



Casa África- Business Opportunities

Republic of Mozambique

The country faced an economic slowdown in 2019, mainly due to the negative impact of cyclones Idai and Kenneth, with an estimated GDP growth of 1.9%. Economic activity slowed in the period 2016-2018, largely as a result of a decline in public and foreign direct investment. By 2020, GDP growth is expected to be 5.8%, and 4.0% by 2021. Inflation fell by 2019 to 3.4% after a period of high inflation in previous years. This decline has been mainly supported by limited currency fluctuations, stable food prices and monetary tightening. The estimated fiscal deficit for 2019 remained high, at 6.4%, and for 2020 it is expected to be 4.5%. The current account deficit widened to 54.2% in 2019 from 29.5% in 2018, mainly due to increased imports in response to the need for investment projects in capital goods and services. An average of 65% is expected for 2020-2021.

Following the discovery of offshore gas, the country has the opportunity to diversify the economy while improving its resilience and competitiveness. The gas sector could convert subsistence agriculture into agribusiness, support Mozambique's electrification through different energy solutions, and encourage other industries such as fertilizers, fuels and metalworking. It could also improve macroeconomic stability, with increased revenues contributing to fiscal surpluses and a sovereign wealth fund to cushion external shocks. However, gas exploration projects can create vulnerabilities in the current account, as they greatly increase the volume of imports to operate the new fields. Infrastructure needs for natural resource projects could also trigger a cycle of private investment and public-private partnerships. Some State-owned companies, particularly infrastructure companies, are well suited to partnering with local and international investors in the implementation of such projects.

With data for 2017, the main destinations for imports were South Africa, the United Arab Emirates, China and the Netherlands, and the main products imported were mineral products, base metals and products from the food, beverage and tobacco industries, among others. India, South Africa and the Netherlands top the list of destination countries for the country's exports, whose exports are mainly mineral products again, followed by machinery and electrical equipment.

Cyclones in 2019 caused supply disruptions and destroyed infrastructure, in addition to the loss of hundreds of lives. The economy remains highly susceptible to climate-related shocks because of its geography and high dependence on rain-fed subsistence agriculture. On the other hand, low skill levels hinder employment and productivity, while the rapidly growing population raises unemployment rates, especially for young people. This gap reduces the ability of local enterprises to enjoy the benefits of technology and connections to global value chains. Another challenge facing the country is low electrification, which further limits economic growth.

AEO: <https://www.afdb.org/en/documents/african-economic-outlook-2020>

MAEC: http://www.exteriores.gob.es/Documents/FichasPais/MOZAMBIQUE_FICHA%20PAIS.pdf