

**MONETARY POLICY COMMITTEE**  
**COMMUNIQUÉ NO. 02/2021**  
**Xai-Xai, 17 March 2021**

**Policy Interest Rate unchanged at 13.25%**

**The Monetary Policy Committee (MPC) of the Banco de Moçambique decided to keep unchanged its policy rate, MIMO rate, at 13.25%. The decision is justified by the prevalence of high risks and uncertainties, despite the downward revision in the inflation forecasts for the short and medium term, largely reflecting the effects of the January's MPC meeting decisions.**

**The MPC also decided to keep unchanged the interest rates on the Standing Deposit Facility (SDF) at 10.25% and on the Standing Lending Facility (SLF) at 16.25%, as well as the of the Reserve Requirement ratio for liabilities in domestic and foreign currency at 11.50% and 34.50%, respectively.**

**Inflation forecasts have been revised downward, to a single digit.** Annual inflation trended upward, rising from 3.52% in December 2020 to 5.10% last February, due to the impact of climate shocks and the pass-through of the Metical depreciation to domestic prices. Meanwhile, core inflation, which excludes goods and services with administered prices and fruits and vegetables, accelerated at a slower pace when compared to headline inflation, as expected. For the short and medium-term, it is expected a lower price increase, mainly reflecting the current Metical appreciation trend, resulting from the measures taken in the last MPC meeting, in a context of weak economic activity.

**Risks and uncertainties associated with inflation projections remain high.** At domestic level, it stands out the uncertainty regarding the spread of COVID-19, the impact of natural disasters and the prevalence of military instability, particularly in the northern part of the country. In the external environment, the main source of uncertainty is the volatility in the price of the country's main import and export commodities and the strengthening of the US dollar.

**Prospects for a sluggish recovery in economic activity in 2021 remain.** Following a contraction of the Gross Domestic Product by 1.3%, in 2020, a slight growth is expected in 2021, supported by the likely recovery of external demand, due to the progress in the vaccination, adoption of fiscal stimulus packages, and the progressive easing of measures imposed under COVID-19. At domestic level, a gradual recovery in the economy is expected, as a result of the progress in containing the spread of COVID-19, in a context of implementation of projects in the Rovuma Basin. In this regard, the MPC continues to consider relevant, the deepening of structural reforms aimed at strengthening institutions, improving the business environment, attracting investment and creating jobs.

**Pressure on public finances persists.** The prospects of an increase in the public spending to cope with the country's challenges continues to justify the worsening of the budget deficit. Among the factors for a higher fiscal pressure, the key are the acquisition and logistics for the administration of the vaccine against COVID-19, the mitigation of the socio-economic impact of climate shocks, as well as the spending on the military instability, particularly in northern areas of the country. In fact, since the last MPC, domestic public debt, excluding loan and lease contracts and overdue liabilities, has increased from 183.8 billion meticaís to 189.0 billion meticaís.

**Exchange pressure reduces significantly and the Metical appreciates against the US Dollar.** Since the beginning of March, demand for foreign currency has been completely satisfied, as a result of a greater fluidity in the foreign exchange market, in contrast with the trend observed at the beginning of the year. As such, the Metical has appreciated, standing at 73.35 MZN/USD, after 75.11 MZN/USD at the end of last January. In parallel, gross international reserves remain at comfortable levels, standing at USD 3 987 million, sufficient to cover more than six months of imports of goods and services.

The MPC will continue to monitor the domestic and international macroeconomic environment, as well as the prevailing risks, and will not hesitate take the necessary corrective measures before the next ordinary meeting scheduled for May 19, 2021.

**Rogério Lucas Zandamela**

**Governor**