



MONETARY POLICY COMMITTEE

COMMUNIQUÉ NO. 03/2020

Maputo, 17 June 2020

Key Interest Rate reduced by 100 basis points to 10.25%.

The Monetary Policy Committee (MPC) of the Banco de Moçambique (BM) has decided to cut the key interest rate, MIMO rate, by 100 basis points (bp), to 10.25%. The decision was underpinned by a further downward revision of the inflation outlook for the medium term, in a scenario whereby aggregate demand is expected to contract further in 2020, and to recover mildly in 2021, reflecting the constraints on economic activity associated with the challenges imposed by the COVID-19 both domestically and internationally.

The MPC also decided to cut the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) rates by 100 bp, to 7.25% and 13.25%, respectively, and to keep the Reserve Requirement for liabilities in local and foreign currency at 11.50% and 34.50%, respectively. In addition, the Committee has decided to lift the restrictions on the access to the SLF, introduced in October 2016.

The medium-term outlook points to low inflation. In May, Mozambique's annual inflation slowed to 3.02%, after 3.32% in the previous month. Until the end of 2020 and 2021, the BM expects inflation to remain low, at a single digit, as a result of: (i) further reduction of domestic demand and the anticipation of its slow recovery; (ii) the impact of the VAT exemption; (iii) the price reduction of some basic goods and services; and (iv) the expectation of less exchange rate volatility in the medium term. This forecast is in line with the expectations of the economic agents surveyed in May 2020, which point to stable inflation in the short term, and below 5.0% for the end of 2020 and 2021.

Economic activity is expected to contract further until the end of 2020, followed by a mild recovery in 2021. Domestically, restrictions imposed in the context of COVID-19 prevention and military instability, especially in the northern part of the country, could severely affect economic performance in 2020, in a scenario where external demand for domestic products is increasingly low. By 2021, growth is expected to recover smoothly, based on the gradual normalization of the



pandemic. In the first quarter of 2020, the economy grew 1.7% from 1.5% in the last quarter of 2019.

The market has enough foreign exchange to support economic activity in the short and medium term. Since last April, the national banking system has purchased foreign exchange in the domestic market worth USD 1,096 million and sold a total of USD 1,022 million to its customers, resulting in a surplus of USD 74 million. The exchange rate continued to depreciate in the period, although at a slower pace in recent weeks. In the same period, the BM's international reserves increased by USD 321 million to a balance of USD 4 billion, a figure that allows coverage of more than 6 months of imports.

In the interbank money market, liquidity remains at high levels. The banking system has a liquidity in national currency around 50 billion Meticaís, applied in short-term instruments. This amount represents a reduction of around 20 billion when compared to the amount recorded in the last MPC session, as a result of a major purchase of foreign exchange and the investment in Treasury securities by commercial banks.

The prospects of high pressure on public accounts remain. COVID-19 mitigation measures may affect the public accounts profile, but it is expected that a significant part of the pressure will be cushioned by the support from cooperation partners. Meanwhile, since the last MPC session, domestic public debt, excluding loan and lease contracts and past due loans, has declined from MZN 163,670 million to 160,135 million.

For the short to medium term, the risks and uncertainties in the domestic economy has been aggravating. Since the last MPC, the risks and uncertainties have worsened significantly, especially the military instability in the northern part of the country and the magnitude of the COVID-19 impact. The extension of this situation could affect the profile of the economic and financial indicators and determine the adoption of corrective measures by the MPC. The next regular session is scheduled for 20 August 2020.

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