

# THE *ESCUDO* AREA IN AFRICA AND OPTIMUM CURRENCY AREAS

**Maria Eugénia Mata**

Money in Africa: Monetary and financial  
decolonisation in Africa in the 20th Century

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Interpreting the EMZ: The Berlin conference to share territories in Africa, Caribe, and Asia.

**Economic integration** of motherland territories and colonised territories built great empires for U.K., Belgium, France, the Netherlands, Germany, Italy, Spain and Portugal.

International comparative history: **the birth of new currencies**

Many of these empires framed monetary zones:

*The transition of monetary systems in the Portuguese-speaking African countries: with João Estevão, Napoleão Gaspar, Cláudio Mandlate.*

The Portuguese link to EFTA led to commitments with GATT.

The foundation of the Escudo **Monetary Zone**: Decree-law 44016 of 8 November 1961

**Robert Mundell's benefits of OCAs**, "A theory of optimum currency areas", *American Economic Review* 51, (1961): 657-665 :

- . Common currency adoption
- . Lower transaction costs, such as exchange rate risk for businesses, and
- . Scale effects resulting from the geographical expansion of businesses
- . Gains in the liquidity of currency
- . Asymmetrical shocks corrected with L,K mobility.
- . Automatic correction for disequilibria in balances of payments

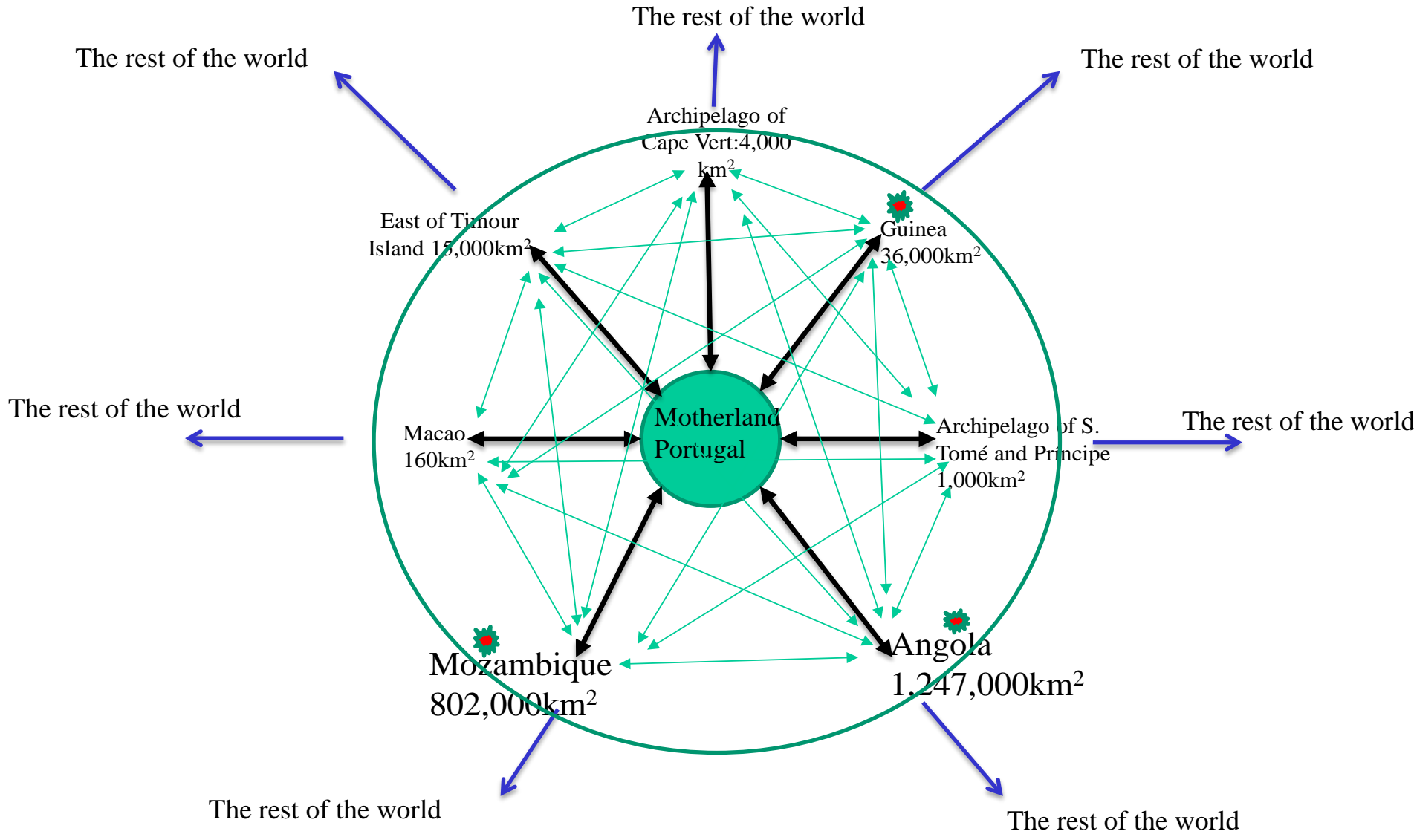
Correia de Oliveira:

Great expectations for the success of economic integration of all territories

Nationalism, official speeches (AHU, Overseas Historical Archives):  
A political instrument to reinforce political cohesion

# The EMZ: A star-shaped trade and monetary system

## And 3 issuing banks



It began to be implemented in March 1963 for economic development: public investment, military spending, local private consumption (requiring Imports)

New contracts of BNU, and Banco de Angola with the government and Banco de Portugal

New statutes for the territories (D-laws 45371 to 45375 of 22 Nov 1963).

## The EMZ: An OCA?

- Trade liberalization rules (until 1974)
- Parity: 1:1 (28\$75 escudos = 1USD, Bretton Woods system)
- A clearing system for payments
- Operation difficulties: (Confined spillovers via trade: inter-continental **distances**; CCN, and CNN long-distance fleets)
- Free movement of **K**, but subject to territories' capacity to settle payments. **Delays. Queuing. Parallel market.**
- Failure.

**Saving-investment imbalances** in monetary unions, when confidence problems occur, or negative expectations

“Reserve accounts”; Banco de Portugal, *Banco Nacional Ultramarino*, and *Banco de Angola*; *Fundos Cambiais*; bilateral accounts; inter-territorial and international payments; Multilateral Clearing using gold and foreign currencies of the reserve account of each territory

**FMZE= 1.5 million *contos* :**

	<b>Automatic loan ceilings</b>	<b>Special loan ceilings</b>
Cape Verde	20,000 <i>contos</i>	40,000 <i>contos</i>
Guiné	45,000 <i>contos</i>	95,000 <i>contos</i>
S. Tomé e Príncipe	20,000 <i>contos</i>	40,000 <i>contos</i>
Angola	250,000 <i>contos</i>	500,000 <i>contos</i>
Mozambique	150,000 <i>contos</i>	300,000 <i>contos</i>
Macau	7,500 <i>contos</i>	12,500 <i>contos</i>
<u>Timor</u>	<u>7,500 <i>contos</i></u>	<u>12,500 <i>contos</i></u>
	500,000 <i>contos</i>	1 million <i>contos</i>

**A Board of Directors:** Banco de Portugal as the central institution for gathering and handling **gold and other international means of payment for the entire system. Agent of the system.**

The importance of the **BP Historical Archives**: Drs. Gil Matos, M<sup>a</sup> Carmo Rogado, Filipe, and all staff

- It was difficult to issue and settle the capital of the FMZE. Monthly and annual reports.

500,000 *contos* in a first step. Only in Sept 1963, for providing automatic loans to Guiné (25,000 *contos*) and Angola (95,000 *contos*). The second issue of 150,000 *contos*, on Nov 1963, for a special loan to Angola.

- Legal and administrative matters took time to be implemented
- Data on balances of payments of overseas territories was late due: instructions to commercial banks and issuing banks for them to send monthly tables.  
Pinheiro et al., vol. I. 1997; I thank also Dr. António Agostinho for motherland balances of payments.
- A specialized staff for the EMZ accounting system, to record operations in Banco de Portugal.
- Tremendous bias in the reciprocity of monetary operations among territories. **Cumulative net debtor positions with the Mainland Portugal required automatic and special loans.**
- BNU resistance to tight credit policy: **CGD/BNU Historical Archives**

## Sustainability?

### **The political dimension of the financial difficulties in the Escudo Monetary Zone:**

Angola reached the ceiling for automatic loans in July 1964 and for special loans in Sept 1967. Mozambique in May 1966, and September 1969, respectively.

Interest rate penalties didn't help...

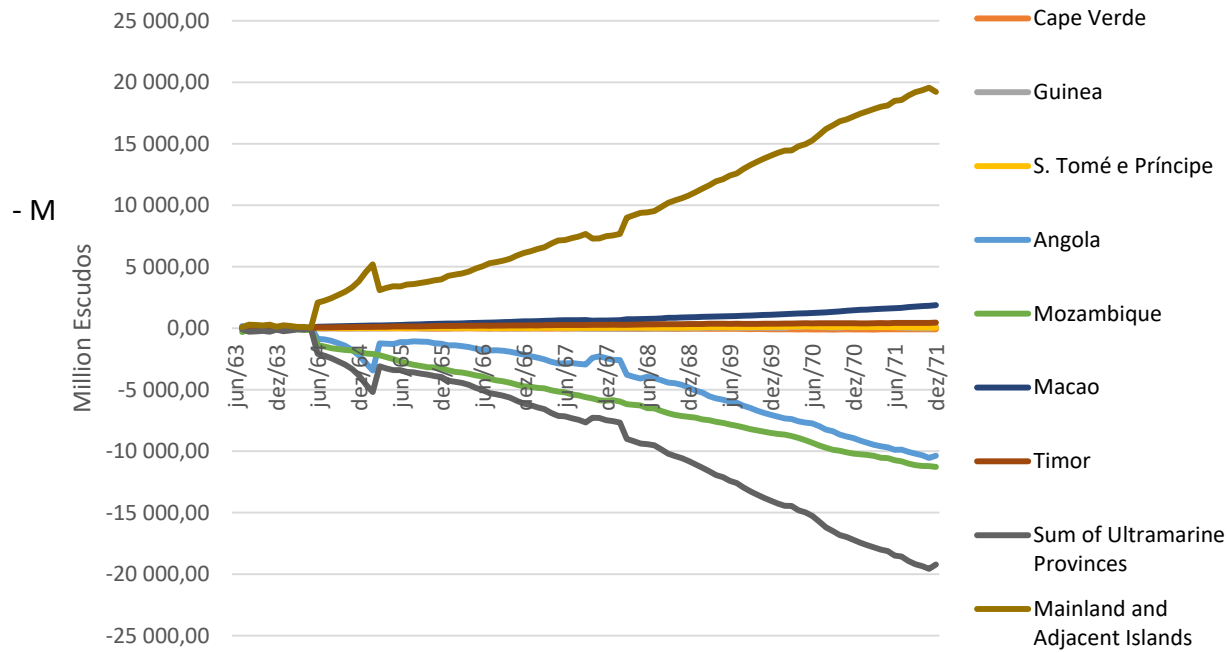
**Delayed transfers** waiting for the settlement of their payment. Illegal exchange rates for the *escudos*

The 1969 speech of the president of the industrial association of Angola:  
“Defense cannot always be made with guns” (Caetano, Sept 1968).

**Non-stationary cumulative net debit positions, or stationarity along a positive trend, mean that long-run equilibrium will not be reached. In both cases the rule is the unsustainability of a monetary union.**

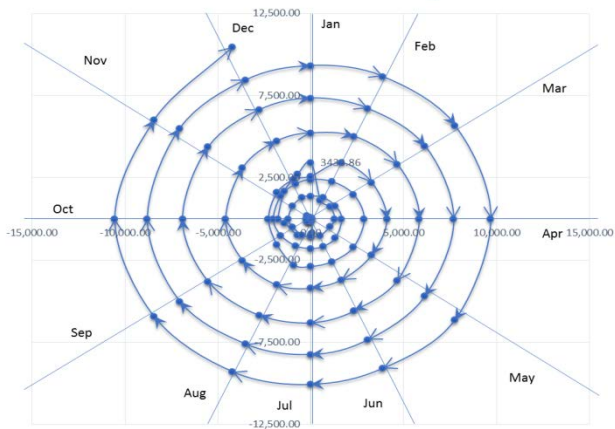


# Monthly cumulative net positions of the EMZ partners: A path-dependence process

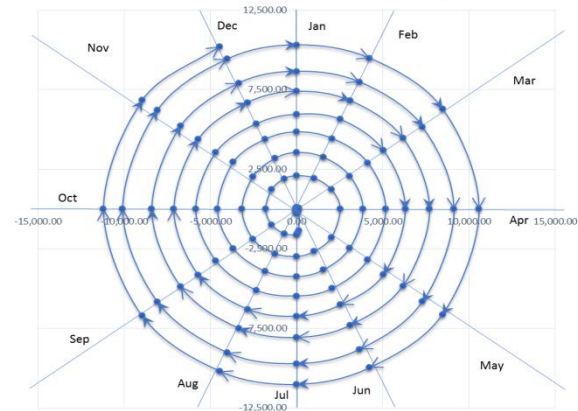


Source: *Relatórios Mensais do Agente*, from Banco de Portugal Historical Archives.

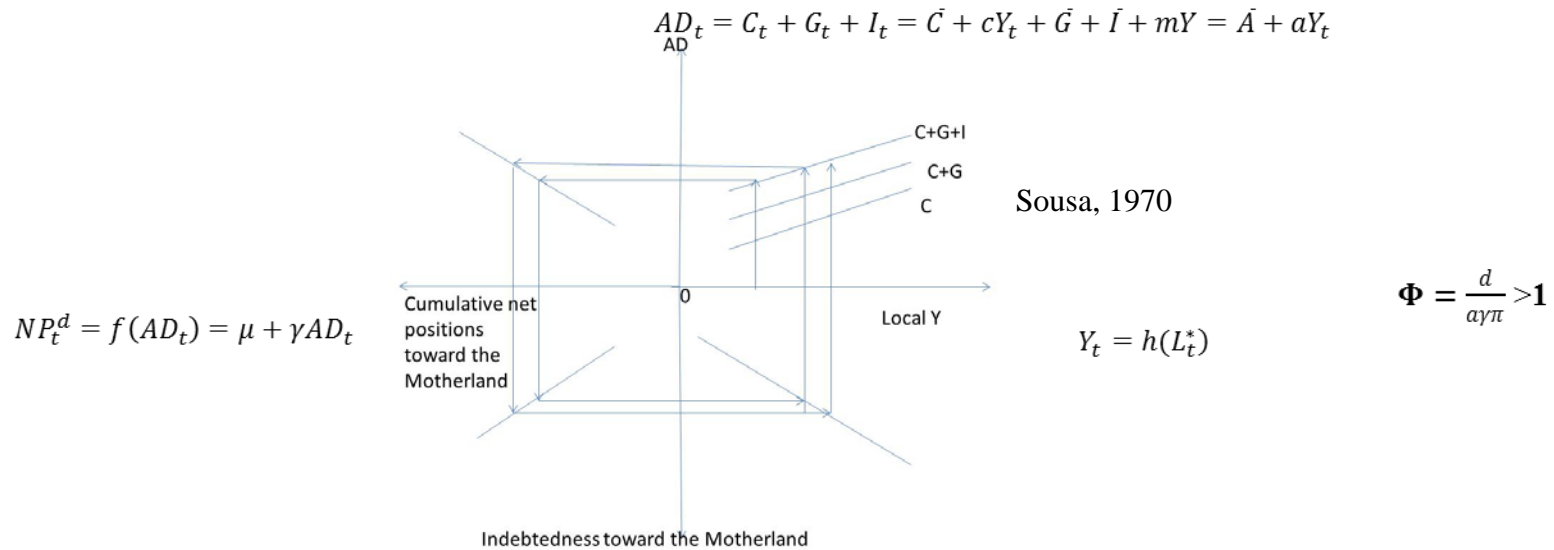
Cumulative Net Positions for Angola



Cumulative Net Positions for Mozambique

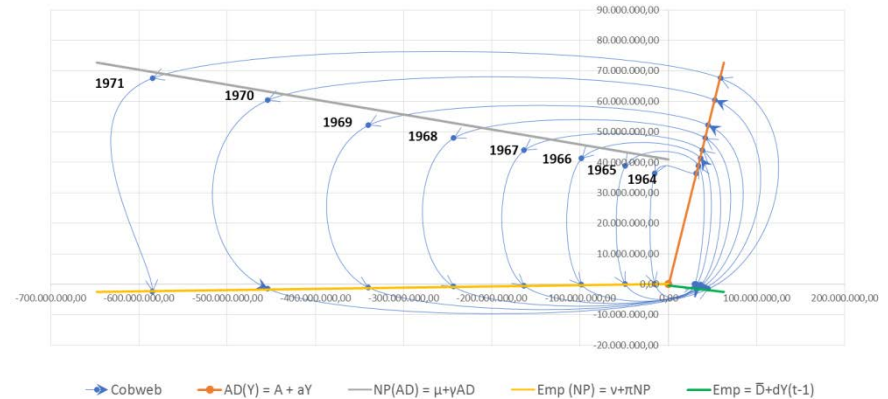
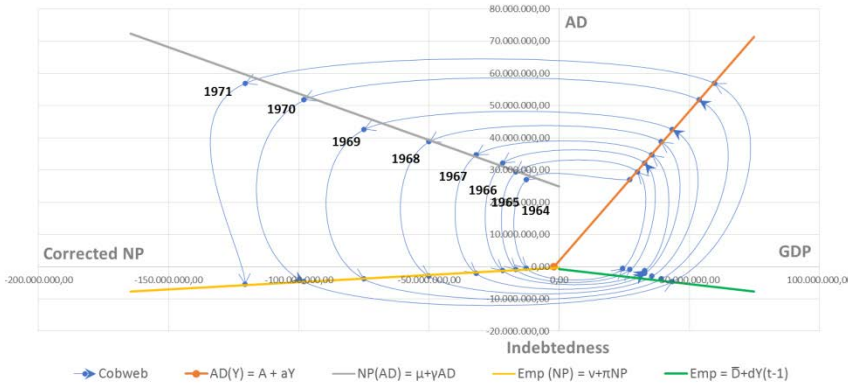


# A long-run divergent cobweb system



$$L_t^* = L_t^d(NP_t) = L_t^s(Y_{t-1})$$

## The Angolan and the Mozambican cobweb system model



**Entropy:** Angolan payments in 1970 were in arrears 361 days!  
Mozambique had delays of 510 days!

**The hypothesis of a formal depreciation of the escudo of Angola and the escudo of Mozambique: A technical and political reflection (ANTT, ASC).**

South-African *The Star*, “*Rumours rife on escudo: rumours on an imminent escudo depreciation spread in the last days*”. Someone from the banking sector confirmed the spread of those rumours, and concluded that depreciation should really occur.

“Forecasts on depreciation go from 14 to 30%, being 18% the most frequently cited”.  
17-8-1970

**The EMZ reform of 1971: Reintroducing tariffs, constraints, the increase of K of the FMZE to 3 million *contos* DL 479/71, 6/11/71. Territories were authorized to raise loans, out of any responsibility of the EMZ Fund.**

**Local disappointment.**

Delays disappeared, but only for a while: Transfers queuing for settlement on 31-12-972 amounted to 3,279 million escudos in Angola, and 2,800 in Mozambique.

## **The 1<sup>st</sup> oil shock. The Carnation Revolution. Decolonisation:**

The independence of the African territories led their local economies and currencies: *escudo, peso, dobra, kuanza, and metical*.

National banks were created in Cape Verde, Guiné, Angola, Mozambique, and Timor, to issue money as a symbol of national sovereignty

Portuguese commissions negotiated the terms of those **agreements with independence movements**: on debts or other responsibilities of the newly-independent states, and the legacy of resources (such as Cahora-Bassa). I thank Dr. Robin Andrade and *Arquivo Contemporâneo do Ministério das Finanças*.

Catherine Shenk (2013: 356, 430): Decolonization cases opened a new paradigm of “*humiliating national exposure to external pressure*”,...“*the end of international roles for European currencies (franc and £ included)*”.

**Guinea is geographically inserted in the sub-Saharan world of the French colonial empire. Those territories created the West African Monetary Union: Guiné joined the WAMU in 1997:**

Benin, Côte d'Ivoire, Mauritania, Senegal, Togo, Burkina Faso, and Guiné-Bissau.

National banks of the Portuguese-speaking African countries received the physical resources, the local staff, and employees of the coloniser's issuing banks.

The future central banks absorbed the local agencies of the old issuing banks (*Banco de Angola* in Angola, and BNU) the local offices of *Banco de Fomento*, and the local *Inspecções do Comércio Bancário*

After the 25<sup>th</sup> of April revolution, three more loans of 250 million *escudos* were awarded to the Mozambican Exchange Fund in **the imminence of a disruption of payments**, (contracts of 8 May 1974, 16 May 1974, and 2 July **1974**).

Banknotes and other currency circulating at the time of independence continued as legal tender, **until new banknotes could be issued**, and new coins struck by the newly independent countries.

Mixed groups of work made of representatives of BNU and Banco de Angola signed the transfer of assets, liabilities, and patrimony to local national banks

Banking systems were then developed, and financial systems went on getting sophistication with the foundation of local stock exchanges.

## CONCLUSIONS

**1. The end of the EMZ Fund** (On 20-8-1980, Portuguese D-law. 317/80).

**The EMZ, a macro-political experiment! Monetary unions that are not OCAs are fragile and unsustainable undertakings, unless supported by substantial transfers from the surplus economy/ies.**

**2. A long-run co-operation after independences:**

**The 1998 Cabo Verde and 2009 S. Tomé agreements for the 1:1 parity with the Portuguese currency (now, the euro)**

**The 2005-06 agreement on the move of Cahora Bassa control to Mozambican hands.**

# Thank you!

## Mozambican debt to the motherland on 30-11-1973:

Automatic loans ( <i>contos</i> )	150,000
Special loans ( <i>contos</i> )	200,000
Loans from the motherland exchequer ( <i>contos</i> )	1,500,000
Loans from the EMZF ( <i>contos</i> )	750,000
Loan from the BNU ( <i>contos</i> )	250,000
<u>Transfers without compensation (<i>contos</i>)</u>	<u>2,315,000</u>
<b>Total</b>	<b>4,665,000 <i>contos</i></b>

*Espaço económico Português, Fundo Monetário da Zona do Escudo, Sessões e Relatórios do Conselho de Direcção.* Portugal.  
 Arquivo Histórico do Banco de Portugal. Departamento de Serviços Jurídicos. Espaço Económico Português. Pasta nº 18.



**1980:** After clearing the balances of the Exchange Funds of the territories with their debts to the EMZ Fund, in a multilateral way, **the remaining credits resulting from the automatic and special loans to Angola and Mozambique amounted to 2,449,279,376\$0** (about 0.2 percent of the Portuguese GDP at market prices, which was 1,476,316 million *escudos*).

The special loans were under bargaining negotiations since 1975.

**The 2,449,279,376\$05 awarded to Angola and Mozambique were transferred to the Portuguese state.**

<b>AUTOMATIC LOANS TO MOZAMBIQUE:</b>	<b>149,279,376\$05</b>
Contract of 15/4/66	35,329,376\$05
Contract of 14/5/66	113,950,000\$00
<b>SPECIAL LOANS TO ANGOLA:</b>	<b>600,000,000\$00</b>
Contract of 3/10/72	500,000,000\$00
Contract of 13/11/72	100,000,000\$00
<b>SPECIAL LOANS TO MOZAMBIQUE:</b>	<b>950,000,000\$00</b>
Contract of 17/3/72	750,000,000\$00
Contract of 18/2/72	50,000,000\$00
Contract of 3/10/72	150,000,000\$00
<b>OTHER SPECIAL LOANS TO MOZAMBIQUE:</b>	<b>750,000,000\$00</b>
Contract of 8/5/74	250,000,000\$00
Contract of 16/5/74	250,000,000\$00
Contract of 2/7/74	250,000,000\$00

**Total**

**2,449,279,376\$05**

<sup>[1]</sup> *Lançamentos relativos à liquidação do Fundo Monetário d Zona do Escudo, Processo de Liquidação do Fundo Monetário da Zona do Escudo, Anexo 1.* Portugal. Arquivo Histórico do Banco de Portugal. Fundo Monetário da Zona do Escudo. Direção. Processo de Liquidação. FMZE/Dir/004.

<sup>[2]</sup> Pinheiro, et al., 1997, vol. I, p. 185.

<sup>[3]</sup> “Contencioso” nr. 103, 7 May 1975. Portugal. Arquivo Histórico do Banco de Portugal. Departamento de Serviços Jurídicos. Espaço Económico Português. Pasta nº 16.