



Overview of the Money Market and Foreign Exchange Market in 2011



- Only 53 out of 128 districts have at least 1 bank branch; therefore great opportunity to reach the “unbanked” via digital channels.

- Some quick financial statistics (as at end of Nov 2011):
 - Credit to the economy: MZN 95.3bn (+5.2% increase since beginning of 2011)
 - Foreign currency credit to the economy: MZN 21.9bn (- 19.3% contraction since start of 2011)
 - Total deposits: MZN 119.4bn (+5.4% increase since start of 2011)
 - Deposits in foreign currency: MZN 22.9bn (-11.8% decrease since start of 2011)
 - Foreign currency deposits decreased this year as market agents anticipated the reversal of the previous year’s Metical losses against the Dollar – Central Bank tightened monetary policy and intervened aggressively in the foreign exchange market.
 - The 90-day Export Remittance Rule will further account for the reduction of foreign currency balances over the remaining of 2011 and into the new year.

- The Capital market is virtually non-existent: only around MZN 14bn capitalization. A Treasury Bond issuance worth around MZN 2.6bn (roughly USD 96m) equivalent in Metical took place in December 2011 and was successful (2.5 times oversubscribed). The Treasury bond issue, which was also extended to foreign investors, had maturity of 5 years and offered a 17% semi-annual paying coupon for five semesters with a buy-out option at end of the fixed paying coupon period.

- FPC was raised from 15.5% to 16.5% in January 2011.
- The local currency liquidity shortfall for the first 7 months of 2011 combined with the improvement of the inflation environment prompted the monetary policy authority to take the following actions:
 - Reduction of the minimum reserve requirement: 9% to 8.75% effective 22 August 2011.
 - Reduction of the FPC (Standing Lending Facility): 16.5% to 16% effective 11 August 2011; and 16% to 15% effective 12 December 2011.
- Further FPC cuts (100 -150 basis points) during 2012 are projected, in line with inflation expectations for the period.
- According to recently published inflation figures, headline inflation declined to 5.46% in 2011 and expected to maintain 5-6% range over the medium-term. Although the annual inflation reading for 2011 came below Central Bank target of 7% the 12-month average inflation measure of 10,35% exceeded the full year objective of 8,34%.

Rates

In 2010 and 2011, rates applied on credit and deposit operations increased sharply due to tightening monetary policy and strong intervention in the foreign exchange market.

Average market credit rates for MZN per tenor

MATURITY	Jan-10	Fev-10	Mar-10	Abr-10	Mai-10	Jun-10	Jul-10	Ago-10	Set-10	Out-10	Nov-10	Dez-10	Jan-11	Fev-11	Mar-11	Abr-11	Mai-11	Jun-11	Jul-11	Ago-11	Set-11	Out-11
7	17,42	17,42	19,10	19,10	19,10	21,56	21,72	21,82	21,82	21,82	22,63	22,63	24,76	25,21	25,18	25,18	25,19	23,33	25,61	25,14	25,14	25,14
15	16,25	16,67	17,98	17,87	17,74	19,51	19,62	19,82	20,07	20,01	20,18	20,87	24,31	24,78	24,10	25,19	22,89	24,61	24,68	24,85	24,43	24,72
30	17,27	16,78	17,33	17,45	18,56	18,51	18,82	17,55	22,97	19,84	19,93	20,68	23,70	24,12	24,22	25,53	23,43	25,62	24,26	22,98	22,76	23,05
45	15,57	16,33	17,18	18,34	18,10	20,49	20,46	20,46	21,85	21,98	21,65	22,05	24,62	24,65	24,68	24,81	24,66	24,40	24,80	24,27	24,12	23,91
60	15,99	17,01	17,57	18,35	18,74	20,13	20,04	19,90	21,99	21,23	19,91	20,84	22,67	21,79	22,47	23,04	22,18	23,37	24,04	22,75	22,26	22,05
90	19,50	19,54	19,77	19,76	19,82	20,56	21,19	21,95	22,38	21,75	20,95	21,46	22,87	22,94	23,11	24,29	23,58	24,59	24,03	24,53	24,17	24,11
180	19,18	19,23	20,30	20,18	20,53	20,94	21,36	22,26	22,60	21,68	21,44	21,96	23,26	23,34	23,34	23,55	23,26	24,14	24,28	24,39	24,54	24,50
1 year	19,10	19,10	19,14	18,57	18,79	19,23	19,99	20,39	20,78	21,18	21,25	21,67	23,13	23,59	23,38	23,46	23,46	23,49	23,87	23,72	23,74	23,72
2 year	20,29	20,32	20,78	20,46	20,57	20,62	20,93	21,36	22,53	23,03	22,59	22,56	24,01	23,67	23,88	24,43	23,86	24,46	24,87	25,05	25,10	25,03
more than 2 year	19,35	19,89	20,21	20,16	19,56	20,36	21,03	21,09	22,30	22,98	22,75	22,84	22,92	23,03	23,30	22,79	23,15	23,78	24,73	23,63	23,55	23,57
Prime rate	14,36	14,36	14,55	14,56	15,08	16,33	16,38	16,89	17,45	17,90	18,30	19,00	19,17	19,17	19,17	19,17	19,17	19,17	19,21	19,14	19,07	19,07

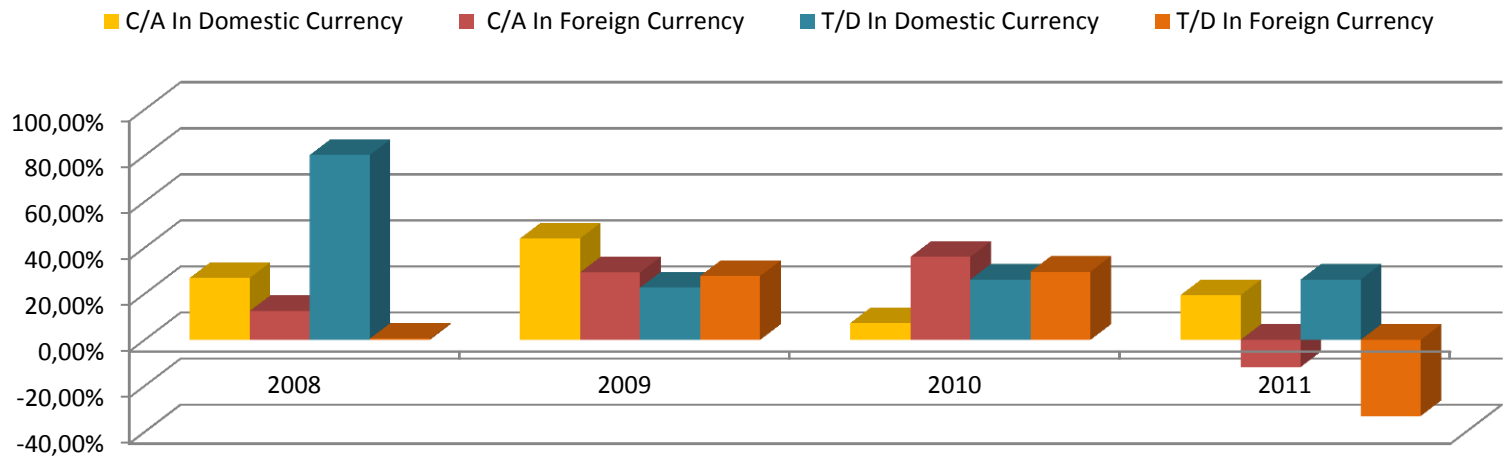
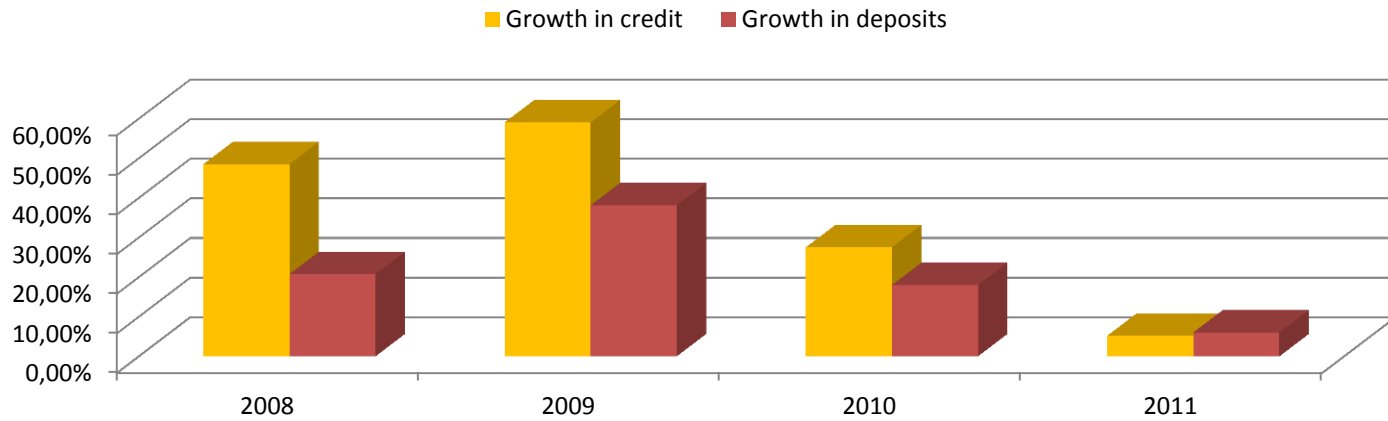
Source: Banco de Moçambique

Average market deposit rates for MZN per tenor

MATURITY	Jan-10	Fev-10	Mar-10	Abr-10	Mai-10	Jun-10	Jul-10	Ago-10	Set-10	Out-10	Nov-10	Dez-10	Jan-11	Fev-11	Mar-11	Abr-11	Mai-11	Jun-11	Jul-11	Ago-11	Set-11	Out-11
30	7,05	5,63	6,01	7,00	6,40	7,08	7,75	7,85	9,88	9,24	9,68	9,20	10,25	10,37	9,66	10,45	10,46	11,18	10,16	10,11	10,42	10,84
45	7,84	8,93	7,40	6,61	8,83	9,41	9,83	10,55	10,63	10,95	11,32	12,32	12,24	13,19	13,47	12,43	13,36	12,96	13,19	12,94	11,65	13,68
60	7,12	7,17	6,83	6,14	6,32	7,26	8,44	8,68	8,94	8,42	9,64	10,64	10,19	10,63	11,22	11,15	11,15	11,79	11,43	12,25	12,04	12,23
90	8,27	7,92	7,96	7,98	8,49	8,64	9,35	9,83	10,11	10,29	10,53	11,12	11,24	12,03	12,29	12,67	12,24	11,40	12,12	12,23	12,21	12,43
180	8,29	8,23	8,35	8,73	8,84	8,98	9,56	10,46	10,84	11,01	11,48	11,54	12,63	12,67	12,77	13,30	13,49	13,09	13,28	13,27	12,76	13,13
1 year	9,60	9,64	9,66	9,71	9,69	9,97	10,34	10,75	11,03	11,16	11,71	12,18	12,61	13,03	13,01	13,14	13,28	13,21	13,31	13,07	13,01	13,18
+ 1 year	9,76	9,77	9,35	9,09	9,15	9,95	9,55	10,45	11,83	12,60	13,70	14,28	14,36	14,49	14,48	14,45	14,31	14,30	14,75	14,58	14,18	14,08

Source: Banco de Moçambique

Higher interest rate environment in 2010 and 2011 contributed to flat growth in deposit funding (+6.04%) and credit advances (+5,20%)

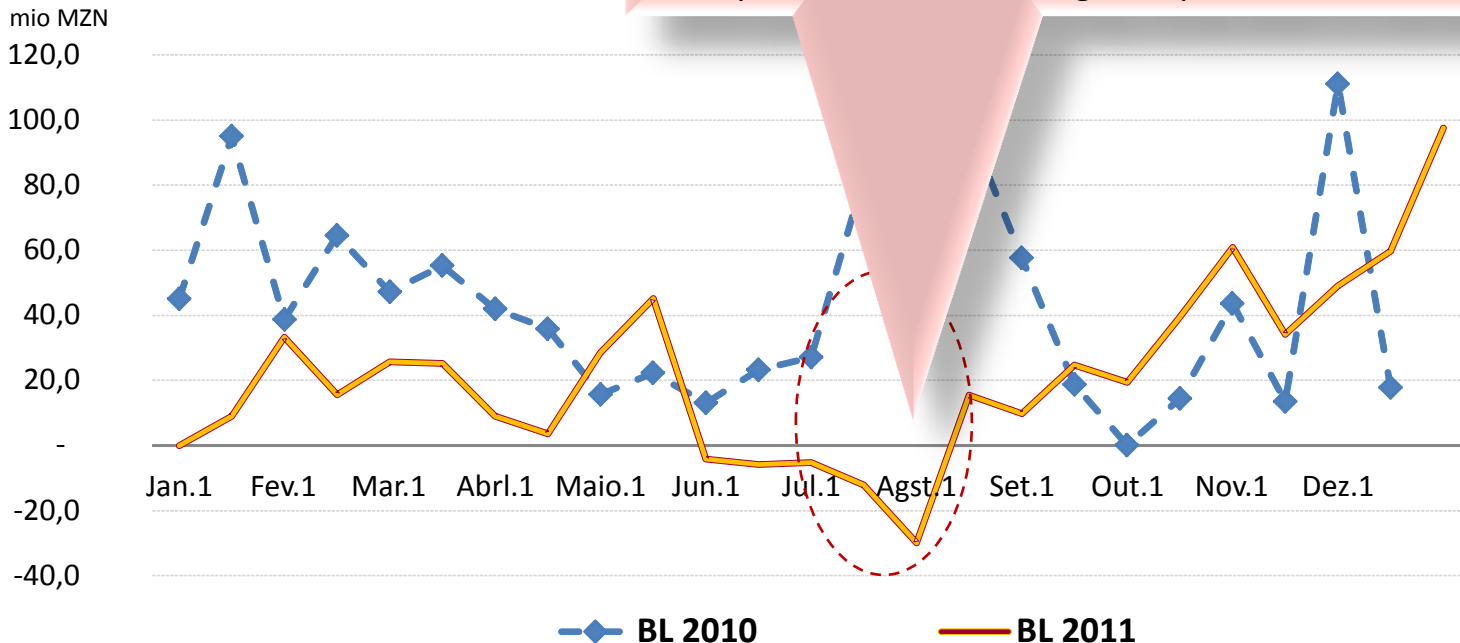


Source: Banco de Moçambique

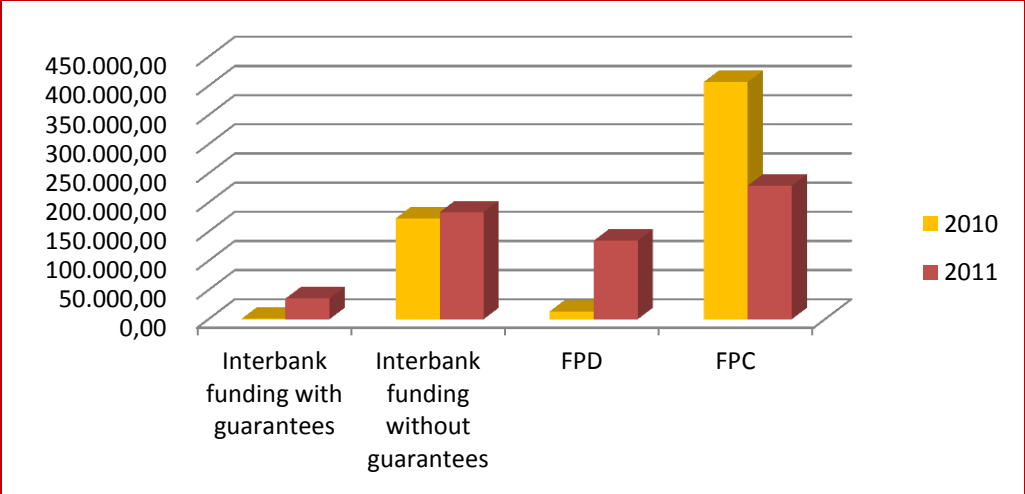
Money Market trends: Interbank liquidity was in considerable deficit for most of 2011 turning very liquid by the end of the year.

Evolution of bank liquidity 2011-2012

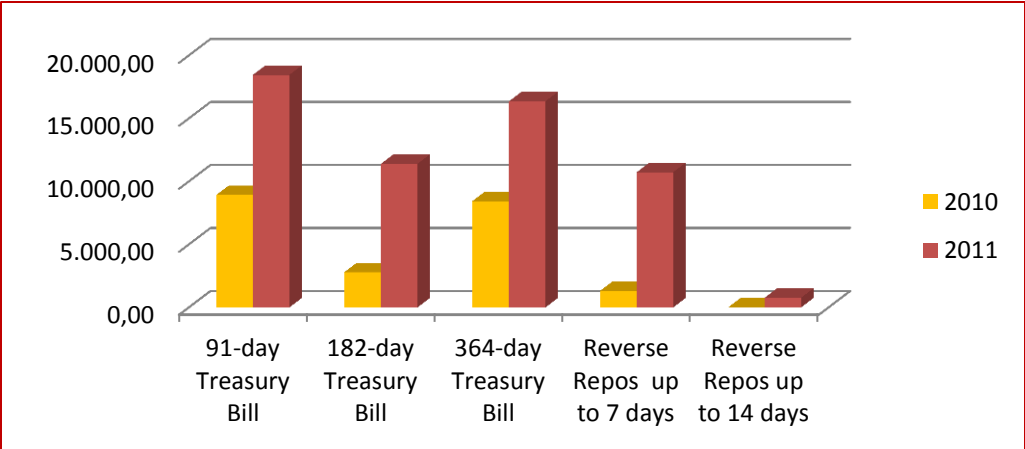
Bank liquidity rose consistently since August 2011, prompting a reduction in money market rates as shown in the next slides. The lagged impact of central bank bilateral purchases of foreign currency in the second quarter (MZN 3bn), maturing t/bills in July (MZN 928m) and injection of budget execution funds (MZN 2.7bn) in August bolstered bank liquidity in the third quarter of 2011 inducing a drop down in interbank rates.



Source: Banco de Moçambique



The interbank money market turned a surplus position from the third quarter of 2011 onwards after running large deficits since 2010. Central Bank monetary easing policy and strong bilateral purchases of excess Dollars brought domestic liquidity back into the market. Surplus domestic liquidity in 2011 propped up Interbank funding without guarantees (+6,12%), overnight deposits at FPD (+90,06%), investments in Treasury Bills (+56,36%) and reverse repos operations (8,6x higher) than in 2010.



Source: Banco de Moçambique

Money Market in 2012: lower inflation outlook expected for 2010; money supply growth restrictions and stronger Metical underpin lower inflation expectations and interest rates.

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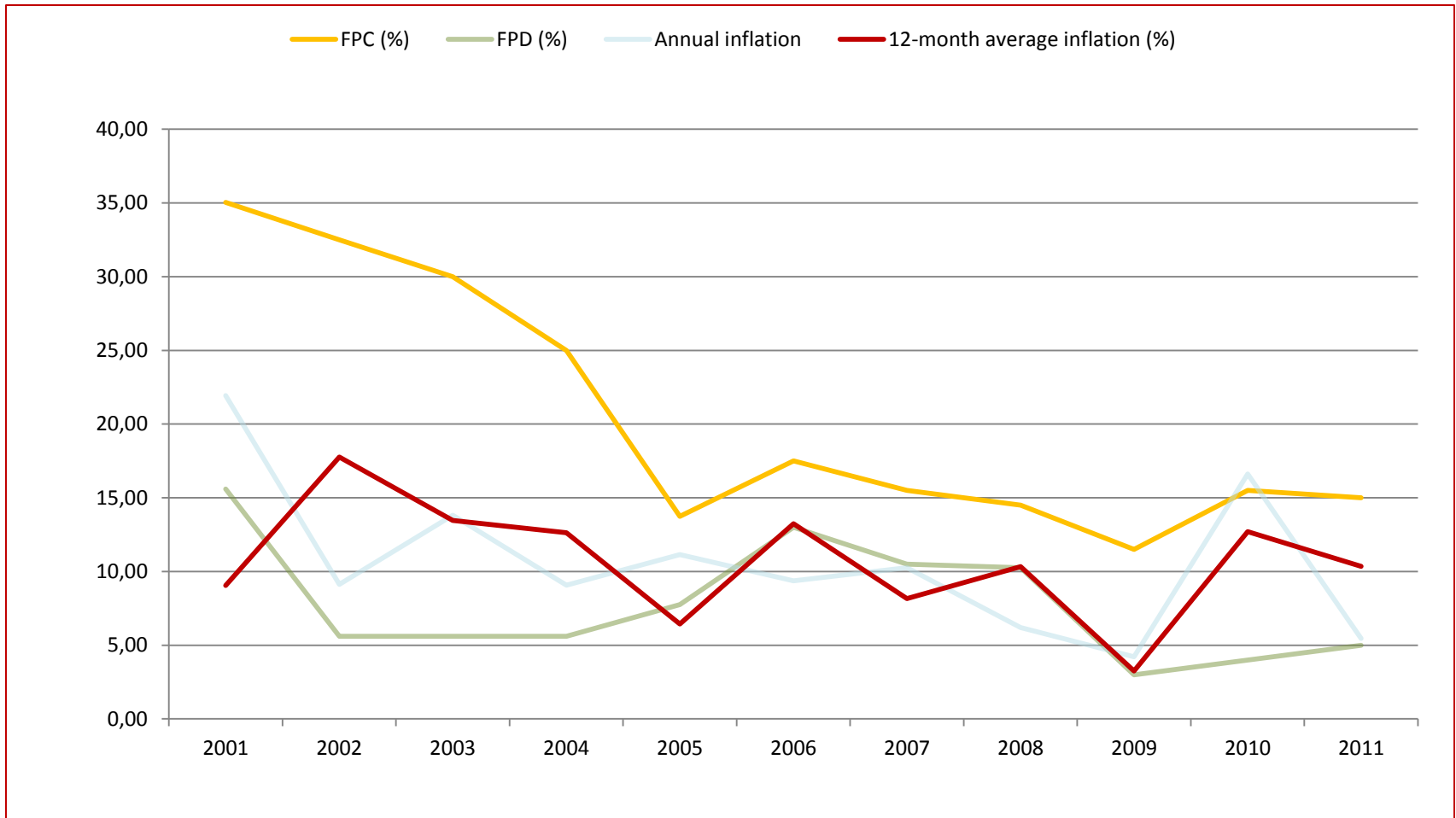
The interbank market has an excess of domestic liquidity of an average of around MZN 2bn per day. These surplus funds are bringing down the level of interbank rates which could affect the interest rate offer in the retail and corporate bank segments. Monetary policy is being geared toward restraining money supply growth, keep the currency steady to check imported inflation. Money supply target for January 2012 was MZN33bn.

MATURITY	31 December 2011	31 January 2012	Absolute Var.
Monetary Base	34.317,20	31.942,6	-2.374,6
Liquidity in banking system	118,20	321,3	+203,1

Description (in mio, MZN)	01-31 January 2012	Weighted avg. rate	2011 peak rates
91 day Treasury Bill	2.300,00	10,43%	16,45%
182 day Treasury Bill	1,500.00	11,13%	16,48%
364 day Treasury Bill	2.050,00	11,30%	16,49%
FPD	43.593,00	5,00%	5,00%
FPC	3.128,90	15,00%	16,50%
Interbank funding	14.456,50	10,84%	16,10%
Reverse Repos	7.619,90	8,58%	Not Applicable

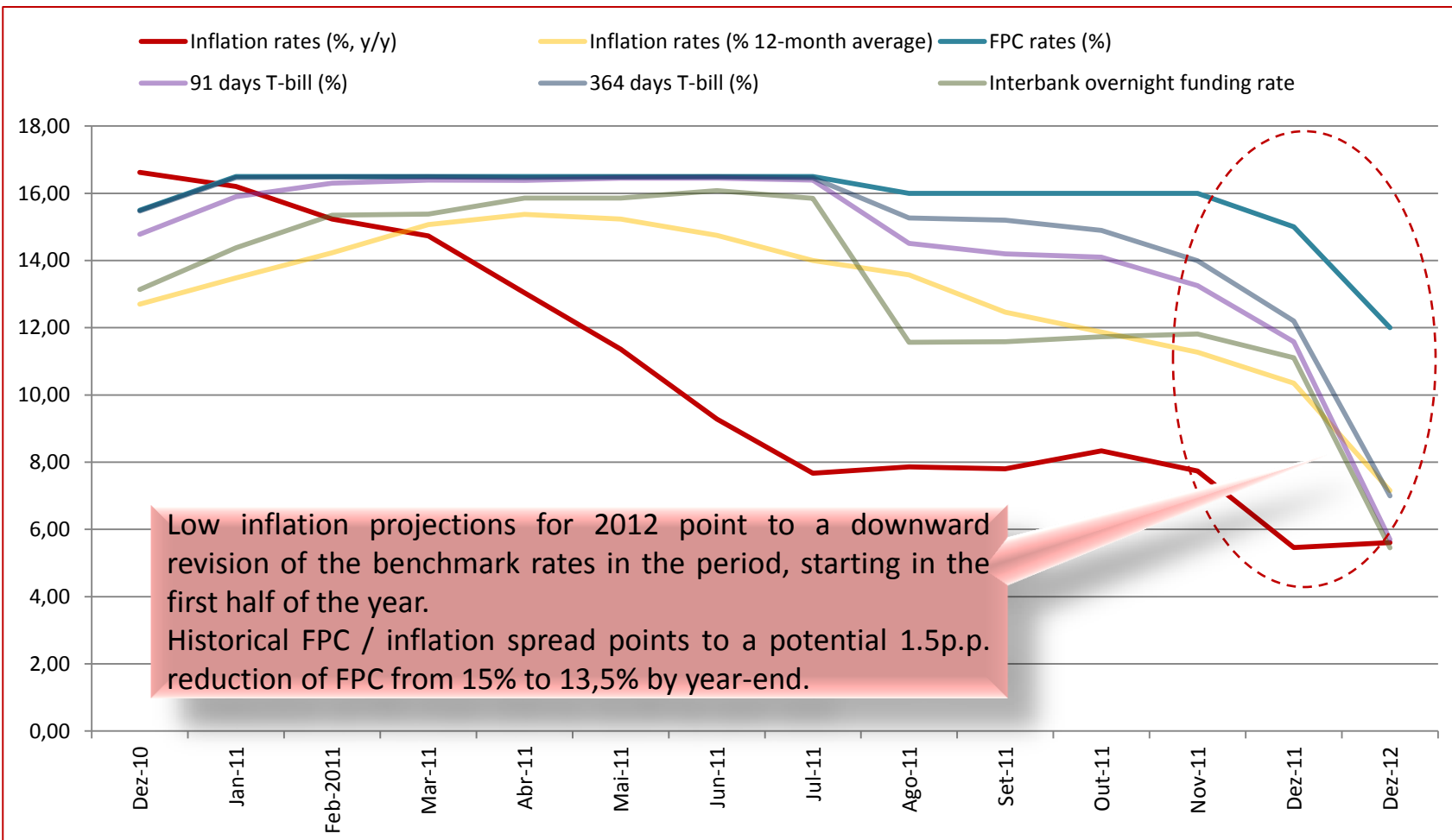
Source: Banco de Moçambique

Historical presentation of rates of inflation and benchmark rates: policy rate decision mainly based on the 12-month average inflation; policy rate cuts of at least 150 basis points expected during 2012



Source: Banco de Moçambique & Instituto Nacional de Estatística

Money Market Trends for 2012: Single digit inflation projected for 2012, FPC expected to be revised from 15% to around 13.5% by end of year



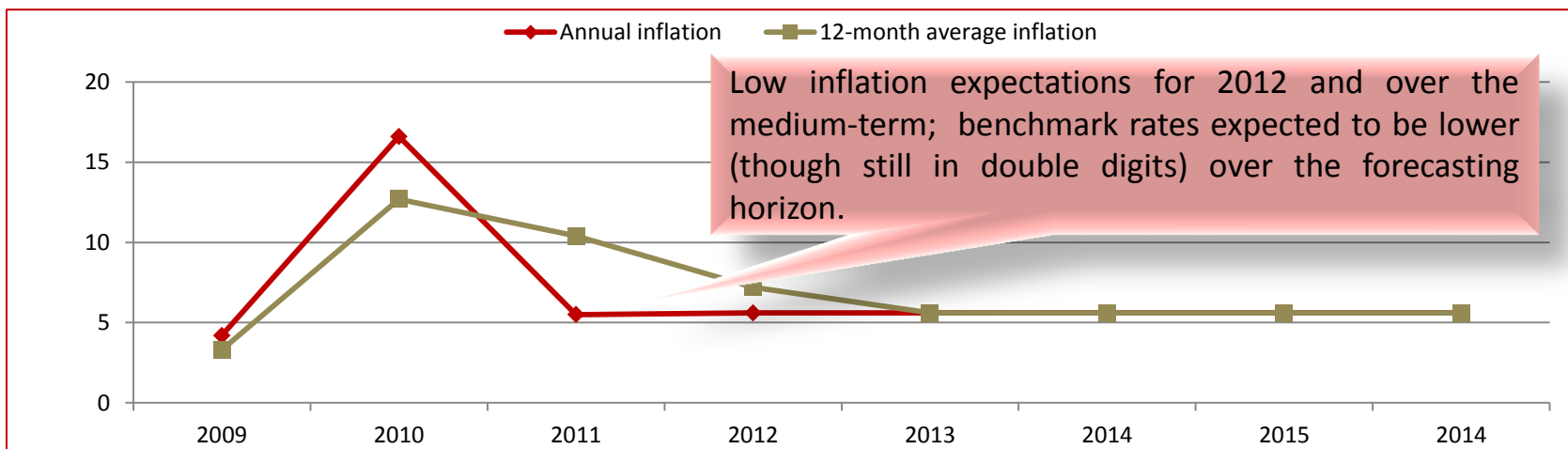
Source: inflation rate projections sourced from International Monetary Fund Third Policy Support Instrument Review (December 2011)

Monetary policy is expected to be geared toward restraining money supply growth, keep the currency steady to check imported inflation

Money market rates over the 2011 period – as at end December 2011

	Jan-11	Fev-11	Mar-11	Abr-11	Mai-11	Jun-11	Jul-11	Ago-11	Set-11	Out-11	Nov-11	Dez-11
Inflation rates (% m/m)	1,62	1,32	0,05	0,04	0,46	-0,56	0,05	0,33	-0,07	0,01	0,46	1,29
Inflation rates (% y/y)	16,20	15,23	14,73	13,04	11,36	9,28	7,67	7,86	7,80	8,34	7,74	5,46
Inflation rates (% 12-month average)	13,48	14,23	15,07	15,37	15,23	14,75	14,00	13,57	12,46	11,87	11,27	10,35
Inflation rates (% accumulated)	1,62	2,96	3,37	3,41	3,89	3,31	3,36	3,69	3,63	3,64	4,12	5,46
FPC rates (%)	16,50	16,50	16,50	16,50	16,50	16,50	16,50	16,00	16,00	16,00	16,00	15,00
FPD rates (%)	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00
91 days T-bill (%)	15,90	16,30	16,39	16,38	16,45	16,45	16,39	14,51	14,20	14,10	13,25	11,58
182 days T-bill (%)	16,08	16,36	16,44	16,45	16,47	16,48	16,48	14,70	14,70	14,43	14,20	12,11
364 days T-bill (%)	16,47	16,48	16,49	16,47	16,48	16,49	16,46	15,27	15,20	14,90	13,99	12,20
Interbank overnight funding rate	14,38	15,35	15,38	15,86	15,86	16,08	15,85	11,57	11,58	11,73	11,81	11,11

Source: Banco de Moçambique, International Monetary Fund & Instituto Nacional de Estatística



Source: Economist Intelligence Unit Report (January 2012 Issue)

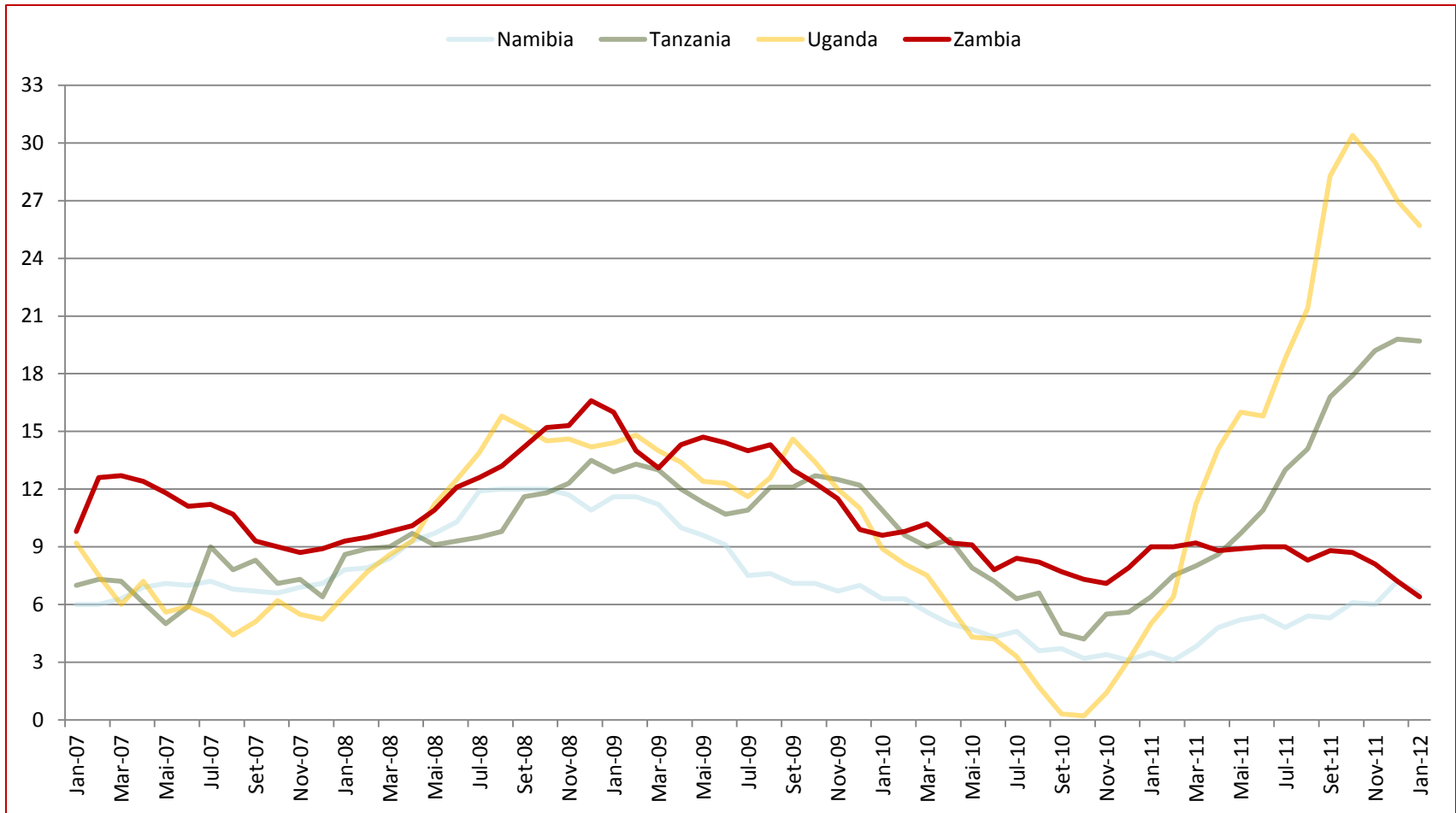
An interest rate comparison with regional economies

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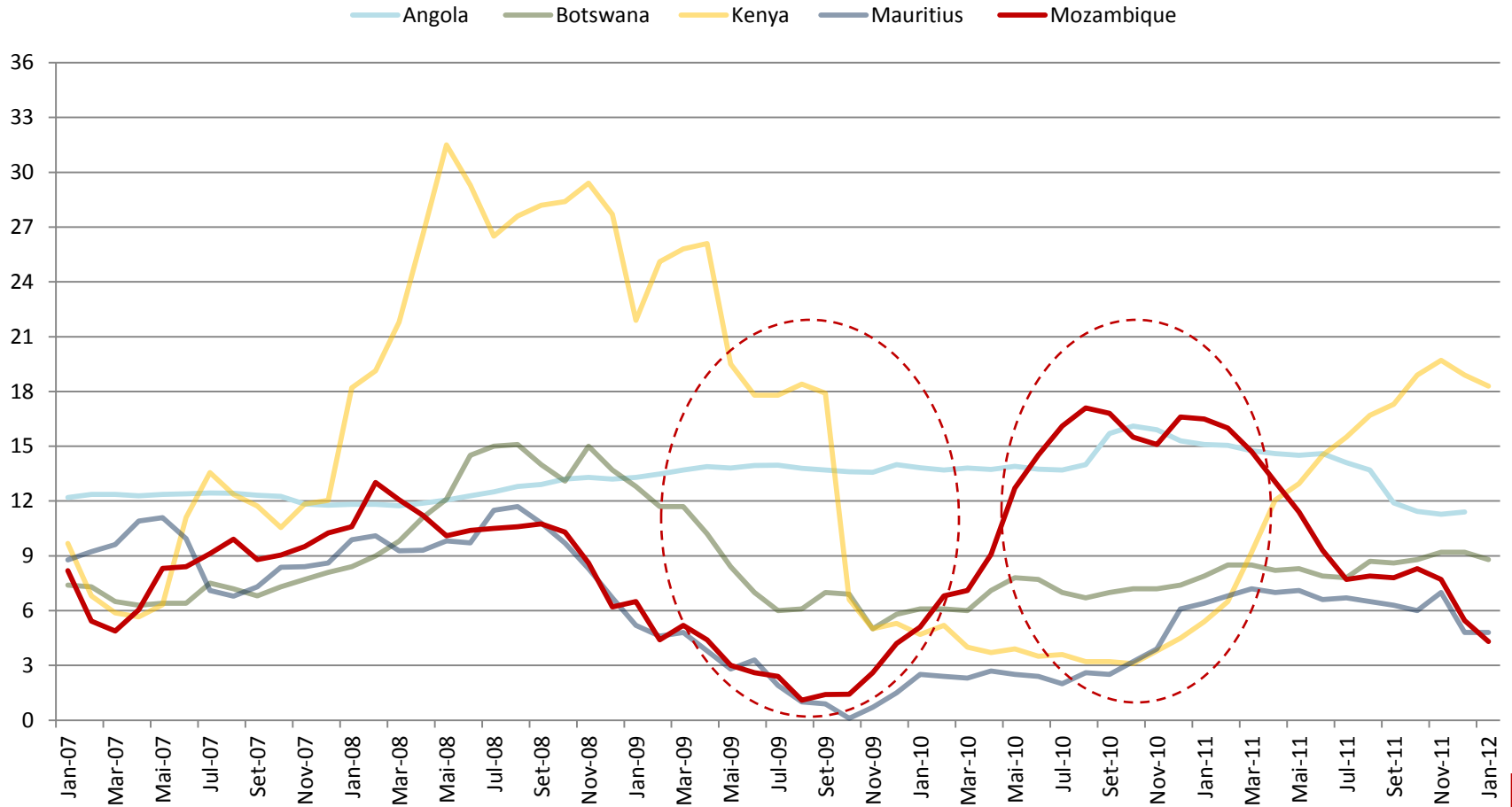
Country	Inflation rate (%)	Central Bank rate (%)	Prime rate (%)	??????
Angola (Bank Rate)	11,40	10,50	N/A	
Botswana (Bank Rate)	9,20	9,50	11,00%	bank rate+1,50%
Kenya: Central (Bank Rate)	18,90	18,00	20,4%	Lending rate
Mauritius: Repo Rate	4,80	5,40	4,24%	Lending rate
Mozambique: Standing Lending Facility	5,46	15,00	FPC plus 4-5%	Lending rate
Namibia (Bank Rate)	7,20	6,00	9,75%	Bank rate +3,75%
South Africa (repo rate)	6,10	5,50	9,00%	repo+3,50%
Tanzania (discount rate)	19,80	9,58	above 20%	Lending rate
Uganda	27,00	22,00	equal/above 27%	Lending rate
Zambia (Bank rate)	7,20	9,10	91Day Tbill plus 2,0%	Tbill at 7,14%

Inflation trend in regional economies: with exception of Mozambique, Sub-Saharan economies seem to follow the same pattern with inflation peaking twice, in 2008 and 2011, over the last five years

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Inflation in regional economies: Mozambique unadjusted with Sub-Saharan economies, leading and lagging regional inflation trends particularly in 2009 and 2011



91-day Treasury Bill yields accross selected Sub-Saharan countries

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Country	2008	2009	2010	2011	Jan 2012
Botswana	13,13	8,00	7,20	5,30	5,30
Kenya	N/A	7,00	6,00	18,00	18,00
Mauritius	8,65	4,31	2,02	4,03	3,92
Mozambique	14,50	9,05	14,78	11,58	9,83
Namibia	10,00	7,00	6,00	6,00	6,00
Tanzania	11,25	6,12	5,48	12,82	13,67
Uganda	12,50	5,47	8,49	23,06	23,42
Zambia	13,58	5,05	7,66	7,14	6,39

Foreign Exchange (FX) Market: the appreciation of the Metical against the Dollar and main trading partner currencies was the highlight for 2011

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- **The exchange rate environment was stable, yet depicted a Metical strengthening bias:**
 - On market weighted basis, the Dollar / Metical traded at 27.31 as at end December 2011 compared to 32.58 in December 2010 – this represents a 16.2% nominal gain of the domestic currency. This was a continuation of the Metical gains observed against the Dollar since end August 2010.
 - The strengthening of the Metical during 2011 was attributed to the stern Central Bank intervention (that initiated in August 2010) and a substantial increase of export-side currency conversions compared to the previous year.
 - The Central Bank introduced a “Fuel Dollar Measure” whereby it relieved the commercial banks from furnishing the foreign currency requirements for the settlement of fuel imports. This measure was implemented in September 2010 and, in effect, implied that the Central Bank would cover 100% of the whole foreign currency needs for fuel import payments instead of the previous 40%. This initiative had the objective to support the domestic currency as fuel import payments are significant while putting the brakes on high imported inflation levels observed in 2010. The “Fuel Dollar Measure” was maintained in 2011 and it has not yet been discontinued.

FX Market: the appreciation of the Metical against the Dollar and main trading partner currencies was the highlight for 2011

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- The sale of foreign currency by the public to the commercial banks increased 64.2% in 2011 compared to the previous year. The increase in export proceeds' conversions may be linked to the 90-days conversion rule of the 2011 Foreign Exchange Regulations.
- The purchase of foreign currency by the Central Bank also increased. The value of the bilateral purchases performed by the Central Bank was 3,4 times in 2011 compared to the previous year (\$41,3m to \$182,95m). In addition, the value of Central Bank bilateral currency sales declined in the same period from \$787,85m to \$727,34m.
- The foreign exchange market observed an increase in interbank foreign exchange transactions on the back of surplus supply of foreign exchange.
- The spreads between the rates offered in the interbank market, foreign exchange bureaus and Central Bank bilateral operations narrowed in 2011 compared to the previous year.
- Outlook for 2012: weighted basis appreciation of the Metical to around 26.50 versus Dollar.

FX market: Although uncharacteristic of the Mozambique economy, the supply of foreign exchange outweighed demand during 2011

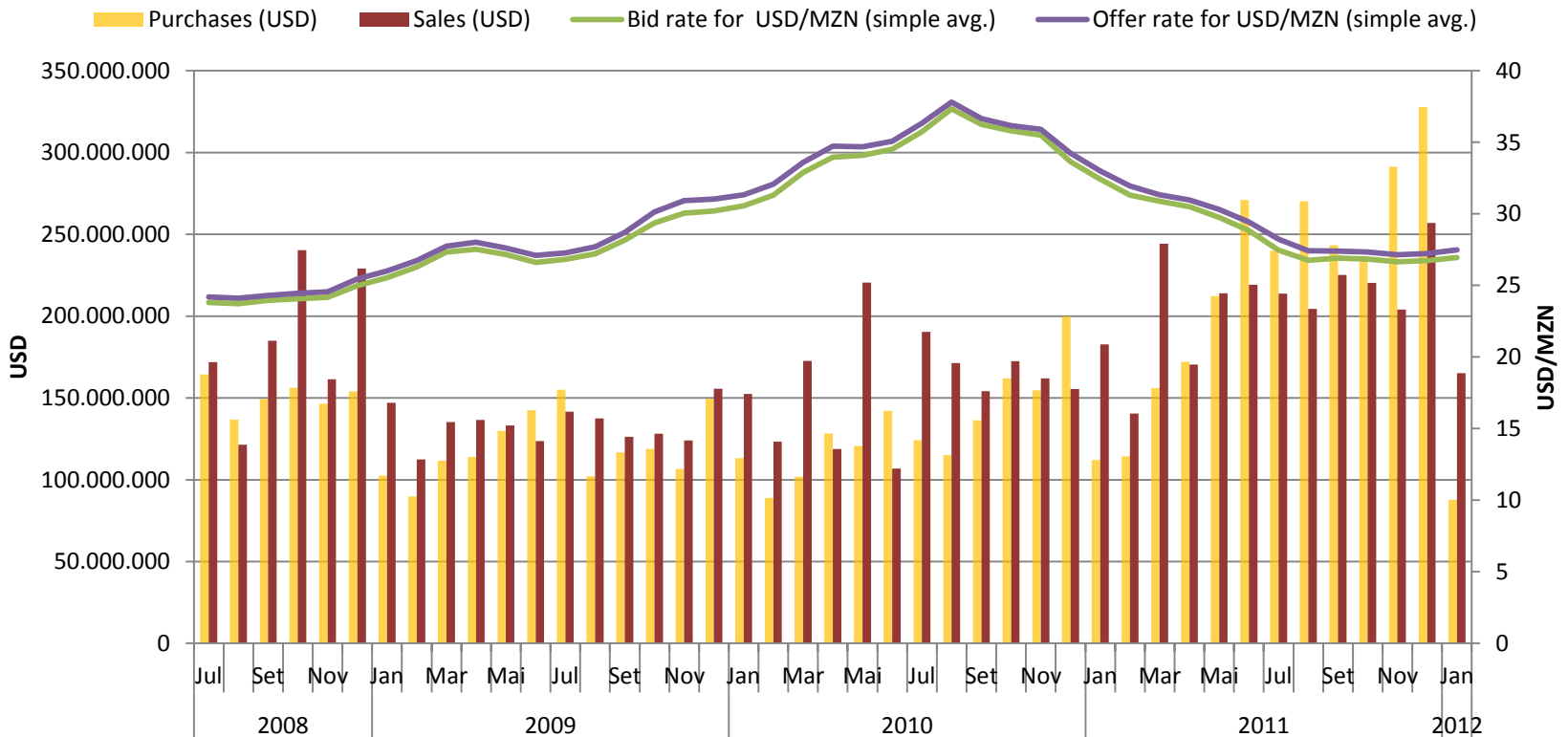
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Period	MARKET FX TRADING VOLUMES (USD'000)				
	Purchases by commercial banks	Sales by commercial banks	Central Bank Sales	Central Bank purchases	Inter-bank transactions
January	113.413	152.867	74.389	0	400
February	89.561	120.898	78.873	0	0
March	100.057	172.436	106.967	0	0
April	127.790	117.290	79.679	0	0
May	126.916	157.846	72.699	0	1.250
June	151.377	179.035	16.264	0	7.519
July	125.458	189.167	67.929	0	700
August	117.064	174.878	84.609	0	250
September	142.873	164.463	76.410	0	800
October	155.192	167.320	50.302	0	1.600
November	144.914	161.880	67.360	2.700	2.100
December	216.592	154.027	12.366	38.600	14.137
Jan-11	103.815	193.150	144.980	0	2.750
Fev-11	121.156	140.463	26.141	8.000	5.389
Mar-11	150.823	205.409	128.451	0	4.998
Abr-11	170.648	199.878	82.611	0	2.531
Mai-11	214.000	222.300	11.322	10.300	3.600
Jun-11	260.622	215.879	4.700	21.300	10.759
Jul-11	244.791	214.364	0	45.700	5.074
Ago-11	267.645	203.618	21.000	33.300	3.123
Set-11	244.982	224.071	89.259	5.000	4.991
Out-11	241.705	230.312	40.147	0	7.764
Nov-11	288.399	200.744	600	32.500	6.197
Dez-11	337.390	268.882	20.486	26.850	19.660
Jan-12	199.415	275.626	157.647	0	6.423
06 to 10 Jan 2012	37.373	36.408	1.050	0	0
30 Jan to 03 Feb 2012	42.922	27.184	0	0	300
23 to 27 Jan 2012	50.912	54.850	23.800	0	1.879
Total 2010	1.611.208	1.912.106	787.848	41.300	28.757
Total 2011	2.845.391	2.794.697	727.344	182.950	83.259

Source: Banco de Moçambique

The excess supply of foreign exchange supported the Metical

Evolution of volumes and exchange rates of FX operations between banks and public



Source: Banco de Moçambique

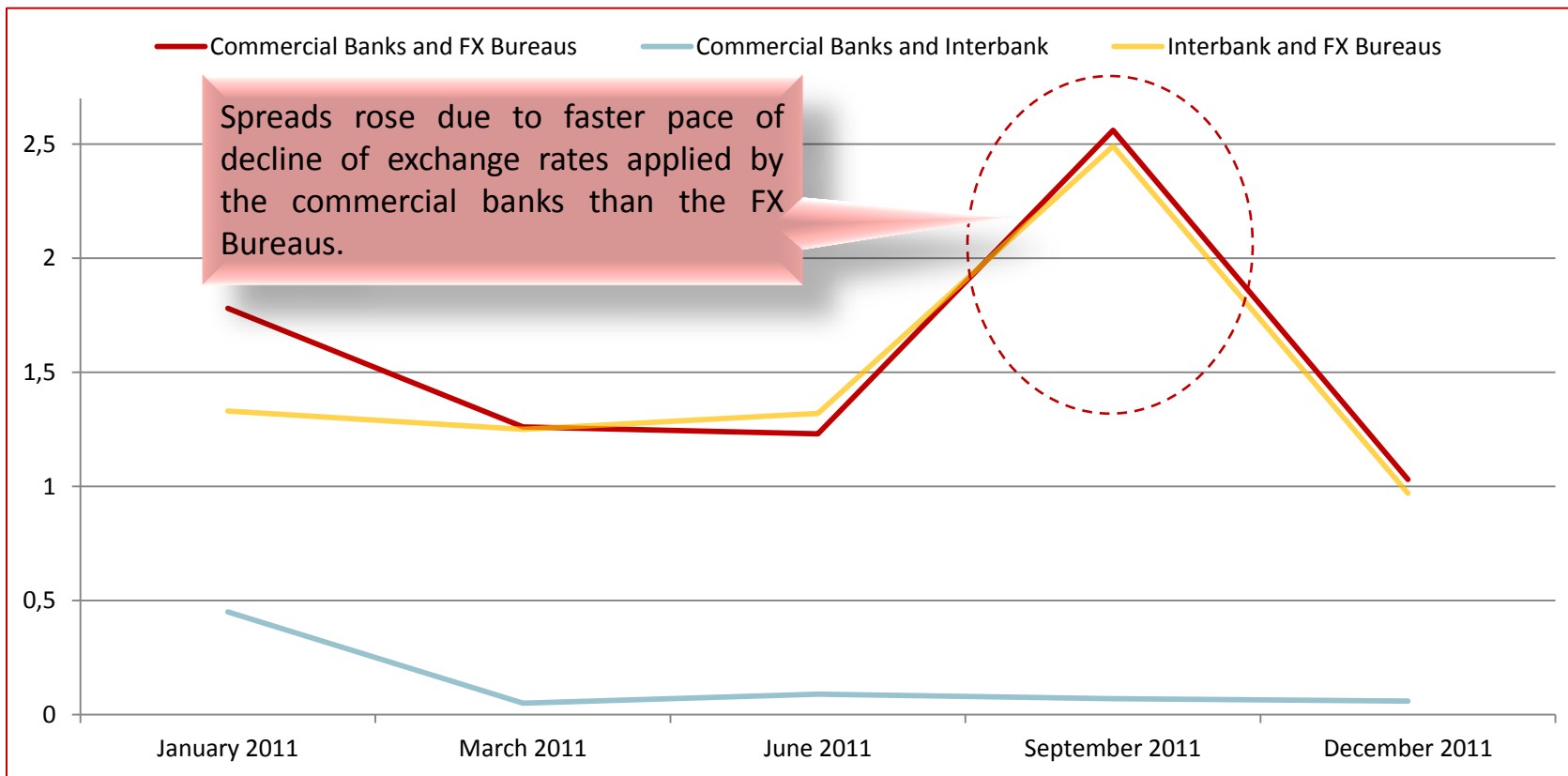
The value of FX operations for the settlement of fuel import invoices declined between 2010 and 2011, thus easing pressure on Metical

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Period	Fuel FX Operations					
	2010		2011		2012	
	Invoices Paid (USDmillion)	USD/MZN	Invoices Paid (USDmillion)	USD/MZN	Invoices Paid, approximate amounts (USDmillion)	USD/MZN
January	15,34	30,24	57,08	32,38	75,93	27,19
February	13,62	30,19	4,79	31,26	127,37	27,32
March	36,32	31,11	71,90	30,77		
Quarter I	65,28	AVG: 30,51	133,77	AVG: 31,47		
April	7,08	34,89	34,28	30,71		
May	10,95	33,8	8,02	29,62		
June	9,07	35,03	0,00	28,53		
Quarter II	27,10	AVG: 34,57	42,30	AVG: 29,62		
July	36,18	36,89	0,00	27,51		
August	53,11	37,02	0,00	27,12		
September	49,91	36,14	31,22	27,18		
Quarter III	139,20	AVG: 36,68	31,22	AVG: 27,27		
October	20,50	35,82	6,30	26,97		
November	52,96	35,38	0,00	26,88		
December	12,37	32,58	20,49	27,31		
Quarter IV	85,83	AVG: 34,59	26,79	AVG: 27,05		
Total Fuel Invoice Value	317,41		234,08		203,30	

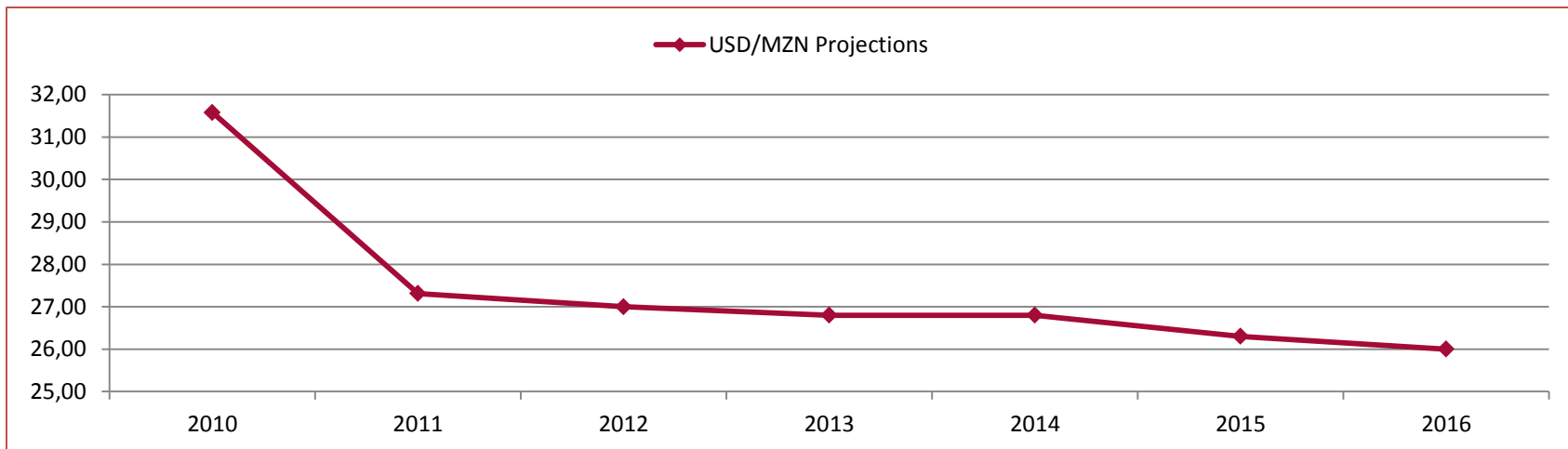
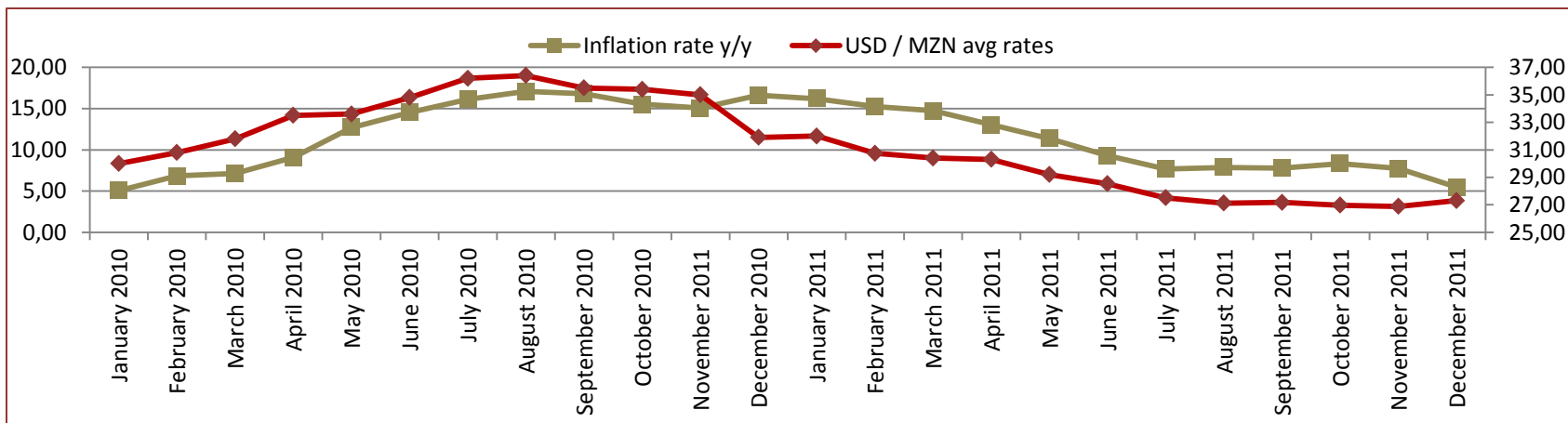
Source: Banco de Moçambique and Fuel Syndication Payments Schedule

In MZN



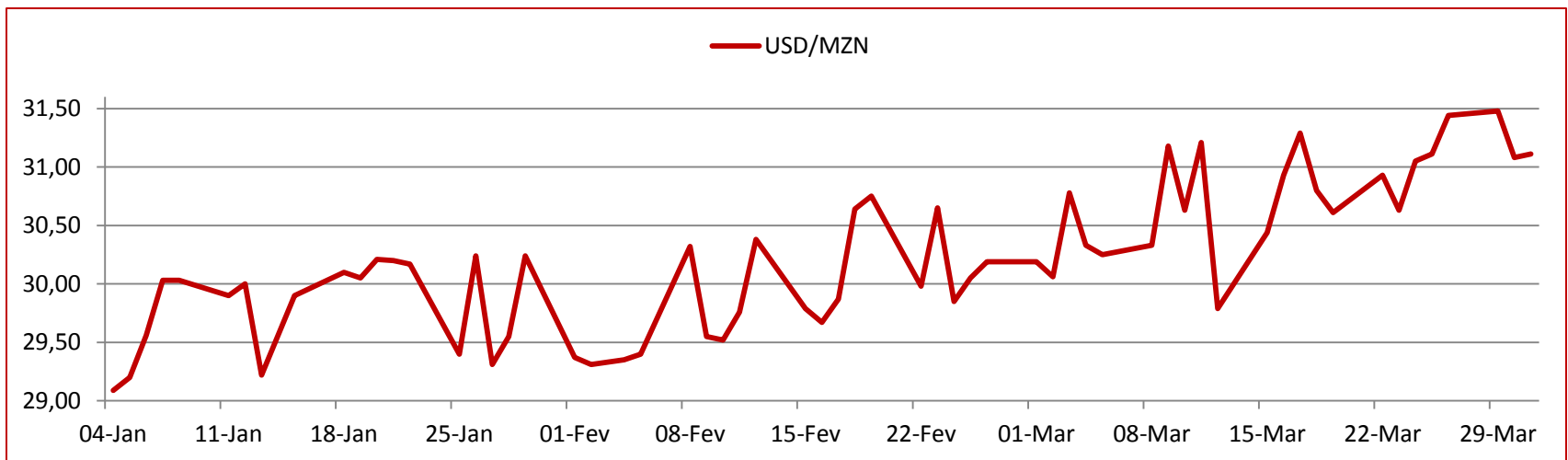
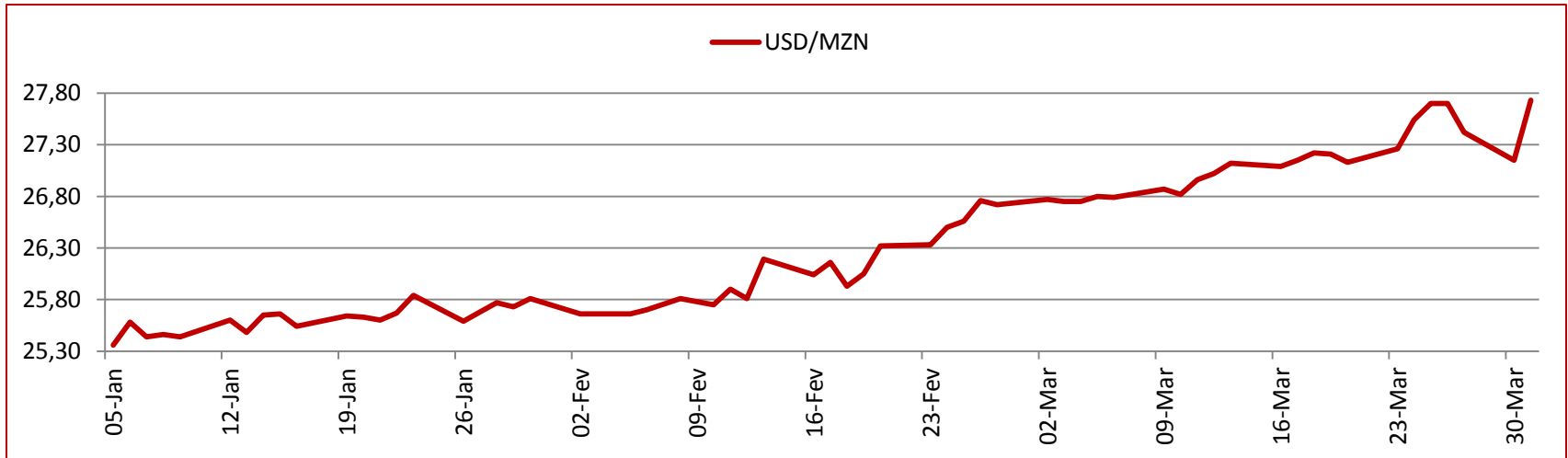
Source: Banco de Moçambique

Strong correlation depicted between USD/MZN rates and inflation, outlook for a stronger Metical over the medium-term



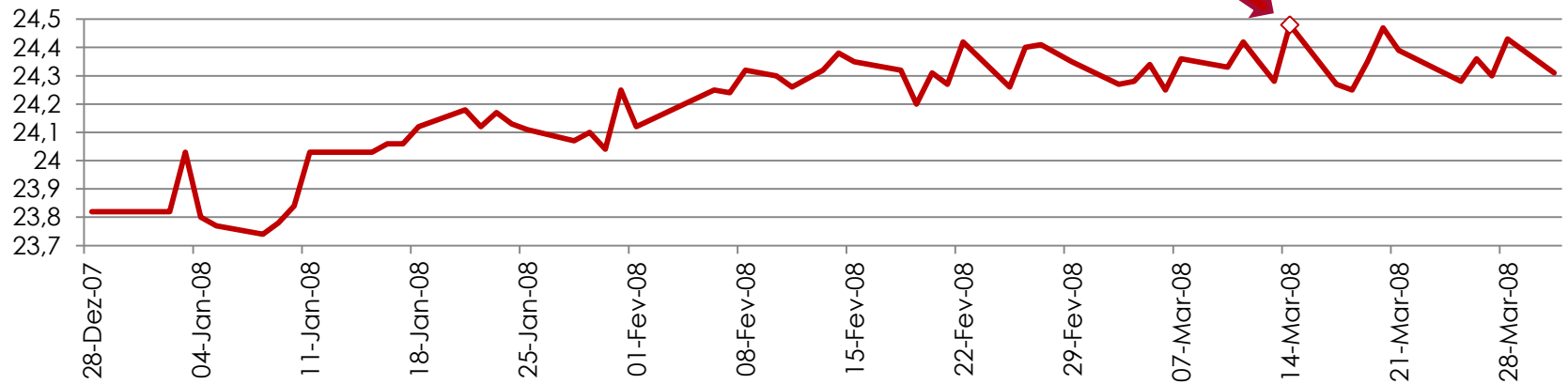
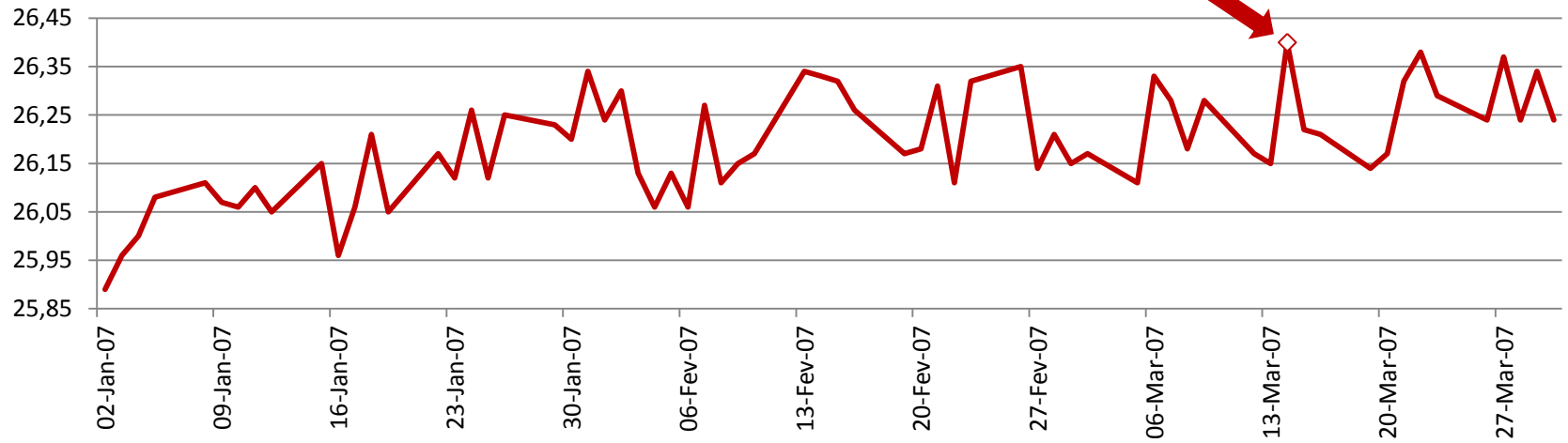
Source: Economist Intelligence Unit (January 2012 Report)

During the 1st quarter rates usually reach their highest in March; high fuel payments (at least 50% of full year bill) and outward transfer of dividends and royalties are characteristics of the 1st quarter



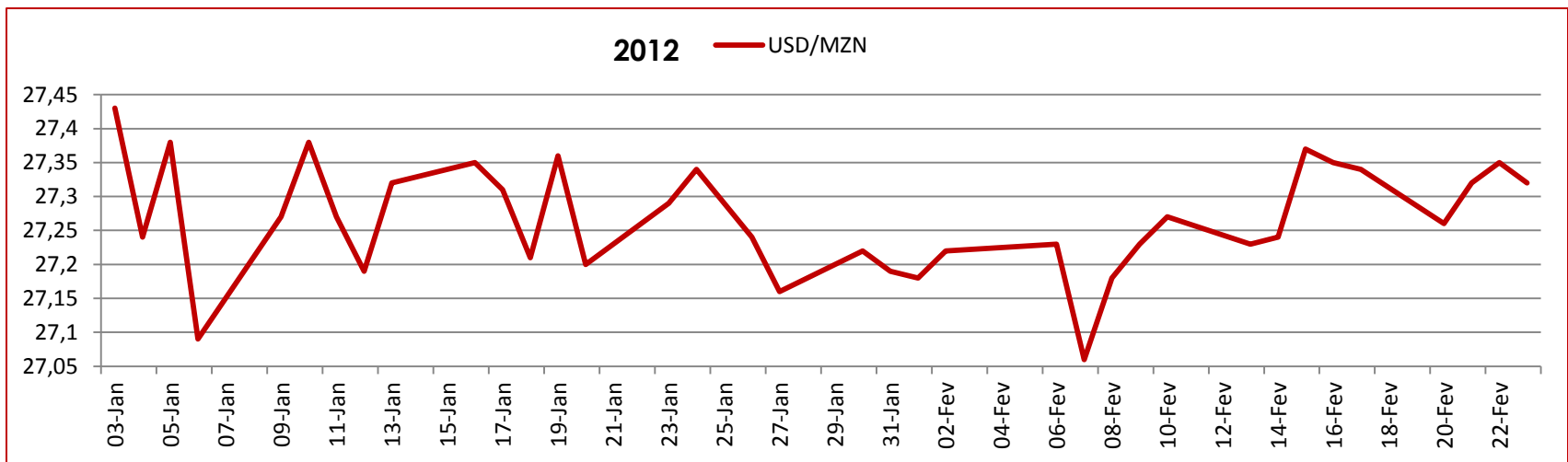
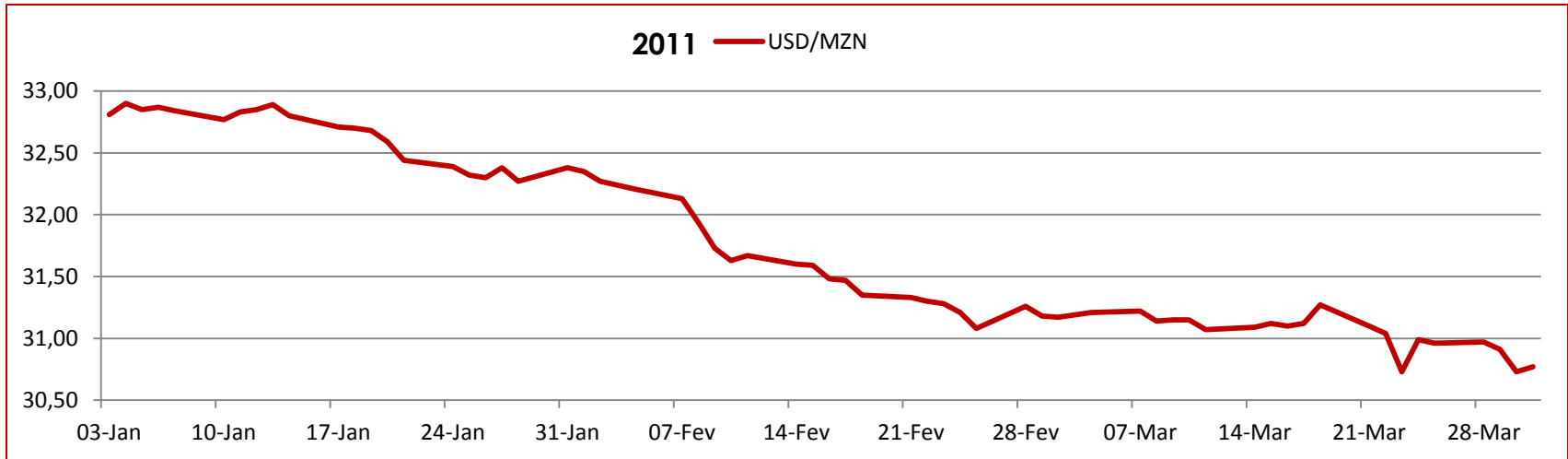
Curious exchange rates pattern noted in the 1st quarter: in both 2007 and 2008 USD/MZN rates peaked on the 14th of March

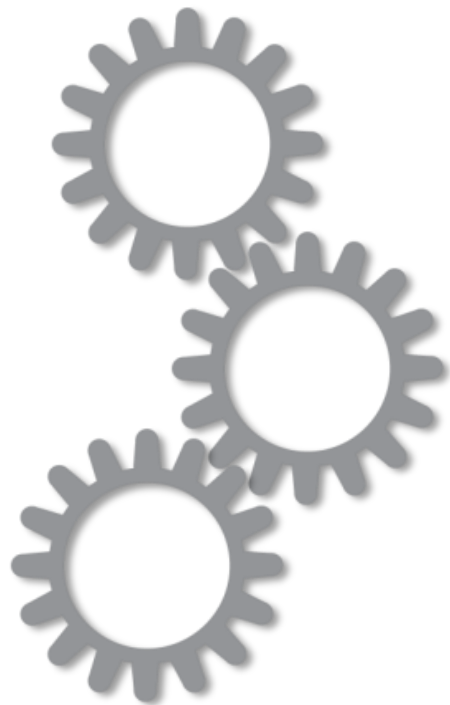
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Quarter 1 of 2011 bucked the trend of the period as rates of exchange fell... sharply!

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Moza Banco Dealing Room

Economist: Octávio Mutemba

E-mail: octavio.mutemba@mozabanco.co.mz

Treasury Manager: Tarcísio Mahanhe

E-mail: tarcisio.mahanhe@mozabanco.co.mz

Sales Desk: Hassane Issufo

Email: hassane.issufo@mozabanco.co.mz

Middle Office: Dário Borralho

Email: dario.borralho@mozabanco.co.mz

Dealing Rom Email: mercados@mozabanco.co.mz

Maputo - Tel: (+258) 21 480 825 / **Fax:** (+258) 21 480 801

www.mozabanco.co.mz