



MONETARY POLICY COMMITTEE

COMMUNIQUÉ NO. 04/2021

Maputo, July 21, 2021

Policy Rate unchanged at 13.25%

The Monetary Policy Committee (MPC) of Banco de Moçambique has decided to keep the monetary policy interest rate, MIMO, unchanged at 13.25%. The decision reflects the Committee's current assessment, in which inflation is expected to remain at a single digit, despite the worsening of risks and uncertainties, especially those associated with the impact of the third wave of COVID-19 in the economy.

The MPC has also decided to keep 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 ratios for domestic and foreign currency liabilities at 11.50% and 34.50%, respectively.

Risks and uncertainties associated with inflation forecasts continue to worsen. Domestically, stand out the uncertainties regarding the impact of the third wave of COVID-19 in the economy, associated with the emergence of more infectious strains, and the military instability in the northern region. In the external environment, apart from the risks and uncertainties inherent to the pandemic's evolution, stand out the effects of the recent riots in South Africa, the strengthening of the US Dollar and the rise of oil and food prices.

Inflation is expected to remain at a single digit, despite the upward revision. Annual inflation stood at 5.52% in June, following 5.49% in May, mostly reflecting the Metical depreciation. Core inflation, which excludes the prices of administered goods and services and fruits and vegetables, recorded a slight increase. For the short to medium term, inflation is expected to accelerate, driven by the perspectives of rising food and oil prices in the international market.

Prospects for a slow economic recovery in 2021 and 2022 remain. Gross domestic product increased by 0.12% in the first quarter of 2021, reflecting the positive performance of agriculture and public services sectors. For 2021 and 2022, economic activity is expected to recover slowly, mainly driven by external demand. In fact, returning economic growth to pre-pandemic levels, against a backdrop of limited space for monetary policy, the State Budget and scarce external resources, will continue to require the deepening of structural reforms in the economy, for

strengthening institutions, improving the business environment, attracting investment and creating jobs.

Domestic public debt remains high. Since the end of May 2021, domestic public debt, excluding loan and lease agreements and overdue liabilities, increased by 1.2 billion to 206.7 billion meticaís.

International reserves remain at comfortable levels. Gross international reserves stand at USD 3.8 billion, sufficient to cover more than six months of imports of goods and services.

The Banco de Moçambique reaffirms its commitment to preserving the value of the national currency, which translates into a low and stable inflation. Therefore, considering the worsening of risks and uncertainties, 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 September 16, 2021.

Rogério Lucas Zandamela

Governor