# MONETARY POLICY COMMITTEE
# COMMUNIQUÉ N. º 02/2018
# Maputo, April 11, 2018

**The Monetary Policy Committee (MPC) of the Bank of Mozambique, gathered on April 11, 2018, has decided to cut the key lending rate, the MIMO rate, by 150 basis points to 16.5 per cent.**

***In addition, it decided to reduce the Standing Lending Facility (SLF) by 100 basis points to 18.0%, keeping the Standing Deposit Facility (SDF) at 12.5%, and the reserve requirement ratio for liabilities expressed in domestic currency at 14.0 per cent, and for liabilities expressed in foreign currency at 22%.***

**The favorable behavior of the inflation indicator coupled with the fact that the projections for the end of this year indicate that it will be around one digit, justifies the maintenance of interest rate reduction by the MPC, initiated in April 2017.**

**Inflation measured by the variation of the Mozambique Consumer Price Indicator has remained low, around 3.0%, against 21.6% in the same period of 2017.** However, in monthly terms, it was observed in the month concerned an increase in the general price level by 0.97%, mainly reflecting the upward adjustment in the administered prices goods, in particular the urban and suburban semi-public transport tariffs (+ 21.2%), petrol (+ 1.5%), diesel (+ 8.3%), which combined with the increase in the price of charcoal (+ 3.8%) contributed with 81 basis points for the monthly variation registered in the period. However, excluding the prices of fruits and vegetables and administered goods, the general inflation deceleration trend remained, declining to 1.34%, after 2.07%, in February 2018.

**In February, the economic climate indicator, which is a leading indicator of the economic activity, improved for the sixth consecutive month.** This behavior continues to reflect the optimism of the entrepreneurs surveyed regarding the prospects of employment and demand, which may signal an improvement in economic activity in the first quarter of this year.

**The domestic exchange market is experiencing a reduction in exchange rate pressure, as a result of the recent policy measures taken by the Bank of Mozambique**. After peaking at MZN 62.92/USD on March 15, the commercial banks' average exchange rate with the public stood at MZN60.98 /USD on 10 April. In the same period, the ZAR went from MZN 5.30 to MZN 5.05 MZN.

**The restricted liquidity of the banking system continued to decline, in a context in which credit to the economy remained stagnant**. Since the last MPC, in February, the Bank of Mozambique intensified the activation of the interbank market instruments that, along with the issuance of Treasury Bonds, contributed to the reduction of commercial banks' free reserves. February data show that, on a yearly basis, bank credit to the private sector maintains the trend to stagnation.

**Interest rates in the Interbank Money Market consolidate the downward trend, translating into a change in the slope of the yield curve**. Interest rates on overnight operations (reverse repo and Treasury Bills) continued to fall to levels below the MIMO rate, resulting in a negative slope of the yield curve, signaling market confidence of the decline in inflation, in line with the prospects of the Bank of Mozambique.

**The Bank of Mozambique's International Reserves remain at comfortable levels.** Notwithstanding the sales made by the Bank of Mozambique in the foreign exchange market, mainly for fuels, and the payment of external public debt service, the balance of gross international reserves stood at USD 3,260 million, at the end of the first quarter, a figure sufficient to cover 7.2 months of imports of goods and services excluding transactions in major projects

## The MPC continues to maintain prudence in the conduct of monetary policy, taking into account the risks underlying the inflation outlook.

At internal level, the risk associated with the sustainability of the public debt, as well as the uncertainties regarding the evolution of the prices of the administered goods, are maintained. Recent data indicate that public indebtedness increased to MZN 107,823 million, in March, from MZN 104,697 million, in February 2018. The external component highlights the risks associated with recent manifestations of protectionism in international trade, as well as the volatility of the USD and commodity prices in the international market.

**The Monetary Policy Committee of the Bank of Mozambique reduced the MIMO rate and the Standing Lending Facility (SLF) rate, maintaining both the Standing Deposit Facility (SDF) rate and the Reserve Requiremen0t ratio for liabilities in domestic and foreign currency.**

Considering the short- and medium-term inflation prospects, and the associated risks, the MPC has decided to:

- ✓ Cut, with immediate effect, the monetary policy interest rate, MIMO rate, by 150 basis points, to 16.5%;
- ✓ Cut, with immediate effect, the interest rate of the Standing Lending Facility (SLF) by 100 basis points to 18.0%;
- ✓ Keep the interest rate of the Standing Deposit Facility (SDF) at 12.5%;
- ✓ Keep the reserve requirement ratio for liabilities in domestic currency at 14.0%.
- ✓ Keep the reserve requirement ratio for liabilities in foreign currency at 22.0%.

The MPC will continue to monitor the economic and financial indicators as well as the risk factors and may take the necessary corrective measures before the next meeting of the body, scheduled for June 20, 2018.

**Rogério Lucas Zandamela**

**Governor**