March 2022
No.45 | year 11

ECONOMIC OUTLOOK AND INFLATION FORECASTS

ECONOMIC OUTLOOK

AND INFLATION FORECASTS

MARCH 2022

Members of the Monetary Policy Committee[1]

Full-Fledged Members

Rogério Lucas Zandamela
Governor (Chairman)

Gertrudes Adolfo Tovela
Board Member

Felisberto Dinis Navalha
Board Member

Jamal Omar
Board Member

Benedita Guimino
Board Member

Silvina de Abreu
Board Member

Permanent Guests

Umaia Mahomed
Adviser to the Governor

Maria Mateus Majimeja
Adviser to the Governor and Director of Governor's Office

Ingunn Valvatne
Adviser to the Governor

Luís Alberto Poio
Director of Macroprudential Analysis Department

Pinto Fulane
Director of Prudential Supervision Department

Paulo Mandlate
Director of Foreign Exchange Licensing Department

Emílio Rungo
Director of Communications Office

Carlos João Baptista
Director of Markets and Reserves Management Department

Pinho José Ribeiro
Director of Economic Research Department

Domingos Fumo
Director of Statistics and Reporting Department

---

[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 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

Contents

Boxes

Tables

Charts

Decisions of session No. 2 of the Monetary Policy Committee, of March 30, 2022

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to increase the policy rate, MIMO, from 13.25% to 15.25%. This decision follows from the substantial upward revision of inflation forecasts for the short and medium term, reflecting the materialization and exacerbation of some risks, especially the escalation of the geopolitical conflict in Europe and the natural disasters that struck the center and north of the country.

The increase in the MIMO rate aims at keeping inflation under control in the short and medium term, so as to allow the beginning of a gradual transition to single-digit interest rates in the medium and long term, amid the resumption of the Program with the International Monetary Fund (IMF) and the implementation of natural gas projects.

Inflation forecasts for the short and medium term have been revised upwards. The forecasts point to an acceleration in general and core inflation, in the short and medium term, reflecting the direct and indirect impact of rising fuel and food prices, as well as the effect of natural disasters that struck the country, in spite of the Metical's stability. In February 2022, annual inflation stood at 6.8%. In February 2022, annual inflation stood at 6.8%.

Risks and uncertainties associated with inflation forecasts have increased. The highlight is on the duration and magnitude of (i) the impact of the Russia-Ukraine geopolitical conflict, (ii) global supply chain constraints, (iii) effects of recent climate shocks on domestic prices, and (iv) the degree of the pass-through of the fuel price adjustments to the prices of other goods and services.

The prospects of economic activity recovery in 2022 remain, despite forecasts of slowing external demand. These prospects stem from the easing of restrictive COVID-19 containment measures, and the implementation of energy projects in the Inhambane province and the Rovuma basin, in a context of resumption of the IMF program, which will contribute to the deepening of reforms and greater concessional financing to the economy.

Domestic public debt has increased. Domestic public debt, excluding loans and lease agreements and overdue liabilities, has increased from 220.6 billion, at the end of December 2021, to 242.3 billion meticais, in March this year.

The MPC will continue to monitor the evolution of risks and uncertainties associated with the forecasts, in order to keep inflation low and stable, which is the main objective of the Banco de Moçambique.

The next regular meeting of the MPC is scheduled for May 25, 2022.

Chapter I. Recent Developments in International Economy and Forecasts

Global growth prospects for 2022 have been revised downwards, and may deteriorate further amid the geopolitical conflict between Russia and Ukraine and deepening of constraints on the global supply chain bottlenecks. In addition, the conflict is contributing to the sharp rise in the price of oil and other energy commodities, cereals, and numerous raw materials for the automotive and technology industry, which is leading to an acceleration of inflation above the target for most of our trade partners.

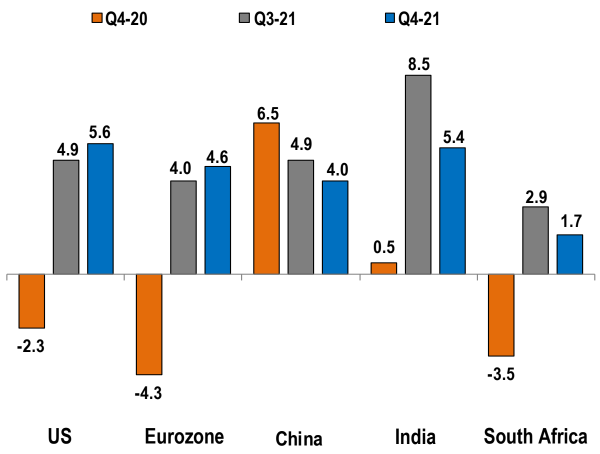
1.1. Recent Economic Activity and Inflation

In the fourth quarter of 2021, the country's main trading partners experienced a mixed performance in economic activity.

Preliminary data indicate that the GDP growth of the United States of America (USA) and the Eurozone picked-up in the fourth quarter of 2021. In the USA, the performance was driven by increased private consumption and exports, that compensated the reduction in public expenditure. In the Eurozone, the boost to growth stemmed from monetary stimulus, amid the reopening of economies.

In emerging economies, China has experienced a slowdown in its GDP since the second quarter of 2020, reflecting the combined effect of an activity downturn in real estate sector, ongoing supply chain bottlenecks and service constraints, as well as new COVID-19 cases (Chart 1-1).

Chart 1-1: Real GDP Growth (%)



Source: Trading Economics

Global growth is expected to slow down in 2022, driven by the impact of the Russia-Ukraine geopolitical conflict.

The January´s World Economic Outlook (WEO, 2022) revised global economy down to 4.4% in 2022. This revision reflects (i) the withdrawal of fiscal and monetary stimulus due to increasing inflationary pressures in most advanced and emerging economies, (ii) the tightening of monetary conditions due to inflation acceleration, and (iii) deepening of supply chain bottlenecks (Table 1-1).

Table 1-1: Global Real GDP Projections – 2022 and 2023 (%)

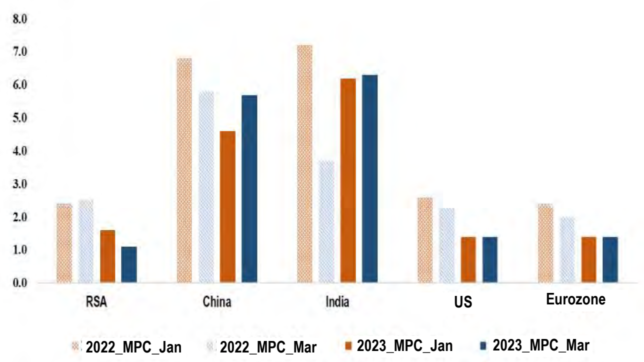
Region	Estimate	Projection		Difference from October 2021's WEO	
	2021	2022	2023	2022	2023
World economy	**5.9**	**4.4**	**3.8**	**(0.5)**	**0.2**
Advanced	**5.0**	**3.9**	**2.6**	**(0.6)**	**0.4**
US	5.6	4.0	2.6	(1.2)	0.4
Eurozone	5.2	3.9	2.5	(0.4)	0.5
Germany	2.7	3.8	2.5	(0.8)	0.9
Japan	1.6	3.3	1.8	0.1	0.4
United Kingdom	7.2	4.7	2.3	(0.3)	0.4
Emerging and developing	**6.5**	**4.8**	**4.7**	**(0.3)**	**0.1**
Brazil	4.7	0.3	1.6	(1.2)	(0.4)
India	9.0	9.0	7.1	0.5	0.5
China	8.1	4.8	5.2	(0.8)	(0.1)
Sub-saharan Africa	**4.0**	**3.7**	**4.0**	**(0.1)**	**(0.1)**
South Africa	4.6	1.9	1.4	(0.3)	0.0

Source: IMF, WEO (January, 2022)

In turn, the forecasts from the Global Projection Model Network (GPMN[2]) point to a greater slowdown in GDP growth, from 4.0% to 3,2% in 2022 , driven by the escalation of the Russia-Ukraine geopolitical conflict, which adds to the aforementioned factors (Charts 1-2).

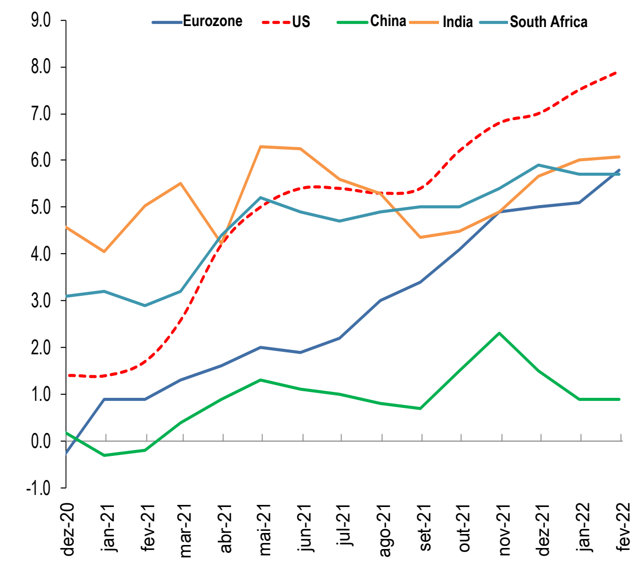
[2] GPMN Report of February 2022.

Chart 1-2: Real GDP Outlook (%)



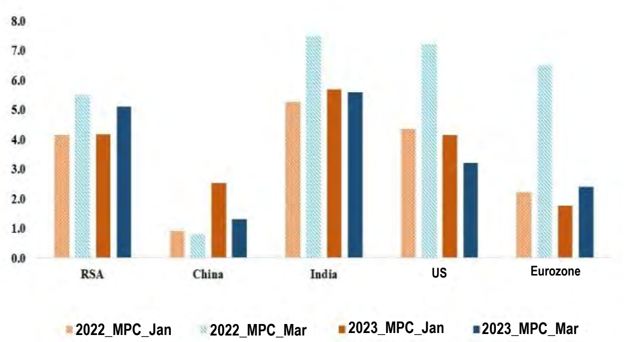
Source: GPMN (Global Projection Model Network)/BM

Chart 1-3: Inflation Developments (%)



Source: Refinitiv and Trading Economics

Chart 1-4: Inflation Outlook (%)



Source: GPMN/BM

Amongst the main risks to these prospects, the following stand out: (i) the extent of the impact of the commodity supply chain bottlenecks that has been exacerbated by the Russia-Ukraine conflict, and (ii) the evolution of the COVID-19.

The volatility of the prices of liquid fuels, electricity and food translates to mixed inflation in the country's main trading partners.

Data from February 2022 points to accelerating inflation in the Eurozone and US, with the common denominator being the rising prices of liquid fuels and electricity, in a context of ongoing supply chain bottlenecks (Chart 1-3).

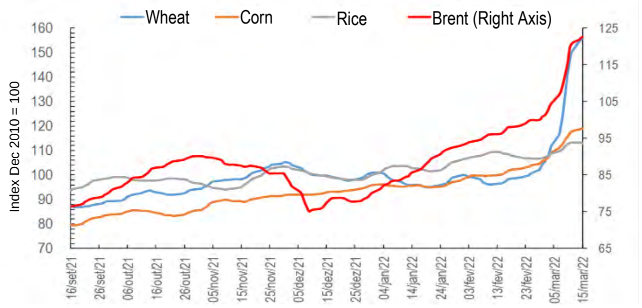
In emerging markets, prices reflected different profile between countries. On one hand, in China and South Africa, inflation slowed down, as a result of lower food and transport prices, respectively (Chart 1-3). On the other hand, inflation in India has increased, due to the rising food prices.

Inflation forecasts of some trading partners have been revised upwards for the near and medium term.

Compared to the last MPC meeting, the GPMN revised inflation forecasts upwards for 2022, driven by prospects of rising fuels and food prices, and uncertainties as to the duration of supply chain bottlenecks (Charts 1-4).

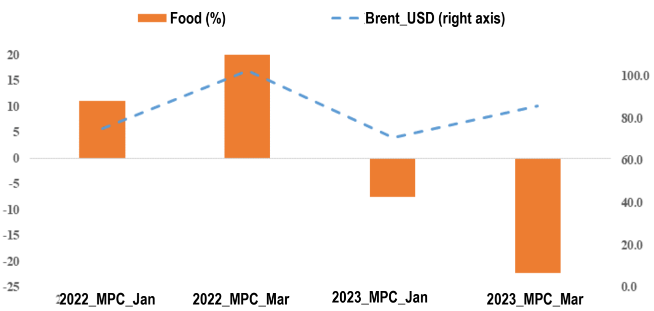
In the face of global inflationary pressures, central banks are increasingly tightening the monetary conditions. As such, policy rates hikes by the Federal Reserve System (FED), by the Bank of England and the South African Reserve Bank (SARB) are particularly emphasized.

Chart 1-5: Price Index of Imported Goods (7-day moving average)



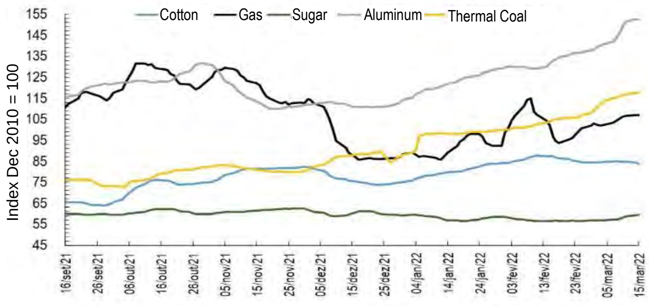
Source: Refinitiv

Chart 1-6: Outlook of Brent (US) and Food Prices (Annual Change %)



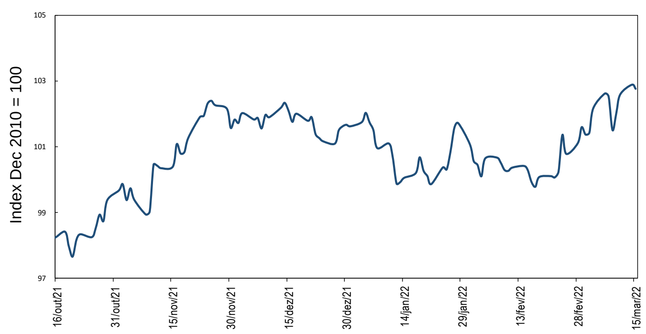
Source: GPMN/BM

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



Source: Refinitiv

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



Source: Refinitiv

1.2. Prices of Main Commodities and Trading Partners' Currency Dynamics

The reopening of economies and the emergence of the Russia-Ukraine geopolitical tensions put pressure on major commodity prices.

The exacerbation of global geopolitical tensions, with the emergence of the Russia-Ukraine conflict, in the context of easing restrictive measures to contain COVID-19, has contributed to an increase in overall commodity prices (Charts 1-5, 1-6 and 1-7). The highlight is on the prices of Brent and wheat, which impact domestic inflation, given its weight on the CPI basket (Box 1). Between January and March, the price of Brent and wheat rose by 49% and 45%, respectively, a trend expected to continue throughout 2022 (Chart 1-6).

With regards to the commodities exported by Mozambique, the favorable price seen for most products may lessen the negative impact of the likely contraction of external demand on the domestic economy (Chart 1-7). In this regard, the increase in aluminum and thermal coal prices by about 20% is particularly highlighted in the first quarter.

The US dollar strengthens against major currencies.

From end-January to the second week of March 2022, the USD Composite Index recorded cumulative gains against its main trading currencies (Euro, Rand, British Pound and Japanese Yen) (Chart 1-8). Among the determining factors for such a trend (i) the geopolitical tension and (ii) the increase in FED's[3] policy rate are highlighted.

[3] The Federal Reserve

Box 1: Russia-Ukraine Crisis – Transmission Mechanism to the Mozambican Economy

I. Direct Impact of the Russia-Ukraine crisis on the Mozambican economy

1. In light of Russia's invasion of Ukraine on February 24, 2022, the West, namely, the European Union (EU), the United States (US) and the United Kingdom (UK) announced several economic sanctions against Russia, particularly the (i) freezing of external assets, including those of the russian central bank, (ii) closure of airspace in several countries, (iii) removal of russian banks from the global payments system (SWIFT), (iv) several restrictions on russian imports, with potential economic implications and losses for Europe[4] and the world.

2. In three weeks after the invasion, the world observed a significant increase in Liquefied Natural Gas (LNG) (4%), Brent (14%) and wheat (17%) prices, as illustrated in Charts 1, 2 and 3. It is noted that Russia supplies 40% of the LNG consumed in the EU, and that, in conjunction with Ukraine, both are responsible for about 29% of global wheat exports, in addition to being the largest exporters of fertilizers and sunflower oil worldwide.

3. In terms of trade relations, Mozambique's direct exposure to the Russia-Ukraine conflict is limited. It is restricted to import of wheat (and byproducts) and fertilizers, and the export of tobacco and natural graphite, which equates to total annual foreign trade of 0.59%.

4. In effect, only 0.77% of the Mozambican total exports are destined to the above mentioned economies, 0.2%, of which corresponds to tobacco and natural graphite.

5. **However, despite limited direct impact on economic activity in Mozambique, the indirect impacts to the general economy as a whole, including price dynamics may be significant, especially if the conflict is prolonged.**

- **What is SWIFT?**

It is an essential financial messaging network for global banks to exchange information, in order to carry out transactions, and is indispensable in the global payment system. About 11 thousand banks from 200 countries use SWIFT, which is managed by the Society for World Interbank Financial Telecommunications.

- **Who controls the SWIFT network?**

SWIFT is managed by a company that is neutral with regards to geopolitics matters, and operates as a cooperative of banks in several countries. It has a Board of Directors representing financial institutions, which currently include a Russian representative. Their operations are supervised by the world's largest central banks.

- **What alternatives exist to the SWIFT network?**

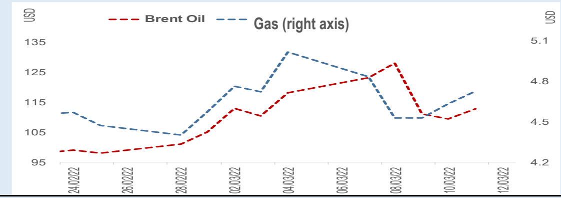
In addition to SWIFT, Russia has been developing an alternative system since 2014, in order to be able to carry out financial transactions domestically and with some allies.

Source: Bloomberg

II. Main indirect transmission mechanism channel to the Mozambican Economy

6. The main indirect transmission mechanism of the geopolitical tension stem from rising commodity prices in the international market, in particular, Brent and other energy related commodities, as well as food and fertilizers. The conflict also exacerbates the existing supply chain bottlenecks, slows global demand and contributes towards the strengthening of the US dollar.

Chart 1: Brent and Gas Barrel Price Developments (MMBtu)



Source: Refinitiv

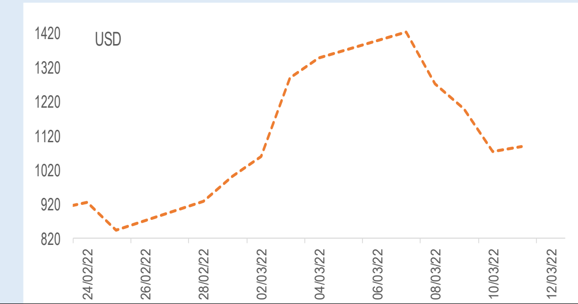
7. **Brent price** - One of the transmission mechanism channel of the Russia-Ukraine conflict to the domestic economy is via the international price of brent, which increased by 29.3%, after the outbreak of the conflict that is, to USD 127.98 in just 7 days, a level which is above its peak in 2014.

4 - Data from 2020 points to Russia representing about 5% of the EU's trade volume.

8. Prices for other energy products also rise. For instance, the price of LNG, a commodity of which Russia is the largest global producer, rose by about 4% in the aforementioned period. It is also emphasized that LNG is an important raw material for the chemical fertilizer industry.

9. **Food prices.** In this category, price hikes for the following commodities are particularly emphasized: (i) wheat and its byproducts, (ii) sunflower seeds and oil and (iii) fertilizers, of which Mozambique is a net importer. Data from the Balance of payments for 2021 reveals that Mozambique imported approximately 15.4% of wheat and its byproducts, 18.3% of fertilizers and 10.6% of sunflower seeds and oil from Russia and Ukraine in 2021.

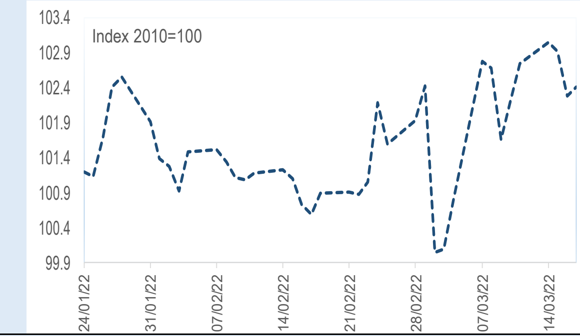
Chart 2: Wheat Price Developments (Bu)



Source: Refinitv

10. **Strengthening of the US Dollar in the International Market** The US dollar has been strengthening in the international market, it appreciated significantly against the main trading currencies, namely, Ruble, Euro, Rand and Yen, in the first 7 days after the onset of the Russia-Ukraine military conflict. The policy rate hike by the FED also contributed towards the strengthening of the US dollar.

Chart 3: USD Developments - Composite Index[5]



Source: Refinitiv

11. The combination of the above factors may result in an increase in the cost of imported commodities and consequently to a surge in domestic prices. On the other hand, rising commodity prices such as coal, aluminum and LNG, which make up37% in the country's total exports, will result in higher exports revenue.

III. Potential Impact of the Russia-Ukraine Conflict on Inflation in Mozambique

12. **The pass-through arising from high prices of imported goods to domestic prices may build-up to inflationary pressures.** Given the weight of fuels (7.0%) and food (34.0%), especially wheat with 4.16%, in the Consumer Price Index, the significant increases in the prices of these commodities worldwide may bring about an increase in domestic prices.

Table 1: Fuel Price Increase Contribution to the CPI - March/April 2022

	CPI weight (%)	Price Change (%)	New Prices (MZN)	CPI Contr. (pp)
Gasoline	5.53	12.09	77.39	0.67
Diesel	1.03	15.01	70.97	0.15
Gas	0.32	13.33	80.49	0.04
Oil	0.09	4.61	50.16	0.01
Total	6.97	N/A	N/A	**0.87**

Source: BM; N/A - Not applicable

13. In light of the latest fuel prices hike in the country (March 2022), specifically gasoline (12.09%), diesel (15.01%), paraffin (4.61%), gas (13.33%), a direct impact on headline inflation of about 0.87 percentage points is expected, between March and April 2022 (Table 1).

14. **However, the magnitude of the impact may be even greater, given the indirect effects from the use of fuels as raw material in all sectors of the economy, particularly for transports, with has a weight of 3.82% in the CPI basket.** The latest measures to lower fees and associated costs related to the process of import and marketing of fuels in the country (MEF/MREME Ministerial Order, of March 16, 2022) will lessen the impact in the short term.

5 - Composite Index of the US dollar - aggregates the following currencies: Euro, Libra, Rand and Yen.

Chapter II. Recent Developments in Domestic Economy and Short-Term Forecasts

The easing of COVID-19 containment measures, domestically and abroad, combined with favorable export commodity prices, has contributed towards the economic activity upturn in 2021. In the near term, it is expected that the economy will continue to recover, despite the slowdown in external demand and the occurrence of climate shocks in the Country. With regards to prices, the forecasts are of higher inflation in the near term, driven by rising fuel and food prices, as well as the consequence of the impact of natural disasters that struck the country, mitigated, however, by exchange rate stability.

Table 2-1: Mozambique Real GDP by Sector - Annual Change (%)

Activity Sectors	2020		2021			Yearly
	IV	Year	III	IV	Year	Contr.(pp)
Primary Sector	0.3	-1.2	4.8	4.6	2.7	0.8
Agriculture	5.1	3.4	4.9	4.1	3.7	0.8
Fishing	0.9	-1.0	1.8	1.4	1.8	0.0
Extractive Industry	-11.3	-15.1	5.0	6.9	-1.0	-0.1
Secondary Sector	-2.4	-0.4	2.0	1.6	-0.2	-0.0
Electricity and Water	-4.5	3.4	2.1	-2.0	-2.9	-0.1
Processing Industry	-1.4	-1.5	2.0	2.2	0.6	0.0
Construction	-4.1	-0.9	2.2	3.8	0.2	0.0
Tertiary Sector	-4.4	-2.7	2.4	3.0	1.8	0.8
Commerce and Services	-3.1	-2.5	2.0	2.4	1.3	0.1
Catering and Hospitality	-21.6	-22.1	5.1	7.2	-0.6	-0.0
Transport and Communications	-7.5	-2.3	2.0	4.9	-0.0	-0.0
Financial Services	-1.7	-0.7	2.4	2.1	2.1	0.1
Public Adm., Education and Health	-3.5	-3.0	2.4	2.1	3.3	0.4
Other Sectors	0.3	1.4	2.6	2.7	2.3	0.1
GDP at factor cost	-2.7	-1.9	3.2	3.3	1.8	1.6
Tax on products	6.3	3.7	4.6	3.7	4.8	0.6
GDP	-1.8	-1.2	3.4	3.3	2.2	2.2

Source: INE

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

	2020	2021	Change
Current Account	**-3,869**	**-3,615**	**255**
Balance of Goods	-2,294	-2,258	36
Exports	3,588	5,579	1,991
Imports	5,883	7,837	1,955
Balance of Services	-1,966	-1,743	223
Primary Income Balance	-287	-340	-53
Secondary Income Balance	678	726	49
Capital Account	135	65	-70
Financial Account	**3,694**	**2,764**	**-930**
comprising:			
Foreign Direct Investment	3,035	5,102	2,067
Other Investments	651	-2,308	-2,960

Source: BM

Table 2-3: External Trade (USD million)

Exports	**2020**	**2021**	**Change**
Mineral coal	649	1,466	817
Aluminum bars	914	1,259	345
Heavy sands	253	466	213
Gemstones	12	158	146
Electricity	456	570	113
Natural Gas	232	271	40
Imports	**2020**	**2021**	**Change**
Fuels	542	919	378
Construction Material	600	844	244
Machinery	1,023	1,184	161
Raw aluminum	249	363	114
Vehicles	254	346	92

Source: BM

II.1. Short-Term Economic Activity

The GDP maintained the recovery trend in the fourth quarter of 2021. Preliminary data from the National Bureau of Statistics (INE) point to real GDP growth of 3.3% in the fourth quarter of 2021, which contributed towards a cumulative increase of 2.2% for the year (Table 2-1).

The positive performance of the economy was mostly driven by base effects and phasing-out of the restrictive COVID-19 containment measures at home and abroad, which created conducive conditions for the resumption of the sectors most affected by the pandemic and an improvement of aggregate demand.

With regards to aggregate demand components, the following is noteworthy:

a) The increase in exports of goods and services, reflecting an upturn in external demand upturn (Table 2-2 and 2-3). As such, revenue from commodity exports increased to more than 55%, especially in the extractive and processing industries. On the services side, the recovery of the tourism sector stands out, amid the reopening of economies. Exports should increase in the short and medium term, amid the start of the Rovuma basin gas exports planned for the fourth quarter of 2022.

b) Lower expenditure in light of lower public investment, which absorbed the impact of the increase in global demand over aggregate demand (Table 2-4).

State budget execution for 2021 reveals pressures were brought to bear on current expenditure, into an environment with lower external financing, which curtailed the fulfillment of investment expenditure in 2021. In the near term, it is expected that the resumption of the IMF program boosts such expenditure, and financing the State Budget.

Table 2-4: State Budget Implementation in 2021 (MZN million)

(MZN million)	2020	2021	Var. %
Total income	**235,213**	**266,787**	13.4%
Net expenditures and loans	**354,114**	**350,127**	-1.1%
Current expenditures	226,745	251,854	11.1%
Investment expenditures	78,710	75,827	-3.7%
Net loans	48,659	3,457	-92.9%
Balance before donations	-118,900	-83,340	-29.9%
Donations	38,364	22,724	-40.8%
Balance after donations	-80,536	-60,616	-24.7%
External loans	21,249	4,107	-80.7%
Net Domestic Financing	**37,487**	**56,508**	**50.7%**

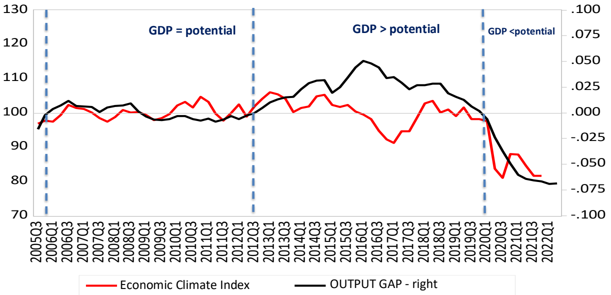
Source: Ministry of Economy and Finance (MEF)

Table 2-5: 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 – 2019	29,671	61,817	48,067	139,555	14.6%
Dec – 2020	44,220	88,100	54,885	187,205	21.0%
Dec – 2021	57,886	102,415	61,584	221,885	19.6%
Jan – 2022	69,927	102,415	63,342	235,684	20.8%
Feb – 2022	73,592	106,323	63,372	243,287	21.5%
Mar – 2022	74,570	104,395	63,372	242,337	21.4%
Flow (Mar-Dec/22)	**16,684**	**1,980**	**1,788**	**20,453**	

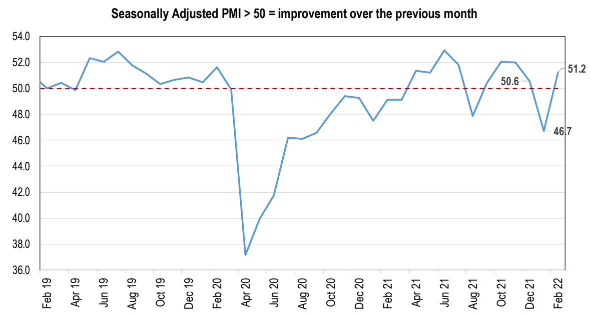
Source: BM

Chart 2-1: Output Gap Developments and ECI



Source: INE/BM

Chart 2-2: Purchasing Managers Index (PMI)



Source: HIS, Markit

Domestic debt remains high. Between December 2021 and March 2022, domestic public debt increased by MZN 20,453 million, mainly driven by the issuance of Treasury Bills to finance the current account deficit, in a setting low demand for public debt securities on the capital market (Treasury Bonds) (Table 2-5).

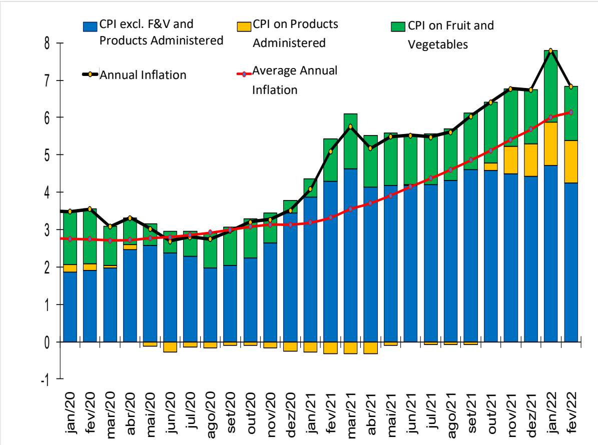
Economic activity remains below its potential. Despite GDP growth in 2021, the output gap reveals that aggregate demand is still below its potential, driven by successive shocks that have been striking the domestic economy (Chart 2-1).

Economic growth prospects remain for the short term. These prospects stem from favorable developments in export commodity prices, easing of COVID-19 containment measures and the resumption of the IMF program, which will contribute to the deepening of reforms and greater concessional financing to the economy.

However, domestic climate shocks, coupled with the effects of the Russia-Ukraine conflict and the exacerbation of supply chain bottlenecks hinders such growth. These prospects are in line with the February 2022 Purchasing Managers' Index (Chart 2-2).

As for the external position, the country's Gross International Reserves (GIR) remains at comfortable levels. In effect, the country external position, as measured by the GIR, remains robust, standing at USD 3,241 million, in the second half of March, the equivalent to about 5.0 months of imports coverage, excluding imports from megaprojects.

Chart 2-3: Annual Inflation Components



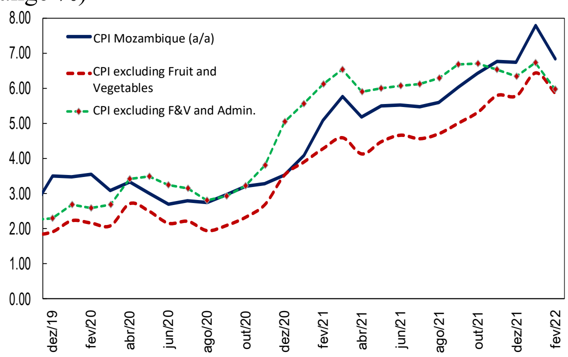
Source: INE/BM

Table 2-6: Core Inflation - Mozambique (Annual Change %)

	Jan-21	Fev-21	Mar-21	Jun-21	Dez-21	Jan-22	Fev-22
CPI	4,09	5,10	5,76	5,52	6,74	7,80	6,84
Food	9,14	11,51	12,65	10,50	9,82	10,92	8,96
Cereals and byproducts	7,52	7,75	7,99	8,98	2,95	2,76	2,72
Fruit and vegetables	5,83	13,57	18,22	15,75	17,21	22,27	16,31
Administered	-1,25	-1,47	-1,47	0,16	3,96	5,49	5,49
Liquid fuels	-6,36	-6,36	-6,36	-2,67	9,91	9,91	9,91
CPI x F&V	3,91	4,30	4,60	4,68	5,80	6,45	5,87
CPI x Admin.	5,59	6,95	7,80	7,02	7,47	8,42	7,19
CPI x F&V and Admin.	5,55	6,13	6,53	6,07	6,35	6,74	5,98

Source: INE

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



Source: INE

II.2. Recent Inflation Developments and Short-Term Prospects

In February 2022, annual inflation slowed amid lower food prices. However, climate shocks, the increase in fuel prices, and the exacerbation of commodity supply chain bottlenecks lead to prospects of increase in prices in the near term.

Annual inflation, as measured by the year-on-year change in the Consumer Price Index (CPI) fell from 7.80% in January to 6.84% in February. However, average annual inflation remained stable, standing at 6.15% in February, following 6.00% in January (Chart 2-3).

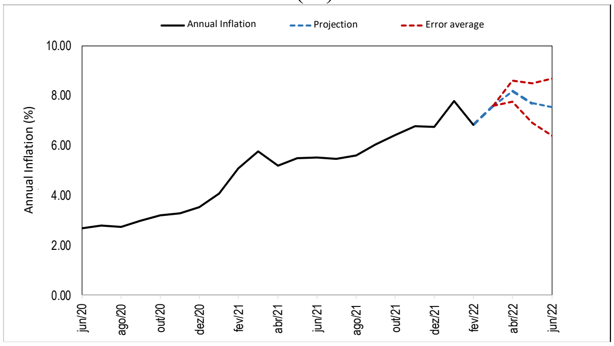
Recent inflation dynamics are explained by lower food prices, especially fruit and vegetables, reflecting a reduced impact of climate shocks on this subclass, when compared to the same period of the previous year (Table 2-6).

Core inflation registered a slowdown. Indeed, except for the fruit and vegetable subgroup (the most volatile component of the CPI basket) and the subgroup of items that are set administratively, annual core inflation fell from 6.74% in January to 5.98% in February (Table 2-6 and Charts 2-3 and 2-4).

However, short-term prospects point to accelerating annual inflation in forth coming months. These forecasts follow from (i) the rise in domestic fuel prices, (ii) the impact of the natural disasters that affected the north and center regions of the country, and (ii) an exacerbation of global supply chain bottlenecks (Chart 2-5).

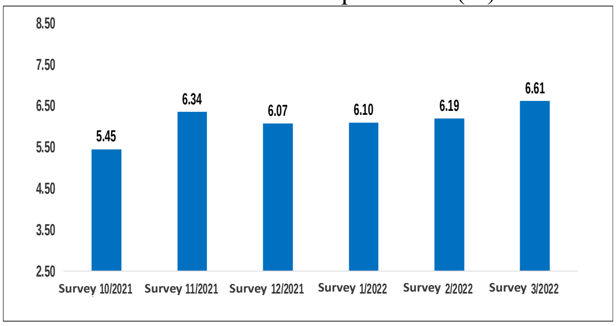
Economic agents expect inflation to accelerate towards the end of the year. The BM's March macroeconomic expectations survey for domestic economic agents shows that, by the end of the year, annual inflation could stand at about 6.61%, following the figure of 6.19% in February 2022's survey (Chart 2-6).

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



Source: BM

Chart 2-6: Annual Inflation Expectations (%)



Source: BM/INE

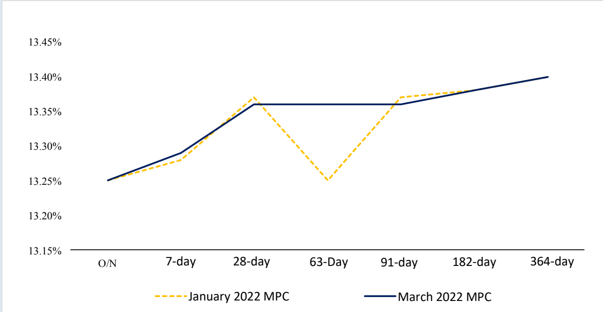
Box 2 : Monetary and Financial Developments

I. Interest Rate Developments

a) Money Market Interest Rates

1. **Stability of the money market yield curve, in between the last two sessions of the MPC (January and March 2022).** In effect, interest rates for the 7-day and 63-day maturities increased by 1 and 11 bp, respectively, while the 28-day and 91-day maturities proved stable, falling only 1 bp. For the remaining market terms, interest rates remained unchanged (Chart 1).

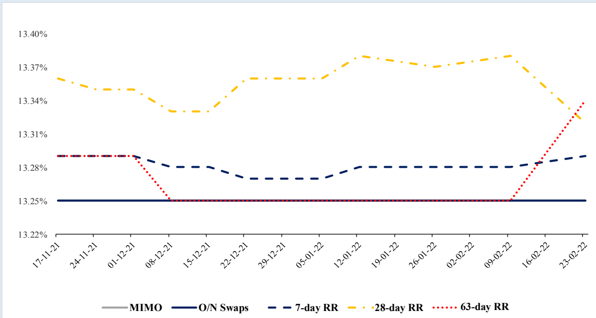
Figure 1: Money Market Yield Curve



Source: BM, 2022

2. **BM intervention interest rates for shorter terms (reverse repo) have seen a mixed trend**. Indeed, the rate for Treasury Bill sale transactions under a 7-day reverse repo agreement increased by 1 bp, for 28 days it decreased by the same level, while the 63-day rate increased by 11 bp. In turn, the overnight liquidity swap rate, which represents the effective MIMO rate, has not changed, in line with the monetary policy interest rate (the MIMO rate) which was currently set at 13.25% until **March 30** (Chart 2).

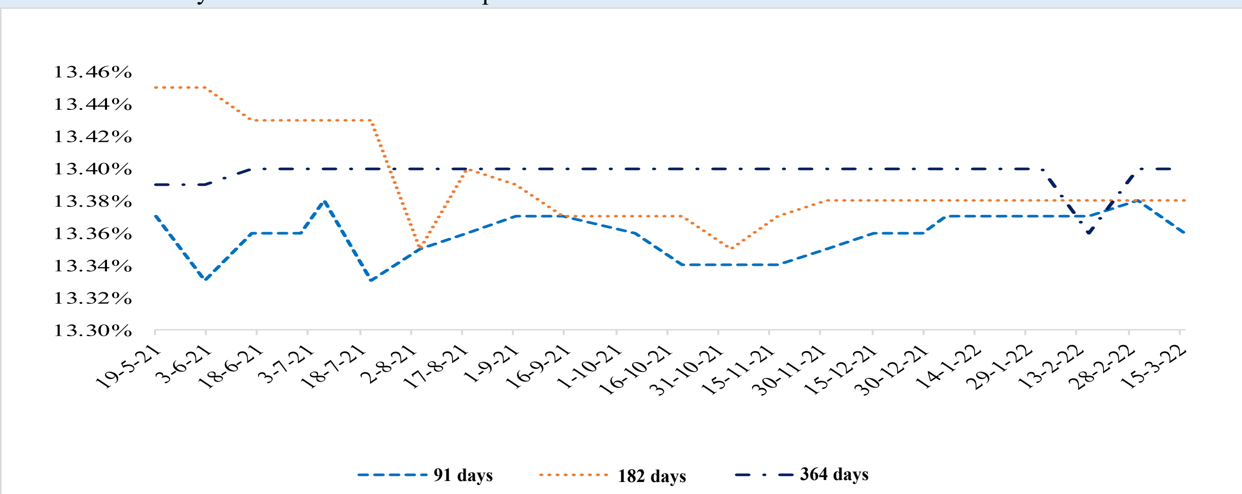
Chart 2: MIMO Rate Developments, Overnight Liquidity Swaps and Reverse Repo



Source: BM, 2022

3. **In the period in question, Treasury bill interest rates remained stable**, with the exception of the 91-day maturity, which fell 1 bp. It should be noted that the 364-day Treasury bill interest rate stood 15 bp above the MIMO rate (Chart 3).

Chart 3: Treasury Bill Interest Rate Developments

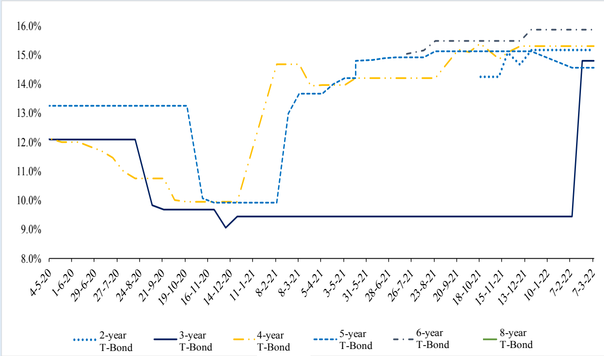


Source: BM, 2022

b) Treasury Bond Interest Rates

4. **Increase in the 3-year Treasury Bond interest rate and fall in the 5-year bond.** The state resumed the issuance of T-Bonds for 2022, and carried out auctions of 3, 5 and 8 years. Thus, the interest rate for the 3-year maturity increased by 536 bp and the rate for the 5-year maturity decreased by 55 bp. The interest rate for the 8-year auction was set at 15.91%. Chart 4 shows the T-Bond rate developments.

Chart 4: Treasury Bond Interest Rate Developments

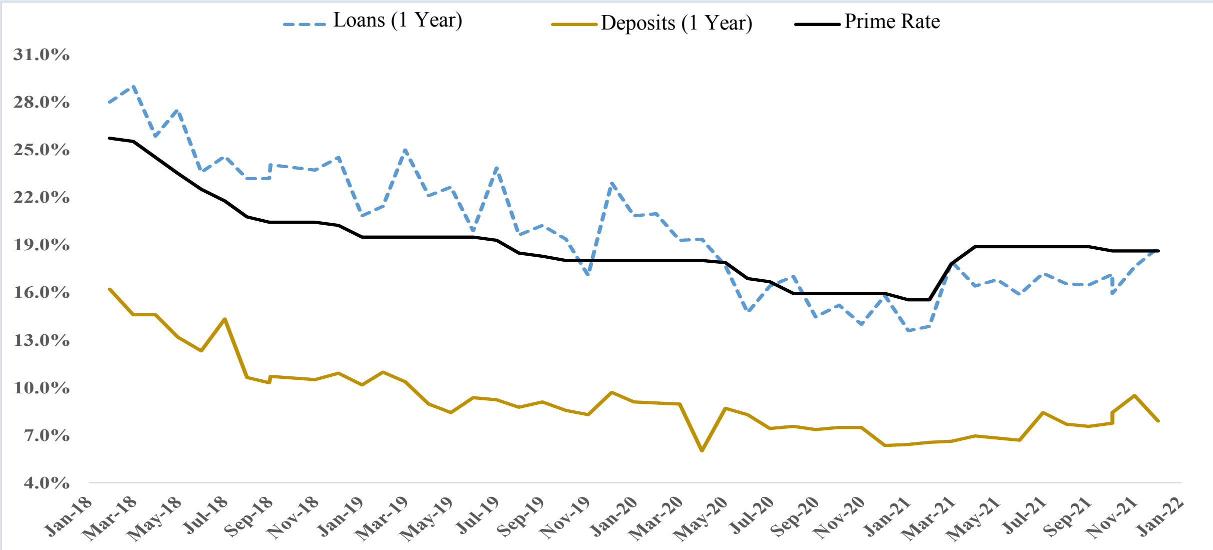


Source: BM, 2022

c) Retail interest rates

5. **Within this period, retail interest rates showed mixed trend. In effect, the prime rate remained unchanged, standing at 18.60% in March. On the other hand**, the interest rate on active operations under the 1-year maturity has seen an increase of 120 bp to 18.80% in January 2021, the opposite situation as observed in the rate on passive operations for the same term, which reduced by 160 bp to 7.9% and added to the increase in the spread to 10.9%, compared 8.1% in December 2021 (Chart 5).

Chart 5: Developments in Retail Interest Rates and Prime Rate



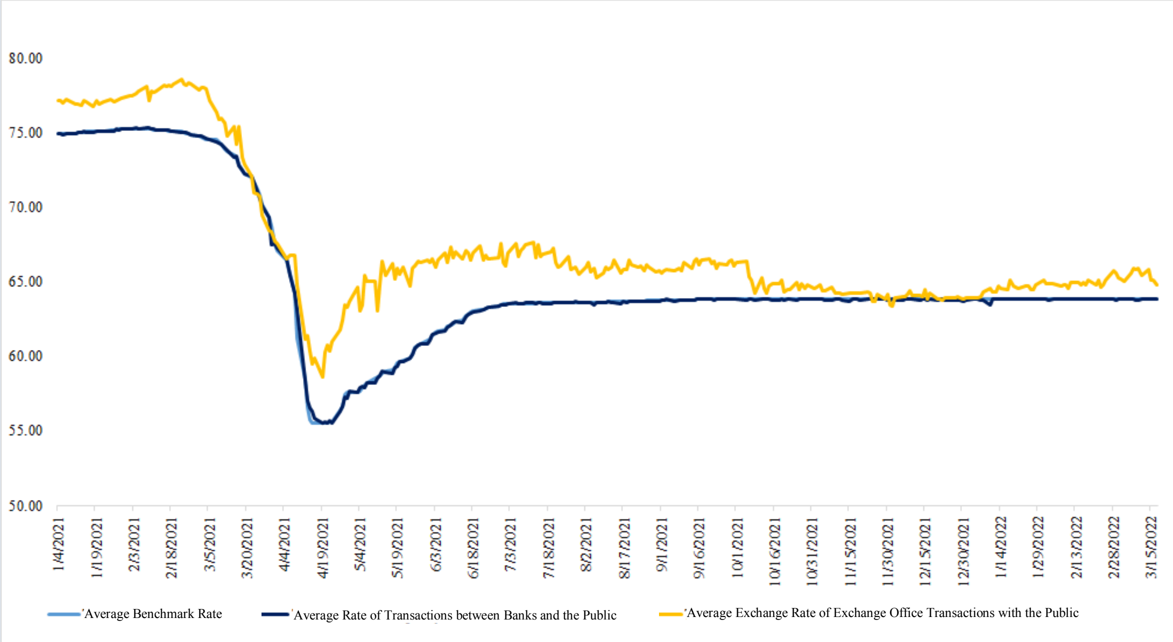
Source: BM, 2022

II. Exchange Rate Developments

a) Metical Exchange Rate against the US Dollar

6. **Metical Exchange Rate Stability with regard the US Dollar.** In fact, in the period between the two MPCs (January and March), the Metical's benchmark exchange rate against the US dollar remained unchanged at 63.83 MZN/USD. The effective exchange rate, resulting from transactions between commercial banks and the public went from MZN 63.80/USD in the previous MPC to MZN 63.82/USD in the current . The exchange rate of transactions between exchange bureau and the public has depreciated by around 2% from MZN 64.49/USD to MZN 65.79/USD (Chart 6).

Chart 6: Metical Exchange Rate Developments with regards the US Dollar



Source: BM, 2022

b) Metical Exchange Rate against the Rand

7. **Trend of Metical Exchange Rate Depreciation against the Rand.** In fact, between the two MPC sessions, the benchmark exchange rate of the Metical against the ZAR, rose from MZN 4.20/ZAR to MZN 4.26/ZAR, the rate of commercial banks to the public went from MZN 4.18/ZAR to MZN 4.27/ZAR and the rate of exchange offices to the public now stands at MZN 4.33/ZAR, following MZN 4.25/ZAR in the previous session.

Chart 7: Metical Exchange Rate Developments with regards the Rand

Source: BM, 2022

Chapter III. Medium-Term Inflation and Economic Activity Forecasts

Inflation forecasts for the medium term have been revised upwards. This review mainly reflects the materialization and exacerbation of some risks, especially the escalation of the geopolitical conflict in Europe and the natural disasters that struck the center and north of the country. With regard to economic activity, despite forecasts of slowing external demand, growth prospects remain, driven by the beginning of the implementation of energy projects in Inhambane province and the Rovuma Basin, in a context of resumption of the program with the International Monetary Fund (IMF). Even so, the GDP will continue to grow below its potential level.

In light of this macroeconomic framework and weighing the risks and uncertainties underlying inflation projections the MPC has decided to increase the MIMO rate from 13.25% to 15.25%. This decision aims at keeping inflation under control in the short and medium term, so as to allow the beginning of a gradual transition to single-digit interest rates in the medium and long term.

Table 3-1: External Assumptions

	2021	2022	2023
US Real GDP	**5.6**	**2.3**	**1.4**
January 2022's MPC session	5.7	3.3	2.3
RSA Real GDP (%)	**1.8**	**2.5**	**1.1**
January 2022's MPC session	5.6	1.5	2.3
US Inflation (%)	**6.7**	**7.2**	**3.2**
January 2022's MPC session	4.7	6.1	4.1
RSA Inflation (%)	**5.4**	**5.5**	**5.1**
January 2022's MPC session	4.5	5.1	4.7
Brent price (USD)	**79.6**	**102.6**	**86**
January 2022's MPC session	71.8	75.1	70.9
Food prices (%)	**27.5**	**34.3**	**-22.3**
January 2022's MPC session	28.8	11.2	-0.7

Source: GPMN/BM

3.1. Medium-Term Outlook Assumptions

The scenario of inflation forecasts for the medium term are based upon a preliminary assessment of the geopolitical crisis in Europe and the duration of supply chain constraints in the international market, which are assumed to gradually dissipate in 2023.

a) External assumptions

- Slight external demand slowdown, driven by (i) the impact of economic sanctions against Russia, (ii) the exacerbation of supply chain constraints, (iii) expected increases in central bank policy rates and (iv) less stimulus in response to greater global inflationary pressures (Table 3-1).

However, the prospect of a slowdown in economic will be attenuated be the current easing of restrictive COVID-19 containment measures, globally.

- Exacerbation of supply chain constraints and rising commodity prices in the international market, with significant effect in increasing global inflationary pressures (Table 3-1).

The conflict in Ukraine has exacerbated the global supply chain bottleneck, further limiting the availability of goods and services worldwide, increasing costs of importing food and energy goods (brent and gas). It is noted that China is currently facing a new wave of COVID-19 outbreaks, which, as a result of Government containment measures, is affecting the supply chain of goods.

b) Internal assumptions

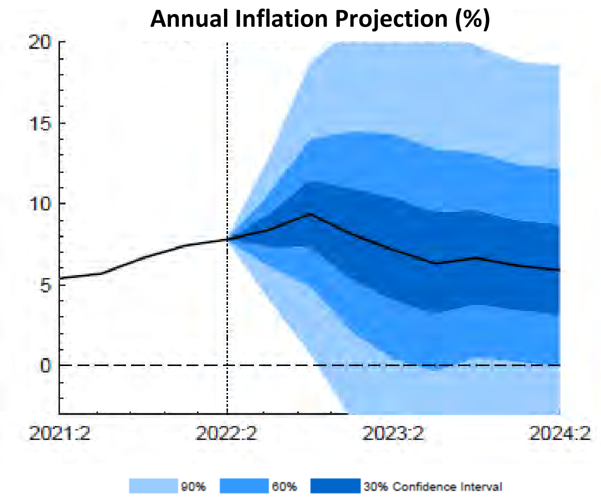
- Ongoing Metical exchange rate stability against the US dollar, driven by the (i) forecast of export revenue streams, with the start of natural gas exploration by ENI, from the second half of 2022; (ii) resumption of the program with the IMF; and (iii) favorable developments in the prices of main Mozambican´s export commodities.

- Maintenance of pressure on public spending, associated with the need to cover losses and damages caused by natural disasters, and the need to undertake the reconstruction plan in the areas affected by the insurgence in the north of the country.

However, forecasts of the beginning of gas production under the ENI project, a resumption of the program with the IMF and the containment of COVID-19, are potential factors that can ease the pressure on the State Budget in the medium term.

- Increased pressure on prices of administered goods, in line with rising prices of brent, gas and wheat in the international market, driven by the Russia-Ukraine geopolitical conflict. This increase may translate into the exacerbation in production costs and, consequently, into rising domestic prices

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

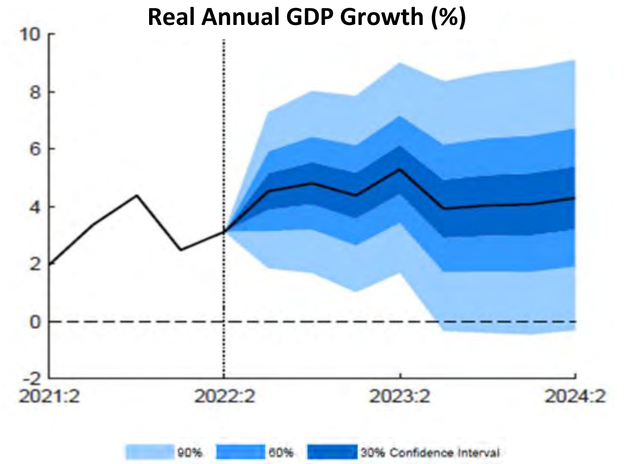


3.2. Medium-Term Inflations Forecasts and Associated Risks

In the face of the aforementioned assumptions, inflation projections for the medium term have been revised upwards. However, the slight slowdown in external demand, lower volatility of the Metical exchange rate, Government measures to mitigate rising fuel prices, coupled with the increase in the MIMO rate by the MPC may ease inflationary pressures, and contribute towards inflation remaining in a single-digit band, in the medium term (Chart 3-1).

The macroeconomic forecasts also points to ongoing prospects of improvement in economic activity, despite the forecast of slowing of external demand. These prospects stem from the easing of restrictive COVID-19 containment measures, and the implementation of energy projects in the Inhambane province and the Rovuma basin, in a context of resumption of the IMF program, which will contribute to the deepening of reforms and greater availability of concessional financing to the economy (Chart 3-2).

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



Risks and uncertainties associated with inflation projections remain high. In particular, the duration and magnitude of the following is noteworthy: (i) the impact of the Russia-Ukraine geopolitical conflict (ii) the supply chain bottlenecks in the international market, and (iii)the effect of the recent climate shocks on domestic prices and the extent of the pass-through of the fuel price adjustments to the prices of other goods and services.

3.3. Monetary Policy Decision

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to increase the policy rate, MIMO, from 13.25% to 15.25%.

This decision follows from the substantial upward revision of inflation forecasts for the short and medium term, reflecting the materialization and exacerbation of some risks, especially the escalation of the geopolitical conflict in Europe and the natural disasters that struck the center and north of the country.

The increase in the MIMO rate aims at keeping inflation under control in the short and medium term, so as to allow the beginning of a gradual transition to single-digit interest rates in the medium and long term, amid the resumption of the Program with the International Monetary Fund (IMF) and the implementation of natural gas projects.

The MPC has also decided to:

- Raise the interest rate for the Standing Deposit Facility (SDF) from 10.25% to 12.25%;

- Raise the interest rate for the Standing Lending Facility (SLF) from 16.25% to 18.25%, and

- Keep the Reserve Requirement ratios for liabilities in domestic and foreign currency at 10.50% and 11.50%, respectively.