

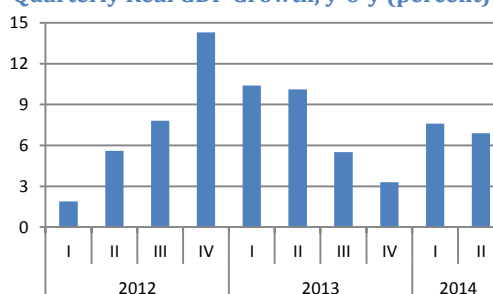
HIGHLIGHTS:

- *The economy grew 6.9 percent in the second quarter of 2014*
- *Lower than expected inflation*
- *Central Bank adopts a looser monetary stance, lowers policy rates by 0.75pp*
- *Marked decline in commodity prices could affect the economy*
- *FRELIMO candidate Filipe Nyusi wins the presidential elections*

Economy continues to register strong growth

The Mozambican economy grew by 6.9 percent in the second quarter of 2014, bringing average growth in the first half of 2014 to 7.2 percent, somewhat lower than projected growth in 2014 at 7.4 percent. Quarterly growth figures indicate an acceleration of economic activity after a dip in the second half of 2013. Slowdown in economic activity in the second half of 2013 was related to challenges in the mining sector (infrastructure, international commodity prices) affecting investment as well as the persisting political violence and conflict, which have now eased after the peace deal.

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



Source: INE

Despite this pick-up in activity, growth remains well below the strong levels of early 2013. Expansion has decelerated in some sectors that have been major drivers of growth in the recent past, such as construction and transport and communications. These sectors would be affected by a slowdown in mining but also suffer from the effects of recent political tensions. Growth in the agricultural sector has also slowed down while the manufacturing sector has accelerated. Financial services and extractive industries remain among the fastest growing sectors in the second quarter, although the latter has decelerated when compared to previous years. Despite moderate and below average growth, agriculture remains the single largest contributor, accounting to almost one third of the total growth in the economy, followed by financial services and manufacturing, each explaining about one fifth of the total growth. On the other hand, due to the small size of the sector, the extractive industries explained only about 4 percent of the total growth despite rapid year on year growth.

Growth by sectors (%)

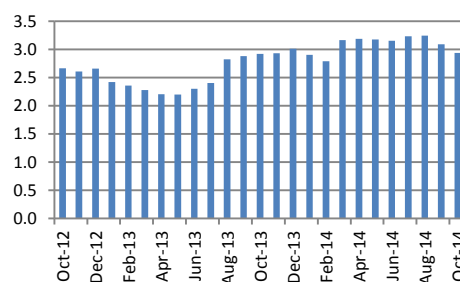
	2 nd quarter 2013	2 nd quarter 2014
Agriculture	8.4	6.3
Extractive industries	13.1	12.6
Manufacturing industry	6.5	12.5
Electricity and water	5.8	5.8
Construction	13.0	10.0
Hotels and Trade	12.8	6.4
Transport and Communications	10.5	3.9
Financial services	34.0	25.0
Other services	5.8	5.2
Total GDP	10.1	6.9

Source: INE

International Reserves remain stable

International reserves stood at US\$ 2.9 billion at the end of October 2014, a slight decline in the quarter, to some extent caused by the strength in the US dollar. Other contributors to the decline in reserves were payments by the Government, US\$ sales by the Central Bank and debt servicing. Positive contributions came from payments to the state (including from extractive industries) and budget support. Despite this slight decline, reserves are still the equivalent to 4.2 months of imports excluding the mega-projects.

International Reserves (US\$ billion)



Source: Bank of Mozambique

Budget Execution Rates are higher than in the first half of 2013

State revenue by the end of the second quarter reached MT 74.6 billion, representing 50.7 percent of the target for the entire year. This execution rate is 4.6 percentage points higher than during the same time in 2013. This improvement in tax collections was partially the result of large capital gains taxes collected in the first quarter of the year. However, grants have flown in slower than expected, with only 36 percent of all grants projected for the year disbursed in the first half of the year. Total expenditures during the first two quarters reached MT 100.2 billion, a nominal increase of 44 percent compared to the period in 2013, with higher execution rates of both current and capital expenditures. Execution rates at the sectoral level shows significant differences, with very low execution rates in the agriculture sector.

State Budget Execution Rate for the first half of 2014

	Original Budget (millions MZN)	Budget Executed (million MZN)	Execution Rate (Jan-June) %
State Revenue	147,372	74,685	50.7
Tax Revenue	126,558	64,781	51.2
Other Revenue	20,814	9,905	47.6
Grants	30,696	11,027	35.9
Total Expenditures	241,185	100,202	41.5
Current Expenditure	115,666	55,650	48.1
Compensation of employees	56,959	28,313	49.7
Goods and Services	25,020	12,435	49.7
Interest on Debt	6,347	2,815	44.4
Transfer payments	18,078	8,883	49.1
Subsidies	2,671	947	35.5
Other	6,590	2,257	34.2
Capital Expenditure	101,064	32,748	32.4
Domestically financed	42,784	15,070	35.2
Externally financed	58,280	17,678	30.3
Financial operations	24,456	11,804	48.3
Active	17,767	8,144	45.8
Passive	6,689	3,660	54.7
Financing	63,118	16,718	26.5
External financing	57,403	15,166	26.4
Domestic financing	5,715	1,552	27.0

Source: National Directorate of Budget, Ministry of Finance

The Revised Budget increases public spending to almost 47 percent of GDP

In August 2014 parliament approved a revised budget that brings expenditures to a projected 46.6 percent of GDP (although execution may be somewhat lower, given the large increase in investment spending), a further increase from the original budget. This revision would also mean an increase in the budget deficit (after grants) from 9.2 percent of GDP to 10.0 percent of GDP. This expansionary fiscal stance is explained by one-off expenditures related to the election year as well as other factors like the inclusion of the non-commercial part of the EMATUM operation

in the budget. A fiscal deficit of 10 percent does not seem sustainable over a longer period of time, which suggests that fiscal policy will need to tighten in the near term.

Revised State Budget 2014

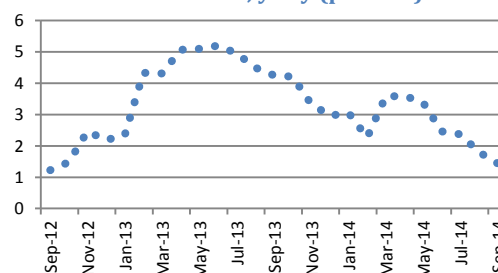
	Budget (million MZN)	As % of GDP
State Revenue	155,574	29.1%
Tax Revenue	132,262	24.7%
Other Revenue	23,313	4.4%
Grants	30,402	5.7%
Total Expenditures	249,094	46.6%
Current Expenditure	121,207	22.7%
Compensation of employees	58,436	10.9%
Goods and Services	26,461	4.9%
Interest on Debt	6,069	1.1%
Transfer payments	18,163	3.4%
Subsidies	2,671	0.5%
Other	9,407	1.8%
Capital Expenditure	104,540	19.5%
Domestically financed	46,260	8.6%
Externally financed	58,280	10.9%
Financial operations	23,347	4.4%
Active	17,767	3.3%
Passive	5,579	1.0%
Financing	63,118	11.8%
External financing	57,403	10.7%
Domestic financing	5,715	1.1%

Source: National Directorate of Budget, Ministry of Finance

Inflation continues to be low

Inflation in October 2014 fell to 1.3 percent. Inflation has been on the decline since April 2014. The low rate can be attributed to factors like favorable import prices due to appreciation of the Metical against the South African Rand, decline in the prices of food helped by a good harvest as well as marginal reductions in fuel prices. This trend in inflation is expected to continue until the end of the year and the Central Bank expects this low inflation to continue into next year.

Inflation Rate, y-o-y (percent)

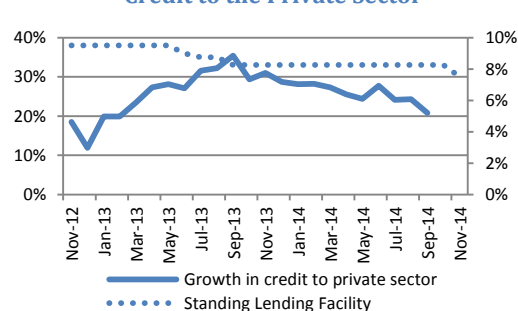


Source: INE (IPC Maputo)

After a long period of neutral policy stance, the Central Bank lowers policy rates by 0.75pp in its November meeting of monetary policy committee

After maintaining it at 8.25 percent for a year (since September 2013), the Central Bank lowered the standing lending facility rate to 7.50 percent in early November. The looser policy stance is the result of a weakening external environment as well as inflation well below the central bank targets. While credit to the economy is expanding in annual terms, about 21 percent in September 2014, there is a significant slowdown in the rate of expansion compared to its peak of 35 percent in September 2013.

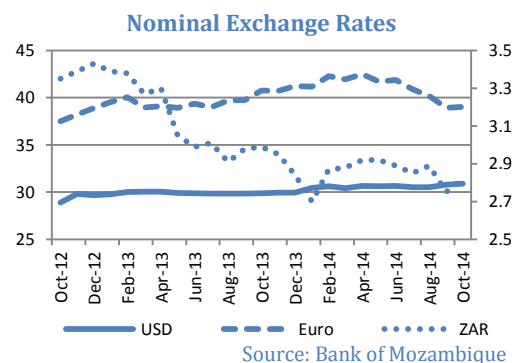
Credit to the Private Sector



Source: Bank of Mozambique

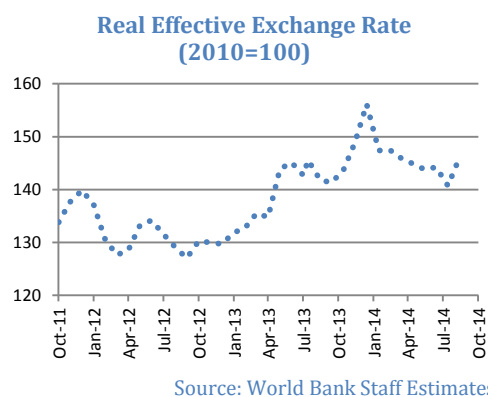
Metical remains stable against the US Dollar, appreciates against the Rand

The Metical continues to remain more or less stable in the context of a strong US Dollar. This has meant appreciation against other currencies that have depreciated against the Dollar, especially the South African Rand. It also registered a slight annual appreciation against the Euro. In the second quarter of 2014, the Metical registered slight depreciation against all these currencies compared to the first quarter. Since July however, there has been a reversal in trend.



REER continues strong despite some decline since the beginning of the year

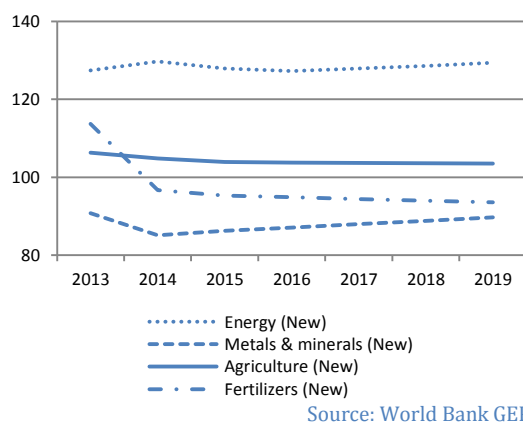
The index of real effective exchange rate shows an appreciation when compared to 2012. The index has depreciated somewhat in the first half of 2014. The year-long slight depreciation despite a strong Metical, can be attributed to very low inflation in Mozambique.



While growth remains strong in Mozambique, downwards risks persist

A modest rise in global growth in the second half of the year is expected to bring annual average growth to 2.6 percent. While growth is recovering in the developed countries, developing countries are expected to post growth rates below long run levels. Average growth in Sub-Saharan Africa is expected to be above average for the developing world. Commodity prices remain a major external risk to growth in Mozambique. A further decline in already depressed coal prices would result in lower exports and could affect investment and operations in the mining sector negatively, putting downward pressure on growth and the current account deficit as well as government revenues, with regular (non-capital gains) revenues from mega projects already accounting for 6-7 percent of total revenues.

Commodity price forecast (2010=100)



Commodity prices are expected to remain weak for the remainder of 2014 and much of 2015, a combination of both weak global demand and ample supply of key commodities; a rebound in prices is expected only by 2016. Metal prices remain low but stable, while prices for both agricultural and energy commodities have declined sharply in the past quarter. LNG prices in Asian markets have remained strong but are expected to slowly decline and converge with low energy prices in other markets.

Economic & Political News

Mozambique improves 12 places in the latest Doing Business Ranking

The latest Doing Business report shows significant improvement in Mozambique's ranking, from 139th in 2014 to 127th in 2015 (out of 189 economies). Reforms to property registration and resolving insolvency, in addition to recent efforts to improve cross-border trade and expedite the approval of construction permits, have resulted in improved rankings. In addition to these important reforms, there are also some methodological changes in 2015 that make the strict comparison of rankings across years challenging. These improvements in the business environment, together with world class natural resources, could contribute to make Mozambique one of the main FDI destinations in Africa in the past few years.

IMF concludes review mission

The IMF concluded its visit towards the completion of the third review under the three-year Policy Support Instrument in November 2014. In a press release at the end of the mission, the mission maintained that the macro-economic fundamentals remain strong with growth being driven by extractive industries among others. It also warned about increased risks to this outlook from the dip in international coal prices as well as uncertainty over the large LNG projects. It maintained the significance of increasing productivity in agriculture sector and employment generation in order to make growth more inclusive. The mission once again stressed the need for more rigorous implementation of key structural reforms. There was also an agreement on the need to contain public spending to narrow the wide deficit while protecting the priority sectors.

Coal and gas sector

Rio Tinto sells assets in Mozambique

Rio Tinto has sold its coal assets in Mozambique it bought through a US\$ 4 billion acquisition of Riversdale in 2011 for just US\$ 50 million to an Indian consortium. Depressed global coal prices and high production costs due to shortage of infrastructure in terms of railways and other logistics have meant low profitability of coal exports. Although the outlook for coal prices remains depressed, India is expected to boost demand in the medium term and is seen as a key market for Mozambique's coal.

Vale in negotiations to sell assets in the coal mine

Vale has confirmed that it is in negotiations to sell a part of its assets in the coal mine in Tete as well as the Nacala Corridor Project. Low commodity prices and ongoing infrastructure constraints could be behind the intended assets sale.

New gas-to-power plant inaugurated

Central Térmica de Ressano Garcia (CTRG), a 175 MW gas-fired power plant, was inaugurated in August 2014. CTRG, a partnership between EDM (51 percent) and Sasol (49 percent), represents Mozambique's first permanent large-scale gas-to-power facility in Ressano Garcia, on the border between Mozambique and South Africa. Natural gas will be supplied to the power plant from the Sasol-operated central processing facility in Inhambane province.

Statoil withdraws from Rovuma basin

The Norwegian company Statoil announced in August its withdrawal from the Rovuma basin in northern Mozambique, after it was unsuccessful in discovering significant hydrocarbon deposits in its concession areas during the eight years of the concession contract.

Mozambique to introduce fifth international tender for exploration of gas

The government launched a fifth international tender for concession of areas for exploration of oil and gas which include the offshore Rovuma Basin (east), Angoche, the Zambezi Delta, areas around Pande-Temane and Palmeira, in the basin of Mozambique. There are fifteen blocks totaling 76,800 square kilometers with closure and delivery of proposals scheduled in early 2015. The government is also exploring options to distribute natural gas via pipeline for use in domestic and regional markets.

The National Assembly passes revised sectoral legislation for the mining and petroleum sectors that will significantly alter the way Mozambique manages its extractive industries

The national assembly passed revised sectoral legislations for the mining and hydrocarbons sector updating the sectoral legislations from 2001 (hydrocarbons) and 2002 (mining). The new pieces of legislation increase transparency in contract disclosure and include the possibility of increased state participation in new investments. The national assembly also passed the revised fiscal regimes for mining and hydrocarbons, which update the 2007 laws. The regimes establish specific rules for the taxation and tax benefits applicable to mining activities and oil and gas operations. The laws will govern taxes on production, accelerated depreciation, stabilization clauses, and other elements of resource management. The new laws seek to adjust the tax regime to international practices in the respective sectors, enable easy reference and interpretation of the legislation, and improve the business environment while increasing government revenues.

Parliament also passed a law authorizing the government to prepare a decree that will govern the LNG plant development in the Rovuma Basin. The government will negotiate with investors aspects that would be included in this decree that will establish special regimes in a number of areas, including fiscal stability, labor, foreign exchange, procurement, insurance, land and property rights and accounting. Investments in the Rovuma Basin, both for LNG and related infrastructure, are estimated at US\$ 30 billion. The decree should pave the way for investors to make final investment decisions in the near future.

Political News...

Peace deal between government and RENAMO

Renamo and the Government of Mozambique signed an agreement to end almost two years of fighting. The agreement was ratified by the National Assembly in September 2014. As part of the peace deal, Renamo fighters will be integrated in the military and the police, and they will hand over their weapons. The agreement paved the way for the celebration of general elections in October 2014.

The Frelimo candidate wins the 2014 general elections

General elections took place in Mozambique on October 15, 2014. Many observers considered the elections free and fair – although some raised concerns with the vote counting process. About 4,500 national observers were directly involved in the electoral process to ensure transparency. The National Elections Commission announced end of October that Frelimo and its candidate, Felipe Nyusi, won the parliamentary and presidential elections. Renamo became the main opposition party with about 1/3 of the vote in the presidential elections. Both main opposition parties, Renamo and MDM, have publicly challenged the election results on the basis of perceived widespread fraud.