EXECUTIVE BOARD MEETING

SM/20/138
Supplement 11
Correction 1

September 28, 2020

To: Members of the Executive Board

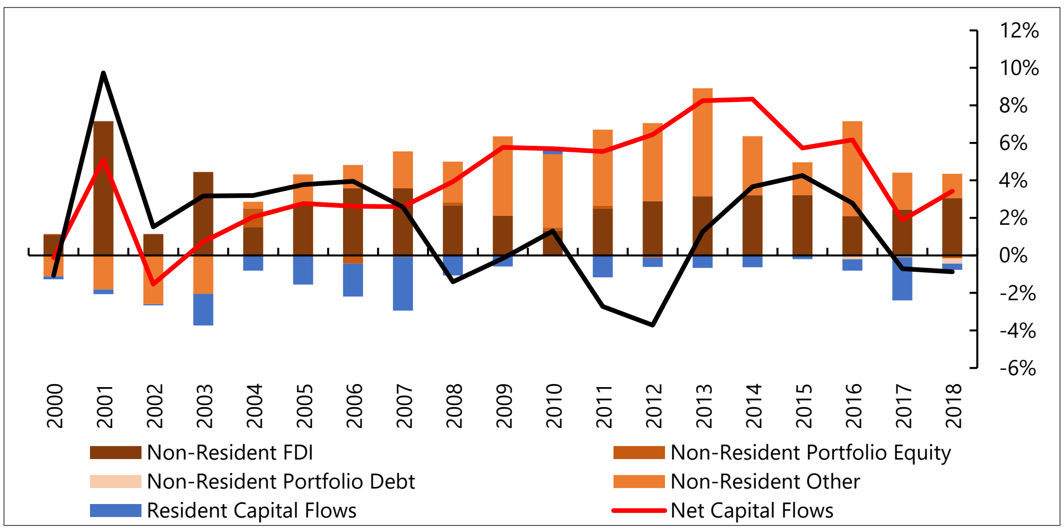
From: The Secretary

Subject: **Independent Evaluation Office—IMF Advice on Capital Flows—Africa and the Middle East**

Board Action:	The attached corrections to SM/20/138, Sup. 11 (8/20/20) have been provided by the IEO.
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Pages 12**
Questions:	Mr. Loungani, IEO (ext. 37043) Ms. Batini, IEO (ext. 35763)

42. When the GFC hit, the decline in remittances, tourism, exports, and FDI led non-agricultural GDP to decline by 1.6 percent in 2009, though the impact was cushioned somewhat by ~~extent of capital account opening was still somewhat limited and there was thus little effect on the Moroccan economy, given~~ the still fairly restricted capital account and the limited ~~external~~ exposure of Moroccan banks at the time. Moreover, macroeconomic policies shielded the economy: the Central Bank, Bank Al-Maghrib (BAM), reacted promptly by cutting rates between 2008 and 2010 and fiscal policy moved to an expansionary stance as of 2008 to counter the contractionary effect of the crisis on external demand (Agénor and El Aynaoui, 2015). Morocco has had successive Precautionary Liquidity Line (PLL) arrangements with the Fund since 2012 to provide insurance against external shocks and drew on this line in April 2020 to help counter the effects of the COVID-19 shock.

Figure 3. Capital Flows—Morocco
(In percent of GDP)



Source: IMF, International Financial Statistics.

IMF engagement on capital account issues

43. The Fund has had an extensive involvement with Morocco over the past two decades through Article IV consultations, Financial Sector Assessment Program reviews, and provision of a PLL arrangement. On capital account issues, there has been a largely shared view on the strategy for gradual liberalization, with inflow controls relaxed before outflow controls; on the importance of attracting inflows in the form of FDI; and on the need to push ahead with supporting reforms before further liberalizing capital flows.

44. There have been regular discussions on the supporting reforms needed before opening up the capital account: (i) achieving sound public finances; (ii) developing domestic financial markets; (iii) enhancing the monetary policy and regulatory framework to monitor financial stability risks; and (iv) gradually transitioning to a more flexible exchange rate regime. On each of these fronts, there has been engagement with the Fund through surveillance and technical assistance.