

MONETARY POLICY COMMITTEE
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The Monetary Policy Committee of the Banco de Moçambique (CPMO – acronym in Portuguese) convened today, in its ninth 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 the Mozambican economy, with emphasis on inflation, the performance of the monetary aggregates, as well as their short and medium term trends, in order to take the more suitable monetary policy measures.

I. RECENT DEVELOPMENTS IN THE INTERNATIONAL AND REGIONAL ECONOMIES

The specialized international agencies have revised downward the world economic growth outlook for 2011 and 2012, in the light of economic slowdown evidences in major economies, along with fiscal consolidation programs in some Euro Zone countries, aiming to overcome the sovereign debt crisis. Recent information shows that the economic growth in the advanced economies¹ slowed down in the second quarter of 2011, and Japan has recorded negative growth rates, for the second consecutive quarter, as a result of the earthquake and ensuing tsunami, which hit that country in March.

In these economies, in general, inflation tends to stabilize, although at a higher level when compared to previous years, particularly in the United Kingdom where, in July, it was greater than 4%. Information reported to August 2011 showed a tendency for the US Dollar weakening against other currencies of the most advanced countries, having the Euro appreciation risen to 11.8% and that of the Sterling Pound to 5.6%, which contrasts with the deceleration in relation to the Yen to 9.0%. However, in the first ten days of September, there was a reverse trend of the US Dollar in the international markets. In the period under analysis, the central banks of the advanced economies have decided to keep their policy interest rates unchanged.

In the emerging markets economies², the overall trend points to a moderate economic growth, including China, whose rates were higher than 9% in the second quarter of 2011, even so below the levels recorded in the previous years. In this group of countries, inflation remained generally stable during the period under reference, although the signs of pressure prevail. The US Dollar remains weakened in relation to the currencies of emerging economies under analysis, as it depreciated 9.5% in relation to the Real of Brazil, 6.3% *vis-à-vis* the Yuan of China, and 11.1% against the Won of South Korea.

Given the prevailing macroeconomic conditions, some central banks of these economies have decided to adjust their policy interest rates, having the Central Bank of India increased its rate by 50 bp to 7.5%, whereas Brazil has reduced it by 50 bp to 12%.

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

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

In the SADC economies³, recent information showed that in the second quarter of 2011 the GDP real growth stood at 3.1% in South Africa and 6.8% in Mozambique, after 3.6% and 8.1%, respectively, in the first quarter. Available data reported to August 2011 indicated that annual inflation has increased to 7.83% in Mozambique and reduced to 8.3% in Zambia, after 7.67% and 9.0% in July, respectively. The US Dollar continued to show mixed signs in relation to the currencies of this group of countries, having depreciated in annual terms, against the Metical (26.2%) Mauritian Rupee (9.9%), Rand (5.1%) and Pula (3.2%). Regarding to Malawian Kwacha, the Tanzanian Shilling, Angolan Kwanza and Zambian Kwacha, the US Dollar accrued annual gains of 9.2%, 6.6%, 2.6% and 0.8%, respectively.

In July 2011, the commodities' average prices in the international markets showed mixed signs, where it is worth highlighting the monthly increase in the price of gas (12.0%), sugar (7.4%), rice (5.4%), gold (4.9%) and Brent (2.4%) against the decrease recorded in the prices of cotton (9.5%), wheat (6.9%), corn (3.1 %) and aluminum (1.3%). On the last day of August 2011, the price of a barrel of oil fell by 6.07% in monthly terms, to 111.61 US Dollars, reflecting fears of a decline in consumption in the light of global economic slowdown. On September 11, 2011, the barrel of Brent was quoted at 115.45 US Dollars.

II. DEVELOPMENTS IN THE MOZAMBICAN ECONOMY

Preliminary information released by the National Institute of Statistics (INE – acronym in Portuguese) indicated that the real GDP grew by 6.8% in annual terms in the second quarter of 2011, representing a slowdown of 1.3 percentage points (pp) compared to the level observed in the previous quarter, 40 bp more than that of the first quarter of 2010. The GDP trend in the quarter under analysis reflected the performance of the tertiary sector, which grew by 8.5%, supported by the expansion of Transports and Communication (8.5%), Trade and Repairs (7.8%) and Restoration (6.1%), followed by the primary sector, with a growth of 7.5% driven by the dynamism of Agriculture, Hunting and Forestry, which grew by 7.8% and Fishing by 6.1%.

In August 2011, information released by the INE pointed out that the Consumer Price Index (CPI) of Maputo City recorded a positive monthly variation of 0.33%, triggering inflation to stand at 3.7%, 8.42 pp less when compared to August 2010. The annual variation rate has increased to 7.86% after 7.67% in July and 17.07% in August 2010, and the average annual inflation rate has reduced to 13.21% after 14.0% in the previous month. The performance of this indicator since the beginning of the year reveals that the class of foodstuff and non-alcoholic beverages has contributed by 0.71 pp and that of housing, water, electricity, gas and other fuels, by 0.89 pp. In terms of products, the largest contributors were the charcoal (0.61 pp), public higher education (0.58 pp), petrol for vehicles (0.49 pp), peanuts (0.29 pp), granulated brown sugar (0.22pp), among others.

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

The CPI-Mozambique, which aggregates indices of prices of Maputo, Beira and Nampula cities, recorded a monthly increase of 0.44% in August 2011, resulting in a cumulative inflation of 4.14% and an annual variation rate of 10.83%. The class of foodstuff and non-alcoholic beverages is the largest contributor to inflation (1.56 pp), followed by housing, water, electricity, gas and other fuels (0.73 pp) education (0.39 pp), leisure, recreation and culture (0.15 pp), among others. Fresh fish, charcoal, petrol, dried cassava and dried fish were the products whose higher prices had a greater impact on overall cumulative inflation, as they contributed with 2.45 pp.

According to the INE, the Economic Climate Indicator continued to show a recovery in July 2011, influenced by the optimism expressed by respondents about expectations for demand and employment in the sectors of trade and other non-financial services, as well as restaurants and accommodation reflecting expectations in relation to the X Edition of All African Games to be held in Mozambique. In the same period, the indicator of Employment Expectations improved again, reaching a new record of the last six months, due to the optimistic forecast as regards employment, for the third consecutive month, in the sectors of Other Services, accommodation and restaurants.

The monetary sector preliminary data showed that the stock of credit to the economy reached 94,531.1 million meticaís in July 2011, which represents an annual expansion of 8.3%, after 13.3% in the previous month and 57.2 % in the same period of 2010. In the same period, the broad money aggregate (M3) recorded a deficit of 130,431.8 million meticaís, reflecting an increase of 648 million meticaís compared to June, driven mainly by an increase in banknotes and coins in circulation (603 million meticaís) and total deposits of 45 million meticaís. The aggregate M3 annual growth slowed down to 6.1% after 9.5% in June 2011, performance explained, in part, by the appreciation of the Metical on deposits denominated in foreign currency (expansion of nearly 17%, excluding this effect).

In August 2011, the stock of the end of the period of Base Money stood at 31,543 million meticaís, thus below the forecasts set for the period by 2.9%. In relation to July 2011, that monetary aggregate has expanded by 524 million meticaís, determined by the simultaneous growth of banknotes and coins in circulation (476 million meticaís) and bank reserves by 47.7 million meticaís. In terms of the average for the month, the stock of Base Money stood at 31,456 million meticaís, reflecting an increase of 314 million meticaís.

The preliminary stock of Net International Reserves stood at USD 2,251.4 million in August 2011, which represents a monthly increase of USD 45.9 million, reflecting the inflow of foreign aid funds amounting to USD 5.7 million, income from investments abroad amounting to USD 14.7 million and the fact that commercial banks did not buy foreign currency in the Interbank Foreign Exchange Market (MCI – acronym in Portuguese) and, on the contrary, they sold a net total of USD 23.8 million to the Banco de Moçambique, in order to balance their foreign exchange positions. It is worth highlighting that for the first time in Mozambican history, the gross international reserves reached in late August 2011 the stock of USD 2.5 billion. It is worth noting that based on the final data of July 2011, the recorded stock corresponded to approximately 4.94 months of imports coverage of goods and non-factor services planned for the current year.

In August 2011, the appreciation of the Metical against the US Dollar decelerated in the MCI, having the exchange rate stood at 27.15 MT, after 27.86 MT in the previous month, which corresponds to an annual variation of 26.17%. The trend of the Metical nominal gains was also observed in other market segments, having the commercial banks average exchange rate in its transactions with the public stood at 27.03 MT at the end of August 2011, which represents a nominal annual appreciation of 27.48%. At the bureaux of exchange, the average price of the last day of the month was 29.71 MT.

In the Interbank Money Market, interest rates of the Treasury Bills (BT's) auctions for all maturities have declined, due to the downward revision of the Standing Lending Facility interest rate by 50 bp to 16.0% in August. Thus, the Treasury Bills interest rate for 91 maturity days has decreased by 1.9 pp to 14.5%, that of 182 maturity days by 1.8 pp to 14.7% and that of 384 maturity days has moved from 16.5% in July to 15.3% in the last days of August.

III. MONETARY POLICY DECISION

The Monetary Policy Committee considers that the Mozambican economy is progressing in line with the main macroeconomic goals set for 2011, as it can be assessed from the interim results reported to the first half of the year and the short and medium term projections in which the analysis is based, even though prevail risks associated to the global economic slowdown.

The exchange rate evolution that is observed in the country in the last 12 months, and its recent situation reinforce the forecasts of a more favourable inflation trend.

Therefore, taking into account the aforementioned factors, the Monetary Policy Committee has decided to:

- Keep unchanged the Banco de Moçambique's intervention interest rates in the Interbank Money Market;
- Intervene in the interbank markets, in order to ensure that the Base Money does not exceed 33,800 million meticaís, at the end of September 2011.

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

Ernesto Gouveia Gove
Governor