

“HIDDEN ELECTORAL CAMPAIGN” FROM BANK OF MOZAMBIQUE

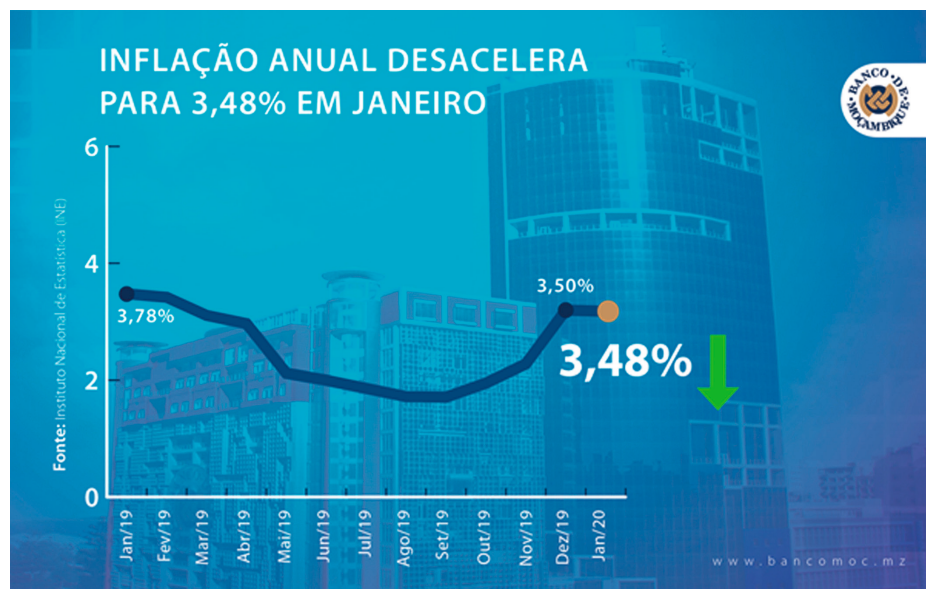
# What Price are Mozambicans paying as a Result of the Central Bank Excessive Monetary Issuance during the 2019 Elections?

## Abstract

This *Desenvolvimento Review* (DesR) shows that the recent announcement by the Bank of Mozambique (BM), about the deceleration of inflation to 3.48% in January, “hides” the tendency of the existing sharp rise in the general price level as observed in the last 6 months. This harsh reality, about the rising cost of living, was precipitated by the excessive monetary issuance carried out by BM, on the eve of the start of the electoral campaign, to influence the intentions of voters in the 2019 general elections to benefit Frelimo and its presidential candidate.

## 1. Context

Bank of Mozambique (BM) announced on 11 February 2020, through its website ([www.bancomoc.mz](http://www.bancomoc.mz)), that the annual inflation (year-on-year variation) decelerated to 3.48% in January, which represents a reduction of only 0.02 percentage points (pp.) in relation to the observed inflation (3.50%) in December 2019. In the same note, the BM indicated that this deceleration observed in annual inflation was influenced by the prices of fruits and vegetables. Nevertheless, in the present *Desenvolvimento Review* (DesR), CDD shows that this announcement by the BM “hides” price evolution dynamics that indicate upward movements in the cost of living in



Source: Bank of Mozambique, 2020 ([bancomoc.mz/](http://bancomoc.mz/))

Mozambique. For example, since July 2019, basic food products, education services, health services and medicines are increasingly

expensive. In addition to showing that the BM data not only hide a harsher reality about the increase in the cost of living in the country,

this DesR also aims, and above all, to show that the increase in the general price level, observed since September 2019, is a consequence of the excessive

monetary issuance by the BM to influence the intentions of voters in the 2019 general elections to favour Frelimo and its presidential candidate (CDD, 2019)

## 2. The increasing in the cost of life “hidden” by the Bank of Mozambique

This section begins by analysing the relationship between the monetary policy and inflation, during the period of the 2019 Mozambican general elections. Next, this section describes the cost of living in Mozambique,

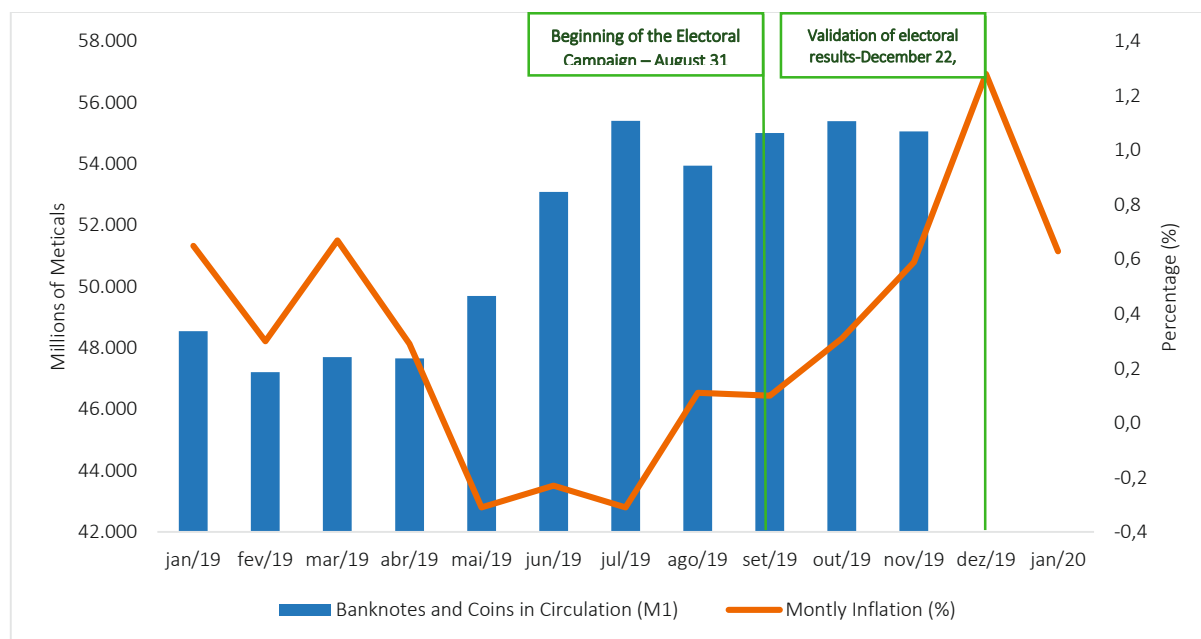
between July 2019 and January 2020, measured by both monthly and annual inflation. The section ends by describing the economy price level by product categories, with emphasis on food, health and education.

### 2.1. The excessive monetary issuance of the Bank of Mozambique, in the period between the beginning of the electoral campaign and the official announcement of the election results, accelerated inflation by 1.17 pp.

Graph 1 shows the evolution of banknotes and coins in circulation in the Mozambican money market and the inflation rate between January 2019 to January 2020. This graph shows that, after a tightening monetary policy until August 2019, BM

expanded the money supply from September (the month in which the electoral campaign started) until December (the moment of the announcement of the results of the elections). In the same period, monthly inflation skyrocketed from 0.11% to 1.28%.

**Graph 1:** Monetary Issuance vs. monthly inflation in Mozambique, January 2019 to January 2020



**Source:** Bank of Mozambique (2020)

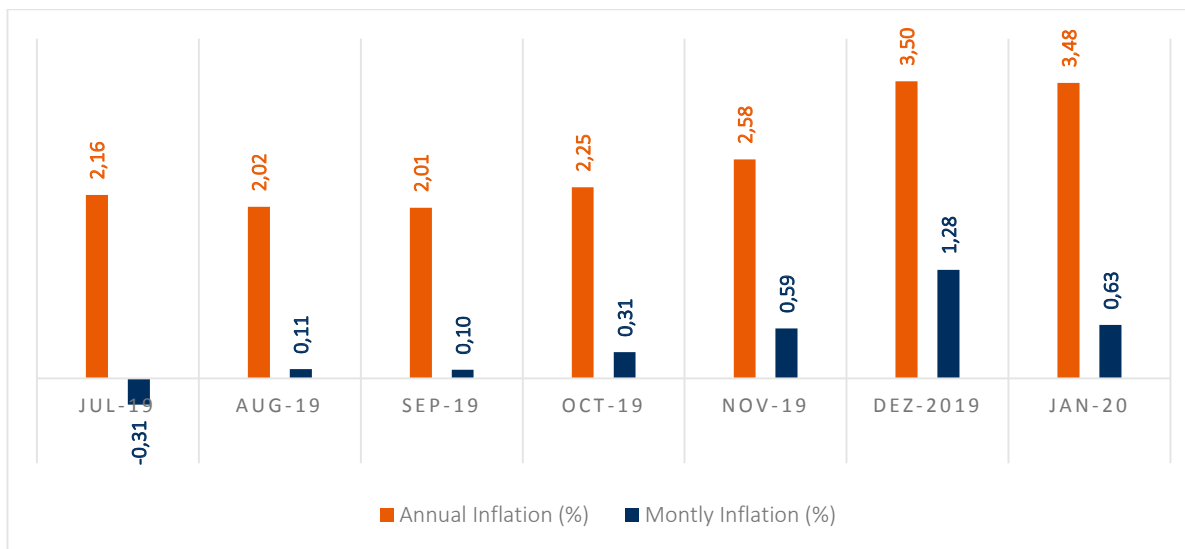
**Note:** Banknotes and Coins in Circulation - left vertical axis; inflation – right vertical axis. Banco de Moçambique has not yet published data on M1 for the period between December 2019 and January 2020

## 2.2. Despite the relative slowdown observed between December 2019 and January 2020, inflation and, therefore, the cost of living, remains high in Mozambique.

Graph 2 below shows that between July 2019 and January 2020, annual inflation accelerated by 0.1 pp. and the monthly inflation by 0.37 pp. At this point, it is worth recalling the famous statement by the renowned economist Milton Friedman, according to which, “inflation is always, anywhere, a monetary phenomenon”. Looking more closely at the chart below, it appears that the acceleration in the rise in

the cost of living (both for annual and monthly inflation) increased particularly on September 2019, a period that coincides with the beginning of the electoral campaign for the 2019 general elections, and as the CDD reported in the first edition of *Desenvolvimento Review 2019*<sup>1</sup>, the BM increased excessively the issuance of Metical banknotes and coins to influence voting intentions in favour of Frelimo.

**Graph 2:** Annual inflation (%) and monthly inflation (%) in Mozambique, July 2019 to January 2020



**Source:** Instituto Nacional de Estatística (2020)

## 2.3. Necessity goods and services are more expensive... leisure services including “distracting” activities are cheaper.

The table below shows the 12 product categories (goods and services) that the Instituto Nacional de Estatísticas (INE) uses to calculate both monthly and annual inflation. Regarding this table, it can be seen that for the case of monthly inflation, only 3 categories had a price downward trend: housing, water,

electricity, gas and other fuels (-0.25%), communications (-0.29%) and leisure, recreation and culture (-1.88%). In the remaining 9 categories, prices rose, with a higher incidence for: clothing and footwear (1.03%), food and non-alcoholic drinks (1.55) and education services (2.17%).

<sup>1</sup> [http://eleicoes.cddmoz.org/wp-content/uploads/2019/12/desenvolvimento\\_review\\_edicao1\\_09\\_09\\_2019\\_portugues.pdf](http://eleicoes.cddmoz.org/wp-content/uploads/2019/12/desenvolvimento_review_edicao1_09_09_2019_portugues.pdf)

**Table:** Monthly vs. annual inflation disaggregated by products / services

Products (good and services)	Monthly Inflation (December 2019 to January 2020), in %	Annual Inflation (homologous variation in relation to January 2019), in %
Food and non-alcoholic drinks	1.50	7.65
Alcoholic beverages and tobacco	0.87	4.81
Clothing and footwear	1.03	3.70
Housing, water, electricity, gas and other fuels	-0.25	0.99
Furniture, home furnishings, household equipment and routine maintenance	0.17	0.85
Health	0.16	7.66
Transportation	0.14	-0.09
Communications	-0.29	-0.02
Leisure, recreation and culture	-1.88	-1.56
Education	2.17	3.07
Restaurants, hotels, cafés and similar	0.18	3.69
Miscellaneous goods and services	0.29	2.04
<b>Total</b>	<b>0.63</b>	<b>3.48</b>

Source: Instituto Nacional de Estatística (2020)

### 3. Final remarks

This article showed that, contrary to what the Bank of Mozambique wants to show in its recent announcement on the general price level in the economy, the cost of living continues to rise, with particularly necessity goods and services such as food, education and health services. Interestingly, leisure, specially entertain-

ment services, tends to have increasingly lower prices. This article also showed that the upward trend in the cost of living in Mozambique results from the excessive monetary issuance carried out by the BM to influence the intentions of votes in the 2019 general elections to benefit Frelimo and its presidential candidate.

## Documents

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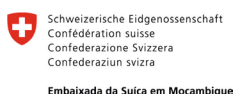
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