



Monetary policy behaviour in the elections cycles:

Just a Coincidence or a "Hidden Electoral Campaign" by the Bank of Mozambique?

Abstract

This Development Review (DesR) analyzes the actions of the Bank of Mozambique over the past 10 years. It found that in election periods, the Bank of Mozambique changes the direction of monetary policy in ways that suggest an intent to influence electoral outcomes.

1. Introduction

In recent years, the image of Bank of Mozambique (BM) has been somewhat stained by its apparent involvement in some scandals such as the issue of hidden public debt¹; questionable financial intervention at a commercial bank (Moza Banco); and opaque human resource recruitment processes. However, it remains one of the very few public entities with a reputation for integrity, impartiality and immunity from the political pressures exerted by the ruling party (Frelimo) to influence the decisions and public policies for the benefit of the party.

As the following section will show, an assessment of the evolution of money supply in Mozambique suggests the possibility of 'hidden' BM actions in election periods. This practice is common worldwide and is particularly prevalent in African and South American countries and it is as a result of po-

litical pressure from governments on central banks to increase the issuance of money (or lowering the monetary policy interest rate) in election periods in order to create a false feeling of socio-economic being thereby enhancing the prospects of re-election for the election of the ruling party candidate (Hakes, 1988, Wallner, 2012, Eryilmaz and Murat, 2016).

It is in this context that this paper analyzes the monetary policy of BM in the periods of legislative and presidential elections in Mozambique (1999, 2004, 2009, 2014). Specifically, it is intended to assess whether monetary policy (easing or tightening) differs between pre-election and post-election periods. Section 2 of the paper discusses some curious coincidences between the evolution of monetary issuance and the electoral cycles in Mozambique; The third section analyses the latest monetary policy scenario of 2019, in the context of the current election cycle that began in 2018. Finally, section 4 presents the main conclusions of the article.

¹ Hidden debt is the term used in Mozambique to refer to government loans, between 2010 and 2014, without Parliament's endorsement, to create and finance three public companies (EMATUM, MAM and PROINDICUS). The information on these borrowings became public in 2015.

2. Some coincidences between money supply and the electoral cycles in Mozambique

This section looks at four aspects that raise some doubts about the independence and impartiality of BM during electoral periods in Mozambique.

a) The growth in money supply doubles in election cycles

Table 1 shows the growth in the money supply (M1) from January 2000 to June 2019. The data

presented in this table are divided into three groups, growth in money supply in the legislative and presidential elections (orange), municipal elections (green) and years without elections (white).

Table 1: Money Supply in Mozambique: Electoral Cycles vs. Years Without Elections

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
M1(%)	1.6	1.9	1.8	1.5	1.8	1.8	1.4	1.4	1.9	0.7	
Ano	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
M1(%)	2.7	2.5	0.1	1.1	1.3	1.6	0.9	1.7	0.1	0.2	1.3

Source: Bank of Mozambique (2019)

Notes: Colours indicate election years (orange for general elections, green for local elections, and white for years without elections)

From table 1, it can be seen that in years without elections, the money supply grew on average 1% per month, with a minimum of 0.1% (2011 and 2017) and a maximum of 2.5% (2010). In the periods of municipal elections (2003, 2008 and 2018), the money supply also grew by 1%, with a low of 0.2% (2018) and a high of 1.8% (2003). And in the years of legislative and presidential elections (1999, 2004 and 2019), the money supply increased by about 2% per month, with a minimum average of 1.3% (first half of 2019) and a maximum of 2.7% (2009).

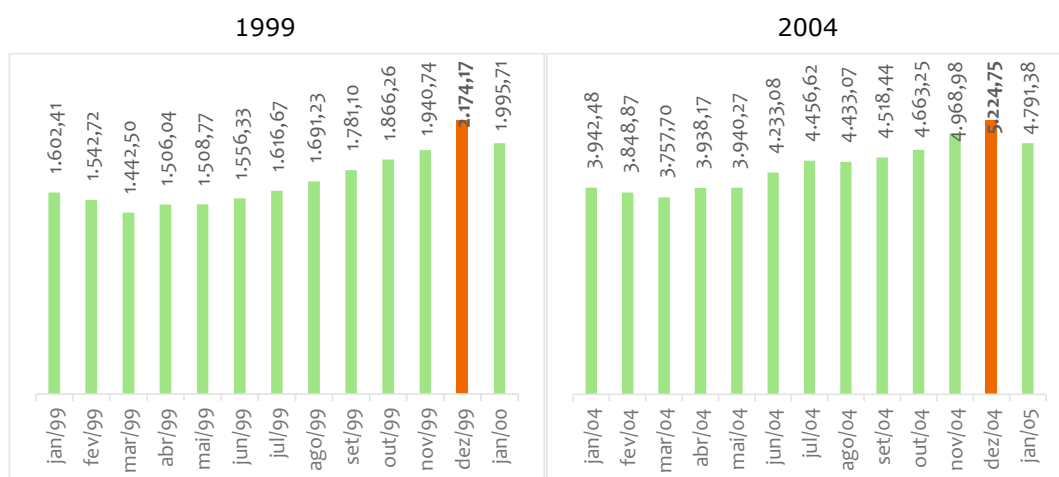
the years (1999, 2000, 2009 and 2014) in which legislative and presidential elections were held in Mozambique. The first aspect that stands out from Graph 1 is a transition in the monetary policy from a restrictive (contraction of monetary supply) expansive (increase the money supply). In the period under study, the money supply shows a downward trend between January and April, then changes to an upward trend, usually until the start of the election campaign or even before the election.

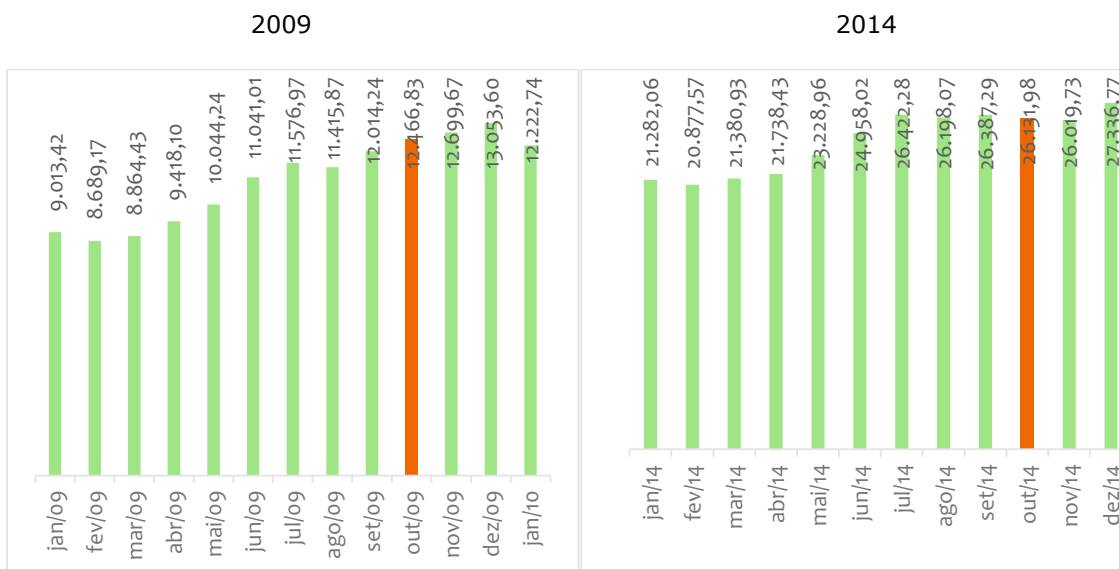
b) The money supply is higher in pre-election periods than in post-election periods

Graph 1 shows the evolution of money supply in

Except 2014, in all other years under review, the BM tightened the money supply shortly after the elections to control possible inflationary pressures caused by excessive currency issuance in the pre-election period.

Graph 1: Money Supply (millions of Meticals) in the Years of Legislative and Presidential Elections





Source: Bank of Mozambique (2019)

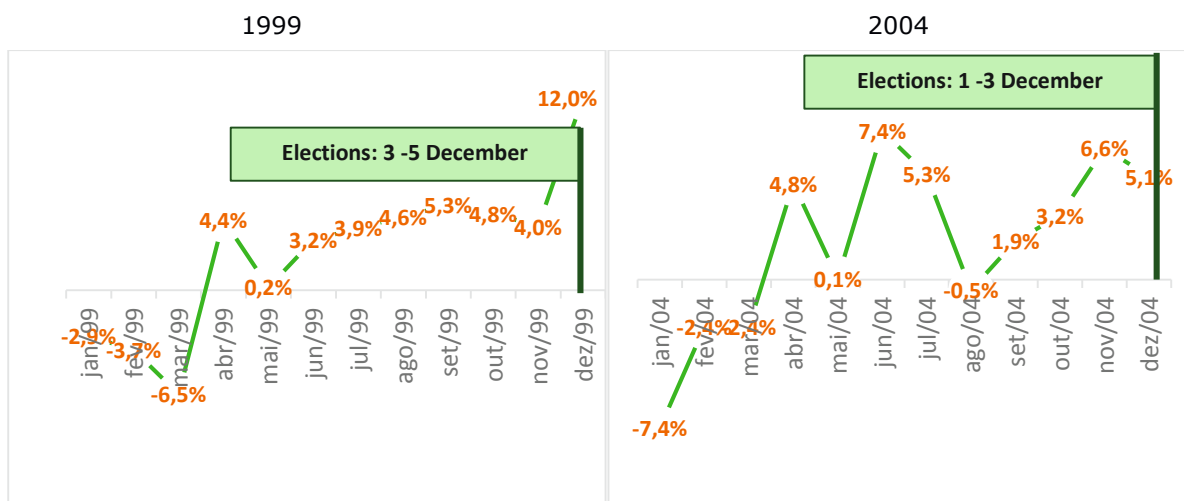
Notes: The orange bars indicate the month in which the general elections were held.

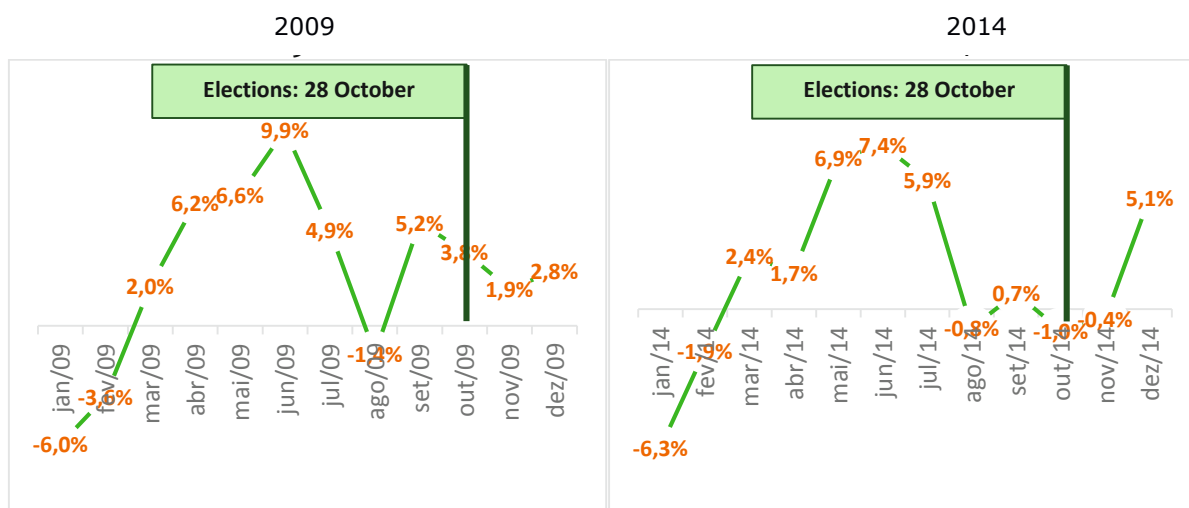
c) Money supply always accelerates on the eve of legislative and presidential elections

Graph 2 illustrates the monthly change in money supply in the years of legislative and presidential elections in Mozambique, 1999, 2004, 2009 and 2014.

The graph above shows that during election campaign periods (45 days before elections), the BM has always injected more money into the financial system and, in some cases, counteracting the monetary policy trend in the period immediately preceding the election campaign.

Graph 2: Growth in Money Supply in the Years of Legislative and Presidential Election





Source: Bank of Mozambique (2019)

d) There is a strong correlation between increasing in money supply during election cycles and election results

Table 2 compares the evolution of money supply and the electoral results of both legislative and presidential elections in 1999, 2004, 2009 and 2014.

Table 2: Money Supply and Results of Legislative and Presidential Elections

Year	1999	2004	2009	2014	Coefficient of Correlation
M1(%)	1.6	1.8	2.7	1.6	1
Votes (legislatives) - Frelimo (%)	48.6	62	74.7	55.7	0.93
Votes (legislatives) - Renamo (%)	38.8	29.7	17.7	33	-0.95
Votes (president) - Frelimo (%)	52.3	63.7	75	57	0.94
Votes (president) - Renamo (%)	47.7	31.7	16	36.6	-0.92

Source: Banco of Mozambique (2019) e Conselho Constitucional (2004, 2014), EISA (2016) e Nuvunga (2014)

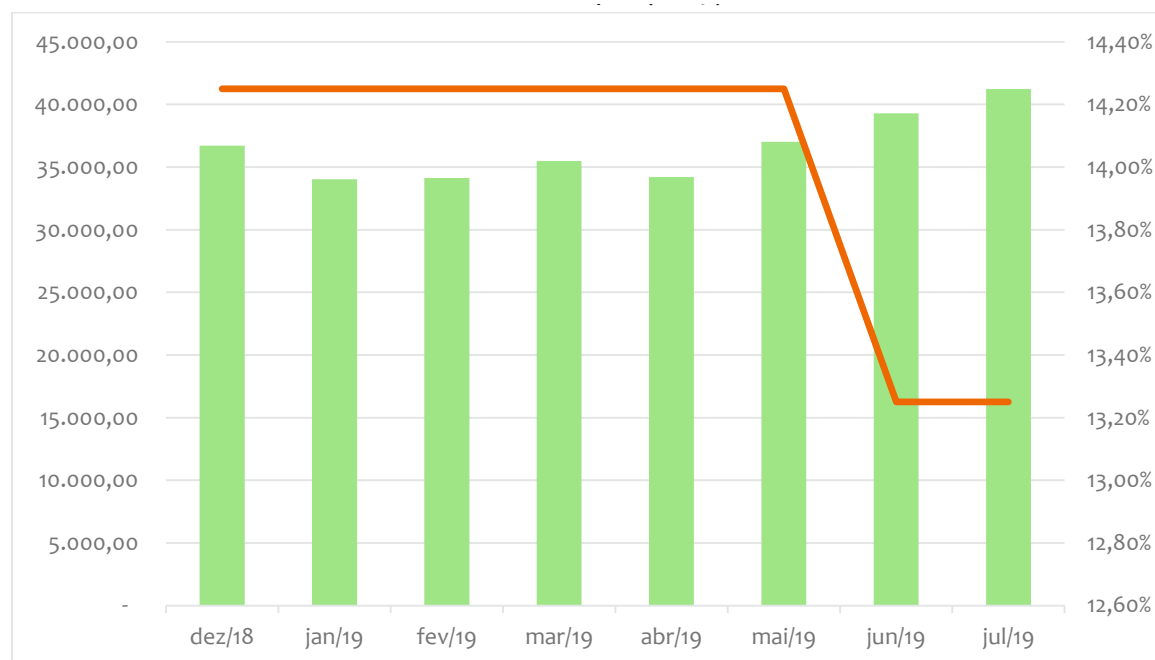
Coincidence or not, the truth is that there is a strong correlation between the evolution of monetary issuance in electoral periods and the voting results, which is a positive correlation for Frelimo and its candidate and negative for Renamo and its candidate. Table 2 clearly shows that in the years of sharp growth in money supply (2004 and 2009), the victory of Frelimo and its presidential candidate was

overwhelming. In the years when the money supply grew more moderately (1999 and 2014), Renamo and its presidential candidate experienced electoral growth, leading to greater electoral competition. These indications suggest that, even indirectly, the BM may have had some influence on the Mozambican vote in the general and provincial elections held since 1999

3. Monetary policy developments on the eve of the 2019 presidential, legislative and provincial elections

Graph 2 illustrates the behaviour of the money supply (M1) and monetary policy interest rate (MIMO rate) of the last eight months.

Graph 2: Money Supply (M1) and Interest Rate and Monetary Policy (MIMO) in Mozambique (2019)



Fonte: Bank of Mozambique (2019)

Note: The green bars stand for M1 (notes and coin in circulation), left hand-side axis (millions of meticals) and the orange line stands for the MIMO rate (percentage, %).

The main finding is that the pattern of the electoral cycle is repeating in 2019, that is, after starting the year with a restrictive monetary policy, manifested by the reduction of the money supply and the maintenance of the MIMO rate by 14.25% in May, BM began to adopt a more populist monetary policy

(increasing the money supply) and thus more in favour of the electoral interests of the ruling party. For example, from June to July, the money supply increased by 5%, reducing the monetary policy interest rate and more recently, on the third day of the election campaign, BM reduced the reserve ratio.

Conclusions

The present Development Review (DesR) described the evolution of the monetary policy of the Bank of Mozambique in election years and analysed its possible effects on Mozambican electoral behaviour. The following was found:

- The growth money supply in Mozambique is twice as high in election years compared to years without elections;

- Bank of Mozambique action in elections periods has influenced voting intentions in favour of Frelimo and its presidential candidates, undermining electoral competition;
- The trend of excessive money issuance in election periods is repeated in 2019, accompanied by a reduction in the monetary policy interest rate and the reserve ratio.


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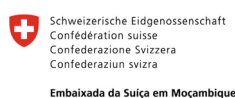


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