

56. Mozambique's sovereign debt

Following a period of deceleration in economic activity and increase of inflation, reduction of Republic of Mozambique rating, depreciation of metical and decrease in foreign direct investment, the Bank of Mozambique has adopted a restrictive policy, with increases in the reference rate since December 2015, as well as increasing the reserve ratio. This set of factors constrained commercial banking in Mozambique, pushing it to pursue a strict liquidity management, emphasis on raising funds, despite contributing to the improvement of net interest income.

According to an International Monetary Fund (IMF) statement dated 23 April 2016, existing debt guaranteed by the State of Mozambique in an amount over USD 1 billion that had not been disclosed to the IMF. Following this disclosure, the economic program supported by the IMF was suspended. According to an IMF statement dated 13 December 2016, discussions were initiated on a possible new agreement with the Government of Mozambique and the terms of reference for an external audit were agreed.

In June 2017, the Attorney General's Office of the Republic of Mozambique published an Executive Summary regarding the above-mentioned external audit. On 24 June 2017, the IMF released in a statement that due to the existence of information gaps in this audit, an IMF mission would visit the country to discuss audit results and possible follow-up measures. Following this visit, the IMF requested the Government of Mozambique to obtain additional information on the use of the funds.

On 14 December 2017, in a statement from the IMF staff, after the end of the mission held between 30 November and 13 December 2017, it was reiterated the need for the Mozambican State to provide missing information. In the statement of the Mozambican Attorney General's Office dated 29 January 2018, it is mentioned, among other things, that the Public Prosecutor submitted to the Administrative Court, on 26 January 2018, a complaint regarding the financial responsibility of public managers and companies participated by the State, participants in the execution and management of contracts for financing, supplying and providing services related to debts not disclosed to the IMF.

In the statements dated of 16 January 2017 and 17 July 2017, the Ministry of Economy and Finance of Mozambique informed the holders of bonds issued by the Republic of Mozambique specifically "US\$726.524 million, 10.5%, repayable securities in 2023" that the interest payment due on 18 January 2017 and 18 July 2017, would not be paid by the Republic of Mozambique. In November 2018, the Ministry of Economy and Finance of the Republic of Mozambique announced that it has reached an agreement in principle on the key commercial terms of a proposed restructuring transaction related to this debt securities with four members of the Global Group of Mozambique Bondholders. The Bondholders currently own or control approximately 60% of the outstanding Bonds. The agreement in principle reached by the parties, and the support of the Bondholders for the proposed restructuring, is conditional on the parties reaching an agreement on mutually satisfactory documentation setting out the detailed terms of the restructuring including implementation, and the mentioned Ministry obtaining all necessary approvals, including Parliamentary and government approvals of Mozambique. The Group has no exposure to this debt.

As at 31 December 2018, considering the 66.7% indirect investment in BIM, the Group's interest in BIM's equity amounted to Euros 317,499,000, with the exchange translation reserve associated with this participation, accounted in Group's consolidated equity, in a negative amount of Euros 152,287,000. BIM's contribution to consolidated net income for 2018, attributable to the shareholders of the Bank, amounts to Euros 62,726,000.

On this date, the subsidiary BIM's exposure to the State of Mozambique includes public debt securities denominated in metical classified as Financial assets measured at amortised cost - Debt instruments in the gross amount of Euros 698,781,000. These public debt securities mostly have a maturity of less than 1 year.

As at 31 December 2018, the Group has also registered in the balance Loans and advances to customers, a direct gross exposure to the Mozambican State in the amount of Euros 375,919,000 (of which Euros 356,514,000 are denominated in metical, Euros 3,854,000 denominated in USD and Euros 15,551,000 denominated in Rands) and an indirect exposure resulting from sovereign guarantees received in the amount of Euros 155,247,000 denominated in USD and in the balance Guarantees granted and irrevocable commitments, an amount of Euros 74,694,000 (of which Euros 25,333,000 are denominated in metical, Euros 49,272,000 denominated in USD and Euros 89,000 denominated in Rands).

According to public information provided by IMF, there are credits granted in default to Mozambican companies, non-state, guaranteed by the Mozambican State. The ongoing dialogue between the Government of Mozambique, IMF and creditors has the objective of finding a solution to the debt guaranteed by the State of Mozambique that had not previously been disclosed to the IMF referred to above. Nevertheless, the Ministry of Economy and Finance of the Republic of Mozambique has presented in November 2018 new proposals regarding this matter, a solution has not yet been approved to change the current Group's expectations reflected in the financial statements as at 31 December 2018, regarding the capacity of the Government of Mozambique and public companies to repay their debts and the development of the activity of its subsidiary Banco Internacional de Moçambique (BIM).