

BEST'S COUNTRY RISK REPORT

Mozambique

CRT-5

August 22, 2019

Region: Sub-Saharan Africa

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier reflects AM Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Mozambique, a CRT-5 country, has very high levels of economic, political, and financial system risk.
- High levels of corruption, vulnerability to climate change, low per capita income, undeveloped infrastructure, and high unsustainable debt are all headwinds to Mozambique's growth.
- The cyclones at the beginning of 2019 have slashed GDP forecasts to 4% for the year. Medium-term growth is forecast at 4%, but is likely to increase dramatically by 2023, to 9.4%.
- The majority of countries in Sub-Saharan Africa are categorized as CRT-5, the exceptions being Mauritius, CRT-3, and South Africa, CRT-4.



- **Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- **Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- **Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- **Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- **Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Sub-Saharan Africa

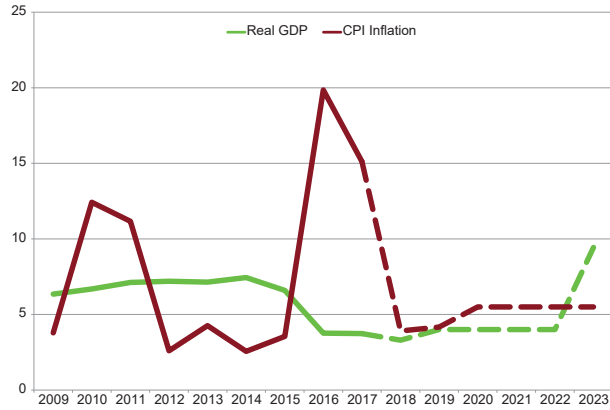
- Growth is expected to pick up, driven by public investment in the region's more diversified economies. However, the largest economies in Sub-Saharan Africa are likely to lag the regional growth average due to changing oil dynamics and depressed business confidence linked to corruption fallout. Growth in the region's two largest economies—Nigeria and South Africa (which account for two thirds of the region's population)—is expected to be anemic.
- The region faces several headwinds that limit potential, including entrenched poverty, pervasive corruption, heightened global trade tensions, inadequate infrastructure, an unstable security environment, and a vulnerability to natural disasters.
- The region's sovereign debt increased from a median 31% of GDP in 2013 to 56% in 2018. Given the region's development challenges, the pace of the increase is unsustainable.
- The African Continental Free Trade Agreement (AfCFTA) went into force in May 2019. AfCFTA seeks to bolster continental African trade by reducing tariffs by 90%, harmonizing trade rules.

Vital Statistics 2018		
Nominal GDP	USD bn	14.43
Population	mil	30.3
GDP Per Capita	USD	476
Real GDP Growth	%	3.3
Inflation Rate	%	3.9
United Nations Estimates		
Literacy Rate	%	50.6
Urbanization	%	35.5
Dependency Ratio	%	92.1
Life Expectancy	Years	58.9
Median Age	Years	17.2
Insurance Statistics		
Insurance Regulator	The Bank of Mozambique	
Premiums Written (Life)	USD mil	24
Premiums Written (Non-Life)	USD mil	181
Premiums Growth	%	21.6
Regional Comparison		
	Country Risk Tier	
Mozambique	CRT-5	
Kenya	CRT-5	
Tanzania	CRT-5	
Nigeria	CRT-5	
Ethiopia	CRT-5	
Senegal	CRT-5	

Source: IMF, UN, Swiss Re, Axco and AM Best



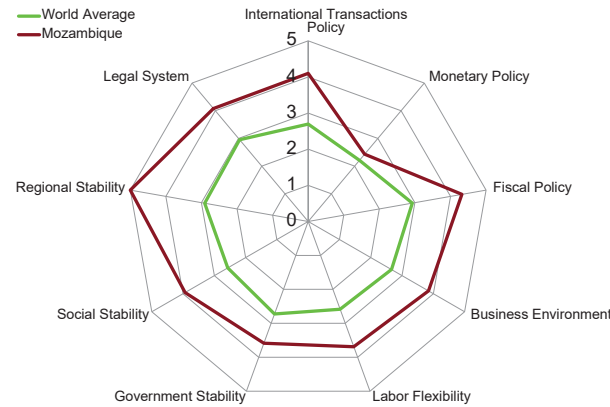
Economic Growth (%)



Source: IMF World Economic Outlook and AM Best

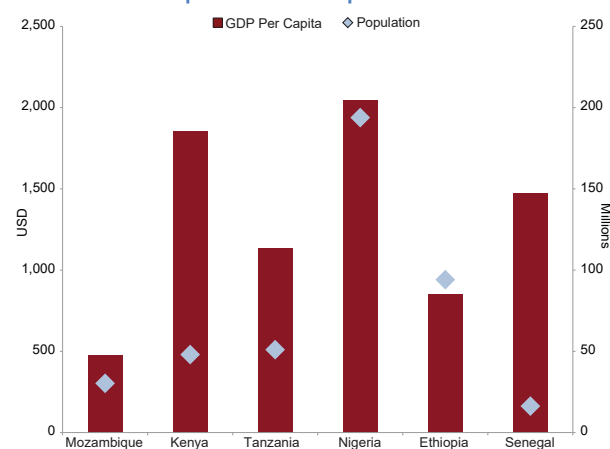
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: AM Best

GDP Per Capita and Population



Source: IMF and AM Best

Economic Risk: Very High

- Current government debt is not sustainable. The fiscal debt is very high and projected to rise due to reconstruction efforts. Two cyclones caused extensive damage to the country's infrastructure—by some estimates, more than USD 3 billion may be needed to rebuild infrastructure.
- Agriculture is the main economic sector and provides the most employment opportunities. Extractive industries, including gold, coal, graphite and oil, also provide employment. Additionally, recent investments in liquefied natural gas projects (LNG) are expected to spur growth.
- In April 2019, Mozambique entered into a USD 118 million rapid credit facility assistance with the IMF. The emergency assistance will help meet the country's most pressing needs as a result of natural disasters.
- Mozambique is one of the poorest countries in the world, with GDP per capita of less than USD 500 per year.
- The World Bank's Ease of Doing Business survey ranks Mozambique 135 out of a 190 countries. Mozambique has a difficult operating environment and scores poorly on the ease of starting a business and enforcing contracts.

Political Risk: Very High

- Elections for Parliament and the presidency will take place in October 2019. Incumbent President Filipe Nyusi and his ruling party (FRELIMO) are expected to win.
- Elections are likely to be uneventful, but with the possibility of violence, given a tense relationship with the opposition party, RENAMO, a former militant organization that has transformed into a mainstream political party. In the past, the cease-fire has collapsed when RENAMO felt under-represented.
- Lowering debt, minimizing corruption, and decentralizing the state are likely to be the main political issues in the election. In 2016-2017, Mozambique defaulted on its sovereign debt and is currently renegotiating with creditors. Due to the lack of transparency, obtaining funding from capital markets and the IMF has been difficult.

- Mozambique has passed legislation to minimize corruption, but implementation and enforcement of the new policies will likely be difficult.

Financial System Risk: Very High

- The Insurance Industry is regulated by the Insurance Supervision Institute of Mozambique.
- In recent years, monetary policy from the Bank of Mozambique has kept inflation low. Inflation is 3.75%, down from 26.5% in 2019. The current policy rate is 13.25%.
- The banking system is vulnerable, but changes made in 2017—such as maintaining tight control of the policy rate and establishing liquidity requirements—have improved the operating environment.