

# Mozambique Business Cycles

## Part II Update to June and forecasts to December 2003

By:  
**Roberto J. Tibana<sup>1</sup>**, D.Phil  
[tibanarj@analitica-rjt.virconn.com](mailto:tibanarj@analitica-rjt.virconn.com)  
In:

*Economia e Negócios, Notícias, 29.08.2003*

These notes continue the publication of the updates of the Composite Indicator of Economic Activity in Mozambique (ICAE). **Part I** (published last week – see *Economia e Negócios, Notícias*, 29 February 2003) presented the ICAE update to December 2002. The present release updates the ICAE up to June 2003 based on available actual and preliminary information about the performance of the various activities represented in the Indicator, combined with our estimates. The results are therefore preliminary and should be revised for the next update that is due by the end of this quarter (i.e., by end of September 2003).

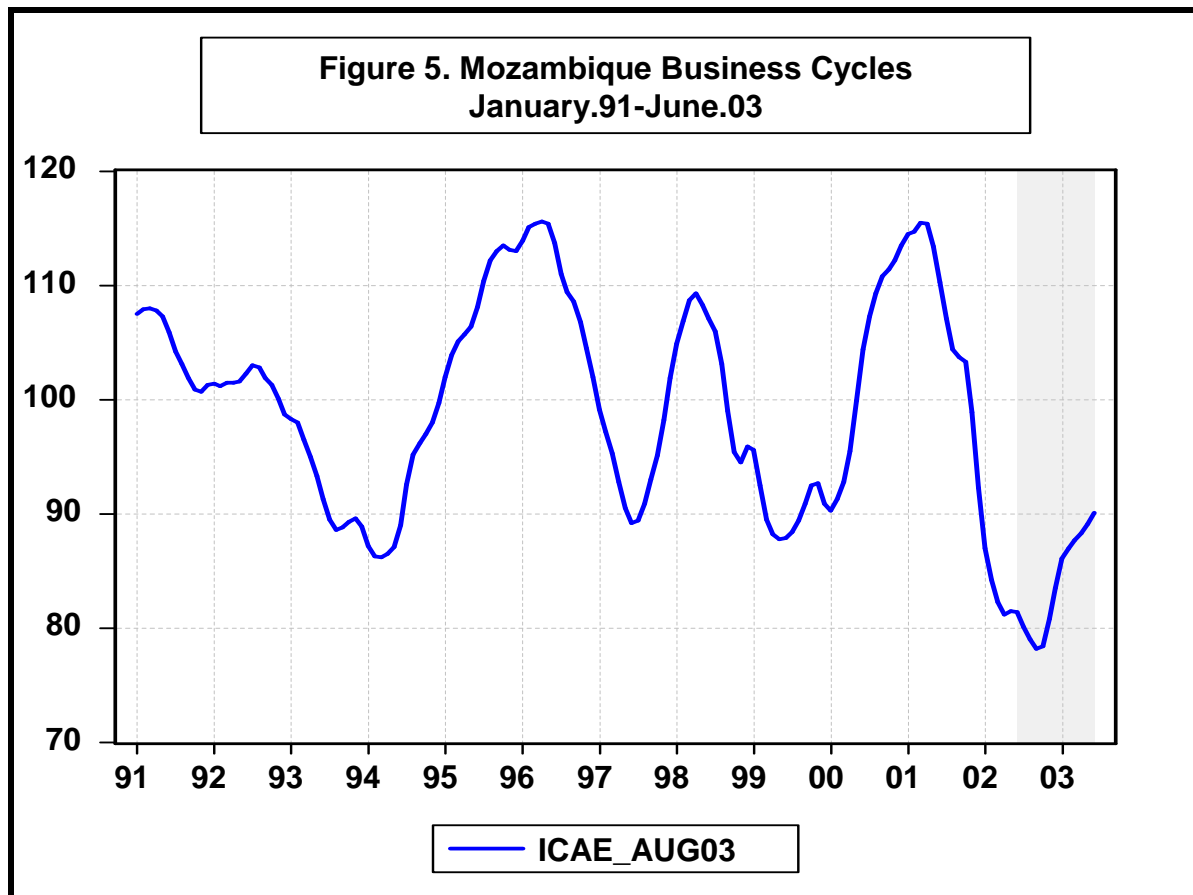
### Update of the business cycles indicator to June 2003

**Figure 5** shows the ICAE in the form of business cycles, measured as percentage deviations from the long-term trend (with base 100 by addition). Thus, and to remind the reader, when the indicator marks 110 it means that economic activity is 10% above the long term trend level, and when it marks 78 it

---

<sup>1</sup> Founder of **Analítica-RJT, Economic Research and Consultancy** (<http://www.analitica-rjt.virconn.com/>). The Mozambique ICAE was produced while the author was under contract with the Development Centre of the Organization for Economic Cooperation and Development (DC-OECD). The DC-OCDE financed the study in support of the Mozambique Public Private Partnership Project. In the framework of Public-Private partnership the Association of Mozambican Industries (AIMO) is the host of the ICAE in Mozambique.

means that activity is 22% below the long term trend. Still to fix ideas, we shadowed the period covered by the updates released last week and the one being presented in current notes. Such period spans twelve months between July 2002 and June 2003.



**The Mozambique business cycle reached its latest peak in April 2001. The recession started in May. The trough was reached in September 2002. The recession lasted almost one year and a half, but the recovery that started in the last quarter of 2002 appears to have firmly established itself throughout the first quarter of the current year.**

It is always important to note that long-term trend growth of economic activity in Mozambique is very strong, based mainly on the activities of the big projects such as the aluminium smelter plant MOZAL, as well as on initiatives in the energy and mining sectors. However, and as a reflection of the performance of the bulk of small and medium scale enterprises (SMEs), **although recovering overall economic activity is still substantially below its long-term trajectory.**

**The business cycle in Mozambique reached its most recent peak sometime between the end of the first quarter and the beginning of the second quarter of 2001.** According to the updated ICAE this may have occurred **more precisely in April 2001** when economic activity was 15.4% above the long-term trend. **Starting in May 2001** a recession set on that continued through the first half of 2002. In December economic activity was already almost 8% below the long-term trend level. The situation continued to deteriorate throughout the subsequent nine months, **reaching the trough in September 2002** with economic activity going 21.6% below its the long term trend. Thus **the cyclical recovery of activity in Mozambique appears to have started in the last semester of 2002.**

According to these results, **the last recession in Mozambique** appears to have **lasted almost one and a half years (17 months), between May 2001 and September 2002.** Available data allows us to estimate that the **recovery of the business cycle started in October 2002** and seems firm, even though the level of economic activity is still substantially unsatisfactory. In March 2003 it was 12.3% below the long-term trend, although there is a good probability that in July this gap may have reduced to almost 10%.

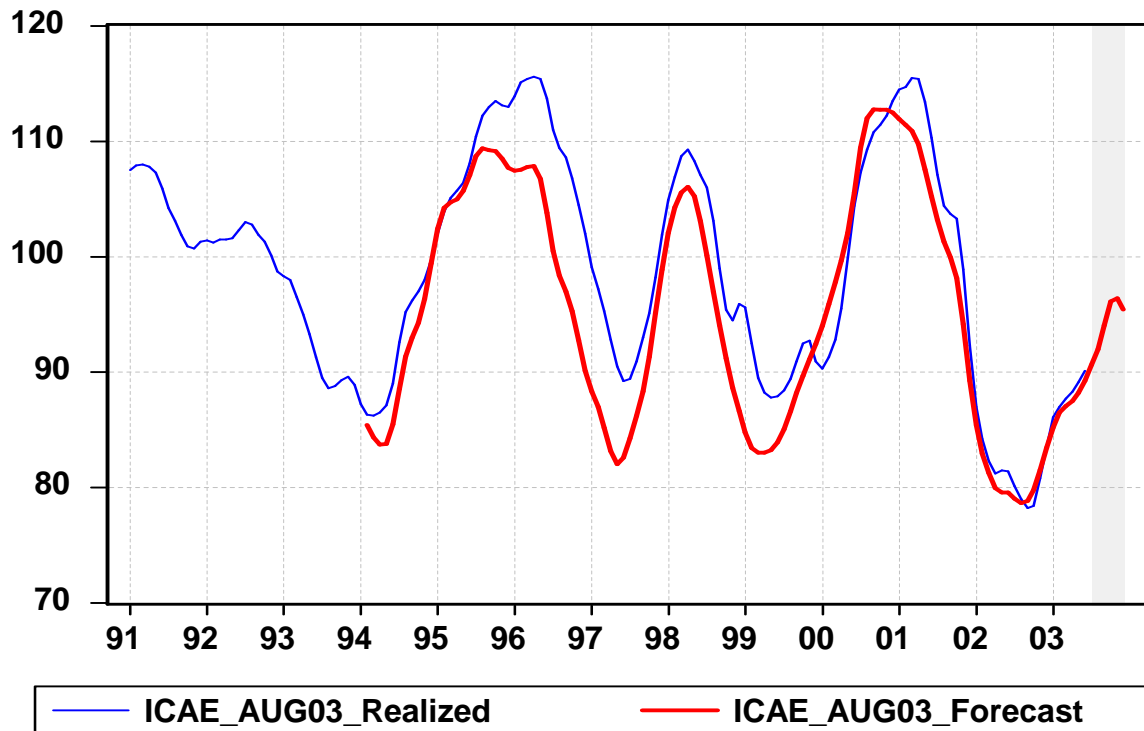
### **Forecasts of the business cycle up to December 2003**

**Figure 6** shows the ICAE updated to June 2003 and the forecasts to the end of the year. Similarly to previous forecasts, **the forecast presented in these notes is based on a model that allows short and medium term factors to play a fundamental role in the performance of the economy,** including those that reflect macroeconomic policies and results. The key assumption for these forecasts are that:

1) there should not be any increase in the level of short-term nominal interest rates, the same applying to exchange rates (except, in this last case, those changes that may have to take place in order to improve the external competitiveness of the economy); 2) No substantial change is expected to take place in the underlying inflationary conditions.

**The forecasts presented in these notes are based on a model that allows short and medium term factors to play a fundamental role in the performance of the economy. The main assumptions include the non-deterioration of the situation in the domestic financial markets. If this were to be the case in the coming months, the recovery that started in the last quarter of 2002 should continue through to the end of the current year, even though it cannot be predicted that by then activity will have reached its long term trend level. Measures to consolidate the recovery are now more than ever urgent to ensure that the upswing is not aborted.**

**Figure 6. Foercasts of the Mozambique business cycle  
Up to the end of 2003**



The results suggest that if these assumptions were to maintain, **the recovery that started in the last quarter shall continue until the end of current year.**

**Notwithstanding the continuation of the recovery** under the established assumptions, **it cannot predicted, as yet, that economic activity will by the end of the current year have reached the level of its long term trend,** even though it may be very close (almost 5% bellow).

In **conclusion**, it can be said that measures to consolidate the recovery are now than ever urgent in order to avoid that the upswing is aborted. That is, **the maintenance of the recovery should not be expected to be the results of forces of inertia,** even if such recovery seems already firmly established. There is need for pro-active measures for its consolidation, particularly taking into account that despite the up mood, **economic activity will remain bellow its long term trajectory for the coming six to twelve months.**

## **A word of caution**

Finally a word of caution is in order. Once again our forecasts may err for being optimistic. This is particularly the case with respect to the underlying assumptions. However, we preferred to open such window of opportunity in the hope that it will be explored by the authorities. In particular, we note that the assumption of stability in the domestic financial markets must in itself be taken with a lot of caution. The main questions that arise are the following: 1) will the authorities continue to procrastinate in face of the need for a resolution of the phenomena of distress in the financial system that result from the accumulation of bad results by some banks, with the result that such approach may maintain or even worsen the risk perceptions that partly underlay the current tendency for the nominal interest rates to remain very high? 2) Or will the public sector intervene to save such banks? And 3) if it does so, will it do it in a manner that increases the pressure on the budget (i.e., using public monies) with the possibility that financing such operations may be by means that increase inflationary pressures that, in their turn would raise the pressures for higher nominal interest rates? Or will it do in another way, and which? 4) What will the impact on the budget be of the ongoing electoral cycle (with the local elections taking place towards the end of the current year and the general and presidential pools coming sometime next year) and how will it be managed so that inflationary pressures are not generated?

In these notes we limit ourselves to presenting the results of updating the ICAE and the forecasts made on the basis of the mentioned assumptions. We leave to others (businessmen, academics and analysts) to assess the possible answers to the questions of caution raised above, so that they can adjust for themselves our forecasts in one or another direction. In other words, we take no responsibility with respect to the consequences of actions that public or private agents may follow as a result of taking our forecasts in their face value, despite the experience of our previous forecasts not having been too distant from the actual results given the maintenance of the essential of the assumptions on which they were based.

**END.**