



**MONETARY POLICY COMMITTEE
COMMUNIQUE N. ° 03/2018
Maputo, June 18, 2018**

The Monetary Policy Committee (MPC) of the Bank of Mozambique, gathered today, has decided to cut the key lending rate, the MIMO rate, by 75 basis points to 15.75 per cent.

Additionally, it kept the Standing Lending Facility (SLF) at 18.0%, as well 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%, reducing the Standing Deposit Facility (SDF) by 50 basis points to 12.00%

Maintaining the stability of inflation and medium-term projections that continue to point to inflation around one digit, justifies the continuation of interest rates reduction by the MPC initiated in April 2017.

Recent data for May 2018 indicates that inflation, measured by the change of the Consumer Price Index (CPI) of Mozambique, remained low and stable, around 3.26%, from 2.33%, in April, and 20.45% in the same period of 2017. The upward adjustment of transport and liquid fuel prices led to a positive monthly CPI change (0.53%). Excluding the prices of administered products, annual inflation was below the change general index, at 1.03%, reflecting the impact of this price category in inflation evolution this year.

Economic growth remains moderate. Data on the Gross Domestic Product (GDP) for the first quarter of 2018 indicate that economic activity grew by 3.2%, year-on-year, compared to 4.5%, in the same period of 2017. The performance of the activity was led by agriculture, extractive industry, public administration as well as trade and repair services. Contrary to what happened in the same period of last year, where the economic activity of several sectors slowed down, in the first quarter of 2018 all sectors registered positive changes, with the exception of electricity and water, with a negative change of 1.8%

However, in April, the economic climate index, which is a leading indicator of economic activity, improved. This behavior reflects the optimism of the entrepreneurs interviewed regarding the prospects of employment and demand, especially those in the transport and trade sectors.



Retail interest rates display a timid reaction to the MIMO rate fall, and credit to private sector remains stagnant in an environment of continuous increase of internal public debt.

The one-year average retail interest rates declined by 3.2 pp to 28.69%, in April, compared to last December. On the other hand, the prime rate of the banking system, for June, was 22.50%, after 27.25%, at the end of 2017. Meanwhile, bank credit to the private sector continues stagnant.

Public deficit worsened causing an increased pressure on domestic financing. Data on the public accounts, for the first quarter of 2018, point to the worsening of the public deficit when compared with the same period last year. This deficit was covered by the use of domestic net financing of around MZN 4,343 million (46% of the deficit), and through external aid for investment projects. It should be noted that the external debt repayment, which almost doubled in relation to the first quarter of 2017, contributed to the worsening of the deficit, amounting to 8,489 million Meticaís.

Data for May point to an increase in the balance of domestic public debt, in the form of securities and down payments in the BM to MZN 105,557 million, an increase of MZN 9,975 million since the beginning of the year. It should be noted that the above amount does not take into account other internal public debt amounts such as mutual agreements, leasing agreements and responsibilities on arrears.

The increase in external demand continues to favor the performance of the export sector.

Provisional data for the first quarter of 2018 show that the deficit in the goods account decreased by USD 113 million, when compared to the same period of 2017, due to the increase of exports by USD 194 million with an emphasis on the increase in exports of aluminum, coal, electric cables, heavy sands and rubies, against an increase of imports by USD 82 million. However, the current account deficit increased by USD 153 million to USD 964 million reflecting, mostly, the payment of services by large foreign direct investment projects.

The domestic currency appreciated vis-à-vis the main currencies in the domestic exchange market in a context of greater supply of foreign exchange.

Despite the trend of US dollar strengthening in the international market, the Metical appreciated vis-à-vis this currency, returning to the levels registered at the close of 2017. Thus, after registering an average rate of MZN 60.98, on April 10, the average exchange rate applied by commercial banks with the public stood at MZN 59.38, at the close June 15. In the same period, the ZAR price went from MZN 5.05 to MZN 4.49.

This behavior partly reflects the increase of liquidity in foreign currency in the second quarter, with the BM registering net purchases of foreign currency from the banking system, thus contributing to the restitution of international reserves, increasing the balance to USD 3,235



million, amount enough to cover 7.0 months of imports of goods and services, excluding projects transactions.

The restricted liquidity of the banking system displays a growing trend. Since the last MPC, free reserves of the banking system tend to increase in a context of BM's foreign exchange purchases in the International Foreign Exchange Market (IFEM) and low demand for treasury bills and other longer-term instruments. The absorption of surplus liquidity was made, predominantly, with the use of reverse repo overnight.

Economic conditions continue to favor the projection of low and stable inflation in the medium term, however associated risks that require prudence in the conduct of monetary policy persist.

Internally, the risk associated with the sustainability of public debt persists, as well as the uncertainties regarding the evolution of the prices of administered goods. The external component highlights the risks associated with recent trade tension between the major economies, as well as the volatility of the US dollar and commodity prices in the international market, highlighting the oil price.

Considering the short and medium-term inflation outlook and the underlying risks, the MPC decided to:

- ✓ Reduce, with immediate effect, the monetary policy interest rate, MIMO rate, by 75 basis points, to 15,75%;
- ✓ Keep the Standing Lending Facility (SLF) at 18,00%;
- ✓ Reduce the interest rate for the Standing Deposit Facility (SDF) by 50 basis points to 12.00%;
- ✓ Keep the reserve requirement for liabilities in domestic currency at 14.0%;
- ✓ Keep the reserve requirement 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 August 30, 2018.

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Governor