MONETARY POLICY COMMITTEE
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The Monetary Policy Committee of the Banco de Moçambique (CPMO – acronym in Portuguese) convened today, in its second ordinary meeting of the current year, to consider the most recent economic and financial developments in the international environment and the evolution of the main economic and financial indicators of Mozambique, with emphasis on inflation, the performance of monetary aggregates and their short and medium term trends, in order to take the most appropriate monetary policy measures. The evaluation focused on the annual evolution of the aforementioned aggregates between December 2011 and January 2012, on the basis of which the projections for 2012 were updated.

I. RECENT DEVELOPMENTS IN THE REGIONAL AND INTERNATIONAL ECONOMIES

The sovereign debt crisis in Europe continues to dominate the global economic and financial agenda, having Greece adopted a new financial rescue agreement with the IMF, European Central Bank and other private creditors, which imposes restrictive measures of containment and fiscal adjustment. The agreement will allow the disbursement of the second tranche of financial support from the referred partners. In turn, the financial rating agency “Standard & Poor´s” has downgraded the debt of nine European countries, including the European Financial Stability Fund.

Although the first estimates point out to an acceleration of GDP annual growth in fourth quarter, in the United States of America (USA) and United Kingdom, by 1.6% and 0.8%, respectively, the IMF has revised downwards the global economic growth forecasts for 2012 by 75 basis points (bp), to 3.25% and predicting an economic recession for the Euro Zone countries.

Further in advanced economies, it is worth highlighting the reduction of annual inflation in December 2011 and the extension of the US Dollar gains in relation to the remainder currencies in January 2012, except in relation to Yen, having moved from a depreciation of 5.2% to 6.6%. With effect, annual inflation decreased to 3% in December in the USA, 2.7% in the Euro Zone and 4.2% in the United Kingdom, while in Japan the deflation has reduced to 0.2%. The first estimates indicate an acceleration of GDP annual growth in the fourth quarter, in the USA and United Kingdom, moving from 1.5% to 1.6% and from 0.5% to 0.8%, respectively.

In the emerging market economies[1], annual inflation also decelerated in December 2011, as it reduced to 6.5% in Brazil, 4.1% in China and 3.7% in South Korea. Except the Yuan of China, which recorded 4.34% annual appreciation, in January 2012, the currencies of the remainder countries have accrued losses against the US Dollar, although at reduced rates when compared to those of December 2011. With effect, the US Dollar annual appreciation has decreased from 18.6% to 7.9% in relation to the Rupee of India, from 12.3% to 4.7% against the Real and from 3.4% to 0.46% in relation to Won of South Korea.

[1]Analyzed economies: Brazil, China, South Korea and India.

In the SADC[2] economies, annual inflation rose in December 2011 to 19.8% in Tanzania and 11.4% in Angola, having decelerated in Mozambique, Zambia, Malawi and Mauritius to 5.5%, 7.2%, 7.7% and 6.5%, respectively. On the contrary, in Botswana and South Africa, inflation remained at 9.2% and 6.1% recorded in November. Further to the regional economies, the US Dollar proved weakened against the Metical and Pula, currencies in relation to which it has depreciated by 16.% and 7.7%, respectively, conversely the nominal gains achieved in relation to the Rand (8.81%), Kwacha of Malawi (9.6%), Shilling of Tanzania (5.78%), Kwanza of Angola (2.25%) and Kwacha of Zambia (6.09%). In January, the Treasury Bills average interest rates for 91 maturity days reduced to 9.83% in Mozambique and 6.79% in Zambia, while they rose to 13.7% in Tanzania and 5.29% in Botswana, having remained at 4%, 5.5% and 6.8% in Angola, South Africa and Malawi, respectively.

In December 2011, the average prices of the main commodities with impact on the balance of payments of Mozambique recorded an overall decline, except the natural gas price that rose by 0.7%. With effect, there were monthly price reduction of 8.8% in cotton, 4.5% in sugar, 5.8% in maize, 4.3% in wheat, 4.5% in rice, 5.8% in gold, 7.1% in aluminum and 2.3% in Brent. At the end of January, Brent price stood at USD 110.47 per barrel and on February 10, it was quoted at USD 113.54.

II. DEVELOPMENTS IN THE MOZAMBICAN ECONOMY

Information released by the National Institute of Statistics (INE – acronym in Portuguese) showed that the economic climate indicator continued its ascending trend in December 2011, mainly driven by positive evaluation of demand and employment expectations expressed by respondents of accommodation and restaurants, industry, transports and construction sectors.

Until the end of the present edition, inflation data reported to January 2012 produced by the INE had not yet been released. However, the CPMO took note of estimates produced by the Research and Statistics Department of the Banco de Moçambique that point out to a monthly variation in the range between 0.95% and 1.15% and which set annual inflation between 4.32% and 4.58%, triggering average inflation to decelerate to the range between 9.33% and 9.36%.

The stock of base money – monetary policy operational variable – stood at 31,943 million Meticais at the end of January 2012, 2,375 million less in relation to that recorded in December 2011 (-6.9%) and 727 million in relation to estimates set for the period, mainly as a result of return of money to the central bank (2,266 million Meticais), after the seasonal peak 2,083 million recorded in December. In the same period, the bank reserves in national currency increased 228 million Meticais, in the light of the release of 336 million Meticais resulting from the reduction of reserve requirements ratio announced last December, with effects from January 7. The base money annual expansion reduced to 6.8% in January of the current year.

Further in January 2012, the preliminary stock of Net International Reserves was USD 2,101.5 million, reflecting a reduction of USD 125.2 million in the month, as a result of net sales of USD 157.6 million made by the Banco de Moçambique to commercial banks, of which USD 61.4 for

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

the payment of the fuel importation bill. The stock of International Reserves corresponds to about 5 months of import coverage of goods and non-factor services set for the whole year, against 5.8 observed in the previous month.

In the Interbank Foreign Exchange Market (MCI – acronym in Portuguese), the Metical has appreciated by 0.14% in the January in relation to the US Dollar, as, at the end, the exchange rate stood at 27.10 Meticais, after 27.14 Meticais in preceding month. Therefore, over the last 12 months, the Metical has accrued nominal gains of 15.6% against the US Dollar and 23.2% in relation to the Rand. The spread between the average exchange rates applied by the bureaux of exchange in transactions with their clients and the MCI rates has risen to 6% in January, after 2% in December 2011, practically standing at levels observed in the similar period of 2011 (5.5%).

In the Interbank Money Market (MMI – acronym in Portuguese), the average interest rates for subscription of Treasury Bills auctions reduced in January for all maturity periods, namely by 197bp, for 91 days, 128bp, for 182 days and 187bp, for 364 days, to 9.83%, 10.83% and 10.6%, respectively. Still in the period, there was of the average interest rate for liquidity swaps (overnights) among credit institutions to the tune of 124bp, standing at 10.43%.

In the retail market, the average interest rate for one-year maturity period loans stood at 23.68%, in December 2011, the same rate observed in November, while that for one-year time deposits stood at 13.33%, compared to 12.18% recorded in November 2011, where the retail rates are expected to reflect the trend of monetary policy interest rates in the subsequent periods.

III. MONETARY POLICY DECISION

The Monetary Policy Committee has been monitoring with due attention the events of bad weather affecting the country, which, coupled with the risks and uncertainties dominating the international economic and financial environment, requires redoubled cautions for the year 2012.

Therefore, on the basis of the inflation goal set at 5.6% and GDP growth of 7.5%, as well as the risks associated to projections for medium term inflation, the CPMO has decided to:

Intervene in interbank markets in order to ensure that the stock of Base Money does not surpass 33,000 million Meticais at the end of February 2012;

- Maintain unchanged the Standing Lending Facility (FPC – acronym in Portuguese) interest rate at 15% and the Standing Deposit Facility (FPD – acronym in Portuguese) interest rate at 5%;

- Maintain the Reserve Requirements ratio at 8.5%.

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

Ernesto Gouveia Gove
Governor