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ECONOMIC OUTLOOK AND INFLATION FORECASTS



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AND INFLATION FORECASTS

May 2024

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¹ Internal and/or external guests may also participate in Monetary Policy Committee meetings, whenever necessary, at the invitation of the body's Chairman.

Foreword

The primary mandate of the Banco de Moçambique (BM) is to maintain price stability, and to ensure the purchasing power of citizens. This implies keeping inflation low, at one digit, and stable in the medium term. The mandate to make this objective possible is exercised by the Monetary Policy Committee (MPC), a body composed of the Governor, Deputy Governor, BM Board Members and permanent guests. The BM is also responsible for the supervision and stability of the financial system.

Price stability also fosters balanced and sustainable economic growth. Price stability reduces the degree of uncertainty of economic agents and makes it possible to ensure more attractive interest rates, enabling a favourable macroeconomic environment for savings and investment.

In order to ensure price stability, the MPC sets the monetary policy interest rate, referred to as the Mozambique Interbank Money Market Rate (MIMO). This rate, introduced on April 17, 2017, signals the monetary policy stance and serves as an anchor for operations in the Interbank Money Market. It is expected that, through its influence on overnight interest rates formed in this market, the MIMO rate will affect inflation through the expectations, exchange rate and credit channels.

The decision on the MIMO rate is primarily based on inflation projections, always weighing the risks and uncertainties associated with such projections and the economic outlook. The MPC recognizes the delayed effect of its decisions on the economy, so its policy stance is based on the assessment of the economic and financial outlook, including risks and uncertainties, over eight quarters at least. Where inflation projections deviate materially from the primary monetary policy objective set for the medium term, the MPC shall take appropriate policy measures to reverse the trend.

The MPC convenes ordinarily once every two months, and extraordinarily whenever economic conditions so require. The schedule of regular MPC meetings is announced at the beginning of each year. However, the body may convene extraordinarily to deliberate on monetary policy aspects, whenever macroeconomic circumstances so dictate.

The BM values transparency in the communication of its monetary policy. Monetary policy decisions are announced publicly through an MPC Communiqué and a press conference, when called, led by the BM Governor, on the same day as the committee meeting.

The Economic Outlook and Inflation Forecasts (CEPI) Report is an additional means for communicating the Monetary Policy Committee's (MPC) decisions. The CEPI report discloses the factors and rationale behind measures taken by the MPC, broadening the public's understanding of the objectives and conduct of monetary policy.

Rogério Lucas Zandamela

Governor

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Decisions of the 3rd Session of the Monetary Policy Committee, of May 27, 2024

The Banco de Moçambique Monetary Policy Committee (MPC) decided to reduce the policy rate, MIMO, from 15.75% to 15.00% This decision is underpinned by the continued consolidation of single-digit inflation prospects over the medium term, in a context where the assessment of the risks and uncertainties associated with projections remains favorable.

This MPC session was preceded by the meeting of the Banco de Moçambique Financial Stability and Inclusion Committee (CEIF), which assessed the developments in systemic risk and main vulnerabilities, also reflected herein, and concluded that the national financial system remains stable and resilient.

Prospects of inflation remain under single digit in the medium term. In April 2024, annual inflation stood at 3.3%, following 3.0% in March. Core inflation, which excludes fruits and vegetables and administered prices, remained stable. Prospects for single-digit inflation remain unchanged in the medium term, mainly reflecting the stability of the Metical and the impact of the measures taken by the MPC.

The assessment of the risks and uncertainties associated with inflation projections remains favorable. Possible factors restraining inflation in the medium term include the stability of the Metical and the milder impact of geopolitical conflicts on the logistics supply chain and commodity prices in the global market.

The banking sector remains sound, capitalized and resilient. In March 2024, the capital adequacy ratio stood at 25.1%, above the regulatory minimum of 12%, and the liquidity ratio stood at 50.2%, also above the regulatory level of 25%. The macroprudential solvency stress test, which consists of a simulation of shocks to assess banking sector resilience, showed that it has sufficient capital buffers to absorb potential losses and remain sound and capitalized in the medium term.

Systemic risk, which assesses the potential spillover effect from banking system disruptions, is moderate. This reflects the gradual recovery of economic activity, the stability of the Metical and the recent trend in inflation, despite the increased exposure of the banking sector to public debt. Indeed, domestic public debt, excluding loan and lease agreements and overdue liabilities, stands at 361.8 billion meticaïs, a 49.5 billion increase compared to December 2023.

The MPC will continue easing the MIMO rate in the medium term. Meanwhile, the pace and magnitude will continue to depend on inflation prospects, as well as the assessment of the risks and uncertainties associated with medium-term projections.

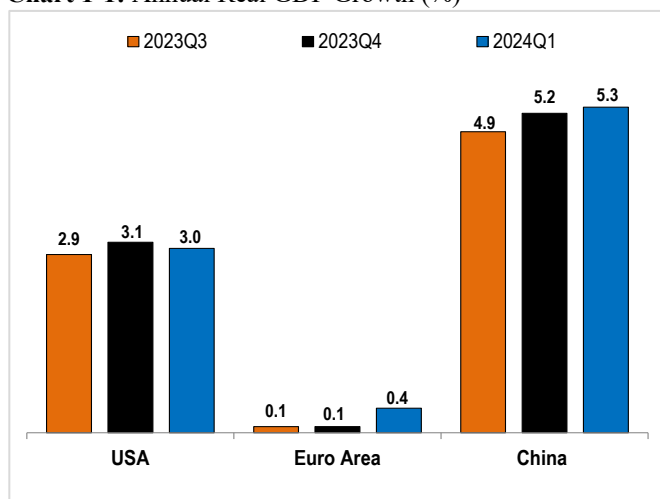
The next regular MPC meeting is scheduled for July 31, 2024.

Rogério Lucas Zandamela
Governor

Chapter I. Recent Developments in the International Economy and Forecasts

The world economic outlook for 2024 and 2025 continues to lean towards global growth at 2023 level and slowing inflation. Global risks and uncertainties remain high, particularly those associated with military conflicts in the Middle East and Ukraine, which, should they escalate, could trigger a new surge in inflation.

Chart 1-1: Annual Real GDP Growth (%)



Source: *Trading Economics*

1.1. Economic Activity and Inflation

In the first quarter of 2024, economic activity continued to improve in the world's main economies.

Indeed, in the United States of America (U.S.A.), the year-on-year Gross Domestic Product (GDP) growth stood at 3.0%, mainly driven by household spending on services. Meanwhile, the Eurozone economy grew by 0.4%, spurred by the increase in public consumption (Chart 1-1).

In China, growth stood at 5.3%, driven by fiscal stimulus and increased public consumption.

As per the April 2024 edition of the World Economic Outlook (WEO), the outlook for global growth for 2024 and 2025 mirrors 2023 level.

Table 1-1: Annual GDP Growth Projections – 2024 and 2025 (%)

	2023	Projections		Difference from Jan/24 WEO	
		2024	2025	2024	2025
World Output	3.2	3.2	3.2	0.1	0.0
Advanced Economies	1.6	1.7	1.8	0.2	0.0
United States	2.5	2.7	1.9	0.6	0.2
Euro Area	0.4	0.8	1.5	(0.1)	(0.2)
Germany	(0.3)	0.2	1.3	(0.3)	(0.3)
Japan	1.9	0.9	1.0	0.0	0.2
United Kingdom	0.1	0.5	1.5	(0.1)	(0.1)
Emerging Market & Developing Economies	4.1	4.2	4.2	0.1	0.0
China	5.2	4.6	4.1	0.0	0.0
India	7.8	6.8	6.5	0.3	0.0
Brazil	2.9	2.2	2.1	0.5	0.2
Sub-Saharan Africa	3.4	3.8	4.0	0.0	(0.1)
South Africa	0.6	0.9	1.2	(0.1)	(0.1)

Source: IMF, World Economic Outlook (April, 2024)

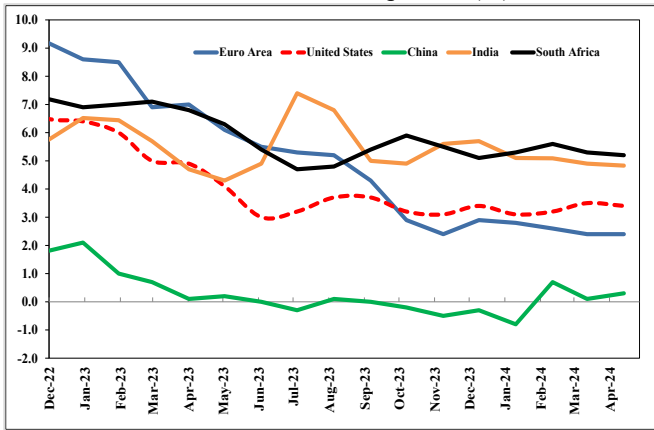
The outlook for global growth of 3.2% in 2024 is mainly explained by the recovery in economic activity in the USA, Germany, and the UK.

It is noted that the current projection of global growth for 2024 is 10bp higher than that published in the January 2024 edition (Table 1-1).

In April 2024, annual inflation continued to decelerate in advanced and emerging market economies.

In the U.S.A., inflation remained rigid (above 3.0% for ten consecutive months), despite having slowed to 3.4%, following 3.5% in the previous month. In the Eurozone, inflation remained above the 2.0% target, standing at 2.4%, reflecting the combined effect of the decrease in service prices coupled with rising food prices (Chart 1-2).

Chart 1-2: Annual Inflation Developments (%)



Source: Trading Economics

Table 1-2: Average Annual Inflation Outlook (%)

Region	2023	Projection	
		2024	2025
World	6.8	5.9	4.5
Advanced Economies	4.6	2.6	2.0
Emerging Market & Developing Economies	8.3	8.3	6.2

Source: IMF, World Economic Outlook (April, 2024)

In India, annual inflation slowed to 4.8% from 4.9% in the previous month, supported by the decline in housing prices. South Africa experienced a similar trend, as annual inflation fell to 5.2% (-10 bp), reflecting the slowdown in food prices.

However, over the same period, inflation in China continued to converge towards the target set by the authorities (3%), rising from 0.1% in March to 0.3% in April.

The outlook for a slowdown in inflation remains in place over 2024 and 2025. This trend continues to be explained by the prevalence of restrictive monetary conditions, particularly in advanced economies, where inflation levels are expected to remain above the central banks' target (2.0%) in 2024 (Table 1-2).

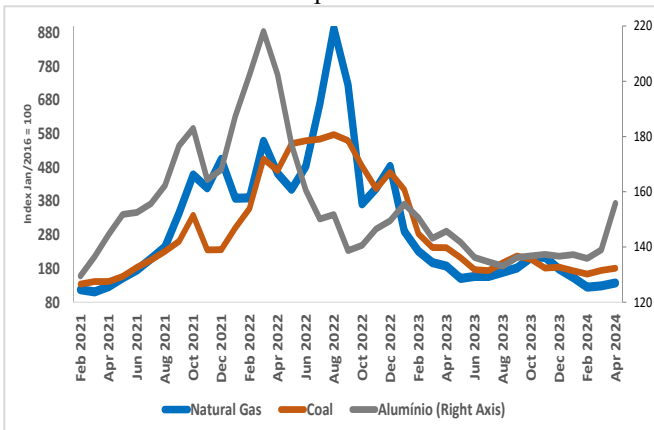
1.2. Prices of Key Commodities

With the exception of brent and aluminium, the prices of the key commodities traded by Mozambique fell in cumulative terms.

On the exports side, the decline in natural gas (-23.0%) and thermal coal (-1.7%) prices stand out (Chart 1-3).

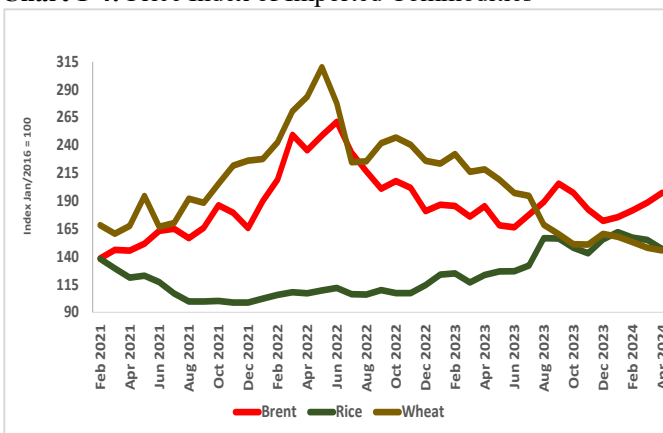
As for imports, the increase in the price of brent (14.7%) and the slump in wheat (-9.3%) and rice (-5.5%) prices are highlighted (Chart 1-4).

Chart 1-3: Price Index of Exported Commodities



Source: IMF Primary Commodity Index (April, 2024)

Chart 1-4: Price Index of Imported Commodities



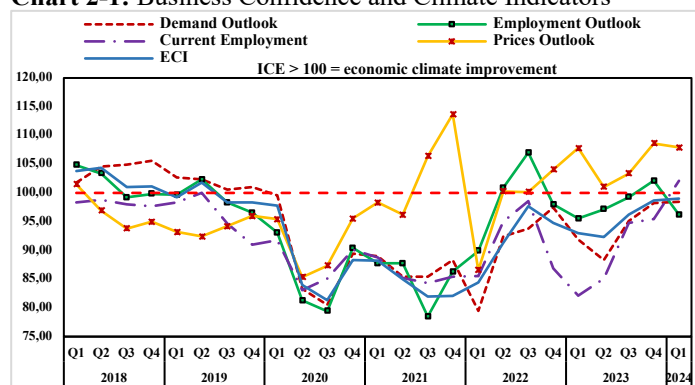
Source: IMF Primary Commodity Index (April, 2024)

Chapter II. Recent Developments in the Domestic Economy and Near-Term Prospects

In the near term, excluding liquefied natural gas (LNG) production the economy is expected to gradually recover, driven by the prospects of continuous improvement in the performance of the extractive industry and the tertiary sector, in line with recent developments in economic activity indicators.

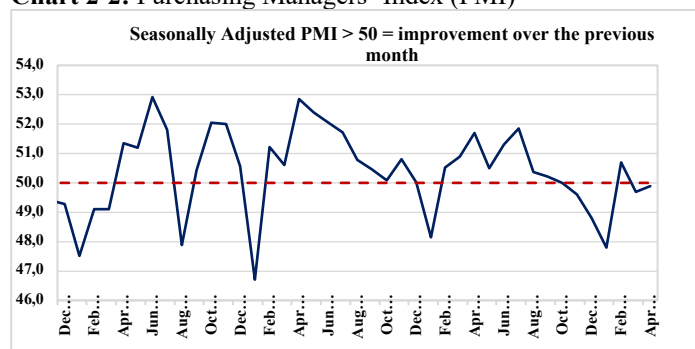
In April 2024, the annual inflation rate stood at 3.3%, driven by food prices. In the near term, the outlook points to a slight acceleration in inflation, reflecting the effects of recent climate shocks on the supply of fruit and vegetables, and the adjustment of the water tariff .

Chart 2-1: Business Confidence and Climate Indicators



Source: INE

Chart 2-2: Purchasing Managers' Index (PMI)



Source: HIS, Markit

Table 2-1: Domestic Public Debt (millions of metcais) *

Domestic Public Debt (in MZN million)					
	Use of T-Bills	Treasury Bonds	In the BM	Total Debt	Debt as % of GDP
Dec – 2020	44,220	88,100	54,885	187,205	18.1%
Dec – 2021	59,399	102,415	57,009	218,823	19.6%
Dec – 2022	69,872	142,056	63,186	275,114	23.4%
Dec – 2023	85,536	155,490	71,314	312,341	23.7%
Jan – 2024	84,507	161,207	75,556	321,270	20.9%
Feb – 2024	87,507	161,997	81,292	330,797	21.5%
Mar – 2024	94,107	168,604	88,080	350,791	22.8%
Apr – 2024	98,180	163,989	95,309	357,478	23.3%
May – 2024	99,853	169,089	95,309	364,251	23.7%
Flow (Dez/23 - May/24)	14,317	13,599	23,994	51,910	

Source: BM and BVM

* Data updated until May 28, 2024

2.1. Near-Term Economic Activity

Excluding LNG production, the forecast is for a slight acceleration in GDP growth over the near term. The forecast continues to be driven by the improvement in the performance of the extractive industry and the tertiary sector, despite the occurrence of extreme climate shocks.

The prospect of the gradual recovery of the economy over the near term is also supported by the improvement in economic activity indicators, particularly the Business Confidence and Climate Indicators (ICCE) and the Purchasing Managers' Index (PMI) (Charts 2-1 and 2-2).

2.2. Domestic Public Debt

Domestic public debt increased. The domestic public debt contracted between December 2023 and May 2024, excluding debt arising from loan and lease agreements and overdue liabilities, increased by approximately 51,910 million metcais, standing at 364,251 million at the end of May (Table 2-1).

2.3. International Reserves

The country's international reserves remain at comfortable levels. The country's external position, as measured by gross international reserves, remains at comfortable levels, with a cumulative balance of approximately USD 3,747 million as of May 20, 2024, sufficient to cover about 5 months of imports of goods and services, excluding megaprojects.

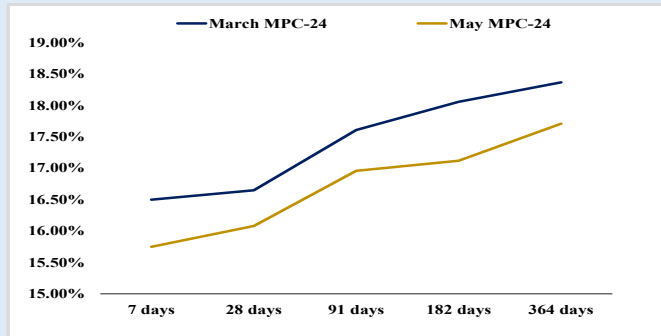
Box 1 : Monetary and Financial Developments

I. Interest Rate Developments

a) Money Market Interest Rates

The money market yield curve shifted downwards in the interval between the two MPC cycles (March and May 2024). Indeed, interest rates on all market maturities fell by between 57 bp and 94bp, in line with the downward adjustment of the monetary policy interest rate (MIMO rate) (Chart 1).

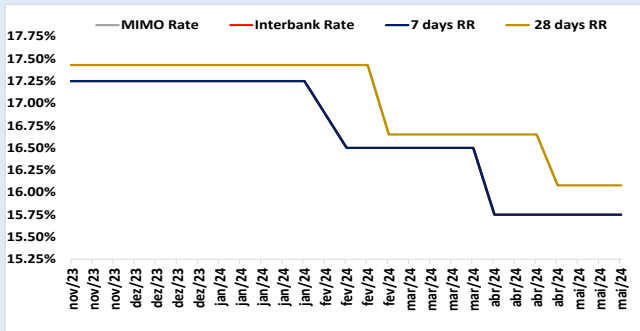
Chart 1: Money Market Yield Curve



Source: BM, 2024

Reduction of the bank's intervention interest rates for the shorter maturities. MIMO rates, effective MIMO (overnight swaps) and T-Bill sales with 7-day repurchase agreement (reverse repo) fell by 75 pb to 15.75%, while the 28-day reverse repo rate fell by 57bp, settling at 16.08% (Chart 2).

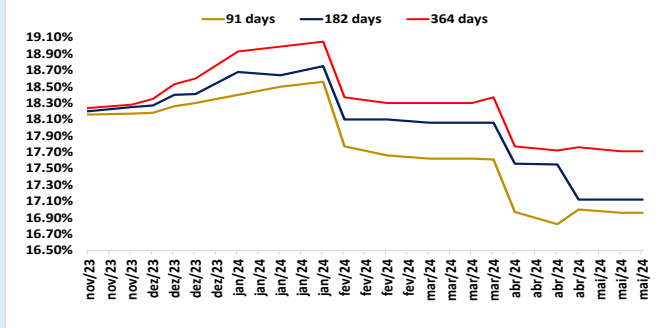
Chart 2: IMM Interest Rate Developments



Source: BM, 2024

Decrease in interest rates on Treasury Bills (T-Bill). T-Bill interest rates for the three reference maturities (91, 182, 364 days) fell by between 65 and 94bp to 16.96%, 17.12% and 17.71%, respectively. It should be noted that the T-Bill interest rate for the 1-year (364-day) maturity stood 196bp above the MIMO policy rate (Chart 3).

Chart 3: Treasury Bill Interest Rate Developments

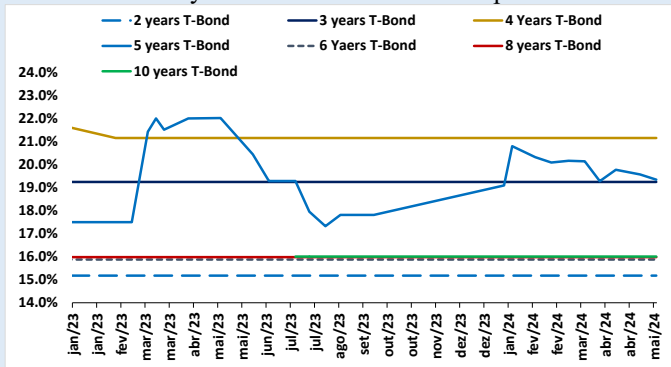


Source: BM, 2024

b) Treasury Bond (T-Bond) Interest Rates

Between March and May 2024, the State issued 5-year maturity T-Bonds, and the weighted average interest rate fell by 80bp to 19.34% (Chart 4).

Chart 4: Treasury Bond Interest Rate Developments

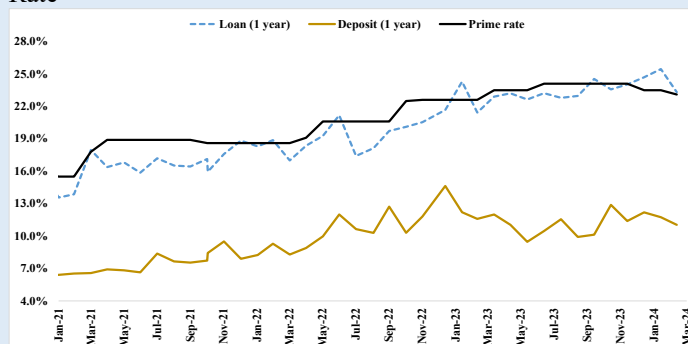


Source: BM, 2024

c) Retail Interest Rates

Decrease in interest rates on 1-year maturity retail loans and deposits. Information reported as of March 2024 indicates that the average interest rates on loans and deposits fell by 214 bp and 70bp to 23.3% and 11%, respectively, resulting in a reduction in the spread between the both rates (Chart 5).

Chart 5: Developments in Retail Interest Rates and the Prime Rate

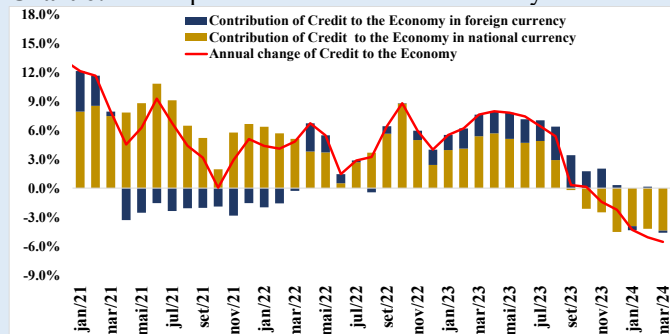


Source: BM, 2024

II. Developments in Credit to the Economy

Decrease in credit to the economy in March 2024. In March, credit contracted by 5.6% year-on-year, following a decline of 5.1% in February 2024, mainly due to the prevalence of restrictive monetary conditions. Meanwhile, credit to the economy increased by 0.5% month-on-month, following 0.3% in the previous month (Chart 6).

Chart 6: Developments in Credit to the Economy



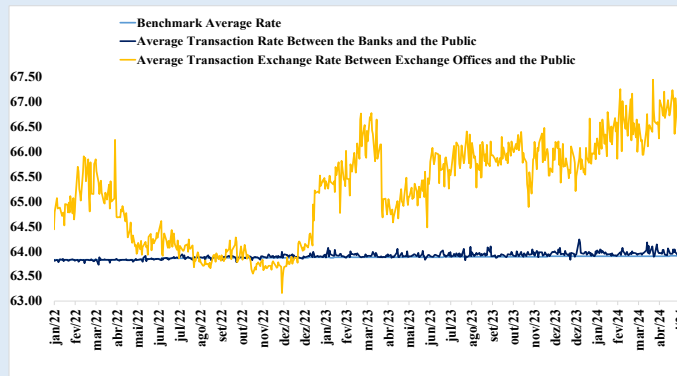
Source: BM, 2024

III. Exchange Rate Developments

a) Metical Exchange Rate against the US Dollar

The Metical (MZN) remains stable against the US Dollar. From March to May 2024, the MZN/USD reference exchange rate rose from MZN/USD 63.90 to MZN/USD 63.91 and the effective exchange rate arising from transactions between commercial banks and the general public rose from MZN/USD 63.92 in March to MZN/USD 63.94 in May. Over the same period, in the exchange bureaus segment, the Metical exchange rate increased from MZN/USD 66.41 to MZN/USD 67.22 (Chart 7).

Chart 7: Metical Exchange Rate Developments against the US Dollar

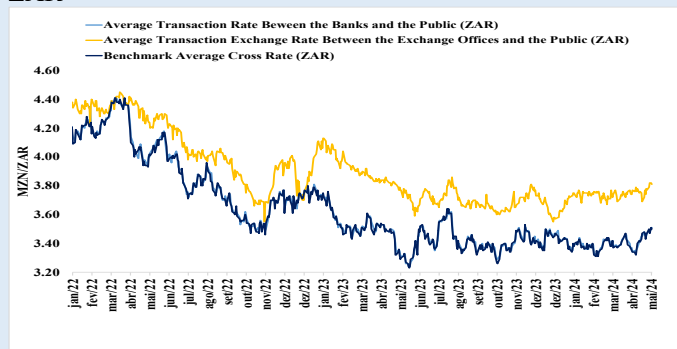


Source: BM, 2024

b) Metical Exchange Rate against the Rand

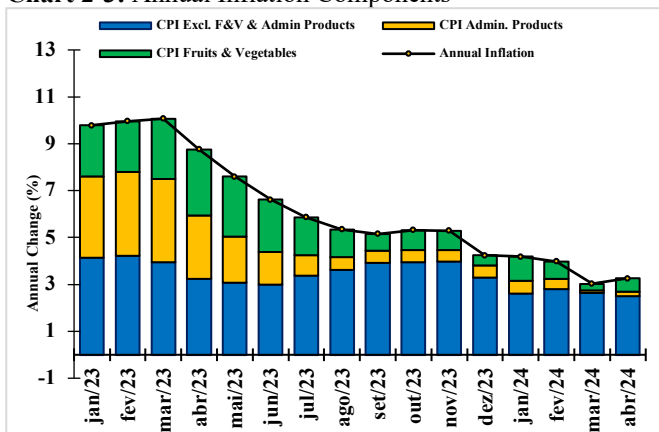
Slight depreciation of the Metical against the Rand (ZAR). In the reporting period, the MZN/ZAR reference exchange rate increased from MZN/ZAR 3.39 to MZN/ZAR 3.50 and that of commercial banks with the general public increased from MZN/ZAR 3.39 to MZN/ZAR 3.51. The exchange rate of exchange bureaus with the general public fell by 7 cents to MZN/ZAR 3.82 (Chart 8).

Chart 8: Metical Exchange Rate Developments against the ZAR



Source: BM, 2024

Chart 2-3: Annual Inflation Components



Source: INE

Table 2-2: Core Inflation (%) – Mozambique CPI

	jan/24	fev/24	mar/24	abr/24
CPI Mozambique	4.19	4.00	3.03	3.26
Food	7.05	6.89	4.94	5.28
Cereals and by products	5.29	5.99	5.16	4.99
Fruits and Vegetables	9.79	7.45	3.12	5.29
Administered	2.71	2.19	0.56	0.89
Liquid Fuel	0.41	0.41	0.41	0.41
CPI x Fruit & Veg.	3.62	3.60	2.83	2.95
CPI x Adm.	4.45	4.40	3.63	3.85
CPI x Fruit & Veg & Adm.	3.96	4.14	3.71	3.75

Source: INE

2.4. Recent Inflation Developments and Near-Term Prospects

In April 2024, annual inflation remained at a single digit.

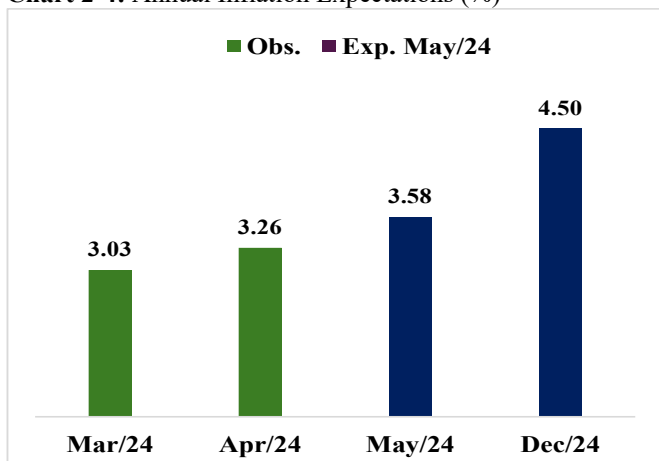
Annual inflation stood at 3.26% in April, after 3.03% in March, explained by the increase in food prices, whilst the annual increment stood at 5.28%, after 4.94% in March (Chart 2-3 and Table 2-2).

Core inflation also remained in the single digit in April 2024. Excluding fruit and vegetables and administered products, annual inflation stood at 3.75% in April, after 3.71% in March (Chart 2-3 and Table 2-2).

The near-term outlook points to inflation remaining at a single digit. This forecast stems from the prospects of a seasonal increase in the supply of fresh produce - the start of the winter season, in a context of the stability of the Metical, which could offset the effects of the pass-through of the increase in fuel prices in South Africa and the adjustment of the water tariff. A risk factor for the projections is the volatility of international prices of key imported commodities.

The economic agents' survey supports the outlook for single digit inflation. The macroeconomic expectations of economic agents suggest an acceleration in inflation over the near term, with the perception that it could reach 4.50% in December 2024 (Chart 2-4).

Chart 2-4: Annual Inflation Expectations (%)



Source: BM

Chapter III. Inflation Prospects and Economic Activity in the Medium Term

Prospects for single-digit inflation remain unchanged over the medium term, mainly reflecting the stability of the Metical and the impact of the measures taken by the MPC. The assessment of the risks and uncertainties associated with inflation projections remains favorable, particularly due to the factors likely to curb inflation, the stability of the Metical, and the milder impact of geopolitical conflicts on the logistics supply chain and global market commodity prices.

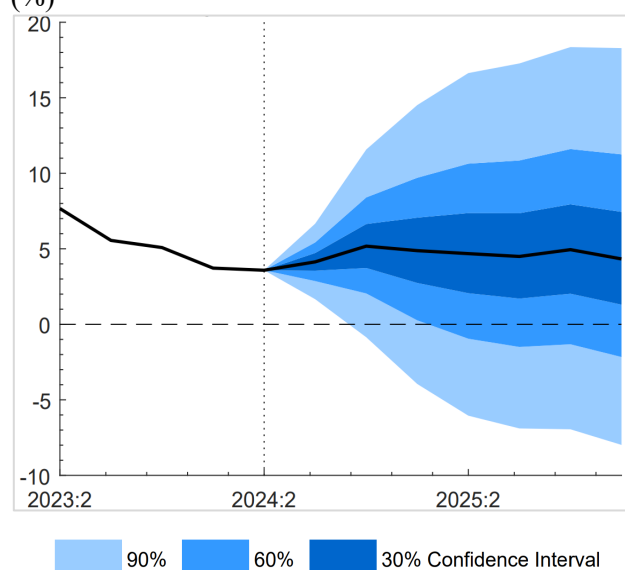
In light of this macroeconomic outlook and considering the risks and uncertainties associated with inflation forecasts, the MPC decided to reduce the MIMO policy rate from 15.75% to 15.00%.

Table 3-1: External Assumptions

	2023	2024	2025
US Real GDP (%)	2.5	2.1	1.3
<u>March/2024 MPC</u>	2.5	1.8	1.3
RSA Real GDP (%)	0.6	0.7	0.9
<u>March/2024 MPC</u>	0.6	1.0	0.9
	2023Q4	2024Q4	2025Q4
US inflation (YoY%)	3.2	3.3	2.5
<u>March/2024 MPC</u>	3.2	2.7	2.4
RSA Inflation (YoY%)	5.5	4.9	5.1
<u>March/2024 MPC</u>	5.5	4.7	4.7
Brent Price (USD)	82.7	86.0	87.1
<u>March/2024 MPC</u>	82.7	82.4	85.5
Food Prices (%)	-11.1	-0.8	4.9
<u>March/2024 MPC</u>	-11.2	1.8	3.6

Source: GPMN

Chart 3-1: Mozambique Annual Inflation Projection (%)



3.1. Assumptions for Medium-Term Projections

The medium-term macroeconomic projections (2024-2025) are based on the following assumptions:

a) External

• Convergence of headline inflation to targets

The medium-term forecasts point to continued trend of inflation converging towards the central bank's targets, despite the slowdown in the pace of disinflation in the economies of key economic partners.

This delay in the convergence towards inflation targets could lead to a delay in policy rate cuts, particularly in advanced economies, and undermine the pace of recovery in global demand.

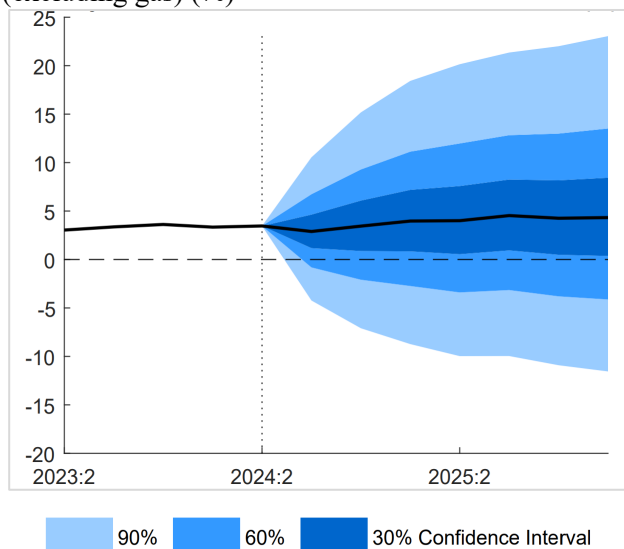
• Stability of commodity prices in the international market

In the medium term, Brent and food prices are expected to remain stable, in line with prospects of weak global demand driven by the current tight monetary conditions, amid the protracted geopolitical conflicts in the Middle East and Europe (Table 3-1).

b) Domestic

Among the main internal assumptions, the highlights are as follows:

Chart 3-2: Mozambique Annual Real GDP Projection (excluding gas) (%)



- Continued high pressure on the State Budget;
- Prevalence of military instability in Cabo Delgado; and
- Continued stability of the Metical exchange rate against the US Dollar.

3.2. Medium-Term Inflation Projections and Associated Risks

Given the above assumptions, inflation is expected to remain in a single digit over the medium term, mainly due to the stability of the Metical and the impact of measures taken by the MPC (Chart 3-1).

With regards to economic activity, excluding the LNG sector, moderate economic growth is expected to continue, particularly due to the performance of the primary (agriculture and mineral coal) and tertiary (services) sectors, despite the impact of climate shocks on agricultural production and various infrastructures (Chart 3-2).

The assessment of the risks and uncertainties associated with inflation projections remains favorable over the medium term. Possible factors likely for the containment of inflation include, on the domestic side, the stability of the Metical and, on externally, the milder impact of geopolitical conflicts on the logistics supply chain and commodity prices in international market.

3.3. Monetary Policy Decision

The Bank of Mozambique MPC decided to reduce the MIMO policy rate from 15.75% to 15.00%.

This decision is underpinned by the continued consolidation of prospects of a single-digit inflation over the medium term, in a context where the assessment of the risks and uncertainties associated with projections remains favorable.

The MPC also decided to:

- Reduce the Standing Lending Facility (SLF) rate from 18.75% to 18%;
- Reduce the Standing Deposit Facility (SDF) rate from 12.75% to 12%; and

- Keep Reserve Requirement ratios for liabilities in national currency and foreign currency unchanged at 39.00% and 39.50%, respectively.

The MPC will continue normalizing the MIMO rate in the medium term. However, the pace and magnitude will continue to depend on inflation prospects, as well as the assessment of the risks and uncertainties associated with medium-term projections.

