



# Presentation of the IMF Resident Representative Office in Mozambique to the Development Partner Group<sup>1,2</sup>

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September 15, 2010

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

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

# Outline of the presentation

- Recent developments and outlook
- September 2010 Social Unrest: Preliminary Assessment



# Recent developments and outlook

## Growth remains strong

- Real GDP growth in the first semester for 2010 was 8.8 %
- The best performing sector was transport and telecommunications (11.3 percent), this time outpacing agriculture sector
- Our growth projections for 2010 and 2011 remain broadly unchanged but could be revised upwards in light of the stronger than anticipated performance so far.



# Recent developments and outlook

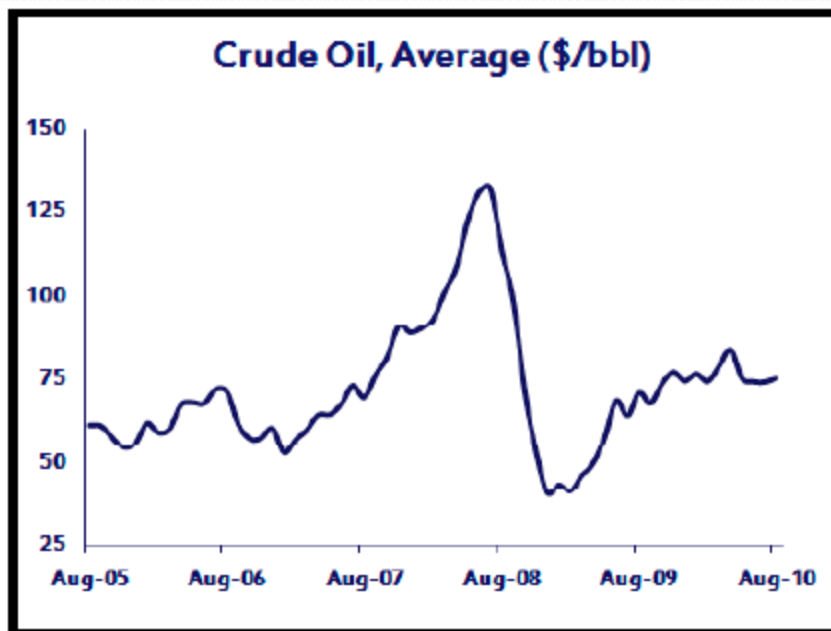
**However, the external environment has been less supportive than expected**

- In particular, the balance of payments has come under pressure from....

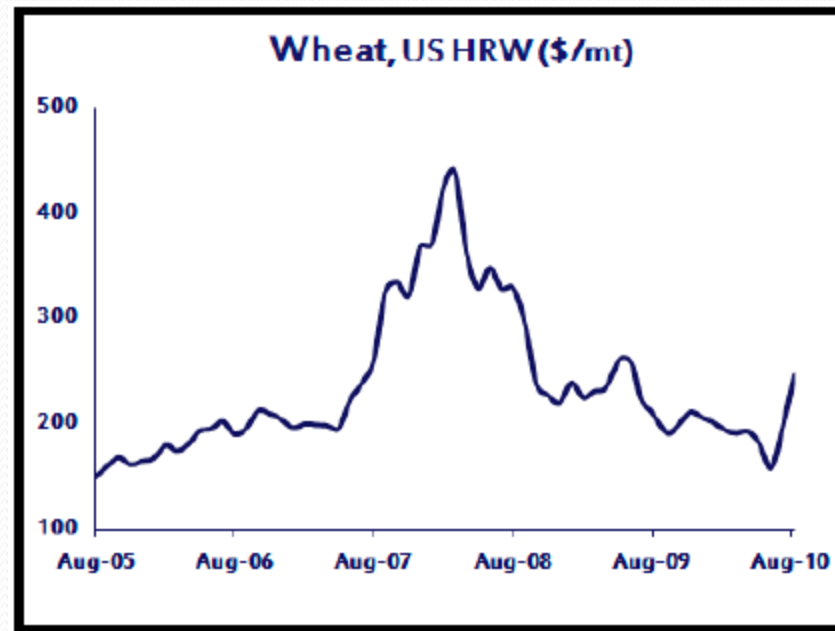


# Recent developments and outlook

## Rising fuel and food import prices



Source: WorldBank, Commodities Markets Review, September 2010.



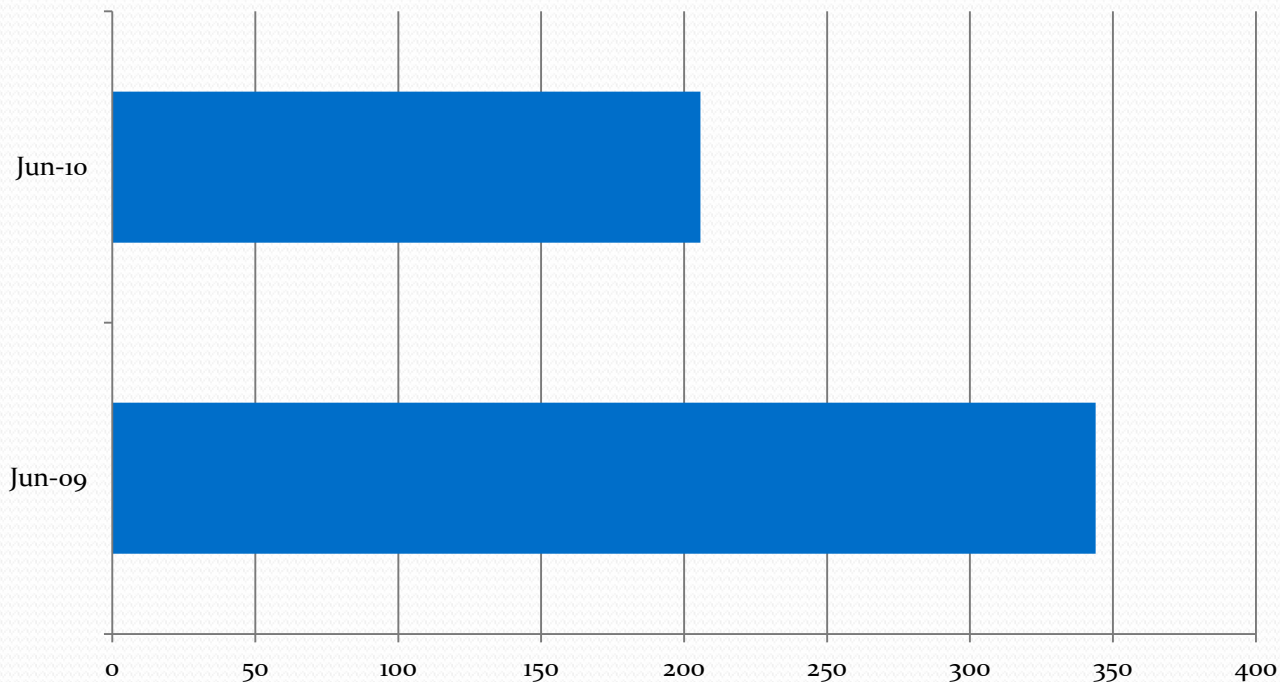
Source: WorldBank, Commodities Markets Review, September 2010.



# Recent developments and outlook

## Weak non-megaproject exports

Total exports excluding megaprojects, Jun '09 to Jun '10 (in US\$ millions)



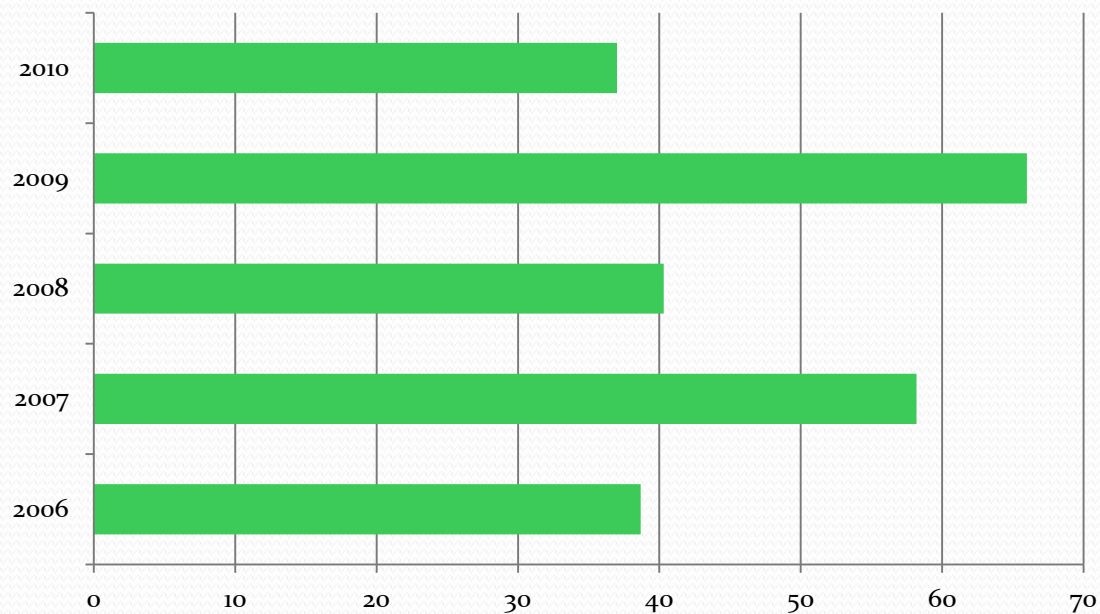
Source: Bank of Mozambique.



# Recent developments and outlook

## Delays in donor disbursements

Actual disbursement as a percentage of total disbursed in the first quarter, 2006-2010

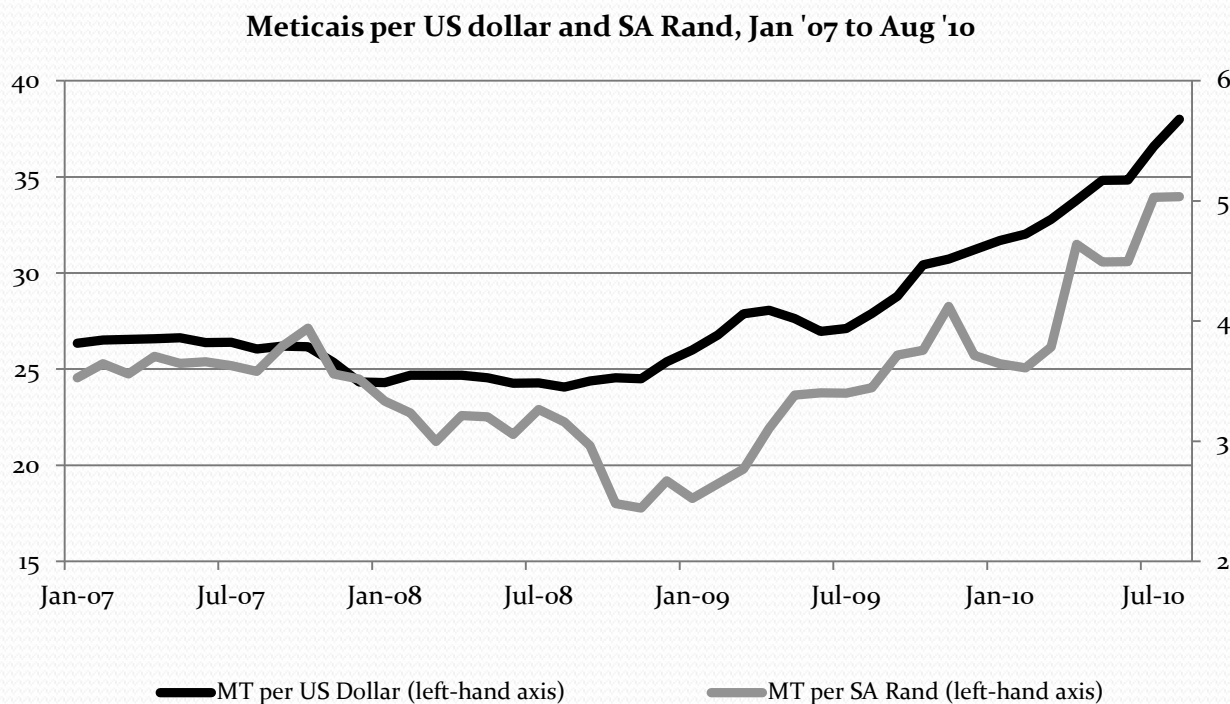


Source: PAP website, formal PAP communications to Government and PAP audit reports.



# Recent developments and outlook

As a result, the exchange rate depreciated markedly



Source: Bank of Mozambique and [www.oanda.com](http://www.oanda.com). Latest update as of August 31, 2010.





# Recent developments and outlook

- In the 12-months to end-August, the metical depreciated by more than 30 percent against the US dollar and about 50 percent against the South African rand.
- The Metical depreciation was accentuated by thin market trading and an accommodating monetary policy to provide sufficient private sector credit in the wake of the global economic crisis, has underpinned a surge in headline inflation



# Recent developments and outlook

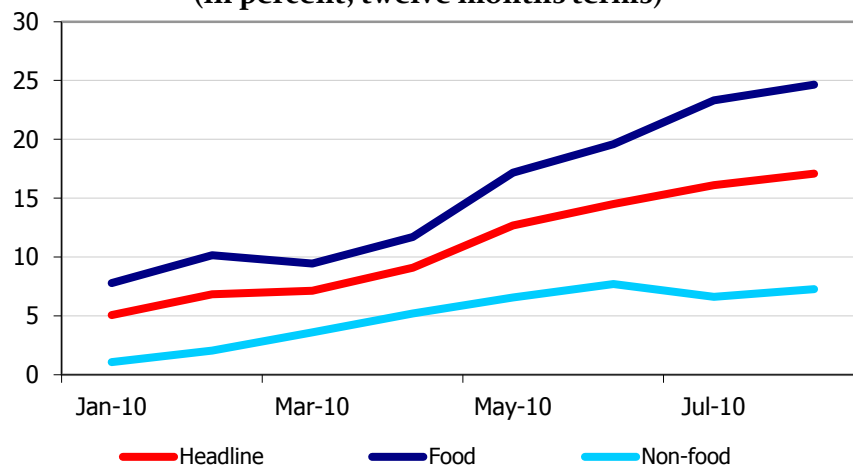
**The large depreciation has underpinned a surge in inflation:**

- Domestic prices of imported items increased sharply
- Domestic currency price of fuel imports increased by about 50 percent over the same period
- Inflation rate in August reached about 17 percent.



# Recent developments and outlook

Maputo inflation rates, Jan '10 to Aug '10  
(in percent, twelve months terms)



Source: National Statistics Institute (INE).

Trends in selected liquid fuels prices, Mar '10 to Aug '10

	Mar-10	Aug-10	Change (in percent)
Gasoline	26.57	40.00	50.5%
Diesel	24.70	30.98	25.4%
Kerosene	17.92	24.11	34.5%

Source: Ministry of Energy.



# Recent developments and outlook

- Inflationary pressures are likely to persist with the increase in fuel prices and as the end of the year, a season of high consumer demand and rising prices, approaches.
- Inflation expected to moderate in 2011 as international food and fuel import prices moderate and as a stronger external balance helps stabilize the exchange rate.



# Recent developments and outlook

## Keeping inflation under control requires a tighter monetary policy

- The Bank of Mozambique already moved to tighten monetary further in September by:
  - increasing FPC policy rate by 100 basis points to 15.5 percent;
  - raising reserve requirements by 25 basis points to 8.75 percent (in July the BM had risen it by 50 basis points to 8.5 percent);
  - step up interventions in the monetary and foreign exchange interbank markets.



# Recent developments and outlook

**Fiscal policy also needs to play a supportive role in curtailing inflation:**

- In particular, room to expand domestic financing in the 2010 budget to finance the announced measures is limited.



# September 2010 social unrest: preliminary assessment

## ➤ Costing exercise still on-going:

- It is still too early to make a full assessment of the measures, including on their budgetary costs.
- Bank and Fund staff has been working together to identify the specifics of all the measures to properly cost them.
- We are also trying to obtain some estimates of the magnitude of the savings obtained from the wage freezes and other non-priority spending cuts.



# September 2010 social unrest: preliminary assessment

## ➤ Preliminary views:

- But what is good about the measures is that they seem better targeted than a blanket fuel subsidy.
- The Government seems to have demonstrated an effort to identify and introduce measures where targeting to the poor was a key concern.
- We are satisfied with the fact that the government clearly announced the temporary nature of all these measures and has already indicated an exit strategy.





# September 2010 social unrest: preliminary assessment

## ➤ **Affordability will be crucial:**

- Care needs to be taken that measures remain affordable. This will be crucial as fiscal policy needs to be supportive of the envisaged tightening of monetary policy required to keep inflation under control and room to expand domestic financing of the budget is limited.
- After all keeping inflation under check is ultimately the most sustainable way to protect real incomes, particularly for the poorest segment of the population.



# September 2010 social unrest: preliminary assessment

## ➤ Partners have an important role to play:

- It would be important to assess if the authorities can be helped in the current environment, for example by tapping some additional financing;
- As a minimum, donors should ensure a timely disbursement in 2010 and 2011.



# September 2010 social unrest: preliminary assessment

## ➤ Permanent solutions:

- Over the medium-term, the government should step up its efforts to introduce social safety nets, such as conditional cash transfers to the poor, as was successfully done in countries such as Brazil and Mexico.
- Government should also continue to foster agricultural production.
- 2011 budget could already indicate some of these measures





Thank you!