# Report on the article: Capital Account Liberalization and Exchange Rate Flexibility: Scenarios for the Moroccan Case


## Abstract

Should Morocco adopt a more flexible exchange rate regime in the context of transition to an open capital account? The authors address this question by developing a sequential non cooperative game between the monetary authority and domestic firms. They compare welfare under different exchange rate regimes and show that a flexible real exchange rate regime should be selected when the degree of openness is greater than 40%


## Comments

This paper deals with an interesting topic. Indeed, Morocco is characterized by a strong trade deficit. Furthermore, it is worth noting that the adoption of a more flexible exchange rate regime is consistent with recent recommendations of IMF' experts.

Nevertheless, this paper raises several questions and is not fully convincing.

First, the reader would like to know the true contribution of the paper as regards the theoretical model itself or its application to Morocco. I'm not sure to understand the differences between this paper and that of Ben Ali (2006: Capital Account Liberalization and Exchange Rate Regime Choice, What a Scope for Flexibility in Tunisia?), except that one is applied to Tunisia and one in Morocco. Indeed, the model looks identical. *This important point must be clarified.*

Second the model seems too simple and too general for a simulation exercise allowing insightful recommendations to policy makers in the Moroccan case. For instance, is it really relevant to describe an economy without distinguishing between firms operating in the tradable and the non-tradable sector? Moreover, what is the role of households in this economy? How the model takes it into account the structural characteristics of the Moroccan economy? Etc. In brief, I think that only a more realistic and therefore complex model could give useful information to policy makers.

Third, the model should be more justified. For instance, the monetary rule is not really discussed. Is equation 5 compatible with the Taylor rule where the Central Bank reacts to inflation, production volatility and perhaps exchange rate variations? I do not understand the objective function of the firm (equation 5) and the link between equations 4 and 6. An important dimension seems lacking: the anchoring of inflation expectations.

Fourth, the results are strongly dependent of the calibration. The authors should more carefully justify the choice of the parameters and provide checks assessing the sensitivity of the results to the parameters. It seems also important to distinguish between trade and financial openness.

Finally, it would be useful to proceed with a careful editing.