

Flexibility of the Exchange Rate Regime and Exchange Regulation in Morocco

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Abstract

In this paper we analyzed the degree of consistency between the exchange regulations in force in Morocco and the operational framework of the foreign forex under a flexible exchange rate regime. The study showed, based on a dual approach, theoretical and empirical, that the exchange regulation in force in Morocco is broadly consistent with the scope of operation of the foreign forex under a flexible exchange rate regime.

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1 Introduction

Countries that adopt an exchange rate policy characterized by a fixed exchange rate regime and a relatively restrictive exchange control regime are facing analytically two problematic relating to optimal choices to be made in terms of their exchange policies.

The first issue concerns the question of the economic relevance of each of these components of the exchange policy mentioned above i.e. the relevance of the fixed exchange rate regime [2] and that of the exchange control regime individually selected.

The second problematic depends on the conclusions reached at the above (first issue) and focuses on the optimal strategy to implement in terms of the two components of the aforementioned exchange rate policy [3]. This second problem is to actually answer the following three questions:

- If it turns out that it is more relevant for a country to maintain its fixed exchange rate regime and the restrictive exchange control regime in force, what is the optimal strategy to glimpse for sequencing the liberalization of its exchange rate policy?

In other words, since the foreign forex liberalization strategies in their general component

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i.e exchange rate regime and foreign exchange control regime individually selected, consist of set of sequences provided in this regard, which a consensus seems established at the level of the economic literature, the question concerns the syntax of choices to be made in the matter: it is necessary that the first selected liberalization sequence concerns the exchange rate regime (operating more flexible exchange rate regime first, before the liberalization of the capital account) or first, operate liberalization of capital account either before flexible exchange rate regime (that is to say, maintaining a fixed exchange rate regime).

The recommended choices at this level - emerge from a consensus of economists and international institutions, including the IMF- are on the first alternative [4]. This consensus comes from the observation of the cases of countries that have experienced currency crises [5] (Asian countries in 1997 [6], Mexico [7] and Brazil in 1999) where one of the main causes of such crises lay in the liberalization of account capital while maintaining a fixed exchange rate regime [8] and those countries with generally successful strategies for the other currency policy.

- if it turns out that it is more appropriate for a country to liberalize its exchange control regime, what will be the most appropriate exchange rate regime to better support the liberalization of the exchange control regime ?
- if it turns out that it is more optimal to make the exchange rate regime more flexible , what is the most appropriate degree of openness of the capital account (or exchange control regime) to put consistent both components of the exchange rate policy.

These matters within the general problem of the consistency of macroeconomic policies chosen by a country, more exactly between the policy adopted for exchange rate regime and that pursued in the control of foreign exchange are important insofar one of the causes of currency crises that affected the countries of southeast Asia lies in the inconsistency between the policies that these countries had conducted the opening of their capital account while maintaining their exchange rate regimes fixed [9].

In Morocco, the exchange policy is characterized by:

- an exchange rate regime qualified (according to the taxonomy of the IMF) as conventional peg regime. This is a diet - usually part, according to different categorizations of rigid fixity or intermediate regime -in which the country (formally) its currency at a fixed rate to another currency or a basket of currencies.

However, this choice is called to be seen in that several indicators argue for the adoption of a more flexible exchange rate regime .

- a convertible exchange control regime for current operations and financial transactions of non-residents and inconvertible (partially open) for financial transactions of residents.

Morocco is in this regard, given to the above conclusions reached in this respect on exchange rate policy and exchange control regime, faced for optimal choice to be made at their exchange rate policy to the third problematic category, to say the degree of openness of the capital account or the optimal part of the exchange regulations to accompany the introduction of a relatively flexible exchange rate regime.

This article has for purpose to analyze the degree of consistency between the exchange regulations in force in Morocco and the framework for operation of the foreign forex under a flexible exchange rate regime.

The methodology to be followed to provide answers to the above- stated questions will be a dual approach, theoretical and empirical.

The theoretical approach will be made through the presentation of the relevant factors relating to this theme, collected from the economic literature dealing with this subject.

As for the empirical approach, it will be done through observation of the relevant provisions

(of the exchange regulations deemed necessary, in the light of the conclusions of the theoretical approach for the proper functioning of the forex under a flexible exchange rate regime) of the exchange regulations in force in countries more or less comparable in Morocco (Tunisia, South Africa, India, Ukraine, Indonesia and Thailand) have adopted a flexible exchange rate regimes.

This observation will allow a comparison between the existing exchange regulations in these countries and those in force in Morocco and will permit for this purpose, to assess the compatibility of the current framework of the exchange regulation in Morocco with more flexible exchange rate regime and possibly suggest a new measures in exchange policy which could better support the exchange rate regime.

2 Exchange Regulations Framework Accompanying the Introduction of a Flexible Exchange Rate regime

The framework of the exchange regulations accompanying the introduction of a flexible exchange rate regime can be derived from an indirect way of economic literature (IMF research papers) on the subject of the success conditions of a flexible exchange rate regime [10].

These conditions include- in addition to the strategic elements [11] (structural economic factors determining the adoption of a flexible exchange rate regime) - operational elements considered necessary for the establishment of a market for deep and efficient exchange qualities constituting factors / ingredients necessary for a proper functioning of the foreign forex [12].

The operational conditions include a set of elements such as a sufficient number of players on the market, powerful technological infrastructure, a developed money market and an appropriate exchange control framework.

These operational elements can be distinguished according to their impact on the two above mentioned qualities (which are considered necessary for proper functioning of the foreign forex) i.e. the depth and efficiency of the foreign forex.

2.1 Necessary Conditions for the Depth of the Foreign Forex

The depth of the foreign forex designates the degree of liquidity of that market [13], which is the degree of importance of the purchase orders and sales in that market [14].

The depth of the foreign forex is an important criterion for proper operation of that market in terms of its virtues in the field, particularly in terms of reducing transaction costs -through the reduction of the spread / gap between the current buyer and seller and minimizing daily fluctuations, correcting imbalances and misalignments, minimizing expectations etc.

However, the establishment of a deep forex requires - in addition to the other elements such restrictions on interbank trading - the elimination of regulations suffocating market activity, including those relating to the following exchanges regulations:

- the relaxation of restrictions on current operations and to some extent those of the capital account to increase the sources and the use of foreign currencies and also stop the parallel market binding the forex;
- relaxation of foreign exchange regulations regarding the surrender requirements to the central bank;

- Liberalization of certain categories of the capital account in the context of compensation transitory on the current account [15] and allow moreover avoid misalignments and / or volatility of the real exchange rate. These categories include transactions on commercial and financial credits;
- However, it is recommended that liberalization is made taking into account the following elements:

The opening of the capital account should be done / not operated asymmetrically to facilitate an orderly resolution of any potential misalignment of the exchange rates, avoid default downward pressure or increasing the value of the exchange rate relative to its long-run equilibrium value and to create a sense of the risk of exchange rate in both directions which remains essential to prevent free fall trends sometimes observed in some flexible process of foreign forexs [16].

- The direction and composition of capital account transactions must be well identified in order to avoid the negative macroeconomic effects and potential risks [17];
- liberalization of operations for better risk management in general and management of foreign exchange risk in particular for the purpose of improving personal risk management capabilities to support the development of the foreign forex [18];
- the elimination of taxes on foreign exchange transactions

2.2 Conditions Necessary for the Efficiency of the Forex

The efficiency of the foreign forex refers to the fact that the exchange rate observed in the market contains all relevant information on exchange rate determinants [19].

The efficiency criterion allows, when filled, to avoid behavior "herding" and "feedback trading" resulting in exchange rate movements outside of the fundamentals and in situations qualified of "situations of market failures".

Thus, it is generally considered that efficiency stems from a process of learning by the foreign forex operators and that the (learning) requires two main conditions for its development:

- Reducing the role of the central bank in the interbank market through the relaxation of foreign exchange regulations centralized by the central bank: lending currencies, increasing foreign exchange position of banks etc. ;
- The establishment of an appropriate informational system covering all descriptive and analytical information relevant for the understanding of the economic factors that influence the currency market, including information on the sources and use of currencies. This system will allow the forex operators to have the visibility needed to take positions, manage exchange rate risk etc.

3 Empirical Approach

This empirical approach is to enrich the resources to provide answers to the main question (forming the objective of the study) evaluating the degree of compatibility of the current exchange control regime of Morocco with a more flexible exchange rate regime.

Indeed, in addition to theoretical teaching -which have identified among all the regulations of exchange controls, those considered necessary for the success of an flexible exchange rate regime - analyzing foreign exchange regulations will actually detect the steps taken by

countries regarding those regulations and generate accurate and better -argued conclusions. The empirical approach is to compare the relevant elements of foreign exchange regulations (identified above as necessary for the success of a flexible exchange rate regime) in force in a set of countries which have implemented exchange rate regime with a more level of flexibility than the existing one in force in Morocco.

The countries chosen to establish the comparison are: Tunisia, South Africa, India, Ukraine, Indonesia and Thailand. These countries were selected on the basis of the criterion of gross domestic product per capita and that, in light of the fact that it's the determining factor of exchange controls, allowing to avoid any allocation failure of a given level of exchange controls in the establishment of a more flexible exchange rate regime.

The comparative analysis will be presented in three summary tables below, showing the foreign exchange regulations indicated operations before in force in Morocco and these countries.

3.1 Regulations relating to Reimbursements Currency at the Central Bank (Regime of Foreign Currency Accounts [20])

Table1: Regulations relating to reimbursements currency at the central bank in force in the countries selected for the comparison (a set of countries) and Morocco.

	Set of countries	Morocco
Resident Accounts	Foreign exchange regulations in all selected countries allows residents generating revenue of exports of goods and services to open foreign currency accounts and crediting these accounts up to 100 % of revenues generated under it.	Exchange regulations allow exporters of goods and services to open foreign currency accounts and crediting these accounts to 70 % of revenues generated under it.
Non Resident Accounts	Foreign exchange regulation gives the possibility for non-residents to open foreign currency accounts and maintain resources accordingly received in these accounts / and this in all selected countries. This facility covers also the term deposit accounts in Ukraine, Argentina and Indonesia.	Permission granted to approved intermediary banks to open these accounts on behalf of foreign non-resident individuals or Moroccan nationality and on behalf of non-resident corporations.

Commentary:

Morocco's foreign exchange regulation relating to this arrangement seems less favorable than that in force in other countries to the extent that exporters can deposit only 70% of revenues from exports in foreign currency accounts. However, the statistics relating to the use of such accounts by the operators show that this facility awarded under that far exceed the needs of operators.

According to information from the Department of Statistics of Foreign trade of the Exchange Office, these accounts are only used up to 16 %.

3.2 Trade Credits

Table 2: Trade credits

	Set of countries	Morocco
	<p>- General authorization (total freedom) and without limit for the realization of those transactions in South Africa, Ukraine, Indonesia and Thailand.</p> <p>- Partial authorization in annual maximum amounts (plafond) or delineation of categories of eligible operators to achieve the said transactions in other countries :</p>	Free for both the direct realization of such operations by foreign trade operators or through authorized intermediaries banks.
For residents	<p>Tunisia General authorization for credit institutions to carry out such transactions; Authorized within the limits of a maximum annual amount of 10 million TD (50 million dirhams) For companies with a rating from "A" rating agency or on the stock exchange and 3 million TD for other companies.</p>	
	<p>India General authorization for credits related to the import of capital goods in the limit of 20 million US dollars per year and provided that the maturity of 3 years.</p>	
For non-residents	<p>General authorization in Ukraine and Thailand. Partial authorization in these countries :</p>	
	<p>India General authorization and without limit for such transaction when they are linked to imports of services. General authorization for buyer credits related to for transactions involving capital equipment and turnkey projects in India.</p>	
	<p>Indonesia General authorization for transactions undertaken by operators other than banks and obligation to a special authorization for transactions by banking organizations.</p>	
	<p>General restrictions in South Africa and Tunisia [21]</p>	

Commentary:

Exchange regulations for trade credit is generally liberal whatsoever for loans granted by residents to non-residents than those granted by non-residents to residents.

Indeed, concerning loans granted by non-residents to residents, exchange regulation of Morocco is more favorable / liberal than those in force in Tunisia and India.

Also, regulation regarding loans granted by residents to non-residents is more liberal than that in force in Tunisia and India and less liberal than that in Ukraine and Thailand.

3.3 Financial Credits

Table 3: Financial credits

	Set of countries	Morocco
For residents	- General authorization to carry out such operations in Ukraine and Indonesia .	Subject to the approval of the Exchange Office. However, the approved intermediary banks may grant loans in dirhams non-resident foreigners and Moroccans living abroad for the acquisition or construction of realty in Morocco. These credits can reach up to 70 % of the price of the property to the acquisition or construction [22].
	Partial authorization in other countries consisting of some restrictions in the form of annual amounts ceilings or on the transaction currency of denomination or eligible operators to carry out those operations :	
	India General authorization within the limit of an annual ceiling of 500 million US dollars per company and an overall ceiling fixed annually for all transactions made by the economy as such. (This ceiling was set at US \$ 40 billion in 2010).	
	Tunisia General authorization for credit institutions to carry out such transactions; Authorized within the limits of a maximum annual amount of 10 million TD (50 million dirhams) For companies with “A” rating from a rating agency or on the stock exchange and 3 million TD for other companies.	
	Thailand Subject to authorization for the banking sector as they are incurred in national currency.	
	Subject to authorization in South Africa .	
	General authorization in Ukraine provided that such credits are granted to non - resident financial institutions.	

Differential regulatory provisions depending on the quality of stakeholders in the transaction and / or by currency of denomination (depending whether domestic or foreign) of completion of the transaction. (Case of Thailand).

Thailand

General authorization for such transactions when contracted between a resident enterprise and its subsidiary established abroad; authorization up to a maximum of US \$ 50 million for other transactions.

for non-residents

General authorization for loans granted by financial institutions in domestic currency, up to a maximum amount of 300 million Baht for loans to legal entities and 5 million for those (loans) granted to individuals.

India

General authorization for such transactions incurred by resident companies with their subsidiaries abroad or with the staff of such subsidiaries.

General authorization within the limit of an annual ceiling of 10 million for loans by resident banking entities.

Subject to authorization in **Tunisia** and **South Africa [23]**.

Commentary:

Regarding financial credits for residents, Morocco's exchange regulation is more liberal compared to other countries as that in force in South Africa, less liberal than that in force in Ukraine and Indonesia, and it's is different (unique or difficult comparable) than that in India and Tunisia.

Indeed, in Tunisia, the exchange provisions differentiates / operates the difference according to the operators contracting the appropriations, while that of Morocco puts more emphasis on the nature of the object of such credits operations (trade and investment).

In lending by residents to non-residents financiers, the Exchange Regulation of Morocco is similar to that in force in Tunisia, South Africa and Indonesia (Since these operations are generally subjected to authorization In Morocco and in these countries).

However, the exchange regulation of Morocco is less liberal than that in force in Thailand and India.

3.4 Financial Derivatives

Table 4: Financial derivatives

Set of countries	Morocco
<p>Liberal framework for operations related to these transactions in South Africa either side of assets (hedging with non-residents) and portfolio investment liabilities (hedging by non-residents to residents) :</p> <p>General authorization for residents to engage in hedging transactions with non-residents (in the international market), provided that the transaction be performed by the approved intermediary;</p> <p>General authorization for non-residents to hedge with residents through the purchasing of financial products on the domestic financial market.</p> <p>Liberal framework of the asset side (hedging of residents from non-residents) and restrictive investment liabilities (non-residents to residents hedging) in Indonesia:</p> <p>General authorization for the operations of the regulations for hedge against the risk of fluctuations of exchange rates (regardless of the type of instrument : forward , swaps or options) Backed import, export and investment;</p> <p>General authorization for the same operations indicated / above mentioned non-asset backed transactions / underlying (imports, exports and investments) to a maximum of US \$ 1 million per customer.</p> <p>Restrictive regulatory framework for such transactions in other countries :</p> <p>Thailand</p> <p>Remittances by residents for settlement of transactions in financial derivatives are subject to approval [24].</p>	<p>General authorization for intermediary banks to offer to their customers options to exchange dirhams and foreign currencies or exchange currencies against currencies, excluding any instruments from abroad. To hedge against the risks assumed with regard to their customers, the approved intermediary banks should contact the local interbank market. Nevertheless, when the market does not allow them to find the right hedging, they are allowed to go to the international market to hedge their currency against foreign currencies. These transactions are hedged against foreign exchange options purchased by customers.</p>
<p>Ukraine</p> <p>All transactions in respect in financial derivatives are subject to authorization, except for the following :</p> <p>Hedging against the risk of fluctuations in exchange rates of the national currency relating to import and export operations.</p> <p>Futures hedging against foreign currencies made by authorized intermediaries to operators for their own accounts or for the account of traders.</p> <p>India</p> <p>All transactions in financial derivatives are subject to authorization, except for operations of hedging transactions by</p>	

authorized dealers in foreign exchange fluctuation risk backed dividend transfer operations of foreign direct investors not-residents.

Tunisia

All transactions in financial derivatives are subject to authorization, except for foreign exchange swap transactions with non-resident banks and foreign correspondents whether foreign currency against foreign currency or foreign currency against dinars.

Commentary:

Foreign exchange regulations in different countries are generally restrictive with the exception of Indonesia which has a regulatory framework that can be a model for Morocco.

5 Conclusion

This study yielded the following key findings:

- ✓ The foreign exchange regulation in force in Morocco is broadly compatible and consistent with the operational framework of the foreign forex under a flexible exchange rate regime.

This conclusion follows from the observation of the relevant exchange regulations in force in Morocco and other ones in comparable countries to Morocco that have adopted flexible exchange rate regimes. Indeed, this observation has revealed the following key facts:

- Exchange regulation of Morocco is generally more liberal than that in force in some countries with flexible exchange rate regime such as Tunisia;
- the exchange regulation of Morocco is relatively not less liberal than those existing in other countries selected for the comparison, in that their regulation framework contains provisions (as for example those relating to trade credit, financial credit and financial derivatives) which are either the same degree of liberalization or are more liberal than those of the comparative countries;
- the potential offered by the exchange regulations currently in force in Morocco is not yet fully exploited and that, as shown by the statistics on the use of foreign currency accounts by exporters of goods and services: and also those relating trade finance;
- ✓ The exchange regulation in Morocco, however, must incorporate into its standby device -in addition to the usual parameters considered in the process of the opening of the capital account such as those related to structural savings, current account, exchange reserves, etc. - specific needs for the necessary material for a proper functioning of the foreign forex under a flexible exchange rate regime. In this respect, liberal regulations, among others based on those in force in some countries of the comparative, can be considered, including:

In terms of transactions relating to financial derivatives:

- The measured expansion of liberal framework in exchange for these operations:
- Regarding other non-liberalized transactions, the establishment of annual ceilings for payments for non-residents on these instruments, like the provisions in force in India;

In terms of other capital account transactions, and given the symmetry parameter on the foreign exchange regulations related to these operations as deemed necessary to avoid destabilizing pressures, particularly in periods of turbulence on the international financial market, of regulatory liberalization modes unconventional exchange should be studied such:

- The liberalization provisions for example for financial credits for non-residents to the extent of not definitively established ceilings and determined annually based on changes in national and international capital markets;
- The controlled liberalization of the capital account provisions consisting of the establishment sterilization fund.

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- [21] Trade credit can be granted exclusively to non-resident companies operating in Tunisia through foreign currency sources at their disposal or procured on the interbank foreign exchange market or outside of these resources by businesses services established in Tunisia.
- [22] The repayment of these loans should be done by attracting foreign currencies or an account in convertibles dirhams.
- [23] With the exception of the following:
The financial loans to non-residents in order to finance direct investments in the country.
Those which may be granted by any resident entity to a non-resident individual in the limit of an annual maximum amount of 1 million Rand and Indonesia
- [24] Remittance of funds by residents for settlement of derivatives transactions requires BOT approval. However, institutional investors may engage with foreign counterparties in derivatives transactions linked to foreign variables not involving foreign exchange and baht to hedge risk exposure and enhance return on investment.