November 2022
No.48|year 11

ECONOMIC OUTLOOK AND INFLATION FORECASTS

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November 2022

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Full-Fledged Members

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[1] Internal and/or external guests may also participate in Monetary Policy Committee meetings, whenever necessary, at the invitation of the body's Chairman.

Foreword

The primary mandate of the Banco de Moçambique (BM) is to maintain price stability so as to ensure the protection of the purchasing power of citizens. This implies keeping inflation low, at one digit, and stable in the medium term. The mandate to make this objective possible is exercised by the Monetary Policy Committee (MPC), a body composed of the Governor, Vice-Governor, BM Board Members and permanent guests. At the same time, the BM is responsible for supervising and maintaining the stability of the financial system.

Price stability also fosters balanced and sustainable economic growth. Price stability reduces the degree of uncertainty of economic agents and makes it possible to ensure more attractive interest rates, enabling a favorable environment for savings and investment.

To ensure price stability, the MPC defines the policy interest rate, known as the Mozambique Interbank Money Market Rate (MIMO). This rate, introduced on April 17, 2017, signals the monetary policy stance and serves as an anchor for operations in the Interbank Money Market (IMM). It is expected that, through its influence on overnight interest rates formed in the IMM, the MIMO rate will affect inflation through the expectations, exchange rate and credit channels.

The decision on the MIMO rate is primarily based on inflation projections, always weighing the risks and uncertainties associated with such projections and the economic outlook. The MPC recognizes the delayed effect of its decisions on the economy, so its policy stance is based on the assessment of the economic and financial outlook, including risks and uncertainties, over eight quarters at least. Where inflation projections deviate materially from the primary monetary policy objective set for the medium term, the MPC shall take appropriate policy measures to reverse the trend.

The MPC convenes ordinarily once every two months, and extraordinarily whenever economic conditions so require. The schedule of regular MPC meetings is announced at the beginning of each year. However, the body may convene extraordinarily to deliberate on monetary policy aspects, whenever macroeconomic circumstances so require.

The BM values transparency in the communication of its monetary policy. Monetary policy decisions are announced publicly, through an MPC Communiqué and / or a Press Conference Communiqué led by the BM Governor, on the same day of the committee meeting.

The Economic Outlook and Inflation Forecasts (CEPI) Report is an additional means for communicating the Monetary Policy Committee's (MPC) decisions. The CEPI report discloses the factors and rationale behind measures taken by the MPC, broadening the public's understanding of objectives and conduct of monetary policy.

Rogério Lucas Zandamela

Governor

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Decisions of Session No. 6 of the Monetary Policy Committee, of November 30, 2022

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to keep the MIMO policy rate unchanged at 17.25%. This measure follows from the high risks and uncertainties associated with inflation forecasts, especially the effects of the persistence of the geopolitical tension in Europe and the external demand slowdown, despite prospects of inflation reverting to a single digit in the medium term.

Inflation forecasts point to a slowdown in the medium term. In October, annual inflation of the cities of Maputo, Beira and Nampula slowed to 11.08%, following 12.01% in September, mainly driven by the slowdown in food prices, especially fruit and vegetables. Core inflation has also slowed. In the medium term, the prospects of inflation reverting to a single digit are consolidating, reflecting the effects of MIMO policy rate increases and Metical stability, despite the prevalence of high risks and uncertainty.

Risks and uncertainties associated with inflation projections remain high. At the domestic side, stand out the rising pressures for an increase in current public spending, uncertainty as to the impacts of climate shocks on the supply and trading of goods, and developments in administered prices, including their effect on the prices of other goods and services. Externally, uncertainties persist as to the effects of the protracted Russia-Ukraine conflict, coupled with the risks of global economic recession.

Economic growth forecasts for 2023 have been slightly revised downwards. In the third quarter of 2022, gross domestic product growth slowed to 3.6%, mainly driven by the weak performance of the secondary sector. In the medium term, a slight slowdown in the expansion of economic activity is expected, amid the potential decline in external demand and restrictive financial conditions, including increased bottlenecks to access international financial markets. Meanwhile, the implementation of energy projects will continue to drive economic growth at the domestic side.

Domestic public debt remains high. Domestic public debt, excluding loan and lease agreements and overdue liabilities, stands at MZN 274.8 billion, a 56 billion increase, compared to December 2021.

The MPC shall continue to monitor the developments of the risks and uncertainties associated with inflation forecasts, and will not hesitate to take the necessary corrective measures.

The next regular meeting of the MPC is scheduled for January 25, 2023.

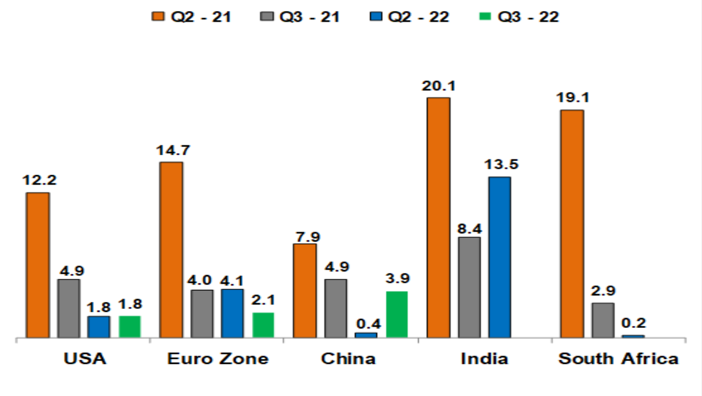
Rogério Lucas Zandamela

Governor

Chapter I. Recent Developments in International Economy and Forecasts

Prospects of global economic growth slowdown in 2022 and 2023 have intensified, due to the protracted Russia-Ukraine conflict and central banks hiking policy rates in order to cope with prevailing inflationary pressures. The US Dollar is weakening against major currencies amidst fears of a slowdown of the US economy. Meanwhile, commodity prices remain high, despite signs of stabilization.

Chart 1-1: GDP Developments (%)



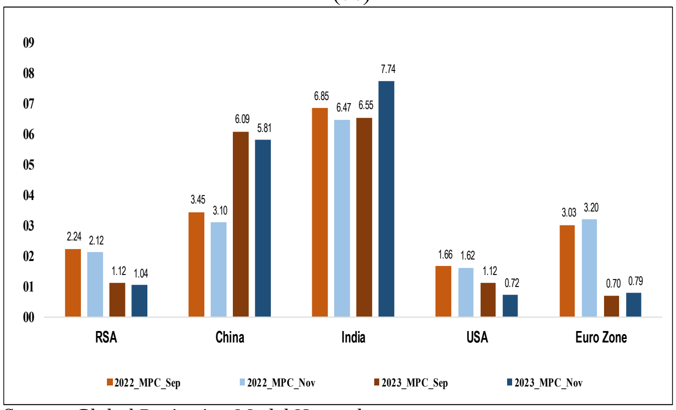
Source: *Trading Economics*

Table 1-1: Global GDP Projections – 2022 and 2023 (%)

Region	Projections			Difference from July 2022 WEO	
	2021	2022	2023	2022	2023
World Output	**6.0**	**3.2**	**2.7**	**0.0**	**(0.2)**
Advanced Economies	**5.2**	**2.4**	**1.1**	**(0.1)**	**(0.3)**
United States	5.7	1.6	1.0	(0.7)	0.0
Eurozone	5.2	3.1	0.5	0.5	(0.7)
Germany	2.6	1.5	-0.3	0.3	(1.1)
Japan	1.7	1.7	1.6	0.0	(0.1)
United Kingdom	7.4	3.6	0.3	0.4	(0.2)
Emerging Market & Developing Economies	**6.6**	**3.7**	**3.7**	**0.1**	**(0.2)**
Brazil	4.6	2.8	1.0	1.1	(0.1)
India	8.7	6.8	6.1	(0.6)	0.0
China	8.1	3.2	4.4	(0.1)	(0.2)
Sub-Saharan Africa	**4.7**	**3.6**	**3.7**	**(0.2)**	**(0.3)**
South Africa	4.9	2.1	1.1	(0.2)	(0.3)

Source: IMF, WEO (October 2022)

Chart1-2: Real GDP Outlook (%)



Source: *Global Projection Model Network*

1.1. Economic Activity and Inflation

In the third quarter of 2022, the country's main trading partners experienced a mixed performance in economic activity.

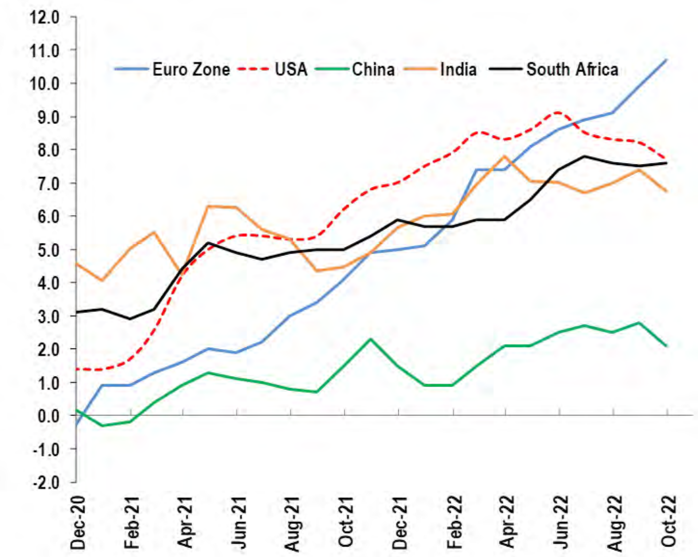
Recent data suggest that the US GDP grew by 1.8% in 2022Q3, the same figure as in the previous quarter, driven by increased exports and private consumption. As for the Eurozone, growth slowed, as a result of the ongoing energy crisis that continues to affect the region, amid the protracted Russia-Ukraine military conflict.

In the same period, the Chinese economy grew by 3.9%, compared to the 0.4% in the previous quarter, reflecting the incentives to the industry sector by the Government and increased exports (Chart 1-1).

Prospects of a weakening global economy in 2023 are more evident. In October 2022, the International Monetary Fund (IMF) upheld it´s growth outlook for the world economy for 2022 and revised it downwards for 2023. The downward revision follows from (i) the effects of the protracted Russia-Ukraine war and (ii) policy rate hikes by major central banks, against a backdrop of prevailing high prices (Chart 1-1).

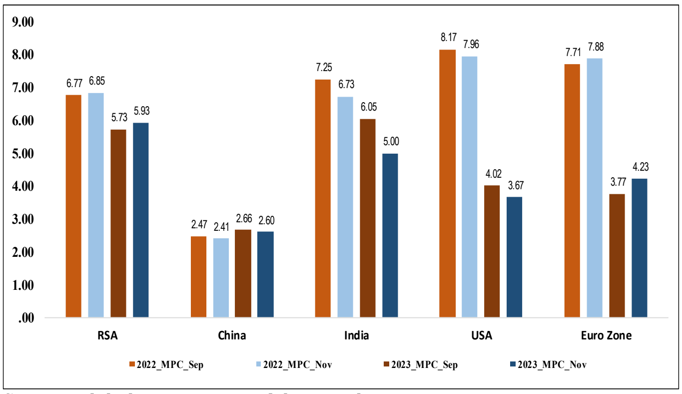
The Global Projection Model Network (GPMN) similarly attests to the IMF's prospects of a prolonged slowdown in the global economy in 2022 and 2023 (Chart 1-2). In advanced economies, the macroeconomic forecasts of the two bodies converge towards almost zero growth in 2023, thus exacerbating the risk of a potential global recession (Table 1-1 and Chart 1-2).

Chart 1-3: Inflation Developments (%)



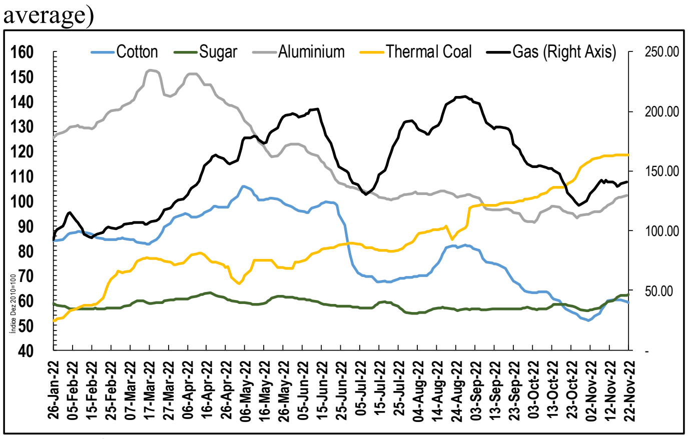
Source: *Refinitiv* and *Trading Economics*

Chart 1-4: Inflation Outlook (%)



Source: *Global Projection Model Network*

Chart1-5: Price Index of Exported Goods (7-day moving average)



Source: *Refinitiv*

In October 2022, inflation eased in most of the country's main trading partners, albeit remaining high (Chart 1-3). Indeed, in the US, China and India, annual inflation softened due to a slowdown in food prices. On the other hand, in the Eurozone and South Africa, annual inflation has rose due to the increase in electricity and food prices, respectively.

The short and medium-term inflation outlook for the country's main trading partners is mixed.

The GPMN's forecasts point to an upward revision of inflation estimates for the Eurozone and South Africa, for 2022 and 2023, mainly driven by the impact of the Russia-Ukraine conflict. Meanwhile, for the US and India, the forecast remains for relatively lower inflation for the same period, albeit still above the long-term targets, thus further policy rate hikes are expected (Chart 1-4).

The slight easing of the global inflation outlook for 2022 and 2023, relative to last September, mainly reflects the weakening of global demand due to prospects of a further slowdown in global economic activity, in the wake of tighter monetary policy, and in a backdrop in which Black Sea grain export agreements continue to be upheld and, a waning of the effects of the reopening of economies post-COVID-19.

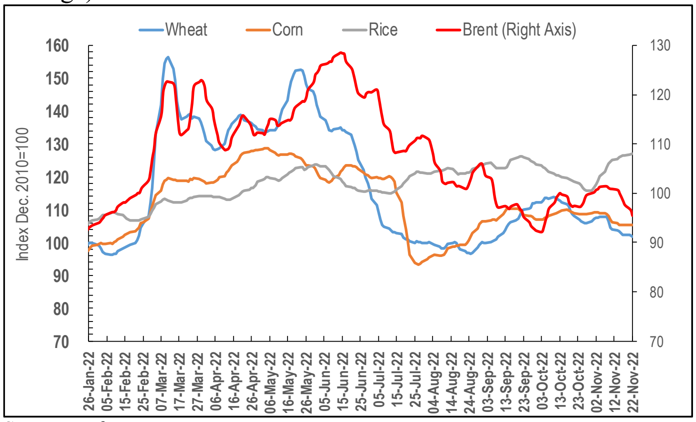
1.2. Prices of Main Commodities and Trading Partners' Currency Dynamics

Prices for key commodities remain high, despite signs of stabilization.

With regards to export commodities, aluminum and thermal coal are highlighted. Compared to September 2022's MPC session, prices increased by 8.3% and 17.6%, respectively, as a result of the partial easing of restrictive measures in China and the enforcement of sanctions on Russian coal imports in Europe (Chart 1-5).

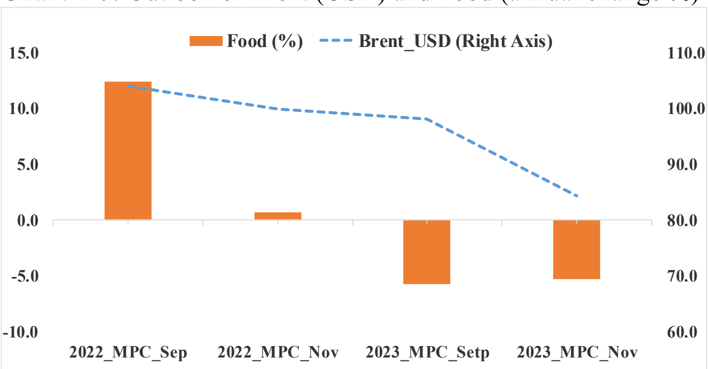
As for import commodities, the brent price's stability is highlighted, compared to September's MPC session (Chart 1-6).

Chart 1-6: Price Index of Imported Goods (7-day moving average)



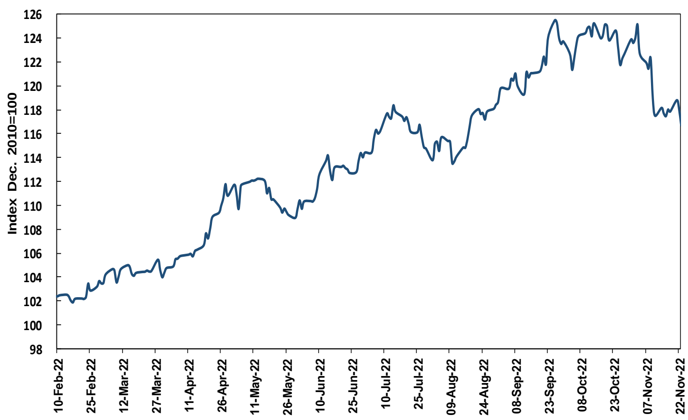
Source: *Refinitiv*

Chart 1-7: Outlook of Brent (USD) and Food (annual change %)



Source: *Global Projection Model Network*

Chart 1-8: USD Composite Index against the Currencies of of the Main Trading Partners



Source: *Refinitiv*

For 2023, an ongoing decline in food and brent prices is expected in the global market, which should converge to figures prior to the Russia-Ukraine conflict (Chart 1-7).

The US Dollar is weakening against main currencies, amid fears of a slowing US economy.

Since the last MPC (September 2022) up to November 22, the US Dollar Composite Index slipped against the major trading currencies (Euro, Rand, Pound and Yen), amid fears of a slowing US economy, against a backdrop of restrictive monetary policy adopted by the FED and uncertainties related to the protracted Russia-Ukraine conflict (Chart 1-8).

Chapter II. Recent Developments in Domestic Economy and Short-Term Forecasts

In the third quarter of 2022, real GDP grew by 3.6% in annual terms, reflecting the post-COVID-19 upturn and the good performance of the export sector, mainly favored by higher prices of the main export goods. Despite the world economy's slowdown prospects, domestic economic activity is expected to continue to improve in the near term, driven by the implementation of structuring energy projects in the country and the boost to aggregate demand amid the resumption of direct support to the State budget, among other factors. In the medium term, annual inflation should slow, driven by (i) the base effect, (ii) Metical stability against the USD and (iii) restrictive financial conditions. However, uncertainties stand as to the impacts of the protracted Russia-Ukraine geopolitical conflicts and dynamics of the domestic administered prices.

Table 2-1: Mozambique Real GDP Dynamics by Sectors - Annual Change (%)

Sectors	2021	2022			
	III	I	II	III	Contr.(pp) IIT
Primary Sector	**5.7**	**4.6**	**5.6**	**5.2**	**1.6**
Agriculture	5.0	4.0	5.1	4.2	1.0
Fishing	2.4	0.9	2.5	3.6	0.0
Mining	8.8	8.6	9.1	8.8	0.6
Secondary Sector	**3.6**	**4.3**	**3.8**	**-2.7**	**-0.3**
Electricity, Gas and Water	5.2	6.3	6.9	-3.1	-0.1
Manufacturing	2.9	3.8	3.2	-2.6	-0.1
Construction	3.1	3.6	2.3	-2.2	-0.0
Tertiary Sector	**2.2**	**3.7**	**3.9**	**3.8**	**1.7**
Trade and Services	2.8	3.2	2.0	1.0	0.1
Accommodation and Catering	0.6	11.4	7.6	13.3	0.2
Transport and Communication	2.7	7.3	8.5	7.1	0.8
Financial Services	2.3	1.7	3.6	3.5	0.2
Public Adm.Education and Health	1.8	2.7	2.8	2.5	0.4
Other Sectors	1.6	1.2	1.6	2.3	0.1
GDP at factor cost	**3.6**	**4.1**	**4.5**	**3.6**	**3.1**
Tax on products	3.1	4.2	5.0	3.9	0.5
GDP	**3.5**	**4.1**	**4.6**	**3.6**	**3.6**

Source: INE

Table 2-2: Balance of Payments (USD million)

	Q3 - 2021	Q3 - 2022	Annual Change
Current Account	**-2,981**	**-5,621**	**-2,640**
Balance of Goods	-1,938	-4,781	-2,843
Exports	3,603	6,058	2,455
Imports	5,540	10,839	5,299
Balance of Services	-1,277	-1,100	177
Primary Income Balance	-299	-408	-109
Secondary Income Balance	532	668	136
Capital Account	50	49	-2
Financial Account	**2,650**	**4,781**	**2,131**
comprising			
FDI	4,585	1,652	-2,933
Other Investments	-1,933	3,123	5,056

Source: BM

2.1. Short-Term Economic Activity

Economic activity grew by 3.6% in the third quarter of 2022, 100 bps less than in the previous quarter. The slowdown reflects the contraction observed in the secondary sector, in a setting where export commodity prices remained favorable and motivated by the external demand upturn, especially evidenced by the performance achieved by the mining industry (Table 2-1).

In terms of aggregate demand components, the following stand out for the good performance of GDP:

i) The significant increase in exports, amid ongoing high prices of main commodities, verified until September. In the period concerned, the exports of goods value increased by USD 2,455 million, compared to the same period of the previous year, 80% of which correspond to mega projects exports (Table 2-2), in a context where imports remain mainly driven by the floating platform of the Coral South Project. In terms of products, minerals, aluminum and natural gas stand out with the greatest growth.

(ii) Public spending also contributed to the increase in economic activity up to the third quarter of this year. In fact, total public spending grew by 8.6%. However, the investment component with the greatest multiplier impact on the economy remains low, in a context where, given the low-level of funds disbursement by cooperation partners, the State

Table 2-3: External Trade (USD million)

Exports	Q3 - 2021	Q3 - 2022	Annual Change
Mineral Coal	804	2,182	1,378
Aluminum Bars	857	1,323	466
Heavy Sands	313	365	52
Electricity	428	385	-43
Aluminium Cables	96	120	24
Natural Gas	192	316	124
Imports	**Q3 - 2021**	**Q3 - 2022**	**Annual Change**
Fuels	607	1,441	834
Construction material	654	486	-168
Machinery	834	5,121	4,287
Raw Aluminum	282	383	101
Vehicles	255	263	9

Source: BM

Table 2-4: State Budget Implementation(MZN million)

	Q3 - 2021	2022 Budget	Q3 - 2022	Annual Var.
Income	198,067	293,917	215,698	8.9%
Total Expenditure	249,356	450,577	270,748	8.6%
Current Expenses	174,918	284,908	200,637	14.7%
Investment Expenses	38,533	114,703	35,876	-6.9%
Deficit (before donations)	-51,289	-156,660	-55,050	7.3%
Domestic Loans	30,341	53,082	33,605	10.8%
Application of Capital Gains	2,500	5,000	4,801	92.0%
External Financing	19,779	98,579	24,920	26.0%
Stock Variation	1,330		8,276	

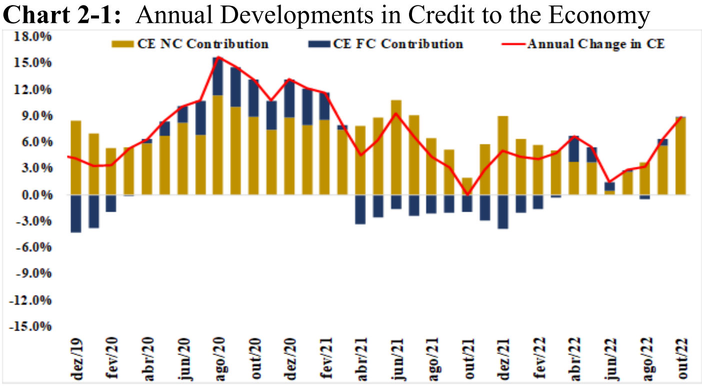
Source: Ministry of Economy and Finance (MEF)

Table 2-5: Domestic Public Debt (MZN million)

	Use of T-Bills	Treasury Bonds	In the BM	Total Debt	Debt as % of GDP
Dec – 2019	29,671	61,817	48,067	139,555	14.5%
Dec – 2020	44,220	88,100	54,885	187,205	18.1%
Dec – 2021	59,399	102,415	57,009	218,823	21.2%
Mar – 2022	74,570	104,395	59,640	238,605	23.1%
May – 2022	80,570	107,350	60,794	248,714	24.6%
Jun – 2022	80,570	109,700	63,631	253,901	24.2%
Aug – 2022	73,570	114,500	64,585	252,655	24.5%
Sep – 2022	68,370	124,990	65,118	258,478	25.0%
Out – 2022	84,684	124,990	65,731	275,405	26.7%
Nov – 2022	76,370	132,716	65,731	274,817	26.6%
Flow (Dec/21 - Nov/22)	16,971	30,301	8,722	55,994	

Source: BM

Chart 2-1: Annual Developments in Credit to the Economy



has decided to prioritize operating expenses, which grew by 15%, a situation which may prevail in the near term.

iii) private sector spending, which shows an improvement over the same period in 2021. This dynamic is supported by the successive annual increases in credit granted by the banking system since July, albeit timidly, due to the restrictive stance of monetary policy**.** In sectoral terms, stand out transports, trade, food and beverages which, in terms of stock and "new credit", experienced positive changes.

Pressure on public domestic debt remains. Amid the limited availability of financial resources by the State, in a context of fewer disbursements of external resources, pressure on domestic public debt instruments remains. In this light, between the last two MPC sessions, domestic public debt rose to 274.8 billion meticais. Cumulatively, domestic public debt increased by about 56.0 billion meticais, mainly driven by increased funding through Treasury Bonds and the issuance of Treasury Bills.

In the near term, prospects for a recovery in economic activity remain. The implementation of structuring energy projects in the country and direct support to the state budget and the program with the IMF are expected to contribute to GDP growth. It should be noted that in November 2022, the country started exporting liquefied natural gas from the Rovuma basin.

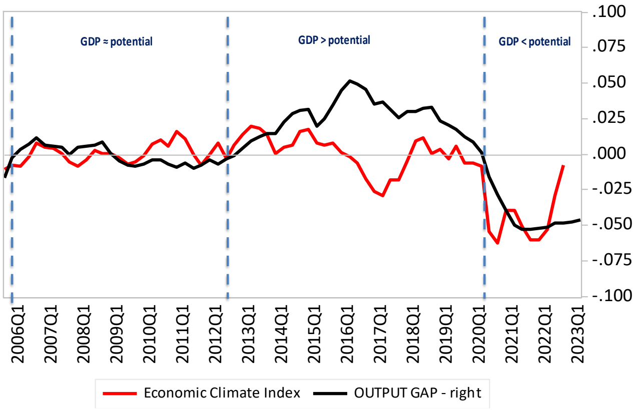
On the external side, in the short term, export should continue to grow, driven by greater demand for energy and commodity prices in the global market, which remain high, despite leaning towards stability.

Meanwhile, economic activity is expected to remain below potential (Chart 2-2), in line with the recent performance of the purchasing managers index (Chart 2-3).

The country's international reserves remain comfortable. As measured by the Gross International Reserves (GIR), the country's external position remains satisfactory, with a cumulative balance of about USD 2,800 million

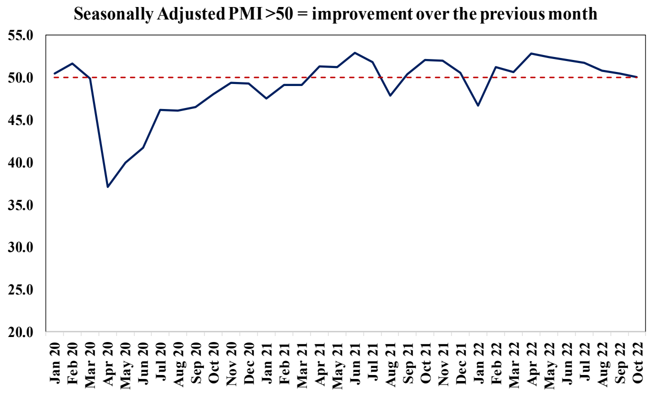
Source: BM

Chart 2-2: Output Gap and ECI Developments



Source: INE/BM

Chart 2-3: Purchasing Managers Index (PMI)



Source: HIS, Markit

in mid-November 2022, enough to cover more than 3.5 months of imports of goods and services, excluding mega projects.

Box 1 : Monetary and Financial Developments

I. Interest Rate Developments

a) Money Market Interest Rates

Between September and November 2022, money market interest rates increased, in line with the MIMO policy rate hikes. Indeed, the interest rates for all money market maturities have increased by about 200 bp. The overnight maturity interest rate moved to 17.25% and the 7-day maturity interest rate to 17.29%. Interest rates for the 28-day and 63-day maturities moved to 17.48% and 17.52%, respectively, while interest rates for the longer maturities increased to 17.64% (91 days), 17.67% (182 days), and 17.70% (364 days), respectively (Chart 1).

The BM's intervention interest rates for shorter maturities have also increased, in line with the MIMO policy rate. Reverse repo interest rates (sale of securities with repurchase agreement) moved to 17.29%, 17.48% and 17.52, for the 7-day, 28-day and 63-day maturities, respectively (Chart 2).

Between September and November, T-Bill interest rates increased. Indeed, the 91-day, 182-day and 364-day interest rates (benchmark maturities) increased to 17.64%, 17.67% and 17.70%, respectively. It should be noted that the 364-day T-Bill interest rate stood 45 bps above the MIMO policy rate (Chart 3).

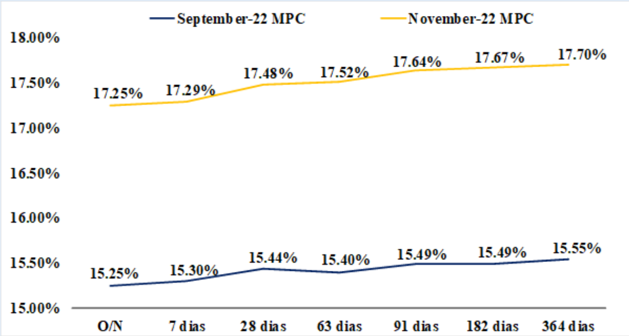
b) Treasury Bond Interest Rates (T-Bond)

T-Bond interest rates have increased in line with the MIMO policy rate. In fact, during the period concerned, the State issued T-Bonds only for the 4-year maturity, and the weighted average interest rate increased to 20.51%, an 88 bps increase compared to the previous auction for the same maturity (Chart 4).

c) Retail interest rates

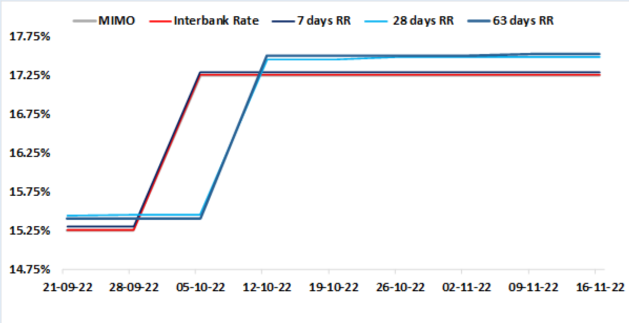
September data signals an interest rate rise on loans. In fact, the average interest rate on loans increased by 70 bps, while the deposit's declining tendency slowed, with both standing at 18.1% and 10.3%, respectively, resulting in a widening of the spread between them (lending and borrowing interest rates) (Chart 5).

Chart 1: Money Market Yield Curve



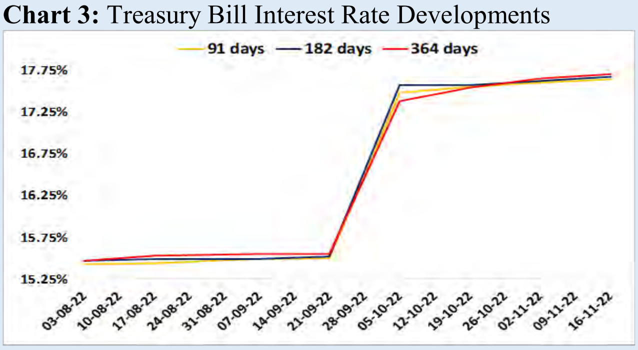
Source: BM, 2022

Chart 2: IMM Interest Rate Developments



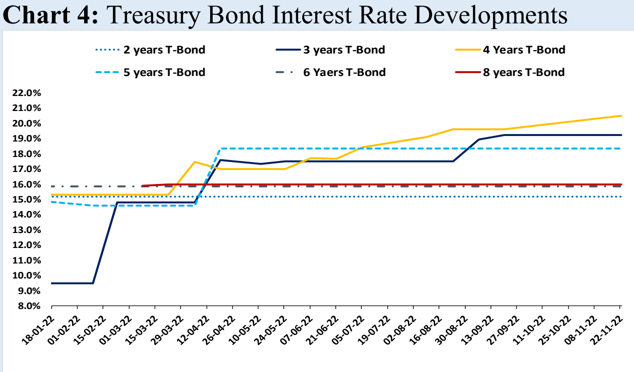
Source: BM, 2022

Chart 3: Treasury Bill Interest Rate Developments



Source: BM, 2022

Chart 4: Treasury Bond Interest Rate Developments



Source: BVM, 2022

II. Exchange Rate Developments

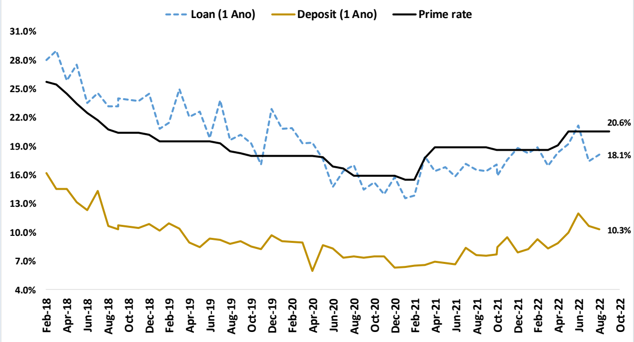
a) Metical Exchange Rate against the US Dollar

The Metical's (MZN) exchange rate remains stable against the US Dollar (USD). In fact, in the period between the MPC cycles, the benchmark exchange rate of the MZN against the USD remained at MZN/USD 63.87 and the effective exchange rate (resulting from transactions between commercial banks with the public), moved from MZN/USD 63.89 in September to MZN/USD 63.88 in November. In the segment of the foreign exchange bureau, the performance was identical, however, with a slight appreciation in national currency, which declined from MZN/USD 63.85 to MZN/USD 63.71 (Chart 6).

b) Metical Exchange Rate against the Rand

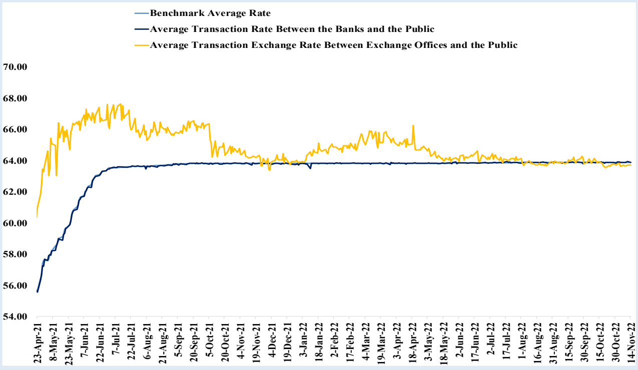
Stability of the Metical (MZN) against the Rand (ZAR) in the period concerned. In fact, the benchmark exchange rate of the MZN against the ZAR rose from MZN/ZAR 3.67 to MZN/ZAR 3.70. The remaining segments experienced the same performance (Chart 7).

Chart 5: Developments in Retail Interest Rates and the Prime Rate



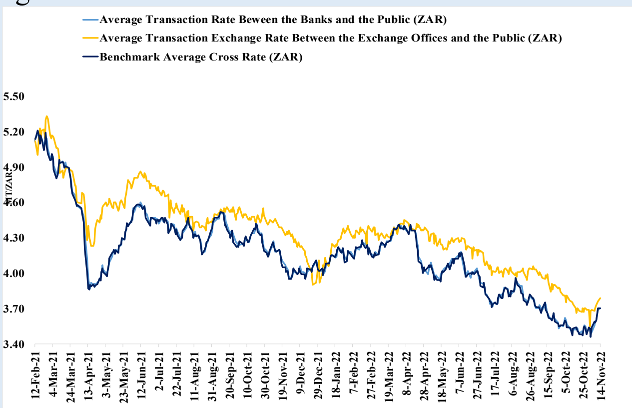
Source: BM, 2022

Chart 6: Metical Exchange Rate Developments against the US Dollar



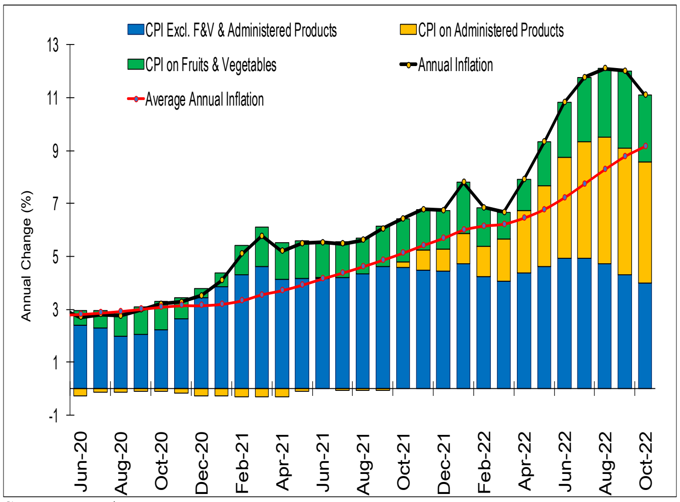
Source: BM, 2022

Chart 7: Metical Exchange Rate Developments against the ZAR



Source: BM, 2022

Chart 2-4: Annual Inflation Components



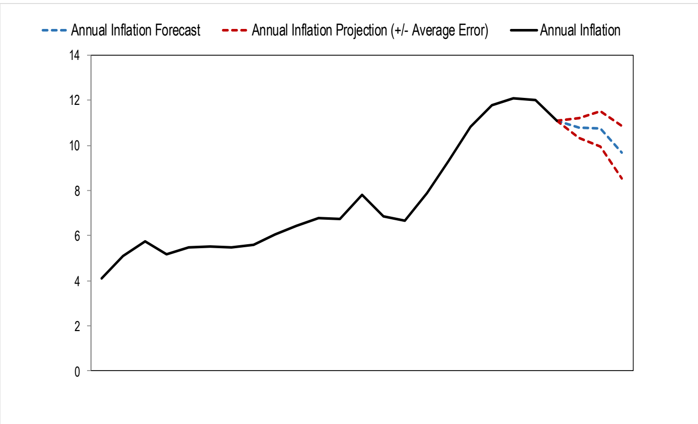
Source: INE/BM

Table 2-6: Core Inflation – Mozambique (Annual Var. as %)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
CPI	9.31	10.81	11.77	12.10	12.01	11.08
Food	13.51	15.90	17.24	17.27	17.38	15.89
Cereals and by products	14.17	18.00	19.23	19.47	19.81	20.83
Fruits and Vegetables	20.84	26.23	30.52	31.70	35.20	29.65
Administered	14.63	18.18	20.94	22.86	22.93	21.63
Liquid Fuels	26.38	34.13	41.32	41.55	41.55	36.75
CPI x Frut. & Veg.	8.22	9.41	10.13	10.41	9.96	9.40
CPI x Admin.	7.96	8.91	9.39	9.33	9.22	8.37
CPI x Frut. & Veg. and Admin.	6.34	6.85	6.96	6.77	6.21	5.85

Source: INE

Chart 2-5: Short-Term Annual Inflation Projections and Observed Annual Inflation (%)



Source: BM

2.2. Recent Inflation Developments and Short-Term Prospects

In October 2022, annual inflation eased, driven by food prices. As measured by the Mozambique Consumer Price Index (CPI), annual inflation decelerate [2] from 12.71% in September to 11.83% in October. In the same path, data collected in the cities of Maputo, Beira and Nampula (MABENA), show that annual inflation, declined from 12.01% in September to 11.08% in October (Chart 2-4).

Developments in overall price levels in October are mainly driven by the decline in food prices, especially fruits and vegetables, amid an unusual supply for the referenced month (Table 2-6).

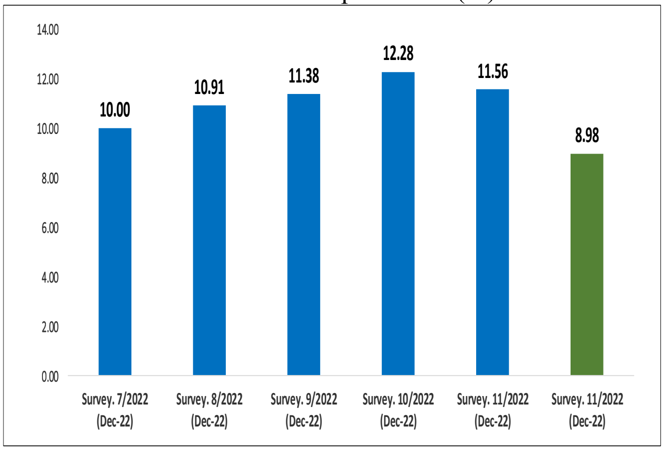
Core inflation slowed in October 2022. Excluding the subgroup of fruit and vegetables (the most volatile component of the CPI basket) and the subgroup of products with administered prices, annual core inflation slowed from 6.21% in September to 5.85% in October (Table 2-6 and Charts 2-4 and 2-5). Such performance reflects the restrictive financial condition, as well as the Metical's stability against the US Dollar, and appreciation against the Rand (since August 2022). This drove the decline in imported goods prices, in a context that aggregate demand is below-potential, despite its recovery.

Short-term forecasts point to a slowdown in annual inflation (Chart 2-6), in line with last October's performance and expectations of economic agents. These prospects reflect (i) the base effect, (ii) the Metical's stability against the US Dollar and (iii) restrictive financial conditions. The diffusion index, one of the leading indicators of price developments, also backs the prospects of a slowdown in in inflation in the coming months of the current year (Chart 2-7).

However, uncertainties associated with severe climatic shocks prevail.

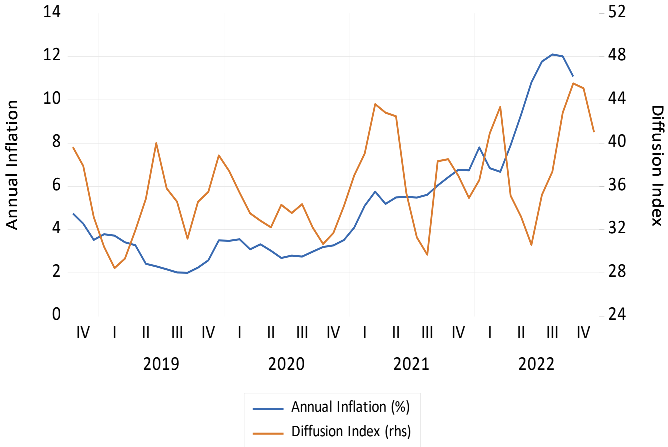
[2] Starting in October 2022, the INE began releasing a new publication on the aggregate national CPI, compiled from 8 cities.

Chart 2-6: Annual Inflation Expectations (%)



Source: BM

Chart 2-7: Diffusion Index and Annual Inflation



Source: BM/INE

Economic agents have revised downwards their inflation expectations for the end of the year. In November, expectations of economic agents suggest that, in December 2022, annual inflation may stand around 11.56%, following the 12.28%, found in the previous survey (Chart 2-7). In the medium term, prospects of inflation reverting to a single digit are consolidating.

Box 2: Change in the CPI Compilation Methodology in Mozambique

I. Background

In October 2022, the National Bureau of Statistics (INE), started to release a new publication on the Consumer Price Index (CPI), compiled from 8 cities (Inhambane, Quelimane, Xai-Xai, Nampula, Beira, Chimoio, Maputo and Tete), replacing the previous publication that covered 3 cities (Maputo, Beira and Nampula).

II. History of CPI compiling in Mozambique

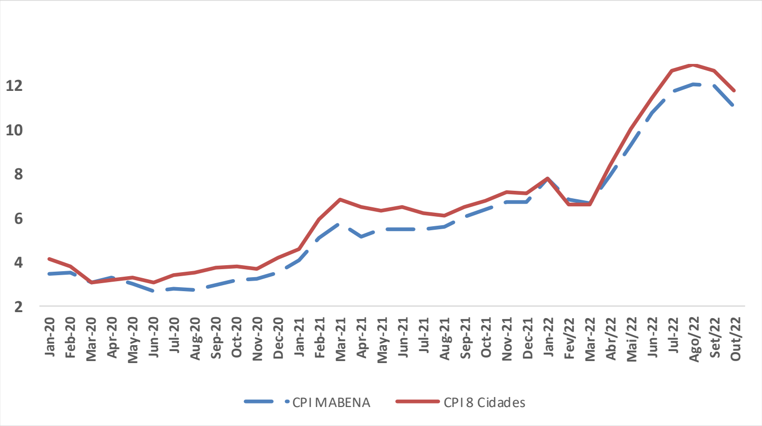
According to the INE, this change in methodology is a normal process and falls under the strategic vision of the institution of using an increasingly broad, comprehensive and representative index. The chronology of the developments in the CPI compiling process in Mozambique is as follows:

- **In 1989**, the CPI was introduced in Mozambique as a first attempt to estimate inflation in the country. It was calculated based on a survey of household expenses in Maputo city and covered about 1060 products. However, this index, in addition to lacking in representation, was reliant on the price of few basic food commodities, especially tomatoes and cabbage, which combined stood for 10% of the CPI basket.
- **In 1995**, the production on an alternative CPI started, with improved components and weight of the products basket, which, at the time, did better at representing the reality of consumer expenses;
- **In 2000**, the CPI calculation was extended to the two largest urban centers in the country after Maputo city, namely, Beira and Nampula (so called MABENA CPI). Indeed, in addition to the representation standard, these cities were chosen due to the scale of expenses and size of population. It should be noted that, as regards consumption, the MABENA CPI covers 41% of the total expenses in the country and, as regards population, about 32.6%.
- **In 2022**, the CPI calculation moves to include 5 more cities, making up a total of 8.

III. Comparison between the 8-cities CPI and MABENA CPI

According to the INE, the new publication of the CPI covers 2019 to 2022, having elected as the base year 2016 = 100 For the purpose of index aggregation, the following were recalculated: (i) expense weights for each center in the total national expenditure, (ii) weights by division, subdivision and product for each collection center, and nationwide, considering the total expense from all 8 centers. It should be noted that weights change annually due to the use of the modified *Laspeyres* formula.

Chart: 8-cities CPI vs MABENA CPI Developments



Source: INE

The results shown by these two methodologies differ slightly:

- **The main reason grounded on the weights' change for each city.** In fact, in view of the MABENA CPI compilation, Maputo city has a weight of 53.6%, followed by Nampula (27.5%) and Beira city (18.9%). However, in order to calculate the new 8-cities CPI, the 3 cities show significantly lower weights than the previous one (Maputo 30.6%, Nampula 15.9% and Beira 10.9%); and

- **Despite the differences in methodologies, the 8-cities CPI follows the same trend as the MABENA CPI**. In fact, in the available series (January 2020 to October 2022), the two CPIs show the same trend over time. However, the largest weights' distribution by 8 provinces, coupled with a greater acceleration of prices in the new centers for calculating CPI, brings about greater acceleration of headline inflation (CPI, including 8 provinces).

Source: INE

Chapter III. Medium-Term Inflation and Economic Activity Forecasts

In the medium term, the prospects of inflation reverting to a single digit are consolidating, reflecting the effects of MIMO policy rate increases and Metical stability, despite the prevalence of high risks and uncertainty. In the medium term, a slight slowdown in domestic economic activity expansion is expected, amid the potential decline in external demand and restrictive financial conditions, including increased bottlenecks to access international financial markets. Meanwhile, the implementation of energy projects will continue to drive economic growth at the domestic side.

In light of this macroeconomic framework and weighting the risks and uncertainties associated with inflation projections, the MPC has decided to keep the MIMO policy rate unchanged at 17.25%.

Table 3-1: External Assumptions

	2022	2023	2024
US Real GDP Growth (%)	**1.8**	**0.7**	**2.2**
September MPC/2022	2.3	1.6	1.8
RSA Real GDP Growth (%)	**2.0**	**0.7**	**1.3**
September MPC/2022	3.0	1.1	1.1
US Inflation (%)	**8.0**	**3.7**	**2.2**
September MPC/2022	8.3	4.3	2.3
RSA Inflation (%)	**6.8**	**5.9**	**4.6**
September MPC/2022	6.2	5.5	4.8
Brent price (USD)	**101.8**	**91.1**	**82.2**
September MPC/2022	113.2	99.2	86.7
Food price change (%)	**15.0**	**-9.5**	**-1.1**
September MPC/2022	23.9	-5.9	-14.5

Source: GPMN

3.1. Medium-Term Outlook Assumptions

The medium-term (2023-2024) macroeconomic prospects are underpinned by the following assumptions: (*i*) ongoing geopolitical crisis in Europe; (*ii*) consolidating external demand slowdown and (*iii*) persisting high global inflation, despite the trend towards the stabilization of energy and food prices in the international market.

a) External macroeconomic environment assumptions

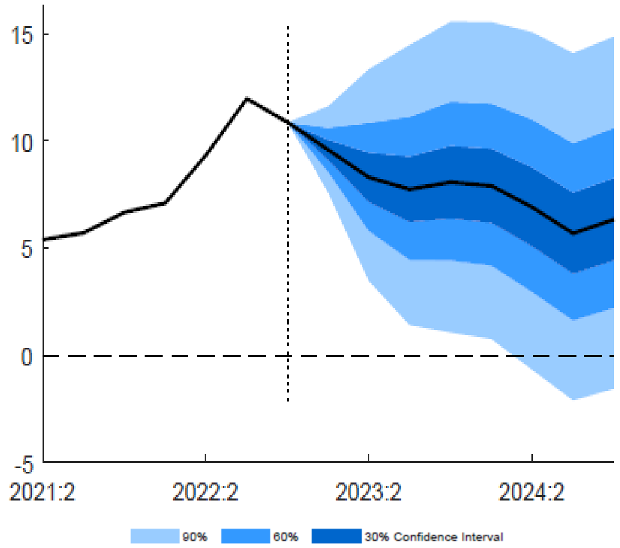
- Deteriorating prospects of global economic growth, driven by tightening financial conditions and increased bottlenecks to access international financial markets, mainly reflecting the impact of the protracted Russia-Ukraine conflict on global economy.

- Prospects for declining oil and food prices in the global market, although remaining relatively high (Table 3-1). This price slowdown mainly reflects signs of reduced global economic activity dynamics, and the prevalence of the Russia-Ukraine agreement, which especially enables Ukraine exports and thus global market supply.

b) Assumptions on the dynamics of domestic macroeconomic indicators

- Ongoing Metical exchange rate stability against the US Dollar, in line with (*i*) the start of

Chart 3-1: Mozambique Annual Inflation Projection (%)



natural gas exports in the Rovuma basin, and (*ii*) the resumption of financial aid to the state budget by cooperation partners.

- Ongoing pressure on public spending, in order to cover the expenditures related to (*i*) the implementation of the public sector wage reform and economic acceleration package; (*ii*) elections in 2023 and 2024; and (*iii*) reconstruction and humanitarian assistance to the populations affected by terrorists, despite the resumption of foreign aid partners (IMF, World Bank), and revenues from the natural gas exploitation in the Rovuma basin.

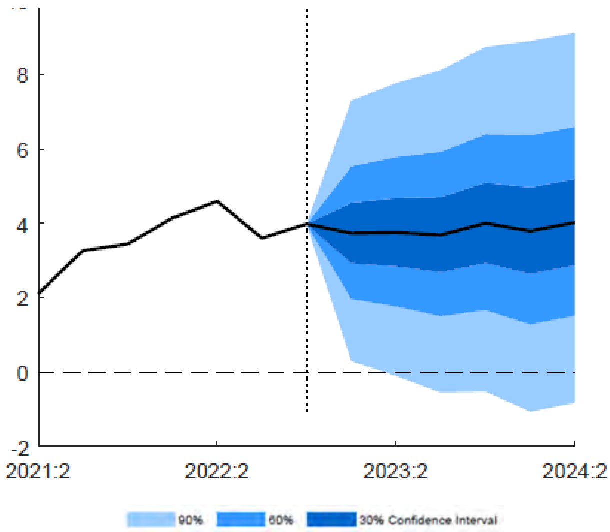
3.2. Medium-Term Inflation Forecasts and Associated Risks

Medium-term projections point out an inflation slowdown (Chart 3-1), driven by the effects of MIMO policy rate hikes and ongoing Metical stability, in a context of the prevalence of high risks and uncertainty.

In addition, forecasts suggest a slight slowdown in domestic economic activity, mainly driven by the slump in global demand due to the weakening of the word economy, amid a tightening financial conditions, including increased bottlenecks to access international financial markets. Such slowdown prospects are lessening by the dynamics of ongoing energy projects in the country and the boost from the implementation of the program with the IMF (Chart 3-2).

Risks and uncertainties associated with inflation projections remain high. At the domestic side, stand out the rising pressures for an increase in current public spending, uncertainty as to the impacts of climate shocks on the supply and trading of goods, and developments in administered prices, including their effect on the prices of other goods and services. Externally, uncertainties persist as to the effects of the protracted Russia-Ukraine conflict, coupled with

Chart 3-2: Mozambique Annual Real GDP Growth Projection (%)



the risks of global economic recession.

3.3. Monetary Policy Decision

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to keep the MIMO policy rate unchanged at 17.25%.

This measure follows from the high risks and uncertainties associated with inflation forecasts, especially the effects of the persistence of the geopolitical tension in Europe and the external demand slowdown, despite prospects of inflation reverting to a single digit in the medium term.

In this session, the MPC also decided to:

- Keep the Standing Lending Facility (SLF) rate unchanged at 20.25%;
- Keep the Standing Deposit Facility (SDF) rate unchanged at 14.25%; and
- Keep the Reserve Requirement ratios for liabilities in national currency and foreign currency unchanged at 10.50% and 11.50%, respectively.