



Presentation of the IMF Resident Representative Office in
Mozambique to
the Development Partner Group^{1,2}

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July 14, 2011

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

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

Outline of the presentation

- Mozambique Economy
 - Overall Assessment
 - Recent Developments



Mozambique Economy: Overall Assessment

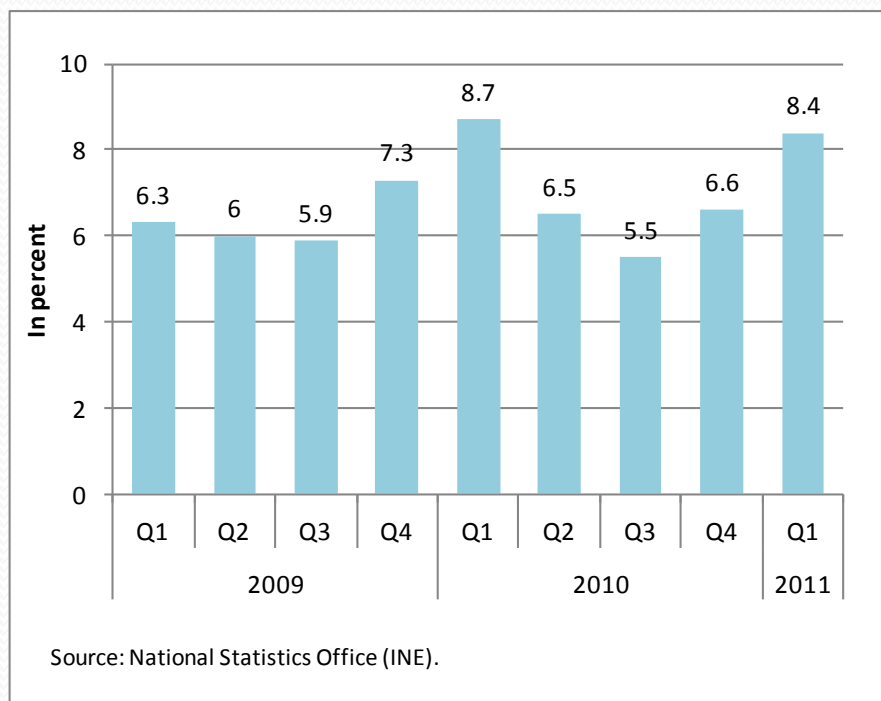
- The economy has been performing on the upside since the inception of the year :
 - Real GDP is recovering gradually well : latest growth rates are close to the peak observed in the first quarter of 2010 and much higher than the 2009 first quarter outcome;
 - The inflation has decelerated and been brought to the single digits level;
 - The strengthening of the metical has to a certain extent helped to curtail inflation.
 - The current account deficit in the first quarter is under control: preliminary data show that, despite higher imports, it did not deteriorate with respect to same period last year.



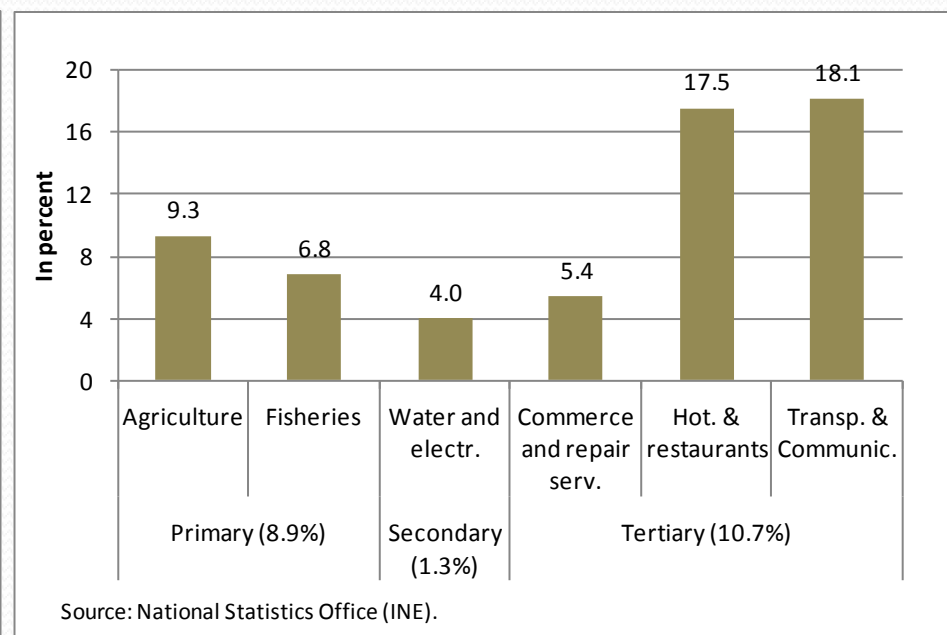
Mozambique Economy: Recent Developments

Gross Domestic Product (GDP)

Quarterly real GDP growth, 2009Q1 to 2011Q1



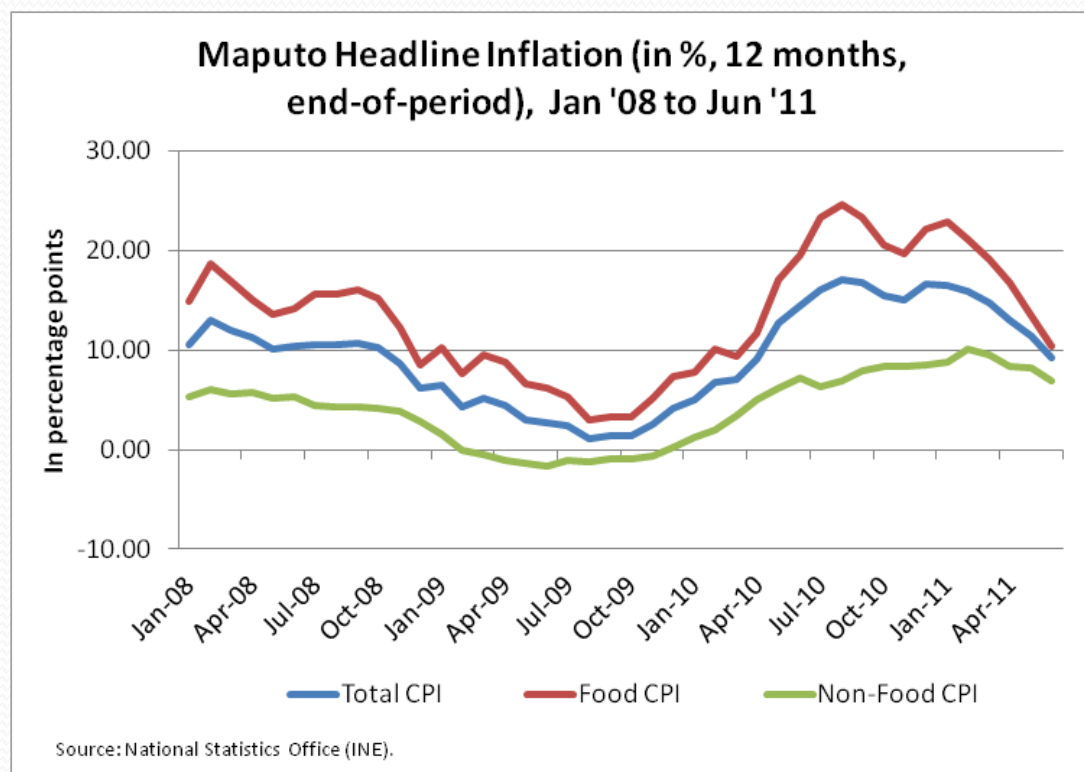
Most dynamic sectors in the 2011 1st quarter



Mozambique Economy: Recent Developments

Inflation

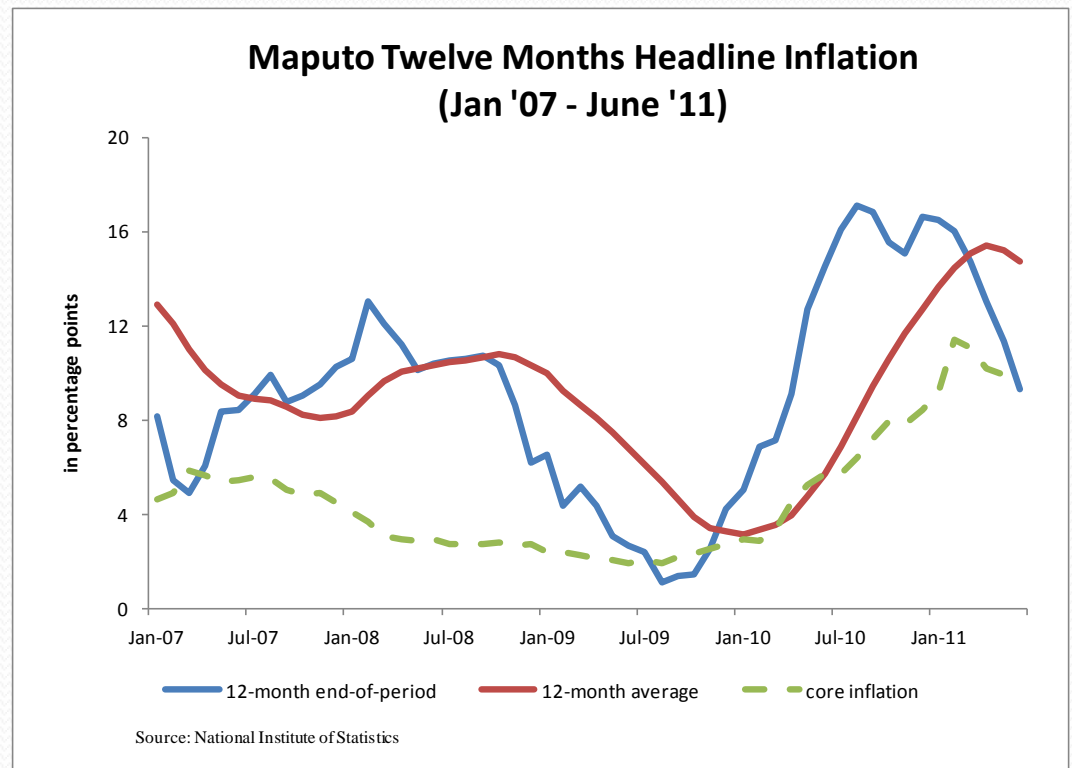
- In June 2011, total end-of-period inflation further declined to the single digits (9.3 percent – slightly above our end-year target) on account of negative inflation observed in June (-0.6 percent).
- This result comes not as a surprise as prices in June do not tend to show upticks.
- In line with our advice and as a result of a combined effect of the latest tightening of monetary policy at end-2010 and exchange rate appreciation, second-round effects from previous shocks appear to be losing steam.



Mozambique Economy: Recent Developments

Inflation

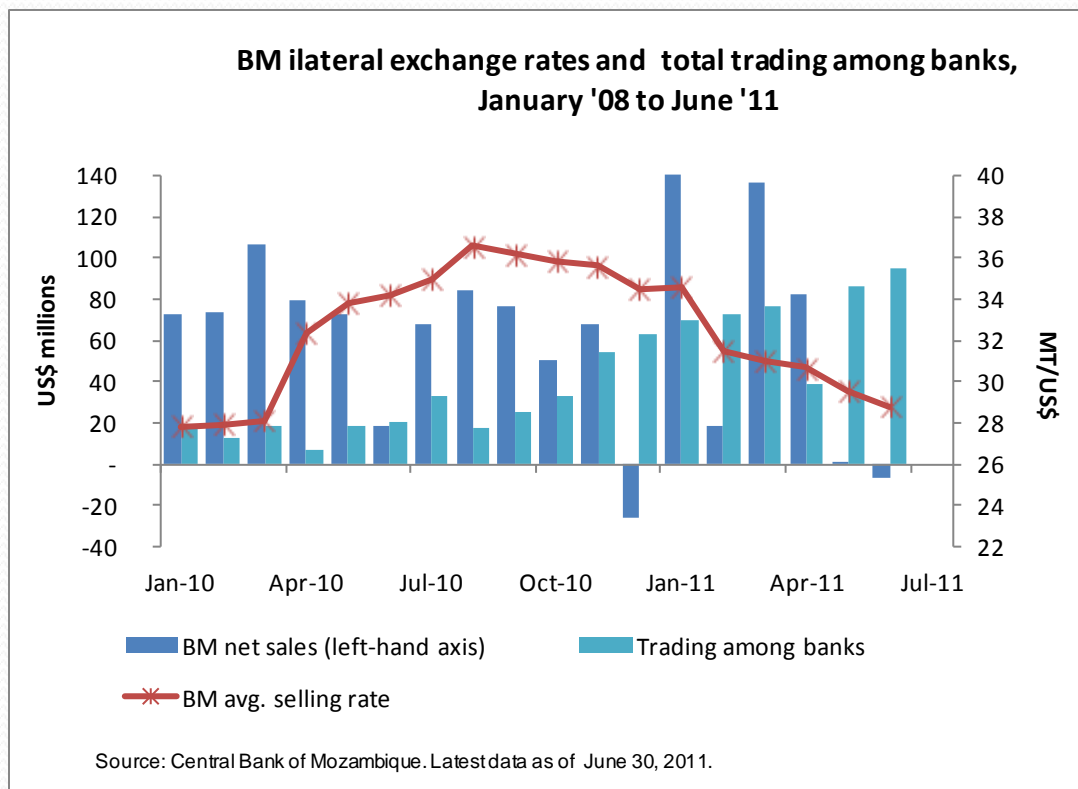
- Following the downtrend in the headline CPI, average and core inflation have also declined.
- The main inflation downward drivers in June were food items (especially vegetables such as tomato, lettuce and collard greens), transport (mainly second-hand vehicles and car wash services), IT & telecommunications equipment and accessories (e.g. computers, cell phones).
- Clearly falling prices of all these items (including foodstuff) seem to be also connected to the exchange rate appreciation.



Mozambique Economic Outlook : Recent Developments

- The Metical has been strengthening for almost a year. In 2011, it appreciated against the US dollar by around 14 percent through July.
- This appreciation trend seems currently to be a market-driven phenomenon and triggered by positive BOP developments in the first quarter of 2011.
- If this appreciation seemed to be induced by the official net selling of reserves in the first quarter, more recently the exchange rate appears to be appreciating without any interference of the BM.

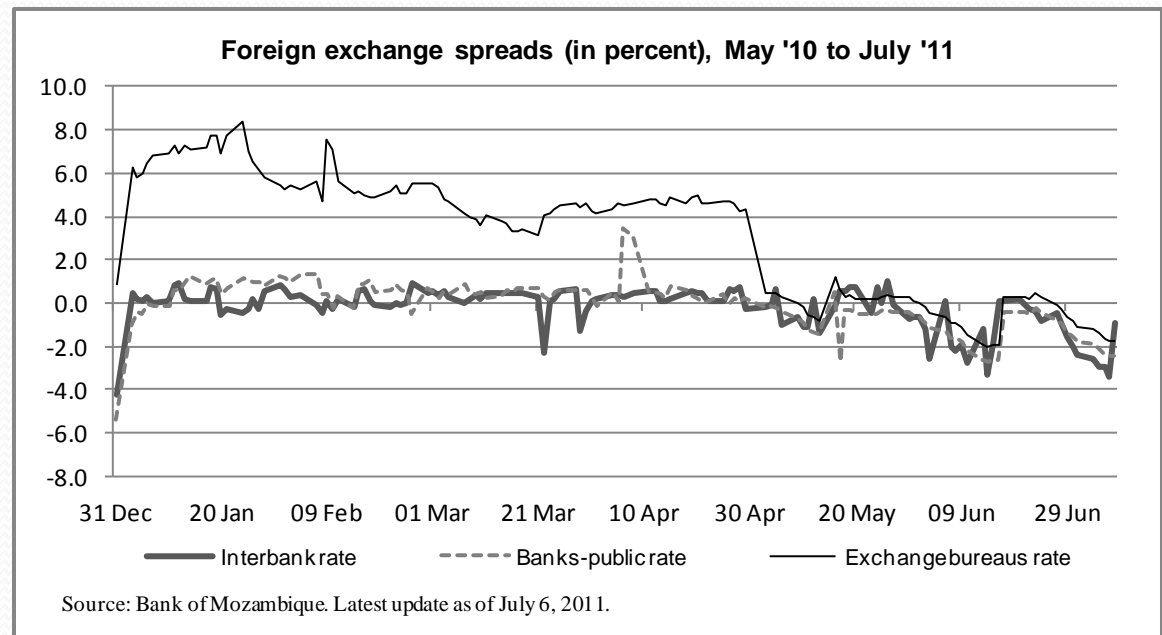
Exchange rate



Mozambique Economy : Recent Developments

Exchange rate

- The interbank market is flooded of US dollars since the last quarter of 2010. As a result, the foreign exchange spreads in the segments outside the interbank market (e.g. retail, exchange bureaus) vis-à-vis the BM average selling rate converged into around zero.
- The entry into force of the foreign exchange regulation on July 11 may contribute to increase availability of foreign exchange in the segments outside the interbank market and, thus reduce volatility of spreads.



Mozambique Economy : Recent Developments

Balance of payments

- Preliminary data from the first quarter of 2011 show that:
 - The current account deficit remained unchanged with respect to same period last year.
 - The trade balance deteriorated somewhat on account of higher imports (mainly fuels and megaproject purchases abroad) but ...
 - ... buoyant megaproject exports, current transfers and FDI inflows, offset the higher imports.





Thank you!

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