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ECONOMIC OUTLOOK AND INFLATION FORECASTS



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AND INFLATION FORECASTS

NOVEMBER 2021

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¹ Internal and/or external guests may also participate in Monetary Policy Committee meetings, whenever necessary, at the invitation of the body's Chairman.

Foreword

The primary mandate of the Banco de Moçambique (BM) is to maintain price stability so as to ensure the protection of the purchasing power of citizens. This implies keeping inflation low, at one digit, and stable in the medium term. The mandate to make this objective possible is exercised by the Monetary Policy Committee (MPC), a body composed of the Governor, Vice-Governor, BM Board Members and permanent guests. At the same time, the BM is responsible for supervising and maintaining the stability of the financial system.

Price stability also fosters balanced and sustainable economic growth. Price stability reduces the degree of uncertainty of economic agents and makes it possible to ensure more attractive interest rates, enabling a favorable environment for savings and investment.

To ensure price stability, the MPC defines the policy interest rate, known as the Mozambique interbank money market rate (MIMO). This rate, introduced on April 17, 2017, signals the stance of monetary policy and serves as an anchor for operations in the Interbank Money Market (IMM). It is expected that, through its influence on overnight interest rates formed in the IMM, the MIMO rate will affect inflation through the expectations, exchange rate and credit channels.

The decision on the MIMO rate is primarily based on inflation projections, always weighing the risks and uncertainties associated with such projections and the economic outlook. The MPC recognizes that its decisions affect the economy with a certain time lag, so it adopts a monetary policy stance based on an assessment of the economic and financial outlook and its risks and uncertainties over a time horizon of at least eight quarters. Where inflation projections deviate materially from the primary monetary policy objective set for the medium term, the MPC shall take appropriate policy measures to reverse the trend.

The MPC convenes ordinarily once every two months, and extraordinarily whenever economic conditions so require. The calendar of ordinary MPC meetings is announced at the beginning of each year. However, the body may convene extraordinarily to deliberate on monetary policy aspects, whenever macroeconomic circumstances so require.

The BM values transparency in the communication of its monetary policy. Monetary policy decisions are announced publicly, through an MPC Communiqué and / or a Press Conference Communiqué led by the BM Governor, on the same day of the committee meeting.

The Economic Outlook and Inflation Forecasts (CEPI) Report is an additional means for communicating the Monetary Policy Committee's (MPC) decisions. The CEPI report discloses the factors and rationale behind measures taken by the MPC, broadening the public's understanding of objectives and conduct of monetary policy.

Rogério Lucas Zandamela

Governor

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Decisions of Session No. 6 of the Monetary Policy Committee (November 17, 2021)

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to keep the policy rate, MIMO, unchanged at 13.25%. This decision is supported by the maintenance of inflation prospects at a single digit, notwithstanding the prevalence of high risks and uncertainties stemming, especially, from rising food and liquid fuel prices, and supply chain constraints in the international market.

Risks and uncertainties associated with inflation projections remain high. Domestically, stand out the impact of the upward shift in fuel prices, and the prevalence of uncertainties as to the duration and magnitude of the impact of the COVID-19 pandemic on the economy. In the external environment, uncertainties remain concerning the pandemic's developments, increasing oil prices and ongoing supply chain constraints, leading to high costs in the transport of containers and delays in the delivery of goods.

Inflation is expected to remain at a single digit, in the short and medium term. Annual inflation stood at 6.4% in October, following 6.0% in September, driven by rising food and liquid fuel prices, in a context of lower depreciation of the Metical against the US Dollar. However, core inflation, which excludes the prices of administered goods and services and fruits and vegetables, remains practically unchanged. For the short and medium term, inflation is expected to remain at a single digit, despite the prospects of rising prices for transport domestically, and food and oil in the international market.

Economic growth prospects for 2021 and 2022 are strengthened. In annual terms, the gross domestic product grew by 3.4% in the third quarter of 2021, driven by the expansion of all sectors of economic activity. For the short and medium term, a steady increase in economic activity is expected, also backed by foreign demand and the implementation of gas projects in the Rovuma basin. However, the resumption of sustainable economic growth will continue to require deepening structural reforms in the economy, towards strengthening institutions, improving the business environment, attracting investments and creating jobs.

Domestic public debt remains high. At the end of September 2021, domestic public debt, excluding loan and lease agreements and overdue liabilities, increased by MZN 1.8 billion to MZN 218.6 billion, in a context of ongoing prospects of budgetary pressure related to public spending for containing the spread of COVID-19, humanitarian assistance and rebuilding areas subjected to terrorist attacks in Cabo Delgado.

The Banco de Moçambique reaffirms its commitment to preserving the value of the Metical, which translates into low and stable inflation.

The next ordinary meeting of the MPC is scheduled for January 26, 2022.

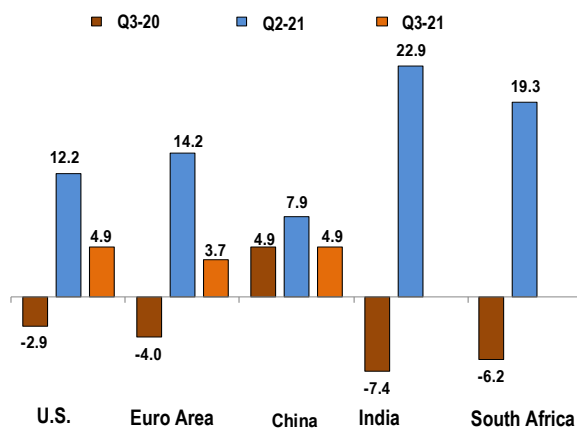
Chapter I. Recent Developments in International Economy

Prospects for the recovery of the world economy in 2021 and 2022 remain, albeit, with some restraint in the short term, on account of supply chain constraints amid the reopening of economies. Inflation is expected to continue to accelerate in 2022, reflecting the prospects of rising commodity prices, especially oil, coal and food, coupled with persistent supply chain bottlenecks.

1.1. Recent Economic Activity and Forecasts

In the third quarter, the country's main trading partners reported a modest performance of economic activity.

Chart 1-1: GDP Developments (%)



Source: Trading Economics

Provisional data would suggest that, in the third quarter of 2021, economic activity in the United States (US) and the Euro Area has slowed, on the grounds of (i) persisting supply chain constraints and (ii) rising energy and liquid fuel prices. A distinctive factor for the Euro Area was the rising number of daily infections by Covid-19 (Chart 1-1).

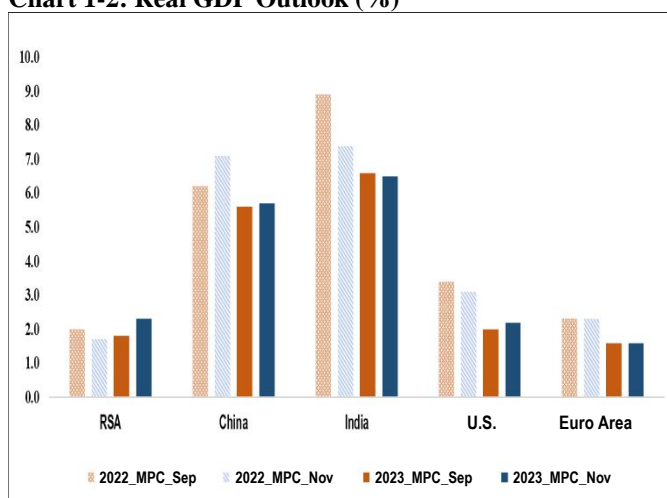
In emerging economies, available data indicate that China has recorded a slower pace of growth in the third quarter. During this timeframe, China has faced a number of constraints, notably (i) prolonged supply chain constraints, (ii) energy supply restrictions and (iii) growing concerns amid the real estate sector's debt crisis, resulting in banks adopting more restrictive requirements for lending to the sector (Chart 1-1).

Table 1-1: Global GDP Projections – 2021 and 2022 (%)

Region	Achieved	Projection		Difference from July's WEO	
	2020	2021	2022	2021	2022
World Economy	-3.1	5.9	4.9	-0.1	0.0
Advanced	-4.5	5.2	4.5	-0.4	0.1
US	-3.4	6.0	5.2	-1.0	0.3
Euro Area	-6.3	5.0	4.3	0.4	0.0
Germany	-4.6	3.1	4.6	-0.5	0.5
Japan	-4.6	2.4	3.2	-0.4	0.2
United Kingdom	-9.8	6.8	5.0	-0.2	0.2
Emerging and Developing	-2.1	6.4	5.1	0.1	-0.1
Brazil	-4.1	5.2	1.5	-0.1	-0.4
India	-7.3	9.5	8.5	0.0	0.0
China	2.3	8.0	5.6	-0.1	-0.1
Sub-Saharan Africa	-1.7	3.7	3.8	0.3	-0.3
South Africa	-6.4	5.0	2.2	1.0	0.0
Mozambique	-1.2	2.5	5.3	0.4 *	0.6 *

Source: IMF, WEO (October 2021)

Chart 1-2: Real GDP Outlook (%)



Source: GPMN (Global Projection Model Network)/BM

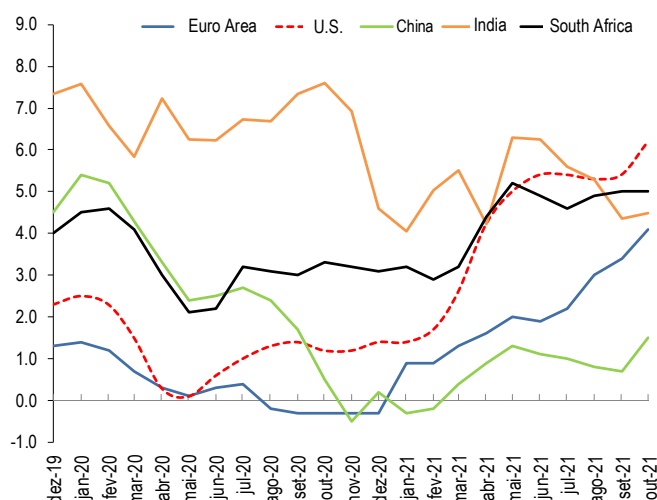
For 2021 and 2022, prospects for the resumption of global economic growth remain.

The International Monetary Fund (IMF) has, in its October 2021 report (World Economic Outlook), revised slightly downwards the pace of global economy growth for 2021, to reflect the worldwide prolonged constraints in the supply chain, which, according to the IMF affect advanced economies the most, compared to emerging economies and that of sub-Saharan Africa (Table 1-1). For 2022, the IMF maintained the global growth outlook at 4.9%. In turn, despite the slight downward revision of growth for the US, RSA and India for 2022, for 2023, the Global Projection Model Network (GPMN) projects greater growth for RSA, China and the US, maintaining the projection for the Euro Area (Chart 1-2).

Risks to global projections are related to (i) inflationary pressure, mainly from rising fuel and food prices and commodity supply bottlenecks, and (ii) the future trajectory of the pandemic and possible virus mutations that may increase inequality in economic performance among economies.

Volatility in the prices of liquid fuels, electricity and food, coupled with the gradual opening up of economies, generate inflationary pressures in most of the country's main trading partners.

Chart 1-3: Inflation Developments (%)



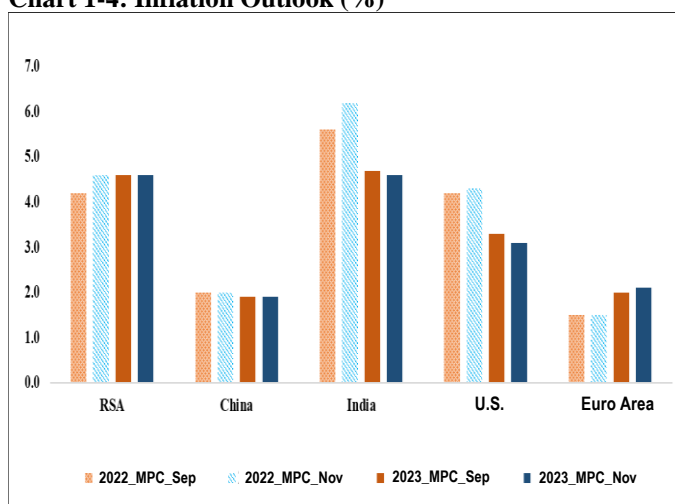
Source: Reuters and Trading Economics

Data from October 2021 show that the Euro Area and the US continue to see price acceleration, with successive increases in the cost of liquid fuels and electricity being the common factor, in a setting of ongoing supply chain constraints (Chart 1-3). It should be noted that, in these countries, annual inflation is above the convergence target of 2.0% and may be a potential inflationary pressure factor in Mozambique.

In the same timeframe, prices boast an identical profile in emerging economies. In China, India and South Africa, there is a widespread trend towards accelerating inflation, also driven by the aforementioned factors (Chart 1-3).

The inflation outlooks of some of Mozambique's main trading partners were revised upwards for the short and medium term.

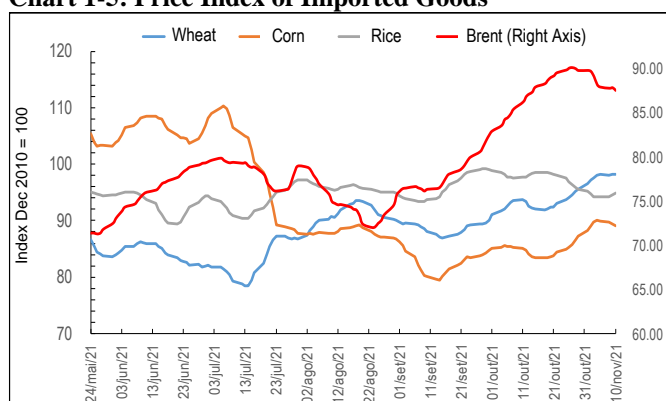
Chart 1-4: Inflation Outlook (%)



Source: GPMN/BM

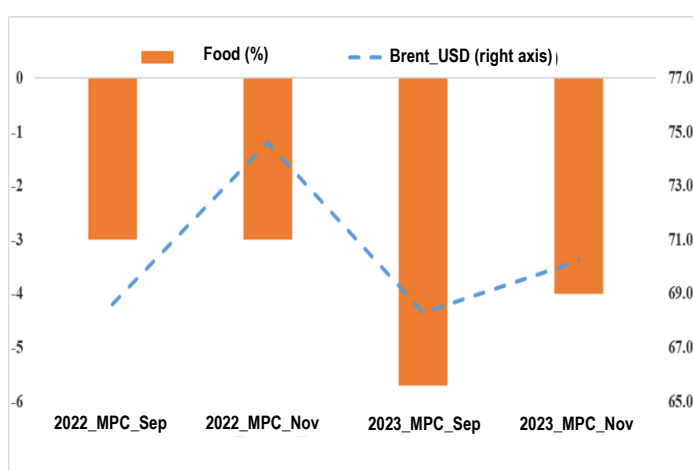
In general, GPMN projections point to an upward revision of prices for 2022 and maintenance for 2023, compared to the projections of September's MPC meeting, reflecting prospects of rising fuel and food prices, and uncertainties as to worldwide prolonged bottlenecks in the supply chain (Chart 1-4).

Chart 1-5: Price Index of Imported Goods



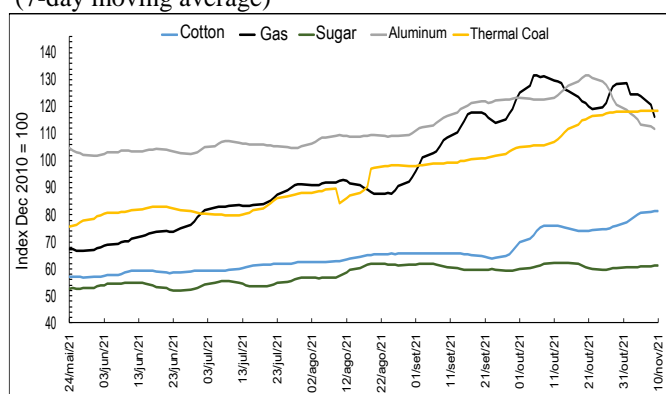
Source: Reuters

Chart 1-6: Outlook of Brent (USD) and Food Prices (%)



Source: GPMN/BM

Chart 1-7: Price Index of Exported Goods (7-day moving average)



Source: Reuters

1.2. Prices of Main Goods

The gradual reopening of economies reinforces optimism about the faster recovery of global demand, with an impact on the prices of the main export and import goods, especially oil.

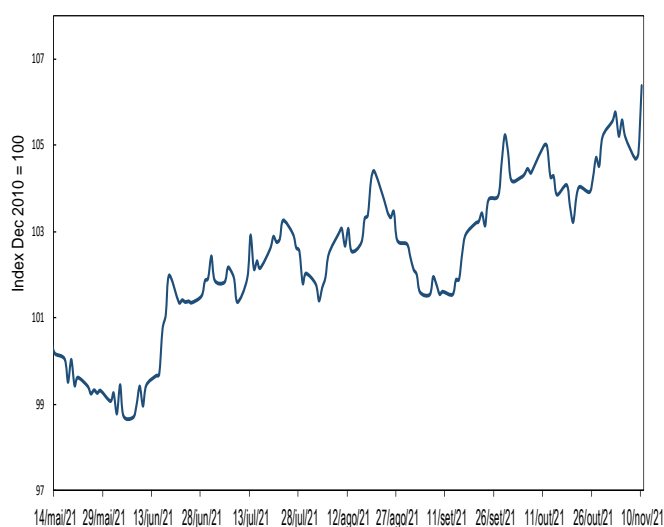
In fact, the average prices of goods, which weigh on Mozambique's trade balance, continue to consolidate their gains (Chart 1-5). In particular, stands out the cumulative recovery of Brent prices, a trend that should continue in the short and medium term (Chart 1-6), and raises concerns for its strong impact on domestic inflation. This rise is mainly backed by the steady reopening of economies, in a context in which Oil-Exporting Countries, including non-members (OPEC+) observing greater discipline as to production quotas.

In the same timeframe, the prices of some cereals rose, especially for wheat, due to the drought in U.S. production areas.

Likewise, the prices of some Mozambican export products continue to rise, mainly for thermal coal, driven by (i) the scarcity of this commodity in the international market, coupled with (ii) the flood in mining companies in India and (iii) the ongoing trade tension between Australia and China.² Turning to natural gas, low stock levels for winter in Europe and the growing demand for this product in Asia have contributed towards

² China's largest thermal coal supplier.

Chart 1-8: USD Composite Index against the Currencies of the Main Trading Partners



Source: Reuters

sharp price acceleration (Chart 1-7).

The US dollar strengthened, partly due to (i) the FED signaling for the moderation of asset purchasing pace, (ii) market prospects for rising policy rates, and (iii) the decline in the number of COVID-19 infections.³

Since the last MPC (September/2021) to the second week of November 2021, the USD Composite index, against some major trading currencies (Euro, Rand, Pound, and Yen), recorded cumulative gains (Chart 1-8). Among the determining factors stand out the (i) FED's decision to reduce asset purchases; (ii) market expectations for rising policy rates, given the sharp acceleration of inflation in November in the US.

In most countries, monetary policy interest rates remain unchanged. Since the last MPC to this date, there has been a trend towards keeping reference interest rates unchanged. This position is backed by prospects of interest rates remaining unchanged within their medium-term targets, despite the trend towards price acceleration.

³ US Federal Reserve.

Chapter II. Recent Developments in Domestic Economy

The decline in daily COVID-19 infections has allowed for a greater reopening of the national economy, which, coupled with the positive impact of the base effect and the ongoing price recovery for the main export goods, has contributed towards better prospects of economic growth in the short and medium term. Turning to prices, despite the national currency stability, there is increasing pressure in the short term, driven by (i) the upward adjustment of liquid fuel prices, which also indirectly affect the prices of other goods and services, and (ii) the high costs of container transport in the international market, and others. Even so, estimates for 2021 still point to a single digit inflation.

2.1. Short-Term Economic Activity

Table 2-1: Dynamics of Mozambique's Real GDP (annual change %)

Activity Sectors	2020		2021		Q3 Contr. (pp)
	II	III	II	III	
Primary Sector	-3.1	-1.7	1.5	4.8	1.5
Agriculture	2.7	3.0	1.6	4.9	1.1
Fishing	-2.4	-3.4	2.6	1.8	0.0
Extractive Industry	-24.1	-14.5	0.8	5.0	0.3
Secondary Sector	-2.3	0.6	-1.0	2.0	0.2
Electricity and Water	7.1	4.8	-9.8	2.1	0.1
Processing Industry	-5.5	-1.2	1.2	2.0	0.1
Construction	0.2	-0.5	2.4	2.2	0.0
Tertiary Sector	-4.4	-2.7	2.8	2.4	1.1
Commerce and Services	-7.0	-1.1	2.1	2.0	0.1
Catering and Hospitality	-35.0	-30.6	4.0	5.1	0.1
Transport and Communications	-4.8	-1.3	2.9	2.0	0.2
Financial Services	-0.2	-1.5	1.8	2.4	0.1
Public Adm., Education and Health	-3.0	-2.2	3.8	2.4	0.4
Other Sectors	2.1	0.2	1.9	2.6	0.2
GDP at factor cost	-3.6	-2.0	1.8	3.2	2.8
Tax on products	-2.6	4.5	3.1	4.6	0.6
GDP	-3.5	-1.2	2.0	3.4	3.4

The GDP grew in the third quarter of 2021 and strengthens the prospects for economic activity recovery this year. Preliminary data from the National Bureau of Statistics (INE), indicate that, in annual terms, the GDP grew 3.4% in the third quarter of 2021, an acceleration of 1.4 pp compared to the previous quarter (Table 2-1).

In fact, the base effect, coupled with the lower impact on the economy of the restrictive measures to contain the third wave of COVID-19, has contributed to the recovery of all economic activity sectors, especially the extractive industry, hospitality and catering, and agriculture.

Turning to aggregate demand components, stand out:

- The increase in exports, which continue to reflect the improvement in commodity prices in the international market (Table 2-2). This trend should continue to contribute towards the improvement of the balance of goods;
- However, low investment expenditure continues to limit the increase in aggregate demand (Table 2-3). In the short term, the public investment component should remain suppressed, against a backdrop of lower foreign financing in 2021 and additional needs to meet rebuilding and humanitarian assistance expenses relating to the impacts of military instability in Cabo Delgado.

Table 2-2: Balance of Payments (USD million)

Description	Q3 20	Q3 21	Change
Balance of Goods	-1,867	-1,814	54
Export of Goods	2,547	3,596	1,049
Major Projects	1,806	2,587	781
Excl. Major Projects	741	1,009	268
Import of Goods	4,414	5,410	996
Major Projects	553	550	-3
Excl. Major Projects	3,861	4,860	999

Source: BM

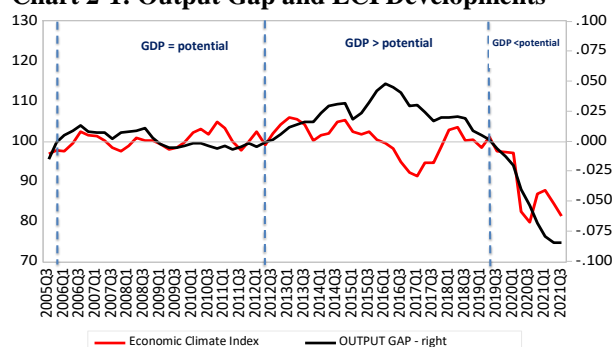
Table 2-3: State Budget Implementation in Q3 2021 (MZN million)

	Sep-2021	2021 Budget	Paid-in Expenses	Annual Change
Revenue	200.567	268.096	74.8%	8.2%
Total Expenditure	249.3562	368.595	67.7%	5.9%
Current Expenses	174.9183	238.2905	73.4%	8.0%
Investment Expenses	38.5332	83.782	46.0%	-6.0%
Deficit	(50.119)	(100.499)	49.9%	-30.8%
Domestic Financing	30.3408	40.958	74.1%	37.4%
Foreign Financing	19.7785	59.5414	33.2%	-60.7%
Loans	8.4172	25.5355	33.0%	-75.4%
Donations	11.3613	34.0059	33.4%	-29.6%
Financial transactions	35.9047	46.523
Change in Balance	1.3302	-	-	-

The economy continues to operate below its potential. Despite the trend towards stabilization, output gap developments also show a suppressed aggregate demand (Chart 2-1).

In the short term, the growth prospects of the economy are strengthened. Economic activity is expected to keep growing in the short term, amid the recent lifting of domestic restrictive measures and maintenance of foreign demand recovery. This forecast falls in line with improving the operating conditions of industrial companies recorded in October 2021 (Chart 2-2).

Chart 2-1: Output Gap and ECI Developments

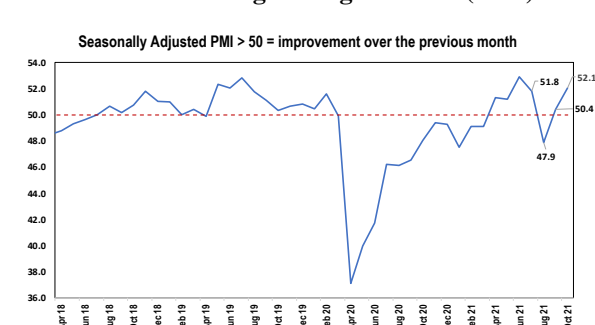


Source: INE/BM

Pressure on domestic financing worsens. Between September and October, domestic public debt has increased by 1.759 million, driven by the increase in the usage portfolio of treasury bills (Table 2-4).

The country continues to boast sound gross international reserves (GIR). In fact, as measured by the GIR, the country's position in the foreign environment remains robust, with a balance of USD 3.421 million in the first half of November, the equivalent to over 6.0 months of imports of goods and services, excluding imports from major projects.

Chart 2-2: Purchasing Managers Index (PMI)



Source: HIS, Markit

Table 2-4: Domestic Public Debt (MZN million)

Domestic Public Debt – T-Bonds, T-Bills and BM advances (MZN million)					
	Use of T-Bills	Treasury Bonds	In the BM	Total Debt	Debt as % of GDP
Dec – 2020	44,220	88,100	54,885	187,205	21.0%
Jan – 2021	44,220	88,100	59,822	192,142	16.9%
Feb – 2021	44,220	92,238	60,105	196,563	17.3%
Mar – 2021	50,220	96,445	58,514	205,179	18.1%
Apr – 2021	57,987	96,728	56,891	211,606	18.7%
May – 2021	58,924	95,713	57,691	212,327	18.7%
Jun – 2021	50,208	97,453	59,011	206,671	18.2%
Jul – 2021	54,412	101,992	59,517	215,921	19.0%
Aug - 2021	59,324	101,845	59,946	221,115	19.5%
Sep - 2021	54,028	102,477	60,346	216,851	19.1%
Oct - 2021	57,886	99,948	60,777	218,611	19.3%
Flow (Oct-Sep)	3,858	-2,529	430	1,759	

Source: BM

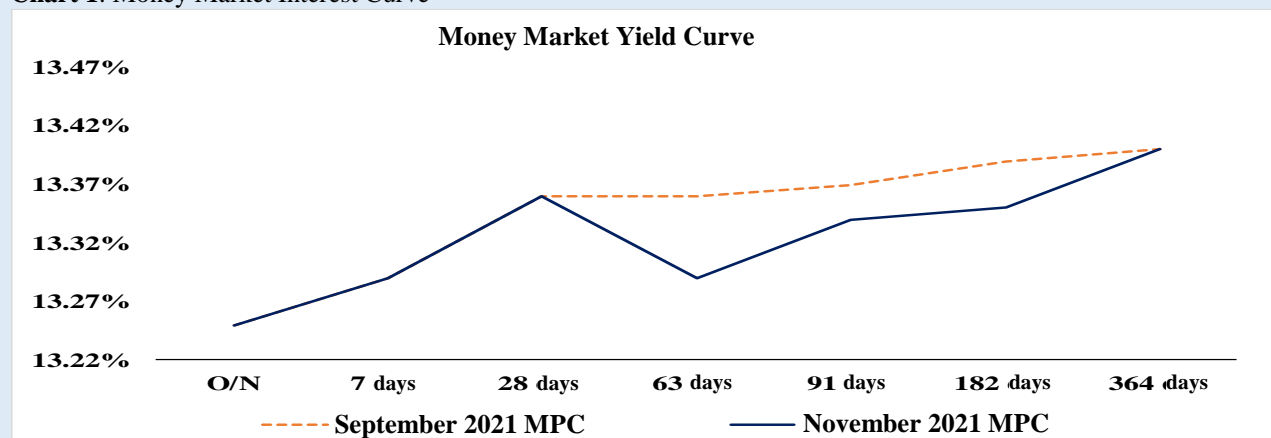
Box 1 : Monetary and Financial Developments

I. Yield Curve Developments

a) Money Market Interest Rates

Between September and November (interval between the last two MPC sessions), the money market yield curve⁴ has observed a downward trend. In fact, interest rates fell 6 to 7 bps in 63, 91 and 182-day maturities. For the remaining market terms, interest rates remained unchanged (Chart 1).

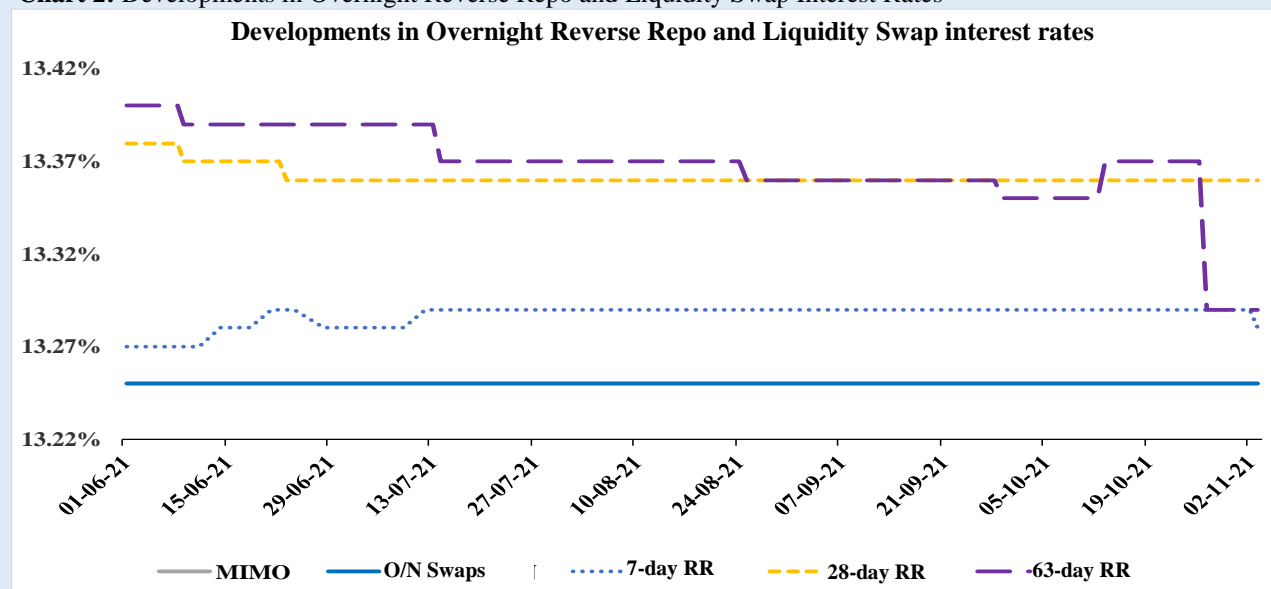
Chart 1: Money Market Interest Curve



Source: BM

Charts 2 and 3 show the detail of the interest rate trend for specific IMM terms.

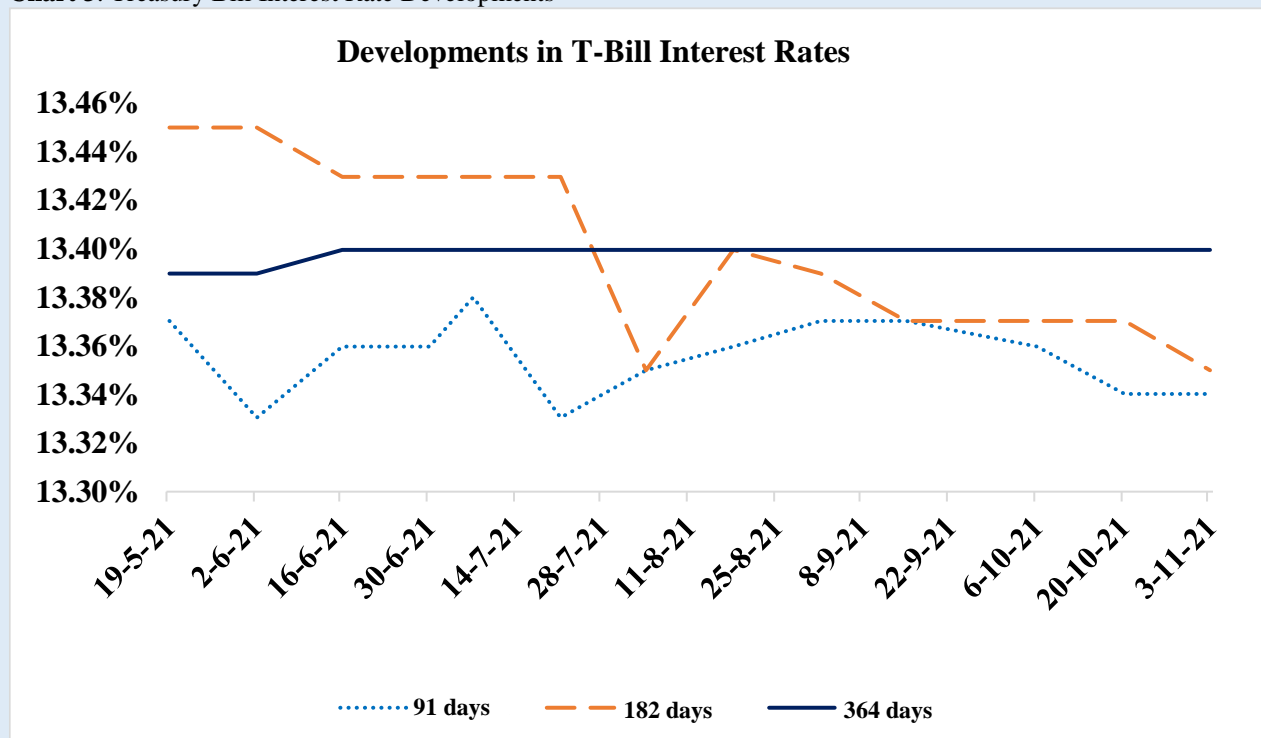
Chart 2: Developments in Overnight Reverse Repo and Liquidity Swap Interest Rates



Source: BM

⁴ In terms of instruments, the 1-day term concerns liquidity swap operations, the 7, 28 and 63-day terms concern T-Bill sale operations by the BM to commercial banks under reverse repo and the 91, 182 and 364-day terms concern the issuance of T-Bills.

Chart 3: Treasury Bill Interest Rate Developments

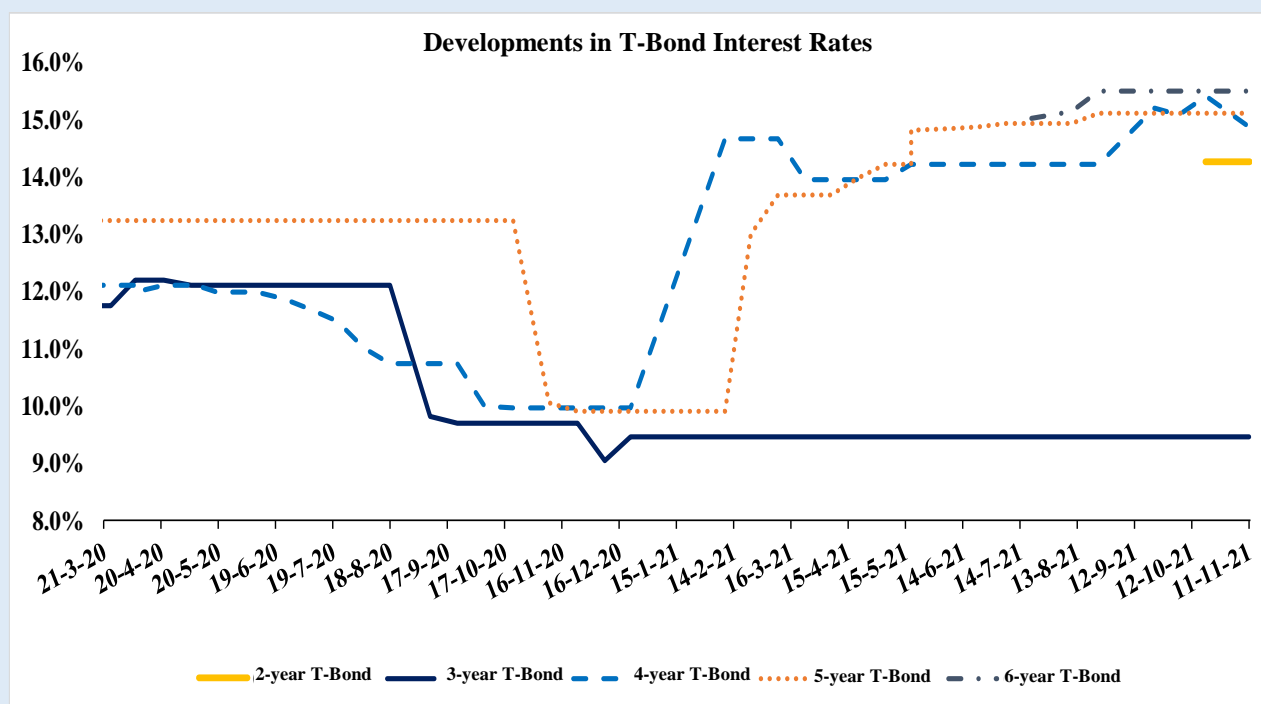


Source: BM

b) Treasury Bond Interest Rate Developments

Overall, Treasury Bond (T-Bond) interest rates have remained constant. Except for the 4-year T-Bond interest rate, which fell by 32 bps, the remaining maturities remained unchanged, as shown in Chart 4. It should be noted that the State has, for the first time, issued T-Bonds for the 2-year maturity, with the interest rate standing at 14.26%.

Chart 4: Treasury Bond Interest Rate Developments



II. Retail Interest Rate

Prime Rate and Retail Interest Rates decline. In fact, between September and November of the current year, the Prime Rate has dropped by 30 bps, standing at 18.60%. In line with this drop, interest rates on active and passive operations for the one-year term have slightly declined between 9 to 11 bps, respectively, which contributed to a lower spread between the two rates, of 8.90% in September, following 9.23% in June, as shown in Chart 5.

Chart 5: Developments in Retail Interest Rates and the Prime Rate

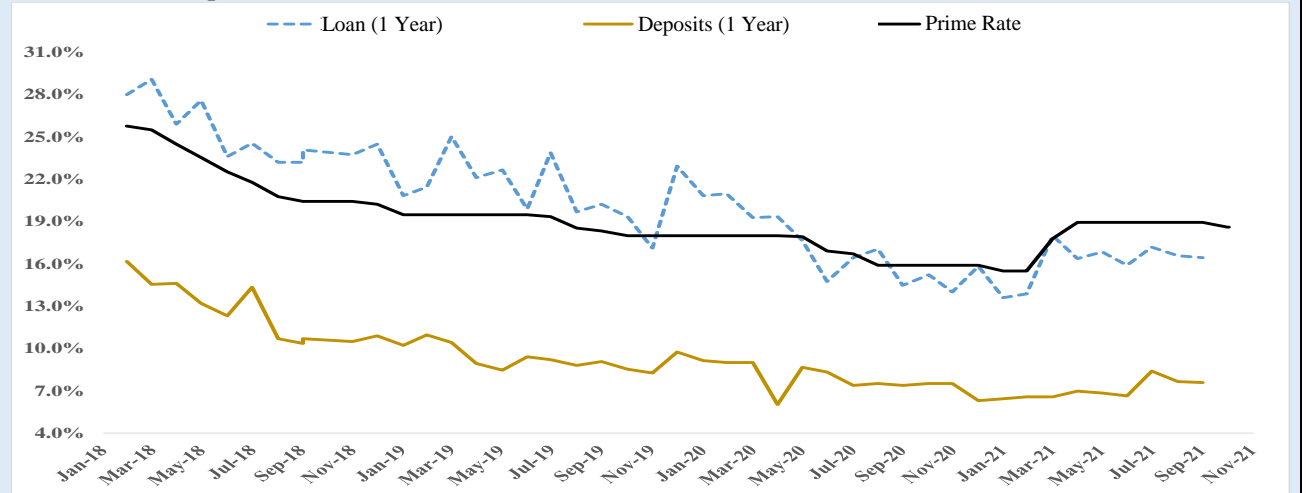
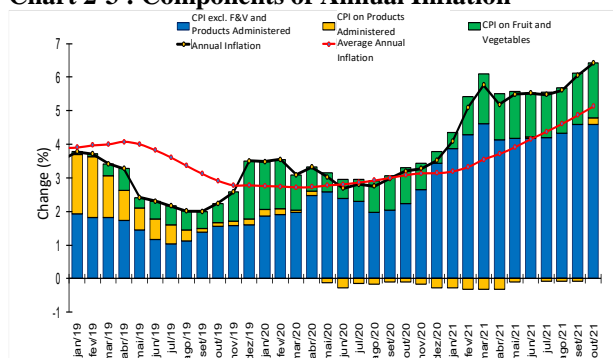


Chart 2-3 : Components of Annual Inflation



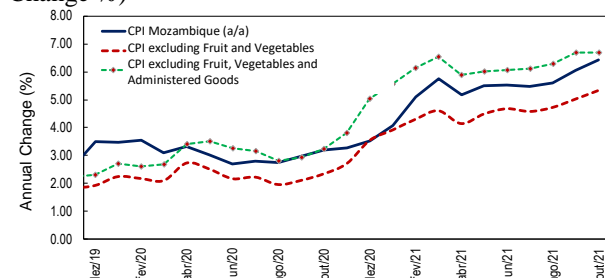
Source: INE/BM

Table 2-5: Core inflation - Mozambique (Annual Change %)

	Jun21	Jul21	Aug21	Sep21	Oct 21
CPI	5,52	5,48	5,61	6,04	6,42
Food	10,50	10,45	10,72	11,76	12,23
Cereals and byproducts	8,98	6,44	5,76	5,58	5,12
Fruit and vegetables	15,75	16,70	16,49	18,69	19,95
Administered	0,16	-0,37	-0,35	-0,35	0,86
Liquid Fuels	-2,67	-2,42	-2,42	-2,42	1,00
CPI x F&V	4,68	4,58	4,72	5,02	5,33
CPI x Admin.	7,02	7,13	7,27	7,82	7,97
CPI x F&V and Admin.	6,07	6,12	6,30	6,69	6,70

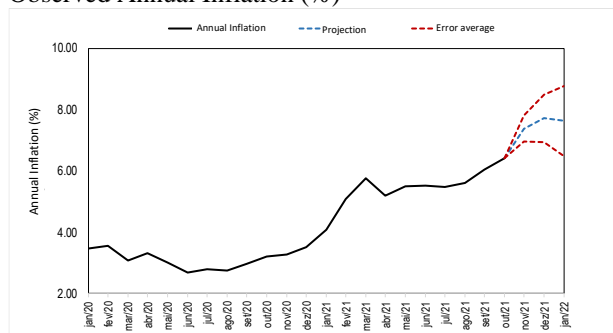
Source: INE

Chart 2-4: Annual Inflation and Core Inflation (Annual Change %)



Source: INE

Chart 2-5: Short-Term Annual Inflation Projections and Observed Annual Inflation (%)



Source: BM

2.2. Recent Inflation Developments and Short-Term Prospects

In October 2021, annual inflation continued to accelerate, driven by the increase in food and liquid fuel prices. Even so, it is expected to remain at a single digit in the short and medium term.

As measured by the change in the Consumer Price Index (CPI), annual inflation rose from 6.04% in September to 6.42% in October. Likewise, average annual inflation maintained its upward trend, standing at 5.13% in October, following 4.86% in September (Chart 2-3).

The acceleration of inflation is the result of rising prices of the food class, especially for imported frozen products, and the recent rise in fuel prices (in the last week of October) (Table 2-5).

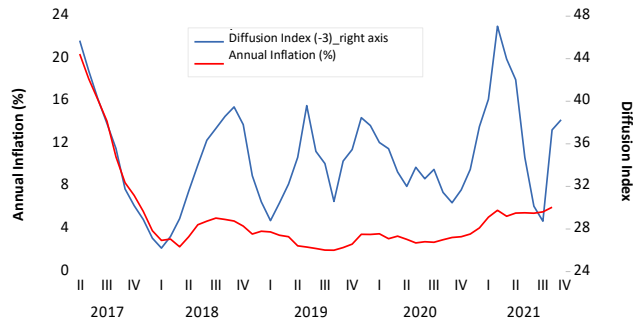
Core inflation remained stable. Between September and October, core inflation, which excludes the fruit and vegetable subgroup (the most volatile component of the CPI basket) and the subgroup of products with administratively determined prices, remained practically unchanged (Table 2-5 and Chart 2-4).

Short-term forecasts point to an acceleration in annual inflation in the coming months, nonetheless, it remains at a single digit. These forecasts are mainly backed by the following factors: (i) rising fuel prices; (ii) prospects of domestic rising transport cost, (iii) lifting of restrictive measures, which may boost demand for goods and services, given the start of the festive season, and (iv) high costs of transport of goods in the international market, in a setting of Metical stability (Chart 2-5).

For the same period, the diffusion index, one of the leading indicators of price developments, backs the trend of price acceleration for the coming months, standing at about a single digit (Chart 2-6).

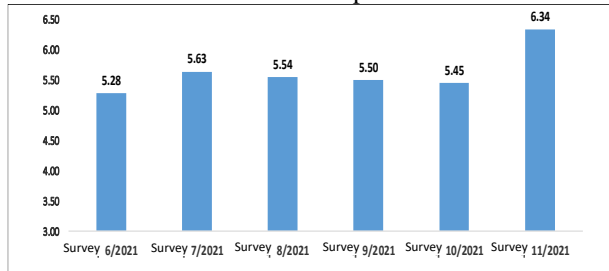
Economic agents surveyed by the BM find that annual inflation shall stand at about 6.34%,

Chart 2-6: Diffusion Index and Annual Inflation



Source: BM/INE

Chart 2-7: Annual Inflation Expectations



Source: BM

equivalent to some acceleration, compared to that of December 2020 (Chart 2-7).

Chapter III: Medium-Term Inflation and Economic Activity Forecasts

For the medium term, inflation is expected to remain at a single digit, despite the prospects of rising prices for transport domestically, and food and oil in the international market. Concerning domestic economic activity, the prospects for economy growth are strengthened, also backed by foreign demand and the implementation of gas projects in the Rovuma basin. Given this macroeconomic environment and the risks and uncertainties associated with the inflation projections, the MPC decided to maintain the MIMO rate at 13.25%.

Table 3-1: External Assumptions

	2021	2022	2023
US Real GDP	5.9	3.1	2.2
<u>September MPC</u>	6.1	3.4	2.0
RSA Real GDP (%)	5.7	1.7	2.3
<u>September MPC</u>	4.8	2.0	1.8
US Inflation (%)	4.5	4.3	3.1
<u>September MPC</u>	4.4	4.2	3.3
RSA Inflation (%)	4.5	4.6	4.6
<u>September MPC</u>	4.2	4.2	4.6
Brent price (USD)	71.8	74.6	70.2
<u>September MPC</u>	68.1	68.6	68.3
Food prices in the International Market (%)	26.8	-3.0	-4.0
<u>September MPC</u>	25.4	-3.0	-5.7

Source: GPMN/BM

3.1. External Assumptions for Inflation Projections⁵

Inflation projections are based on the following external assumptions (Table 3-1):

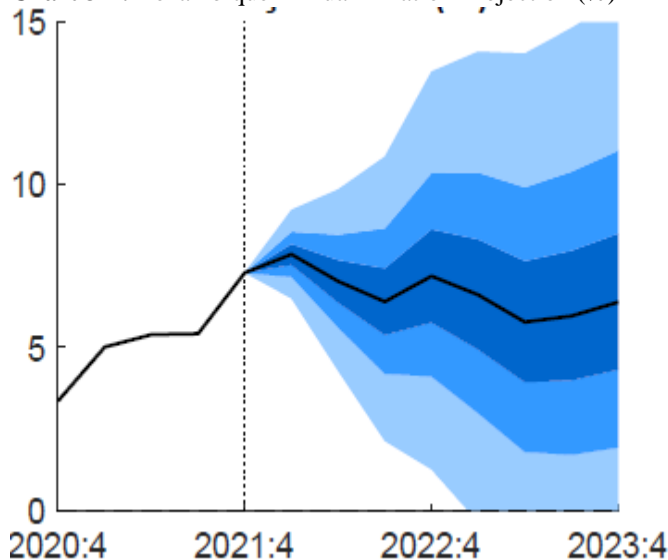
- Upward revision of brent price forecasts in the international market for 2022 and 2023;
- Downward revision of GDP growth in the RSA and the US in 2022, followed by an upward revision in 2023;
- Upward revision of RSA and US inflation prospects for 2022; and
- Maintenance of food price prospects in the international market for 2022 and an upward revision for 2023.

3.2. Internal Assumptions

Prospect of pressure on prices of administered goods are strengthened. In the medium term, the prospects of rising domestic transport prices and food are strengthened, driven by the dynamics of commodity prices in the international market.

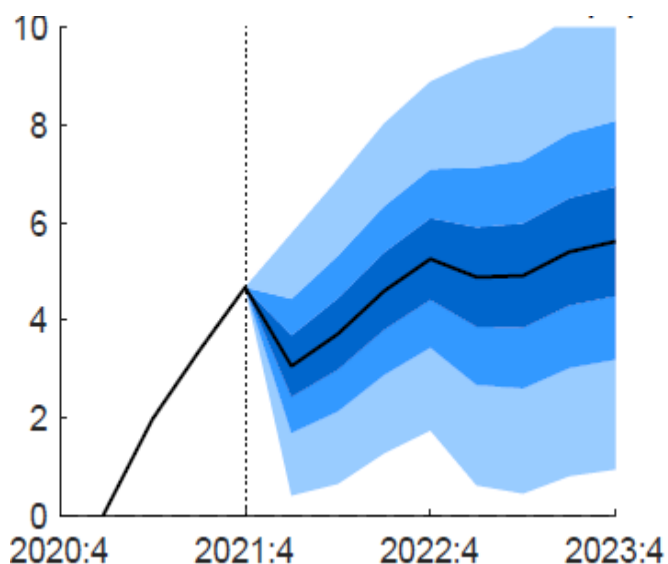
⁵Source: Global Projection Model Network (GPMN)

Chart 3-1: Mozambique Annual Inflation Projection (%)



Source: BM

Chart 3-2: Projection of Annual Real GDP Growth for Mozambique (%)



Source: BM

Prospects for lower exchange rate pressure in the medium term remain. The recent exchange rate dynamics of the Metical against the main trading currencies, coupled with the prospect of steady increase in foreign demand and favorable developments in the prices of main export goods, point to lower exchange rate pressure in the medium term.

Forecasts of greater pressure on public spending remain. In the medium term, the containment of the COVID-19 spread, humanitarian assistance to populations affected by the military conflict in Cabo Delgado and rebuilding the areas subjected to terrorist attacks shall continue to pose as elements of greater pressure on public expenditure.

3.3. Result of Projections

Inflation is expected to remain at a single digit, in the medium term. Despite the prospects of rising domestic transport prices, as well as international food and oil prices, inflation is expected to remain at a single digit in the medium term (Chart 3-1).

Economic growth prospects for 2021 and 2022 are strengthened. These prospects are mainly driven by the implementation of gas projects in the Rovuma basin and the prospects of foreign demand recovery, as a result of the gradual lifting of restrictive measures on account to COVID-19 and the adoption of monetary and fiscal stimulus packages, as well as favorable developments in the prices of export goods (Chart 3-2).

3.4. Monetary Policy Decision

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to keep the policy rate, MIMO, unchanged at 13.25%.

This decision is supported by the maintenance of inflation prospects at a single digit, notwithstanding the prevalence of high risks and uncertainties stemming, especially, from rising food and liquid fuel prices, and supply chain constraints in the international market.

The MPC has also decided to keep the interest rates for the Standing Deposit Facility (SDF) at 16.25% and the Standing Lending Facility (SLF) at 10.25%.

In addition, the MPC has decided to keep Reserve Requirement ratios for liabilities in national currency at 10.50%, and in foreign currency at 11.50%.

Risks and uncertainties associated with inflation projections remain high. Domestically, stand out the impact of the upward shift in fuel prices, and the prevalence of uncertainties as to the duration and magnitude of the impact of the COVID-19 pandemic on the economy. In the external environment, uncertainties remain concerning the pandemic's developments, increasing oil prices and ongoing supply chain constraints, leading to high costs in the transport of containers and delays in the delivery of goods.

