led by Filipe Nyusi) has governed the country since it held its first democratic elections in 1994. Additionally, there has been a ceasefire with the rebels from the main opposition party (Renamo) since January of 2017. In this context, the two parties have reached an agreement to allow greater decentralization of power in the provinces where they are present.
- However, the country's political stability remains very fragile. It is even more so following the 2016 "hidden debt" scandal valued at 1.4 billion dollars (around 11% of GDP) incurred by Frelimo top officials which has still not been sufficiently investigated. Municipal elections will be held in October of 2018 and may result in surprising victories by opposition parties. Looking forward to the 2019 presidential elections, Frelimo is expected to remain in power.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)



- The outlook for medium-term economic growth is more favorable than in the short term, but is conditioned by the expected start of gas extraction and transformation (several LNG projects in the pipeline) and the strong economic push that will come because of it. In particular, major gas reserves were discovered in the country in 2010, which could potentially make Mozambique the third largest producer in Africa. Additionally, fiscal and external accounts should be able to rebalance in the long-term, when gas projects start operating and the economy start growing at double-digit levels.
- However, the downside risks of this scenario cannot be ruled out and include loss of investor confidence, which would lead to the elimination of some of the scheduled major gas projects. This, in turn, would worsen the financial situation of the public sector, and by extension, the banking industry. On the other hand, the country needs to improve substantially the standards of living of much of its population.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	SD	18/01/17	-
MOODY'S	Caa3	8/07/16	-
FitchRatings	RD	30/11/16	Negative

OECD credit risk rating
(from 0 to 7, with 0 being the best)

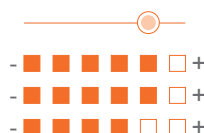


■ Indicates that the country has an "investment grade".

Risks

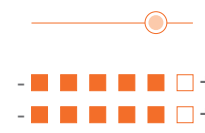
SHORT-TERM

- Decreased investor confidence
- Stress on the banking sector
- Political uncertainty



LONG-TERM

- Strong dependence on the energy sector
- Supply bottlenecks
- Poverty and social discontent



Business environment

STRENGTHS

- Natural resources.
- Large size of the country.

WEAKNESSES

- High level of corruption.
- Insecurity.
- Infrastructure deficit.

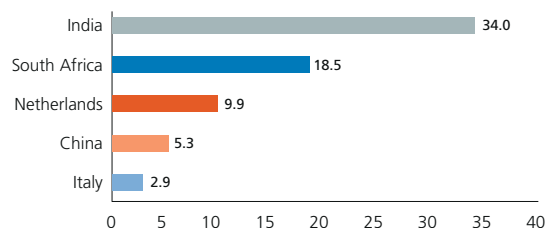
Main sectors

- Agriculture and mining industry (coal).

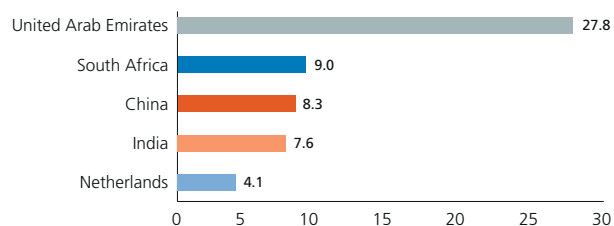
- The gas industry will be a key player in the future.

Main trading partners

Exports
% of total exports



Imports
% of total imports



Source: CaixaBank Research, based on data from Bloomberg, IMF, OECD, Oxford Economics and Thomson Reuters Datastream.

Taxation

In Mozambique, the tax base is applied to the income of resident businesses, individuals and entities created anywhere in the world, while non-residents are taxed only on income from Mozambique sources. A company is considered to be a resident in Mozambique if its legal or operational headquarters are in the country.

Tax administration and collection is centralised. Individuals' personal income is subject to the *Imposto sobre o Rendimento das Pessoas Singulares*, or IRPS, on income that residents obtain both inside and outside of Mozambique, and on income that non-residents obtain in the country. Residents are considered to be people who reside in the country more than 180 days a year, and people who own properties that would allow a presumption of their intention to reside there permanently, even if they currently reside there less than 180 days a year.

Tax rates range from a minimum of 10% to a maximum of 32%. The corporate tax (*Imposto sobre o Rendimento das Pessoas Colectivas* or IRPC) is applied to the profits of companies with annual turnover of over 2.5 M meticaïs, at a 32% flat rate. Companies with turnover of under 2.5 M meticaïs are subject to the *Imposto Simplificado para Pequenos Contribuintes*, or ISPC, with a flat rate of 3% on the gross annual sales volume. The fiscal year coincides with the calendar year, but it is possible to request taxes to be calculated for a different period. The *Código de Benefícios Fiscais* (CBF) contains different tax credits (reductions in

the total to be paid) as well as credits and rebates on the IRPC rate and taxable base.

The *Imposto sobre o Valor Acrescentado* (VAT) taxes consumption in the country and has been in effect since 1999. It is applied both to products manufactured locally and to imports, with a flat rate of 17% on the transactions of companies with gross annual sales exceeding 750,000 meticaïs. There are exemptions for a set of basic products (corn flour, rice, medicine, goods for the health and education sectors, agricultural supplies), exports, financial services and other goods considered fundamental to the development of trade and rural industries. Also exempt are goods (in general capital goods or equipment) imported to be used for certain activities like mining and oil and gas exploration. There is also a *Imposto sobre Consumos Específicos* (ICE), which taxes the consumption of what are considered to be luxury products, with rates ranging from 20% to 75%.

The inheritance tax is applied to pass-throughs of both moveable and unmoveable properties, with rates ranging between 2% and 10%. The tax on property transfers (SISA) applies to transfers of property titles or similar real estate rights. The general rate is 2%. Mozambique law does not include any tax on assets.

There are other local taxes: *Imposto Pessoal Local*, *Imposto Pessoal Autárquico* (IPA), *Imposto Predial Autárquico* (IPRA) and *Taxa por Actividade Económicas* (TAE).

Investment

Foreign investment receives equal treatment, and is subject to the same burdens and incentives as domestic companies.

Investment proposals submitted to the Investment Promotion Centre (CPI) must describe the value of the investment and the activity so that the CPI can assess its viability and impact on the national economy. Proposals must be accompanied by:

- Identification of each investor, including bank references;
- For each corporate investor, documentation including their certificate of incorporation,

report and any other document illustrating their business activity; and

- Draft of the company's deed of incorporation.

The CPI will draw up the terms of the authorisation, including the form of business to be taken, the import and export scheme, number of local employees and training programmes that must be implemented, tax incentives to be granted, and other conditions. The main investment opportunities are in the agri-food industry, fishing and aquaculture, infrastructure, energy and tourism.

Establishment

LOCAL COMPANY

The Mozambique Commercial Code regulates and defines the type of commercial companies that can be formed in Mozambique, with the most common being the *sociedade por quotas* or S.Q. (limited company) and the *sociedade anónima* or S.A. (joint stock company).

An S.Q. must have between 2 and 30 members. If just one person owns the registered capital, these companies are called *unipessoal* (sole proprietorship) and that term must be included in the company name. The minimum capital required for incorporation is 20 M meticaïs and the value of each quota must be a multiple of 100 and not less than 500,000 meticaïs. Quotas are always nominal and members are not liable to the company's creditors, only to the company itself.

An S.A. must have at least three partners, who can be Mozambicans or foreigners, individuals or companies. There is no minimum capital but the amount must be in line with the company's objective and must always be expressed in meticaïs. The capital is divided into shares, which can be to the bearer, nominal or registered. An S.A. may only be created when all the capital stock has been divided among the partners, and at least 25% has been paid. The liability of S.A. partners to third parties is limited to the amount of their shares.

Creating a company requires the name and purpose of the company to be approved by the *Conservatória do Registo de Entidades Legais* (CREL) and the capital stock deposited in a bank in Mozambique, which will issue a receipt for the deposit.

Establishment (continuation)

Companies can incorporate through a private document signed by the partners, with the signatures duly certified by a notary or attorney, though a deed of incorporation is required for more formal proceedings. The company's board of directors must be appointed and the statutes established during the company's incorporation process, and must include, among other items, the full names of the founding members, the purpose of the company, and the amount held in capital stock.

The company must register in the CREL no more than 90 days from the date of its incorporation and request publication in the official state gazette (*Boletim da República*). Subsequently, they must register with the local tax office corresponding to the company's registered address for paying taxes, obtaining the business license from the Ministry of Trade and the statement of start of business activities.

Alliances strategic

FREE TRADE ZONE

The government promoted two types of industrial organisations: Special Economic Zones (SEZ) and Industrial Free Trade Zones

(IFTZ), which benefit from fiscal (IRPC reduction) and non-fiscal advantages.

JOINT VENTURE

Joint ventures, associations between two or more legal persons who share resources, know-how, interests and responsibilities to develop a project, can come in two forms:

1. Foreign company that associates with a Mozambique company to create a third company which both purchase shares in, which is responsible for carrying out the project.
2. Foreign company and Mozambique company that sign a contract under which each commits

to contribute a series of resources to carry out the project. In this case, the joint venture does not have its own legal standing independently from the legal persons who form it.

However, it should be remembered that without any controls on foreign capital, there is free repatriation of capital, dividends and profits.

Customs conditions

FREE TRADE AGREEMENTS

Mozambique is part of the Southern African Development Community (SADC) which is currently implementing the commercial protocol for its member states to remove trade tariffs on certain goods. If fully applied among the 15 member states, the protocol would give Mozambique products free access to a market of more than 253 million people with a GDP of 563,000 million dollars.

Some Mozambique products currently enjoy reduced tariffs or qualify for duty-free treatment

in the EU under the Cotonou Agreement. As a member of the SADC block of countries, Mozambique is currently negotiating an economic association agreement with the EU.

Other bilateral trade agreements:

- Preferential trade agreement with Malawi, in force since December of 2005, allowing free trade of goods originating in both countries, excluding certain products.

FREE TRADE ZONE

Special Economic Zones (SEZ)

Exemption from the corporate tax in the first three fiscal years, 50% reduction from the fourth to the 10th fiscal year, and 25% reduction from the 11th to the 15th fiscal year.

Industrial Free Trade Zones (IFTZ)

Exemption from the corporate tax in the first 10 fiscal years with a 50% reduction from the 11th to the 15th fiscal year, and a 25% reduction for the rest of the life cycle of the project.

GENERALISED SYSTEM OF PREFERENCES (GSP)

Under the Generalised System of Preferences (GSP) and the African Growth and Opportunity Act (AGOA), a large number of Mozambique products have duty-free access to the US. Thanks to the AGOA Act, textiles manufactured in

Mozambique, even those made with fabric from third countries, get duty-free access to the U.S. market, without any reciprocal preferential treatment for U.S. products.

Negotiations and protocol

BUSINESS CULTURE

Punctuality and discretion are appreciated. The concept of win-win works well in business dealings. Mozambicans are good negotiators and are somewhat opaque, making it more difficult to guess what they are thinking. It is necessary to pay attention to gestures.

Mozambicans are polite, very friendly and kind, but are formal in their treatment of others, especially in early contacts.

Knowing the right person is important, but the right people are often not those we meet. Networking is easy (the market is small), but doors do not open right away.

Recognise, respect and know how to work with hierarchies and understand the levels where decisions are made.

Avoid making benchmark comparisons with other markets (especially Angola). They are markets with different cultures and Mozambicans do not like being confused with other peoples.

Avoid any attitude or comments on the local reality (political or social) that could incite arrogance or paternalism. Avoid postures that minimise the other side, like for instance saying "we are here to help Mozambique (or the Mozambicans)".

Top fairs

- International farming, trade and industry fair
- Mozambuild
- Intermodal Africa
- MMEC
- MozTech
- FACIM

Websites of interest

- Mozambique Government Portal: www.portaldogoverno.gov.mz
- AT - Mozambique Tax Authority: www.at.gov.mz
- Confederation of Mozambique Business Associations (CTA): <http://www.cta.org.mz>
- Mozambique Chamber of Commerce: www.ccmoz.org.mz
- FDA - Agriculture Development Fund: www.fda.gov.mz
- IPEME - Institute for the Promotion of Small and Medium Businesses: www.ipeme.gov.mz

Payment and charging methods

MEANS OF COLLECTION

The U.S. dollar, the euro and the South African rand are common trading currencies. Payments in foreign currency are accepted by most of the companies and commercial establishments.

Currency exchanges are available for importers and exporters to finance current account

transactions. Foreign currency authorisation must be requested from the Bank of Mozambique.

Loans in foreign currency are only available to exporters and some approved projects that benefit the country.

MEANS OF PAYMENT

Mozambique importers must justify their payments to the Bank of Mozambique and obtain authorisation to make payments abroad. This is common practice, but it can be lengthy and cause importers to take longer to process payments.

Currency outflows are regulated by the central bank. Mozambique's financial system includes

the most common payment methods including confirmed documentary credit, advances, documented remittances, etc. Standard & Poor's y Fitch issue credit ratings for the Government of Mozambique and have recently lowered them.

EXCHANGE RATE INSURANCE

Mozambique's local currency (metical) was sharply devalued in 2016, causing the Central Bank to raise interest rates and making it more difficult to import goods. The metical began to stabilise In early 2017, but it is advisable to

insure international transactions with exchange rate insurance that covers this type of risk in countries like this one, where the monetary policy tends to be heavily influenced by the Government.