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33 MASERU, MBABANE, NAIROBI, TANANARIVE; AMCONSULS CAPETOWN,  
DURBAN, JOHANNESBURG, LUANDA, LOURENÇO MARQUES (20 copies)

FROM : Amconsul LOURENÇO MARQUES

DATE: April 23, 1971

SUBJECT: 1970 Economic Trends Report

REF : CERP, S-0004; CA-9815 of June 16, 1967

The Consulate General encloses the Annual Economic Trends Report for Mozambique.

GOSSETT

Enclosure: 7 pages  
Annual Economic Trends Report

DEPARTMENT OF STATE A/CDC/MR

REVIEWED BY W. Johnson DATE 3-14-83

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Drafted by: ECON: DJSRebele/JGossett/vsgl 4/15/71

Contents and Classification Approved by: John G. Gossett

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MOZAMBIQUE

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SUMMARY:

Noteworthy in 1970 were the all-time highs reached in wholesale and retail business volume, Mozambique Government employee pay scales (an average basic pay increase of 24%), building construction, employment levels in the private and public sectors, and the amount of new credit to business, industry and commercial agriculture.

Mozambique GNP grew 5.3% in 1970. Agriculture and animal husbandry dominated the lives of some 95% of Mozambique's 8.2 million people, nearly all living in a subsistence economy, and at the same time supplied most of the raw materials for local processing industries, both for local and export markets.

General administration, education, health, welfare and defense costs all increased in 1970, severely straining available public funds; about 50% of the added expenditures were due to wage and salary increases implemented in July. To bridge the gap the Government raised the general customs clearance charges on importable commodities from 3% to 5% ad valorem, placed new or increased consumption taxes on locally made sugar, tobacco and beer and on a variety of imported commodities, essential and non-essential, and, finally, levied increased taxes on oil refinery profits.

Despite price controls and severe warnings to profiteers, prices on most consumer goods rose, and, together with soaring rents, drove up the cost of living substantially.

Heavy imports of consumer goods, machinery and other capital equipment in 1970 further widened the import-export trade gap and were primarily responsible for an unprecedented net deficit of US\$55.44 million in Mozambique's balance of payments, showing a respective 23% and 395% increase over the size of deficits in 1969 and 1968.

It is expected that local sales of many consumer goods and "non-essentials" of U.S. and West European (including Portuguese) origin will decline in 1971 because of qualitative and quantitative import restrictions and high-to-prohibitive consumption tax rates in addition to the regular import duties. On the other hand, there seems to be good chances for U.S. exporters to supply goods for certain import-substitution industries which the Government is now seeking to encourage here under a liberalized industrialization promotion policy announced in late 1970.

For reasons noted below, economic forecasts just now must be viewed with especial caution, and trends in 1971 are likely to have very uneven effects on local firms.

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## KEY ECONOMIC INDICATORS: MOZAMBIQUE

All values in million U.S.\$  
unless otherwise stated

Exchange rate as of 12/31/70  
U.S. \$1.00 = 28.49 escudos

ITEM	A 1968	B 1969	C Cumulative 1970	D Change	E Rate of Growth
<u>INCOME, PRODUCTION, EMPLOYMENT</u>					
GNP at Current Prices (12/31)	1,160 *	1,234 *	1,300*	5.3%	n.a.
GNP at Constant Prices	n.a.	n.a.	n.a.	n.a.	n.a.
Per Capita GNP, Current Prices (12/31)	148.72*	154.20*	166.66*	8.1%	n.a.
Plant & Equipment Investment (9/30)	11.6	11.5	28.6	197.7%	n.a.
Indices: 1965 = 100					
Industrial Production (1965=100) (January/December)	142.7	159 *	177.7 *	11.8%	n.a.
Avg. Labor Productivity	n.a.	n.a.	n.a.	n.a.	n.a.
Avg. Industrial Wage	n.a.	n.a.	n.a.	n.a.	n.a.
Personal Income	n.a.	n.a.	n.a.	n.a.	n.a.
Employment	n.a.	n.a.	n.a.	n.a.	n.a.
Avg. Unemployment Rate	n.a.	n.a.	n.a.	n.a.	n.a.
<u>MONEY AND PRICES</u>					
Money Supply (9/30)	271.4	295.9	301.4	8.8%	n.a.
Public Debt Outstanding (12/31)	133.1	145.5	160.0*	10 %	n.a.
External Debt (12/31)	4%	4.4%	4.7%	6.5%	n.a.
Interest Rates (BNU-Bank of issue) (12/31)	5.5%	5.5%	5.5%	--	--
Indices: (1956/1957=100) (Oct./Sept.)					
Retail Sales (L.Marques) (9/30)	133.6	114.5	122.6	13.6%	n.a.
Gross Sales Value (L.Marques) (1959 = 100) (9/30)	194.6	218.5	306.9	20.7%	n.a.
<u>BALANCE OF PAYMENTS AND TRADE</u>					
Gold & For. Exch. Reserves (12/30)	24.6	13.2	13.6	3.1%	n.a.
Balance of payments (12/31)	- 11.2	- 45.1	- 55.4	23 %	n.a.
Balance of Trade (9/30) +/-	- 81.8	-120.2	-123.9	46.3%	n.a.
Exports, FOB (9/30)	155.8	143.9	114.5	7.5%	n.a.
U.S. Share	16.3	14.1	10.7	- 0.8%	n.a.
Imports, CIF (9/30)	237.6	264.1	238.4	24.7%	n.a.
U.S. Share	11.9	17.2	22.9	76.2%	n.a.

Main Imports from U.S. (Jan/Sept.1970): Airplanes, parts and accessories - 121.4 tons and \$9.90 million; 53 tractors at \$1.20 m; 44 excavators and ground levellers at \$0.99 m; 2,702 air-conditioners and 526 refrigerators at \$0.83 m; automotive equipment & roller bearings - 183 tons and \$0.49 m; explosion or internal combustion engines & parts - 397 (No.) and 23 tons at \$0.37 m; lubricating oil - 1,743 tons and \$0.27 m; agric. mchy. & equipment - 137.7 tons and \$0.19 m; pharmaceutical products - 25.8 tons and \$0.18 m; pumps and parts - 23.9 tons and \$0.17 m; tools, n.e.c. - 24.5 tons and \$0.14 m; insecticides, fungicides & desinfectants - 76.8 tons and \$0.13 m; and fixed railway material - 238 tons and \$0.08 m.

Sources: Boletim Mensal de Estatística, No.4 (April 1969 - for 1968 trade data); No.3 (March 1970 - for 1969 trade data); No.9 (September 1970 - for trade) and sundry issues of 1969-1970 (for sundry data).

(\*) Estimates subject to revision

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## CURRENT ECONOMIC SITUATION AND TRENDS

### Growth in Domestic Product

In 1970 estimated Mozambique GDP reached US\$1.3 billion, an increase of 5.3% from the estimated GDP for 1969. The estimated per capita income in the year was \$166.66 compared with \$154.20 in 1969. Growth in GDP reflected both inflation and increased agricultural and industrial output.

### Agriculture

Farm, forestry and animal products made up 81% of Mozambique commodity exports earnings in 1970 (based on January-September figures). For 1971 the agricultural outlook is generally promising, despite the crop damage and decimation of cattle herds due to droughts, followed by heavy rains and river floods in early 1971. Mozambique will continue in 1971 to import wheat, peanuts and corn for its food and industrial needs. Improved farm and animal output through State-sponsored settlement and irrigation schemes, distribution of improved seed varieties, training of rural extension workers and increased extension of credit facilities are included in III National Development Plan schedules for the current year.

### Industry

Output of the processing and manufacturing industry in 1970 was around \$380 million compared with an estimated output of \$340 million in 1969 and an actual registered output of \$305.3 million in 1968. On the basis of 1965=100, the index for industrial output was as follows: 1966 - 119; 1967 - 121.9; 1968 - 142.7; 1969 - 159 (est.); and 1970 - 178 (est.). Major elements in output, by value, were food and related products (39.2%) textile mill products (15%), refined petroleum products (7.9%), and manufacture or assembly of transportation equipment (6.3%). For 1971 the following import-substitution industries are now to be encouraged: cotton textiles, fermented beverages for the internal Black African market, bottling of imported whiskey and wine (in bulk), canning of meat, fish, fruits and vegetables, and manufacture of safety matches.

### Fishing and Mining

An insignificant percent of Mozambique's GDP was derived from fishing (0.3%) and mining (0.8%). The resources of Mozambique coastal waters are yet undetermined and untapped, but in 1971 a reported merger of Angolan and Mozambican fishing concerns may improve the picture. In 1970 minerals exploration was dominated by U.S. and other foreign petroleum prospecting companies. The Mozambique Gulf Oil Co. ceased activity in 1970 after 22 years of petroleum exploration, but its one-time associate Mozambique Amoco Oil Co. is continuing the search. Sunray, Hunt and Aquitaine are still exploring at least as of the date of this report.

### Investment

In 1970 the III development <sup>plan</sup> projects were forecast at US\$35 million, that is, \$6.6 million more than in 1969. Private investments in 1970 (January/September) rose to \$28.6 million compared with \$22.95 million in the preceding two years. For 1971

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Government development projects are set at \$32.1 million, but the private investment picture looks better (see INDUSTRY), and already a \$10 million cotton textile factory in Matola, near Lourenço Marques, is scheduled for construction shortly by a Franco-Portuguese investment group, which will absorb about 25% of Mozambique's current needs in imported cotton textiles.

Consumption

Public and private spending increased in 1970. The gross commercial sales index for Lourenço Marques by September 30, 1970 reached 306.9 (1959 = 100) in contrast with indices of 194.6 and 218.5 at 1968 and 1969 year ends. Some of the increase represents higher costs for goods and services. Due to increased consumption taxes, customs clearance charges, and the critical exchange situation, gross commercial sales are likely to decline in 1971. The Mozambique Government apparently intends to cut down the trade and balance of payments deficits even at the cost of a deliberate reduction in local consumption of imported goods.

Prices

There is no official COL index, but it seems probable that there was at least an 8% rise in the cost-of-living in 1970. Consumer goods prices on September 30, 1970 were up to 135 index points (basis 1956/57=100), that is, 8 points higher than year ago. Housing rents went to 173 index points, compared with 150 on September 30, 1969. Food and other essential commodity prices are expected to continue to go up in 1971 because of, inter alia, restrictions in commodity imports, increased consumption taxes and higher authorized retail prices for meat.

Labor and Wages

There were more job opportunities in Mozambique in 1970 due to a boom in building construction and the establishment and expansion of processing industries. While 8,679 more jobs were generated in processing industries in 1968-1969, some 6,782 new jobs were provided by these industries in January/September 1970. For 1971-1972 some more jobs are foreseen in industry, including some 500 men to be employed by the new Texlom cotton textile factory. Nevertheless, the outlook for employment growth is mixed, and unemployment is now rising, possibly only temporarily.

In July 1970 all Government employees were given a basic pay increase (15%-75%, averaging 24% in most subordinate positions). Late in the year representatives of the state-controlled labor unions (sindicatos) pressed demands for basic revisions in the minimum salaries in commerce, industry and agriculture. It is probable that in 1971 some of these demands will be met to compensate for the rising COL. As of April 1, 1971 the Government has decreed new minimum wages to non-skilled employees (20%) and ordered the establishment of a Social Welfare Fund (4%) in which both employers and employees will make a 50-50 contribution.

Money and Credit

Although the bank of issue (BNU) had raised its discount rate from 4.5% to 5% in 1968, credit extension (other than that granted by BNU) in that year was 85.3% higher than

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in 1967. In 1969 credit loans rose to \$291.5 million; a 24.6% increase over 1968, and 130.8% and 174.6% of equivalent credits extended in 1967 and 1966. Major users of credit in 1968 and 1969 were: Trade - 43.8% and 44.8%; Industry - 23.5% and 22%; Building - 10% and 14.7%; and Farming - 15.7% and 12.5%.

BNU credit extension by the end of 1969 amounted to \$160.1 million compared with \$135.5 million and \$125.9 million at 1968 and 1967 year ends. By September 30, 1970 BNU loans had risen to \$175.5 million. The Mozambique Government was a regular borrower of monies from BNU (bank of issue) at specially agreed rates of interest, and its total indebtedness to BNU on December 31, 1969 was \$19.23 million.

#### Foreign Trade

In 1970 (January/September) Mozambique imports reached \$238.4 million, a 24.7% increase from the level of imports during the equivalent period of 1969. Mozambique exports for the same period amounted to \$114.5 million, that is, 7.5% higher than in 1969. Imports exceeded exports in 1970 (January/September) by 52%, compared with 54% and 66% for the whole calendar years of 1969 and 1968. The "Merchandise account" in 1970 (January/December) in Mozambique's balance of payments showed a net deficit of \$139.6 million in contrast with equivalent net losses of \$108.9 million and \$67 million in 1969 and 1968.

There were no basic changes in Mozambique's trading pattern during 1970. Portugal was its largest buyer (31.9%) and its largest supplier (27.3%) for January/September 1970. Other leading suppliers for the period were: South Africa (15.7%), United States (9.6%), United Kingdom (8.0%), West Germany (7.2%), Japan (6.3%) and Iraq (crude petroleum) (3.8%). Principal foreign buyers of Mozambique commodities were: South Africa (10.6%), United States (9.3%), India (raw cashew nuts) (9.2%) and United Kingdom (5.7%). It is significant that for January/September 1970 Mozambique commodity imports rose at the following rates in contrast with imports for the same period in 1969: United States (76.2%), Japan (56.5%), South Africa (31.4%), United Kingdom (18.5%) and Portugal (7.8%). For 1971, Portuguese and foreign suppliers may expect a drastic reduction due to trading limitations imposed by the Government to reduce its balance of payments deficit. Curtailment in purchases from the United States of air conditioners, refrigerators and electrical household appliances is anticipated, but larger sales of U.S. heavy machinery and equipment, electronic and telecommunication materials, and general industrial machinery hopefully may be achieved.

#### Gold and Foreign Exchange

On December 31, 1970 Mozambique's total reserves stood at only \$13.63 million, a 3% increase in 12 months; however the gold bullion reserves declined to US\$44,389 from the level of US\$3.68 million reported a year ago.



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## 2. IMPLICATIONS FOR THE UNITED STATES

Certain trading opportunities from which U.S. manufacturers and exporters benefited in 1970 are likely to continue in 1971, in spite of the Mozambique Government's import restrictions on certain consumer and other non-essential items. The projects are best for U.S. suppliers in the field of commercial and general purpose aircraft and accessories; scientific instruments and equipment for Mozambique's university, hospitals, research centers and laboratories; aeronautical and telecommunication equipment; heavy earth moving and drilling machinery and equipment; railway rolling stock; and general industrial machinery. Even in these fields, however, liberal credit terms are likely to be necessary in view of Mozambique's serious balance of payments problem.

Because of the uneven effects on local business of local Government efforts to improve the balance of payments situation, American exporters should exercise some caution in dealing with firms in fields that are likely to suffer the most.

Finally, as a general long range policy package for resolving the chronic balance of payments problem apparently has not yet been developed, the forecasting of economic trends is more hazardous this year than in the recent past.

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