



**MONETARY POLICY COMMITTEE
COMMUNIQUE Nº. 04/2019
Maputo, June 19, 2019**

The Monetary Policy Committee (MPC) of the Banco de Moçambique, gathered today, June 19, 2019, decided to cut the monetary policy interest rate, MIMO rate, by 100 basis points (bp) to 13.25%.

It also decided to cut by 100 bp the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) rate to 10.25% and 16.25%, respectively, and to keep the mandatory reserve requirement for liabilities in domestic currency and in foreign currency at 14.00% and 36.00%, respectively.

A The decision to cut the MIMO rate, following six months of maintenance, is justified by the fact that the medium-term inflation projections update points to a significant improvement in the outlook for this indicator, consolidating the macroeconomic stability objective. This improvement is mainly due to recent price developments, the current exchange rate trend and the prospect of a lower exchange rate pressure in the domestic market, given an aggregate demand still below its potential.

The MPC considers this stance to be appropriate in an environment of expectation that the second round effects of natural disaster shocks on domestic prices will not materialize and in view of the recent accomplishment of the final investment decision of one of the natural gas projects. Meanwhile, the MPC believes that the promotion of robust economic growth will continue to require the authorities to take combined policy measures and, above all, to accelerate and deepen the structural reforms already happening, which include strengthening institutions, fiscal consolidation and improving the business environment.

Annual inflation slowed for the fourth consecutive month and is expected to remain low and stable over the medium term. Annual inflation, measured by the variation of the Consumer Price Index (CPI) of Mozambique, stood at 2.42%, in May 2019, against 3.26% in the same period of 2018. This deceleration reflects, in part, the gains from maintaining a prudent monetary policy coupled with favorable developments in the Metical exchange rate vis-à-vis the currencies of the main trading partners, the downward revision of liquid fuel prices last April and the increase in the supply of domestic agricultural products. In the medium-term, annual single-digit Inflation is expected, in line with the more recent expectations of economic agents in relation to domestic price developments.

Economic activity slowed in the first quarter of 2019, a scenario that could be maintained in the short term. According to the National Institute of Statistics, real gross domestic product (GDP) grew by 2.5%, in the first quarter of 2019, against 3.7% in the same period of 2018.



The slowdown in the quarter essentially reflects the contraction in the electricity and water industry and the marked slowdown in the performance of the extractive industry. The slight recovery of the economic climate indicator in April, still below the levels registered in the months preceding the recent climate shocks, indicates a slowdown in economic growth in the second quarter of 2019. However, in the medium term, it remains the expectation of GDP growth, stimulated mainly by post-disaster reconstruction activities and the boost resulting from the materialization of natural gas projects.

The Metical records nominal gains. Since the last MPC, the Metical appreciated, in nominal terms, from MZN 64.6/USD, on April 24, to MZN 61.75/USD, on June 18. With regard to the Rand, the price fell from MZN 4.60/ ZAR to MZN 4.18 /ZAR. This increase reflects, in part, the improvement in the current account deficit in the first quarter of 2019, combined with the measures being taken by the Banco de Moçambique, aimed at ensuring greater discipline and transparency in foreign exchange operations. The expectations of economic operators with greater foreign exchange inflows are also highlighted, not only in the context of the international response to the needs for financing post-natural disaster reconstruction, but also the materialization of natural gas projects.

International reserves have increased. Over the same period, gross international reserves increased by USD 86.0 million to USD 3,133.6 million, a figure that covers approximately 6 months of imports of goods and services, excluding transactions of large projects.

Credit to the economy continues to recover, although slowly. Bank credit to the private sector maintained a relative upward trend, with a monthly and yearly growth of 0.7% and 1.0%, respectively, in April 2019, reflecting the increase in the domestic currency component. The average interest rates on new loans and deposits for a period of one-year term kept unchanged.

Domestic public debt increased. Data from June shows that the flow of domestic public debt incurred through Treasury Bills, Treasury Bonds and advances from the Banco de Moçambique has increased by MZN 9,274 million since the last MPC, to a balance of MZN 131,547 million. The above amounts do not take into account other amounts of domestic public debt, such as mutual and leasing contracts, as well as past due liabilities.

MPC remains vigilant regarding the risks associated with inflation projections. At the internal level, the fiscal risk is highlighted due to the persistence of uncertainties, both in terms of funding the ongoing political processes and in relation to the timing of the external disbursements necessary for the mitigation of damages and reconstruction of the areas affected by the recent natural disasters. This happens in a scenario of potential loss of public revenue due to these disasters. In addition, the uncertainties regarding the evolution of the prices of administered goods remain. On the external front, the risks of a slowdown in world economic growth remain due to the intensification of trade and geopolitical tension among the main economies, with probable impacts on external trade flows and commodity price volatility, particularly oil. For example, at the close of June 18, 2019, the price of a barrel of oil was



USD 62.14, after USD 74.57 in the last MPC and USD 62.10 in the February MPC session this year.

Given the prospects for a single-digit inflation in the short and medium terms and considering the associated risks, the MPC has decided to:

- ✓ Cut by 100 basis points (bp) the monetary policy interest rate, MIMO rate, to 13.25%;
- ✓ Cut by 100 bp the interest rate of the Standing Lending Facility (SLF), to 16.25%;
- ✓ Cut by 100 bp the interest rate of the Standing Deposit Facility (SDF), to 10.25%;
- ✓ Keep the Reserves Requirement for liabilities in domestic currency at 14.00%; and
- ✓ Keep the Reserves Requirement for liabilities in foreign currency at 36.00%.

The MPC will continue to monitor economic and financial indicators and the risk factors, and will not hesitate to take the necessary corrective measures before its next regular meeting, scheduled for 14 August 2019.

Rogério Lucas Zandamela

Governor