

THE BANK OF MOZAMBIQUE: HISTORICAL REVIEW FROM 1975 TO 2010

by

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Summary

The Banco de Moçambique (Bank) was established in May 17, 1975. The 1920 Brussels Conference recommended that in countries without a central bank, it should be created. The 'Bank' followed the new model of emerging countries' central banks (mid-1950s), where those central banks regulated and controlled an existing financial system and promoted the emergence of a money and capital market.

From 1975 the Bank performed commercial functions until 1992, when the functions of commercial banking and central banking were separated. Mozambique tried to establish a socialist society. The prevailing financial system, primarily consisting of expatriate banks, was reorganised under the state bank. This was a restructuring and integration process. In 1980 the Metical, the new currency of Mozambique, was introduced.

In the 1980s weakening economic conditions in Mozambique mandated the reconsideration of post-independence economic policies. In 1984 Mozambique accepted assistance from the Bretton Woods institutions and from 1987 the country embraced the Economic Rehabilitation Program. The Bank embarked on monetary, credit, supervisory and regulatory policies reforms, to consolidate conventional central bank functions.

Key words:

Bank of Mozambique

Mozambique - History

Central banking

Banks

Business history

Financial system

Financial system reforms

Monetary Policy

Exchange/Credit Policy

Structural readjustment

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CHAPTER 1: Introduction

"In countries where there is no central bank of issue, one should be established..." 1920, Brussels, International Finance Conference. ¹Being close to the National Independence date and the ongoing process of decolonization, the creation of a central and issuing bank that performs, besides others, the functions of a commercial bank became necessary in Mozambique. ²

Mozambique is a Southern African coastal country that became independent in 1975 after 500 years of Portuguese colonial domination. During the colonial era, central bank activities such as the co-ordination of banking activities in the colony currency issuing and control, exercising monetary authority, management of reserves, acting as state banker, among other functions, were performed by the *Banco Nacional Ultramarino (BNU)*.

With the advent of independence as well as political, economic and historical changes in Portugal in the 1960s and 1970s, the BNU had to cease its activities and leave Mozambique. Its departure meant that the new authorities, namely the Mozambican freedom fighters' organization, the *Frente de Libertação de Moçambique (FRELIMO)* had to establish a central bank for the new country. This was the *Banco de Moçambique (Bank)*.

The focus of this study is the *Banco de Moçambique* and it will focus on the creation, functions, evolution and the level of performance of the central bank activities in the period 1975-2010. This study aims to examine and understand the operations and opportunities available to this institution in Mozambique by taking into account the following generally accepted main functions of a central bank:

- The central bank as the government's banker;
- The central bank's oversight of the national financial system;
- The central bank as the manager of the money supply; and
- The central bank's role in ensuring price stability.

It is important to understand the phenomenon of a central bank established in a developing country recently liberated from colonial rule. This research will focus on the following theoretical questions:

¹Anand Chandavarkar, *Central Banking in Developing Countries*, (London: Macmillan, 1996), 12.

² Preamble of the Decree-Law 2/75, May 17, 1975.

- What is a central bank, particularly in an African context?
- What are the main functions of a central bank?

Explaining the origin of the *Banco de Moçambique* enables one to analyse theories about central banking in the context of a newly independent African state. Research by Capie and De Kock³ shows that originally central banks were either commercial banks or government banks. Their evolution into central banks came about when they were awarded the monopoly of issuing banknotes and as they developed more central bank related functions such as that of lender of last resort.

In Mozambique the central bank was a successor to the *Banco Nacional Ultramarino*. This bank was founded in Portugal in 1864 with private capital. Being a quasi-public institution backed by the State, the bank was vested with powers to develop the business of banking in the colonies. The *Banco Nacional Ultramarino's* main functions were: issuing currencies for the colonies, coordinating banking operations and supervising the activities of the branches of Portuguese banks that were operating in Mozambique. The bank supported Portugal's status as a colonial power, and ensured the transfer of colonial capital and currency to the metropolis.⁴ The Portuguese government had granted the BNU the sole right to issue the colonial currency in return for its financial support in developing the colonies. This research aims to be a modest contribution to the history of banking in Mozambique. Systematic historical research on this subject is limited. This may be because of the confidential nature of banking operations *per se*.

1.2 Historiography

This subject was referred to in the 1995 BA History dissertation at the Eduardo Mondlane University, "*A Actividade do Banco Nacional Ultramarino em Moçambique- da fundação a saída de Moçambique – 1864/1974*", (1995).⁵ This

³ Forest Capie, "The Evolution of General Banking" (paper presented at a World Bank Seminar, *Financial History: Lessons of the Past, for Reformers of the Present*, Washington, November, 1995. M.H. de Kock, *Central Banking*, 4th ed. (London: Crosby Lockwood Staples, 1974), 1.

⁴ Carmélia Langa, "*A Actividade do Banco Nacional Ultramarino em Moçambique: Da Fundação à Saída em Moçambique (1864-1974)*," (Unpublished BA Dissertation, Universidade Eduardo Mondlane, 1995).

⁵ Langa, "*A Actividade do Banco Nacional Ultramarino*"

study evaluated the history of the financial system in the period before independence, when the BNU acted as the central bank for the colonies. The BNU also played a leading role in the development of colonial resources.

There are two other sources on the same subject. These are Napoleão Gaspar; *A Evolução do Sistema Bancário em Moçambique, 1975-1992* (2000)⁶ and Nelson Jossias; *Evolução Histórica do Banco de Moçambique - 1975 à actualidade* (2005)⁷. Both analyse the history of the Mozambican financial system for two decades from independence to 2010. However, they do not deal to any great extent with central bank activity or how it evolved.

Valuable contributions to Mozambique's business history have been made by economists such as M. Wuyts, who wrote; *Money and Planning for Socialist Transition: the Mozambican Experience*, (1989)⁸ and *Organização das Finanças e o Desenvolvimento Económico em Moçambique: do Sistema Capitalista Colonial ao Desenvolvimento Socialista*.⁹ Wuyts addresses the changes in the Mozambican financial system from 1960 and in particular the impact of a socialist policy for the economy. Castel-Branco in the book, *Moçambique: Perspectivas económicas* (1994) and J. Mosca J. in *Economia de Moçambique: Seculo XX* (2005)¹⁰, evaluate the economic policy and its impact on the financial system in Mozambique in the period immediately after independence.

As background reading, the work of David Hedges, "Protection, finance and integration in colonial Mozambique, 1920-1974(1998), is useful as it focuses on the impact of the protectionist policy and the nationalisation of banks in Portugal. *The*

⁶ Napoleão Gaspar, "*A Evolução do Sistema Bancário em Moçambique, 1975-1992*,"(Unpublished BA Dissertation, Universidade Eduardo Mondlane, 2000).

⁷ Nelson Jossias," *Evolução Histórica do Banco de Moçambique - 1975 à Actualidade*, (Unpublished BA, Universidade Eduardo Mondlane, 2005).

⁸ Marc Wuyts, *Money and Planning for Socialist Transition: the Mozambican Experience* (Aldershot: Grower Publishing Co Limited, 1989).

⁹ Mark. Wuyts, , "*A Organização das Finanças e o Desenvolvimento Económico de Moçambique: Do Sistema Capitalista-Colonial ao Desenvolvimento Socialista*,"Centro de Estudos Africanos, no 105, (n.d).

¹⁰ João Mosca, *Economia de Moçambique: Seculo XX* (Lisboa:Instituto Piaget, 2005)

Banco de Moçambique Chronology 1975-2010 (2010),¹¹, is an important source as it includes an exhaustive list of acts and facts related to, laws and regulations that coordinated the bank's function and a list of important events occurred during the period. The book was published to coincide with the 35th anniversary of the *Banco de Moçambique*.

The *Banco de Moçambique* rendered valuable support for this research, because the researcher had a 35 year career history with the bank. Access to primary and oral sources was granted. Among the latter were documents originating from former bank governors and managers who were involved with the operations of BM after independence in 1975.

For this dissertation interviews were conducted with the former President of the Republic of Mozambique, Joaquim Chissano, José Oscar Monteiro,¹² Sergio Vieira, Prakash Ratilal, Eneas Comiche and Adriano Maleiane, all former governors of *Banco de Moçambique*. Interviews were also conducted with António Pinto de Abreu, the Deputy-Governor, as well as former head of departments, directors and other personalities currently in charge.

1.3 Methodology

The methodology used is a qualitative, comparative and conceptual analysis of the origin, functions and the role of central banks in emerging economies against the framework of central banks in industrialised countries. The aim is to identify the *Banco de Moçambique's* key features, based on qualitative historical analysis of a variety of primary and secondary sources, which will seek to evaluate how the *Banco de Moçambique* was established and performed as a central bank since establishment.

The traditional concept, functions and evolution of central banking in older countries are discussed by M. H. de Kock in *Central Banking* (1974), while Anand

¹¹ Banco de Moçambique, *Banco de Moçambique:1975-2010:Chronology*, 2nd ed.(Maputo:Centro de Documentação e Informação, 2010).

¹² Who was the author of the text of clause 16 of the Lusaka Accord, which led to the creation of Banco de Moçambique.

Chandarvarkar on *Central Banking in Developing Countries*" (1996),¹³ and S. Basu (1967)¹⁴ with *Central Banking in Emerging Countries*, G. de Kock (1954) in *A History of the South African Reserve Bank (1920-1952)*¹⁵ outlined the origins and main functions of central banks in Africa. G. de Kock explains the development of the South African Reserve Bank as the South African development within the European tradition of central banking. Gorton and Huang¹⁶, Aglietta and Mojon¹⁷, Timberlake¹⁸ and Livingstone¹⁹ also discuss the origins and the main functions of central banks. Other secondary sources consulted include statutes, periodicals, as well as *Banco de Moçambique*, *Banco Comercial de Angola*, *Banco Standard Totta de Moçambique*'s annual reports, staff and occasional papers, the speeches of the *Banco de Moçambique*'s Governor published by the *Banco de Moçambique*. Documents in the Documentation and Information Centre and the *Arquivo Histórico de Moçambique*, the legal historical information chamber, were also consulted being these laws, monographs and periodicals and relevant internet sites.

The major difficulty encountered was the lack of published material on the history of Mozambique's financial system. For this reason this study had to rely on oral sources, with the risk of subjective interpretations of the historic record. Many institutions in Mozambique, including those in the financial sector, have not kept

¹³ Chandarvarkar, *Central Banking in Developing*.

¹⁴ S. Basu, *Central Banking in Emerging Countries* (Bombay, Asia Publishing House, 1967).

¹⁵ G. de Kock, *A History of the South African Reserve Bank, 1920-1952* (Pretoria, J.L. Van Schaik LTD, 1954).

¹⁶ Gary Gordon and Lixin Huang, "Banking Panics and the Origin of Central Banking" in: *Evolution and Procedures in Central Banking*, ed. David Altig and Bruce Smith, (Cambridge: Cambridge University Press, 2003), 181.

¹⁷ Michel Aglietta and Bendit Mojon, "Central Banking", in: *The Oxford Handbook of Banking*, ed. Allen Berger, Philip Molyneux and John Wilson, (Oxford: Oxford University Press, 2010), 234-235.

¹⁸ Richard Timberlake "The Central Banking Role of Clearinghouse Association." in: *Journal of Money, Credit and Banking*. 16, in : *Evolution and Procedures in Central Banking*, ed. David Altig and Bruce Smith, (Cambridge: Cambridge University Press, 2003), 181.

¹⁹ James Livingstone, "Origins of the Federal Reserve System :Money Class and Corporate Capitalism 1890-1913" (Ithaca, N.Y. :Cornell University Press, 1986) in: *Evolution and Procedures in Central Banking*, ed. David Altig and Bruce Smith, (Cambridge: Cambridge University Press, 2003),181.

historical records systematically, and this hampered research and is something that future researchers will be confronted with.

1.4 Structure of the dissertation

Apart from the introduction, chapter 1 presents and discusses the concept of a central bank and its functions, particularly in emerging countries.

Chapter 2 is an overview of the establishment of *Banco de Moçambique*, which occurred one month before the official independence of Mozambique in 1975, and continues to 1977. During this period the central bank developed and co-ordinated financial activities within the financial system in the context of the nationalization of the Portuguese banks branches or subsidiary operations in Mozambique. This changed the financial system towards the end of this period because Mozambique had to integrate assets and liabilities of some foreign banks into that of the central bank to guarantee continuity of a coordinated financial system.

As a result of the Lusaka Accords of September 7, 1974, the BNU exited and left Mozambique *Banco de Moçambique* as its successor. The transition coincided with a massive exodus of experienced Portuguese bank employees. The new central bank encouraged large numbers of Mozambique nationals to join the remaining staff, and it also re-employed the former Portuguese commercial bank staff where branches were closing down. The assets and liabilities of Portuguese commercial banks in Mozambique were taken over by the new *Banco de Moçambique* to avoid the collapse of the system.

Chapter 3 covers the period 1977-1983. It analyses the central bank's activities during Mozambique's socialist period. An important question to be dealt with is whether the bank consolidated its conventional role or jeopardised it. Those were the years of the "planned economy". The third Congress of FRELIMO defined the central bank's role as being that of a "tool for the control of the economy."²⁰ The *FRELIMO* government's priority was to promote economic development and reduce unemployment. It was because of these considerations that Directive 11/80

²⁰ Banco de Moçambique 1975-2010: *Chronology*, 34.

permitted the introduction of credit facilities as a tool to expand economic activity. The Bank was explicitly authorised to fund the economic initiatives of the government with the aim of promoting economic activity and rebuilding the devastated rural and urban centres of the country. To alleviate the severe economic and social crisis in the country, the 1983 *FRELIMO* Congress adopted far-reaching new economic and social directives. These marked a turning point in the newly independent country's economic history.

Chapter 4 covers the period 1984-1992, describing the central bank's new monetary and foreign exchange policies that were designed to ensure a transition to a market-based economy. In 1984 Mozambique joined the Paris Club, thus becoming eligible to be allocated funds from the Club Members. In 1985 the government signed the first International Development Association (IDA) credit for the Economic Rehabilitation Programme. The metical that had previously been tied to the US dollar was allowed to float against foreign currencies of nations with whom Mozambique engaged in foreign trade. In 1985 Mozambican citizens were authorised to open bank accounts in foreign currencies, and in 1986 foreigners resident in the country were granted the same privilege. Mozambique slowly embraced macro-economic reforms since November 1990, to introduce a market-based economy. The *Banco de Moçambique's* organisational structure was reviewed and reorganised, and this led to the creation of the *Banco Comercial de Moçambique*, in 1992, which took over the commercial banking functions formerly performed by the *Banco de Moçambique*.

The fifth and final chapter covers the period 1992-2010. It summarises the main reforms in the Mozambican economy and central bank activities. These include the central bank's efforts undertaken in the 1980s and 1990s when it invested in the training and further qualifications of its staff, to improve operations aligned to the international accepted role of central banks and the implementation of policies, organizational structure towards a more functional central bank. These changes led to the formation of strategic partnerships and access to resources enhancing the operations of the Bank. The reforms applied particularly to those departments that carried out the central bank functions. New departments were created, such as the Market Department, the Supervision Department the Documentation and Information

Department and the Cultural Centre. Existing departments were reorganised to conform more closely to the internationally accepted structure of a central bank. The Research and Statistics Department, was responsible for developing and promoting monetary and foreign exchange policies, and the Human Resources Department was responsible for the employment of professional banking staff and appropriate independent financial expertise.

The financial system reform, which according to Maleiane began with the creation of the *Banco de Moçambique* in 1975, endeavoured to provide the country with a sovereign institution for the issuing of currency, and for the management of its monetary and foreign exchange policy.²¹ Reforms were introduced in 1992, when the *Banco de Moçambique* began to devote itself exclusively to central bank functions.

One of the outcomes of the reforms was that functions became more specialised. This led to a substantial improvement of the central bank's performance, particularly in its supervisory role of the financial system, as banker and advisor to the State, and as manager of monetary and exchange policy. All these improvements led to the creation of mechanisms that resulted in closer liaison and co-operation with the government.

1.5 Concept and functions of a Central Bank

The concept "central bank" as semantic category is complex. Capie considers that "defining central banking is problematic, but we recognize it when we see it."²² He also notes that Douglas North defines central banks as organisations rather than institutions because they are groups of individuals with some common purpose in place to achieve certain objectives. The most common characteristics of institutions, on the other hand, are that they are *"the humanly devised constraints that structure human interaction" and are made up of formal constraints like rules, laws, constitutions, and informal constraints like norms, self-imposed codes of conduct conventions which together define the incentive structure of economies and*

²¹ Interview with A. Maleiane, Maputo, September 23, 2014.

²² F. Capie, C. Goodhart and N. Schnadt, "The Development of Central Banking" in: *The Future of Central Banking* (The Tercentenary Symposium of the Bank of England) (Cambridge University Press) in Chandavarkar, *Central Banking in Developing Countries*, (London: Macmillan, 1996), 1.

societies",²³ North states that organisations are groups of individuals that have a common purpose to achieve a certain objective such as political parties, firms trades, schools, churches, are based on an institutional matrix which means that they reflect opportunities provided by the matrix. Thus institutions are the rules of the game and the organizations are the players.²⁴

Rutherford notes that, "organisations have constitutions, are collective actors and are also subject to social rules."²⁵ Chandavarkar defines a central bank as "an autonomous public interest bureau with a constitution, operating rules, and a managerial bureaucracy, whose business does not have eminently profitable purposes", but has to operate cost-effectively, seek an operating surplus and adequate reserves while meeting economic policy objectives. Chandavarkar describes a central bank as "a sum-up of an autonomous knowledge-based public bureau and a cost-effective financial entity".²⁶

Following Capie's argument, a central bank develops from an existing banking system that needs a central institution as a regulator to deal with actual and potential problems of the banking system.²⁷ Discussing how the central banks came into existence, he argues that the main causes were great economic stress aligned to monetary expansion; social and economic tensions caused by war or revolutions; the need for monetary reforms due to severe inflation which led to the establishment of a legal framework and commercial code to stabilise the economy and its monetary market.²⁸

M. de Kock also states that originally, in many of the older countries the central banks were banks of issue or national banks, and from commercial functions a single

²³ D. North, "Economic Performance through Time" in: *American Economic Review*,84, (1994) in: Chandavarkar, *Central Banking in Developing Countries*,1.

²⁴ *Ibid.*

²⁵M. Rutherford, *Institutions in Economics (The Old and The New Constitutionalism)*, (Cambridge :University Press, 1994) in:Chandavarkar, *Central Banking in Developing Countries*, 1. *Ibid*, 2.

²⁶*Ibid.*

²⁷ Capie, "The Evolution of General Banking," 4.

²⁸*Ibid*, 2-4.

bank evolved and assumed the privileges of a sole issuing bank and a government bank.²⁹ The main functions at this time were the regulating and controlling of the notes issue including its convertibility based on the gold standard, on silver, or on both.³⁰

The Bank of England was established in 1694 at a time when “there was no concept of central banking.”³¹ This concept only emerged by the end of the century from the work of Henry Thornton (a British economist and banker who lived from 1760 to 1815). According to Capie some analysts prefer the theory that the central bank arose with the monopoly right of issuing currency; others emphasise the role of the central bank as the lender of last resort.³² In fact, the Bank of Sweden, established in 1658, became a state bank in 1668 and the Bank of England only in 1694. The old European central banks were established between the seventeenth and the nineteenth centuries when they were separated from commercial banks. Capie’s theory is that up to then they were not central banks and became central banks only in the beginning of the twentieth century.³³ Their original activities were the issuing of fiduciary money or “paper” currency to avoid financial crisis and to relieve the scarcity of means of payment due to the advent of industrial economies. They also had to deal with the question of seignorage, and had to inform and educate the public on the advantages of using bank notes in addition to coins.

The theory of central banking was first formulated by Bishop George Berkeley a British empiricist philosopher, who in 1735 conceived of a National Bank of Ireland and who wrote *the Querist* (formulating economic queries about causes of poverty in Ireland that influenced public thought in the eighteenth century and presented arguments on the reform of the Irish economy.) He was followed by British

²⁹ M. de Kock, *Central Banking*, 1.

³⁰ *Ibid.*

³¹ Capie, "The Evolution of General Banking," 4.

³² *Ibid.*

³³ *Ibid*, 4-5.

economists such as Ricardo (1828), Henry Thornton and Walter Bagehot.³⁴ However, a significant discourse about central banking was started by Sir James Stuart (1713-80), who in 1772, as an adviser to the East India Company, wrote *The Principles of Money Applied to the State of Coin in Bengal (India)*. The most detailed proposal for a State Bank of India was submitted by John Keynes in 1913.³⁵

According to M. de Kock, the concept of the central bank in the older countries evolved gradually and naturally, sometimes unconsciously. Central banks developed in various industrialised countries over many years during the nineteenth century, but there was no definition or systematisation of the concept or functions. It was a process in which one of the commercial banks came to assume more and more central bank functions, in particular the monopoly of note issue and to act as government's banker and agent.³⁶ M. de Kock states that in each country the skills and temperament of the decisions-makers had a great influence on the shape of its central bank operations.³⁷

Consequently, according to Gorton, Huang and Capie,³⁸ in the early twentieth century there were only 18 central banks in central Europe; in 1950 there were 59 and by 1990 there were 161. The number rose gradually as more states established autonomous governments, and the financial system became more sophisticated and complex.

The development and standardisation of additional functions, duties and powers led to a process of consolidation of all the different central bank tasks. By their characteristic functions and operations the central banks became distinct from the other banks³⁹. According to M. de Kock, the Bank of England was the first central

³⁴ Chandarvarkar, *Central Banking in Developing Countries*, 11.

³⁵ *Ibid*, 11-12.

³⁶ M. de Kock, *Central Banking*, 1.

³⁷ *Ibid*.

³⁸ Gordon and Huang, "Banking Panics and the Origin of Central Banking" 181. Capie, "The Evolution of General Banking," 5.

³⁹ Such as commercial banks, saving banks, hire-purchase banks, merchant banks, industrial banks, investment and agriculture banks. M. De Kock, *Central Banking*, 14.

bank that developed its own code of rules and practices in what is known as “the art of central banking”, subject to periodic readjustment. He defines the “Science of Central Banking” as the science that studies the origin, development, theory and practice of these institutions.⁴⁰

With regard to the functions of a central bank, Chandavarkar observed a consensus that price stability is the primary objective of central bank. This can obscure the principle that good management at a central bank aims to attain four major objectives: full employment, growth, satisfactory balance of payment, stable prices and wages. Kaldor argued that the primary function of the Central Bank in developing countries, such as India, is to promote the fast expansion of credit, so that potential economic growth can be realised.

Kaldor's approach to the best central bank practices in developing countries argues against any ordering of objectives given that the fulfilment of social and macroeconomic objectives and macroeconomic policies simultaneously pursue different objectives. This inevitably causes conflicts and trade-offs, which solution would be the implantation of a rational division of work involving the central bank, commercial banks and the national Treasury.⁴¹

With the advent of new banks in the period between the two world wars, several economists raised questions about the main functions of the central banks. R. Hawtrey argued that the main function was acting as lender of last resort. Meanwhile he emphasised that the right of issue gives the central bank the advantage to perform this function, and without this right it surely could never exercise the lender of last resort responsibility.⁴²

Vera Smith noted that what defines a central bank “is the monopoly in the note issue”. To W.A.Shaw, the main function is the control of credit. C.H. Kisch and W.A.Elkin elected the maintenance of stability of the monetary standard including the monetary circulation as the central bank’s main function, while for L. Jauncey the

⁴⁰ M. De Kock, *Central Banking*, 2-14.

⁴¹ Chandavarkar, *Central Banking in Developing Countries*, 6.

⁴² R. Hawtrey, “The Rise of Central Banking: Characteristic of Central Bank” in: M. De Kock, *Central Banking*, 15.

clearing function is the central bank main operation. The Bank for international Settlements defined the regulation of `the volume of currency and credit as characteristic function of central bank in any country.⁴³

The custody of bank reserves is to some extent considered the central bank's main function. For this reason several central banks in the world are called reserve banks, for example, the South African Reserve Bank, the Federal Reserve Banks of the United States, the Reserve Bank of Australia, and the Reserve Bank of India.⁴⁴ Moreover, for Jean Godeaux, the management of monetary policy was not the main function of the central banks in their early stages, as "*central banks existed even before the word monetary policy had been invented*". For him the central bank's original mission was "*to regulate issue of fiduciary money, paper currency, to appropriate the seignorage, to teach people how to use bank notes and not solely coins, and most important to avoid financial crisis*".⁴⁵

The concept of a central bank gradually became more sharply defined as constituting the apex of a country's banking system when those banks began performing the primary function in economic development of their respective countries. M. de Kock highlight that central banking became a separate branch of banking and developed their own code of rules and practices, the "art of central banking".

According to M. de Kock and Basu, this close involvement includes functions such as currency issuing, control and regulation of currency, being government banker, banker of banks, custody and management of the foreign reserve holdings, bank of rediscount, lender of last resort, settlement of clearance balances between banks, and credit policy management.⁴⁶

⁴³R. Hawtrey, "The Rise of Central Banking: Characteristic of Central Bank" in: M. De Kock, *Central Banking*, 15-16.

⁴⁴ M. de Kock, *Central Banking*, 16.

⁴⁵Jean Godeaux, "Structure of the Central Bank" in: *Perspectives on the Role Of a Central , Bank*, ed. Paul Volcker, Miguel Mancera and Jean Godeaux, (Proceedings of a conference held in Beijing, China, January 5-7), (Washington DC: International Monetary Fund, 1991),76.

⁴⁶ M. de Kock *Central Banking*, 14. G.de Kock, *The Functions and Operations of a Central Bank: With Special Reference to the South African Reserve Bank* (Cape Town, Juta & Co.1929), 6. S. Basu *Central Banking in Emerging Countries*, (Bombay: Asia Publishing House, 1967), 80-81.

There are slight differences of opinion among the authors regarding the number or specification of central banks' core functions. However, M.de Kock concludes that these functions are regularly and traditionally performed by older central banks whereas the newer ones are legally entrusted with only some of these functions.⁴⁷

Apart of central banks' differences due to the different stage of countries' economic development and the political orientation of the various countries, these statutes afford a general clear concept of central banking.

It is difficult, if not impossible, to select the principal or priority function of a central bank, or even to list all functions in the order of their importance, given their interrelationship and complementary nature. Thus, any central bank has to be prepared to perform functions, or a group of functions required to organise, regulate and support the monetary and fiscal institutions of its particular domestic location. Central banks should be guided by the fundamental principle of acting in the public interest, meaning that the aim should not be profit.⁴⁸

1.6 The origin of central banking

Although historically the Sveriges Riksbank of Sweden is the oldest central bank (1668) in terms of its formal constitution, the Bank of England (1694) was the first issuing bank to systematise the practices, principles and techniques of a central bank. It is for this reason that the Bank of England occupies the leading position in most studies that set out to examine the origin of central banks.

The origin of central banking is associated with the countries' leading the industrial revolution, for example Britain and Europe in the nineteenth century with a number of European central banks such as the Netherlands Bank (1814), the National Bank of Austria and the Bank of Norway (both in 1817), the National Bank of Denmark (1818), the Bank of Spain (1829), the National Bank of Belgium (1832) and the Bank of France (1880). The Bank of Japan was established in this century, 1882.⁴⁹

⁴⁷ M. de Kock, *Central Banking*, 14.

⁴⁸ *Ibid*, 16.

⁴⁹ *Ibid*, 4-7.

M. Aglietta and B. Mojon maintain that central banks emerged in the mid-nineteenth century as a result of successive financial crisis of 1847, 1857 and 1866 in Europe which became contagious because of the expansion of industrial capitalism. These developments paved the way for the need for a high-powered financial intermediary to manage public debt, settle interbank transactions and issue money.⁵⁰ This intermediary and regulatory institution became paramount over the banks.

In the nineteenth century countries such as Egypt and Algeria in Africa, along with Java and Persia in the East, Portugal, Romania, Bulgaria and Serbia in Europe, as well as Turkey, established their own central banks. These banks were accorded a series of privileges and powers and had the monopoly of issuing, acted as State banker and financial agent of the government, and performed functions in accordance with what was considered "essential for a central bank" such as those performed by the Bank of England.⁵¹

Banco de Portugal was formed and started operations on November 19, 1846, as a private, commercial and issuing bank as a result of the merger of *Banco de Lisboa* and *Companhia Confiança Nacional*. Banks were proliferating in Portugal as a result of the rapid accumulation of capital and the rise of industry.⁵² *Banco de Portugal* was focused its operations on Portugal itself, Madeira and the Azores. To protect the financial system from crisis due to persistent public debt, this bank acted as the lender of last resort.⁵³

From 1891 onwards *Banco de Portugal* had a monopoly of issuing, but excluding the colonies. Because there were no Portuguese banks in the colonial territories, Oliveira Chamiço created the *Banco Nacional Ultramarino* (BNU) with private funds

⁵⁰ They supported the Aglietta and Mojon, Gorton and Huang model in: "Central Banking", in: *The Oxford Handbook of Banking*, ed. Allen Berger, Philip Molyneux and John Wilson, 234-235.

⁵¹ M. de Kock, *Central Banking*, 7.

⁵² Langa, "A Actividade do Banco Nacional Ultramarino," 11. *Hedges, História de Moçambique*, 65.

⁵³ Banco de Portugal, *Breve Historia do Banco de Portugal*, Accessed June 20, 2015, <http://www.bportugal.pt/pt-PT/OBancoeoEurosistema/Historia/Paginas/default.aspx>.

in 1864 to act as issuing bank and to control the currencies.⁵⁴ A proposal by *Conde Burnay* to merge the two banks, in terms of which the BNU would have been subordinated to the *Banco de Portugal*, failed because of the serious potential structural risk to which the Portuguese economy could have been exposed, given the instability of the colonial economies.⁵⁵

Although the monetary circulation was chaotic in the colonies, since Portugal did not have total control over its colonies, there was no Portuguese banking system operating and the proliferation of several foreign currencies. The establishment of BNU, a private bank with commercial and central bank's functions was in a sense strange to the Gorton and Huang model of how central banks originated.

According to Gorton and Huang it is difficult to explain the origin of central banks, but they refer to Golbart who stated that "*central banks evolved as a response to banks' inability to cope with panics*", when private banks achieve specific roles to act as governmental banks in a process of natural development.⁵⁶

Gorton and Huang also raised the question of what the central bank's critical function would be, its function of lender of last resort, or even if it could be the government's deposit insurance facility which was more fully developed later on (in 1980 only 16 European central banks exercised this function). Both writers acknowledged the widespread role of central banks as issuing banks from the beginning of the twentieth century. The Gorton and Huang model explains that the function of lender of last resort and the central banking functions themselves develop in response to problems in many undiversified and private banks, particularly as a result of industrial organisation in the banking system. The banks form coalitions to exert a calming influence on the depositors and to persuade them that the system is both solvent and fully able to satisfy their demands in currency when needed, the opposite of the experience of the BNU during its formative years. This model was based on the experience of the United States, where private banks issued clearinghouse loan certificates, which could be claimed from a group of banks. Such circumstances require the imposition of mutual monitoring (which explains the

⁵⁴ M. de Almeida, *O Banco Nacional Ultramarino em Lourenço Marques* (Lourenço Marques: Minerva Central, 1964), 4. Langa, "*A Actividade do Banco Nacional Ultramarino*," 11.

⁵⁵ *Ibid*, 26-7.

⁵⁶ Gordon and Huang, "Banking Panics and the Origin of Central Banking," 181-182.

emergence of supervision), because the member banks' entertained different performance levels and need to ensure sound observation of reserve and capital requirements. Gordon and Huang link the development of the industrial organisation of central banks to the function of lender of last resort and to the introduction of deposit insurance.⁵⁷ V. Smith,⁵⁸ however, maintains that central banks were formed to facilitate the raising of revenue by the government.

The fact that no Portuguese central bank operated in the colonies, creates problems for the application of the model outlined above. The BNU had to address the chaotic circulation of foreign money in the colonies and raise money for colonisation. Other authors such as West and Timberlake focused on the origin of the Federal Reserve System as a result of a real bills doctrine considering that it emerged from a coalition of private banks that issue private money called "clearinghouse loans certificates". The system functioned as deposit insurance for the depositors, converting the demand deposits on a single bank into claims on a group of banks members of a coalition to assure public confidence in the entire group solvency⁵⁹ and J. Livingstone relate the origin of the Federal Reserve System to the growth of financial capital.⁶⁰ Livingstone criticised Bordo and Redish, who had ascribed the origins of central banking more too political rather than to economic circumstances⁶¹

The 1907 crisis in the United States led to a reconsideration of the efficiency of a decentralised banking system. Following the advice of a special commission of 1914 the USA introduced a centralised banking system in the form of twelve Federal Reserve Banks, co-ordinated by the Federal Reserve Board in Washington. The

⁵⁷Gordon and Huang, "Banking Panics and the Origin of Central Banking," 182-183.

⁵⁸ V. Smith, "The Rationale for Central Banking," (London: Whitefriars Press) in: *Evolution and Procedures in Central Banking*, ed .David Altig and Bruce Smith, 181.

⁵⁹ Robert West, "Banking Reform and the Federal Reserve," (Ithaca, NY: Cornell University Press). in: "Banking Panics and the Origin of Central Banking," Gordon and Huang, in: *Evolution and Procedures in Central Banking*, 181.

⁶⁰ James Livingston, "Origins of the Federal Reserves System: Money, Class and Corporate Capitalism, 1890-1913," (Ithaca, NY: Cornell University Press, 1986), in: Gordon and Huang, "Banking Panics and the Origin of Central Banking," in: *Evolution and Procedures in Central Banking*, 182.

⁶¹ Michael Bordo and Angela Redish, "Why Did the Bank of Canada Emerge in 1935?, in: *Journal of Economic History* , 47, in: Gordon and Huang, "Banking Panics and the Origin of Central Banking," 182

federal states in the USA came to understand the advantage of having centralised cash reserves and of controlling currency and credit vested in a bank which had state support. This bank was made subject to some state control. In contrast, the older European central banks were not brought under state control. They were formerly commercial banks that had developed through a natural process to a total monopoly of note issue, and had undergone a gradual expansion of functions such as banker and supervisor of banks, government banker and agent, and later on, becoming the lender of last resort.⁶²

The sole or principal right of issue was conferred from the beginning of central banking on an existing central bank by the State, or a bank was specifically created to assume this function. In addition, the government granted such a bank special powers and privileges, with a variable degree of State control and supervision.

The government often participated in the control of such a bank by appointing a Governor, a Deputy Governor and some of the members of the Board of Directors or the management board, while the other members were nominated by the shareholders. Banks such as the Bank of England, the Bank of France, the Swedish Riksbank, the Netherland Bank and the Bank of Japan, had exclusive rights of issue and became their banker to the respective governments.⁶³

The International Financial Conference in Brussels in 1920 and the Genoa Conference in 1922, passed resolutions to the effect that "all countries which have not yet established a Central Bank should proceed to do so as soon as possible, not only with a view to facilitating the restoration and maintenance of stability in their monetary and banking system, but also in the interest of world co-operation".⁶⁴

Among the oldest central banks in the world is the South African Reserve Bank in Pretoria. It began operating on 30 June, 1921 in very unfavourable economic conditions during the peak of post-war inflation, and in the midst of a severe depression. Its establishment was inspired by the Federal Reserve Banks of the United States and the Bank of England. According to G. de Kock the framers of the Currency and Banking Act (the original constitution of the South African Reserve

⁶² M. de Kock, *Central Banking*, 2-3.

⁶³ *Ibid*, 4-7.

⁶⁴ Chandarvarkar, *Central Banking in Developing Countries*, 12. M. de Kock, *Central Banking*, 209.

Bank) took into account whatever material then available to draft the legislation for the South African Reserve Bank. The legislation acknowledged the dissimilar constitutional and economic conditions within the Union. In 1920 there were few relevant models to choose, as central banks were only found in the older states of Europe. Thus, the constitution of the Reserve Bank was modelled upon the principles of central banking as the Bank of England and the legislation for the establishment of the Federal Reserve System in 1913 as if the Reserve Bank was going to operate in a similar environment as those banks.⁶⁵ The South Africa's Reserve Bank was the fourth central bank to be established outside of Europe, and the fifth-oldest bank in South Africa. It made an important contribution to the development of the South African financial system. The Currency and Banking Act was promulgated on 17 December, 1920. This statute established the Bank and was amended from time to time, most importantly in 1923, 1930, 1933 and 1944, to extend the Bank's powers as government's banker, in credit operations and to intervene in the financial market.⁶⁶

What is unusual is that the Reserve Bank of South Africa is a private institution, and its capital is quoted at the Johannesburg Stock Exchange. It has currently more than 660 shareholders (companies, institutions and individuals). Annual dividends are paid to the stockholders holding 10 per cent and less shares amounting to 10 cents per share. The remaining dividends are paid to the Government, after provision was made for statutory reserves.⁶⁷

Since the early 1920s independent countries all over the world have established central banks⁶⁸ such as the National Bank of Hungary and Bank of Poland (both 1924), Central Bank of Chile (1926), and Central Reserve Bank of Ecuador (1927). The Reserve Bank of India was established in 1935. Two later banks were the

⁶⁵ G. de Kock *A History of South Africa Reserve Bank*, 33-37.

⁶⁶ *Ibid.* 47-54, *Ibid* 95-97, *Ibid* 104-131, *Ibid* 195-274.

⁶⁷South Africa Reserve Bank, Ownership. <https://www.resbank.co.za/AboutUs/Shareholding/Pages/Shareholding-Home.aspx> The South African Reserve Bank's website actualize the references given by G. de Kock, in: *A History of South Africa Reserve Bank*, 23-30.

⁶⁸ According to M de Kock at the beginning of the 1970s, there was "virtually no country which has not set up a central bank of its own" M. de Kock, *Central Banking*, 12.

National Bank of Cuba (1950) and Bank of Morocco (1959). Central banks were also established in newly independent countries after colonial rule, particularly the former Portuguese colonies of Mozambique (May 1975), Angola (August 1975), Cape Verde (July 1976), Guinea-Bissau (1980), and São Tomé and Príncipe (May 1975).⁶⁹

1.7 Central bank independence and structure

The concept of a central bank is based on the provisions in the institution's statutes. These are the objectives, functions, monetary and management reserves policies, relationship with the government, the financial system and the public, as well as its role as a developmental institution. According to Basu, all the developing countries' central banks (except for the Libyan Central Bank, established in 1955, which was semi-state and private owned), were envisaged as wholly state-owned from the outset.⁷⁰ After the nationalisation of the Bank of England and the Reserve Bank of India, the Reserve Bank of South Africa remained the only shareholder-owned bank.⁷¹

During the First World War and the post-war period, high levels of inflation promoted by the belligerent countries led to a reaction against state control and management.⁷² This prompted a resolution by the 1920 Brussels Conference, to the effect that "banks, especially banks of Issue, should be freed from political pressure and should be conducted solely on the lines of prudence".⁷³

Since then the principle of central bank independence was adopted by the League of Nations and was enshrined in most central banks' statutes. Central banks were no longer regarded as being "State departments" but as "public trusts", as against the previous concept of "State banks" which were exposed to severe political pressure.⁷⁴ However, this clear separation of powers (political and financial) was undermined during the Great Depression (1929-1939), when governments tended to

⁶⁹ See annex A , List of Central Banks.

⁷⁰ Basu, *Central Banking in Emerging Countries*, 67-68.

⁷¹ *Ibid* 68

⁷² *Ibid*.

⁷³ *Ibid*, 69.

⁷⁴ *Ibid*.

nationalise their central banks, thereby participating in the ownership of the capital, administration and monetary policy. The central banks' independence did not survive the impact of the Great Depression of the early 1930s, the state became the owner and sole provider of capital, and this paved the way for government intervention in administration and in monetary policy decisions. These changes were reflected in the statutes of central banks. In the developing countries with centralised, state-controlled economic and fiscal policies the concept of a central bank with private shareholders, according to Basu, became a strange phenomenon.⁷⁵

Similar to other developing countries state ownership of central banks was a common feature in Latin America. Central banks' statutes before the Second World War (1939-1945) reflected the general subscription to state intervention and control over the central banks. The post-depression years witnessed general increasing trend in state-ownership and state control of central banks.⁷⁶

After the Second World War, the relationship between the central bank and the state came to be more sharply defined, reflected in the central banks statutes regarding state capital ownership, participation in the administration and in monetary policy, disintegrating during the 1920's mirage of central bank independence.⁷⁷

In respect of the states' objective to achieve full employment and to replace the former concept of central banks working in isolation was replaced. The new understanding was that central banks consider monetary and fiscal policies constituted an integral part of the ruling government's economic policy.⁷⁸ In Portugal state control of the central bank was effective from the Decree-Law 450/74 [13, September 1974] that nationalised the *Banco de Portugal*.

In the statutes of central banks of former British colonies (e.g. Nigeria, Ghana, Reserve Bank of Rhodesia and Nyasaland), different from the Bank of England and the Reserve Bank of India there were no provisions providing government powers to issue directions to the central bank in the case of conflict between the bank and the

⁷⁵Basu, *Central Banking in Emerging Countries* 70.

⁷⁶*Ibid*, 68-69.

⁷⁷ *Ibid*.

⁷⁸*Ibid*. Jean Godeaux, "Structure of the Central Bank." in: *Perspectives on the Role of a Central Bank*, ed. Paul Volcker, Miguel Mancera, Jean Godeaux, (Washington: International Monetary Fund, 1991), 77.

Treasury. On the contrary Basu reports continuous and strengthened relations between the banks and respective governments.⁷⁹ In contrast, in Sudan the Minister of Finance and of Economics, from time to time gave general directions to the Board in order to protect national interests.⁸⁰

In Mozambique the state intervention in the operations of the central bank was significant since independence and the restructuring and integration of private banks to the *Banco de Moçambique* in 1977 aimed at giving control over the entire banking system to the state. This seriously affected the concept of central bank independence in the recent past.⁸¹

The Governor of the Bank of Rhodesia and Nyasaland reported to the Radcliffe Committee, and the former Governor of the Bank of Botswana, that the relationship between the central bank and the government was harmonious, and was characterised by a close working relationship both formal and informal.⁸² Despite its private shareholders statutes the South Africa Reserve Bank's relationship with the government is still one of close harmony and that the bank enjoys independence within the government (not of the government).⁸³

According to Godeaux, modern central banks should be "influential and autonomous", but should still work in harmony with the government. Central banks organizational structure must support the bank in discharging of its responsibilities. This means that the central bank must enjoy financial, administrative and political autonomy. This implies that, in the first place, the central bank should not be dependent on the state budget, but it should guarantee, through high-quality

⁷⁹ Jean Godeaux, "Structure of the Central Bank." in: *Perspectives on the Role of a Central Bank*, ed. Paul Volcker, Miguel Mancera, Jean Godeaux, (Washington: International Monetary Fund, 1991), 77.

⁸⁰ *Ibid.*

⁸¹ Basu, *Central Banking in Emerging Countries*, 69. J. Ferreira, *História de Portugal: Portugal em Transe (1974-1985)*, vol 8 (Lisboa:Ed. Estampa, 1994), 114. Interview with Eneas Comiche, Maputo, March 12, 2013. M. Pitcher, "Sobreviver à transição: o Legado das antigas empresas coloniais em Moçambique." in: *Análise Social* vol xxxvii.(2003) in: <http://analisesocial.ics.ul.pt/documentos/1218791363I3gSX5sc0Tn03TK0.pdf> Accessed 20.06.2015

⁸² Basu, *Central Banking in Emerging Countries*, 70. H. Hermans, "Bank of Botswana: the first 21 years" in: *Aspects of Botswana Economy: selected Papers*, ed. J. Salkin et.al. (1996), 69.

⁸³ Basu, *Central Banking in Emerging Countries*, 71.

recruitment of staff, good research capacity and professionalism, professional career development and a remuneration dispensation independent of that of the civil service, and finally, senior appointments must be above political bias.⁸⁴

The influence and autonomy of the central bank should, firstly, be attributed to the quality of its research, its communication skills and its ability to influence public opinion. Secondly, the bank must be objective and *non-partisan*. Thirdly, a central bank should be “politically savvy”, which means that the Bank should be close to the political process but not be part of it. Godeaux is of the opinion that the days of “splendid isolation” are gone.⁸⁵ Without any sense of subordination of one to another, the Governor and the Minister of Finance should hold regular meetings in the interest of co-ordination and to ensure the bank’s activities are in tune with the executive policies and programmes.⁸⁶

The fourth requirement is frequent communication with the state and the public explaining central bank operations and results, as part of what is generally known as “accountability”.⁸⁷ It means that, on the one hand a central bank must be aware of and sensitive to the economic, social and political environment in which monetary policy is embedded, while on the other hand the bank must do everything to make its policy clear and understandable to the government and to the public in general: this is public accountability⁸⁸ Since its inception the *Banco de Moçambique* has established an effective relationship with the government, both at the level of technical co-ordination of policies (monetary and fiscal), and at the executive level on both sides in the form of periodic meetings.

The organisational structure of central banks was invariably influenced by its historical development. Those of a British heritage tend to have seven members serving on the board of directors, including the Governor and Deputy Governor.

⁸⁴Godeaux, "Structure of the Central Bank," 77.

⁸⁵ *Ibid*, 77.

⁸⁶ Interview with Jose Viola, Maputo, March 12, 2013. Interview with Sergio Vieira, Maputo, March 16, 2013.

⁸⁷In addition to the annual report, the *Banco de Moçambique* publishes periodicals to provide the public with information about its activities and on the performance of the economy. See the list of titles in annex B.

⁸⁸Godeaux, "Structure of the Central Bank," 77.

These two officials were formerly appointed by the Governor-General or by the Council of Ministers for a term of five or seven years. The Bank of Ghana's Board of Directors has one Governor, two Deputy Governors, three executive directors and six directors. The francophone countries' central banks have an organisational structure similar to the Bank of France. Morocco's central bank has no board of directors; the administrative organ consists of the Governor, the Council, the Committee of Directors, the Government Commissioner and the Auditors. The Governor holds wide powers (direction, administration and supervision) and he serves for an indefinite period, as is the case in France. In Tunisia the Governor is appointed for six years.⁸⁹

In Mozambique the Governor is appointed by the President of the Republic for a five-year term and the board is appointed by the Prime Minister. When a central bank is seen as an institution with autonomy to decide policies and to perform activities to meet objectives, then it is clear that the *Banco de Moçambique* has been an autonomous entity since 1922. It was only during the early years of Mozambique's independence, when the country had a centrally planned economy characterised by state control over all economic sectors including the banking system, that the central bank's independence was gravely compromised.

The establishment of the *Banco de Moçambique* represented a new era of social and economic development and led to an expansion of regional and international co-operation, whereas the main objectives and functions of its predecessor, the *Banco Nacional Ultramarino* were the development of the colonies and transfer of resources to the Portuguese metropolis.

In terms of the Lusaka Accords of 7 September, 1974, the Portuguese government committed itself to transfer liabilities and assets from the *Banco Nacional Ultramarino* and to establish the *Banco de Moçambique*. The aim was to provide the newly independent nation with the necessary means to formulate its own independent economic and financial policies. Thus, the creation of *Banco de Moçambique* as central bank was imperative in terms of giving effect to national independence. This institution had peculiar characteristics, but it exercised the fundamental functions of a central bank. Its development was similar to many other central banks that had

⁸⁹ Godeaux, "Structure of the Central Bank," 72-73.

initially functioned as commercial banks. From 1992 onwards the bank devoted itself exclusively to central bank functions.

In chapters two to five the origin, functions and evolution of the *Banco de Moçambique* will be analysed in the light of central banking theories. The object will be to understand how the bank performed the main functions of a central bank, as outlined above.

1.8 Central banking in the developing countries

The traditional concept of central banking that was based on the structures and practices of the earliest established central banks has changed radically during the last 25 to 30 years. There has been a history of different experiences, practices and outcomes, particularly different historical, financial and economic conditions,⁹⁰ which embodied different paths of central bank development in emerging markets.

The new concept of central banking in developing countries arose from younger banks in Central and South American countries. With adequate monetary policies developing countries wanted to achieve rapid economic growth and development. They learnt from the older banks' experiences, but also innovated according to their needs. Their charters did not merely copy the rules and practices of the older banks, where the Bank of England had been the leading institution. The new generation central banks developed institutions that benefited from the experience of the earlier central banks.

These were established after the First World War and from the guidelines of the 1920 Brussels Conference, namely to function "as part of a scheme of currency stabilisation and to prevent inflation".⁹¹

The concept of central banking in the developing countries emerged gradually since the Latin America experience after the "*Great Depression*" up to World War II. Central banks in Latin America arose in mono-culture societies, export-oriented economies with an imperfectly developed commercial banking system. Money and capital markets were either absent or were at best in early stage of development. The classic model of central banking as used in older industrialised countries with their strong and diversified economic structures and their mature money and capital

⁹⁰ Basu, *Central Banking in Emerging Countries*, 1.

⁹¹ *Ibid.*

markets were unsuited to Latin American conditions.⁹² For the latter countries, the existing economic and financial environment had to be taken into account before their own central banks could function. Some Asian countries have adopted the same pattern of development.

The emerging markets could not simply duplicate early industrial economies central bank paradigms, but needed to develop models specifically suited to their economies. Emerging markets needed to develop models appropriate to central bank functions emerging in such economies.

The emerging markets also found themselves unable to accept and apply doctrines that assume that central banks can only be created in advanced economies with, well developed monetary and capital markets and which were already integrated in the international financial system. Lord Cobbold, called it "an expensive luxury". Should emerging markets display reliance on it at the earlier stages of economic development as it could even be dangerous?⁹³

Mr. H.S. Tomkins of the Bank of England in respect to the Hong Kong Banking System and Sir Cecil Trevor, who commented on the inception of a central bank in the Gold Coast, recommended that the establishment of traditional central banks in relative undeveloped economies and infrastructures could be both unnecessary and inadvisable.⁹⁴ Instead, they have argued that some central bank functions could be performed, at lower cost, by currency boards or by a semi-government commercial banks in the case of the Gold Coast. These alternative structures would act as a monetary authority operating as a local currency manager which would peg the respective country's exchange rate to foreign currency.⁹⁵ In 1948 H.C.B. Mynors opposed the establishment of a fully-fledged central bank in Southern Rhodesia,⁹⁶

⁹² Basu, *Central Banking in Emerging Countries*, 1.

⁹³ *Ibid* 53.

⁹⁴ *Ibid*.

⁹⁵ *Ibid*.

⁹⁶ *Ibid*.

arguing that a currency board system served the needs of the self-governing British colony's economic development more appropriately.⁹⁷

Basu described a currency board as being mere administrators of the monetary system but lacking any national monetary or credit policies.⁹⁸ Moreover, a central bank in newly independent countries was a "symbol of financial independence which is the counterpart of political freedom".⁹⁹

From the 1950s a new model arose when several newly independent African and South-East Asian countries established central banks in the wake of emerging from their former colonial status. Those countries had different economic, social and cultural conditions to those found in Latin America countries.¹⁰⁰

Establishing national central banks, the newly independent nations aimed at obtaining institutional authority to regulate the financial system. These institutions also sought to foster the development of indigenous monetary and capital markets. The new banking system was intended to foster national well-being by being an instrument to develop all the spheres of economic and social life. The new central banks replaced institutions serving former colonial interests and developed financial systems suited to the needs of the newly independent countries. The newly independent countries opted for a new concept of central banking that embraced both traditional and non-traditional activities to enhanced national development.¹⁰¹ Although the concept of central banking varied from country to country, a consensus on the activities of the new central banks were their role as a monetary reserve, to foster good working relations with the government, the existing financial system and communicating with the public, apart from taking on the role of developmental institutions.¹⁰²

⁹⁷ Basu, *Central Banking in Emerging Countries*, 1.

⁹⁸ *Ibid*,52.

⁹⁹ *Ibid*.

¹⁰⁰ This happened in Mozambique with the creation on May 17, 1975 of the *Banco de Moçambique*.

¹⁰¹ Basu, *Central Banking in Emerging Countries*, 52.

¹⁰² M.de Kock, "Present Position of Central Banking," in *Central Banking*, 13-15.

M. de Kock reflected on a similar situation when discussing the opinion of Sir George Schuster at the time of establishment the central bank of India. Schuster pointed out that "a central bank was to be well designed, to meet the practical requirements of a country, it must be adapted to the banking organization of the country on which it should rest".¹⁰³ When China's central bank was created, it was severely criticised by many people who felt it was far too similar to the Federal Reserve Bank of America.¹⁰⁴

The development of central banks in several countries, irrespective of the stage of economic development, was motivated by the conviction of the important role the central bank performs in modern banking. This is particularly the case with the centralization of monetary reserves, the control of money supply and credit, with the support of the state.

It was also realised that communication and co-operation among central banks would promote closer co-operation with banking systems around the world. Most of the central banks abide by similar functions and methods, notwithstanding substantial differences in their statutes and structures. In the absence of relatively uniform standards and conditions, countries developed local applications of general practices.¹⁰⁵

The stages of economic development of a country impact on the profile and characteristics of the central bank. Factors that impact on the central bank include the quantity of resources, the banking and credit structure, the development of monetary and capital markets, and the positioning of the central bank in the context of the international financial system.¹⁰⁶

Analysing the advantages and disadvantages of implementing central banks versus currency boards in the newly independent countries, Basu states that " ...the rise of central banking in all the newly independent countries was not an accident."¹⁰⁷ Given

¹⁰³ M. de Kock, *The Functions and Operations of Central Banks*, 51.

¹⁰⁴ *Ibid.*

¹⁰⁵ M. De Kock, *Central Banking*, 13.

¹⁰⁶ *Ibid.*

¹⁰⁷ Basu, *Central Banking in Emerging Countries*, 52.

that currency boards have historically been a pathway towards the establishment of central banks,¹⁰⁸ it is justified to ask whether alternatives to central banks could be more appropriate to independent and emerging market economies? Should they have opted for a national currency and established their own independent currency authorities? Should they perhaps have created and maintained a unified currency area with a common central bank for all member countries? What kind of institutions should developing countries adopt to fit in with their level of development? Is a fully-fledged central bank the ideal solution towards achieving the monetary policies and objectives of emerging market economies? Williamson, Hanke and Schuler advocate currency boards as monetary authorities for small open economies. These boards would engage in monetary policy management; management of the exchange rate, seek price stability, and promote investments.¹⁰⁹ The currency board system was considered suitable for the former centrally planned economies before they evolved into a conventional central banking system in a market-oriented economy because of the simplicity of the way they operated. Other advantages included the fact that fiscal responsibility was ensured and the governments concerned were prevented from printing money at will via a central bank.¹¹⁰

On the down side a currency board would not allow a newly independent country to develop its money and capital markets, or embark on an independent monetary and credit policy. It would not exercise the fundamental function of lender of last resort and it could not foster the development of an indigenous money and capital market and infrastructure.¹¹¹

Historically, many African and other emerging economies' central banks evolved from currency boards. Examples are the Rand Monetary Area (Botswana, Lesotho, Namibia and Swaziland); the West and East African Currency Boards (Gambia,

¹⁰⁸ Chandavarkar, *Central Banking in Developing Countries*, 14.

¹⁰⁹ J. Williamson, *What Role for Currency Boards* (Washington DC.: Institute for International Economics, 1995). S.Hanke and K.Schuler, *Currency Boards for Eastern Europe* (Washington DC: Heritage Foundation, 1991), Hanke and Schuler, *Currency Boards for Developing Countries* (San Francisco: International Centre for Economic Growth, 1994) in: Chandavarkar, *Central Banking in Developing Countries*,14-21.

¹¹⁰ Chandavarkar, *Central Banking in Developing Countries*, 17.

¹¹¹ Basu, *Central Banking in Emerging Countries*, 52.

Ghana, Nigeria, Sierra Leone, Kenya, Tanganyika and Uganda); the former Central Africa Currency Board (Rhodesia and Nyasaland), the Palestine Current Board (Palestine and Transjordan); the British Caribbean Currency Board (Guiana and Trinidad and Tobago).¹¹²

When Botswana, Lesotho and Swaziland sought to negotiate their withdrawal from the Rand Monetary Area, the IMF and the business community advised strongly against such a move, supposedly because of the inherent risk regarding their national currencies and reserves management.¹¹³

The Bank of England advised the newly independent former colonies and dependencies to retain their currency boards as a half-way station towards developing fully-fledged discretionary banking. It was not a matter of how small or large a central bank would be but the "functions they are expected to perform". For, the choice of whether to institute a central bank, a monetary authority or to set up a common currency area with a supra-regional central bank depended on historical, geographic and political conditions.¹¹⁴ Some of the experts, relying on the classic concept of a central bank, noted that the establishment of a central bank was inadequate and inadvisable in view of the underdeveloped states of the countries' economic and financial structures. It was argued that central bank functions could be better performed, at a lower cost, by a currency board.¹¹⁵

In 1951 Sir Cecil Trevor argued that setting up a National Bank in the Gold Coast, with commercial lines to finance development projects and one that could act as a reserve bank, would be advisable. Such a semi-government institution could have central and commercial bank functions. It could offer deposits with or without interest, loans and advances, be banker to the colonial government and local authorities, negotiate rediscount bills and be in charge of foreign exchange. The advantages of such an institution were as follows: firstly, it could start as a nucleus and grow gradually by taking on central bank activities. Secondly, it would avoid the

¹¹² Basu, *Central Banking in Emerging Countries*, 55. Chandavarkar, *Central Banking in Developing Countries*, 22.

¹¹³ Hermans, "Bank of Botswana the first 21 years," 180.

¹¹⁴ Chandavarkar, *Central Banking in Developing Countries*, 16-23.

¹¹⁵ Basu, *Central Banking in Emerging Countries*, 53.

need for a currency reserve backed by gold, a premise for the functioning of a central bank while an existing financial system with established money and capital markets was not a requirement. Thirdly, such a central bank would not be bound by the availability of traditional pre-requisites for classical central banks.¹¹⁶

In the case of Nigeria, J.L. Fisher compiled a report in which he argued that one of the stages to be implemented on the road to establishing a central bank was to set up a Nigeria Currency Board with an indigenous currency, and its functions could subsequently be transferred to a central bank later.¹¹⁷ Fisher argued that it was not ideal to create a central bank at that early stage of Nigeria's development in view of the beginnings of a financial system in the country. Fisher felt that the priority was to establish a development corporation and a credit organisation with government sponsorship to encourage capital formation for development, and for voluntary savings. He also identified the lack of trained staff for a central bank in Nigeria as inhibitive of such development.¹¹⁸

British advisers were most critical towards the idea of establishing central banks in newly independent countries. J. B. Loynes who had recommended the establishment of a central bank in Nigeria, and had participated in its realization nevertheless, in the case of Sierra Leone, argued that it would be better to establish a "monetary institute" with more extended powers than a currency board. Loynes argued that *"although the system of a currency board was cheap to run and was relatively trouble-free and preserved at all times a stable value of the colonies' currency ...it could not provide a national currency after which every independent country aspired to, as much as its economic betterment"*.¹¹⁹

After the colonial territories had gained their independence, there was a movement to replace the currency boards with central banks. This developed in 1956 in

¹¹⁶ Basu, *Central Banking in Emerging Countries*, 53-54.

¹¹⁷ *Ibid.*

¹¹⁸ *Ibid*, 53.

¹¹⁹ Basu, *Central Banking in Emerging Countries*, 64.

Rhodesia and Nyasaland, and in 1958 in Nigeria and Ghana, when the assets and liabilities of the West African Currency Board were taken over by local central banks. For African nationalists the creation of central banks meant the protection of African traders, agriculturists and industrialists against the discrimination practiced of expatriate banks. Arguments advanced by academics also favoured the establishment of central banks, because such institutions could contribute towards national economic development through the development of an indigenous financial system and money market.

Those advocating transitional institutions as a means of moving towards fully-fledged central banks suggest that such institutions are suitable for small, open economies in transition. Chandavarkar points out that currency boards proved to be successful in small, open economies such as those of Hong Kong, Brunei, Singapore and Estonia, while countries such as Brazil and Argentina rejected this option, as did the vast majority of developing countries in Africa.¹²⁰

All former Portuguese colonies that achieved their independence in the 1970s and 1980s opted initially to create central banks with commercial banking functions to start with, rather than currency boards. Some interviewees stated that this was linked to the desire to achieve full national sovereignty. On the other hand, an own central bank was preferable to the *Banco Nacional Ultramarino* which, during the colonial period, had tied the colonies' economies to the Portuguese economy. Financial independence was considered essential if the colonial umbilical cord with Portugal was to be severed.

¹²⁰ Chandavarkar, *Central Banking in Developing Countries*, 18.

CHAPTER 2: BANCO DE MOÇAMBIQUE (1975 – 1977)

The central, issuing and commercial bank, called Banco de Moçambique, is hereby created.¹²¹

The Bank shall perform the functions of a central bank, the sole issuer of banknotes and coins, the Treasury bank and a commercial bank.¹²²

2.1. Establishment and consolidation of a central bank: The political and economic situation in Mozambique during the final years of Portuguese colonial rule

At the time of national independence in 1975, Mozambique's economic and social structure mirrored Portugal's own development and its position in the community of nations, as well as its relationship with Britain's colonies in southern Africa.¹²³

The effective colonisation of Mozambique began after the Conference of Berlin (1884-85), which lay down that a colonial power would only be legitimised through an effective occupation of its colonial territories.

Despite its military resources, Portugal had to face strong local resistance to its occupation of Mozambique from 1886 to 1918, namely in the Gaza empire which ended with the defeat of the indigenous people after several battles, followed by the imprisonment and deportation of the emperor Ngungunhana to the Azores in 1895. The defeat of the Barué rebellion in 1917 meant the collapse of all resistance, and Portuguese colonial forces occupied the Makonde Plateau in 1919-20.

In the pre-colonial era (the Portuguese penetration started from the sixteenth century with installation of trading posts, after Vasco da Gama first contact with Mozambique in 1498 on the way to India) Mozambique's economy was predominantly agrarian with a population of about 3 million in 1900 and 4.2 million in

¹²¹Article I Decree-Law 53/75, 14 May 1975.

¹²² Article IV Decree-Law 2/75, 17 May 1975.

¹²³João Mosca, *Economia de Moçambique: Seculo XX* (Lisboa: Instituto Piaget, 2005), 21.

1930, when only about 100,000 people lived in urban areas.¹²⁴ On the verge of independence in the mid-1970 the population growth rate was about 2.15 percent. Mozambique had 9 million inhabitants in 1975, about 90 percent of which were illiterate. As the fourth population census for the 1960-70 period showed, the economically active population consisted of only 2 927 606 people, of which 2 141 020 were involved in agricultural, forestry, hunting and fishing activities. These statistics are indicative of a deplorably underdeveloped and backward society.¹²⁵

The dynamics of Mozambique's colonial economy tended to encourage urbanisation as a consequence of the establishment of ports and railways and the development of industry and commerce. The majority of African people lived in rural areas but some of them moved to nearby towns to avail themselves of work opportunities in construction, such as the building of embankments, ports and railways, roads, public buildings, and other public works. They formed a permanent presence in the towns as workers. With the consolidation of forced labour,¹²⁶ consisting on indigenous compulsory labour to exploit the manpower, after the abolition of slavery in 1836, the peasants were transformed into migrant workers in the plantations and lodged in "compounds", far from their place of origin or residence.¹²⁷

Because Portugal lacked the financial resources to introduce and run its own administrative institutions in its colonies, it resorted to ceding administrative and military control of two thirds of the colony's territory to foreign chartered companies

¹²⁴ David Hedges, ed., *História de Moçambique: Moçambique no Auge do Colonialismo, 1930-1961*, 2nd (Maputo, Livraria Universitária, UEM. 1999), 8. Portuguese Legislation (1899-1926) regulated the forced labour on behalf the regime. Valdemiro Zamparoni, "Da Escravatura ao Trabalho Forçado" in *Entre Narros e Mulungos: Colonialismo e paisagem social em Lourenço Marques, Moçambique. 1890-1940*. (São Paulo, 1998) (accessed January 03, 2016) <http://macua.blogs.com/files/entre-narros-mulungos---colonialismo-e-paisagem-social-em-louren%C3%A7o-marques-1890-1940.pdf>.

¹²⁵ "Somos Nove Milhões : Pelo Inventário 1973/1974, 76 Por Centos de Analfabetos," Notícias, . November 19, 1974.

¹²⁶From 1899 to 1926 the colonial Portuguese legislation established several laws of mandatory indigenous labour as civilizational mean, considering that they were minor without citizenship rights. Martinez, E. *O Trabalho Firçado na Legislação Coloniaol Portuguesa – o Caso de Moçambique (1899-1926)* (Dissertação para Mestrado em História, Universidade de Lisboa, 2008) . (accessed 03.01.2016) [Http://hdl.handle.net/10451/434](http://hdl.handle.net/10451/434).

¹²⁷ Hedges, *História de Moçambique*, 9.

(British, French and German) so that large scale cultivation of exportable products could get under way.

The *Companhia do Niassa* (1821) had control over the Niassa and Cabo Delgado provinces; Manica and Sofala provinces were under the *Companhia de Moçambique* (1888), Tete and Zambezia provinces were under joint control of Portuguese authorities and chartered companies. Among the latter were *Companhia da Zambézia* (1892), *Companhia do Boror* (1898), *Compania Sociadadedo Madal* (1904) and others that had rent from “*Prazos da coroa*”.¹²⁸ There was, however, an effective Portuguese administration over the settlements south of the Save River (Maputo, Gaza and Inhambane provinces) and in Nampula.¹²⁹

Mozambique’s colonial economy was closely tied to the Portuguese motherland’s backward economy, but it was also interlinked with the economies of southern African territories, predominantly the colonies in Southern Africa, as a result of its export of labour via the migration system to those economies. But Portugal sought ways and means of exerting a measure of control over Mozambique’s integration process so as to secure the revenue from invisible trade, and to regulate the workforce, all in the interest of financing the colony’s development. The Portuguese authorities for example attempted to manage the conflict that arose between the external demand for labour and the colony’s own demand for labour that was needed for the cultivation of export crops.¹³⁰

The dominant feature of the Mozambican colonial economic policy since the nineteenth century was complex. Besides the traditional familiar agrarian production for subsistence in southern Mozambique, Portugal had a state-by-state agreement for the monopolization of the workforce export to South African mines up to the 22nd parallel (from Lourenço Marques to south of the Save River in Sofala Province), in return for the use of Lourenço Marques Port (now Maputo).

¹²⁸This was a system that granted the right to the Portuguese citizens to hold rights on land for a certain period.

¹²⁹Hedges, *História de Moçambique*, 1-2. Mark Wuyts, *Money and Planning for Socialist Transition: The Mozambican Experience* (Aldershot: Grower Publishing Co Limited, 1989), 15.

¹³⁰ Wuyts, *Money and Planning for Socialist Transition*, 16.

As a result of Beira being linked by rail to Umtali in Southern Rhodesia in 1897, and to Nyasaland in 1922, Mozambique's railways became integrated with that of the southern African region. One outcome of this was that the African peasantry in the Zambezi Valley, which had always practised their own plantation economy, were integrated into the monetary economy which was a feature of colonial rule, between 1890 and 1936. To get the peasants to increase existing production levels, the Portuguese used coercive methods of exploitation such as forced labour (the *chibalo*), the imposition of a hut tax and the payment, in Zambezia, of *mussoco* (labour rent).¹³¹ The export of labour to South Africa, Southern Rhodesia (now Zimbabwe), Tanganyika (now Tanzania), and Nyasaland (now Malawi) and to the island of *Sao Tomé* from the central areas lasted until 1913.

Because of Portugal's unstable industrial sector in the early twentieth century, Mozambique's exports were diverted to France, South Africa, Britain and Germany. Portugal itself exported wines primarily to Mozambique.¹³²

Portugal's weak control over the colony in general brought about various conflicting demands on its labour force in particular, the labour required for seasonal work on the plantations. The export of labour to neighbouring countries, and the competition for labour among several other potential employers (from plantation owners to the mines) in this period induced the Portuguese to promulgate general labour laws in order to assert their sphere of influence and to safeguard their interests.

Mozambique exported labour, in particular from the centre of the country, even though there was a chronic shortage of labour in the colony itself to develop the plantations. This situation had arisen because Portugal lacked the capacity to exercise direct control of the whole colony; besides, its migrant workforce was the source of important foreign exchange revenue, apart from furnishing the economy with funds to develop the plantations and a large part of migrants to Rhodesia-mines and farmers were illegal, running away from *chibalo*.¹³³

¹³¹ Wuyts, *Money and Planning for Socialist Transition*, 16-17. This was general practice in African colonies, not only Portuguese colonies.

¹³² *Ibid*,14. Hedges, *História de Moçambique*, 7.

¹³³ Wuyts, *Money and Planning for Socialist Transition*, 16.

The rise to power of *Antonio de Oliveira Salazar* as a result of a coup d'état on 28 May 1926 led to a new colonial policy between 1930 and 1960. This policy was based on the principle of "economic and political nationalism". Its aim was to bring about a close economic integration of the colonies, and to enable Portugal to get direct management of the territories.¹³⁴ For that purpose, financial and administrative reforms were introduced through the 1930 Colonial Act and the plebiscite of 14 March 1933 in which people sanctioned the Portuguese Colonial Empire, based on the "New State" policy. This policy confirmed that Portugal's national development was indissolubly linked to the colonies.¹³⁵

The new policy provided for the control of the chartered companies' territories to revert to the Portuguese state, with particular reference to the territory of the *Companhia de Niassa* when the company was dissolved in 1929. Other companies became private enterprises. *The Companhia de Moçambique*, for example became the *Entrepasto* Group in 1942 and by 1970 it had gained control of over 20 enterprises. In the agrarian sector, the *Companhia do Boror*, the *Companhia do Madal* and Sena Sugar States expanded their operations and continued until national independence. The colonial government assisted them by supplying cheap, forced seasonal labour.¹³⁶

The integration of Mozambique into the southern African economy during these years, based on its migrant labour, transport services and cash crops grown for export, promoted the new economic nationalism. However, this policy was executed within the context of a repressive labour system that forced the peasantry into an integrated money-based economy. Mozambique's ports and railways, used for handling and carrying cargo to and from South Africa, Nyasaland (Malawi) and

¹³⁴ Decree-Law 18.570, August 30, 1930. Carmelia Langa, "A Actividade do Banco Nacional Ultramarino em Moçambique: Da Fundação à Saída em Moçambique (1864-1974)", (BA diss. Universidade Eduardo Mondlane, 1995), 52- 64.

¹³⁵ Wuyts, *Money and Planning for Socialist Transition*, 17. This change in management style was not only so, but acted as a series of legislative measures to consolidate the direct administration of Portugal on colonies. About direct administration see the direct Antonio de Almeida Santos, *Quase Memórias: Da Descolonização de Cada Território em Particular*, 2 vol. 2 ed. (Lisboa: Casa das Letras, 2006). 120. Langa, "A Actividade do Banco Nacional Ultramarino," 64.

¹³⁶ Wuyts. *Money and Planning for Socialist Transition*, 17.

Rhodesia (Zimbabwe) was utilised to earn foreign exchange to help finance the colonial budget, while also contributing to Portugal's own development.¹³⁷

In 1928, a convention was signed between Portugal and South Africa which defined a "deferred payment system" through which Portugal retained a percentage of the Mozambican miners' wages in gold, at a fixed price, to be credited to the Portuguese State. Thanks to gold sales in the open market, Portugal stood to benefit from this arrangement with South Africa.

Furthermore, the new phase of economic nationalism in Portugal, since 1936 promoted a policy of industrial constraint, aiming at extensive cotton production and local industrial development.¹³⁸ Cotton growing, particularly in the Northern provinces, was promoted from 1936 to develop the Portuguese textile industry. The cultivation of rice was made mandatory to feed the growing local towns. Likewise, the cultivation of produce such as cashew nuts, copra, maize, peanuts, cassava, and groundnuts for local consumption and for export was encouraged.¹³⁹

Despite the restrictions imposed on industrial development in Mozambique to prevent competition with the metropolitan industrial revolution, (where the BNU was the executing agency)¹⁴⁰, the colony's agro-industry forged ahead with increasing mechanisation, particularly with respect to the processing of cotton, rice, sugar, tobacco, tea and oil. The expanding agricultural production was to supply settlers' needs and led to the consolidation of the Portuguese capital.¹⁴¹

Portugal's industrial development led to extensive accumulation of capital and, after the Second World War, to the formation of monopolistic groups. Some groups invested in cotton marketing such as the *Companhia dos Algodões de Moçambique* and *João Ferreira dos Santos*; others, such as the *Sociedade Agrícola de Incomati*,

¹³⁷ Wuyts. *Money and Planning for Socialist Transition*, 18. Hedges, *História de Moçambique*, 6-7.

¹³⁸ This inhibited the industry developments in the colony outside the bounds of satisfying the settlers' needs.

¹³⁹ Wuyts, *Money and Planning for Socialist Transition*, 20. Hedges, *História de Moçambique*, 3-4.

¹⁴⁰ Langa, "A Actividade do Banco Nacional Ultramarino," 64.

¹⁴¹ David Hedges, "Protection, finance and integration in colonial Mozambique 1920-1974" (paper presented at the SIAS Conference Financial Institutions in the Political Economy, Bergen, June 11-14, 1998), 19-20.

invested in the colony's sugar plantations. Yet other groups followed suit in insurance and banking.

Portugal's protectionist policy of economic nationalism placed the control of the Mozambican economy in the hands of the powerful privately owned financial, commercial and industrial groups. These included the *Entrepasto* Group, Champalimaud, CUF (*Companhia União Fabril*), *Joao Ferreira dos Santos*, *Monteiro e Giro* and others.¹⁴²

After the Second World War, the "colonial question" received increasing attention internationally. In response, Portugal's policy was to turn Mozambique into a Portuguese province by encouraging Portuguese immigration to the African colony. The settler population grew at a rate of 4, 5 per cent in the 1920s to a rate of 5, 8 per cent in the 1940s and 7, 3 per cent in the 1960s.¹⁴³ The population census of 1960 in Mozambique indicated the total population of 6 603 651, and about 220 638 were non-African. 98per cent of population were indigenous.¹⁴⁴A labour dispensation based on a policy of segregation was introduced in Mozambique since 19th century and consolidated in the first Portuguese republican Constitution enacted in 21 August 1911¹⁴⁵ Access to urban areas, education and to administrative and technical skilled positions was restricted to white settlers. Only a small number of Africans – those who had advanced to the status of "*assimilado*", – could progress to unskilled, and semi-skilled jobs, or to other positions where they were subordinate to whites. This policy aimed at turning the natives into Portuguese citizens. By 1960 only 1per

¹⁴² Hedges, *História de Moçambique*, 171-172.

¹⁴³ Wuyts, *Money and Planning for Socialist Transition*, 20.

¹⁴⁴ The 1899 Portuguese Labour Law followed by the Civil Administration Law of the Overseas Provinces promulgated in the *v Diário do Governo*, I Série, 143, de 15 de August de 1914definitely divided the residents in Mozambique in two groups: indigenous (for which the law established labour obligations) and non-indigenous, the civilized people with citizenship rights. Meneses M.P. *O "Indigina" Africano e o Colono"Europueu" E A Construção da Diferença por Processos Legais*, 83, https://www.ces.uc.pt/myces/UserFiles/livros/693_04%2520-%2520Paula%2520Meneses%252023_06.pdf.

¹⁴⁵ In 1914 the Regulation of indigenous Work was promulgated. In 1928 Portugal had abolished the forced labour due to the international criticism. Meanwhile the republican ideals did not change substantially the colonial policy. The "New Estate" promulgated the first version of *Indegenato Status* that would only be revoked in 1961. *Ibid*, 79-81.

cent of the African population had achieved the "assimilado" status that was reserved to former indigenous inhabitants who had acquired the Portuguese citizenship.¹⁴⁶

In the post-Second World War period, when the main economic activity was agriculture, pressure was put on the peasantry in two ways: by being integrated into a monetised economy towards which they needed to earn wages by supplying wage labour to neighbouring countries and plantation companies, and by providing labour in the domestic market for the construction of roads, railways and other colonial handling port cargo, and to provide forced labour for the agro-industry. At the same time the peasants were integrated to the market by selling their cash crops, while they were also expected to grow food for own subsistence.

The growth of the settler population stimulated the demand for consumer goods, which, in turn, stimulated the development of light industrial production, at first only for the internal market. From 1960, a start was made with intermediary products. Food production on settler farms developed mainly in the southern region (*Maputo, Limpopo, Revue, Sabie* and in the *Incomati* Valley). In these areas the Portuguese authorities set up *colonatos* (where Portuguese peasant families relying on their family workforce to produce rice, meat, vegetables and dairy products) were settled. The expansion of agriculture accelerated the growth of industries such as transportation, trade and tourism in southern Africa. This in turn stimulated the banking in the region and this was regulated by Decree-Law 45296 of 8 October 1963.¹⁴⁷

Thanks to this legislation, from 1965 all major Portuguese banks opened branches in Mozambique. The banks were linked to Portuguese monopolies or oligopolies, or to foreign capital owners. The banks concerned were *Banco de Crédito Comercial* and *Industrial-BCCI*, which began business in 1965 and which belonged to the *Borges e Irmãos* Group (the shareholder of the Portuguese *Banco Borges e Irmão*); *Banco*

¹⁴⁶ Meneses M.P. *O "Indígena" Africano e o Colono "Europeu" E A Construção da Diferença por Processos Legais*, 85, https://www.ces.uc.pt/myces/UserFiles/livros/693_04%2520-%2520Paula%2520Meneses%252023_06.pdf.

¹⁴⁷ Marc Wuyts, *"A Organização das Finanças e o Desenvolvimento Económico de Moçambique: Do Sistema Capitalista-Colonial ao Desenvolvimento Socialista"*, Centro de Estudos Africanos, no 105, (n.d.), 11-12.

Pinto e Sotto Mayor- (BPSM) (1966) which belonged to the Champalimaud Group, and the successor of the Standard Bank, the *Banco Standard Totta de Moçambique (BSTM)* (1966).

The *BSTM* was a joint venture with 37per cent of Portuguese capital from the CUF Group (*Companhia União Fabril*), 5per cent of South African capital from Anglo-American, 35per cent from the Standard Bank, while 15per cent came from local Portuguese settlers; the *Banco Comercial de Angola (BCA)*, was established in August 1971 to replace Barclays Bank, but 60per cent of the capital was taken up by Barclays and 40per cent by the *Banco Português do Atlântico*. The latter invested in the *Ruvué Hydroelectric Company*¹⁴⁸, and *Casa Bancária*, formed in 1971 by Portuguese settlers in *Beira*. Apart from these banks there were the *Caixa Económica de Montepio de Moçambique*, a bank established to finance housing and other social projects; the Instituto de Credito de Moçambique (1970); and the *Banco de Fomento-BF*. These three banks were State banks that financed agriculture and development plans.¹⁴⁹

Before 1963, the *Banco Nacional Ultramarino (BNU)* was the only Portuguese commercial bank in the colony (apart from Barclays Bank and the Standard Bank). Hence, it was the main investor in the Mozambican economy. In fact, this bank held one-third of the Colonial Buzi Company, *CUF* and *SOCAJU*, *Matola Cement Company*. In the insurance sector, the *BNU* was a shareholder of the *Companhia de Seguros Lusitana* and the *Companhia Nauticus*. In the sugar industry, the *BNU* was associated with the Anglo-Portuguese Bank in funding the *Açucareira de Moçambique*. The *BNU* participated in the *Vinicola de Moçambique* and established *FIUL* for housing finance.

As the *BNU's* successor, *Banco de Moçambique* became a shareholder (and sometimes it became the major shareholder) in many industrial and agro-industrial companies such as *Açucareira de Moçambique* (in which it owned 29.5per cent of the equity), *Maragra* (24,9per cent), *Companhia do Buzi* (51,8per cent), *Caju Industrial* (51,6per cent), *Mac-Mahon* (25,28per cent), *Cometal-Mometal* (5,56per cent), *Carbonífera de Moçambique* (10per cent) and *Cimentos de Moçambique* (10per

¹⁴⁸ With interests in *Sociedade Agricola de Incomati*. Hegdes, *História de Moçambique*; 172.

¹⁴⁹ Wuyts. *A Organização das Finanças e o Desenvolvimento Económico*, 9.

cent). In addition, it held shares in the nationalised companies. Such nationalised companies' included; *Fábrica de Óleos (FASOL)*, (28per cent), *Cervejas da Beira* (11,5per cent), *Refrigerantes de Gaza* (11,5per cent), as well as *SONAP-SONAREP*, which was nationalized in May 1977.¹⁵⁰

Inspired by the post-war Marshall Plan for the reconstruction of war-devastated Europe, Portugal decided to promote its own development plans for colonial development. The first of these was implemented in 1953-58 and was aimed at the development of infrastructure such as the *Lourenço Marques-Malvéria* railway, to connect the harbour with Southern Rhodesia. The Interim Development Plan No. 3 implemented in 1966 was designed to add value to the increasing settler activities, to modernise agriculture and to lift agro-industrial production.¹⁵¹The third Development Plan, from 1968-73, was to promote industrial development. The intention was to boost investment in the colony by way of refundable short-term credit.

Despite Portugal's efforts to reinforce colonialism through further investment and infrastructural development, this development phase was characterised by racial stratification. It was also characterised by the consolidation of legislation to establish trade unions solely for white and *assimilados* workers, and by religious and educational discrimination against the indigenous people. Overall, it was a situation which led to a heightened awareness of the underprivileged status of Mozambicans while stirring indigenous opposition to colonialism.¹⁵²

The early 1970s was a critical period in the history of Mozambique. It was the period of the liberation struggle in which guerrilla warfare proceeded apace, while the Portuguese armed forces reached a point of psychological exhaustion, and some

¹⁵⁰ Napoleão Gaspar, *A Evolução do Sistema Bancário em Moçambique, 1975-1992* (BA diss., University Eduardo Mondlane, 2000) 24. The Decree-Law 16/75 turned the Mozambican state the majority shareholder in the abandoned companies. The Banco de Moçambique only inherited the shares which belong to BNU.

¹⁵¹*Ibid*, 161-164. According to Wuyts, "Promotion Plans" were financed by the colonies themselves, whether local governments or financial institutions, Wuyts, *A Organização das Finanças e o Desenvolvimento económico de Moçambique*, 16. Langa, "A actividade do Banco Nacional Ultramarino em Moçambique," 72.

¹⁵² The National Union of Banking Employees was created in 1946. Hedges, *História de Moçambique*, 173.

troops were ready to end the war.¹⁵³ At the same time, the cost of living rose dramatically, food and goods became scarcer.

With colonial rule in a state of crisis, the foundations of the colonial economy began to crumble. Its main institution, the *BNU*, weakened to the point where, in 1975, it ceased to operate. Apart from the demise of the *BNU*, there were military,¹⁵⁴ political and social developments in Mozambique and in Portugal which contributed to the weakened position of the colonial power.¹⁵⁵

On the military front, *General Kaulza de Arriaga's* "Operation Gordian Knot", which was intended to annihilate *FRELIMO* within a short period of time (seven months as of 1 July, 1970), failed. Guerrilla attacks on towns and villages intensified. Portuguese troops suffered from exhaustion and a lack of motivation. The liberation movement reached *Cabo Delgado*, *Tete*, *Niassa* and the region of the Zambezi River to *Manica* and *Sofala* in 1971. It claimed it was receiving more and more support from the indigenous population.¹⁵⁶ The Portuguese April Youth Movement proclaimed that freedom and human rights were inalienable all over the world, and therefore Portuguese imperial rule over its colonies was indefensible. A new vision advocated closer co-operation between the people and the government, and this would bring about improved economic and financial developments after colonial domination.

To counter the effects of the national liberation war that began in 1964 and to inhibit the growth of African independence movements, Portugal tried to promote the rapid economic growth of its colonies, thus consolidating the "Portuguese space". By the end of the 1970s, the international pressure against Portuguese colonial rule became stronger, leaving Portugal increasingly isolated. In Portugal the democratic

¹⁵³ De Almeida Santos, *Quase Memórias*, 59.

¹⁵⁴ The deteriorating military situation came to put the European population in a manifest psychological imbalance, De Almeida Santos, *Quase Memórias*, 73-81.

¹⁵⁵ The *Cravos* Revolution in Portugal was in solidarity with the liberation struggles and with the revolution in the colonies.

¹⁵⁶ José Monteiro, "A Criação do Banco de Moçambique: Do Capítulo à Cláusula 16," in: *Banco de Moçambique: Histórias Vividas*, 18. This contrasts with the self-praise of the General Kaulza de Arriaga who advocated particular military successes of Operation "Nó Górdio".

movement garnered growing support while the colonies were determined to gain their independence by intensifying the armed struggle.¹⁵⁷

To undermine the armed struggle for independence, which was part of the general decolonisation process in Africa, Portugal declared the colonies as provinces of Portugal. This process, however, had the effect of further institutionalising economic and legal-administrative dependence on Portugal, which served to consolidate the influence of Portugal and power in the overseas territories.¹⁵⁸ From 1960 to 1973 Portugal invested heavily in ports and industry, as well as in the energy sector. The *Cahora Bassa* hydroelectric project in Tete Province was approved in 1969.¹⁵⁹

Portugal found itself in an ever deepening crisis internationally. In a speech in the National Assembly on 5 March, 1974, Professor *Marcelo Caetano*, President of the Portuguese Council of Ministers,¹⁶⁰ recognised that the “evolution of a multiracial and intercontinental society is disturbed by adverse [and] growing international pressure.” *Caetano* argued that it was Portugal that had made *Angola*; it was Portugal that had created Mozambique; and therefore Portugal did not recognise the right to self-determination. He insisted that those who opposed the Portuguese presence in Africa were promoting the adverse interests of the capitalist world.¹⁶¹

When the Portuguese Overseas Minister¹⁶² was interviewed by the *Rio de Janeiro* newspaper *Globo*, about the “overseas issue,” he stated: “We are also an African nation. It is shown by the five centuries of civilization, of appreciation and integration.

¹⁵⁷ Hedges, *História de Moçambique*, 161-164.

¹⁵⁸ Wuyts, *A Organização das Finanças e o Desenvolvimento*, 2. Wuyts, *Money and Planning for Socialist Transition*, 22.

¹⁵⁹ *Ibid*, p.24, to get a safety zone against the evolution of armed struggle from north to south. Portugal had International Investors as a method to compromise partners who would have to support and defend the Colonial Project in order to safeguard their investment.

¹⁶⁰ *Marcelo Caetano* was member of Oliveira Salazar government whom he replaced in 1968 was the last President of the “New State” council of Ministers.

¹⁶¹ “Portugal Está na África , na Ásia e na Oceânia como na Europa – Prof. Marcelo Caetano na Assembleia Nacional,” *A Tribuna*, March 06, 1974.” *O que Defendemos em África são os portugueses de qualquer Raça ou Qualquer Cor- Marcelo Caetano em Conversa em Família*,” *A Tribuna*, March 29, 1974.

¹⁶² *Baltazar Rebelo de Sousa* was the Overseas minister from 7.11.1973 to 25.04.1974.

Our presence is thus as authentic in Africa as in Europe. Now, no-one will interfere with our right to our presence in Africa". When asked whether Portugal was prepared to free the colonies, he replied that his government was prepared to make the overseas territories even more Portuguese than before.¹⁶³

The creation of the Exchange Fund (1932) and the Portuguese Monetary *Escudo* Zone (*ZMEP*, acronym in Portuguese) in 1961 ensured the continuous contribution of the colonies to Portugal's development, and that all foreign exchange earnings were under the control of the *Banco de Portugal*.¹⁶⁴

In 1962 the New Inter-territorial Payment System (*NSPI*, acronym in Portuguese) was created, based on multilateral clearing to facilitate clearance movements by the *Banco de Portugal* from the *BNU* and the *Banco de Angola* accounts.¹⁶⁵ This system was designed to shield the *Banco de Portugal* from being adversely affected by the chronic balance of payments of the colonies; but overall, it was a system that allowed Portugal to drain the colonies' reserves, thereby reducing their balance of payments to chronic unprofitability.¹⁶⁶

Portugal's Decree-Law 46312 of 28 April, 1965, established an "open door" policy, which liberalised and opened up the Portuguese money market to foreign investment. This liberal law reinforced the reorganisation of the monetary system in the colonies; It added value to the banking law enacted in 1963; it ensured strategic alliances which protected Portuguese interests from the rest of the world and it opened in the colonies to serve Portuguese commercial banks; this law also ensured

¹⁶³"Estamos Preparados Para Tornarmos o Ultramar Ainda Mais Português – Afirmou o Ministro Rebelo de Souza Numa Entrevista Dada a um Jornalista Brasileiro," *Diário*, January 12, 1974.

¹⁶⁴ Wuyts, *Money and Planning for Socialist Transition*, 2.

¹⁶⁵ Presidency of the council of ministers, Decree-Law 44703, 17 November 1962.

¹⁶⁶ Langa, "A *Actividade do Banco Nacional Ultramarino*" 75-81. The Banco de Portugal never agreed to merge with the *Banco Nacional Ultramarino*, to avoid taking over colonial deficits, because of the colonial commerce characteristics and a chronic balance of payments deficit. Interview with *Joaquim de Carvalho in Maputo*, October 16, 2013. Quoting the Quarterly Bulletin *BNU*, Langa says: "In the new metropolis 'financial policy, it was concluded that the centralization of the issuing function at the *Banco de Portugal*, could lead to economic risk of the metropolis considering the exchange financing crisis in the colonies". Langa, "A *Actividade do Banco Nacional Ultramarino*" 55. Wuyts, *Money and Planning for Socialist Transition*, 22.

that foreign exchange earnings, mainly from transport services and migrant labour, would flow to the *Banco de Portugal*.¹⁶⁷

Since these macroeconomic strategies were implemented by the *BNU*, it could not, by its very nature, carry out the necessary transformation in Mozambique which would have created a new economic order. Therefore, the end of colonial rule also brought about the end of the *BNU*'s activities, leading to the establishment of a central bank in Mozambique.

2.2. From the crisis to the inception of the central bank

From the late 1960s, Portuguese colonial policy was subject to international political criticism.¹⁶⁸ Because of Portugal's intransigence in granting independence, liberation struggles began in the Portuguese colonies of Guinea, Mozambique and Angola, in sub-Saharan Africa

From 30 June to 2 August, 1974, secret talks took place between FRELIMO and the Portuguese government in Amsterdam. Oscar Monteiro, in the name of FRELIMO met Melo Antunes and Almeida Santos, ministers of the Portuguese government, Samora Machel, the President of FRELIMO met Melo Antunes (mandated by the Portuguese Armed Forces Movement Co-ordinator) and the military commander Almeida Costa in Tanzania. At this preliminary meeting the parties agreed that the political issue would be the key issue before economic and military matters would be addressed.¹⁶⁹

On 17 July, 1974, the President Antonio de Spínola,¹⁷⁰ of Portugal declared that Portugal recognised the right of the Mozambican people to independence. On 15

¹⁶⁷ Wuyts, *Money and Planning for Socialist Transition*, 12.

¹⁶⁸ In 1961 through Resolution 1654 (XVI) of 27 November, the UN created the Committee on Decolonisation, which endorsed the legitimacy of the people's armed struggle in the Portuguese colonies for national liberation. Accessed February 20, 2014. <http://anais.anpuh.org/wp-content/uploads/mp/pdf/ANPUH.S25.0401.pdf>

¹⁶⁹ De Almeida Santos, *Quase Memórias*, 71-82. Gaspar, *A Evolução do Sistema Bancário*, 20.

¹⁷⁰ His term last from 15 May 1974 to 30 September 1974 when he resigned.

August, Dr Almeida Santos; the Inter-territorial Administration Minister, Mario Soares; the Minister of Foreign Affairs and Melo Antunes, Minister without Portfolio, went to Dar-es-Salaam for a bilateral round of negotiations in the wake of failed negotiations in Lusaka in June 1974 to effect a ceasefire. Meanwhile, in Mozambique, sabotage, terrorism and strikes occurred which caused a complete state of chaos.

The colonies' natural resources and strategic geographic position placed the liberation struggles within the ambit of the Cold War.¹⁷¹ Whereas Portugal had consolidated an alliance with South Africa and with Ian Smith's Rhodesia concerning its hegemonic interests in the region,¹⁷² the liberation movements were supported by socialist countries and by progressive intellectuals, with the effect that the national liberation struggle was transformed into a popular democratic revolution,¹⁷³ this shifted FRELIMO's decision to opt for a socialist development policy, leaving it bereft of international financial support.

Because of the war and the effects of the global oil crisis during the 1970s, Mozambique's economy was adversely affected by a recession and rampant inflation.¹⁷⁴ By the mid-1970s, the war had exhausted both the colony and the metropolis.¹⁷⁵ This dire situation caused the Portuguese armed forces to oppose the continuation of the fight for the colonial cause. The liberation movements intensified their diplomatic efforts on the international stage to proclaim the right of African people to independence.

¹⁷¹ Mosca, *Economia de Moçambique*, 144.

¹⁷² Co-operation between Portugal and South Africa date back to the Beginning of Portugal "discoveries" in Africa in terms of colonies and were consolidated over time. In the 1970s the *Cahora Bassa* and *Cunene* projects exemplified common interests.

¹⁷³ Mosca, *A Experiencia Socialista em Mocambique*, 58.

¹⁷⁴ *Ibid*, 47, From May 73 to May 74, inflation in Portugal was 26.6, percent, 23 in Japan, 23.2 in Greece 31% having increased in May in Canada, the United States, Belgium and Italy, according to OECD data. "Crise Mundial afecta a Economia de Moçambique" in: *A Tribuna*, February 8, 1974.

¹⁷⁵ That was suffering the effects of the oil crisis affecting the developed countries. Mosca, *A Experiencia Socialista*, 66.

At the start of the 1970s, the Mozambican economy was an agro-industrial economy, conjugated with a migrant labour system, the production of export commodities and with subsistence agriculture. The global inflationary crisis was felt in the fragile economy, especially in the transport and import sector. So the world economy was in recession. The entire world economy faced a severe economic crisis in 1974, and the 12 OPEC countries negotiated new oil prices in order to face the recession.¹⁷⁶ The results were reflected in developing countries' economies. The lack of raw material affected the industry and led to unemployment.¹⁷⁷

Assessing the economic and financial situation of Mozambique in 1975, Carlos Gonçalves an economist in the electricity sector, said that without the usual financial injections by the metropolis, the Mozambican economy was on the verge of collapse.¹⁷⁸ Production levels dropped 25per cent and 30per cent respectively compared to the 1973 and 1974 levels.¹⁷⁹

On 25 April, 1974 in Portugal the Armed Forces Movement (MFA) overthrew the Caetano government, in a *coupe d'état* and created a National Salvation Junta (JSN acronym in Portuguese). This was the driving force of the "Cravos Revolution". As already mentioned, because of the colonial wars, Portugal was running out of resources, while questions were raised about how viable the colonial project was. While Portuguese descendants born in the colonies adhered to neo-colonial views, the nationalists in each colony worked to unify the people to fight for self-determination and self-government. Almeida Santos reported having received on 23 July, 1974, telegrams from the regional commissions of the MFA in Tete and Cabo Delgado, and from the Co-ordinating Committee of the MFA in Mozambique.

¹⁷⁶ "Crescente Preço do Petróleo Cria Sérios problemas a Economia Mundial, " *A Tribuna*, February 21 1974.

¹⁷⁷ "Crise económica e desemprego assolam países capitalistas", *Noticias*, April 21, 1976, "Crescente preço de Petróleo Cria Sérios Problemas à Economia Mundial, " *A Tribuna*, February 2, 1974. "Aumento dos Preços do Petróleo -Reunião dos Peritos Monetários Visando Salvar o Ocidente de uma Séria Recessão Económica," *Diário*, January 17, 1974. "Crise Mundial Afecta a Economia de Moçambique" *A Tribuna*, February 8, 1974.

¹⁷⁸ "Inquérito: "Economia de Moçambique no Momento Actual – Pequena Empresa Ameaçada de Morte – Média empresa Catástrofe Próxima," *Noticias*, August 19,1974.

¹⁷⁹ Mosca, *A Experiência socialista*, 109.

The letter was intended for President Spínola expressing the intention of the armed forces to capitulate. They were calling for a general ceasefire with FRELIMO to be reached by the end of the month. Several army divisions including trainees in Boane refused to go to the war front in the north of the country. Portuguese authorities had lost control over the military.

It was within this context that Law 7/74 was passed in Portugal on 5 August, 1974 after a presidential speech on 27 July, 1974, recognising the right of independence of Mozambique. This contradicted a provision in the 1933 Constitution, which defined the overseas territories as Portuguese territories. A National Committee on Decolonisation was created in terms of Decree-Law 792/74 of 31 December, 1974.¹⁸⁰

The immediate outcome of the political and military situation in both Mozambique and Portugal was that negotiations were held which resulted in the Lusaka Agreement, signed on 7 September, 1974 between *FRELIMO* and the Portuguese government, preparing the way for the end of the war.¹⁸¹ After 10 years of the liberation struggle (1964-1974) Mozambique became independent on 15 June, 1975.¹⁸²

¹⁸⁰ De Almeida Santos, *Quase Memórias*, 63-64 . "Criada em Lisboa Comissão de Descolonização" in: *Notícias*, October 3, 1974.

¹⁸¹ The Mozambican delegation included *Samora Moisés Machel* (who came to be the first president of Mozambique), *Armando Emilio Guebuza*, (who became the third president), *Oscar Monteiro* (the author of clause 16 that created the *Banco de Moçambique*), and *Alberto Cassimo* (the bank's first governor).

¹⁸² The first meeting of the Committee of Decolonisation took place in *Belem* on 2 October, 1974 under the presidency of General *Costa Gomes*, the leader of the Movement of Portuguese Armed Forces.

Picture 1: Lusaka Agreement.



Lusaka accord signing session. Source: *Banco de Moçambique, Banco de Moçambique 1975:2010:Chronology*, 25.

The economic situation in the transition period (1973-1975) was characterised by the collapse of production and marketing because of the mass exodus of settler communities returning to Portugal while other people left to resettle in South Africa or Rhodesia. Particularly the loss of skilled people led to a serious disruption of the economy which also affected the financial system. There was a widespread crisis in production and supply, with especially the rural areas being hard hit. In addition, there were successive natural disasters such as cyclones, floods and droughts, which also impacted adversely on the economy.¹⁸³

The already critical situation took a turn for the worse due to economic sabotage, a flight of capital and resources, and the stoppage of production in companies. With reference to the latter problem, the government had tried to intervene by promulgating Decree-Law 16/75 dated 13 February, 1975. This law was also known

¹⁸³ "Agrava-se no Pais Problema das Cheias: Populações Desalojadas-Culturas Perdidas - Vias de Acesso Cortadas", in: *Noticias*, January 31, 1976, "Costa Moçambicana Atingida por Cilcone: Danae corta ligações com Vilanculos e Inhambane" in: *Noticias*, January 28, 1976.

as 24/20, it permitted government to intervene in companies or nationalize the abandoned ones for more than 90 days. On the other hand the government could intervene in those companies in financial or administrative crisis in order to guarantee workers' salaries¹⁸⁴ by setting up Administrative Councils for its management.

The financial sector experienced acts of sabotage in private banks in the form of massive illegal transfers of capital.¹⁸⁵ This led the *FRELIMO* government to make intensive *ad hoc* interventions¹⁸⁶ to avoid economic and social chaos.

The support that Mozambique gave to the liberation struggle in Zimbabwe led to a serious military intervention by Rhodesia into the country. The Rhodesian Government later provided support for the establishment of the *RENAMO* guerrilla movement that started civil war in Mozambique. This exacerbated the already deteriorating economic situation. The Mozambican civil war only ended with the 1992 General Peace Agreement.

Overall, economic indicators for the period 1970 to 1977 weakened as a result of conjectural factors, such as the global recession and the oil crisis, the change-over of power and the legacy of the colonial economic crisis. Table 1 below illustrate the percentage of Gross Material Product (GMP or GDP, the primary macroeconomic

¹⁸⁴ Dated from this time the creation of large park of state enterprises as: Emose, Pescom, PETROMOC Farmac E.E, Electricidade de Moçambique, Emopesca in 1977, Avicola, CAIL. Emocha, Carbomoc, EMAP and all companies of foreign trade in 1978, enterprises with holding purpose for the state. Management of these reasbased on decrees 17 and 18/77. Wuyts, *A Organização das Finanças e o Desenvolvimento Económico*, 27. Mosca, *Economia de Moçambique*, 148.

¹⁸⁵ From the independence to 1977, the commercial banks remained private and openly hostile to the new government. Wuyts, *Money and Planning for Socialist Transition*, 41. Wuyts, *A Organização das Finanças e o Desenvolvimento*, 19-27. Comiche, "O Processo de Reestruturação e Integração da Banca" 67-77. The Foreign Exchange Fund was abolished and its attributions were moved to the *Banco de Moçambique* to ensure the control of foreign exchange trade and external transactions. From November 5, 1975 BM was the sole bank licensed to perform international banking transactions. *Banco de Moçambique: 1975-2010: Chronology*, 2nd ed. (Maputo: Centro de Documentação e Informação, 2010). 33-35., *Banco de Moçambique: Annual Report 1978*, *Banco de Moçambique: Annual Report 1979*, *Banco de Moçambique: Annual Report: 1980*.

¹⁸⁶ Wuyts, *Money and Planning for Socialist Transition*, 40-43. The *Noticias* newspaper and other media on the occasion reported occurrences as the one in the *Banco Comercial de Angola*. *iNoticias*, October 5, 1977.

indicator of growth in national accounts)¹⁸⁷ declining, particularly in agriculture, industry and services sectors (at 1970 prices) to an average of 27 per cent in 1975.

Table 1 shows that despite the value of the GMP estimated in comparison to 1970 levels, production in 1973, seemed to improve, but decreased again in 1973-75. The change was a decline of -11per cent in agriculture, -38per cent in industry and -28per cent in the services sector, which included domestic trade and transport. The volume of services reflects the weakening importance of Mozambique's economic regional integration with southern African countries.

According to *Castel-Branco*, marketable agriculture decreased by 43per cent in the 1974-1975 period. This was in part due to the end of forced labour. The industrial output decreased by 35per cent and the net value of exports declined by 31per cent in 1976 and 25per cent in 1977. GDP fell 22per cent in 1975 and 17per cent in 1976¹⁸⁸

Table 1: Gross Material Product at 1970 Prices (1000 Million escudos)

Sector	1970	1973	1975	1973-1975 Change (per cent)
Agriculture	5.8	5.3	5.6	-11
Industry	5.6	7.4	4.6	-38
Services	13.1	12.6	9.1	-28
GMP	24.5	26.8	19.3	-27

Source: Wuyts, *Money and Planning for Socialist Transition*, 71.

It was within this context of political and economic crisis in the wake of a 10-year-long struggle for liberation that the *Banco de Moçambique* was founded in

¹⁸⁷ Wuyts define the Gross Material Product (GMP) as an aggregate measure of production equal the sum of Agriculture, Industry (mining, manufacturing, construction and energy) and productive services (including transport, storage, and trade). Wuyts, *Money and Planning for Socialist Transition*, 72.

¹⁸⁸ Castel-Branco, "Problemas Estruturais da Industrialização: A indústria Transformadora". in *Moçambique Perspectivas Economicas* (Maputo:UEM/F.Ebert,1994),87-157.Gaspar, *A Evolução do Sistema Bancário em Moçambique*,20-21. Tibana, *Mozambique Commodities and Policy Shocks*, (Oxford Centre for the Study of African Economies, 1994) 4. "Crise Económica no Mundo Capitalista", *Noticias*, February 26, 1976.

1975.¹⁸⁹ Explaining why the BNU had to cease its activities and be replaced by a central bank for Mozambique, the then Prime Minister of the transitional government in Maputo, Joaquim Chissano, said in a speech in Lisbon on 2 October 1974: “What we want is not the transfer of colonial structures, but we do want to destroy those in the colony which cannot in any way serve our people (...). We are working to have a central bank which performs the functions of a national bank, including the issuance of a national currency, like in any country in the world”.¹⁹⁰

2.3. The establishment of the *Banco de Moçambique*

The aim of analysing the genesis of the *Banco de Moçambique* within the context as outlined above is to understand the background and the events that led to its creation, its development and its historical contribution to the national economy. But the important question is:

Were conditions in Mozambique conducive to the establishment of a central bank?

According to *Oscar Monteiro*¹⁹¹, the news about the coup in Portugal on 25 April, 1974, reached the nationalists in Nachingwea through *Radio France Internationale*. From that moment, they and others in Mozambique began to plan the management of the country, particularly its economic sovereignty. In this context they evaluated the *BNU*'s activities in Mozambique.

On 27 August, 1974 in Lisbon, the Portuguese Council of Ministers chaired by Prime Minister Vasco Gonçalves, decided to nationalise the *Banco de Portugal*, the *Banco de Angola* and the *BNU*, as had been recommended by Álvaro Cunhal in 1964 (following the guidelines of the Portuguese Communist Party), to protect Portuguese interests while taking into account the 1974 revolution in Portugal and the rapid

¹⁸⁹ J. Ferreira, “Sociedade e Economia na Revolução” in: *História de Portugal* :Portugal em Transe (1974-1985) ed. José Mattoso _(Lisboa:Ed. Estampa,1994).

¹⁹⁰ “Queremos Destruir as Estruturas Coloniais, Que não Podem Servir de Forma Alguma os Interesses do Nosso Povo - Primeiro Ministro Joaquim Chissano ao Expresso”, *A Tribuna*, October 2, 1974.

¹⁹¹ Monteiro, “A Criação do Banco de Moçambique” 17.

decolonisation process in 1975. The state had to intervene in economic and financial institutions, and even in business. This was considered necessary to establish the credibility of the government in relationships with the former colonies, and in view of the necessity of addressing the economic effects of decolonisation.¹⁹²

The Minister of Economic Planning Melo Antunes, stated that to cope with the economic chaos that threatened Portugal, it was imperative for the state to exercise control over strategic economic institutions including banking, insurance, energy, transport and cement-making. Nationalisation was seen as a policy to secure such control.

The nationalisation of Portugal's banks in 1974 curtailed the BNU's activities.

Spinola's government enacted its nationalisation law on 13 September, 1974 which was published in the *Diario do Governo* no. 214. The law applied to the aforementioned banks, and reinforced the government's supervision of commercial banks.¹⁹³ On 12 October, after Spinola's resignation, the Portuguese government instituted by Decree-Law 540-A/74, the need for supervising, overseeing and co-ordinating the activities of banking and non-banking financial institutions.

This measure was reinforced by Decree-Law 671/74, which granted the Ministry of Finance the authority to appoint a delegate to the board of the central bank to represent the ministry in the management of commercial banks while also aiming to reinforce the control of credit to the economy. Once the BNU was nationalised in Portugal, the transfer of its branches to the new authorities in Mozambique was obvious, since the purpose of its very existence expired with the advent of independence.

On 14 March, 1975, General Costa Gomes announced the nationalisation of all commercial banking and insurance institutions in Portugal, except foreign, savings and mutual agricultural credit banks.¹⁹⁴ It was one of the most revolutionary measures taken in the modern history of Portugal. These protectionist measures

¹⁹² Medeiros Ferreira, *Historia de Portugal*, 112. "Conselho de Ministros – Deliberado Efectivar a Nacionalização do Banco de Portugal, do Banco de Angola e do Banco Nacional Ultramarino, "A *Tribuna*, August 28, 1974.

¹⁹³ Decree-Law 450, 451 and 452/1974, Ferreira, *Historia de Portugal*, 114.

¹⁹⁴ *Diario do Governo* nº 62k, 394. Ferreira, *História de Portugal*, 117, a circumstantial and political decision of the Board of the Revolution. Decree –Law no. 132-A/75, Comiche, "Ó Processo de Reestruturação e Integração da Banca," 71.

taken by the Portuguese colonial government did not include the possibility of Mozambique creating its own central bank. This in itself was a sure sign that Portugal finally recognised that with independence, the umbilical cord with the metropolis was being severed, and that it served no purpose to trespass on the new country's sovereignty.

In the 1970s, the armed struggle had reached crucial developments. This fact in conjunction with the political situation in Portugal led the nationalists to conclude that the moment was propitious to begin collecting documentation to prepare negotiations. This process was started at the Mozambican Institute in Tanzania at the beginning of 1974.

The Mozambican nationalists were aware that national independence should not just be about the right to a national anthem and a new flag but it should mean economic independence. They were aware of the *BNU's* issuance function in all the colonies, but regarded the right and the need to issue a national currency as the cornerstone of Mozambique's nascent financial sovereignty.

Joaquim de Carvalho noted that on the eve of independence, Mario Machungo and Pereira Leite (the first a lawyer and the second a member of the Democrats of Mozambique Party) warned the officials who were preparing the dossiers for the independence negotiations about the fact that the *BNU* was controlling 70 per cent of Mozambique's economy through loans and capital participation in most companies. They discussed the central role the *BNU* branches played in the economy, and concluded that there would be no genuine independence unless the *BNU* was replaced.¹⁹⁵

One of the key issues that had to be considered was the consignment of gold that were transferred to the *Banco de Portugal* in terms of the Mozambican miners' remuneration agreement with South Africa. This information was received by *Oscar Monteiro*, who proposed that a clause providing for the cessation of *BNU* activities in Mozambique and the creation of a central bank should be included in the agreements between Portugal and *FRELIMO*.¹⁹⁶

¹⁹⁵ De Almeida Santos, *Quase Memórias*, 119.

¹⁹⁶ Oscar Monteiro, *De Todos se Faz Um País* (Maputo: Associação de Escritores Moçambicanos, 2012), 209. Interview with Joaquim de Carvalho, Maputo, October 16, 2013.

During the talks between *FRELIMO* and Portugal in Dar-es-Salaam, Monteiro wrote a proposal to that effect, which he submitted to Samora Machel. The following were the terms and conditions of what came to be the Clause 16 of the Lusaka Agreement.¹⁹⁷ Enshrined in the Constitutional-Law no. 8/74 and signed on 7 September, 1974, the clause reads:

A Central Bank, which shall also operate as an Issuing Bank, shall be created in Mozambique, in order to guarantee that the Transition Government has the means to carry out an independent financial policy. In order to achieve this objective, the Portuguese State commits itself to transfer the attributions, assets and liabilities of the *Banco Nacional Ultramarino's* department in Mozambique to the said Bank. A joint commission shall immediately be empowered to study the conditions of the transfer ¹⁹⁸

The Agreement provided for the transfer of powers from Portugal to Mozambique. By Decree-Law no. 2/75 (Organic Law) of 17 May, the *Banco de Moçambique* was established. Under article 4 of the Organic Law, the Bank was to perform functions as the “Central Bank, the Issuing and Treasury Bank, in addition to commercial activities”. The subsequent articles stressed the bank’s credit management function, its responsibility in monetary policy management and the need to ensure national currency stability. Under the same law the *Banco de Moçambique* took over all *BNU's* operations.¹⁹⁹

Article 5 of Law 2/75 stated that the Bank’s main purpose was to promote and achieve the correct monetary policy. This was to be done by means of appropriate criteria and credit controls. Other functions were to oversee the national economy; ensure internal and external stability of the currency; manage foreign assets in order to maintain adequate levels of means of payment necessary for international trade; provide financial resources to the State; ensure disciplined banking activity; guide

¹⁹⁷ Monteiro, " A Criação do Banco de Moçambique" 21-22 , Monteiro, *De Todos se Faz Um País*, 213. Interview with Joaquim de Carvalho, Maputo, Outubro 16, 2013.

¹⁹⁸ Clause 16 of the Lusaka Accord. Banco de Moçambique, *Banco de Moçambique 1975:2010 – Chronology*,.25. De Almeida Santos, *Quase Memoria*, 117.

¹⁹⁹ *Banco de Moçambique, Banco de Moçambique 1975:2010:Chronology*, 32.

the country's credit policy in terms of its development; and to promote the interests of the Mozambican people.²⁰⁰The Bank also had to carry out commercial banking functions, although separate from central bank functions and full autonomy was expected within a six months period.²⁰¹

After signing the agreement with the Portuguese, the first president of the People's Republic of Mozambique, Samora Moisés Machel, announced the composition of the various working groups which were to be chaired by Joaquim Chissano. Chissano became the Prime Minister of the Transition Government that took office in Maputo (formerly Lourenço Marques) on 20 September, 1974.

In addition, a Steering Committee on economic and financial issues led by Joaquim de Carvalho was established. It was relatively autonomous, although the final decisions were made by the Party leadership.²⁰² The Ministry of Economic Co-ordination was created as an executive body, whose appointed minister was Mário da Graça Machungo. Among others, the roles of the Steering Committee and the ministry was to co-ordinate the transfer of credits and debts from the *BNU* to the new *Banco de Moçambique*.

The Mozambican delegation to the Joint Commission for Economic Affairs consisted of fifteen members among *Joaquim de Carvalho* as chairman, *Alberto Cassimo*, who later on was nominated *the Banco de Moçambique* Governor, and *Carlos Adrião Rodrigues*, the Deputy Governor.²⁰³

²⁰⁰ Interview with Joaquim de Carvalho Maputo October 16, 2013.

²⁰¹ Adriano Maleiane, "As Etapas da Programação do Crédito no Contexto do Programa de Reabilitação Económica e Social :Banco de Moçambique": *Banco de Moçambique Staff Paper* I, (Março 1997) 2.

²⁰² It was a group of the party that functioned in the premises of the Ministry of Co-ordination of Economic Affairs for logistical reasons. This group inquired into, discussed and made decisions on economic and financial affairs. Interview with *Joaquim de Carvalho*, Maputo, October 16, 2013. According to *Joaquim Chissano*, the former President; Interview with *Joaquim Chissano*, Maputo, March 5, 2014.

²⁰³ The list seems rather exhaustive not mentioning a few who took part in this Commission. De Almeida Santos, *Quase Memórias*, 118. Banco de Moçambique, *Banco de Moçambique 1975-2010:Chronology*, 28.

The Portuguese delegation to the first meeting of the Joint Economic Commission consisted of eleven persons, chaired by *Antonio Figueiredo da Silva Martins*, arrived in Mozambique on 18 January 1975. This commission included *Banco de Portugal* and *BNU* representatives, and the Portuguese Ministry of Finance representative. The Joint Economic Commission discussed and arrived at consensus on the following priorities: transfer of the department of the *Banco Nacional Ultramarino* to Mozambican authorities, particularly its material and human resources; terms and conditions to keep Portuguese collaborators working in Mozambique instead of them emigrating (between April 1975 and April 1976, about 20 per cent of bank employees left the country, 52 per cent of *Banco de Moçambique* employees were Portuguese)²⁰⁴; the functioning of the *Cahora Bassa* hydro-electric scheme and its reversion to Mozambique; the transfer of the Marconi company (the company that enabled domestic and international communications to Mozambique) to the state; the secret deferred payment clause that was part of the 1928 Portuguese-South African Convention (revised in 1940, 1964 and 1969) was cancelled. (It was found that 60 per cent of the Mozambican miners' wages went to Portugal as trust money but was payable in gold – to Portugal, an important source of foreign exchange. These transfers ceased, and the fourth gold shipment after 25 April was embargoed in July 1974 on the order of General-Governor Soares de Melo.²⁰⁵

According to Carvalho, the “debt litigation or economic and financial litigation” was preliminary for Portugal to endure further negotiations stated on the eve of the inauguration of the Transitional Government by Dr Mascarenhas Gaivão and Dr. Abdool Karim Vakil, (which were members of the Provisional Government,) who emphasised the precarious state of the economic and financial situation of Mozambique, in particular to the huge foreign exchange deficit.²⁰⁶

The debt had been generated through “late payments” brought as automatic accounting debt register movements made by the *Banco de Portugal* when recording

²⁰⁴ Verschuur in : Gaspar, *A Evolução do Sistema Bancário em Moçambique*, 23.

²⁰⁵ "O Embargo do Ouro – Breve Cronologia" in : *A Tribuna*, July 10, 1976. " Ouro de Moçambique não seguiu para Lisboa," in : *A Tribuna*, July 10, 1976.

²⁰⁶ Carvalho, "Criação do Banco de Moçambique", 37. Sergio Vieira states that the debt claimed was 16 million *escudos*, covering works for the benefit of Mozambique. Vieira, "A Moçambicanização da Banca e Criação da Moeda Nacional" 42-44.

mandatory exports of Portuguese industrial goods and services to Mozambique. The respective payments were also made automatically, as soon as funds were deposited into the Exchange Fund.

In terms of the debt litigation, Portugal claimed, *inter alia*, that it had to be recompensed “for works made by the colonial regime to benefit the people of Mozambique”²⁰⁷. President Samora refuted this assertion. In a letter to Prime Minister Vasco Gonçalves on 18 April, 1975, he mentioned the transfers of gold and currency from Mozambique to Portugal; and that more than 2,500 Mozambicans died annually in South African mines – victims of work accidents apart from the effects of resources plundering.

President Machel emphasised that *FRELIMO* would consider the Portuguese delegation part of colonial litigation, and suspended the negotiations. In fact, Mozambique viewed the Portuguese claims as a kind of political manoeuvring by the Portuguese delegation in order to establish preconditions for the country’s independence.²⁰⁸ According to Joaquim de Carvalho, the “debt litigation” was the most controversial issue presented by the Portuguese delegation during the negotiation process. Portugal, however, withdrew its claims in a letter by the Portuguese Prime Minister, Vasco Gonçalves, dated 9 May 1975. In it the “economic and financial litigation” process was considered definitely closed (Matters of Committee B of the negotiations).²⁰⁹

²⁰⁷ Vieira, "A Moçambicanização da Banca e Criação da Moeda Nacional",42.

²⁰⁸ According to *Samora Machel* “...to accept the existence of debts will, in principle, be accepting that colonialism has a good side to it. However, colonialism as a whole is intrinsically evil. How can we owe anything to such an evil entity? ”De Almeida Santos, *Quase Memórias*, 118. "Samora Machel:"Factura" Apresentada com Maus Modos, *O Jornal* 121 (1974) [accessed](http://www.espoliadosultramar.com/ip01.html) June 22, 2015.<http://www.espoliadosultramar.com/ip01.html>

According to *Vieira*, from 30 March to 1 April 1974 *FRELIMO* and the Portuguese government held negotiations in Dar-es-Salaam to discuss Mozambique’s alleged debt. There was a proposal to go for a balance for verification of losses and gains between the parties. As a result, the Portuguese government withdrew the litigation by letter from the Prime Minister *Vasco Goncalves* to *Samora Machel*. *Vieira* "A Moçambicanização da Banca e Criação da Moeda Nacional",43-44.

²⁰⁹ "Vasco Gonçalves: Contencioso com Moçambique Definitivamente Encerrado," *O Jornal*, May, 1975, Imprensa Portuguesa, accessed June 22,2015.<http://www.espoliadosultramar.com/ip02.html>. Langa, "A Actividade do Banco Nacional Ultramarino," 80-81. Carvalho, "Criação do Banco de Mocambique," 37.

In its *Chronology* the *Banco de Moçambique*, quoting the magazine *Tempo* states that there had been three rounds of talks, the first of which took place in Maputo in January, and others subsequently in February/March and April 1975, when the parties signed the Protocols of understanding for the transfer to Mozambique of assets and liabilities of the *BNU* department for Mozambique.²¹⁰ In fact, in addition to this transfer, this round discussed the effects of the nationalisation of commercial banks and insurance companies in Portugal and the *Banco de Fomento Nacional*. Before that, the new transitional government had to collect and analyse information about how the *BNU* worked. It also had to define the strategic action that had to be taken to set up the *Banco de Moçambique*. For the Portuguese delegates, the mission was merely technical; it was only aimed at discussing accounting matters, probably because of that, the meeting produced no results.²¹¹ For the Mozambicans, the main question was the model of business transfer from one owner to another, as well as business continuity, particularly where it concerned staff members since the majority of them were Portuguese. The few Mozambicans in the employment of the central bank were unskilled. Many skilled people had already left Mozambique and had returned to Portugal. Subsequent to these talks,²¹² the *BNU* ceased operating in Mozambique, and a new central and state-owned bank, the *Banco de Moçambique*, replaced it.

Alberto Cassimo, who obtained a B. Com. degree in Economics in Moscow in 1973, a member of FRELIMO's Central Committee since the III Congress in 1977, and Adrião Rodrigues, were appointed to carry out the transfer of Mozambican assets from the *BNU* to what would then become the *Banco de Moçambique*. On 21 May, they were nominated as Governor and Deputy Governor of the new bank

²¹⁰ Banco de Moçambique, *Banco de Moçambique :1975-2015 Chronology*, 36.

²¹¹ *Ibid*, 28.

²¹¹ Carvalho, "Criação do Banco de Moçambique," 36.

²¹² Banco de Moçambique, *Banco de Moçambique:1975-2010:Chronology*, 29.

respectively. Cassimo stayed with the Bank from 21 May, 1975 to 22 April, 1978, when he became Minister of Labour before passing away in 1981²¹³.

Picture 2:



Governor Alberto Cassimo and Deputy Governor Adrião Rodrigues

2.4. The functioning of the *Banco de Moçambique*

Based on the postulate of clause 16 of the Lusaka Agreement²¹⁴ and Article 3 of Decree-Law 2/75 (*Banco de Moçambique's Organic Law*), the central bank began its work in *Maputo* (formerly *Lourenço Marques*) on 25 July 1974 in the building formerly occupied by the BNU at Avenida 25 de Setembro (former Avenida da República).

²¹³ Banco de Moçambique, *Banco de Moçambique:1975-2010:Chronology* 29-32: Datas e **documentos** Históricos da Frelimo 1975;592. Adrião Rodrigues left the function back to Portugal few years later.

²¹⁴ Boletim da Republica no. 117, Serie I, Clause 16. , October 10, 1974, 1192.

Picture 3:



Image of Banco Nacional Ultramarino. Source::Banco de Moçambique Photo collection



Image of Banco de Moçambique. Source: Banco de Moçambique Photo collection

Under the Decree-Law 2/75, *Banco de Moçambique* inherited the BNU's assets and took over its staff. Until 1978, the members of the board of directors and the majority of the managers were Portuguese²¹⁵ except the Governor and Deputy-Governor, who were Mozambicans.

For the first years the "*Banco*" adopted the *BNU's* organic structure. The Governor appointed managers, but often the new managers emerged from among the existing staff. Although the Portuguese staff was expected to train the Mozambican employees, this could often not be done because the Portuguese left the country as soon as independence was declared. The nationals therefore had to learn by own experience.²¹⁶ During the Third Congress debate, Alberto Cassimo, the first Governor of the *Banco de Moçambique*, reported that among the 4 750 financial system employees, 3 800 were nationals, and of the 680 employees in managerial positions, only 100 were Mozambicans; of the 2.900 skilled employees, 1,250 were nationals. Finally, of the 1,250 people performing menial tasks, 95per cent were Mozambicans.²¹⁷ In addition to the above, there was also gender discrimination in the Bank. *Joana Matsombe*, a board member of the *Banco de Moçambique*, conveyed in a 2015 interview that all female employees, even if they had high school qualifications, were used as typists instead of being trained to take over specialised functions.²¹⁸

The new Bank had to start working not only in an exceedingly difficult economic environment; it also had to conduct business in the face of a new upheaval. From 1976 onwards an armed conflict began in the country. It was waged against the *FRELIMO* government by the National Resistance Movement (*MNR*, later renamed *RENAMO*).²¹⁹

²¹⁵ Vieira, "A Moçambicanização da Banca e a Criação da Moeda," 47.

²¹⁶ Interview with Joana Matsombe in Maputo, May, 20, 2015.

²¹⁷ "Poder da Aliança Operário-camponesa Deve Sentir-se na Banca : Salieta Alberto Cassimo ao Intervir no Debate do III Congresso" in: *Noticias*, February 15, 1977.

²¹⁸ Joana David Matsombe joined the BNU in 1973. Interview with Joana Matsombe in Maputo, May 20, 2015.

²¹⁹ Mosca, *Economia de Moçambique*, 142. This highly disruptive civil war only came to an end with the peace agreement of October 4, 1992.

FRELIMO's strategy was to mobilise the population through what it called "Dynamising Groups" (GDs – the Portuguese acronym) in residential areas, workplaces, in towns and even in the countryside. These groups had to counter acts of sabotage. They played an important role and helped to limit sabotage and the destruction of infrastructure. They also played a role in the restructuring of the economy.²²⁰ In this sphere their main tasks were activities such as organising people in various spheres as production and social life, fostering patriotic awareness and behaviour, setting up literacy campaigns, organising people to discuss and execute *FRELIMO* policies and strategies, particularly those aimed at countering acts of economic sabotage. The *Banco de Moçambique*'s Dynamising Group was formed on 6 November, 1974, but it became official only on 26 December 1978. *Sergio Vieira* noted that the creation of the Party cell in the central bank guarantees the exercise of popular power.²²¹ Cassimo declared that "to proceed with governmental objectives, the banks should not be out of touch with the economic and social conditions in our country." Moreover, "the *Banco de Moçambique* should be an instrument of Economic Plan execution and control the activities of all productive entities".²²² He argued that in the colonial era, the *BNU* supported the colonial economic development mobilizing free financial resources' for this purpose. A total of 60 per cent of 290 bank agencies were in *Maputo*. The third *FRELIMO* Congress of February 1977, set guidelines to achieve its objectives in strategic sectors of the national economy, including the financial system. During the Congress, *FRELIMO* discussed the need to reorganise the country's banking structure in terms of contemporary objectives.²²³ The Congress defined the need of the State to control

²²⁰ Mosca, *A Experiência Socialista em Moçambique*, 70.

²²¹ "Criação da Célula do Partido no B.M. Garante o Exercício do Poder Popular: Sergio Vieira em Reuniao Geral dos Trabalhadores" in: *Noticias*, December 28, 1978.

²²² "Poder da aliança operário-camponesa deve sentir-se na banca ; salienta Alberto Cassimo , ao intervir no debate do III Congresso" in: *Noticias*, February 15, 1977, 2.

²²³ The rhetorical defense of liberators' ideals and equal rights, the ideals of building a thriving and solidary nation without discrimination among peoples were mobilizing values that motivated the population to engage in a political movement with *FRELIMO*, Mosca, *A Experiência Socialista em Mocambique*, 70. Wuyts, *A Organização das Finanças*, 27, Gaspar, *A Evolução do Sistema Bancário*, 27.

the key sectors of the economy.²²⁴ The restructuring of the Bank was undertaken in accordance with this new framework.

From 1975 to the time of the Third Congress, the *FRELIMO* strategy was to lay the foundations for socialism and to ensure the functioning of the economy. It was at this Congress that *FRELIMO* proclaimed itself a Marxist-Leninist party, and the *Banco de Moçambique* was defined as the instrument for controlling the economy. One of the consequences of the socialist development strategies for the monetary policy was that production results dropped dramatically and the *Banco de Moçambique* and the *Instituto de Credito de Moçambique* had to finance the deficits of the companies in order to ensure social stability and continue production in terms of Law 33/76 of 23 September, 1976.²²⁵ Through its control over the banks (now owned by the State), the government pumped paper money into the economy to avert chaos.²²⁶

Similar to the action taken by most banks in newly independent countries, the *Banco de Moçambique* initially adopted a restrictive management policy by intervening via the use of direct instruments of monetary policy. This was because the financial system was underdeveloped. Therefore, direct instruments were the only feasible instruments available until markets and frameworks were developed, allowing the use of indirect instruments.

The management of price stability through direct instruments involves the use of interest rates and credit control through State regulation. According to Keynes' explanation, in order to regulate the cost, availability, supply of money and credit, a central bank may use either its capacity to regulate the system (direct instruments) or to influence the money market through monetary variables (indirect instruments). The direct instruments seem to be the initial policy option taken by emerging central

²²⁴ FRELIMO, "Frelimo Economic and Social Guidelines of III Congress," 1977, 89. Banco de Moçambique, *Banco de Moçambique 1975-2010: Chronology*, 34. Gaspar, *A Evolução do Sistema Bancário*, 23, Mosca, *A Experiência socialista em Mocambique*, 111. FRELIMO Party, *FRELIMO's Official Documents and President Samora Machel's Public Interventions*, Maputo, 1978.

²²⁵ "BM apoia CFM" in: *Noticias*, October 2, 1976.

²²⁶ It was the only direct and effective way to deal with the crisis. Wuyts, *Money and Planning for Socialist Transito*, 104-105. A volume of 90 million debt reorganisation resulting from loans to state companies had to be borne by the State. Maleiane, "Moçambique: As Etapas na Programação do Credito," 3.

banks. An IMF study states that such instruments had been successful in some industrial countries until the mid-1980s. They result from a combination of political, administrative and technical factors,²²⁷ including exchange rates and interest rates.²²⁸ Other important reasons for the adoption of direct instruments include transparency, low fiscal costs, easy management of direct credit for priority sectors, easy implementation and negotiation of such instruments and the fact that they are responsive to any monetary instrument objectives.²²⁹

S. de Abreu has supported this policy option. When reviewing the objectives of Decree-Laws 35 and 36/74 of 26 November, she emphasised the reasons for adopting a repressive policy in terms of interest rates. At that time, currency fluctuations were controlled administratively. This constituted a lucrative field for the parallel (informal) market, where the exchange rate came to be 46 times higher than the official market. Hence, an apparent stability of the currency was created and inflation was controlled. However, it led to an accumulation of financial and structural imbalances in the national economy.²³⁰

On the other hand, according to S. de Abreu, whereas in developed countries where interest rates are generally determined by the market, in developing countries such as Mozambique, the authorities often impose maximum or minimum limits on the interest rates for loans and deposits.²³¹

2.5. The Metica – a currency that was never used

Joaquim Chissano, who was Prime Minister at the time, said that during the negotiations for establishing a central bank, the steering committee that was dealing with the matter, asked him about a name for the new currency.

²²⁷ W.E. Alexander et al "The Adoption of Indirect Instruments of Monetary Policy" IMF, *occasional paper* 126 (1995) in: Chandavarkar, *Central Banking in Developing Countries*, 31.

²²⁸ *Ibid.* Silvina Abreu, "O Papel das Taxas de Juro em Programas de Ajustamento Macroeconómico com restrições creditícias: O Caso Moçambicano", *Banco de Moçambique. Staff Paper* 3, (1996), 20.

²²⁹ Chandavarkar, *Central Banking in Developing Countries*, 31.

²³⁰ Adelino Pimpao, "A Cronologia dos Principais Desenvolvimentos da Política Cambial em Moçambique (Junho de 1975 a Junho 1996)" *Banco de Moçambique Staff Paper* 4 (1996), 5-6.

²³¹ S. Abreu, O Papel das Taxas de Juro em Programas de Ajustamento Macroeconómico, 11.

He consulted the historian Dr Fernando Ganhão (a member of FRELIMO). Ganhão said that the currency which circulated in the early stages of the colonial era in Mozambique had been the "metikal", (It had the equivalent of 4,83 grams of powdered gold in a feather). This was the first piece of currency to be displayed in the Money Museum in *Maputo*. The term "mit'qal" or "mit'ghal" comes from Arabic-Swahili and was the currency used for transactions in the pre-colonial period.²³²

The Prime Minister remembered how people called the Portuguese currency in use in Mozambique during the colonial era: 1 *escudo* ("xi-cudo"), 50 cents ("*quinhenta*"), 20 cents ("*duzenta*") and 10 cents ("*sareji*"). For the plural forms, they said "*psi-cudo*", "*miquinhenta*", "*maduzenta e massaraji*". Those were the pronunciations of the people who lived south of the Save River, i.e., from *Inhambane* to *Maputo*. In some regions the currency was called "copper" (singular) and "*ma-copper*" (plural).

Chissano wondered whether the people would say (*ma*) *metikal* (singular) or (*ti*) *metikal* (plural). However, a proposal was made to simplify the singular to "*Metica*", so that the plural would be "*ma-Metica*" or "*ti-Metica*", which was easier to say. In Portuguese the plural form would be "*Meticas*" and this represented its semantic and historical evolution from the days of colonisation and enslavement. Therefore, this name would not be adopted literally but rather in an evolutionary way.²³³

Since the decision on "*Metica*", the steering committee immediately began the process of getting the paper money printed and coins minted given that Independence Day was close. The currency was produced by the British firm Thomas De La Rue, and was received in Mozambique, but it was never released for circulation.²³⁴

²³² Mario Johnson, "The Nineteenth-Century Gold 'Mithqal West and North Africa", *The Journal of African History*, Vol 9, 4 (1968), 547 . accessed January 19, 2016.
http://www.jstor.org/stable/180144?seq=1#page_scan_tab_contents

Peter Symes , " Banknotes Independence Issue – 1975 to 1989, " (2014) accessed January 19, 2016.
http://www.pjsymes.com.au/articles/Mozambique_1.htm

Joao Nogueira , "Meticais," accessed January 19, 2016
http://cronicasmaputo.blogspot.com/2004_08_01_archive.html

²³³ Interview with Joaquim Chissano, Maputo, March 5, 2014.

²³⁴ Interview with Joaquim de Carvalho, Maputo, October 16, 2013.

Nobody could say whether, during the steering committee's co-ordination and consultation visits to party leaders in Dar-es-Salaam, the committee had in fact ever suggested this name, or whether it had submitted a specimen for approval, in the implementation of a new currency.²³⁵

President Samora Machel's effigy appeared on the banknotes and on the coins. Later, when the currency was submitted to him, he did not approve of it, and ordered it to be withdrawn.

Despite this setback, the need for a new national currency remained, although the matter was put in abeyance until after the proclamation of independence. After that, new notes and coins were designed, but without featuring the president. The way in which the old currency was to be replaced by the new money was kept confidential, so as to avoid any disruption of normal business. The transition only took place five years later. The name was changed to *Metical*, both for historical and security reasons. The security reasons pertained to the fact that the *Metica* was already in Mozambique, even though it was never actually in circulation.

The profound social, economic, political and military crisis which prevailed in the immediate pre-independence years became the yeast needed for fundamental changes to mature. These included, in the financial sector, the Lusaka Agreement of 1974, which spelled the end of the *BNU's* activities in Mozambique and heralded in the establishment of the new central bank.

Thus, in the period 1975-1977 *Banco de Moçambique* assumed the *BNU* activities which were in great measure commercial and with the main objectives to maintain a functional economy, similar to its predecessor. It was a transitional phase from a colonial banking system to a national one, where the central bank suffered great influence in the centrally planned economy. The national financial system was consolidated in 1977 with the end of Portuguese banks' activities, thereupon those assets and liabilities were integrated in the *Banco de Moçambique*.

²³⁵ Interview with Joaquim Chissano, Maputo, March 5, 2014. Joaquim Chissano was the President of Republic (1986-2004).

CHAPTER 3: THE BANCO DE MOÇAMBIQUE IN A SOCIALIST REGIME (1977 – 1983)

Bank Nationalization can be a confusing topic because it means different things to different people and there are a variety of reasons given by advocates for supporting such a move.²³⁶

Nationalization means transferring the ownership or control of one or more banks from the shareholders to the government.²³⁷

3.1 From a socialist society towards the transition to a market economy

The years 1977 to 1983 can be considered a transition period from an economic crisis which had resulted from the process leading from colonialism to independence. During the period under review the new Mozambican authorities attempted to establish and consolidate a socialist society as an antithesis to the former colonial capitalist society which was based on exploitation and discrimination of the indigenous population in the interest of Portugal.

The broad framework of macro-economic policy changed between 1977 and 1983. However, when one considers periodization of Mozambique's history, one finds that periodisation is connected to the periods reviewed. Mosca, for example, stated that according to Oppenheimer (1994) and Baltazar Jr (1993), the transition period run from 1973 to 1977, given the characteristics of the Mozambican economy. The period between 1977 and 1981 represents the period of recovering and planning whilst the time between 1981 and 1986 represents the crisis during the war.²³⁸ If the focus is on the financial system, then the two-year period of 1973-74 is one of crisis and disruption, leading to the emergence of a new system in 1975 which continued to 1977. The banking sector was characterised by integration and restructuring. In 1977 *FRELIMO's* Third Congress was held which defined the government's socialist strategy and its economic policy.

²³⁶Douglas J. Elliott, *Bank Nationalization: What is it? Should we do it?* (Washington: The Brookings Institution, 2009), 7.

²³⁷ *Ibid*, 13

²³⁸ João Mosca, *Economia de Moçambique: Seculo XX* (Lisboa: Instituto Piaget, 2005), 132.

The Congress determined that the state, through its development plan, would control and direct the key sectors of the economy. This new policy direction was supported by a financial plan that would be driven by the *Banco de Moçambique* answering to the bank's double function as both a state and a central bank. This bank was designated to play a crucial role in the economy.²³⁹

The first indication of the implementation of socialist policies was the nationalisation of priority social sectors such health, education, funeral services and land ownership on 24 July 1975, and housing on 3 February 1976. It undermined expectations that small Portuguese investors would return to Mozambique. This was a clear expression of social and economic intention to change the colonial order. Moreover, it consolidated growth of the state sector as a strategy of economic reorganization. Nationalisation was a starting point of socialism and planning in particular with the integration of the financial system in 1977, as well as the state take-over of the companies abandoned by Portuguese owners.

The social reforms were spearheading the new socialist development policy: the latter having a profound impact on production and on the social-economic development of the country. Mozambique under *FRELIMO* had opted for socialist development. Speeches made during that time reflect a primacy of politics over economic issues. Mosca has stated that, for this reason, some decisions that could be considered politically correct at the time impacted adversely on the economy.²⁴⁰

The economy was dealt a serious blow when thousands of Portuguese left Mozambique just before and during the first years of independence, probably because they experienced a threat to their existential security after 1975. Mosca refers to the radicalization of the *FRELIMO* politic propaganda. The majority of Portuguese people left the country around independence, because the social

²³⁹Mark Wuyts, *Money and Planning for Socialist Transition: The Mozambican Experience* (Aldershot: Grower Publishing Co Limited, 1989), 54.

²⁴⁰Mosca, *A Economia de Moçambique*, 145-149.

violence and transition crisis led them to fear for their lives and nationalisations of their property.²⁴¹

In addition, far too few Mozambican technicians had been trained, and this small group could not fill the hundreds of vacancies left behind by the departing Portuguese technicians. The country would come to resent these first years of independence as a time of great difficulty caused by the massive exodus of the Portuguese. This was aggravated by the devastating effect of the Portuguese policy of discrimination in education that had caused an illiteracy rate in excess of 90 per cent, thus reducing further the number of technicians with higher education capable of sustaining the production sectors.

Economic sabotage was committed when company assets were repatriated illegally as the case published in the *Noticias* Newspaper article on October 2, 1977, where the *Banco Comercial de Angola* confirmed the reported repatriation of millions escudos to cover export tariffs but the country never receive the correspondent commodities.²⁴² Capital was transferred out of the country with the connivance of the commercial expatriate banks; the import orders were falsified; goods such as equipment and vehicles were exported illegally and a massive destruction of equipment, agricultural infrastructure and products, led the government to publish Decree-Law 16/75 of 13 February 1975 (also known as 24/20). This decree established Administrative Committees authorized to intervene in companies that were abandoned or sabotaged.²⁴³

To halt the massive outflows of foreign currency, from 5 November, 1975, *Banco de Moçambique* took control of external transactions, which reduced the operations and

²⁴¹ Mozambique had about 200,000 Portuguese, of whom 100,000-165,000 left the colony prior to independence. Mosca, *Economia de Moçambique*, 132. Hans Abrahamson and Anders Nilsson, *Moçambique em Transição: Um Estudo da História de Desenvolvimento Durante o Período 1974-1992*, (Maputo: CEGRAF, 1994), 37.

²⁴² "Sabotagem Económica :Milhões de Contos Transferidos", *Noticias* , October 27,1977, p. 4 nr.17.363 in response to the letter to Director in *Noticias*, October 24, 1977, p. 3 nr. 17.359.

²⁴³ Mosca, *A Economia de Moçambique*, 148-150. "Sabotagem Económica Atinge Firma com 7 Mil Trabalhadores: Nomeada Comissão Administrativa para Monteiro e Giro Limitada," *Notícias*, September 1, 1976, 16.947. According to the law was given 24 hours to the offender to leave the country with 20 kilos only.

profits of the expatriate banks.²⁴⁴ Mozambique's adherence to sanctions against Rhodesia since 16 March 1976, in solidarity with the United Nations following the unilateral declaration of independence by Ian Smith, dried up an important source of foreign exchange²⁴⁵ derived from the use of Beira's port services and the sale of refined petroleum products to the beleaguered regime. Moreover, Rhodesia retaliated by launching attacks against Mozambique's infrastructure to discourage support for the Zimbabwean liberation movements, and also by destabilizing the country through its support of the National Resistance Movement (*MNR*) anti-government movement,²⁴⁶ as did *FRELIMO* to Rhodesia.

Zimbabwe became independent in April 18, 1980, and *RENAMO* shifted its base to South Africa. The South Africa government undertook to support *RENAMO* as an act of revenge against *FRELIMO* for aiding the African National Congress (ANC). Mozambique was subjected to attacks which resulted in the destruction of property and infrastructure, as did the ANC in South Africa. South Africa also reduced the number of Mozambican miners who were recruited from around 120,000 to approximately 40,000. Many miners were repatriated.²⁴⁷ In another move, the South African government decided to stop payments to the *Banco de Moçambique* from 19 May 1978 that were due under the 1928 migrant labour agreement.²⁴⁸

²⁴⁴ Eneas Comiche, "O Processo de Reestruturação e integração e Integração da Banca" in *Banco de Moçambique: Histórias Vividas*, ed. Banco de Moçambique (Maputo: Centro de Documentação e Informação do Banco de Moçambique, 2010), 70.

²⁴⁵ From 1976-80 the resulting prejudice is estimated at 16.5 million contos according to Mosca, but *Notícias* article on March 19, 1976 referred to more than 57 million contos of prejudice. Mosca, *A Economia de Moçambique*, 146.

²⁴⁶ Mosca, *A Economia de Moçambique*, 142. Abrahamson and Nilsson, *Moçambique em Transição*, 45.

²⁴⁷ Prakash Ratilal, "Adesão Às Instituições de Bretton Woods e Início Da Implementação de Reformas" in *Banco de Moçambique: Histórias Vividas*, ed. Banco de Moçambique (Maputo: Centro de Documentação e Informação do Banco de Moçambique, 2010), 102. Wuyts, *Money and Planning for Socialist Transition*, 83.

²⁴⁸ Banco de Moçambique, *Banco de Moçambique: 1975-2010: Chronology*, 2nd ed. (Maputo: Centro de Documentação e Informação, 2010) 38. Ratilal, "Adesão Às Instituições de Bretton Woods e Início Da Implementação de Reformas", 97. The abandonment of secret negotiations by *FRELIMO*, according to Verschuur and Cahen, mentioned by Gaspar has been the likely cause. Napoleão

The *MNR* which was later known as *RENAMO* began its anti-*FRELIMO* operations in *Manica* and *Sofala*. By 1976 the insurrection had reached the south, namely, *Inhambane*, *Gaza* and *Zambezia*. Civil war raged throughout the country.²⁴⁹

Apart from the economic and social crisis that Mozambique had to contend with in its first decade of independence, the country was hit by a prolonged drought which alternated with severe floods, and with the effect of the global oil-price crisis and its inflationary impact.²⁵⁰

Mozambique's foreign policy has resulted in declining foreign exchange revenue from South Africa's use of the *Maputo* harbour and Zimbabwe's use of the *Beira* harbour and railway. This revenue stream diminished drastically as a result of the prevailing regional hostilities.²⁵¹

In the international arena, the United States and *NATO* supported Portugal on account of US interest in the *Lajes* base in the *Azores* while also nominally supporting South Africa, to safeguard the oil routes from the Persian Gulf to the United States.²⁵² *FRELIMO*'s allies were the Soviet Union and China, and therefore Mozambique positioned itself squarely within the ambit of the Cold War.²⁵³

From the late 1970s onwards, the intensity of the Cold War began to decline, resulting in a relaxation of tensions between East and West. The formation on 1 April 1980 of the Southern African Development Co-ordination Committee (SADCC) brought some hope to Third World countries, particularly in southern Africa, since it was expected that much-needed funds for development projects would be

Gaspar, *A Evolução do Sistema Bancário em Moçambique, 1975-1992* (BA dissertation, University Eduardo Mondlane, 2000), 38.

²⁴⁹ Mosca, *Economia de Moçambique*, 142.

²⁵⁰ Ratilal, "Adesão Às Instituições de Bretton Woods e Início Da Implementação de Reformas," 103.

²⁵¹ Wuyts, *Money and Planning for Socialist Transition*, 87.

²⁵² Abrahamson and Nisson, *Moçambique em Transição*, 31, Ratilal, "Adesão às instituições de Bretton Woods," 92.

²⁵³ *Ibid.* The independence of Mozambique and other Portuguese colonies (1974/1975) occurred during the peak period of confrontation between the countries of the Warsaw Pact and *NATO* (the latter was fighting against what was considered the advancement of communism in the world). Despite having joined the non-aligned countries, Mozambique nevertheless incurred the hostility of the West.

forthcoming. However, the Reagan and Thatcher governments in the US and the UK were still locked in a Cold War mind-set. Mozambique continued to be classified as a communist country and was blacklisted by the US, which indirectly gave support to the forces that were bent on its destabilisation.²⁵⁴ The impact of these concurrent circumstances was reflected in all spheres of the economy. The foreign revenue (including the earnings from the labour supplied to South African gold mines) supported the payment for essential imports only up to 1982. Prakash Ratilal, a former Governor of *Banco de Moçambique*, recounts the dilemma of the inter-ministerial committee headed by the Minister of Commerce and the Central Bank Governor that had the tough task to decide on import priorities. The choice was between food, or raw materials or other products for the country. For example the import priorities, of milk for children to medicines, were decided by the number of votes of the members of the commission, considering the scarcity of foreign currency. At the end of 1983 the international reserves were about US\$ 14-million, sufficient for only one week of imports.²⁵⁵

Yasmin Patel, who was a *Banco de Moçambique* Executive Director, added that in this period (1980-1983) the economy went into a downward spiral. In 1983 GDP fell 8 per cent, the foreign exchange current account deficit corresponded to 22 per cent of GDP and the debt service ratio reached 131 per cent. At the end of the period gross international reserves were sufficient for only one week of imports.²⁵⁶ In sum, the general government budget recorded a large deficit, and the Central Bank had to issue notes to finance public investment.²⁵⁷

The fall in exports and rise in imports accelerated the need for external financing of the economy. Between 1980 and 1983 the volume of domestic credit increased three times, in particular to industry and 30 per cent to agro-industry.²⁵⁸ According to

²⁵⁴ Teresa Cruz e Silva, "Moçambique: Um perfil," <http://www.ces.uc.pt/emancipa/gen/mozambique.html>. Accessed March 21, 2015.

²⁵⁵ Ratilal, "Adesão Às Instituições de Bretton Woods," 105.

²⁵⁶ Patel, "Adesão Às Instituições de Bretton Woods," 125.

²⁵⁷ Mosca, *A Economia de Moçambique*, 259. Ratilal, "Adesão às instituições de Bretton" 104.

²⁵⁸ Gaspar, *A evolução do Sistema Bancario*, 37.

Wuyts, the main function of the financial system was to finance the circulating capital of the state enterprises through credit, while the state budget had to finance investment in fixed capital.

Banco de Moçambique's role was that of principal financier and it extended 77 per cent of all credit granted, followed by *Banco Popular de Desenvolvimento* with 19 per cent. Thus the state banks provided 96 per cent of local credit. The remaining 4 per cent came from the only private bank.²⁵⁹ It was the reorganisation of the banking system that made the financing of state companies possible; this was in accordance with the government's development plan.²⁶⁰

The challenge to the state was to distribute the financial resources and the raw materials to achieve the planned production levels and to guarantee equal distribution of resources to the population.²⁶¹ State enterprises' annual plans, (which institutional apparatus for state planning was the National Planning Commission, created on 8, May 1978, by presidential Decree 33/78) set out sector targets determined by law obligatory to fulfil, combined with direct resources allocation. Mosca stated that the first Central State Plan (*PEC*- acronym in Portuguese) was extended in 1978 for the period 1978/79. It included tasks, targets and deadlines for ministries, economic and social sectors. The plan was the instrument of access to financial resources and included those companies considered important in socialist development.²⁶²

The stores soon ran out of most of their usual merchandise and there was a general shortage of consumer products, spare parts and raw materials. Mozambican families survived on horse mackerel and cabbage, and an individual rationing system, to supply basic products such as rice, sugar, soap, beans, cooking oil, salt, per month

²⁵⁹ Wuyts, *Money and Planning for Socialist Transition*, 111-112.

²⁶⁰ *Ibid*, 57.

²⁶¹ *Ibid*, 36. The banks financed the working capital and the State Budget covered fixed capital, but profits of state enterprises were not beyond 20% of total state revenue.

²⁶² *Ibid*, 57. Ratilal "Adesão Às Instituições de Bretton Woods," 98. Mosca, *Economia de Moçambique*, 182-183.

for each member of family controlled by a "supply card."²⁶³ In Maputo the system was controlled by the "Maputo Supply Organization Office", one of the state companies created to coordinate supplies to consumers and to the productive sector.²⁶⁴

This card was linked to a network of consumer shops where families had to buy in a tied system in their residential areas. Additionally there were co-operatives and "people's shops" that from time to time distributed other kinds of products such as bread, eggs, milk, beverages, clothes and kids toys under a controlled system. The prices of essential products were centrally fixed by the government hoping to control inflation and guarantee a flow of funding to the productive state companies, just to ensure an equitable distribution of the output. The State General Budget depended on a "centralized state plan", because the aim was to achieve maximum social justice in a socialist system.²⁶⁵

The period 1977 to 1983 was characterized by an expanding state sector and central planning system in line with the Third Congress directives to combat low productivity, investing in a strong state sector and rural socialism. The development axis revolved around converting the private sector into a state sector.²⁶⁶ The agricultural, industrial, agro-industrial, import/export companies as well as certain companies in other economic sectors (which had been either abandoned, sabotaged or under-capitalised) were integrated into the state planning system to qualify for an

²⁶³ State shops resulted from nationalization of shops abandoned by the Portuguese and Indo-Pakistani. 2008. Feliciano J, Fonseca-Statter F. (coord)," *Empresariado, Empreendedorismo e Desenvolvimento em Angola e Moçambique*", accessed January 5, 2016
https://books.google.co.mz/books?id=hcn8CQAAQBAJ&pg=PA259&lpg=PA259&dq=mocambique,+gabinete+de+organizacao+do+abastecimento&source=bl&ots=9gmzwiL9W_&sig=E5qp8VLDVLLa3i2oa0dH6CFGRHY&hl=en&sa=X&redir_esc=y#v=onepage&q&f=false,

²⁶⁴ Ratilal, " *Adesão às Instituições de Bretton Woods*," 98. This system would-be abolished with the introduction of PRE in 1987. Mosca, *Economia de Moçambique*, 209.

²⁶⁵ Maleiane indicates that the mechanism of administratively fixed prices resulted in interest rates failed to represent the price of money, and was manipulated according to plan. Adriano Maleane, " *As Etapas de Programação de Crédito no Contexto do Programa de Reabilitação Económica e Social*", *Banco de Moçambique, Staff Paper*, 5, no 6 (1997):3.

²⁶⁶ Wuyts, *Money and Planning for Socialist Transition*, 67.

administrative allocation of investments, (excluding private enterprises). This was the process through which the large state sector was built.²⁶⁷

According to Pitcher, by 1982 almost 73 per cent of industrial, commercial and agricultural companies were state owned enterprises or nationalised (meaning former private companies under state control), and only 27 per cent remained private enterprises.²⁶⁸

Citing Machungo, who was Minister of Planning and Agriculture, the plan was meant to reorganise the country's economic and social life. Socialism could not be implemented without a plan, and this plan determined the distribution of financial resources.²⁶⁹ For *Cruz e Silva*, the radical restructuring of the existing economy into a centrally planned state-run economy, did not solve the crisis brought about by the dismantling of the structures of the colonial economy. Neither did it result in a consolidated socialist management platform that would make a rapid recovery, apart from not solving economic and social problems.

Cruz e Silva attributes these failures partly to the civil war, natural calamities and to an inappropriate model that did not meet the needs of the people, particularly the needs of the farmers, probably because the strategy involved people who remained capitalist-orientated as they had been prior to independence.²⁷⁰ In the early 1980s, public health, housing and education showed signs of being in crisis, the economy was in dire straits, while the internal and external public debt was rising alarmingly despite state subsidies channelled to social services and state companies.²⁷¹

²⁶⁷ Wuyts, *Money and Planning for Socialist Transition*, 67. João Mosca, "Agricultura de Moçambique Pós-Independência: Da Experiência Socialista à Recuperação do Modelo Colonial" in: *Economicando.*, (Maputo., Alcance Editores, 2009), 125-126

²⁶⁸ M Pitcher, "Sobreviver à Transição: o Legado das Antigas Empresas Coloniais em Moçambique" in: *Análise Social*, accessed January 12, 2016.
<http://analisesocial.ics.ul.pt/documentos/121879136313gSX5sc0Tn03TK0.pdf>.

²⁶⁹ Gaspar, *A evolução do Sistema Bancário*, 32.

²⁷⁰ Cruz e Silva, *Moçambique: Um perfil*, 9. accessed 24.06.2015.
<http://www.ces.uc.pt/emancipa/gen/mozambique.html> Gaspar calls "pre-socialism" Gaspar, *A evolução do Sistema Bancário*, 33.

²⁷¹ Cruz e Silva, *Moçambique: Um perfil*, 10.

Between 1980 and 1984 the deficit on the current account was estimated to be 14 per cent of GDP, two-thirds of which was funded by donations and external credit.²⁷²

Mosca states that the economic growth between 1975 and 1981 was about 5 per cent, while the official (State-controlled) inflation rate was between 1 to 2 per cent.²⁷³

Arthur Gove was of the opinion that the economic policy was a disaster because of the high demand for consumer goods against a weak market supply. Castel-Branco and Ratilal considered the policy to yield good results, at least until 1981. They point out that from 1977 to 1981 exports grew by 83 per cent, with regard to the increased production results in the agricultural and industrial production indices, but after that, partly because of the civil war, a decline set in.²⁷⁴ Table 2 demonstrates the evolution of production between 1973 and 1986 at 1980 prices in *meticais*. In this table Abrahamsson and Nilsson show that between 1975 and 1981 the Global Production grew 18% not reflecting the impact of the *metical* that was about 2% per year during the period.

²⁷² Ratilal, "Adesão às instituições de Bretton Woods",99-104. Yasmin Patel, "Adesão às instituições de Bretton Woods e Início da Implementação das Reformas". in: *Banco de Moçambique: Histórias Vivas*, ed. Banco de Moçambique (Maputo: Centro de Documentação e Informação do Banco de Moçambique, 2010) 125-126.

²⁷³ Mosca, *Economia de Moçambique*, 254-258.

²⁷⁴ Cruz e Silva, *Moçambique: Um perfil*, <http://www.ces.uc.pt/emancipa/gen/mozambique.html>. 7.Gaspar, *A evolução do Sistema Bancário*,33-34.

Table 2: Development of production and foreign trade 1973-1986

Year	1973	1974	1975	1977	1981	1983	1985	1986
Development of global production -GDP (billion Meticais, 1980 prices)	112	92	71	75	84	64	54	56
- Agriculture	37	32	25	31	31	24	25	25
- Industry and Fishing	42	35	28	28	34	23	15	15
- Transports	12	11	9	7	9	6	4	4
Export	226	296	185	153	280	132	77	79
Import	465	460	395	336	801	636	424	543

Source: Abrahamsson H Nilsson A (1998) *Moçambique em transição*. p. 46.

In 1973 the Mozambican economy reflected the impact of the colonial economic policy and reforms of the 1960s, followed by the decline in production from 1973 to 1975. This decline was attributable to the difficulties encountered in the transition from colonial rule to national independence, as a result of the introduction of socialist economic policies.

Between 1975 and 1981 there was a positive economic growth cycle, as a result of elements of crisis attenuation with the end of the liberation struggle and return of Portuguese to Portugal. More, the nationalizations policy of *FRELIMO* driven to reorganise the economy which was based on interventions in abandoned enterprises, investments in the public sector to consolidate and expand it, and the collectivization of production, made it possible to halt the downward spiral in production. In 1981 the growth rate reached the highest levels since independence, both in consumer goods and export goods. Mosca stated that in this period the economic growth was about 5 per cent, inflation rate was about 1 to 2 per cent and major economic indicators displayed positive performance.²⁷⁵ The government was optimistic about developing the agricultural sector, which was defined as the “base of development”. This explains the considerable increase of state investment in large agricultural projects such as the 400.000 hectare for cotton in *Cabo Delgado* and

²⁷⁵ Wuyts, *Money and Planning for Socialist Transition*, 54. Mosca, *Economia de Moçambique*, 258.

Niassa provinces, the *Angonia* agro-industrial project, the 120.000 hectare project in *Manica*, 300.000 hectares of irrigation in *Limpopo* Valley in the *Gaza* province.²⁷⁶

As shown below, in Table 3 a great volume of investment was directed at the agricultural sector. Construction includes infrastructure projects such as irrigation and dams.²⁷⁷

Investment in agriculture more than doubled between 1978 and 1983. The strongest growth was in industry and energy, while initial high investment in construction served to build infrastructure as a matter of priority. The investment in the transport sector increased almost five-fold, because transport provision was a prerequisite for development in all the other productive sectors.

²⁷⁶ Gaspar, *A evolução do Sistema Bancário*, 33. Wuyts, *Money and Planning for Socialist Transition*, 60-62. Rartilal, "Adesão às instituições de Bretton Woods," 101. Mosca, *Economia de Moçambique*, 199.

²⁷⁷ Wuyts, *Money and Planning for Socialist Transition*, 58-59.

Table 3: Sectorial Allocation of Investment 1978-83 (million of meticaís)

	1978&1979	1980	1981	1982	1983
A. Economic sectors	7,290	8,027	11,827	12,291	8,803
1. Agriculture	1,095	2,271	4,181	4,826	2,560
2. Industry and energy	561	1,227	3,349	3,493	2,769
3. Transport	177	155	345	468	1,012
4. Construction	5,427	3,346	3,270	2,424	1,969
5. Other	-	1,028	682	1,080	484
B. Social sectors	188	567	458	401	219
1. State administration.	311	660	753	184	179
2. Local investment	24	127	312	463	306
3. Other	197	535	612	916	690

Source: Wuyts, *Money and Planning for Socialist Transition*, 59

Growth in the industrial sector was slow to take-off. There was a weakening between 1974 and 1975, then displayed a slow but steady growth between 1975 and 1981, because it depended on State investment and was saddled with obsolete machinery and was seriously hampered by an acute lack of skilled labour. Table 4 shows the growth in the index of industrial production between 1974 and 1981.

Table 4: Index of industrial production evolution (1974=100)

1974	1975	1976	1977	1978	1979	1980	1981
100	65	65	66	69	72	75	78

Source: Castel-Branco. *Problemas Estruturais da Industrialização*, 98.

The expansion of industry did not match the high volume of investment, and this reflects the incompatibility of the national development plan and the financial plan. Industry was defined as the “dynamising” sector. This situation called for a massive investment to consolidate the existing productive capacity and to achieve higher production.²⁷⁸

The financial plan was funded by a combination of domestic credit and foreign loans. The master plan was to pay for such loans from surpluses of investments in large projects, which never materialised because these projects never generated profit. This policy increased the money supply resulting in monetary disequilibria, which hampered the process of transforming production during the socialist transition.²⁷⁹

The reorganisation of the agriculture sector included the creation of state companies by appropriating, in terms of Decree-Law 16/75, the abandoned enterprises from the period immediately following independence. The state provided significant funding for mechanisation (3,000 tractors, 300 combine harvesters and other machinery imported in four years from 1977) and for the development of State-owned farms. On the other hand no hoes were imported at a time that domestic manufacturing of hoes had all but collapsed. This shows the neglect of the family and cooperative sectors.²⁸⁰ The investments were intended not only to consolidate increased production but to regain 1973 production levels.²⁸¹

²⁷⁸Gaspar, *A evolução do Sistema Bancário*, 33-34. Wuyts, *Money and Planning for Socialist Transition*, 63-64.

²⁷⁹*Ibid*, 64.

²⁸⁰Wuyts, *Money and Planning for Socialist Transition*, 57-62.

²⁸¹ *Ibid*, .60-63.

Table 5 shows the effect of state reorganisation of agriculture production levels between 1977 and 1981, because farming resumed at the end of the war.

Table 5: Agricultural production, 1977 to 1981(in metric tons)

	1977(metric ton)	1981(metric ton)	Percentage growth (per cent)
Maize	34,0	78,3	130
Cotton seed	52,0	73,6	41.5
Tea-green leaves	79,0	99,2	25.6
Citrus	25,0	36,7	46.8

Source: FRELIMO Party: IV Congress Economic and Social Guidelines, 1983, Maputo

In this period maize production increased by 130per cent, cotton seed by 41,5per cent, tea by 25.6per cent and citrus by 46.8 per cent. It would appear that the economic and financial management measures were successful, but the overall recovery in the agriculture and other sectors could not be sustained. Inappropriate agricultural policy was based on gigantic state projects and cooperatives through "communal villages" intended for mass production. This was unsustainable. Despite the political (socialist) fervour (as reported by Abrahamson and Nilsson) output declined after 1981. In 1983 the lower production levels in sectors such as agriculture, industry, fishing and transport impacted adversely on the external trade figures (imports and exports) as previously mentioned by Patel.²⁸²

In response to civil war and natural disasters, people living in rural communities began to abandon agricultural pursuits and migrated to the cities. This worsened the already precarious supply of consumer products.

Between 1977 and 1981 signs of an economic recovery began to appear. Investments began to modernize, consolidate and expand the state sector,

²⁸² Abrahamsson and Nilsson, *Moçambique em Transição*, 44.

particularly in mechanization of agriculture, thanks to a relatively peaceful environment.²⁸³ The Third Congress Social and Economic Directives stressed the need to increase production and productivity to the level of 1973 as a priority. In the rural area the strategy was the socialization of production through "communal villages", which met with resistance of farmers in some cases, as they had to leave their areas of origin. The state controlled the key sectors of the economy by funding financial needs through state banking). These sectors were large scale agriculture, major industries, wholesale trade and banking.²⁸⁴ The centralized management of many companies were abandoned and scattered. The major projects were transformed into state-owned companies such as *Complexo Agro Industrial do Limpopo CAIL*, *EMOCHA EE*, *Caminhos de Ferro de Moçambique-CFM* in the railway sector, in the road transport the *ROMOS*, *ROMOC* and *ROMON*, whose capital management and production ultimately became the source of the widespread management crisis of the state companies.²⁸⁵

Mosca notes that the apparent economic recovery in the period from 1977 to 1981 reflects the growth cycle but developed contradictions because of the application of the socialist economic model. During the same period other crisis factors deepened, such as change of economic agents, the management's concentration of production in the state which led to general inefficiency, the marginalization of the family sector and increasing poverty and inequality. These developments caused disruption and a need for reform.²⁸⁶

In the regional context there were coordinated efforts with the British government to resolve the Rhodesian problem where President Machel had an important role up to the Lancaster House Agreement which led to peace in Zimbabwe. Because of it

²⁸³ Ratilal, "Adesão às instituições de Bretton Woods", 99-100. Wuyts stated that from 1977 to 1981 production recovered in all sectors, except agriculture. Wuyts, *Money and Planning for Socialist Transition*, 78.

²⁸⁴ Mosca, *Economia de Moçambique*, 170. Wuyts, *Money and Planning for Socialist Transition*, 64.

²⁸⁵ Ibid, 171.

²⁸⁶ Mosca, *Economia de Moçambique*, 258.

Prime-Minister Margaret Thatcher was grateful,²⁸⁷ and this brought expectations of peace and better regional co-operation. The independence in Zimbabwe on 18 April 1980 cleared the way for normal relations between the two neighbouring countries.

Internally, President Machel launched a "Political and Organisational Offensive" in March 1980, to correct general mismanagement of companies and institutions and to boost production.²⁸⁸ This was the turning point when he decided on the privatization of retail trade and small activities such as small scale industries, restaurants, hotels, to release the state from managing of small companies and allowing the state the opportunity to concentrate on the direction of the economy and large projects.²⁸⁹ The President directed visits to state companies, ports, factories to detect cases of corruption, negligence and mismanagement, addressing plan compliance, work discipline and good management.²⁹⁰

As already mentioned, after 1981 the economic performance again showed a downward trend due to the escalation of the civil war and hostility with the neighbouring countries, drought and a shortage of foreign exchange for imports. In 1983 state revenue was low because of increased military spending and subsidies to consumers and state-run companies that were highly in debt.²⁹¹

Due to this state of affairs, with lower exports and imports and the demand for consumer goods, spare parts and raw materials exceeding supply, the commercial network contracted as former Portuguese owners abandoned their interests. This boosted inflation and it was a fertile environment for the emergence of a 'parallel market'.²⁹² The commercial sector was also in a state of crisis because of

²⁸⁷ Mozambique had given valuable contribution to achieving the Lancaster House Accords that brought peace to Zimbabwe. Ratilal, "Adesão às instituições de Bretton Woods," 100.

²⁸⁸ *Ibid.* "Ofensiva Política e Organizacional Generalizada na Frente da Produção," *Notícias*, February 28, 1976.

²⁸⁹ Wuyts, *Money and Planning for Socialist Transition*, 66.

²⁹⁰ Mosca, *Economia de Moçambique*, 225.

²⁹¹ Abrahamsson and Nilsson, *Moçambique em Transição*, 53. Wuyts, *Money and Planning for Socialist Transition*, 78.

²⁹² Abrahamsson and Nilsson, *Moçambique em Transição*, 46-47. Gaspar, *A evolução do Sistema Bancário*, 34. Wuyts, *Money and Planning for Socialist Transition*, 55.

government's policies that led to a critical rise in inflation. On the one hand, the private sector battled with high prices for necessary imports while on the other, export earnings were low.

This situation led to a revision of domestic economic policy. A strategic long-term Indicative Prospective Plan (*PPI*, acronym in Portuguese) was conceived by the Mozambican government to foster the development in divers sectors and address the anticipated weak development in the decade 1980/1990.

It was in this context that the following projects were planned: 400,000 hectares for cotton production in *Niassa* and *Cabo Delgado*; the *Mocuba* Textile Complex; The *Texmoque* factory in *Nampula*; *Accelerated Development Project of Limpopo and Incomati*; the *Moatize* coal project; and power transmission lines from *Cahora Bassa* to *Zambezia* and *Nampula*.²⁹³ These and other projects were, part of the "revised domestic economic policy" and they were regarded as being the anchor of regional development.

FRELIMO's Fourth Congress was held from 26-30 April 1983, when the economic and financial policies were reviewed.²⁹⁴ The congress was convened in the midst of severe economic and social crisis due to war and drought, exacerbating their own failing policies. These compounded to devastate the country. This congress criticized the economic policy as laid down by the Third Congress, in particular the size of the State sector, the neglect of family and co-operative agriculture and private enterprises, all of which had led to economic hardship and poor results

The economic and social Directives of the Fourth Congress defined the development goals until 1985, according to which the family agriculture sector was important for the production of consumer goods and exports, so the state should support that sector with the production of tools, industrial consumer goods, seeds and training. Since state agriculture was responsible for 50 per cent of production, it should be restructured and resized, improving management by establishing better relationships

²⁹³ Ratilal, "*Adesão às instituições de Bretton Woods*," 101.

²⁹⁴ Congress set the objective to "improve the steering system (...) take concrete measures to strengthen and expand the role of state leadership on economic and social activity, to ensure the implementation of the economic policy of the Party". *FRELIMO Party, "Economic and Social Directives,"* (Maputo: FRELIMO, 1983), 75.

with the co-operative, family and private sectors. The congress stressed the need for small industrial units for the processing of domestic raw materials, local opportunity where private activity would have an important role, stressing the importance of coordination of private business with the state in various areas of economic activity.²⁹⁵ The foreign reserves of Mozambique stood at almost nil due to the demand for imports to feed inefficient production systems, and for weaponry for the civil war.²⁹⁶

The congress defined important economic and social guidelines aimed at revitalising an economy that was clearly in crisis. The congress was especially concerned about high government expenditure, and about rural development and industrial strategies. The overall aim, however, was to “purify and consolidate” the socialist model and its ideology.²⁹⁷ The important role of the private sector was recognised and a start was made to give it more attention and financial support. Small-scale farming and light industries benefited as well, with the ultimate aim being to increase production.²⁹⁸

Since the objectives were to concentrate resources in the State sector while also promoting economic development, macroeconomic adjustments became imperative. In this sense the policy on prices was reviewed and changed, and monetary and fiscal reforms were introduced to reduce the huge national deficit.

Decisions of the Fourth Congress determined that “... we must ensure that all available resources are concentrated in the Government Budget, including those resulting from donations by the international community.”²⁹⁹

According to Wuyts, money creation was the strategy resorted to balance the national budget to cover the financial plan. That created economic imbalances which reflected either to the national economy or to the foreign exchange reserves that led

²⁹⁵ Wuyts, *Money and Planning for Socialist Transition*, 67. FRELIMO Party, “Economic and Social Directives,” (Maputo: FRELIMO, 1983), 26-30.

²⁹⁶ Wuyts, *Money and Planning for Socialist Transition*, 67.

²⁹⁷ *Ibid*, 68.

²⁹⁸ Ratilal, “Adesão às Instituições de Bretton Woods”, 108. Gaspar, *A evolução do Sistema Bancário*, 35.

²⁹⁹ FRELIMO Party Fourth Congress Economic and Social Guidelines, (1983), 6.

to weak economic results, stagnation and low productivity. That brought pressure to bear on the financial system to seek foreign loans.³⁰⁰ The preparatory discussions prior to the Fourth Congress and after the Congress itself led to the consolidation of new ideas about the economic policy pursued since the Third Congress, in particular the over-concentration of financial and material resources in the state sector, particularly in the large projects. This was seen as the major constraint hampering the development of the private sector and small privately owned projects that could turn out consumer goods to satisfy the demand for basic necessities.³⁰¹

In sum, the Congress reaffirmed that the country could develop further along socialist lines. The Mozambican government desired to develop the planned economy but also wished to change the financial system so that it would be controlled by the state through the central bank. At that stage the central bank was composed of Portuguese commercial banks' branches, and this was seen as a hindrance towards attaining the desired socialist objectives. The first great reform was the restructuring and integration of the financial system in 1977.

3.2 Restructuring, integration or nationalisation of the financial system (1977- 1978)

At independence the financial system in Mozambique consisted of nine banks, with around 5,170 employees.³⁰² The banks were the *Banco de Moçambique* and the overseas branches of Portuguese commercial banks. The latter were *Banco de Credito Comercial e Industrial-BCCI*; *Banco Comercial de Angola-BCA* with headquarters in *Luanda*; *Banco de Fomento Nacional-BFN*; *Banco Pinto & Sotto Mayor-BPSM*; *Banco Standard Totta of Mozambique-BSTM*; *Casa Bancária in Beira-CBM*; *Caixa Económica de Montepio de Moçambique-CEMM*; and the *Instituto de*

³⁰⁰ Wuyts, *Money and Planning for Socialist Transition*, 67.

³⁰¹ Ratilal, "Adesão às Instituições de Bretton Woods," 108. Wuyts, *Money and Planning for Socialist Transition*, 67-68.

³⁰² Comiche, "O Processo de Reestruturação e Integração da Banca," 78.

Crédito de Moçambique-ICM (see chapter 2). Only the *Banco Standard Totta de Moçambique* had a small slice of local shareholding, namely 15 per cent.³⁰³

Although Portugal nationalised its banks in March 1975, followed by the nationalization of the industrial and financial groups that were shareholders,³⁰⁴ its branches in Mozambique continued to operate as before. This structure remained unchanged for about two-and-a-half years after independence.

The new *Banco de Moçambique* inherited a financial system where almost all the players were expatriate banks. According to Pitcher, these banks were in the red before the end of colonial rule because most of them as the *Banco de Credito Comercial e Industrial* and *Banco de Fomento Nacional* had made bad investments in a series of companies. The banks had links with Portuguese financial oligarchies, with headquarters in Portugal and Angola, except the *Banco Standard Totta de Moçambique*. Most of the bankers did not agree with the Mozambican government policy and without forex activities most of them were in a precarious position.³⁰⁵

The new government perceived the existing bank system to be incapable of contributing to the struggle for economic independence.³⁰⁶

At the Third Congress of *FRELIMO* in February 1977 it was decided to establish a new financial system. The *Banco de Moçambique* was to function as an instrument for the control of the economy.³⁰⁷ Before this decision came into operation the

³⁰³ Comiche, "*O Processo de Reestruturação e Integração da Banca*", 67. Marc Wuyts, "*A Organização das Finanças e o Desenvolvimento Económico de Moçambique: Do Sistema Capitalista-Colonial ao Desenvolvimento Socialista*," *Centro de Estudos Africanos*, no 105, (n.d.):9.

³⁰⁴ Pitcher, "*Sobreviver à Transição: o Legado das Antigas Empresas Coloniais*," 797.

³⁰⁵ *Ibid*," 797.. Interview with Sergio Vieira Maputo, Março 16, 2013. Comiche, "*O Processo de Reestruturação e Integração da Banca*," 75-76.

³⁰⁶ *Ibid*, 67-68. *Boletim da República*, 624, no.153, Serie I,(1977):1-2.

³⁰⁷ *Banco de Moçambique, 1975-2010: Chronology*, 34. This process was in compliance with the Economic and Social III Congress Directives. Comiche, "*O Processo de Reestruturação e Integração da Banca*," 70. The preamble of Law no. 5/77, December 31, 1977, stated that some banks have practiced the crime of economic sabotage, making necessary the restructuring of banking.

expatriate banks transferred their funds out of the country, thus almost draining the economy of cash and capital.³⁰⁸

In order to ensure the functioning of a supportive financial system, the government passed Decree-Law 5/77 which was designed to integrate the banking system. From 1 January 1978, *Casa Bancaria de Moçambique* had to cease operations, and its assets and liabilities were integrated to the *Bank*. The same was to apply to the *Banco de Credito Comercial* and to the *Banco Comercial de Angola*.³⁰⁹ These two latter banks had their headquarters in Angola, and in these two cases the decision was taken after consultation with the Angolan authorities.

Decree-Law 6/77 created the *Banco Popular de Desenvolvimento (BPD)*, by merging the *Instituto de Credito de Moçambique* with the *Caixa Económica de Montepio de Moçambique*, both of which had been ordered to terminate all business.³¹⁰

According to *Corniche*, one of the former *Bank's* Governor, the fate of the Portuguese banks in Mozambique were not decided without meticulous analyses. The main criterion was to establish which bank had its head office in Mozambique and which had their head offices in Lisbon or Luanda. In respect of those Portuguese banks that had been nationalised by Decree-Law 132-A-75, no negotiations were considered necessary given Mozambique's independence.³¹¹ The *Banco de Fomento Nacional* and the *Banco Pinto & Sotto Mayor* were dissolved, and had to close their Mozambican operations within a year.³¹² The implementation of the Decree-Law 5/77 was preceded by arduous sessions of negotiations between Portugal and *FRELIMO* in Maputo (formerly *Lourenço Marques*) and in Lisbon. The aim was to reach common ground concerning the terms and conditions of how to

³⁰⁸ Circumstance that may have led to the directives of reorganisation of the system under Hanlon and Wuyts, but actually in the structural point of view the sector lacked to be reorganized to face the challenges. Wuyts, "A Organização das Finanças e o Desenvolvimento," 27. Gaspar, *A Evolução do Sistema Bancário*, 27.

³⁰⁹ Boletim da República, , 624, no.153, Serie I, December 31, 1977. *Banco de Moçambique, 1975-2010 Chronology*, 35.

³¹⁰ Boletim da República, , 624, no.153, Serie I, December 31, 1977.

³¹¹ Interview with Eneas Comiche, Maputo, December 26, 2012.

³¹² Decree-Law 5/77, Art. 2. Comiche, "O Processo de Reestruturação e Integração da Banca," 71. Gaspar, *A Evolução do Sistema Bancário*, 29.

end the Portuguese banks' operations in Mozambique. In respect of the *Banco de Fomento Nacional* and the *Banco Pinto Sotto Mayor*, arguments ensued as to who should be liable for compensation to the Portuguese depositors for losses incurred. Portugal insisted that *Banco de Moçambique* had to compensate the Portuguese depositors but Mozambique claimed it was a responsibility of Portugal. The Portuguese delegation abandoned the negotiations in March 1979 without consensus having been reached, and both *Banco de Fomento Nacional* and *Banco Pinto Sotto Mayor* had to close down in Mozambique.³¹³

The integration of private banks' branches into the *Bank* had as main objective to avoid risk in the forthcoming economic and social revolution, given that those banks were not very successful in Mozambique, because originally their business was centralized on exploring the colonial market.³¹⁴ Apart from commercial banking activities these banks were subsequently required to finance specific joint-ventures and investments to financial groups that they were linked with.³¹⁵

In addition to exercising the main central bank functions, the *Banco de Moçambique* had to extend credit to large state enterprises whereas the *Banco Popular de Desenvolvimento* had to finance state infrastructure and the industrial and agricultural sectors. The *Banco Standard Totta de Moçambique* was assigned to finance the private sector.³¹⁶

The outcome of restructuring and integration of the banking sector was that, *Banco de Moçambique* got to be the sole controller of the financial services market. It

³¹³ Gaspar, *A Evolução do Sistema Bancário*, 36.

³¹⁴ Comiche, "O Processo de Reestruturação e Integração da Banca," 74-77 .Interview with Sergio Vieira in Maputo, Março 16, 2013.

³¹⁵ The Champalimaud Group (which was invested in cement manufacturing) was the shareholder of Banco Portugueses do Atlântico, one of the Banco Nacional de Angola shareholders that had interests in the Revue Hydroelectric. Wuyts, "A Organização das Finanças e o Desenvolvimento Económico," 11. Hegdes, *História de Moçambique*, 172. Wuyts, *Money and Planning for Socialist Transition*, 22.

³¹⁶ Comiche states that at this stage Banco Standard Totta did not live up to the expectations of boosting the private sector with its lending at the time. But from 23 September 1988, this bank was authorised to operate with foreign exchange. Comiche, "O Processo de Reestruturação e Integração," 76. Interview with Eneas Comiche, Maputo, December 26, 2012. Wuyts, "A organização das Finanças e o Desenvolvimento Económico," 29.

conducted 100 per cent of offshore banking transactions (Order of 4 November 1977),³¹⁷ 80 per cent of the credit market by 1988, and it held 90 per cent of the deposits of large companies.³¹⁸ The axiom that drove the 1977 banking reform in Mozambique is controversial given that the Mozambican authorities and even the financial sector itself assumed that all that was required was a simple integration and restructuring process since the banks were in a crisis and were technically bankrupt. According to *Comiche* and *Vieira*, "there was nothing to nationalise." On the other hand, according to *Maleiane*, nationalisation would imply taking over indemnities of the bank's shareholders.³¹⁹ In fact, Decree-Law 5/77 had forecast that this would indeed be the case.

Since the government had opted for a planned economy, the interventions in the economy and the nationalisation of several companies were pragmatic responses to the outflow of capital, the prevalence of absenteeism and even sabotage.³²⁰ The state felt it had to play a controlling role to ensure the proper functioning of the financial system.³²¹

Unlike the nationalisation programme of 1974-75 in education, public health, land ownership and funeral services, which targeted the socialisation of social services, the banking reform was aimed at saving the financial system from imminent collapse. Therefore the first thing to happen was that all but one bank closed down, and all their residual assets were transferred to the new central bank.

Theoretically, nationalisation occurs when the regulator took over the insolvent or near-insolvent banks in short order to return the troubled banking scenario to "best

³¹⁷ Banco de Mocambique, 1978: *Annual Report*. Banco de Mocambique, 1979: *Annual Report*. Banco de Mocambique, 1980: *Annual Report*.

³¹⁸ Maleiane, " *Moçambique: As Etapas da Programação*," 2.

³¹⁹ Corniche and Vieira emphasised in the interviews that the process was not nationalisation, because once having been nationalised in Portugal, there were nothing to nationalise in Mozambique. .Comiche, " *O Processo de Reestruturação e Integração*," 71. Interview, with Eneas Comiche, Maputo, December 26, 2012. Interview with Sergio Vieira, Maputo, March 16, 2013.

³²⁰ Pitcher, " *Sobreviver à Transição: O Legado das Antigas Empresas Coloniais*," 796.

³²¹ Wuyts, *Money and Planning for Socialist Transition*, 57.

practice.”³²² Elliot defines its meaning as the transfer of the ownership or control of one or more banks from the shareholders to the government,³²³ commanding or not a majority stake, with one or more purpose such as to avoid future morally hazardous issues and protect management from excessive risks, to redirect banks’ policies towards socially desirable goals and away from bad practices.³²⁴ This action is not uncommon in the banking world. Similar examples occurred in the United States with the Continental Illinois (1984) and the Indy Mac Bank (2008), which afterwards was sold to private groups. There were similar situations in Sweden, Indonesia (1990s), in the United Kingdom (2008), in China, Russia, North Africa and South America.³²⁵

Mosca argues that the growth of the state sector in Mozambique can be attributed to the decolonisation process and to the selective nationalisation programme in Portugal, particularly in the financial sector, rather than to the economic policy of the new government.³²⁶

In the case of the Mozambican financial system the previous shareholders had resigned their responsibilities, without being reimbursed, in response to decolonisation. There were no longer any technical or other systems to keep the banks operational even if they were to be nationalised. Those banks that had not been nationalised in Portugal (*CBM, BCCI and BCA*) had to cease operations and were integrated into the new central bank. Those that had been nationalised were ordered to wind down their operations (*BFM and BPSM*).³²⁷ The Mozambican

³²²Douglas Elliot, *Bank Nationalization: What Is? Should We Do It?* http://www.brookings.edu/~media/research/files/papers/2009/2/25-bank-nationalization-elliott/0225_bank_nationalization_elliott.pdf Accessed 27 June 2015.

³²³ Ibid, 13.

³²⁴ Ibid, 15.

³²⁵ Moore Heidi, “Crisis Q&A: What “Bank Nationalization” means for you, The Wall Street Journal, January 21, 2009, <http://blogs.wsj.com/deals/2009/01/21/crisis-qa-what-bank-nationalization-means-for-you/>, accessed February 18, 2016.

³²⁶ Mosca, *Economia de Moçambique*,149.

³²⁷ Comiche, “O Processo de reestruturação e Integração da Banca,” 71. Wuyts, “A Organização das Finanças e o Desenvolvimento Económico,” 28.

authorities' first move was to restructure the banks to avoid their imminent bankruptcy, which would send shockwaves throughout the economy

Pitcher maintains the Portuguese government had hoped that the banks and companies controlled by the Mozambican government would be handed over to the private sector in 1978, and that the shareholders would be compensated. The state merged all banks, transferred their deposits to the *Banco de Moçambique* without compensation, and nationalised all big companies.³²⁸

In Mozambique's case outright nationalisation of banks was not feasible since the central bank had neither the capital nor the technical capabilities to absorb the troubled banks' assets and removing them from the banks' books. The only possibility was to close down the banks' separate operations and to integrate and restructure them into the central bank. However, since in the medium to long term the state took control of the complete financial system in Mozambique, authors such as Wuyts, and Mosca came to the conclusion that the reforms did in fact amount to nationalisation.³²⁹

The system that eventually emerged comprised two state-owned banks, the *Banco de Mocambique* and the *Banco Popular de Desenvolvimento* and only one private bank, the *Banco Standard Totta de Moçambique*. The nationalised banks guaranteed employment stability by financing deficits of productive enterprises, preventing collapse in production and ensured that the new financial system served the interests of the emerging socialist society in Mozambique.³³⁰

At FRELIMO's Third Congress the Economic and Social directives looked closely at India's nationalisation of its banks in 1969, their objectives being to concentrate the funds held by private banks into one account at the central bank. The directives also wanted to ensure equity and the growth of the economy while also promoting social

³²⁸ Pitcher, "Sobreviver à Transição: O Legado das Antigas Empresas Coloniais," 798.

³²⁹ Wuyts, *Money and Planning for Socialist Transition*, 57. Ibid,111 . Wuyts, "A Organização das Finanças e o Desenvolvimento," 28, Mosca, *Economia de Moçambique*,170.

³³⁰ Mosca, *Economia de Moçambique*, 170. Wuyts, *Money and Planning for Socialist Transition*, 104. Wuyts, "A Organização das Finanças e o Desenvolvimento Económico," 23.

welfare; control private monopolies, reduce regional imbalances and curb the expansion of the private banking sector. The congress concluded that what was good for India would be good for Mozambique.³³¹

At the time of the Third Congress, the only operating private bank that survived the restructuring of the financial restructuring process was the *Banco Standard Totta de Moçambique*. This may have been because of its healthy financial structure, its capital composition that was partially domestic, and because this bank was never mentioned as having engaged in economic sabotage.³³²

Mosca considered whether the nationalisations or re-structuring was caused by a lack of control over the evolution of the economy or as a coherent consequence of *FRELIMO*'s economic policy intention of socialist experience, concluding that the political options had been defined before independence and the occasional facts may have shaped the process of bank nationalisation in Portugal.³³³ The bank restructuring process consolidated the role of the *Banco de Moçambique* as the state banker, fiduciary circulation controller, commercial bank, while allowing control of credit and international cooperation.³³⁴

Having inherited the central and commercial bank functions of the *Banco Nacional Ultramarino* in 1975 with its network of countrywide branches, the *Banco de Moçambique*'s network was expanded through the integration with the operations of the *Banco Comercial the Angola*, the *Banco de Credito Comercial e Industrial* and the *Casa Bancária de Moçambique*. The *Banco Popular de Desenvolvimento*, inherited *Caixa Económica de Montepio de Moçambique* and the *Instituto de Credito*

³³¹<http://kalyan-city.blogspot.com/2010/09/nationalisation-of-banks-in-india.html> . Accessed April 21, 2015).

³³² All the other banks had committed acts of sabotage as defined in the preamble to Law 5/77, 31 December 1977. With reference to unauthorised international transfers, Banco Commercial de Angola under letters to the Director" in Noticias Newspaper October 24, 1977, confirmed the case of Quelimane branch manager. These illegal transfers out of the country led directly to the consolidation and concentration of all banking activities in the Banco de Moçambique. All the banks except the Banco Standard Totta were put under its control; Gaspar, *A evolução do Sistema Bancário*, 30.

³³³ Mosca, *Economia de Moçambique*, 174-175

³³⁴ Gaspar, *A Evolução do Sistema Bancário*, 22.

.With the entire financial system controlled by the state, a new credit and monetary policy for a centrally planned economy could be implemented.

To assist in shoring up the national currency, a concentrated effort was made to increase the deposits. An extensive press campaign was launched to educate and encourage the people to entrust their savings to the bank. Up to that point personal savings did not feature in the financial system since most people either buried their savings or tried to hide their cash in unsafe or questionable places.³³⁵

The *Banco Popular de Desenvolvimento* played a leading role in re-educating the general population and turning them into potential bank customers. This bank was commonly called the “bank of the barefooted”³³⁶ because it concentrated on mobilising the small savers. Soon people gained sufficient confidence and trust to turn their modest savings over to this bank in particular, and its customer base grew significantly. On 28 April 1978, President Machel appointed *Sergio Vieira* as the *Banco de Moçambique*’s Governor. Vieira was given instructions to transform the banking system into a tool to develop the national economy, and to resume the aborted mission to create a national currency (See Chapter 2).

Signs of economic recovery were recorded between 1977 and 1981 (see table 2) along with some hope of a regional thaw in view of the Zimbabwean peace negotiations in which President Machel played an important role. In this period the nationalisation of the banks was completed, and this facilitated the monetary control by the central bank. Central bank Governor Sergio Vieira began “Operation Zero”, the creation of the indigenous metical and its exchange rate with the Portuguese escudo.³³⁷

³³⁵ Gaspar , *A Evolução do Sistema Bancário*, 39.

³³⁶ Gaspar citing Antonio Matabele, *A Evolução do Sistema Bancário*, 39.

³³⁷ Vieira, “*A Moçambicanização da Banca e a Criação da Moeda Nacional*,” 49. Rartilal, “*Adesão às Instituições de Bretton Woods*”, 101.

3.3. The metical as the new currency

Before national independence, the creation of a central bank and a national currency was expected by the freedom fighters, as these two developments would constitute visible and tangible proof of the new country's national economic independence. This remit was entrusted, among other tasks, to the nationalists who in 1974 became members of the transitional government. The central bank was established one month before independence (17 May 1975) but the new currency, the metical that was to have replaced the Portuguese escudo, could not be introduced and circulated because of a presidential fiat against its use (See Chapter 2). Albeit produced by Thomas de la Rue in London and delivered to the country before the Independence Day, its circulation was interdicted due to procedural reasons as mentioned in chapter 2. The new currency was introduced on 16 June 1980 in terms of Decree-Law 2/80, as a symbol of national monetary independence and sovereignty. The actual change-over was accomplished in three days, from 16 to 19 of June, after a preparation period that was shrouded in secrecy while "Operation Zero" was being planned and then executed. The task of introducing a new currency had been formally assigned to the central bank Governor³³⁸ Sérgio Vieira on 20 February 1979. The Central Commission for Exchange of Currency was formed to organise the legislation for exchange, all the aspects related to the new currency.³³⁹

The initial task force of Operation Zero was made up of Matias Xavier from National Security Services; *Cândida Perestrelo*, a member of the central bank board; Helmut Schubert from the Central Bank of the Democratic Republic of Germany (East Germany); who worked with Perestrelo in all administrative and other matters. As mentioned in chapter 2, immediately after independence President Machel turned his attention to the question of a national currency and instructed Vieira as the new Governor of central bank to get rid of the escudo and to substitute it with a new national currency. Machel felt that despite having political sovereignty, Mozambique would not be financially independent if the escudo was to remain as the medium of exchange.

³³⁸He was the only one central bank Governor that had such designation.

³³⁹ Banco de Moçambique, *1975-2010: Chronology*, 39.

From 1975 to June 1980 the escudo, issued by the *Banco Nacional Ultramarino*, circulated freely in Mozambique. On 12 March and 17 December 1979, under Decree 13/75, notes with values of 500\$00 and 100\$00 respectively made their appearance with the words “*Banco de Mocambique*” overprinted on them.³⁴⁰After Operation Zero began attempts at sabotaging the financial system were made, especially when in April 1977 counterfeit 1,000 escudo notes were secretly brought into Mozambique from South Africa.³⁴¹

According to Prakash Ratilal, “...in 1975 we did not dominate the national economy. At that time, the creation of coin would have been of little significance. At present (1980) we have economic growth and development as the basis for monetary stability. The currency must be a balance between production and consumption...”

³⁴²

The implementation of the new currency began within days of the release date (16 June 1980) so considerable quantities of cash were sent to every corner of the country. In order to keep the secrecy of this important transaction authorities spread the word that in the place of the escudos it was weapons.³⁴³

Previously, the Governor had requested designs for the notes and coins from several people including the numismatist Guilherme Cabaço. Printing and minting began in the Democratic Republic after the President of the republic had given his approval. The late Jose Craveirinha, the most distinguished poet of Mozambique, contributed to the design. Under Decree-Law no. 2/80 of 16 June 1980, the metical was declared the official currency and formally and legally replaced the Portuguese escudo.

³⁴⁰ Banco de Moçambique, *1975-2010: Chronology*,39.

³⁴¹*Ibid*, 25. Vieira "A Moçambicanização da Banca e a Criação da Moeda Nacional," 45.

³⁴²*Ibid*, 40. *Tempo Magazine*, no. 506, July 6, 1980.

³⁴³ Vieira "A Moçambicanização da Banca e a Criação da Moeda Nacional," 50.

Picture 4: The Metical



Specimen of coins and notes of new metical

This law also decreed that the Central Bank of Mozambique was the only institution that was authorised to issue the metical and to determine the currency's exchange rate. It was also authorised to intervene in monetary and foreign exchange markets. The central bank was mandated to determine the value, quality and quantity of the notes and coins, the inventory model and the mechanics of conversion. In addition to the previous law, Law no. 3/80 was approved in terms of which, from June 16, all old banknotes in circulation no longer had any value. These included the notes issued by the previous colonial administration and the notes that bore overprint "*Banco de Moçambique*".³⁴⁴

The change-over took place, thanks to the commitment and dedication of the staff of the central bank and the enthusiastic co-operation of the people. During the Fourth session of the People's Assembly, the Central Commission for the Exchange of Banknotes stated: "The conclusion, in essence, of the exchange of banknotes within the three days as provided by law, although often carried out in extremely

³⁴⁴ Banco de Moçambique, 1975-2010: *Chronology*, 40.

unfavourable conditions (lack of roads, heavy rains, lack of communications, etc.) was made possible by the huge and enthusiastic participation of the people."³⁴⁵

After the introduction of the new unit of account was completed, the next step was to gain control over the foreign exchange reserves. These were always held in trust by South Africa and Portugal. It was imperative to prevent risk or any kind of pressure such as a re-opening of "financial contentions" (as mentioned in Chapter 2) in the case of Portugal, one of the pre-conditions that emerged at the national independence negotiations.

The South African Reserve Bank Governor, Dr C. L. Stals, immediately consented to transfer the reserves as requested by the *Banco de Moçambique*. Negotiations with the President of the Union Bank of Switzerland, Mr. de Wess, were concluded to take over these functions. Subsequently this bank became the depository of Mozambican reserves.³⁴⁶

The Portuguese Minister of Finance was reluctant to abdicate his country's historical trustee depository role and to transfer the gold that belonged to Mozambique. The *Banque de France* was brought in as a mediator. Pierre Schwed (a manager of a financial intermediary company in foreign currencies) had to put pressure on the Portuguese to transfer the trustee depository role to the French bank. When Governor *Vieira* left the bank the gold and foreign exchange reserves were sufficient for seven months of imports as against the 15 days that prevailed when he assumed his post.³⁴⁷

Chandavarkar compared the theoretical assumptions for the successful introduction of a new *currency* in a transition economy as set out by Einars Repse, President of the Bank of Latvia. Referring to the Latvian experience, Repse recommended the following steps and strategies: liberalisation of markets (foreign exchange and others); setting up an independent central bank; introduction of a new currency;

³⁴⁵ Banco de Moçambique, *1975-2010: Chronology*, 41. According to process yielded a surplus equivalent to more than 30-million dollars, equivalent to the escudos that had been illegally transferred out of Mozambique, and this amount covered the costs of the operation: Vieira, "A *Moçambicanização da Banca e a Criação da Moeda Nacional*," 52.

³⁴⁶*Ibid*, 53.

³⁴⁷Vieira "A *moçambicanização da banca e a Criação da Moeda Nacional*," 53.

adjusting the financial system to open market principles; introducing floating exchange rates; and introducing and running an efficient monetary policy. In the area concerned with currency transition, Latvia stood the test of Repse's model in that its own currency transition was a success. This was evidenced in a decline of the inflation rate and the emergence of a stable exchange rate.³⁴⁸

Repse's theoretical assumptions were applied and compared by Chandavarkar to Mozambique's actions in swapping an old currency for a new one. After the central bank was created in 1975 its functions were only consolidated in 1992 and only after that was it assigned the opportunity to establish and manage a national currency, the metical, which was introduced in 1980.

Chandavarkar noted that, with the introduction of new currencies, transition economies registered a propensity to develop a "dollarisation", a phenomenon where residents transferred part of their assets considered to a stronger currency,³⁴⁹ (in Mozambique it was the ZAR and US\$) which involves the partial replacement of the national currency for offshore currencies in order to conduct the main functions of money in the economy. This was because nationals preferred to switch their financial assets to foreign currency deposits in an attempt to protect their money from the ravages of domestic inflation. This was a reactive conduct which fluctuated in tandem with the respective countries' inflationary pressure.³⁵⁰

The reforms of the decade between the 1970's and 1980 have created an economic recovery cycle and a consolidation of the national financial system where the state had assumed the role as manager of the economy. At this stage the central bank became the executor of the economic policy for the state, granting credit in accordance with the needs of the centrally planned economy. Already at the end of the period under review, the models showed inefficiency that pointed towards reform. The policy change was anticipated at the Fourth Congress of the *FRELIMO* Party. The next phase was characterised by the adhesion of the country to the Institutions

³⁴⁸ Chandavarkar, *Central Banking in Developing Countries*, (London: Macmillan Press, 1996), 161.

³⁴⁹ Felisberto Navalha and Jama Omar, "*Dolarização em Moçambique.: Uma Primeira Abordagem*" (preliminary research, Banco de Moçambique, Statistic and Research Department, June 2000) 2-8.

³⁵⁰ Chandavarkar, *Central Banking in Developing Countries*, 161.

of Bretton Woods and the introduction of economic liberalisation and a market economy.

Chapter 4: The central bank's role in the process of financial system reform 1984-1992

The role of the central bank is crucial in any process of financial system reform. So due to that the strategy of reform prioritized the separation of functions to fit the central bank with instruments and an enhanced autonomy.

4.1 The reform of the financial system – 1984-1992

The period under review, was the dawning era: changing from a socialist orientated economy to a market oriented economy. The reform of Mozambique's financial system initiated in 1975 with the creation of the *Banco de Moçambique* began in earnest in 1977 when a national financial system began to emerge with new economic, monetary and credit policies designed to support and promote the government's overall policy to transform Mozambique into a socialist society.

The deterioration of the global economy during the 1970's and 1980's resulted from successive crisis of commodity and oil prices (1973-1974) and another crisis of 1979-80, had adverse consequences for Third World countries in general and to Mozambique in particular. These developments contributed to rising current account deficits.³⁵¹ Mozambique emerged from colonial rule in the acute global economic crisis at a time when the international focus was shifting to a New World Economic Order. Cooperation between socialist countries and the Third World resulted in a failed model of economic development. The collapse of the USSR in 1989 led to a world-wide retraction by socialist economies from the Third World and from Mozambique. Mozambique lost an important alternative source of external financing and oil supply. The political, economic and technological backwardness inherited from colonialism made the possibility of Mozambique overcoming the crisis more remote and avenging their development strategy improbable. In these circumstances

³⁵¹ José Alves, *Crise econômica mundial 80 anos desde 1929*, accessed January 28, 2016. http://www.ie.ufrj.br/aparte/pdfs/art_52_recessao_em_2009_80_anos_depois_22abr09.pdf Mario Murteirita.

the pragmatic change of macroeconomic policy became a necessary alternative many countries contemplated – Mozambique also investigated such policy changes.

The economic crisis which Mozambique faced in the mid-1970s to 1980s led to a reconsideration of the socialist development strategy, as the ruling party (*FRELIMO*) began to reflect on the disadvantages of the large-size and inefficiency of state enterprises. Frelimo began to entertain a more favourable perception of the private sector, as well as the need for a change in foreign policy. Internal and external factors impacted on the implementation of reforms, including the domestic political, social and economic environment, and also the international conjecture.

It was from 1984 when Mozambique aligned itself more closely to the Bretton Woods Institutions, followed by the adoption of an economic readjustment program, ERP, in 1987 that the implementation of neo-liberal reforms gained in substance. In the financial system a set of reforms designated “Guidelines for Financial Reform” was structured in 1990 by a joint team from the *Banco de Moçambique* and the Ministry of Finance. The main vector was the separation of central bank functions from commercial functions, and consequently creating a new commercial bank, the *Banco Commercial de Moçambique*. The latter acquired the central bank’s commercial banking functions and allowing the central bank to focus primarily on the consolidation of its operations and specialization in banking regulation and monetary control.

The government and the central bank adopted a series of measures that were aimed at reducing both the effects of the legacy of an inherited backward economy and the weakening caused by socialist policies after 1975 and the subsequent economic crisis which resulted in a severe decline in production (of about 40 per cent) and a three-digit inflation rate. These measures included monetary policy reform that terminated the administrative control of the currency via rigid interest and exchange rates that had been practiced since 1974/75. Other measures included a reformed credit policy and the liberalization of prices.³⁵² The Economic Rehabilitation Program

³⁵² Adelino Pimpão, “Cronologia dos Principais Desenvolvimentos da Política Cambial em Moçambique: Junho de 1975 a Junho de 1996,” *Banco de Moçambique. Staff Paper 4*(1996). Silvana Abreu, “O Papel das Taxas de Juro em Programas de Ajustamento Macroeconómico com Restrições Creditícias e Mercado Financeiro em Processo de Reforma: O Caso Moçambicano,” *Banco de Moçambique: Staff Paper 3* (1996). Yasmin Patel, “Adesão às instituições de Bretton Woods e Início

of 1987 was the platform around which the new financial system reforms were implemented.

During the Fourth Congress *FRELIMO* conducted a reappraisal of the country's socialist development. Its Economic and Social Directives defined the guidelines along which a planned economy would be developed while also prioritizing strategic actions to tackle economic and monetary imbalances and changes in foreign policy. The foreign policy changes included the signing of the Nkomati Accord with South Africa on 16 March, 1984, which represented good neighbourly cooperation and non-aggression agreement.

Because of the significant decline in production after 1983 and a drastic collapse in foreign earnings, Mozambique's foreign exchange reserves were almost depleted. In the fourth Congress guidelines were defined on the need to proceed to macroeconomic adjustment and monetary and fiscal reforms. *FRELIMO*'s guidelines emphasized the importance of small farmers, family farming, and the need for government to support state-owned enterprises, cooperatives and the private sector. The country embarked on a search for alternative sources of finance. With regard to the foreign policy the Congress defined the need of "making more friends" and that Mozambique should adhere to multilateral or international institutions since that would provide benefits to the economy and Mozambican society. The Nkomati Accord, the negotiations for adherence to the Lomé Convention,³⁵³ the European Economic Community and membership of the International Monetary Fund and the World Bank were intended to open doors for achieving this goal.³⁵⁴ From then President Samora Machel oriented actions to liberalise and privatise small and medium enterprises, opening the economy to the private sector, cooperative and family sectors, and to attract direct investment.³⁵⁵

da Implementação das Reformas," in: *Banco de Moçambique: Histórias Vivas*, ed. Banco de Moçambique (Maputo :Centro de Documentação e Informação, 2010), 127.

³⁵³ Mozambique joined in May, 1983. This Convention establishes the relationship conditions between African, Caribbean and Pacific countries and the European Union. Ratilal, *"Adesão as Instituições de Bretton Woods*, 111.

³⁵⁴ *Ibid*,108-109.

³⁵⁵ *FRELIMO, Directivas Económicas e Sociais*, (Maputo: 1983), 27.

4.2 Mozambique and the Bretton Woods institutions after 1984.³⁵⁶

The economic and social crisis since mid-1970s and early 1980s induced the Mozambican authorities to search for a new model to boost the economy and to develop the country, given that the previous model failed to fulfil objectives. The economic crisis in socialist countries reflected in a reduction of cooperation and support to Mozambique that suffered from a shortage of financial resources due to the war.³⁵⁷ Particular importance was given to the supply of crude oil by the Soviet Union at a time where international prices rose.³⁵⁸ The rejection of Mozambique to join the Comecon as an effective member was an important fact, which encouraged negotiations between Mozambique and IMF.³⁵⁹

The Iran-Iraq war of 1979 caused the world's second oil crisis. As Iraq was Mozambique's main oil supplier, the local economy was once again adversely affected.

In its search for financial aid, the authorities felt it would be possible to access foreign credit if Mozambique were to become a member of the Bretton Woods institutions. This opened a new era in international relations.³⁶⁰ In 1982, at the height of the oil crisis, a delegation led by Prakash Ratilal, then *Banco de Moçambique* Governor, went abroad to seek foreign funding. Countries such as Mexico,

³⁵⁶ The protocols of Mozambique adhesion to World Bank and IMF was signed by Rui Baltazar, Minister of Finance in September 24, 1984. The formalization of the act consisted of the signing of the Instrument of acceptance, through a government declaration accepting the Articles of Agreement and the terms and conditions of the Fund. Patel, "*Adesão Às Instituições de Bretton Woods*" 124.

³⁵⁷ João Mosca, *Economia de Moçambique: Século XX* (Lisboa: Instituto Piaget, 2005), 215-218.

³⁵⁸ *Ibid*, 213.

³⁵⁹ *Ibid*, 225.

³⁶⁰ Patel was the one who witness that the IMF programs are catalysts to mobilize financial resources either multilateral or bilateral for the country, with the international community. Patel, "*Adesão Às Instituições de Bretton Woods*" 129.

Venezuela, Algeria, Libya and Angola were approached.³⁶¹ The Algerian Minister of Finance in private criticized the *FRELIMO* party's lack of clear-sightedness that had left the country suffering in the name of political alliances and development alignments.³⁶² Tanzania's Minister of Finance, Amir Jamal, felt that the only way for Mozambique to gain access to the international financial system was to adhere to conditions of the International Monetary Fund, and World Bank (the Bretton Woods Institutions that promote global finance stability and world cooperation).³⁶³ To qualify as a member of these Bretton Woods institutions, Mozambique had to comply with a number of prerequisites. These included instituting a rehabilitation program, subscribing to the *Lomé Convention* and revenue reforms that came to be conventionally known as the *Washington Consensus*.³⁶⁴

Mozambique did not follow the usual practice of newly independent nations in joining the Bretton Woods Institutions directly after independence in 1975. This must be seen in the political context of the liberation struggle (supported by East European countries, China, the Nordic bloc and the non-aligned countries) which pre-empted the economic policy Mozambique was bound to follow. Moreover, there was a perception that notwithstanding their memberships of Bretton Woods Institutions, some African members still suffered economic and social imbalances.³⁶⁵

Once independent, Mozambique and Angola were viewed with suspicion by the Western countries, led by the United States and the OTAN alliance,³⁶⁶ and it was

³⁶¹ Prakash, "A Adesão às Instituições de Bretton Woods e Início das Reformas" in: *Banco de Moçambique: Histórias Vividas*, ed. Banco de Moçambique (Maputo: Centro de Documentação e Informação, 2010), 106.

³⁶² The criticism of Algerian Minister of Finance in his words was "the Mozambicans do not adhere to IMF because they consider themselves being pure, but they cry for our help, we impure." *Ibid*, 106.

³⁶³ *Ibid*.

³⁶⁴ Mosca, *Economia de Moçambique*, 246. Adriano Maleiane, "Reforma Do Sistema Financeiro," in: *Banco de Moçambique: Histórias Vividas*, ed. Banco de Moçambique (Maputo: Centro de Documentação e Informação do Banco de Moçambique, 2010), 141. Maleiane states that this Convention included 10 reformist rules defined in 1989 by economist John Williamson to solve the problems of Latin America, later added a further 10 for the Developing Countries.

³⁶⁵ Prakash, "A Adesão às Instituições de Bretton Woods e Início das Reformas," 92.

³⁶⁶ *Ibid*, 92-93.

feared that the new countries could become potential centres from which communism might spread.³⁶⁷ This perception was not unfounded since Mozambique chose to position itself in that sphere until 1983 and thus remained politically bound to the socialist ideology in respect of its national development. International co-operation was thus limited to its allies, namely socialist countries, the Nordic *bloc* and to some African countries.³⁶⁸

Apart from the underperforming economy, Mozambique was suffering from the effects of the Cold War because of its alignment with the socialist *bloc*.³⁶⁹ The economic and social directives of *FRELIMO*'s Fourth Congress decided that its international policy had to be changed.³⁷⁰ In order to achieve economic and social development objective until 1985, the foreign relations guidelines of the Congress stated that "the international co-operation with all countries, founded on the principles of mutual and reciprocity of benefits is the basic orientation of our external economic relations."³⁷¹

Mozambique officially joined the International Monetary Fund (IMF) and the protocols of the World Bank on 24 September 1984. It also signed protocols of the International Bank for Reconstruction and Development, IBRD and the Association for International Development, AID, of two World Bank Institutions. These institutions give support to low-income and developing countries to reduce poverty by means of

³⁶⁷Prakash, "A Adesão às Instituições de Bretton Woods e Início das Reformas, 90-93.

³⁶⁸ Mosca, *Economia de Moçambique*, 246.

³⁶⁹According to Prakash Ratilal, at the end of 1983 the external reserves at Banco de Moçambique as Treasurer to the State was only about US\$14- million, which covered about a week's worth of imports. Prakash, "A Adesão às Instituições de Bretton Woods," 105.

³⁷⁰ At that time there was growing criticism of Brezhnev's policy to promote non-capitalist development in the Marxist-inspired developing countries of the Third World. The view that it is difficult for the Developing Countries to achieve socialism before the productive forces reaches capitalism becomes relevant and after the 26th Congress of the Soviet Union in 1981, the membership of Mozambique was declined at **CAMECON** (cooperation body Countries of Eastern Europe) in 1982. The Soviet Union had had difficulties to promote internal political stability and a socialist order on the Horn of Africa, Angola and Afghanistan. On the other hand the Soviet policy was moderated slightly to maintain socialist experience in the Third World. See Hans Abrahamson and Anders Nilsson, *Moçambique em Transição: Um Estudo da História de Desenvolvimento Durante o Período 1974-1992* (Maputo, CEGRAF, 1994), 81-83.

³⁷¹ *FRELIMO, Directivas Económicas e Sociais*, 31.

long-term non-interest bearing loans.³⁷² These developments were initiated after a preliminary study by Mark Wuyts in 1977/78, purportedly as a political option that could drive the country from a centrally planned economy to a market economy. Wuyts's conclusions showed that membership of these international financial institutions was the only way the country could obtain additional loans from the Bretton Woods' countries members.³⁷³

Before the admission, the IMF mission undertook an evaluation of the Mozambican economy in order to propose the terms and conditions for the country's participation and the respective cost. The mission was led by Mr. Zulu, a Zambian who was an IMF Deputy Director of the African Department. The mission concluded that Mozambique's economy was extremely weak. In this context and in the absence of reliable statistics Mozambique's shares were set at SDR 61-million (about US\$79-million). Mozambique paid 21, 7 per cent in foreign currency and the balance in meticaís.³⁷⁴ Since economic and financial system reforms were implemented, particularly the improvement of national accounts and external reserves Mozambique gradually succeeded in controlling inflation and a reduction of external financial imbalances. Mozambique accepted the conditions for admission to the Bretton Woods institutions. Mozambique thereafter introduced the Economic Rehabilitation Program (*PRE*-acronym in Portuguese), in the context of the

³⁷² Decree-Law 6/84, September, 24 1984, Banco de Moçambique, ed. *Banco de Moçambique:1975-2010:Chronology*, 2nd ed. (Maputo:Centro de Documentação e Informação, 2010), 50. Patel, "Adesão Às Instituições de Bretton Woods," 124. Later Mozambique got to be member of Multilateral Guarantee of Investment Agency (MIGA) and the International Centre for Settlement of Investment Dispute (ICSID), both World Group institutions too.

³⁷³ Mark Wuyts was lecturer in the Faculty of Economics, University Eduardo Mondlane in the 1970s and 1980s. He wrote essays on the economic and financial policies of Mozambique, Mosca, *Economia de Moçambique*, 418-419. Mosca stated that the entry of Mozambique to the concert of nations as a member of the Bretton Woods Institutions gave the government access to external finance so as to finance the balance of payments deficit, and to enter into bilateral debt negotiations with member countries of the Paris Club.

³⁷⁴ SDRs (Special Drawing Rights) are an IMF unit of account created in 1969. It is not a currency but is valued as a currency basket deemed to be representative of the most widely used international currencies – the US dollar, the Japanese yen, the euro and the British pound). SDRs are used by the IMF to make emergency loans to members at low interest rates. Adam Hayes, *What are IMF Special Drawing Rights?* accessed June 1, 2015, www.investopedia.com.

economic adjustment program (*PAE*-acronym in Portuguese),³⁷⁵ aimed at changing the socialist model of development as a way to reverse the negative course of economic growth. Mozambique gained access to foreign aid by the international community through the Bretton Woods' multilateral institutions and bilateral co-operation.³⁷⁶

After the Mozambican Minister of Finance, Rui Baltazar dos Santos Alves, signed the conditions of membership, Mozambique became eligible for the first Mozambican General Debt Rescheduling Agreement with the Paris Club on 25 October 1984.³⁷⁷ There were seven more rescheduling agreements, the last one under the Heavily Indebted Poor Countries Initiative, which allowed the removal of 90 per cent of the country's external debt stock. The "London Club" also rescheduled private debt.³⁷⁸

Thanks to its membership of the World Bank group Mozambique also became a member of the International Bank for Reconstruction and Development, with a share capital of US\$ 93-million and a member of the International Development Agency. Mozambique had 0, 06 per cent of the voting power.

On 23 July 1985, Mozambique received the first International Development Association credit for Economic Rehabilitation to an amount of SDR45.5-million (about US\$-59-million). The second tranche came on 19 June 1993 for economic

³⁷⁵ In mid-1984 Mozambique received the first Economic Adjustment Program, in preparation to the adherence to Bretton Woods's institution. It was a neo-liberal reformist program which the first step was to liberalised the prices of vegetable in 1985. Maleiane, "Reforma do Sistema Financeiro," 142.

³⁷⁶ Mario Machungo interviewed by Gaspar. Napoleão Gaspar, *A Evolução do Sistema Bancário em Moçambique, 1975-1992* (BA dissertation, University Eduardo Monllane, 2000), 50. Abrahamsson and Nilsson, "Mocambique em Transição," 49. Prakash, "A Adesão às Instituições de Bretton Woods e Início das Reformas," 112. Note up and according to Maleiane that were huge external pressures to make the reforms a condition of the country access to concessional financing funds stemmed by multilateral organizations such as the Bretton Woods institutions and Banco Africano do Desenvolvimento, or from unilateral transfers. Maleiane, "Reforma Do Sistema Financeiro," 146.. From the admission the country got to receive periodic missions of coordination to monitor the compliance of the plan and preparation of the Policy Framework Papers (PFP's) was done jointly by the Ministry of Finance and the Banco de Moçambique.

³⁷⁷ This agreement and the subsequent ones defined the general rescheduling criteria that the country had to follow to negotiate bilateral debt. Banco de Moçambique, *Banco de Moçambique:1975-2015 Chronology* (CDI:Maputo, 2015), 68.

³⁷⁸ Banco de Moçambique, *1975-2010:Chronology*, 50-51. Patel, "Adesão Às Instituições de Bretton Woods, 128.

reconstruction.³⁷⁹ These advances formed part of long-term concessional loans to the poorest countries, and were designed to support programs aimed at poverty reduction and rebuilding a sustainable growth path. The loans were meant to finance the reconstruction of the industrial, transport and agricultural sectors.³⁸⁰ The World Bank's assistance to Mozambique was centred on economic rehabilitation projects, institutional reform to strengthen the market economy, and to benefit social reconstruction.

The first Financial Agreement with the IMF of the type SAF (Structural Adjustment Facility) came into operation on 8 June 1987 with SDR28,87-million (about US\$37-million) ³⁸¹, valid until 1990. The second Enhanced Structural Adjustment Facility was to the value of SDR 30, 05-million, valid to 1993 and extended to 1995.³⁸² On 8 September 1987, Mozambique signed the second International Development Association credit for economic rehabilitation. On 16 June 1988, Mozambique benefited from the second General Debt Rescheduling Agreement with the Paris Club. The Third Debt Rescheduling Agreement was signed on 14 June 1990,³⁸³ while the third International Development Association credit for Economic Rehabilitation came on 21 June 1989.³⁸⁴ These concessional loans allowed progressive economic improvement in the context of structural reforms and economic readjustment programs under the ESAF (Enhanced Structural Adjustment Facility) and PRGF (Poverty Reduction and Growth Facility).³⁸⁵

³⁷⁹ Patel, " *Adesão Às Instituições de Bretton Woods*," 127.

³⁸⁰Banco de Moçambique, *1975-2010: Chronology*, 50-51. Patel, " *Adesão Às Instituições de Bretton Woods*," 128.

³⁸¹Patel, " *Adesão Às Instituições de Bretton Woods*," 127.

³⁸² Banco de Moçambique, *1975-2010: Chronology*, 61.

³⁸³ *Ibid*, 56-62.

³⁸⁴ *Ibid*, 57.

³⁸⁵ Patel, " *Adesão Às Instituições de Bretton Woods e o Início das Reformas*," p.129.

4.3 Legislative reform

The Economic and Social Directives of the Fourth *FRELIMO* Congress established the basis for a strategic change in the management of the economy. This included a significant relaxation of the stated economic guidelines, and gave priority to small projects that were vital to the economy. The Congress introduced the Economic Action Plan and the Decree-Law 4/84 on foreign investment, which was designed to attract foreign capital to Mozambique.³⁸⁶ The new law embodied essential changes, as the Minister of Finance, Rui Baltazar, emphasized during his presentation: "...it reflects the spirit of the Economic and Social Guidelines of the Fourth Congress of the *FRELIMO* Party which define the importance of foreign capital in private or mixed capital companies, with priority for those sectors which, by their effect on the substitution of imports or the promotion of exports, provide revenue in foreign currency"³⁸⁷.

Given the new policy directives recommended by the Fourth Congress, the *Banco de Moçambique* also had to adapt its policies. This time the economic aspects took precedence over political matters. Statutory reform of the financial system was a prerequisite for structural reform of the economy. It was also a prerequisite to enable the central bank in particular to modernize the financial sector and to strengthen investors' confidence. The existing financial legislation dated from 1943 and was therefore inadequate.³⁸⁸

The second phase of financial system reform began in 1984, when the government approved the Economic Action Plan to restructure the production that had an impact on the financial system.³⁸⁹ In this period the financial system still operated in terms of the restrictive monetary policy adopted in 1975. This comprised liquidity management based on direct control of credit, prescribed domestic liquid assets

³⁸⁶ Pimpão, "*Cronologia dos Principais Desenvolvimentos da Política Cambial*," 8.

³⁸⁷ *Tempo Magazine*, September 2, 1984, 6-8. *Banco de Moçambique, 1975-2010: Chronology*, 49.

³⁸⁸ Maleiane, "*Reforma Do Sistema Financeiro*," 151.

³⁸⁹ This, according to Maleiane, prepared the accession of Mozambique to the Bretton Woods Institutions. Maleiane, "*Reforma Do Sistema Financeiro*," 14. Interview with Maleiane, Maputo, 23 September, 2014.

ratios, the administrative control of the value of the currency, and a managed rigid exchange rate for the metical.³⁹⁰

In the framework of the legislative reform of credit policy, the Cabinet introduced changes in 1986, to article 5 of Resolution 11/80.³⁹¹ In view of the increasingly commercial function of the central bank, Resolution 10/86 decreed that depositors who held deposits in *meticais* at the Banco de Moçambique could have the same advantages as offered by the commercial banks. Similar interest could now be earned on such deposits as the rest of the financial system. Resolution 10/86 conferred powers on the Minister of Finance and the Governor of the *Banco de Moçambique* to publish new terms, limits and conditions applicable to deposits and credit transactions.³⁹²

To comply with Resolution 10/86, on 2 January 1987, the *Banco de Moçambique* issued Administrative Order no.1/87 as an internal instruction in terms of which the Bank began to remunerate the deposits on call and to accept fixed deposits at all its branches.³⁹³ The central bank thus undertook commercial banking functions and continued to do so until Law 28/91 relating to the credit institutions permitted other financial institutions to perform those functions. The Organic Law of the Central Bank 1/92 that established the separation of the commercial functions banking from *Banco de Moçambique*'s central bank.³⁹⁴

To revitalize the economy by stimulating those sectors earning foreign exchange to increase the flow of foreign currency revenues, the *Banco de Moçambique* approved Administrative Order no 9/84 of 30 April, thus launching the New Foreign Exchange Management System. This permitted companies that generated foreign currency earnings (about 100 companies), to retain consigned funds (*fundos consignados*)

³⁹⁰Maleiane,"*Reforma Do Sistema Financeiro*",147. Pimpão, "*Cronologia dos Principais Desenvolvimentos da Política Cambial*," 6.

³⁹¹ Cabinet Resolution 10/86, December 3, 1986.

³⁹² Banco de Moçambique,*1975-2010: Chronology*,52.

³⁹³-*Ibid*,71.

³⁹⁴-*Ibid*, 86-88.

destined to guarantee the reproduction of its economic cycle. Companies were allowed to retain a percentage of external funds in their accounts to import raw material for production.³⁹⁵

In May 1985 the Council of Ministers accepted policies to partially liberalize prices and salaries, and to allow the free movement of goods in the country. These concessions however, led to smuggled goods appearing on the informal market, "*the candonga*" thus encouraging the production and supply of those goods.³⁹⁶ This was indeed not the intention of government, but was necessary to encourage the flow of foreign exchange into the Mozambican monetary system. Small vendors including farmers began to do business in US dollars while the government set up duty-free-shops, the so-called "*Interfranca*", in an attempt to capture the earnings of workers working in South Africa (miners and technicians). This led to the process of "dollarization"³⁹⁷ and to the non-official currency market, particularly in dollars and rands, given the paucity of external resources in the official market.³⁹⁸ In June 1987, the *Banco de Moçambique* adopted liberalization measures via Administrative Order no. 14/87, which authorized resident nationals to open deposit accounts in foreign currencies so as to clear the financial system of those transactions (in rand and dollars) that were beyond the Bank's control.³⁹⁹ In February 1988 foreign residents

³⁹⁵ Banco de Moçambique, *1975-2010: Chronology*, 49. Prakash "A Adesão às Instituições de Bretton Woods," 105, Patel, "Adesão Às Instituições de Bretton Woods," 127. Pimpão, "A. Cronologia dos Principais Desenvolvimentos da Política Cambial," 7.

³⁹⁶ "Candonga" in Mozambique means informal or parallel market. Mosca, "Economia de Moçambique," 226-227.

³⁹⁷ Felisberto Navalha and Jamal Omar, *Dolarização em Moçambique: Uma primeira abordagem (2000)*, 1-2. In 2000 they were analysts at the Banco de Moçambique's Department of Research and Statistics. In their preliminary analytical paper, Navalha and Omar considered dollarization to be the phenomenon where residents hold assets in foreign currency. This had been the case since 1987 and accelerated from 1990 to 1995.

³⁹⁸ The revenues of the latter came from the savings of pocket money awarded in foreign travel. Mosca, *Economia de Moçambique*, 227. Pimpão designated the phenomenon of "parallel market currency" those transactions that occur outside of the official circuit. Pimpão, "Cronologia dos Principais Desenvolvimentos da Política Cambial," 5.

³⁹⁹ Banco de Moçambique, Administrative Order no 14/87, June 19, 1987. Banco de Moçambique, *1975-2010: Chronology*, 55.

were likewise authorized to open deposit accounts in foreign currencies, thus ending the restrictive policy on foreign currency deposits.⁴⁰⁰

To stimulate savings deposits on call and fixed deposits with monthly and quarterly interest, the *Banco de Moçambique's* Administrative Order no. 18/90, and Order no. 19/90 were approved. Decree no. 2/75 of the Organic Law, laid down the terms and conditions of compulsory deposits.⁴⁰¹

The Fifth Congress of the *FRELIMO* Party in 1989 finally authorised the separation of the central bank functions from the commercial functions of the Bank of Mozambique. This development was followed by providing for the creation of the *Banco Comercial de Moçambique*. This introduced a separation of central bank and commercial bank functions, which signalled the emergence of a liberal financial services industry. The primary legal framework of the reforms was the 1990 Constitution of the Republic of Mozambique. The Constitution declared that the state of Mozambique would adopt a market economy and that the name *Popular Republic of Mozambique* would be changed to the *Republic of Mozambique*.

The Bank of Mozambique's growing commercial banking activities partly detracted from its role as a central bank. This dual function came to an end in 1992 when Law 1/92 defined the nature and objectives of the *Banco de Moçambique* as solely a central and state bank. Decree-Law 3/92 of 27 February 1992 provided for the creation of the *Banco Comercial de Moçambique*. This bank was later privatized.

4.4 Monetary and credit policy reforms

From September 1, 1978, Administrative Order no. 1/REC/78 assigned the exclusive responsibility of foreign exchange transactions to *Banco de Moçambique's* head office. No other banks or their branches were authorized to deal in foreign

⁴⁰⁰ Banco de Moçambique, Administrative Order no 1/88. Banco de Moçambique, 1975-2010: *Chronology*, 56.

⁴⁰¹ Banco de Moçambique, ed. *Banco de Moçambique: 1975-2015: Chronology*, 3rd ed. (Maputo: Centro de Documentação e Informação, 2015), 8-2.

exchange.⁴⁰² As a result from April 1989 the ability to execute foreign exchange transactions were decentralized to the branches and agencies of the central bank.⁴⁰³ On 12 July 1989, by Administrative Order 17/89, the *Banco de Moçambique* abdicated its monopoly of external operations. Henceforth the private *Banco Standard Totta de Moçambique* was also authorized to conduct such foreign exchange transactions.⁴⁰⁴

Apart from the liberalization of the foreign exchange market, the Non-Administrative Allocation of Foreign Exchange System came into force in 1989. This measure ended restricted access by the productive sector to foreign exchange, which included both the state and the private sector. In April 1989 Mozambique joined the Preferential Trade Area of Eastern and Southern Africa and on 7 July a preferential trade agreement with South Africa became effective.⁴⁰⁵

Although there were signs that a market economy was being adopted, the banking structure continued to be dominated by two state banks: the *Banco de Moçambique* and the *Banco Popular de Desenvolvimento*. From 1980 to 1984 the budget deficit was estimated at 14 per cent of GDP, which was financed by external grants and loans, and by domestic credit. These developments stimulated inflation.⁴⁰⁶ The *Banco de Moçambique* continued to support the economy by providing credit, especially to large companies such as *Caminhos de Ferro de Moçambique* as well

⁴⁰² This was the most restrictive period in foreign exchange management, given the conjecture. The central bank had the role of foreign currency manager since the transfer from 21 June, of foreign exchange fund operations to the Banco de Moçambique. This provided for the registration and authorisation of foreign transactions via the BRI's (Bulletin for Import Registration).

⁴⁰³ Banco de Moçambique Administrative Order no. 12/89, April 18, 1989. Banco de Moçambique Administrative Order no. 14/90. Banco de Moçambique, 1975-2010: *Chronology*, 62.

⁴⁰⁴ Banco de Moçambique, 1975-2010: *Chronology*, 57. Pimpão, "Cronologia dos Principais Desenvolvimentos da Política Cambial," 15.

⁴⁰⁵ Food and Agriculture Organization FAO, Global agricultural marketing management, accessed January 26, 2016 <http://www.fao.org/docrep/w5973e/w5973e06.htm>. Pimpão, "Cronologia dos Principais Desenvolvimentos da Política Cambial," 15.

⁴⁰⁶ According to Ratilal the worst period was 1982/1983, particularly the end of 1983 when the external reserves were around US\$ 14 million, covering only a week of imports. Ratilal, "Adesão às Instituições de Bretton Woods," 105.

as to companies operating in the sugar, cotton, tea and tobacco sectors even when there was little prospect of repayment in the short to medium term.⁴⁰⁷

Since domestic credit to finance production was difficult to come by, the government obtained external financial support from multilateral financial institutions. To avoid any negative impact of the entry of foreign funds on monetary policy, the *Banco de Moçambique* agreed with the Ministry of Finance that those funds should be domiciled at the central bank and transferred to borrowers against payment of the equivalent amount in *meticaís* (the counter-value) as a means of “sterilizing” these funds. This had the advantage of a coordinated absorption of these funds in the economy and it allowed the state to clean up the state companies’ debts.⁴⁰⁸

In 1986 government debt amounted to around 83 per cent of total liquid credit granted to the state companies before PRE. The government adopted an “assumed debt program” to repay the state bad debt based on the counter-values paid by the beneficiaries of credits to access to the World Bank's funds.⁴⁰⁹

From 1987 banks acted rationally in accordance with the laws of the market. The central bank began to establish annual credit limits, which were agreed with the IMF. From 1981 to 1983 the average annual credit growth was 28 per cent, but this declined to 17 per cent by 1986.⁴¹⁰ Between 1987 and 1992 this new credit policy led to the reduction in total credit extension to state enterprises, and an increase in credit to private companies, according to the table below.⁴¹¹

⁴⁰⁷ Ratilal, “*Adesão às Instituições de Bretton Woods*,” 104.

⁴⁰⁸ Maleiane, “*Reforma Do Sistema Financeiro*,” 147.

⁴⁰⁹ Silvina Abreu and Alistair Hallan, A. “*Estudo da Procura e Oferta de Crédito em Moçambique(1987-1992)*”, *Banco de Moçambique. Staff Paper 1*(1993) :17.

⁴¹⁰ Banco de Moçambique, *Annual Report* (1986): 19. Gaspar, “*A Evolução do Sistema Bancário*,” 47.

⁴¹¹ Abreu and Hallan, “*A. Estudo da Procura e Oferta de Crédito em Moçambique*,” 23.

Table 6. Extension of credit by sector, in percentages (1987-1992)

Type of company	1987	1988	1989	1990	1991	1992
State-owned	83,5	70,7	57,1	53,9	42,9	35,2
Private	16,5	29,3	42,9	46,1	57,1	64,8
Total	100	100	100	100	100	100

Source: Abreu and Hallan, "A. *Estudo da Procura e Oferta de Crédito em Moçambique*, " 23.

From 1987 to 1992 the state-owned sector credit reduced by 48, 3 per cent, while in the same period the credit to the private sector increased in the same volume. This growth in the volume of credit to the private sector, with a corresponding decrease of credit to the state sector, reflects the change in development policy and strategy which took into account the increasing dynamics of the private sector against the inefficiency of the state companies.

In 1986 the *Banco de Moçambique*'s share of credit to the economy was 79 per cent; that of the *Banco Popular de Desenvolvimento* was 19 per cent; while that of the *Banco Standard Totta de Moçambique* was 3 per cent.⁴¹² The ratio of credit to agriculture and the agro-industry was 51 per cent, for secondary industry 19 per cent, for trade 11 per cent, for transport 10 per cent, and for construction 7 per cent.⁴¹³ Although credit was relatively well controlled along with currency stability, a growing market distortion emerged, due, in part, to larger volumes of external credit and to a dwindling supply of goods to meet growing market demand. In 1986 the debt ratio was around 275 per cent, and inflation rose to three digits despite the

⁴¹² Banco de Moçambique, *Annual Report* (1986): 20.

⁴¹³ Gaspar, "A *Evolução do Sistema Bancário*," 48.

stability of the official value of the currency.⁴¹⁴ Interest rates in the non-official exchange market were 20 to 40 times higher than the official rate.⁴¹⁵

These dynamics of credit extension led the *Banco de Moçambique* to introduce criteria for the restructuring of internal bank debt. Norms for the granting of credit were changed to favour new credits and special lines⁴¹⁶ that were aimed at promoting employment, agriculture and industry, and stimulate exports and investment.⁴¹⁷ Statutory changes such as the revision of Resolution 11/80 previously mentioned, and the *Banco de Moçambique's* new Organic Law 1/92 paved the way for a revision of the credit policy. Decree-Law no. 28/91 of December 31 1991, the Law of Credit Institutions, which was adopted in October 1992, aligned with the New Constitution, to encourage the entry of new operators. It also heralded a new era of private commercial bank operations in a market that until then was virtually a state monopoly. Two new Portuguese banks; the *Banco de Fomento Exterior* and *Banco Português do Atlântico* were allowed to operate in Mozambique.⁴¹⁸

4.4.1. Interest and exchange rate reform

According to Adelino Pimpão, the administrative control of the currency's value and the fixed exchange rate of the metical (both linked to the financing of the Budget deficit) by the *Banco de Moçambique* were important factors that hampered the export trade on the one hand, while on the other hand the increasing demand for scarce foreign currency to pay for essential imports had the effect of hampering liquidity expansion in the economy. It became apparent that introducing flexible monetary and exchange rate policies were a high priority.⁴¹⁹

⁴¹⁴ Patel, "Adesão Às Instituições de Bretton Woods e o Início das Reformas," 127.

⁴¹⁵ Banco de Moçambique, *Annual Report (1986)*.17, Gaspar, "A Evolução do Sistema Bancário," 49, Patel "Adesão Às Instituições de Bretton Woods e o Início das Reformas," 127. Pimpão, "A. Cronologia dos Principais Desenvolvimentos da Política Cambial em Moçambique," 5.

⁴¹⁶Banco de Moçambique, Administrative Order 4/87.

⁴¹⁷Banco de Moçambique, Administrative Order 5/87. Abreu, "O Papel das Taxas de Juro em Programas de Ajustamento Macroeconómico." 30.

⁴¹⁸ Decree-Law 35/92 and 36/92, 27 October 1992.

⁴¹⁹ Pimpão, "Cronologia dos Principais Desenvolvimentos da Política Cambial," 6.

Between 1974 and 1980 the discount rate varied from an average of 5 per cent to 6.5 per cent and dropping to 3 per cent in 1981 at a time when inflation displayed an opposite tendency. In this way the interest rate performed a quasi-fiscal function⁴²⁰ by funding the priority sectors. Meanwhile, the interest rates did not yet indicate the unit cost of money.⁴²¹

The decline in export earnings (due to rising production costs and the non-competitiveness of Mozambican products on foreign markets)⁴²² as well as a growing demand for necessary imports created a greater need for access to international finance. The destabilising civil war was reaching levels that impacted adversely on the successful implementation of the Central State Plan, the basis for a socialist economy.⁴²³ Added to that was the general lack of financial discipline as well as incompetent financial management – factors which cried out for more rigorous financial control on the part of the state and the productive sector. The country's financial situation was chaotic.

To complicate matters, from 1984 several non-governmental organisations (NGOs) to support humanitarian and/or development projects entered the country, but these were not always coordinated or aligned with government efforts to consolidate its control of the economy and to revitalize it.⁴²⁴ These factors prompted the *FRELIMO* party to review its policy and development strategies.

According to Chandavarkar, a major problem that has been identified in virtually all transitional economies is the ineffectiveness of financial infrastructure with special reference to an outdated and inefficient payments system. He considered that this problem was a result of:

⁴²⁰ Fry refers that..."The most fundamental problem of all, concerns the distinction between quasi-fiscal and monetary activities (...) that are generally large and opaque to outside observers. Maxwell Fry, Charles Goodhart and Álvaro Almeida, "The Central Bank and the Government," *in: Central Banking in Developing Countries*, (London, Routledge, 1996), 31.

⁴²¹ Abreu, "O Papel das Taxas de Juro," 23.

⁴²² *Ibid.*

⁴²³ Mario Machungo mentioned by Gaspar. Gaspar, "A evolução do Sistema Bancário," 44. Apart from destructions, from 1985 to 1993 war inhibited the foreign direct investment and external debt increased by 500 per cent from 1984-1992. Mosca, *Economia de Moçambique*, 217.

⁴²⁴ Mosca, *Economia de Moçambique*, 247.

“...an abnormally large size and unpredictable variability of the payments float (...),The float reflects difference in the timing between credits and debits of accounts caused by delays in transmission and in the subsequent registration of entries which are a cumulative result of several factors...”⁴²⁵

These problems arose from the transition from a monopoly bank system to a two-tier banking system.

Although the Portuguese escudo had a nominal circulation in Mozambique until 1980, a possible local currency linkage to the Portuguese monetary authority was never contemplated. From 1975 up to 25 February 1977, the Mozambican escudo was pegged to the Portuguese escudo for calculating foreign exchange rates. Portugal devalued its currency in terms of a structural adjustment program in 1977. For technical reasons the published exchange table in Mozambique was based on information from the *Banco de Portugal*. Mozambique decided to suspend the foreign exchange table from 25 February, 1977. On 4 March, a notice by the *Banco de Moçambique* defined a new basis for fixing the foreign exchange table. Mozambique decided not to devalue the escudo (in 1977) circulating in Mozambique, given the different contexts and policies that prevailed. The *Banco de Moçambique* decided to determine the parity of eight currencies from a basket of currencies that were of direct relevance to Mozambique's in international trade. The devaluation of the Mozambican escudo would have had a negative effect on the economy.⁴²⁶

The Mozambican decision to agree to the IMF and World Bank conditions of membership impacted directly on its foreign exchange policy. Mozambique gradually had to move away from centrally managed exchange rates to market determined exchange rates. From 1989 onwards the exchange rates were calculated based on a set of representative currencies of the country's foreign trade (payments and

⁴²⁵ Chandavarkar, *Central Banking in Developing Countries*,163.

⁴²⁶ Pimpão, "Cronologia dos Principais Desenvolvimentos da Política Cambial," 3. Banco de Moçambique, *1975-2010: Chronology*, 34.

receipts). The calculation of the daily exchange rates would take into account the international daily prices of currencies as quoted by *Banco de Moçambique*.⁴²⁷

With the introduction of the Rehabilitation Economic Program, the management of the exchange rate policy was changed. Exchange-rate adjustments were made in the two-year period 1988-1989 which Pimpão called the “Shock therapy period” (Table 2)⁴²⁸. The aims of that exchange-rate restructuring were: to establish a realistic, flexible exchange rate that was adjusted to the prevailing market liberalization of foreign trade, management of the balance of payments in accordance with the laws of the open market; adjustment of the objectives of internal inflation control; and the necessity of opening the national economy to the foreign market.⁴²⁹ In table 2 below the functioning of the new exchange rate dispensation is illustrated. The significant depreciation explains the reference to ‘shock therapy’.

Table 7 - Depreciation of the metical against the USD in the “shock therapy period”, 1987 -1988

Date	New exchange rate	△Mobile base	△Fixed base
31.01.87	38,28 Mt	-	-
27.06.87	200,00 Mt	422,5	422,5
01.01.88	400,00 Mt	100,0	945,0
05.01.88	450,00 Mt	12,5	1,075,8
01.07.88	580,00 Mt	28,9	1.415,2
15.10.88	620,00 Mt	6,9	1.519,7

Source: Pimpão. “*Cronologia dos Principais Desenvolvimentos da Política Cambial*,” 11.

⁴²⁷ Pimpão, “*Cronologia dos Principais Desenvolvimentos da Política Cambial*”, 3. *Ibid*, 19.

⁴²⁸ *Ibid*, 11. De Sousa considers that this period ran until December 1989. Waldemar de Sousa, “*Contribuição Para Análise do Impacto da Unificação Cambial em Moçambique Março/92 a Março/93*”. *Banco de Moçambique: Staff Paper 2* (1993): 3.

⁴²⁹ Pimpão, “*Cronologia dos Principais Desenvolvimentos da Política Cambial em Moçambique*.” 9.

On January 31, 1987, the metical was delinked from the eight-currency basket. Instead, its value was calculated on the basis of the US dollar, which became the basis currency for calculating the exchange value of the remaining convertible currencies.⁴³⁰ The *écart* between the purchase and sale table was set at 2 per cent. The *Banco de Moçambique* published daily exchange rates of the metical against 20 currencies listed on the forex market, namely: the Danish krone, the Swedish krona, the Japanese yen, the Italian lira, the German mark, the British pound, the French franc, the South African rand, the escudo, the Canadian dollar, and ten other currencies. The successive and progressive devaluations⁴³¹ were followed by the gradual relaxation of state control of foreign trade control, although the government continued to license exports and imports.⁴³² This, however, caused speculation, as traders held back their merchandise in anticipation of timely “sell” positions, thereby taking advantage of currency fluctuations.⁴³³

In Mozambique, the calculation of the exchange rate since December 1, 1989 was based on a select weighted basket of ten currencies most relevant to Mozambique’s external transactions.⁴³⁴ This was facilitated by the growing technical skills of the central bank employees responsible for foreign exchange transactions. The *Banco*

⁴³⁰ Pimpão, "*Cronologia dos Principais Desenvolvimentos da Política Cambial*," 10. The Marshall Plan after the Second World War caused the US dollar to strengthen, and it became the accepted currency for transactions worldwide. The “dollar gold standard” came about particularly after the Bretton Woods conference in 1946. Prakash, "*A Adesão às Instituições de Bretton Woods*," 94.

⁴³¹The devaluations increased the cost of imports which raised the domestic cost of living, but stimulated the production of goods for export. Pimpão, "*Cronologia dos Principais Desenvolvimentos da Política Cambial*," 18.

⁴³² In terms of the easing of the exchange-rate policy, Prakash points out that the flexible exchange rate was adopted by the world’s major economies after the demonetization of the official gold price, proclaimed in August 1971 by US President Richard Nixon in defense of the US dollar, which led to the end of the dollar/gold standard. Prakash, "*A Adesão às Instituições de Bretton Woods*," 95.

⁴³³ Pimpão, "*Cronologia dos Principais Desenvolvimentos da Política Cambial*," 12.

⁴³⁴*Banco de Moçambique, 1975-2010: Chronology*, 56. Pimpão, "*Cronologia dos Principais Desenvolvimentos da Política Cambial*," 15.

de Moçambique had previously published three bulletins of exchange rates,⁴³⁵ but later published a single table of 20 currencies, namely:

Danish krone, Canadian dollar, Dutch guilder, Belgian franc, French franc, Swiss franc, Japanese yen, Norwegian krone, Zimbabwean dollar, Swedish krona, Portuguese escudo, Malawian kwacha, Zambian kwacha, British pound, Italian lira, German mark, Finnish markka, Spanish peseta, South African rand and Austrian schilling.⁴³⁶

Neither the purchases nor the sales of foreign currency were subsidized, and was tax free. The 'shock therapy period' was followed by monthly mini-devaluations in an attempted to mitigate the adverse effects of the first phase (shock therapy), from January 1989 to September 1990, i.e., the period of the "Crawling Peg".⁴³⁷ This was the second phase of the interest-rate adjustment, to promote the liberalization of the forex market combined with the flexible foreign exchange allocation limits. The objective was to minimize government intervention in the allocation of funds for imports of raw-materials for the textile and footwear industry, spare parts for transport, etc.

On 18 September 1990, Decree 20/90 formalized the secondary foreign exchange market to achieve exchange rate stability, in conjunction with other macroeconomic policies (monetary, trade and credit, and fiscal policies). The state wanted to reduce the pressure on the foreign exchange market given the volume of transactions conducted. This step was to provide the market with an additional mechanism for the allocation and reallocation of scarce resources within the new legal and structural reorganization of the financial system environment.⁴³⁸

⁴³⁵One to be practiced by central bank to the credit Institutions, the second for the credit Institutions to the public and the third one for the credit Institutions to money changers.

⁴³⁶ Pimpão, "*Cronologia dos Principais Desenvolvimentos da Política Cambial*," 11.

⁴³⁷For de Sousa this period went to August 1991. De Sousa, "*Contribuição Para Análise do Impacto da Unificação Cambial*," 3. Pimpão, "*Cronologia dos Principais Desenvolvimentos da Política Cambial*," 14.

⁴³⁸ Pimpão, "*Cronologias Principais Desenvolvimentos da Política Cambial*," 20-24. De Sousa "*Contribuição Para Análise do Impacto da Unificação Cambial*," 2.

In accordance with article 2 of Decree 20/90, "It is the responsibility of the *Banco de Moçambique*, in its capacity of Central Bank, to authorize, supervise and examine the activities of the Secondary Foreign Exchange Market." The *Banco de Moçambique* would not interfere with rates that were negotiated by the parties, but would merely provide the average buying and selling rate at the close of the preceding business day. This would serve as a reference rate. In terms of the law, the following currencies were transacted: the US dollar, British pound, German mark, French franc, Swiss franc, Portuguese escudo and South African rand.⁴³⁹

From September 1991 the Central Bank introduced a *Daily Crawling Peg* which took into account the official market exchange rate, equivalent to 78 per cent (the corresponding averages for August 1991) of the secondary market exchange rate aiming at the unification of official and secondary market exchange rates.⁴⁴⁰

The unification of the secondary and the official market exchange rate commenced in April 1992. By Decree 25/92 the regulation of secondary exchange markets was approved, revoking Decrees 20/90 and 15/91. The *Banco de Moçambique's* exchange-rate calculation was thereafter based on the average costs of its foreign operations.⁴⁴¹

The flow of international aid on concessional terms (grants and loans) to the country increased from US\$ 500-million in 1986 to US\$ 700-million in 1990. The percentage of donations in the same period increased from 43 per cent to 64 per cent. This narrowed the deficit of the Balance of Current Transactions from 26 per cent of GNP in 1987 to 22 per cent of GNP in 1991.⁴⁴²

According to S. Abreu, the monetary policy of the period 1974-1980 was characterized by fixed interest rates for long periods (on average of one year or

⁴³⁹ Banco de Moçambique, *1975-2010: Chronology*, 63. Pimpão, "Cronologia dos Principais Desenvolvimentos da Política Cambial," 21.

⁴⁴⁰ De Sousa, "Contribuição Para Análise do Impacto da Unificação Cambial," 3. Pimpão, "Cronologia dos Principais Desenvolvimentos da Política Cambial," 24.

⁴⁴¹ Banco de Moçambique, *1975-2010: Chronology*, 70-71.

⁴⁴² Abrahamsson and Nilsson, *Mocambique em Transição*, 64.

more.⁴⁴³ Since 1981 to 1988 interest-rates were gradually adjusted to stimulate production in priority sectors. Economic reforms introduced under the Economic Rehabilitation Program impacted directly on the interest-rate management. From January 1989 to March 1992, the monetary-policy entered a new cycle of successive interest-rates adjustments, and of changes in the structure and level of rates.⁴⁴⁴ Theoretically, these adjustments attempted to reduce structural and conjectural market distortions. The result was a reduction of their differential to inflation, a gradual simplification of the interest rates tables, boosting simplification with perspective of further unification. This reform had also the objective of obtaining positive interest rates in real terms and to reduce pressure on domestic credit.⁴⁴⁵

4.5. The institutional and managerial reforms

With economic reforms between 1977 and 1992, the Banco de Moçambique had to introduce managerial and policy reforms to establish an appropriate financial management system.

The Governor of the bank changed in the course of time, Sergio Vieira, was the second *Banco de Moçambique* Governor between 22 April 1978 and 28 December 1981 (his predecessor Alberto Cassimo had a short term during which the *Banco Nacional Ultramarino* organic structure was still operating.) Vieira prioritized the training of staff, from all provinces of the country, between 1978 and 1979. The German Democratic Republic provided professional support for the training program. After their training, staff were assigned as central bank delegates to state companies to assist with the financial management in order to safeguard the Bank's interests.⁴⁴⁶

⁴⁴³ Portuguese colonial ordinance no. 35 and 36/1974.

⁴⁴⁴ S. Abreu, "*O Papel das Taxas de Juro*," 18. Maleiane describes three different stages of fixed rates in the period, namely; 1974-1980, fixed rates at long duration (6 rates for active operations and 8 for passive operations; 1981-1986, fixed rates by activity sectors, calculated based on form of ownership and finality (56 Rates); 1987- 1992, fixed rates and gradual corrections by activity sectors priority. Maleiane, "*Reforma Do Sistema Financeiro*,"150.

⁴⁴⁵ S. Abreu, "*O Papel das Taxas de Juro*," 18-28. Banco de Moçambique, *1975-2010: Chronology*, 57.

⁴⁴⁶ Interview with Francisco Chiconela, Maputo, June 2, 2015.

From the central bank's early years until 1984, the Governor was a full member of the Council of Ministers.⁴⁴⁷ Sergio Vieira was designated Minister-Governor, but this dual position undermined the institution's autonomy. At the same that he had to drive monetary and credit policy and meet the priorities of the Central State Plan.⁴⁴⁸ In this period (1978-1984) the *Banco de Moçambique* could not align its monetary and credit policies with macroeconomic indicators, as it had paid heed to the government's political priorities. This undermined its institutional autonomy.⁴⁴⁹

Sergio Vieira's called a board meeting (1978) to establish rules for the functioning of the Bank. The Portuguese members wished to resign, and this was promptly accepted. The Governor immediately appointed Mozambican staff to replace those employees who were leaving the bank and the country.⁴⁵⁰

A disciplinary board, directly responsible to the board of directors, was created in terms of President Machel's guidelines for a credible Mozambican financial system.⁴⁵¹ The main goals were: to establish an instrument of national development and to create a national currency by 1980.

One of the President's recommendations concerned a dress code. He recommend to Vieira never to go to the bank in "*balalaika*", which is what *FRELIMO*'s members usually wore, but to be attired in a "suit and tie."⁴⁵² At that time employees would go to work in sandals, T-shirts and other casual clothes. It was Governor Vieira who laid

⁴⁴⁷ Sergio Vieira was the only governor with this double function expressed formal and officially, at a time when the government had the monopoly management.

⁴⁴⁸ Maleiane states that in these circumstances the state had to repay USD90 million of loans granted to state enterprises, Maleiane, "*Moçambique: As Etapas da Programação de Crédito*," 3.

⁴⁴⁹ *Ibid.* Mosca explains that the Plan was to replace the role of the market in balancing the demand and supply of goods and services, and for management of currency and price stability. Mosca. "*Economia de Moçambique*". <http://www.saber.ac.mz/bitstream/10857/2019/1/A%20Politica%20Econ%C3%B3mica%20do%20Socialismo.pdf> 20.3.2014

⁴⁵¹ Banco de Moçambique, *1975-2010: Chronology*, 38. Banco de Moçambique Administrative Order 8/78, May 19. It was the legal basis for the creation of banking deontology, what came to make the central bank a distinct institution up to the present day.

⁴⁵² Vieira. "*A Moçambicanização da Banca e a Criação da Moeda Nacional*," 46.

down staff members' formal dress code and ethical attitudes that are still in force today.⁴⁵³

Since its constitution, the bank's central organs of management were; the Cabinet, with a Governor appointed by the President of the Republic assisted by the Deputy-Governor; a Board of Directors with a maximum of 8 members, chaired by the Governor who has a casting vote, Deputy-Governador and Head of Department appointed by the Prime Minister . The bank also has a Board of Auditors chaired by a president designated by the Council of Ministers. The vertical integrated structure was a pyramid structure that meant that each structural unit presided over an immediately lower level of structure and consisted of a department lead by a Director, service, section and sector. The number and level of structural units varied over time according to the needs of monetary, credit and exchange rate management reform. An organic change in the structure was introduced on 29 April 1981 with the creation of the Foreign Accounting Administration to give effect to *Banco de Moçambique's* Administrative Order 3/81.⁴⁵⁴

In its early years the top managers were given three to five-year mandates. On 28 December 1981, in terms of Presidential Decree 18/81, Prakash Ratilal was appointed Governor of the Bank.⁴⁵⁵ He had graduated as a licentiate in Economics from the Institute of Economic and Finance Science of Lisbon in 1974. From 1978 to 1980, he was *Banco de Moçambique's* Deputy Governor. Before that he had been chairman of the *Montepio de Moçambique* (bank), and from 1977 to 1979 he was General Director of *Empresa Moçambicana de Seguros* (insurance company). His mandate ended on 24 April, 1986. It was with his tenure that the Governors' term was determined to last five years.

Decree 58/86, 24 April 1986, appointed Eneas da Conceição Comiche the fourth central bank Governor from 24, April 1986 to 24, July, 1991. He had graduated in Economics at the Faculty of Economics of Oporto University in 1969. From 1970 to

⁴⁵³ Testimony of the author as a bank staff at that time.

⁴⁵⁴ Banco de Moçambique, *1975-2010: Chronology*,44.

⁴⁵⁵ *Ibid* 44-45.

1975 he was a lecturer in the Faculty of Economics of *Universidade de Lourenço Marques* (now *Universidade Eduardo Mondlane in Maputo*). He also collaborated with the *Instituto de Credito de Moçambique* from 1970, of which he became chairman from 1975 to 1977.⁴⁵⁶

In May 23, 1987, Comiche proceed with the central organic structural and management system reform, in order to separate the central bank functions from commercial bank functions to reflect the Economic Readjustment Program.⁴⁵⁷ In effecting this functional separation, different departments were established in the bank to focus on central bank functions. The new departments were the following: Planning and Economic Research, International Relations, Personnel Department and the Banking System and Supervision Department (this department had the functions of guiding, monitoring and controlling the operations of the participants within the financial system, such as financial companies, stock exchanges and others). The Foreign Exchange and Credit Departments focused on commercial bank functions.⁴⁵⁸

Appointed by Presidential Decree 36/91, Adriano Afonso Maleiane was the fifth Governor of the Bank. His term began on 24 July 1991 and it lasted for three terms until 2006. Admitted in the extinct *Casa Bancária de Moçambique* (Banking House) in 1973 he moved to *Banco Comercial de Angola* in 1974 and to the *Banco de Moçambique* in 1977. He accumulated experience in different positions as Head of Department, Executive Director, Deputy Governor and then Governor.

After 15 years as central bank Governor, Adriano Maleiane was succeeded by Ernesto Gouveia Gove, his former Deputy Governor. Gove was appointed Governor on 25 July 2006. He continued the policy of implementing institutional reforms and growing the bank. Gove started working at the central bank in 1976. He graduated in Economics at the Eduardo Mondlane University in 1989, and completed a Master's

⁴⁵⁶ Banco de Moçambique, *1975-2010: Chronology*, 51-52.

⁴⁵⁷ Banco de Moçambique, Administrative Order 6/87.

⁴⁵⁸ Banco de Moçambique Administrative Orders 14/91 and 16/91 for central bank functions, 17/91 and 18/91 for the Banco de Moçambique's commercial functions. Banco de Moçambique, *1975-2010: Chronology*, 65. Firmino Santos, "Supervisão do Sistema Financeiro," *Banco de Moçambique, Histórias Vividas* (2010):157-158.

degree in Financial Economics from the University of London. Gove had worked in various positions in different departments. Co-operating with a World Bank team, he participated in the financial system reforms which led to the publishing of *the Financial System Report* in 1992. In 1991 he was appointed member of the board. The President of Mozambique decided to strengthen the Bank's board of directors by appointing Antonio Pinto de Abreu as Deputy Governor on 9 December 2010.

De Abreu holds a Bachelor's degree in Economics from the Eduardo Mondlane University and a Master's degree in Financial Economy from the School of Oriental and Africa Studies in London. He was a Bank board member and from 1996 De Abreu participated in negotiations with the World Bank Group and the International Monetary Fund since 1990, and specifically in those discussions that led to the structural reforms of 2000 to 2005 when he led the Bank's technical team. He also participated in the monetary, financial and exchange programmes agreed with IMF from 1995 to 2006.

With the introduction of the Economic Rehabilitation Program there was a need for the *Banco de Moçambique* to set up a technical organ to specialize in the preparation, negotiation and implementation of rehabilitation programmes and to implement the reforms required by the IMF and World Bank. To comply with these objectives, the former *Banco de Moçambique's* Directorate of Economic Studies and the Statistics Directorate merged in 1989, to become the *Banco de Moçambique's* Department of Economic Studies and Statistics. Training the human resources was a priority. In 1987 it was decided to set up an Information and Documentation Centre from the residual *Banco Nacional Ultramarino* Library, to give support to the bank employees. This project was to improve the technical skills of the employees and the financial sector and the funds were applied in the Ministry of Finance and in the *Banco de Mocambique*.

The work of the new Information and Documentation Centre went beyond the library's documentation services, and included information analyses and the provision of graphic arts services. It also coordinated communication to the public

and the media. The custody of the historical documents of the bank, with the integration of Archive service formed part of the project.⁴⁵⁹

Focusing on transparent management and accountability, the *Banco de Moçambique* published periodicals with leading articles on analyses and research, in particular the *Annual Report*, the *Statistical Bulletin*, the *Prices and Financial Conjecture*, the *Staff Paper*, the *Occasional Paper* and other titles. The central bank published an "*Annual Financial Report*" since its formation, and this publication was improved substantially in form and in content from the 1980s.⁴⁶⁰ Since 1989 the central bank commenced with business automation and the implementation of IT systems, with a strong emphasis on commercial bank functions.⁴⁶¹ The Legal Department, which formerly focused on litigation issues with customers, became instrumental in the drafting of bank legislation.

The admission of more players in the financial system was a challenge to the Bank. The organic structure and the Organizational Procedures Manual were revised to confirm the separation of the Bank's commercial bank functions from its central bank functions, and to authorize the appointment of relevant managers.

Internally, a new staff policy was approved and implemented. It affirmed that workers' rights and obligations were governed by the labour law and internal norms, and was aimed at improving the performance of the Bank's employees, and guarantee employment satisfaction in the service of the Bank.⁴⁶²

⁴⁵⁹ The author participated in the design and implementation of the project Documentation and Information Centre.

⁴⁶⁰ Despite the difficult working conditions performance in accordance with IMF requirements were possible due to the contribution of other units of the bank. In addition it was close collaboration with the technical group formed for the monetary policy formulation which included the National Planning Commission, NPC, Ministry of Finance and Ministry of Commerce. José Viola. "*Desafios na Implementação do Programa de Reformas acordadas Com as Instituições de Bretton Woods*," in: *Banco de Moçambique Histórias Vividas* (2010):133-134.

⁴⁶¹ Paulo Maculuve, *Outsourcing em Projectos de Desenvolvimento de Sistemas de Informação: Conceito, Princípios e Opinião- A Experiência do Banco de Moçambique* (Maputo,2000), 37-38.

⁴⁶² Banco de Moçambique, Administrative Order no. 14/89 and later Administrative Order no 8/91, in accordance with the structural reforms.

Institutional and organisational restructuring of the central bank functions introduced the oversight functions of the entire banking system. Since the central bank terminated its commercial banking operations, it oversaw and regulated the operations of new commercial banks. One aspect of this regulation was to determine capital of institutions.

By Administrative Order no. 01/92 of January 27 1992, the Bank changed the rate of mandatory reserves of bank liabilities from 18 per cent to 25 per cent. The minimum-value of capital to be held by credit institutions was defined by *Banco de Moçambique's* Notice 2/GGBM/92. Although being a flexible amount, calculated in the base of a percentage of average deposits balance of commercial banks in certain interval of time, in December 1998 the reserves capital requirements was 943.000, 00 mts, the equivalent to U\$D 20.000,00 At actual rate.

With the Money market development and the monetary policy reforms the "Bank" created the Market Department in 2001 for monetary policy instruments and mandatory reserves management, centralise and manage credit risk data. This department had to guarantee the adequate "Bank " intervention in the interbank market, trough researches and specialized interbank market analyses, in order to formulate, in coordination with the Department of Economic Research and Statistics, appropriate monetary policies evaluating its impact.

4.6 The impact of the Economic Rehabilitation Program

Mozambique's membership of the Bretton Woods Institutions had a significant impact on the economy. The Mozambican government had to reconsider its economic policies. In January 1987 the government discussed the Economic Rehabilitation Program⁴⁶³, and obtained the approval of the World Bank and the IMF for its implementation.

In 1990, when a social component was included, as a result of the 1989 inter-ministerial appraisal of the impact of the adjustment program on poverty, it was

⁴⁶³ Through one of its departments (the Administration of International Relations) the Central Bank participated in the negotiations with the IMF.

concluded that 60 per cent of Mozambican people lived in absolute poverty. This confirmed the need for a social dimension of adjustment to minimize the side effects of the program to the vulnerable population,⁴⁶⁴ the name was changed to the Economic and Social Rehabilitation Program, *PRES*-acronym in Portuguese. This program aimed to reverse the negative growth trends and re-establish a macroeconomic environment of positive growth, to reduce the internal financial imbalance, to ensure minimum income and a minimum level of consumption for rural populations, to reduce the budget deficit, to ensure macroeconomic equilibrium and to ensure the strengthening of the balance of payments transactions and break the diplomatic blockade that prevented access to external financing by multilateral credit institutions and bilateral co-operation with Western countries ⁴⁶⁵

The main objectives of the Economic and Social Rehabilitation Program were the liberalization of the economy and to steer it towards equilibrium of supply and demand, and price stability. Under the program, domestic and foreign private investment was to be mobilized.⁴⁶⁶ To achieve these objectives, policy reforms in key economic sectors, as well as reforms in monetary, financial, fiscal and credit policies, were implemented to absorb excess liquidity to liberalize trade and prices to restructure large state enterprises by resizing them and introducing an emphasis on profitability. Further reforms included the reduction of government spending by making cuts in subsidies to companies to improve the collection of taxes, and to have the state benefit from foreign currency flows of international aid.⁴⁶⁷

⁴⁶⁴ Maleiane, "*Reforma do Sistema Financeiro*," 142. Oppenheimer refers to a report about poverty in Mozambique, coordinated by Prof. Reginald Green, the "Green Report". Jachen Oppenheimer, *Pobreza no Contexto de Ajustamento Estrutural- A Situação Urbana de Moçambique*, accessed January 25, 2016 <http://ler.letras.up.pt/uploads/ficheiros/7025.pdf>.

⁴⁶⁵ Abrahamsson and Nilsson, "*Mocambique em Transição*," 49. Mosca, "*Economia de Moçambique*," 309-320.

⁴⁶⁶ Abrahamsson and Nilsson, *Mocambique em Transição*, 50.

⁴⁶⁷ Patel, "*Adesão Às Instituições de Bretton Woods e o Início das Reformas*," 128-129. Abrahamsson and Nilsson, *Moçambique em Transição*, 49-50.

The introduction of these measures enabled the accumulation of international reserves. In 1990 these were sufficient to cover two months of imports, as opposed to the reserves level at the end of 1983 that covered only one week of imports.⁴⁶⁸

The implementation of the Economic Rehabilitation Program (from 1987) arrested the sharp drop in production that had been recorded between 1983 and 1986. From 1987 Mozambique gradually returned to record positive growth.⁴⁶⁹ However, negative levels were recorded for 1990/91.⁴⁷⁰ In January 1987 the Bank devalued the national currency by 80 per cent against the level of 1 US dollar to 200 meticaís.⁴⁷¹

Table 8 below illustrates the performance of the Mozambican economy after the introduction of market orientated policies.

Table 8 – Production development and growth rates, 1985-1991 (per cent)

	1985	1986	1987	1988	1989	1990	1991
GNP GROWTH (per cent)	-7,2	1,1	3,8	5,5	5,1	-1,3	-0,2
Agriculture	0,8	-0,6	7,0	7,2	4,0	1,1	1,9
Industry	-18,6	-4,3	8,9	7,5	6,8	-9,6	-5,6
Construction	-4,4	44,5	-16,0	0,1	3,0	1,5	3,0
Transport and communication	-11,8	1,7	-9,8	6,2	10,2	0,5	-2,3
Commerce and Services	-6,8	-0,7	3,5	4,5	4,0	2,5	2,0
GNP growth per capita (per cent)	-11,2	-1,7	1,9	2,8	1,7	-1,3	-1,8

Source: Abramsson and Nilsson, *Moçambique em Transição*, 51.

⁴⁶⁸ Patel, "Adesão Às Instituições de Bretton Woods e o Início das Reformas," 129.

⁴⁶⁹ Ibid, 129.

⁴⁷⁰ Abramsson and Nilsson, *Mocambique em Transição*, 51, 56.

The improvement in agricultural production was the result of the privatization of state farms.⁴⁷² The neglect of family agriculture and the co-operative sector was raised as a major issue, while the over-concentration of financial resources and investment in the large public-sector projects was reviewed. These projects were divided up into small private units that were geared towards producing people's basic needs, in parallel with the liberalization of prices of agricultural products.

The impact of war and drought in 1992 led to further decrease in production volumes. Shortly after the first year of the introduction of the Economic Rehabilitation Program, industrial production grew by around 9 per cent until 1989 and then fell 9.7 per cent in 1990, partly due to foreign competition, particularly from South African companies in view of the weak competitiveness of Mozambican products.⁴⁷³

On the other hand, the lower levels of local production of raw materials required by industry and agriculture led to rising imports of such materials without, however, an expected increase in exports.⁴⁷⁴ A deficit in the current account subsequently followed, which, excluding international aid, raised from 47 per cent of GNP in 1987 to 58 per cent of GNP in 1990.

During the debt negotiations, some creditors granted full or partial debt pardoning. In 1991 Mozambique paid off 64 per cent of the commercial debt with the credits from the Association for International Development AID, thereby reducing the debt ratio from 146 per cent to 42 per cent in 1991. For this reason and to ensure the continuation of the Economic Rehabilitation Program, the flow of international aid was increased on concessional lines from US\$500-million in 1986 to US\$700-million in 1990. It was thanks to this co-operation that the deficit in the current account balance shrank from 26 per cent of GNP in 1987 to 22 per cent in 1991.⁴⁷⁵

⁴⁷²Wuyts, *Money and Planning for Socialist transition*, 67-68.

⁴⁷³Abrahamsson and Nilsson, *Mocambique em Transição*, 53.

⁴⁷⁴Exports registered a decrease of about 75 per cent in the first half of the 1980s. Patel, "Adesão Às Instituições de Bretton Woods," 127.

⁴⁷⁵Abrahamsson and Nilsson, *Mocambique em Transição*, 60-64. Patel, "Adesão Às Instituições de Bretton Woods," 128.

In practice, the entry of counter-values against international aid had the effect of reducing the budget deficit and, combined with fewer state loans. This led to a drastic reduction in the inflation rate from 167 per cent in 1987 to 40 per cent by 1989, but once again in 1990 the inflation rose to 90 per cent due to a lack of food production in the market and the end of oil subsidies by the Soviet Union. In 1991 the inflation rate decreased to 34 per cent.⁴⁷⁶ The government reduced its deficit registered on financing the state companies.

State revenues increased from 13 per cent of GNP in 1985 to 22 per cent in 1990, boosted by improved tax revenue and the inflow of foreign aid. This was despite rising government expenditure by about 21 per cent of GNP in 1985 to 50 per cent in 1990, when funds were channelled towards rebuilding destroyed infrastructure. From 1985 to 1990 the investment budget rose by 45 per cent and the budget for agricultural development rose by 4 per cent, the budget for investment in infrastructure increased from 9 to 16 per cent. Private investment rose to 15-20 per cent of GNP. The budget deficit rose from 8 per cent in 1985 to 30 per cent of GNP in 1990. The deficit was mainly funded by international donors reducing the real deficit and inflation.⁴⁷⁷

Since independence the *Banco de Moçambique* was the custodian of 95 per cent of the country's financial resources. The central bank reduced the amount of funding of the national budget and removed the credit to all unprofitable state enterprises. The size of the grants was based on analyses of their profitability.⁴⁷⁸ The development of small and medium enterprises was afforded priority through the streamlining of the procedures for the Bank's participation in small and medium development projects.⁴⁷⁹

Apart from the separation of the central bank from its former commercial bank functions and the creation of a new commercial bank (where the state held 80 per cent of share capital while 20 per cent reserved for staff) a new program under the

⁴⁷⁶ Patel, "*Adesão Às Instituições de Bretton Woods*," 128.

⁴⁷⁷ Abrahamsson and Nilsson, *Mocambique em Transição*, 60-61.

⁴⁷⁸ *Ibid*, 62.

⁴⁷⁹ Banco de Moçambique, Administrative Orders 4/90 and 5/90.

“Guidelines for Financial System Reform” was envisaged. This reform system included: the consolidation of central bank external auditing, creation of new commercial banks the reform of the insurance sector the separation of the *Banco Popular de Desenvolvimento* commercial functions from its savings functions and the statutory reform to ensure the flexibility of financial operators in the system.

The liberalization of interest and exchange rates were gradually framed upon the list of reform measures in order to make the transition from the mechanisms of direct to indirect control. The liberalization of the foreign exchange market strengthened the commercial banks’ foreign operations. These banks were later permitted to grant loans in foreign currency.

The Economic Rehabilitation Program, adopted in 1987, sought the liberalization of all sectors of the economy, thus its implementation had far reaching implications for the entire economy. It was in this context that the central bank adopted monetary and exchange policy and credit control reforms in 1987. The legislative reform of 1991 on the regulation of the financial system and the subsequent restructuring of the central bank created the supervision department, which granted greater control of the financial system. It was a critical factor for the consolidation and specialization of the Bank of Mozambique as central bank.

The opening up of foreign exchange trading granted operators’ greater autonomy, the creation of a secondary market for foreign exchange and subsequent integration into the official market, and the separation of the central bank from its commercial bank functions in 1992 were some of the major reforms in the context of PRE. These reforms brought about an important reduction of state monopoly in the financial sector and the liberalization of financial intermediation. Financial system modernization secured better functioning in the market and secured enhanced openness to international financial markets. The following chapter will analyse the consolidation of reforms and the subsequent consolidation of the central bank

Chapter 5: CONSOLIDATION OF A CENTRAL BANK (1992-2010)

The Banco de Moçambique is the central bank of the Republic of Mozambique.⁴⁸⁰

Advisers advise, ministers decide policy⁴⁸¹

5.1 The evolution of reforms from 1992 to 2010

The period under review in this chapter was characterized by the rapid evolution and consolidation of the Banco de Moçambique as a central bank. The separation of functions in 1992 was intended to enhance the central bank's expertise and improve the quality of its services. In the financial sector the period 1992 to 2010 was a most progressive period since many important reforms were brought about. These included reforms in monetary and credit policies and in the area of foreign exchange with the purpose a greater liberalisation and a dynamic market. It was during this period that the bank adopted an integrated technology program to improve working processes and modernization of the management by adoption of a triennial strategic planning. These reforms were supported by legislative enactments and regulatory provisions, and all these measures, taken together, created a new, dynamic institution with a streamlined infrastructure and staffed with qualified officials, where previously these had been lacking. These reforms had its place as a counterpart to the economic rehabilitation program and according to the condition of structural adjustment management defined by the Bretton Woods institutions.

⁴⁸⁰ Decree-Law 1/92, January 03, 1992.

⁴⁸¹ Margaret Thatcher, cited by A. Chandavarkar, *Central Banking in Developing Countries*, (London: Macmillan Press, 1996),140-142.

5.2 General macroeconomic environment

Mozambique embarked on the transition from a centrally planned economy to a market-orientated economy after the implementation since 1987, of a program of structural adjustment, with World Bank support. Prior to these reforms a number of factors inhibited the economic reform programme. These factors include the recurrence of civil war, the destruction of infrastructure such as schools, the rural commercial network, railways, roads, factories, equipment and thousands of lives. During the period of structural adjustment, between 1985 and 1990 state revenue rose by 13per cent in 1985 to an increase of 22per cent in 1990. State expenditure also rose by 21per cent in 1985 and by 50per cent in 1990 – primarily as a result of state expenditure on the reconstruction of infrastructure. The adverse impact of the war delayed a positive outcome of the recovery program in the short term. The economic crisis and balance of payments detracts were prolonged. Food aid was delayed. By 1992 Mozambique held the 146th position on the UNDP Human Development index.⁴⁸²

The supplementation of the economic reconstruction plan (PRE) from 1992 sought to bring about political changes where the economic crisis was deepening and the implementation of a development model placed under immense stress.⁴⁸³ The costs of war rose consistently and domestic production increased only marginally. Destroyed infrastructure hampered the supply of food and other aid and contributed to the displacement of the population. This displacement was exacerbated by a persistent drought.⁴⁸⁴ Mozambique became increasingly dependent on foreign aid, especially food aid. Cereal imports made up 58per cent of food aid in 1985, but rose to 75per cent in 1992. A total of 644 tons of equipment was supplied as part of foreign aid. In 1986 foreign donations comprised 19per cent of the funding of the deficit, but rose to 64per cent in 1990.⁴⁸⁵ Weak economic conditions led to higher unemployment and social inequality. Vulnerable people were unable to buy bare necessities through the GOAM-system.

⁴⁸² João Mosca, *Economia de Moçambique: Século XX* (Lisboa: Instituto Piaget, 2005), 343.

⁴⁸³ Mosca, *Economia de Moçambique*, 340.

⁴⁸⁴ Abrahamsson and Nilsson, *Moçambique em Transição*, 280.

⁴⁸⁵ Mosca, *Economia de Moçambique*, 343.

The state started with a program of privatisation in 1990 as part of the World Bank Structural Adjustment program. Under structural adjustment 506 of 670 state-owned enterprises were privatised and 106 joint-ventures were set up and 64 exploration concessions granted. It was in this privatisation drive that mega-projects such as Mozal was established. South African interests comprised 70per cent of the investment capital, followed by investment from Portugal and the United Kingdom.

With a legacy of inexperience in a market economy not all privatisation exercises were successful. Privatisation of cashew production led to an almost collapse of production processing and export of cashew nuts and cashew products. The cashew exports comprised 21.3per cent of total exports in 1974 which was 60per cent of world production.⁴⁸⁶ By the early 1990's cashew production had almost grinded to a halt.

In October 1992 the Agreement of Rome was signed. This agreement ended the Mozambican civil war and opened the opportunity to consolidate development programs and stabilize economic expectations. Economic recovery started slowly after the war. The liberalisation of markets increased the supply of food aid, clothing and other humanitarian aid. The recovery of the rural commercial workforce and of displaced people contributed to the resumption of agricultural production.⁴⁸⁷

By the beginning of 2000 the Mozambican economy was in forthright recovery. The 2000 rate of inflation of 22.3per cent dropped to 13.8per cent in 2003 and 9.1per cent in 2004. Good performance in the agricultural sector, transport, communications, and the impact of Mozal II (and aluminium plant in Matola) and Sasol's gas-to-liquid plant were responsible for the recovery.

5.3 Human resources management

Critical to the successful implementation of reforms in the central bank was the human factor. The human capital in financial systems plays a role that is seldom fully recognized or even acknowledged. After all, the efficiency of any financial

⁴⁸⁶ Mosca, *Economia de Moçambique* 370.

⁴⁸⁷ *Ibid* 405.

institution's infrastructure depends on its professional, well-trained financial personnel. Their performance and dedication will determine the success or otherwise of the institution.

In the period of the Banco de Moçambique, the country itself had an appallingly high percentage of untrained, unskilled employees at both basic and advanced skills levels. It soon became the new central bank's strategy to promote and offer the necessary technical and conventional education, and to ensure staff retention as far as possible.

The role of human capital has been largely neglected in the literature. The 1989 World Bank Development Report highlights the importance of "good compensation and careers" without specifically referring to the problem of the financial personnel. This subject has been neglected in the discussion of the roots of the problem in the financial system⁴⁸⁸The report noted that developing countries have a propensity to admit candidates with PhDs or MBAs instead of with intermediate skills; skills that are essential guarantors of technical and administrative functions. In the financial sphere, the goal is better performance, rather than developing a pyramidal personnel structure. The question is how an extended system can produce competent staff at all levels of activities, including intermediate subalterns.⁴⁸⁹

Banco de Moçambique employed very few technically qualified people, or staff with any secondary or higher education. The first step was the opening of a secondary school for central bank staff, in the night shift, given the paucity of technicians with basic degree. In the beginning of the 1980's under supervision of the Commercial School, the bank provided technical training for its staff. With separation from commercial bank functions, the central bank appointed technically selected staff with more specific competences for central bank functions. Article 5 of the Ministerial Decree 76/94, the Instituto de Formação Bancária, was provided for the technical training of employees in banking including the Banco de Moçambique's staff. In the

⁴⁸⁸ World Bank, *World Development Report*, (New York: Oxford University Press, 1989) in A. Chandavarkar, *Central Banking in Developing Countries*,(London, Macmillan Press, 1996) , 119.

⁴⁸⁹ Anand Chandavarkar, *Keynes in India*, (Basingstoke:, Macmillan, 1989`) in: Chandavarkar, *Central Banking in Developing Countries*, 119.

1990's the bank invested in training of its staff in the country and abroad. The training in 1997 covered 435 workers, from master's degree in financial economics to bank technical course involving medium to top level technicians and managers.⁴⁹⁰ It was thanks to individual initiatives and institutional investment in regular and technical training that the bank obtained a distinctly qualified staff that enabled the introduction of reforms to improve monetary policy management, and to adjust interest and exchange rates in a period when the metical devaluated by 80per cent, as it did in 1987. Maleiane observed that "the dedication of the employees made the implementation of these reforms possible."⁴⁹¹

A message was circulated to the staff stating that "at the Banco de Moçambique, the foreign technical assistance is important but should be for a short period of time, and specially reserved for such periods where the internal capabilities are not sufficient." The Bank's future was to encourage personal responsibility and hard work; to revise the career and remuneration system; while pointing out that the board encouraged academic and professional training.⁴⁹²

Table 9 – Comparative academic development of Central bank employees, 1986 - 1990

Academic level	Number of employees					
	1986	per cent	1988	per cent	1990	per cent
5 th Grade	1026	61	965	47,6	1107	45,9
7 th Grade	536	31,9	912	45,0	1005	41,7
12 th Grade	101	6,0	123	6,1	248	10,2
Graduate	18	1,1	26	1,3	48	1,9
Total	1681	100	2026	100	2408	100

Source: Banco de Moçambique Boletim Informativo do Pessoal , 1(1991);10.

⁴⁹⁰ Banco de Moçambique, "Conselho Consultivo do Banco de Moçambique", Correio Informativo, Fevereiro 20,2008.

⁴⁹¹ Maleiane expressed his great appreciation of the work and dedication of the foreign experts at the Bank. Interview with Adriano Maleiane, Maputo, 23 September 2014.

⁴⁹² Interview with Maleiane, Maputo, 23 September 2014.

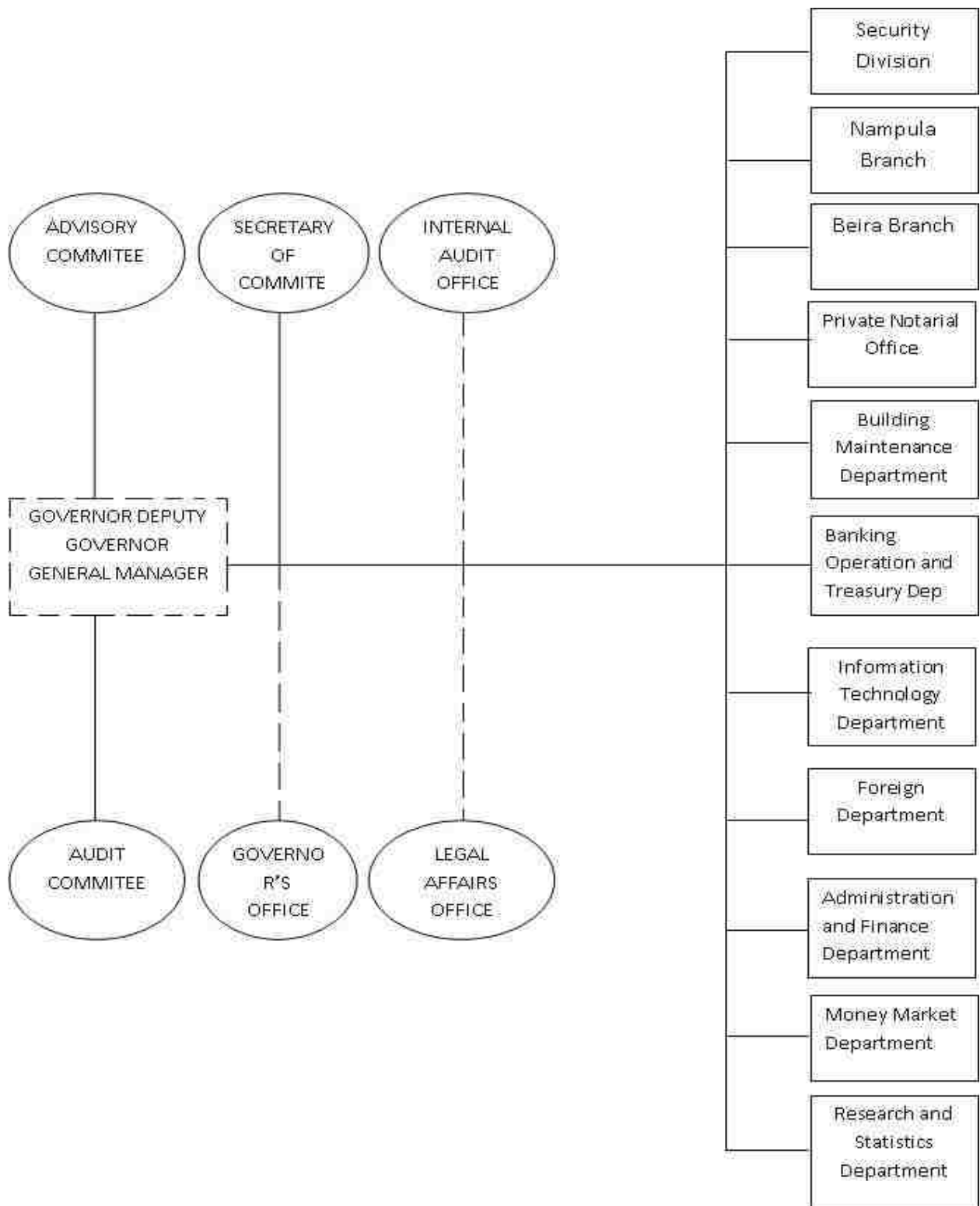
In Table 9 above it is shown that the number of employees rose from 1681 in 1986 to 2408 in 1990, but the percentage of 5th grade employees dropped from 61 per cent in 1986 to 45 per cent by 1990. The percentage of graduate employees almost doubled from 1, 1 per cent to 1, 9 per cent in 1990. In April 1992, to afford the Bank's staff a comfortable retirement, the Board approved the establishment of a pension fund for bank employees in 2006, the Kuanha- pension fund corporate management was established and in December 2009 approved the Regulation of Social security for the employees.⁴⁹³

In 2000, the bank restructured its management in order to align the management structure to the principle of executive decentralisation and technical centralization as well as to harmonize the organic structure with the SADC central banks structure. The advantage of the restructuring was that it reduced the levels of decision-making from 10-12 to 3-4.⁴⁹⁴

⁴⁹³ Banco de Moçambique, *1975 - 2015: Chronology*, 88. *Ibid*, 164. *Ibid*, 214.

⁴⁹⁴ Banco de Moçambique, *1975 - 2010: Chronology*, 92.

Banco de Moçambique organic structure 2000⁴⁹⁵



To implement a modern system of human resources management, in 2005 the board approved an Integrated Human Resources Management System. ⁴⁹⁶ In December

⁴⁹⁵Banco De Moçambique, *Annual report, 2000*.

2008 the Bank introduced a conceptual model of competences which were aimed at improving the human resource management processes in areas such as recruitment and selection, training, career development and staff performance evaluations.

To comply with central bank functions since 2005 the central bank opted for a three year strategic plan. It defined two main components: central bank mission and vision. The optimization of human resource was one of the three strategic items in the defined vision of the central bank. Through Internal Directive no, 8/2006, the Bank adopted its Institutional Cultural Values, known by its Portuguese acronym as TEACHA. This acronym stood for transparency, involvement, self-development, competence, honesty and diligence. TEACHA incorporated the Bank's vision and mission while also guiding the staff on professional conduct and behaviour.

The Bank also promoted the development of sport and cultural activities for the employees. In 1999 a Cultural Centre was built at Matola, a facility of sports and leisure opened on 12 October 2001 by President Joaquim Chissano. In 1992 a kindergarten was established to care for the children of Bank employees and for the children of parents employed elsewhere in the financial system. The Bank encouraged co-operation and exchange of working experience among employees of central banks in southern Africa. Since 2000 the Bank encouraged its staff to take part in the SADC Central Banks Games. In April, 2004, Banco de Moçambique hosted for the first, the Games held in Maputo.

From inception the Bank gave special attention to arts and cultural activities. It supported several artists whose work is on display at different premises of the Bank.⁴⁹⁷

In June 2009 a Regulation on Institutional Sponsorship was approved. This set out guidelines to support the following areas: technical and scientific research, preserving the country's historic and cultural heritage, and promoting sport. Apart from encouraging employee initiatives in those areas, the regulation also set out guidelines on the publishing and printing of books, and the support of musical performances and art exhibitions.

⁴⁹⁶Banco de Moçambique, Internal Communication 07/2005.

⁴⁹⁷ C.Langa, "Opapel do Banco de Moçambique na promoção do Desenvolvimento e Preservação da Arte", in: *Catálogo das Obras de Arte do Banco de Moçambique*. Banco de Moçambique, 305-308, Maputo, 2015.

To ensure pleasant and more modern working conditions, and to stimulate productivity, the Bank launched a program in 1999 to upgrade the head office building and to replace the antiquated office furniture. This program was completed in February 2002. At the same time the systems and information technology was re-engineered.⁴⁹⁸

5.4. The central bank's research and advisory role

Organic Law 2/75, Chapter IV article 18, explained the central bank's functions, which were amongst others, to be the government's financial consultant, and align its activities to the government's economic policy by maintaining close contact with the relevant government officials.⁴⁹⁹ When in 1989 the Banco de Moçambique's Department of Economic Studies and Statistics was established (of which the main mission was to organise, negotiate and to implement the IMF program) it supported the Governor and the respective heads of departments who had to report to the Cabinet. This department was crucial for research, as well as economic and financial data analyses. It was established to enable the central bank to perform its function as the monetary authority and as the driver of reforms. A structural revision occurred in 1998, and with the co-operation of the *Universidade Eduardo Mondlane*, the Bank strengthened its scientific skills by co-opting a lecturer of Economics, Professor Dr Clara Ana de Sousa. She came to be a Board Member with Studies and Statistics Department as part of her portfolio, and coordinated the research and specialized and scientific publications in support of bank operations and the advisory role to the government. It is in terms of the central bank's responsibility that the Governor of the Banco de Moçambique is a permanent guest as an observer at the weekly cabinet meetings, without a vote. The rationale for this role is that above all the central bank developed capacity and fostered a high degree of intellectual independent analysis that was vital for the government economic policies. Government was not bound by these analyses, but the advice informed the government, who had the final decision.

⁴⁹⁸ The head office building was inherited from the Banco Nacional Ultramarino, and had not seen any major renovations for more than 25 years.

⁴⁹⁹ Banco de Moçambique, Organic Law, Decree-Law 2/75 of 17 May 1975, 12-13.

This role was well defined by Margaret Thatcher according to whom "advisers advises, and ministers decides policies."⁵⁰⁰

At first, the new Banco de Moçambique's Department of Economic Studies and Statistics had only one computer and a printer for about 12 people, of whom only half had a post-graduate university degrees.⁵⁰¹ At the end of 2010 the Department of Economic Studies and Statistics had a staff of 40 people. Five had Masters' degrees in Business and Statistics, 24 had Bachelor degrees, 9 had passed high school, and merely two had only a secondary school certificate. The re-engineering of information technology, in 1998 allowed the central bank to adopt integrated systems and information technologies that facilitated an evaluation of overall bank needs in ICT and its provision. In 2010, each employee who performed technical functions had his/her own computer. The Department of Economic Studies and Statistics introduced specific IT programs for econometric analyses.

5.5. Institutional and Information Technology reforms

The financial system reforms of the Banco de Moçambique were affected by legislative and institutional reforms. Special mention should be made of the Decree-Law 1/92 which separated the Bank's central and commercial bank functions, the Exchange Law Regulation 3/96 which defined the new decentralised exchange regime and which defined the rules under which investors could bring in and repatriate fund and the Credit and Financial Institutions Law 15/99 which regulated the establishment of financial enterprises and their activities.⁵⁰²

Institutionally the Banco de Moçambique complied with the government's Information Technology Policy Resolution no. 28/2000 of 12, December 2000, which provided guidance on the development and dissemination of systems and information technologies. The automation of central bank services had begun in 1989, based on the Project Development and Implementation of Information Systems (PDISI-acronym in Portuguese) which had World Bank support. The project aimed to equip the central bank with flexible, safe and responsive information systems and

⁵⁰⁰Chandavarkar, *Central Banking in Developing Countries*, 142-143.

⁵⁰¹ Interview with Jose Viola, 12 March 2013, in Maputo.

⁵⁰² Interview with Maleiane, Maputo, 23 September 2014.

technologies. To consolidate the automation project the Bank established the Computer System Development and Implementation Project Administration Unit on 15 June 1994 to coordinate the project development of information systems involving both the commercial and central banks. This Unit was intended to develop solutions (infrastructure and software's as well as the information technology design).⁵⁰³

In 1998/9 the Bank introduced the Computer System Re-engineering Project (PRSI/2000), later with a steering committee in May 2000 to address the computer adjustment required to facilitate the turn of the millennium, which was designated Y2K 2000. Also in May 2000 the Bank approved a contingency plan to address the probable negative impact of the millennium transition and to ensure sustainability of the Information technologies solutions to be developed. The directive Plan on Information Technology System in the context of Information System Reengineering Project was approved and started in May 11, 2000.⁵⁰⁴ The development of integrated software solutions for the modernisation of the institutional processes began in November 2002.

The IT reengineering platform enabled the support of the National Payment System⁵⁰⁵, (which strategy was approved by the BM Board of Directors in August 2000).

From November 1, 2003 the platform for state electronic transactions termed Government Electronic Fund Transfer System, entered into operation. This platform enabled the government's payments and receipts to be performed in within 24 hours, *"as a banker of the state we contributed to reform the State finances and bring discipline operationalising their "Treasury Single Account" and improving relationships with partners that finance the Balance of Payments, Maleiane stated.*⁵⁰⁶

From 24 March 2003 the Banking Supervision Application, a computer software solution for banking supervision, was implemented by the Bank. This covered licensing of financial institutions, sanctions sentencing, on-site and off-site

⁵⁰³ Banco de Moçambique: *1975-2010 Chronology*, 73. Administrative Order 41/94.

⁵⁰⁴ Administrative Orders 15/99 and 16/99, 9 September 1999. Banco de Moçambique: 1999 Annual Report, 1-3.

⁵⁰⁵ Created in February by Law 2/2008 and the respective Coordinating Committee.

⁵⁰⁶ Interview with Maleiane, Maputo, 23 September 2014. Banco de Moçambique: *Chronology 1975-2010*, 96,101 and 108.

supervision via the application. The development of this computer solution had involvement of the central banks of South Africa, Angola, Mozambique, Swaziland, Tanzania, Uganda and Zambia that were all partners. After a pilot project was completed, the installation began in Zambia in April 2004.⁵⁰⁷

The consolidation of the Bank's organisational structure occurred in April 2007 in terms of an amendment to the Organizational Manual. New departments were created, such as an Accounting and Budget Department, a Strategic Planning and Public Relations Office,⁵⁰⁸ and the Documentation and Information Centre.⁵⁰⁹

The first Strategic Plan (2005/2007), introduced a new management approach based on a strategic vision. From 2006 the Banco de Moçambique took over the strategic planning as a key management instrument to guide the central bank to a completion of the statutory function prescribed in the Organic Law 1/92.⁵¹⁰ In April 2008 the second generation of Strategic Plan 2008/2010 was approved for the central bank by Administrative Order 5/2008. In 2005 the central bank defined its function as to manage the value of the metical in order to maintain a low and stable inflation rate, of which the annual average evolved from 2 to 1 digit between 2008 and 2010.⁵¹¹

The second Strategic Plan focussed on six main strategic objectives: to improve the monetary policy model and its implementation; to improve the management of foreign reserves; to improve the quality of statistics published; to ensure a strong, healthy and competitive financial system; to establish a modern and efficient national payments system; to improve human resources management; and to implement best practices in institutional management.⁵¹² From then and allied to the development

⁵⁰⁷ Banco de Moçambique, *1975 - 2015: Chronology*, 104-105.

⁵⁰⁸ From 2005 the central bank adopted a strategic vision of management and the first strategic plan was in force from 2005 to 2007, the second from 2008 to 2010.

⁵⁰⁹ Banco de Moçambique Administrative Order no. 20/2000, 20 October 2000 and Internal Directive no. 7/2007.

⁵¹⁰ Banco de Moçambique, *1975 - 2010- Chronology*, 144-145.

⁵¹¹ Banco de Moçambique, *"Preços e Conjuntura Financeira,"* 2008, 2009, 2010.

⁵¹² Banco de Moçambique, *1975 -2010: Chronology*, 144-145.

and modernization of managerial skills the Bank has been offering best performance and diversified products to the financial system.

5.6. The monetary, foreign exchange and credit policy reforms

5.6.1 Monetary and Credit Policy Reform

The first phase of the monetary policy management reform, direct monetary control, lasted from 1975 to 1992. It included the establishment of the Banco de Moçambique in 1975, the introduction of the metical as national currency in 1980, and the implementation from 1987 of the Economic and Social Rehabilitation Programme.

The second phase was between 1992 and 1996. Its milestone was the Decree-Law 1/92, also known as the Banco de Moçambique Organic Law. This law stipulated that the central bank's main functions were the preservation of the value of the national currency, the metical, and the management of monetary, credit and foreign exchange policies. The Bank's commercial bank functions were separated and were transferred to the newly formed Banco Comercial de Moçambique (today known as the Millennium-Bank-BIM).

The third period of monetary policy reform lasted from 1996 to 2008. This period was characterised by transition to indirect control instruments (such as interest rate and reserve requirement and money market operations). Before the introduction of the Economic Rehabilitation Program to control the currency stability, Banco the Moçambique implemented a restrictive direct monetary policy in the face of existing distortion in the economy, acting directly on monetary variables such as the interest rates rigidity and determining credit limits to the economy,⁵¹³ From the ERP onwards, with increased incidence from 1992, the Bank introduced a set of monetary, foreign exchange and credit reforms, supported by regulatory and legislative enactments on the one hand, and with institutional reforms on the other hand. In this phase the main objective was to move from direct monetary policy instruments to an indirect system, in which the central bank embraced the indirect transmission model of monetary

⁵¹³ Silvína Abreu, "O Papel das Taxas de Juro em Programas de Ajustamento Macroeconómico com Restrições Creditícias e Mercado Financeiro em Processo de Reforma: O Caso Moçambicano," *Banco de Moçambique: Staff Paper* 3(1996)1.

policy by introducing market requirements such as reserve requirement ratio, the rediscount rate and open market operations.

As mentioned in chapter 4, after the first phase of repressed interest rates (1974-1980), given the need to increase credit for economic activities interest rates were reduced substantially. Interest rates were increasingly differentiated by sectors where agriculture was afforded priority, the type of company (whether public or private) and the purpose of the amount requested, (if its required for an investment or money supply). Between 1981 and March 1988 the interest rates were subject to a slight reduction to stimulate economic priority socialist sectors, identified as priority sectors under the planned economy policies of the past.⁵¹⁴ The adjustment of interest rates started in January 1989 to March 1992 (first phase) with gradual interest rates reduction aiming at differential reduction to inflation, from April 1992 to April 1993. In this phase the interest rate levels were calculated in terms of the maturities of projects to be financed. From May 1993, the reform programme was consolidated with a partial liberalisation of interest rates (third phase). During this phase interest rates were negotiated by commercial banks and other economic agents, with a band of maximums and minimums fixed by the central bank. The full liberalisation of interest rates in the market began on 1 June 1994.

As a result of the structural adjustment implemented in the framework of the Economic Rehabilitation Programme, the market liberalisation, the end of war and the return of refugees to the country and to the productive activities, the international aid and foreign direct investment Mozambique recorded a reversal of negative economic growth between 1987-1990 a stable and impressive economic performance with a growth rate of 5,5 per cent, reducing the inflation rate (table 10).⁵¹⁵ The tendency of devaluating the metical was very high, reaching levels above 600 per cent in 1987 and 80 per cent the following year⁵¹⁶ Given the dynamism of the economy consequently the velocity of money at the beginning of the 1990's, the central bank had to act on the money supply and in 1994 and 1995 expanded the

⁵¹⁴ Abreu,, "O Papel das Taxas de Juro em Programas de Ajustamento Macroeconómico," 21.

⁵¹⁵ Mosca, Economia de Moçambique, 402.

⁵¹⁶ *Ibid*, 408.

circulating currency issuing and launching notes of 50 000 meticals (mts) and afterwards the 100 000 mts, 20 000mts, 500 000 mts, 200 000mts and 10 000 mts to adjust the nominal value of metical.

By Notice 13/GGBM/94, the central bank regulated the issuing of cheque and clearance of payment services.⁵¹⁷

Table 10 – Table of inflation 1987-2000

1987	1988	1989	1990	1998	1999	2000
139,7	47,2	39,5	44	1	3,1	10,3

Source” Mosca, Economia de Moçambique, 407.

The fluctuation of the inflation rate is remarkable since the introduction of reforms which was 3 digits in 1987, lowered to 1per cent in 1998 and rising again to 2 digits from 2000.

For the analysis of monetary aggregates, plus the coordination, management and implementation of monetary policy, an *ad hoc* unit was created, namely the Technical Committee for Monetary Policy. This unit allowed the board of the Banco de Moçambique to make decisions on monetary policy and credit, with participation of the Bank and the Ministry of Finance. An internal administrative order determined that it was necessary to ensure that policies in the economic development area complemented each other.⁵¹⁸ Adriano Maleiane commented that "...the strategy was to establish the Technical Committee... of the Technical Coordination which included technicians from both institutions, and they were to analyse the technical issues for the implementation of strategies that had been agreed with the Bretton Woods institutions.⁵¹⁹

The Technical Committee was a top-level policy-decision forum which, apart from its technical expertise, included the Governor of the Bank as chairperson, the Minister

⁵¹⁷ Banco de Moçambique: *1975-2010 Chronology*, 74.

⁵¹⁸ Banco de Moçambique Administrative Order 37/94, 10 July 1994.

⁵¹⁹ Interview with Maleiane, Maputo, 23 September 2014. Banco de Moçambique: *1975-2010 Chronology* 73. Administrative Order 37/94.

of Finance and the Executive Directors of those government departments involved in carrying out internal and external policies. The Bank's directors included the directors of Economic Research and Statistics, Credit Operations, Issuing and Treasury, Foreign Exchange Operations, Foreign Exchange Control and External Debt departments and the Governor's adviser. Other senior government officials could be called upon to join the weekly discussions.

The regular coordinating meetings of the Technical Committee, without compromising the Bank's institutional independence, allowed the Banco de Moçambique to stay abreast of government programmes while also giving them due consideration when designing policies, while the government side could absorb relevant information about the Bank's activities. Because the choice of venue of these meetings was an issue that could lead to the idea of subordination by the participant that visits the other part venue, the Governor of the Bank, Adriano Maleiane, took the initiative and proposed that the meetings be held at the Ministry of Finance.

The Bank's credit policy underwent a gradual evolution from sector allocation (1987) to credit liberalisation, but based on credit limits defined by the Bank (1988 to 1989). In June 1994 the Bank approved a new credit policy, based on the setting of expansion limits to the Centralised Net Domestic Assets (AILs acronym in Portuguese).⁵²⁰ This was followed by the Decentralised Net Domestic Assets from 1994, and applied to the commercial banks. The limits of AILs, announced bi-annually, were later announced annually and then ceased to exist.⁵²¹

The year 1996 was a good year for reform measures. "Before 1996 the registration of customers at risk with bad credit occurred frequently in every bank, and the banks had to exchange information among themselves on such customers at risk, in a system with a limited number of banks. The system failed to identify faulty and risky customers and registered a delay in processing time of credit applications. As the numbers of bank increased the processing of credit applications became less effective. In 1996, Banco de Moçambique decided to centralise information of the

⁵²⁰AILs is the monetary aggregate that the bank uses as the target to his new monetary policy framework. Commercial banks were forced by central bank not to expand more than the ceilings given by the Bank on regular intervals in order to bring the overall macroeconomic environment under control.

⁵²¹ Circular no. 1/94; Banco de Moçambique: *1975-2010 Chronology*, 73.

risky credit application customers for the benefit of the whole banking system.⁵²² The Central Risk service was established on 10 January 1996 to coordinate and facilitate the inter-bank risk consultations.⁵²³

In 1997 Monetary authority Bonds were introduced and the issue and trade in Treasury Bills was regulated.⁵²⁴ In September 1998 Mozambique's stock exchange was established. Trading of treasury bills began on 14 October 1999. The rates and commissions and the conditions for the submissions of proposals and auctions, were established by Notice no. 2 and 4/GGBM/99.⁵²⁵ Both monetary authority bills and Treasury Bills (T-Bills) were introduced on the interbank money market for monetary and fiscal policy purposes. Issued regularly by action system for banks, these instruments contributed to financial deepening and allowed banks to management their liquidity levels better by adding alternative investment products to the banks with excess liquidity.

Effort to improve the economic environment and the management of the financial system earned Mozambique the confidence of donors. Mozambique benefited from the fourth, fifth and sixth World Bank IDA credit facility for economic reconstruction in June 1992, June 1994 and December 1998. It also benefitted from the third and fourth IMF agreement ESAF (Enhanced Structural Adjustment Facility), offered between 1999 and 2002.⁵²⁶

The central bank gave valuable support in the negotiations on foreign debt. In June 1999 the debt was renegotiated within the framework of the Heavily Indebted Poor Countries Initiative to the amount of US\$3.7 billion. In November 2001 Mozambique signed the seventh Agreement on External Debt with the Paris Club in terms whereof 95per cent of its debt was written off.⁵²⁷

⁵²² Interview with Maleiane, Maputo, 23 September 2014.

⁵²³ Banco de Moçambique Notice no. 8/GGBM/96.

⁵²⁴ Banco de Moçambique: *Chronology.1975-2010*, 82.

⁵²⁵ Notices 13, 14, 15, 16/GGBM/96, 29 September and Decree-Law no. 49/98.

⁵²⁶ Banco de Moçambique: *Chronology.1975-2010*, 71, 73, 78, 86.

⁵²⁷ *Ibid*, 87,97. Interview with Maleiane, Maputo 23 September 2014.

From 10 to 13 February 2003 the Mozambican financial sector benefited from a World Bank and International Monetary Fund regular joint mission evaluation as part of the Financial Sector Assessment Programme. This mission reported on certain challenges to be addressed, such as the need to reinforce collateral (guarantees), to upgrade the level of financial intermediation, to increase the quality of the credit portfolio, the need to improve the legal system, and to lower operational costs. As a result, the Financial Sector Technical Assistance Program was established to improve the financial-sector institutional capacity and to introduce international standards to the central bank.⁵²⁸ To ensure transparency and reliability of the central bank asset management, the International Financial Reporting Standards were adopted in January 2008.⁵²⁹

Banco de Moçambique Notice 12/GGBM/96 on 29 September 1997 created the Interbank Money Market and the respective regulation, which normative framework was adjusted on 21 August 1998, through Notice no.5/GGBM/98, by adopting the standing lending facility, absorption and last-minute facilities.⁵³⁰

All these frameworks (interbank money market and interbank foreign exchange market) are aligned to international standards on which a central bank creates systems that allows commercial banks to exchange liquidity both in local and foreign exchange currency.

These two frameworks had immediate impact on the banking system since the daily management of liquidity by banks improved dramatically. Commercial banks had, since then, the possibility to make short-term applications for its excess liquidity and also banks with shortages of liquidity had ways to solve the problem borrowing from other banks.

Most commercial banks formed treasury and liquidity committees specialized to operate these frameworks to manage reserves on daily basis. The central bank reviewed its intervention rate in the Interbank Money Market, where the fall of the Standing Lending Facility rate dropped by 5 points to 13,5per cent⁵³¹ As a result, the

⁵²⁸ Banco de Moçambique: *Chronology.1975-2010*, 104.

⁵²⁹ *Ibid*, 138.

⁵³⁰ Banco de Moçambique: *Chronology. 1975-2010*, 82, 84.

⁵³¹ Banco de Moçambique: *2004 Annual Report*.

commercial banks reduced their rates to 24per cent in December 2004 from 28per cent the year before.

The last monetary policy reform in the period occurred with the creation of the Monetary Policy Committee, through the Internal Directive no. 52/2007 on 02, July, 2007.⁵³² It aimed at a clear definition of the medium and long-term monetary policy targets, the strategy of communication to assure transparency and central bank accountability, as well as the institutional and operational framework. To ensure these objectives the Committee had the Governor, Deputy-Governor and the Bank's executive directors as permanent members. In addition, the directors of Economic Research and Statistics and of the Department of Markets were permanently invited participants. The Governor as chairman of the committee invited internal or external experts whenever necessary. Day-long meetings were held monthly, after which a monetary policy press release was approved and disclosed on the Banco de Moçambique's website.

5.6.2 Central Bank supervision role

Referring to the central bank's supervisory role, Maleiane stated that "... strengthening bank supervision, (a function that was not visible until 1992 because of the dual role of the Bank as a central and a commercial bank but with more commercial than central functions, which made the oversight function irrelevant) helped control inflation and in 1998 we almost had deflation."⁵³³ Thanks to effective supervision and discipline imposed on the financial system, in 1995 the central bank terminated the Credicoop, a bank co-operative created in 1986 in Maputo, because of systematic breaches of prudential standards. Credicoop had granted credit to its members exceeding central bank limits.

For the same reason, a similar decision was later taken in respect of Banco Popular de Desenvolvimento. This intervention came in April 2001, when the Banco de Moçambique appointed an interim board of directors.⁵³⁴ Its mandate was to

⁵³² Banco de Moçambique, *Chronology.1975-2010*. 132, 137.

⁵³³ Maleiane A. Interview with Adriano Maleiane in Maputo, 23,

⁵³⁴ Banco de Moçambique, *1975-2010: Chronology*,93

undertake the reorganisation of bad credit and to reorganise the Banco Popular de Desenvolvimento for privatisation.⁵³⁵

It was while the reorganisation was taking place that Dr Antonio Siba-Siba Macuacua of the Banco de Moçambique's Supervision Department was murdered on 11 August 2001 at the Banco Popular de Desenvolvimento's headquarters.⁵³⁶ He had been the designated president of the interim board of this bank due to the central bank's responsibility, as the system supervisor. The evaluation was completed and the bank subsequently sold to private investors in accordance with what was expected.

Finally, a third notable progressive feature of the supervision and control function was the privatisation of Banco Comercial de Moçambique. The State thereby retreated from direct management of the commercial banks.⁵³⁷

Before 2005, the licensing of credit institutions and financial corporations was a government prerogative, and was subject to the approval of the cabinet of ministers, with the Banco de Moçambique playing an advisory role.⁵³⁸

On 27 October 1992 Decrees 35/92 and 36/92 authorized both the opening of a branch of the Banco Português do Atlântico and a branch of the Banco do Fomento Exterior in Mozambique. This introduced a new era of expatriate banks entering into the Mozambican banking system.⁵³⁹ On 1 April 2001 the Cooperativa de Poupança e Crédito – SCRL, (CPC), opened its doors. It was created through Banco de Moçambique Internal Resolution 03/98 for the benefit of central bank employees and was extended to all other financial system staff members who had been employees since 31 December 1991. The management of salary-accounts of employees comprises a part of its commercial functions.

For standardisation and harmonisation of operating procedures in electronic payments and cost reduction, the commercial banks created the *Interbancos* in

⁵³⁵ Maleiane A. Interview with Adriano Maleiane in Maputo, 23, September, 2014. The Interim Board was abolished in December 2001 after completing the process that would lead to privatization in a context won by ABSA.

⁵³⁶ Banco de Moçambique, *1975-2010: Chronology*, 96.

⁵³⁷ Interview with Maleiane, Maputo, 23 September 2014.

⁵³⁸ Law 28/91; Banco de Moçambique: *1975-2010 Chronology*, 68.

⁵³⁹ Banco de Moçambique, *1975-2010 Chronology*, 71.

August 2001. INTERBANCOS is a private company owned by major commercial banks in Mozambique, which creates and manages a network connecting, the individual bank payment network allowing a more efficient flow of funds among the banks. The central bank strengthened its supervision functions since September 1991 to allow for greater financial liberalization while at the same time regulating and overseeing the financial system.

The stock exchange was opened and all participants in the securities market and financial resources mobilization collaborated to secure an efficient payment system.⁵⁴⁰ From 2004, Decree-Law 9/2004, updated the Decree-Law 15/99 in which the central bank was given the responsibility to oversee all credit institutions and financial corporations, the authorization, registration licensing and abrogation of these institutions were placed under the supervision of the central bank Governor.⁵⁴¹ From this point onwards the Banco de Moçambique established a more direct regulatory and supervisory role in the financial system.

The Bank registered and licensed new banks and financial institution, both local or foreign, thus opening the way for an open financial services sector, as undertaken in terms of the General Agreement on Tariffs and Trade (GATT). The Bank determined minimum capital requirements to be observed by credit institutions. New financial institutions and micro-finance banks were subjected to control mechanisms and supervision rules.⁵⁴²

⁵⁴⁰ F. Santos, "Supervisão do Sistema Financeiro " in *Banco de Moçambique: Histórias Vivas*, ed. Banco de Moçambique (Maputo, Centro de Documentação e Informação, 2010), 157-158.

⁵⁴¹ Law no. 09/2004, 21 July 2004. Banco de Moçambique, *1975-2010 Chronology*, 109.

⁵⁴² *Ibid.*

Table 11 - Credit institutions and financial corporations established between 2005 and 2010

Name	Date	Local
Banco Oportunidade SARL	9.3.2005	Maputo
Micro bank NGR-Natma and Getma & Rodrigues	9.10.2007	Maputo
Banco Terra , SA	3.12.2007	Maputo
Yingwe Microbanco	22 April 2008	Morrumbene, Inhambane Province
Moza Banco SA	7.5.2008	Maputo
Dragão Câmbios, Lda	2.7.2008	Beira
Banco Tchuma SA	16.9.2008	Maputo
Caixa Comunitária de Microfinanças de Namuno	31.12.2008	Maputo
The First MicroBank SA	27.1.2009	Pemba, Cabo Delgado Province
Casa de Câmbios Xai-Xai	21.10.2009	Xai-Xai, Gaza province
United Bank for Africa Moçambique SA	17.12.2009	Maputo
Caixa Financeira de Caia , MCB SA	21.12.2009	Vila de Caia, Sofala Province
Carteira Móvel SA	28.1.2010	Maputo
Banco Nacional de Investimentos SA	14.6.2010	Maputo
Central Câmbios Limitada	9.7.2010	
Banco Único SA	12.10.2010	Maputo

Source: Banco de Moçambique: *1975-2010 Chronology, 1 975-2015 Chronology, 2000-2001 Chronology.*

The Banco de Moçambique licensed since 2005, 18 credit institutions with almost 430 branches all over the country, 8 microfinance banks, 22 Exchange Houses, and 7 credit cooperatives.⁵⁴³

In the course of the gradual transition to indirect monetary control, in 1999 the central bank opened up market operations by incentivizing long-term transactions in the Interbank Monetary Market, created in 1996 (see page14). For this purpose the Maputo Interbank Offered Rate (MAIBOR), was introduced. MAIBOR is a reference interest rate for the Mozambican banking system playing the same role as LIBOR in England. It is formed by the commercial banks which send daily quotations to the central bank of offer rates for the different maturities ranging from 1 day to 1 year.

⁵⁴³www.bancomoc.mz, accessed February 24, 2016.

The central bank calculates averages and publishes those to market the MAIBOR rates through the Meticalnet platform and the press. Commercial banks use MAIBOR as its reference for setting its lending rates in the credit market. The MAIBOR accord was signed by Banco Austral, Banco Comercial de Moçambique, Banco Comercial de Investimentos, Banco de Fomento, Banco Internacional de Moçambique (BIM), Banco Standard Totta de Moçambique and the Banco de Moçambique.

To enhance accountability and good governance the Banco de Moçambique subscribed the National Statistical System as the authority for the compilation of monetary and foreign exchange operations statistics. On 6 September 2002 the Instituto Nacional de Estatística, (INE) and the Bank formalised the Protocol of Co-operation to delegate to the Bank the responsibility to produce and disseminate the national balance of payments statistics. In March 2003 Mozambique joined the International Monetary Fund General Data Dissemination System for the production and dissemination of relevant macro-economic data.⁵⁴⁴

5.6.3 Expand banking activity in the economy vs financial inclusion

The central bank also extended banking to rural areas. Maleiane stated, "In 1991 and 1992 we were busy with the reforms and urging the banks to open offices in the provinces." Among the main problems experienced were the transportation of cash over routes, and the provision of banking services to the economic agents and the government, as its principal customers. The central bank opened branches in different regions. The Regional Centre branch in Beira was established on 18 September 1995, and the North Regional branch opened in Nampula on 12 September 1996.⁵⁴⁵ The government identified the country districts as the primary areas where development must occur, but the financial sector was concentrated in the main urban centres. In January 2007 the central bank therefore began to address the challenge of expanding financial services through the remote areas of the country. This challenge led to the expansion of the central bank's activity to the

⁵⁴⁴ Decree-Law 7/96. 1975-2010: Banco de Moçambique *Chronology* 78-80, from 6 to 7 November 2002, Banco de Moçambique hosted at the Cultural Centre in Matola the Second Round Table on Statistics of Lusophone African countries and Portugal, with the participation of Instituto Nacional de Estatística and the Ministry of Planning and Finance. It focused on the compilation and dissemination of financial, monetary and balance-of-payment statistics; Banco de Moçambique, *1975-2010 Chronology* 100, 104.

⁵⁴⁵ Notice no. 14/GGBM/95. Administrative Order 42/95 and 34/96. Interview with Maleiane, 23 September 2014, Maputo.

provinces, opening a central bank delegation in almost every province. In this framework incentives were designed to bring the commercial banks to open their branches to bring financial services where they not yet exist, reducing certain costs and risks. Central bank branches were opened, in Quelimane (15 December 2006), Maxixe (29 December 2006), Pemba (29 January 2007), Tete (28 March 2007) and Lichinga (26 June 2007). The central bank was represented in eight of the ten provinces.⁵⁴⁶ Additionally, a set of incentives relating to promote the provision of financial services in the provinces were adopted by the bank (by Governor Notice 10/GGBM). These included a special regime of reserve requirements; fiscal benefits (consisting of deductions on the tax of all bank profits resulting from rural branches and deductions on the total deposits of the balances deposited in rural areas when calculating the reserve requirement, access to the Finance Challenge Fund which was supported by the Bank and KFW Development Bank to finance micro-loans; differentiation in minimum capital requirements for the financial institutions and micro-finance lenders aiming to establish operations in the rural areas; and access to the Rural Finance Support Program.⁵⁴⁷In 2008, thanks to the above-mentioned incentives, 44 districts had 352 bank branches compared to 134 prior to 2008, POS's increased by 133per cent, and 4,633 ATMs were opened. There were four savings and credit co-operatives, five micro banks and 17 microcredit operators.⁵⁴⁸These financial services networks improved financial inclusion.

Since 2004 the central bank gave preference to indirect policy instruments introduced from 2002, particularly the open market operations and for liquidity control the bank used treasury bills. Since 2004 monetary and exchange rate policies were operated as a single integrated policy.

5.6.4 The structural reform of the metical

The macroeconomic reforms implemented by Mozambique from the end of the 1980's allowed reversing the chronic economic recession framework in the county and helped to achieve ratios of development and macroeconomic performance indicators and stability led the government to decide in mid-2005 to introduce a

⁵⁴⁶ Banco de Moçambique : *1975-2010 Chronology*, 129

⁵⁴⁷*Ibid.*

⁵⁴⁸*Ibid.*

reform of the currency structure, given its sharp devaluation from the cycle of crisis in the early years after independence.⁵⁴⁹

Table 12 – Economic Growth (percentage), 1987-2000

1987	1988	1989	1990	1998	1999	2000
5,8	5,5	5,4	-0,2	12,6	7,5	1,8

Source: Mosca, *Economica de Moçambique*, 407.



























Although slow the economy registered a general tendency of growth from 1987 as a result of economic reform, despite the cyclical crisis caused by war and natural disasters such as the floods of 2000. This environment of macroeconomic stability and development was fertile for currency reform.

On 26 October 2005 a Coordinating Committee was tasked to introduce the "Metical New Family". This reform was based on a 3 digit reduction in the value of the metical, under the Decree Law 7/2005, and Governor Notice 03/GGBM/2006 of June 16 2006. The introduction of the "Metical New Family" took place on 16 June, 2006. The three digits that the metical presented before 2006 were a result of the metical devaluation and high inflation during the implementation of the economic rehabilitation programme. As operational purpose the reform arose from the need in the monetary system to enhance the effectiveness of a modern payment systems and improve accounting processes avoiding numbers with excessive zeros, to secure the stability of the currency and to facilitate the calculation of the new value in such a way as to ensure clarity and convenience to the public, in particular increasing security in the handling of notes and coins.

⁵⁴⁹ Patel notes that the devaluation of the currency averaged 80 per cent in 1987, however Mosca says that in the same period the devaluation was above 600 per cent, which seems to align with the high levels of inflation – around 80 per cent in 1988. Patel, Y. "Adesao As Instituicoes de Breton Woods," 127-128. Mosca, *Economica de Moçambique*, 408.

Picture 5: Conversion Table from Metical to new family Metical.

EQUIVALÊNCIA DAS NOTAS E MOEDAS DO METICAL RESULTANTE DA APLICAÇÃO DA TAXA DE CONVERSÃO


Metical - Nova Família		Metical - Actualmente em Circulação		Metical - Nova Família		Metical - Actualmente em Circulação			
100 Meticals		=	Um Milhão de Meticals		200 Meticals		=	Dois mil meticals	
Quinhentos Meticals		=	Quinhentos Mil Meticals		100 Metical		=	100 Meticals	
Quarenta Meticals		=	Quarenta Mil Meticals		Centos Meticals		=	Quinhentos Meticals	
Com Meticals		=	Com Mil Meticals		Um Centavo		=	Quarenta Meticals	
Cinquenta Meticals		=	Cinquenta Mil Meticals		Dois Centavos		=	Com Meticals	
Um Metical		=	Um Mil Metical		Cinco Centavos		=	Quarenta Meticals	
Dois Meticals		=	Dois Mil Meticals		Um Centavo		=	Dois Meticals	
Cinco Meticals		=	Cinco Mil Meticals						

NOTA:

- De 1 de Julho a 31 de Dezembro de 2006, as notas e moedas do metical actualmente em circulação e as da nova família circularão em simultâneo.
- As notas e moedas do Metical actualmente em circulação, na posse da população poderão ser trocadas por notas e moedas da nova família nos estabelecimentos financeiros de 1 de Janeiro de 2007 a 31 de Dezembro de 2007 e no Banco de Moçambique de 1 de Janeiro de 2008 a 31 de Dezembro de 2012.

Poderá obter mais informações através dos seguintes meios:
 Site: www.bancomoc.mz - Email: comfam@bancomoc.mz
 Linha: Gratuitas: 800 080 888 - mCel: 82 888 - Vodacom: 84 800 8888

NOVA FAMÍLIA DO METICAL, MAIOR COMODIDADE E SEGURANÇA.



Source: *Banco de Moçambique: Chronology 1975-2010*, 118.

The introduction of the “Metical New Family” took place on 16 June 2006. It was preceded by an advertising campaign from December 2005 a period of double indications (this meant the seller of services supported this campaign by presenting to the customer both versions of cost of the same product during the campaign) in order to educate people about the new directive of the central bank. Goods were priced specifically in mt, the old version with the original 3 digits and mtn version without the 3 digits in the price (in mt/mtn meaning meticais and meticais “New

Family”) from January to June 2006. It was successfully executed by the central bank, notwithstanding the initial scepticism of international partners.⁵⁵⁰

5.6.5. Foreign exchange policy reform

In 1992 reform of the exchange rate policy commenced after it had begun in 1987 with corrective adjustments (See Chapter 4.) From 1 April 1992, the unification of the Secondary and Official Market Exchange Rate began, which consisted of the merging of the official market (operated by banks) with a secondary market (operated by exchange houses) to a single exchange rate as a reference for monetary policy purpose.

To complement the ongoing exchange rate reform, on 10 September 1992, Decree-Law 25/92 approved the regulation of the secondary foreign exchange market, revoking the Decree-Laws 20/90 and 15/91.⁵⁵¹ From August 1992, the Banco de Moçambique’s price of selling currency began to be calculated on the cost average of its foreign exchange transactions.⁵⁵²

In December 1995 new system of mandatory reserves⁵⁵³ was introduced, setting coefficient at 15per cent. It was progressively lowered to 12per cent on 21 April 1996, then to 9per cent on 2 March 1998 when it was established that its incidence base shall include the State deposits, followed by 6,8per cent on 17 May 1999 and conjoined with the reformulation of the regime.⁵⁵⁴ To establish operational and prudential principles in the management of its offshore assets, and its investments strategies on International Reserves Management, a Committee was established on 24 July 2003, whose functions were to approve rules on operational aspects, such

⁵⁵⁰ Interview with Maleiane, Maputo, 23 September 2014.

⁵⁵¹ Banco de Moçambique : *1975-2010 Chronology*, 71.

⁵⁵² Banco de Moçambique : *1975-2010 Chronology*, 70-73.

⁵⁵³ Reserve requirement is the amount of money that commercial banks put on central bank to be used in an event of collapse of the system to repay deposits. Central bank use reserve requirement ratio as a tool of monetary policy since they can manipulate the level of liquidity in banking system either raising or lowering its level. It is calculated as a percentage of average deposits balance in certain interval of time (15 day calender.)

⁵⁵⁴ Banco de Mocambique Notice no. 14/GGBM/95 of 29 December and 11/GGBM/97.

as the criteria for the credit limit and risk limits, to propose to the Board future strategies plus the portfolio of reference benchmark amounts with reference to the macroeconomic and the country's external conditions. The policy was reviewed by the board in June 2006.⁵⁵⁵ The Banco de Moçambique's Notices 4 and 5/GGBM96 formalised the Interbank Foreign Exchange House Accounting Plan and in September its Position Limit.⁵⁵⁶ The accounting plan contained rules and procedures to be observed by exchange houses on writing the books and reporting his operations and activities to the central bank and to the tax revenue authority and the market.

In the interbank exchange market framework, it was necessary to establish a code of conduct. For this purpose Decree-Law 3/96 was promulgated to regulate the market. Activities of trade exchanges in the past were centralized in the bank, only later were decentralized to BSTM and BCM. It became necessary to reform and establish rules for foreign direct investment.⁵⁵⁷

Subsequently, in 1997, for the evaluation and co-ordination of monetary and foreign exchange operations, the Bank created the Interbank Market Co-ordination Committee through Administrative Order 41/97, and approved the respective regulations.⁵⁵⁸ In March 1998 steps were taken to guarantee a link with the Monetary and Exchange Policy Committee.

On 26 February 1997 the Bank's board of directors created the monetary and Exchange Policy Committee, the composition of which was analogous to the composition of the previous Technical Committee. However, only the director of Economic Research and Statistics was the permanently invited participant, having to guarantee the Monetary and Exchange Policy Committee's functioning.⁵⁵⁹ This committee proceeded with the Technical Committee's responsibilities, namely the

⁵⁵⁵ Banco de Mocambique, Administrative Order 15, 16/GGBM/2003 and 12/2006.

⁵⁵⁶ Notices no. 9 and 10/GGBM/95.

⁵⁵⁷ Interview with Maleiane, Maputo, 23 September 2014.

⁵⁵⁸ Banco de Moçambique: *1975-2010 Chronology*, 82.

⁵⁵⁹ Banco de Moçambique : *1975-2010 Chronology*, 81, 136-137. Internal Directive no. 04/97 Banco de Mocambique.

coordination and monitoring of monetary policy in accordance with the government's economic programme. This assured the necessary functional co-ordination between interbank foreign exchange market, the interbank money market and the securities market. From January 2005 the central bank adopted a new procedure: it implemented weekly foreign currency auctions to achieve greater transparency in the market.⁵⁶⁰ This innovation led to greater dynamism and diversification in the financial system.

With the introduction of management based indirect instruments of monetary policy, the central bank began to intervene more often in the interbank foreign exchange market from 2006, with daily sales of foreign currency and at the monetary interbank market from 2007. This was in addition to the issuing of Treasury bills and overnight securities operations to control liquidity.

5.6.6. The 2008 Global financial crisis and the Central Bank

The global economic crisis of 2008, triggered by the US subprime crisis impacted on the global economy causing a slowdown in world economic growth. It also affected Mozambique particularly in the external sector. In 2009 exports of goods fell by 30per cent compared to 2008, amounting to US\$ 760.5 million and imports reduced by 11per cent, amounting to US\$ 483,7 million which resulted in an increased deficit of the partial goods account contributing to the current account deficit before grants. The current account deficit amounted to US\$1 9358 million, 10per cent less than the amount recorded in 2008.⁵⁶¹ To soften the impact of external shocks to the economy, the central bank injected an additional US\$ 673 million in 2008 and US\$ 798 million in 2009 into the system through the foreign exchange interbank market. It also adopted a less restrictive policy by lowering its benchmark interest rate and brought about a downward revision of the coefficient and the monetary reserves (that stood at 8per cent) to compensate the deficit on external credit availability and stimulate the local banking system to increase funding to the private sector.⁵⁶²

⁵⁶⁰ Banco de Moçambique : *1975-2010 Chronology*, 112.

⁵⁶¹ Gove, E. Governor's speech at the New Year's celebration 2010, Banco de Moçambique. , 2008 Annual Rapports. Banco de Moçambique, Annual Rapport 2009, 13.

⁵⁶² Banco de Moçambique, Annual Rapport 2009, 12.

The Bank also negotiated with the IMF, further access to the Exogenous Shock Facility grant of US\$ 172 million.⁵⁶³ This was disbursed from July 2009.

In February 2008 the Mozambican Parliament approved the National Payment System Law no. 2/2008 which was complemented a year later by Exchange Law 11/2009 of 11 March 2009 to promote a sound, strong and competitive financial system. The National Payment System law sets provisions for a transparent environment to improve the efficient flow of funds in the economy. The law 3/96, deepened the foreign exchange reforms by adding, among others, the following practices:

- a) Central Bank no longer fixed the exchange rate in the banking system, leaving the exchange market to determine the equilibrium;
- b) Locals and foreigners were allowed to open accounts in foreign exchange in commercial banks, allowing more flexibility in transnational transactions;
- c) The transfer of funds for payment of goods and services were more liberalized and brought only under control of commercial banks, leaving the central bank with capital account transitions to control (foreign direct investment, loans, guarantees)

These two statutes also reinforced the central banks' legal basis to act as the sole regulator, supervisor and exchange authority. The central bank established the National Payment System Co-ordinating Committee.⁵⁶⁴ This is a body which main function was the creation of a basis for regulating the payment system and authorise studies for payment system development. An agreement was signed with Visa International which made the central bank its national settlement agent in offsetting domestic transactions.⁵⁶⁵ The Cahora Basa Dam Reversal Accord to Mozambique on 28 November 2007 gave a further impetus to the economic and social development of the country and the region given its potential to supply energy to some southern African countries. Despite exogenous shocks caused by rising oil and grain prices on the international market, the GDP grew by 6,3per cent which was only 1,97per cent lower than 2008.

⁵⁶³ Banco de Moçambique, Annual Rapport 2009, 12.

⁵⁶⁴ Banco de Moçambique : *1975-2010 Chronology*, 147.

⁵⁶⁵ *.Ibid.*

In 2010 Mozambique experienced a massive rise in inflation, which led the central bank to intervene in the market. The crisis followed a sharp fall in the production of vegetables, fruits and cereals as a result of torrential rains and the correction process of some administered prices (in particular fuel) as well as the impact of the international financial crisis. The average annual inflation rate for 2010 stood at 12,7per cent - the highest in five years. The metical depreciated sharply against the currencies of Mozambique's trading partners.⁵⁶⁶

The government opted for a gradual liberalisation of price control on some consumer goods. This caused a distortion in the consumer price index through a correction in the in the inflation rate. On the other hand, the balance of payments deteriorated because of the internal and external factors such as the impact of the international financial crisis the high demand for foreign exchange for imports, particularly fuel, (the international price of which was exceptionally high), conjugated with the delay of state budget and balance of payment support funds. All these adverse factors led to a volatile exchange rate that peaked at the beginning of 2010.⁵⁶⁷

The fluctuations and the strengthening of the US dollars and the South African Rand had a significant impact on the Mozambican economy. Mozambique reacted by opting for a far tighter monetary policy, by reviewing upwards the intervention rates on the interbank monetary market, namely the standing lending facility and deposit facility to 400 base points and 100 base points over the year (2010) to 15,5per cent and 4per cent respectively. The mandatory reserves coefficient was reduced to 8,75per cent (it was 10,15per cent in 2007, 9per cent in 2008 and 8per cent in 2009) and was aligned with the practice of regional central banks practices, South Africa excluded.⁵⁶⁸

From August 2010 the Bank increased the volume on the interbank exchange market to improve liquidity sterilisation and bring the inflation rate down in order to stabilise the exchange-rate. The measures impacted on the international liquid reserves by about US\$ 1 678 million covering 6 months of non-factored imports of

⁵⁶⁶ Banco de Moçambique : *1975-2010 Chronology*, 147.

⁵⁶⁷ Banco de Moçambique, *Annual Report*, 2009 13.

⁵⁶⁸ Banco de Mocambique, *Annual Report*, 2010 14. Banco de Mocambique, *Precos e Conjuntura Financeira Setembro* (2010) Banco de Mocambique, *Annual Report*, 2009 12-13.

goods and services was covered. The central bank assumed responsibility for the total payment of fuel imports, thereby reducing the demand for foreign exchange at the commercial banks and freeing external resource for exchange rate stabilization.

In 2010 the Exchange Law Regulation was approved. Since then directives for the external operations of the financial system was based on the current account liberalisation. This meant that more organised and credible data for the balance of payments were released. The ration of customers' bad credit in the system dropped to 2per cent and the solvability indicators increased thanks to regular supervision and oversight of the financial system.

The central bank did not inject public funds to keep any financial institutions afloat. Mozambique witnessed the opening of new financial institutions, which rose by 11,4per cent in 2010. New financial products were offered, the client base expanded and the financial services provision rose to a 45per cent national coverage.⁵⁶⁹ These measures taken by the bank in 2010 proved crucial in limiting the contagion arising from the global financial crisis maintaining financial system stability and robustness.⁵⁷⁰ Given the volatility of the metical against the South African Rand showing strength on the back of a rising gold price, the central bank took corrective action, during the third and the fourth quarter of 2010, concentrating on US\$ market on the management of exchange rate policy. The central bank lowered its benchmark interest rate and mandatory reserves coefficient allowed the appreciation of the metical which hit parity at 39Mt to the US\$, the Rand and the Euro, in the last quarter of 2010.⁵⁷¹

The Bank's challenge remained to expand the financial system to another 79 unbanked districts while also modernising the financial sector in order to spread financial services and IT support to the most remote areas. These entailed offering alternatives such as mobile banking and cell phone banking that potential customers' access to financial transactions, without having to erect actual bank branches. To

⁵⁶⁹ Gove, E. Governor's speech at the New Year's celebration 2010, Banco de Moçambique. , Annual Report, 2008. Banco de Moçambique, *Annual Report 2009*, 14.

⁵⁷⁰ Banco de Mocambique, *Annual Report*, 2010, 62.

⁵⁷¹ *Ibid*, 63.

make the technologic infrastructure available to all commercial banks, and reduce operational transactions costs (which include the more widespread use of POS and ATM's) the *Sociedade Interbancaria de Servicos* (Mozambique Interbank Company – SIMO) was established. This is a corporation to provide and updated and integrated Banc de Moçambique and 12 more members.⁵⁷² Later on all players in the financial system had to sign up as members, from this point onwards instead of using different servers responsible for payments and every payment in the country intermediated were delivered by one service provider.

The central bank reduced the reserve requirements twice in 2010, fixing it at 8per cent and the intervention interest rates on the monetary interbank market, namely the standing lending facilities, to 11,5per cent and deposits to 3per cent per year.⁵⁷³ These measures stimulated credit to domestic companies, and lowered interest rates charged by the commercial banks. It also led to the harmonisation of compulsory reserve ratios practiced in the region.

To improve macroeconomic control, price stability and to promote economic development through better control of variables such as interest and exchange rates, and monetary and exchange policies, the central bank created successive coordination committees, such as The Technical Committee of Monetary Policy, the Monetary Policy Committee, the Committee of International Reserves Management, the Interbank Market Co-ordination and the Monetary exchange Policy Committee.⁵⁷⁴ Their characteristics, objectives, composition and performance were enhance during this period, substantiating the institutional development of the central bank to design, implement and manage monetary and exchange policies, according to the rapid and profound transformation of the economy.

It was in this period that far-reaching reforms were introduced in order to adjust the institutions to its mission as a central bank in a developing country. Its interventionist

⁵⁷² Gove, E. Governor's speech at the New Year's celebration 2010, Banco de Moçambique, 17. Banco de Moçambique, Chronology 1975-2010, 221.

⁵⁷³ Banco de Mocambique, *Annual Report*, 2009, 12.

⁵⁷⁴ Banco de Moçambique, "Monetary Policy in Mozambique: Framework design, formulation, implementation and effectiveness." Seminar on Transition to a Forward looking monetary policy framework. Mauritius, June 2014.

role was progressively reduced with the adoption of indirect instruments for the management of monetary, credit and foreign exchange policies.

The central bank embraced and promoted the expansion of commercial bank services in the remote areas of the country in line with the government's economic and infrastructure development plans. The outcome was that far greater numbers of Mozambicans were integrated into the country's financial system.

6. Conclusion

The historiography of Mozambique from independence in 1975, in particular the historiography of banking, is scanty.

A researcher wishing to study the history of the country's financial system find practically no secondary sources available for this field. The reason is twofold: first, because of the traditional secrecy regarding the operation of the financial system and second, because the institutions involved have never made it a practice of keeping source documents, let alone making them available in the public domain for researchers to use.

Banco de Moçambique organised its primary sources and classified them into two groups: those that should remain in the current files and for how long and those that should remain on file for query purposes and that were to be readily available in case proof is required in connection with any legal dispute.

The creation of a Documentation and Information Centre and integrating a file service was a step in the right direction, but much must be done to make primary sources available to researchers.

This researcher has had access to many primary sources thanks largely to her many years in the Bank's service. A study of Banco de Moçambique's history is particularly important because its central role in the national economy is intrinsically linked to the post-independence history of the country.

A discussion of the genesis and the nature of central banking gives us a background for comparative and conceptual analyses that are crucial for an understanding of the emergence of Banco de Moçambique, its functions and its development as a central bank.

Considering four main central bank functions for methodological analyses, namely: the central bank as government's banker, the oversight of the national financial system, ensuring price stability, and its role as manager of the money supply, this study concludes that Banco de Moçambique was originally a central bank with commercial bank functions and evolved into specialised central bank, acquiring other central bank-related functions, in the period under review (1975-2010).

Historically central banks originated when existing financial systems realised the need for a regulator that could address and solve potential banking problems that could arise due to economic and social crisis. The old European central banks were

established in the seventeenth and nineteenth centuries and had evolved from commercial banks. These central banks obtained the sole right to issue currency, to quell financial crisis, and to relieve the scarcity of means of payment when industrialisation took off. The first central bank was the Bank of England in 1694, which was the first bank to systematise a code of central banking, it is also the reason why the Bank of England is considered the first central bank worldwide, even though the Bank of Sweden, started in 1658 and became a state bank in 1668.

In the old traditional concept a central bank only emerges in a market with capital and monetary market operational. The International Financial Conference held in Brussels in 1920, passed a resolution that brought up a new model of a central bank, when countries that had no central bank of issue were urged to establish one. From 1921 several countries established their central banks, with no transplant of the classical central bank model but trying to adapt the structures and objectives to the concrete needs of their economies. Central banks arose in the Developing Countries of Central and South America in the years after the great depression, and profit from the experience of earlier central banks but were aware of the differences between the economic environment and that they emerged for currency stabilization and to prevent inflation in most cases with an incipient or without money and capital market. A modern concept arose from the mid-1950's with emerging countries of Africa and South East Asia, which achieved political independence from colonial rule or protectorates. The prevailing economic and social differences that distinguish one country from another influenced the formulation of the central banking policies albeit having the same basic characteristics. They established central banks which were institutions that had to regulate an existing financial system while encouraging the development of an indigenous monetary and capital market. These new central banks replaced colonial institutions, but aligned the financial systems to serve the interests of the newly independent countries.

Banco de Moçambique ("the "Bank") was the successor of Banco Nacional Ultramarino which had been set up in 1864 as the issuer for Portugal's colonies, and to develop a colonial monetary market in the colonies that lacked a financial system. By this time Portugal itself had a central bank, the Banco de Portugal.

Other Portuguese commercial banks arrived in the 1960s thanks to the colonial liberalisation policy. Portuguese capital and foreign-owned industrial oligarchies

promoted capital and industrial investments in the colonies, and this activity on the other hand consolidated Banco Nacional Ultramarino as a reserve bank and as a leading commercial bank. On independence, all those activities and functions were deemed incompatible with the new nation's national interests. This meant that Banco Nacional Ultramarino had to cease operations and was replaced by Banco de Moçambique in 1975.

Thus the Bank inherited Banco Nacional Ultramarino's primary mandate of being the issuer and manager of the national payments system. The Bank had to introduce new policies and procedures for a new nation. These functions were aligned with the Basu theory, which states that the new generation of central banks has to be prepared to assume the conventional functions and challenges for which they are created.

There is still a controversy as to whether the central bank main function in the beginning was its monopoly right of issuing banknotes, or whether its role was that of lender of last resort. At the same authors such as M. de Kock and Basu assume that central banks played an important role in the development of the respective countries' financial systems as currency issuer; banker of banks; government banker; custodian and manager of foreign exchange; bank of rediscount and settler of clearance balances between banks; lender of last resort; and credit policy manager.

M.de Kock concludes that these functions were generally performed by the old banks while the newer ones were only entrusted to perform some of these functions. After a 10-year struggle to throw off Portuguese colonial rule, Mozambique became independent on 25 June 1975. Banco Nacional Ultramarino (with headquarters in Lisbon) performed central bank functions not only in Mozambique, but also in Angola, Guinea-Bissau, São Tomé e Príncipe and Cabo Verde). As such, this bank was the sole issuer of the escudo (the then circulating currency), was the banker of banks, government banker, monetary and credit policy manager, a reserve bank, while also carrying on business as a commercial bank.

The creation of central banks in the wake of the new countries' independence was supposedly in alignment with the International Financial Conference in Brussels in 1920, and the Genoa Conference in 1922, to ensure economic restoration and

stability in their monetary and financial systems, and as a step towards joining the global financial market. Those interviewed for this dissertation all agreed that, prior to independence, the freedom fighters realised that a central bank would be necessary as soon as Mozambique became independent. To them it was a matter of economic sovereignty and economic and financial liberation. They also felt that it would be impossible to rule Mozambique without control of the Banco Nacional Ultramarino.

The Bank was seen as a tool to promote rapid economic growth and development. One of its perceived functions was to counter attempts at financial sabotage and to protect the country from the risk of sabotage and economic deprivation in the form of an uncontrolled repatriation of capital as practiced by the expatriate banks. It was also expected to play its part in averting an economic collapse during the critical transition period. The Bank's first Organic Law set out its main function as ensuring the stability of the country's internal monetary system.

The period 1975-77 saw the creation of a national bank that also performed most commercial bank functions and services amidst a strong community of expatriate bank branches. When Mozambique became independent in 1975 and a central bank had to be established, the economy was exhausted due to the war and the transition crisis. FRELIMO's socialist development policy, in a region that was still largely hostile towards the new country as well as negative perceptions by Western governments led many Mozambicans to contemplate changing direction and steering the country towards a market economy.

Although Mozambique was first colonised by the Portuguese in the fifteenth century, roughly two-thirds of Mozambique were ceded to chartered companies which were linked to British, French and German capital interests as Portugal itself was too weak economically to undertake the administration and control of those areas. Mozambique is a predominantly agrarian country. In 1900 it had a population of about 3-million people, the majority of which lived in rural areas. A number of people had moved to the towns to avail themselves of urban facilities.

Apart from its links to foreign capital interests and to Portugal's backward economy, Mozambique was closely linked to other southern African economies through its migrant labour system. These were Southern Rhodesia, Tanganyika, Nyasaland and the Island of Sao Tomé, but particularly South Africa, where Mozambicans worked on the mines, on farms, in transport and harbour services, and elsewhere. The

migrants' wages, when these were brought back home, constituted an important source of external revenue for Portugal, and were used to help finance the colony's development.

Portugal used coercive method to exploitation such as forced labour (*chibalo*), hut tax and *mussoco* (labour tax) to increase production levels.

The coup d'etat in Portugal on 28 May 1928 brought Dr Oliveira Salazar to power. His party espoused "economic and political nationalism" as defined in the 1930 Colonial Act. It bound the colonies closer to Portugal, which exerted a more direct colonial management style on what was henceforth known as the Portuguese Colonial Empire. Portugal took over direct control of all its areas in Mozambique that had been controlled by chartered companies. Particularly from the 1960s, Lisbon embarked on an immigration policy to strengthen the Portuguese settler communities in the colonies. This led to the introduction of segregation policies in urban areas, to job reservation for technically skilled white workers, while the education system aimed to subordinate the "natives" to the white settlers. Only a small number of Africans, the *assimilados* were permitted access to some of the privileges reserved for the white people. The growth of the settler population called for increased food production, thereby simulating the small agro-industry, while industries such as transport, tourism and trade also received a boost. These economic activities in turn benefited the banking sector.

On the other hand the "economic nationalism" policy consolidated the control of the Mozambican economy by some powerful groups including Entrepoto Group, Monteiro e Giro, Champalimaud , Companhia Uniao Fabril- CUF and Joao Ferreira dos Santos. Some of them provided the capital to enable Portuguese commercial banks to open branches in the colony from 1965. This was made possible by the liberalisation policy (Decree-Law 46.312 of 28 April 1965) that in the banking system was consolidated by the Decree-law 45296 of 08, October 1963.

From 1966 Banco Pinto e Sotto Mayor was established, belonged to the Champalimaud Group. The Banco Standard Totta de Mocambique, a successor of Standard Bank, was established in 1966 as a joint venture with 37per cent of its capital coming from Companhia Uniao Fabril; 5 per cent from Anglo-American, 35per cent from Standard Bank and 15per cent from resident Portuguese settlers. The Banco Comercial de Angola was established in 1971, Banco Portugês do Atlantico

held 40 per cent and Barclays Bank held 60 per cent. In addition, Banco de Crédito Comercial e Industrial, established in 1965, belonged to Banco Borges e Irmão. Casa Bancaria in Beira was set up with Portuguese settler capital. Three state banks, the Caixa Económica do Montepio de Moçambique, Instituto de Crédito de Moçambique and Banco de Fomento, were established in 1970 and 1971. Despite the proliferation of commercial banks from the 1960s onwards, Banco Nacional Ultramarino was the main investor in the Mozambican economy, with interests ranging from the sugar industry to the insurance sector.

The social stratification and segregationist colonial policy that was implemented from the 1960s stirred a growing indigenous opposition to Portuguese rule. This erupted into a guerrilla war from 1964 to 1974 with the aim of achieving total liberation. On 7 September 1974 a ceasefire agreement was signed, of which Clause 16 provided for the closing down of Banco Nacional Ultramarino and the creation of the Banco de Moçambique, a central bank that was also an issuing bank. Mozambique became independent on 25 June 1975. Throughout the 1970s due to the war and to the international oil crisis Mozambique was in a dire economic recession with high inflation.

The new central bank began operations in an unfavourable economic climate. On the one hand, Portugal had nationalised the issuing banks: Banco de Portugal, Banco de Angola and Banco Nacional Ultramarino in August 1974, followed by the nationalization of the commercial banks in March 1975, to protect the Portuguese economy in face of the 25 April Revolution and decolonization.

The nationalists discussed the role of Banco Nacional Ultramarino in the economy and Oscar Monteiro proposed the terms and conditions for the creation of a central bank, to be enshrined in the Lusaka Accord of 7 September 1974 (as the clause 16). The agreement provided the basis for the transfer of power from Portugal to Mozambique, the provision for a new constitution, and the establishment of a central bank whose role and functions were established by Organic Law no. 2/75 of 17 May 1975. This day marks the establishment of the central bank.

Immediately after signing the agreement with the Portuguese delegation in Lusaka, Samora Machel, the President of FRELIMO, established a number of working groups led by Joaquim Chissano (who had been tasked with transferring power to FRELIMO). Chissano became Prime Minister of the transitional government which

took office in Maputo on 20 September 1974. Joaquim de Carvalho chaired the steering committee on economic and financial issues. He co-ordinated the Joint Economic Commission that discussed and decided on the transfer of Banco Nacional Ultramarino's assets and liabilities. Alberto Cassimo and Carlos Adrião Rodrigues, both members of the steering committee for economic and financial affairs, were nominated as the first Governor and Deputy Governor of Banco de Mocambique on 21 May, 1975, respectively. Cassimo occupied his post until 22 April 1978, when he was designated Minister of Labour. Rodrigues, graduated in Law was a member of Mozambique Democratic Group. He resigned from the position of deputy-governor and went back to Portugal in 1977. Before the creation of the central bank there was an unsuccessful attempt to introduce the national currency, the metica. At that time it was considered one of the symbols of sovereignty. However, after the London-based company, Thomas de la Rue, had produced the money, Samora Machel, then President of FRELIMO, did not approve of it being sent into circulation.

There were several well-documented cases of economic sabotage which adversely affected a significant number of companies, apart from capital being repatriated through the connivance of members of the financial system. Decree-Law 16/75 was enacted to stop these activities. This law also enabled administrative councils to intervene in the case of abandoned or sabotaged companies and to take over their management. To counter the flight of capital, the Bank took control over all external transactions from 5 November 1975.

The socialist model of development was reinforced by FRELIMO's Third Congress in February 1977, when Marxism-Leninism was proclaimed as the political option for Mozambique while deciding on socialism as the development strategy within the context of a planned economy. Banco de Moçambique was defined as a state tool for exercising overall economic control, and the restructuring and integration of commercial banks into the Bank in 1977-1978, which according to some authors consisted of nationalization of banks, fell within the framework of the state control of the key economic sectors. The Bank had to provide the monetary resources as outlined in the Central State Plan to ensure the continuation of production and employment. The National Planning Commission, which co-ordinate the Central State Plan, was created by Decree-Law 33/78 of 8 May 1978.

Through Decree-Law 5/77 of 31 December 1977, the expatriate banks which had been operating in Mozambique from the 1960s had to cease their activities. These banks were: Casa Bancária de Moçambique, Banco de Crédito Comercial e Indústria, and Banco Comercial de Angola. All their assets and liabilities were turned over to the Banco de Moçambique. The Banco Pinto & Sotto Mayor and Banco de Fomento Nacional (with headquarters in Lisbon) were dissolved and were wound down within a year.

Decree-Law 6/77 of 31 December 1977 created the Banco Popular de Desenvolvimento – a merger of the Instituto de Crédito de Moçambique and Caixa Económica Montepio de Moçambique. Only one commercial bank, Banco Standard Totta de Moçambique, was not included in this reform process, and remained a private business.

The two laws mentioned above were the basis on which the State banking system was created in 1978, with Banco de Moçambique at its apex. Its commercial functions were expanded. From November 1977 it undertook all of the offshore banking transactions (this monopoly was scrapped in April 1989); 80 per cent of credit market transactions (from 1987 the central bank began to arbitrate annual credit limits for the financial system); and finally, it held 90 per cent of the deposits of the large State companies.

The central bank had to extend credit to the gigantic State sector (that emerged from the enterprises that had been abandoned by the Portuguese settlers who returned to Portugal), often without a guaranteed return. The Banco Popular de Desenvolvimento had to finance State infrastructure, agriculture and industry according to the State Central Plan.

FRELIMO party cells were formed which had the task of organising workers and production, and to foster patriotic behaviour in public life, for example in economic enterprises, in residential areas, and in schools and hospitals. A party cell was established in the central bank on 28 December 1978 at a general meeting of employees.

The second Governor of the Banco de Moçambique was Sergio Vieira (his term was from 1978-1981). He was tasked with resuming the mandate to introduce Mozambique's new currency, the metical, on 16 June 1980 in terms of Decree-Law 2/80. This project was supported by the Democratic Republic of Germany (East

Germany) and ran from 16 to 19 of June 1980. From then onwards Banco de Moçambique began to exercise one of its chief functions as a central bank, namely as the sole issuer of the metical, the national currency. Sergio Vieira was a full member of the Cabinet of Ministers. As such, he could not claim to be free from political interference in the running of the Bank. Vieira's first action was to exchange the Portuguese citizens on the board for local nationals. He created a disciplinary board and introduced a dress code which is still in place today. It was during his time that in his mandate that the national currency was introduced. Sergio Vieira launched a program of vocational training while also promoting self-development.

The central bank desired that foreign technical assistance should be made use of for a short period so as to pass on know-how to the staff. In addition, while promoting institutional and specialised training, the Bank encouraged initiatives for academic learning.

Prakash Ratilal succeeded Sergio Vieira as the third central bank Governor in 1981. In 1986 Eneas da Conceição Comiche took over, and from 1991 Adriano Afonso Maleiane was appointed as the fifth Governor, occupying the post for three mandates until 2006 when Ernesto Gouveia Gove, was designated Governor. To reinforce the board of directors, António Pinto de Abreu was nominated Deputy-Governor on 9 December 2010.

Until the early 1980s, Mozambique was subject to a socialist development model. The aim was to halt the increasing decline in production and output, and to launch a new, revolutionary economic and social order. However, the new country had to face adverse regional and international circumstances such as having to implement sanctions against Southern Rhodesia; supporting both the African National Congress (ANC) regarding South Africa and the Zimbabwean liberation movements. These objectives virtually choked off Mozambique's primary sources of badly needed foreign exchange earnings. Even worse, it placed the country in the centre of the regional conflict. South Africa reduced the numbers of Mozambican miners and in 1978 stopped the deferred payments in gold to the Bank, a system which had been in operation since the 1928 migrant labour agreement. Furthermore, the foreign revenue earnings that Mozambique derived in respect of transport services (railways and harbours) from Zimbabwe and South Africa were also reduced. Besides,

Mozambique was suffering from a severe drought which alternated with extensive flooding. Successive international oil crisis also harmed its economy.

Thanks to patriotic fervour and mobilisation of the people, the economic performance improved between 1975 and 1981, but weakened again in 1982, partly because of the war. Agriculture was defined as being the "base of development " and the State injected funds for mechanisation with tractors, combine harvesters and other machinery made available. Industry was considered the "dynamising sector" but the available machinery was obsolete. State funds were provided for capital investment in terms of priorities as set out in the State Central Plan, but since these funds were derived from domestic and external credits, this system of financing soon proved to be highly unsatisfactory given the paucity of the new country's resources.

Banco de Moçambique aligned its policies and actions to correspond with the State's economic policy and objectives. Thus, from 1974 to 1988 monetary policy was run on an administratively fixed basis characterised by a rigid exchange and interest rate regime. Administrative fluctuating currency control brought real devaluation, although an apparent stability, and serious financial economic imbalances in the face of prices contraction.

FRELIMO's Fourth Congress in 1983 made a reappraisal of the guidelines as laid down by the Third Congress. It decided on new guidelines strategies to revive the stagnating economy. It was decided that the private sector could and should play a role in the economy, and that the burgeoning State sector ought to be downsized. These insights paved the way for economic reforms. Thus the socialist experiment in Mozambique lasted some 10 years.

With its adherence to the IMF institutions, Mozambique in 1984 began to embrace a new development model, based on the market economy. In 1987 the govern Introduced the Economic Rehabilitation Programme. The central bank adopted a less restrictive monetary policy, introducing gradual reforms from 1989. These included resuming the credit control function as opposed to the State Central Plan allocations, and introducing flexible exchange and interest rates. From 4 March 1987 to 1990 the central bank began calculating daily exchange rates (in contrast to the procedure from the start of independence when the Mozambican escudo was linked to the Portuguese escudo) setting up for the first time a flexible and realistic exchange rate, and, inter alia, to liberalise the foreign trade, until the unification of

the secondary market with the official market exchange rates in April 1992. Between 1989 and March 1992, interest rate adjustments were made, aiming at reducing market distortions and to achieve positive rates. The benchmark of total deregulation was reached in May 1994. The liberalisation of interest and exchange rates enabled a transition to take place from direct to indirect monetary policy instruments. It improved liquidity control with reduced operations out of the official market, and opened the foreign exchange market to more operators. Credit to the private sector increased from 1987 to 1992 in contrast to credit to State companies which was diminishing. The volume of credit was high and the inflation rate stood at around three digits

Banco de Moçambique gradually consolidated its central bank functions via institutional, legislative, monetary and credit policy reforms. Some of central bank institutional reforms were that the Legal Department added the drafting of bank legislation to its competencies and the creation of Banco de Moçambique's Department of Economic Research and Statistics in 1989. This department began producing research papers and statistical analyses for the Bank; and provided professional advice to the board in respect of monetary and exchange policies. This unit played an important role in assisting the Bank with organising, negotiating and implementing the IMF programme. It also furnished the Bank with analytical and technical advice to facilitate its role as advisor to government. The Bank also encouraged technical and scientific research, publishing essays. This publishing activity was consistent with the creation of the central bank's Documentation and Information Centre." For transparency and accountability the bank consolidated the production and publishing of periodicals containing analyses and statistical information such as the *Annual Report*, *Statistical Bulletin* and the *Preços e Conjuntura Financeira*. The central bank was assigned to produce and disseminate the national balance of payment statistics. Furthermore, in March 2003 Mozambique joined the IMF General Data Dissemination System for producing macroeconomic data. In 1987 a new organic structure was approved by the board in order to separate the Bank's commercial function from its central bank function. This started a process that ended in 1992 when the definitive separation of the two sections took place.

In June 1994 the Monetary Policy Technical Committee was created. It consisted of senior technical staff from both the central bank and the Ministry of Finance to analyse the issues that had been agreed with the IMF and how they should be implemented.

In February 1997, the Monetary and Exchange Policy Committee was created, as a result of financial system evolution and the central bank itself. It had to evaluate and co-ordinate monetary and foreign exchange operations, while also integrating monetary and exchange rate policies for better liquidity control.

An improvement in monetary policy and a new definition of its medium and long-term objectives; a new analytical framework for monetary policy; definition of strategic framework, new internal and external communication strategies, led the central bank to create the Monetary Policy Committee in October 2007. From then onwards a one-day monetary policy meeting was held monthly to promote transparency and accountability. A press release, posted on the Bank's website, was released after each meeting.

From 2000 successive organic structural changes were made to align the central bank to SADC's central banks structure. Before the creation of Supervision Department in 1991, the Bank's oversight functions in respect of the financial system were insignificant due to the Bank's dual characteristic and its role in the planned economy. Its efficiency could be evaluated by the central bank decision to wound down Credicoop, because of systematic failure of prudential standards and the supervision act which led to the privatization of the Banco Popular de Desenvolvimento .

From 1989 the central bank began to implement an IT project for business automation. In 1988/9, there were concerns about possible IT problems due to the arrival of the new millennium – a problem that was, what was designated Y2K 2000. To address it and to develop a consistent reengineering program of business automation the central bank introduced an integrated program, the Computer System Re-engineering Project, with a Directive Plan on the Information Technology System.

As a part of the Economic and Social Rehabilitation Program, the financial system conceived, in 1990, "the Guidelines for Financial Reforms", that was an umbrella of a

series of reforms of which the main one was the separation of the commercial from the central bank functions and the restructuring of the Banco Popular de Desenvolvimento for further privatization.

The reforms of 1984 to 1992 were consolidated up to 2010. This was when the Bank progressed towards more effective central banking functions. Institutional, legislative and policy reforms were passed to enable the Bank to improve its performance. At the end of this period the Bank was represented in all main business centres and had a presence in eight of the 10 provinces.

The creation of the Interbank Monetary Market and the Interbank Foreign Exchange Market in 1996 and 1997 made it possible for the central bank to conduct business within an indirect instruments management framework.

To strengthen the market the central bank created the Central Risk Centre in 1996 to co-ordinate information about credit risk in the whole system. In the following year Monetary Authority Bonds were created, and in 1998 Mozambique's stock exchange began trading. All these developments revealed an expanding national financial market and innovative new products. Decree-Law 15/99 was approved to update the rules and regulations for the creation and operation of credit institutions.

In 1999 the Bank's head office building was upgraded and the old furniture was replaced to provide bank staff with a healthier and more modern working environment.

A Human Resources Management System that matched staff remuneration to staff performance was introduced in 2005. In December 2008 it was upgraded with the addition of a conceptual model of competences to improve management in areas such as recruitment and selection, training, career development and staff performance evaluation. To help guide staff behaviour, the Bank distributed its vision and mission statement. In doing so the Bank's institutional cultural values were incorporated in the acronym TEACHA which, translated, stands for transparency, involvement, self-development, assiduity, competence, honesty and diligence.

Before Decree-Law 9/2004 was promulgated, the authorisation and revocation of the constitutions of credit institutions resorted under the Cabinet of Ministers. From

2005, under the new law, this authority was exercised by the central bank, and a spate of new credit institutions and financial corporations made their appearance.

Although the Bank has to date still not succeeded in offering its services and facilities to all parts of the sprawling country, the modernisation and expansion of the financial system (with IT support) has made mobile banking and mobile telephone banking available to existing and potential new customers who could not be reached previously.

As a result of reforms during the period from 1992 to 2010, Mozambique garnered the trust of foreign donors, and gained access to a fourth, fifth and sixth IDA credit for reconstruction. It could also sign the third and fourth ESAF (Enhanced Structural Adjustment Facility) of the IMF. In these instances the central bank as government advisor gave valuable support.

In 2006, thanks to the increasing modernisation of the national payment system and the prevailing economic stability, the central bank proceeded with the currency reform, reducing a 3 digit calculation to the single digit "Metical".

In 2010, because of the reduced supply of agricultural products and the continuing international financial crisis, Mozambique registered a higher inflation rate than in any of the preceding five years. The balance of payments deteriorated. The central bank decided to increase the "sell" volume on the interbank exchange market as a mechanism of liquidity sterilization, to reduce the inflation rate.

The financial system reforms were beneficial in that they led to a greater scrutiny thanks to improved supervision and the transition from direct instruments of monetary policy management to the modern indirect instruments. The reforms also led to a greater consolidation of Banco de Moçambique's expertise as a central bank through extensive structural and policy reforms. All this culminated in improved, modern banking services to the country.

After emerging as a central and commercial bank – with more commercial than central bank functions as a result of having taken over the colonial Banco Nacional Ultramarino – the Banco de Moçambique became the country's first national bank. It gradually evolved into a recognisable and respected African central bank, and this status became fully effective from 1992. This landmark achievement occurred within

the context of fundamental shifts in the young country's political, economic and social conditions. A contributory factor was the fact that the Bank was finally able to take its rightful place in the southern African region, while also playing an important role in the international financial arena.

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Decree-Law no 5/77 - determine "the integration of the Banking System

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B.O. 137, Serie I, 26 November 1974. Decree -Laws 35 and 36//74 .pp. 1257-1259, about interest rates.

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Biographies of central Bank Governors: Banco de Moçambique Governors and Deputy Governor

— Alberto Francisco Cassimo

Was born on the 28th of August, 1944, in Quelimane, province of Zambézia .

After studying at Quelimane's Primary School and Industrial and Commercial School, he joined Frelimo in September, 1964 and was connected with the radio programme " A Voz da Frelimo".

From 1965 to 1971 he studied and graduated as a licentiate in Economics at the Lomonossov, Moscow State University. In 1973 he was appointed as a member of Frelimo's Executive Committee and information and Propaganda Deputy Secretary and, in the same year, he was appointed Frelimo's Treasury and Finance Department Secretary until 1977. In August, 1977, he was elected as a member of the Central Committee of the Frelimo Party at Frelimo's III Congress. Between the 21st of May, 1975 and 22nd of April, 1978, he held the position of Governor of the Bank of Mozambique. From 1978 until the time of his death, he held the post of Minister of Labour.

— Carlos Adrião Rodrigues

Was born in Lisbon on 2 June 1929 where he concluded the elementary school. In 1945 he came to Mozambique to meet his parents. In Lourenço Marques (today known as Maputo) he completed the high school and returned to Lisbon to graduate in Law. He then came back to Mozambique Democrat Group .In the 1960s he held, for several times, the position of president of the Mozambique Cineclub and director of the magazine Objectiva 60, an organ of this institution. He was also a member of the Administrative Commission of Rádio Clube de Moçambique. In 1975, he was appointed Deputy-Governor of Banco de Moçambique by then President Samora Machel, a position he held until 1978.

— Sergio Vieira

Was born on May 4, 1941, in Tete, He concluded the high school in 1959. From 1959 to 1961 he attended the Faculty of Law at the University of Lisbon but he was then forced to interrupt his studies and abandon Portugal, in 1962 he was accepted in the Faculty of Law at the University of Paris and the institute of Political Studies in Paris.

Once again he interrupted his studies because of the need to fight for independence. In 1967, he graduated in Political Sciences at the University of Algeria. From 1967-1969, he was the Secretary in the mandate of the President Eduardo Mondlane, and from 1970 to 1975, he held the same position under the President Samora Machel.

From 1975 to 1977, he was the Office Director of the President Samora Machel and then Governor of the Banco de Moçambique (1978-1981). After leaving the Bank, he held various government positions namely; Minister of Agriculture (1981 - 1983); Governor of the Province of Niassa; Deputy Defence Minister (1983—1984); Security Minister (1984—1987) and academic position namely; Investigator and Director of the Centre for African Studies (1987-1992) at Universidade Eduardo Mondlane. He was a member of the National Parliament from the 1st to the 5th Legislature, where he held several important positions in various Labour Commissions. He was also the Director General of the Zambeze Development Planning Office and is the founding member of the Mozambican writers' Association.

— Prakash Ratital

Was born on March 26, 1950 in Manhica, province of Maputo. He graduated in Economics from ISCEF - Institute of Economic and Finance Sciences of Lisbon in 1974. From 1975 to 1977, he was the Chairman of Mozambique Montepio and its Savings Bank. From 1977 to 1979, he was the General Director of the Mozambique Insurance Company, and during the period 1978 and 1980 he was the Deputy Governor of the Banco de Moçambique and member of the Council of Minister. After leaving the Bank, he held governmental and academic positions, and is currently working in the private sector where he is the Chairman of the Board of Directors of MozaBanco. He published numerous books and collaborated in edition of periodicals. He worked as a consultant to UNICEF in the framework of the emergency program in Angola. He was a member of the Constituent Assembly in Mozambique and Member of the 1st, 2nd and 3rd People's Assembly. He is a member of AMECOM - Mozambican Association of Economist.

— Eneas da Conceição Comiche

Was born on June 28, 1939, in Moma, Nampula province.

He concluded his primary schooling in 1951 and his studies at the Commercial School in Maputo, in 1957. In 1959, he completed the Commercial Institute in Lisbon. He graduated in Economics at the Faculty of Economics from the University of Porto, in 1969.

From 1964 to 1970, he worked at the firm Armazéns Soares Carreira in Vila Nova de Gaia, in Portugal, as head of the administrative office, becoming an assistant lecturer at the Faculty of Economics in Lourenço Marques University (1970- 1977). From 1970 to 1971, he was a technician at the Mozambique Credit Institute, having becoming the Director of the Institute from 1974 to 1975 and later the Chairman of the Board of Directors (1975-1977). He was the Chairman of the Board of Directors of the Banco Popular de Desenvolvimento from 1978 to 1986, Vice - Minister for Finance, 1984 to 1986 and Governor of Banco de Moçambique (1986-1991). After leaving the Central Bank, he was the Minister of Finance from 1991 to 1994.

Between 2003 and 2008 he occupied the position of Mayor of Maputo City, and currently he is a member at the national Parliament.

— Adriano Afonso Maleiane

Was born on November 6, 1949, in Matola, Maputo province, Mr Maleiane began his banking career in 1973, at the Casa Bancária de Moçambique (Mozambique Banking House), moving afterwards to the Banco Commercial de Angola (Angola's Commercial Bank), in 1974. In 1977, in the context of the Bank restructuring, he was transferred to the Banco de Moçambique where he occupied several positions with highlights to: Head of Imports and Exports Sector; Manager of Credit and Transportation, Director, Deputy Governor, and finally, in 1991, Governor until his retirement in 2006.

By President Decree , in 1983 , he was appointed to the Empresa Estatal Citrinos the Maputo (Citrus State Company of Maputo), and a year later he was appointed National Director of Agricultural Economy, in the Ministry of Agriculture , until 1986 when he resumed his banking career at the Banco de Moçambique .

As Governor of the Banco de Moçambique, he led the transformation process of the Bank which until 1991, was also functioning as a commercial bank, to exclusively assume Central Bank functions. He participated in the negotiation of the foreign debt under the Paris and London Club, and in the process leading to the selection of Mozambique as a beneficiary of the debt reduction program (HIPC) and, subsequently, the writing off of a significant part of Mozambique's debt. After leaving the Bank, he was the non-executive chairman of VISABEIRA group. He also held the position of Banco Nacional de Investimento Chairman of the Executive Committee, and is currently the Minister for Economic Affairs and Finance.

— Ernesto Gouveia Gove

Was admitted at the Central Bank in 1976, and has taken various positions in different departments, namely Foreign, Issuing and Treasury, Credit and the Documentation Centre. He was Director for Foreign Currency, Issuing and Treasury Operations before being appointed Executive Director and Board member in 1991.

Dr Gove graduated in economics by Eduardo Mondlane University in 1989, and obtained a master's degree in financial economics from the University of London in 1998. He took a number of Training courses of the IMF and World Bank Institutes and in the Swiss Central Bank Institute in Berne, and he has participated in various seminars.

Dr Gove took part in Mozambique's financial sector reforms in coordination with the World Bank team that produced the Report on the Financial Sector in Mozambique in 1992.

He led the technical teams that prepared the technical proposals justifying the separation of commercial functions from those of Central Bank and legislation that resulted in the creation of Banco Comercial de Moçambique. Following the adoption of the Law 1/92 of 3 January, Dr Gove led the process of establishing the Banking Supervision Department and organised the training of the first supervisors.

In 1995 Dr Gove was appointed Deputy-Governor of the Banco de Moçambique . He chaired the Board of Directors of Sociedade de Noticias and the Board Fiscal Committee of Açucareira de Mafambisse (Mafambisse Sugar Company), and also lectured at Eduardo Mondlane University from 1990-1994.

Dr Gove was nominated the Alternate Governor of the Islamic Development Bank, the international Monetary Fund and the World Bank. He was appointed Governor of the Banco de Moçambique on 25 July 2006.

Dr Gove was born in 1957 .He is married and has four children.

— Antonio Pinto De Abreu

Antonio Pinto De Abreu, Was Born in 21 of March of 1965, in the former Vila Pery* today known as Chimoio, located in the Province of Manica. In 1977 he was part of the first group of Mozambicans students who went to Cuba. In 1982 he was admitted to the Banco de Moçambique where he held different management and advisory positions being a member of the Board of Director since 1996. By reason of his competences, he participated in the negotiations of the country's macroeconomic programs with the International Monetary Fund and with the World Bank Group Since 1990. He led the technical teams of Banco de Moçambique on the structural reforms agreed upon with the World Bank from 2000 to 2004, as well as those from financial, monetary and exchange programs agreed upon with International Monetary Fund from 1995-2000 and 2005 to 2006.

In 1989, he concluded with a Diploma of Merit, The Bachelor's degree in Economic by the Eduardo Mondlane University (UEM). In 1998 he obtained, with distinction, the Master's Degree in Financial Economy by the School of Oriental and African Studies *SOAS (in London) . As an university teacher, he developed some academic activities most of them in the Faculty of Economics of Universidade Eduardo Mondlane (UEM), the Higher Polytechnic and University Institute-ISPU, today known as "A Politecnica" (Maputo and Quelimane) and at The Catholic University Of Mozambique (Beira). He has several works, either self-written works or in co-authorship nationally and internationally, as well as lecturers. He currently occupies the position of Deputy-Governor of Banco de Moçambique since December 2010 and member of the Mozambican Association of Economists. As a poet and writer he is member of Mozambican Association of Writer. He is married and father of two children.