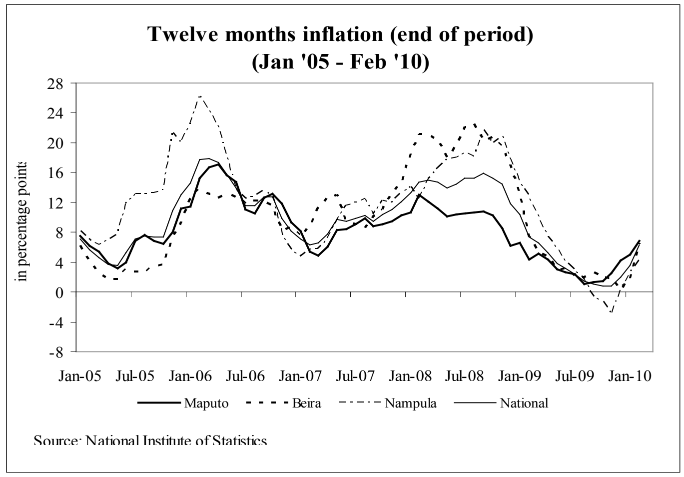
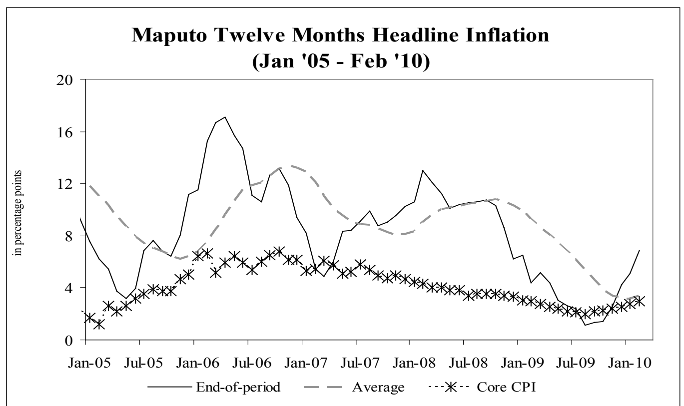
Presentation of the IMF Resident Representative in Mozambique to the Development Partner Group: April 1, 2010 [1] [2]



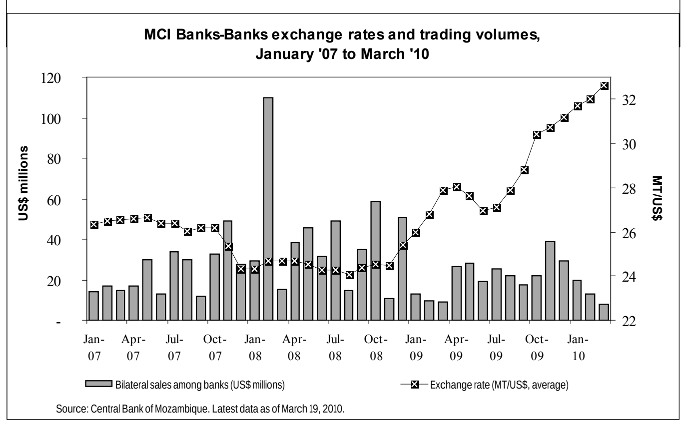
In February the headline CPI for Maputo was 1.7 percent. As a result, the end-of-period and the average rates increased to 6.8 percent and to 3.4 percent. *Foodstuff accounted for 94% of the price changes, with tomatoes being the major upward item in the total CPI change.*

The inflation was also pronounced in Beira and Nampula. In February, their CPIs gained 3.9 and 1.6 percent respectively. The compound national CPI increased by 2.2 percent.



The Maputo headline CPI core inflation increased to 3 percent (from 2.8 in January).

The metical continued to depreciate against the US dollar. By the 3rd week of March, the MCI (Mercado Monetário Interbancário) average rate reached 32.6 meticais per US dollar against 32.0 at end-February 2010.



The exchange rate spreads vis-à-vis the official intervention rates of the Central Bank and the market's retail exchange rate continued to be high at above 16 percent. After the confirmation by the donors of their budget support disbursements and the successful negotiations of a successor IMF program for the next three years we expect the spreads to narrow over the coming weeks.

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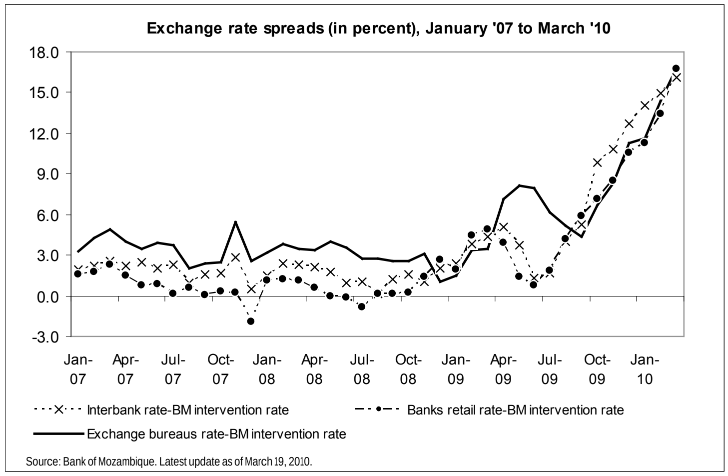
[1] The Development Partner Group consists of heads of mission in Mozambique of bilateral donors, the UNDP, and the international financial institutions.

[2] This document has not been approved by the IMF Executive Board.

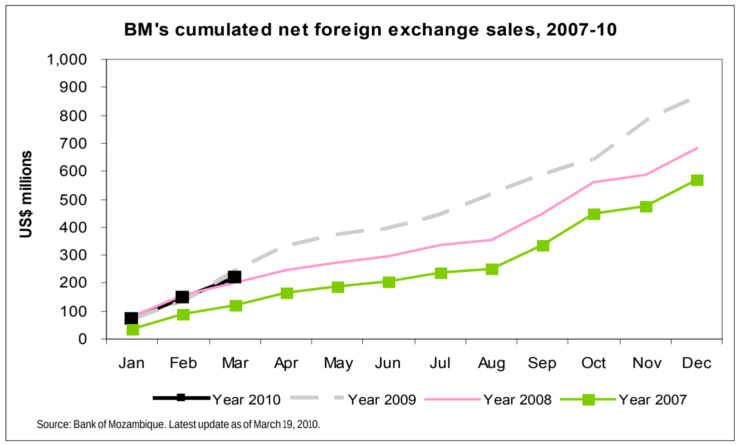


Exchange rate spreads (in percent), January '07 to March '10

Source: Bank of Mozambique. Latest update as of March 19, 2010.

By the 3rd week of March, the Central Bank sold US$218 million to the banking system. This amount is comparable with the foreign exchange sold during the same period in 2009.

Since the beginning of this year the Central Bank has been sterilizing excessive liquidity through the sale of foreign exchange. In addition, some t-bills that matured had and not been rolled over.



BM's cumulated net foreign exchange sales, 2007-10

Source: Bank of Mozambique. Latest update as of March 19, 2010.

Real interest rates continue to decline as nominal interest rates of treasury bills remain unchaged and inflation increases. The nominal average rates for repos increased by 0.3 percentage points to 6.8 percent.

Interest rates (December 2004 - March 2010)

	2005	2006	2007	2008				2009						2010		
	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Oct	Nov	Dec	Jan	Feb	Mar 1/
Central bank policy rates																
FPC 2/	13.8	17.5	15.5	14.5	14.5	14.5	14.5	13.0	13.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5
FPD 3/	7.8	13.0	10.5	10.3	10.3	10.3	10.3	7.0	7.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Central bank reverse repo auctions																
Overnight 4/	7.8	13.2	-	10.3	-	-	-	-	-	6.2	-	5.3	-	-	-	-
2 to 6 days 5/	8.1	13.2	12.0	10.8	10.8	-	-	-	7.1	6.5	6.1	7.0	-	5.5	6.5	-
7 days 6/			-	-	10.8	13.2	13.3	8.3	8.3	7.2	-	7.2	-	-	-	-
Central bank repo auctions																
Overnight										6.2	6.7	6.8	6.5	6.5	6.5	6.8
Treasury bills auctions																
91 days	10.2	15.8	14.8	13.5	13.5	14.0	14.1	10.9	9.9	9.6	9.6	9.6	9.5	9.5	9.5	9.5
182 days	11.1	16.1	15.0	13.8	13.8	14.2	14.3	11.6	10.5	-	-	10.4	10.3	10.4	10.4	10.4
364 days 7/	11.6	16.5	15.1	14.0	14.0	14.4	14.5	12.1	11.1	11.0	11.0	11.0	11.0	11.0	11.0	11.0
364 days real interest rate 8/	3.1	5.0	5.5	2.1	3.5	3.7	6.1	6.8	7.8	9.4	9.7	9.2	8.3	7.1	5.7	

1/ as of March 19, 2010
2/ Permanent Access Facility
3/ Standing overnight deposit facility (until early October 2005 Excess Liquidity Rate)
4/ Until end-January 2008 BM Overnight deposit auctions
5/ Until end-January 2008 BM 2 to 6 days deposit auctions
6/ Series started in July 2007.
7/ Earliest data as of end January 2005
8/ Using simple average of last 3 monthly headline inflation rates
Source: Central Bank of Mozambique and National Statistics Institute

Other News

(1) From March 22-24, 2010 the Government of Mozambique, in close coordination with the World Bank and the IMF, organized a high-level conference in Namaacha on the future economic challenges and opportunities for Mozambique. At the conference participated over 100 participants from the government, the central bank, civil society, the private sector, academia, and development partners. The conclusions of the conference were discussed in a meeting of the Council of Ministers in Maputo on March 25, 2010, chaired by His Excellency the Prime Minister. World Bank and IMF staff were invited to join the policymakers' discussions.

The conference provided a unique opportunity for an exchange of views on Mozambique's economic performance to date and its specific policy challenges going forward. Economic growth over the last two decades has been impressive. Looking ahead, the authorities expressed a strong desire to further accelerate the country's economic development to help make more segments of the population benefit from an improvement in living standards. Participants discussed several ways to achieve this objective, including improvements in the business environment to help promote private sector activity, enhancements in productivity in key sectors (such as agriculture), the potential benefits of stronger regional trade, and a scaling up of public investment to develop infrastructure. It was recognized that all such efforts would need to be embedded in a continued pursuit of macroeconomic stability.

A major focus of the conference was on how to increase public investment in infrastructure in the context of limited financial resources. Various financing options were considered that the authorities indicated they would study further while reiterating their commitment to macroeconomic stability and a prudent public debt management. Participants discussed the importance of a proper prioritization of investment projects to ensure that they will be conducive to supporting private sector activity and raising economic growth. It was also emphasized that finding additional financing for infrastructure investments is only a part of what is required for faster economic growth, and needs to be complemented by greater improvements in the business environment, reducing red tape, allowing for more flexibility in land and labor markets, and improving the logistics for trade.

(2) **An IMF team led by Johannes Mueller concluded on March 31, 2010 ad referendum the 6th review of the Policy Support Instrument (PSI), 2nd review of Exogenous Shocks Facility (ESF) and agreed *ad referendum* on a new 3-year PSI for Mozambique.** The Mozambican economy continues to perform strongly. Economic growth exceeded 6 percent in 2009 and is projected to approach 8 percent over the medium term, driven by strong private and public investment. A recovery in external demand and capital inflows, as well as recent donor assurances on their budget support commitments, should strengthen Mozambique's balance of payments and further buttress its international reserves. Inflation is projected to around 6 percent over the medium term, although it could temporarily increase in 2010 because of an increased pass-through of international fuel prices to domestic retail prices.

For 2010, the mission supports the authorities' intention to begin unwinding the monetary and fiscal stimulus initiated last year, which will help maintain macroeconomic stability and restore the policy buffers. Over the medium to long term, the mission agreed with the authorities' intention to follow a cautious approach in accessing external non-concessional borrowing so as to preserve Mozambique's strong track record of macroeconomic stability and to step up priority transportation and electricity infrastructure investment in an effort to further raise Mozambique's growth and export potential. The mission stressed the importance of ensuring that such investment had a high rate of return and helped generate additional private sector investment. The authorities' economic program that will be supported under the successor PSI will emphasize continued reforms to boost tax administration and public financial management and further strengthen public debt management.

The IMF's Executive Board is scheduled to discuss the PSI/ESF program reviews and Mozambique's request for a new three-year PSI in June 2010.

(3) An IMF Fiscal Department (FAD) Public Finance Management (PFM) follow-up mission, led by Mario Pessoa, will take from April 19-30, 2010. The mission is intended to assess progress with the completion of SISTAFE II and design and implementation of SISTAFE III. The activities included in this mission reflect the specific needs for strengthening the PFM system and assist the authorities in consolidating their efforts to build institutions based in a medium-term strategic plan.

(4) Tax administration mission technical assistance mission from the IMF Fiscal Affairs Department, led by Andrea Lemgruber is scheduled for April 22 April through May 5, 2010.

(5) The IMF/World Bank 2010 Spring Meetings will take place from April 24-25, 2010 in Washington D.C.