Mozambique

Although Mozambique’s growth remains high, the government, donors and civil society are questioning the development model based on mega-projects.

The difficulty of sustainably lowering consumption poverty rates combined with high international oil and food prices could lead to further political unrest.

Mozambique aims to lower its dependence on Western donors by cautiously engaging with emerging partners through foreign direct investment (FDI).

Mozambique’s economy continued to perform well in 2010, growing by an estimated 8.1%. Growth in 2009 had been achieved despite a drop in aluminium prices, offset by massive inflows of foreign direct investment (FDI) in coal projects, whereas in 2010 the economy benefited from both FDI and recovering aluminium prices. In addition, coal extracted from the “mega-projects” in Tete province will start adding to exports in 2011. Exports are therefore expected to increase, although the current account balance will remain structurally negative due to the country’s dependence on imports of food, oil and manufactured products. Mozambique is expected to maintain high growth rates in the medium term, driven by mega-projects.

The inflation rate hit double digits in 2010, as a result of the scrapping of fuel subsidies in March-August 2010, the rise in international oil and food prices, the depreciation of the currency against the US dollar (USD) and the South African rand (ZAR), a poor agricultural year and loose monetary policies. Inflation should decline to single digits in 2011, contained by urban transport and wheat flour subsidies, a tighter monetary policy and reinforcement of the domestic food production strategy. The main risk in the growth forecast is that the recovery of international oil and food prices and poor weather will result in failure to control inflation.

However impressive the growth rate, riots in September 2010 and new data on poverty highlighted the weak linkages between macroeconomic performance and the bulk of the population. Social unrest forced the government, donors and international institutions to reconsider Mozambique’s growth model. This model has been based on FDI mega-projects in the extractive industries, which are largely exempt from taxation, with human development supported by donor contributions. The government launched the 2010-14 Poverty Reduction Strategy Paper (PARPA) III, which apart from human development focuses on agricultural output and productivity and on the creation of jobs in small and medium-sized enterprises (SMEs).

The government’s ambitious public works programme over the next few years is expected to result in a substantial widening of the deficit. Capital expenditure should rise by over 1.5 percentage points of GDP between 2008 and 2012. Public investment funded by non-concessional loans will focus on infrastructure based on public-private partnerships (PPPs) along the development corridors. Such projects will absorb all fiscal space over the 2011-13 period, favouring in a first stage large foreign investments linking extractive areas with the coast. Agriculture and SME jobs are expected to benefit through spill-over effects along the development corridors. Donors continue to support human development, although their budget contribution, which accounted for almost 50% of revenues in 2010, will start being phased out.

Mozambique’s new growth model remains based on extractive industries. Two Industrial Free Zones (IFZs) will be created in Nacala in 2011, followed by five more IFZs and one Special Economic Zone (SEZ) before 2014. The extent to which this model will create spill-over effects that benefit the population is yet to be proven, after the government’s failure to promote domestic manufacturing and services around existing mega-projects. The Moatize-Nacala corridor has nevertheless the potential to have a large impact on the economy. Nampula and Zambezia provinces have considerable agricultural potential and large populations, and exchanges with landlocked Malawi, Zambia and Zimbabwe could be exploited.

Mozambique benefits from the diversification of its development partners, notably China, Brazil and India. These emerging partners complement traditional donors’ strong focus on social sectors with an interest in infrastructure and agriculture. During the global economic crisis, their rising demand for natural resources helped to sustain Mozambique’s economy. Emerging partners also finance various research projects seeking to boost agricultural productivity. To date, however, large investments in infrastructure have mostly been geared towards enhancing the productivity of extractive industries, rather than benefiting the local economy. A more structured engagement with emerging and traditional partners alike is required to embed future projects in the national development plan.

Poverty remains widespread in Mozambique, notwithstanding sustained GDP growth over the past decade. The poverty rate declined from 69.4% of the population in 1997 to 55% in 2010, but poverty is now stagnating and regional disparities remain acute. Growing inequality could lead to further social tension if food prices remain high and the government out of touch with ordinary Mozambicans.

Development indicators have improved in recent years, but most of the Millennium Development Goals (MDGs) will not be attained unless the government and donors reinforce their commitment over the next five years. Basic challenges, such as improving the quality of education and health services and the fight against HIV/AIDS, remain daunting.

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	6.4	8.1	7.7	7.9
CPI inflation	3.5	12.7	9.2	7.3
Budget balance % GDP	-5.1	-5.4	-6	-5.4
Current account % GDP	-10.9	-11.2	-10.3	-11

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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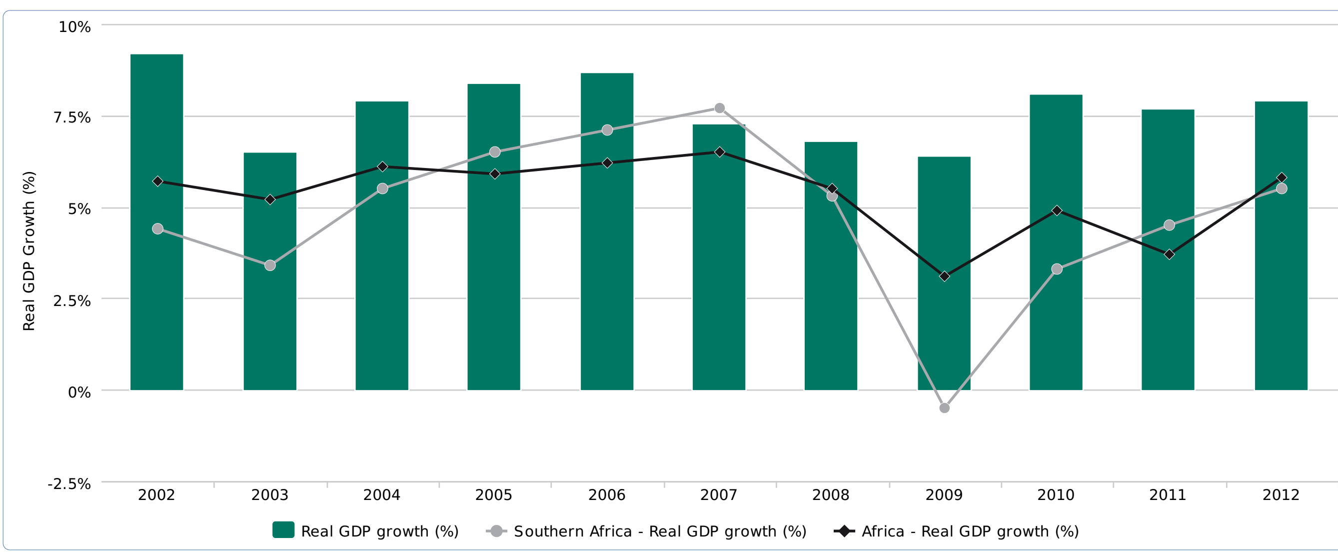
Figure 1: Real GDP growth (S)



Source: IMF and local authorities’ data; estimates and projections based on authors’ calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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