International
Credit Analysis

Republic of Mozambique

Ratings

Foreign Currency
Long-Term .... B
Short-Term .... B
Outlook .... Stable

Local Currency
Long-Term .... B+
Outlook .... Stable

Country Ceiling .... B

Peer Group

B+	Brazil Cape Verde Indonesia Iran Lesotho Turkey Ukraine
B	**Mozambique** Cameroon Ghana Suriname Uruguay
B-	Bolivia Gambia (The) Lebanon Mali Venezuela

Ratings History

Date	LTFC	LTLC
15 July 2003	B	B+

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■ Summary

Mozambique's ratings continue to be supported by sustained fast economic and export growth as a result of economic reforms and success in attracting large-scale foreign direct investment (FDI) to exploit its natural resources. Together with debt relief under the HIPC (Heavily Indebted Poor Countries) Initiative this has led to a rapid improvement in Mozambique's external debt indicators. Several years of strong agricultural performance (except for 2000 when there were devastating floods) have made a large contribution to growth and rural incomes. Because of commitment to poverty reduction Mozambique has also experienced enormous social progress and this has enhanced prospects for continued political stability.

Mozambique's ratings balance this progress against still very high external debt than its rating peers. Mozambique's progress also has to be seen within the context of a very low starting point, resulting from a 16-year civil war until 1992 and a liberation war prior to independence in 1974. Hence despite evidence of much broader-based growth than was expected, resulting in a sharp drop in poverty and in rural poverty in particular, income *per capita*, human capital and other human development indicators are still amongst the lowest in the world. Substantial improvement of the domestic investment environment will need to occur in order to sustain growth rates of 8% in the medium to longer term and create employment. In addition owing to low (albeit improving) tax revenue and the need for large amounts of social and infrastructure spending, the fiscal system lacks flexibility. Medium and even longer-term fiscal consolidation is only possible with substantial donor aid.

■ Credit Outlook

Creditworthiness is being underpinned by strong FDI, and also robust export growth and diversification. Fast economic and export growth will continue to drive improvements in Mozambique's external debt ratios, ultimately leading to a higher credit rating.

■ Strengths

- Well endowed with natural resources
- Committed to economic reforms
- Strong FDI
- Rapid economic and export growth
- Enhanced prospects for continued political stability
- Increasing export diversification

■ Weaknesses

- Vulnerable to weather-related shocks
- Public finances, though improving, remain weak
- High external debt
- Difficult business environment
- Weak social indicators and transport infrastructure

24 August 2004

Key Indicators for Mozambique

Population (2003): 18.5m | **Population growth rate (1998-2003):** 1.8% p.a.

GDP (2003): USD4.3bn | **GDP per head at market exchange rates (2003):** USD233

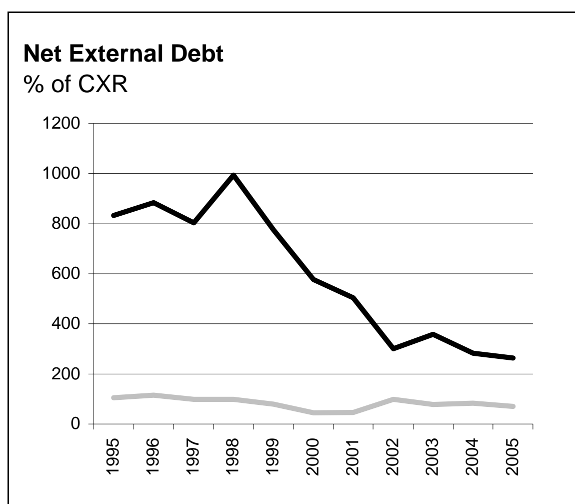
GNI per head at purchasing power parity (2003): USD1,070 (= 3% of USA level)

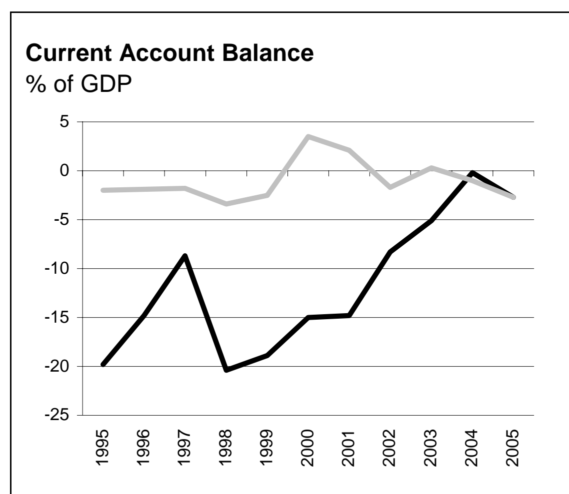
Modern sovereign rescheduling history: 1984 and 1987 (on commercial terms), 1990 (Toronto terms), 1993 (London terms), 1996 (Naples terms), 1998 (Lyon terms), 2001 (HIPC)

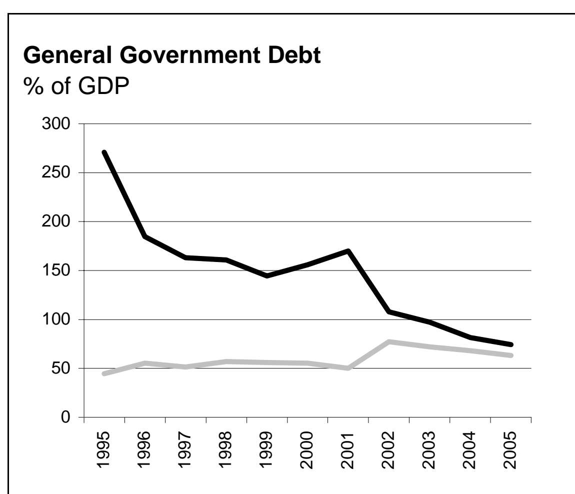
	1999	2000	2001	2002	2003	2004[f]	2005[f]
Domestic Economy and Finance							
Real GDP growth (%)	7.5	1.5	13.0	8.3	7.0	8.4	7.0
Unemployment (% of labour force)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer prices (annual average % change)	2.9	12.7	9.1	16.8	13.4	12.9	7.8
Gross domestic savings (% of GDP)	9.0	7.9	12.8	8.9	7.1	5.8	3.8
Gross domestic investment (% of GDP)	36.7	33.9	26.5	20.8	21.9	21.6	21.6
Short-term interest rate (%)[1]	10.3	18.0	30.6	29.5	21.0	18.5	16.0
Broad money (% change Dec to Dec)	35.1	42.1	29.7	20.1	13.5	14.5	12.0
MZM per USD (annual average)	12,689	15,689	20,707	23,666	23,782	24,250	25,184
REER (CPI, 2000=100)	113.3	100.0	100.0	97.8	96.7	95.6	94.4
REER: % change (+ = appreciation)	-2.9	-11.8	0.0	-2.2	-1.1	-1.1	-1.2
Public Finances							
General government balance (% of GDP)	-1.5	-6.2	-6.7	-8.0	-4.5	-3.4	-3.9
General government debt (% of GDP)	144.3	155.8	170.1	107.8	97.4	81.5	74.5
General government debt maturities (% of GDP)[2]	0.9	0.9	0.6	0.4	0.6	0.7	0.6
General government debt/revenue (%)	610.0	731.2	605.4	417.3	395.4	348.0	320.4
Interest payments/revenue (%)	2.6	0.9	2.4	5.8	5.2	4.2	5.5
Balance of Payments							
Current account balance (USDm)	-774	-546	-510	-300	-221	-11	-155
Current account balance (% of GDP)	-18.9	-15.0	-14.8	-8.3	-5.1	-0.2	-2.7
Current account balance *plus* net FDI (USDm)	-392.2	-406.4	-254.7	47.9	115.5	195.0	95.0
Current account balance *plus* net FDI (% of GDP)	-9.6	-11.2	-7.4	1.3	2.7	3.8	1.7
Gross financing requirement (% of official reserves)[3]	138.5	95.4	80.0	61.8	47.4	20.7	32.5
Current external receipts CXR (USDm)	893	1,106	1,262	1,721	1,496	1,899	2,059
Current external receipts CXR (annual % change)	19.9	23.8	14.1	36.3	-13.1	27.0	8.4
Current external payments CXP (USDm)	1,667	1,652	1,772	2,021	1,717	1,910	2,214
Current external payments CXP (annual % change)	9.7	-0.9	7.3	14.0	-15.0	11.3	15.9
External Assets and Liabilities							
Gross external debt (USDm)	7,785	7,445	7,433	6,401	6,733	6,968	7,203
Gross external debt (% of GDP)	190.3	205.2	216.4	177.8	155.8	134.3	125.3
Gross external debt (% of CXR)	871.6	673.2	588.9	372.0	450.2	367.0	349.8
Net external debt (USDm)	6,923	6,383	6,363	5,178	5,348	5,363	5,414
Net external debt (% of GDP)	169.2	176.0	185.2	143.8	123.8	103.4	94.2
Net external debt (% of CXR)	775.2	577.2	504.1	300.9	357.6	282.4	262.9
Public external debt (USDm)	5,648	5,125	5,123	3,702	3,989	4,044	4,099
Public external debt (% of GDP)	138.0	141.3	149.1	102.8	92.3	78.0	71.3
Net public external debt (% of CXR)	557.5	395.9	348.1	166.3	198.4	150.5	133.5
Public FC denominated & FC indexed debt (USDm)	5,648	5,125	5,123	3,702	3,989	4,044	4,099
Short-term external debt (% of gross external debt)	5.0	7.7	7.7	8.9	8.5	8.2	7.9
External debt service (% of CXR)	11.4	15.4	15.4	19.2	2.9	7.6	11.2
External interest service (% of CXR)	0.5	7.0	8.5	10.5	-9.0	-2.9	0.0
Liquidity ratio (%)[4]	178.8	153.7	139.0	118.8	199.5	193.8	200.7
Official international reserves including gold (USDm)	669	746	730	840	1,021	1,185	1,349
Official international reserves in months of CXP cover	4.8	5.4	4.9	5.0	7.1	7.4	7.3
Official international reserves (% of broad money)	66.6	67.6	69.4	68.0	72.9	76.3	81.0

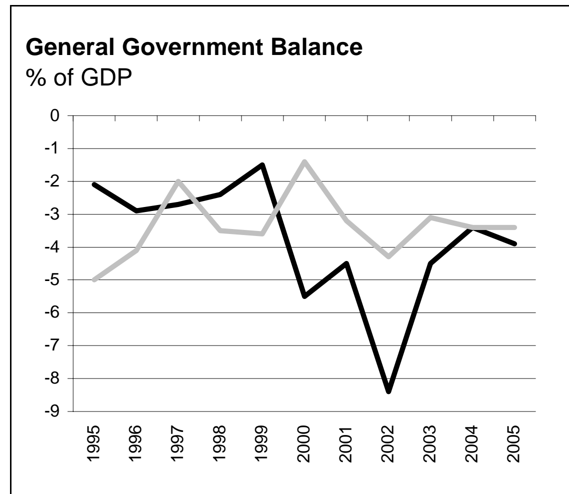
(1) Central bank liquidity rate (annual average).
(2) Maturities of medium and long-term debt during year *plus* short-term debt outstanding at the beginning of the year.
(3) Current account balance plus amortization of medium and long-term debt, over official international reserves.
(4) Official reserves incl. gold *plus* banks' foreign assets/ Debt service *plus* liquid external liabilities.

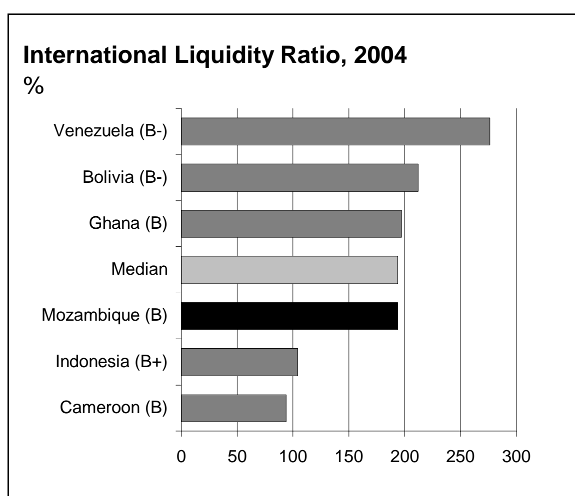
Peer Comparison

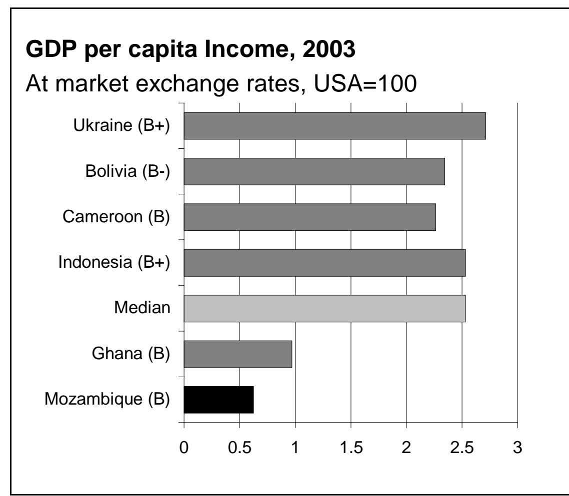












Mozambique B Median

Source: Fitch Sovereign Comparator

Rationale

Mozambique's ratings continue to be supported by sustained fast economic and export growth as a result of economic reforms and success in attracting large-scale foreign direct investment (FDI) to exploit its natural resources. Together with debt relief under the HIPC (Heavily Indebted Poor Countries) Initiative this has led to a fast improvement in Mozambique's external debt indicators. In 2004 the coming on stream of a gas pipeline to South Africa has resulted in further diversification of exports. Several years of strong agriculture performance (except for 2000 when there were devastating floods) have made a large contribution to growth and rural incomes. Because of commitment to poverty reduction and economic growth Mozambique has also experienced enormous social progress.

Mozambique's ratings balance this progress against still very high external debt than its rating peers (though as described below this debt is on highly-concessional terms). In 2003, net external debt (NXD) to current external receipts (CXR) was 360% compared with a 'B' median of 97%, and NXD to GDP was 124% compared with a 'B' median of 42%. Mozambique's strong progress also has to be seen within the context of a very low starting point, resulting from a 16-year civil war until 1992 and a liberation war prior to independence in 1974. Hence despite evidence of much broader-based growth than was expected, resulting in a sharp drop in poverty and in rural poverty in particular, income *per capita*, human capital and other human development indicators are still amongst the lowest in the world. Substantial improvement of the domestic investment environment – which is characterised by lack of access to finance, excessive bureaucracy, a weak judiciary, labour market inflexibility and prohibition of land ownership – will need to occur in order to sustain growth rates of 8% in the medium to longer term and create employment. These latter two structural and social constraints will take time to address. Nonetheless, fast economic and export growth will continue to drive improvements in Mozambique's external debt ratios, ultimately leading to a higher credit rating.

Economic and social progress has enhanced prospects for continued political stability. Political risk is of much less concern in Mozambique, with the focus shifting instead towards the strengthening of governance and institutions. The ruling party Frente de Libertacao de Mocambique (Frelimo) is expected to win the third multiparty elections scheduled for December 1st and 2nd that are expected to run smoothly, thereby providing continuity of economic policy.

Creditworthiness is being underpinned by strong FDI, and also robust export growth and diversification. In 2004 full production of the second phase of the Mozal aluminium smelter and the coming on stream of gas exports to South Africa in March, should result in another sharp rise in merchandise exports and further diversification of exports. 2004 will also be the first full year of operation of Maputo Port, under a concession granted in April 2003 to a consortium led by Mersey Docks (Liverpool), which will result in stronger growth in services exports. In the medium term, export growth and diversification will be boosted by the Moma heavy-sands titanium project (a USD435m investment that started this year), which will be operational in 2006. Fitch Ratings is projecting annual goods and services export growth to average 16% between 2000 and 2005 – which is among the highest of non-oil exporting countries.

Although external debt indicators are high relative to the 'B' rating category, the fast declining trend of external debt ratios supports the rating at the 'B' level. There are two reasons for the declining trend. First, HIPC debt relief has reduced nominal public sector external debt, which stood at USD3.7bn in 2002 compared with USD6.1bn in 1998 (the year before interim HIPC debt relief). Second, although nominal debt has since increased and is expected to continue rising, mainly owing to FDI-related borrowing by the private sector, external debt ratios are projected to continue declining because of rapid economic and export growth. Furthermore the risk of an external payments crisis is mitigated by the high proportion of public debt being on concessional terms, which accounts for around 70% of Mozambique's total debt. Public external debt service is just less than 5% of current external receipts. On the other hand private sector external debt service is projected to rise to up to 20% of current external receipts in the medium to long term, though much of it is FDI-related borrowing from parent companies for export projects. These two features reduce concerns about the risk of an external payments crisis.

Peer Comparator

(%) 2003	Mozambique	'B' Median
Real GDP Growth (5-yr Average)	7.5	3.3
Export (CXR) Growth (5-yr Average)	10.2	8.6
Debt Service/CXR	2.4	13.2
General Govt Debt/GDP	97.4	72
General Govt Debt/Revenue	395	280
NXD/CXR	357.6	97.4

Source: Fitch

Because of weak revenue and the need for large amounts of social and capital spending the fiscal system lacks flexibility. Fiscal consolidation is only possible with substantial donor aid. Nonetheless, the revenue (excluding grants) to GDP ratio has gradually increased through reforms and rapid economic growth to 14.3% of GDP in 2003. This compares with ratios of 22% for Malawi ('CCC+'), 21% for Ghana ('B') and 17.6% for Cameroon ('B') – some other rated HIPC countries. The government is projecting the tax revenue to GDP ratio to stabilise at around 17%-18% in 2007-08. On the expenditure side, high wages growth which rose from 2.3% of GDP in 1997 to 7.5% in 2003, owing mainly to an increase in the number of teachers and health workers (as part of a poverty reduction programme) – is pressurising public finances. Despite efforts at reform, public expenditure management systems remain weak. A new government financial system (SISTAFE) (already delayed by a year) – which will consolidate a majority of accounts into an single electronic treasury account that will make information on balances available twice daily, due to begin operating this year – is expected to help increase transparency and efficiency of expenditure in the medium term.

Typically, domestic treasury bills are used to manage short-term liquidity during the course of the year and outstanding treasury bills are retired at the end. However, owing to delays in donor disbursement, which were made right at the end of the year, the government was unable to retire all outstanding treasury bills at end-2003. Hence the stock of domestic debt rose in 2003 to include treasury bills worth 2% of GDP. The remainder is made up of 10-year bonds issued in 2000-02 to recapitalise the two former state-owned banks, totalling 2.7% of GDP. This level of domestic debt is still very low, justifying the one notch difference between the long-term local currency rating (LTLC) at 'B+', and the long-term foreign currency rating of 'B'.

In 2003 external liquidity, measured as foreign reserves plus banks' foreign assets/short-term debt plus debt service, benefited from substantial HIPC debt-service relief and rose sharply to 200%. In the medium term, the private sector's higher debt servicing costs will partly offset the rapid increase in foreign reserves, resulting in a more gradual strengthening of liquidity.

■ Political & Social Situation

The third multiparty elections are scheduled for December 1st and 2nd. Based on its strong record of economic management and social progress, the ruling party Frente de Libertacao de Mocambique (Frelimo) and its presidential candidate Armando Guebuza are expected to win the legislative and presidential elections. The main opposition party Resistencia Nacional de Mocambique (Renamo) has widespread support from the north and central regions, though it is held back by weak organisation and a lack of experience. The municipal elections held last November – which Renamo contested for the first time, but which Frelimo won overwhelmingly – are indicative of the likely general election result. Ideologically, the major parties are similar; both follow pragmatic free market policies, though Renamo would be more responsive to land reform and the strengthening of property rights.

Hence Fitch expects continuity on economic policy and this view is underpinned by the approval in July of a new IMF programme covering the period up to 2006. Following stabilisation and deregulation of the economy, the emphasis will be on implementing second-generation reforms to facilitate the development of the private sector and sustain high growth rates.

Rapid economic growth and a policy framework committed to reducing poverty have resulted in a faster-than-expected decline in poverty. The recent household survey showed a 15 point reduction in those living below the poverty line in six years, from 69% in 1996 to 54% in 2002. This is far ahead of the government's poverty reduction strategy target of less than 50% of the population by 2010. Furthermore, the survey shows a marked decline in rural poverty, owing to a rise in agricultural production, and a more modest fall in urban poverty reflecting growing urban unemployment. Similarly, a demographic survey shows a sharp drop in the infant mortality rate, and all other indicators such as literacy have improved, albeit from a very low point. Hence, Mozambique remains one of the poorest countries in the world. It is ranked 171 out of 177 countries in the UN 2004 Human Development Index (HDI). This compares with Ghana ('B') ranked 131 and Mali ('B-') ranked 174. Nevertheless, in view of rapid social and economic progress, Mozambique is one of the few developing countries that is likely to meet the Millennium Development goals of halving its level of poverty by 2015.

Mozambique's commitment to economic reforms has so far been rewarded with substantial donor support, which has helped support growth and development, strengthening creditworthiness. The Mozambican economy should receive a further boost owing to the US government's decision to select it as one of 16 Millennium Challenge Account (MCA) countries that will receive a huge step-up in aid over the next three years. Aid will be based on the government's own proposal on how it will use the funding to sustain growth and reduce poverty. The MCA countries were selected on the basis of their

commitment to strong governance, human rights protection, rule of law and an open economic system. Total annual aid for MCA countries will reach USD5bn by 2006.

Short-Term Prospects

Robust economic growth of 7.0% was recorded in 2003, reflecting strong agricultural output, which expanded by 7.5%, high levels of investment in the mega projects and rapid export growth. Growth is projected to accelerate to around 8.5% in 2004, owing to the coming on full stream of Phase II of the Mozal aluminium plant, Sasol gas starting to flow and continued strong performance in agriculture. Investment in a titanium project (due to be operational in 2006) will keep growth relatively high in 2005. Inflation rose from single-digits at the end of 2002 to 13.8% at the end of 2003. Much of the rise was between October and December, caused by a sharp increase in liquidity, owing to receipt of a high proportion of foreign aid, which was insufficiently sterilised. The sharp depreciation of the metical (MZM) against the rand (ZAR) (50% of Mozambique's imports are from South Africa) also contributed to imported inflation. Due to the continued strengthening of the rand, this factor is still adding to inflationary pressures this year. The large inflow of foreign aid in the final quarter of the year is once again likely to add to inflation in the final months of this year.

Merchandise exports rose by 29% in 2003, largely owing to the start of the Phase II expansion of the Mozal aluminium plant. Stronger export growth is projected this year. HIPC debt service relief and grants and a fall in imports related to the mega projects are expected to help the current account deficit narrow this year. Adjusted for HIPC debt relief on interest payments, the current account is projected to be close to balance. In 2005, however, the deficit is projected to widen, reflecting higher imports related to the titanium project due to come on stream in 2006. Exports diversification to gas this year and titanium in 2006 and rising reserves are reducing the economy's vulnerability to external shocks.

Economic Performance and Outlook

	2004f	2005f
Real GDP (%)	8.4	7.0
CPI Inflation (%, Annual Avg.)	12.9	7.8
Budget Balance (% of GDP)	-3.4	-3.9
Current Account (% of GDP)	-0.2	-2.7

Sources: Banco de Moçambique, IMF, Fitch estimates and forecasts

Structural Issues

Macroeconomic stabilisation, deregulation and structural reforms, such as privatisation, have underpinned the recovery following the 16-year civil war. Since 1997 FDI into large-scale capital-intensive projects has helped diversify the economy. In the future, the government intends to implement second-generation reforms aimed at improving the competitiveness of the economy and stimulating the private sector.

Indications are that Mozambique's economic growth has been more broadly-based than originally recorded, with several years of strong agricultural performance (except for 2000 when there were devastating floods), making a large contribution to growth. This is also supported by a household survey, which showed poverty had declined sharply in the rural areas over the past six years. Agriculture production – which in 2003 accounted for around 22% of GDP – increased by an average 7.5% *per annum* over the past decade. While mega projects accounted for around 8% of GDP and on average recorded growth of around 2%-2.5%.

Agriculture and rural development is an integral part of Mozambique's poverty reduction strategy (PARPA, a Portuguese acronym) – 70% of the population is rural. Agriculture expanded rapidly in the 1990s, reflecting the expansion of the area under cultivation (following the war) and deregulation. Agriculture recovered strongly after the floods, expanding by 8.4% in 2002 and 7.5% in 2003. Efforts are now shifting towards implementing structural reforms that will help improve the sector's productivity. These include improving access to credit, the adoption of new crop technologies and increasing access to markets through rural infrastructure. Agriculture is projected to grow by 6.5%-7% per year for the next three years.

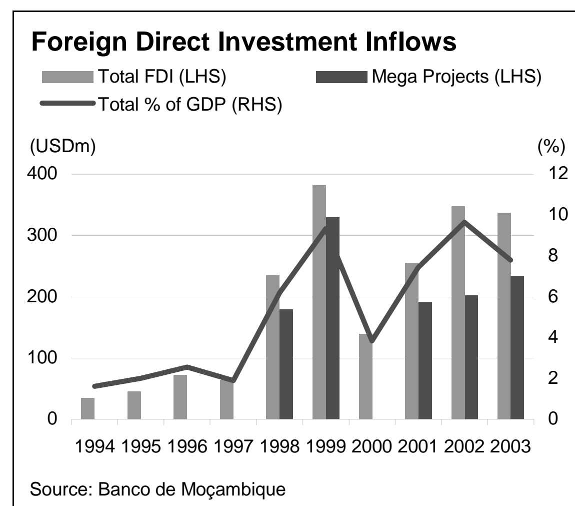
Similarly, industrial production was boosted by reforms such as deregulation and privatisation, and since 2000 the mega projects. Privatisation with the exception of utilities and transport companies was largely completed by the end of the 1990s. Manufacturing (including aluminium production) accounts for around 10% of GDP.

The government with the support of the World Bank is implementing structural reforms of the utilities sector with a view to improving their efficiency. Within telecoms, a second mobile phone operator was licensed to Vodacom (South Africa) last year, and M-Cell (mobile) has been separated from the national operator Telecomunicacoes de Mocambique (TDM) in preparation for TDM's privatisation. There is an energy reform project under way – which will set the scene for privatisation of electricity distribution. The government's strategy for transport is to develop transport corridors around the three

main ports Maputo, Beira and Nacala to South Africa, Zimbabwe and Malawi respectively. With the granting of an operating concession of the Maputo Port last year – which will receive a USD70mn investment in the first three years – the Maputo corridor, which already has other transport links (the Maputo-Johannesburg toll road was completed in 2000; the Maputo-South Africa railway managed by Spoornet since 2002), is set to become an important port for the South African hinterland, while the whole transport corridor is expected to become an important source of services export earnings for Mozambique. The other two ports have progressed more slowly, with trade through Beira port in particular affected by problems in Zimbabwe.

Mozambique has been very successful at attracting FDI aimed at exploiting various natural resources. These include cheap electricity, gas reserves, mineral wealth, a large quantity of arable land, wildlife and a 2,700km coast line. The government has been able to attract FDI by granting extensive operating concessions. These have, however, been pared back (after the generosity of the deals was criticised) as a result of a fiscal incentives law in 2002, aimed at improving transparency and limiting these types of incentives. Large projects are also shielded from the bureaucratic red tape that blights the general business environment.

Foreign Direct Investment Inflows



Source: Banco de Moçambique

Investment in the mega projects has led to a trebling of merchandise exports earnings since 1999 to around USD900m in 2003. Current and proposed investment in mega projects is estimated at around USD10bn by 2010. The following are the main projects.

- Mozal aluminium smelter - a USD1.3bn joint venture investment led by BHP Billiton (Australia-South Africa), which has been operational since 2000. A USD1bn investment doubled capacity in 2004.
- A USD1.6bn investment by Sasol (South Africa) in a gas treatment plant and gas pipeline from Temane Pande gas fields (situated in the southern part of the country) to South Africa, which came on stream in March 2004.
- Moma Titanium Minerals Project - a USD435m investment by Kenmare Resources (Ireland), which started this year and is scheduled to begin production in 2006.
- Rehabilitation of power lines from the Cahora Bassa hydroelectric dam to South Africa and Zimbabwe at a cost of USD125m in 1997.
- Rehabilitation of sugar plantation and refineries at a cost of USD200m in 1997-98.
- The granting of an operating concession of Maputo Port (to a consortium led by Mersey Docks) in 2003, which will involve a USD70m investment over three years.

Proposed mega projects include the Corridor Sands project – a heavy sands mega project for titanium oxide mining and; the development of the Moatize coal mines and rehabilitation of rail and ports infrastructure through Beira port.

Although there has been important progress on attracting FDI, reviving the agricultural and industrial sectors and improving the transport network, the business environment remains very difficult particularly for local investors, even relative to regional standards. This is viewed as a major constraint to broadening private investment and sustaining 8% growth rates over the medium to longer term.

A recent Investment Climate Assessment conducted by the World Bank in conjunction with the Confederation of Business Associations of Mozambique (CTA), and Centre De Promaocao De Investimentos (CPI, the investment authority) highlighted constraints to private sector activity. For many of the obstacles for example the lack of access and the high cost of finance; a weak legal system[1]; uncertain policy environment and regulatory/bureaucratic barriers[2]; and infrastructure

[1] The time it takes to settle disputes is 540 days compared with 108 days for Malawi ('CCC+') and 84 days for South Africa (BBB) according to the World Bank.

[2] The median time it takes to register a business is 138 days compared with 90 days in India ('BB+') and 30 days in China ('A-'), according to the World Bank.

constraints, particularly electricity and transport costs; Mozambique compares unfavourably even on a regional basis. In addition, the prohibition to land ownership means that the time it takes to register for land usage is one whole year. Although labour costs are relatively low, labour market inflexibility in terms of hiring and firing people adds to the cost of labour, while at the same time in common with other low-income countries there is a skills shortage. The authorities recognise these constraints and, for example, as part of the second-generation reforms they are emphasising financial sector and judicial reform. But in view of human capacity constraints and a weak starting point, the strengthening of these institutions is expected to be gradual. Prospects for land reform are weak owing to the ruling parties' ideological opposition to private ownership of land.

■ Financial Sector

Mozambique's banking system has made considerable progress following legislation, deregulation and privatisation in the 1990s, which transformed the system from one modelled on a communist banking system to a market-based system. Mozambique's banks are majority private and foreign-owned mainly by Portuguese and South African companies. The financial system is nevertheless still quite weak. Banks make up around 96% of financial sector assets.

Banking regulation and supervision are being strengthened following crises at two previously state-owned banks – Banco Commercial de Mocambique (BCM) and Banco Austral (BA) – in 2000. The crises necessitated recapitalisation by their private owners and the government at a total cost to the government of 4.5% of GDP between 2000 and 2002. As a result of consolidation, the government's stake in the banking system is now 23% of the major bank BIM, which was the result of a merger between BCM and Banco Internacional de Mocambique (BIM). In addition to the government's remaining stake in BIM, the state insurance company and pension scheme, which is unfunded, lack transparent accounts and are considered a potential liability.

Because of its large market share (45% of deposits), its history of state-ownership through BCM and hence large concentration of non-performing loans and the government's stake, an assessment of BIM was undertaken last year with a view to assessing the time it will need to adopt International Accounting Standards (IAS) and ways of strengthening the bank's balance sheet. The assessment showed a marked improvement of prudential indicators since 2001 and good progress on recouping non-performing loans. A diagnostic review of the three other largest banks is planned for this year. All banks are expected to start to use international accounting standards by 2005-06. These moves should gradually strengthen the financial system.

With an average return on equity of 20% and a capital adequacy ratio of 14% in 2003, the banking sector is profitable and well capitalised, though the overall capital adequacy ratio is brought down by BIM, which is less well capitalised. The high non-performing loans ratio (16.4%) is skewed by BIM's loan portfolio, but nevertheless indicates the high credit risk. Furthermore, rules for loan loss provisions are less stringent than international accounting standards, and if used, they would drag down the capital adequacy ratio further. According to the IMF's Financial System Stability Assessment, exposure to foreign exchange risk and liquidity risk appears limited owing to the currency matching of loans and liquidity support from parent foreign banks.

Mozambique's banking system is small and highly dollarised – around 50% of deposits are in US dollars (USD) and over 70% of loans are in USD. This reflects high metical interest rates, in part reflecting macroeconomic instability, but also due to a higher cost structure related to high loan loss provisions (for the largest bank BIM) and overheads (compared with the regional average). Overall financial intermediation is weak owing to a poor lending environment – companies' accounts lack transparency, a weak judicial system and other structural impediments. For Mozambique the constitutional prohibition on owning land is an additional constraint. Credit as a percentage of GDP at 14% in 2002 is much lower than the sub-Saharan Africa median of 26% of GDP.

Key Facts: Banking System

	Dec 2002	Dec 2003
M2 (% GDP)	34.6	31.4
NPL Ratio	20.8	16.4
Capital Adequacy Ratio	16.8	14.2
Public Ownership, % of Assets	7	7
Foreign Ownership, % of Assets	93	93

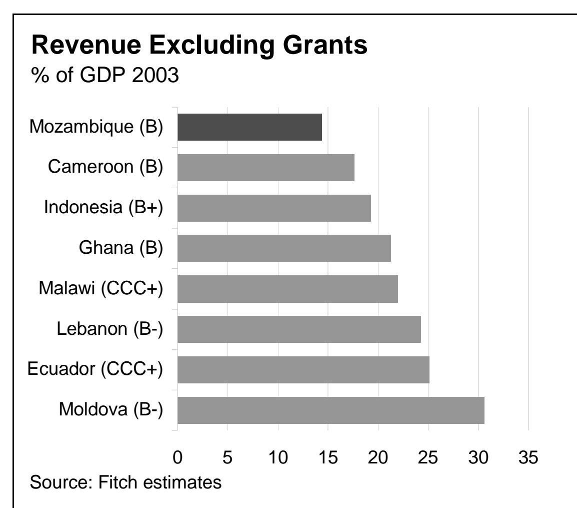
Source: Banco de Moçambique

■ Public Finance

Because of weak revenue and the need for large social and capital expenditure, owing to Mozambique's development and infrastructure requirements, the fiscal system lacks flexibility. Foreign grants account for around 40% of total revenue and have been as high as 50%. This is higher than many other rated low-income countries, for example Ghana ('B'), where the share is roughly 15% of total revenue, Bolivia ('B-') where it is 10% and Malawi ('CCC+'), where the proportion is approximately 30%. Positively, there has been a

gradual increase in the tax to GDP ratio through reforms and rapid economic growth. The government is projecting the tax to GDP ratio to stabilise at around 17%-18% in 2007-08, which is still relatively low.

The reforms have been wide ranging and have generally proceeded smoothly. They include comprehensive customs reforms, the introduction of valued-added tax and a large taxpayers unit. A fiscal incentives code aimed at limiting fiscal incentives for investors and improving transparency was introduced in 2002. A new income tax system – which will tax all incomes of individuals and tax public servants (previously exempt) – was introduced in mid-2003. There are plans to integrate the National Directorate of Domestic Taxation with the Customs under an autonomous Central Revenue Authority in 2006. According to government forecasts this should raise the tax to GDP ratio to 15.1% in 2006 (from 11.7% in 1995 when the reforms began).



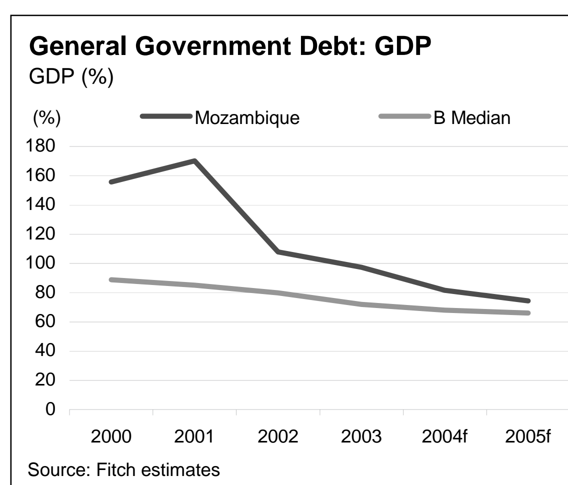
Source: Fitch estimates

Public expenditure reform has presented a much bigger challenge. Despite efforts to improve budget preparation and execution, efficiency and transparency of spending remain weak. There is a need to consolidate the numerous individual expenditure accounts and to reform the procedure of expenditure authorisation, which is currently open to fraud. This is likely to improve in the medium term owing to a new government financial management system (SISTAFE), which will consolidate the majority of accounts into a single electronic treasury account, making information on balances available at the beginning and end of each day and which will centralise expenditure authorisation. The system has experienced delays, but is expected to be pilot tested in the Ministry of Education by the end of this year and to all other ministries by the end of next year. The system will also be better placed to gauge the efficiency and effectiveness of expenditure on poverty reduction.

Fiscal consolidation will continue to occur through gradually strengthening revenue and expenditure management and by limiting the wage increase for government employees to not more than the rate of inflation. Grants will continue to comprise around 40% of revenue. Spending on wages and salaries has risen from 2.3% of GDP in 1997 to around 7.5% of GDP in 2003 owing to the hiring of a large number of teachers and health workers as part of poverty reduction and higher than planned wage costs present the biggest risk to the budget forecast. Capital expenditure has typically been below target owing to delays in donor funding, but nevertheless accounts for around one half of expenditure, which is high by most standards. The 2004 budget will benefit from the effect of a full year of income tax reforms. Deficits (including grants) of 3%-4% are projected in 2004 and 2005 and will be fully financed by concessional external borrowing.

Typically, domestic treasury bills are used to manage short-term liquidity of the budget during the course of the year and outstanding treasury bills are retired at the end of the year. However, due to delays in donor disbursement which were made at the end of the year, the government was unable to retire all outstanding treasury bills at end-2003. Hence the stock of domestic debt included 10-year bonds issued in 2000-02 to recapitalise the two former state banks worth 2.7% of GDP and treasury bills worth 2% of GDP. Real interest rates on domestic debt are relatively low and debt is very manageable. Because of the financial management law it will be possible to issue treasury bills for non-liquidity purposes in the future.

Following a steep decline of general government debt, which is mostly external, from 170% of GDP to 107% in 2002 due to HIPC completion point relief, the general government debt burden will continue to



Source: Fitch estimates

decline mainly owing to fast economic growth. It is projected to decline to around 75% of GDP in 2005 closer to the median of the ‘B’ rating category in that year projected to be 66%.

Contingent liabilities arise mainly from the government stake in BIM and potential liabilities from the insurance system and pension fund. These latter two will become clearer following an actuarial audit using international accounting standards that the government intends to undertake in the short to medium term. As privatisation is almost complete the risk of contingent liabilities arising from public enterprises is much reduced.

■ Monetary & Exchange Rate Policy

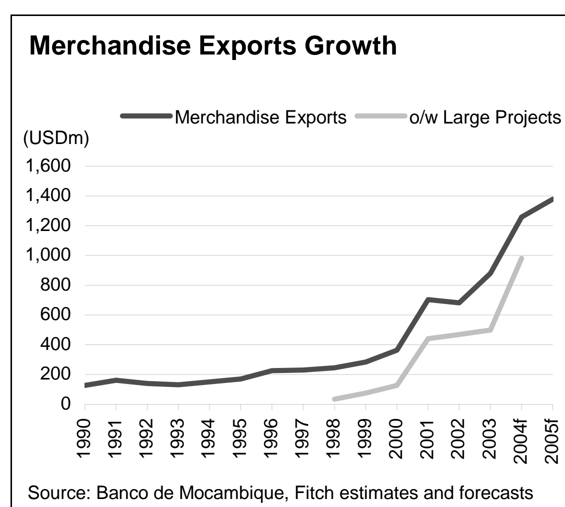
The main objectives of monetary policy are price stability and the maintenance of a sound and stable financial system. The Banco de Moçambique (the central bank) uses broad money (M2) as the nominal anchor for controlling inflation. Net domestic assets are the operating target. The central bank uses open market operations together with its liquidity support rate and reserve requirements to achieve these targets. During 2004 the central bank reduced the number of monetary policy instruments it uses from five to two (91 days and 182 days) and the frequency of issuance from daily to weekly in order to communicate the government’s financing and liquidity requirements more clearly, and reduce volatility. Parliament has recently approved a bill to have just one instrument for deficit and liquidity management. Monetary policy in Mozambique is complicated by high dollarisation, a concentration of foreign budgetary support at the end of the year and foreign aid expenditure outside the budget. The authorities are taking measures to address this last issue.

Tight monetary policy since mid-2001 has been generally successful in restoring macroeconomic stability following the exogenous shock (floods) in 2000 and then the monetary effects of banks’ capitalisation in 2001. The central bank liquidity rate has declined from a high of 36% in 2002 to 18.5% since October 2003. Inflation declined to 9% at the end of 2002 (from 22% at the end of 2001), but increased throughout 2003 owing mainly to rand appreciation. South Africa supplies 50% of imports. In addition, the concentration of donor budgetary disbursements (40% of total) in the last two months of the year fuelled inflation as the central bank could not adequately sterilise such large amounts of liquidity. Consequently, inflation rose from less than 10% in September 2003 to 13.8% at the end of the year, but declined somewhat in the first half of 2004 because of lower food prices. The continued strengthening of the rand has contributed to inflation pressures this year.

The central bank operates a managed float exchange rate regime. The metical has been fairly steady against the US dollar since 2002 and therefore depreciated by around 28% against the rand last year. The real effective exchange rate depreciation was around 10%, and the currency remains competitive in trade-weighted terms. About 30% of international transactions are with South Africa and another 30% with the EU and, and the remainder with other countries including the US, Asia and Japan.

■ External Finance

Growth of merchandise exports has averaged 33% *per annum* over the past five years. This high rate has been due to aluminium sales, which started in 2001, and electricity exports in 1998. Traditional exports of agricultural and fish products in contrast have expanded by only around 4% *per annum*. This expansion of agricultural exports, is mostly accounted for by sugar, following the privatisation of sugar plantations and since 2001 an EU preferential trade agreement, and timber. Other major agricultural exports, in particular cotton and cashew nuts, have suffered from declining terms of trade and constraints on production. Exports of prawns, which at one time were the highest earners, have been hit by fishing quotas. However, under-reporting is also thought to be an issue, owing to the difficulty in controlling and monitoring fishing boats. In 2003 agricultural and fish products accounted for only 32% of exports compared with 87% in 1999, showing the strong progress of diversification away from primary agricultural exports.



With the first full year of expanded aluminium capacity, and the start of gas exports in March and renegotiated electricity tariffs in February, exports will continue to increase at a fast pace in 2004. At the same time there will be a decline in imports related to the mega projects, and the trade balance is therefore projected to move into surplus.

Services exports should benefit from the development of transport corridor infrastructure centred on Maputo Port which was concessioned in April 2003 and the development of the tourism sector. The income balance is benefiting from substantial interest payments relief from HIPC, although increasingly this will be offset by a rise in private sector debt service and dividend payments. Official assistance, which was equivalent to around 15% of overall goods and services exports in 2003, is an important source of foreign exchange. The current account deficit (excluding adjustments for HIPC debt relief) is projected to narrow to 4.1% of GDP in 2004 from 12% in 2003. (Adjusted for HIPC debt relief, the current account is projected to be roughly in balance.) Average goods and services export (CXR) growth of 16% over the past five years is one of the highest of all non-oil producing countries rated by Fitch.

Since 2002, the current account deficit (adjusted for HIPC relief on interest payments) has been covered by FDI. The government has good access to concessional borrowing. FDI-related private sector borrowing is becoming increasingly important. These factors have resulted in overall balance of payments surpluses. Reserves at the end of 2003 were the equivalent of around seven months of imports.

External Finances: Sources and Uses

(USDm)	2003	2004f	2005f
Uses	**-521**	**-211**	**-305**
Current Account Balance (Before HIPC Relief on Int. Payments)	-521	-211	-305
Sources	**515**	**211**	**305**
Net MLT Borrowing	196	170	170
Net FDI	337	206	250
Other Capital, Net (Mainly Debt Relief)	307	351	300
Change in FX Reserves (- = Increase)	-144	-166	-165
Errors and Omissions	-180	-350	-250

Source: Banco de Mocambique, Fitch estimates and forecasts

Total debt relief under original HIPC in June 1999 and enhanced HIPC in 2001 lowered public sector external debt in nominal terms from USD6.1bn in 1998 to USD3.7bn in 2002. Since then nominal public external debt has increased, though debt indicators have fallen owing to faster rises in GDP and exports. Nonetheless, public external debt ratios are high compared with rating peers. See table below for comparison with other rated HIPC completion point countries.

In common with other low-income countries in the 'B' category Mozambique's high proportion of concessional debt results in a much-reduced public

Public External Debt Ratios 2003

	B Median	Mozam-bique (B)	Ghana (B)*	Bolivia (B-)	Mali (B-)
GPXD:GDP	51	92	73	57	74
GPXD:CXR	111	267	132	192	235
NPXD:GDP	26	69	53	43	54
NPXD:CXR	68	199	113	145	170

* Ghana's debt ratios following completion point in 2004.
GPXD = gross public external debt
NPXD = net public external debt
Source: Fitch estimates

debt servicing cost of only around 5% of current external receipts over the medium to longer term. In view of the country's huge infrastructure needs and other development challenges, nominal public external debt will continue to increase at a moderate pace.

Private sector debt mainly consists of around USD1.6bn accrued by the Cohara Bassa company (according to the World Bank Global Development publication) for the construction of the Cohara Bassa dam. The company is owned 81% by the Portuguese government and 19% by the Mozambican government. However, the mega projects Mozal and Sasol, have become significant private sector borrowers. Much of it is FDI related borrowing from the parent company. This is likely to imply more favourable debt service costs and mitigates the risk of a private sector external payments problem. Nevertheless, this borrowing will cause overall debt to rise fairly quickly in the short to medium term. Private sector debt service is projected to rise to 20% of current external receipts in the next 10 years before declining to 12%.

Despite increases in private and public sector external debt, Mozambique continues to see an improvement in its debt ratios as a result of fast growth in exports and GDP, and rising reserves. Although net external debt (NXD) ratios are amongst the highest of all countries rated by Fitch, they are projected to fall rapidly to 94% of GDP and 260% of CXR in 2005, from 124% of GDP and 360% of CXR in 2003 and improve further in the future. This continued and rapid reduction in external debt ratios will drive improvements in creditworthiness.

International liquidity continues to improve primarily because of rising official foreign exchange reserves. Short-term debt service has also benefited from HIPC since 1999. These have raised the external liquidity ratio – reserves and banks foreign assets/short-term obligations) from under 100% in 1997 to over 200% in 2003, which is comfortably above the 'B' rating median.

Rating Peer Comparisons, 2003

	Mozambique	Ghana	Cameroon	Suriname	Indonesia	Lesotho
Foreign/Local Long-Term Currency Ratings	B/B+	B/B	B/B	B/B+	B+/B+	B+/BB-
Domestic Economy and Finance						
Real GDP Growth (%)	7.0	5.2	4.5	5.5	4.1	4.2
Consumer Prices (Annual avg. % chg.)	13.4	26.7	2.3	21.2	2.4	8.5
Gross Domestic Savings (% of GDP)	7.1	13.3	24.0	2.3	21.5	-11.6
Gross Domestic Investment (% of GDP)	21.9	25.3	21.9	32.9	16.0	37.6
Short-Term Interest Rate (%)	21.0	27.2	6.0	8.3	7.8	9.8
Broad Money (% Change Dec to Dec)	13.5	34.2	1.3	19.9	8.1	6.0
Public Finances						
General Government Balance (% of GDP)	-4.5	-3.5	3.3	0.2	-2.1	-2.9
General Government Debt (% of GDP)	97.4	100.5	56.6	41.9	72.0	72.0
General Government Debt Maturities (% of GDP)	0.6	11.4	n.a	2.7	1.7	n.a.
General Government Debt (% of Revenue)	395.4	394.1	329.1	143.6	377.2	168.9
General Govt. Interest Payments (% of Revenue)	5.2	24.3	13.2	7.5	20.3	5.9
Public External Debt (USDbn)	4.0	7.0	6.0	0.4	86.6	0.6
Public External Debt (% of GDP)	92.3	92.3	43.6	31.4	41.6	53.9
Net Public External Debt (% of CXR)	198.4	127.3	174.0	40.4	67.8	15.3
Public FC Denominated & FC Indexed Debt (USDm)	4.0	7.0	6.0	0.4	85.9	6.0
Public FC Denominated & FC Indexed Debt (% CXR)	266.7	160.9	195.4	59.3	115.5	608.3
Balance of Payments						
Current Account Balance (USDbn)	-0.2	0.1	-0.5	-0.2	7.4	-0.2
Current Account Balance (% of GDP)	-5.1	1.6	-3.8	-18.9	3.6	-16.9
Current Account Balance plus Net FDI (USDbn)	0.1	0.2	-0.3	-0.1	8.9	-0.1
Current Account Balance plus Net FDI (% of GDP)	2.7	2.6	-2.2	-8.8	4.3	-12.9
Gross Financing Requirement (% of Official Reserves)	47.4	34.5	163.6	224.0	24.2	53.0
Current External Receipts CXR (USDbn)	1.5	4.4	3.1	0.6	74.3	1.0
Current External Receipts CXR (Annual % Change)	-13.1	25.0	14.2	41.3	7.1	42.7
Current External Payments CXP (USDbn)	1.7	4.2	3.6	0.8	66.9	1.2
Current External Payments CXP (Annual % Change)	-15.0	20.3	4.1	46.9	8.6	45.5
External Assets and Liabilities						
Gross External Debt (USDbn)	6.7	7.5	6.1	0.4	135.4	0.7
Gross External Debt (% of GDP)	155.8	99.1	44.4	31.4	65.0	60.7
Gross External Debt (% of CXR)	450.2	172.8	199.3	59.3	182.2	69.9
Net External Debt (USDbn)	5.3	5.8	5.1	5.1	90.0	0.1
Net External Debt (% of GDP)	123.8	76.1	37.4	4.4	43.2	9.0
Net External Debt (% of CXR)	357.6	132.7	167.6	8.4	121.1	10.4
Short-Term External Debt (% of GXD)	8.5	6.3	2.0	5.0	16.5	2.9
External Debt Service (% of CXR)	2.9	10.4	28.8	8.0	28.1	3.8
External Interest Service (% of CXR)	-9.0	2.5	11.5	1.9	7.7	1.4
Liquidity Ratio (%)	199.5	107.2	47.2	385.1	94.9	838.9
Official International Reserves Including Gold (USDbn)	1.0	1.5	0.7	0.1	36.3	0.5
Official International Reserves (in Months of CXP Cover)	7.1	4.2	2.2	1.7	6.5	4.7
Official International Reserves (% of Broad Money)	72.9	64.7	24.9	20.1	32.1	133.0
Payment History						
Rescheduled at Any Time	Yes	Yes	Yes	Yes	Yes	No
Rescheduled in Past Five Years	Yes	Yes	Yes	Yes	Yes	No

Fiscal Accounts Summary*

(% of GDP)	1999	2000	2001	2002	2003	2004f	2005f
Revenue & Grants (Excl. Priv'n)	**23.7**	**21.3**	**28.1**	**25.8**	**24.6**	**23.4**	**23.2**
o/w Grants)	*11.7*	*8.0*	*14.8*	*11.7*	*10.3*	*8.7*	*8.3*
Expenditure & Net Lending	**24.7**	**27.5**	**34.6**	**34.1**	**29.4**	**26.8**	**27.1**
Interest on Public Debt	**0.6**	**0.2**	**0.7**	**1.5**	**1.3**	**1.0**	**1.3**
Domestic	0.0	0.0	0.5	1.1	1.0	0.7	1.0
External	0.6	0.2	0.2	0.4	0.3	0.3	0.3
Primary Balance (Excl. Interest)	**0.5**	**-2.9**	**-2.5**	**-2.8**	**-3.0**	**-2.3**	**-2.5**
Overall Balance	**-1.5**	**-6.2**	**-6.7**	**-8.0**	**-4.5**	**-3.4**	**-3.9**
Financing							
Domestic, Net	**-0.3**	**1.7**	**1.9**	**0.9**	**-0.4**	**-0.3**	**-0.2**
External, Net	**1.8**	**3.5**	**3.9**	**6.3**	**4.6**	**3.4**	**3.8**
HIPC Transfer	**0.0**	**1.0**	**0.8**	**0.7**	**0.3**	**0.3**	**0.3**
Public Debt*	**144.3**	**155.8**	**170.1**	**107.8**	**97.4**	**81.5**	**74.5**
Domestic	0.1	1.4	2.2	4.1	4.8	2.3	1.6
External	144.2	154.3	168.0	103.6	92.6	79.2	72.8
Public Debt (% of Revenue)	*610.0*	*731.2*	*605.4*	*417.3*	*395.4*	*348.0*	*320.4*
NPVPublic Debt (% of Revenue)	*165.4*	*193.9*	*196.2*	*184.9*	*185.7*	*164.4*	*164.4*
Memo							
Interest Service (% of Revenue)	*2.6*	*0.9*	*2.4*	*5.8*	*5.2*	*4.2*	*5.5*

* All figures refer to the central government.
Source: Ministry of Finance, IMF, FitchRatings estimates and forecasts

Balance of Payments

(USDm)	1999	2000	2001	2002	2003	2004f	2005f
Current Account Balance							
After HIPC Relief on Interest Payments	**-774**	**-546**	**-510**	**-300**	**-221**	**-11**	**-155**
% of GDP	-18.9	-15.0	-14.8	-8.3	-5.1	-0.2	-2.7
% of CXR	-86.7	-49.3	-40.4	-17.4	-14.8	-0.6	-7.5
Before HIPC Relief on Interest Payments	***-832***	***-686***	***-641***	***-709***	***-521***	***-211***	***-305***
% of GDP	*-20.3*	*-18.9*	*-18.7*	*-19.7*	*-12.1*	*-4.1*	*-5.3*
% of CXR	*-93*	*-62*	*-51*	*-41*	*-35*	*-11*	*-15*
Trade Balance	**-806**	**-682**	**-254**	**-534**	**-348**	**59**	**-71**
Exports, Fob	284	364	703	682	880	1,259	1,379
(Annual % Change)	*16.0*	*28.3*	*93.2*	*-3.0*	*29.1*	*43.0*	*9.5*
Imports, Fob	1,090	1046	957	1,216	1,228	1,200	1,450
(Annual % Change)	*48.2*	*-4.0*	*-8.5*	*27.1*	*1.0*	*-2.3*	*20.8*
Services, Net	**-176**	**-145**	**-369**	**-224**	**-260**	**-240**	**-200**
Services, Credit	295	325	250	339	312	360	400
Services, Debit	471	471	618	563	572	600	600
Income, Net*	**-43**	**-52**	**-95**	**-194**	**135**	**-30**	**-80**
Income, Credit	58	79	97	48	52	30	30
Income, Debit*	101	131	192	241	-83	60	110
o/w: Public Interest Payments*	62	219	238	590	166	145	150
Current Transfers, Net	**252**	**334**	**208**	**652**	**252**	**200**	**196**
Capital Account and Debt Relief	**212**	**306**	**357**	**1169**	**296**	**351**	**300**
Grants for Investment	180	227	257	222	282	351	300
Debt Forgiveness	32	79	100	947	13	0	0
Financial Account, Net	**748**	**495**	**402**	**-127**	**539**	**376**	**420**
Non-Debt Creating Flows, Net	**382**	**139**	**255**	**380**	**343**	**206**	**250**
Direct Investment, Net	382	139	255	348	337	206	250
Portfolio Equity Investment, Net	0	0	0	32	6	0	0
External Borrowing, Net	**364**	**501**	**180**	**-299**	**262**	**235**	**235**
Net Lending Abroad	**3**	**-145**	**-34**	**-208**	**-66**	**-65**	**-65**
Net Errors and Omissions	**-84**	**-38**	**-136**	**-236**	**-180**	**-350**	**-250**
Increase in Reserves	**44**	**77**	**-19**	**98**	**144**	**166**	**165**
Memo							
Stock of International Reserves, Excl. Gold	652	725	716	819	998	1,164	1,329

* Debt service is the amount due after HIPC relief. Interest written off appears with principal written off as “Debt forgiveness”. Rescheduled interest is included in “External borrowing, net”
Source: IMF IFS, Banco de Mocambique, FitchRatings estimates and forecasts

External Debt & Liquidity

(USDm)	1999	2000	2001	2002	2003	2004f	2005f
Gross External Debt	**7,785**	**7,445**	**7,433**	**6,401**	**6,733**	**6,968**	**7,203**
% of GDP	190	205	216	178	156	134	125
% of CXR	872	673	589	372	450	367	350
By Maturity							
Medium- and Long-Term	7,395	6,875	6,863	5,831	6,163	6,398	6,633
Short-Term	390	570	570	570	570	570	570
% Total Debt	*5.0*	*7.7*	*7.7*	*8.9*	*8.5*	*8.2*	*7.9*
By Debtor							
Public Sector	5,648	5,125	5,123	3,702	3,989	4,044	4,099
Private Sector	1,747	1,750	1,740	2,129	2,175	2,355	2,535
By Creditor							
Multilateral	1,232	1,348	1,359	1,686			
Bilateral	4,415	3,630	3,596	1,882			
Other	2,137	2,467	2,478	2,834			
Gross External Assets*							
International Reserves, Incl. Gold	669	746	730	840	1,021	1,185	1,349
Deposit Money Banks' Foreign Assets	193	316	341	383	364	420	440
Net External Debt	**6,923**	**6,383**	**6,363**	**5,178**	**5,348**	**5,363**	**5,414**
% of GDP	169	176	185	144	124	103	94
% of CXR	775	577	504	301	358	282	263
Debt Service (Principal & Interest)	**102**	**170**	**194**	**331**	**43**	**145**	**230**
Debt Service (% of CXR)	*11.4*	*15.4*	*15.4*	*19.2*	*2.9*	*7.6*	*11.2*
Interest Service (% of CXR)	*0.5*	*7.0*	*8.5*	*10.5*	*-9.0*	*-2.9*	*0.0*
Liquidity Ratio (%)	***178.8***	***153.7***	***139.0***	***118.8***	***201.9***	***193.8***	***200.7***
Excl. Banks' Foreign Assets							
Memo							
NPV of Public External Debt:GDP	*19.8*	*24.6*	*25.3*	*24.1*	*25.3*	*24.2*	*24.2*
NPV of Public External Debt:CXR	*212.0*	*194.4*	*116.1*	*100.3*	*96.5*	*80.4*	*80.4*

* Non-bank private sector external assets are not taken into account
Source: Banco de Mocambique, World Bank Global Development Finance, IMF, FitchRatings estimates and forecasts

Amortisation Schedule on Medium- and Long-Term Debt

(USDm)	2001	2002	2003	2004f	2005f
Public Sector	16.0	27.7	34.9		
Private Sector	70.6	123.6	142.3		
Total	**86.6**	**151.3**	**177.2**	**200.0**	**230.0**

Source: Banco de Mocambique, FitchRatings estimates

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