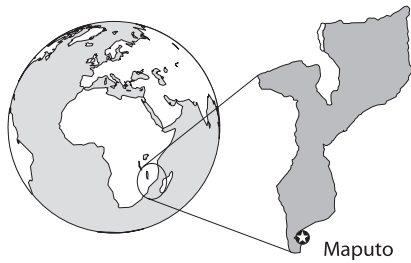


MOZAMBIQUE



Rank: 101

Regional Rank: 14 of 40

Mozambique's economy is 56.6 percent free, according to our 2007 assessment, which makes it the world's 101st freest economy. Its overall score is 1.4 percentage points higher than last year, partially reflecting new methodological detail. Mozambique is ranked 14th out of 40 countries in the sub-Saharan Africa region, and its overall score is slightly higher than the regional average.

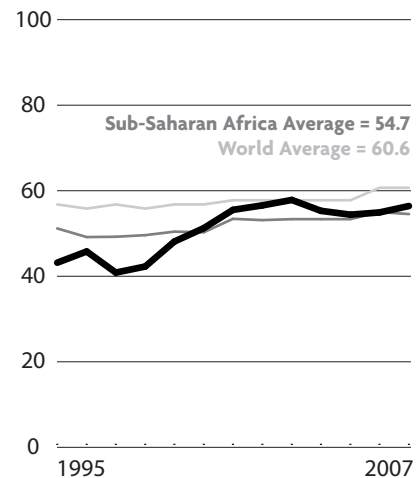
Mozambique ranks highly in fiscal freedom, freedom from government, investment freedom, and monetary freedom. Both the top income tax rate and the top corporate tax rate are moderate, and overall tax revenue is low as a percentage of GDP. Government expenditures are not high, and state-owned businesses account for a negligible portion of total tax revenues. Inflation is fairly high, but the government does not generally distort market prices with subsidies.

Economic development has been hampered by weak labor freedom, property rights, freedom from corruption, financial freedom, and business freedom. Opening a business takes about two and a half times the world average, and the overall regulatory environment is a burden on business formation. Most aspects of the labor market are inflexible, from the number of allowable hours in the workweek to employee severance. Judicial enforcement is weakened by corruption and subject to the political whims of the executive.

BACKGROUND: Mozambique's 16-year civil war ended in 1992. Since then, it has been a model for economic development and post-war recovery through liberalization, privatization, and stability. Economic growth averaged over 8 percent from 1992 to 2004. Mozambique remains very poor, however, and needs significant reform, including civil service reform and streamlining of the regulatory and administrative barriers to business. President Armando Guebuza has announced plans to address judicial inadequacies and corruption. Over three-quarters of the population is engaged in small-scale agriculture. Infrastructure is poor, and HIV/AIDS is a serious problem.

How Do We Measure Economic Freedom? See Chapter 3 (page 37) for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

The economy is 56.6% free



QUICK FACTS

Population: 19.4 million

GDP (PPP): \$24 billion

7.5% growth in 2004

7.7% 5-yr. comp. ann. growth

\$1,237 per capita

Unemployment: 21% (1997 estimate)

Inflation (CPI): 12.6%

FDI (net inflow): \$131.9 million

Official Development Assistance:

Multilateral: \$544 million

Bilateral: \$748 million (15% from the U.S.)

External Debt: \$4.7 billion

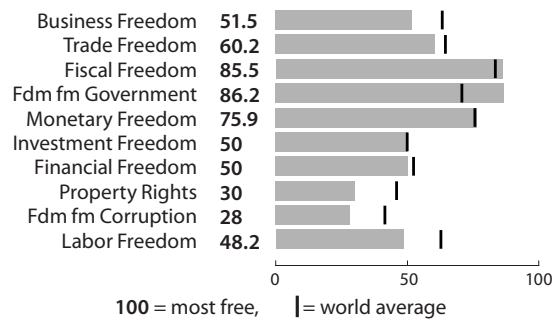
Exports: \$1.8 billion

Primarily aluminum, prawns, cashews, cotton, sugar, citrus, timber, bulk electricity

Imports: \$2.4 billion

Primarily machinery and equipment, vehicles, fuel, chemicals, metal products, food, textiles

MOZAMBIQUE'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 51.5%

Starting a business takes an average of 113 days, compared to the world average of 48 days. Entrepreneurship should be easier for maximum job creation. Obtaining a business license is relatively simple, but closing a business is difficult. Implementation of regulatory reforms has been behind schedule due to the complexity of the process. Businesses still have to deal with extensive and opaque regulations. The overall freedom to start, operate, and close a business is restricted by the national regulatory environment.

TRADE FREEDOM — 60.2%

Mozambique's weighted average tariff rate was 9.9 percent in 2003. The government has made progress in liberalizing the trade regime, but time-consuming and bureaucratic customs clearance procedures, import restrictions, import bans, and corruption still add to the cost of trade. Consequently, an additional 20 percent is deducted from Mozambique's trade freedom score to account for these non-tariff barriers.

FISCAL FREEDOM — 85.5%

Mozambique has moderate tax rates. Both the top income tax rate and the top corporate tax rate are 32 percent. Other taxes include a value-added tax (VAT) and a tax on interest. In the most recent year, overall tax revenue as a percentage of GDP was 11.4 percent.

FREEDOM FROM GOVERNMENT — 86.2%

Total government expenditures in Mozambique, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 24 percent of GDP, and the government received 1 percent of its total revenues from state-owned enterprises and government ownership of property. Privatization has transformed a state-dominated economy into one that is driven by the private sector.

MONETARY FREEDOM — 75.9%

Inflation in Mozambique is relatively high, averaging 9.1 percent between 2003 and 2005. Relatively high and unstable prices explain most of the monetary freedom score. The government influences prices through state-owned utilities, including electricity, telecommunications, ports, and transportation, and subsidizes passenger rail services. Consequently, an additional 5 percent is deducted from

Mozambique's monetary freedom score to account for these policies.

INVESTMENT FREEDOM — 50%

Most sectors of Mozambique's economy are open to foreign investment, but some restrictions remain in effect. Outright private ownership of land, for example, is prohibited, and mining and management contracts are subject to specific performance requirements. Lengthy registration procedures can be problematic. Foreign investors have participated in Mozambique's privatization program, subject to some impediments. Mozambique allows 100 percent repatriation of profits and retention of earned foreign exchange in domestic accounts. Both residents and non-residents may hold foreign exchange accounts. Payments and transfers are subject to maximum amounts, above which they must be approved by the central bank. Capital transactions, money market instruments, and derivatives are subject to controls.

FINANCIAL FREEDOM — 50%

Mozambique's financial system has undergone substantial reform and liberalization but remains small and dominated by banking. Supervision is insufficient. Non-performing loans led to a banking crisis in 2000–2001 and remain a problem. The banking sector had eight commercial banks in 2003, all of which were majority foreign-owned. Banco Internacional de Moçambique, majority-owned by a Portuguese bank, is Mozambique's largest bank and controls a majority of total banking assets. The state retains shares in two large banks. Most banks concentrate their lending to large companies, but microfinance is expanding. The small insurance sector is dominated by the state-owned insurance firm. Capital markets are very small, and the stock market mostly trades government debt.

PROPERTY RIGHTS — 30%

Property rights are weakly protected, and the judiciary is corrupt. There is a severe shortage of qualified legal personnel, and the backlog of cases is substantial. Enforcement of contracts and legal redress through the court system cannot be assured. Most commercial disputes are settled privately because of the judicial system's inefficiency.

FREEDOM FROM CORRUPTION — 28%

Corruption is perceived as widespread. Mozambique ranks 97th out of 158 countries in Transparency International's Corruption Perceptions Index for 2005.

LABOR FREEDOM — 48.2%

The labor market operates under highly restrictive employment regulations that hinder employment and productivity growth. The non-salary cost of employing a worker can be low, but dismissing a redundant employee is costly. There are rigid regulations on increasing or contracting the number of work hours.