

**MONETARY POLICY COMMITTEE**  
**COMMUNIQUÉ NO. 06/2020**  
**Maputo, 16 December 2020**

**Policy rate unchanged at 10.25%**

**The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to keep the monetary policy interest rate, MIMO rate, at 10.25%. The decision is sustained by the continuous prospects of prices increase in the medium term, associated with the high risks and uncertainties, in a context of an expected slow recovery of economic activity in 2021. The Committee reaffirms that the mitigation of the prevailing risks and promotion of sustainable and inclusive growth requires deepening structural reforms.**

**The MPC also decided to keep the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) interest rates at 7.25% and 13.25%, respectively, as well as the Reserve Requirement ratio for liabilities in domestic and foreign currency at 11.50% and 34.50%, respectively.**

**Inflation is expected to accelerate in the near and medium term, while remaining at a single-digit.** Annual inflation accelerated for the third month in a row to 3.27% in November, from 3.20% in October. For 2021, domestic prices are expected to increase, reflecting essentially, the end of part of the government's administrative measures to contain prices in context of the COVID-19, the upward trend of food prices on the international market, and the gradual recovery of demand for goods and services. However, the extension of exemption on the Value Added Tax (VAT) on essential goods until 2023 may dampen inflation, thus remaining at single-digit, in line with the expectations of economic agents surveyed in the first half of December 2020.

**Economic activity is estimated to contract less in 2020, followed by a timid recovery in 2021.** After a significant drop in Gross Domestic Product (GDP) in the second quarter of 2020 (-3.25%), real GDP reduced by 1.10% year-on-year in the third quarter, and therefore economic activity is expected to contract less in 2020. For 2021, economic activity is expected to recover, although slowly, stimulated by the development of gas exploration projects and by the recovery in external demand, in the face of the discovery of the COVID-19 vaccine.

**A sound and sustainable growth of economic activity requires deepening structural reforms.** Given the limits of the effects of monetary policy, the MPC reaffirms that achieving sustainable and inclusive growth in the medium term requires the simultaneous implementation of other economic policies, as well as deepening other structural reforms aimed at strengthening institutions, improving the business environment, attracting investment and creating jobs.

**The domestic foreign exchange market remains with adequate levels of foreign currency.** Since the beginning of the year, the banking system purchased foreign exchange on the domestic foreign exchange market amounting to USD 5.019 million and sold USD 4.947 million, resulting in net purchases of USD 72 million. In addition, gross international reserves remains at comfortable levels, at USD 3.893 million, covering more than 6 months of import of goods and services. However, the Metical continued to depreciate, but at decreasing rates, reflecting the prevailing risks and uncertainties in the domestic economy.

**Pressure on public finances remains.** The financial needs to cover expenses related to defense, security and social support to populations affected by military instability in the central and northern regions of the country, as well as eventual spending due to the effects of climate shocks and logistics for administering the COVID-19 vaccine, raise concerns about the fiscal stance for 2021. It is expected that the government will continue to rely on internal deficit financing in view of the challenges faced by most cooperation partners in the context of the pandemic. Since the last MPC, domestic public debt, excluding loan and lease contracts and past due liabilities, increased from 174.638 million meticaís to 182.325 million meticaís.

**For the near and medium term, the risks and uncertainties associated with inflation forecast remain high.** Since the last MPC, the risks and uncertainties remain high, underlining at the domestic level, the on-going of military conflicts in the central and northern parts of the country, the concerns surrounding the evolution of the COVID-19 pandemic and its impact on the economy, as well as the likelihood of above-normal rainfall in the central and southern regions of the country. On the external side, it is highlighted the volatility of prices of major commodities.

The next MPC meeting is scheduled for 27 January 2021.

**Rogério Lucas Zandamela**  
Governor