

MONETARY POLICY COMMITTEE
PRESS RELEASE N° 11/2011
Maputo, November 9, 2011

The Monetary Policy Committee of the Banco de Moçambique (CPMO-acronym in Portuguese) convened today, in its eleventh ordinary meeting of the current year, to consider the most recent international economic and financial 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

In October, the international environment continued to be marked by the sovereign debt crisis that affects Europe, where a new package of contingency measures has been taken to lessen the contagious effect, with emphasis on the new rescue plan for Greece, along with the forgiveness of 50% of debt contracted in private banks, reinforcement of the European Financial Stability Fund to one billion Euros, budget cuts in the overall euro zone countries in order to ensure the reduction of fiscal deficit, more restrictive financial control in some countries and the recapitalization of European banks to endow them with more capacity to face the crisis.

Other information reported to advanced economies¹ showed that the Gross Domestic Product (GDP) annual growth has reached 1.6%, in the United States of America (USA), and 0.6% in the United Kingdom. Inflation has increased by 10 basis points (bp) in the USA, to 3.9% and 70bp in the United Kingdom, to 5.2%, having recorded a null variation in Japan and remained stable in the Euro Zone, at 3.0%. In October, the main currencies remained volatile in the international market, having the US Dollar reduced its annual appreciation in relation to the Euro to 0.7% and kept its depreciation trend against the Yen, although at decreasing rhythms, to 2.7% and weakened *vis-à-vis* the Pound Sterling, after gains of 0.8% observed in September.

The European Central Bank cut, at the beginning of the current November, its policy interest rate by 25bp, to 1.25%, in the first Governors' Committee meeting chaired by its new President, justifying it to be a necessary measure to stimulate economic activity. In turn, the US Federal Reserve and the Bank of England have kept their policy reference rates unchanged and reinforced the liquidity injection measures in the banking system to stimulate credit and economic activity.

The emerging market economies² are witnessing economic activity slowdown cycle, as assessed on the basis of data reported to the third quarter of 2011, where China stands out with its GDP growth rate that has slowed down to 9.1%, after 9.5% in the preceding quarter. In these economies, inflation indicator evolved downwards, except in Brazil where, in September, annual inflation accelerated to 7.3%. In October, for the second consecutive month, the US Dollar recorded annual gains in relation to the Real of Brazil and Rupee of India, of 0.9% and 9.9%, respectively, having weakened against the Yuan of China (4.7%) and Won of South Korea (1.1%). The central banks of India and Brazil have revised their policy reference rates in the opposite directions, as that of India increased by 25bp, to 8.50%, against the cut by 50bp, to 11.50% in Brazil.

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

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

In the SADC³ economies, annual inflation showed mixed signs in September 2011, having risen in Malawi, Mauritius, South Africa, Tanzania and Zambia, to 7.7%, 6.1%, 5.7%, 16.8% and 8.8%, respectively, and decreased in Angola and Botswana to 11.9% and 8.6%, respectively. Information reported to October 2011 showed that annual inflation has decreased in Zambia to 8.7% and Mozambique to 8.34%. Last October, the US Dollar continued to record gains in relation to most currencies of the region, except the Rupee of Mauritius and the Metical that continued to accumulate nominal appreciations in relation to the American currency.

In September 2011, the main commodities' average prices in the international markets evolved in different directions, with monthly increases in the prices of rice (6.6%), cotton (2.2%) and Brent (0.7%), against reductions in the prices of gold (11.0%), sugar (7.8%), maize (4.5%), aluminum (3.7%) and wheat (3.4%). On the last date of October, the price of the Brent barrel recorded a reduction of 1.1%, in monthly terms, to USD 112.37, reflecting a difficult situation in the consumption side in the light of the global economy slowdown forecasts. On November 8, the Brent barrel was quoted at USD 111.82.

II. DEVELOPMENTS IN THE MOZAMBICAN ECONOMY

In October 2011, according to information released by the National Institute of Statistics (INE-acronym in Portuguese) the Consumer Price Index (CPI) of Maputo city recorded a 0.01% positive monthly variation, triggering the cumulative inflation to stand at 3.64%, minus 7.92 percentage points (pp) when compared to that observed in the similar period of 2010. The annual variation rate has increased to 8.34%, after 7.80% in September and 15.82% in October 2010, having the average annual inflation kept the deceleration tendency, as it decreased to 11.87%, after 12.46% in the previous month. The trend of this indicator since the beginning of the year shows that the class of foodstuff and non-alcoholic beverages and that of housing, water, electricity, gas and other fuels, with price variations of 1.22% and 5.85%, have contributed in the total cumulative inflation with 1.40pp. In terms of products and services, charcoal, public higher education, petrol, groundnuts, fresh fish, brown sugar and the first class beef were the products whose price increase had greater impact on the total cumulative inflation, as they contributed with 2.79pp. Among other factors, the CPI negative variation in October 2011 was determined by greater supply of fresh products within the domestic market, coupled with the Metical appreciation, mainly in relation to the Rand, whose effects have 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 0.09% positive variation in October 2011, resulting in a cumulative and annual inflation of 4.15% and 9.5%, respectively. The division of foodstuff and non-alcoholic beverages and that of housing, water electricity, gas and other fuels have contributed in the total accrued inflation since the beginning of the year with 2.18pp positive. The charcoal, fresh, chilled or frozen fish, brown sugar, petrol, public higher education, dried cassava and fish were the products whose price increase had greater impact on the total cumulative inflation, as they contributed with 2.44 pp.

Further according to data released by the INE, the economic climate indicator recorded a slight reduction in September 2011, after maintaining a favourable trend between June and August 2011. This slowdown was influenced by non favourable opinions expressed by construction, and transports sectors, which were lessened by favourable opinions recorded in trade, industrial production, accommodation and restaurants sectors. Conversely, the indicator of employment expectation

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

recovered substantially in September, having reached the maximum record of the year. The contribution to this evolution came from the employment expectations recovery observed in every sector, except in the construction, where confidence in future employment has substantially diminished in the period under analysis.

According to monetary sector preliminary data, the stock of credit to the economy stood at 94,058.6 million meticaís, in September 2011, which reveals a 3.16% annual expansion, after 5.14% in the preceding month and 48.61% in the similar period of 2010. In the same period, the stock of the aggregate broad money (M3) amounted to 132,982.1 million meticaís, representing a contraction of 589.2 million meticaís, when compared to August 2011, basically influenced by the reduction of total deposits in 498.1 million meticaís, owing, in part, to the impact of the Metical appreciation on deposits denominated in foreign currency. With this variation, the aggregate M3 annual expansion has decelerated to 3.90%, after 6.02% in August 2011. Note, however, that when excluding the Metical appreciation effect in relation to the US Dollar on the component in foreign currency, the cumulative and annual expansion of banking credit to the private sector stands at 8.1% and 11.1%, respectively, while the growth of the aggregate broad money moves to 6.8%, in terms of accrued variation since the beginning of the year and 13.4% in annual terms.

Preliminary data indicated that on the last date of October 2011, the stock of Base Money – monetary policy operational variable – stood at 30,906 million meticaís, equivalent to a monthly reduction of 855.6 million meticaís (-2.69%), explained by the simultaneous reduction of Money in Circulation by 629.32 million meticaís (-3.14%) and Bank Reserves by 226.3 million meticaís (-1.93%), far below the forecasts set for the period (33,000 million meticaís). The contraction of Bank Reserves in the period under analysis was determined by the fall of reserves in foreign currency in the amount equivalent to 155.62 million Meticaís (-21.91%) and reserves in domestic currency by 70.68 million meticaís (-0.64%). The Base Money average monthly stock was 31,205 million meticaís, minus 230.85 million meticaís in relation to the average recorded in the preceding month, reflecting the contraction of Money in Circulation by 297.11 million meticaís (-1.50%), in the light of Bank Reserves increase by 66.26 million meticaís (0.57%).

In October 2011, the preliminary stock of Net International Reserves stood at USD 2.138 million, equivalent to a constitution of USD 6.2 million in the month and a cumulative increase in the year of USD 223.3 million. The stock of Net International Reserves corresponds, in terms of gross reserves, to nearly 5.6 months of import coverage of goods and non-factor services projected for the current year, against 5.5⁴ months of coverage estimated for the preceding month.

In October, the Metical appreciation trend in relation to the US Dollar slowed down in the Interbank Foreign Exchange Market, having its exchange rate stood at 27.03 meticaís, after 27.11 meticaís in the preceding month, which corresponds to 24.62% annual variation. The tendency of the Metical nominal gains was also observed in other market segments, where, at the end of October 2011, the commercial banks average exchange rate applied in their transactions with the general public stood at 27.14 meticaís, representing an annual nominal appreciation of 24.11%.

In the Interbank Money Market, the average interest rates for subscription of Treasury Bills (TB's) auctions have decreased for 182 and 364 maturity days, by 60bp and 30bp, to 14.4% and 14.9%, respectively, while for 91 maturity days remained unchanged at 14.2%.

⁴It is worth recalling that in the Press Release Nº 10, the calculated value was 5.7 months of imports coverage in September. The difference results from updates in statistics about international reserves.

III. MONETARY POLICY DECISION

Considering the evaluation made, the Monetary Policy Committee has concluded that the main economic and financial indicators of the country are evolving in line with the forecasts set for the current year, notwithstanding the adversities and risks that continue to characterize the international financial environment. The current monetary policy, combined with the positive performance of the economy, has triggered inflation favourable performance and an alignment of this indicator with the more appropriate projections to its expected tendency, in the short and medium term. The Monetary Policy Committee considers important to consolidate the macroeconomic results achieved in the current year through a continuous coordination of policies focused on the goals of economic growth with low and controlled inflation. At this final part of the year, the Monetary Policy Committee also considers pertinent that economic agents and the general public redouble efforts to maintain price stability.

Taking into account the macroeconomic goals set for December 2011, the Monetary Policy Committee has decided to:

- Maintain the Banco de Moçambique's intervention interest rates in the interbank money market unchanged;
- Intervene in interbank markets in order to ensure that the stock of Base Money does not surpass 34,029 million meticaís, at the end of November 2011.

The CPMO forthcoming meeting will be held on December 12, 2011.

Ernesto Gouveia Gove
Governor