



MONETARY POLICY COMMITTEE

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The Monetary Policy Committee of the Banco de Moçambique (CPMO – acronym in Portuguese) convened today, in its fourth 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 February and March 2012.

I. RECENT DEVELOPMENTS IN THE REGIONAL AND INTERNATIONAL ECONOMIES

The international environment continued with increased risks of economic activity slowdown given the uncertainty that still hovers on the outcome of sovereign debt crisis in Europe, coupled with signs of some weakness in economic recovery in the United States of America, although this country has recorded employment rate reasonable improvements.

Preliminary data reported to the most advanced economies¹ showed that, for 2011, economic growth expansion may stand below that recorded over the preceding years, accompanied by the fall of inflation indicator, which has kept the deceleration trend in the United Kingdom and in the Euro Zone countries, whereas it remained unchanged in the United States of America and risen in Japan, leading the respective central banks to keep their policy interest rates unchanged. In the same period, there was a tendency for US Dollar weakening in relation to the Euro.

In emerging market economies², economic growth decelerated in 2011, coupled with the tendency for inflation deceleration, which decreased in February to 5.8% in Brazil, 3.2% in China and 3.2% in South Korea, conversely the increase observed in India to 8.8%. The US Dollar recorded annual nominal gains in relation to the Rupee of India, Real of Brazil and Won of South Korea, as it appreciated in March by 14.3%, 11.9% and 3.3%, respectively, whereas it continued to lose ground against the Yuan of China, as it depreciated by 3.8%.

¹ Analyzed economies: United States of America, Euro Zone, Japan and United Kingdom.

² Analyzed economies: Brazil, China, South Korea and India.

Except the Central Bank of Brazil, which revised its policy interest rate downwards by 75 basis points, to 9.75%, the remainder banks have kept their policy interest rates unchanged.

In the SADC economies³, it is worth highlighting the deceleration of real GDP annual growth in South Africa, in the fourth quarter of 2011, to 2.9%, after 3.0% in the preceding quarter, as well as the inflation deceleration observed in the overall economies. In effect, statistical data indicate that inflation fell in February 2012, to 2.5% in Mozambique, 6.2% in Malawi, 6.1% in South Africa, 6.0% in Zambia, 8.2% in Botswana and 19.4% in Tanzania. The most recent data reported to March 2012 showed that this indicator has increased to 2.7% in Mozambique and 6.4% in Zambia. In the overall countries of the region, there is a tendency for US Dollar nominal gains, having the Metical annual appreciation decreased to 9.9% in March, while the Rupee of Mauritius has depreciated 3.2%, the Rand of South Africa 13.1%, the Pula of Botswana 11.3%, the Kwacha of Zambia 12.1%, the Kwacha of Malawi 9.5%, the Shilling of Tanzania 6.0% and the Kwanza of Angola 0.7%. The Treasury Bills average interest rates for 91 maturity days remained unchanged in March in most countries, namely Angola (3.94%), Malawi (6.8%), Mauritius (4.4%) and Mozambique (8.57%), whereas they rose in South Africa (5.64%), Tanzania (12.3%) and Zambia (7.14%), against a reduction observed in Botswana (5.38%).

The average prices of the main commodities with significant weight in Mozambique's balance of payments recorded a rising trend in February, when compared to those observed in the preceding period, except those of gas and cotton that have decreased by 0.9% and 0.4%, respectively. The significant price increases are of Brent (8.7%), gold (5.1%), aluminum (2.6%), maize (2.3%), rice (1.2%), wheat (1.0%) and sugar (0.2%). At the end of March, Brent traded at USD 124.3 per barrel and on April 12, it was quoted at USD 124.36.

II. DEVELOPMENTS IN THE MOZAMBIKAN ECONOMY

Preliminary information released by the National Institute of Statistics (INE – acronym in Portuguese) showed that the real GDP in Mozambique grew 8.1%, in annual terms, in the fourth quarter of 2011, which represents an acceleration of 1.6 and 1.4 percentage points (pp) in relation to the preceding quarter and similar period of 2010, respectively. The real GDP expansion over the last quarter of 2011 reflected the performance in mining industry, transports and communication, as well as manufacturing industry sectors, which grew by 35.5%, 10.9% and 9.9%, respectively. As the first annual estimate, GDP resulting from the cumulative data of the four quarters of 2011 has grown by 7.1%, 40 basis points above the figure observed in 2010.

Data also released by the INE reported to March 2012 showed that the overall prices in Maputo city have increased by 0.27%, after a 0.49% negative variation recorded in the

³ ANALYZED Economies: South Africa, Angola, Botswana, Malawi, Mauritius, Mozambique, Tanzania and Zambia.

previous month. The class of foodstuff and non-alcoholic beverages has largely contributed to inflation performance in the month, as it recorded a 0.34pp increase, softened by price reduction of 0.11pp in housing, water, electricity, gas and other fuels. The products whose prices had major impact on the total inflation in March were tomato, peanuts, onion, butter beans, paints and varnishes, cabbage and maize flour.

Given this monthly change, the cumulative inflation rose to 0.67% in March, against 3.37% recorded in the similar period of 2011. The inflation performance in the first quarter of 2012 resulted from increased supply of foodstuff, particularly fruits and vegetables, improvement of economic activity in general, as assessed by the evolution of key indicators throughout the period under analysis, the deceleration of commodities prices in the international market, as well as the Metical relative stability against the currencies of the country's main trade partners. As a result of the monthly change observed in the CPI of Maputo city, annual inflation increased to 2.71% in March, triggering the average annual rate to decelerate again, as it moved from 8.21% in February to 7.22% in March.

Like the CPI Maputo, the CPI Mozambique, indicator that aggregates indices of prices of Maputo, Beira and Nampula cities, rose 0.21% in March 2012, after 0.24% negative change in the preceding month. The performance of CPI Mozambique resulted from the increase of prices in the three cities, namely Maputo (0.27%), Beira (0.36%) and Nampula (0.05%). In cumulative and annual terms, accrued inflation moved from 0.40% and 3.50% in February to 0.60% and 3.81% in March 2012, respectively, while the average inflation has decreased from 9.24% to 8.41%.

Information released by INE also showed that the economic climate indicator increased in February 2012, resuming the ascending tendency that began in October last year, but interrupted in January. The resumption of the indicator ascending trend reflects the positive evaluation expressed by respondents of accommodation, restaurants and similar services, transports, trade and other non-financial services, notwithstanding the pessimism expressed by construction and industrial production sectors.

Preliminary data of Mozambique's balance of payments reported to 2011 showed that the stock of current account was USD 1,615 million, which represents 12.6% of GDP, 1pp more in relation to 2010, justified by increased imports, associated to mega projects activities. The increased weight of capital goods to the detriment of those of consumption is in line with the optimistic projections to balance the current account over time.

In the monetary sector, provisional data related to the end of March 2012 showed that the stock of base money, monetary policy operational variable, stood at 30,916 million Meticaís, 2,465 million Meticaís below the forecasts set for the period. This stock represents an expansion of 114 million Meticaís (0.4%) in relation to the previous month, explained by the increase of bank reserves by 170 million Meticaís (1.4%), softened by the reduction of money in circulation by 56 million Meticaís (-0.3%). The stock of base money in March 2012 represents a contraction of 1,142 million (-3.6%) in relation to that recorded at the end of

February 2012 and an increase by 2,287 million Meticaais (8.0%), when compared to the stock of March 2011.

The preliminary stock of net international reserves, at the end of March, was USD 2,111.3 million, USD 18.3 million more in relation to the forecasts set for the period and USD 10.5 million less than the stock of February, a reduction mainly justified by foreign currency sales made by the Banco de Moçambique in the Interbank Foreign Exchange Market (MCI – acronym in Portuguese), in the amount of USD 81.6 million, of which USD 58.4 million for payment of fuel bill importation, though softened by inflows in the form of grants amounting to USD 65.2 million. In terms of gross international reserves, the stock corresponds to 4.7 months of import coverage of goods and non-factor services.

In the MCI, the Metical exchange rate in relation to the US Dollar stood at 27.74 Meticaais, at the end of March 2012, after 27.31 recorded in the previous month, representing a monthly and cumulative depreciation of 1.57% and 2.21%, respectively. In annual variation terms, the Metical kept the nominal appreciation trend, as it recorded gains of 9.94% in March, after 12.21% in the preceding month. In relation to the Rand, the Metical continued with annual nominal gains of 19.87%. The spread between the average exchange rates applied by the bureaux of exchange in transactions with their clients and the MCI exchange rates has decreased, as it moved from 4.74% in February to 2.35% in March 2012.

In the Interbank Money Market, the Treasury Bills average interest rates remained, in March, within the levels recorded in the previous month, set at 8.37%, 9.39% and 9.95%, for 91, 182 and 364 maturity days, respectively. The average interest rate for liquidity swaps amongst credit institutions (*overnight operations*) reduced from 9.96% in February to 8.50% in March. In turn, the average interest rate paid by commercial banks for one-year time deposits remained at around 13.2% in February, while that for one-year loans remained at around 23.9%, having the *prime rate* stood close to 19%.

III. MONETARY POLICY DECISION

The Monetary Policy Committee has noted that the main economic and financial indicators of Mozambique have been evolving in line with the goals set for the current year and on the basis of the recent inflation performance and the projections for the medium term, has concluded that there are still conditions to increase liquidity in the market in order to promote banking finance to the private sector, in a context of financial sector stability, so as to contribute to the goals of economic growth set for 2012. Therefore, the Monetary Policy Committee has decided to:

- Intervene in interbank markets in order to ensure that the base money does not surpass 34,534 million Meticaais at the end of April 2012;
- Reduce the Standing Lending Facility interest rate by 25bp, to 13.50%;

- Reduce the Standing Deposit Facility interest rate by 50bp, to 3.00%;
- Reduce the Reserve Requirements ratio by 25bp, to 8.25%, with effects from the period of constitution that begins on May 7, 2012.

The CPMO forthcoming meeting will be held on May 10, 2012.

Ernesto Gouveia Gove

Governor