



**MONETARY POLICY COMMITTEE
COMMUNIQUÉ N° 06/2018
Maputo, 13 December 2018**

The Monetary Policy Committee (MPC) of the Bank of Mozambique, gathered today, has decided to cut the key lending rate, MIMO rate, by 75 basis points to 14,25%.

It also decided to cut by 75 basis points the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) to 11.25% and 17.25%, respectively, as well as to maintain the reserve requirements for liabilities in domestic and foreign currency at 14.0% and 27.0%, respectively.

The decision to resume the downward revision of the MIMO rate is based on the fact that the available information and the short and medium-term outlooks confirm the maintenance of the single digit inflation, in line with previous projections.

Annual inflation slowed for the third consecutive month. According to the National Statistics Institute (INE), monthly inflation, as measured by the variation of the national Consumer Price Index (CPI), stood at 0.27% in November, from 0.07% in the previous month. This was reflected in an annual inflation of 4.27%, in November, keeping the slowing trend that initiated in September 2018, when it stood at 4.89%. This slowdown was favored by lower annual growth in foodstuff and liquid fuel prices.

The economic activity level remains low. According to data published by INE, real GDP grew by 3.2%, in the third quarter of 2018, driven by the extractive industry, agriculture and trade sectors. However, the economic climate indicator for October points to an optimistic sentiment over economic activity, following successive months of pessimistic evaluation since May this year. This reverse trend reflects the assessment of entrepreneurs in the sectors of industry, trade, transport, accommodation and catering, contradicted by the pessimism of entrepreneurs in the construction sector.

The Metical registered a slight nominal depreciation vis-à-vis the US Dollar. In the period following the MPC meeting of 22 October, the Metical exchange rate vis-à-vis the US dollar maintained a downward trend, driven by the strengthening of the US currency in the international market and by a greater demand for foreign exchange in the domestic market. Thus, after an exchange rate of MZN 60,61/USD, at the end of October, the average exchange rate applied by commercial banks to the public stood at MZN61.48/USD, on 12 December. In the same period, the ZAR rate went from MZN 4.18 to MZN 4.31.

The balance of payments current account has deteriorated. Data relating to the third quarter of 2018 show an increase in the current account deficit by USD 871 million, reflecting the growth of imports of intermediate consumer goods and of payments for services abroad related large projects activities.



International Reserves remain at comfortable levels. Since the last MPC, the balance of gross international reserves increased by USD 70.8 million to USD 3,130.2 million, at the end of November, a figure that covers 7 months of import of goods and services, excluding large projects transactions.

Retail interest rates continue to decline, in line with the MIMO rate. The available information shows that the lending average interest rate for one-year period decreased from 23.25% in September to 22.79% in October. Bank credit to the private sector increased slightly, in circumstances where much of the banking liquidity continues to be applied in Interbank Money Market instruments and in public debt securities. The average interest rate for one-year period deposits decreased from 12.29%, in September, to 11.50%, in October

Internal public debt remains high. November data indicates that the flow of domestic public debt contracted using Treasury Bills, Treasury Bonds and down payments from the Bank of Mozambique has increased by MZN 3,759 million, since the last MPC, to MZN 112,016 million (equivalent to 12.8% of GDP). 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.

Economic activity slowdown risks remain high at international level. Fears of a possible slowdown in world growth due to the poor dynamics of emerging economies continue to derive from trade tensions between the major economies, with impact on foreign trade flows and international oil price volatility. The price of a barrel of oil stood at USD 60.15 at the close on 12 December 2018, against USD 63.34 observed in the same period of 2017.

The current conditions of the Mozambican economy favor the projection of low and stable inflation, around a single digit, in the short and medium term. Nevertheless, the MPC notes that there are still risks associated with the sustainability of the public debt, as well as the uncertainties regarding the evolution of the prices of administered goods.

Considering the short- and medium-term inflation prospects, and considering the underlying risks, the MPC has decided to:

- ✓ Cut the monetary policy interest rate, MIMO rate, by 75 basis points, to 14,25 %;
- ✓ Cut the Standing Lending Facility (SLF) by 75 basis points, to 17,25%;
- ✓ Cut the Standing Deposit Facility (SDF) by 75 basis points, to 11,25%;
- ✓ Keep the reserve requirement for liabilities in domestic currency at 14.0%; and
- ✓ Keep the reserve requirement for liabilities in foreign currency at 27.0%;

The MPC will continue to monitor economic and financial indicators and risk factors and may take the necessary corrective measures before the next meeting, scheduled for 21 February 2019.

Rogério Lucas Zandamela
Governor