

MONETARY POLICY, FINANCIAL MARKETS, AND FOOD AND WATER SECURITY

MOZAMBICAN CENTRAL BANK
PERSPECTIVE

Some Background Information

- Mozambique's per capita GDP: USD 400
- People living in rural areas: 68% of total population. Yet there was some forced exodus;
- About 80% of labor force derives income from agriculture or related activities;
- Agricultural production accounts for “only” 25% of GDP;
- Self consumption accounts for an “impressive” 70% of total agricultural output;
- Mozambique faces cyclical floods and droughts, that hamper agricultural production. This means that water potential is there, but not fully exploited;
- 54% of people are poor (2003). (69% in 1997).

Some Basic Facts (continued)

- Constitution: The foundations for the economic development lie in the agricultural sector;
- In the past, Mozambique's central bank played a more active role in mobilizing funds for agriculture related activities. Ex: credit for rural groceries, state owned cereal grains marketing board, credit for SMEs, etc. The banking system was underfunded and undercapitalized;
- Now situation has changed. Banking system is sound and has excess liquidity. Yet banks are still reluctant in lending to the agricultural sector, specially to the household subsector.
- Central bank has to mop up excess liquidity, as part of its mandate.

Banco de Moçambique's Mandate:

- Preserve the value of the domestic currency, through sound monetary policy. That means low and predictable inflation;
- Promote sound financial system, through financial regulation and supervision;
- Additionally:
 - A competitive exchange rate is essential for promoting exports and imports substitution;
 - Promote access to finance, either domestic or foreign, through adequate regulation.

Price Stability and Predictability Essential For:

- Increased savings;
- Increased Investment, both domestic and foreign direct, including in water conservation and exploitation as well as adequate technologies (productivity);
- Increased cultivated areas;
- Increased output surplus;
- Food sustainability;
- Rural employment.

However Monetary Policy is not enough:

- Need for investment in basic infrastructure;
- Public Private Partnership is crucial in the building of infrastructures. Government is actually focused in social area;
- Nonetheless active involvement of the Government in the capital markets is paramount in the process of reducing the cost of finance for infra-structures;
- Financial and technical support from international community is very important;
- Cooperation and coordination with regional governments in the area of water management is crucial;
- FDI and business sector are focusing on export crops (sugar cane, cotton, cashew nut, marine products, ...)!

Some Ongoing Initiatives:

- Promote rural bancarization, through fiscal stimulus and reserve requirement (monetary);
- Local development initiative support fund – same amount for all the 128 districts;
- Promote microfinance, through simplified legislation and regulation.
- Promote microfinance through dissemination of good practices;
- Government fund to support microfinance institutions;
- Global plan for food production – transform the recent food crisis into an opportunity;
- Massive public investment in infrastructure (very expensive to maintain);
- Rural extension.

Thank You!