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Mozambican Domestic Savings: 2000-2010, an Unprecedented Decade

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At the turn of the twentieth century, Mozambique enjoyed an unprecedented economic phenomenon, at least in relation to the half century (1960-2010) for which reliable macroeconomic data are available. For the first time in the last five years of the previous century, private savings and domestic savings in Mozambique were positive.

Over 37 consecutive years private savings were persistently negative. However, since 1997 private consumption became lower than production. This allowed that in 1998 for the first time, the Mozambican domestic savings also stopped being negative. This empirical finding, based on the longest available macroeconomic time series, used in the study that inspired this text - Penn World Table 7.1 (PWT 7.1) (Heston et al., 2012), is confirmed by other sources, as shown below.

The results shared here anticipate more detailed analyses presented in articles to be published soon, produced in the context of the ongoing research in the Research Group "Poverty and Social Protection" at IESE. An investigation into the economic and demographic foundations of social protection mechanisms in Mozambique, focusing mainly on the behaviour of consumption, savings, investment and economic growth (Francisco and Siúta, 2014).
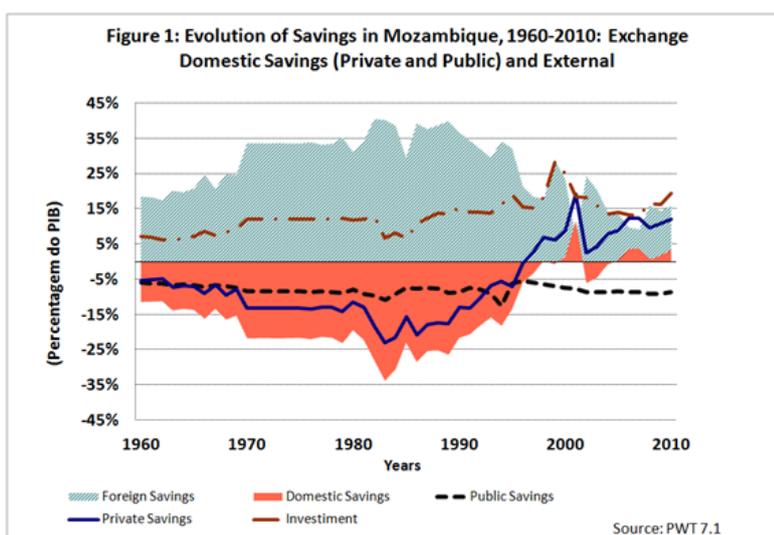
1. Sources of National Savings

Just as it is important for a person or a family to have financial or non-financial reserves to cope with any eventuality in life, or simply to consume and invest them in the future, in macro terms, society also needs to create reserves. Society creates reserves refraining from consuming a portion of the national income, in this case represented by the gross domestic product (GDP). This aggregate and residual reserve is called "internal savings", or more commonly in English, "domestic savings"

Private savings is the sum of the share of income of individuals and companies that are not consumed in a given period. It results from the savings of three main actors: individuals, families, businesses, including private banks. In turn,

domestic savings is the sum of private savings and public savings or the government's. The latter is obtained by the difference between the revenues of the State and other public entities (taxes, fees earnings, capital gains and others). It is represented by the surplus or deficit, depending on whether the outcome is positive or

Figure 1: Evolution of Savings in Mozambique, 1960-2010: Exchange Domestic Savings (Private and Public) and External

Source: PWT 7.1

negative (Dornbusch et al., 1998, pp. 298–314; Oliveira et al., 1998).

However, in addition to internal or domestic savings, total or national savings integrates another source called "foreign savings". Foreign savings is justified in at least two situations: when domestic savings are insufficient or even non-existent, as has happened in Mozambique; or to expand the productive capacity beyond the financial resources provided by domestic savings. It is roughly obtained by the current account deficit of the balance of payments (the algebraic sum of the trade balance, balance of services and unilateral transfers) as resulting from the flow of capital to finance the current account deficit through loans, grants, foreign direct investments (FDI), market investments, and other sources of inflows of external resources in the country (Dornbusch et al., 1998, pp. 298–314; Oliveira et al., 1998). Operational definitions mentioned above are illustrated empirically in the next section and in Table 1, with the specific case of Mozambique.

2. Evolution of the Mozambican Savings

The average annual total savings rate in Mozambique was around 13% of GDP in the last half century. The average annual value corresponds

in accounting terms to national investments. Throughout the first four decades it increased to 18%, having declined slightly to around 17% in the last decade. However, this slight decrease in value hides more important structural changes in the composition and components of total savings.

Between 1960 and 1997, the value of average total savings rate, i.e. 13% of GDP, represented the positive contribution of foreign savings alone, since other sources were negative (Table 1). This historical trend has changed significantly since 1997, the year when the average rate of private consumption became less than 3% of GDP. Meanwhile the rate of public consumption increased from 6% to 9% of GDP between 1997 and 2010, respectively. On the other hand, the rate of external savings stood at 27% of the GDP in the half century covered by the data. A value that has served to compensate for the systematic negative domestic savings, or dissavings, at around 14% of GDP, and ensure an average annual investiment rate of 13% of GDP in the period 1960-2010.

3. The Birth of Domestic Savings

The birth of domestic savings means in this case, the emergence of a positive value for the part of income not consumed in a certain period. In other words, the portion retained and waiting to be consumed or invested in the near term.

In general, it is not possible to determine when domestic savings were born in a specific country. However, in the specific case of Mozambique, perhaps because modern economic growth was structured in the context of a colonial economy, built on a simple environment of commodity economy and predominantly for subsistence, the formal economy began to grow thanks to the investment of financial, technological and even human resources financed by foreign savings.

How did the Mozambican domestic savings emerge? According to the data cited above (Table 1), domestic savings in Mozambique has been created mainly by domestic private savings. Since private consumption has become smaller than the GDP, in 1997, at least nine of the 12 years to 2010 (actually until now, although the data series do not include the last three years),

Table 1: Rates of Consumption and Savings in Mozambique, 1960-2010

Year & Period	Consumption			Savings		
	Private	Public	Total	Domestic	Foreign	Total (Invest.)
(Percentage of GDP)						
1960	105	6	111	-11	18	7
1970	113	8	122	-22	34	12
1975	113	8	121	-21	34	12
1980	112	8	119	-19	31	12
1990	113	9	121	-21	37	15
1997	97	6	103	-3	18	15
1998	93	6	100	0	18	18
1999	94	7	101	-1	29	28
2000	91	7	98	2	24	25
2010	88	9	97	3	16	19
1960-70	107	7	114	-14	22	8
1970-80	113	8	121	-21	34	12
1980-90	117	8	126	-26	37	11
1990-2000	103	8	110	-10	28	18
2000-2010	90	8	98	2	15	17
1997-2010	91	8	18	1	17	18
1960-2010	106	8	114	-14	27	13

Source: PWT 7.1

domestic savings was mostly positive. The remaining four years turned to be negative, although such negative values did not influence the average annual rate, to the point of becoming negative domestic savings. Between 1998 and 2010, the average annual domestic savings rate stood at 1.5% of GDP.

Although the time series used in this text is publicly available, it is unknown whether it has received attention from researchers who previously analyzed the behaviour of the Mozambican savings. However, as illustrated in Figure 2, some authors have resorted to different sources but corroborate the findings presented here about the birth and emergence of domestic savings. The specific years mentioned by these sources differ, mainly for methodological reasons, but in one respect they all converge: they identify the last five years of the twentieth century, one of the years between 1995 and 1998 as the period when domestic savings have been born in Mozambique (Arnaldo et al., 2008, p. 45; BdM, 2014, p. 26; Heston et al., 2012; The World Bank, 2014). Furthermore, the recent study of the Bank of Mozambique advances two important details to understand, at least in part, the recent dynamics of private savings. First, only 2% of households have positive savings, while about 98% of families continue to have negative savings. Similarly, the fiscal position of the state, measured by the fiscal balance before grants, is also negative in about 12% of GDP. Second, the increase in national savings has been secured mainly by the private sector, especially commercial enterprises, contributing on average 63% of GDP in the period 1996-2012.

Perhaps, more important than the identification of the specific year in which domestic savings have been born, is the fact that, over the last decade, its tendency became predominantly positive. Time will tell whether it is a sustainable trend. For now, as highlighted by the title of this paper, we consider the first decade of this twenty-first century as an unprecedented decade. Unless data appear to show otherwise, historically the decade of 2000-2010 emerges as the first in half a century, to record a positive ten-year average.

4. Breft Inferences for Reflection

Much can be inferred, debated and concluded from the empirical evidence presented in this paper and in the articles that inspired it. Since we cannot do it in this space, we can nevertheless present some points for further reflection:

- It is known that in open and highly integrated economies domestic savings may no longer be the determining factor in capital formation and economic growth. However, it is not common or normal that foreign savings replace domestic savings for as long and as massively as has happened in Mozambique over the past half century.
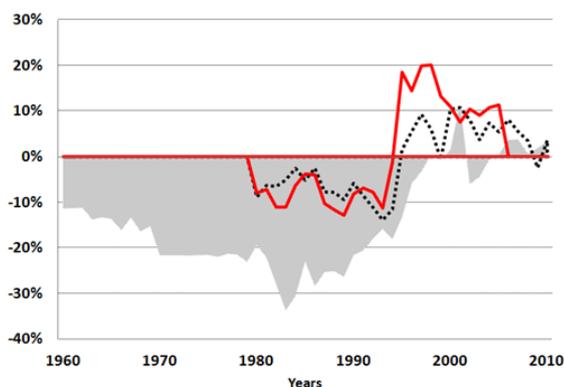- The historical trajectory of the components of total savings suggests that economic growth in Mozambique has been anchored in foreign savings, regardless of the prevailing political regime over time: colonial, socialist or interventionist (more or less) liberalizing.
- Why have both supporters and critics of the prevailing model of economic growth in Mozambique proved so indifferent to the changes highlighted in this text regarding the composition and structure of the Mozambican savings? Does the emergence of positive domestic savings not reflect a progressive capacity of the Mozambican economy to retain and accumulate capital?
- The birth of domestic savings results from the emergence of private savings, though, as recently revealed by the Bank of Mozambique (BdM, 2014), national savings derived from private companies and from 2% of the households. Moreover, in the last decade, while foreign savings showed a tendency to decrease private savings seems to have been able to compensate for the total deficit of public savings and complement the contribution of foreign savings.
- Considering the historical trajectory of state interventionism, characterized in many cases by a strong state monopoly on the production factors, it is surprising and disturbing that the public sector continues to be so deficient and contribute negatively to domestic savings. In fact, as is well known, Mozambique has experienced serious crises and eminent public bankruptcies (1984, 1998) arising from the risk of blocking the flow of foreign savings debt.

5. References

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Figure 2: Evolution of Domestic Savings, Foreign Savings and Investment in Mozambique, 1960-2010

Domestic Savings-PWT7.1   Domestic. Savings-WB   Arnaldo-2008   Source: Arnaldo et al., 2008;PWT 7.1, WB, 2014