



**MONETARY POLICY COMMITTEE
PRESS RELEASE Nº 05/2012
Maputo, May 10, 2012**

The Monetary Policy Committee of the Banco de Moçambique (CPMO – acronym in Portuguese) convened today, in its fifth ordinary meeting of the current year, to consider the most recent economic and financial developments worldwide and the evolution of the key economic and financial indicators of Mozambique, with emphasis on inflation, the performance of the monetary aggregates and their short and medium term trends, in order to take the most appropriate monetary policy measures. The Committee's evaluation focused on the information of the aggregates thereof between March and April 2012.

I. RECENT DEVELOPMENTS IN THE REGIONAL AND INTERNATIONAL ECONOMIES

The most recent data showed improvements in global growth perspectives for 2012 and 2013 in comparison with the forecasts pointed out in January of the current year. In effect, the latest forecasts of the International Monetary Fund¹ pointed to the possibility of global economic growth acceleration by 0.2 and 0.1 percentage points (pp) in 2012 and 2013, to 3.5% and 4.1%, respectively, compared to forecasts of last January. This review is sustained by the performance observed in the emerging markets and developing countries whose growth forecast pointed to 5.7% and 6.0% in 2012 and 2013, respectively, against only 1.4% and 2.0% set for the most advanced economies during the period under analysis, basically penalized by the problems related to the sovereign debt crisis and banking sector that have been affecting the economic performance, mainly in the Euro Zone countries.

Provisional data on economic growth in the most advanced economies² reported to the first quarter of 2012, showed that Gross Domestic Product (GDP) has expanded, in annual terms, in the United States of America by 0.4pp to 2.1%, when compared to the preceding quarter, and it has recorded null variation in the United Kingdom after growing by 0.8% in the preceding period. Last March, annual inflation had a mixed trend in these group of countries, having fallen in the United States of America and remained unchanged in the Euro Zone, whereas in the United Kingdom and Japan, it has risen in comparison with the previous month. In April, the Euro and the Pound Sterling annual losses rose in relation to the US Dollar by 5.6pp and 2.9pp to 11.8% and 4.0%, respectively, in comparison with the previous month.

In the emerging economies³, preliminary data reported to the first quarter of 2012 showed a deceleration of GDP annual growth in China and South Korea by 1.1pp and 0.8pp to 8.1% and 2.8%, respectively, in comparison with the preceding quarter. In March, annual inflation also recorded a deceleration tendency in these economies, except in China where it rose by 0.4pp to 3.6%, in comparison with the preceding month. In April, the depreciation of Real of Brazil, the Won of South Korea and Rupee of India rose in relation to

¹ In its publication "World Economic Outlook of April 2012"

² Analyzed economies: United States of America, Euro Zone, Japan and United Kingdom

³ Analyzed economies: Brazil, China, South Korea and India



the US Dollar by 9.2pp, 2.5pp and 4.7pp to 21.1%, 5.8% and 19.0%, respectively, in comparison with the previous month. Except the Central Bank of Brazil that revised its policy interest rate downward by 75 basis points (bp), to 9.00% for the second consecutive month, the remainder banks have kept their policy interest rates unchanged.

In the SADC economies⁴, the preliminary data showed, for 2011, a deceleration of the pace of GDP annual growth in comparison with the year 2010, where Angola, Botswana, Mauritius and Zambia stand out with growth reductions by 60bp to 3.4%, 1.9pp to 5.1%, 10bp to 4.1% and 1.0pp to 6.6%, respectively. Data reported to March 2012 showed annual inflation mixed trend in these group of countries, as it has decelerated in Angola to 11.1%, in Botswana to 8.0%, in Mauritius to 5.9%, in South Africa to 6.0% and in Tanzania to 19.0%, against an acceleration observed in Malawi to 11.4%, in Zambia to 6.4% and in Mozambique to 2.7%. Meanwhile, data reported to April showed a persistent acceleration of annual inflation in Zambia to 6.5% against a deceleration in Mozambique to 2.5%. Further, in April, the currencies of this region kept the annual depreciation tendency in relation to the US Dollar, except the Metical that has kept its appreciation trend, as it recorded gains to the tune of 10.3%. The Treasury Bills average interest rates for 91 maturity days showed a mixed trend in April, having remained unchanged in South Africa, reduced in Angola (3.88%), Botswana (5.32%), Mauritius (3.4%) and Mozambique (6.49%) and increased in Malawi (6.8%), Tanzania (13.8%) and Zambia (7.99%).

The average prices of the main commodities in the international market with significant weight in the Balance of Payments of Mozambique witnessed a mixed trend in March 2012, when compared with those of the previous month. In effect, the prices have risen for *Brent* (8.9%), gas (2.4%), rice (5.4%) and wheat (4.0%) and have reduced for aluminum (1.1%), gold (3.8%), cotton (1.2%) and sugar (1.4%), while maize price recorded a null change in the month. On the last day of April, *Brent* price stood at USD 119.11 per barrel and on May 9, it was quoted at USD 116.87.

II. DEVELOPMENTS IN THE MOZAMBIKAN ECONOMY

Data reported to April 2012 released by the National Institute of Statistics (INE – acronym in Portuguese) showed that the overall prices in Maputo city have recorded a monthly negative variation of 0.12%, after an increase of 0.27% observed last March. The class of foodstuff and non-alcoholic beverages has largely contributed to inflation trend observed in the month, as it reduced by 10bp, softened by an increase of 5bp in the prices of housing, water, electricity, gas and other fuels, and that of 4bp in the prices of clothing and footwear. The products whose prices had major impact on the total inflation in April were tomato, fresh potato, coconuts, paints and varnishes, long journey passenger transports, onion and second hand vehicles.

⁴ Analyzed economies: South Africa, Angola, Botswana, Malawi, Mauritius, Mozambique, Tanzania and Zambia



As a result of the monthly variation described above, the cumulative inflation has reduced by 12bp to 0.55% in April 2012, in comparison with the preceding month, against 3.41% observed in the similar period of 2011. The annual inflation has decelerated from 2.71% in March to 2.54% in April, while the average annual inflation has decelerated from 7.22% to 6.36%, in the period under analysis, respectively.

The Consumer Price Index (CPI) of Mozambique, indicator that incorporates indices of prices of Maputo, Beira and Nampula cities, followed the same trend of the CPI of Maputo city, as it recorded a negative variation of 0.24% in April 2012, after a positive variation of 0.21% in the preceding month. The trend of CPI Mozambique resulted from the reduction of prices in Maputo (0.12%) and Nampula (0.77%), softened by an increase in Beira (0.55%). In cumulative and annual terms, inflation in Mozambique has moved from 0.60% and 3.81% in March to 0.36% and 3.37% in April 2012, respectively, while the average inflation has decreased from 8.41% to 7.62%.

Data also released by the INE showed that the economic climate indicator continued to rise for the second consecutive month, in March 2012, conversely the declining tendency observed in the similar period of 2011. The favourable economic environment in the period under analysis had the contribution from the optimistic evaluation expressed by respondents in trade, transports and other non financial services, against the scepticism observed in construction, accommodation and restaurants, as well as the industrial production in the light of the evaluation of the previous month.

In the monetary sector, provisional data reported to the end of April 2012 indicated that the stock of base money, monetary policy operational variable, stood at 32,235.9 million meticaïs, 2,298 million meticaïs below the forecasts set for the period. This stock corresponds to an expansion of 1,320 million meticaïs (4.3%) in relation to the preceding month, explained by simultaneous increase of bank reserves and banknotes and coins in circulation by 689.5 million meticaïs (5.7%) and 630.6 million meticaïs (3.4%), respectively. In annual terms, the stock of base money in April 2012 has expanded 9.2%, against 23.2% recorded in the similar period of 2011.

Preliminary data reported to April 2012 pointed to a constitution of USD 22.2 million in the month, triggering the stock of Net International Reserves to amount to USD 2,133.6 million, however, minus USD 61.5 million in relation to projections for the period under analysis, basically justified by debt service repayment of USD 8.6 million, foreign exchange losses in the amount of USD 3.1 million, inflows of only USD 15.1 million of grants against a projection of USD 100.2 million and commercial banks transfers abroad in the amount of USD 89.2 million, against a provisioning of 86.2 million. In terms of gross international reserves, the stock corresponds to 4.9 months of imports 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 27.53 meticaïs at the end of April 2012, after 27.74 meticaïs in the preceding month, which represents a monthly and annual appreciation of 0.8% and 10.1%, respectively, and a cumulative depreciation of 1.4%. In annual variation terms, it is worth highlighting that the Metical continues, similarly, in the nominal appreciation ground in relation to the Rand. The spread between the average exchange rates applied by the bureaux de change in transactions with their customers and the



MCI exchange rates has increased, as it stood at 4.47% in April 2012, against 3.44% recorded in the preceding month and 4.24% in the similar period of 2011.

In the Interbank Money Market, the Treasury Bills average interest rates recorded a negative variation in April in comparison with the preceding month, standing at 6.49%, 7.01% and 8.19%, which represents a reduction of 1.88pp, 2.38pp and 1.76pp for 91, 182 and 364 maturity days, respectively. In annual terms, the rates have reduced by 9.89pp, 9.44pp and 8.28pp for 91, 182 and 364 maturity days, respectively. The average interest rate for liquidity swaps among financial institutions has decreased by 97bp in relation to the preceding month, standing at 7.25%, which, in annual terms, equals to a reduction of 8.61pp. In turn, the average interest rate paid by commercial banks for one-year time deposits stood around 12.88% in March, a reduction of 0.48pp in relation to February. Whereas, the average interest rate for loans granted by the same institutions remained around 23.34% in April, after 23.64% in the preceding month, having the prime rate stood around 19.00%.

III. MONETARY POLICY DECISION

The Monetary Policy Committee has noted the less pessimistic perspectives for the global economic growth, notwithstanding the sovereign debt crisis prevailing in some Euro Zone countries, and has concluded that the recent trends of international prices of commodities with impact on the CPI basket, combined with the favourable exchange rate performance, reinforce the perspective to maintain the stability of domestic prices.

In this context, considering the need to consolidate the effect of measures recently taken, which aim to create conditions in order to promote banking financing to the private sector, always having in mind the economic growth and inflation goals set for the current year, the Monetary Policy Committee has decided to:

- Intervene in interbank markets in order to ensure that the stock of base money does not surpass 34,271 million meticaís at the end of May 2012;
- Maintain the Standing Lending Facility interest rate unchanged at 13.50% and the Standing Deposit Facility interest rate at 3.00%;
- Maintain the Reserve Requirement ratio unchanged at 8.25%.

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

Ernesto Gouveia Gove
Governor