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 domestic and international economic and financial developments, with emphasis on the evolution of monetary aggregates and inflation, as well as their short and medium term tendency, in order to take the most appropriate monetary policy measures.

I. RECENT DEVELOPMENTS IN THE INTERNATIONAL AND REGIONAL ECONOMIES

The political and social disturbances in the Northern Africa and the Middle East Arabic countries, the petroleum important producers and exporters, have contributed over the last days to worsen the oil price hikes in the international market, which has already surpassed the barrier of USD 120 per barrel. Despite the fact that the last report released by the World Food Organization (WFO) pointed to a slight slowdown in foodstuff prices, they still stand at a high level. These elements represent increased challenges to the Governments worldwide, especially to those of the low income countries, which are still facing the global economic and financial crisis lagged effects.

The violent earthquake that hit Japan in March, followed by a tsunami, strongly affected the economic activity in that country, which integrates the group of the world most advanced economies[1], leading the international financial institutions to review its economic growth projection downwards and of some other economies, for 2011, such as of the USA. In the overall, the most advanced economies are witnessing inflation rising tendency, in a situation of unemployment rate reduction, which confirms that the economic recovery signs observed are still very fragile.

The US Dollar weakening tendency in relation to the main currencies traded in the international market has worsened in the period, as it depreciated in March 2011 by 11.0%, 5.3% and 4.6% against the Yen, Pound Sterling and Euro, respectively.

The emerging market economies[2] maintain the strong economic growth tendency, especially in China, Brazil, India and South Korea. However, the acceleration of inflation in these economies constitutes the authorities' main sign of concern, having for instance risen, in February, in Brazil and South Korea, to 6.0% and 5.0%, respectively. In the period under analysis, in general, the US Dollar was also weak in relation to the currencies of this group of economies, except in India, as it witnessed a slight recovery. In effect, the US Dollar has depreciated 8.5% against the Real of Brazil, 4.1% against Yuan of China and 3.2% in relation to Won of South Korea.

[1] Analyzed Economies: USA, Euro Zone, Japan and United Kingdom.
[2] Analyzed Economies: Brazil, China, South Korea and India.

In the light of inflationary pressures, the central banks of South Korea and India increased their policy interest rates by 25 basis points in March 2011, setting them at 3.0% and 5.75%, respectively, while the Central Bank of Brazil revised its reference rate upwards by 50 basis points, setting it at 11.75%.

In the SADC economies[3], available information highlights the inflation mixed trend, as it accelerated in Zambia, Malawi, Botswana, Tanzania and Mauritius, and decelerated in Mozambique, the country which continues with the highest inflation rate within the region, conversely Mauritius and South Africa with the lowest rates. In March 2011, it is worth highlighting the annual appreciation tendency of the Rand, Pula and Rupee in relation to the US Dollar and the depreciation slowdown also observed, in annual terms, in the remainder currencies.

II. DEVELOPMENTS IN THE MOZAMBICAN ECONOMY

According to the National Institute of Statistics (INE – acronym in Portuguese), in March 2011, the Consumer Price Index of Maputo city recorded a 0.05% positive monthly variation, rising the cumulative inflation to 3.37%, which reveals a deceleration of 1.70 percentage points (pp) when compared to March 2010. Given this monthly variation, the annual inflation has reduced to 14.37%, after 16.0% in February and 7.13% in March 2010, whereas the average annual inflation has risen to 15.0%, after 14.0% in the preceding month. The class of foodstuff and non-alcoholic beverages has contributed to the cumulative inflation in the year with 1.81pp, where it is also worth highlighting, per item, the increase of public university fees, as well as the prices of coconut, charcoal, tomato, kale, butter beans and groundnuts.

The CPI-Mozambique, which aggregates price indices of the three main cities of the country, namely Maputo, Beira and Nampula, recorded a 0.1% negative monthly variation in March 2011, largely determined by foodstuff and non-alcoholic beverages, with a 0.26pp negative contribution. The products whose prices were determinant for this variation were coconut (9.8%), fresh, chilled or frozen fish (3.4%), tomato (4.0%), lettuce (14.0%), stockfish (2.3%), capulana (2.8%) and goat meat (2.2%), with a contribution in the total monthly inflation of 0.52pp negative.

The INE also reported that the economic climate indicator declined in February 2011, when compared to the preceding month, basically reflecting the negative evaluation expressed by respondents of all surveyed sectors, except those of construction and transports sectors, whose confidence was restored after pessimism expressed in the preceding month.

The indicator of employment expectations followed this tendency, reflecting the pessimism in relation to future employment existing in industry, housing and restoration sectors, in a scenario where the expectations within transports and trade sectors remained stable.

[3] Analyzed Economies: South Africa, Angola, Botswana, Malawi, Mauritius, Mozambique, Tanzania and Zambia.

In February 2011, the international average prices of the main commodities exported by Mozambique observed mixed trends, having increased for cotton (19.1%) and aluminum (3.1%) and reduced for sugar (1.1%) and gas (0.5%). On the other hand, the international average prices of the main commodities imported by Mozambique, with impact on domestic inflation, have increased in monthly terms, especially that of maize (10.6%), wheat (6.6%), Brent (8.0%) and rice (1.3%).

The monetary sector preliminary data showed that the stock of credit to the economy amounted to 91,882 million Meticais in February 2011, which reveals a reduction in its annual expansion to 26.4%, after 27.1% in the preceding month and 54.7% in the similar period of 2010. In the same period, the stock of aggregate broad money (M3) increased 131,413 million Meticais, which shows a reduction of 978 million Meticais when compared to January, basically influenced by the exchange rate stability and reduction of credit to the economy. The M3 annual expansion remained at 22.4%, practically identical to that of the preceding month.

In March 2011, the stock of Base Money at the end of the period (28,634 million Meticais) was in line with the forecasts set for the period (excess by about 2.0% when weighed the Money in Circulation adjustment factor). The Base Money contraction in the month amounted to 364 million Meticais, determined by returns of Money in Circulation to the banking system in the amount of 379 million Meticais (2.9%). In terms of daily average in the month, the stock of Base Money stood at 28,985 million Meticais, in March 2011, reflecting a reduction of 543 million Meticais (1.8%), revealing good coordination between commercial banks and the Treasury.

The Base Money control was achieved by means of Banco de Moçambique interventions in interbank markets, which sterilized 5,565 million Meticais in total, of which 4,091 million Meticais via foreign currency sales in the Interbank Foreign Exchange Market (MCI – acronym in Portuguese), 1,328 million via Treasury Bills net operations and 146 million within the Standing Deposit Facility operations performed by credit institutions.

The preliminary stock of Net International Reserves stood at USD 1,861 million in March 2011, which represents USD 24.3 million monthly reduction. In March 2011, the Banco de Moçambique traded USD 131.8 million in the MCI.

In the period under analysis, the Metical continued, for the seventh consecutive month, with the appreciation tendency in relation to the US Dollar, as its exchange rate stood at 30.8 Meticais in the MCI, after 31.1 Meticais in February 2011. In annual variation terms, the national currency depreciation slowed down to 10.75%, against 4.3% in the similar period of 2010 and nearly 19.0% last December. This tendency was also followed by other market segments, as the commercial banks average exchange rate in transactions with the general public stood at 30.77 Meticais, which represents a 1.57% monthly appreciation, after 3.46% in February, prompting the annual depreciation to reduce to 1.09%, after 12.19% in the similar period of 2010.

In the Interbank Money Market, the Treasury Bills auctions interest rates for all maturity periods increased in March 2011, to 16.39%, 16.44% and 16.49%, respectively, for 91, 182 and 364 days. Likewise, the average rates for liquidity swaps amongst credit institutions rose to 15.40% in March 2011.

In turn, information reported to February 2011 showed that, in the retail market, the average interest rate for one year maturity period loans has risen by 0.51pp, to 23.04%, which corresponds to a 3.9pp increase in relation to the similar period of 2010. In the same month, the average interest rate for one year maturity period deposits stood at 13.18%, 0.47pp more in relation to January and 3.52pp compared to the similar period of 2010.

III. MONETARY POLICY DECISION

The Monetary Policy Committee has been monitoring with due attention the international trends as regards oil and foodstuff prices and their probable impact on the country's macroeconomic indicators, namely the balance of payments, public finance and in the short and medium term inflation. Taking into account the signs of concern in inflation and in the international market, as well as the macroeconomic goals set for 2011 and the package of measures recently announced by the Government as regards prices and the living cost, the CPMO has decided to:

- Ensure adequate intervention levels in the interbank markets with the view to proceed with its efforts aimed to reduce the Base Money and restrain its stock at 27,464 million Meticais, at the end of April 2011.

The CPMO forthcoming meeting will be held on May 9, 2011.

Ernesto Gouveia Gove
Governor