



MONETARY POLICY COMMITTEE
COMMUNIQUÉ N. 05/2018
Maputo, 22 October 2018

The Monetary Policy Committee (MPC) of the Bank of Mozambique, gathered today, has decided to keep the key lending rate, MIMO rate at 15.0%.

It also decided to keep the rates for the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) at 12.0% and 18.0%, respectively, as well as the Reserve Requirement ratio for liabilities expressed in domestic currency (1400%) and in foreign currency (27.0%).

The decision on the MIMO rate is justified by the fact that the assessment of the short and medium-term outlook continues to indicate the upkeep of a single digit inflation, in line with previous projections. Nevertheless, after more than a year of consistent reduction of MIMO rate, in view of the high domestic risks associated with the intensification of external uncertainties, the MPC considers appropriate the maintenance of the above mentioned rates.

Inflation remains low and stable. Data on September 2018 indicates that monthly inflation, as measured by the variation of the Mozambique Consumer Price Index (CPI), was 0.11%, which represents a slowdown when compared to the previous month and has allowed annual inflation to set at 4.89%, from 5.02%, in August, and 10.76%, in September 2017. This slight slowdown was boosted by the deceleration of food prices, especially fruits and vegetables. In fact, the CPI annual variation, excluding fruits and vegetables, stabilized at 5.30%, in a scenario of a less pronounced increase in the prices of administered goods in September.

The Metical experienced some volatility against the Dollar. In the period following the previous MPC, the Metical exchange rate against the US Dollar followed a depreciation trend, driven by the strengthening of the US currency in the international market among some evidence of speculative behavior by some economic agents, foreign currency holders, coupled with a greater demand for foreign exchange in the domestic market.

Therefore, after an exchange rate of 60.09 MZN/USD at the end of August, the average exchange rate applied by commercial banks in transactions with the public stood at MZN60.56/USD, on 19 October, after reaching a peak of 61.52 MZN on September 24. During the same period, the value of ZAR fell from 4.57 to 4.27 MZN

Continuous trend towards the widening the goods account deficit. In fact, provisional data for the third quarter of 2018 show that the goods account deficit increased by USD 248 million. The increase in imports (by USD 706 million) over the same period last year, which surpassed the increase in exports, reflected higher imports of miscellaneous machinery, fuel, automobiles and raw aluminum.



International Reserves remain at comfortable levels. After a reduction to USD 3,125.3 million on August 31, the balance of gross international reserves recovered to USD 3,195.7 million, by the third week of October 2018. This figure covers 7 months of imports of goods and services, excluding transactions in large projects.

Retail interest rates continue to decline, in line with the fall in the MIMO rate, but still in a negligible credit scenario. In September, the prime rate of the banking system stood at 20.40%, after 21.75% in August and 27.25% in December. On the other hand, the average retail interest rate, for one-year maturity, decreased from 24.57%, in July, to 23.20% in August. However, the development of bank credit to the private sector was virtually nil in the face of growing bad loans, with high banking liquidity taking refuge in interbank money market instruments and public debt securities. This scenario reflects the structural challenges that the Mozambican economy is still facing. It should be noted that between July and August the average interest rate on deposits for one-year maturity fell significantly, from 14.35% to 10.65%.

Domestic public debt increased slightly. The most recent data available for October indicate that the flow of domestic public debt contracted through Treasury Bills, Treasury Bonds and advances from the Bank of Mozambique increased, year-on-year, since the last MPC, by 2,079 million, to MZN 107,460 million meticaís (equivalent to 12.3% 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.

The economic climate deteriorated in August for the third consecutive month. The deterioration reflects the negative prospects of companies in relation to employment expectations and prices. In terms of sectors, the assessment reflects the negative sentiment of economic agents in the industrial production, construction and trade sectors, which overcame the positive assessment of the housing, catering, transport and storage sectors over the same period.

At the international economy level, risks of a slowdown in economic activity are substantial, which could impact the performance of the Mozambican economy. Although world growth remains high, fears of a possible slowdown in the emerging economies growth are rising as a result of growing trade tensions between major economies and geopolitical outbreaks affecting the external trade flows and international prices of oil. In fact, the price of oil stood at USD 80.13/barrel, at the close of 19 October 2018, against USD 57.4 in the same period of 2017.

Current economic conditions continue to promote the projection of low and stable inflation, around one digit, in the short and medium term, but with high domestic risks which, combined with the intensification of uncertainties on the international context, require an intensified prudence of monetary policy.



At internal level, the risk associated with the sustainability of the public debt, as well as the uncertainties regarding the evolution of administered prices, remain. The external component highlights the risks associated with the increase in trade and geopolitical tension, as well as the strengthening of the US dollar and the fluctuations of commodity prices in the international market, especially the increase in crude oil prices.

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

- ✓ Keep the monetary policy interest rate, MIMO, at 15.00%;
- ✓ Keep the interest rate for the Standing Lending Facility (SLF) at 18.00%;
- ✓ Keep the interest rate for the Standing Deposit Facility (SDF) at 12.00%
- ✓ Keep the Reserve Requirement ratio for liabilities in domestic currency at 14.00%;
- ✓ Keep the Reserve Requirement ratio for liabilities in foreign currency at 27.00%.

The MPC will continue to monitor the economic and financial indicators and risk factors and will take the necessary corrective measures before the next meeting scheduled for 13 December 2018.

Rogério Lucas Zandamela
Governor