

# Annual profile – Mozambique

Revised: January 2003



<p><b>Government</b></p> <p><b>Government type:</b> Republic.</p> <p><b>Capital:</b> Maputo.</p> <p><b>Independence:</b> 25 June 1975 (from Portugal).</p> <p><b>Chief of state:</b> President Joaquim Alberto Chissano since 6 November 1986.</p> <p><b>Elections:</b> President elected by popular vote for a five-year term. Election last held: 3 and 4 December 1999. Next election: 2004. <i>Source: CIA World Factbook 2002</i></p>	<p><b>Background</b></p> <p>Almost five centuries as a Portuguese colony came to a close with independence in 1975. Large-scale emigration by whites, economic dependence on South Africa, a severe drought and a prolonged civil war have hindered the country's development. The ruling party formally abandoned Marxism in 1989, and a new constitution the following year provided for multiparty elections and a free market economy. A UN-negotiated peace agreement with rebel forces ended the fighting in 1992.</p>
<p><b>People</b></p> <p><b>Population:</b> 17,6 million</p> <p><b>Population growth rate:</b> 1.3% (2001 est)</p> <p><b>Life expectancy at birth:</b> total population: 36.45 years male: 37.25 years female: 35.62 years (2001 est)</p> <p><b>Ethnic groups:</b> Indigenous tribal groups 99.66% (Shangaan, Chokwe, Manyika, Sena, Makua and others), Europeans 0.06%, Euro-Africans 0.2%, Indians 0.08%.</p> <p><b>Religions:</b> Indigenous beliefs 50%, Christian 30%, Muslim 20%.</p> <p><b>Languages:</b> Portuguese (official), indigenous dialects.</p> <p><b>Adult literacy rate:</b> Definition: % of population aged 15 and over that can read and write. 1999: 43.2%.</p> <p><i>Source: CIA World Factbook 2002, UNDP Human Development Report 2002</i></p>	<p><b>Geography</b></p> <p><b>Area:</b> Total: 801 590 sq km. Land: 784 090 sq km. Water: 17 500 sq km.</p> <p><b>Land boundaries:</b> Total: 4 571 km. Border countries: Malawi 1 569 km, South Africa 491 km, Swaziland 105 km, Tanzania 756 km, Zambia 419 km, Zimbabwe 1 231 km.</p> <p><b>Coastline:</b> 2 470 km.</p> <p><b>Climate:</b> Tropical to subtropical.</p> <p><b>Terrain:</b> Mostly coastal lowlands, uplands in centre, high plateaux in northwest, mountains in west.</p> <p><b>Natural resources:</b> Coal, titanium, natural gas and hydropower.</p> <p><b>Land use:</b> Arable land: 3.98%. Permanent crops: 0.29%. Other: 95.73% (1998 est).</p> <p><b>Irrigated land:</b> 1 070 sq km (1998 est).</p> <p><b>Natural hazards:</b> Severe droughts; devastating cyclones and floods occur in central and southern provinces.</p> <p><b>Environment:</b> A long civil war and recurrent drought in the hinterlands have resulted in increased migration of the population to urban and coastal areas with adverse environmental consequences; desertification; pollution of surface and coastal waters; elephant poaching for ivory is a problem.</p> <p><i>Source: CIA World Factbook 2002</i></p>



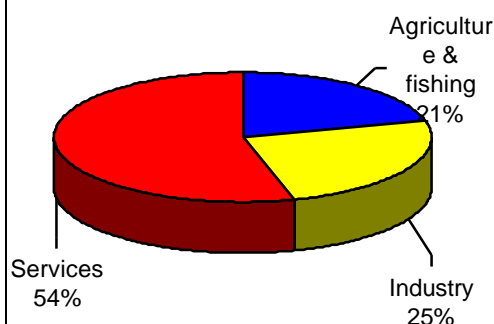
Health	Human development																																														
<p><b>People living with HIV/Aids:</b> Adults (age 15-49) 2001: 13%. Woman (age 15-49) 2001: 630 000. Children (age 0-14) 2001: 80 000.</p> <p><b>Tuberculosis cases (per 100 000 people):</b> 1999: 104.</p> <p><b>Undernourished people (1997/99):</b> 54% of total population.</p> <p><i>Source: UNDP Human Development Report 2002</i></p>	<p style="text-align: center;"><b>UNDP HDI Ranking (2000)</b> <b>170 out of 173 countries</b> (1 = most developed, 173 = least developed)</p> <table border="1"> <tbody> <tr><td><b>Norway</b></td><td><b>1</b></td></tr> <tr><td>Seychelles</td><td>47</td></tr> <tr><td>Mauritius</td><td>67</td></tr> <tr><td>South Africa</td><td>107</td></tr> <tr><td>Gabon</td><td>117</td></tr> <tr><td>Namibia</td><td>122</td></tr> <tr><td>Swaziland</td><td>125</td></tr> <tr><td>Botswana</td><td>126</td></tr> <tr><td>Zimbabwe</td><td>128</td></tr> <tr><td>Ghana</td><td>129</td></tr> <tr><td>Lesotho</td><td>132</td></tr> <tr><td>Kenya</td><td>134</td></tr> <tr><td>Madagascar</td><td>147</td></tr> <tr><td>Nigeria</td><td>148</td></tr> <tr><td>Uganda</td><td>150</td></tr> <tr><td>Tanzania</td><td>151</td></tr> <tr><td>Zambia</td><td>153</td></tr> <tr><td>DRC</td><td>155</td></tr> <tr><td>Ivory Coast</td><td>156</td></tr> <tr><td>Angola</td><td>161</td></tr> <tr><td>Malawi</td><td>163</td></tr> <tr><td><b>Mozambique</b></td><td><b>170</b></td></tr> <tr><td><b>Sierra Leone</b></td><td><b>173</b></td></tr> </tbody> </table> <p>The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.</p>	<b>Norway</b>	<b>1</b>	Seychelles	47	Mauritius	67	South Africa	107	Gabon	117	Namibia	122	Swaziland	125	Botswana	126	Zimbabwe	128	Ghana	129	Lesotho	132	Kenya	134	Madagascar	147	Nigeria	148	Uganda	150	Tanzania	151	Zambia	153	DRC	155	Ivory Coast	156	Angola	161	Malawi	163	<b>Mozambique</b>	<b>170</b>	<b>Sierra Leone</b>	<b>173</b>
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<p><b>Score: N/A</b> (where 10 is "highly clean" and 0 is "highly corrupt").</p> <p><b>Place: N/A</b> (102 countries surveyed, 1 = least corrupt, 102 = most corrupt).</p> <p>(The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys).</p> <p><i>Source: Transparency International</i></p>																																															
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<p>Remittances of funds overseas are restricted. Foreign investors can remit loans repayments, dividends and capital if permission has been obtained for amounts above US\$5 000.</p>																																															
Taxation	Sovereign credit rating																																														
<p>Company tax: Agriculture has a tax rate of 10%; all other industries pay 35% tax.</p> <p>Personal tax: progressive tax up to a maximum of 20%; all foreigners pay a flat rate of 20%.</p>	<p><b>Standard &amp; Poors</b> <b>Local currency</b> Long-term: not rated Short-term: not rated <b>Foreign currency</b> Long-term: not rated Short-term: not rated <b>Moody's Investor Service</b> Foreign currency debt: not rated Foreign currency bank deposits: not rated Issuer rating –Foreign currency: not rated Issuer rating –Domestic currency: not rated <b>Fitch ratings</b> <b>Local currency</b> Short-term: not rated <b>Foreign currency</b> Long-term: not rated Short-term: not rated</p>																																														

## Economy

### Selected statistics

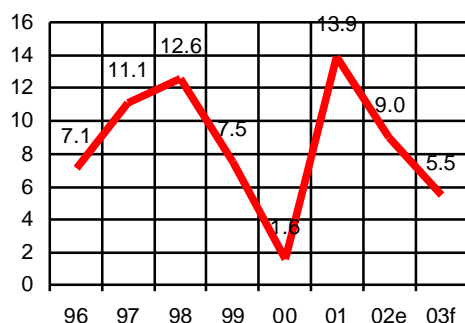
	1995	1996	1997	1998	1999	2000	2001	2002(e)
Population (million)	15.82	16.18	16.54	16.92	17.26	17.50	17.69	17.6
Nominal GDP (US\$m)	2 207.9	2 671.8	3 256.5	3 680.3	3 904.5	3 900	3 556.1	3 700
GDP/head (US\$)	139.6	165.1	196.9	217.5	226.2	222.9	201.0	210
Exchange reserves (US\$)	195	344.06	517.35	608.5	651.6	725.1	715.57	711 (Sep)
Import cover (months)	3.3	5.9	9.1	9.9	7.2	8.3	7.46	7.4
External debt (US\$bn)	3.212	3.614	5.643	6.121	5.648	5.366	3.611	...
% of GDP	145.5	135.3	173.3	166.3	144.7	137.6	101.5	...

### Economic structure



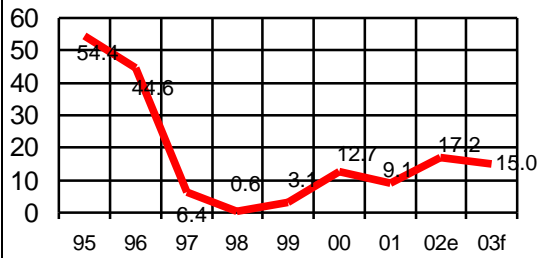
- Although the economy is relatively diversified, agriculture continues to play a significant role. Apart from limited commercial farming, agriculture is mostly subsistence and is therefore a safety net for a large part of the population.
- Manufacturing (10.7% of GDP) and construction (11.7% of GDP) dominate the secondary sector.
- Within the services sector, commerce (17.2% of GDP) is the largest subsector, followed by transport and communications (16% of GDP).
- Mozambique has an immature financial sector (4.3% of GDP), which is in the process of restructuring.

### Real GDP growth (%)



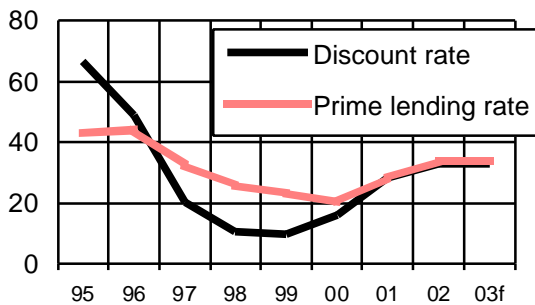
- Economic growth has been satisfactory and has gained momentum since the slowdown in 1995. At its peak in 1998, Mozambique was one of the fastest-growing countries in the world.
- Although growth has spread through the economy, it was strongly supported by the rehabilitation of the country's infrastructure after many years of decay.
- Foreign direct investment, such as for the Mozal aluminium smelter and the Pande and Temane gas fields, has raised growth levels.
- Growth slowed sharply due to severe flooding in February 2000. The floods impacted negatively on agriculture and damaged the infrastructure, which had a ripple effect through the economy.
- The economy recovered sharply in 2001, partly because of Mozal, but was again hit by floods in February 2001.
- Future growth should be underpinned by a more stable banking sector, aluminium and natural gas exports, and higher agricultural exports. The tourism industry will also contribute to growth.

### Consumer inflation (%)



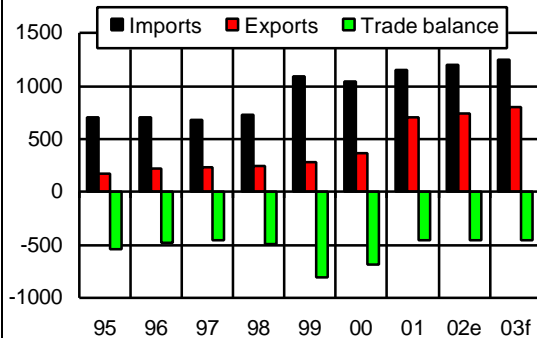
- After rising above 60% in the first half of the 1990s, inflation declined sharply to an average of 0.6% in 1998.
- Inflationary pressures have mounted since 1999; these were compounded by the flood damage in 2000. Food shortages and the need to import food also exerted upward pressure on prices. Rising oil prices and a weaker currency also fuelled inflation.
- The rate has since moved upward generally because of the inflationary impact of the floods.
- The Bank of Mozambique has undertaken to limit the growth of the money supply, which will lower the inflation rate in the long term.
- The large weight allocated to food in the consumer price index will result in the inflation rate rising, as the regional drought has impacted negatively on prices.

### Interest rates (%)



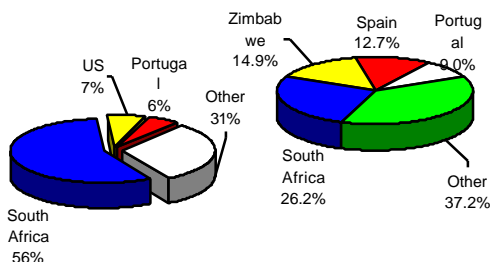
- Interest rates declined between 1995 and 1999 as inflation subsided.
- Rising inflation since 1999 has, however, resulted in rising interest rates.
- Due to the high risk associated with lending, commercial banks' lending rates exceed deposit rates by a significant margin.
- The high real borrowing rates are particularly onerous given the country's reconstruction and development requirements.

### International trade (US\$m)



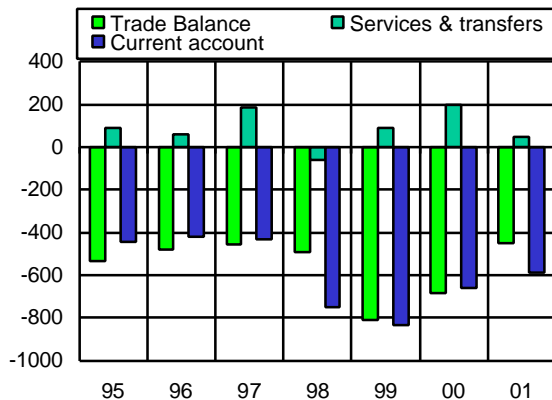
Source of Imports

Destination of exports



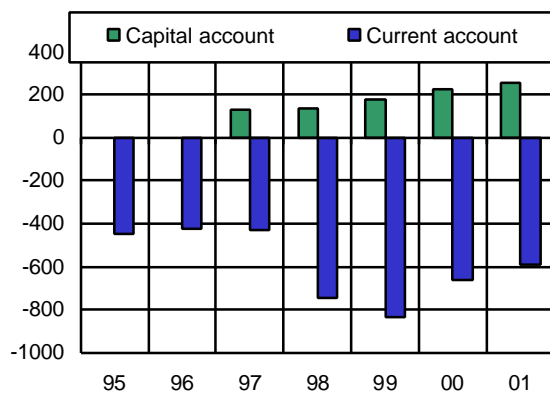
- The country's trade balance has recorded large deficits in recent years. Exports have grown, but imports have remained at high levels mainly for inputs for the Mozal project and food imports.
- Aluminium is the largest export commodity. These exports commenced in 2000.
- Prawns are the second largest export. Aluminium overtook prawns in 2001 as the largest export item.
- Electricity is the third largest export, followed by cotton, manufactured products and timber.
- Other important commodity exports are processed and unprocessed cashew nuts, petroleum products and sugar.
- The aluminium exports from Mozal have boosted the trade balance significantly since 2000. Mozal 2 will further increase exports.
- Main export partners are South Africa, Spain, Portugal, Zimbabwe and Japan.
- Main imports to the country include capital goods, fuel and energy and food.
- Mozambique's main import partner is South Africa. The US, Portugal and Japan are other important import partners.

## Current account (US\$m)



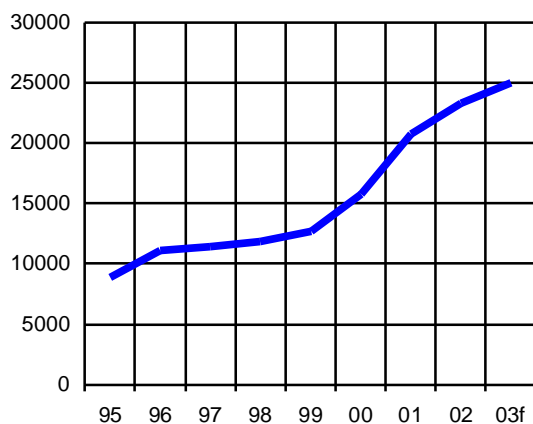
- The country has a large current account deficit, largely because of the trade deficit.
- The trade deficit was caused mainly by capital imports for large projects, such as Mozal.
- Official transfers, mostly grants provided by the donor agencies, boosted the services account.
- Remittances from Mozambican workers in South Africa also contributed to the services account.
- Interest payments on debt, including public debt, are a drain on the services account.
- Without donor assistance the current account deficit would have been significantly larger.

## Capital flows (US\$m)



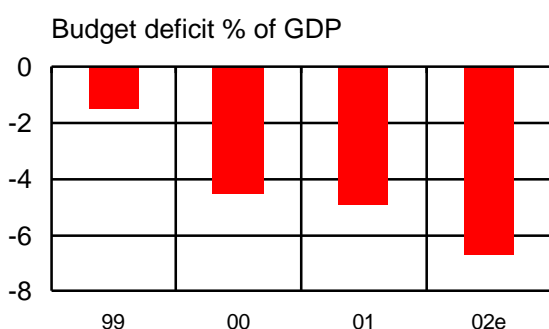
- Mozambique has a small surplus on the capital account.
- Foreign borrowing by the public sector boosted the capital account, but was offset by the amortisation of public debt.
- Direct investment also boosted the capital account.
- The overall balance therefore reflects a deficit because of the large current account deficit. A declining current account deficit should reduce the overall deficit in the medium term.
- Debt relief has changed the structure of the country's financial accounts. This is expected to continue into the near future. Debt relief from the HIPC initiatives will play a great role in debt relief in the coming years. The country is one of the largest recipients of aid in Africa.

## Metical/US\$



- After a period of relative stability between 1996 and 1999, the metical has depreciated sharply, due to growing deficits recorded on the trade balance.
- There is a high degree of dollarisation in the economy. According to the IMF it is a highly dollarised economy, which means that foreign currency deposits (FCD), as a percentage of broad money is greater than 30%. Based on 1995 data, FDCs as a percentage of broad money was 32.6%. It complicates the analysis of currency movements along traditional economic fundamentals. Monetary policy is also made more difficult by using dollars in transactions and as a store of value, they are part of the domestic money supply. However, the monetary authorities can only target domestic currency variables.
- The pace of currency depreciation has slowed in recent years.
- The reserve bank has adopted a flexible exchange rate policy.

## Government finances



- Control over government finances has traditionally been weak. This, together with additional unforeseen pressure on expenditure, has caused growing budget deficits.
- Government revenue largely comprises taxes on goods, services and international trade rather than on income. Government revenue is further augmented by external grants.
- Pressure on expenditure has grown in recent years as a result of the costs associated with flood damage and an increase in government's wage bill.
- To address imbalances, the government is in the process of reforming the tax system to stabilise the flow of revenue to the fiscus by reducing leakages and tax evasion. Customs procedures are also being reformed. The overall aim of the reforms is to broaden the tax base without increasing the tax burden on individuals and companies.

## Economic outlook

- Mozambique was once classified as one of the poorest countries in the world. It has since managed to attract foreign investment and has increased its economic growth rate significantly.
- The country is burdened by high foreign debt, but it became eligible for debt relief under the IMF's HIPC programme, which will see its foreign debt reduced significantly.
- Mozambique's banking system has been plagued with difficulties, often because of delinquent loans. The sale of Banco Austral (BA) to Amalgamated Banks of South Africa (Absa), will strengthen the financial services industry. BA and Banco Internacional de Mocambique (BIM) are the two largest banks. However, BIM will also need to be re-capitalised at some cost to the country. The government intends to privatise BIM.
- Mozal II will double the plant's production capacity and boost aluminium exports.
- Landmines, planted during the devastating civil war, are hampering agricultural development are still in the process of being cleared.
- Poverty reduction is high on the agenda and the country's National Action Plan for the Reduction of Absolute Poverty (Parpa) should pay dividends in the long run.
- Ideologically, Mozambique has abandoned its Marxist and centrally planned past and adopted a capitalistic and market-based future.
- The newly installed democracy is still fragile, evidenced not only by party political rivalries, but also by reports of fraud, corruption and government red tape. These issues are standing in the way of the country's economic recovery in the long run.
- Mozambique celebrated 10 years of peace in 2002. The General Peace Accord was signed on 4 October 1992.

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