

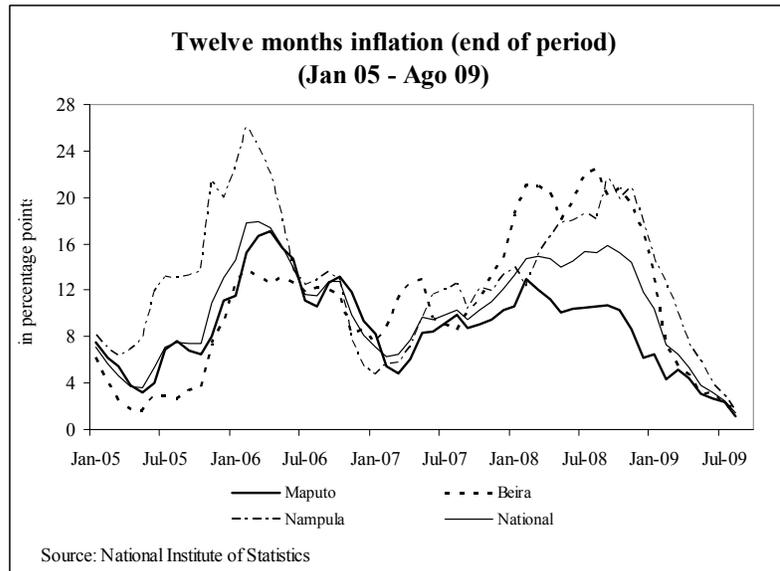
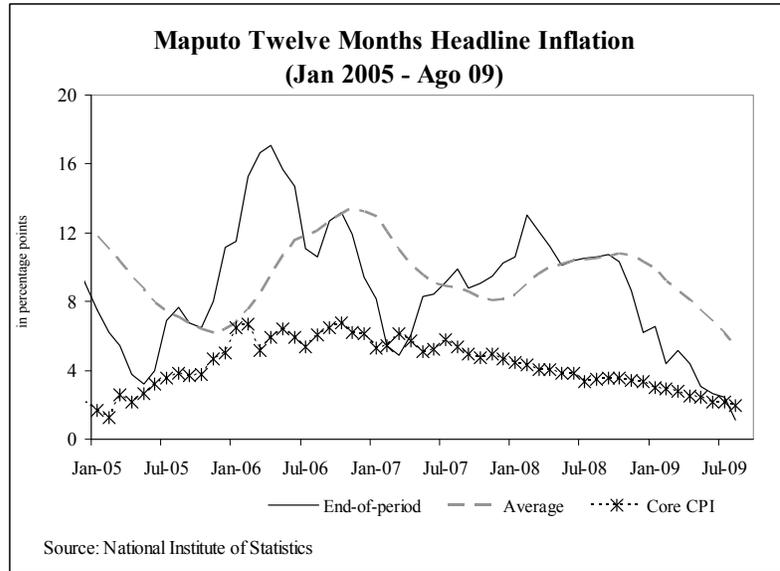
**Presentation of the IMF Resident Representative in Mozambique to
the Development Partner Group: October 1, 2009^{1 2}**

Inflation continued to drop in Maputo in the month of August. The monthly Maputo headline CPI rate was negative (-0.7), and for the first time in years the accumulated inflation (January through August) turned negative (-0.2). The end-period and average inflation rates consequently dropped to 1.1 and 5.4 percent.

The average CPI in Beira dropped below 10 percent for the first time since October 2007.

Meanwhile, core inflation further dropped, now standing slightly below 2 percent.

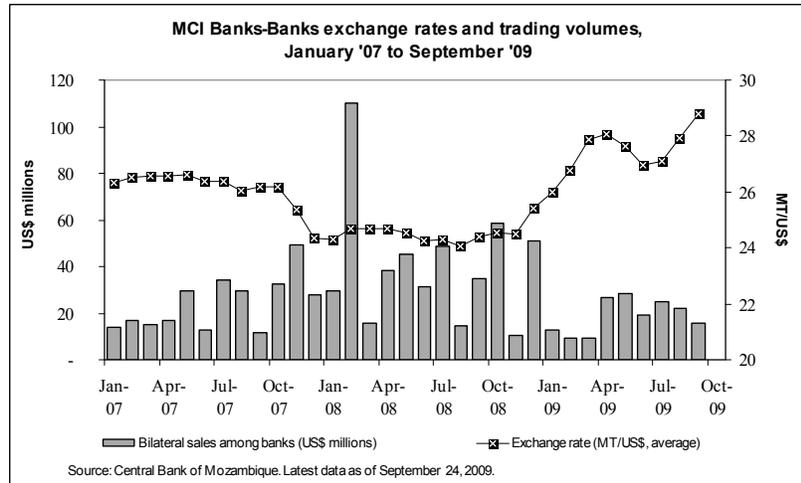
While tomatoes continued to be the major measured downward driver, it is the lack of a pass-through of international fuel prices to domestic prices that explains the unusually low price level, pointing to likely higher inflation next year for when a gradual return to a full pass-through of international fuel prices to domestic prices is expected.



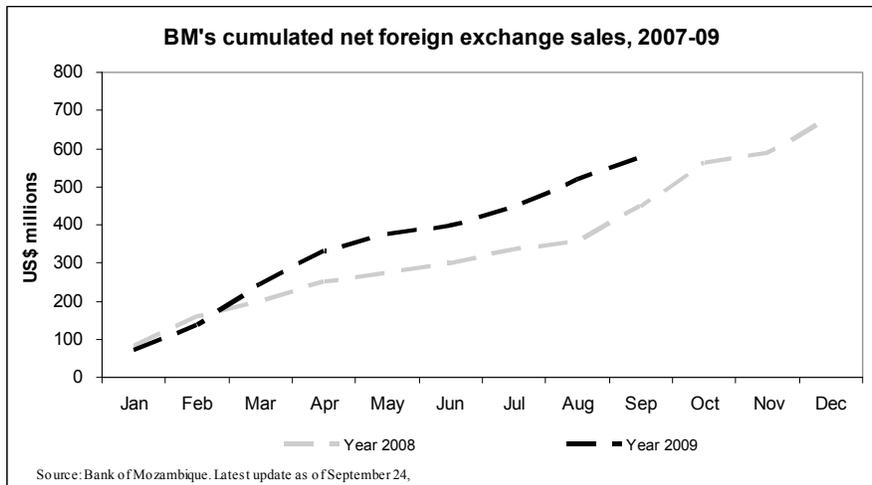
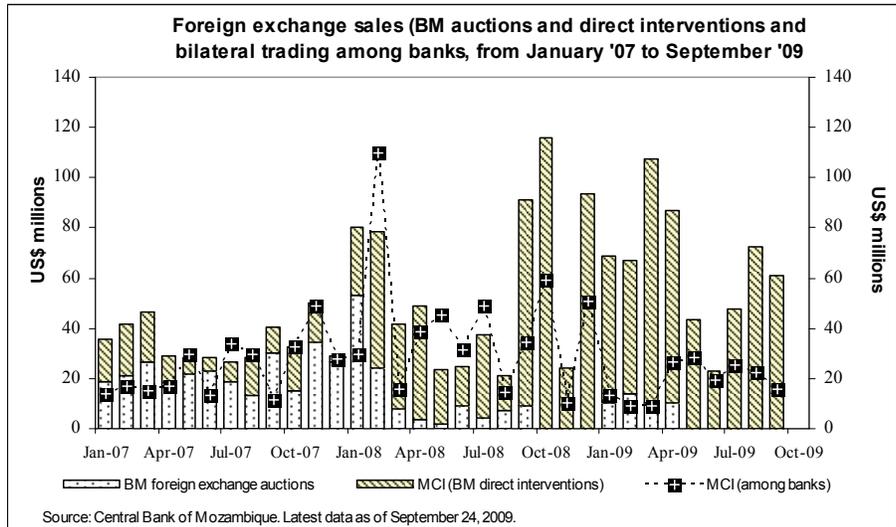
¹ The Development Partner Group consists of heads of mission in Mozambique of bilateral donors, the UNDP, and the international financial institutions.

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

The metical has been depreciating against the US dollar since July. In the MCI (Mercado Monetário Interbancário), the average exchange rate increased from 27.9 meticaïs per US dollar at end-August to 28.6 meticaïs on September 24th, implying a nominal depreciation of the metical vis-à-vis the US dollar of 13.4 percent since January.



The BM continued to sell substantial amounts of dollars in the foreign exchange market (MCI) (US\$73 million August and US\$61 million in September). Since May this year, the BM is selling its foreign exchange exclusively through the MCI. In 2009, the central bank has sold US\$578 million against US\$447 million twelve months earlier.



Nominal interest rates remained unchanged in August and September. Reflecting a continued drop in inflation, the 1-year real interest rate further increased to 9 percent.

Interest rates (December 2004 - August 2009)

	2004	2005	2006	2007	2008				2009				
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Jul	Aug	Sep 1/
Central bank policy rates													
FPC 2/	13.5	13.8	17.5	15.5	14.5	14.5	14.5	14.5	13.0	13.0	11.5	11.5	11.5
FPD 3/	6.3	7.8	13.0	10.5	10.3	10.3	10.3	10.3	7.0	7.0	3.0	3.0	3.0
Central bank reverse repo auctions													
Overnight 4/	6.4	7.8	13.2	-	10.3	-	-	-	-	-	10.0	5.5	6.2
2 to 6 days 5/	6.4	8.1	13.2	12.0	10.8	10.8	-	-	-	7.1	7.0	6.9	6.5
7 days 6/				-	-	10.8	13.2	13.3	8.3	8.3	7.1	7.1	7.0
Treasury bills auctions													
91 days	10.5	10.2	15.8	14.8	13.5	13.5	14.0	14.1	10.9	9.9	9.9	9.6	9.6
182 days	11.0	11.1	16.1	15.0	13.8	13.8	14.2	14.3	11.6	10.5	10.5	10.3	-
364 days 7/	9.1	11.6	16.5	15.1	14.0	14.0	14.4	14.5	12.1	11.1	11.1	11.0	11.0
364 days real interest rate 8/	-1.1	3.1	5.0	5.5	2.1	3.5	3.7	6.1	6.8	7.8	8.4	9.0	

1/ as of September 24, 2009

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 IMF 5th PSI/1st ESF review mission was concluded on September 23, 2009.** Economic growth in Mozambique is expected to temporarily soften to 4½ percent in 2009 but recover to 5½ percent in 2010 and 6 percent over the medium-term. The program envisages a careful unwinding of the accommodating policy stance in 2010, in tandem with the expected strengthening in economic activity. Fiscal policy should be somewhat tighter than previously expected, while the low core inflation (which is not affected by the delayed fuel price adjustments) should allow monetary policy to play a somewhat larger role in supporting private sector credit growth, given continued difficulties of some companies in reverting to their traditional external financing sources. The Executive Board meeting is scheduled for December 11, 2009.
- The IMF and World Bank Annual Meetings are scheduled for October 6-7, 2009 and will take place in Istanbul.**