



**MONETARY POLICY COMMITTEE
COMMUNIQUÉ N° 06/2019
Xai-Xai, 31 October 2019**

The Monetary Policy Committee (MPC) of the Banco de Moçambique (BM), gathered today, in Xai-Xai, decided to leave the key interest rate (MIMO) unchanged at 12.75%.

It also decided to keep the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) rates at 9.75% and 15.75%, respectively, as well as the Reserve Requirement Ratio for liabilities in local and foreign currency at 13.00% and 36.00%, respectively.

The decision to maintain the MIMO rate was based on the view that the recent worsening of internal and external risks may, in the medium term, reverse the current profile of low and stable inflation. The risks that stand out in this assessment are, internally, the escalation of military instability in the northern and central areas of the country, and the occurrence of climate shocks; and, externally, the intensification of commercial and geopolitical tension.

Despite the exacerbation of these risks, the medium-term inflation is expected to remain low and stable. This forecast is based on the expectation of Metical stability, in an environment of weak aggregate domestic demand, and on the prospects of a decline in the international average prices of oil and food. Exchange rate stability in the medium term is based on expectations of foreign currency inflows to finance post-natural disaster reconstruction and those arising from natural resource projects. Data from the National Statistics Institute (INE) show that, since February 2019, inflation in Mozambique has been decelerating to 2.0%, in September.

Economic activity is expected to recover from 2020 onwards, but remaining below its medium-term potential. Recent data from INE shows that GDP continued to slow down from 2.5%, in the first quarter, to 2.3%, in the second quarter of 2019. However, economic activity is expected to improve from 2020 onwards, driven, mainly, by post-cyclone reconstruction efforts, increased availability of funds by the State and by the implementation of gas projects.

The country's international reserves remain at comfortable levels. In comparison to the last MPC, gross international reserves increased to USD 3,902.7 million, following the recent inflow of capital gains for the State, covering more than 6 months of imports, excluding large projects.

Domestic public debt continues to increase. Since the last MPC, domestic public debt incurred through treasury bills, treasury bonds and advances from the Banco de Moçambique has increased to MZN 140,610 million, reflecting the use of MZN 4 billion in treasury bills. The amount above does not take into account other domestic public debt, such as loans and lease contracts, as well as debt arrears.



Going forward, the MPC is increasingly concerned about the evolution of the risks and uncertainties underlying the inflation projections. Therefore, the MPC will continue to monitor the economic and financial indicators and the risk factors, and will not hesitate to take the necessary corrective measures before its next ordinary meeting, scheduled for 12 December 2019.

Rogério Lucas Zandamela

Governor