

MANAGING CAPITAL FLOWS: MOZAMBIQUE'S PERSPECTIVE

Conference on “MANAGING CAPITAL FLOWS: CHALLENGES FOR
DEVELOPING ECONOMIES”

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OUTLINE

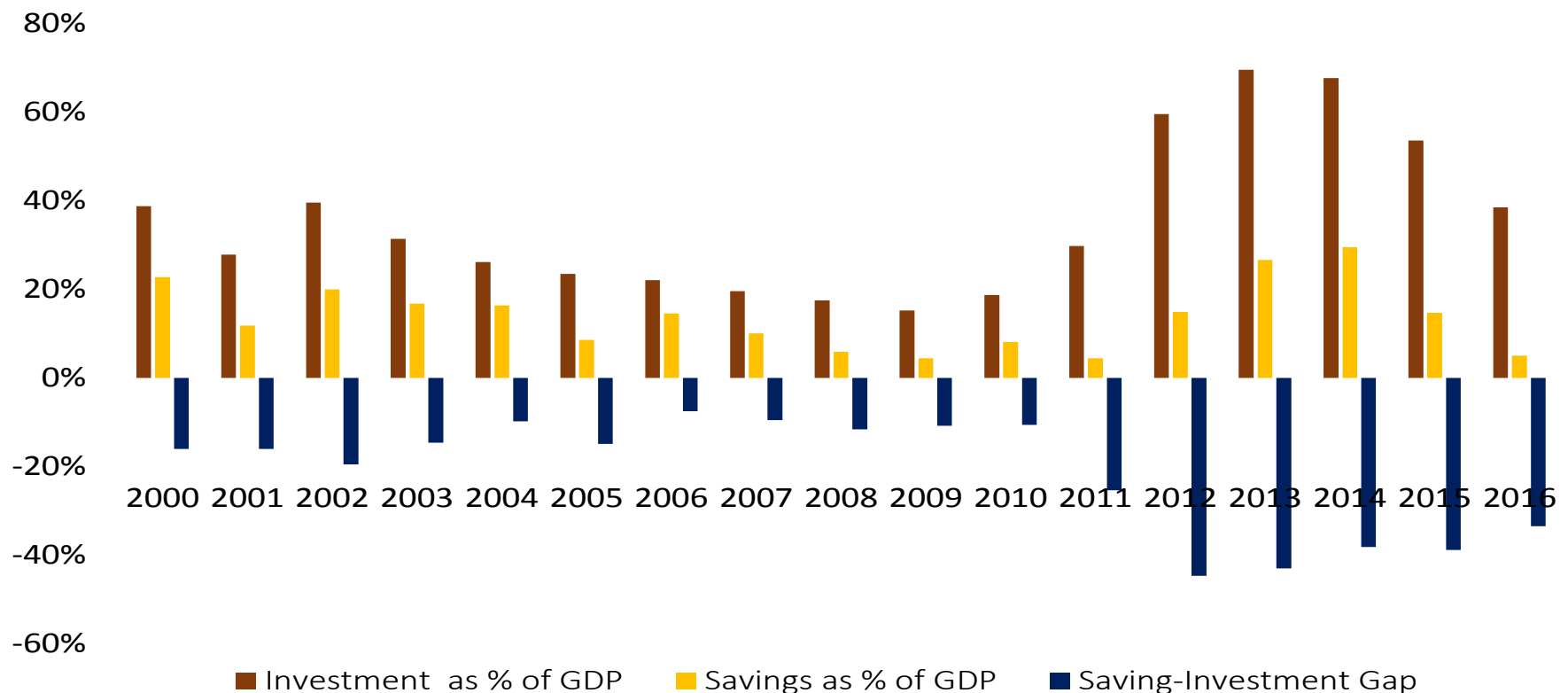
- Relevance of Capital Flows for Mozambique
- Main Episodes of Capital Flows
- Impact of Capital Inflows on Macroeconomic Variables
- Main Challenges in Managing Capital Flows

RELEVANCE OF CAPITAL FLOWS FOR MOZAMBIQUE



DOMESTIC SAVINGS HAVE BEEN INSUFFICIENT TO FINANCE DOMESTIC INVESTMENT NEEDS. RELIANCE ON FOREIGN SAVINGS

Gross National Savings and Investment as % of GDP (2000-16)

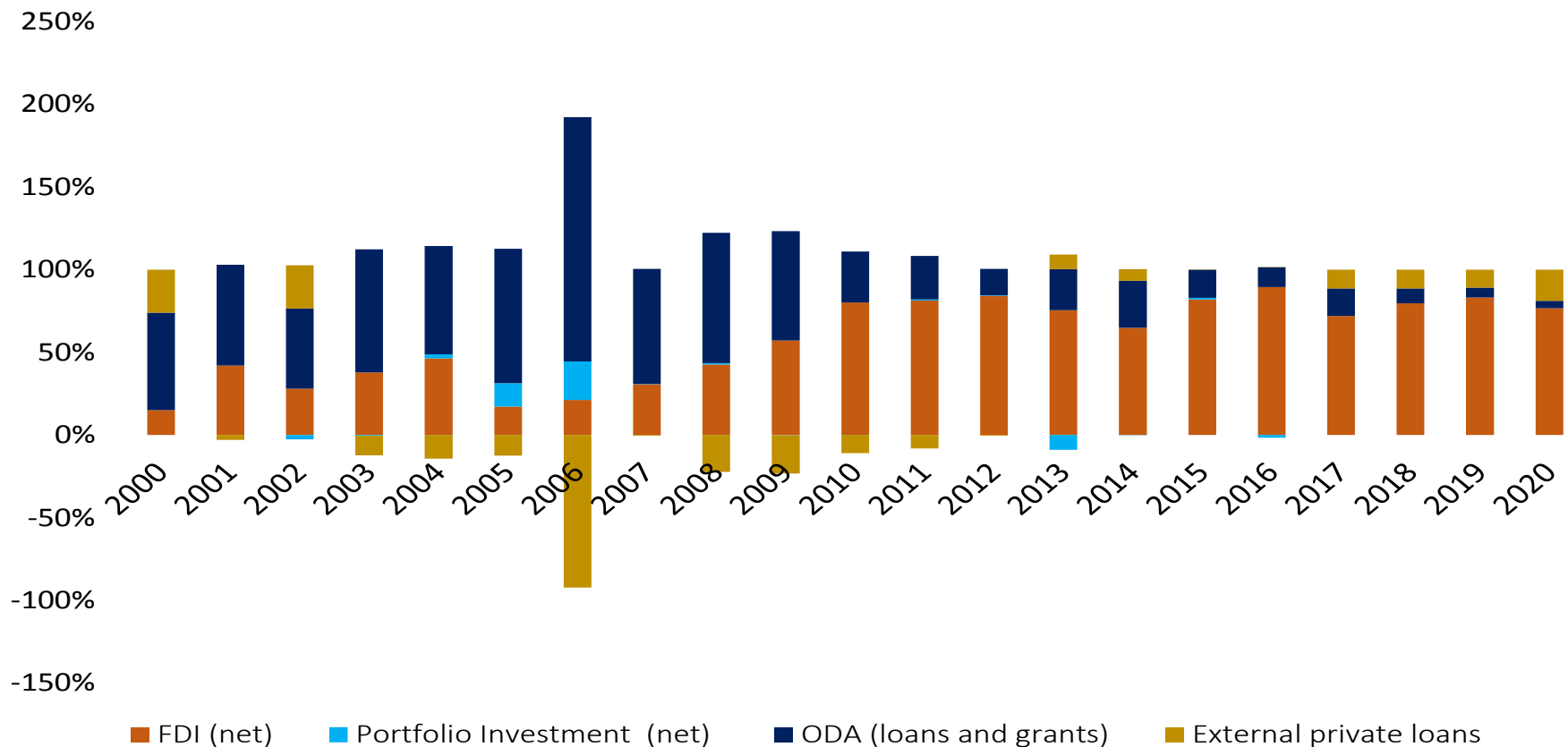


RELEVANCE OF CAPITAL FLOWS FOR MOZAMBIQUE



CAPITAL INFLOWS HAS BEEN MAINLY IN FORM OF ODA UNTIL THE FINANCIAL CRISIS WHEN FDI INCREASED SHARPLY.

Composition of Capital Flows

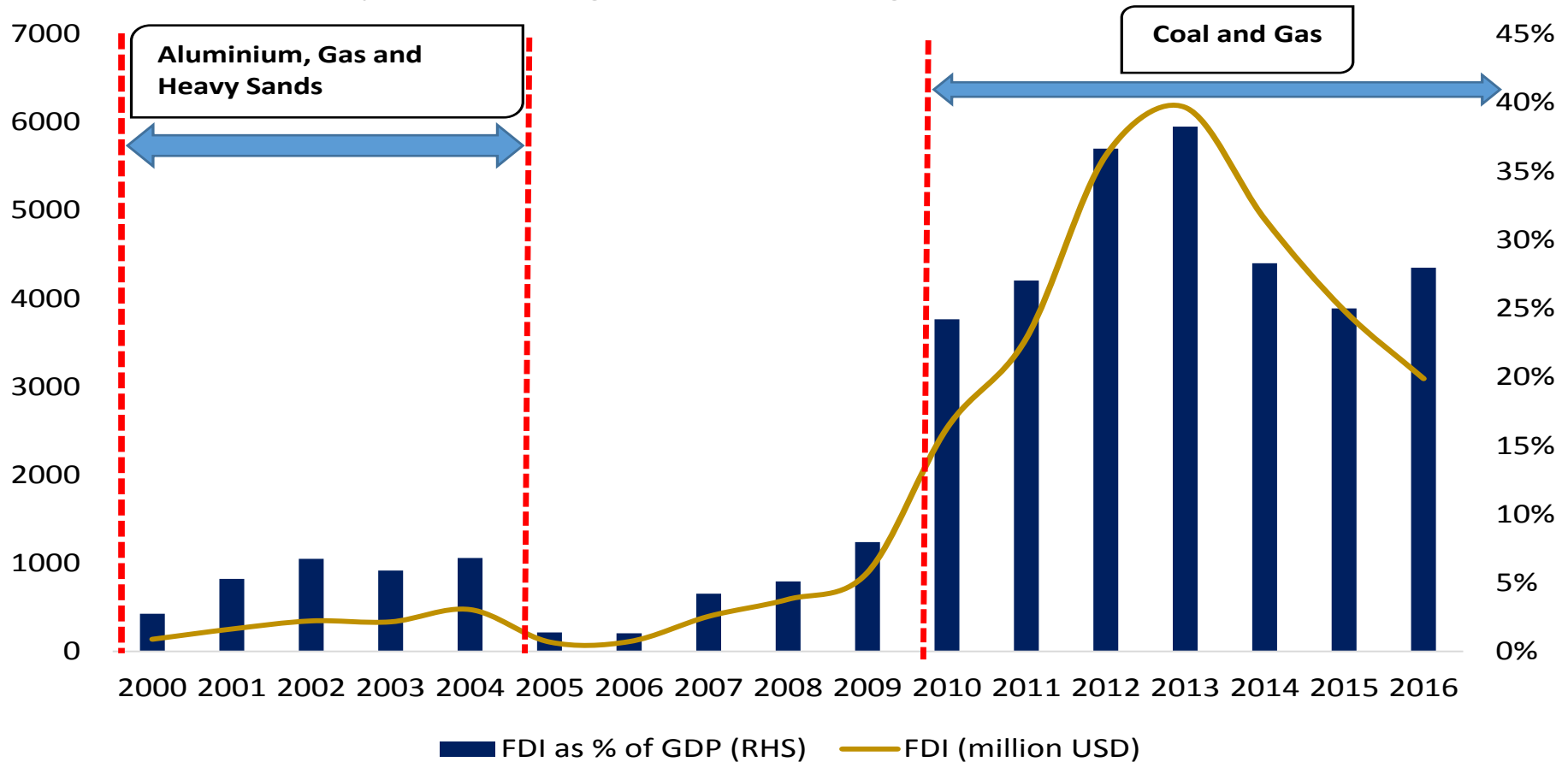


MAIN EPISODES OF CAPITAL FLOWS (FDI)



A LARGE SHARE OF FDI HAS BEEN GOING INTO NEWLY DISCOVERED GAS AND COAL FIELDS

Episodes of Large Inflows of Foreign Direct Investment

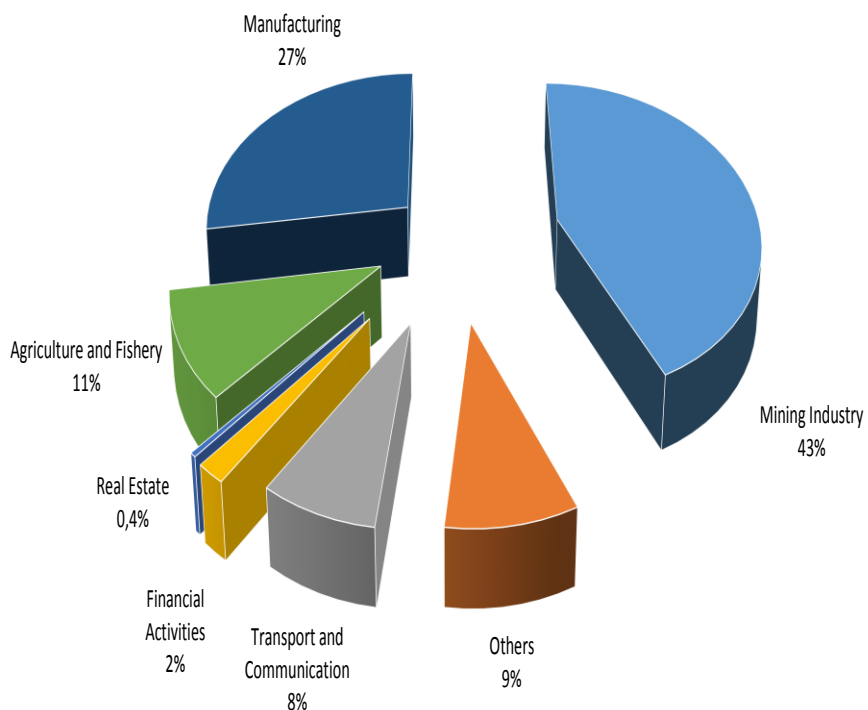


MAIN EPISODES OF CAPITAL FLOWS (cont.)

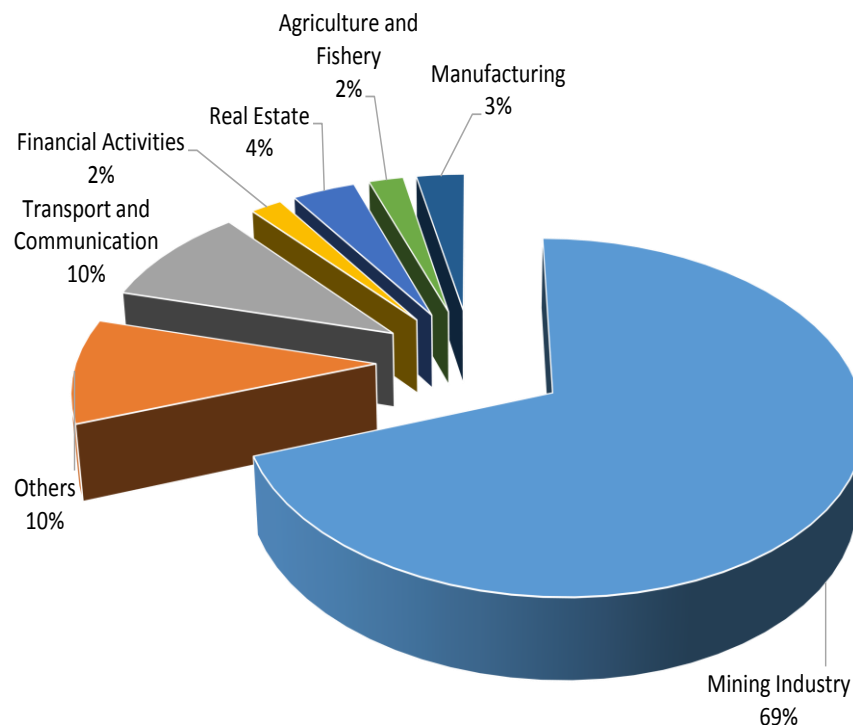


WHILE FDI IN MINING INCREASED, MANUFACTURING AND AGRICULTURE SHRANK

Share of Foreign Direct Investment per Sector of Activity (2001-09)



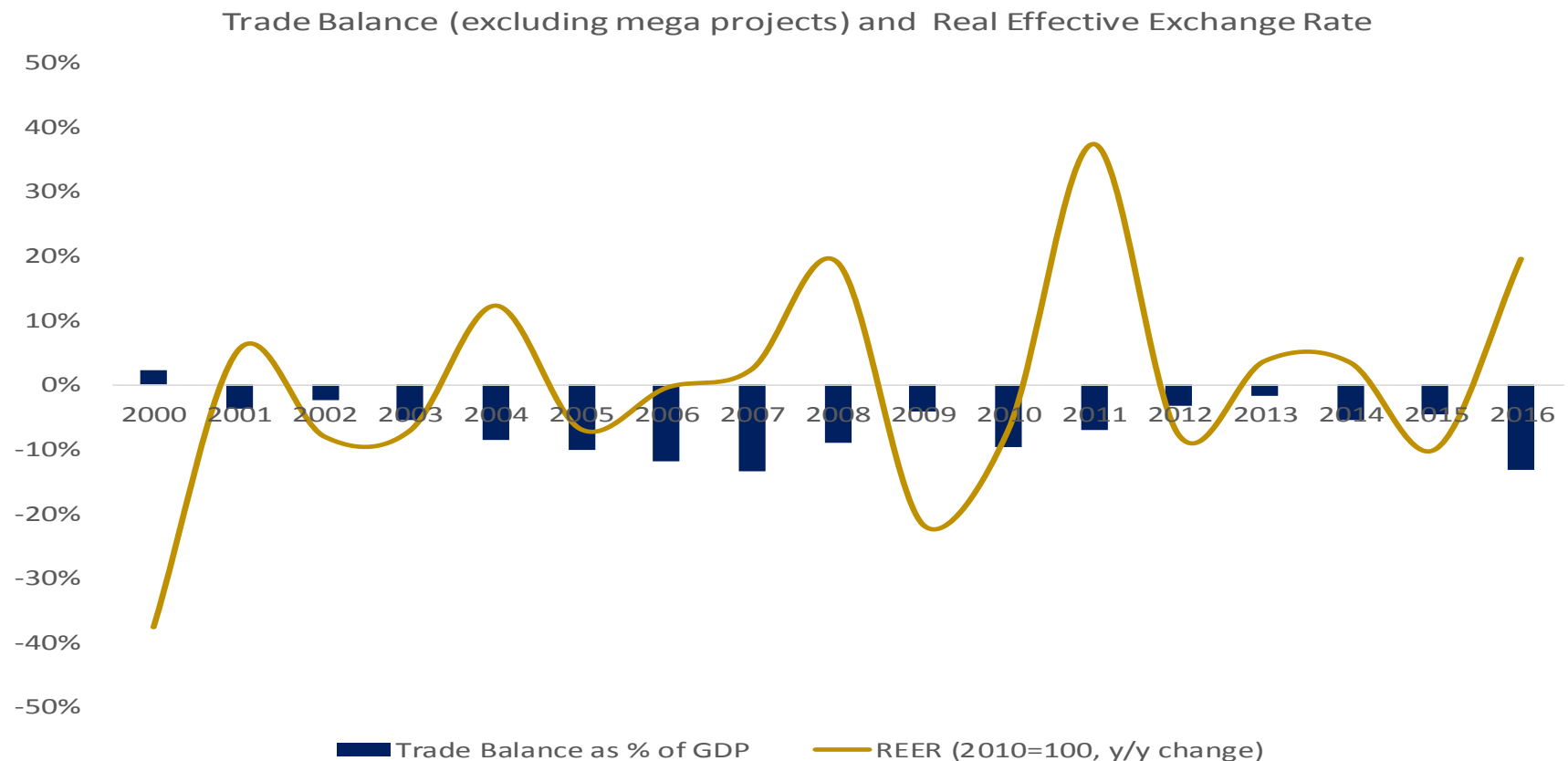
Share of Foreign Direct Investment per Sector of Activity (2010-16)



IMPACT OF CAPITAL INFLOWS ON MACROECONOMIC VARIABLES (Cont.)



THE FDI INCREASE (2007-2013) LED TO REAL EXCHANGE APPRECIATION, BUT WITH NO EVIDENCE OF DUTCH DISEASE

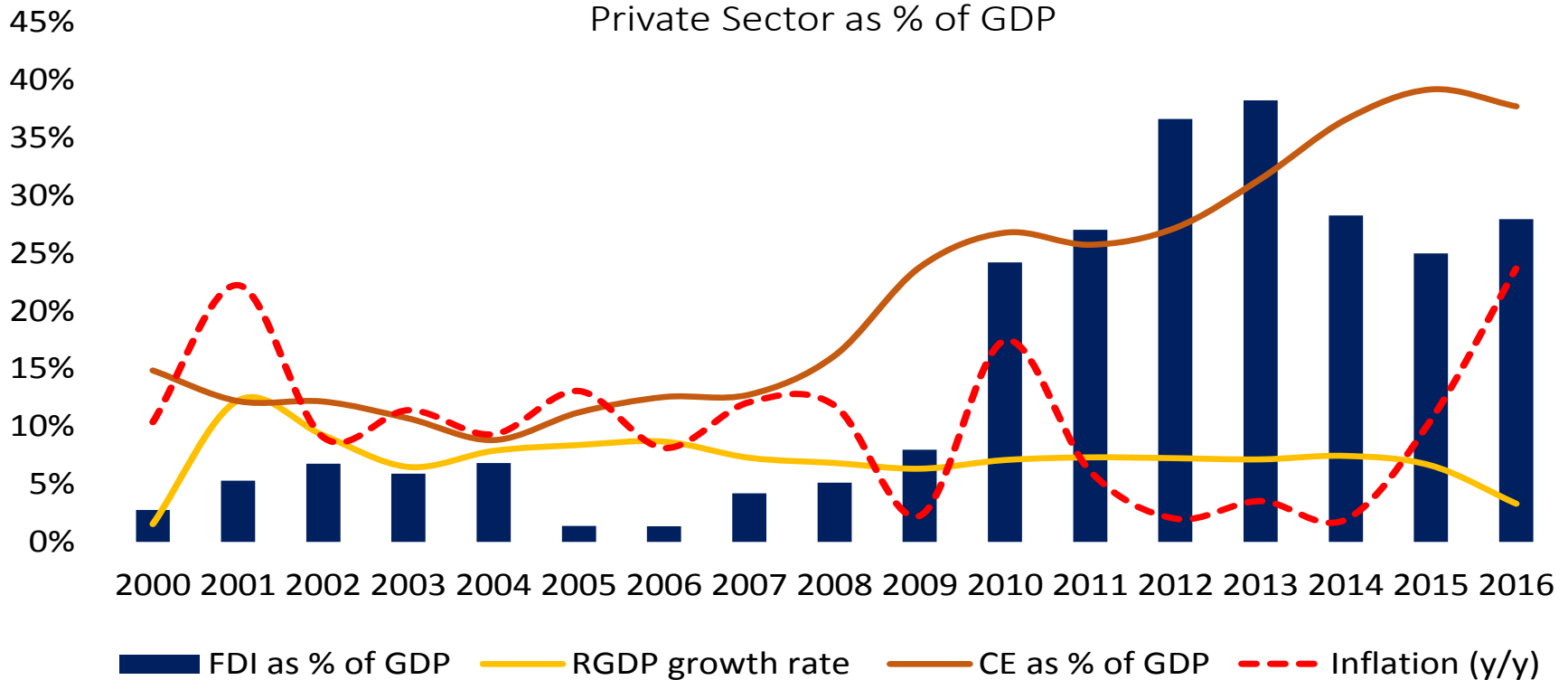


IMPACT OF CAPITAL INFLOWS ON MACROECONOMIC VARIABLES (Cont.)



FDI TRIGGERED A CREDIT BOOM AND HIGH GROWTH

Real GDP growth rate, Inflation, Foreign Direct Investment and Credit to Private Sector as % of GDP

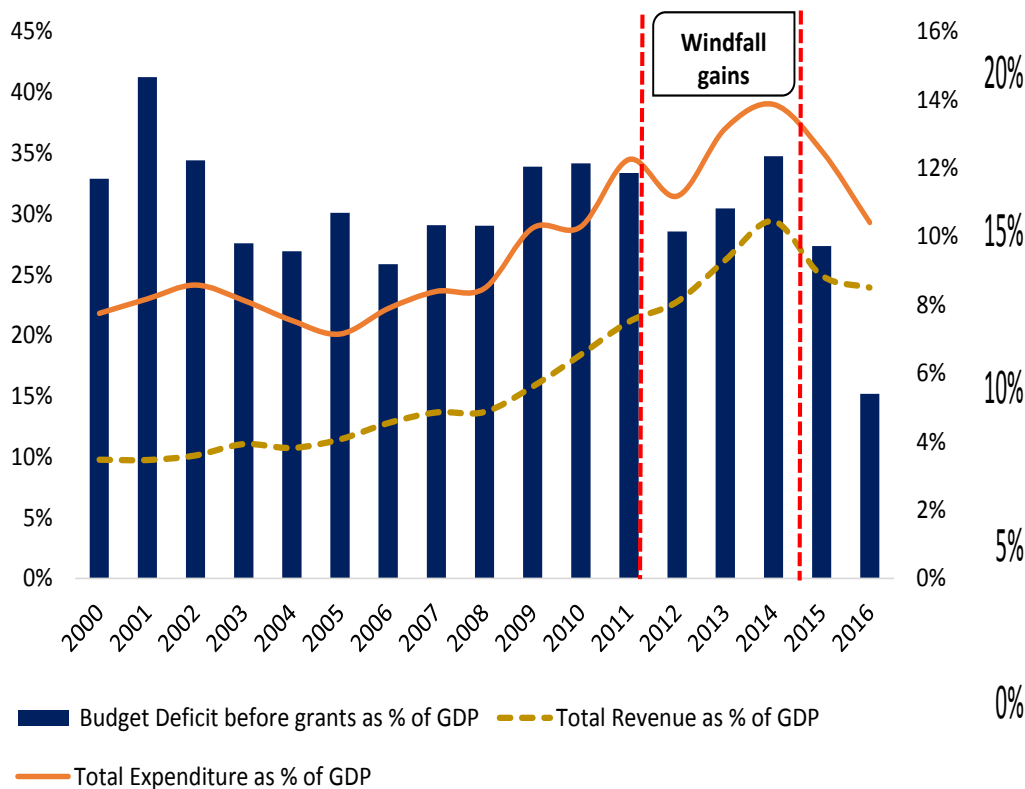


IMPACT OF CAPITAL INFLOWS ON MACROECONOMIC VARIABLES (Cont.)

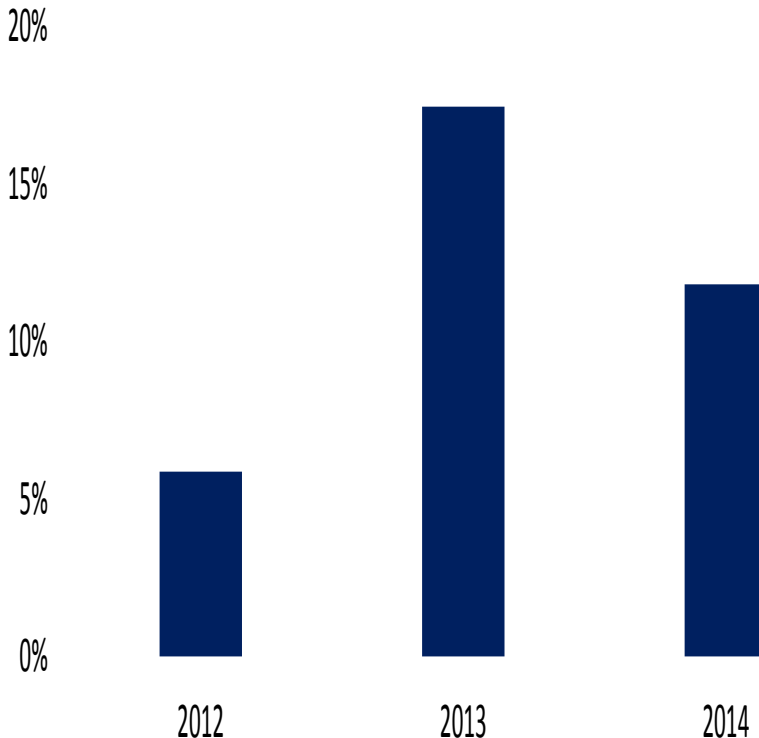


WINDFALL GAINS DID NOT LEAD TO AN IMPROVEMENT OF THE FISCAL BALANCE

Government Budget Deficit and Revenue and Expenditure



Windfalls Gains as % of Tax Revenues



IMPACT OF CAPITAL INFLOWS ON MACROECONOMIC VARIABLES (Cont.)



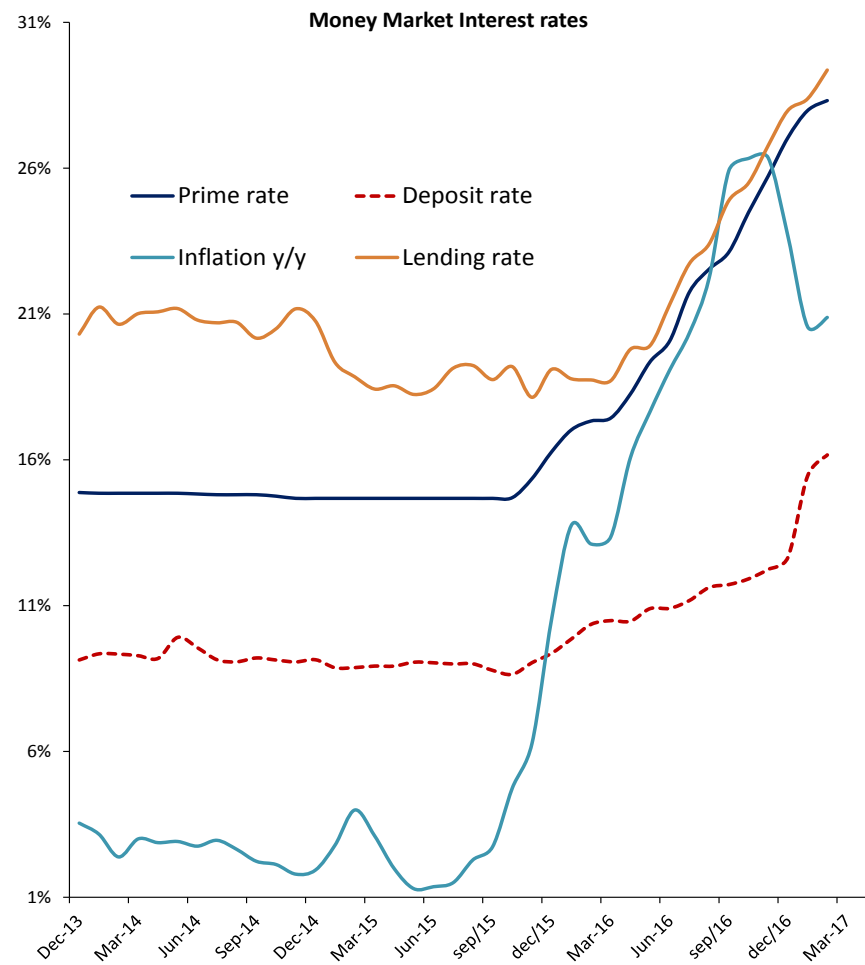
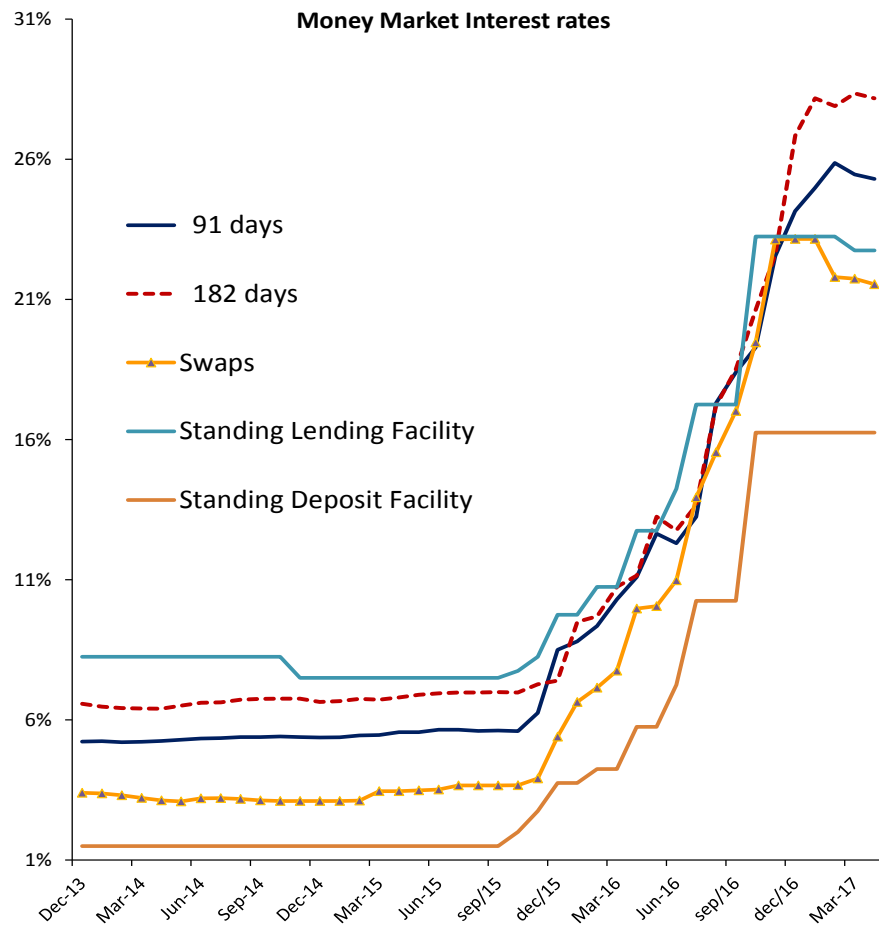
CAPITAL INFLOWS HAVE AFFECTED LIQUIDITY CONDITIONS IN THE MONEY MARKET ...

| In million of Meticaïs | Dec-13 | Dec-14 | Dec-15 | Dec-16 | 03-April |
|---|----------------|---------------|----------------|---------------|----------------|
| (a) Narrow Liquidity = Bank Reserves - Reserve Requirement | 14.5 | 66.3 | 8.9 | 728.1 | 619.0 |
| Standing Deposit Facility (FPD) | 2169.3 | 749.7 | 343.0 | 7650.0 | 18913.7 |
| Reverse Repo | 8434.4 | 3791.4 | 0.0 | 0.0 | 0.0 |
| Standing Lending Facility (FPC) | 0.0 | 62.2 | 2888.0 | 0.0 | 0.0 |
| (b) Broad Liquidity = (a) + FPD + R.Repo -FPC | 10618.2 | 4545.2 | -2536.1 | 8378.2 | 19532.7 |

IMPACT OF CAPITAL INFLOWS ON MACROECONOMIC VARIABLES (Cont.)



... PUTTING PRESSURE ON INTEREST RATES



- Ensuring peace and political stability
- Undertaking reforms to diversify the economy (including diversification of the FDI destination) and support fiscal consolidation
- Managing excess liquidity in the banking system.
- Liberalization of the capital account in the medium term to attract other forms of capital flows (e.g. portfolio)

OBRIGADO
(THANK YOU VERY MUCH!)