MONETARY POLICY COMMITEE
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The Monetary Policy Committee of the Banco de Moçambique (CPMO-acronym in Portuguese) convened today, in its third ordinary meeting of the current year, to consider the most recent economic and financial developments, the evolution of the monetary aggregates and prices as well as their trends, in order to take the most appropriate monetary policy measures.

I. THE RECENT DEVELOPMENTS IN THE REGIONAL AND INTERNATIONAL ECONOMIES

The most recent information showed new hikes in oil and foodstuff prices in the international market, as a result of developments observed in the northern countries of Africa and Middle East, the petroleum main producers and exporters. The price hikes in oil and foodstuff may represent a new challenge to the Governments worldwide, especially to low income countries, which are still facing the global economic and financial lagged effects.

The economic activity recovery accelerated in the most advanced economies[1] in 2010, when compared to the last two years, where the GDP witnessed a general deceleration tendency. Information released by the International Monetary Fund confirms that China has taken the second position in terms of nominal GDP, thus surpassing Japan, while Brazil has reached the seventh position, surpassing, for instance, countries like Italy.

Data reported to February 2011 indicated that unemployment data, though it is still high, showed a deceleration tendency in the United States of America and Euro Zone countries, having remained unchanged in Japan.

In the overall, in January 2011, inflation has accelerated in the most advanced economies, having continued in February in the Euro Zone, as it stood at 2.4%, after standing at 2.3% in the preceding month.

The US Dollar kept the weakening tendency vis-à-vis the main currencies in the international market, having depreciated in February 2011 by 7.9%, 6.4% and 1.2% against the Yen, Pound Sterling and Euro, respectively.

In emerging market economies[2], it is worth highlighting the robust growth that China and India recorded in the fourth quarter of 2010 (9.8% and 8.2%, respectively).

In this group of countries, prices continued to witness the acceleration tendency in January 2011 accompanied by the weakening of the respective currencies in relation to the US Dollar, when compared to information reported to February 2011. Although the US Dollar still keeps the depreciation trend, its losses in relation to the Real of Brazil, Yuan of China, Won of South Korea and Rupee of India, have decreased to 7.9%, 3.7%, 3.0% and 1.8%, respectively.

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

In general, the Central Banks of the most advanced and emerging market economies have decided to maintain their respective policy interest rates unchanged, except that of China that rose its policy rate in February 2011 by 25bp, to 6.06%. More recently, the Central Bank of Brazil decided to set its policy rate at 11.75%, raising it by 25bp.

In the SADC economies[3], available data showed that in December 2010, GDP real growth reached 2.7%, 7.1% and 4.2%, in South Africa, Zambia and Mauritius, respectively. The National Institute of Statistics (INE – acronym in Portuguese) has recently announced that the Mozambican GDP recorded 6.5% real growth in the fourth quarter, prompting the annual growth to stand at 6.6%.

Information reported to January 2011 showed that annual inflation has increased in all countries of the region, among which Mozambique continues with the highest inflation rate, to the tune of two digits. In February 2011, the US Dollar witnessed a weakening tendency in all economies of the region, as it depreciated against the Pula of Botswana, Rupee of Mauritius, Rand of South Africa and Metical.

II. DEVELOPMENTS IN THE MOZAMBICAN ECONOMY

According to the INE, in February 2011, Consumer Price Index of Maputo city recorded 1.24% positive monthly variation, raising the cumulative inflation to 3.32%, 0.55 percentage points (pp) less when compared to the similar period of 2010. Given this variation, annual inflation stood at 16.0%, 9.16pp more in relation to the similar period of 2010. In cumulative terms, the class of foodstuff and non-alcoholic beverages contributed to the total inflation with 2.10 percentage points positive, where coconut, fresh, chilled or frozen fish, tomato, kale, lettuce and charcoal prices had a greater increase in the month and major impact on the total cumulative inflation.

The CPI-Mozambique, which aggregates price indices of the three main cities of the country, namely Maputo, Beira and Nampula – recorded a 1.32% monthly variation in February 2011 (a deceleration when compared to January of the current year and the similar period of last year), largely determined by foodstuff and non-alcoholic beverages, with a 0.83pp contribution. The products whose prices were determinant for this variation were: fresh, chilled or frozen fish, butter beans, maize flour, stockfish, except cod fish, among others. With this monthly variation, the cumulative inflation in the first two months was 2.96%, while the annual and the variation of the moving average of the last twelve months stood at 15.23% and 14.23%, respectively.

Data released by the INE reported to the fourth quarter of 2010 indicated that GDP recorded a 6.5% annual variation, 1.3bp more in relation to the preceding quarter and in relation to the similar period of 2009. Agriculture and financial services continued to render significant contribution to this growth, as they grew by 13.6% and 15.8%, respectively.

The same source reported that Economic Climate Indicator declined in January 2011 in relation to the preceding month, basically reflecting the pessimism expressed by respondents in relation to demand and employment expectations. However, in comparison with the similar period of

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

2010, the businessmen´s confidence seemed to be more optimistic as it consolidated the ascending trend began in October 2010.

The indicator of employment expectations followed the declining trend, thus inverting the ascending tendency observed in the fourth quarter of 2010, determined by the pessimism expressed by respondents in transports, housing and restoration sectors in relation to future employment, except the industrial production sector, which expressed some optimism.

In the same period, the current employment indicator behaved in the similar way as other above described indicators, as it recorded considerable declines in every sector, except in Transports and Industrial Production that have grown.

In January 2011, the international average prices of the main commodities exported by Mozambique continued to increase, in annual terms, especially those of cotton (131.2%), sugar (13.1%) and aluminum (9.4%). Likewise, the international average prices of the main commodities imported by Mozambique, with impact in domestic inflation, also tended to increase, in annual terms, except that of rice that has reduced by 11.8%. It is worth highlighting the price hikes of wheat (62.3%), maize (58.6%) and Brent barrel (26.1%). Given the instability in the Middle East and North of Africa, the main petroleum and related products producers and exporters, the oil price has been observing persistent and worrying hikes, contributing to the worsening of the living cost in the global economy. On March 9, 2011, Brent barrel traded at USD 115.2.

In the monetary sector, the stock of credit to the economy reached 92,432 million Meticais in January 2011, which shows a slowdown in annual expansion to 28.9%, after 29.2% in the preceding month and 28.4% in the similar period of last year. Excluding the exchange rate variation, credit to the economy grows by 24.6%. The credit performance, combined with the Government financial operations, contributed for the broad money aggregate (M3) to grow, in annual terms, by 22.4%, against 22.8% in the preceding month and 34.1% in the similar period of last year. Excluding the foreign exchange variation effect, the expansion of this aggregate reduces to 19.5%.

Further in this sector, preliminary data reported to February 2011 indicated that the stock of Base Money (BaM) stood at 29,001 million Meticais at the end of the period, 0.4% above the forecasts set for the period. Nevertheless, this stock represents a monthly reduction of 882 million Meticais, determined by returns of Money in Circulation to the banking system, in the amount of 1,067 million Meticais (2.9%), a typical trend in this period of the year, against an increase of Bank Reserves by 186 million Meticais (1.6%). It is worth stating that the component in foreign currency has reduced by 125 million Meticais, softened by the expansion of the component in national currency. In terms of daily average in the month, the stock of BaM in February 2011 was 29,531 million Meticais, revealing a reduction of 752 million Meticais (2.5%), surpassing estimates set for the period by 1,633 million Meticais (5.2%).

With the view to maintain the Base Money within the program parameters, the BM intervened in the interbank markets sterilizing a total of 3,335.0 million Meticais, through repo reverse net operations (1,100 million Meticais), treasury bills (748 million Meticais) and Standing Deposit

Facility applications (651 million Meticais), supported by maturity of 681 million Meticais within the Standing Lending Facility and foreign currency net sales equivalent to 651 million Meticais.

The preliminary stock of Net International Reserves stood at USD 1,882.4 million in February 2011, which represents USD 20.5 million monthly accrual. In the period under analysis, the BM only sold USD 20.4 million in the Interbank Foreign Exchange Market, revealing the fact that the banking system is comfortable in terms of foreign currency need.

In February, the Metical proceeded, for the sixth consecutive month, with the appreciation tendency in relation to the US Dollar, in the interbank foreign exchange market, as the exchange rate stood at 31.1 Meticais, after 32.10 Meticais in January 2010. In annual terms, there was a slowdown in the Metical depreciation by 4pp, to 12.60%, against 5.1% in the similar period of 2010. This tendency expanded through to other market segments, having the commercial banks average exchange rate in operations with the general public stood at 31.26 Meticais, which represents a 3.46% monthly appreciation, after 0.61% in January, prompting the annual depreciation to reduce to 3.54%, after 12.99% in the similar period of 2010.

In the Interbank Money Market, the Treasury Bills (TB's) interest rates for 91, 182 and 365 maturity periods increased in February, to 16.30%, 16.36% and 16.48%, respectively. This trend was similar to that of liquidity swaps among credit institutions, whose average rate rose to 15.34% in February 2011.

The most recent statistical information, reported to January 2011, showed that, in the retail market, the average interest rate for one year maturity period loans has increased by 0.88pp, to 22.55%, which corresponds to a 3.45pp rise in relation to similar period of 2010. In turn, the average interest rate for one year period deposits stood at 12.82% in the month under analysis, 0.81pp more in relation to December 2010 and 3.38pp when compared to the similar period of 2010.

III. MONETARY POLICY DECISION

The Monetary Policy Committee has been monitoring with due attention the oil and foodstuff prices rising tendency in the international market, given its impact on the national economy, particularly in the balance of payments, economic activity, public finance, short and medium term monetary aggregates and inflation. Therefore, with the view to the macroeconomic goals set for 2011, the CPMO has decided to:

- Ensure adequate levels of intervention in the interbank markets, in order to contain the stock of Base Money at 27,543 million Meticais, at the end of March 2011.

The CPMO forthcoming meeting will be held on April 11, 2011.

Ernesto Gouveia Gove
Governor