Report on Capital account liberalization and exchange rate flexibility: Scenarios for the Moroccan case

This paper addresses the issue of whether the country should move to a more flexible exchange rate. It posits a tradable-nontradable model, in the context of a game played by the government and business. A calibrated version of the model delivers the conclusion that greater exchange rate flexibility would be beneficial.

The model is fairly old; it does not incorporate many of the issues that have been highlighted in the past decade and half, including balance sheet effects.

Even with the confines of the model, some aspects are fairly odd. There is discussion of financial openness, and yet the only openness in the model pertains to trade openness. In fact, I cannot figure out the structure of the financial side of the economy. There is a nominal exchange rate, but interest rates, money and many variables one would think of importance do not make an appearance.

On a more minor note, some equations appear as if by magic. For instance, where does equation 4 come from? Equation 5 seems to be consistent with a price level and real exchange rate targeting regime. But I'm not sure, and the equation is not motivated in any fashion.