



**MONETARY POLICY COMMITTEE
COMMUNIQUÉ No. 03/2021
Xai-Xai, 19 May 2021**

Policy Interest Rate unchanged at 13.25%

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to keep unchanged the monetary policy rate, MIMO rate, at 13.25%. The decision is based on the worsening of the risks and uncertainties, notwithstanding the downward revision of the inflation forecasts for the short and medium term, reflecting mainly the recent appreciation of the Metical.

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

The risks and uncertainties associated with the inflation forecasts have worsened. At the domestic level, the intensification of military instability in the northern areas of the country stands out, with an impact on the fiscal pressure and the suspension of Mozambique's LNG project, in addition to the increased volatility of the exchange rate. This volatility stems from the prevailing high uncertainties and asymmetries in forming expectations by operators in the foreign exchange market. In the external environment, the key risks are the increased fluctuation in the financial assets and commodities prices, as well as the emergence of new variants of the coronavirus.

The inflation forecasts have been revised downward, despite the worsening risks. Annual inflation decelerated to 5.19% in April from 5.76% in March, reflecting the recent appreciation of the Metical, and the fading impact of the natural disasters that hit the country at the beginning of the year. Core inflation, which excludes goods and services with administered prices and fruits and vegetables, slowed down, as expected. For the short and medium term, a slower pace of acceleration in inflation is anticipated, mostly due to the recent dynamic in the exchange rate, in a context of weak economic activity.

A slower recovery of the economy is anticipated for 2021. This prospect is underpinned by the weak domestic demand, coupled with the suspension of Mozambique's LNG project, despite the forecast of a gradual upturn in external demand, and the expected containment of the spread of COVID-19. Thus, given the limited space of monetary policy and State Budget, the deepening of the structural reforms in the economy remains relevant, aimed at strengthening institutions, improving the business environment, attracting investment and creating jobs.

Domestic public debt remains high. Since the end of March, domestic public debt, excluding loans and lease agreements and overdue liabilities, increased slightly by 310 million to 205.5 billion meticaís.

International reserves remain at comfortable levels. Gross international reserves stand at USD 3,987 million, sufficient to cover more than 6 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 to take the necessary corrective measures before the next ordinary meeting scheduled for July 21, 2021.

**Rogério Lucas Zandamela
Governor**