

MONETARY POLICY COMMITTEE
PRESS RELEASE N° 05/2011
Maputo, May 11, 2011

The Monetary Policy Committee of the Banco de Moçambique (CPMO-acronym in Portuguese) convened today, in its fifth ordinary meeting of the year, to consider the most recent international developments and the evolution of the main economic and financial indicators of the Mozambican economy, with emphasis on inflation and monetary aggregates and their short and medium term tendencies, in order to take the most appropriate monetary policy measures.

I. RECENT DEVELOPMENTS IN THE INTERNATIONAL AND REGIONAL ECONOMIES

In April, oil prices in the international market kept the rising tendency, revealing the political and social distress in the Northern Africa and the Middle East countries, the petroleum important producers and exporters, having the Brent barrel stood at USD 126.98, on April 29, 2011, representing a 7.7% and 47.1% monthly and annual increase, respectively. This tendency was partially arrested in the beginning of May, in the light of US Dollar recovery in the international market, as a result of the economic and financial distress faced by some Euro Zone countries. Information reported to April 10 pointed out that Brent barrel traded at USD 117.59.

According to the last information reported to March 2011, international prices of rice, wheat and sugar have declined by 3.9%, 9.0% and 11.6%, respectively, resulting in an annual reduction of the first by 5.4% and an increase of the last two by 65.8% and 34.5%, respectively.

In the most advanced countries, annual inflation observed mixed trends in March 2011, having risen by 0.6 percentage points (pp) in the USA and 0.3pp in the Euro Zone, to 2.4% in both cases. In the United Kingdom, this indicator has decreased 0.4pp to 4.0% and in Japan remained zero. The European Central Bank revised its monetary policy reference rate upwards, to 1.25%, while the remainder central banks kept their rates unchanged.

In April 2011, the US Dollar weakened again against the main currencies traded in the international market, having depreciated by 13.5%, 10.2% and 8.6% in relation to the Yen, Euro and Pound Sterling, respectively. However, in the beginning of May 2011, the US currency recovered slightly against the Euro, having its quotation decreased to nearly 1.43 against the Euro, after 1.48 recorded in April.

In the Euro Zone, it is worth highlighting the approval by the troika composed of the IMF, the European Union and Commission, of a loan in the amount of 78 billion Euros, to Portugal, in the context of financial support requested by the Portuguese Government, in order to face the sovereign debt crisis. The financial support is dependent upon a package of several austerity measures designed to boost the economy until 2013.

In the emerging market economies¹, annual inflation kept its rising tendency in March 2011, having risen to 6.3% in Brazil, 5.0% in China, 4.7% in South Korea and 9.0% in India. Given this tendency, the People's Bank of China increased its monetary policy interest rate by 0.25pp in March, setting it at 6.31% while the Central Bank of India rose it by 0.50pp, to 6.25%.

The US Dollar also traded weak in relation to the currencies in this group of economies, in April 2011, except in India, where it recovered slightly. In annual terms, the US Dollar has depreciated 9.1%, 4.9% and 3.6% against the Real of Brazil, Yuan of China and Won of South Korea, respectively.

In the SADC economies², available information highlights inflation mixed trend, as it rose again in Zambia, Malawi, Tanzania and Mauritius. Conversely, this indicator observed a deceleration tendency in Mozambique and Angola, the countries with the highest inflation rate in the region. In April 2011, the Rand, Pula, Kwanza and Rupee appreciated in relation to the US Dollar, in annual variation terms. The Metical and the Kwacha of Zambia have joined this group of currencies, as they recorded significant gains in the month, which allowed them to move from a 10.8% and 0.6% depreciation, respectively, until March, to a 10.3% and 0.7% appreciation in April, vis-à-vis the US Dollar.

II. DEVELOPMENTS IN THE MOZAMBICAN ECONOMY

According to the National Institute of Statistics (INE – acronym in Portuguese), in April 2011, Consumer Price Index of Maputo City recorded a 0.04% positive monthly variation, which shows a 3.27pp deceleration when compared to April 2010. Given this monthly variation, the cumulative inflation in the year has increased to 3.41%, whereas the annual variation rate has reduced to 13.04%, after 14.37% in March and 9.04% in April 2010. The average annual inflation has risen again to 15.37%, after 15.07% in the preceding month. The class of foodstuff and non-alcoholic beverages has contributed to the cumulative inflation in the year with 1.72pp. In terms of products, it is worth highlighting the increase of public university fees and the prices of charcoal, fresh, chilled or frozen fish, coconut, kale, onion, groundnut, granulated brown sugar, lettuce, butter beans, cooking oil and consumption of water fountain, tank or wells and related sources.

The CPI-Mozambique, which aggregates price indices of Maputo, Beira and Nampula cities, recorded a 0.18% monthly increase in April 2011, against -0.10% recorded in March and 1.08% in April 2010. With this variation, the cumulative inflation in the three Mozambican main cities reached 3.05% in April, the annual variation 12.77% and the average annual rate 14.98%. The products whose prices had major positive contribution were dry cassava (0.11pp), granulated brown sugar (0.09pp), onion (0.08pp), capulanas (0.08pp), fresh, chilled or frozen fish, (0.06pp), amongst others.

¹ Analyzed economies: Brazil, China, South Korea and India.

² Analyzed economies: South Africa, Angola, Botswana, Malawi, Mauritius, Mozambique, Tanzania and Zambia. It is worth noting that South Africa has been a member of the BRIC, a group of emerging market economies, since April 2011, beside Brazil, Russia, India and China, leading change of its designation to BRICS.

The INE also reported that the economic climate indicator has declined in the first quarter of 2011 when compared to the last quarter of 2010, basically reflecting the negative evaluation expressed by respondents of trade and construction sectors and other services. Whereas, the indicator of employment expectations has improved in March 2011, when compared to February, sustained by optimism expressed in all surveyed sectors, except in other services where the indicator remains below for the third consecutive month.

The monetary sector preliminary data showed that the stock of credit to the economy amounted to 92,398 million Meticaïs in March 2011, revealing a more moderate annual expansion of 23.8%, after 26.4% in the preceding month and 50.8% in the similar period of 2010. In the same period, the stock of aggregate broad money (M3) amounted to 129,332 million Meticaïs, equivalent to a reduction of 2,081 million Meticaïs, when compared to February 2011, basically influenced by the Metical appreciation in relation to the US Dollar. The M3 annual expansion reduced to 19.4% in March, after 22.4% in February.

In April 2011, the stock of Base Money at the end of the period (29,529 million Meticaïs) surpassed the forecasts for the period by 6.7%, thanks to a 895 million Meticaïs increase, basically determined by increased Money in Circulation, in the amount of 794 million Meticaïs (4.6%). In terms of daily average, the stock of Base Money in the same month stood at 29,112 million Meticaïs, revealing an increase of 124 million Meticaïs.

The preliminary stock of Net International Reserves stood at USD 1,927 million in April 2011, which represents a USD 61.2 million monthly increase, though the Banco de Moçambique has allocated USD 82.3 million in the Interbank Foreign Exchange Market (MCI – acronym in Portuguese).

In the period under analysis, the Metical continued, for the eighth consecutive month, with its appreciation trend in relation to the US Dollar, in the MCI, as its exchange rate stood at 30.63 Meticaïs, after 30.8 in March 2011. In annual variation terms, the national currency has moved from the depreciation level of 10.75% in March to that of appreciation to the tune of 10.3% in April 2011. This tendency was also followed by other market segments, as the commercial banks average exchange rate in transactions with the general public stood at 30.71 Meticaïs, which represents a 0.2% monthly appreciation, after 1.6% recorded in March 2011, prompting the annual appreciation to rise to 12.0%.

In the Interbank Money Market, the interest rates for Treasury Bills auctions observed a mixed trend in April 2011, as the average rate for 182 maturity days increased to 16.45% and that for 91 and 364 maturity days reduced to 16.38% and 16.47%, respectively. The average rate for liquidity swaps among credit institutions rose to 15.86% in April 2011.

In turn, information reported to March 2011 showed that, in the retail market, the average interest rate for one year maturity period loans has reduced by 0.1pp, to 22.94%, which corresponds to 3.8pp increase in relation to the similar period of 2010. In the same month, the average rate for one year maturity period deposits stood at 13.09%, 0.09pp less in relation to that of February and 3.43pp compared to the similar period of 2010.

III. MONETARY POLICY DECISION

The Monetary Policy Committee, taking into account the domestic and international developments, as well as the prevailing risks, in the light of the macroeconomic goals set for 2011, has decided to:

- Intervene in the interbank markets in order to ensure the containment of Base Money at 29,000 million Meticaís, at the end of May 2011.

The CMPO forthcoming meeting will be held on June 13, 2011.

Ernesto Gouveia Gove
Governor