

MONETARY POLICY COMMITTEE
COMMUNIQUÉ NO. 01/2021
Maputo, 27 January 2021

Policy Rate increases by 300 basis points to 13.25%

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to increase its policy rate, MIMO rate, by 300 basis points (bp) to 13.25%. The decision is driven by a substantial upward revision of the medium-term inflation forecast, reflecting the ongoing depreciation of the Metical, in an environment of increased risks and uncertainties, with emphasis on the negative consequences of the rapid spread of coronavirus infection and occurrence of natural disasters, in addition to military instability.

The MPC also decided to raise the interest rates for the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) by 300 bp, to 10.25% and 16.25%, respectively, and to keep the Reserve Requirement ratio for liabilities in domestic and foreign currency at 11.50% and 34.50%, respectively.

The short and medium term outlook points to a significant increase in inflation. Annual inflation increased for the fourth consecutive month to 3.52% in December 2020, from 2.98% in September. Core inflation, which excludes the prices of administered goods and services and fruit and vegetables, increased over the same period from 2.92% to 5.10%, with prospects of worsening in coming quarters. At the same time, headline inflation is expected to accelerate over the medium term, reflecting the effects of the pass-through of the Metical depreciation to domestic prices, the end of part of the government's administrative measures to contain prices under the COVID-19 pandemic and climate shocks.

The risks and uncertainties associated with the inflation projections have increased substantially. Since the last MPC, some risks and uncertainties have materialized, in particular the rapid spread of COVID-19 and the occurrence of natural disasters, in addition to the military instability in the central and northern regions. Externally, new waves of infections and coronavirus strains are emerging, despite ongoing vaccinations, as well as volatility of main commodities prices and the strengthening of the US dollar. These risks are expected to prevail in the short and medium term.

A lower recovery in economic activity is expected in 2021. The reinforcement of restrictive measures due to the rapid spread of COVID-19 earlier in the year, mainly in the areas of leisure and restaurants, combined with the negative impact of the military conflict in the northern area, which conditions the normal flow of some activities related to the development of gas exploration projects, as well as the climate shocks led to a downward revision of the economic activity growth prospects in 2021. In this regard, the MPC continues to consider relevant, the deepening of structural reforms aimed at strengthening institutions, improving the business environment, attracting investment and creating jobs.

Pressure on public finances tends to increase. The rapid spread of the COVID-19 pandemic since the beginning of the year, the prolongation of military conflicts and the occurrence of natural disasters will continue to require a greater financial effort by the State, thus increasing concerns about the fiscal stance in 2021. Since the last MPC, domestic public debt, excluding loan and lease contracts and past due liabilities, increased from 182.325 million meticaís to 183.819 million meticaís.

The foreign exchange market is under pressure for demand of foreign currency. After closing 2020 with net purchases of USD 72.4 million, the banking system experienced foreign exchange pressure in early 2021, with net sales of USD 16 million. During this period, the Metical continued to depreciate, reflecting the high risks and uncertainties prevailing in the domestic economy and the strengthening of the US dollar in the international market. Meanwhile, gross international reserves increased to USD 4.086 million by 22 January, covering about 6 months of imports of goods and services.

The MPC will continue to monitor the domestic and international macroeconomic environment as well as the prevailing risks, and will not hesitate to take the necessary corrective measures before the next regular meeting scheduled for 17 March 2021.

Rogério Lucas Zandamela

Governor