

Mozambique 2015 and 2016: Situation and Prospects

Negative factors

The year of 2015 in Mozambique was marked by some less positive developments.

As a result of the political and military crisis that Mozambique lives in since mid-2012, which only showed signs of appeasement with the agreements between Renamo and Frelimo that culminated in the legislative and presidential elections in late 2014, the business environment has been very disturbed.

However, when it was less expected the conflict between Renamo and Frelimo intensified in 2015, with regular army military clashes against Renamo's military forces. This has increased the danger of travelling by road in certain areas of the country and has made populations escape seeking refuge in neighbor Malawi, causing discomfort between states and investors from whom come the largest investments. Added to this, all negotiation efforts and independent conflict mediation have had null results, prefiguring the continuation of a conflict that has lasted too long.

Still in 2015, commodity prices suffered a sharp fall in global commodity exchanges. The oil and natural gas prices have also decreased continuously over 2015. To Mozambique, all of this has resulted in the dragging of investment processes of prospection and exploitation of large and promising natural gas fields in the Rovuma basin in northern Mozambique by the major international oil and gas companies, such as ENI or even the Portuguese Petrogal. Anadarko, an American oil company, followed the same strategy.

The promising exploitation of the coal reserves in Moatize, Tete and Niassa of a few years ago have also experienced some setbacks, mainly the falling interest of the multinationals Rio Tinto and Vale do Rio Doce, which accumulated colossal losses with their investments in the country.

The situation presented above is not of minor significance to foreign investors since a significant part of the Mozambican GDP growth had been based on the positive outlook induced by the prospects of greater economic growth which, for its part, resulted from the exploitation of those immense and valuable natural resources and corresponding foreign investment attraction.

Also noticeable is the contribution that these new negative prospects around the exploitation of raw materials have significantly contributed to the continuous devaluation of the national currency (the metical), meaning: the sharp currency depreciation in the last months of 2015, the lack of foreign exchange and the increased difficulty to make operational the international trade activity particularly for importers, with a distressing shortage of foreign exchange reserves.

Another consequence of the national currency value degradation has been the steep rise in prices of imported goods, including staple foods that Mozambique does not produce in sufficient quantity in order to meet national requirements, which may bring harmful and dangerous disturbances in the social environment.

For external and attentive observers, another reason for the recently painted negative impression is related with the alarming news of loss of control of the Public Finance by the Mozambican Government and Central Bank, a phenomena which has brought erratic

application of significant State funds, namely, in ruinous investments in public companies and other hidden expenses (in the meanwhile exposed in meetings with the IMF).

The degradation of internal security is also a negative aspect to the Mozambican and foreign business community.

All these factors, of such a negative nature, made 2015 an unkind year to Mozambique.

Positive factors

However, there are some factors that continue to feed positive prospects regarding Mozambique, such as: its large territory, its large natural energy sub-soil resources (being offshore or inshore), other strategic mineral wealth, a large amount of arable land and abundant water, an installed and to install capacity to create electricity virtually unlimited, an economy with a very diversified entrepreneurial fabric, port terminals with the best conditions in the region and eventually in East Africa which are essential for the transport of goods to the African hinterland, new airports with groomed trails for the aircraft of greater range of the world's civil aviation, unparalleled conditions for quality tourism, broad sections of the population with university education and prepared to fit in a new spiral of development, explosive demographics responsible for the generation of needs of all kinds (housing, food, education and health). And there are good reasons to believe that the price of raw materials will stabilize at higher levels giving a new impetus for investment in the sector in the Rovuma Basin and that the political conditions will stabilize by taking positions of common sense and of love for the common good by the antagonists. To these expectations are not oblivious the relevant interventions of the President of the Republic of Portugal, Marcelo Rebelo de Sousa, before, during and after his official state visit to Mozambique in May 2016.

Indeed, despite the previously described setbacks and the national and international context now less favorable, there are nevertheless reasons to keep the optimism about some emblematic and structural projects that may allow the definitive and desired economic growth, which have their flagship in the project of natural gas in the north of the country. The Mozambican Government's approval of the floating platform development plan of the South Coral field in the Rovuma Basin, to explore by the Italian oil company ENI, is a sign of that. This approval concerns the first phase of the development of the referred project of natural gas exploitation in that field, located in the concession area 4 and operated by ENI Group.

The interest shown by ExxonMobil in the acquisition of participating interests that ENI holds in Mozambique is also demonstrative of the interest that this resource and respective project continue to arouse between the international investors.

Another example is the unitization agreement between ENI and Anadarko, Block 1 operating company of the Rovuma Basin, and the fact that the latter have already virtually guaranteed commercialization agreements necessary to ensure the financing of the natural gas project in the country, are indicators that a final investment decision by these operators may soon be a reality and that the projects will become a reality that will transform definitively Mozambique.

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