



**MONETARY POLICY COMMITTEE**  
**PRESS RELEASE N° 07/2012**  
**Maputo, July 11, 2012**

The Monetary Policy Committee of the Banco de Moçambique (CPMO-acronym in Portuguese) convened today, in its seventh meeting of the current year, to consider the most recent economic and financial developments worldwide and the evolution of the key macroeconomic and financial indicators in Mozambique, with emphasis on inflation and the performance of the monetary aggregates, as well as 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 reported to May and June 2012.

**I. RECENT DEVELOPMENTS IN THE REGIONAL AND INTERNATIONAL ECONOMIES**

The global economy continues to be affected by the sovereign debt crisis in the Euro Zone countries, which has been inducing a moderate growth in advanced economies<sup>1</sup>, along with high levels of unemployment. Data reported to June showed that inflation rates have remained around 2.4% in this group of countries and the deceleration tendency of the Euro and Pound Sterling annual losses in relation to the US Dollar have moved to 15% and 2.2%, respectively, whereas the Yen nominal gains have reduced to 0.9%, when compared to the previous month.

In the emerging market economies<sup>2</sup>, data reported to May showed that annual inflation has experienced a mixed trend, as it has reduced in Brazil and China, to 4.9% and 3.0%, respectively, and has risen in India and Russia to 7.5% and 3.62%, respectively. The currencies in this group of countries have evolved in different directions in relation to the US Dollar, having the Russian Ruble and Indian Rupee reduced their nominal losses to 16.0% and 24.2%, respectively, while the Brazilian Real nominal losses have increased to 28.7%, whereas the Yuan has kept the gains recorded in the preceding month, at around 1.7%. In the period under analysis, the People's Bank of China revised its policy interest rate by 25bp, to 6.31%, having the other central banks kept their policy interest rates unchanged.

In the SADC<sup>3</sup> economies, data reported to May 2012 showed that annual inflation has experienced a mixed trend, having decelerated in Angola to 10.5%, in Mauritius to 5.3%, in South Africa to 5.7%, in Tanzania to 18.2% and in Mozambique to 1.6%, whereas it has risen in the remainder countries, especially in Malawi, to 17.3%. In the foreign exchange market, data reported to June showed that the tendency for annual depreciation of the currencies of the region

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<sup>1</sup> Analyzed economies: United States of America, Euro Zone, Japan and United kingdom

<sup>2</sup> Analyzed economies: Brazil, China, South Korea, Russia and India.

<sup>3</sup> Analyzed economies: South Africa, Angola, Botswana, Malawi, Mauritius, Mozambique, Tanzania and Zambia.



has continued in relation to the US Dollar, except the Metical and Tanzanian Shilling that have recorded gains against this currency. The Treasury Bills average interest rates for 91 maturity days experienced a mixed trend in June, having remained unchanged in Botswana (5.28%), Malawi (14.8%) and Mozambique (4.01%), and reduced in Angola (3.31%), Tanzania (13.3%), whereas they have increased in the remainder countries.

The average prices in the international markets of the main commodities with significant weight in the balance of payments of Mozambique showed a tendency for reduction in May 2012, when compared to the preceding month, except the price of rice that has increased by 4.3% and that of gas, which recorded a null variation. On the last day of June, Brent price stood at USD 93.68 per barrel and on June 8 closing session, it was quoted at USD 95.20.

## **II. DEVELOPMENTS IN THE MOZAMBIKAN ECONOMY**

Data released by the National Institute of Statistics (INE – acronym in Portuguese) reported to June 2012 showed that the overall prices in Maputo city have recorded a monthly negative variation of 0.55%, after a 0.44% negative variation recorded in May. The contribution to inflation observed in the month came from the class of foodstuff and non-alcoholic beverages, clothing and footwear, leisure, recreation and culture, as well as that of various goods and services, as their prices fell and softened by positive variations in the remainder classes. The products whose prices experienced significant decline in June were tomato, coconut, rice grain, lettuce, cabbage, charcoal and butter beans.

As a result of the monthly variation described above, the cumulative inflation in the year stood in the negative ground at 0.45% in June 2012, compared to an increase of 3.31% observed in the similar period of 2011, while annual inflation stood at 1.63%, against 9.27% in the similar period of 2011. The average annual inflation continued with the declining tendency, as it stood at 4.92% in the period under analysis, after 14.75% in the similar period of 2011.

The Consumer Price Index - Mozambique, which aggregates indices of Maputo, Beira and Nampula cities, has experienced the same trend, as it recorded a negative variation by 0.34% in June 2012, after 0.53% negative variation observed in May. The trend of CPI-Mozambique resulted from the reduction of the overall prices in Maputo (0.55%) and Beira (0.56) cities, softened by the CPI positive variation in Nampula (0.07%). The cumulative inflation of CPI Mozambique stood in the negative ground, at 30.51% in June, having the annual variation stood at 2.28% and the average annual inflation at 6.18%.

The descending trend in the overall prices observed in the country reflects the Metical stability in relation to the main currencies traded in the domestic foreign exchange market, the reduction of prices in the international market of the main commodities with weight in the CPI basket and the



impact of economic policy measures in force in the country aimed to soften the exogenous shocks caused by the financial and economic crisis in the Mozambican economy.

Recent estimates released by the INE showed that the GDP in Mozambique has grown 6.2% in the first quarter of 2012, 2.7pp less in comparison with the preceding quarter and 2.1pp below in relation to the similar period of 2011. The expansion of economic activity in the quarter under analysis was sustained by the secondary sector that has grown 8.5%, reflecting the contribution of electricity and water sector, followed by the construction sector, which grew in the period by 11.2% and 10.5%, respectively. Likewise, the GDP in the quarter reflected the contribution of the primary sector that has recorded 5.8% annual growth, boosted by the mining industry sector that has grown 25.4%, reflecting the ongoing exploration and consequent exportation of coal that began late 2011, followed by agriculture, which has grown in annual terms by 5.1% in the period.

However, according to the final data released by the INE, Mozambican GDP growth stood at 7.3% in 2011, 24bp more in relation to 2010. The agriculture, livestock, hunting and forestry had the major contribution (1.9pp) in this growth, followed by transports, storage and communication (1.3pp).

Data on economic overview reported to last May, released by the INE, showed that the business confidence, expressed by the economic climate indicator, continued negative for the second consecutive month as it decreased over the last two months. The unfavourable economic assessment of the country in the period under analysis was influenced by the fall of confidence expressed by entrepreneurs in industrial production, trade, transports and other non-financial services, for the second consecutive month, thus surpassing the greater confidence expressed by respondents in construction, accommodation, restaurants and similar services.

In the monetary sector, provisional data reported to the end of June 2012 showed that the stock of base money, monetary policy operational variable, has amounted to 34,019 million Meticaís, below the forecasts set for the period by 2,764 million. This stock corresponds to an expansion of 1,201.3 million Meticaís (3.66%) in relation to the previous month, explained by the simultaneous increase of bank reserves by 1,201 million Meticaís (5.1%) and banknotes and coins in circulation by 1.0 million Meticaís (0.01%). In annual terms, the stock of base money has expanded 11.09%, against 17.49% observed in the similar period of 2011.

Preliminary data reported to June 2012 pointed to a constitution of net international reserves in the amount of USD 45.1 million, moving the stock to USD 2,263.6 million, equivalent to about 5.0 months of imports coverage of goods and non-factorial services. It is worth referring that the disbursements of external financial aid to support various programs stood beyond the expected amount by USD 46.3 million.



In the Interbank Foreign Exchange Market (MCI-acronym in Portuguese), the Metical exchange rate in relation to the US Dollar stood at 27.90 Meticaïs at the end of June 2012, after 27.83 Meticaïs in the previous month, which represents a monthly and cumulative depreciation of 0.25% and 2.8%, respectively and an annual appreciation of 2.58%. The spread between the average exchange rates applied by commercial banks in transactions with their customers and the rates quoted in the MCI has decreased to 0.48% in June, after 1.17% in May, while the spread between the average exchange rates applied by the bureaux of exchange and the rates quoted in the MCI has risen, as it stood at 3.42% in June 2012, against 3.13% observed in the preceding month.

In the Interbank Money Market (MMI-acronym in Portuguese), the Treasury Bills average interest rates have experienced a mixed trend in the month under review. In effect, the interest rates for 182 maturity days have increased 24bp, to 6.2%, whereas the interest rates for 91 and 364 maturity days remained unchanged at 4.07% and 6.87%, respectively. In annual terms, the interest rates have reduced by 12.39pp, 10.28pp and 9.62pp for 91, 182 and 364 maturity days, respectively. The average interest rate for liquidity swaps amongst financial institutions has increased by 1.28pp in relation to the preceding month, standing at 6.28%, which, in annual terms, equals to a reduction of 9.8pp.

In turn, the average interest rate for one-year time deposits stood around 13.07% in May, a reduction of 1.9pp in relation to April, while the average interest rate for one-year repayment period loans stood at 22.90% in May, after 22.97% in the preceding month, having the prime rate remained around 19.0%.

### **III. MONETARY POLICY DECISION**

The Monetary Policy Committee has taken note of the prevailing risks in the global economy, as well the short and medium term forecasts for the country's macroeconomic indicators, with emphasis on inflation, pointing to the maintenance of its stability in the coming months.

Therefore, the Committee concluded that there are conditions to maintain the accommodative monetary policy stance in order to consolidate the measures already taken to stimulate the expansion of economic activity in an environment of macroeconomic and financial sector stability, and has decided to:

- Intervene in interbank markets in order to ensure that the stock of base money does not surpass 35,600 million Meticaïs at the end of July 2012;
- Revise the Standing Lending Facility interest rate downwards by 100 basis points, to 11.50% per annum, with immediate effects;



- Maintain the Standing Deposit Facility interest rate at 3.00% per annum; and,
- Maintain the Reserve Requirements ratio at 8.00%.

The CPMO forthcoming meeting will be held on August 9, 2012.

Ernesto Gouveia Gove  
Governor