OCP POLICY CENTER
THINK · STIMULATE · BRIDGE

Université Mohammed V- Rabat
Faculté des Sciences Juridiques,
Economiques et Sociales
Rabat - Agdal

Call for Papers

Economic policies and financing in Developing Countries

The requirements of economic and social development in developing countries especially in Africa are considerable. Developing countries face major challenges such as increasing their growth rate. This particular challenge presupposes a significant effort to mobilize internal and external financing simultaneously with the changes in global development financing modalities: the rise of internal financing at the expense of official development assistance (ODA) and external financing. The requirement in terms of increasing growth rates to significantly reduce unemployment and poverty exists in the context of a broader strengthening of the investment program that is linked to a greater mobilization of savings. Macroeconomic literature on the impact of financial liberalization on savings is considerable[1]. However, most models considering this question do not clarify the direction of causality between variables as a result of the complexity of the reform process.

The questions and analyses covered by the various communication proposals must fit into the following three areas:

In the initial focus: it is important to verify whether the various elements brought by sound financial liberalization impact savings and reduces financing constraints while being channeled towards the financing of investments

Following the seminal work in this theme, Shaw and McKinnon (1973) have highlighted the shortcomings of a given financial system and the resulting implications, including risks of an inefficient allocation of resources. This is why financial repression, in all its forms, is often criticized by international bodies, hampering the proper functioning of market forces. Following this theoretical approach, the question of liberalization of capital flows was included on the agenda for financial reforms advocated by the IMF. For developing countries, their investment requirements largely exceed domestic savings, making it is essential for them to push for openness of their financial system and mobilize external financing resources, especially since they offer international investors significantly higher returns. However, the desired effect coming behind such openness have only partially materialized. The IMF (the once defender of liberalism) has become more skeptical about the potential gains associated with financial openness[2]. Without a fundamental reassessment of such principle, the IMF conceded that capital flows could also carry risks for domestic

[1] Bandiera O., Capio G., Honohan P. & Schiantarelli F. (2000) : « Does Financial Reform Raise or Reduce Savings? » Review of Economics and Statistics 82(2), 239-263.

[2] FMI [2012], « The liberalization and management of capital flows. An institutional view ».

financial systems. Capital inflows may not in fact result in efficient financing investment generating liquidity surplus, often poorly managed, that consequently fuel the formation of bubbles in asset markets.

The work that will be part of the second focus will emphasize the role of financial integration including opening the capital account in the maintenance of disciplined economic policies and long-term interdependencies with key macroeconomic performance indicators (growth, attraction of foreign investments).

However, opening of the capital account could also induce costs (particularly related to short-term risk[3] and financial fragility) by creating permanent financial development gaps between countries while financially constraining developing countries[4]. Although these risks have materialized in most countries where the capital account is liberalized, the scope remains contingent on institutional frameworks and economic governance. Emerging Market Economies (EMEs) or developing countries (DCs) with sound macroeconomic frameworks, such as a transparent and independent monetary policy and a sustainable fiscal policy seem less affected by such volatile capital movements[5]. Therefore, financial integration of developing countries is likely to punish economies with inadequate macroeconomic policies and generally reward good practices in the management of macroeconomic fundamentals.

Similarly, in the current macroeconomic context of a majority of African countries following pegged exchange rate regimes and capital controls, it will be interesting to explore the implications of increased financial liberalization on the design of macroeconomic policies and on the analyses of potential trade-offs. Mundell's impossible trinity triangle (1963) is perfect example in such a conundrum, stating that it is impossible to simultaneously have (i) a fixed foreign exchange rate; (ii) free capital movement (absence of capital controls), and (iii) an independent monetary policy. A new principle has emerged today which states that even in the presence of a flexible exchange rate regime, capital flows significantly undermine the autonomy of monetary policy in achieving stabilization of activity. Consequently, the exchange rate flexibility is not able to completely absorb shocks induced by capital flows, eventually influencing the financing conditions in host countries[6].

Contributions to the third focus will tend to pay direct attention to the causality between macroeconomic policies and financing constraints.

In purely monetary terms, the transition to a more flexible monetary policy operational framework has allowed banks to build more autonomy and flexibility in order to determine the interest rate appropriate with the domestic economic conditions. However, for central banks, questions began to emerge regarding the effectiveness of their monetary policies and its implications over the real economy, particularly through the loosening of financial constraints. Indeed, how would the Central Banks, continue to guide indirectly and independently the financial sphere to correct imbalances that occur in the real sector?

In terms of public finances, the economic literature recognizes the impact of financing constraints on fiscal policy. Developing countries' difficult access to financing (debt, arrears and ODA), particularly in Africa, has pushed them to engage in pro-cyclical policies when the easing of financing constraints should encourage them to push for countercyclical policies. In other words, the inability of African economies[7] to mobilize sufficient financial resources in

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[3] P.R. Agénor "L'intégration financière internationale : Théories, évidences, et leçons des expériences récentes" OCPPC Policy Paper (PP-15/08) February 2015.

[4] Julio Ramos-Tallada Liens entre les flux de capitaux et le développement financier: une revue de la littérature Service des Relations monétaires internationales Direction générale des Études et des Relations internationales Bulletin de la Banque de France • N° 184 • 2e trimestre 2011

[5] FMI « 2015 » « Managing Volatile Capital Flows Experiences and Lessons for Sub-Saharan »

[6] Rey H. (2016), "International Channels of Transmission of Monetary Policy and the Mundellian Trilemma" NBER.

[7] Amadou Bobbo (2015) Régime de change et cyclicité budgétaire dans les pays africains expertise.hec.ca*/actualiteeconomique/wp-content/uploads/2015/11/ae145_bobo.pdf*

order to invest in the required economic and social development of their countries results in the implementation of pro-cyclical fiscal policies[8].

Regarding internal financing constraints, the weak mobilization of funds on capital markets also explains the implementation of pro-cyclical fiscal policies[9]. To highlight this relationship, simply refer to studies of the ODA[10].

It is in this context that the OCP Policy Center (OCPPC) and the Laboratory of Applied Economics at the University Mohammed V Rabat are calling for the submission of articles that explore such issues above-mentioned in **the three research focuses. The list below is left not exhaustive, and summarizes the main themes that may be the object of discussion:**

- Can financial liberalization increase or decrease savings?
- Banking Reforms and financing of the economy
- The role of capital markets in financing the economy
- The challenges of liberalization of capital accounts in African economies.
- Room of maneuver in Monetary policy and exchange rate regime. The role of capital controls
- Capital account liberalization and savings mobilization
- Volatility of capital and macroeconomic discipline.
- Monetary Rule and transmission of monetary policy
- The ODA budget and fiscal cyclicality
- The financing of the deficit and fiscal cyclicality
- Fiscal Dominance
- Tax revenue mobilization and fiscal cyclicality
- Exchange rate regime and fiscal cyclicality
- Fiscal rules

Submission of contributions

Preliminary proposals must contain:

- Author's first and last name, institutional affiliation, and email address:

- The analytical and empirical results almost finalized, methodological approach, as well as analysis and main conclusions.

- Drafts can be sent in French or English.

- These first proposals should be sent by 31 August 2017 to: Abdelaaziz.aitali@ocppc.ma and sadtounsi@gmail.com.

- The proposal authors selected by the Scientific Committee will be notified on September 20th to finalize the documents and PowerPoint presentations.

[8] Kaminsky, g., c. Reinhart et c. Végh (2004), « When It Rains, It Pours: Pro-cyclical Capital Flows and Macroeconomic Policies », NBER Macroeconomics Annual, 19: 11-82.

[9] Caballero et Krishnamurthy (2004), « Fiscal Policy and Financial Depth », *NBER Working Paper* 10532.

[10] E., C. Minoiu et L. F. Zanna (2015), « Business Cycle Fluctuations, Large Macroeconomic Shocks, and Development Aid », *World Development*, 69: 44-61.

- The papers should represent original research not presented or published elsewhere.
- Authors of the selected papers will receive an honorarium of 7000 MAD.

Calendar:

- August 31, 2017: Preliminary proposal submission deadline.
- September 20, 2016: Committee opinion and notification of authors.
- October 20, 2017: Deadline for sending full versions of documents and PowerPoint presentations.
- November 8, 2017: Conference to present the selected works at OCP Policy Center in Rabat, Morocco.
- November 30, 2016: Deadline for sending publishable and formatted material.
- January 2017: Publication of the seminar proceedings.

Scientific Committee:

- **Abdelaaziz Ait Ali**, Economist – OCP Policy Center
- **Ahmed Bousalhami**, Professor of Economics - Faculty of Legal, Economic and Social Sciences - Abdelmalek Essaâdi University, Tangier
- **Idriss El Abbassi**, Professor of Economics - Faculty of Legal, Economic and Social Sciences - Mohammed V University in Rabat, Morocco
- **Larabi Jaïdi,** Expert in Economic Policy and International Economics, Fellow at the OCP Policy Center**.**
- **Amine Marrat,** Chief Economist, Attijariwafa Bank.
- **Lahcen Oulhaj**, Professor of Economics - Faculty of Legal, Economic and Social Sciences - Mohammed V University in Rabat, Morocco
- **Aziz Ragbi**, Professor of Economics - Faculty of Legal, Economic and Social Sciences - Mohammed V University in Rabat, Morocco
- **Said Tounsi**, Professor of Economics - Faculty of Legal, Economic and Social Sciences - Mohammed V University in Rabat, Morocco