May 2025

No.58 | Year 14

ECONOMIC OUTLOOK AND INFLATION FORECASTS

ECONOMIC OUTLOOK

AND INFLATION FORECASTS

May 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

Contents

Decisions of Session No. 3 of the Monetary Policy Committee, of May 30, 2025

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to reduce the monetary policy rate, MIMO, from 11.75% to 11.00%. This measure is primarily driven by the consolidation of the single-digit inflation outlook in the medium term, partly supported by a favorable trend in international prices of goods and services, despite persistent high risks and uncertainties, at the domestic level, underlying projections.

This MPC session was preceded by a meeting of the Financial Stability and Inclusion Committee (FSIC) of the Banco de Moçambique, which assessed systemic risk and main vulnerabilities, also reflected in this Communiqué, and concluded that the national financial system remains stable and resilient.

Prospects of single-digit inflation remain in place over the medium term. In April 2025, annual inflation slowed to 4.0%, after 4.8% in March. Core inflation, which excludes fruits and vegetables and administered prices, also slowed. The maintenance of single-digit inflation prospects over the medium term essentially reflects the stability of the Metical, the impact of the measures adopted by the MPC, and the downward trend in international prices of goods and services.

The banking sector remains sound, capitalized and resilient. In March 2025, the capital adequacy ratio stood at 26.5%, above the regulatory minimum of 12.0%, and the liquidity ratio stood at 59.5%, also above the regulatory minimum of 25%. The macroprudential solvency stress test, which consists of a simulation of shocks to assess banking sector resilience, showed that the sector has sufficient capital buffers to absorb potential losses and remain sound and capitalized in the medium term.

Systemic risk, which assesses the potential contagion effect arising from banking system disruptions, is moderate. This assessment reflects the reduction in market interest rates and the level of non-performing loans, despite the increased exposure of the banking sector to public debt. Domestic public debt, excluding loan and lease agreements and overdue liabilities, stands at 445.9 billion meticais, a 30.3 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.

Domestic risks and uncertainties associated with inflation projections remain high. Key factors that could contribute to rising inflation in the medium term include the impacts of the exacerbation of the fiscal position, amidst increasing challenges to mobilize financial resources for the State Budget, uncertainties surrounding the pace of recovery of productive capacity and the supply of goods and services, and the effects of climate shocks.

The MPC will continue the process of normalizing the MIMO 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.

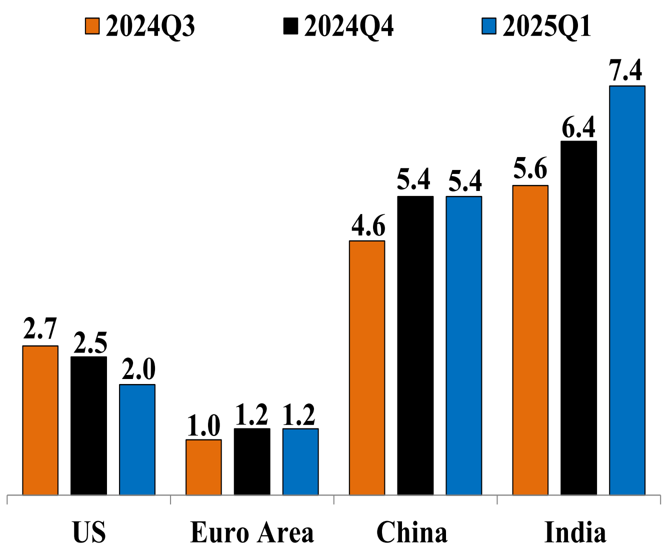
The next MPC meeting is scheduled for July 30, 2025.

Rogério Lucas Zandamela
Governor

Chapter I. Recent Developments in the International Economy and Forecasts

The global economic outlook points to a slowdown in economic growth in 2025 and 2026, alongside a continued disinflationary trend, albeit at a milder pace, according to the April 2025 edition of the World Economic Outlook, published by the International Monetary Fund (IMF). Global risks and uncertainties remain elevated, particularly those stemming from escalating trade tensions, the Russia-Ukraine conflict, and climate-related shocks.

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



Source: *Trading Economics*

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

	Estimate	Projection		Difference from Jan./25 WEO	
	2024	2025	2026	2025	2026
World Output	**3.3**	**2.8**	**3.0**	**(0.5)**	**(0.3)**
Advanced Economies	**1.8**	**1.4**	**1.5**	**(0.5)**	**(0.3)**
United States	2.8	1.8	1.7	(0.9)	(0.4)
Euro Area	0.9	0.8	1.2	(0.2)	(0.2)
Germany	(0.2)	0.0	0.9	(0.3)	(0.2)
Japan	0.1	0.6	0.6	(0.5)	(0.2)
United Kingdom	1.1	1.1	1.4	(0.5)	(0.1)
Emerging Market & Developing Economies	**4.3**	**3.7**	**3.9**	**(0.5)**	**(0.4)**
China	5.0	4.0	4.0	(0.6)	(0.5)
India	6.5	6.2	6.3	(0.3)	(0.2)
Brazil	3.4	2.0	2.0	(0.2)	(0.2)
Sub-Saharan Africa	**4.0**	**3.8**	**4.2**	**(0.4)**	**0.0**
South Africa	0.8	1.5	1.6	0.0	0.1

Source: IMF, World Economic Outlook (April 2025)

1.1. Economic Activity and Inflation

In the first quarter of 2025, the performance of economic activity was differentiated across the world´s major economies.

In the United States of America (USA), year-on-year gross domestic product (GDP) growth slowed to 2.1%, mainly due to a surge in imports in anticipation of potential tariff increases by the Donald Trump administration. In the Eurozone, GDP grew by 1.2%, driven by higher household consumption and public expenditure (Chart 1-1).

Meanwhile, India and China GDP grew by 7.4% and 5.4% year-on-year, respectively. In India, economic activity was driven by increased consumption and investment expenditures, whereas in China, growth was underpinned, among other factors, by an increase in exports (Chart 1-1).

For 2025 and 2026, the outlook points to a slowdown in global economic growth.

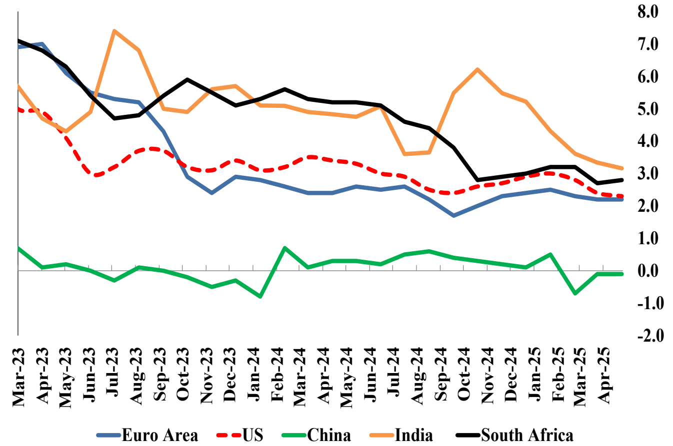
According to the April 2025 edition of the World Economic Outlook, the world economy is expected to grow by 2.8% in 2025, 50-basis point (bps) lower than the January 2025 edition forecast. This downward revision is mainly driven by the escalation of trade tensions and heightened uncertainties, which are undermining global economic activity (Table 1-1).

It should be noted, however, that the current global growth projection for 2025 and 2026 amounts to a cumulative reduction of 80 bps compared to the January 2025 edition (Table 1-1).

In April 2025, annual inflation slowed in both advanced and emerging market economies.

In the US, annual inflation slowed to 2.3% from 2.4% in the previous month, primarily reflecting base effects. Meanwhile, in the Eurozone,

Chart 1-2: Annual Inflation Developments (%)



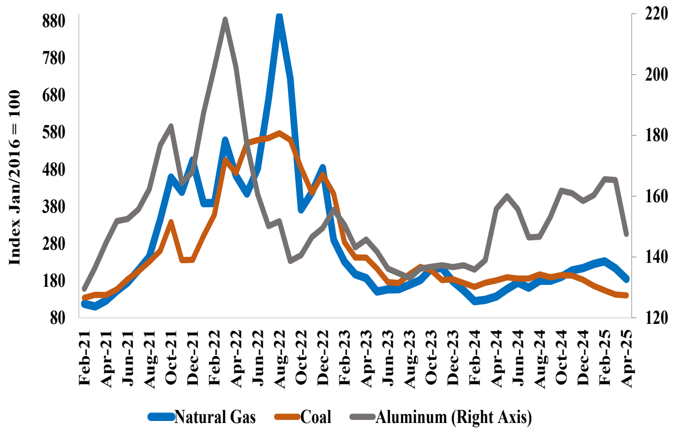
Source: *Trading Economics*, 2025

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

Region	Estimate 2024	Projection		Dif. From Jan./25 WEO	
		2025	2026	2025	2026
World	5.7	4.3	3.6	0.1	0.1
Advanced Economies	2.6	2.5	2.2	0.4	0.2
Emerging Market & Developing Economies	7.7	5.5	4.6	(0.1)	0.1

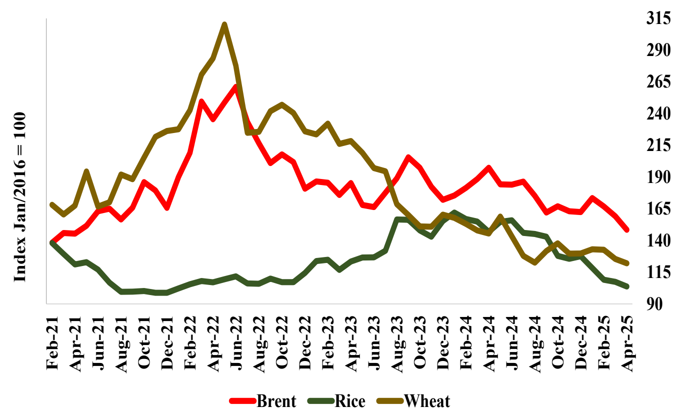
Source: IMF, World Economic Outlook (April 2025)

Chart 1-3: Export Commodity Price Index



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

Chart 1-4: Import Commodity Price Index



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

inflation remained stable at 2.2% because of the combined effect of rising prices for services and food, alongside a decline in energy prices (Chart 1-2).

China recorded an annual deflation of 0.1%, on account of the base effects and persistent weak domestic demand. In India, inflation eased to 3.2% from 3.3% in March, due to falling food prices (Chart 1-2).

Conversely, in South Africa, inflation rose to 2.8% from 2.7% in March, reflecting rising food prices (Chart 1-2).

The outlook for global inflation continues to point towards a deceleration in 2025 and 2026. Global inflation is expected to ease, albeit at a slower pace than forecasted in January, particularly in advanced economies. This outlook mainly reflects the prospects of rising inflation in the US due to the imposition of new trade tariffs, as well as a worsening of global uncertainties amid escalating trade tensions (table 1-2).

1.2. Prices of Main Commodities

Prices of the main commodities traded by Mozambique, except for natural gas, declined on an annual basis.

Among export commodities, April 2025 saw notable prices reductions for aluminum (-5.3%) and thermal coal (-22.3%) compared to the same period in the previous year. Conversely, the price of natural gas increased by 34.8% (Chart 1-3).

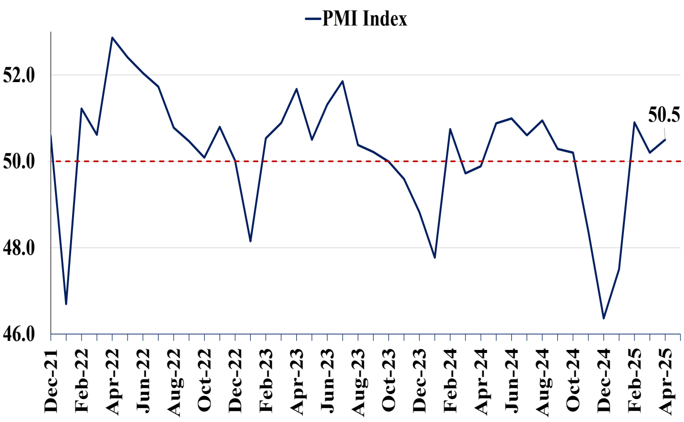
Similarly, prices of key import commodities fell, particularly brent (-24.8%), rice (-29.4%) and wheat (-16.1%) (Chart 1-4).

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

The outlook continues to point to a contraction in economic activity in the first quarter of 2025, excluding the liquefied natural gas (LNG) production, followed by modest growth in the second quarter, reflecting, essentially, the effects of economic activity resumption following the end of post-election tensions.

In April 2025, annual inflation slowed to 3.99%, driven by food prices, particularly fruits and vegetables. In the near term, this trend is expected to remain in place, reflecting the impact of recent administrative measures (such as VAT exemption on basic goods and reductions in water tariffs and toll fees), as well as falling food prices in the global market.

Chart 2-1: Purchasing Managers Index (PMI)



Source HIS, MarkitNE

2.1. Near-Term Economic Activity

Excluding LNG production, the prospects remain for a decline in economic activity in the first quarter of 2025 and modest growth in the second quarter. The forecast for GDP growth in the second quarter is supported by the prospects of improved performance in agriculture, trade and the extractive and manufacturing industries.

The outlook for a gradual recovery of the economy in the near term are in line with the improvement in the April 2025 Purchasing Managers´ Index (PMI) (Chart 2-1).

Table 2-3: Domestic Public Debt (Millions of Meticais) *

Domestic Public Indebtedness - T-Bonds, T-Bills and Advances at the BM (MZN million)					
	Use of T-Bills	**Treasury Bonds**	**In the BM**	**Total Debt**	**Debt as % of GDP**
Dec – 2020	44,220	88,100	54,885	187,205	18.9%
Dec – 2021	59,399	102,415	57,009	218,823	20.7%
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%
Mar – 2025	150,910	171,791	125,058	447,759	28.7%
Apr – 2025	150,910	171,791	128,919	451,620	28.9%
May – 2025	150,533	166,411	128,919	445,863	28.6%
Flow (Dec/24 - May/25)	**20,021**	**-12,488**	**22,773**	**30,307**	

Source: BM and BVM

* Data updated up to May 21, 2025.

2.2. Domestic Public Debt

Pressure on domestic public debt remains high.

Between December 2024 and May 2025, the stock of domestic public debt, excluding debt arising from loan and lease agreements and overdue liabilities, increased by approximately 30,307 million meticais, standing at 445,863 million meticais at the end of May 2025 (Table 2-21).

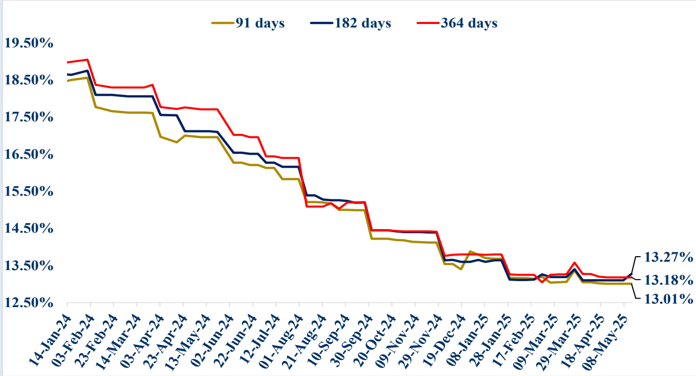
Box 1 : Monetary and Financial Developments

I. Interest Rate Developments

a) Money Market Interest Rates

Reduction in treasury bill (T-Bill) interest rates between March and May 2025. Indeed, interest rates for the 91, 182 and 364-day maturities fell in a range between 13 and 40 bps, to 13.01%, 13.27% and 13.18%, respectively, in line with the reduction of the MIMO policy rate (Chart 1).

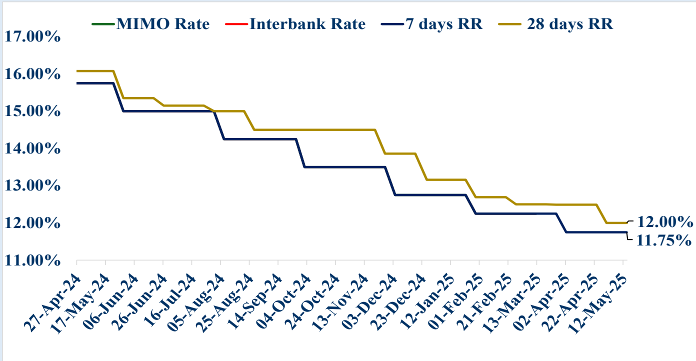
Chart 1: Treasury Bill Interest Rates Developments



Source: BM

The trend towards lower interest rates on shorter-term maturities persists. The MIMO rate, the effective MIMO rate (overnight swaps), and the 7-day T-Bills sale rate with repurchase agreement (reverse repo) all fell by 50 bp to 11.75%. Similarly, the 28-day reverse repo rate settled at 12.00%, equivalent to a 50 bps reduction (Chart 2).

Chart 2: IMM Interest Rate Developments

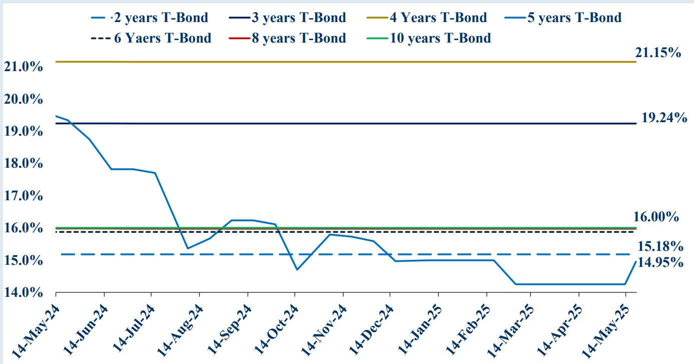


Source: BM

b) Treasury Bond Interest Rates

Between March and May 2025, the government conducted a 5-year Treasury Bond (T-Bond) swap auction at an interest rate of 14.95%, equivalent to an increase of 70 bps compared to the previous auction for bonds of the same maturity, which stood at 14.25% (Chart 3).

Chart 3: Treasury Bond Interest Rate Developments

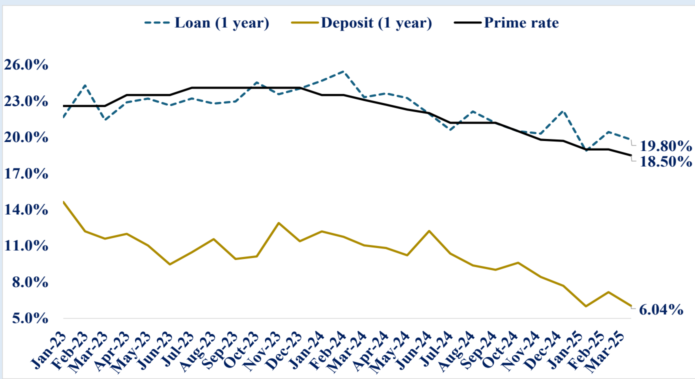


Source: BM

c) Retail Interest Rates

Decrease in interest rates on retail loans and deposits for the 1-year maturity. Between February and March 2025, the average interest rates on loans and deposits fell by 3 bps and 16 bps, respectively, reaching 19.80% and 6.04% (Chart 4).

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

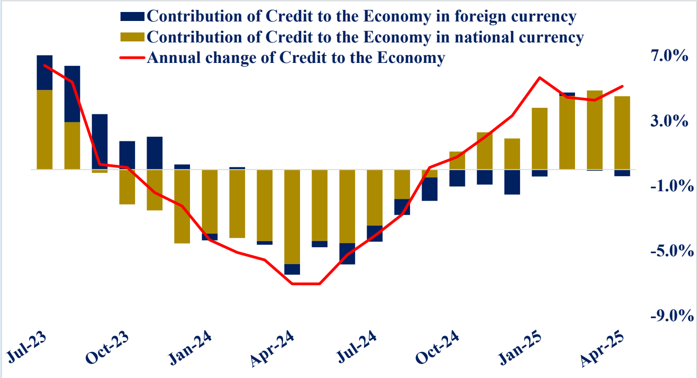


Source: BM

II. Developments in Credit to the Economy

On a year-on-year basis, credit to the economy increased in April 2025. Indeed, credit grew by 5.12% in April, following an increase by 4.27% in March 2025 (Chart 5).

Chart 5: Developments in Credit to the Economy



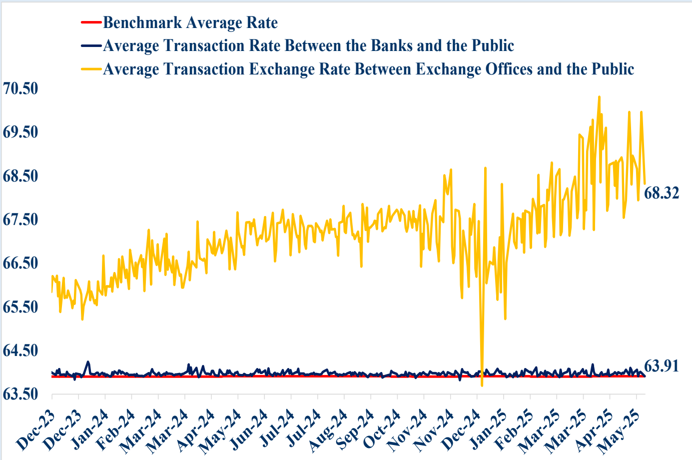
Source: BM

III. Exchange Rate Developments

a) Metical Exchange Rate against the US Dollar

The Metical (MZN) has remained stable against the US Dollar. In May 2025, the reference exchange rate stood at MZN/USD 63.91, following MZN/USD 63.90 in March. Over the same period, the effective exchange rate - reflecting transactions between commercial banks and the public - remained unchanged at MZN/USD 63.91. Meanwhile, in the foreign exchange bureau segment, the exchange rate appreciated from MZN/USD 69.62 in March to MZN/USD 68.32 in May (Chart 6).

Chart 6: Metical Exchange Rate Against the USD

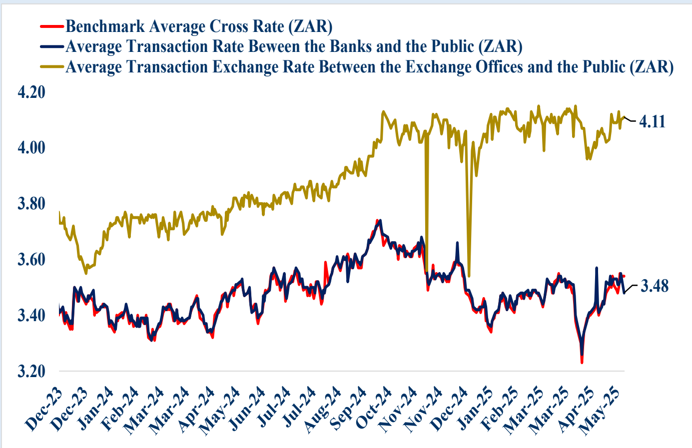


Source: BM

b) Metical Exchange Rate against the Rand

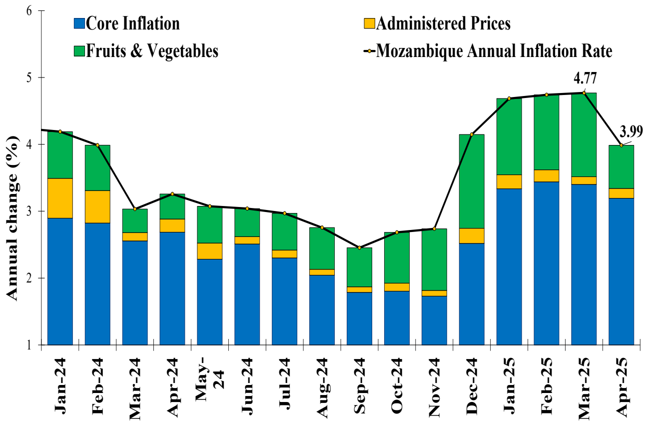
The Metical exhibited a mixed performance across different market segments in relation to the South African Rand (ZAR). In May, the reference exchange rate of the MZN against the ZAR fell by 1.7%, settling at MZN/ZAR 3.54. Over the same period, effective exchange rates of transactions between commercial banks and the public, and foreign exchange bureaus and the public, increased by 0.9% and 0.2%, respectively, reaching MZN/ZAR 3.48 and MZN/ZAR 4.11, respectively (Chart 7).

Chart 7: Metical Exchange Rate Against the ZAR



Source: BM

Chart 2-2: Annual Inflation Components (%)



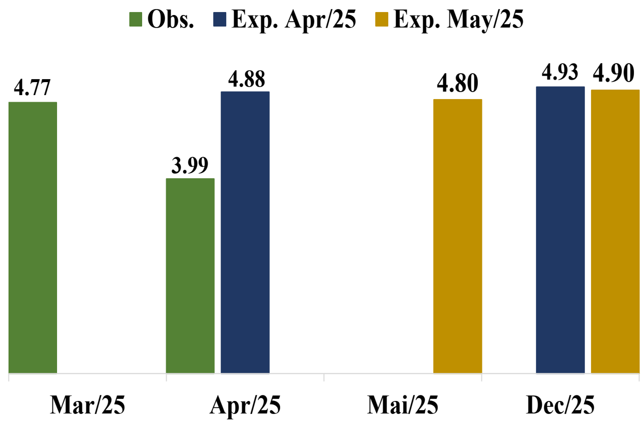
Source: INE

Table 2-4: Core Inflation (%) – Mozambique CPI

	Apr-24	May-24	Sep-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
CPI Mozambique	**3.26**	**3.07**	**2.45**	**4.15**	**4.69**	**4.74**	**4.77**	**3.99**
Food	**5.28**	**4.91**	**5.29**	**10.24**	**12.04**	**11.89**	**12.08**	**8.79**
Grains & Derivatives	4.99	5.03	6.04	8.32	10.76	10.81	11.03	10.36
Fruits & Vegetables	5.29	2.96	5.60	17.03	18.28	18.66	21.35	10.38
Clothing	3.42	3.52	1.91	2.53	2.06	1.72	1.81	1.37
Housing	1.58	2.03	1.95	1.00	1.09	1.23	1.11	0.95
Administered Prices	0.89	1.05	0.38	0.97	0.87	0.75	0.48	0.61
CPI Excluding Frut.Ve	2.95	2.95	2.21	3.50	3.95	3.94	3.76	3.61
IPC Excluding Adm.	3.85	3.60	3.14	5.50	6.26	6.34	6.44	5.26
Core Inflation	3.75	3.69	2.91	4.47	5.11	5.14	5.00	4.73

Source: INE

Chart 2-3: Annual Inflation Expectations (%)



Source: INE and BM

2.4. Recent Inflation Developments and Near-Term Prospects

In April 2025, annual inflation decelerated.

Annual inflation stood at 3.99% in April, after 4.77% in March - a decrease of 78 bps, mainly explained by falling food prices, particularly fruits and vegetables (Chart 2-2 and Table 2-2).

Core inflation also decelerated. Excluding fruits, vegetables and administered prices, annual inflation stood at 4.73% in April, following 5.00% in March (Table 2-2).

In the near term, the slowdown trend in annual inflation is expected to persist, reflecting the impact of VAT exemptions on basic goods (sugar, cooking oil and soap), reductions in water tariffs and toll fees, and falling food prices in the global market, all within a context of the stability of the Metical.

The economic agents' survey supports the outlook for an annual inflation slowdown. Macroeconomic expectations captured in the May survey point to annual inflation of 4.90% in December 2025, representing a downward revision of 3 bps compared to the April survey (Chart 2-3).

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

Projections indicate that inflation is expected to remain in a single digit over the medium term, largely driven by a combination of factors, such as, the downward trend in global prices for goods and services, the stability of the Metical, VAT exemptions on certain essential goods, reductions in toll fees and the cumulative effect of monetary policy measures implemented by the Monetary Policy Committee (MPC). Nonetheless, considerable risks and uncertainties - primarily domestic, continue to challenge this inflation outlook. These include the impact of a deteriorating fiscal position, uncertainties regarding the pace of recovery in productive capacity and the supply of goods and services, and the potential effects of climate-related shocks.

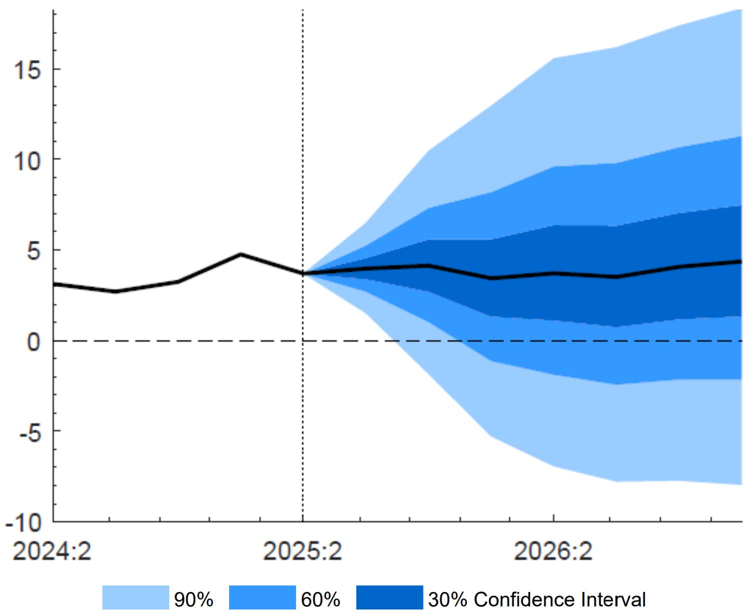
In light of the current macroeconomic environment and the risks and uncertainties underlying inflation forecasts, the MPC decided to reduce the MIMO policy rate from 11.75% to 11.00%.

Table 3-1: External Assumptions

	2024	2025	2026
US Real GDP (%)	2.8	1.6	1.7
March/2025 MPC	2.8	1.9	1.7
RSA Real GDP (%)	0.6	1.1	1.2
March/2025 MPC	0.5	1.4	1.2
	2024Q4	2025Q4	2026Q4
US inflation (YoY%)	2.7	3.3	3.4
March/2025 MPC	2.7	3.1	2.9
RSA Inflation (YoY%)	2.9	4.0	4.6
March/2025 MPC	2.9	4.1	4.5
Brent Price (USD)	74.0	64.4	65.9
March/2025 MPC	74.0	73.4	67.5
Food Prices	6.0	-0.5	2.1
March/2025 MPC	5.9	0.6	1.6

Source: GPMN

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



3.1. Assumptions for Medium-Term Projections

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

a) External Environment

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

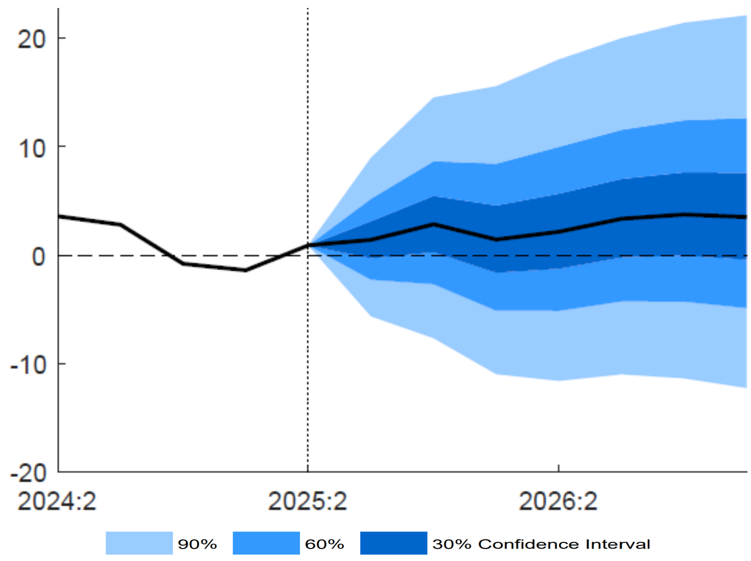
Over the medium term, oil prices are projected to decline further, largely due to increase in production by OPEC+. This downward trajectory is also being driven by weaker global demand, amid concerns over the potential effects of trade tariffs (Table 3-1).

- **Reduced global inflationary pressures and easing of monetary conditions**

Global inflationary pressures are expected to subside in the medium term, driven by declining oil prices and the gradual normalization of other commodity prices.

In addition, outside the US, the imposition of trade tariffs – particularly amid rising tensions between the US and its partners such as China and the European Union - is expected to restrain

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



inflation, due to increased availability of exportable goods in the affected countries.

This context favors a less adverse external environment, with less restrictive financial conditions and greater scope for further monetary policy easing, particularly in emerging and developing economies.

b) Domestic Environment

- Stability of the Metical against the US Dollar; and

- Relief in prices of some administered goods (notably toll fees and fuel), as well as the implementation of measures such as VAT exemptions on certain essential goods.

Key risks and uncertainties to projections:

- Uncertainty surrounding the worsening fiscal position;

- Uncertainties regarding the pace of recovery in productive capacity and supply of goods and services; and

- Uncertainties regarding the effects of climate shocks on economic activity.

3.2. Medium-Term Inflation Projections and Associated Risks

In view of the above assumptions, the inflation outlook remains favorable (Chart 3-1), supported primarily by exchange rate stability, which has mitigated the passthrough effect from exchange rate fluctuations to domestic inflation. In addition, the easing in global food and fuel prices has contributed to a reduction in imported inflationary pressures.

On the fiscal side, targeted measures such as the VAT exemptions on essential goods and toll fees reductions have had a direct impact in curbing consumer price inflation, further supporting disinflationary dynamics.

Moreover, the role of the MPC has been pivotal in anchoring economic agents' inflation expectations.

With regard to economic activity, excluding the LNG sector, moderate economic growth is projected, particularly supported by the performance of the primary (agriculture and coal) and the tertiary (services) sectors. This is supported by the gradual recovery of productive and logistics capacity, despite ongoing uncertainties related to the impact of climate shocks on agricultural production and infrastructure, and the residual effects of post-election tensions on sectoral activity (Chart 3-2).

3.3. Monetary Policy Decision

The MPC of the Banco de Moçambique decided to reduce the MIMO policy rate from 11.75% to 11.00%.

The MPC also decided to:

- Reduce the Standing Lending Facility (SLF) interest rate from 14.75% to 14.00%;
- Reduce the Standing Deposit Facility (SDF) interest rate from 8.75% to 8.00%; 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 rate over the medium term. The pace and magnitude of this process will continue to depend on inflation prospects, as well as the assessment of the risks and uncertainties associated with medium-term projections.