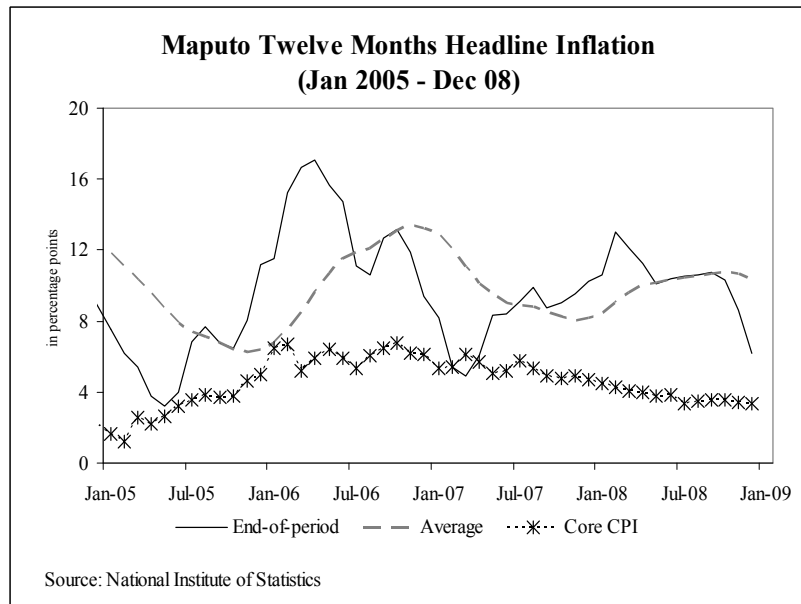
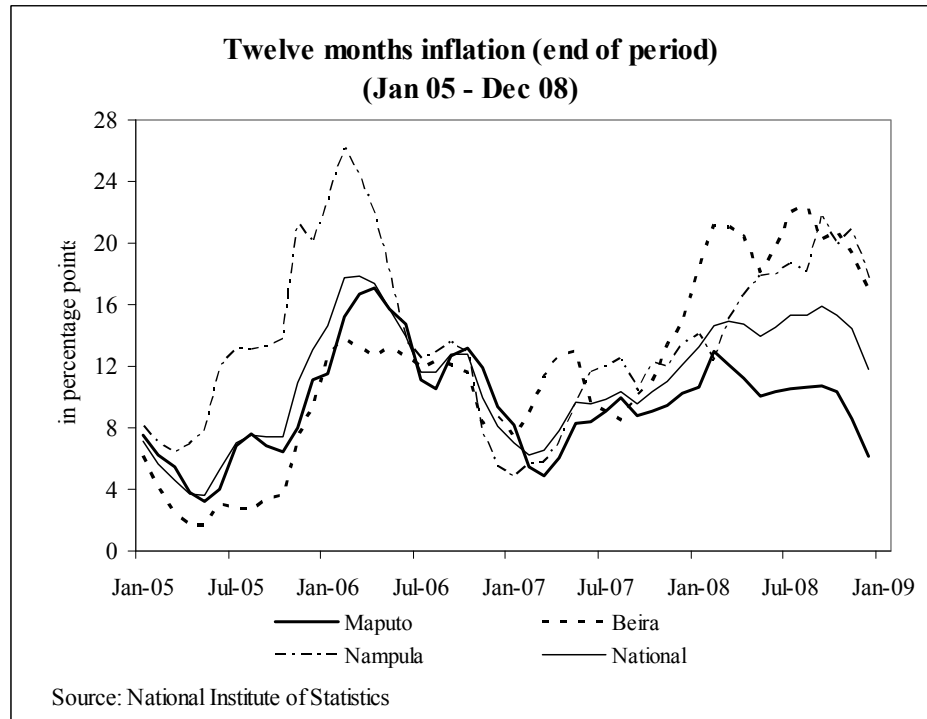


**Presentation of the IMF Resident Representative in Mozambique to  
the Development Partner Group: February 05, 2009<sup>1 2</sup>**

**After relatively low inflation between October and December 2008 Maputo ended the year with a headline inflation of 6.2 percent (against 10.3 percent in December 2007) and an average inflation of 10.3 percent (against 8.2 percent in December 2007)—or lower than what had been projected under the IMF program review.**

While the last quarter typically experiences high inflation rates the December 2008 headline inflation was below 0.5 percent (against 2.8 percent in December 2007 and 2.1 in December 2006). The main factor of the low inflation over the last two months was the reduction in fuel prices.

Core inflation in Maputo city continued to decline from 3.5 percent in October to 3.3 percent in December 2008.



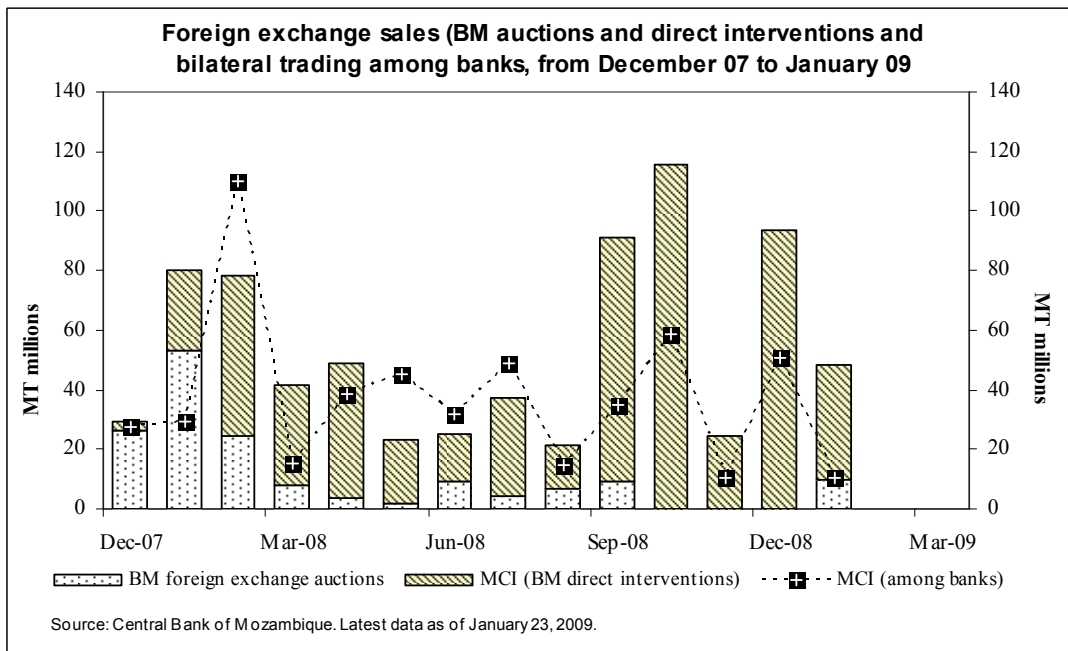
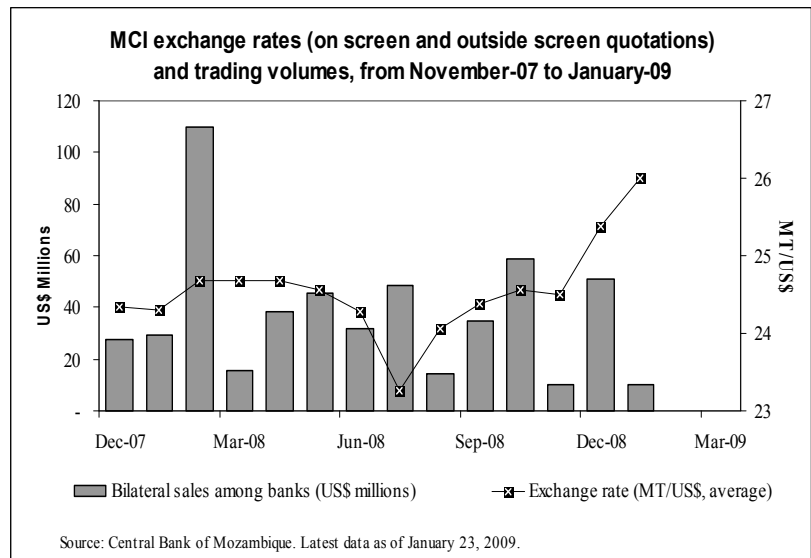
<sup>1</sup> The Development Partner Group consists of heads of mission in Mozambique of bilateral donors, the UNDP, and the international financial institutions.

<sup>2</sup> This document has not been approved by the IMF Executive Board.

**With low inflation rates in November and December 2008 also recorded in Beira and Nampula, the national headline inflation declined from 15.9 percent in September to 11.8 percent in December 2008—lower than in 2007 (12.1 percent).** However, as the average inflation rate continued to rise over the same period in Beira and Nampula, the national average inflation ended at 14.5 percent, or higher than in 2007 (9.2 percent). In Beira, the 12-month end-of-period inflation rate stood at 19.3 percent in November and 17.0 percent in December. In Nampula, the 12-month end-of-period rates recorded 20.9 percent in November 2008 and 17.7 percent in December. Again, the main factor of the relatively low inflation over the last two months was the reduction in fuel prices.

**The depreciation of the metical against the US dollar accelerated somewhat in December 2008 and January 2009.** The foreign exchange interbank market at end-December traded at 25.39 MT/US\$ and on January 23 at 25.99 MT/US\$.

**From November to January 2009, the Bank of Mozambique lowered its interventions on the foreign exchange market (MCI) compared to previous months and with the exception of one operation in January made no use of foreign exchange auctions.**



**Consistent with the recent successive reduction in inflation, including core inflation, the Central Bank announced at its annual meeting in Beira a cut in its policy interest rates on its standing credit and deposit facilities and reduced the legal reserve requirement for the commercial banks.** The Credit Facility rate (FPC) was reduced from 14.5 percent to 13 percent and the Deposit Facility rate (FPD) from 10.25 percent to 7 percent. The widening of the interest rate corridor is hoped to help develop a market-based yield curve as interest rates are currently strongly biased towards the FPC rate. The legal reserve requirement was lowered by 50 basis-points to 8.5 percent, effective on February 7, 2008.

**Until January, nominal market determined interest rates remained unchanged compared to end-2008.** As headline inflation is declining, real interest rates increased to 6.1 percent in December 2008 up from 3.7 percent in September 2008.

**Interest rates (December 2004 - January 2009)**

	2004	2005	2006	2007	2008				2009		
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Jan 1/	Feb	Mar
<b>Central bank policy rates</b>											
FPC 2/	13.5	13.8	17.5	15.5	14.5	14.5	14.5	14.5	14.5		
FPD 3/	6.3	7.8	13.0	10.5	10.3	10.3	10.3	10.3	10.3		
<b>Central bank reverse repo auctions</b>											
Overnight 4/	6.4	7.8	13.2	-	10.3	-	-	-	-		
2 to 6 days 5/	6.4	8.1	13.2	12.0	10.8	10.8	-	-	-		
7 days 6/				-	-	10.8	13.2	13.3	13.0		
<b>Treasury bills auctions</b>											
91 days	10.5	10.2	15.8	14.8	13.5	13.5	14.0	14.1	14.0		
182 days	11.0	11.1	16.1	15.0	13.8	13.8	14.2	14.3	14.2		
364 days 7/	9.1	11.6	16.5	15.1	14.0	14.0	14.4	14.5	14.4		
364 days real interest rate 8/	-1.1	3.1	5.0	5.5	2.1	3.5	3.7	6.1			

1/ Latest data as of January 23, 2008.

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**

- **The Board completed the third review of the Policy Support Instrument (PSI) on January 9, 2009 on a laps of time basis.** The board paper and the Memorandum for Economic and Financial Policies, (MEFP) as well as the Debt Sustainability Analysis

(DSA) are available on the IMF's external webpage under <http://www.imf.org/external/pubs/cat/longres.cfm?sk=22691.0>

- **An IMF/World Bank Financial Sector Assessment Program (FSAP) mission will assess the Mozambican financial sector from February 10-24, 2009.** Against the background of a comprehensive reform program implemented following the 2003 FSAP assessment, the mission will assess compliance with standards and analyze structure, performance, and stability in key sectors and markets. The mission will review the implementation of recommendations from the 2003 FSAP, and provide policy recommendations in relevant areas. It will analyze recent structural and regulatory changes and macro-financial linkages in light of the current global uncertainty. The main tasks of the mission will be to assess (i) the structure, performance, and soundness of key markets and institutions, in particular in the banking sectors, but also of money and public securities markets and the pension system; (ii) developments and potential improvements to central bank operations and payment systems; (iii) stability of the banking system, including through stress tests and scenario analysis, as well as by reviewing risk management and crisis preparedness; (iv) access to finance issues, in particular for the underserved rural areas; and (v) compliance with the Basel Committee's *Core Principles for Effective Banking Supervision (BCP)*, and the *Core Principles for Systemically Important Payment Systems (CPSIPS)*.
- **A Fiscal Affairs Department (FAD) Evaluation mission for technical assistance will visit Maputo from February 16-20, 2009.** Mozambique and Cambodia are two of the few countries in which FAD's TA on Public Finance Management (PFM) has been delivered under the umbrella of a multi-donor financial arrangements. The evaluation will assess the IMF's shift towards external financing of TA. The evaluation could help draw lessons on how FAD could coordinate more effectively with donors and attract new TA financing to promote countries' PFM reform efforts.