Maputo , 26 May 2014 Boletim Nº 64e

IESE INSTITUTO DE ESTUDOS SOCIAIS E ECONÓMICOS

IDeIAS

Informação sobre Desenvolvimento, Instituições e Análise Social

Domestic Savings: Mozambique and the Others

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Has the birth of the Mozambican domestic savings in the last five years of the twentieth century, initiated the transition of Mozambique's economy to a new pattern of economic growth? A twofold growth pattern: 1) Regarding the historical evolution of Mozambican economy in the last half century, characterized by a longstanding negative domestic savings and investment above savings capacity, funded predominantly by foreign savings - the part of income not consumed by citizens of other countries; and 2) Regarding the contribution of Mozambique for domestic savings in the southern African region and the world at large.

Domestic savings, it should be recalled, is the sum of the savings of individuals, families, businesses and the state, corresponding to the portion of income that is not consumed in a given year or period. The IDeIAS 63 (Francisco & Siúta 2014) briefly described the trajectory of the Mozambican domestic savings between 1960 and 2010. It showed that consumption was on average 114% of the gross domestic product (GDP). In 1983, peaked at over one-third of GDP, but since 1984 the previous trend was reversed. In the 1990s, the proportion of negative domestic savings progressively reduced and was even canceled, allowing to achieve a positive average rate in the first decade of this twenty-first century. Thus, in IDeIAS 63 we considered 2000-2010, an unprecedented decade for having been the first, since 1960, which achieved a small positive portion of income not immediately consumed (Figure 1).

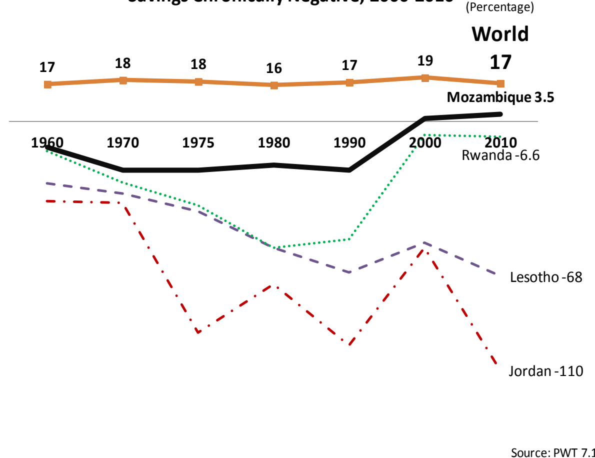
The estimates of average domestic savings rate between 2000 and 2010, vary depending on the sources: about 2% of GDP, according to the source used in this research (Heston *et al.* 2012); 4% and 5%, according to the Bank of Mozambique (BdM 2014) and the World Bank (The World Bank 2014), respectively. Notwithstanding differences in the sources, all corroborate the evidence of the breaking with the previous long negative trajectory.

The aim of this paper is to add new data, to those already shared in the IDeIAS 63, in this case to place Mozambique in the international context and in particular Southern Africa. As in the IDeIAS 63, data used here are based on the longest available macroeconomic time series, called Penn World Table 7.1 (PWT 7.1); a database of national accounts in 189 countries, including Mozambique, for the period 1950-2010 (Heston *et al.* 2012)

1. MOZAMBIQUE IN THE WORLD

Figure 1 illustrates the evolution of the global average rate of domestic savings, estimated at about 17% of GDP between 1960 and 2010 (line called "World"), compared with savings rates in countries with a long history of negative savings. As can be seen, in the late twentieth century, Mozambique left the group of negative domestic savings.

Figure 1: Mozambique Distances Itself from Countries with Domestic Savings Chronically Negative, 2000-2010 (Percentage)



In 1960, from a total of 110 countries with data on domestic savings, 15 countries recorded negative levels, against 18 with high levels of savings, meaning by high, in this case, savings rates higher than a third of GDP (e.g. Iran 67%; Gabon 58%; Algeria 56%; 47% China; Venezuela 47%). Half a century later, 33 countries of a total of 189 experienced negative savings in 2010 (e.g. Liberia -110%; Lesotho -68%; Timor-Leste -43%), while 36 countries achieved high savings (e.g., Equatorial Guinea 87%; Macau 70%; Singapore 61%; Gabon 53%; China 49%).

The heterogeneity observed in the World regarding the rates of domestic savings, was already quite high in 1960 and has been increasing in the following years. This is confirmed by the coefficient of variation (CV - equal to the standard deviation divided by the mean), a measure of dispersion that allows to compare different distributions. In 1960, the CV was 109%, while in 2010 it rose to 140%. In other words, the already high dispersion in the past has become even more asymmetric and heterogeneous today.

However, more important than that heterogeneity is the fact that most countries enjoy a regular and stable base of domestic savings to finance investment that supports economic growth. No wonder, therefore, that analysts and policymakers who recognize the importance of domestic savings, react with concern to its fall to low levels. A brief literature search witnesses such concern; in Brazil, for example, rates of domestic savings of 16% or 17% of GDP are considered low, or even a "drama" (Crespo 2011). What about Mozambique?

It is true that the importance of domestic savings is devalued, or even questioned, by those who believe that investment determines savings and not otherwise; but this is not the appropriate space to enter in such debate. In accordance with the purpose of this article, let's see then the position of Mozambique, compared to the 15 countries members of the Development Community (SADC).

2. MOÇAMBIQUE IN SOUTHERN AFRICA/SADC

In 2010, the aggregate GDP of the SADC was about 622 billion international dollars (Int. $), corresponding to $ 2,329 per capita to an estimated 267 million people population (Table 1 and Figure 2). From an international perspective; the size of SADC GDP was between the GDP of the Netherlands (Int. $ 641 billion) and Thailand (Int. $ 535 billion); or even 37% of Brazil's GDP (Int. $ 1.7 trillion), currently one of the 10 largest economies in the World (The World Bank 2014).

Table 1 and Figure 2 classify the SADC countries in descending order of average savings rate

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in 2000-2010. Five regional groups of domestic savings can be identified in southern Africa. The first group, countries with high domestic savings (over a third of GDP), includes Botswana and Angola. Together, they account for 14% of regional GDP, with one big difference between them as to the nature of economic growth. Botswana, the largest saver in SADC (54%), has the third highest GDP per capita ($ 9,673). Angola (38%), the second largest saver, seems to invest more outside than in its own country (19% of Investment).

The second group, with domestic savings between a third of GDP and the world average, covers four countries, with 64% of SADC GDP. South Africa stands out because it alone has 59% of regional GDP. In contrast, Mauritius and Seychelles, two of the smaller SADC countries enjoy the highest GDP per capita in the region.

The third group, with domestic savings between the world average and the SADC average has only Tanzania, with nearly 8% of regional GDP. The fourth group has six countries, including Mozambique, with positive but below the regional average domestic savings, covering about 14% of SADC GDP. In this group all countries invest more than they save, resulting in deficits in its external accounts.

Finally, the fifth group, comprising countries with negative domestic savings, includes Lesotho and Zimbabwe, representing only 1% of regional GDP. Lesotho is a historical example of an economy chronically anchored on foreign savings. Zimbabwe is a flagship contemporary example of an amazing anti saving option, with tragic consequences for their economic growth ($ 319 of GDP per capita).

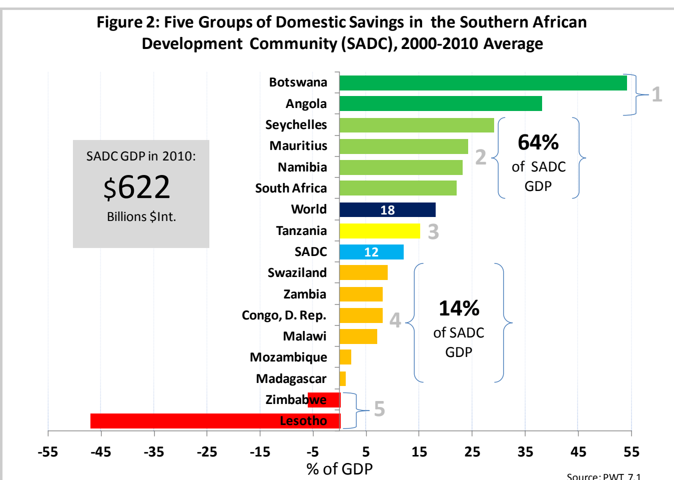
3. Consideration for Reflection

Without domestic savings, the only way for a country to grow economically, is anchoring its economy to foreign savings, using multiple forms of imported financing, such as: foreign debt, concessionary or non-concessionary aid, foreign direct investment, issue or sale securities and loans. It is what has made Mozambique, in the past six decades. It did so, as the IDeIAS 63 points out, regardless of the prevailing political regime: colonial or post-colonial, socialist or interventionist, more or less liberalizing. Between 1960 and 2010, the average annual foreign savings was around 27% of GDP; just over half of this percentage was for consumption and the remaining 13% was for productive investment (in capital goods).

If we cannot expand much this text, at least we can advance some considerations for future reflections on the meaning, importance and possible implications of the recent change in the correlation between income, consumption and domestic savings in Mozambique.

Meaning – The question that begins this text is related to a legitimate question that emerges from the empirical data. Is Mozambique living just a pause in its long propensity not to save, or something more fundamental is happening in the Mozambican economy? As the Bank of Mozambique (BdM 2014) recently acknowledged, the positive basis of the internal savings is not only low and fragile, but covers only 2% of Mozambican families. Moreover, the role of the Mozambican state leaves much to be desired, for several reasons. Its long fiscal deficit position contributes negatively to domestic savings (about -8% of GDP in 2010). In addition, the state has shown serious difficulties in becoming a true facilitator and promoter of opportunities to accumulate capital and domestic savings, especially for the 98% of households with negative savings. Nevertheless, if in the future the recent transition to the positive level of domestic saving persists, this means that the Mozambican economy began to contribute positively, not negatively, to the development of regional and global domestic savings.

Importance - Since the 1990s, several reforms have managed to partially overcome the harsh policies against domestic savings, especially policies ostensibly against the formation of national productive capital. It should be noted, for example, the partial abandonment of policies designed in the first Republic, known as "kill the 'Alligator' while it is small" (Adam, 2006, p 119.); a bloodthirsty euphemism of policies against the formation of domestic savings. Thus, while in countries with a regular and reasonable basis of domestic savings, the growth rate depends on how much it is accepted to complement it with foreign savings that finance productive investment, in Mozambique it is still the opposite. The growth rate depends on how we accept and are able to replace domestic savings by foreign savings.



Implications – Time will tell if or when, domestic savings will be complemented by external savings, rather than vice versa. However, even with domestic savings proportionally lower to foreign savings, this does not mean that its contribution is irrelevant. On the contrary. If the pace of Mozambican economic growth accelerates, as is expected, thanks to substantial foreign investment channelled into the highly lucrative sectors such as mining and energy, domestic savings can still induce substantial change in the growth pattern. But for this, something significant needs to be done in order to create real opportunities and conditions for a growing number of people, families, businesses, and especially the State, to positively contribute to domestic savings.

Table 1: Domestic Savings in the Southern Africa/SADC, 1990-2010

Countries	Domestic Savings (%)	Investment (%)	Gross Domestic Product (GDP) 2010		
			per capita	Volume	
	2000-2010	2000-2010	$Int (base year = 2005)	Billion	%
Botswana	54	46	9.673	20	3,2
Angola	38	19	5.108	67	10,7
Seychelles	29	39	32.300	3	0,5
Mauritius	24	29	10.164	13	2,1
Namibia	23	30	4.807	10	1,6
South Africa	22	22	7.509	369	59,3
World	**18**	24	**9.982**		
Tanzania	15	23	1.178	49	7,9
SADC	**12**	24	**2.329**		
Swaziland	9	14	3.681	5	0,8
Congo, Rep. D.	8	18	240	17	2,7
Zambia	8	22	1.518	20	3,3
Malawi	7	29	655	10	1,6
Mozambique	2	17	781	18	2,8
Madagascar	1	18	702	15	2,4
Zimbabwe	-6	4	319	4	0,6
Lesotho	-47	29	1.393	3	0,4
Total				**622**	**100**

Southern African Development Community (SADC)

Source: PWT7.1

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