



**MONETARY POLICY COMMITTEE
PRESS RELEASE Nº 06/2012
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The Monetary Policy Committee of the Banco de Moçambique (CPMO – acronym in Portuguese) convened today, in its sixth ordinary meeting of the current year, to consider the most recent economic and financial developments worldwide and the evolution of the key macroeconomic indicators in Mozambique, with emphasis on inflation and its short and medium term trends, the performance of the monetary and credit aggregates and the available indicators of the real and external sector, in order to take the most appropriate monetary policy measures in the context of the economic and financial program set for the year. The Committee's evaluation focused on the information of the indicators thereof reported to April and May 2012.

I. RECENT DEVELOPMENTS IN THE REGIONAL AND INTERNATIONAL ECONOMIES

The preliminary estimates of economic growth in the most advanced economies reported to the first quarter of 2012 showed that Gross Domestic Product (GDP) was far behind the rate recorded in the similar period of last year. This indicator has recorded a moderate growth in the United States of America of 1.9%, against the initial estimates of 2.1%, while in the Euro Zone countries it has stagnated whereas in the United Kingdom it has contracted 0.2%, against the initial expectations of null variation. On the contrary, the Japanese economy has recorded GDP growth of 2.7%, after a sharp decline observed last year owing to the effects of natural disasters that have plagued that country. In turn, data reported to April showed an overall tendency for annual inflation deceleration in every economy within this group of countries, specifically, to 2.3% in the United States of America, 2.6% in the Euro Zone, 0.4% in Japan and 3.0% in the United Kingdom. Such as observed in April, the Euro and the Pound Sterling accrued nominal losses again, in May, in relation to the US Dollar. The concerns in relation to employment market have dominated attentions in the Euro Zone countries and United States of America in the light of rising unemployment to 11% and 8.2%, respectively. Likewise, the fiscal consolidation and the future of Euro are strongly dependent on the course of events in Greece that have moved to other economies.

In the emerging market economies¹, preliminary data reported to the first quarter of 2012 showed a GDP annual growth similarly moderate in Brazil, Russia and India, by 0.8%, 4.9% and 5.3%, respectively. The annual inflation has followed the tendency observed in advanced economies, as it decelerated in April 2012, to 5.1% in Brazil, 3.6% in Russia and 3.4% in China, except in India. All currencies of this group of countries have accrued nominal losses against the US Dollar, having, however, the Yuan of China reversed this tendency as it appreciated in relation to the US Dollar. Except the Central Bank of Brazil that has revised its policy interest rate downwards for the third consecutive month, this time by 50 basis points (bp), to 8.50%, the remainder central banks have kept their policy interest rates unchanged.

¹ Economias analisadas: Brasil, Rússia, China e Índia.



In the SADC economies², the first estimates of GDP in South Africa reported to the first quarter of 2012 showed an annual growth of 2.1%, 70bp less in relation to the growth rate recorded in the last quarter of 2011. The average harmonized inflation for the SADC countries shows an acceleration of this indicator to 8.2% in April 2012, as a result of the increase observed in South Africa to 6.1%, in Malawi to 12.4% and in Zambia to 6.5%, against the reductions in Angola to 10.8%, in Botswana to 7.5%, in Mauritius to 5.6% and in Mozambique to 2.5%. The most recent data reported to May showed a rising inflation in Zambia to 6.6% and a deceleration in Mozambique to 1.6%.

In the foreign exchange market, in May, the currencies of the region maintained the annual depreciation tendency in relation to the US Dollar, especially the Rand, which has depreciated 24.8%, Pula 19.8%, Kwacha of Zambia 12.9% and Kwacha of Malawi 77.5%, whereas the Metical has reversed the trend, as it recorded a nominal appreciation of 6.4%, even though, below the rates of the preceding periods. The Treasury Bills average interest rates for 91 maturity days showed a mixed trend in May, as they remained unchanged in South Africa (5.6%) and Tanzania (13.8%), and decreased in Angola (3.53%), Botswana (5.28%), Mauritius (3.3%), Zambia (6.49%) and Mozambique (5.96%) and, increased in Malawi (14.8%).

The average prices of the main commodities with significant weight in the balance of payments of Mozambique showed a mixed trend in the international market in April 2012, when compared to the previous month. In effect, the prices have risen for gas (0.5%), rice (1.5%) and cotton (0.6%) and reduced for Brent (5.0%), aluminum (6.2%), gold (1.6%), sugar (5.5%), maize (2.3%) and wheat (6.2%). On the last day of May, Brent price stood at USD 108.83 per barrel and on June 8, it was quoted at USD 105.58 (in a few days in June, Brent was traded below the psychological barrier of USD 100 per barrel).

II. DEVELOPMENTS IN THE MOZAMBIKAN ECONOMY

Data released by the National Institute of Statistics (INE – acronym in Portuguese) reported to May 2012 showed that the overall prices in Maputo city has recorded, for the third consecutive month in the year, a monthly negative variation of 0.44%, after a reduction of 0.12% in April (in February, the variation was negative by 0.49%). The class of foodstuff and non-alcoholic beverages has largely contributed to inflation trend observed in the month, as it reduced 34bp, followed by the class of housing, water, electricity, gas and other fuels, with 8bp. The products whose prices had major impact on inflation reduction were fresh fish, tomato, charcoal, coconut and cabbage. As a result of this monthly negative variation, the cumulative inflation measured by the Consumer Price Index (CPI) of Maputo city has decreased to 0.10% in May 2012, after 0.55% in the previous month, having the annual inflation fallen to 1.62% in May, after 2.54% in April, while the average annual inflation has decelerated to 5.55% in May, after 6.36% in April.

² Economias analisadas: África do Sul, Angola, Botswana, Malawi, Maurícias, Moçambique, Tanzânia e Zâmbia.



The CPI - Mozambique, indicator that incorporates indices of prices of Maputo, Beira and Nampula cities, followed the trend of the CPI of Maputo city, as it recorded a 0.53% negative variation in May 2012, after a 0.24% reduction in April. The trend observed in CPI Mozambique results from the reduction of prices in the three cities, namely Maputo (0.44%), Beira (1.00%) and Nampula (0.43%). In cumulative and annual terms, the CPI - Mozambique has moved from positive variation of 0.36% and 3.37% in April, to a negative of 0.17% and positive of 2.28% in May 2012, respectively, having the average annual inflation decelerated to 6.82% in May, after 7.62% last April.

Information also released by the INE showed that the economic climate indicator fell in April 2012, after an increase in the preceding two months, as a result of more pessimistic employment and demand expectations in comparison with the previous month and yet the negative evaluation expressed by respondents of all inquired sectors, except the construction whose confidence indicator has improved in relation to the preceding month.

In the monetary sector, provisional data reported to May 2012 showed that the stock of base money, monetary policy operational variable, has amounted to 32,783 million meticaís, 1,488 million meticaís below the forecasts set for the period. This stock corresponds to an expansion of 547 million meticaís (1.7%) in relation to the previous month, explained by the increase of banknotes and coins in circulation by 1,024 million meticaís (5.3%), deriving from the beginning of tobacco commercialization campaigns, softened by the reduction of bank reserves by 477 million meticaís (3.7%). The stock of base money recorded in May 2012 has expanded 8.8%, when compared to the similar period of last year.

The monetary accounts statistical information reported to April 2012 showed that the private sector indebtedness within the national banking system stood at 98,402 million meticaís, representing a monthly reduction of 606 million meticaís (0.6%), triggering its variation to represent, in cumulative terms, an increase of 229 million meticaís (0.2%) and, a growth slowdown to 4.5% in April 2012, when compared to the similar period of 2011.

Preliminary data reported to May 2012 showed a monthly constitution of USD 104.5 million of net international reserves, to a stock of USD 2,259.3 million, resulting basically from disbursements of external funds for budget support, in the form of loans, amounting to USD 108.8 million, net purchases made by the Banco de Moçambique in the Interbank Foreign Exchange Market amounting to USD 38.4 million and commercial banks net deposits at the Banco de Moçambique amounting to USD 20.9 million. The improvement of net international reserves was softened by potential foreign exchange losses of USD 71.1 million. The stock of gross international reserves of the end of May 2012 corresponds to 5.0 months of import coverage of goods and non-factorial services.

In the Interbank Foreign Exchange Market (MCI-acronym in Portuguese), the Metical exchange rate in relation to the US Dollar stood at 27.83 Meticaís, on the last day of May 2012, after 27.53 Meticaís at the end of the preceding month, which represents a monthly and cumulative nominal depreciation of 1.1% and 2.5%, respectively, and an annual appreciation of 6.4%. In annual variation terms and in relation to the Rand, the Metical continues to accumulate nominal



gains of 22.6%. The spread between the average exchange rates applied by commercial banks in operations with their customers and those quoted in the MCI has increased to 1.17% in May, after 0.62% in April, while the spread between the average exchange rates applied by bureau of exchange and the rates quoted in the MCI has decreased to 3.13% in May 2012, after 4.47% recorded in the preceding month.

In the Interbank Money Market, the Treasury Bills average interest rates continued to decelerate in May 2012, in comparison with the preceding month, having stood at 4.07%, 5.96% and 6.87% for 91, 182 and 364 maturity days, respectively. The average interest rate for liquidity swaps amongst financial institutions has reduced to 5.0%. In turn, the average interest rate paid by commercial banks for one-year time deposits stood around 12.84% in April, after 12.88% in the preceding month, while the average interest rate for one-year repayment period loans granted by the same institutions remained around 22.97% in April. The average prime rate of the banking system stood at 18.93%.

III. MONETARY POLICY DECISION

The Monetary Policy Committee has taken note of the relative worsening of the prevailing risks in the global economy, marked either by the slowdown in economic growth either by continuing uncertainty in relation to the resolution of sovereign debt crisis in the Euro Zone, without neglecting the volatility observed in the markets worldwide.

Likewise, the Committee also considered the trends of inflation in the short and medium term and of other macroeconomic indicators in the Mozambican economy and has concluded that proper conditions continue to exist in order to maintain the monetary policy accommodative stance for further expansion of bank financing to private sector, respecting the economic growth and inflation goals set for the current year.

In this context, the Monetary Policy Committee has decided to:

- Intervene in interbank markets in order to ensure that the stock of base money does not surpass 36,783 million Meticaís set for the end of June 2012;
- Revise the Standing Lending Facility interest rate downward by 100 basis points, to 12.50% per annum;
- Maintain the Standing Deposit Facility interest rate unchanged at 3% per annum;
- Cut the Reserve Requirements ratio by 25 basis points, to 8%, with effects from the period of constitution that begins on July 7, 2012.

The CPMO forthcoming meeting will be held on July 11, 2012.

Ernesto Gouveia Gove
Governor