

MONETARY POLICY COMMITTEE
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Maputo, December 12, 2011

The Monetary Policy Committee of the Banco de Moçambique (CPMO – acronym in Portuguese) convened today, in its twelfth ordinary meeting of the current year, to consider the most recent developments of the international financial and economic developments and the evolution of the main economic and financial indicators of Mozambique, with emphasis on inflation, the performance of the monetary aggregates and their short and medium term trends, in order to take the most appropriate monetary policy measures.

I. RECENT DEVELOPMENTS IN THE INTERNATIONAL AND REGIONAL ECONOMIES

The international environment continued to be marked by the sovereign debt crisis that affects the European countries, with effects on the financial markets volatility and the expectations of worsening the situation given the recent threats of general downgrading of countries and banks by the rating agencies. The economic growth of advanced economies¹ has slowed down, having the Euro Zone countries grown in average less 0.2 percentage points (pp) in the third quarter, when compared to the previous one, contrasting with the slight improvement observed in the Japanese economy, whose GDP shrinkage has reduced to 0.2%, after 1% in the second quarter. In October, annual inflation decelerated in the United States of America and United Kingdom to 3.5% and 5%, respectively, and remained stable around 3% in the Euro Zone, whereas in Japan the situation returned to deflation. The US Dollar remained volatile in November, weakening against the Euro by 3.5%, after gains of 0.7% in October, in terms of annual variation and accruing losses of 7.2% in relation of Yen. The central banks of advanced economies kept their reference rates unchanged, except the European Central Bank that has cut its rate by 25 basis points (bp), to 1.25% in November and more recently to 1%.

In the emerging market economies², the GDP evolution observed a mixed trend in the third quarter of 2011, having grown in South Korea to 3.5% and slowed down in Brazil and India to 2.1% and 6.9%, respectively. In October, inflation remained at 9.7% in India, having decreased in the remainder economies within this group of countries, to 6.9% in Brazil, 5.5% in China and 3.9% in South Korea. The US Dollar strengthened its appreciation against the Brazilian currency Real to 5.4% and Rupee of India, to 13.8%, having weakened in relation to Yuan of China by 4.3% and Won of South Korea by 1.5%. The Central Bank of Brazil has reduced its policy reference rate by 50bp, to 11%, having the remainder central banks kept their reference rates unchanged, in November.

In the SADC³ economies, it is worth highlighting the GDP annual growth slowdown in South Africa in the third quarter of 2011, to 3.1%. In October, annual inflation rose to 17.9% in Tanzania, 8.1% in Malawi, 6.4% in Mauritius and 6% in South Africa, whereas it decelerated in Angola to 11.4%, in Zambia to 8.1% and in Mozambique to 7.7%, noting that the information for the last two countries reports to November. The US Dollar revealed to be weak in relation to Metical and Rupee of Mauritius, as it depreciated by 24% and 4.8%, respectively, conversely the nominal gains that it recorded in relation to the Kwanza of Angola (0.5%), Pula of Botswana (10%), Kwacha of Malawi (7.6%), Shilling of Tanzania (13.4%) and Kwacha of Zambia (2.8%). The Rand has accrued 14.9% nominal losses in relation to the US Dollar. In November, the

¹ Analyzed Economies: United States of America, Euro Zone, Japan and United Kingdom

² Analyzed Economies: Brazil, China, South Korea and India

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

Treasury Bills average interest rates for 91 maturity days remained at 14.1% in Mozambique, 18% in Angola and 5.5% in Botswana, whereas in Tanzania, Botswana and Mauritius they rose to 12.9%, 6.6% and 4.4%, respectively, and in Malawi and Zambia they decreased to 6.48% and 7.18%.

In October 2011, the main commodities' average prices with impact in Mozambique' balance of payments recorded, in the overall, negative monthly variations, especially that of wheat (8.5%), maize (7.2%), cotton (5.1%), aluminum (4.9%), rice (2.2%), Brent (1.3%) and sugar (1.3%), against the increases observed in natural gas and gold by 9.0% and 5.5%, respectively. On the last date of November, the price of Brent barrel reduced 1.8%, to USD 110.37, reflecting the international distress situation and the forecasts of global economy slowdown. On December 9, the Brent barrel was quoted at USD 109.62.

II. DEVELOPMENTS IN THE MOZAMBICAN ECONOMY

Data released by the National Institute of Statistics (INE-acronym in Portuguese), reported to November 2011, indicated that the Consumer Price Index of Maputo city has increased by 0.46%, after a variation of 0.01% last October. Given this variation, the cumulative inflation stood at 4.12%, the annual variation rate at 7.74%, after 8.34% in the previous month, and 15.06% in November 2010 and the average annual inflation at 11.27%, after 11.87% in the preceding month. The class of foodstuff and non-alcoholic beverages and that of housing, water, electricity, gas and other fuels, with price variations of 2.33% and 5.69%, respectively, have contributed in the total cumulative inflation with 1.82pp. In terms of products and services, the charcoal, public higher education, petrol, groundnuts, fresh fish, brown sugar and butter bean were the products whose price increase had major impact on the total cumulative inflation, as they contributed with 2.95pp.

The CPI deceleration in the November 2011 continued to be determined by greater supply of fresh products within the domestic market and the Metical exchange rate stability, mainly in relation to the Rand, which has favoured the trend of prices of imported products from South Africa. Meanwhile, the CPI-Mozambique, which aggregates the indices of prices of Maputo, Beira and Nampula cities, recorded a 0.53% positive variation in November 2011, resulting in a cumulative and annual inflation of 4.70% and 8.60%, respectively. The class of foodstuff and non-alcoholic beverages and that of housing, water, electricity, gas and other fuels have contributed in the total cumulative inflation since the beginning of the year with 2.59pp positive. The fresh fish, charcoal, brown sugar, petrol, public higher education, dry cassava and groundnuts were the products whose price rise had greater impact on the total cumulative inflation, as they have contributed with 2.68pp.

Further to data released by the INE, in October, the economic climate indicator recovered from its slight decline observed in September, mainly driven by the positive evaluation of demand expectations. In contrast with the pessimism expressed, for the fourth consecutive month, by the operators of transports and communication sector, the accommodation, restaurants and other non financial services, such as industrial production, electricity, water and construction expressed optimistic perspectives. In turn, the indicator of employment expectations decreased in October, reflecting the pessimism of trade sector operators and that of other non financial services. The operators of all sectors expect reductions of prices of goods and services they provide, except the housing and restaurants sector that anticipates a demand seasonal increase.

The monetary sector preliminary information showed that in October 2011, the amount of credit to the economy stood at 95,066.4 million meticaïs, which equals to a 3.5% annual expansion, after 3.2% in the preceding month and 43.6% in the similar period of 2010. In the same period, the volume of the aggregate broad money (M3) stood at 134,042.1 million meticaïs, which represents an expansion of 1,098.1 million meticaïs, when compared to September 2011, basically influenced by the increase of total deposits by 1,668.8 million meticaïs. Given this variation, the aggregate M3 annual expansion has risen to 3.94%, after 3.87% in September 2011. When excluding the effect of the exchange rate in relation to the US Dollar on credit in foreign currency, the cumulative and annual expansion of banking credit to the private sector stands at 9.4% and 11.4%, respectively, while the growth of the aggregate broad money stood at 7.94%, in terms of cumulative variation, and 13.57% in annual terms.

Provisional data indicated that on the last date of November 2011, the volume of Base Money – monetary policy operational variable – stood at 31,380 million meticaïs, below the forecasts set for the period at 2,649 million meticaïs, which corresponds to a monthly growth of 481.3 million meticaïs (1.6%), explained by the simultaneous increase of Money in Circulation by 379.8 million meticaïs (2.0%) and Bank Reserves by 101.5 million meticaïs (0.9%). The expansion of Bank Reserves in the period under reference was determined by the increase of reserves in national currency by 175.9 million meticaïs (1.6%), softened by the decline of reserves in foreign currency in the amount equivalent to 74.4 million meticaïs (-13.6%). The average monthly amount of Base Money was 31,072 million meticaïs, minus 134 million meticaïs in relation to the average recorded in the preceding month, reflecting the simultaneous contraction of the bank reserves daily average by 110.4 million meticaïs (-0.9%) and Money in Circulation by 23.2 million meticaïs (-0.1%).

In November 2011, the preliminary volume of Net International Reserves was USD 2,149 million, equivalent to a constitution of USD 8.0 million in the month and an improvement of USD 247.1 million in the year. In terms of gross international reserves, this stock corresponds to 5.6 months of imports coverage of goods and non-factor services estimated for the current year, having remained unchanged compared to the preceding month.

In November, the Metical appreciated again at decreasing rhythms in relation to the USD in the Interbank Foreign Exchange Market, having its exchange rate stood at 26.87 meticaïs, after 27.03 meticaïs in the preceding month, which corresponds to a 24.0% annual variation, after 24.62% observed in the previous month. This tendency was also observed in other market segments, where the commercial banks average exchange rate in their transactions with the general public stood at 26.82 meticaïs, at the end of November 2011, after 27.14 meticaïs recorded in the preceding month, which represents an annual nominal appreciation of 17.83%, after 24.11% in the preceding month.

In the Interbank Money Market, the average interest rates for subscription of Treasury Bills auctions have decreased for all maturities, namely by 70bp for 91 days, 36bp for 182 days and 73bp for 364 days, to 13.5%, 14.04% and 14.17%, respectively.

III. MONETARY POLICY DECISION

The Monetary Policy Committee considers important to consolidate the macroeconomic results so far achieved, through the continuous reinforcement of policies coordination and enforcement of policy instruments used to regulate liquidity in the market, focused on inflation goals in the short and medium

terms. In this context, the Committee also considers pertinent that economic agents and the general public redouble efforts to maintain price stability during the festive season.

Taking into account the macroeconomic goals set for the end of 2011 and for 2012, namely the GDP growth rate and inflation, and based on the most recent forecast analysis, the Monetary Policy Committee has decided to:

- Reduce the Standing Lending Facility interest rate by 100bp, to 15%, with immediate effects;
- Maintain the Standing Deposit Facility interest rate unchanged at 5%;
- Reduce the reserve requirement ratio by 25 basis points, to 8.5%, with effects from the period of constitution that begins on January 7, 2012;
- Intervene in interbank markets in order to ensure that the stock of Base Money does not surpass 35,792 million meticaís at the end of December 2011.

The CPMO forthcoming meeting will be held on January 10, 2012.

Ernesto Gouveia Gove
Governor