

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing November 2017

#### Mozambique Summary 16 November 2017

*Prime minister Carlos Agostinho Rosario publicly states that the government will reach a final peace agreement with the Resistencia Nacional Moçambicana (Renamo) by the end of the year. President Filipe Nyusi (2015-present) appoints head of Polícia da República de Moçambique (PRM) (national police), Julio dos Santos Jane as general director of the Serviço de Informações e Segurança do Estado (SISE) (national intelligence services). The Conselho de Ministro (CdM) (council of ministers) approves draft counter-terrorism laws. Government raises fuel and import taxes. Fitch Ratings reaffirms Mozambique's long-term foreign currency issuer default rating (IDR) at restricted default. Ari Aisen, the IMF representative to Mozambique, says there is a possibility of initiating a Mozambique support programme in 2018. Alleged armed Islamic extremists attack Ulumbi in the Palma District (Cabo Delgado Province).*

#### Prime minister Rosario says peace agreement with Renamo by the end of the year

The prime minister, **Carlos Agostinho Rosario**, publicly stated on 12 October that the government will reach a final peace agreement with the **Resistencia Nacional Moçambicana (Renamo)** by the end of the year.<sup>1</sup> Rosario's public commitment to reaching a final peace agreement by the end of the year indicates that the government and Renamo continue to remain committed to a final and lasting peace agreement to replace the current ceasefire agreement (see previous *ARC Briefings* for Mozambique).<sup>2</sup> Speaking in the northern city of **Nampula** at the opening of the **Fourth National Religious Conference**, Rosario said the peace process under way is irreversible, and that the negotiations between the government and Renamo "... could have a definitive outcome by the end of the year."<sup>3</sup> Rosario said he is convinced that,

*"... dialogue is the only path for overcoming our differences, and a mechanism through which we can unite our efforts in building a prosperous and inclusive nation ... It means living in harmony, respecting and loving one's neighbour, even though this does not mean sharing the same opinions ... Only with effective peace will we be able to consolidate national unity, guarantee sovereignty, speed up the economic and social development of our country, and thus continually improve living conditions."*<sup>4</sup>

#### Nyusi appoints new heads of state security organs

President **Filipe Nyusi** (2015-present) appointed **Polícia da República de Moçambique (PRM)** (national police) commander **Julio dos Santos Jane** as **Serviço de Informações e Segurança do Estado (SISE)** (national intelligence services) general director on 24 October.<sup>5</sup> Jane's appointment will bring stability and confidence to SISE which has suffered reputation damage as a result of its link to the ongoing hidden sovereign debt scandal (see previous *ARC Briefings* for Mozambique).<sup>6</sup> All three state-owned enterprises (SOEs) at the centre of the hidden sovereign debt scandal – **Empresa**

<sup>1</sup> AIM, 13 Oct 2017.

<sup>2</sup> AIM, 13 Oct 2017.

<sup>3</sup> AIM, 13 Oct 2017.

<sup>4</sup> AIM, 13 Oct 2017.

<sup>5</sup> AIM, 24 Oct 2017.

<sup>6</sup> Source, Mozambique analyst, United Kingdom

**Moçambicana de Atum SA (Ematum), Proindicus and Mozambique Asset** – had links to SISE (see previous *ARC Briefings* for Mozambique).<sup>7</sup> Jane replaces **Lagos Lidimo**, whom Nyusi only appointed as SISE general director in late January, and who thus served as SISE general director for less than a year.<sup>8</sup> Nyusi also appointed **Lázaro Henriques Lopes Menete** as chief of general staff of the **Forças Armadas de Defesa de Moçambique (FADM)** (national army) and **Bernardino Rafael** as general commander of the **Polícia da República de Moçambique (PRM)** (national police) on 26 October.<sup>9</sup> The heads of Mozambique’s security forces will play an important role in any eventual peace agreement between the government and Renamo (see previous *ARC Briefings* for Mozambique), if Renamo calls for the integration of its fighters into the security forces.<sup>10</sup>

### Council of ministers approves draft counter-terrorism laws

**Conselho de Ministro (CdM)** (council of ministers) spokesperson **Ana Comoana** announced on 24 October that the CdM had approved a draft counter-terrorism law.<sup>11</sup> Despite a general approach to terrorism in the Mozambican penal code as a criminal act, the government considered it necessary to create a law prioritising “preventive measures”.<sup>12</sup> According to media reports, the draft counter-terrorism law provides for the punishment of anyone committing, planning or preparing terrorist acts or participating in them, as well as for those who provide or receive training for terrorist purposes.<sup>13</sup> The draft counter-terrorism law also provides for punishment of individuals who travel or attempt to travel for the purpose of joining a terrorist organisation, including those who deliberately organise or facilitate such travel.<sup>14</sup> Comoana said,

*“The proposal also aims at establishing mechanisms for predicting, identifying and neutralising acts of terrorism and their agents and ensuring the implementation of international agreements and treaties on preventing and combating terrorism and related acts.”<sup>15</sup>*

Comoana said the draft counter-terrorism law was already in preparation before the recent terrorist incidents (see below & previous *ARC Briefings* for Mozambique).<sup>16</sup> The government will now submit the draft counter-terrorism law to parliament.<sup>17</sup>

### Government raises fuel prices

According to source reports from **Mozambique** in November, the government increased the price of refined fuel products.<sup>18</sup> The government increased the price of petrol from 59.52 Meticaís (M) (\$0.97) to M62.72 (\$1.02); diesel from M53.38 (\$0.87) to M56.43 (\$0.92); kerosene and liquefied petroleum gas from M43.32 (\$0.70) to M44.73 (\$0.73) and from M58.04 (\$0.95) to M70.11 (\$1.14), respectively. In February 2017, the government decided to revise the prices of fuel each every month on the basis of the price of oil prices in international markets and in the exchange rates between Metical and the US dollar.

*“... the monthly increases are part of a government strategy to avoid social disturbances if prices were adjusted once and forever, but the aim is to remove subsidies and increase the prices to the levels of those practised in southern African region.”<sup>19</sup>*

<sup>7</sup> Source, Mozambique analyst, United Kingdom

<sup>8</sup> AIM, 24 Oct 2017.

<sup>9</sup> Lusa, 27 Oct 2017.

<sup>10</sup> Source, Mozambique analyst, United Kingdom

<sup>11</sup> O Pais, 25 Oct 2017.

<sup>12</sup> O Pais, 25 Oct 2017.

<sup>13</sup> O Pais, 25 Oct 2017.

<sup>14</sup> O Pais, 25 Oct 2017.

<sup>15</sup> O Pais, 25 Oct 2017.

<sup>16</sup> O Pais, 25 Oct 2017.

<sup>17</sup> O Pais, 25 Oct 2017.

<sup>18</sup> Source, economic journalist, Mozambique

<sup>19</sup> Source, economic journalist, Mozambique

Refined petroleum products and important source of tax revenue for the government, and the government is looking extract more revenue in order to address the current fiscal deficit.<sup>20</sup>

### Fitch reaffirms Mozambique's restricted default rating

**Fitch Ratings** reaffirmed Mozambique's long-term foreign currency issuer default rating (IDR) at restricted default on 27 October.<sup>21</sup> Fitch originally downgraded Mozambique's IDR to restricted default in November 2016 (see previous *ARC Briefings* for Mozambique), and reaffirmed the rating because,

*"... the sovereign has missed two coupon payments on its sole Eurobond, as well as principal and interest payments on guaranteed loans to state-owned companies Proindicus and Mozambique Asset Management [see previous ARC Briefings for Mozambique]. There has been very little progress regarding resolution of the sovereign default. Fitch expects the process of debt restructuring to be protracted, given uncertainty around the timing and sequencing of steps needed for talks to advance."*<sup>22</sup>

Fitch believes resumption of an **International Monetary Fund (IMF)** programme is unlikely in the near term and that debt renegotiation remains unclear in the absence of progress on an IMF programme because creditors have suggested this is an important prerequisite for discussions to start (see previous *ARC Briefings* for Mozambique).<sup>23</sup>

Fitch's reaffirmation is based on an expected real gross domestic product (GDP) growth of 3% (year-on-year) in the first half of 2017, which mostly reflects a surge in export volumes in extractive sectors, namely due to better prices and logistical improvements which have increased coal exports.<sup>24</sup> However, Fitch noted the non-extractive economy is expected to grow just 1.2% in the same period.<sup>25</sup> Fitch expects growth of 4.2% for the year as a whole in 2017 and projects a modest narrowing in the fiscal deficit to 6.8% of GDP in 2017, from 7.0% in 2016. Fitch projects debt will fall to 94% of GDP in 2017 from 114% in 2016, as a result of an increase in domestic debt offset by a much larger fall in external debt due to the recovery of the metical.<sup>26</sup> The vast majority of sovereign debt is denominated in foreign currency, rendering solvency and liquidity metrics highly sensitive to the exchange rate.<sup>27</sup> The **Banco de Moçambique (BdM)** (central bank) reserves recovered to \$2.5 billion in August from a low point of \$1.9 billion in October 2016.<sup>28</sup> Inflation has fallen swiftly in the past year to 11% in September 2017 from 26% a year earlier, on tight monetary policies, metical appreciation, and a favourable base effect (see previous *ARC Briefings* for Mozambique).<sup>29</sup>

### IMF indicates possibility of a Mozambique support programme in 2018

**Ari Aisen**, the IMF representative to Mozambique, said there is a possibility of initiating a Mozambique support programme in 2018, according to media reports on 13 November.<sup>30</sup> The Mozambican government needs an IMF support programme in order to solve the ongoing hidden sovereign debt crisis (see previous *ARC Briefings* for Mozambique), because without IMF support the government cannot effectively commence debt renegotiation talks with its other creditors, and

<sup>20</sup> Source, economic journalist, Mozambique

<sup>21</sup> Fitch Ratings, 30 Oct 2017.

<sup>22</sup> Fitch Ratings, 30 Oct 2017.

<sup>23</sup> Fitch Ratings, 30 Oct 2017.

<sup>24</sup> Fitch Ratings, 30 Oct 2017.

<sup>25</sup> Fitch Ratings, 30 Oct 2017.

<sup>26</sup> Fitch Ratings, 30 Oct 2017.

<sup>27</sup> Fitch Ratings, 30 Oct 2017.

<sup>28</sup> Fitch Ratings, 30 Oct 2017.

<sup>29</sup> Fitch Ratings, 30 Oct 2017.

<sup>30</sup> Lusa, 13 Nov 2017.

provide Mozambique with much needed financial credibility.<sup>31</sup> In an effort to clarify his statements made during the IMF annual meeting in October, Aisen said,

*“The IMF has never said that there would be no programme in 2018, nor did it say that it had abandoned Mozambique ... We have a good relationship, but having a financial programme now is not possible.”<sup>32</sup>*

However, Mozambique will enter into consultations under **Article IV** of the IMF charter, in which the IMF will assess Mozambique’s macroeconomic performance.<sup>33</sup> An IMF Article IV team will be in Mozambique between 30 November and 13 December to conduct an assessment.<sup>34</sup> The IMF said:

*“The mission will provide an opportunity to assess the current economic situation and to make recommendations on economic and financial policies, as well as to further discuss the follow up to the audit of the Empresa Moçambicana de Atum SA (Ematum), Proindicus, and Mozambique Asset Management (MAM) companies. The Fund continues its close engagement with the Mozambican authorities through an active policy dialogue and the provision of technical assistance on a wide variety of economic and financial topics.”<sup>35</sup>*

Aisen indicated that after the Article VI assessment is complete, negotiations between the IMF and Mozambique may resume.<sup>36</sup> However, Aisen also said that “... our issue is really lack of transparency...”<sup>37</sup> and indicated that government should file charges against individuals linked to the hidden sovereign debt scandal before the IMF and the government agree to any form of support programme:<sup>38</sup>

*“There are ongoing investigations, the conclusion of which we await ... we presume there will be, because President Filipe Nyusi said there is clear indication that there was criminal activity associated with this scandal.”<sup>39</sup>*

### **Alleged Islamic extremist attack on Ulumbi**

Alleged armed Islamic extremists attacked **Ulumbi** in the **Palma District (Cabo Delgado Province)** on 22 October.<sup>40</sup> The attack on Ulumbi has raised alarm for the government and investors because this area is just south of the **Afungi** peninsula, where **United States (US)-based Anadarko Petroleum** has its main camp.<sup>41</sup> Anadarko is the operator for offshore **Area 1** in the **Rovuma** basin, where foreign oil and gas companies have discovered vast amounts of natural gas reserves (see previous *ARC Briefings* for Mozambique).<sup>42</sup> Ulumbi itself is the site of an onshore oil and gas concession belonging to **Canada-based Wentworth Resources** along with SOE **Empresa Nacional de Hidrocarbonetos (ENH)** which are conducting exploratory drilling.<sup>43</sup> Details of the attack, which reportedly started at 23:00 on 22 October, are limited and no casualty figures were available at the time of writing.<sup>44</sup> However, the attack followed an earlier clash in Palma, in which local residents captured and handed over to police 11 people believed to be part of the same group that attacked **Mocimboa da Praia** earlier in October (see *ARC Briefing Mozambique October 2017*).<sup>45</sup>

<sup>31</sup> Source, Mozambique analyst, United Kingdom

<sup>32</sup> Lusa, 13 Nov 2017.

<sup>33</sup> Lusa, 13 Nov 2017.

<sup>34</sup> IMF, 13 Nov 2017.

<sup>35</sup> IMF, 13 Nov 2017.

<sup>36</sup> Lusa, 13 Nov 2017.

<sup>37</sup> Lusa, 13 Nov 2017.

<sup>38</sup> Lusa, 13 Nov 2017.

<sup>39</sup> Lusa, 13 Nov 2017.

<sup>40</sup> AIM, 25 Oct 2017.

<sup>41</sup> AIM, 25 Oct 2017.

<sup>42</sup> AIM, 25 Oct 2017.

<sup>43</sup> AIM, 25 Oct 2017.

<sup>44</sup> AIM, 25 Oct 2017.

<sup>45</sup> AIM, 25 Oct 2017.

## Planner

22-24 Nov 2017 **Maputo (Mozambique)** *MOZEFO*. Mozambique Economic and Social Forum;  
 29-30 Nov 2017 **Maputo (Mozambique)** PSAC. Annual private sector conference;  
 24 Jan 2018 **Nampula (Mozambique)** Government of Mozambique. Nampula municipal by-elections.

## Chronology

13 Oct 2017 **Maputo (Mozambique)** *AIM*. Prime minister **Carlos Agostinho Rosario** says agreement with the **Resistencia Nacional Moçambicana (Renamo)** by the end of the year;

24 Oct 2017 **Maputo (Mozambique)** *AIM*. President **Filipe Nyusi** appointed **Polícia da República de Moçambique (PRM)** (national police) commander **Julio dos Santos Jane** as general director of **Serviço de Informações e Segurança do Estado (SISE)** (national intelligence services);

25 Oct 2017 **Ulumbi (Mozambique)** *AIM*. Alleged armed Islamic extremists attacked **Ulumbi** in the **Palma District (Cabo Delgado Province)**;

27 Oct 2017 **Maputo (Mozambique)** *www.clubofmozambique.com*. President **Filipe Nysui** appoints **Lázaro Henriques Lopes Menete** chief of general staff of the **Forças Armadas de Defesa de Moçambique (FADM)** (national army) and **Bernardino Rafael** general commander of the **Polícia da República de Moçambique (PRM)** (national police);

27 Oct 2017 **Maputo (Mozambique)** *Fitch*. **Fitch Ratings** reaffirms Mozambique's long -term foreign currency issuer default rating (IDR) at restricted default;

5 Nov 2017 **New York (United States)** *Wall Street Journal*. The **Wall Street Journal** reports that the **United States (US)** justice department (DoJ) and the **Federal Bureau of Investigation (FBI)** are investigating **Switzerland-based Credit Suisse Group AG**, **Russia-based VTB Group** and **France-based BNP Paribas SA** for their role in Mozambique's hidden sovereign debt scandal;

7 Nov 2017 **Maputo (Mozambique)** *Lusa*. Government signs \$234.7m cooperation agreement with **Portugal**;

13 Nov 2017 **Maputo (Mozambique)** *Lusa*. The **International Monetary Fund (IMF)** indicates possibility of Mozambique support programme in 2018;

13 Nov 2017 **Johannesburg (South Africa)** *Lusa*. **South Africa-based Standard Bank** estimates that Mozambique's GDP growth will decline from 4.1% to 3.8% in 2017 and 5.7% to 3.5% in 2018.

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