



## MONETARY POLICY COMMITTEE

COMMUNIQUÉ NO. 04/2020

Maputo, 20 August 2020

**Policy Rate remains at 10.25%**

**The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to keep its policy rate, MIMO rate, at 10.25%. The decision was underpinned by the worsening of the medium-term inflation outlook, and the risks and uncertainties in the face of a further contraction in economic activity in 2020 and a slower recovery in 2021.**

**The Committee has also decided to keep the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) rates at 7.25% and 13.25%, respectively, as well as the Reserve Requirement ratio for liabilities in domestic and foreign currency at 11.50% and 34.50%, respectively.**

**Inflation is expected to accelerate in the short and medium term.** In July, the country's annual inflation stood at 2.80%, after 2.69% in the previous month. A price increase is projected for the short and medium term, essentially reflecting the outcome of the Metical's depreciation and the recovery of fuel prices on the international market, despite weak domestic demand. Nevertheless, it is expected a one-digit inflation, in line with the expectations of the economic agents surveyed in August 2020.

**The prospects for a contraction in economic activity until the end of 2020 have worsened, followed by a slower recovery in 2021.** Domestically, despite the gradual easing of restrictions on economic activity, the adverse effects of COVID-19 on output and demand are expected to continue over the medium term, leading to a further contraction in 2020 and a more sluggish recovery in 2021. In the second quarter of 2020, the economy contracted by 3.25%, following a growth of 1.68% in the preceding quarter.



**The availability of foreign exchange in the economy remains at comfortable levels.** Since the beginning of the year, the national banking system has purchased foreign exchange in the domestic market worth USD 3,309 million and sold USD 3,269 million. Additionally, the balance of gross international reserves stood at USD 3.8 billion, a level that allows for more than 6 months of imports of goods and services. Meanwhile, the Metical depreciation trend remained, however, at a slowing pace.

**Fears of pressure on public finances are growing.** The forecast of a contraction in economic activity in 2020, associated with the spread of COVID-19 in the country and the worsening of military conflicts in Cabo Delgado, increases the concern of an increased pressure on public spending, especially on health, as well as defense and security. Since the last MPC session, the domestic public debt, excluding loans and lease contracts and past due liabilities, has increased from 160,135 million to 162,424 million meticaís.

**For the short and medium term, risks and uncertainties in the domestic economy have increased.** Since the last MPC, the risks and uncertainties have worsened, with emphasis on the community spread of COVID-19 and the intensification of military instability in the northern part of the country. The continuation of this scenario may affect the profile of the economic and financial indicators and lead the MPC to adopt corrective measures. The next ordinary session is scheduled for 21 October 2020.

**Rogério Lucas Zandamela**  
**Governor**