MONETARY POLICY COMMITTEE

PRESS RELEASE Nº 10/2011

Maputo, October 12, 2011

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

I. RECENT DEVELOPMENTS IN THE INTERNATIONAL AND REGIONAL ECONOMIES

The International Monetary Fund has revised downwards the global economic growth forecasts for 2011 and 2012, moving from the previous 4.5%, in both cases, to 4%. The decision is justified by the prevailing imbalances in advanced economies and the increased volatility witnessed in the financial markets, in the light of debt crisis faced by Europe and the United States of America. The fiscal consolidation efforts in place in these economies have particularly affected the domestic demand and the economic recovery perspectives, which are becoming more and more dependent on external demand directed to China and other emerging market countries. The financial markets increased volatility has repercussions in the performance of the main international stock exchanges and on the parity of currencies.

The new forecasts pointed out that the emerging market economies may grow 6.4%, against 1.6% expected in advanced economies. The Sub-Saharan Africa may grow 5.2% in 2011, 30 basis points (bp) less in relation to the previous estimates.

The recent information reported to advanced economies[1] showed an inflation mixed trend in August 2011, having risen 20bp in the United States of America, to 3.8% and 30pp in the United Kingdom, to 5.5%, while in Japan it remained at 0.2%, and in the Euro Zone it has reduced 2bp, to 2.5%, then accelerated in September 2011 to 3.0%. The sovereign debt crisis in Europe has strengthened the US Dollar quotation, which has recovered considerably from the annual losses recorded until August 2011 in relation to Euro (11.8%) and Pound Sterling (5.6%), at the same time that it reduced losses against the Yen to 7.7%. In the light of less encouraging demand perspectives, with effects in unemployment high rates, the central banks of the Euro Zone, USA and United Kingdom have been making every endeavor injecting liquidity in the banking system, so as to stimulate the banking financing and the economic activity.

In emerging market economies[2], annual inflation accelerated in August in Brazil, South Korea and India, as it moved from 6.7%, 4.7% and 9.4% respectively in July, to 7.3%, 5.3% and 9.8%, while in China it decreased from 6.4% to 6.2%. The US Dollar has moved from annual depreciations of 9.5% against the Real of Brazil, 6.5% in relation to the Yuan of

[1] Analyzed Economies: United States of America, Euro Zone, Japan and United Kingdom
[2] Analyzed Economies: Brazil, China, South Korea and India

China, 11.1% against the Won of South Korea and 2.7% against the Rupee of India, in August, to annual gains of 11.3%, 2.9% and 10%, respectively, in September 2011.

In the SADC economies[3], annual inflation showed mixed signs in August 2011, having accelerated in Malawi, Mauritius and Tanzania, to 7.6%, 5.8% and 14.1%, respectively, and decreased in Botswana and Zambia to 8.7% and 8.7%, respectively, while in South Africa it remained at 5.3%. The information reported to September 2011 showed that inflation reduced in Mozambique to 7.8% and accelerated in Zambia to 8.8%. In September 2011, the US Dollar stood at a positive ground in relation to the most currencies of the region, being worth highlighting the annual appreciations of 15.7% against the Rand and 12.1% in relation to the Pula of Botswana, after annual depreciations of 5.1% and 3.2%, respectively, in August 2011. Mozambique has witnessed an appreciation tendency of the Metical *vis-à-vis* the US Dollar of 24.5% until September 2011. Whereas, last September, the US Dollar appeared stable in relation to Kwacha of Zambia and Kwanza of Angola, with a depreciation of 0.3% and appreciation of 3.7%, respectively.

Data reported to August 2011 showed that the average prices of commodities in the international market observed a mixed trend, with monthly increases in the price of gold (11.9%), wheat (7.6%) and rice (5%) and reductions in the prices of cotton (23.6%), aluminum (5.7%) and *Brent* (5.5%). On the last date of September 2011, the oil barrel price decreased by 1.75% in monthly terms, to 113.57 US Dollars, revealing fears of a reduction in consumption in the light of the global economy slowdown. On October 11, the barrel of *Brent* was quoted at 111.57 US Dollar.

I. DEVELOPMENTS IN THE MOZAMBICAN ECONOMY

In September 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 0.07% negative monthly variation, triggering the cumulative inflation to stand at 3.7%, minus 8.47pp when compared to that recorded in September 2010. The annual variation rate has reduced to 7.80%, after 7.86% in August 2011 and 16.80% in September 2010, having the average annual inflation decreased to 12.46%, after 13.21% in the preceding month. The performance of this indicator since the beginning of the year has revealed that the class of foodstuff and non-alcoholic beverages and that of housing, water, electricity, gas and other fuels, with price variations of 1.33% and 5.94%, have contributed in the total accrued inflation with 1.46pp. In terms of products and services, charcoal, public higher education, petrol, groundnuts, fresh fish, brown sugar and butter beans were the products whose price increase had greater impact on the total accrued inflation, as they contributed with 2.71pp positive. Among other factors, the CPI negative variation in September 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.

In turn, the CPI-Mozambique, which aggregates indices of prices of Maputo, Beira and Nampula cities, decreased by 0.08% in September 2011, resulting in a cumulative inflation of 4.06% and annual variation of 9.99%. The class of foodstuff and non-alcoholic beverages has contributed in the total cumulative inflation with 1.37pp positive. The fresh, chilled or frozen fish, charcoal, brown sugar, petrol, public higher education, dried cassava and dried fish were

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

the products whose price rise had greater impact on the total cumulative inflation, as they contributed with 2.52pp positive.

Further according to the INE, in August 2011, the economic climate indicator kept the recovery signs that has been recording over the last three months. As a result, apart from the prospect of price reduction hovering for eight months now, it has contributed to the positive evaluation of companies in the construction, accommodation and restaurants sectors, other non financial services and industrial production. On the other hand, the expectations of enterprises on trade and transports sectors were less encouraging when compared to July 2011. In turn, after recovering in July 2011, the indicator of employment expectation reduced slightly in August 2011, reflecting the less positive employment forecasts expressed by the sectors of transports (for the fourth consecutive month), trade and other non financial services.

The monetary sector preliminary data showed that the stock of credit to the economy stood at 94,650.8 million meticais in August 2011, which represents 5.1% annual expansion, after 8.3% in the preceding month and 53.2% in the similar period of 2010. In the same period, the stock of the aggregate broad money (M3) stood at 133,571.4 million meticais, revealing an increase of 3,139.6 million meticais when compared to July 2011, influenced, basically, by the increase of total deposits in 3,174.8 million meticais. The aggregate M3 annual expansion has decelerated to 6.0%, after 6.1% in June 2011.

The stock of Base Money – monetary policy operational variable – stood, on the last date of September 2011, at 31,762 million meticais, equivalent to a monthly increase of 219 million meticais (0.69%), explained by the expansion of bank reserves in 235 million meticais (2.05%), against the reduction of Money in Circulation by 16 million meticais (-0.08%). The growth of Bank Reserves in the month under analysis was determined by the simultaneous increase of the component in National Currency in the amount of 187 million (1.73%) and reserves denominated in Foreign Currency in the amount equivalent to 48 million meticais (7.2%). In turn, the Base Money average monthly stock stood at 31,436 million meticais, below the forecasts set for the period at 2,272 million meticais and 20 million meticais below the average of the previous month.

The preliminary stock of Net International Reserves stood at USD 2,132.8 million at the end of September 2011, which represents a monthly shortfall of USD 138 million, basically reflecting the foreign currency sales made by the Banco de Moçambique in the Interbank Foreign exchange Market (USD 84.3 million). Despite the reduction observed in the month, the stock of reserves stood USD 228 million above the target set for the end of September, which, in terms of gross reserves, corresponded to nearly 5.7 months of imports coverage of goods and non factor services projected for the current year.

In September 2011, the Metical appreciation in relation to the US Dollar slowed down in the Interbank Foreign Exchange Market, having the exchange rate stood at 27.11 meticais, after 27.15 meticais in the preceding month, corresponding to an annual variation of 24.51%. The trend of the Metical nominal gains was also observed in other market segments, with commercial banks average exchange rate in their transactions with the general public standing at 27.18 meticais, on September 2011 closing date, which represents an annual nominal appreciation of 25.42%.

In the Interbank Money Market, the average interest rates for the subscription of Treasury Bills auctions recorded mixed trends, as those for 91 and 364 maturity days have reduced 31bp and 7bp, respectively, standing at 14.2% and 15.2%, respectively, while that for 182 maturity days has increased 30bp, to 15.0%.

II. MONETARY POLICY DECISION

The Monetary Policy Committee observed that the main indicators of the Mozambican economy are evolving positively in line with the program for the current year, with emphasis on the components of the external sector and the projections of short and medium term inflation, though risks to take into account persist. The Committee considers important to strengthen the coordination of policies, in this period of the year, with the view to consolidate the macroeconomic stability and, at the same time, recommends the private sector in general, in the context of the country's foreign exchange stability, to ensure the provisioning of the market, in advance, with basic products generally demanded in the end of the year.

Therefore, in order to ensure the accomplishment of 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 Base Money does not exceed 33,000 million meticais, at the end of October 2011.

The CPMO forthcoming meeting will be held on November 9, 2011.

Ernesto Gouveia Gove
Governor