



**MONETARY POLICY COMMITTEE
COMMUNIQUE No. 02/2020
Maputo, 16 April 2020**

Policy rate reduced by 150 basis points to 11.25%

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to cut the key interest rate (MIMO) by 150 basis points (bp) to 11.25%. This decision was underpinned by the significant downward revision of inflation prospects for the medium term, in a context of pronounced decline in aggregate demand, deriving from the impact of COVID-19 on the domestic and international economy.

The Committee has also decided to cut the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) rates by 150 bp, to 8.25% and 14.25%, respectively, and keep the Reserve Requirement ratio for liabilities in domestic and foreign currency unchanged at 11.50% and 34.50%, respectively.

The current inflation projection is considerably lower when compared to last February. The projection of a low inflation stems from the sharp decline in domestic demand, in a scenario of extending the restrictive measures imposed by the State of Emergency, as well as the prospects of reducing the price of Brent in the international market. In March 2020, Mozambique's annual inflation slowed to 3.09%, from 3.55% in the previous month.

Economic growth prospects for 2020 are worsening and post-cyclone recovery efforts are slowing down. The economic impact of COVID-19 are expected to be severe in Mozambique, considering that the economy is already weakened due to the effects of cyclones Idai and Kenneth as well as the military instability in the northern and center regions of the country. The combination of these factors will lead to a downturn in the extractive and manufacturing industries, transport, trade and services, as well as hotels and restaurants, accounting for 58 % of the Gross Domestic Product (GDP). The prospects for a good performance in agriculture, a sector with an average weight of 25% over the GDP, may not be sufficient to cushion the negative impacts on the remaining sectors of the economy.

Monetary policy has enough room to continue supporting other country's policies in mitigating the impact of COVID-19. The inflation outlook continues to improve and the country's international reserves, of approximately USD 3.900 million, are at comfortable levels, sufficient to cover more than 6 months of imports.



More pressure is expected on public spending. The recent debt service relief of around USD 15 million by the International Monetary Fund will be redirected to the fight against COVID-19, but the high needs of the economy may imply greater pressure on public expenditure, in a context of sharp contraction in public revenue. Since the last MPC session in February, domestic public debt, excluding loans and leasing contracts and past due liabilities, has increased from 155.256 million to 160.756 million meticaís, reflecting mainly the issuance of Treasury bonds.

For the short to medium term, the MPC's concern regarding the impact of COVID-19 on economic activity increases. Therefore, the Committee will continue to monitor the economic and financial indicators as well as the risk factors and their impact on inflation prospects and economic activity, and may take the necessary corrective measures before its next ordinary meeting, scheduled for 17 June 2020.

Rogério Lucas Zandamela

Governador