



**MONETARY POLICY COMMITTEE
COMMUNIQUÉ N. ° 05/2019
Maputo, 14 August 2019**

The Monetary Policy Committee (MPC) of the Banco de Moçambique gathered today, 14 August 2019, decided to cut the policy rate (MIMO) by 50 basis points (bp) to 12.75%.

It also decided to reduce the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) rates by 50 bp, to 9.75% and 15.75% respectively, and to keep the Reserve Requirement for liabilities in domestic and foreign currency by 14.00% and 36.00%, respectively.

The decision to cut the MIMO rate was accounted for by the continuous improvement in the medium-term inflation outlook, that underpin the stability of this indicator at single digit levels. Our assessment of the risks associated with this forecast has become more favorable with the recent Peace Agreement and the subsequent beginning of the disarmament, demobilization and reintegration process. However, remaining uncertainties justify the prudential stance of monetary policy. The downward trend of the MIMO rate, coupled with the improved outlook, may continue to contribute to the reduction of short and medium-term financing costs

The forecast of a greater domestic price stability is still due to the expectation of lower pressure in the foreign exchange market, against a background of aggregate demand still below its potential, and of the favorable behavior of international oil prices. The forecast of lower medium-term exchange rate pressure stems from expectations of greater inflows of foreign currency to finance post-natural disaster reconstruction and natural resource exploitation projects. The average international oil price is expected to remain favorable, given the slowdown in global economic activity. In addition, recent developments in Mozambique's annual inflation, which has persistently decelerated since February to 2.16%, in July, enhance the projections of low and stable short- and medium-term inflation.

As for the economic activity, a slowdown in growth is expected in 2019, followed by a gradual recovery in 2020, but still below its potential. This recovery will be mainly driven by post-natural disaster reconstruction activities and by the momentum arising from the implementation of natural gas projects in the Rovuma Basin. On the other hand, the recent Peace Agreement could improve the investment climate and economic activity. These prospects are supported by the optimism of both the economic climate indicator and the industrial production index, and are in line with the gradual recovery of credit to the economy.



International reserves remain at comfortable levels, enough to secure about six months of imports. Since the last MPC, gross international reserves have increased by USD 111 million, to USD 3,244 million, covering approximately 6 months of imports of goods and services, excluding transactions from mega projects. This behavior reflects the increased availability of foreign exchange in the market, which has allowed the banking system to meet import needs and sell the surplus to the Banco de Moçambique.

Domestic public debt is still increasing. Since the last MPC, domestic public debt incurred through Treasury Bills, Treasury Bonds and advances from the Banco de Moçambique has increased to MTN 134,478 million, reflecting the issuance of Treasury Bills by MTN 3,787 million. The above amounts do not take into account other amounts of domestic public debt, such as loan and lease agreements, as well as past due liabilities.

Compared to the last MPC, the risk assessment underlying inflation projections has become relatively more favorable, but uncertainties persist. Expectations on the recent Peace Agreement improve the overall assessment of domestic risks given its impact on economic activity. Meanwhile, the outbreaks of military instability in Cabo Delgado, the sustainability of public debt in the face of the need to finance both the 2019 election deficit and the reconstruction of post-natural disaster infrastructure as well as the uncertainties regarding the electoral process are still the main sources of risk.

Externally, there are risks of a slowing world growth, reflecting the intensification of trade and geopolitical tension between the major economies, with a negative impact on foreign trade flows as well as on international price volatility of major commodities.

The MPC will continue to monitor economic and financial indicators and risk factors and will not hesitate to take the necessary corrective measures before its next ordinary meeting scheduled to 31 October 2019.

Rogério Lucas Zandamela

Governor