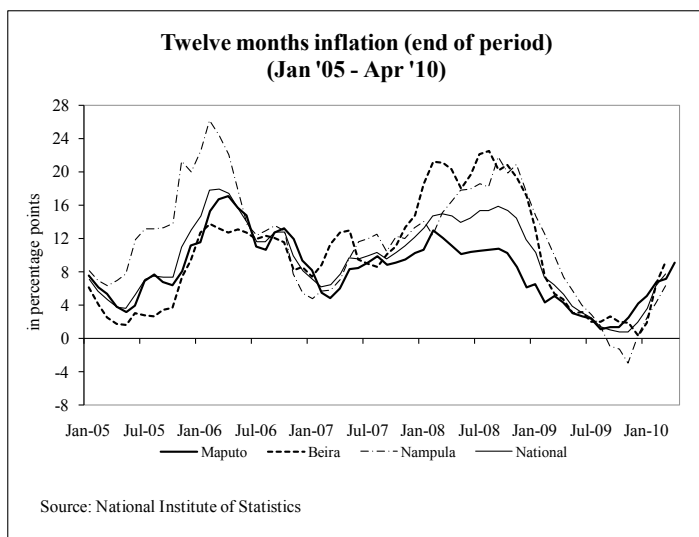


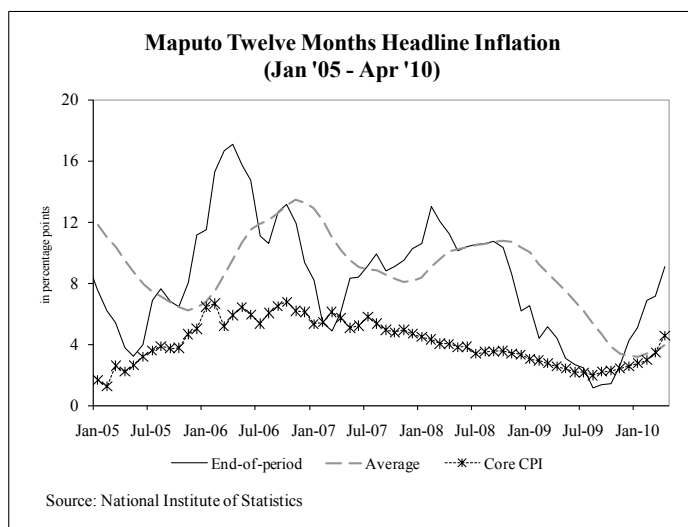
**Presentation of the IMF Resident Representative in Mozambique to
the Development Partner Group: May 6, 2010^{1 2}**

Inflation continues to increase in Mozambique at a rate somewhat higher than targeted by the Central Bank and consequently the Bank of Mozambique tightened monetary policy. The Maputo headline CPI rose 1.5 percent in April after an increase of 1.2 percent in March. As a result, the 12-month headline inflation increased to 9.1 percent and the 12-month average inflation to 3.9 percent. Foodstuff accounted for 70 percent of the total price changes, followed by fuel prices (gasoline, diesel, kerosene) with 12 percent. Accumulated inflation from January through April amount to 6.7 percent compared with 1.9 and 3.7 percent for the same period in 2009 and 2008.



Inflation also picked up in other regions of the country. The national 12-month CPIs, increased to 8 percent. The end of period in 12 months CPIs for Beira and Nampula reached 9.3 and 6.4 percent, respectively, in April.

The Maputo headline CPI core inflation—one of the main determinants of monetary policy—also continues to grow. *The core CPI increased to 4.6 percent, or the same level as observed in December 2007.*



As forecasted inflation rose above targeted inflation central bank tightened monetary policy by raising the interest rate of its standing credit facility for banks (Facilidade Permanente de Credito—FPC) by 100 basis points from 11.5 to 12.5 percent. So far, the

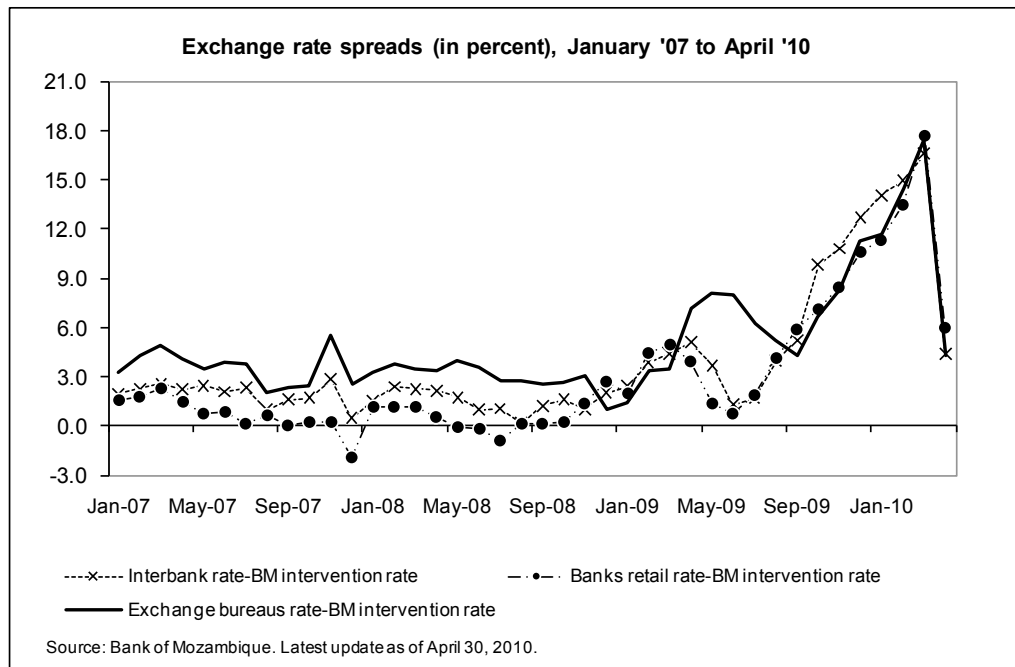
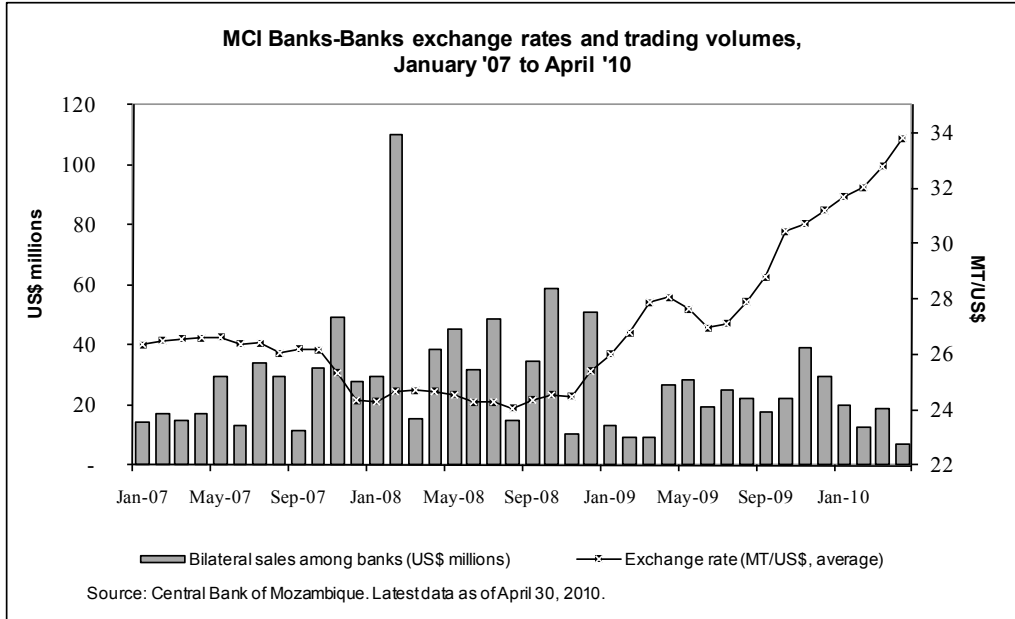
¹ The Development Partner Group consists of heads of mission in Mozambique of bilateral donors, the UNDP, and the international financial institutions.

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

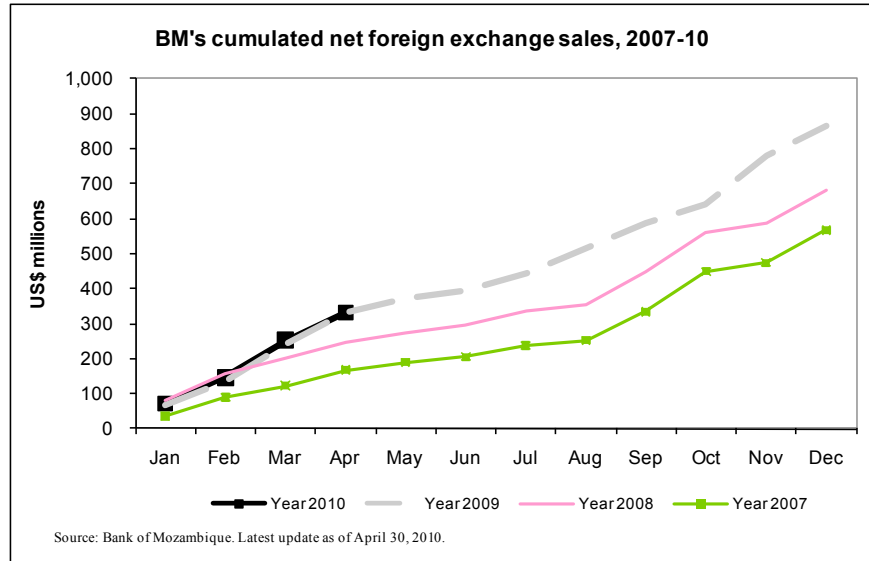
average t-bills nominal rates remained largely unchanged. Only the 182 days treasury bill rate increased by 0.3 percentage points.

Interest rates (December 2004 - April 2010)																
	2005	2006	2007	2008				2009					2010			
	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Oct	Nov	Dec	Mar	Apr 1/	May
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	12.5	
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	
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	-	-	-	
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	6.8	-	
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	
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	10.7	
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	
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	4.7		
1/ as of April 30, 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																

The metical continued to depreciate against the US dollar. Increased foreign exchange interventions by the central bank, resumed budget support disbursements, and successful negotiations for a follow-up IMF program likely all contributed to a normalization in the foreign exchange market and as a result, the foreign exchange spread between the central bank’s intervention and the financial sector’s retail exchange rate has come down to “normal”. At end-April, the MCI (Mercado Monetário Interbancário) average rate was 33.8 meticals per US dollar against 32.8 observed at end-March 2010. The exchange rate spreads vis-à-vis the official intervention rates decreased steeply from around 17 percent to between 4 and 6 percent on average.



The Central Bank's foreign exchange sales are comparable to the level observed in 2009. By end-April, the Bank of Mozambique sold US\$332.8 million.



Other News

- The IMF/World Bank 2010 Spring Meetings took place from April 24-25, 2010 in Washington D.C.
- Mr. Andre Minella from the Brazilian Central Bank conducted from April 19-30, 2009 an IMF Monetary and Capital Markets (MCM) technical assistance follow up mission to improve monetary policy analysis and forecasting.
- The Fiscal Affairs Department (FAD) had two overlapping technical assistance missions in April/May. A public finance management technical assistance mission, led by Mr. Mario Pessoa took place from April 19-30, and a tax administration technical assistance mission led by Ms. Andrea Lemgruber took place April 22 to May 6, 2010.
- Mr. Roger Nord, Senior Advisor to the AFR Department will visit Mozambique during May 17-18, 2010 for the 35th anniversary of the Bank of Mozambique.
- The IMF Board meeting for the 6th and last review of the Policy Support Instrument (PSI), the second and last review of the Exogenous Shocks Facility (ESF) and the approval of a follow-up three-year PSI is scheduled for June 11, 2010.