

**MONETARY POLICY COMMITTEE**  
**PRESS RELEASE N° 08/2011**  
**Maputo, August 10, 2011**

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

**I. RECENT DEVELOPMENTS IN THE INTERNATIONAL AND REGIONAL ECONOMIES**

The Standard & Poors downgraded, on August 5, the long-term US debt rating from AAA to AA+, with a negative perspective, owing to the fact that the effectiveness, stability and predictability of the US economy has deteriorated, in the light of the fiscal consolidation challenges that the Administration and the Congress have ahead. The impact of this decision on the financial markets<sup>1</sup> are yet unpredictable, but the immediate reaction is the increased nervousness observed in the main international stock exchanges, with sharp declines in their prices, increased concern in relation to the US Dollar and reduction of oil price.

Within the Euro Zone, the sovereign debt crisis tend to expand through to Italy and Spain, after exceptional rescue measures taken for Greek, Ireland and Portugal, forcing the European Central Bank to intervene purchasing the government bonds of the most exposed countries, to calm the markets down and recover the Euro confidence.

In the most advanced economies, annual inflation witnessed mixed signs in June, having reduced in the United Kingdom and Japan to 4.2% and 0.2%, respectively, remained stable in the USA at around 3.6% and also reduced in the Euro Zone to 2.5%, according to the most recent information reported to July.

In July, the US Dollar maintained the weakening tendency vis-à-vis the main currencies traded in the international market, having depreciated by 11.2%, 9.5% and 4.5% against the Yen, Euro and Pound Sterling, respectively. The European Central Bank has revised its policy interest rate by 25bp, setting it at 1.5%, whereas other central banks of advanced economies kept their rates unchanged.

In the emerging market economies<sup>2</sup>, the tendency for annual inflation increase continued in June, as it moved to 6.7% in Brazil, 6.4% in China and 4.7% in South Korea. In India, inflation remained unchanged, although still at high levels (9.4%). In the light of this pressure, in July, the central banks decided to rise their policy interest rates, to 12.42% in Brazil, 7% in India, 6.56%

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<sup>1</sup> Which have the US Dollar, or instruments denominated in US Dollars, as one of the main reserve assets.

<sup>2</sup> Analyzed economies: Brazil, China, South Korea and India.

in China and 3.25% in South Korea. The US Dollar also appeared weak in relation to the currencies of this group of economies, as it depreciated in relation to the Won of South Korea (10.8%), Real of Brazil (10.6%), Yen of China (4.9%) and Rupee of India (4.7%).

In the SADC<sup>3</sup> economies, available information reported to July showed that annual inflation has reduced to 7.67% in Mozambique and remained at 9% in Zambia. The US Dollar continued to show mixed trends in relation to the currencies of this group of countries, having depreciated in annual terms against the Metical (22.03%), Rand (8.5%), Rupee of Mauritius (6.1%), Kwacha of Zambia (1.1%) and Kwacha of Malawi (0.3%). Whereas, in relation to the Shilling of Tanzania, Pula of Botswana and Kwanza of Angola, the US Dollar accrued annual gains of 4.9%, 4.5% and 0.8%, respectively.

The most recent information pointed out that, in June, the commodities' average prices in the international market showed mixed trends, where it is worth highlighting the monthly increase observed in the prices of sugar (14.1%), rice (3%), against the reduction recorded in the wheat price (7.9%). In the same period, the aluminum price rose 1.1%, whereas those of crude oil, maize and natural gas remained practically unchanged. In turn, preliminary data reported to the end of July 2011 indicated that, except the prices of sugar and rice that have risen in the month by 13.58% and 10%, respectively, those of the remainder commodities evolved downwards, having the prices of cotton and wheat decreased by 17.91% and 11%, respectively.

## **II. DEVELOPMENTS IN THE MOZAMBICAN ECONOMY**

According to the National Institute of Statistics (INE-acronym in Portuguese), in July 2011, the Consumer Price Index of Maputo City recorded a 0.05% positive monthly variation, triggering the cumulative inflation to 3.36%, 8.59pp less, when compared to July 2010. Given this monthly variation, annual inflation has reduced to 7.67%, after 9.28% in June of the current year and 16.11% in July of 2010, having the average annual inflation decreased to 14%, after 14.75% in the preceding month. As regards the performance of this indicator since the beginning of the year, it is worth highlighting the divisions of Foodstuff and Non-Alcoholic Beverages and that of Housing, Water, Electricity, Gas and other fuels, with price variations of 1.85% and 4.43%, which have contributed to the total cumulative inflation with 1.43 positive percentage points. In terms of products, the public higher education, charcoal, petrol, groundnuts, brown sugar, butter-beans and beef were the products whose price increase had greater impact on the total cumulative inflation, as they contributed with 2.25 points.

The CPI Mozambique, which aggregates indices of prices of Maputo, Beira and Nampula cities, recorded a 0.42% monthly increase in July 2011, resulting in a cumulative inflation of 3.68% and annual variation of 10.24%. The class of foodstuff and non-alcoholic beverages has contributed to the total cumulative inflation with nearly 1.32 positive percentage points. The charcoal, brown sugar, fresh, chilled or frozen fish, petrol, dry cassava, public higher education and diesel were the products whose price increase had greater impact on the total cumulative inflation, as they contributed with 2.24 positive percentage points.

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<sup>3</sup> Analyzed economies: South Africa, Angola, Botswana, Malawi, Mauritius, Mozambique, Tanzania and Zambia.

The INE also reported that the Economic Climate Indicator recovered in June 2011, influenced by the positive appreciation expressed by the respondents of Trade and Construction sectors and other Financial Services. In the same period, the Indicator of Employment Expectation has slowed down as a result of the more pessimistic employment forecasts expressed by the sectors of Industrial Production, Trade and Transports, which surpassed the favourable evaluations expressed in Construction, other non-financial services, Housing and Restoration.

The monetary sector preliminary data showed that the stock of credit to the economy reached 93,989 million Meticaís, in June 2011, revealing a deceleration in its annual expansion to 13.3% after 17% in the preceding month and 56.7% in the similar period of 2010. In the same period, the aggregate broad money (M3) recorded a stock of 129,784 million Meticaís, revealing an increase of 398 million Meticaís, when compared to May, basically influenced by the increase of deposits in Meticaís (2,320 million) and money in circulation (805 million), against the reduction of deposits in foreign currency to the tune of USD 42 million. The aggregate M3 annual expansion has decelerated to 9.5%, after 12.5% in the preceding month, which is justified, in part, by the impact of the Metical appreciation on deposits in foreign currency.

In July 2011, the stock of the end of the period of Base Money (31,026 million Meticaís) stood below the forecasts set for the period by 2.3%. In relation to June, this monetary aggregate recorded an increase of 396 million Meticaís, basically determined by the increase of Money in Circulation in the amount of 522 million Meticaís (2.7%). In terms of daily average in the month, the stock of Base Money stood at 31,142 million Meticaís in July 2011, reflecting an increase of 398 million Meticaís.

The preliminary stock of Net International Reserves stood at USD 2,240 million in July 2011, which represents a monthly increase of USD 145.23 million, reflecting the disbursement of external aid funds and the fact that commercial banks did not buy foreign currency in the Interbank Foreign Exchange Market (MCI-acronym in Portuguese), but conversely they sold a total amount of USD 55.2 million to the Banco de Moçambique, in order to balance their foreign exchange positions.

In July, the Metical appreciated again in relation to the US Dollar in the MCI, having the exchange rate stood at 27.86 Meticaís, after 28.64 Meticaís in June 2011, which corresponds to an annual variation of 22.03%. The tendency of the Metical nominal gains was also observed in other market segments, having the commercial banks average exchange rate in transactions with the general public stood at 27.51 Meticaís at the end of July, representing the Metical annual appreciation of 25.4%.

The spread between the commercial banks average rate and that of the exchange bureaux rose in July to 9.28%, as a result of the fact that their rates remained more rigid than those of the rest of the market segments, a situation that is not at all dissociated from the entry into force, on July 11, of the Foreign Exchange Law Regulation, which limits the operations of the exchange bureaux to individuals.

In the Interbank Money Market, the interest rates for Treasury Bills auctions recorded a mixed trend in July 2011, having reduced to 16.4% for 91 maturity days and remained at 16.5% for both 182 and 364 maturity days. The average rate for liquidity swaps among credit institutions has decreased to 15.9%.

In turn, information reported to June 2011 indicated that, in the retail market, the average interest rate for one-year maturity period loans has reduced by 0.47pp, to 22.65%, which corresponds to an increase of 0.98pp in relation to the similar period of 2010. In the same month, the average interest rate for one-year maturity period deposits stood at 13.77%, 0.32pp more in relation to May and 3.80pp when compared to the similar period of 2010.

### **III. MONETARY POLICY DECISION**

The Monetary Policy Committee considered the most recent signs of the sovereign debt crisis in the USA and Euro Zone countries and the increasing volatility of commodities and foodstuff international prices, in the light of aftermaths that these events may cause in economies with characteristics similar to those of Mozambique, with high external dependence and exposed more to exogenous shocks.

Despite the aforementioned risk factors, the indicators of the Mozambican economy are favourable. Nevertheless, there are important challenges prevailing in some sectors with significant weight in the growth of the Gross Domestic Product.

Therefore, respecting the goals of economic growth and the medium and short term forecasts, the CPMO has decided to:

- Cut the Standing Lending Facility interest rate by 50 basis points, to 16.0%.
- Cut the coefficient of Reserve Requirements by 25 basis points, to 8.75%, with effects from the period of constitution that starts on August 22;
- Intervene in the interbank markets, in order to ensure that the Base Money stands at 32,500 million Meticaís, at the end of August 2011.

The CPMO forthcoming meeting will be held on September 12, 2011.

Ernesto Gouveia Gove  
Governor