March 2025
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ECONOMIC OUTLOOK AND INFLATION FORECASTS

ECONOMIC OUTLOOK

AND INFLATION FORECASTS

March 2025

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[1] Internal and/or external guests may also participate in Monetary Policy Committee meetings, whenever necessary, at the invitation of the body's Chairman.

Foreword

The primary mandate of the Banco de Moçambique (BM) is to maintain price stability, so as to ensure the purchasing power of citizens. This implies keeping inflation low, at one digit, and stable in the medium term. The mandate to make this objective possible is exercised by the Monetary Policy Committee (MPC), a body composed of the Governor, Deputy Governor, BM Board Members, and permanent guests. The BM is also responsible for the supervision and stability of the financial system.

Price stability also fosters balanced and sustainable economic growth. Price stability reduces the degree of uncertainty of economic agents and makes it possible to ensure more attractive interest rates, enabling a favorable macroeconomic environment for savings and investment.

In order to ensure price stability, the MPC sets the monetary policy interest rate, referred to as the Mozambique Interbank Money Market Rate (MIMO). This rate, introduced on April 17, 2017, signals the monetary policy stance and serves as an anchor for operations in the Interbank Money Market. It is expected that, through its influence on overnight interest rates formed in this market, the MIMO rate will affect inflation through the expectations, exchange rate and credit channels.

The decision on the MIMO rate is primarily based on inflation projections, always weighing the risks and uncertainties associated with such projections and the economic outlook. The MPC recognizes the delayed effect of its monetary policy decisions on the economy. Therefore, its monetary policy stance is based on the assessment of the economic and financial outlook, and its risks and uncertainties, over at least eight quarters. Where inflation projections deviate materially from the primary monetary policy objective set for the medium term, the MPC shall take appropriate policy measures to reverse the trend.

The MPC convenes ordinarily once every two months, and extraordinarily whenever economic conditions so require. The schedule of regular MPC meetings is announced at the beginning of each year. However, the body may convene extraordinarily to deliberate on monetary policy aspects, whenever macroeconomic circumstances so dictate.

The BM values transparency in the communication of its monetary policy. Monetary policy decisions are announced publicly through an MPC Communiqué and a press conference, when called, led by the BM Governor, on the same day as the committee meeting.

The Economic Outlook and Inflation Forecasts (CEPI) Report is an additional means for communicating the Monetary Policy Committee's (MPC) decisions. The CEPI report discloses the factors and rationale behind measures taken by the MPC, broadening the public's understanding of the objectives and conduct of monetary policy.

Rogério Lucas Zandamela

Governor

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Decisions of Session No. 2 of the Monetary Policy Committee, of March 26, 2025

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to reduce the policy rate, the MIMO rate, from 12.25% to 11.75%. This measure is mainly driven by the continued outlook for single-digit inflation over the medium term, despite the increasing uncertainties related to the effects of the worsening fiscal risk.

Prospects of single-digit inflation remain in place over the medium term. In February 2025, annual inflation stood at 4.74%, following 4.69% in January. Core inflation, which excludes fruits and vegetables and administered prices, remained stable. Prospects of single-digit inflation remain in place over the medium term, mainly reflecting the stability of the Metical and the impact of measures taken by the MPC.

Moderate economic growth is expected in the medium term, excluding liquefied natural gas (LNG). In the fourth quarter of 2024, gross domestic product (GDP), excluding LNG, is estimated to have contracted by 3.1%, following a 2.8% in the previous quarter. Including LNG, GDP contracted by 4.9%, following a 3.7% growth in the previous quarter. In the medium term, economic activity, excluding LNG production, is expected to gradually recover, despite uncertainties regarding the impacts of climate shocks on agricultural production and various infrastructure, and the effects of post-election tension on economic sectors.

Pressure on domestic public debt continues to worsen. Domestic public debt, excluding loan and lease agreements and overdue liabilities, stands at 447.2 billion meticais, accounting for a 31.7 billion increase compared to December 2024.

Money market interest rates continue to decrease. The reference lending interest rate, the Prime Rate, continues to decrease, in line with monetary policy decisions. A similar trend is observed in the interest rates applied by banks to their customers. Meanwhile, credit to the economy increased by 5.7% from January 2024 to January 2025.

The risks and uncertainties associated with inflation projections have increased. Key factors that could contribute to rising inflation in the medium term include the impacts of worsening fiscal risk, in the context of increasing challenges to mobilize financial resources for the State Budget, as well as the effects of climate shocks and post-election tension on the prices of goods and services.

The MPC will continue the process of normalizing the MIMO policy rate over the medium term. The pace and magnitude will continue to depend on inflation outlooks, as well as the assessment of the risks and uncertainties underlying medium-term projections.

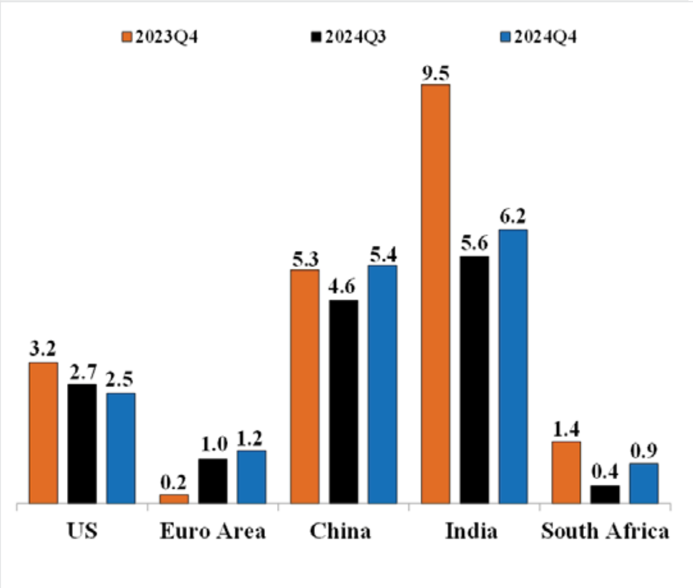
The next MPC meeting is scheduled for May 28, 2025.

Rogério Lucas Zandamela
Governor

Chapter I. Recent Developments in the International Economy and Forecasts

According to the January 2025 edition of the World Economic Outlook published by the International Monetary Fund (IMF), the global economic outlook for 2025 and 2026 indicates continued growth at levels similar to 2024, along with a trend of slowing inflation. Meanwhile, global risks and uncertainties remain high, particularly due to potential impacts from tariff bottlenecks imposed by the Donald Trump administration, the ongoing Russia-Ukraine conflict, and climate-related shocks.

Chart 1-1: Annual Real GDP Growth (%)



Source: *Trading Economics*

1.1. Economic Activity and Inflation

In the fourth quarter of 2024, economic activity expanded in advanced economies as well as in emerging and developing markets.

In the United States of America (USA) and the euro area, annual GDP growth stood at 2.5% and 1.2%, respectively. In both economies, growth was primarily driven by increases in public spending and household consumption, against a backdrop of gradually falling interest rates (Chart 1-1).

Among emerging market and developing economies, China recorded growth of 5.4%, mainly supported by continued economic stimulus measures. Similarly, India stood out, with a growth rate of 6.2%, while South Africa registered more modest growth at 0.9% (Chart 1-1).

Table 1-1: Annual GDP Growth Projections – 2025 and 2026 (%)

	Estimate	Projection		Difference from Oct./24 WEO	
	2024	2025	2026	2025	2026
World Output	**3.2**	**3.3**	**3.3**	**0.1**	**0.0**
Advanced Economies	**1.7**	**1.9**	**1.8**	**0.1**	**0.0**
United States	2.8	2.7	2.1	0.5	0.1
Euro Area	0.8	1.0	1.4	(0.2)	(0.1)
Germany	(0.2)	0.3	1.1	(0.5)	(0.3)
Japan	(0.2)	1.1	0.8	0.0	0.0
United Kingdom	0.9	1.6	1.5	0.1	0.0
Emerging Market & Developing Economi	**4.2**	**4.2**	**4.3**	**0.0**	**0.1**
China	4.8	4.6	4.5	0.1	0.4
India	6.5	6.5	6.5	0.0	0.0
Brazil	3.7	2.2	2.2	0.0	(0.1)
Sub-Saharan Africa	**3.8**	**4.2**	**4.2**	**0.0**	**(0.2)**
South Africa	0.8	1.5	1.6	0.0	0.1

Source: IMF, World Economic Outlook (January 2025)

As per the World Economic Outlook, the outlook for 2025 and 2026 points to a stability of global economic growth at 2024 levels.

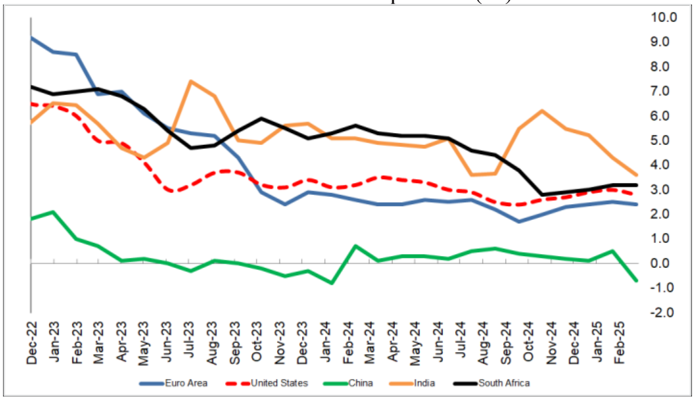
The outlook for 2025 points to global growth of 3.3%, mainly explained by the upturn in economic activity in Germany, Japan, the United Kingdom, and all sub-Saharan African countries (Table 1-1).

However, it is worth noting that the present projection of global economic growth for 2025 and 2026 exceeds that published in October 2024 edition by 10 bp (Table 1-1).

In February 2025, annual inflation slowed in both advanced and emerging market economies, while some rigidity remains in advanced economies.

In the US, annual inflation slowed to 2.8% from 3.0% the previous month, supported by lower

Chart 1-2: Annual Inflation Developments (%)



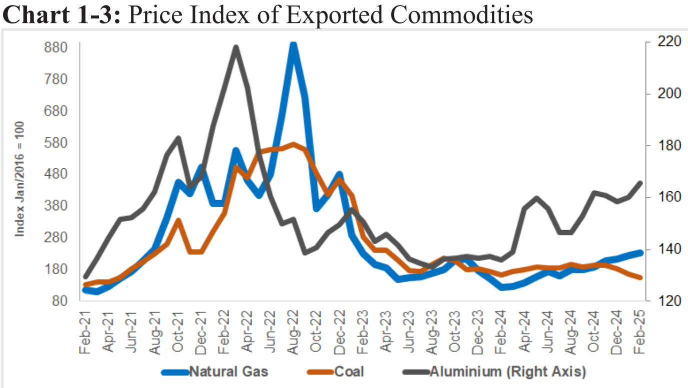
Source: *Trading Economics, 2025*

Table 1-2: Average Annual Inflation Outlook (%)

Region	Estimate	Projection		Dif. From Oct./24 WEO	
	2024	2025	2026	2025	2026
World	5.7	4.2	3.5	(0.1)	(0.1)
Advanced Economies	2.6	2.1	2.0	0.1	0.0
Emerging Market & Developing Economies	7.8	5.6	4.5	(0.3)	(0.2)

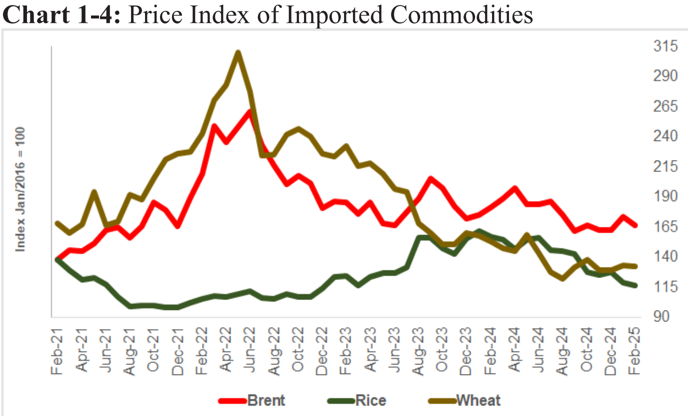
Source: IMF, World Economic Outlook (January 2025)

Chart 1-3: Price Index of Exported Commodities



Source: *IMF Primary Commodity Index* (March 2025*)*

Chart 1-4: Price Index of Imported Commodities



Source: *IMF Primary Commodity Index* (March 2025*)*

energy and fuel prices. A similar trend was seen in the euro area, where annual inflation stood at 2.4%, following 2.5% in January, reflecting the drop in prices for energy and various services (Chart 1-2), and India, where annual inflation stood at 3.61%, following 4.31% in January, mainly reflecting lower food prices.

Meanwhile, China experienced annual deflation of 0.7%, underpinned by a decline in the price of food, transport, education, and core inflation, while in South Africa inflation remained stable at 3.2% (Chart 1-2).

The outlook for a global inflation slowdown for 2025 and 2026 remains unchanged. This behavior reflects the combined effects of the prevalence of tight monetary conditions, particularly in advanced economies, and lower energy prices (Table 1-2).

1.2. Prices of Key Commodities

The prices of the main commodities traded by Mozambique, except for thermal coal, increased year-on-year.

Among the export goods, in February 2025, the increase in the prices of aluminum (21.9%) and natural gas (85.9%) is prominent, compared to a reduction in the price of thermal coal (-5.8%) compared to the same period of the previous year (Chart 1-3).

Also noteworthy is the drop in the price of most import commodities, particularly brent (-8.1%), rice (-25.5%) and wheat (-13.3%) (Chart 1-4).

Chapter II. Recent Developments in the Domestic Economy and Near-Term Prospects

In the fourth quarter of 2024, real GDP fell by 4.9% year-on-year, following a 3.7% growth in the previous quarter. Excluding LNG, GDP contracted 3.1%, following a 2.8% growth observed in the previous quarter. The fall in economic activity in the quarter mainly reflects the impact of post-election tensions on most sectors of activity. In the first quarter of 2025, real GDP, excluding LNG production, is expected to continue to decline, but at a slower pace.

In February 2025, annual inflation accelerated to 4.74%, mainly reflecting the increase in prices of meals and drinks in restaurants, cafés, and similar establishments. The near-term outlook points to a slight acceleration in annual inflation, essentially reflecting the base effects. Inflation is expected to slow month-on-month, but will remain higher than in the same period in 2024.

Table 2-1: Real GDP by Sector - Annual Change (%)

Sectors	2023	2024			
	Year	Q3	Q4	Contr./ Q4 (pp)	Year
Primary Sector	**12.2**	**6.4**	**-4.8**	**-1.5**	**3.8**
Agriculture	3.9	2.2	1.6	0.2	2.1
Fishing	2.8	0.9	-5.0	-0.1	1.2
Mining	34.1	13.6	-10.1	-1.6	7.4
Secondary Sector	**-2.8**	**-0.7**	**-8.9**	**-1.2**	**-2.1**
Electricity, Gas and Water	2.9	-3.3	-4.5	-0.1	-1.6
Manufacturing	-4.6	-0.2	-11.1	-1.0	-2.6
Construction	-3.4	2.5	-4.1	-0.1	-0.8
Tertiary Sector	**3.1**	**2.8**	**-3.8**	**-1.7**	**1.2**
Trade and Services	0.1	2.8	-10.6	-1.1	-1.0
Accommodation and Catering	7.5	6.8	-14.7	-0.2	-0.1
Transport and Communication	3.9	3.1	-7.6	-0.9	0.1
Financial Services	4.6	-1.0	-0.5	0.0	1.2
Public Adm. Education and Health	3.6	2.9	2.7	0.3	2.9
Other Sectors	3.5	4.3	4.7	0.2	4.9
GDP at factor cost	**6.0**	**3.9**	**-4.9**	**-4.3**	**1.9**
Tax on products	0.9	1.7	-4.5	-0.6	1.2
GDP	**5.4**	**3.7**	**-4.9**	**-4.9**	**1.9**

Source: INE

Table 2-2: Domestic Public Debt (Millions of Meticais) *

Domestic Public Debt (in MZN million)					
	Use of T-Bills	Treasury Bonds	In the BM	Total Debt	Debt as % of GDP
Dec - 2020	39,889	61,817	54,267	155,973	14.7%
Dec - 2021	34,672	66,317	54,267	155,256	14.7%
Dec - 2022	69,872	142,056	63,186	275,114	22.8%
Dec - 2023	85,536	155,490	71,314	312,341	23.3%
Mar – 2024	94,107	168,604	88,080	350,791	24.9%
Dec – 2024	130,511	178,899	106,146	415,556	29.5%
Jan – 2025	135,595	178,899	123,141	437,635	28.0%
Feb - 2025	142,595	173,247	125,441	441,283	28.3%
Mar – 2025	149,995	171,791	125,441	447,227	28.7%
Flow (Dec/24 - Mar/25)	**19,484**	**-7,108**	**19,295**	**31,671**	

Source: BM and BVM
* Data updated until March 24, 2025

2.1. Near-Term Economic Activity

Real GDP contracted by 4.9% in the fourth quarter of 2024 year-on-year, following a 3.7% growth in the previous quarter. Extractive industry, trade and services, manufacturing and transport and communications, were the sectors that contributed most to the contraction of economic activity in the quarter (Table 2-1).

Cumulatively, GDP grew by 1.9% in 2024, compared to 5.4% in 2023.

In the first quarter of 2025, excluding LNG production, real GDP is expected to continue falling, albeit at a slower pace, reflecting an economy undermined by the destruction of various infrastructures during the post-election tensions and the impact of climate-related shocks. From the second quarter onwards, the gradual recovery of economic activity is expected to resume.

2.2. Domestic Public Debt

Pressure on domestic public debt continues to worsen. Between December 2024 and March 2025, the stock of domestic public debt, excluding that arising from loan and lease agreements and overdue liabilities, increased by approximately 31,671 million meticais, standing at 447,227 million meticais at the end of March 2025 (Table 2-2).

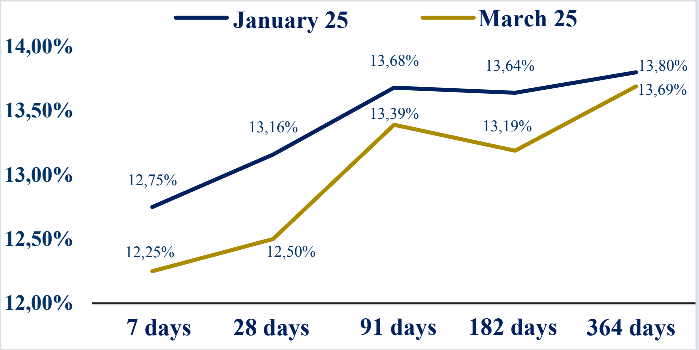
Box 1 : Monetary and Financial Developments

I. Interest Rate Developments

a) Money Market Interest Rates

Downward shift of the money market yield curve between January and March 2025. Interest rates across all maturities fell between 11 bp and 66 bp, in line with the reduction of the MIMO policy rate (Chart 1).

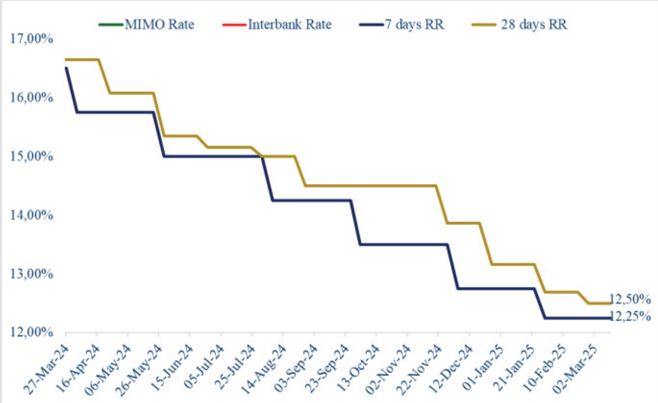
Chart 1: Money Market Yield Curve



Source: BM

Interest rates for shorter maturities continue to lean downwards. MIMO policy rates, effective MIMO rate (overnight swaps) and sale of treasury bills (T-Bills) with repurchase agreement (reverse repo) of 7 days decreased by 50 bp to 12.25%. Meanwhile, the 28-day reverse repo rate stood at 12.50%, equivalent to a reduction of 66 bp (Chart 2).

Chart 2: IMM Interest Rate Developments

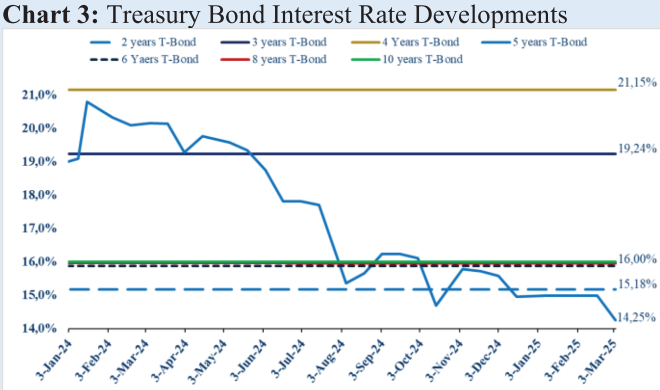


Source: BM

b) Treasury Bond Interest Rates

Between January and March 2025, the state issued 5-year treasury bonds (T-Bonds), with the weighted average interest rate falling by 74 bp to 14.25% (Chart 3).

Chart 3: Treasury Bond Interest Rate Developments

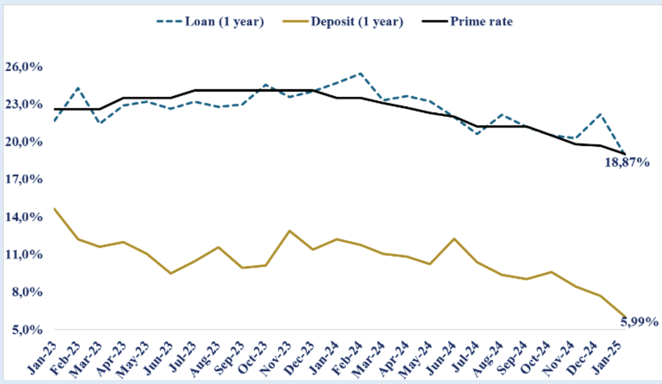


Source: BM

c) Retail Interest Rates

Decrease in interest rates on retail loans and deposits for the 1-year maturity. The information reported in January 2025 indicates that, compared to December 2024, the average interest rates on loans and deposits decreased by 28 bp and 22 bp, to 18.87% and 5.99%, respectively, increasing the spread between the two rates (Chart 4).

Chart 4: Developments in Retail Interest Rates and the Prime Rate

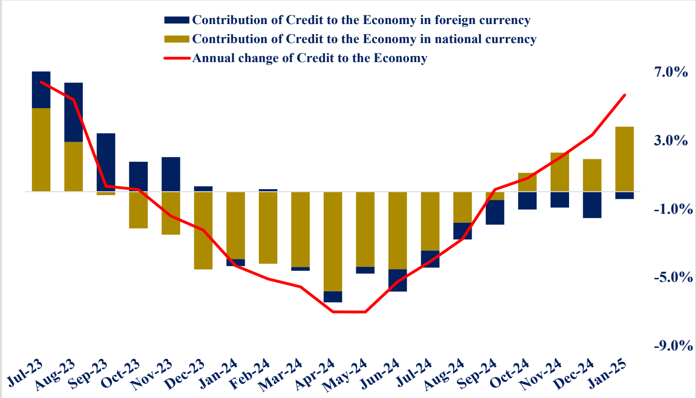


Source: BM

II. Developments in Credit to the Economy

Credit to the economy continues to increase. In January 2025, credit increased by 5.65% year-on-year, following 3.32% in December 2024 (Chart 5).

Chart 5: Developments in Credit to the Economy



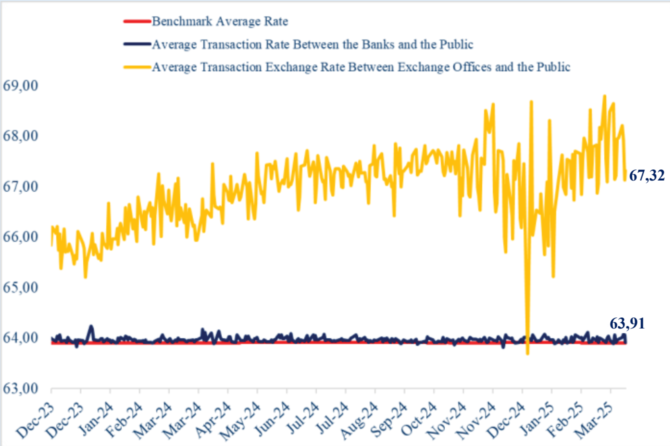
Source: BM

III. Exchange Rate Developments

a) Metical Exchange Rate against the US Dollar

The Metical (MZN) remains stable against the US Dollar. From January to March 2025, the reference exchange rate of the MZN against the USD stood at MZN/USD 63.90, following MZN/USD 63.91. In the same period, the effective exchange rate, which arises from transactions between commercial banks and the public, rose from MZN/USD 64.07 to MZN/USD 63.91. Meanwhile, in the exchange offices segment, the exchange rate fell from MZN/USD 67.70 to MZN/USD 67.32 (Chart 6).

Chart 6: Metical Exchange Rate Developments against the US Dollar

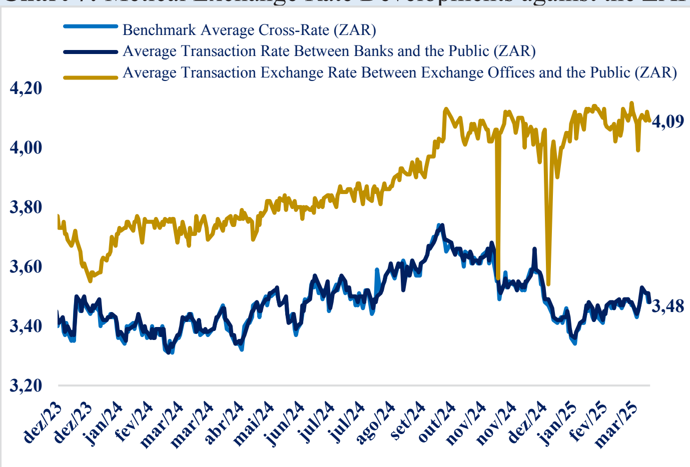


Source: BM

b) Metical Exchange Rate Against the Rand

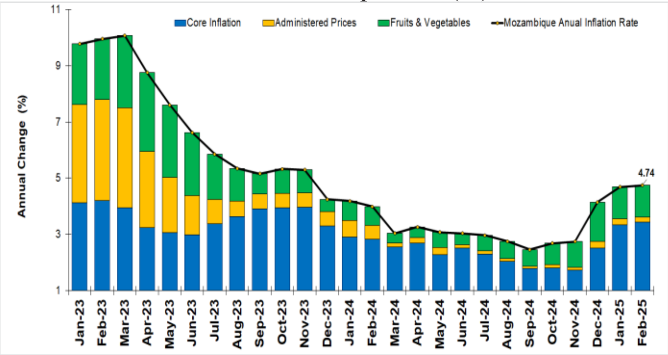
The Metical presented a mixed behavior against the Rand (ZAR) across various segments. In the reporting period, the reference exchange rate of MZN against the ZAR depreciated by 1.5% to MZN/ZAR 3.48. In the same period, the effective exchange rate (commercial banks with the public) stood at MZN/ZAR 3.48 after MZN/ZAR 3.47. Meanwhile, the exchange rate of exchange offices with the public appreciated by 1.0% to MZN/ZAR 4.09 (Chart 7).

Chart 7: Metical Exchange Rate Developments against the ZAR



Source: BM

Chart 2-1: Annual Inflation Components (%)



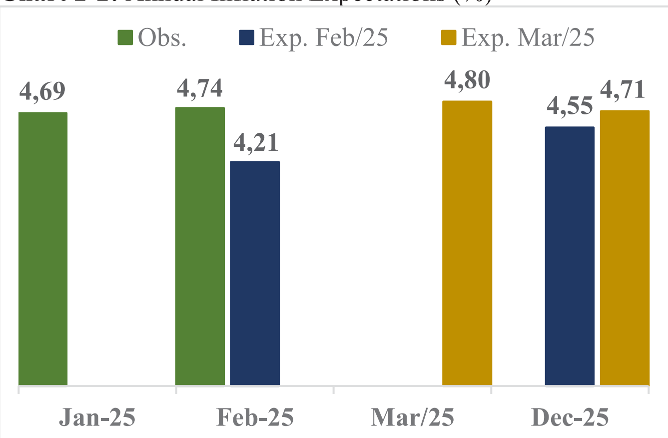
Source: INE

Table 2-3: Core Inflation (%) – Mozambique CPI

	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
CPI Mozambique	2,45	2,68	2,84	4,15	4,69	4,74
Food	5,29	6,25	7,36	10,24	12,04	11,89
Grains & Derivatives	6,04	5,88	6,23	8,32	10,76	10,81
Fruits & Vegetables	5,60	8,65	11,91	17,03	18,28	18,66
Restaurants	3,54	3,99	4,10	6,12	5,07	6,20
Housing	1,95	1,14	-0,45	1,00	1,09	1,23
Administered Prices	0,38	0,53	0,53	0,97	0,87	0,75
CPI Excluding Frut.Veg	2,21	2,36	2,58	3,50	3,95	3,94
CPI Excluding Admin.	3,14	3,50	4,05	5,50	6,26	6,34
Core Inflation	2,91	3,06	3,37	4,47	5,11	5,14

Source: INE

Chart 2-2: Annual Inflation Expectations (%)



Source: INE and BM

2.4. Recent Inflation Developments and Near-Term Prospects

Annual inflation ticked up slightly in February 2025.

Annual inflation stood at 4.74% in February, following 4.69% in January, equivalent to an increase of 5 bp, mainly explained by the increase in prices of meals and drinks in restaurants, cafés, and similar establishments (Chart 2-2 and Table 2-3).

Core inflation remained stable in February 2025. Excluding fruits and vegetables and administered prices, annual inflation stood at 5.14% in February, following 5.11% in January (Chart 2-2 and Table 2-3).

The near-term outlook points to a slight acceleration in annual inflation, essentially reflecting the base effect. Indeed, inflation will slow month-on-month, but will remain higher than in the same period in 2024. The month-on-month decrease in inflation should be supported by the improvement in the supply of goods and services, particularly fruits and vegetables (beginning of the cool season) and the drop in fuel prices in the country.

The economic agents' survey points to a slight acceleration in annual inflation. The macroeconomic expectations of economic agents, revealed in the March survey, point to an annual inflation of 4.71% in December 2025, i.e., 16 bp above the expectations disclosed in the February survey (Chart 2-3).

Chapter III. Inflation Prospects and Economic Activity in the Medium Term

Prospects for single-digit inflation remain unchanged over the medium term, mainly reflecting the stability of the Metical and the impact of measures taken by the MPC. However, risks and uncertainties underlying inflation projections have increased. Key factors that could contribute to rising inflation in the medium term include the impacts of worsening fiscal risk – amid increasing challenges in mobilizing financial resources for the State Budget - as well as the effects of climate shocks and post-election tensions on the prices of goods and services.

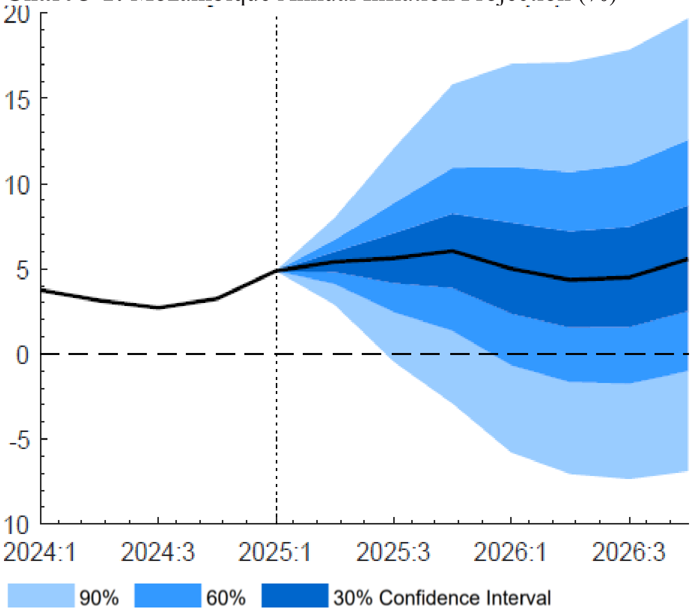
Given the current macroeconomic outlook and the associated risks and uncertainties regarding inflation forecasts, the MPC decided to reduce the MIMO policy rate from 12.25% to 11.75%.

Table 3-1: External Assumptions

	2024	2025	2026
US Real GDP (%)	2.8	1.9	1.7
January 2025 MPC	2.7	1.6	1.7
RSA Real GDP (%)	0.5	1.4	1.2
January 2025 MPC	0.9	1.6	1.3
	2024Q4	2025Q4	2026Q4
US inflation (YoY%)	2.7	3.1	2.9
January 2025 MPC	2.6	3.0	2.8
RSA Inflation (YoY%)	2.9	4.1	4.5
January 2025 MPC	2.9	4.3	4.6
Brent Price (USD)	74.0	73.4	67.5
January 2025 MPC	74.0	72.9	67.1
Food Prices (%)	5.9	0.6	1.6
January 2025 MPC	5.7	0.6	1.6

Source: GPMN

Chart 3-1: Mozambique Annual Inflation Projection (%)



3.1. Assumptions for Medium-Term Projections

The macroeconomic projections for the medium term (2025-2026) are based on the following assumptions:

a) External

- **Falling oil prices in the global market**

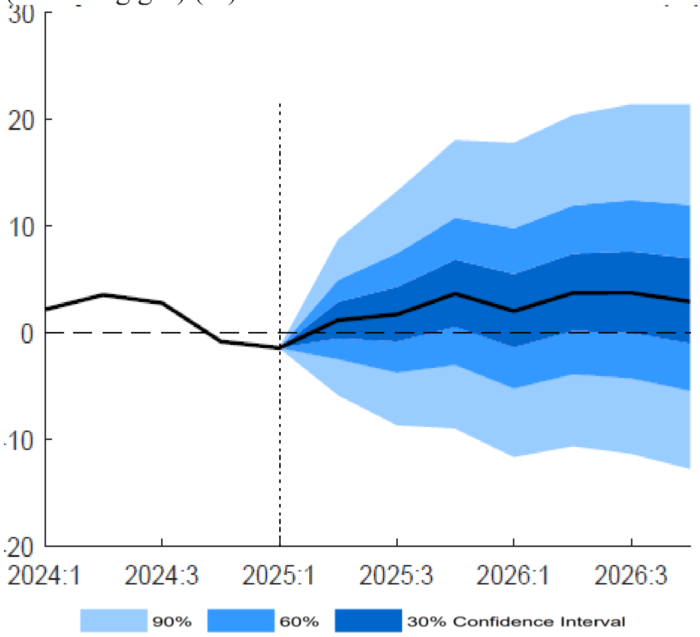
In the medium term, a reduction in the price of oil is expected, underpinned by measures taken by the US administration to boost production by both OPEC+ and non-OPEC producers. Moreover, concerns over the potential impacts of an escalating US-China trade war are contributing to downward pressure on oil prices (Table 3-1).

- **Reduced pressure on global inflation and softer monetary conditions**

Medium-term forecasts indicate that inflation will continue to gradually converge towards the targets set by central banks of key economic partners. This outlook is supported by the (i) continued reduction in global freight costs and (ii) the moderate impact of climate shocks on economic activity and prices.

b) Domestic

Chart 3-2: Mozambique Annual Real GDP Projection (excluding gas) (%)



The main internal assumptions include:

- Worsening fiscal risk;

Against a backdrop of:

- Gradual recovery of production and logistics capacity, driven by improving investor confidence;

- Easing of some administered prices, particularly fuels, and the enforcement of measures such as VAT exemption on certain products;

- Moderate impact of climate shocks on economic activity; and

- Stability of the Metical exchange rate against the US Dollar.

3.2. Medium-Term Inflation Projections and Associated Risks

In view of the assumptions above, inflation is expected to remain in a single digit over the medium term, mainly due to the stability of the Metical and the impact of measures being taken by the MPC (Chart 3-1).

With regard to economic activity, excluding the LNG sector, moderate economic growth is expected, particularly supported by the performance of the primary (agriculture and coal) and tertiary (services) sectors. This is underpinned by the progressive recovery of production and logistics capacity, despite uncertainties regarding the impacts of climate shocks on agricultural production and various infrastructures, as well as the effects of post-election tensions on economic sectors (Chart 3-2).

The risks and uncertainties associated with inflation projections have increased. Key factors that could contribute to rising inflation in the medium term include the impacts of worsening fiscal risk, in the context of increasing challenges to mobilize financial resources for the State Budget, as well as the effects of climate shocks and post-election tensions on the prices of goods and services.

3.3. Monetary Policy Decision

The Banco de Moçambique decided to reduce the MIMO policy rate from 12.25% to 11.75%.

This decision is mainly driven by the continued outlook for single-digit inflation over the medium term, despite the increasing uncertainties related to the effects of the worsening fiscal risk.

The MPC also decided to:

- Reduce the Standing Lending Facility (SLF) rate from 15.25% to 14.75%;
- Reduce the Standing Deposit Facility (SDF) rate from 9.25% to 8.75%; and
- Keep the Reserve Requirement ratios for liabilities in domestic and foreign currencies unchanged at 29.00% and 29.50%, respectively.

The MPC will continue the process of normalizing the MIMO policy rate over the medium term. The pace and magnitude will continue to depend on inflation prospects, as well as the assessment of the risks and uncertainties associated with medium-term projections.