



Economic policies, trade integration and sustainable job creation: A view from the Mediterranean countries

## Central banks, macroeconomic stability and growth

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# Introduction

- In most cases monetary policy has price stability as a primary objective.
- Central banks have been criticized for focusing on this goal at the expense of growth and employment in particular.
- Yet, they keep on recalling that price stability is their best contribution to growth and development (it preserves purchasing power and gives the visibility necessary to make decisions with regard to consumption, savings and investment).
- With the advent of the financial crisis, central banks' position and missions have changed considerably.
- In this respect, two periods can be distinguished: the crisis period, which lasted around a decade, and the post-crisis period, which we are living today.

# I. Central banks during the crisis period

## Expanded missions and multiple constraints

- During the crisis, the dwindling fiscal buffers and pressing expectations led central banks to use unconventional policies, never tested before, and intervene on new missions (including financial stability) .
- In advanced countries, in particular, they resorted to ultra-accommodative policies with interest rates close to zero and massive liquidity injections programs;
- Despite these efforts, central banks have had a hard time boosting credit, accelerating recovery and pushing inflation towards their targets;
- The delay in implementing structural reforms, those in particular necessary to improve productivity and labor market, would have contributed to the persistence of the crisis;
- It took nearly a decade for the global economy to regain its strength, although not without sequels, one of the most worrying of which is the high level of indebtedness.

# I. Central banks during the crisis period

## Expanded missions and multiple constraints

- Against this backdrop of crisis and uncertainties, monetary policy conduct came across :
  - difficulties in assessing the equilibrium levels of the main variables;
  - weaker traditional macroeconomic relations (flattening of the Phillips curve);
  - less relevance of central projections (requiring alternative scenarios);
  - difficulties in transmitting monetary policy decisions;
  - Undermined the autonomy and effectiveness of monetary and macroprudential policies in emerging and developing countries, due to the size and volatility of capital flows, induced by the decisions taken in developed countries.
- These findings and developments have revived the debate as to the goals/ targets of monetary policy (inflation, price level, nominal GDP, etc.) and;
- more generally, and in view of the persisting inequalities, on the relevance of indicators such as GDP in measuring economic performance and social progress (Stiglitz commission, OECD's "Beyond GDP" initiative, etc.) .

# I. Central banks during the crisis period

## Expanded missions and multiple constraints

In our Mediterranean region, situations may vary, but the challenges in common are multiple:

- A generally slow growth;
- A worrying level of youth unemployment;
- Persistent high levels of living standards and gender inequalities ;
- Conflicts in some southern countries with direct or indirect impacts on a large part of the region (emigration, refugees, ...);
- High and urgent population expectations.

In **the case of Morocco** in particular,

- The country was initially spared from the crisis due to limited capital movements and weak financial links;
- but through economic linkages (external demand, transfers, FDI), the economy was ultimately impacted, even more with the rising oil prices and the increasing social pressures, further to the advent of the Arab Spring .

# I. Central banks during the crisis period

## Case of Morocco: Situation and role of the Central Bank

- Nonagricultural growth increased from around 4.5 percent between 2000 and 2012 to an average of 3.1 percent, albeit with a gradual improvement since 2013;
- Employment continues to suffer as youth unemployment remains particularly worrying, with more than 4 out of 10 urban youth unable to find jobs;
- Just like the entire region, women's participation rate in Morocco is very low, as only 2 out of 10 are active;
- Bank lending decelerated sharply since 2013, especially loans to private companies;
- The fiscal and current account deficits deteriorated somewhat and remain fragile despite their notable improvement since 2013.

Against this background, the authorities launched several major projects.



# I. Central banks during the crisis period

## Case of Morocco: Situation and role of the Central Bank

- Overhaul of the constitution, by extending the powers of the head of the Government, strengthening participatory democracy, constitutionalizing bodies concerned with the protection of rights and freedoms and recognizing the primacy of international instruments.
- Structural reforms: advanced regionalization, reform of the justice system and improvement of the business climate (Morocco is ranked 60 in the 2019 edition of Doing Business); subsidies system; pension schemes; a new organic law of finance, ...
- Development and implementation of several sectoral strategies, to provide long-term visibility and promote both national and international investment (Morocco green plan, industrial emergence, renewable energies, ....);
- Significant strengthening of social safety nets (allowances for women in precarious situations, direct transfers to encourage schooling in rural areas, generalization of medical coverage, etc.)

*Against a backdrop of moderate inflation, **the Central Bank has gone beyond its scope of intervention and its usual instruments with a view to supporting economic recovery, boosting credit and accelerating growth.***



# I. Central banks during the crisis period

## Case of Morocco: Situation and role of the Central Bank

In addition to its accommodating policy, with several cuts in the key rate (from 3.25 percent in 2012 to 2.25 percent in 2016) and in the reserve requirement rate (from 15 percent in 2008 to 4 percent currently), as well as its commitment to provide all the liquidity needed for a sound financing of the economy, the Bank has:

- ensured the transmission of its decisions via regular meetings with the heads of the banking system (awareness raising, refined monitoring of the lending rates, etc.) and via incentives aimed at linking the level of its injections on the money market to the credit granting efforts ;
- set up a tripartite BAM-GPBM-CGEM (Bank Al-Maghrib- Moroccan Bankers' Association- General Confederation of Moroccan Enterprises) partnership where each party commits to undertake concrete actions as set out in a memorandum. The latter also includes proposals for the government to help revive credit and finance the economy;
- developed a system for monitoring payment deadlines between public and private companies to gain a better insight into the problem. A national observatory was subsequently set up with the help of BAM for data and analysis;

# I. Central banks during crisis period

## Case of Morocco: Situation and role of the Central Bank

- worked towards greater transparency in Bank-companies relationships, leading banks to disclose their ratings and to justify the rejection of loan applications;
- encouraged the development of sector-based agreements between the banking system and sectoral federations.
- And above all focused its efforts on VSMEs financing, with many measures adopted on the basis of lessons learnt from several regional hearing and information tours. It thus set up :
  - A specific refinancing mechanism for loans to VSMEs;
  - A financial support fund for VSMEs aimed at co-financing with credit institutions, without recourse to budgetary funds, viable VSMEs which are experiencing temporary difficulties due to difficult economic conditions;
  - A VSMEs Observatory with the aim of deepening the knowledge of this productive fabric and of a regular communication on the services and the measures in their favor;
  - Regional Committees on VSMEs in collaboration with banks and federations, to support the development of VSMEs taking into account regional specificities, BAM ensuring a presence through its branches.

# I. Central banks during the crisis period

## Case of Morocco: Situation and role of the Central Bank

Yet, with its missions enlarged, the Central Bank had to face new challenges including in particular:

- access to financial services for small and medium-sized customers: in this respect, it worked alongside the Ministry of Finance to finalize the implementation of the National Financial Inclusion Strategy, which particularly aims to reduce inequalities for the benefit of the youth, women and the rural population;
- launching and supervising activities of participatory finance;
- promoting green financing;
- and more recently, the Bank implemented, with the Ministry of Finance, a major reform to move to a more flexible exchange rate regime, ...

# I. Central banks during the crisis period

## Case of Morocco: Situation and role of the Central Bank

- Thus, after an intense preparation, the first phase of this transition was launched last January 15, and the fluctuation band of the Dirham was widened from +/- 0.3% to +/- 2.5% compared to the value determined by the reference basket.
- This reform, which aims ultimately to strengthen the resilience of the economy and its ability to absorb shocks, is a voluntary transition, away from any exchange rate crisis; It was carried out:
  - Based on an orderly approach on several phases (gradual widening of the band and then abandonment of the anchor at a later stage), while meeting the prerequisites and conducting impact studies before the beginning of each new phase;
  - with the prior preparation of operators, particularly in the area of currency risk management;
  - and through defining a communication strategy, identifying target populations, messages and appropriate communication channels for each phase of the transition.

With the transition to a more flexible regime, the nominal anchor will no longer be the exchange rate, but rather inflation. In this regard, the Bank is finalizing its inflation targeting framework with a view to implementing it at an advanced stage of the transition. |

# I. Central banks during the crisis period

## Case of Morocco: Situation and role of the Central Bank

Eleven months after the beginning of the reform, the latter is progressing well with:

- a large uptake by operators and markets;
- a deeper interbank foreign exchange market (no further resort to the Central Bank);
- increased development and use of currency hedging instruments;
- still, the Central Bank remains vigilant and pays particular attention to the conditions applied to VSMEs, through regular reporting on such conditions.

## II. Post-crisis context and challenges

### More complex economic and political challenges

A decade after the beginning of the crisis, central banks are comforted in their position but are faced with increasing and more complex challenges.

They are thus led to accomplish their expanded missions in a political, economic and social context marked by:

- Heightened geopolitical tensions and conflicts;
- a questioned multilateralism, including WTO-rules, higher protectionism and increased trade tensions that would, according to the IMF, result in a 15-percent decline in global trade and a 2-point drop in global GDP over a five-year period;
- Several challenged international agreements, notably regarding climate;
- Weaker confidence in public institutions, owing to the persistence of the crisis and the widening of social inequalities.

## II. Post-crisis context and challenges

### More complex economic and political challenges

- Normalized monetary policies, which obviously impact capital flows and financing costs, and episodes of strong tensions on the currencies of some emerging countries like Turkey, which raised fears of contagion and financial instability.
- High levels of indebtedness that increase the vulnerability of economies, weaken financial stability, and reduces the fiscal space (global debt accounts for 220% of GDP, up 60% in ten years).
- Strong fluctuations and high levels of oil prices recently, with a risk on the economic recovery. The easing of fiscal pressure for exporting countries may hinder diversification efforts, while importing countries face pressures on external balances and foreign exchange reserves

To sum up, the global economy is emerging from a deep crisis, one of the worst ever in its history. It has certainly gained momentum, but is still shrouded in a cloud of uncertainty that weighs on its prospects and raises fears of a new crisis.



## II. Post-crisis context and challenges

### More complex economic and political challenges

In the Mediterranean region in particular,

- Europe is striving to consolidate and strengthen its union to face the rising populism and identity-based claims, ....
- At the south of the Mediterranean, the Maghreb remains, against all logic, frozen and several countries are grappling with perpetuated security problems and conflicts, ....
- and between the northern and southern shores, security and migratory worries continue to weigh on the strengthening of relations and to hamper economic integration.

## II. Post-crisis context and challenges

### Digitization: a revolution with uncertain implications

- Another unprecedented challenge that is facing the global economy is digital revolution ;
- The IMF and the WB have developed the Bali Fintech Agenda, a set of 12 policy elements that provides a framework for countries to explore possible choices and adapt them to their specificities ;
- For central banks, this revolution offers vast opportunities to develop financial inclusion and accelerate the development of payment systems through the diversification of actors and the use of new more accessible and less expensive alternatives...

#### **But it raises several challenges:**

- Gain insight, as regulators, of the implications of such transformation to be able to accompany it and develop adequate regulation and supervision ;
- Adapting themselves as companies and succeed their own digital transformation. This is specifically the project Bank Al-Maghrib is currently undertaking within the framework of its new strategic plan 2019-2023. We made it a pillar and launched a major study to identify the priorities and lay out a roadmap.

## II. Post-crisis context and challenges

### Digitization: a revolution with uncertain implications

**And particularly presents serious risks:**

- **Cybercrime** that generates around 1,500 billion dollars of illegal income each year. In addition to strengthening regulation, central banks are called upon to consolidate the security standards of their own information systems and their audit and control mechanisms.
- **The development of crypto-assets and inherent risks** (terrorism financing and money laundering, volatility and speculation). Some central banks have initiated debates about developing their own digital currency, which would question, if materialized, the classical model of monetary policy conduct.
- **Protection of personal data**, which became a legally enforceable obligation but increasingly difficult to guarantee.

This revolution carries also implications **in terms of central banks' communication...**

## II. Post-crisis context and challenges

### Communication: An increasing challenge for central banks

**...which has become a central axis in conducting their main missions, including monetary and macro-prudential policies, and a prime factor in ensuring their effectiveness.**

- During the crisis period, communication has been one of the central axes of the unconventional policies of central banks (for example, the forward guidance used to reinforce the anchoring of expectations) ;
- With their role strengthened, central banks have to be more transparent ;
- They became more present and visible in public debates on economic and social issues, a trend encouraged by the possibilities offered by digitization and social networks (YouTube, Twitter, Facebook, LinkedIn, etc.) ...
- ...But those new channels are not risk-free either...

## II. Post-crisis context and challenges

### A regulation deluge

- Lessons learned from the crisis, the fight against the financing of terrorism, money laundering and tax evasion, led to a strong willingness to strengthen the regulation of financial activities.
- This was followed by the adoption of several regulations, with an increase in requirements, particularly in the banking sector (Basel III, IFRS, FATF, FATCA, EU Regulation, ...).
- Compliance absorbs 10 percent to 20 percent of the operational budget of many financial institutions and threatens even the survival of small or medium-sized ones (The Economist Intelligence Unit) ;
- In face of the increasing complexity of such new regulations, central banks have to make a great effort to develop the capacity and expertise necessary to fulfil their role as regulators and supervisors.

In Morocco, we chose to adopt a participatory and gradual approach and carried out tests and impact assessments, in order to avoid compromising the soundness and sustainability of the banking system and its role in the financing of the economy.

## Conclusion

Central banks are now in a situation where they are expected to continue their traditional missions and to undertake new, and equally complex, ones. Their expertise is called upon on issues that are far away from their areas of responsibility. In order to succeed, they ought to be proactive through:

- Developing their human capital (not an easy challenge considering the scarcity of some skills and profiles);
- Investing in their infrastructure, notably information and security (which requires considerable financial resources);
- Adapting their organization and governance for greater efficiency

In addition, it is thanks to meetings like this one which enable dialogue and the exchange of experiences that they will be better able to address their challenges.

If our partners in the North can overcome the problems of populism and strengthen the convergence of their policies, the impact can only be positive on the countries of the South and will facilitate their quest for wealth creation and employment...

...the only sustainable solution to phenomena such as migration which, in addition to the resulting human tragedies, threaten European cohesion and solidarity.



**Thank you for your attention**