



MOZAMBIQUE DEBT UPDATE

Scant prospect of substantive progress

Last week, Mozambique invited its external commercial creditors to a March 20th meeting at the London offices of White & Case¹. However, **we do not expect this forum to produce any substantive developments** - for a number of reasons.

- 1) By restating the Government's **"commit[ment] to "finding a consensual and collaborative resolution"**, the invitation (attached) **echoes the same ironic language** that the finance ministry employed in last July's Communiqué, that dashed bond-holders' admittedly fanciful hopes of receiving the coupon payment due that month.
- 2) The combination of the electoral calendar² and nationwide hostility towards servicing any of the "accursed" debts³ have left the **Nyusi administration without the political space required to meet any of the bond holders' minimum demands**.

These include, *inter alia*, **repudiating the purportedly "illegal" ProIndicus and MAM loans**, thereby repairing Mozambique's balance sheet. This, the bond-holders insist, would enable the Republic to service its sovereign Eurobond without difficulty.

- 3) However, the invitation to creditors makes it makes it abundantly clear that the **Republic recognizes no distinction whatsoever between the seniority of the three instruments**⁴. Indeed, the Communiqué's final sentence explicitly looks forward to a **"dialogue with the holders of the Republic's direct and guaranteed external commercial obligations."**

- 4) These conflicting sets of negotiating parameters mean that, from the stand-point of game-theory, **no potential 'zone of agreement' exists**. À propos, it is worth recalling that, when the idea of a March meeting was initially floated, the reaction of the Global Group of Mozambique Bondholders was to demand a preliminary session with the Republic's debt advisors to **"define process and to discuss the debt sustainability assumptions before we sit down in their planned March meeting."**⁵

- 5) So, what exactly do the Mozambican authorities hope to accomplish through the March meeting? It is entirely possible that their real goal is **to create the appearance of a meaningful effort at restructuring the Republic's external commercial liabilities** - this with a view to paving the way for discussions on a fresh IMF programme.

However, this demarche overlooks a crucial precondition set by the Fund: the need to **address the various factual lacunae in the Kroll report**⁶.

👉 Under the circumstances, **great expectations would be sadly out of place** .

¹ I.e. the same venue at which the finance minister delivered the debt-restructuring bombshell on Oct. 25, 2016.

² I.e. local elections - Oct. 2018; Presidential and parliamentary elections - 2019.

³ As discussed more fully in our research note **"Frelimo circles the waggons"**, Aug. 5, 2017.

⁴ As will be recalled, the ProIndicus, EMATUM and MAM loans were originally structured as a single financing that was only repackaged into three notionally independent transactions in order to circumvent the lenders' single-obligor credit limits.

⁵ Statement by GGMB advisor Thomas Laryea, as quoted in **"Lazard Finalizing Plans with Mozambique for Creditor Meeting"**, by **Bloomberg**; posted Feb. 22, 2018.

⁶ In particular, a full accounting of the use of the USD 2.1 billion proceeds from the three "secret loans".

This Report has been prepared purely for the purposes of information and neither constitutes, nor is intended to constitute an offer to sell or the solicitation of an offer to purchase securities. Although the statements of fact in this Report have been obtained from, and are based upon sources that Rhombus Advisors LLC believes to be reliable, the Firm does not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and forecasts included in this Report represent the Firm's judgement as of the date of the Report and are subject to change without notice.