BANKING SUPERVISION AND REGULATION IN MOZAMBIQUE

Banco de Moçambique

COMCEC 4TH MEETING, ANKARA (TURKEY, 19 MARCH 2015)

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I. Objective

- To describe, in brief, the Mozambican banking system and its recent developments.

II. The Country – Mozambique

Summary Status

Capital – Maputo
Region – Sub-Saharan (Eastern) Africa
Currency – Metical (MZN)
Income level – Low income
Population (2013) – 25.83 million

Economic Indicators

	2010	2011	2012	2013	2014
Real GDP Growth	7.12%	7.44%	7.08%	7.24%	7.40%
Inflation	17.44%	6.14%	2.02%	3.54%	1.93%
BOP (Current Account – US$ Million)	- 1.450,1	- 2.997,3	- 6.370,9	- 6.253,4	- 6.253,4*

* estimates

III. Magnitude of the Banking Sector (1)

Institutions	2012	2013	2014
Banks	18	18	18
Micro banks	8	10	10
Credit cooperatives	7	8	8
Leasing companies	0	0	0
Investment companies	1	2	3
Credit cards Issuers and Managers	1	2	2
Electronic currency Institutions	1	2	2
Venture capital companies	1	1	1
Group Purchase Managers	1	1	1
Foreign Exchange Houses	19	19	18
Saving and Loans Institutions	11	12	12
Microcredit Operators	199	233	285
Offices of representation of credit institutions with headquarters abroad	0	0	2

III. Magnitude of the Banking Sector (2)

Asset Structure	2012	2013	2014
Total Assets (US$ Million)	8.667	10.000	10.388
Total Credit (US$ Million)	4.081	5.264	5.554
Total Deposit (US$ Million)	5.868	6.989	7.111

Financial intermediation is dominated by the banking sector. Mostly banks are dominated by foreign banks.

The asset structure measured by total assets, total credit and total deposits had an increased trend during last 3 years.

The Mozambican banking sector is highly concentrated. The biggest assets, credit and liabilities components, measured by market shares are owned by four big banks, with more than 80%.

III. Magnitude of the Banking Sector (3)

Ratios	2012	2013	2014
Capital Adequacy Ratio	17.9%	16.9%	15.1%
NPL	3.2%	2.3%	5.3%
Leverage	9.5%	9.5%	9.4%
ROA	1.9%	2.0%	2.10%
ROE	19.6%	21.0%	22.20%

In last 3 years the banking system capital adequacy ratio decreased.

The NPL of 2014 is the highest of the last 3 years.

The leverage ratio has been stable.

The profitability ratios ROA and ROE increased.

IV. Supervisory Framework in Place (1)

The current framework in place in Mozambique banking system is Basel II. The main banking system laws are:

- The Central Bank Law (Law Nr. 1/92, of 3rd of January) gives regulatory and supervisory powers to the Central Bank regarding the financial institutions in Mozambique.

- The Law of Credit Institutions and Financial Companies – Banking Law (Law 15/99, of 1st of November, revised by Law No. 9/2004, of 21st of July), regulates the establishment and operations of credit institutions and finance companies in Mozambique.

- The Law on Anti-Money Laundering and Combating the Financing of Terrorism – (Law Nr. 14/2013, of 12 of August), establishes the legal framework and measures to prevent and repress regarding the use of the financial system and non-financial entities for money laundering and terrorist financing.

IV. Supervisory Framework in Place (2)

There are also a set of Notices and Circulars covering all areas of supervision, including Basel II framework.

The Central Bank is the supervisory authority responsible for the regulation and supervision of the banking system, according to the Banking Law and also is responsible for the regulation and supervision of non bank financial institutions, as well as capital market.

The Insurance Supervisory Authority (Insurance Supervisory Institute) is responsible for the regulation and supervision of insurance companies and pension funds. This authority is under the umbrella of the Ministry of Economy and Finance.

V. The Main Strengths and Weaknesses of the Supervisory Mechanism in the Banking Sector

The main strengths are:

- The Basel II framework in place – legal and regulatory framework inspired in best international practices emanated by the Basel Committee for Banking Supervision (BCBS) and International Accounting Standard Board (IASB);

- Onsite and offsite supervision – banks are monitored onsite and offsite in order to assure their soundness and solvability;

- Financial stability framework – established the safety nets for financial stability namely Guarantee Deposit Fund and Emergency Liquidity Assistance.

The main weakness is:

- Qualified Supervisors/ Bank Examiners – the recruitment is overshadowed by lack of appropriate training and academic qualification, as a result of banking supervision not been lectured at universities.

VI. The Common Challenges and Obstacles in the Banking Supervision

The main challenges are:

- Compliance with BCP's – to adapt laws and guidelines to best international practices. The last Financial Sector Assessment Program conducted by IMF and World Bank under the previous 25 BCP results in compliance of 17 core principles. The challenge is to be full compliant;

- Implementation of Basel II framework – currently few African countries are implementing the Basel II framework. Also there is a challenge to ensure that Mozambique local banks (banks without parent banks abroad) dominates and fully understand and apply regulatory demands regarding Basle II;

- Cross border supervision – Banco de Moçambique is mainly a host supervisor. The rising movement of local African transnational banks is a challenge in the context of coordination. To non African transnational banks the challenge is the resolution mechanism in case of failure of subsidiaries (who bear the costs?).

- Rapid economic growth of the economy – attracts a lot of foreign investment that requires from the Central Bank to constantly train its staff in charge of regulation and supervision to be able to better assess the risks of new services and products that emerge in the financial system.

The main obstacle is:

- The shortage of skilled human resources, in quality and in quantity.

VII. The Mechanism to Supervise Islamic Banking

- Currently there is no a specific regulatory framework for Islamic banks in Mozambique. Therefore, there are no Islamic banks. The banking system is dominated by conventional banks.
- The regulatory framework is much in line with Basel Committee for Banking Supervision principles.

Thank You