

MONETARY POLICY COMMITTEE

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Maputo, June 13, 2011

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

I. THE RECENT DEVELOPMENTS IN THE INTERNATIONAL AND REGIONAL ECONOMIES

Information recently released by the OECD reported that the global economy may expand by 4.2% in the current year and 4.6% in 2012. The same source advises, however, about the prevailing signs of economic crisis worldwide, highlighting the situation faced by some Euro Zone countries, the growth deceleration experimented by the Chinese economy and the perspectives of economic activity sluggish recovery in Japan, the country hit by natural disasters last March.

However, recent information showed a relative economic growth in the Euro Zone and United Kingdom, in the first quarter of 2011, with 2.5% and 1.8%, respectively, against 1.7% and 1.6% recorded in the last quarter of 2010. In the same period, economic growth has decelerated in the United States of America to 2.3%, after 2.9% in December 2010, while in Japan it has contracted by 1.0%, after 3.9% observed in the preceding quarter.

In the most advanced economies¹ inflation rose in April 2011, having moved from 4.0% to 4.5% in the United Kingdom, from 2.7% to 3.2% in the United States of America and from 2.7% to 3.2% in the Euro Zone countries. Japan stands out due to the fact that, after a long deflation cycle, the consumer price index has reached the level of 0.3%. The most recent data pointed to inflation slow down in the Euro Zone to 2.7% in May 2011.

In May 2011, the USD nominal depreciation in relation to the currencies of the most advanced economies consolidated its tendency, as it moved from 10.2% to 14.5% against the Euro and from 8.6% to 11.6% in relation to the Pound Sterling. As regards Yen, the depreciation level has reduced from 13.5% to 10.7%.

With respect to the price of monitored commodities², in the last date of May 2011, there was a reduction of prices, especially for aluminum, wheat, gas and sugar, with 6.3%, 4.3%, 3.8% and 2.8% negative variations, respectively, except the cotton price that recorded a 22.0% positive monthly variation. *Brent* price rose in the United States of America to USD 118.38³ per barrel, in the last date of May 2011, which equals to a 7.3% reduction in the month, boosted, amongst other factors, by signs of American economy slowdown and the less satisfactory trend witnessed by some key indicators released recently.

¹ Analyzed economies: United States of America, Japan, Euro Zone and United Kingdom

² *Brent*, gas, aluminum, gold, cotton, sugar, maize, rice and wheat. Source: *Bloomberg*.

³ Source: *Reuters*

The annual economic growth has decreased in all emerging market economies⁴ in the first quarter of 2011, having moved from 10.3% to 9.7% in China, from 8.5% to 7.8% in India, from 7.5% to 4.6% in Brazil and from 6.1% to 4.2% in South Korea. The overall inflation trend in these economies was slowing down, except in Brazil, which increased to 6.5% in May 2011, after 6.3% in April. More recently, the Central Bank of Brazil revised again its policy interest rate upwards to 12.25%, considering it a necessary measure to contain inflationary pressure.

In the SADC⁵ economies, it is worth highlighting the deceleration of annual inflation in April 2011, in Mozambique (trend that continued in May), Zambia, Botswana, Malawi and Mauritius, against the acceleration observed in Tanzania and South Africa. Information available only reports to GDP real growth in South Africa and Mozambique for the first quarter of 2011, where it accelerated to 3.6% in the former country (2.8% in December 2010) and grown in the latter by 8.4% (6.6% in December).

Data reported to May 2011 showed that the US Dollar continued to witness mixed signs in the SADC economies, as its annual depreciation trend consolidated in relation to the Rupee of Mauritius (15.4%), Metical (11.8%), Rand (11.1%), Pula (7.7%) and Kwacha of Zambia (5.2%). Conversely, the US Dollar maintained the annual appreciation trend against the Shilling of Tanzania (7.2%), Kwanza (0.8%) and Kwacha of Malawi (0.2%).

II. DEVELOPMENTS IN THE MOZAMBIKAN ECONOMY

Preliminary data released by the National Institute of Statistics (INE-acronym in Portuguese) indicated that the Mozambican GDP grew 8.4% in the first quarter of 2011, after 8.7% in the similar period of last year. The economic activity performance in the period under analysis is attributed to the tertiary sector (10.7%), in which it is worth highlighting transports and communication (18.1%), financial services (17.9%) and restoration (17.5%). The second most dynamic is the primary sector (8.9%), boosted by animal farming and forestry (9.3%) and fishery (6.8%). The secondary sector performance (1.3%) was also determined by electricity and water with 4.0%. In terms of contribution to the GDP, agriculture continues the leading sector with 25.0%, followed by manufacturing industry (12.0%), trade and repairing services (11.0%), transports and communication (11.0%), financial services and house renting with 6.0% each.

According to the same source, annual inflation, measured by Consumer Price Index (CPI) of Maputo city, continued with its declining trend in May 2011, as it moved from 13.04% in April, to 11.36%. Maputo CPI monthly variation stood at 0.46%, after 1.98% in the similar period of 2010. It is worth noting that after acceleration being observed since January 2010, the average annual inflation reversed its trend in May, decreasing 14bp to 15.23%, even though, standing well above 4.75% recorded in the similar period of 2010.

Among the products that contributed to CPI monthly variation, as well as their respective contributions, it is worth highlighting petrol (0.22pp), onion (0.09pp), granulated brown sugar (0.06pp) and diesel (0.05pp).

The CPI-Mozambique, which aggregates price indices of Maputo, Beira and Nampula, recorded a 0.53% monthly increase in May 2011, against 0.18% in April and 1.39% in May 2010. Given this variation, the accrued inflation in the three cities was 3.60%, having the annual variation rate stood at

⁴ Analyzed economies: Brazil, China, South Korea and India

⁵ Analyzed economies: South Africa, Angola, Botswana, Malawi, Mauritius, Mozambique, Tanzania and Zambia

11.82% and the annual moving average inflation at 14.85%. The products whose prices had a major positive contribution in the month were petrol for personal vehicles (0.16pp), granulated brown sugar (0.10pp), dry cassava (0.09pp), charcoal (0.08pp), diesel for personal vehicles (0.08 pp), among others.

The economic climate indicator has declined, for the fourth consecutive month, in April 2011 when compared to the preceding month and similar period of 2010. The indicator's descending trend continues to be mainly determined by a less positive appreciation made by respondents as regards demand expectations. In turn, the indicator of employment expectations recorded a positive variation, for the second consecutive month, as a result of more encouraging forecasts expressed by respondents of industrial production, trade, housing and restoration services, and transport sectors, which surpassed the more conservative expectations of the remainder sectors.

The balance of payments preliminary data reported to March 2011 showed a reduction of the current account deficit by 10.6%, when compared to the similar period of last year, partly determined by increased exports of goods and services by 30.7%, greater than the imports (17.4%), and also by the improvement in the stock of income partial account by 281.6%, and that of current transfers by 88.3%.

In the monetary sector, information reported to April 2011 indicated that the stock of credit to the economy amounted to 92,626 million Meticaís, which reveals a continuous slowdown in its annual expansion, to 17.7%, after 23.8% observed in the preceding month and 53.8% in the similar period of 2010. The stock of aggregate broad money (M3) has amounted to 130,999 million Meticaís, equivalent to an expansion of 1,667 million Meticaís, when compared to March 2011, explained by increased deposits denominated in Meticaís (1,022 million Meticaís) and Money in Circulation (645.3 million Meticaís). The aggregate M3 annual expansion reduced to 13.7% in April 2011, after 19.4% in March.

In May 2011, the end-period stock of Base Money – monetary policy instrumental variable – was 30,125 million Meticaís, surpassing forecasts set for the period by 3.7%, influenced essentially by a new cycle of pressure on Money in Circulation (expansion by 396 million Meticaís) to cope with agricultural commercialization campaigns, especially for tobacco. In terms of daily average stock, the Base Money stood at 29,811 million Meticaís, equivalent to a 699 million Meticaís monthly increase.

The preliminary stock of Net International Reserves stood at USD 2,045 million in May 2011, which represents a USD 101.3 million monthly increase, sustained by disbursements of external aid funds in the amount of USD 96.6 million.

The Metical continued with its nominal appreciation trend in the Interbank Foreign Exchange Market (MCI-acronym in Portuguese), for the ninth consecutive month, in relation to the US Dollar, as it traded in May closing date at 29.73 Meticaís, after 30.63 Meticaís in April 2011. In annual variation terms, the national currency recorded 11.81% nominal gains in May 2011, after 10.33% in the preceding month. The commercial banks average exchange rate in transactions with the general public also followed the same trend, as it recorded a 3.55% monthly appreciation in May 2011, moving from 30.71 MT/USD to 29.62 MT/USD, equivalent to a cumulative and annual appreciation of 9.09% and 12.37%, respectively, after a depreciation of 26.03% observed in the similar period of 2010.

In the Interbank Money Market, the average interest rates for Treasury Bills auctions increased in May 2011, to 16.46%, 16.48% and 16.49% for 91, 182 and 364 maturity days, respectively. The average rate for liquidity swaps among credit institutions rose to 15.91% in May 2011.

Information reported to April 2011 indicated that in the retail market the average interest rate for one year maturity period loans has increased by 0.1pp to 23.0%, which corresponds to 4.2pp increase in relation to similar period of 2010. The average rate for one year maturity period deposits stood at 13.0%, 0.1pp less in relation to that recorded in March and 3.31pp compared to the similar period of 2010.

III. MONETARY POLICY DECISION

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

- Intervene in interbank markets in order to ensure that the stock of Base Money does not exceed 30,600 million Meticaís, at the end of June 2011.

The CPMO forthcoming meeting will be held on July 08, 2011.

Ernesto Gouveia Gove
Governor