November 2023
No.52|Year 12

ECONOMIC OUTLOOK AND INFLATION FORECASTS

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November 2023

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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.

In order 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 monetary policy stance and serves as an anchor for operations in the Interbank Money Market. It is expected that, through its influence on overnight interest rates formed in this market, 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 the delayed effect of its decisions on the economy, so its policy stance is based on the assessment of the economic and financial outlook, including risks and uncertainties, over eight quarters at least. 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 schedule of regular 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 dictate.

The BM values transparency in the communication of its monetary policy. Monetary policy decisions are announced publicly through an MPC Communiqué and a press conference, when called, led by the BM Governor, on the same day as 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 the objectives and conduct of monetary policy.

Rogério Lucas Zandamela

Governor

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Decisions of the 6th Session of the Monetary Policy Committee, of November 29, 2023

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to keep the MIMO policy rate unchanged at 17.25%. This decision is underpinned by the emergence of new risks and uncertainties associated with inflation forecasts, highlighting the potential impact of the ongoing conflict in the Middle East on global fuel and food prices.

Prospects of single-digit inflation remain in place over the medium term. In October 2023, annual inflation rose to 4.8%, following 4.6% in September. This development was mainly driven by the increase in food and alcoholic beverage prices. Core inflation, which excludes fruits and vegetables, as well as administered prices, also rose. For the medium term, prospects for single-digit inflation persist, mainly reflecting the Metical's stability and the impact of the measures being taken by the MPC.

The risks and uncertainties associated with inflation forecasts continue to worsen. Domestically, pressure on public finances and uncertainties regarding the evolution and effects of extreme weather events prevail. On the external side, in addition to the conflict between Russia and Ukraine, uncertainties regarding the prolongation and spread of the current conflict in the Middle East and its impacts on international oil and food prices stand out.

For the medium term, excluding liquefied natural gas (LNG), the prevalence of moderate economic growth is anticipated. In the third quarter of 2023, gross domestic product (GDP) excluding LNG is estimated to have grown by 3.3%, following 3.1% in the previous quarter. Including LNG, GDP growth accelerated to 5.9% from 4.7%. In the medium term, excluding LNG production, economic activity is expected to continue to recover, despite uncertainties associated with the impact of potential climate shocks on agricultural production and various infrastructure. Meanwhile, the extractive industry will continue contributing to the acceleration of economic growth.

Pressure on domestic public debt continues to increase. Domestic public debt, excluding loan and lease agreements and overdue liabilities, stands at 334.4 billion meticais, a 59.3 billion increase compared to December 2022.

The MPC will continue to monitor the developments of the risks and uncertainties associated with inflation forecasts, and will take measures deemed appropriate to the context.

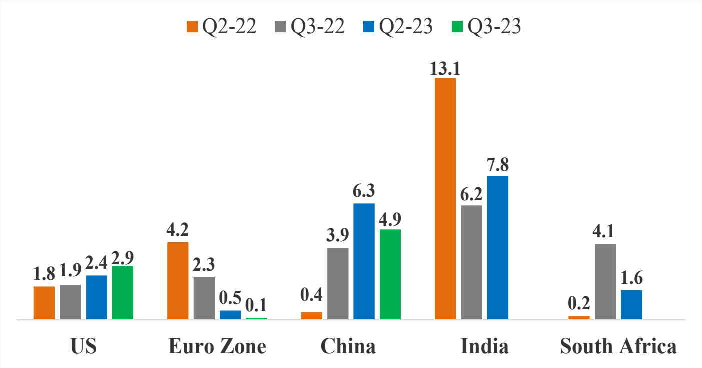
The next regular MPC meeting is scheduled for January 31, 2024.

Rogério Lucas Zandamela
Governor

Chapter I. Recent Developments in the International Economy and Forecasts

The outlook of a slowdown in global economic growth for 2023 and 2024 remains unchanged, and inflation forecasts for the same period continue to indicate a downward trend in most countries, mainly spurred by tight monetary policy. Meanwhile, further uncertainties have arisen due to the outbreak of the latest geopolitical crisis in the Middle East, which, if it escalates, could worsen prospects for global growth and inflation.

Chart 1-1: GDP Developments (%)



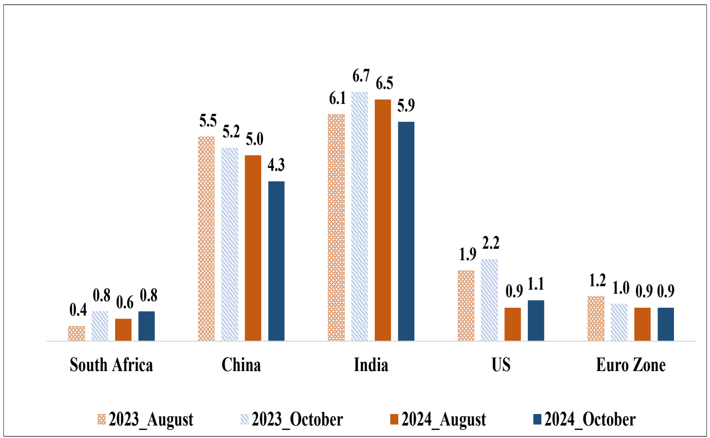
Source: *Trading Economics*

Table 1-1: Global GDP Projections – 2023 and 2024 (%)

Region	2022	Projections		Difference from Jul/23 WEO	
		2023	2024	2023	2024
World Output	**3.5**	**3.0**	**2.9**	**0.0**	**-0.1**
Advanced Economies	**2.6**	**1.5**	**1.4**	**0.0**	**0.0**
United States	2.1	2.1	1.5	0.3	0.5
Euro Zone	3.3	0.7	1.2	-0.2	-0.3
Germany	1.8	-0.5	0.9	-0.2	-0.4
Japan	1.0	2.0	1.0	0.6	0.0
United Kingdom	4.1	0.5	0.6	0.1	-0.4
Emerging Market and Developing Economies	**4.1**	**4.0**	**4.0**	**0.0**	**-0.1**
China	3.0	5.0	4.2	-0.2	-0.3
India	7.2	6.3	6.3	0.2	0.0
Brazil	2.9	3.1	1.5	1.0	0.3
Sub-Saharan Africa	**4.0**	**3.3**	**4.0**	**-0.2**	**-0.1**
South Africa	1.9	0.9	1.8	0.6	0.1

Source: IMF, World Economic Outlook (October 2023)

Chart1-2: Real GDP Outlook (%)



Source: GPMN

1.1. Economic Activity and Inflation

Economic activity of the country's major trading partners was characterized by a mixed trend in the third quarter of 2023.

In advanced economies, the United States of America (US) growth expanded to 2.9%, driven by the increase in private spending and exports. In contrast, the Eurozone recorded a deceleration to 0.1%, spurred by a decrease in exports (Chart 1-1).

In the period in question, the Chinese economy grew by 4.9% as a result of the combined effect of monetary stimulus and the increase in retail sales and industrial production.

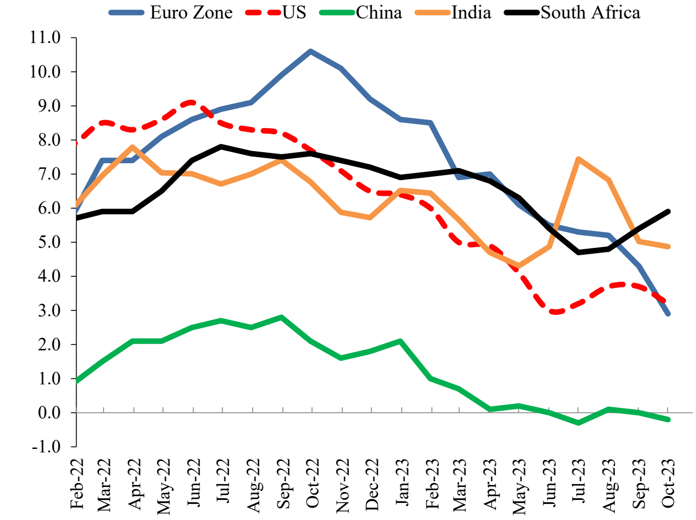
The outlook for a slowdown in global growth for 2023 and 2024 remains unchanged.

In the October 2023 edition of the World Economic Outlook, the International Monetary Fund maintained its outlook for global growth for 2023 at 3.0% and revised it slightly downwards to 2.9% for 2024, in view of the prevalence of restrictive financing conditions, over-indebtedness in emerging economies, the real estate bubble in China and geopolitical fragmentation (Table 1-1).

These prospects are in line with the Global Projection Model Network (GPMN), which in its October 2023 edition, revised its global growth forecasts for 2024 downwards, as a result of the considerable growth slowdown in emerging economies particularly, India and China (Chart 1-2).

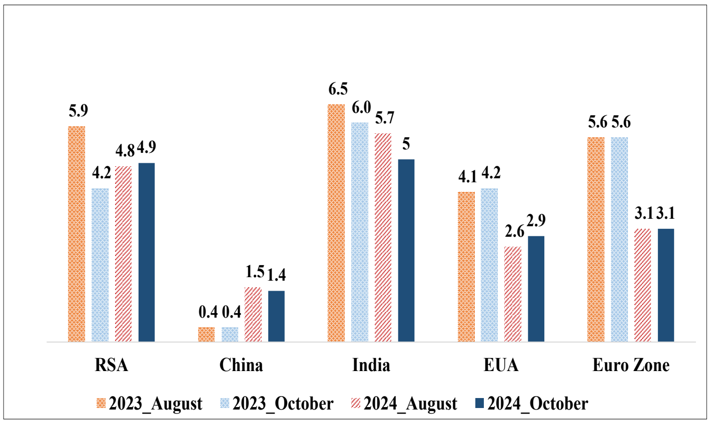
Meanwhile, the emergence of a new crisis in the Middle East, with unpredictable macroeconomic repercussions, could lead to a further slowdown in in global growth.

Chart 1-3: Inflation Developments (%)



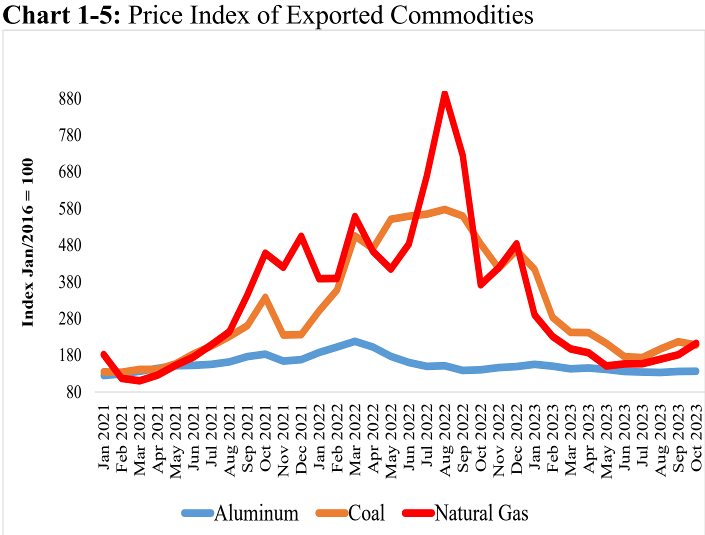
Source: *Trading Economics*

Chart 1-4: Inflation Outlook (%)



Source: GPMN

Chart 1-5: Price Index of Exported Commodities



Source: *IMF Primary Commodity Index* (October 2023*)*

In October 2023, annual inflation decelerated in the country's main trading partners.

In the U.S., annual inflation slowed to 3.2% in October 2023, reflecting the reduction in energy and fuel prices, while in the Eurozone, the deceleration in inflation to 2.9% was driven by the slump in food and energy prices (Chart 1-3).

In China, the decrease in food prices was a major driver for the 0.2% deflation. As for India, the inflation deceleration to 4.9% was due to the decline in energy and fuel prices, against a backdrop where food prices remained high, reflecting the adverse effects of *El Niño*.

In contrast, the increase in food, non-alcoholic beverages and transport prices led to a surge in inflation in South Africa to 5.9% in October 2023.

Inflation remains above medium-term targets in most advanced economies, and the country's main trading partners kept their policy rates unchanged between the two MPC cycles.

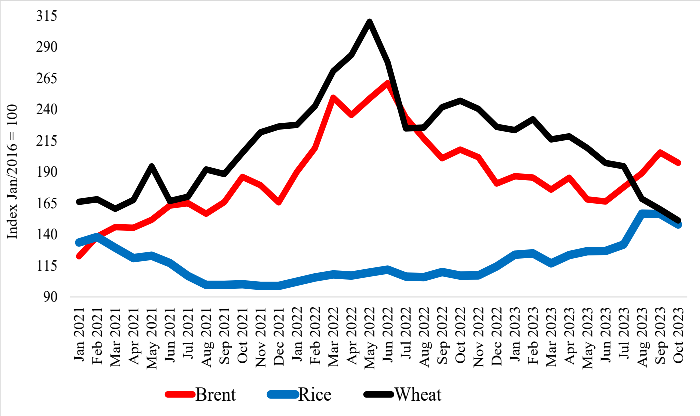
In the medium term, inflation is expected to continue its downward trend.

The GPMN inflation projections have been revised downwards for major advanced and emerging market economies, with the exception of India, which may experience some inflationary pressure (Chart 1-4). Advanced economies will remain hampered by tight monetary policy.

The upward revision of inflation estimates in India continues to reflect the disruption in the supply chain of some domestically produced foodstuffs , in a context where the country's central bank has signaled that it would not react to near-term shocks in food prices.

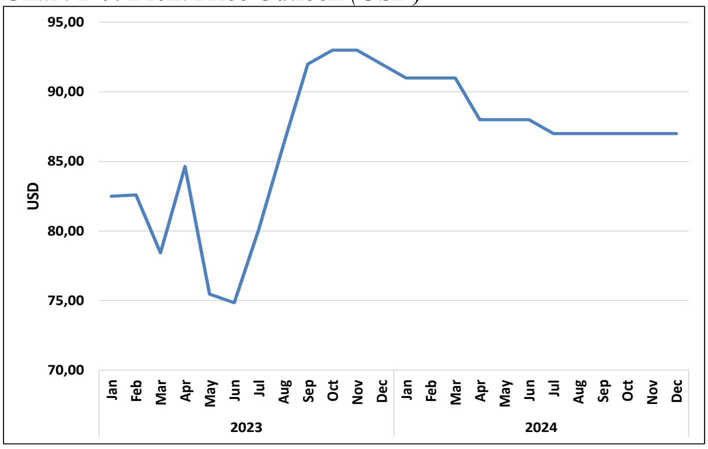
Meanwhile, the ongoing conflict in the Middle East creates considerable uncertainty as to its impact on the global economy, with a pessimistic scenario envisaging a possible escalation of the military conflict in the region, which could lead to an even higher increase in fuel and food prices worldwide.

Chart 1-6: Price Index of Imported Commodities



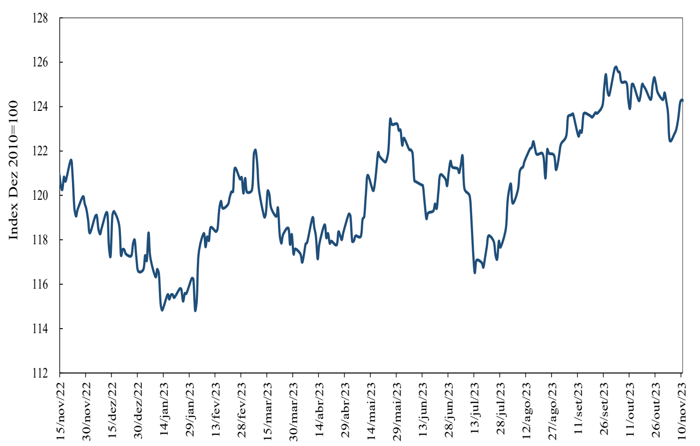
Source: *IMF Primary Commodity Index* (October 2023*)*

Chart 1-7: Brent Price Outlook *(*USD)



Source: U.S. Energy Information Administration

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



Source: *Refinitiv*

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

The prices of the key commodities traded by the country decreased between the MPC sessions.

In terms of the commodities exported by the country, coal stands out, as its price decreased by 4.2%, compared to the September 2023 MPC session (Chart 1-5). This was driven by an increase in production in China, due to the lifting of safety measures that had been imposed on some of the country´s coal mines, following a series of work-related accidents.

With regards to imported commodities, the price of brent fell by 4.0% compared to the September 2023 MPC session, underpinned by the increase in U.S. reserves. In the same vein, the price of wheat dropped by 5.6%, driven by prospects for an increase in supply from Russia (Chart 1-6).

For 2024, prospects are for the price of brent to remain high, mainly reflecting OPEC+ supply cuts (Chart 1-7).

The US dollar remains strong against major currencies.

The USD Composite Index has seen cumulative gains against the Euro, Rand, Pound and Yen, mainly driven by the Fed signaling on maintaining tight monetary conditions (Chart 1-8).

Box 1: Geopolitical Crisis in the Middle East: Potential Impacts for the Mozambican Economy

1. Relevance of the Middle East Region in the Global Economy

Since October 7, 2023, the world has been facing a new geopolitical shock in the Middle East, between Israel and armed groups in Palestine (Gaza Strip) and Lebanon. The conflict has flared in an economically strategic region in the world, and its impacts on the global economy are still uncertain.

Countries in the Middle East collectively produce about 30 million oil barrels per day, which equates to 33% of global output. Five of the world's ten largest oil producers (Saudi Arabia, Iraq, the United Arab Emirates, Iran and Kuwait) are located in the region. In addition, the Middle East holds 48.3% of the world's oil reserves.

However, a potential escalation in the severity of the conflict, culminating in the participation of other players (particularly Iran), could directly impact the supply of oil and food trade in the global market, reducing their supply and generating inflationary pressures. The economic importance of the region is also enhanced by the Strait of Hormuz, which is responsible for the flow of 17% of the world's oil/day, 33% of the world's liquefied natural gas/day and 20% of world trade.

Strait of Hormuz

Source: *National Aeronautics and Space Administration*

The Strait of Hormuz, located in the Middle East (Iran, United Arab Emirates and Oman) between the Gulf of Oman and the Persian Gulf, is part of one of the most important sea routes worldwide particularly, for oil shipments.

2. Mozambique's Exposure to the Middle East

Mozambique's economic exposure to the Middle East is more significant on the import side. Data for 2022 indicates that the Middle East represents about 12% of Mozambique's total trade with the world, with exports to that stated region accounting for 3.2% of the country's total exports, while imports from the Middle East represent 19.8% of total imports (Tables 1 and 2)[2].

Table 1: Mozambique Imports from the Middle East

Products	Middle East (USD millions)	BoP Total (USD millions)	Middle East weight in the BoP (%)
Fuels	1,530.91	2,065.30	**74%**
Fertilizer	69.90	163.13	**43%**
Cement	23.03	49.50	**47%**

Source: INE and BM

Table 2: Mozambique Exports to the Middle East

Products	Middle East (USD millions)	BoP Total (USD millions)	Middle East weight in the BoP (%)
Coal	115.9	2,852.2	**4%**
Aluminium Wires	37.8	155.7	**24%**
Titanium Ore	24.1	406.8	**6%**

Source: INE and BM

With regards to imports, the exposure is greater for fuels. About 74% of the country's fuel imports hail from the Middle East. Fertilizers and cement are other important commodities , whose imports from the stated region account for about half of the total imports of these commodities However, it should be noted that, for fertilizers, the potential effect of the geopolitical crisis in the Middle East may be partially offset by domestic production, since Mozambique exports volumes of fertilizers equivalent to 1.4 times the volume of imports from the Middle East (Table 1).

On the export side, the greatest exposure lies in aluminum wires. Among the main commodities exported by the country to the Middle East, only aluminum wires have a weight of 24% in the BoP. Despite this, the Middle East is not one of the main export markets for the country's commodities. As such, the geopolitical crisis in the stated region has the potential to have a somewhat minor direct impact on export earnings (Table 2).

[2] Values excluding imports from the liquefied natural gas platform.

3. Potential Impact on Mozambique's inflation

The macroeconomic consequences for Mozambique arising from the Middle East geopolitical crisis are still difficult to estimate. However, from an analysis of the country's trade relations with the stated region, it can be deduced that the magnitude of the effects of the crisis on the Mozambican economy will depend on the degree to which the conflict escalates, and two main scenarios can be envisaged[3]:

- **Scenario 1: the conflict remains limited to the current parties involved:** In this scenario, it is expected that the flow of commodities through the Strait could continue, albeit with some constraints, which may increase transaction costs, and thus, generate inflationary pressure from which Mozambique would not be exempt, due to the considerable volume of fuels that the country imports from that stated region, and given its significant weight in the CPI (8.2%).

- **Scenario 2: spread of conflict, particularly with the direct involvement of Iran:** If Iran joins the conflict, it could result in the closure of the Strait of Hormuz. In this case, there would be less fuel supply, which could generate an increase in the prices of this commodity in the global market, as a result of the increase in freight costs. Thus, import costs to Mozambique would be very high, resulting in greater domestic inflationary pressure. It is also necessary to consider the potential indirect effects that arise from the use of fuels as raw materials in all activity sectors, particularly transport, with a weight of 4.0% in the CPI basket.

[3] Bloomberg and the World Bank.

Chapter II. Recent Developments in the Domestic Economy and Near-Term Prospects

In the third quarter of 2023, annual real GDP grew by 5.9%, following 4.7% in the second quarter. The acceleration in the growth of the national economy continues to reflect the increase in liquefied natural gas (LNG) production, in a context in which the recovery of the manufacturing industry is also highlighted. Excluding LNG production, the near-term prospects continues to indicate moderate GDP growth, driven by agriculture and services.

Annual inflation accelerated in October 2023, reversing the downward trend over the last seven months of the year, driven by the increase in food prices. In the near term, prospects point to a slight acceleration in inflation, reflecting the end of the winter season and rising food prices in South Africa. In addition, the risks and uncertainties associated with inflation forecasts remain high, especially with regards to the developments in fuel prices in the global market, as well as the effects of *El-Niño* and the cyclone season on domestic output.

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

Sectors	2022	2023			
	Q3	Q1	Q2	Q3	Contr./Q3 (pp)
Primary Sector	**5.6**	**8.2**	**9.0**	**12.5**	**4.0**
Agriculture	5.0	3.8	3.1	3.5	0.8
Fishing	5.5	-4.0	-9.2	2.7	0.0
Mining	7.3	32.6	42.7	43.2	3.1
Secondary Sector	**-2.6**	**-4.7**	**-6.5**	**0.8**	**0.1**
Electricity, Gas and Water	-1.9	4.1	-0.2	1.4	0.0
Manufacturing	-3.2	-7.0	-7.7	1.1	0.1
Construction	-1.8	-8.0	-10.4	-1.4	0.0
Tertiary Sector	**3.6**	**3.5**	**4.2**	**3.1**	**1.4**
Trade and Services	0.8	-3.4	3.0	2.3	0.2
Accommodation and Catering	11.2	11.2	5.5	3.0	0.0
Transport and Communication	6.7	7.5	6.8	2.6	0.3
Financial Services	3.7	6.3	3.5	4.1	0.2
Public Adm. Education and Health	2.7	4.0	3.6	3.0	0.5
Other Sectors	1.2	3.2	3.7	4.0	0.2
GDP at factor cost	**3.5**	**3.9**	**4.6**	**6.3**	**5.5**
Tax on products	4.3	5.6	5.2	3.6	0.5
GDP	**3.6**	**4.2**	**4.7**	**5.9**	**5.9**

Source: INE

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

	III Trim 22	III Trim 23	Annual Change
Current Account	**-5,778**	**-1,144**	**4,634**
Balance of Goods	-4,778	-634	4,143
Exports	6,108	5,936	-172
Imports	6,685	6,570	4,315
Balance of Services	-1,138	-571	567
Primary Income Balance	-402	-623	-221
Secondary Income Balance	539	684	145
Capital Account	245	199	-46
Financial Account	**4,562**	**1,295**	**-3,266**
comprising			
FDI	1,321	1,522	200
Other Investment	3,253	-250	-3,503

Source: BM

2.1. Near-Term Economic Activity

The national economy grew considerably in the third quarter of 2023. Data from the National Statistics Institute (INE) indicate that real GDP grew by 5.9% year-on-year in the third quarter of 2023, following 4.7% in the previous quarter (Table 2-1).

GDP growth continues to reflect the increase in liquefied natural gas (LNG) production in the period in question, amid the notable recovery of the manufacturing industry (after four quarters of successive contractions), mainly underpinned by the improvement in access to raw materials by the food industry.

In terms of aggregate demand components, GDP growth was supported by the following:

i) The improvement in the current account balance, due to the decrease in imports. In the period in question, imports fell by USD 4,315 million, mainly explained by statistical base effects, strongly driven by the significant value of the Coral South project's floating platform (about USD 4,200 million) recorded in the first half of 2022 (Table 2-2). In the same vein, the value of commodity exports fell by USD 172 million compared to the same period in 2022, reflecting the slump in the prices of key commodities in the global market (Table 2-2).

Among the main export commodities, only natural gas and electricity recorded increases,

Table 2-3: External Trade (USD million)

Exports	III Trim 2022	III Trim 23	Annual Change
Mineral Coal	2,182	1,619	-564
LNG	316	1,177	861
Aluminum Bars	1,323	853	-470
Electricity	435	474	40
Heavy Mineral Sands	365	361	-3
Imports	**III Trim 2022**	**III Trim 23**	**Annual Change**
Machinery	5,121	1,140	-3,981
Fuels	1,441	1,020	-420
Construction material	486	575	89
Vehicles	263	314	51
Raw Aluminum	383	289	-94

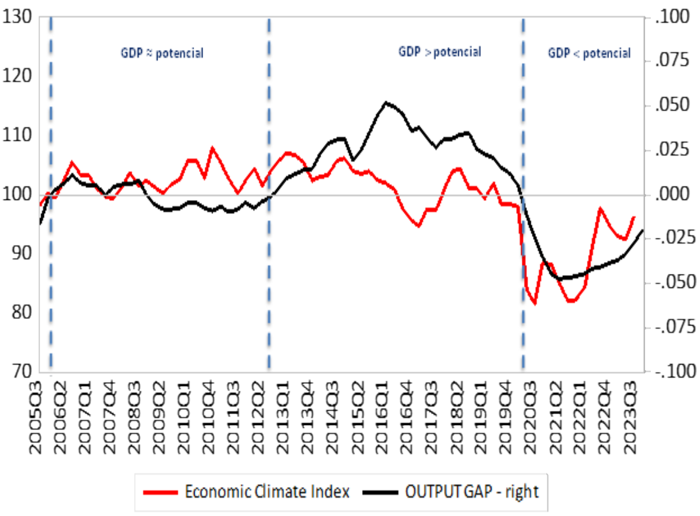
Source: BM

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

	2022T3	2023 Budget	2023T31	Annual Change
Income	**215,698**	**357,064**	**232,547**	**7.8%**
Total Expenditure	**270,748**	**472,122**	**316,495**	**16.9%**
Current Expenditure	200,637	316,919	237,414	18.3%
Investment Expenditure	35,876	93,331	30,193	-15.8%
Financial Operations	34,235	61,873	48,888	42.8%
Deficit (before grants)	**-55,050**	**-115,059**	**-83,948**	**52.5%**
Domestic Loans	33,605	36,648	30,271	-9.9%
Balance Carried Foward			5,300	
External Financing	24,920	78,411	24,380	-2.2%
Stock Variation	**8,276**		**6,511**	

Source: MEF

Chart 2-1: Output Gap and ECI Developments



Source: BM and INE

reflecting the increase in production, whilst the remainder were hit by the slump in global market prices (Table 2-3)[4]. In the near term, the volume of exports is expected to continue to grow, driven by the continuous improvement in the performance of mega projects in particular, natural gas.

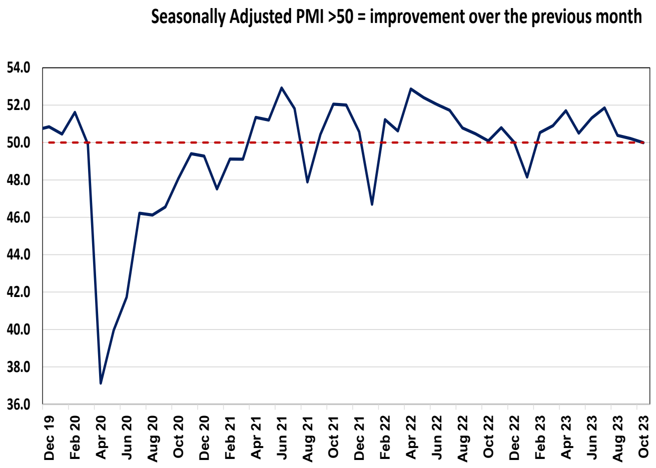
(ii) The increase in public spending by about 17%, compared to the same period in 2022. This fiscal enforcement reflects the ongoing pressure on the State´s financial operations and operating expenses, particularly with regard to payroll and public debt service charges, whilst public investment has remained constrained by the State's limited financial capacity (Table 2-4). In the near term, fiscal pressure is expected to remain high, considering the cost of servicing the public debt (domestic and external), the potential need for additional resources to address the *El Niño* phenomenon and the rainy season, as well as the expenses associated with the election process (presidential and legislative 2024), despite the expectations of a relative improvement in State revenues, as a result of the measures associated with the implementation of the economic acceleration package.

Economic activity tends to consolidate towards its recovery trajectory. The recent dynamics of the economy consolidates the prospects of a gradual recovery in economic activity, despite the possible adverse effects caused by climate shocks. Indeed, real GDP growth is tending to approach its potential, narrowing the output gap (Chart 2-1).

Near-term prospects continues to indicate moderate GDP growth, excluding LNG production. Indeed, the performance of the primary (agriculture and coal production) and tertiary (transport and communication services, and hotels and catering) sectors is expected to continue to sustain GDP growth, in a context in which the performance of the secondary sector should remain constrained and the prices of the key commodity exports will continue to hamper the expansion of economic activity. The near-term outlook is in line with the Purchasing Managers Index (PMI) developments, which,

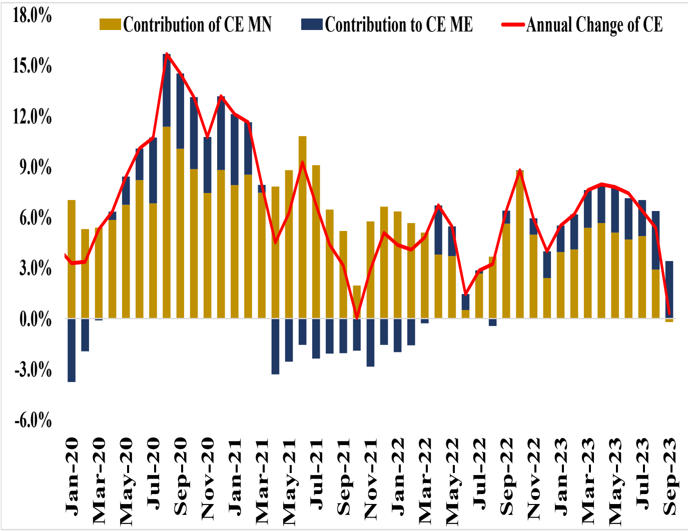
[4] Cumulatively, from December 2022 to October 2023, the price of mineral coal (28% of total exports), aluminum (17%) and gas (18%) dropped by about 55.3%, 8.5% and 56.1%, respectively.

Chart 2-2: Purchasing Managers' Index (PMI)



Source: HIS, Markit

Chart 2-3: Developments in Credit to the Economy



Source: INE/BM

Table 2-5: Domestic Public Debt (MZN million)

Domestic Public Debt (in MZN million)					
	Use of T-Bills	Treasury Bonds	In the BM	Total Debt	Debt as % of GDP
Dec-19	29,671	61,817	48,067	139,555	14.5%
Dec-20	39,889	61,817	54,267	155,973	14.0%
Dec-21	34,672	66,317	54,267	155,256	13.9%
Sep – 2022	68,370	124,990	65,118	258,478	22.2%
Dec – 2022	69,872	142,056	63,186	275,114	23.6%
Jan – 2023	79,872	142,056	67,485	289,413	21.9%
Feb – 2023	76,872	142,067	68,117	287,056	21.7%
Mar – 2023	74,260	146,882	80,815	301,956	22.9%
Apr – 2023	73,428	147,620	80,815	301,862	22.9%
May – 2023	72,424	148,921	82,190	303,535	23.0%
Jun – 2023	72,424	150,371	82,741	305,536	23.1%
Jul – 2023	72,425	154,271	83,440	310,136	23.5%
Aug – 2023	69,746	155,227	84,137	309,110	23.4%
Sep – 2023	81,380	157,136	91,813	330,328	25.0%
Oct – 2023	87,414	157,136	91,813	336,363	25.0%
Nov – 2023	85,492	157,136	91,813	334,440	25.3%
Flow (Dez/22 - Nov/23)	**15,620**	**15,080**	**28,627**	**59,327**	

Source: BM and BVM

despite a slowdown, still remains at the benchmark improvement level (Chart 2-2).

Credit to the economy remains timid. The dynamics of private consumption, characterized by the year-on-year slowdown in credit to the economy granted by the banking system, in September 2023, is mainly explained by the prevalence of restrictive monetary conditions (Chart 2-3).

Domestic public indebtedness continues to increase. The cumulative amount of domestic loans contracted between December 2022 and November 2023 increased by about 59,327 million meticais, amounting to a total stock of domestic debt of about 334,440 million meticais. Among the main instruments used to finance the treasury deficit, treasury bonds and advances by the BM stand out (Table 2-5). In the near term, this backdrop is expected to prevail, considering the limited collection of tax revenue and low disbursement of external resources.

The country's international reserves remain at satisfactory levels. The country's external position, as measured by gross international reserves (GIR), remains satisfactory, with a cumulative balance of about USD 3,143 million as at November 15, 2023, which is sufficient to ensure approximately 4 months of import coverage, excluding mega projects.

Box 2 : Monetary and Financial Developments

I. Interest Rate Developments

a) Money market interest rates

The money market yield curve rose slightly between September and November 2023 (the interval between the two MPC sessions). Indeed, with the exception of the overnight and 7-day maturities, interest rates on the remaining reference maturities increased in a band ranging between 3 and 19 bp (Chart 1).

The BM's intervention interest rates for the shortest maturities had a mixed trend. The interest rate on sales of securities with repurchase agreements (reverse repo) for the 7-day maturity remained unchanged, whilst the 28-day maturity rate increased by 3 bp from 17.40% to 17.43% (Chart 2).

Treasury Bills (T-Bill) interest rates increased in the period between the two MPC sessions. T-Bill interest rates rose to 18.16%, 18.20% and 18.24%, respectively, for the three reference maturities (91, 182 and 364 days), equating to increases of between 9 to 19 bp. It is noteworthy that the T-Bill interest rate for the 1-year maturity (364 days) stood 99 bp above the monetary policy interest rate (the MIMO rate) (Chart 3).

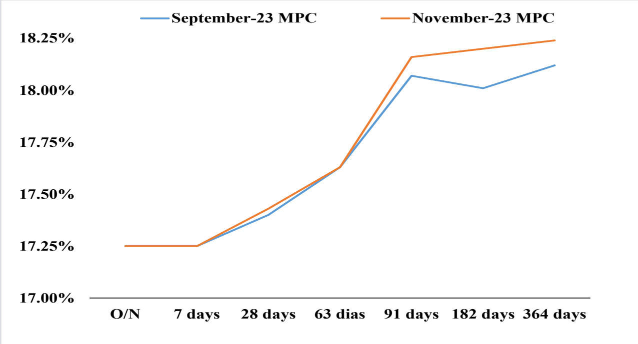
b) Treasury bond interest rates

In the period under in question, the State did not issue Treasury Bonds (T-Bond). Indeed, the last T-Bond issuance occurred on September 19, 2023 for a 5-year maturity and the weighted average interest rate (TMP) was 17.81% (Chart 4).

c) Retail interest rates

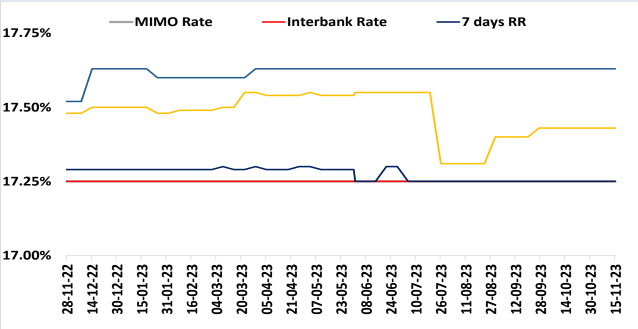
Retail interest rates on loans and deposits for the 1-year maturity decreased. Indeed, Information reported as of September 2023 indicates that the average interest rates on loans and deposits decreased by 25 and 55 bp to 22.97% and 9.92%, respectively, reflected in the increase in the spread between the two lending and deposit rates (Chart 5).

Chart 1: Money Market Yield Curve



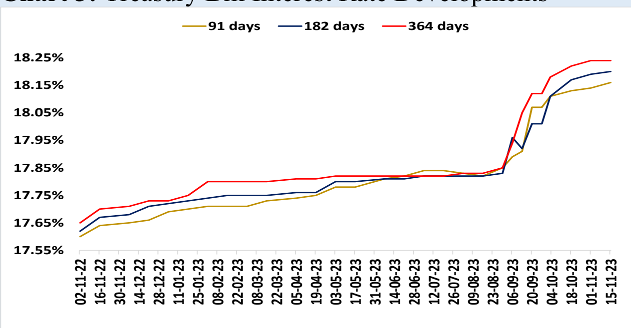
Source: BM, 2023

Chart 2: IMM Interest Rate Developments



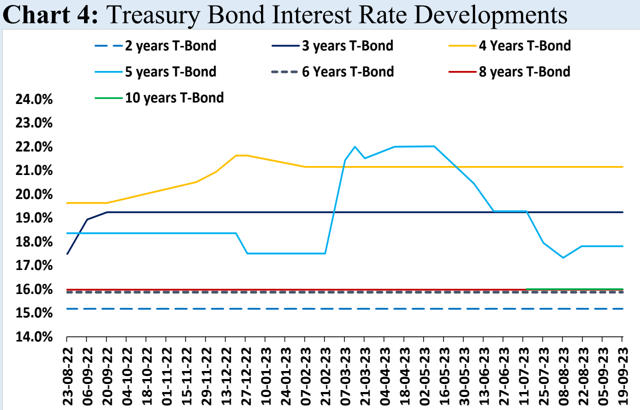
Source: BM, 2023

Chart 3: Treasury Bill Interest Rate Developments



Source: BM, 2023

Chart 4: Treasury Bond Interest Rate Developments



Source: BVM, 2023

II. Exchange Rate Developments

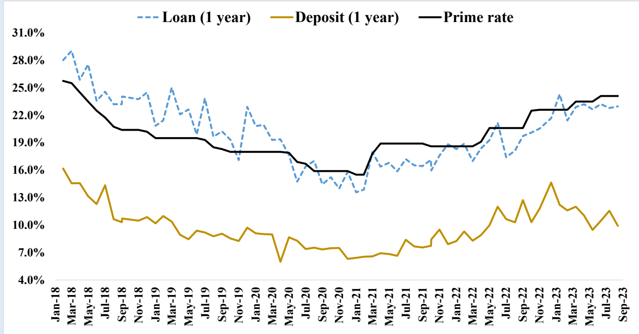
a) Metical exchange rate against the US Dollar

The Metical (MZN) remained stable against the US Dollar (USD). From September to November current, the reference MZN exchange rate against the USD remained unchanged at MZN/USD 63.89 and the effective exchange rate resulting from transactions between commercial banks and the general public rose from MZN/USD 63.94 in September to MZN/USD 63.98. On the other hand, in the exchange bureaus segment, the Metical exchange rate went from MZN/USD 65.74 to MZN/USD 65.83 over the same period (Chart 6).

b) Metical exchange rate against the Rand

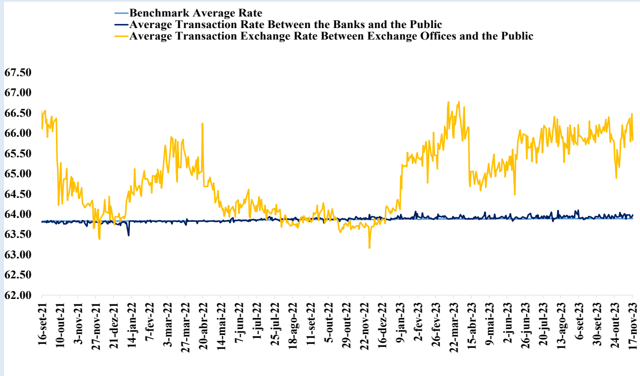
Stability of the Metical (MZN) against the Rand (ZAR). The MZN reference exchange rate against the Rand rose from MZN/ZAR 3.37 to MZN/ZAR 3.48 in the period in question. The rates of other market segments followed the same trend (Chart 7).

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



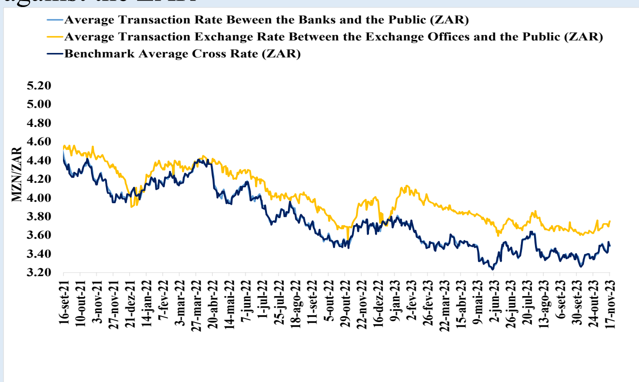
Source: BM, 2023

Chart 6: Metical Exchange Rate Developments against the US Dollar



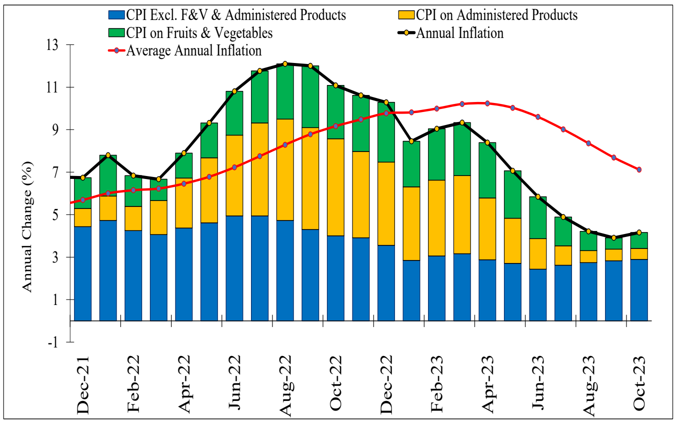
Source: BM, 2023

Chart 7: Metical Exchange Rate Developments against the ZAR



Source: BM, 2023

Chart 2-4: Annual Inflation Components - Three-City Index



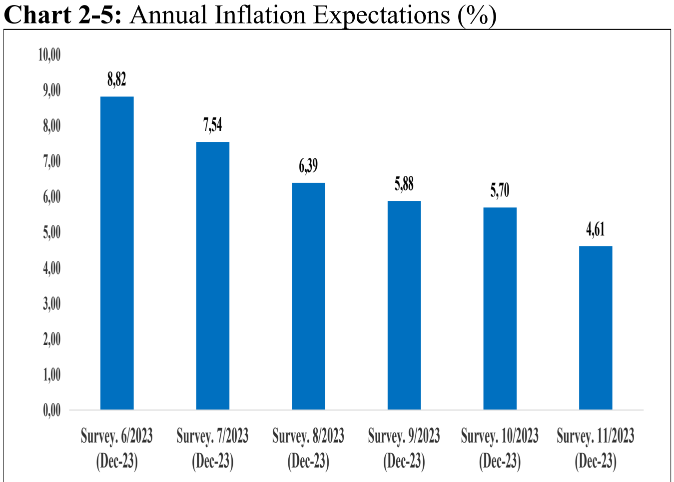
Source: INE/BM

Table 2-6: Core Inflation (%) - MABENA Index

	Sep-22	Oct-22	Nov-22	Dec-22	Mar-23	Sep-23	Oct-23
CPI Mozambique (8 Cities)	**12,71**	**11,83**	**11,25**	**10,91**	**10,82**	**4,63**	**4,75**
CPI (Maputo, Beira & Nampula)	**12,01**	**11,08**	**10,62**	**10,29**	**9,33**	**3,91**	**4,16**
Food	**17,38**	**15,89**	**17,15**	**16,86**	**15,21**	**4,65**	**5,34**
Cereals and by products	19,81	20,83	21,67	22,06	21,44	4,45	4,03
Fruits and Vegetables	35,20	29,65	32,02	33,00	27,86	5,67	8,18
Administered	**22,93**	**21,63**	**19,04**	**18,83**	**17,67**	**2,67**	**2,51**
Liquid Fuels	41,55	36,75	28,78	28,78	21,51	-0,14	-0,14
CPI x Frut. & Veg.	**9,96**	**9,40**	**8,66**	**8,08**	**7,30**	**3,71**	**3,71**
CPI x Admin.	**9,22**	**8,37**	**8,42**	**8,11**	**7,19**	**4,26**	**4,63**
CPI x Fuell	**10,13**	**9,39**	**9,41**	**9,13**	**8,58**	**4,30**	**4,58**
CPI x Frut. & Veg. and Admin.	**6,21**	**5,85**	**5,58**	**4,94**	**4,22**	**4,05**	**4,11**

Source: INE

Chart 2-5: Annual Inflation Expectations (%)



Source: BM

2.2. Recent Inflation Developments and Near-Term Prospects

In October, annual inflation accelerated, reversing the downward trend over the last seven months of the year, reflecting rising prices for imported food. Even so, prospects for single-digit inflation remain in place over the near-term.

Annual inflation, as measured by the change in the Mozambique Consumer Price Index (CPI), rose [5] from 4.63% in September to 4.75% in October. In the same vein, data collected in the cities of Maputo, Beira and Nampula indicate that annual inflation rose from 3.91% to 4.16%, in the period in question. The developments in the general level of prices in October was driven by the increase in the prices of imported foodstuffs, against a backdrop of a reduction in supply of fruit and vegetables, amid the end of the winter season (Chart 2-4 and Table 2-6).

Core inflation accelerated. Excluding the subgroups of fruit and vegetables and administered prices, core inflation rose from 4.05% in September to 4.16% in October (Table 2-6 and Chart 2-4). The trend reflects statistical base effects.

The near-term outlook points to a slight acceleration in inflation in the fourth quarter of 2023. These forecasts stem from the lower supply of agricultural products produced in the country, the beginning of the festive season and the increase in food prices in South Africa, amid the following prevailing risks: (i) the effects of *El-Niño*, (ii) the proximity of the cyclone season and (iii) the potential upward adjustment of fuel prices.

Economic agents revised their inflation outlook for December downwards. In November, the expectations of economic agents indicate that, at the end of the year, annual inflation could stand at 4.61%, following 5.70% in the previous survey (Chart 2-5).

[5] As of October 2022, the INE began publishing the new national aggregate CPI, compiled from 8 cities.

Chapter III. Inflation Prospects and Economic Activity in the Medium Term

Inflation prospects over the medium term remain in the single digits, mainly reflecting the Metical's stability and the impact of the measures being taken by the MPC. GDP growth is also expected to accelerate driven by the anticipated performance of the extractive industry. Excluding energy projects, economic activity will continue to recover gradually, bolstered by the performance of the primary (agriculture and coal) and tertiary (services) sectors, despite the likely occurrence of severe weather events and their impacts on agricultural production and various infrastructures.

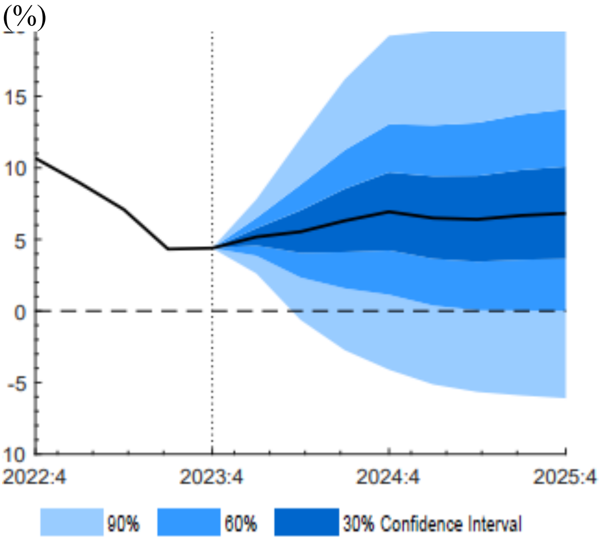
In light of these macroeconomic prospects and considering the risks and uncertainties associated with inflation forecasts, the MPC decided to keep the MIMO policy rate unchanged at 17.25%.

Table 3-1: External Assumptions

	2022	2023	2024	2025
US GDP (YoY%)	2.0	2.2	1.1	1.9
MPC of September/2023	2.1	1.9	0.9	2.2
RSA GDP (YoY%)	1.9	0.8	0.8	1.1
MPC of September/2023	1.9	0.4	0.6	1.0
US Inflation (%)	8.0	4.2	2.9	2.1
MPC of September/2023	8.0	4.1	2.7	2.2
RSA Inflation (%)	6.9	5.8	4.9	4.5
MPC of September/2023	6.9	5.9	4.8	4.4
Brent Price (USD)	98.9	84.6	89.3	87.1
MPC of September/2023	98.9	82.3	83.6	85.1
Global Market Food Prices	14.7	-13.0	0.6	3.6
MPC of September/2023	14.7	-11.3	-0.5	2.1

Source: GPMN

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



3.1. Assumptions of Medium-Term Projections

The macroeconomic projections for the medium term (2024-2025) are based on the assumptions set out below.

a) **Assumptions concerning the External Macroeconomic Environment**

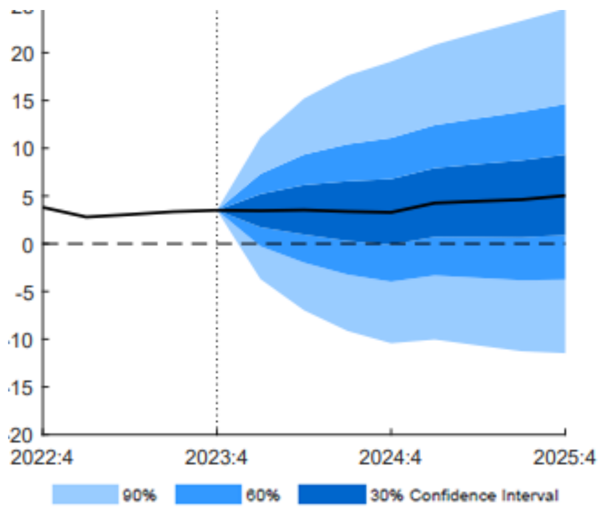
- **Slight pressure on brent and food prices in the global market (Table 3-1).** This pressure fundamentally reflects (i) the emergence of a new geopolitical risk in the Middle East, the economic impact of which, however, is still uncertain; (ii) cuts in oil production by OPEC+, the effect of which is expected to dissipate by December current; (iii) restrictions on rice exports in India; and (iv) effects of climate shocks.

b) **Assumptions on the Dynamics of Domestic Macroeconomic Indicators**

- **Prevalence of pressure on the State Budget,** particularly due to the State having to meet expenses related to (i) the 2024 election cycle and (ii) the implementation of the Single Wage Table.

- **Prevalence of the stability of the Metical exchange rate against the US dollar,** in line with the start of natural gas exports from the Rovuma basin, in a context in which positive real interest rates still prevail.

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



- **Ongoing military instability** in the North of the country, particularly in Cabo Delgado province; and the

- ***El-Nino* phenomenon** (forecast of above normal rainfall forecast for the Center and North, and below normal for the South of the country).

3.2. Medium-Term Inflation Projections and Associated Risks

In view of the above assumptions, inflation is expected to remain in single digit over the medium term (Chart 3-1), essentially reflecting the stability of the Metical and the impact of the measures being taken by the MPC.

In addition, excluding LNG production, medium term projections point to the maintenance of **moderate economic growth** (Chart 3-2), mainly underpinned by the performance of the primary (agriculture and coal) and tertiary (services) sectors, despite the likely occurrence of severe weather events and their impacts on agricultural production and various infrastructure.

The risks and uncertainties associated with inflation forecasts remain high. Domestically, uncertainties regarding the impact of climate shocks on commodity prices and the prevalence of elevated pressures on public spending are particularly highlighted. On the external front, the uncertainties as to the protracted Russia-Ukraine conflict and the recent developments in the Middle East crisis stand out, with potential effects on oil and food price dynamics.

3.3.Monetary Policy Decision

The Monetary Policy Committee (MPC) of the Banco de Moçambique decided to keep the MIMO policy rate unchanged at 17.25%.

The decision is underpinned by the emergence of new risks and uncertainties associated with inflation forecasts, especially the potential impact of the ongoing conflict in the Middle East on global fuel and food prices.

The MPC also decided to:

- Keep the Standing Lending Facility (SLF) rate unchanged at 20.25%;

- Keep the Standing Deposit Facility (SDF) rate unchanged at 14.25%;

- Keep the Reserve Requirement ratios for liabilities in domestic and foreign currencies at 39.00% and 39.50%, respectively