



HIGH-LEVEL REGIONAL SEMINAR ON INFLATION TARGETING

Rabat, Morocco, April 4, 2007

Address of the Minister of Finance

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KINGDOM OF MOROCCO



**Ministry of Finance and Privatization
Department of Treasury and External Finances**

**ADDRESS OF THE MINISTER OF FINANCE
AT THE OPENING OF THE HIGH-LEVEL SEMINAR ON
INFLATION TARGETING**

Rabat, April 4 – 7, 2007

Honorable Governor of Bank Al-Maghrib
Honorable Minister,
Ladies and Gentlemen,

It is a great pleasure for me to take part in the opening of this High-level Seminar focusing on the important issue of inflation targeting.

First, I would like to thank the Honorable Governor Mr. Jouahri for this praiseworthy initiative which reflects a deep awareness of the role to be played henceforward by the central bank under its new Statutes that have confirmed its independence.

I also appreciate the presence of distinguished personalities who are willing to share with us their thoughts concerning their own experience in the management of macroeconomic policy, particularly monetary policy.

Our meeting today to discuss monetary policy options is, in my opinion, a sign of:

- The significant achievements our country has realized in developing and strengthening the financial sector, on the one hand; and
- The big challenges posed by an increased integration of our country into the world economy, on the other.

In fact, during a period of slightly over a decade, our country has succeeded, through a gradual and orderly approach, to conduct a series of reforms in the financial sector; hence allowing the deregulation of the banking sector, the recourse to indirect monetary policy instruments, the development of financial markets, the introduction of new financial instruments, and the strengthening of prudential regulations and banking supervision.

The reforms also concerned the restructuring of the public financial sector, which can henceforth boast a healthy situation enabling it to contribute efficiently to the financing of the economy.

This development, which has been materialized by a variety of investment opportunities and by the introduction of financial innovations, call us upon to issues regarding the consistency and stability of the relationship between money and prices and, therefore, to the relevance of monetary aggregates as intermediary objectives for the conduct of monetary policy.

The other factor that I consider a challenge for the monetary authorities concerns managing the outcomes of the important capital inflows that has been observed in Morocco since the end of the 90's.

These capital inflows are definitely gratifying, as they contribute to strengthening growth and reducing unemployment and as they bear witness to investors' confidence as regards the outlook of our economy and the sustainability of the macroeconomic stability.

It is also worth mentioning that the important inflows of foreign currency have contributed by over 50% to the growth of the money supply. At this level, I find it worthwhile to refer to the experiences of emerging countries, especially those of Latin America during the 90's, to draw the appropriate lessons for the monetary authorities, namely:

- That a fixed exchange rate system is becoming less and less appropriate in a context of increased integration into international financial markets; and,
- That monetary policy strategies based on monetary aggregates are becoming less and less efficient.

Ladies and Gentlemen;

Since 2001, Morocco has been witnessing an ongoing consolidation of its external position as evidenced by the current account surpluses of the balance of payments, of about 3.3% of GDP on annual average, the level of foreign assets amounting to 22 billion US dollars - thus covering nearly 10 months of imports of non-market goods and services - and the reduction of the external debt which represented only 20% of GDP in 2006 compared to nearly 50% in 2000.

Similarly, and despite the important costs related to the rise in oil price, the fiscal position of the Kingdom has been considerably strengthened thanks to the good results of tax revenues. Furthermore, we are witnessing a gradual strengthening of the self-sufficiency of the Government budget from privatization proceeds, as well as a continuation of the downward trend of the wage bill/GDP.

At the real sector level, we should highlight the ongoing diversification of growth sources, as shown by the sustained growth -by more than 5%- of non-agricultural GDP over the last three years, showing a break with the past trend.

The progress achieved in Morocco's external position, as well as the structural improvement of fiscal balance, in addition to keeping inflation under control, offer, in my opinion, a real opportunity that should be seized in order to:

- Render foreign exchange regulations more open, namely through the progressive removal of restrictions applied to residents in terms of capital movements; and
- Start a transition towards a more flexible foreign exchange regime.

The coming into force of the new Statutes of Bank Al-Maghrib, which endow it with independence as regards monetary policy, is an evidence that monetary policy strategy has been successfully readjusted to the changes affecting our economy, thereby reinforcing the credibility of economic policies in general.

Ladies and Gentlemen,

I would like to conclude this introductory address by reaffirming the will of the Government to carry on its efforts towards consolidating macroeconomic stability, particularly through the control of the fiscal deficit, and the improvement of the investment climate so as to enhance the current growth dynamic of our economy and make irreversible the process of poverty reduction and job creation. .

A strong and sustained growth in the context of a controlled inflation; this is our objective. And together with the Central Bank, we will see to its achievement.