

MONETARY POLICY COMMITTEE
PRESS RELEASE N° 07/2011
Maputo, July 8, 2011

The Monetary Policy Committee of the Banco de Moçambique (CPMO-acronym in Portuguese) convened today, in its seventh ordinary meeting of the current year, to consider the most recent external developments and the evolution of the main economic and financial indicators of the Mozambican economy, with emphasis on inflation, monetary aggregates and their short and medium term trends, in order to take the most suitable monetary policy measures.

I. THE RECENT DEVELOPMENTS IN THE INTERNATIONAL AND REGIONAL ECONOMIES

The international environment continued to be characterized by signs of uncertainty as regards the economic activity recovery in the most advanced countries and the financial markets' future trends. The extension of the sovereignty debt crisis in some European Union countries has led the financial rating agencies to cut the Greece and Portugal ratings, in the light of the reserved forecasts in relation to the solvency capacity of their economies. The persistent political crisis in some petroleum producer countries of the North of Africa and Middle East continue to distort the future projections of oil and food prices in the international market.

In the most advanced economies¹, inflation remained unchanged, in May 2011, in the United Kingdom and Japan, at 4.5% and 0.3%, respectively, having decelerated slightly in the Euro Zone to 2.7% and risen in the United States of America to 3.6%. Data reported to June showed that inflation remained at 2.7% in the Euro Zone. More recently, the European Central Bank revised its policy reference rate upwards again by 25 basis points (bp), to 1.5%, the second change undertaken during the current year.

The US Dollar weakening trend in relation to the currencies of the most advanced economies continued in June 2011, although at a more slow rhythm against the Yen and the Pound Sterling. The US Dollar has recorded until June a nominal annual depreciation of 15.7% against the Euro, 8.9% in relation to the Yen and 6.8% against the Pound Sterling. Over the last days, the downgrading of some Euro Zone countries credit rating has caused the depreciation of its currency, in favour of the US Dollar recovery.

¹ Analyzed economies: United States of America, Japan, Euro Zone and the United Kingdom

With respect to the prices of monitored commodities², in the last date of June 2011, the prices witnessed a declining tendency, especially those of cotton, sugar and maize, which recorded negative variations of 23.6%, 8.6% and 3.2%, respectively, except those of rice and wheat that recorded a null monthly variation. Brent was traded in the United States of America at USD 113.29³ per barrel, after USD 118.38 in the previous month. The fall of the price is associated, among other factors, to the downward revision of global demand forecasts by the International Energy Agency, the economic growth slowdown in the United States of America and Europe and the release of 60 million crude barrels of the strategic reserves of the member countries of the aforementioned Agency.

In the emerging market economies⁴, there was a general rising tendency of inflation, except in the South Korea, where it slowed down to 3.5% in May 2011. In June 2011, the Central Bank of India rose its policy reference rate by 25bp, to 6.50%, aiming to restrain inflation pressure. In these economies, the US Dollar also recorded a weakening trend, except the Chinese Yuan, whose depreciation pace reduced to 4.7%.

In the SADC⁵ economies, in June 2011, it is worth highlighting the annual inflation acceleration in South Africa and Mauritius and the stability tendency observed in the remainder economies. With the view to restrain inflationary pressure, the Central Bank of Mauritius decided to increase its policy reference rate by 25bp, to 5.5%.

Data reported to June 2011 showed that the US dollar continued to show mixed signs in the economies of the region, having depreciated in relation to the Metical (17.0%), Rand (11.9%), Rupee of Mauritius (10.5%) and Pula (7.5%) and appreciated against the Kwacha of Malawi (0.17%), Kwanza (0.8%), Kwacha of Zambia (2.01%) and Shilling of Tanzania (4.4%).

II. DEVELOPMENTS IN THE MOZAMBIKAN ECONOMY

Data released by the National Institute of Statistics (INE-acronym in Portuguese) showed that, in June 2011, annual inflation, measured by the variation of Consumer Price Index (CPI) of Maputo City, kept the descending trajectory that began in January 2011, as it moved from 11.36% in May to 9.28%, the first performance below 10% since May 2010. This performance was influenced by the negative monthly variation of 0.56% observed in the period under analysis, after an increase of 1.34% in the similar period of last year, which also contributed for inflation accrued since the beginning of the year to reduce to 3.31%, well below 10.25% recorded in the

² Brent, gas, aluminum, gold, cotton, sugar, maize, rice and wheat. Source: Bloomberg.

³Source: Reuters

⁴Analyzed economies: Brazil, China, South Korea and India.

⁵Analyzed economies: South Africa, Angola, Botswana, Malawi, Mauritius, Mozambique, Tanzania and Zambia.

first six months of 2010. In turn, the average annual inflation, whose decreasing trend began last May, reduced again in June by 48bp, to 14.75%, against 5.74% observed in the similar period of 2010.

Among the main products that contribute to CPI monthly variation in Maputo City, as well as their respective contributions, it is worth highlighting tomato (-0.22pp), coconut (-0.21pp), lettuce (-0.10pp), kale (-0.10pp) and second-hand vehicles (-0.09pp).

The CPI Mozambique, which aggregates price indices of Maputo, Beira and Nampula cities, recorded a 0.34% negative monthly variation in June 2011, against an increase of 0.53% and 1.31% in May and June 2010. With this variation, the accrued inflation in the three cities was 3.25%, having the annual variation stood at 10% and the average annual inflation at 14.40%. The products whose prices had major negative contribution in the month, were tomato (-0.17pp), butter-bean (-0.12pp), coconut (-0.12pp), among others.

The Economic Climate Indicator showed signs of recovery in May 2011, after successive declining trend since January 2011. This inversion in the trend basically reflected the improvement observed in demand and employment expectation indicators. In terms of sectors, the performance of the Economic Climate Indicator showed the ascending trajectory in industrial production activity, including the production and distribution of electricity and water. The indicator of employment expectations proceeded with the optimistic tendency that began in March 2011, with optimism in employment forecasts in trade sectors, housing and restoration services, transports and other non financial services.

In the monetary sector, provisional data reported to May 2011 indicated that the stock of credit to the economy was 93,472 million Meticaís, revealing 17.0% annual expansion, after 17.7% in the preceding month and 53.0% in the similar period of 2010. The aggregate broad money (M3) recorded a stock of 129,385 million Meticaís, corresponding to a monthly contraction of 1,613 million Meticaís, explained, in part, by the increase in the component in national currency, in a global amount of 1,989.6 million Meticaís, softened by the reduction of credit in foreign currency by 1,143.8 million Meticaís. In annual terms, the expansion of the aggregate M3 has reduced to 12.5% in May 2011, after 13.7% in the preceding month. The moderate expansion of monetary and credit aggregates, in 2011, also reflects the Metical appreciation.

In June 2011, the stock of the end of the period of Base Money – monetary policy instrumental variable – stood at 30,630 million Meticaís, which reveals the deviation of 0.1% in relation to forecasts made for the period. There was a strong expansion of Money in Circulation in the period, by 785 million Meticaís, associated to the financing of agricultural commercialization campaign, especially for cotton and tobacco. In terms of daily average stock, the Base Money stood at 30,744 million Meticaís, equivalent to a 933 million Meticaís monthly increase. The interventions of the Banco de Moçambique in Interbank Money Market (MMI-acronym in Portuguese) resulted in net issuance of Treasury Bills worth 1,377 million Meticaís.

The preliminary stock of Net International Reserves stood at USD 2,095 million in June 2011, which represents a monthly accrual of USD 85.1 million, essentially justified by disbursements of external financial aid in the amount of USD 69.0 million. In the period, the net interventions of the Banco de Moçambique in the Interbank Foreign Exchange Market (MCI-acronym in Portuguese) resulted in net purchases of USD 7.1 million.

The Metical continued with its nominal appreciation trend in relation to the US Dollar, for the tenth consecutive month, as it traded in June last date at 28.64 Meticaís, after 29.73 Meticaís in May 2011. In annual variation terms, the national currency has recorded nominal gains of 17.01% until June 2011, after 11.81% in the preceding month. This tendency was also observed in commercial banks average exchange rate in their transactions with the general public, whose monthly appreciation stood at 3.38% in June 2011, having decreased to 28.53 MT/USD, after 29.62 MT/USD in the preceding month, corresponding to a 18.56% annual appreciation, after a depreciation of 35.97% in the similar period of 2010.

In the MMI, the average interest rates for Treasury Bills auctions remained unchanged in June 2011, at 16.45%, 16.48% and 16.49%, for 91, 182 and 364 maturity days, respectively. The average rate for liquidity swaps among credit institutions have increased in the period by 17bp, to 16.08%.

Information reported to May 2011 indicated that in the retail market the average interest rate for one-year maturity period loans has increased in the month by 16bp, to 23.11%, 4.32pp more in relation to the similar period of 2010. The average interest rate for one-year maturity period deposits has also increased in the month by 19bp, to 13.50%, 3.82pp more when compared to the similar period of 2010.

III. MONETARY POLICY DECISION

The Monetary Policy Committee took note of the alignment of financial results in the first semester of the year with the macroeconomic goals set for 2011, as well as the recent adjustment of fuel prices in the domestic market. Thus, considering the reported data and the prevailing risks in the domestic and external environment, the CPMO has decided to:

- Intervene in interbank markets in order to ensure that the stock of Base Money does not exceed 31,750 million Meticaís, at the end of July 2011.

The CPMO forthcoming meeting will be held on August 11, 2011.

Ernesto Gouveia Gove

Governor