



*HIGH-LEVEL REGIONAL SEMINAR ON INFLATION TARGETING*

Rabat, Morocco, April 4, 2007

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**OPENING ADDRESS OF  
Mr. Abdellatif Jouahri  
Governor of Bank Al-Maghrib**

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**SEMINAR ON INFLATION TARGETING**

**Bank Al-Maghrib – International Monetary Fund**

**Rabat 04<sup>th</sup> April, 2007**

**Opening address of Mr. Abdellatif Jouahri**

**Governor of Bank Al-Maghrib**

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**Dear Ministers,**

**Mr. the Deputy Managing Director of the IMF,**

**Mr. the General Manager of the BIS,**

**Dear colleagues,**

**Ladies and gentlemen,**

It is for me a great pleasure to welcome you in Rabat for this high-level seminar on inflation targeting policies. I am glad to see such a distinguished audience for this gathering devoted to a topic of great interest for all the economies in the MENA region at a time of increasing external openness

I would like to thank Mr. Portugal, Deputy Managing Director of the International Monetary Fund (IMF), as well as the IMF team who is with us today for their critical contribution to this seminar. A special mention also for Mr. Carstens who, during our discussions at the time of his visit to Morocco in April 2006, in his capacity of Deputy Managing Director of the IMF, has highlighted the importance of organizing this event for Morocco and the region as a whole. I also seize this opportunity to congratulate him again and wish him success in his new responsibilities as Mexico's Minister of Finance.

The key interest of this meeting stems from sharing our respective practical experiences, in particular, between those who have already adopted inflation targeting frameworks and those who are preparing for the challenge of a medium-term transition towards this type of monetary policy.

**Allow me, as an introduction to our debates, to share with you some thoughts over the preparatory work currently underway in Morocco in order to meet this challenge.**

**Before briefly going through this preparatory work, I would like to point out that the necessity of adapting our monetary policy in the medium-term arises from the process of Morocco's insertion into world economy.** This dynamic is in an accelerating phase due, among other things, to faster trade liberalization with the European Union (EU) and the signing of new Free Trade Agreements (FTA) with other countries (United States, Turkey, and Arab countries.) Morocco's commitments embedded in these agreements will further increase its financial and trade opening. In addition, the accumulating effect of the ongoing liberalizing process of foreign exchange regulations is increasing the countries' financial integration. Similarly, rising foreign direct investment (FDI) in Morocco as well as higher FDI of national companies strengthens the integration of our financial system in global markets.

**As it is the case in many emerging countries, the acceleration of our commercial and financial integration has important consequences on monetary policy.** In particular, the current fixed exchange rate regime, which brings today a strong element of macroeconomic discipline, will have to evolve. International experience suggests that conventional pegs have proven to be fragile in a context of larger financial opening. Morocco needs, then, to adopt in the medium-term another nominal anchor in order to guide expectations, wages negotiations as well as savings and investment decisions.

**Within this context, there is an agreement between the Ministry of Finance and Bank Al-Maghrib over the necessary evolutions to achieve in order to progress, over the medium-term, toward inflation targeting. To achieve this goal– which is consistent with the current macroeconomic situation of Morocco – our approach is to gradually reinforce the requirements for a successful transition to inflation targeting. Hence, our focus is on the four (4) following dimensions: (1) macroeconomic stability, (2) institutional reforms, (3) consolidation of the financial system stability and market development, and (4) the strengthening of the technical capacities of the Central Bank.**

**1. A successful and orderly transition to an inflation targeting regime chiefly depends on macroeconomic stability. The macroeconomic policy followed since the Structural Adjustment Program (SAP) of the 80's has allowed Morocco to restore an absolutely remarkable macroeconomic stability and credibility. The results are solid on the levels of inflation, foreign accounts and foreign debt. Public deficit and public debt are on sustainable paths. In his speech, the Minister of Finance will provide us with more details on these issues.**

**Regarding inflation, a historical and comparative analysis reveals that inflation in Morocco is traditionally weak compared to other emerging countries. Starting from the mid-1990's, the country has joined the global disinflation trend with an inflation rate stabilized at levels below 2%. In this context, the volatility of inflation has decreased, and this is particularly true when it comes to underlying inflation.**

**2. Reforms have also dealt with institutional arrangements. One of the prerequisites for a credible monetary policy within an inflation targeting framework is that the Central Bank has a clear mandate to pursue price stability and be granted a high degree of independence in the use of monetary policy instruments. It needs to be**

able to resist political pressures aiming at influencing the monetary policy. Inflationary pressures generated by high public deficits can, indeed, affect the effectiveness of monetary policy. The implementation of monetary policy within an inflation targeting framework requires credibility and an established “anti-inflation” reputation of the Central Bank.

**The objective of price stability is today clearly spelled-out in the new Statutes of Bank Al-Maghrib (2006).** Hence, its legal mandate clearly defines the Central Bank’s fundamental mission and grants it autonomy at the operational level to achieve the price stability goal. The final objective is price stability. The new Statutes of Bank Al-Maghrib, thus, formally forbid all forms of credit to the State and to public enterprises. The text only allows for a temporary facility restricted at 5% of current revenues collected during the previous year. This facility is conditioned by the Bank’s assessment of monetary conditions and can only be given if it does not impede the conduct of monetary policy.

**If an increased independence aims at avoiding conflicts of interests that could arise between monetary policy and fiscal policy, it nonetheless requires effective and thorough mechanisms of coordination with the Ministry of Finance.** Indeed, the absence of coordination between the two policies will usher in a suboptimal equilibrium. In practice, we have agreed to set up a formal and permanent framework for consultation between the Ministry of Finance and Bank Al-Maghrib. Hence, discussions take place not only during the preparation and the execution of the Finance Law but also over all matters requiring coordination between the two parties.

**Strengthening monetary policy transparency is also a key building block for the central bank’s credibility in an inflation targeting framework.** An increased autonomy does not at all mean an absence of responsibility but rather its reinforcement. This translates into an effective transparency on the Central Bank’s

interventions and the basis of its decisions, and also into an enhanced communication policy with the public. It is for this reason that Bank Al-Maghrib develops its cooperation as well as the quality of its dialogue, not only with the government, but also with the private sector and the press. It is in this spirit that the Central Bank has chosen to publish notably its monetary policy report and to post more detailed statistics on its Website. The yearly schedule of its Board meeting is communicated and a press communiqué is released at the end of each of these meetings. Similarly, Bank Al-Maghrib's Governor meets regularly with the press.

**3. Bank Al-Maghrib has also taken steps to strengthen the stability of the financial sector.** A fragile financial system can indeed constrain and limit the Central Bank's room for maneuver when it comes to modifying its main interest rate and can, consequently, affect its credibility. **In this regard, the banking sector is of a particular interest because it occupies, as it is the case in most emerging countries, a central place in Morocco's financial system. Over the past five years, the assets of the banking system have, on average, accounted for 57% of total financial assets.**

**At the banking system level, the efforts made by the banks have concerned several major areas.** The new banking law (2006) has aligned Morocco with the best international standards and allows it to deal in good conditions with the stakes related to the opening towards the exterior. Banking supervision has been reinforced and considerably enlarged. The public banking sector has gone through an in-depth restructuring process. The State remains present in the banking system but less heavily than in many emerging countries. The level of non-performing loans has considerably decreased to reach 10.9% at the end of 2006, and less than 9% for private banks. Similarly, the implementation of the Basel II recommendations, that imply an in-depth reform of the risk management and hedging systems, further reinforces the stability of the banking system. The first reporting on this basis will be

enacted by banks before the end of June 2007. The adoption of international norms of financial information (IAS / IFRS) will also give the banking sector an accounting and financial information framework compliant with the international standards. More broadly, a coordination commission between the financial system supervisory authorities will be activated very soon; thus, enlarging the prudential supervision mechanisms to the whole financial system.

**The degree of development of the financial markets affects the monetary policy transmission mechanism.** A further deepening of these markets will be necessary for an efficient implementation of monetary policy. Liquidity in these different markets has increased over the past years but progress is yet to be made in order to develop them. Work is underway to put forward new measures aiming at further stimulating these markets.

**Our research indicates that financial depth in Morocco is in line with that of other emerging countries, but that progress is more rapid.** It is interesting to note that the insurance sector is more developed than in other countries with similar development levels. Moreover, the stock exchange capitalization increases faster (currently 90% of GDP) with more and more private firms going public.

**4. Lastly, a policy of inflation targeting calls for a reinforcement of the technical capacity of the Central Bank.** One of the prerequisites for inflation targeting is the internal development of a solid capacity for the analysis of monetary policy, a solid framework to understand the business cycle and a comprehensive toolkit for macroeconomic projections. In particular, it is important to have a suitable knowledge of monetary policy transmission mechanisms, to develop a methodology for inflation forecasting, notably through models, business surveys and leading indicators of activity. We have started a wide spread process to enhance our capacity in these domains. **This effort is starting to give results and has particularly allowed us to**

**review our approach for inflation forecasting and analysis of monetary policy, within a framework that is close to that adopted by inflation targeters.**

**Thus, the Central Bank builds today its analysis -- in addition to monetary aggregates and price indexes -- on a diversified range of indicators with links to inflation and on forecasting models.** It is this global framework that serves as a basis for the decisions of Bank Al-Maghrib's Board at its quarterly meetings. Thus, the Board's monetary policy decisions are taken today after an in-depth assessment of economic activity, inflation forecasts and on the evaluation of inflationary risks in the medium-term. The analysis, prepared every quarter by the Bank's services for the Board, including inflation forecasts, are, since December 2006, accessible to the public with the quarterly publication of a monetary policy report. Undoubtedly, the development of the technical capacity of Bank Al-Maghrib is a process that is permanent.

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This brief presentation is specific to Morocco, but we do expect a lot from your contributions and to learn from your experiences in order to develop our approach, our analysis, and our ongoing work. I am convinced that your contributions will bring an innovative and practical perspective to all these issues.

To conclude, I would like to propose that this meeting does not remain a one-time event but, rather, that it becomes the starting point of a regular consultation that will allow us, in the future, to continue to share our experiences and to exchange views on our respective steps forward.

I thank you for your attention and wish you an excellent stay in Rabat as well as success to our proceedings.