

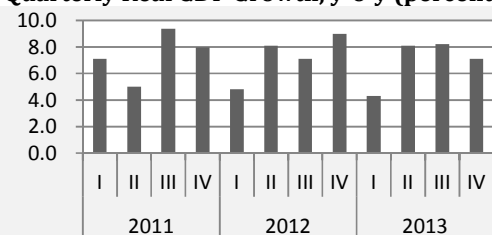
HIGHLIGHTS:

- *Mozambique's economy grew by 7 percent in 2013 led by transport and communications, financial services and extractive industries*
- *FDI inflows reached US\$ 5.9 billion in 2013; International reserves increased by US\$ 404 million over the year*
- *Inflation remains low despite an expansionary fiscal stance and increased credit to the economy*

Growth**7 percent growth in 2013**

The economy grew by 7.1 percent in the fourth quarter of 2013 (y-o-y). GDP for the year grew 7 percent. The tertiary (services) sector grew by 8.8 percent followed by the primary sector, which registered growth of 7 percent led by extractive industries while growth in agriculture and fisheries slowed slightly. The secondary sector grew by 0.6 percent with a contraction in manufacturing.

Extractive industries continue to be the fastest growing sector in the economy. Transport and communication, financial services, construction are some of the other fast growing sectors of the economy. These sectors were also among the major growth drivers of the economy in 2013 with the largest positive contribution coming from the transport and communications sector.

Quarterly Real GDP Growth, y-o-y (percent)

Source: INE

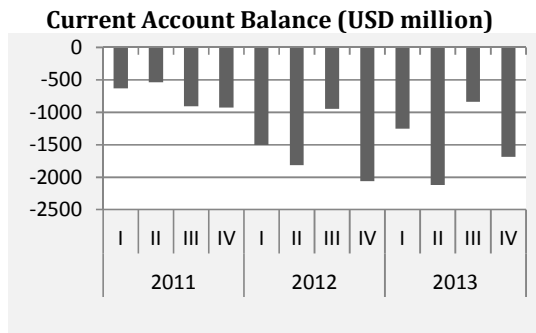
Real GDP Growth by sector (percent p.a.)

| | 4 th quarter 2012 | 4 th quarter 2013 | 2013 | Contribution to GDP growth |
|-------------------------------|---------------------------------|---------------------------------|------------|-------------------------------|
| Agriculture | 8.1 | 5.3 | 5.0 | 1.1 |
| Fishery | 7.3 | 6.6 | 6.1 | 0.1 |
| Extractive industries | 36.0 | 58.7 | 38.2 | 0.8 |
| Manufacturing industry | 6.0 | -3.1 | -0.4 | 0.0 |
| Electricity and water | 18.6 | 11.9 | -0.1 | 0.0 |
| Construction | 16.9 | 24.2 | 11.3 | 0.4 |
| Trade and services | 6.2 | 3.5 | 4.7 | 0.5 |
| Hotels and Restaurants | 1.7 | 6.1 | 1.2 | 0.0 |
| Transport and communications | 22.1 | 14.1 | 16.1 | 2.1 |
| Financial services | 13.9 | 25.4 | 15.2 | 0.9 |
| Real estate and serv. to bus. | 5.8 | 0.0 | 1.4 | 0.1 |
| Public administration | 13.6 | 3.7 | 4.5 | 0.2 |
| Education | 9.8 | 3.0 | 4.9 | 0.2 |
| Health and social protection | 7.3 | 6.2 | 6.5 | 0.1 |
| Other services | 1.9 | 0.0 | 0.5 | 0.0 |
| Total GDP Growth | 9.0 | 7.1 | 7.0 | 7.0 |

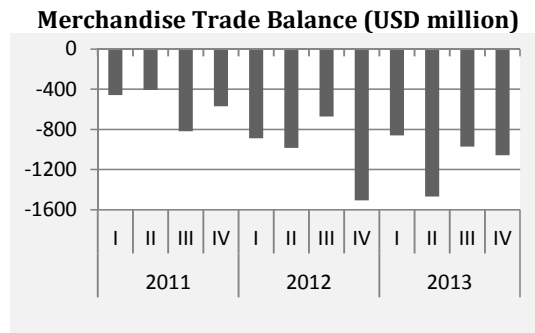
Source: INE

External sector

Decline in the current account deficit compared to 2012



Source: Bank of Mozambique

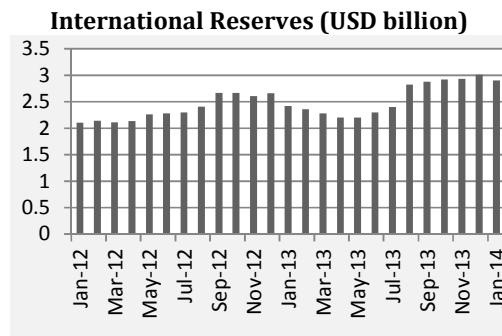


Source: Bank of Mozambique

The current account deficit in the fourth quarter of 2013 stood at US\$ 1.7 billion. The deficit narrowed compared to US\$ 2.1 billion during the same period in 2012, helped largely by a narrowing of the deficit in both the goods and the services account. However, cumulative deficit in this account in 2013 has narrowed only marginally, by US\$ 62 million, compared to 2012. This large deficit is explained by the continuing capital imports of large-scale investment projects in the extractive industries and infrastructure sectors. Current transfers increased by US\$ 405 million in 2013 compared to 2012 to reach US\$ 1.2 billion. These developments have resulted in the overall narrowing of the current account deficit from US\$ 6.3 billion in 2012 to US\$ 5.9 billion in 2013. FDI to Mozambique has seen a sharp increase in the past few years and reached US\$ 5.9 billion in 2013. The large current-account deficit, primarily driven by imports in the capital-intensive productive sectors, continues to be mainly financed by FDI.

International reserves increased by USD 404 million over the year

Net international reserves at the end of 2013 rose to US\$ 3 billion representing an increase of US\$ 152.8 million in the fourth quarter. Reserves increased by US\$ 404.0 million over the year. Increase in reserves in the fourth quarter is explained by factors like disbursement of foreign aid, remittances of mine workers and net income of overseas investments. After a steady rise during the second half of the year, international reserves fell slightly to 2.9 billion by the end of January.



Source: Bank of Mozambique

Fiscal Sector

Better performance in state revenue collection

State revenue in 2013 reached MZN 126.9 billion exceeding the annual forecast by 5.3 percent and corresponding to a nominal increase of 28.9 percent compared to 2012. Increased execution was helped by higher tax revenues especially income tax, including capital gains tax, which represents 35.3 percent of the corporate tax. Taking into account the capital gains paid by Mega Projects the contribution of the sector to revenues amounted to MZN 19.9 billion, constituting 15.7 percent of the total state revenue. This helped partially offset the lower contribution of grants towards the total resources, which reached 91.1 of the annual forecast.

Total expenditure reached MZN 172.9 billion with an execution rate of 88.1 percent. Breaking down the expenditure by type shows an execution rate of 94.7 percent for

current expenditure, 78.0 percent for investment expenditure and 98.9 percent for financial operations. Low execution in capital expenditure has mainly been the result of delays in the implementation of some projects due to factors such as occurrence of floods in the first quarter of 2013, late disbursement of external funds by some partners and lack of absorption of funds in some organs and institutions.

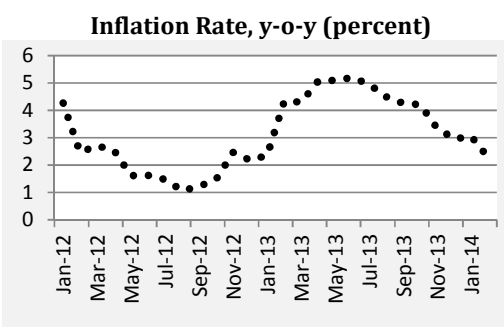
| State Budget Execution for Year 2013 (Million MZN) | | | |
|--|----------------|----------------|----------------|
| | Budget | | |
| | Actual | Executed | Execution Rate |
| State Revenue | 120,492 | 126,908 | 105.3 |
| Tax Revenue | 100,830 | 108,150 | 107.3 |
| Other Revenue | 19,662 | 18,758 | 95.4 |
| Grants | 23,232 | 21,174 | 91.1 |
| Total Expenditures | 196,119 | 172,855 | 88.1 |
| Current Expenditure | 100,839 | 95,474 | 94.7 |
| Compensation of empl. | 50,750 | 49,515 | 97.6 |
| Goods and Services | 19,916 | 18,725 | 94.0 |
| Interest on Debt | 5,622 | 3,977 | 70.7 |
| Transfer payments | 16,047 | 15,401 | 96.0 |
| Subsidies | 3,372 | 3,371 | 100.0 |
| Other | 5,224 | 4,578 | 87.6 |
| Capital Expenditure | 80,787 | 63,052 | 78.0 |
| Domestically financed | 35,414 | 33,602 | 94.9 |
| Externally financed | 45,373 | 29,450 | 64.9 |
| Financial operations | 14,493 | 14,329 | 98.9 |
| Financing | 51,149 | 32,907 | 64.3 |
| External financing | 47,576 | 29,749 | 62.5 |
| Domestic financing | 3,573 | 3,158 | 88.4 |

Source: National Directorate of Budget, Ministry of Finance

Inflation

Inflation continues a downward trend

Inflation declined slightly to 2.3 percent in February compared to 3.1 percent in January 2014. Several factors could have an impact on inflation in the short and medium term. These include external factors like instability in emerging markets coming from the tapering of US monetary stimulus, volatility in the commodity prices as well as internal factors like election related spending.

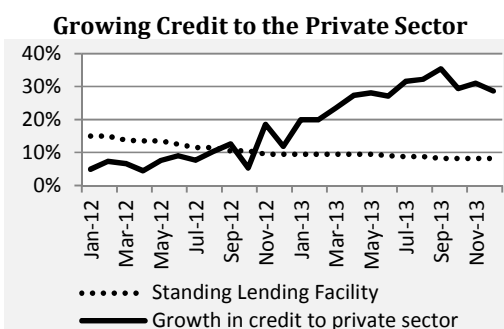


Source: INE (IPC Maputo)

Monetary Policy

Standing Lending Facility rate remains unchanged

The Bank of Mozambique has maintained the Standing Lending Facility (SLF) rate at 8.25 percent since September 2013. Credit to the economy in December grew at an annual rate of 28.7 percent, an increase of approximately 17 percentage points compared to December 2012. Of the total flow of credit in the quarter, manufacturing industry, construction,



extractive industry, and transport and communications emerged as major beneficiaries.

Exchange Rate

Metical continues to appreciate against the South African Rand

The Metical remained relatively stable against the US Dollar in the fourth quarter of 2013, with a marginal annual depreciation of 1.5 percent. The Metical depreciated against the Euro by 6 percent while it appreciated against the South African Rand by almost 20 percent during the same period.

Significant appreciation in the real effective exchange rate

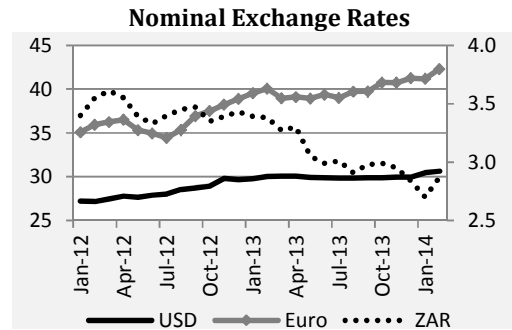
The real effective exchange rate has appreciated since the second half of 2013. This is, largely explained by the appreciation of the Metical against South African Rand and other currencies like the Rupee. Appreciation against some currencies can be explained through the fact that the Metical has been relatively stable in the context of an appreciating the Dollar while other major emerging market currencies faced depreciation against the Dollar in response to the tapering of the US monetary stimulus. This has led to the relative appreciation of the Metical. High levels of foreign investments and increase in exports may put further pressure of the REER in the future.

Economic Prospects

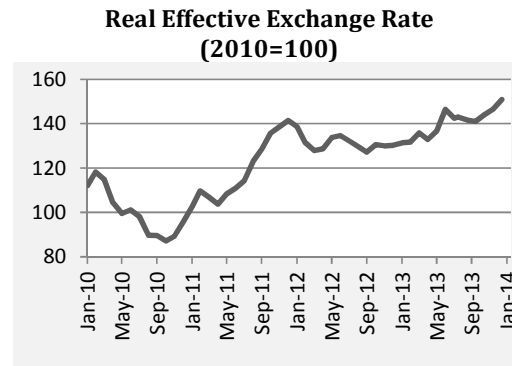
Decline in commodity prices in 2013

With the exception of energy, all key commodity price indices have declined in 2013. The largest fall in prices is noticed in fertilizers, followed by agriculture and metals and minerals (especially aluminum). This declining trend is expected to continue in 2014. Price projections for coal and natural gas show an increasing trend as the demand for these energy sources increases in the light of substitution away from nuclear power.

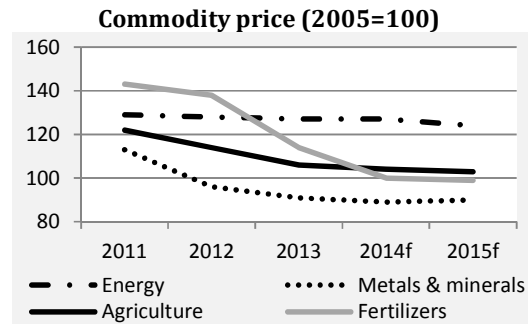
Source: Bank of Mozambique



Source: Bank of Mozambique



Source: World Bank Staff Estimates



Source: World Bank GEP

According to the IMF, Mozambique's GDP is expected to grow by 8 percent in 2014 with increased activity in mining, construction, transport and communications, and financial services. Risks to this outlook relate to international commodity prices and uncertainty surrounding the election year. While average inflation (5-6 percent) is expected to be in line with medium term objectives, risks of inflationary pressure from South Africa and expansionary budget cannot be ignored. The current account deficit is expected to reach 43 percent of GDP in 2014 due to imports for large investment projects financed by foreign direct investment. IMF warned that Mozambique's budget deficit (after grants) is expected to increase to 9.5 percent in 2014 and will not be sustainable over the medium term as windfall gains due to capital gains may not recur and thus has urged authorities to begin gradual fiscal adjustments from 2015, including moderation in new hiring.

Economic News

FRELIMO announces Nyusi as its candidate at the Presidential elections in October 2014

At the central committee meeting, Frelimo elected Defence Minister Filipe Nyussi as the party's candidate for the presidential election on 15 October. The voting had to go to a second round as none of the candidates managed to get a 50 percent majority. Nyussi had a majority, winning 135 votes (68 percent) to 61 votes for Luisa Diogo (31 percent). All of the candidates were under 60 years of age and hence too young to have taken part in the independence war against Portuguese rule. But Nyussi has close links to the liberation war, since his parents were Frelimo veterans in Cabo Delgado. Nyusi was appointed Defence Minister in 2008, his first government position, until recently when he was relieved of his duties. He is now replaced by Agostinho Mondlane. Eliseu Machava also replaced Filipe Paunde as the Secretary General of FRELIMO. The National Elections Commission (CNE) also elected four people from RENAMO

Standard & Poor's lowers credit rating on Mozambique

Credit rating agency Standard and Poor's (S&P) in February 2014 lowered its rating on Mozambique's economy from "B+" to "B" for long term debt in local and foreign currency. Higher accumulation of debt in the light of higher public spending (which could reach 40 percent of the GDP in 2014), state-guaranteed commercial loan of US\$ 850 million by EMATUM (equivalent of 5 percent of Mozambique's GDP) were among the reasons for the downgrading. However, S&P confirmed its outlook on the country as stable and maintains the short term rating at "B". A rating of "B" means that

associated debt is not investment-grade and it is considered highly speculative. Mozambique's total public debt, by the end of 2013, stood at about US\$ 6.8 billion, with US\$ 5.8 billion is foreign debt, and US\$ 994 million in domestic debt.

Government plans revisions to the 2014 budget

The Government of Mozambique is to take a review of the budget to plug in an additional US\$ 520 million received in capital gains tax and accommodate the cost of the new National Electoral Commission and the Electoral Administration Technical Secretariat, which will recruit over a thousand employees. The review will also cover costs of the projects not completed by the Millennium Challenge Account and of VAT refunds. The Finance Minister said that the Government is still studying the financial impact of the budget review, but it is accepted that the process will move forward.

Substantial tax receipts from the extractive sector

A report by the Extractive Industries Transparency Initiative – Mozambique (ITIE-M) released in Maputo by the Ministry of Mineral Resources (MIREM) suggests that Mozambique earned nearly US\$100 million in tax revenues from the extractive sector in 2011. The document shows that taxes collected from the extractive sector operating in Mozambique increased by 59 percent in 2011 compared to 2010. Companies operating in the hydrocarbons area accounted for 69 percent of those taxes. ITIE-M also reported that the hydrocarbons sector paid more taxes, nearly US\$70 million, versus little more than US\$30 million collected from the mining sector although area has fewer companies than the mining area.

Coal production in Mozambique increases

Three additional mining companies Rovubwé , Nkonedzi Coal Company and Midwest, with renewable operating licenses of 25 years, have entered the production phase of coal in Moatize. Rio Tinto increased coal production in the Benga mine in central Mozambique by about 230 percent. Vale produced about four million tons of coal in 2013, exporting only three million tons due to difficulty in transporting the produce on the railway line. Ongoing projects of the company include, expansion of the processing capacity of the coal mine from 11 million tons to 22 million tons per year and the proposed development of the Nacala Corridor, including the construction of a 900 km railway line linking Moatize to the port of Nacala-a-Velha in Nampula province. Estimates of coal production in 2014 are set at 5 million tonnes, of which 4 million tonnes will be exported. By 2017, the company expects to export 22 million tons of coal a year with 18 million tons from the port of Nacala-a-Velha and the remaining 4 million tons from the port of

Beira.

**Mozambique
Block may have
more gas than
expected**

Italian oil and gas group ENI projects that the Area 4 block in the Rovuma Basin, northern Mozambique, contains more gas than discovered so far, according to a report published recently. According to the report, it is estimated that Area 4 may contain up to 2.65 trillion cubic metres of gas, the equivalent of 93 trillion cubic feet. Previous estimates pointed to 75 trillion cubic feet of natural gas in the block. The reserves in Area 1 block were also revised upwards to between 45 trillion and 70 trillion cubic feet from between 35 billion and 65 billion cubic feet estimated earlier according to an Indian press report. Asian markets are particularly keen on securing gas supplies from Mozambique.

Anadarko has already sold two-thirds capacity of its planned Mozambique LNG project to Asian customers. The remaining third of the capacity is also expected to be sold to Asian customers, and not European customers, despite recent tensions between Europe and Russia over Ukraine.

**CPI approves
US\$ 4.2 billion
in investments
in 2013**

In 2013 the Centre for Investment Promotion (CPI) approved US\$ 4.2 billion for 515 projects, with US\$ 569.7 million relating to domestic investment and US\$ 2.2 billion to shareholders and loans. Overall, the industrial sector has generated greater interest from investors, followed by the agriculture and agro-industry, transport and communications, services, tourism and hospitality, construction, and agriculture and fisheries. The announced projects have a potential to create 35,600 jobs, with agriculture and agro-industry (9400), industry (7500) and tourism and hospitality (2800) being the three major employers. South Africa, China and Portugal emerged as the countries that dominated new investments in the country.

**Survey finds
growth has not
led to economic
transformation
in Mozambique**

“The survey of Manufacturing Industries 2012” jointly undertaken by Confederation of Business Associations (CTA), Ministry of Planning and Development (MPD) and University of Copenhagen concluded that economic growth has been driven by mineral resource discoveries, increase in the prices of basic goods and the recovery of domestic demand. However, this has not been accompanied by a generalized structural transformation, and poverty reduction is less than expected. One of the problems is that many companies are operating at a very low level of productivity. Almost half the workers in companies interviewed are paid less than minimum wage as it is claimed that minimum wage is higher than

productivity of the workers. Business climate, access to land with the necessary infrastructure, credit remain some of the main barrier to growth in the sector.

The costs of purchasing electricity have risen sharply as EdM buys not only relatively cheap hydro-electric power from Cahora Bassa but also much more expensive power from gas-fired stations. The rising demand has meant that EdM needs to provide 761 megawatts whereas Cahora Bassa supplies only 500 megawatts necessitating purchase from other plants. There is a large price difference for procuring electricity: from 1,080 meticaís (US\$ 35.8) per megawatt-hour from Cahora Bassa to 4,500 meticaís (US\$ 149.2) from Aggreko and 7,500 meticaís (US\$ 248.6) from Eskom. But EdM's average sales price is only 2,400 meticaís (US\$ 79.6) per megawatt-hour. The pressure due to purchase of expensive electricity is creating financial difficulties for EdM. It sees raising tariffs and promoting saving as the way forward.

EdM warns current electricity tariffs are unsustainable and must be increased

EdM is looking at other options to secure supply of electricity. The production capacity from natural gas in the thermal power Temane in Inhambane, is being expanded from 6.6 MW to 11.6 MW, to meet the increasing demand in the North of the province and the work should be finished in April this year. EdM is also looking at the planned coal-fired gas station at Moatize for electricity since it will be less expensive than buying from Aggreko or Eskom, however this won't be realized until 2017. The ACWA Power Moatize Termoelétrica (APMT) thermo-electric power station, with an estimated cost of US\$1 billion, will make use of coal "waste" from Vale and will produce 300 megawatts of power in the initial phase, of which Vale will use between 200 and 250 megawatts with the remainder going to the EdM power grid.