



MONETARY POLICY REPORT

No. 62 / 2022

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THE BANK BOARD
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FOREWORD

According to the provisions of Article 6 of Law No. 40-17 on the Statute of Bank Al-Maghrib, promulgated by Dahir No. 1-19-82 of 17 Chaoual 1440 (June 21, 2019), “the Bank defines and conducts the monetary policy in full transparency and within the framework of the economic and financial policy of the Government. The Bank’s primary objective is to maintain price stability.”

This stability helps preserving citizens’ purchasing power, encourages investment and boosts growth. Price stability does not mean zero inflation; rather, it refers to keeping it at a moderate and stable level over the medium term. To achieve such objectives, the Bank intervenes in the money market using the appropriate instruments, mainly the key policy rate and the reserve requirement.

Monetary policy decisions are transmitted to the economy, particularly through their impacts on interest rates across various markets, the expectations of economic units and on the asset prices, whose change affects overall demand for goods and services and, eventually, inflation. Since these impacts do not materialize until after a certain time period, forecasts play an important role in monetary policy formulating and decision-making. They are thus produced by the Bank for an eight-quarter horizon on the basis of an integrated analysis and forecasting framework articulated around a central monetary policy model, itself supplied and supplemented by several satellite models. The central forecasting model used is of the semi-structural New-Keynesian one, which relies both on the theoretical underpinnings underlying general-equilibrium models and on the adjustment to data characterizing the empirical models.

With a view to ensuring transparency of monetary policy decisions, the Bank, after each Board meeting, issues a press release, and the Governor holds a press conference where he reviews the decision and explains its foundations. In addition, the Bank prepares and publishes on its website the quarterly Monetary Policy Report, which outlines all the analyses underlying its decisions. This report, which starts with an overview summing up recent economic, monetary and financial developments as well as the macroeconomic projections, includes two parts. The first part, consisting of six chapters, describes the recent economic developments, namely with regard to: (i) international developments; (ii) external accounts; (iii) money, credit and asset markets; (iv) the stance of fiscal policy; (v) demand, supply and the labor market; and (vi) inflation. The second part is devoted to presenting the medium-term outlook for the national economy, the risks surrounding it and the main underlying hypotheses.

Members of the Board of Bank Al-Maghrib (Article 26 of the Bank’s Statute)

The Governor, Chairman,

The Director General

Director of Treasury and External Finance, Representative of the Ministry in charge of Finance

Mrs. Mouna CHERKAOUI

Mr Mohammed DAIRI

Mrs Najat EL MEKKAOUI

Mr. Larabi JAÏDI

Mr Mustapha MOUSSAOUI

Mr. Fathallah OUALALOU

The Government Representative shall also attend the meetings of the Board, by virtue of Article 41.

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 22, 2022

1. The Board of Bank Al-Maghrif held its first meeting for the year 2022 on Tuesday, March 22.
2. During this meeting, the Board carried out an in-depth analysis of the international environment marked by the events related to the war in Ukraine, at a time when the global economic recovery was already facing several challenges, namely the rise in commodity prices, the persistence of disruptions in global production and supply chains as well as strong inflationary pressures. While the outcome and the duration of this conflict remain unpredictable, its impact on financial markets, commodity prices, global trade and overall economic activity is already tangible. These developments will not be without consequences on the national economy, which is also facing particularly adverse weather conditions due to a significant rainfall shortage.
3. The Board took note of the extremely high level of uncertainty surrounding the macroeconomic projections prepared by the Bank's staff. These projections show a substantial decline in agricultural value-added and some consolidation of non-agricultural activities, boosted by the significant progress in the vaccination campaign, the easing of sanitary restrictions, and the continuation of monetary stimulus and sectoral support measures. According to these projections, inflation would sharply accelerate this year, while external balances and public finances would remain relatively resilient.
4. In this context and considering the expected return of inflation to moderate levels in 2023, the Board decided to maintain the accommodative stance of monetary policy in order to continue to support economic activity and mitigate the impact of the adverse international environment. The Board, thus, decided to keep the policy rate unchanged at 1.50 percent.
5. The Board noted that inflation's acceleration, started in 2021, is continuing, driven by external pressures related to the surge of energy and food products prices and the increase of inflation in key economic partners. Thus, after a rate of 1.4 percent in 2021, inflation would attain 4.7 percent in 2022 before returning to 1.9 percent in 2023. Similarly, its underlying component would rise from 1.7 percent to 4.7 percent and then decelerate to 2.6 percent.
6. Due to particularly adverse weather conditions, the agricultural season would record, according to Bank Al-Maghrif forecasts, a cereal production of around 25 million quintals (MQx), after 103.2 MQx a year earlier. Agricultural value-added is thus expected to fall by 19.8 percent, reducing economic growth to 0.7 percent in 2022 after a rebound that would have reached 7.3 percent in 2021. In 2023, assuming an average harvest of 75 MQx, agricultural value-added would increase by 17 percent, bringing growth to 4.6 percent. Non-

agricultural activities would gradually consolidate, with a 3 percent increase in their value added in 2022 and 2023.

7. Internationally, the upward trend in energy prices, linked to the recovery in demand and concerns about supply developments, has significantly accelerated since the outbreak of the conflict in Ukraine and the sanctions against Russia. Brent price reached 95.8 dollars per barrel on average in February and, taking into account international institutions forecasts, is expected to average 106.8 USD /bl for 2022 as a whole, before returning to 96.5 USD/bl in 2023. Excluding energy, commodity prices rose by 22.7 percent year-on-year in February, reflecting a 23.3 percent increase in metals and ores prices and an 18.4 percent increase in agricultural products, with a 35 percent rise in wheat prices. Food prices would remain high, against a backdrop of severe supply disruptions, before easing in 2023. As for phosphate and derivatives, prices remained almost stable between January and February at 172.5 USD/t for rock phosphate and increased by 6.8 percent to 747.1 USD/t for DAP. They are expected to increase over the rest of 2022, in line with the rise in prices of agricultural products and fertilizers industry inputs.
8. These significant increases in energy and food prices would continue to fuel inflationary pressures. In the United States, inflation is expected to rise to 7.2 percent in 2022, after 4.7 percent in 2021, before decelerating to 4.2 percent in 2023. In the euro area, the ECB forecasts an acceleration to 5.1 percent in 2022, after 2.6 percent in 2021, before slowing down to 2.1 percent in 2023.
9. In these adverse and uncertain circumstances, and after the 2021's rebound, the global economy is expected to slow down sharply. Growth in the United States is, thus, expected to fall to 3.4 percent in 2022 after 5.7 percent a year earlier, then to 2.1 percent in 2023, reflecting the dissipation of the impact of the fiscal stimulus in response to the pandemic. Due to its larger exposure to the implications of the Ukrainian crisis, the euro area GDP growth is set to decelerate to 3.5 percent in 2022 and to 1.7 percent in 2023, after 5.2 percent in 2021. In the main emerging markets, growth would dampen in China from 8.5 percent in 2021 to 5.4 percent in 2022, before picking up to 6 percent in 2023. In India, it is expected to increase from 7.9 percent in 2021 to 8.8 percent in 2022, before settling at 6.4 percent in 2023.
10. Concerning monetary policy, the ECB decided on March 10 to keep its key rates unchanged and stated that any adjustment on rates will take place in a gradual manner sometime after the end of its net purchases under the APP. It indicated that bond purchases under the Emergency Pandemic Purchasing Program (EPPP) will be completed by the end of March 2022 and announced that it will end its asset purchases under the APP sooner than expected. In addition, its Board decided to extend the central bank repo facility (EUREP) until January 15, 2023. At its March 15-16 meeting, the Fed decided to raise the target range for the federal funds rate by 25 basis points to [0.25%; 0.50%] indicating that it anticipates that ongoing increases will be appropriate. It also expects to begin reducing its holdings of Treasury securities and mortgage-backed securities at future meetings.
11. At the domestic level, and mainly owing to the run-up in commodity prices, the current account deficit would widen to 5.5 percent of GDP in 2022 from 2.6 percent in 2021, before easing to 3.7 percent in 2023. Imports

would increase by 14.9 percent in 2022 due to higher energy bill, purchases of agricultural and food staples as well as consumer goods. In 2023, the rise would be limited to 1.1 percent, due in particular to the expected drop in the energy bill. Meanwhile, exports would increase by 12.5 percent in 2022 and 3.4 percent in 2023, driven mainly by higher sales of the car manufacturing and phosphate and derivatives sectors in 2022. While remaining below their pre-crisis levels, travel receipts would improve gradually, rising from 34.3 billion dirhams in 2021 to 47 billion in 2022 and to 70.9 billion in 2023. Remittances would progressively resume their pre-crisis level, falling to 79.3 billion in 2022 and to 70.8 billion in 2023, after peaking to 93.3 billion in 2021. As to FDI, receipts would average 3 percent of GDP in 2022 and 3.5 percent in 2023. Overall, and taking account of the expected Treasury's external debt, official reserve assets would hover around 342.8 billion dirhams at end-2022 and 347.3 billion at end-2023, thereby covering around 6 and a half months of imports of goods and services.

12. In terms of monetary conditions, the real effective exchange rate would depreciate by 1.3 percent in 2022 and in 2023, reflecting a lower level of domestic inflation compared to trading partners and competitors. As for lending rates, they rose by 9 basis points to an average of 4.44 percent in the fourth quarter of 2021, but they wound up the year 2021 as a whole down by 16 basis points, following the 45 basis point drop in 2020. Banks' liquidity needs decreased to 69.9 billion dirhams as a weekly average in the fourth quarter in conjunction with the rise in foreign exchange reserves, but should increase to 75.1 billion in 2022 and 88.3 billion at end-2023, driven by the growth of currency in circulation. Bank credit to the non-financial sector is expected to maintain a moderate growth of around 4 percent in 2022 and 2023.
13. On the public finance front, despite the substantial rise in subsidy costs of butane gas and wheat, fiscal deficit is expected to stabilize at 6.3 percent of GDP in 2022, as a result of an exceptional mobilization of resources through in particular specific funding mechanisms and monopoly revenues. In 2023, it would narrow to 5.9 percent of GDP, mainly in anticipation of improved tax revenues.
14. Finally, in view of the strong uncertainties surrounding the geopolitical developments relating to the war in Ukraine and their implications both internationally and domestically, Bank Al-Maghrib will continue to closely monitor the economic and financial situation and will regularly update its projections and analyses.

OVERVIEW

In addition to constraints such as bottlenecks and soaring inflationary pressures, the recent developments in Ukraine increase the uncertainties surrounding the world economic outlook. If they persist, they would have significant consequences particularly for the economic recovery, commodity and food prices and, thus, for inflation. The forecasts presented in this report are based on the most recent data but are still surrounded by a high level of uncertainty and are therefore subject to significant revisions as the situation and its implications evolve.

Thus, in addition to the loss of life and the destruction of the country's infrastructure, the impact of the Ukrainian crisis is already palpable in the commodity and financial markets. Oil prices, in particular, continued their uptrend in February, amid market concerns about the change in supply and the recovery of world demand after the decline of the Omicron variant wave. The price of Brent crude averaged \$95.8 per barrel in February and, taking into account the forecasts of international institutions, is expected to average \$106.8 per barrel in 2022 as a whole, before falling down to \$96.5 per barrel in 2023. Non-energy prices rose by 22.7 percent year-on-year in February, reflecting a 23.3 percent increase in metals and ores prices and an 18.4 percent rise in agricultural products, including, in particular, a 35 percent increase in US durum wheat, for which Russia and Ukraine account for nearly one-third of global exports. Food prices are expected to remain high, amid supply shortages and the implications of the current conflict, before easing in 2023. Wheat prices, in particular, would rise to exceptional levels. As for phosphate and derivatives, prices remained virtually stable between January and February at \$172.5/t for rock phosphate and rose by 6.8 percent to \$747.1/t for DAP. They are projected to rise further over the rest of 2022, in line with the increase in the price of agricultural products and inputs for the fertilizer industry. Thus, rock phosphate and DAP prices would reach \$159.9/t and \$780.1/t, respectively, in 2022 and \$144.8/t and \$706.2/t in 2023.

On the stock markets, the conflict in Ukraine, concerns about soaring inflation and expectations of rising interest rates led to sharp declines between January and February, with in particular the Eurostoxx 50 underperforming by 4 percent, the Dow Jones by 2.4 percent and the Nikkei 225 by 3.2 percent. The FTSE 100 edged up by 0.5 percent. As for the emerging economies, with the exception of the MSCI Brazil, which rose by 5.7 percent, the main stock markets declined between January and February, with the MSCI EM falling by 1.3 percent, mainly due to a 1.6 percent drop in China and 4.2 percent in India. It is worth noting that to avoid any wave of massive selling, the Russian authorities decided to close the Moscow stock exchange from 28 February.

In terms of sovereign yields, 10-year bond yields rose between January and February, to 1.83 percent for the USA, 1.65 percent for Italy, 1.16 percent for Spain, 0.51 percent for France and 0.12 percent for Germany. In the emerging economies, these rates rose to 2.79 percent for China, 6.77 percent for India and 23.07 percent for Turkey.

On the foreign exchange market, the euro strengthened by 0.2 percent against the dollar between January and February, by 0.4 percent against the pound sterling and by 0.6 percent against the Japanese yen. As for the

currencies of the main emerging countries, the Chinese renminbi and the Brazilian real gained 0.2 percent and 6.1 percent respectively against the dollar, while the Indian rupee and the Turkish lira depreciated by 0.7 percent and 0.8 percent, respectively. Data on recent developments on the foreign exchange markets also show a sharp 25 percent depreciation of the Russian rouble against the dollar between the outbreak of the conflict in Ukraine and current March 4.

The significant rise in energy and food prices and the persistence of supply bottlenecks for some products continue to fuel inflationary pressures, which were already visible well before the crisis. In the USA, it would reach 7.2 percent in 2022, after 4.7 percent in 2021, before decelerating to 4.2 percent in 2023. According to the ECB's forecasts, and after a rate of 2.6 percent in 2022, inflation in the euro zone would accelerate to 5.1 percent in 2022, before slowing down to 2.1 percent in 2023.

As to monetary policy decisions, the ECB decided on 10 March to keep its key interest rates unchanged and stated that any adjustment to rates would take place sometime after the end of net purchases under the APP and would be gradual. At the same time, it indicated that bond purchases under the Pandemic Emergency Purchase Programme (PEPP) will be scaled back this quarter, before being completed at end-March 2022. As for the APP, it has announced that it will end asset purchases sooner than expected but has indicated that it stands ready to reverse this decision if the economic outlook changes. Thus, purchases will amount to €40 billion in April, €30 billion in May and €20 billion in June. Furthermore, given the current geopolitical context and its impact on the financial markets in the euro area, the Council decided to extend the repos for central banks (EUREP) until 15 January 2023. As to the Fed, it decided at its meeting on 15-16 March, to raise the target range for the federal funds rate by 25 basis points to [0.25 percent; 0.50 percent] and indicated that further increases would be appropriate. It also plans to begin reducing its holdings of Treasury securities and mortgage-backed debt securities at upcoming meetings.

Against this backdrop, the global economic recovery remains surrounded by substantial risks related to the geopolitical tensions in Ukraine and the new stance of major central banks, as well as persistent bottlenecks, rising commodity prices and inflationary pressures. In the US, growth is expected to decelerate to 3.4 percent in 2022 from 5.7 percent a year earlier and to 2.1 percent in 2023, reflecting the fading impact of the fiscal stimulus introduced in response to the pandemic. It is also projected to slow in the euro area, from 5.2 percent in 2021 to 3.5 percent in 2022 and 1.7 percent in 2023. In the UK, the economy is projected to decelerate to 3.5 percent in 2022 and 0.9 percent in 2023, due to the low productivity and Brexit-related uncertainties weighing on investment.

In the main emerging countries, economic growth is expected to decelerate in China from 8.5 percent in 2021 to 5.4 percent in 2022, before going up to 6 percent in 2023, due to difficulties in the real estate sector and the decline in private consumption. India's growth is projected to accelerate to 8.8 percent in 2022, thanks to increased public spending on economic recovery and ongoing reforms, before settling at 6.4 percent in 2023. In Brazil, growth is expected to slow sharply in 2022 to 1.3 percent, down from 4.8 percent a year earlier, mainly due to the impact of the drought, high interest rates and rising inflation, before falling back to 2.9 percent in 2023. Russia, although in a good economic situation before the start of the conflict with Ukraine, is forecast to experience a contraction in growth by 1.1 percent in 2022 and 1.4 percent in 2023.

On the national level, suffering from unfavorable climatic conditions and a difficult international geopolitical context, economic growth would post a sharp deceleration in 2022, falling, according to Bank Al-Maghrib forecasts, to 0.7 percent instead of the 7.3 percent rebound it would have posted in 2021, before recovering to 4.6 percent in 2023. The agricultural value added would drop by 19.8 percent, taking into account a BAM estimate of cereal production at nearly 25 million quintals (MQx) and a context of acute hydric stress, followed by an increase of 17 percent in 2023, under the assumption of a return to an average cereal harvest of 75 MQx. Non-agricultural activities are projected to continue to improve, thanks in particular to the easing of sanitary restrictions and the maintenance of monetary and fiscal stimulus, averaging 3 percent in 2022 and 2023.

In the labour market, the situation has relatively recovered in 2021, with the creation of 230 thousand jobs, half of which are in services, after a loss of 432 thousand a year earlier. Taking into account a net arrival of 309 thousand job seekers, the activity rate increased by 0.5 point to 45.3 percent and the unemployment rate worsened by 0.4 point to 12.3 percent overall.

As regards public finance, taking into account an exceptional mobilization of 20 billion in revenue from specific financing mechanisms and 18 billion in revenue from monopolies and shareholdings, the budget deficit would be limited to 6.3 percent of GDP in 2022, down from 6.4 percent of GDP in 2021. This result incorporates a sharp rise in subsidization expenditure, taking into account new assumptions relating to the rebound in butane gas and exchange rates, and an increase in the subsidy on imported wheat. In 2023, the deficit is forecast to narrow to 5.9 percent of GDP, mainly as a result of improved tax revenues.

As for foreign trade, after expanding by 24.3 percent in 2021, the rate of exports would stand at 12.5 percent in 2022, before decelerating to 3.4 percent in 2023, mainly driven by the increase in sales of automobile construction and the rise in those of the phosphate and derivatives sector in connection with the surge in international prices. At the same time, imports would rise by 14.9 percent in 2022, against 24.5 percent in 2021, following the increase in the energy bill, the rise in wheat imports and the increase in purchases of consumer goods. In 2023, the rise in imports would be limited to 1.1 percent, due in particular to a drop in the energy bill. Travel receipts, while remaining lower than pre-crisis levels, would show a gradual recovery with the reopening of borders, rising from 34.3 billion in 2021 to 47 billion in 2022 and 70.9 billion in 2023. Remittances from Moroccan nationals would return to their pre-crisis level, reaching 79.3 billion in 2022 and 70.8 billion in 2023, after an exceptional level of 93.3 billion in 2021. Considering these developments, the current account deficit would increase from 2.6 percent of GDP in 2021, to 5.5 percent in 2022, before easing to 3.7 percent of GDP in 2023. Concerning FDI, receipts would return to their average level close to the equivalent of 3 percent of GDP in 2022 and 3.5 percent in 2023.

Concerning the official reserve assets, and taking into account in particular the Treasury's external financing for a total amount of 40 billion in 2022 and 21 billion in 2023 and the reception of grants for 1.5 billion in 2022 and 2023, they would amount to 342.8 billion at the end of 2022 and 347.3 billion at the end of 2023, the equivalent of a coverage of about 6 months and half of imports of goods and services for the two years.

On the monetary level, the recent data relating to the fourth quarter of 2021 show a fall to 69.9 billion dirhams

in weekly average of banks' need for liquidity, against 83.2 billion a quarter earlier, due in particular to the increase in foreign exchange reserves. As for the Treasury's investments on the money market, they amounted to 7 billion dirhams on average instead of 5.8 billion in the third quarter, mainly on the repo market at an average rate of 1.38 percent. Bank Al-Maghrib thus reduced the amount of its injections to 83.4 billion dirhams. Monetary conditions were also characterized by an increase in lending rates by 9 basis points to 4.44 percent and a slight appreciation of the real effective exchange rate. The bank credit to the non-financial sector increased by 3.8 percent, almost similar to the rise observed in the third quarter. This change covers an acceleration in the growth of loans to private companies, a deceleration in that of loans to households and a further decline in those granted to public companies.

Over the forecast horizon, the bank liquidity deficit would increase to 75.1 billion dirhams in 2022, after 64.4 billion in 2021 and to 88.3 billion at the end of 2023, taking into account the expected change in the Bank's foreign exchange reserves and the moderate increase of currency in circulation. As for bank credit to the non-financial sector, its growth would be around 4 percent in 2022 and 2023, against 3.4 percent in 2021. As to the real effective exchange rate, it is expected to depreciate by 1.3 percent over the forecast horizon, particularly under the effect of the fall in its nominal value and a domestic inflation level lower than that of trading partners and competitors.

Under these conditions, inflation would accelerate sharply, rising from 1.4 percent on average in 2021 to 4.7 percent in 2022, driven by the rise in international food and energy prices and the increase in imported inflation combined with a very poor agricultural season. In 2023, it would return to 1.9 percent, while its underlying component would slow down to 2.6 percent, after 4.7 percent in 2022 and 1.7 percent in 2021.

This forecasting exercise takes place amid strong uncertainties and major risks linked to the Russian-Ukrainian conflict and its implications. These tensions exacerbate the surge in commodity prices following the pandemic, further weaken the economic recovery and amplify inflationary risks. The materialization of these risks can significantly affect the central scenario of the macroeconomic projections. Thus, the balance of risks is clearly tilted to the downside for growth and to the upside for inflation. As regards growth, and despite the progress made in terms of vaccination, the end of the "Omicron" wave, the maintenance of an accommodating monetary policy as well as the expected positive effects of the entry into operation of the Mohammed VI Fund for Investment, downward risks surround the central trajectory of growth forecasts. These risks relate, on the international level, to a deterioration in foreign demand, particularly from the euro zone, and to the rise in commodity prices. As regards the inflation outlook, upside risks dominate and are intensifying.

The exacerbation of the rise in energy and food commodity prices, in the case of the prolongation of the Russian-Ukrainian crisis and the implementation of sanctions against Russia, the increase in freight costs, and the persistence of bottlenecks in global supply chains could lead to the rise in consumer prices being stronger and more persistent than expected. Similarly, adverse weather conditions and water stress are likely to weigh on the prices of volatile food products.

1. INTERNATIONAL DEVELOPMENTS

The recovery of the global economy is still surrounded by high uncertainties in connection with the situation in Ukraine. Constraints related to bottlenecks, unequal access to vaccines and accelerating inflation also continue to weigh on economic activity. Pre-conflict data for the fourth quarter of 2021 show a sharp rebound, particularly in the major advanced economies. In the main emerging economies, the data show in particular a further deceleration in growth in China, India and Brazil.

The situation in labour markets continued to improve at the end of January 2022, with unemployment rates falling in most advanced countries. Financial markets were marked in February by increased tensions due to the situation in Ukraine and concerns about soaring inflation and expectations of interest rate hikes. At the same time, higher energy and food prices, amplified by the economic and financial sanctions imposed on Russia, and continuing supply shortages of some products, are keeping inflation high in advanced countries and in some of the major emerging economies.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, after decelerating to 4.9 percent year-on-year in the third quarter, growth rebounded to 5.6 percent in the fourth quarter due mainly to the rebuilding of business inventories and higher consumer spending. Growth accelerated in the euro area to 4.6 percent year-on-year from 4 percent in the previous quarter, reflecting an increase to 5.2 percent from 3.4 percent in Spain, to 5.4 percent from 3.5 percent in France and to 6.2 percent from 3.9 percent in Italy. In contrast, Germany's pace of activity slowed to 1.8 percent from 2.9 percent as the industrial sector was negatively affected by bottlenecks and household consumption by the new restrictions imposed following the spread of the Omicron variant.

In the other major advanced economies, growth in the UK slowed down to 6.5 percent in the fourth quarter from 7 percent a quarter earlier, and in Japan, it fell to 0.5 percent from 1.2 percent.

Table 1.1: YoY change in quarterly growth (%)

	2019		2020				2021			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Advanced countries										
United States	2.3	2.6	0.6	-9.1	-2.9	-2.3	0.5	12.2	4.9	5.6
Euro area	1.8	1.1	-3.2	-14.6	-4.0	-4.3	-0.9	14.6	4.0	4.6
France	2.0	0.9	-5.5	-18.6	-3.6	-4.3	1.7	19.0	3.5	5.4
Germany	1.4	0.9	-1.9	-11.3	-3.7	-2.9	-2.8	10.4	2.9	1.8
Italy	0.8	-0.3	-6.4	-18.5	-5.4	-6.1	0.1	17.7	3.9	6.2
Spain	2.0	1.7	-4.3	-21.5	-8.7	-8.8	-4.3	17.7	3.4	5.2
United Kingdom	1.6	1.2	-2.1	-21.2	-7.8	-6.4	-5.0	24.6	7.0	6.5
Japan	0.8	-1.8	-1.8	-10.1	-5.3	-0.8	-1.8	7.3	1.2	0.5
Emerging countries										
China	5.9	5.8	-6.9	3.1	4.8	6.4	18.3	7.9	4.9	4.0
India	4.6	3.4	3.7	-21.4	-5.9	2.1	3.7	18.4	8.4	4.7
Brazil	1.1	1.4	-0.1	-10.7	-3.7	-0.9	1.3	12.3	4.0	1.7
Turkey	1.0	6.0	4.4	-10.4	6.3	6.2	7.3	21.9	7.5	9.1
Russia	2.6	2.9	1.4	-7.8	-3.5	-1.8	-0.7	10.5	4.3	N.A

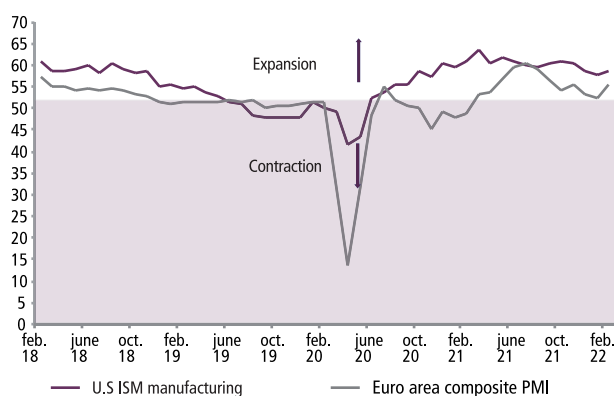
Source : Thomson Reuters.

In the main emerging economies, growth in China decelerated again to 4 percent in the fourth quarter from 4.9 percent a quarter earlier, partly as a result of restrictions imposed following sporadic outbreaks

of Covid-19 and difficulties in the real-estate sector. Similarly, the pace of activity slowed in India to 4.7 percent from 8.4 percent in the previous quarter, and in Brazil where it reached 1.7 percent from 4 percent. In contrast, growth accelerated in Turkey from 7.5 percent to 9.1 percent, driven mainly by rising household consumption and exports. In Russia, the data available concern the third quarter and show a deceleration to 4.3 percent from 10.5 percent.

In terms of advanced economic indicators, the Euro Area composite PMI index rose to 55.5 points in February from 52.3 points in January. Similarly, the ISM manufacturing index in the US rose to 58.6 points from 57.6 points in January.

Chart 1.1: Change in some high-frequency indicators in the U.S and the Euro Area



Source : Thomson Reuters.

1.1.2 Job market

In the US, the unemployment rate fell to 3.8 percent in February from 4 percent in January, with job creations rising sharply to 678,000 from 481,000 a month earlier.

In the euro area, the situation continued to improve in January with the unemployment rate continuously down to 6.8 percent after 7.0 percent in December. In the main countries of the area, the rate fell from

7.2 percent to 7.0 percent in France, from 3.2 percent to 3.1 percent in Germany, from 9 percent to 8.8 percent in Italy and from 13.0 percent to 12.7 percent in Spain. In the United Kingdom, the most recent data available for November indicate a stagnation of the unemployment rate at 4.1 percent month-on-month.

Table 1.2: Change in unemployment rate

(in%)	2020	2021	2022		
			dec.	jan.	feb.
United States	8.1	5.4	3.9	4.0	3.8
Euro area	8.0	7.7	7.0	6.8	N.A
France	8.0	7.9	7.2	7.0	N.A
Germany	3.7	3.5	3.2	3.1	N.A
Italy	9.3	9.5	9.0	8.8	N.A
Spain	15.5	14.8	13	12.7	N.A
United Kingdom	4.5	N.A	N.A	N.A	N.A

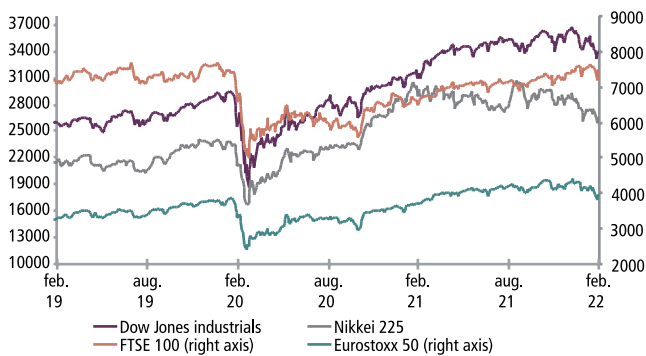
Source : Eurostat and BLS.

1.2 Monetary and financial conditions

Caught off guard by developments in Ukraine as well as concerns about soaring inflation and expectations of rate hikes, global stock markets fell sharply between January and February, with the Dow Jones down 2.4 percent, the Eurostoxx 50 down 4 percent and the Nikkei 225 down 3.2 percent. The FTSE 100 edged up by 0.5 percent. At the same time, volatility increased considerably on both the American and European markets, with the VIX at 25.85 and the VSTOXX at 28.23.

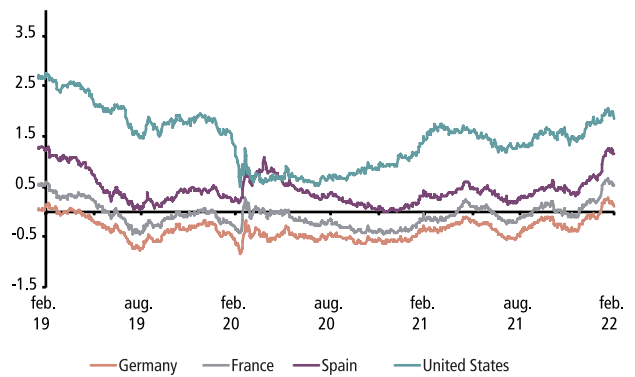
In the emerging countries, with the exception of the MSCI Brazil which gained 5.7 percent, the main stock markets were marked by declines, with the MSCI EM falling by 1.3 percent between January and February, mainly reflecting a 1.6 percent drop in China and 4.2 percent in India.

Chart 1.2: Change in major stock market indices of advanced economies



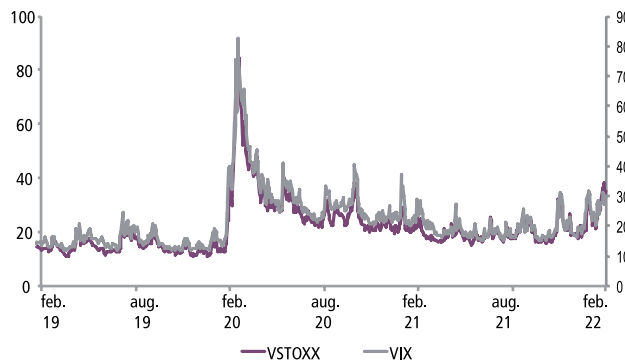
Source: Thomson Reuters.

Chart 1.4: Change in 10-year sovereign bond yields



Source : Thomson Reuters.

Chart 1.3: Change in the VIX and the VSTOXX

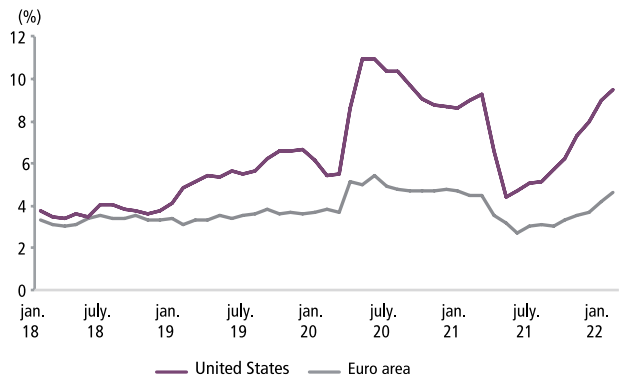


Source : Thomson Reuters.

Uncertainty was also evident in the 10-year sovereign bond yields of the major advanced economies. In particular, the 10-year bond rate increased between January and February by 6 basis points (bps) to 1.83 percent for the United States, by 15 bps to 0.12 percent for Germany, by 24 bps to 0.51 percent for France, by 43 bps to 1.16 percent for Spain and by 39 bps to 1.65 percent for Italy. In the emerging economies, 10-year sovereign rates rose by 7 bps to 2.79 percent for China, 9 bps to 6.77 percent for India, and 58 bps to 23.07 percent for Turkey. In contrast, it stagnated in Brazil, at 11.08 percent.

In the money markets, the 3-month Euribor and the 3-month Libor increased between January and February by 3 bps to -0.53 percent and 18 bps to 0.43 percent, respectively. As for bank credit, its pace accelerated in January to 9.5 percent in the United States and 4.6 percent in the and 4.6 percent in the euro area.

Chart 1.5: YoY credit growth in the US and euro area

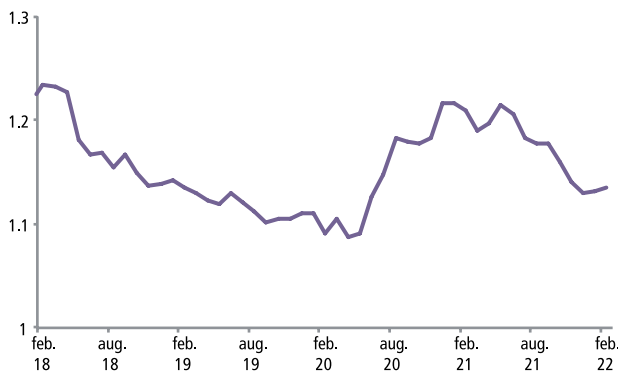


Source : Thomson Reuters.

On the foreign exchange markets, the euro appreciated between January and February by 0.2 percent against the dollar, by 0.4 percent against the pound sterling, and by 0.6 percent against the Japanese yen. Concerning the currencies of the main emerging countries, the Chinese renminbi and the Brazilian real appreciated by 0.2 percent and 6.1 percent, respectively, against the dollar, while the Indian rupee and the Turkish lira depreciated by 0.7 percent and 0.8

percent, respectively, against the dollar. The Russian rouble depreciated between January and February by 2.3 percent against the dollar. In particular, the recent developments in Ukraine caused the Russian currency to fall to an all-time low, losing over 20 percent against the dollar between 25 and 28 February.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

In terms of monetary policy decisions, the FED decided at its 15-16 March meeting to raise the target range for the federal funds rate by 25 bps to [0.25 percent-0.5 percent] against a backdrop of high inflation and a strong labour market. It also planned to start reducing the size of its balance sheet at a future meeting. It should be noted that the Committee members are planning seven hikes between now and the end of the year, including the one decided at this meeting.

Similarly, the ECB decided on 10 March to keep its key interest rates unchanged and stated that any rate adjustment will take place sometime after the end of net purchases under the APP and will be gradual. At the same time, it indicated that bond purchases under the Pandemic Emergency Purchasing Programme (PEPP) will be scaled back this quarter, before being completed at the end of March 2022. As for the APP, it has announced that it will end asset purchases sooner than expected, but has indicated that it stands

ready to reverse this decision if the economic outlook changes. Thus, purchases will amount to €40 billion in April, €30 billion in May and €20 billion in June. Moreover, given the current geopolitical context likely to negatively affect the financial markets in the euro area, the Council decided to extend the repo operations for central banks (EUREP) until 15 January 2023.

As for the Bank of England, its Committee decided on the 17th March to raise its key rate by 25 bps to 0.75 percent and stated that the war in Ukraine is likely to accentuate both the spike in inflation and the negative impact on activity by causing household income to shrink further.

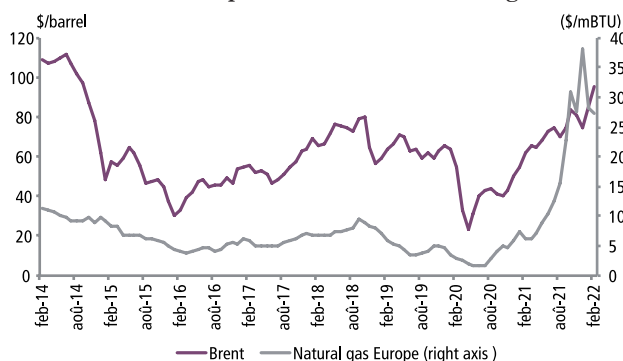
In the emerging countries, the Central Bank of Brazil announced on 16 March a further increase in its key rate by 100 bps to 11.75 percent, with the aim of curbing inflation, which continues to surprise on the upside amid pressures exacerbated by the war in Ukraine. It also stated that a similar increase of the same magnitude is being considered at its next meeting. After raising its key rate to 20 percent in February, the Central Bank of Russia decided on 18 March to keep its key rate at the same level, warning against considerable uncertainty as the economy undergoes large-scale structural transformation. It should be noted that it has largely suspended stock trading on the Moscow Stock Exchange since 28 February in order to limit the impact of sanctions on the Russian economy. For its part, the Reserve Bank of India decided on 4 February to keep its key rate unchanged at 4 percent, particularly to boost and support growth. The Central Bank of Turkey decided on 17 March to keep its key rate at 14 percent, citing geopolitical risks and stressing that the recent surge in inflation is not supported by economic fundamentals.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

In the oil market, the price of Brent crude oil continued to rise, averaging \$95.76 per barrel in February, up 12 percent compared to January and 54.6 percent year-on-year. This trend mainly reflects market concerns about supply in relation to developments in Ukraine, combined with a recovery in global demand following the decline in the Omicron wave. Conversely, after reaching a record high in December, the price of natural gas in Europe continued to fall in February, to \$27.2 mBTU11, down 3.6 percent month-on-month, compared with a more than fourfold increase year-on-year.

Chart 1.7 : World prices of brent and natural gas-EU



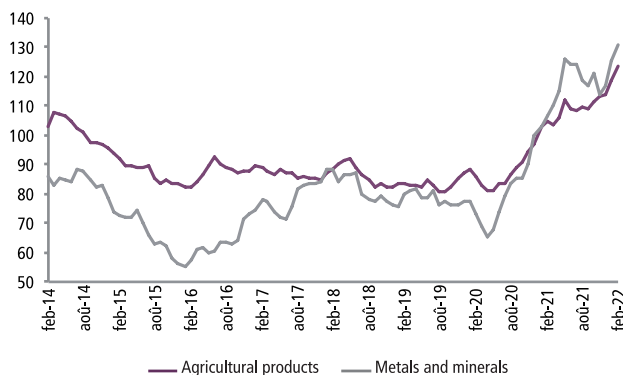
Source: Thomson Reuters.

1.3.2 Non-energy commodity prices

Non-energy prices rose by 22.7 percent year-on-year in February, reflecting a 23.3 percent increase in the prices of metals and minerals and an 18.4 percent rise in agricultural commodities, with US durum wheat in particular up 35 percent; Russia and Ukraine account for almost a third of global wheat exports.

1 mBTU: Million of British Thermal Unit

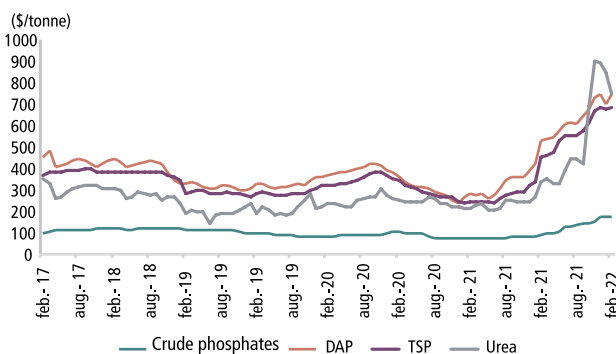
Chart 1.8: Change in non-energy commodity price indices (2010= 100)



Source : World Bank.

On the phosphates and derivatives market, apart from urea, whose price fell by 12.1 percent to \$744.2/t in February compared to January, the prices of other products rose by 6.8 percent to \$747.1/t for DAP, by 1.7 percent to \$687.5/t for TSP and by 77.3 percent to \$391.8/t for potassium chloride. For its part, the price of raw phosphate remained almost stable at \$172.5/t. Year-on-year, prices showed strong progress, with increases of 95.7 percent for raw phosphate, 41.3 percent for DAP, more than half for TSP, 122.1 percent for urea and 93.5 percent for potassium chloride.

Chart 1.9: Change in the world prices of phosphate and fertilizers



Source: World Bank.

1.3.3 Inflation

The significant rise in energy and food prices and the persistence of supply bottlenecks for some products continue to fuel inflationary pressures. In this regard, inflation in the United States reached 7.9 percent after 7.5 percent, its highest level since January 1982, reflecting mainly the increase in energy, housing and food prices. Similarly, inflation in the euro area continued to rise, reaching an all-time high at 5.8 percent in February after 5.1 percent in January, reflecting in particular accelerations from 5.1 percent to 5.5 percent in Germany, from 3.3 percent to 4.2 percent in France, from 6.2 percent to 7.6 percent in Spain and from 5.1 percent to 6.2 percent in Italy. Following on the same trend, inflation in Japan rose to 0.9 percent in February, after 0.5 percent a month earlier, the highest level since April 2019. In the United Kingdom, the latest available data, which concern the month of January, show a slight acceleration in inflation from 5.4 percent to 5.5 percent.

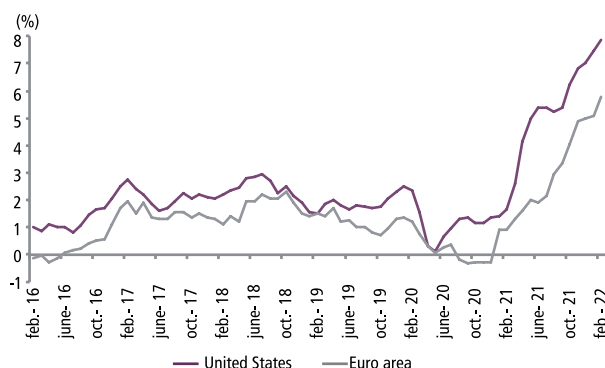
In the main emerging countries, inflation accelerated again in February, from 8.7 percent to 9.2 percent for Russia, from 10.4 percent to 10.5 percent for Brazil and from 6 percent to 6.1 percent for India, while it stagnated at 0.9 percent in China in the same month.

Table 1.3 : Recent year-on-year change in inflation in main advanced countries in %

	2020	2021	2022		
			dec.	jan.	feb.
United States	1.2	4.7	7.0	7.5	7.9
Euro area	0.3	2.6	5.0	5.1	5.8
Germany	0.4	3.2	5.7	5.1	5.5
France	0.5	2.1	3.4	3.3	4.2
Spain	-0.3	3.0	6.6	6.2	7.6
Italy	-0.1	1.9	4.2	5.1	6.2
United Kingdom	0.9	2.6	5.4	5.5	N.A
Japan	0.0	-0.2	0.8	0.5	0.9

Sources : Thomson Reuters, Eurostat and IMF.

Chart 1.10: Inflation in the United States and the euro area



Sources : Eurostat and Thomson Reuters.

2. EXTERNAL ACCOUNTS

After the decline linked to the impact of the Covid-19 crisis, foreign trade posted a strong recovery in 2021, both due to the increase in demand and to the rise in international commodity prices. Exports rose by 24.3 percent after a 7.5 percent drop in 2020 and imports increased 24.5 percent as against a 13.9 percent decline. The trade deficit widened by 40 billion dirhams to 199.7 billion dirhams, after easing by 46.7 billion dirhams a year earlier, and the coverage rate almost stabilized at 62.1 percent. In parallel, travel receipts decreased by 6 percent from 53.7 percent in 2020, and the transfers of Moroccans living abroad improved by 36.8 percent, to 93.3 billion. As regards the main financial operations, net inflows of FDIs increased by 20.5 percent and outflows of Moroccan direct investments dropped by 6.8 percent, to 4.4 billion. In total, the outstanding official reserve assets of Bank Al-Maghrib stood at 330.8 billion dirhams, equivalent to a coverage of 6 months and 10 days of imports of goods and services.

In January 2022, the growth rate of imports accelerated sharply to 39.5 percent in connection with the soaring prices of several products, particularly food and energy. At the same time, exports grew by 23 percent and the trade deficit widened to 20.3 billion against 11.6 billion in January 2021. For their part, impacted by borders closure, travel receipts decreased by 58.6 percent, and the transfers of Moroccans expatriates declined by 9.7 percent, for the first time since March 2020. Similarly, FDI receipts fell by 4.5 percent and direct investment expenditure by Moroccans fell from 2.2 billion to 1.5 billion. As for Bank Al-Maghrib's official reserve assets, they reached 331.1 billion dirhams at end-January, representing the equivalent of 6 months and 11 days of imports of goods and services.

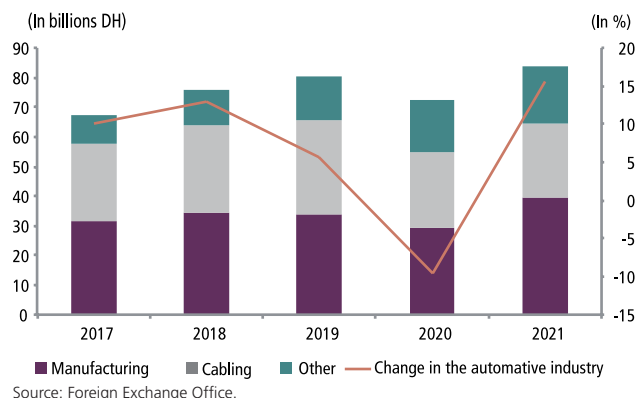
2.1 Trade balance

2.1. 1 Exports

In 2021, the increase in exports concerned all sectors. Sales of phosphates and derivatives gained 57.1 percent and reached 79.9 billion. This change is the result of the 59.3 percent rise in shipments of natural and chemical fertilizers and 73.2 percent hike in those of phosphoric acid, following in particular the rise in their export prices by 71.6 percent and 59.1 percent, respectively. Exports of the automotive sector rose 15.9 percent and stood at 83.8 billion, mainly due to a 35.2 percent increase in sales of the construction segment. Shipments in the "Textile and leather" sector rose by 21.6 percent to 36.4 billion, reflecting increases of 24.8 percent for "Ready-made garments" and 29.5 percent for "Hosiery". With regard to the sales of the "Agricultural and agri-food" sector, they went up 9.2 percent to 68.4 billion, with increases of 11 percent for the food industry and 7 percent for agricultural

products. Similarly, exports in the aeronautics sector reached 15.4 billion, up 21.9 percent, reflecting improvements of 31.6 percent for the "assembly" segment and 5.7 percent for the "EWIS" 1 segment.

Chart 2.1: Change in automotive industry's exports
January-October



1 Electrical Wiring Interconnection System

Table 2.1: Change in exports (in millions of dirhams)

Sectors/Segments	Year		Change	
	2021	2020	value	In %
Exportations	326 902	263 089	63 813	24.3
Phosphates and derivatives	79 893	50 869	29 024	57.1
Automobile	83 783	72 283	11 500	15.9
Construction	39 491	29 216	10 275	35.2
cabling	25 206	25 695	-489	-1.9
Interiors	7 174	7 400	-226	-3.1
Textile and Leather	36 383	29 921	6 462	21.6
Ready-made garments	22 623	18 132	4 491	24.8
Hosiery articles	7 519	5 804	1 715	29.5
Shoes	2 680	2 410	270	11.2
Agriculture and Agri-Food	68 375	62 600	5 775	9.2
Food Industry	36 392	32 795	3 597	11.0
Agriculture, forestry, hunt	30 032	28 055	1 977	7.0
Electronics and Electricity	13 252	10 315	2 937	28.5
Wires, cables and other connectors for electricity	5 345	4 006	1 339	33.4
electronic components (transistors)	3 880	2 808	1 072	38.2
Devices for the disconnection or connection of electrical circuits.	1 738	1 641	97	5.9
Aeronautics	15 435	12 660	2 775	21.9
Assembly	10 385	7 891	2 494	31.6
EWIS	4 971	4 701	270	5.7
Other mining extractions	5 004	3 446	1 558	45.2
Copper ore	1 674	1 111	563	50.7
Barium Sulfate	889	369	520	-
Other industries	24 777	20 995	3 782	18.0
Metallurgy and meta-lworking	8 697	6 077	2 620	43.1
Plastic and rubber industry	2 053	2 042	11	0.5
Industry pharmaceutical	1 365	1 151	214	18.6

Source: Foreign Exchange Office.

2.1.2 Imports

The increase in imports was mainly driven by a 29.7 percent rise in purchases of finished consumer goods to 123.2 billion. This change reflects, in particular, increases of 46.5 percent and 24.9 percent, respectively, in the purchases of passenger cars and their spare

parts, as well as a 68.4 percent surge in imports of medicines and other pharmaceutical products, due mainly to supplies of anti-Covid-19 vaccines. Similarly, the energy bill increased by 51.6 percent to 75.6 billion, with increases in purchases of "gas-oils and fuel-oils" by 54.3 percent, "petroleum gas and other hydrocarbons" by 45.9 percent and "coal; cokes and similar solid fuels" by 47.4 percent, mainly due to the rise in prices. Imports of semi-finished products increased by 23.7 percent to 115.3 billion and those of capital goods by 12.5 percent to 123.8 billion. With regard to the other groups, acquisitions of raw products rose by 47.2 percent to 28.6 billion, driven by an increase of more than twice in the acquisitions of "raw and unrefined sulphur", those of food products rose by 8.4 percent to 59.9 billion, with a 33.2 percent increase in supplies of "raw or refined sugar".

Table 2.2 : Change in imports (in millions of dirhams)

User groups	Year		Change	
	2021	2020	value	In %
Importations CAF	526 647	422 861	103 786	24.5
Finished consumer goods	123 206	95 015	28 191	29.7
Passenger cars	18 463	12 601	5 862	46.5
Medicines and other pharmaceutical products	12 891	7 656	5 235	68.4
Parts and parts for passenger cars	19 733	15 801	3 932	24.9
Energy products	75 639	49 878	25 761	51.6
Gas and fuel oils	35 969	23 316	12 653	54.3
Petroleum gases and other hydrocarbons	17 430	11 944	5 486	45.9
Coals; cokes and similar solid fuels	10 607	7 195	3 412	47.4
Semi-finished products	115 333	93 225	22 108	23.7
Plastic products and various items made of plastic	16 126	12 947	3 179	24.6
Ammonia	6 876	3 991	2 885	72.3
Chemical Products	12 136	9 670	2 466	25.5
Capital goods	123 821	110 069	13 752	12.5
Parts of airplanes and other aerial vehicles	9 498	7 360	2 138	29.0
Piston engines	10 078	8 389	1 689	20.1
Electric generators and rotary converters	1 730	547	1 183	-

Raw products	28 630	19 454	9 176	47.2
Crude and unrefined sulfurs	9 846	4 886	4 960	-
Crude or refined soybean oil	5 775	3 905	1 870	47.9
Foodstuffs	59 866	55 220	4 646	8.4
Raw or refined sugar	5 926	4 448	1 478	33.2
Wheat	14 294	13 505	789	5.8
Industrial gold	152	0	152	-

Source: Foreign Exchange Office.

2.2 Other components of the current account

As regards the balance of services, its surplus almost stabilized at 64.2 billion dirhams, following an increase of 7.8 billion dirhams in exports and 7.6 billion dirhams in imports.

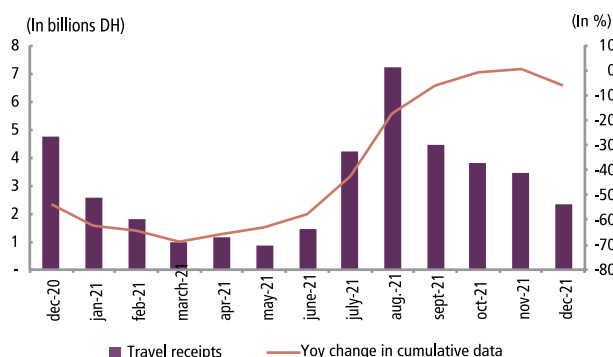
Table 2.3 : Change in the balance of services (in million dirhams)

	Year		Change	
	2021	2020	value	In %
Imports	74 855	67 210	7 645	11.4
Exports	139 018	131 196	7 822	6.0
Balance	64 163	63 986	177	0.3

Source: Foreign Exchange Office.

With regard to travel receipts, after the 53.7 percent drop posted in 2020, they recorded a further decline of 6 percent to 34.3 billion dirhams in 2021. On the other hand, expenses under the same heading increased by 1.1 percent to 10.7 billion dirhams.

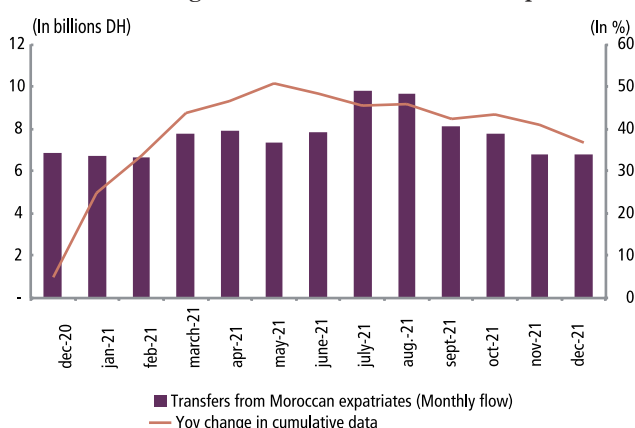
Chart 2.2: Change in travel receipts



Source: Foreign Exchange Office.

In line with their good performance, remittances from Moroccan expatriates increased by 36.8 percent to 93.3 billion.

Chart 2.3: Change in transfers from Moroccan expatriates



Source: Foreign Exchange Office.

2.3 Financial account

As regards the main financial operations, net inflow of FDIs increased by 20.5 percent to 20.2 billion, resulting from a 17 percent increase in receipts to 32.2 billion. As for the net outflow of direct investments by Moroccans, it went down by 6.8 percent to 4.4 billion, reflecting an increase of 10.5 billion in transfers and 10.2 billion in investments.

At end-2021, the outstanding official reserve assets reached 330.8 billion dirhams, roughly the equivalent of 6 months and 10 days of imports of goods and services.

Table 2.4: Change in Direct investments (in million dirhams)

	Year		Change	
	2021	2020	Value	In %
Foreign direct investments	20 176	16 744	3 432	20.5
Revenues	32 194	27 525	4 669	17.0
Expenses	12 018	10 781	1 237	11.5
Investments of Moroccans abroad	4 353	4 670	-317	-6.8
Expenses	17 949	7 773	10 176	-
Revenues	13 596	3 103	10 493	-

Source: Foreign Exchange Office.

January 2022 data show a widening of the trade deficit by 8.7 billion, reflecting a significant increase of 39.5 percent in imports, greater than the 23 percent

rise in exports. The coverage rate thus fell from 68.3 percent to 60.2 percent.

The strong increase in imports is particularly linked to the soaring prices of several products, notably food and energy. The acquisition of food products increased by 56.3 percent, including rises in the quantities of wheat and barley by 138.6 percent and 144.9 percent for prices that went up 21.3 percent and 40.3 percent, respectively. Similarly, the energy bill increased by 67 percent, reflecting rises of 85 percent for “gas-oils and fuel-oils” and 49.6 percent for “petroleum gas and other hydrocarbons”, following the surge in their import prices by 60.4 percent and 83.3 percent, respectively.

The increase in exports is mainly driven by the 4.3 billion increase in sales of phosphates and derivatives, reflecting significant hikes in export prices. Similarly, shipments of agriculture and agri-food were up 8.4 percent following the 36.2 percent rise in sales of the food industry. On the other hand, exports from the automotive sector fell by 11.5 percent following the underperformance of the “wiring” and “vehicle interiors and seats” branches. As to the sales in the automotive industry, they rose by 13 percent.

For their part, under the effect of borders’ closure, travel receipts fell by 58.6 percent, and the transfers of Moroccans expatriates, after reaching very high levels, dropped by 9.7 percent, for the first time since March 2020. As for the other headings of the balance of payments, the net flow of foreign direct investments amounted to 710 million dirhams, up 14.9 percent, and that of investments of Moroccans abroad amounted to 332 million, down 77.6 percent.

At the end of January 2022, the outstanding official reserve assets reached 331.1 billion dirhams, representing the equivalent of 6 months and 11 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

During the fourth quarter of 2021, monetary conditions were marked by slight increases in the real effective exchange rate and lending rates. As regards bank credit to the non-financial sector, its growth almost stabilized at 3.8 percent, with an acceleration in loans to private businesses and a deceleration in loans to households. Concerning the other counterparts of the money supply, official reserve assets increased by 7.6 percent and net claims on the central government rose by 10.3 percent. Overall, money supply growth fell from 7.3 percent to 6.5 percent quarter-on-quarter.

In the real estate market, asset prices rose slightly by 0.2 percent in the fourth quarter, due to increases of 0.4 percent for residential property and 2.3 percent for commercial property. Urban land prices, on the other hand, dropped by 0.2 percent. At the same time, the number of transactions increased by 35.1 percent overall, with rises of 43.2 percent for residential property, 20.9 percent for urban land and 20.6 percent for assets for professional use.

At the Casablanca Stock Exchange, the MASI rose in the fourth quarter by 1.3 percent and the volume of trading amounted to 26.9 billion against 16.1 billion a quarter earlier. As to market capitalization, it posted a quarterly increase of 2 percent, to 690.7 billion dirhams.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the fourth quarter of 2021, banks' need for liquidity decreased to 69.9 billion dirhams on weekly average, against 83.2 billion a quarter earlier, reflecting in particular the increase of Bank Al-Maghrib's foreign exchange reserves. As for the Treasury's investments on the money market, they amounted to 7 billion dirhams on average instead of 5.8 billion in the third quarter and were mainly carried out on the repo market at an average rate of 1.38 percent. Against this background, the Bank reduced the amount of its injections to 83.4 billion instead of 97 billion, of which 34.5 billion were in the form of 7-day advances, 24.3 billion through repurchase agreements, 24.7 billion under guaranteed loans granted within the framework of the support programs for SMEs financing and 28.6 million in the form of foreign exchange swaps. Against this backdrop, the average residual duration of the Bank's interventions fell from 44.4 days to 41.1 days and the interbank rate remained aligned with the key rate at 1.50 percent.

For the year 2021 as a whole, the deficit of banks treasuries eased to 70.8 billion dirhams on average against 90.2 billion in 2020. This decline is mainly attributed to the increase of 24.7 billion in the foreign exchange reserves of Bank Al-Maghrib and by the return of the growth in currency in circulation to pre-crisis levels.

The latest available data indicate a decrease in banks' liquidity needs to 63.5 billion on average during the months of January and February 2022.

In the Treasury bill market, rates did not vary significantly in the fourth quarter on either the primary or secondary market. In January, they recorded slight increases overall, mainly for

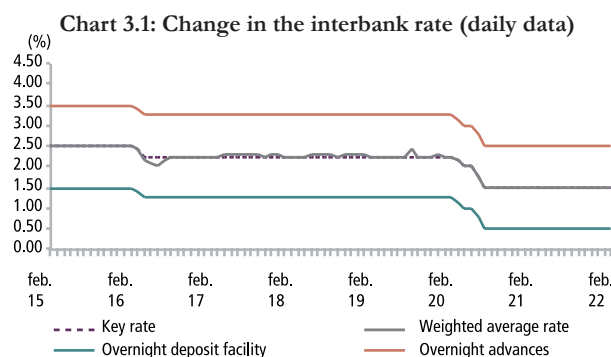
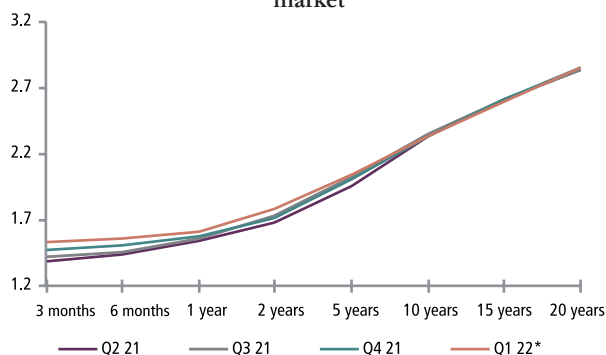


Table 3.1: Change in Treasury bond yields in the primary market

	2020		2021				2022
	Q3	Q4	Q1	Q2	Q3	Q4	jan.
52 weeks	1.68	1.79	1.43	1.42	1.41	1.40	-
2 years	1.83	2.01	1.70	1.69	1.77	1.72	1.82
5 years	2.10	2.20	1.96	1.96	2.04	2.01	2.09
10 years	2.39	2.62	2.34	2.32	2.36	2.34	2.43
15 years	-	2.80	2.64	2.63	2.64	2.64	2.71

Chart 3.2: Term structure of interest rates in the secondary market

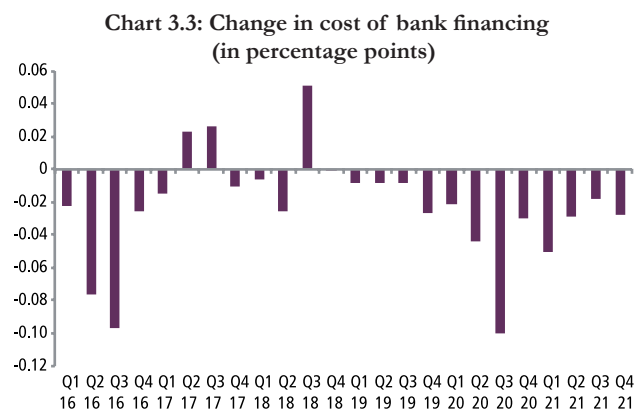


*Average observed in October and November.

In the other markets, rates on certificates of deposit issues trended downward overall in the fourth quarter. As for lending rates, they fell quarter-to-quarter by 18 basis points to 2.16 percent on average for six-month deposits and by 15 basis points to 2.42 percent for 1-year deposits. Under these conditions, banks' cost of funding 11 decreased slightly compared to the previous quarter.

¹ The cost of funding is calculated as a weighted average of banks' costs of funds.

The latest available data concern January and show a monthly decrease in deposit rates by 17 basis points, to 2.02 percent, for 6-month deposits and an increase of 9 basis points, to 2.62 percent, for 1-year deposits.



Regarding lending rates, the results of Bank Al-Maghrib's survey with banks for the fourth quarter of 2021 indicate a quarterly increase of 9 basis points in the overall average rate to 4.44 percent. By institutional sector, the rates applied to loans to companies increased by 9 points, with an increase of 18 points for loans to large companies and a decrease of 10 points for those granted to SMEs. As for the rates applied to individuals, they dropped by 4 points, essentially covering a drop in consumer loans and stability for those applied to housing loans.

Table 3.2 : Change in lending rates

	2020		2021			
	Q3	Q4	Q1	Q2	Q3	Q4
Global	4.34	4.42	4.45	4.32	4.35	4.44
Personal loans	5.15	4.98	5.19	5.19	5.20	5.16
Real estate loans	4.31	4.33	4.33	4.26	4.24	4.24
Consumer loans	6.46	6.40	6.50	6.64	6.51	6.47
Loans to businesses	4.16	4.28	4.23	4.04	4.17	4.26
Cash advances	3.96	4.09	4.04	3.96	3.95	4.06
Equipment loans	4.51	4.23	4.49	4.13	4.84	4.58
Real estate loans	5.85	5.84	5.81	5.59	5.71	5.78

Table 3.3: Deposit rates

	2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6 months	2.73	2.64	2.50	2.36	2.42	2.23	2.34	2.16
12 months	3.06	3.02	2.71	2.68	2.77	2.63	2.57	2.42

3.1.2 Exchange rate

In the fourth quarter of 2021, the euro depreciated by 2.98 percent against the US dollar. In this context, the national currency appreciated by 0.88 percent against the euro and depreciated by 2.14 percent against the US dollar. Compared to the currencies of the main emerging countries, the dirham rose 23.93 percent against the Turkish pound and depreciated by 3.28 percent against the Chinese yuan. In these conditions, the effective exchange rate increased by 1.03 percent in nominal terms and by 0.2 percent in real terms.

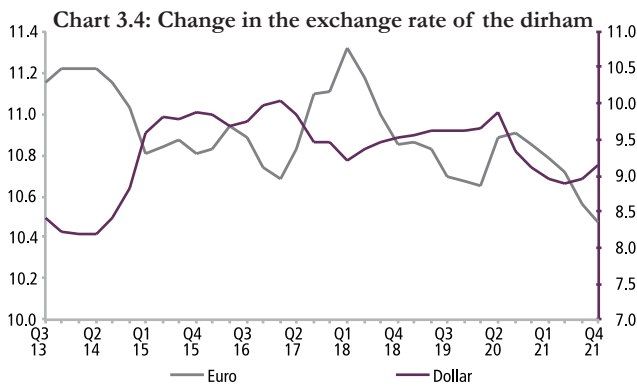
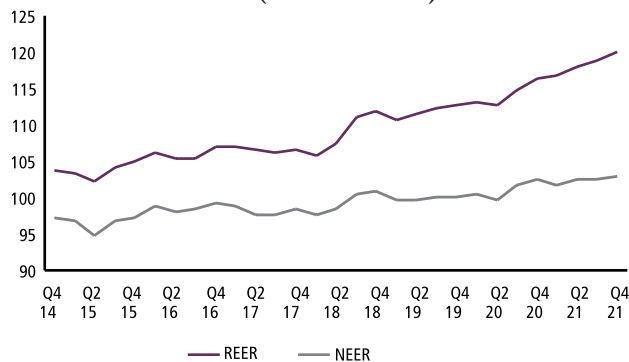


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

As regards foreign currency transactions, the average volume of banks' spot transactions with customers increased by 36 percent to 35.7 billion dirhams for sales and by 22.5 percent to 31.8 billion for purchases. Similarly, forward purchases increased by 34 percent,

to 16.8 billion, and forward sales by 55.9 percent, to 6.6 billion. Under foreign currency purchase auctions, Bank Al-Maghrib retained, during the fourth quarter, a total amount of 979 million dollars, equivalent to 9 billion dirhams. Under these conditions, the foreign exchange position of banks showed, at end-December, a deficit of 3.7 billion against a surplus of 3.5 billion at end-September 2021.

3.1.3 Monetary situation

M3 aggregate growth fell to 6.5 percent in the fourth quarter from 7.3 percent in the third quarter. By main components, the growth of sight deposits decelerated from 8.4 percent to 7.6 percent, reflecting the slowdown in the growth of household deposits from 7.2 percent to 6.6 percent and deposits of other non-financial units from 12.6 percent to 8.7 percent. At the same time, foreign currency deposits and money market mutual funds grew by 18.9 percent and 23.9 percent respectively, after 20.1 percent and 30.3 percent a quarter earlier. Conversely, currency in circulation rose 5.9 percent after 4.7 percent in the third quarter and time deposits rose by 2.8 percent instead of 2 percent, mainly as a result of the slower decline of those of private non-financial corporations from 15 percent to 4.3 percent.

For the year as a whole, the deceleration in M3 aggregate growth to 5.1 percent, after 8.4 percent in December 2020, reflects in particular a marked slowdown in the growth of currency in circulation, from 20.1 percent in 2020 to 6.5 percent in 2021, and of sight deposits with banks to 7.6 percent from 10.6 percent.

By main counterparts, the change in money supply covers accelerations of growth from 4.1 percent to 7.6 percent for official reserve assets and from 9.4 percent to 10.3 percent for net claims on the central government as well as a virtually stable growth rate for bank credit at 3 percent.

Chart 3.6: Contribution of the major counterparts to YoY change in money supply

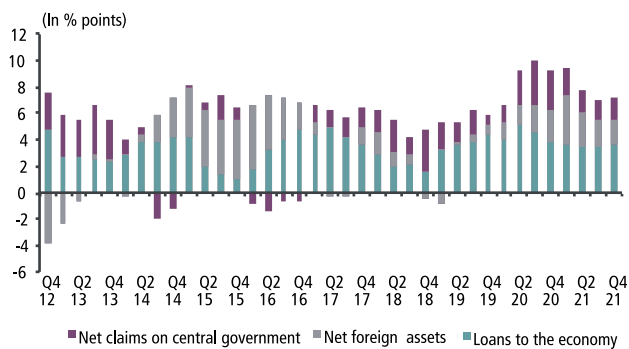
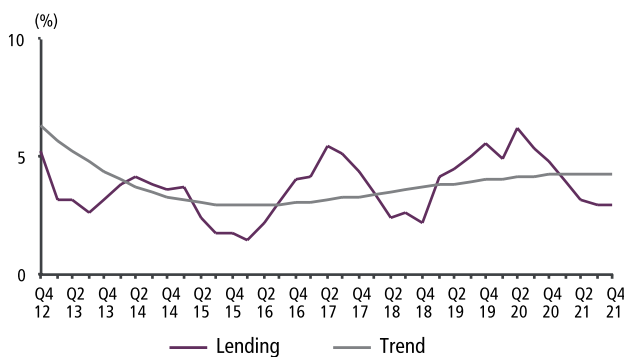


Chart 3.7: YoY change in credit



In particular, the annual growth of credit to the non-financial sector stabilized at 3.8 percent in the fourth quarter, as a result of an acceleration in the growth of loans to private companies, a sharper decline in those granted to state-owned companies and a slowdown in the growth of loans to households.

Thus, outstanding loans to private companies increased by 4.1 percent after 2.9 percent a quarter earlier, reflecting in particular an increase in equipment loans by 1.7 percent, after a decrease of 2.6 percent, and an acceleration in the growth of cash facilities from 8.6 percent to 9.4 percent.

Concerning loans granted to state-owned companies, they dropped by 5.4 percent after 3.4 percent, with steeper fall in equipment loans from 11.4 percent to 19 percent and an increase of 0.7 percent in cash facilities

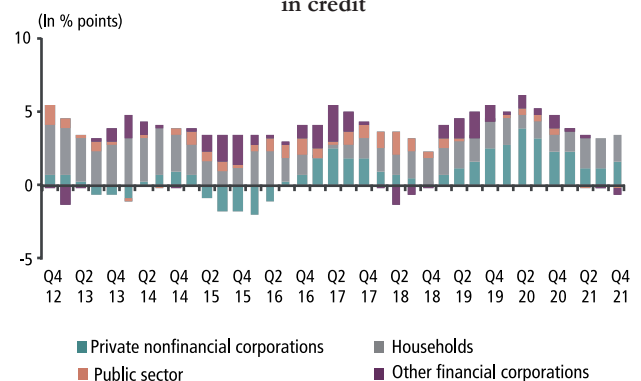
against a decline of 1.4 percent in the third quarter.

Concerning loans to individual entrepreneurs, they increased by 0.6 percent after a drop of 1.4 percent, with an acceleration in the growth of cash facilities from 2.9 percent to 7.8 percent and an easing of the decrease in loans for real-estate development from 18.2 percent to 8.5 percent.

As for loans to private individuals, their growth fell from 6.4 percent to 5.3 percent, covering a deceleration of housing loans from 6.5 percent to 5 percent and an acceleration of consumer loans from 1.8 percent to 2.5 percent.

By branch of activity, quarterly data for December 2021 point to accelerations in the growth of loans to "Trade, repair of motor vehicles and domestic articles" from 1.8 percent to 8 percent and those of the "Electricity, gas and water" branch from 0.1 percent to 9.7 percent. Similarly, loans to the "Agriculture and fisheries" sector improved by 7.8 percent after falling by 2.3 percent. On the other hand, the growth rate of loans to "Miscellaneous manufacturing industries" and "Transport and communications" decelerated, respectively, from 35.6 percent to 18.9 percent and from 5 percent to 2.7 percent. As for loans to the "construction" sector, their decline eased from 4.4 percent to 1.7 percent

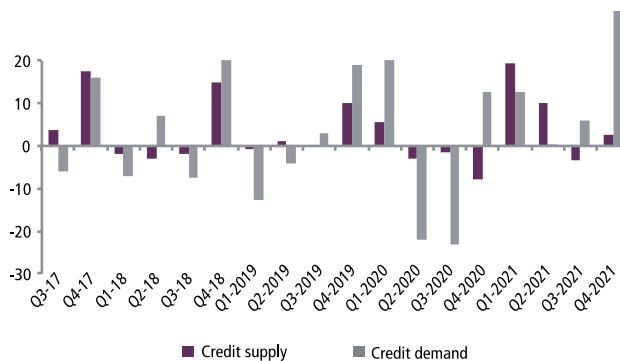
Chart 3.8: Institutional sectors' contribution to YoY change in credit



Source : BAM

Concerning non-performing loans, they increased by 5.6 percent and their ratio to outstanding bank credit almost stabilized at 8.7 percent. They went up 4.9 percent for private non-financial companies and 7.6 percent for households with ratios to outstanding loans at 11.6 percent and 10.1 percent, respectively.

Chart 3.9: Change in supply and demand (Diffusion Index)



Source : BAM

As for loans granted by non-bank financial companies to the non-financial sector, they increased by 3.8 percent in the fourth quarter after 0.4 percent a quarter earlier. This change covers in particular an acceleration in the growth of loans granted by finance companies from 2.6 percent to 3.7 percent and an increase of 9.9 percent in those given by off-shore banks, after a fall of 11.1 percent.

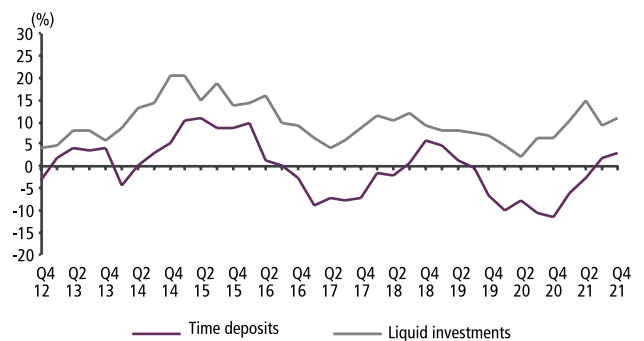
Year-on-year, the growth of bank credit to the non-financial sector decelerated to 3.4 percent after 4 percent in 2020, reflecting a slowdown in loans to private companies from 4.7 percent to 4.4 percent, a 13 percent drop, after a 0.7 percent increase, in loans to state-owned companies and an acceleration in the growth of loans to households from 3.6 percent to 4.6 percent.

The latest available data indicate a growth of 3.4 percent in bank credit in January, reflecting an acceleration in the growth rate of loans to other

financial companies to 4 percent and a deceleration in those to the non-financial sector to 3.3 percent.

As regards liquid investments aggregates, their annual growth rose from 9.4 percent in the third quarter to 10.9 percent in the fourth quarter. This change reflects accelerations in growth from 4.7 percent to 6.9 percent for Treasury bills, from 60 percent to 69.5 percent for equity and diversified mutual funds and a deceleration from 6.5 percent to 5.1 percent for bond mutual funds.

Chart 3.10: YoY change in liquid investments and time deposits



3.2 Asset prices

3.2.1 Real estate assets

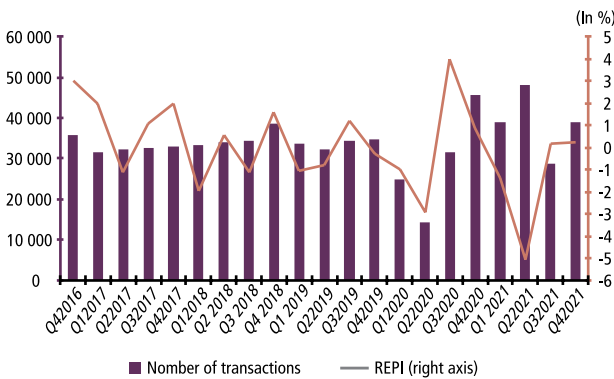
In the fourth quarter of 2021, the real-estate asset price index rose slightly by 0.2 percent, reflecting increases of 0.4 percent for residential property and 2.3 percent for commercial property. Conversely, urban land prices fell by 0.2 percent. At the same time, the number of transactions increased by 35.1 percent, with rises of 43.2 percent for residential property, 20.9 percent for urban land and 20.6 percent for commercial property.

At the level of the main cities, with the exception of Marrakech, El Jadida and Oujda where prices dropped respectively by 2.5 percent, 1 percent and 0.1 percent, all the major cities saw price increases with rates ranging from 0.3 percent for Fez to 3.9 percent for

Rabat. As regards the number of transactions, it posted increases ranging from 5.6 percent for El Jadida to 65 percent for Casablanca.

Over the year as a whole, the REPI showed an average drop of 3.2 percent, reflecting falls of 4 percent in the prices of residential assets, 1.7 percent in those of urban land and 4.3 percent in those of assets for professional use. As for the number of transactions, it jumped by 32.8 percent, resulting from increases of 26.1 percent for residential property, 50.1 percent for urban land and 45.9 percent for commercial property.

Chart 3.11: Change in the REPI and in the number of real estate transactions



Sources : BAM and the National Land Registry and Mapping Agency

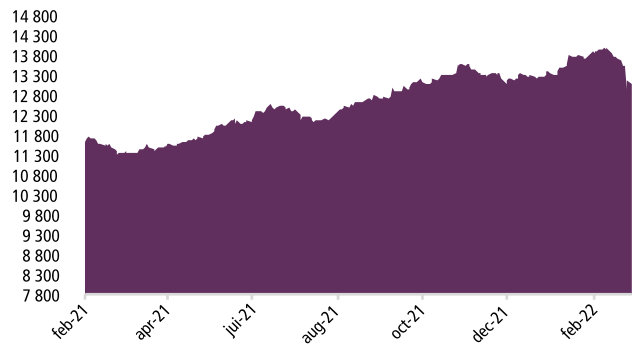
3.2.2 Financial assets

3.2.2.1 Shares

In the fourth quarter of 2021, the MASI rose by 1.3 percent, bringing its full-year increase to 18.3 percent. This quarterly growth reflects, in particular, increases of 12.7 percent in the retail sector index, 11.1 percent in the insurance sector index and 9.5 percent in the “oil and gas” sector index. Conversely, the real-estate and food indices fell by 11.1 percent and 3.1 percent,

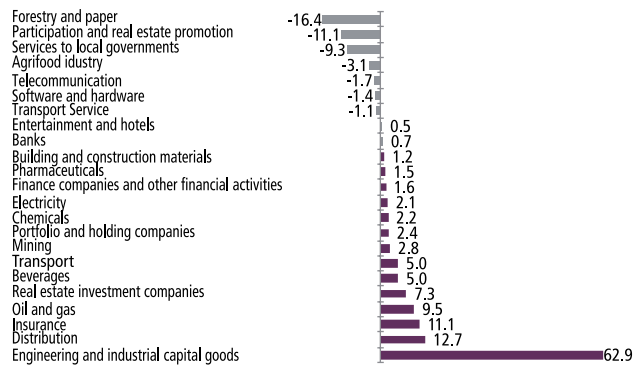
respectively.

Chart 3.12: Daily change in MASI



Source :

Chart 3.13: Contribution of sectoral indexes in the third quarter 2021 (in%)



Source : Casablanca Stock Exchange.

The volume of trading reached 26.9 billion compared with 16.1 billion a quarter earlier. By segment, the turnover stood at 13.5 billion, after 7.8 billion, in the central equity market and 6.4 billion, to 12.6 billion, in the block market.

Against this background, market capitalization posted a quarterly increase of 2 percent, to 690.7 billion dirhams.

The latest available data indicate a 5.9 percent decline in the MASI in February after a 3.9 percent increase in January, leading to an annual underperformance of 2.2 percent. This development is due in particular to the fall in the sectoral indices for “buildings and construction materials” by 11.8 percent, food

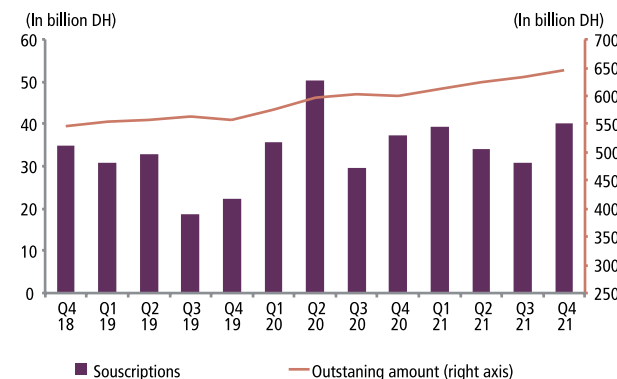
processing by 8 percent and banks by 4.8 percent. On the other hand, the real estate and beverages indices increased by 5.5 percent and 2 percent, respectively. As regards the turnover, it amounted to 4.2 billion in February after 3.8 billion in January. Capitalization stood at 681.9 billion, down 1.3 percent since the beginning of the year.

3.2.2.2 Sovereign debt market

The Treasury's borrowings on the domestic market reached MAD 40.2 billion in the fourth quarter, with a quarterly rise of 30.5 percent. They concerned medium-term maturities for 55 percent and long-term maturities for 31 percent. At end-2021, the Treasury maintained its borrowings on the domestic market at a high level, namely 144.5 billion dirhams after 152.6 billion in 2020.

In January 2022, the Treasury issues amounted to 30.2 billion dirhams, against 6.5 billion in December 2021 and concerned medium-term maturities for 75 percent and long-term maturities for 25 percent. Taking into account repayments for 10.1 billion dirhams, the outstanding amount of Treasury bills reached 666.7 billion, up 3.1 percent from one month to the next.

Chart 3.14: Change in Treasury bonds



Source : BAM.

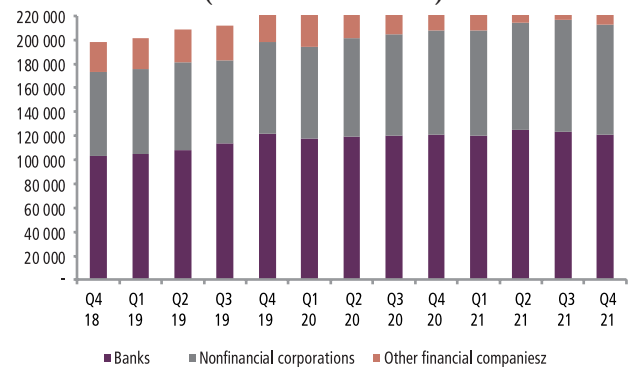
3.2.2.3 Private debt market

On the private debt market, issues decreased by 13.1 percent to 12.6 billion dirhams in the fourth quarter of 2021. Banks sourced 7.2 billion against 4.2 billion in the previous quarter and non-financial companies 1.8 billion after 6.2 billion.

For the year as a whole, private debt issues fell by 21.3 percent to 59.1 billion, mainly as a result of the 45.9 percent contraction in issues by non-financial companies and the 15.9 percent decline in issues by banks.

In January 2022, issues amounted to 2.9 billion and the outstanding amount to 249.3 billion, compared with 250.6 billion at end-December 2021.

Chart 3.15: Change in outstanding private debt per issuer (In billions of dirhams)



Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual funds

During the fourth quarter, subscriptions to mutual funds increased by 16 percent to 301.5 billion and redemptions by 18.9 percent to 302.5 billion, with a net outflow of 998.6 million dirhams. As regards performances, they were on the rise for all funds, with rates varying between 0.37 percent for money market funds and 1.12 percent for equity funds.

The volume of subscriptions to mutual fund securities

amounted to 1085.6 billion dirhams in 2021, up 15.5 percent. Taking into account redemptions for 1037.5 billion dirhams, the net inflow was up to 48.1 billion against 40.2 billion in 2020.

February Data show a year-to-date increase of 1.2 percent in net assets of mutual funds to 600.2 billion dirhams. This rise reflects in particular increases of 19.8 percent for short-term bond funds, 2.4 percent for money market funds and 0.9 percent for diversified funds.

4. FISCAL POLICY STANCE

The situation of the Treasury's expenses and resources in 2021 shows a budget deficit, excluding income from the sales of State shareholdings, of 76.3 billion, or 6.4 percent of GDP, against the deficit of 75.1 billion forecast by the Finance Act and 82.3 billion or 7.6 percent of GDP recorded in 2020. Ordinary revenues improved by 10 percent, reflecting increases of 8.8 percent in tax revenues and 18.7 percent in nontax ones. On the other hand, ordinary expenditure increased by 9.5 percent, mainly due to a 6.4 percent rise in expenditure on goods and services, a 61.4 percent surge in the subsidy costs and a 16.5 percent rise in transfers to local authorities. The trend in the deficit also takes into account the drop of 3 billion in the positive balance of the Treasury's special accounts to 3.4 billion, including a negative balance of 4.1 billion in the Special Fund for the Management of the COVID-19 Pandemic. Capital expenditure fell by 9.5 percent to 77.7 billion.

Budget execution at the end of February 2022 showed a deficit of 10.5 billion against 12.6 billion a year earlier. This change resulted from a 9.6 percent improvement in ordinary revenues and an 11.2 percent increase in ordinary expenditure. The latter mainly covers rises of 17.8 percent in expenditure on other goods and services and 81.5 percent in the subsidy costs, as well as a 0.4 percent drop in personnel expenditure. The ordinary balance thus showed a deficit of 8.4 billion, against 6.9 billion a year earlier. The balance of the Treasury's special accounts improved by 32.2 percent to 12.8 billion.

Taking into account the reduction of the stock of pending transactions by 8.5 billion, the cash deficit stood at 19 billion at the end of February 2022, instead of 13.5 billion in the same period in 2021. This need was covered by domestic resources for a net amount of 18.1 billion and by a net positive external flow of 947 million. Thus, the outstanding direct public debt would have increased by 2.6 percent compared to its level at end-December 2021. As for the Treasury's financing conditions, they were generally favorable, although with a slight increase in the weighted average rates of securities issued by auction.

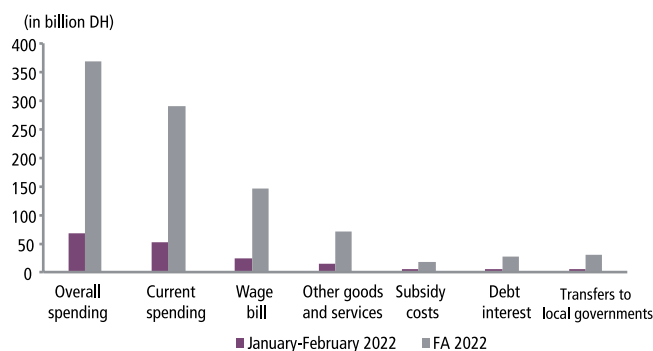
4.1 Current receipts

Ordinary revenues at the end of February 2022 improved by 9.6 percent to 44.3 billion, reflecting a 10.1 percent increase in tax revenues to 41.5 billion and a 7 percent rise in nontax revenues to 2.2 billion. The favorable change in tax revenues concerns all categories of taxes and levies, with the exception of domestic VAT.

In detail, direct taxes generated 12.2 billion dirhams, up 3.2 percent, mainly due to the 6.9 percent increase to 2.4 billion dirhams of the corporate tax revenues. As for income tax revenues, they went up 1.4 percent to 9.5 billion, driven by increases in income tax on salaries and professional income tax. This limited rise is also due to a base effect after the spontaneous normalization of the taxpayer's tax situation in 2021.

As to indirect tax revenues, they improved by 14.1 percent to 22.7 billion, mainly reflecting increases of 13 percent to 18 billion in VAT revenues and 18.5 percent to 4.7 billion in DCT revenues. These reflect, in particular, rises of 22.9 percent to 1.9 billion in DCT on tobacco and 10 percent to 2.4 billion in DCT on energy products. The increase in VAT covers a rise of 26.5 percent to 10.6 billion in import VAT revenues, particularly following rising imports, and a drop of 2 percent to 7.4 billion in domestic VAT revenues, mainly due to the increase in VAT credit refunds to 1.6 billion instead of 1.1 billion a year earlier.

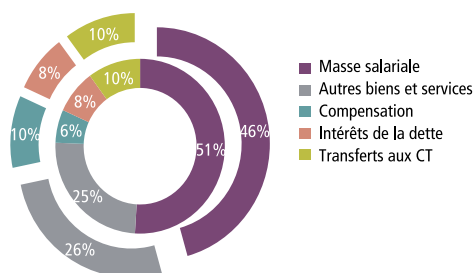
Chart 4.2: spending execution compared to the amending FA



Sources : Ministry of Economy, VAT reprocessing by BAM.

As regards interest charges on the debt, they increased by 9 percent to 4.2 billion, covering a rise of 20.2 percent to 3.7 billion in those on the domestic debt and a decrease of 36.7 percent to 479 million in those on the foreign debt.

Chart 4.3: Structure of current spending



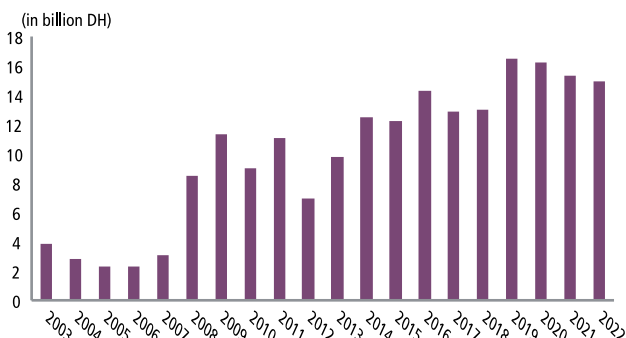
Inner ring : January-February 2021
Outer ring : January-February 2022

Sources : Ministry of Economy and Finance, VAT reprocessing by BAM.

As for subsidy costs, they increased by 81.5 percent to 5.3 billion dirhams, with a realization rate of 31 percent compared to the Finance Act, under the effect mainly of a 58.8 percent appreciation of the average price of butane gas to 856 dollars per ton.

Concerning capital expenditure, it amounted to 14.9 billion, down 2.4 percent compared to end-February 2021, covering mainly a 4.5 percent decrease in common expenses and a 3.9 percent rise in the expenses of Ministries. Compared to the Finance Act forecasts, the realization rate of investments in terms of issues was 19.2 percent.

Chart 4.4: Investment spending, at end of February

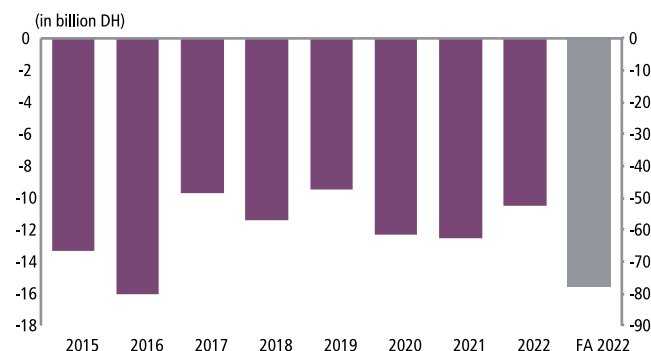


Source : Ministry of Economy and Finance.

4.3 Deficit and Treasury Financing

Taking into account the changes in revenues and expenditure as well as the improved balance of the Treasury's special accounts, the Treasury's situation showed a deficit of 10.5 billion compared to 12.6 billion a year earlier. The Treasury also reduced its stock of pending transactions by 8.5 billion, bringing the cash deficit to 19 billion, instead of 13.5 billion in the same period in 2021.

Chart 4.5: Fiscal balance, at end of February



Source : Ministry of Economy and Finance.

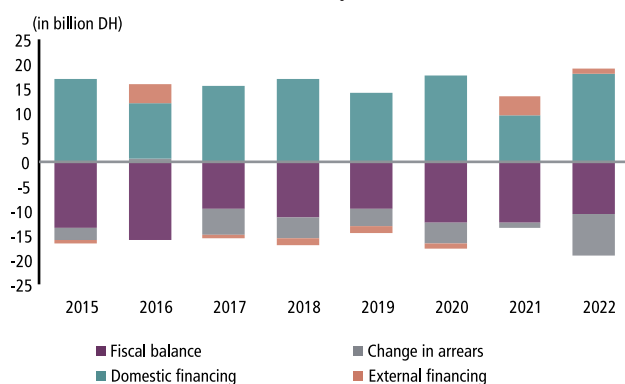
The Treasury's financing requirement was covered by net domestic resources for a net 18.1 billion and by a positive net external flow of 947 million dirhams. Gross external borrowings reached 2.2 billion, of which 1.3 billion came from the African Development Bank and 474 million from the World Bank.

Table 4.3: Deficit financing (in billions of dirhams)

	Jan.-febr. 2020	Jan.-febr. 2021	FA 2021
Current balance	-6.9	-8.4	-4.2
Balance of TSA	9.7	12.8	4.5
Primary balance	-8.7	-6.3	-49.6
Fiscal balance	-12.6	-10.5	-77.6
Change in arrears	-0.9	-8.5	
Financing requirements	-13.5	-19.0	-77.6
Domestic financing	9.6	18.1	52.0
External financing	3.8	0.9	20.7
Sale of government participations	0.0	0.0	5.0

Sources : Ministry of Economy and Finance.

As regards domestic financing, recourse to the auction market involved a net amount of 21.3 billion, compared with 6.7 billion a year earlier. Net subscriptions concerned 2-year bills for 13.1 billion and 5-year bills for 12.8 billion. For long maturities, they concerned 10-year bonds for an amount of 6.9 billion and 30-year bonds for 622 million. Net redemptions involved 52-week bills for 11 billion, 13-week bills for 400 million and 15-year bonds for 357 million.

Chart 4.6: Fiscal balance and financing , at end of February*

* Privatization receipts, limited and discontinued over time, were included in domestic financing.

Source : Ministry of Economy and Finance.

The Treasury's financing conditions on the auction market remained favorable overall, although the weighted average rates were slightly up at the end

of February 2022 compared with the same period in 2021. They increased by 12 basis points (bps) to 2.08 percent for 5-year maturities, by 11 bps to 1.82 percent for 2-year maturities, by 7 bps to 2.43 percent for 10-year bonds and by 5 bps to 2.70 percent for 15-year bonds. On the other hand, a decrease of 6 bps to 3.28 percent was recorded for 30-year bonds.

Table 4.4: Treasury debt outlook (in billions of dirhams)

	2017	2018	2019	2020	2021	End febr. 2022*
Treasury external debt	153.2	148.0	161.6	199.7	203.7	204.7
Change in %	7.3	-3.4	9.2	23.6	2.0	0.5
Treasury domestic debt	539.1	574.6	585.7	632.9	681.5	703.2
Change in %	4.8	6.6	1.9	8.1	7.7	3.2
Outstanding direct debt	692.3	722.6	747.2	832.6	885.3	907.9
Change in %	5.3	4.4	3.4	11.4	6.3	2.6

* For the debt at the end of November 2021, it is estimated based on net financing flows generating debt.

Source : Ministry of Economy and Finance.

Against this backdrop, estimates based on financing flows show an increase of 2.6 percent in direct debt, with increases of 3.2 percent in its domestic component and 0.5 percent in the external one.

Chart 4.7: Treasury debt

Sources : Ministry of Economy and Finance, and BAM estimates.

*BAM estimates.

Box 4.1: 2021 Budget execution

The 2021 budget execution shows a deficit, excluding proceeds from the sale of State shareholdings, of 76.3 billion, i.e. 6.4 percent of GDP*, instead of 82.3 billion in 2020. This change covers a 3 billion decrease in the balance of the Treasury's special accounts to 3.4 billion. Ordinary revenues improved by 10 percent to 278.3 billion, reflecting increases of 8.8 percent in tax revenues and 18.7 percent in nontax ones. On the other hand, ordinary expenditure expanded by 9.5 percent to 280.3 billion, mainly as a result of increases of 6.4 percent in expenditure on goods and services, 61.4 percent in subsidy costs and 16.5 percent in transfers to local authorities. The ordinary balance thus showed a deficit of 2 billion against 2.9 billion a year earlier. On the other hand, capital expenditure fell by 9.5 percent to 77.7 billion, thus bringing the total expenditure to 358 billion dirhams, up 4.7 percent.

Table B 4.1.1: Budget execution in 2020 and 2021

	2020	2021	Gaps		Execution /RFA 2021
			in %	in value	
Ordinary receipts	253.1	278.3	10.0	25.2	107.4
Tax receipts*	222.8	242.3	8.8	19.5	109.3
- Direct taxes	92.7	90.4	-2.4	-2.2	112.9
Of which corporate tax I.S	48.8	44.5	-8.8	-4.3	116.4
Income tax revenues	40.2	44.2	10.0	4.0	111.0
- Indirect taxes	107.4	124.2	15.6	16.8	107.0
VAT	80.0	93.3	16.5	13.2	107.2
DCT	27.4	31.0	13.0	3.6	106.5
- Customs duties	9.5	11.9	25.3	2.4	110.4
- Registration and stamp	13.3	15.8	19.3	2.6	107.4
Non tax receipts	27.2	32.2	18.7	5.1	94.7
- Monopoles	9.6	10.7	11.5	1.1	62.5
- Other receipts	17.6	21.5	22.6	4.0	127.3
Y.c. Recipes a/t innovative mechanisms	2.6	11.9	366.7	9.4	85.0
Overall expenses	27.2	32.2	18.7	5.1	94.7
Ordinary expenses	341.9	358.0	4.7	16.1	104.9
Goods and services	256.0	280.3	9.5	24.3	102.7
Personnel	191.2	203.3	6.4	12.2	98.9
Other goods and services	133.5	140.5	5.2	6.9	100.4
Public debts interests	57.6	62.9	9.1	5.2	95.5
Subsidy	27.3	27.1	-0.5	-0.1	98.0
Transfers to TA	13.5	21.8	61.4	8.3	161.2
Ordinary balance	24.0	28.0	16.5	4.0	107.2
Investment	-2.9	-2.0			
Balance of TSA	85.9	77.7	-9.5	-8.2	114.1
Fiscal balance	6.4	3.4			
In points of GDP	-82.3	-76.3			
Primary balance	-7.6	-6.4			
Variation of arrears	-55.1	-49.2			
Financing balance	14.7	-4.7			
Domestic financing	-67.6	-81.0			
Exterior financing	24.5	67.5			
Sale of government participations	43.1	8.1			
Produits de cession de participations de l'Etat	0	5.4			

- BAM's adjustments of local governments VAT
Source: Ministry of economy and finance (TEFD).

* Based on BAM's forecast of 2021 GDP.

In terms of tax revenues, direct tax revenues fell by 2.4 percent to 90.4 billion, mainly due to the 8.8 percent drop in corporate tax revenues to 44.5 billion and the non-allocation in 2021 to the general budget of the proceeds of the social solidarity contribution on profits and income. On the other hand, income tax revenues increased by 10 percent to 44.2 billion dirhams, with notably rises of 66.3 percent to 4.4 billion dirhams in income tax on real estate profits and 8.7 percent to 9.7 billion dirhams in income tax on the salaries paid by the Personnel Expenses Department, with two spontaneous normalization operations of taxpayers' tax situation draining 836 million dirhams. Indirect taxes generated 124.2 billion dirhams, with an increase of 15.6 percent, driven by a 16.5 percent rise to 93.3 billion dirhams in VAT revenues and a 13 percent increase to 31 billion dirhams in DCT revenues. The change in the latter is mainly attributable to the increases of 13.5 percent to 16.4 billion in DCT on energy products and 10.9 percent to 12.2 billion in DCT on tobacco. The improvement in VAT revenues reflects increases of 24.6 percent to 61.1 billion in import VAT and 3.8 percent to 32.2 billion in domestic VAT. As for customs and registration and stamp duties, their revenues increased by 25.3 percent to 11.9 billion and 19.3 percent to 15.8 billion, respectively.

With regard to non-tax revenues, their trend is essentially marked by the collection of 11.9 billion in revenues from specific financing mechanisms, against 2.6 billion a year earlier, and 10.7 billion from monopolies and shareholdings instead of 9.6 billion at the end of December 2020. The latter mainly came from OCP for an amount of 4.1 billion, ANCFCC for 3.8 billion, Bank Al-Maghrib for 994 million and Maroc Télécom for 659 million dirhams.

In parallel, expenditure on goods and services increased by 6.4 percent to 203.3 billion, reflecting rises of 5.2 percent to 140.5 billion in personnel expenses and 9.1 percent to 62.9 billion in those on other goods and services. These take into account, in particular, an increase of 15.4 percent to 30 billion in transfers to public entities and enterprises and a decrease of 22 percent to 6.4 billion in payments to the Treasury's special accounts. The change in the wage bill covers rises of 2.9 percent in the structural component and 92.7 percent in the arrears payments for the part served by the Personnel Expenses Department. Interest charges on the debt fell by 0.5 percent to 27.1 billion, including a 3.1 percent decrease to 22.4 billion for domestic debt and a 14.2 percent increase to 4.7 billion for foreign debt. As to subsidy costs, they increased by 61.4 percent to 21.8 billion, with a realization rate of 161.2 percent, mainly due to a 62.1 percent surge in the average price of butane gas, to 616 dollars per ton.

Taking into account the reduction in the stock of pending transactions by 4.7 billion, the cash deficit, excluding the proceeds of the sale of State shareholdings, stood at 81 billion, instead of 67.6 billion a year earlier. This need was covered by domestic resources for a net amount of 67.5 billion, by a positive net external flow of 8.1 billion and by the proceeds of the sale of State shareholdings of 5.4 billion.

5. DEMAND, SUPPLY AND LABOR MARKET

Following the 15.2 percent expansion recorded in the second quarter of 2021, economic recovery was consolidated in the third quarter with a year-on-year increase of 7.8 percent in GDP instead of a contraction of 6.7 percent in the same quarter a year earlier. This reflects increases of 6.4 percent in non-agricultural value added and 17.7 percent in the agricultural one. On the demand side, this change includes a positive contribution of 8.8 percentage points from its domestic component and a negative contribution of 1.1 percentage points from the external component.

In the fourth quarter, GDP would have continued to improve to close the year 2021 with a surge of 7.3 percent on average, after falling 6.3 percent in 2020. This performance would reflect an increase of 6 percent, after a drop of 5.8 percent, in non-agricultural value added and 18.8 percent, instead of a decrease of 8.6 percent, in agricultural one. In the first quarter of 2022, growth would have slowed significantly to 1.5 percent year-on-year, covering a sharp contraction of around 20 percent in agricultural value added with a cereal harvest limited to 25 million quintals, and an increase of 4.4 percent in the value added of non-agricultural activities with, yet, sectorial disparities, as some branches have suffered from the restrictions put in place following the Omicron variant wave.

On the labor market, the situation recovered relatively well in 2021 compared to 2020, with the creation of 230,000 jobs only, half of which were in services. Similarly, the weekly work volume increased by 19 percent to 470 million hours, while remaining 5 percent below its pre-crisis level. Taking into account a net entry of 309 thousand job seekers, the activity rate increased by 0.5 point to 45.3 percent and the unemployment rate worsened from 11.9 percent to 12.3 percent at the national level and from 15.8 percent to 16.9 percent in urban areas.

5.1 Domestic demand

5.1.1 Consumption

National accounts data for the third quarter of 2021 show an improvement of 5.8 percent year-on-year in household final consumption, compared with a decline of 5.7 percent in the same quarter a year earlier. Its positive contribution to growth thus reached 3.2 percentage points after a negative contribution of 3.1 percentage points.

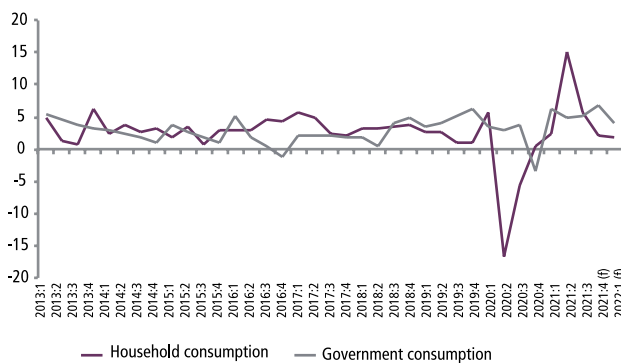
In the fourth quarter, the growth rate of household consumption would have improved by 2 percent compared with a limited increase of 0.4 percent a year earlier. This forecast is backed by the data available in the fourth quarter of 2021 which indicate, in particular, a continued increase in transfers from Moroccans living abroad, a relative improvement in the situation on the labor market with the creation of 152 thousand jobs and a 2.2 percent increase in consumer loans. As to the household confidence index, it stood at 61.2 points, stagnant compared to the same quarter a year earlier.

For the year 2021 as a whole, household consumption would have rebounded by 6.4 percent instead of falling by 4.1 percent in 2020. In the first quarter of 2022, it would grow by 1.7 percent, a rate close to the pre-crisis level.

With regard to the final consumption of the general government, the figures of the third quarter show an increase of 5.2 percent after 3.7 percent in the same quarter of 2020, thus contributing 1.1 percentage points to growth against 0.7 percentage points.

Its rate would, in the fourth quarter, have improved by 6.9 percent and for the year 2021 as a whole, it would have grown by 5.8 percent instead of 1.7 percent in 2020 and would be around 4 percent in the first quarter of 2022.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP data, and BAM forecasts.

5.1.2 Investment

In the third quarter of 2021, investment increased by 15.1 percent after a fall of 13.9 percent, contributing around 4.5 percentage points to growth.

Projections for the fourth quarter indicate an increase of 11 percent after a drop of 14.7 percent, in connection with the 9.4 percent rise in the flow of capital goods imports and the 5.1 percent increase in housing loans. On the other hand, the Treasury's investment experienced a strong decrease in terms of flow. In addition, the results of the quarterly business survey carried out by Bank Al-Maghrib in the industrial sector indicate that the business climate was qualified as «normal» by 65 percent of the industrialists surveyed and «unfavorable» by 29 percent of them.

For the year 2021 as a whole, investment would have improved by 14.8 percent compared to a decline of 14.2 percent. In the first quarter of 2022, it is expected to grow by 4.8 percent.

5.2 Foreign demand

In the third quarter of 2021, exports of goods and services, in volume terms, rose by 13 percent after a decline of 13.3 percent a year earlier. At the same time, imports increased by 13.4 percent after falling 11.7

percent. Under these conditions, net exports made a negative contribution to growth of 1.1 percentage points instead of a positive contribution of 0.3 percentage points.

In the fourth quarter, exports would have increased by 19.7 percent instead of a 7.7 percent drop, driven by exports from the automotive sector and phosphates and derivatives. Similarly, imports would have risen by 17 percent after a decline of 6.7 percent, under the effect of increased purchases of energy products and capital goods.

For the year 2021 as a whole, exports and imports of goods and services would have grown by 11.9 percent and 13.8 percent respectively, compared with declines of 14.3 percent and 12.2 percent.

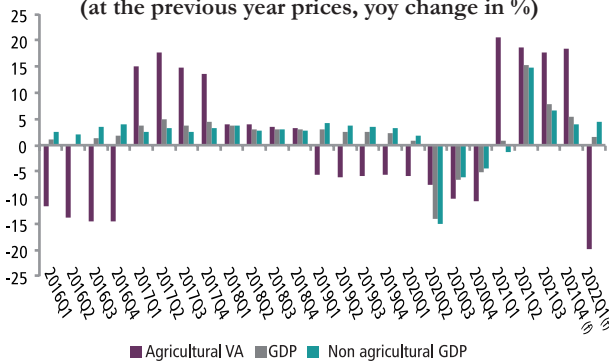
In the first quarter of 2022, export and import would have posted growth rates of 5.9 percent and 8.7 percent, respectively.

5.3 Overall supply

In the third quarter, the economic recovery was consolidated with a 7.8 percent bound in GDP, after a 6.7 percent contraction a year earlier. This improvement includes increases of 6.4 percent in the value added of non-agricultural activities and 17.7 percent in that of the agricultural sector, after respective declines of 5.9 percent and 10.3 percent.

In the fourth quarter, the recovery would have continued at a slower pace. GDP is estimated to have grown by 5.4 percent, after a decline of 5.1 percent a year earlier, mainly as a result of an 18.4 percent expansion in agricultural value added thanks to a good agricultural year 2020-2021. The value added of the non-agricultural sectors would have increased by 4 percent.

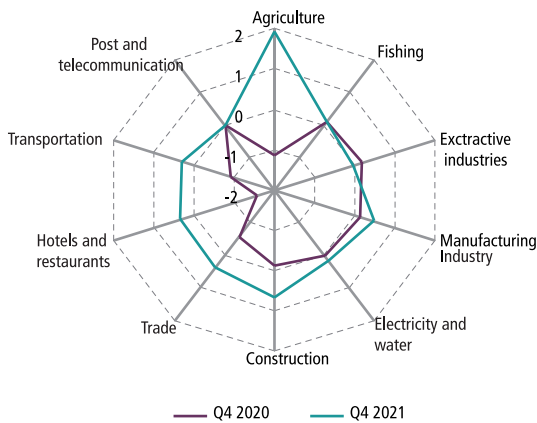
**Chart 5.2: GDP per component
(at the previous year prices, yoy change in %)**



Sources: HCP data, and BAM forecasts.

In the secondary sector, the value added would have increased by 4.8 percent after 0.9 percent. This change would reflect a growth of 12 percent in construction, 6.3 percent for the «electricity and water» branch and 3 percent for the processing industries. Conversely, a decrease of 1.8 percent would have been recorded for the mining sector, reflecting in particular a decline in phosphate production.

Chart 5.3: Sectoral contribution to growth (in % points)



Sources: HCP data, and BAM forecasts.

As regards tertiary activities, they would have increased by 3.4 percent against a contraction of 7.1 percent in the same period of the previous year. This change covers in particular a partial recovery of activity in the «hotels and restaurants» and transport services branches with increases in the value added by 28 percent and 8.6

percent respectively, after falls of 57.7 percent and 22.8 percent a year earlier. Value added would also have improved in trade by 5 percent, instead of falling by 7.2 percent, but would have dropped again in «post and telecommunications» by 1.3 percent, after 1 percent.

For the year 2021 as a whole, GDP would have grown by an average 7.3 percent, after falling by 6.3 percent in 2020, as a result of an improvement of 6 percent, against a drop of 5.8 percent, in non-agricultural value added, and by 18.8 percent, after a decrease of 8.6 percent, in agricultural value added.

In the first quarter of 2022, and under the effect of unfavorable climatic conditions, agricultural value added would have plummeted by around 20 percent, with cereal production limited at 25 million quintals. On the other hand, it would have continued to grow for the non-agricultural sectors with an increase of 4.4 percent. In total, growth would have reached 1.5 percent instead of 1 percent a year earlier.

5.4 Labor market and output capacity

5.4.1 Activity and employment

In 2021, the active population increased by 2.6 percent to 12.3 million people, which represents a net entry to the market of 309 thousand job seekers. This increase was more marked in the cities with a rate of 3 percent against 1.9 percent in the countryside. Taking into account the evolution of the population of working age, the activity rate increased from 44.8 percent to 45.3 percent. This reflects a rise of 0.9 percentage points to 50.9 percent in rural areas and 0.4 percentage points to 42.3 percent in urban areas.

At the same time, the economy created 230 thousand jobs against a loss of 432 thousand a year earlier, bringing the employed population to nearly 10.8

million people, up 2.2 percent. With the exception of the industry, including handicrafts, which suffered a loss of 19 thousand jobs, job creation in the other sectors reached 115 thousand in services, 71 thousand in construction and 68 thousand in agriculture.

In addition, the average weekly working volume increased by 19 percent to 470 million hours. The increase was 21 percent in urban areas and 16 percent in rural ones.

5.4.2 Unemployment and underemployment

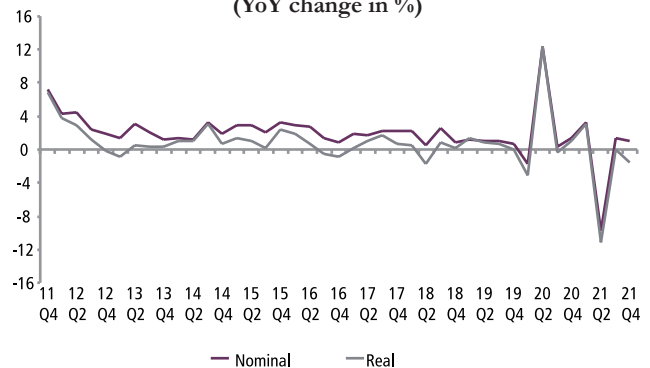
The unemployed population rose again, albeit at a slower rate than a year earlier, by 5.5 percent instead of 29.1 percent, to 1.5 million people. Taking into account the change in the labor force, the unemployment rate worsened from 11.9 percent to 12.3 percent at the national level and from 15.8 percent to 16.9 percent in the cities, while it decreased from 5.9 percent to 5 percent in the countryside. For young people aged 15 to 24 in particular, the unemployment rate worsened by 0.6 percentage points to 31.8 percent overall and by 1.4 percentage points to 46.7 percent in the cities. At the same time, the underemployment rate¹ fell from 10.7 percent to 9.3 percent, covering a decline from 10.1 percent to 8.8 percent in the cities and from 11.6 percent to 10 percent in the countryside.

5.4.3 Productivity and wages

In non-agricultural activities, apparent labor productivity, as measured by the ratio of the value added to employment, would have improved by 3.6 percent after falling 3.8 percent a year earlier. This development would reflect increases of 6 percent in value added and 2.3 percent in employed people after declines of 5.8 percent and 2.1 percent, respectively.

In parallel, the average wage, calculated on the basis of CNSS data as the ratio of the wage bill to the number of employed people, is estimated to have risen by 1 percent in the fourth quarter of 2021 in nominal terms and to have fallen by 1.5 percent after rising by 0.9 percent in real terms.

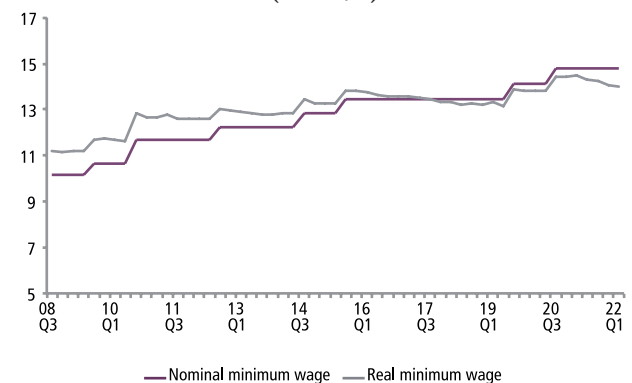
Chart 5.4: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

Concerning the hourly SMIG, it was maintained in the fourth quarter of 2021 at 14.81 dirhams in nominal terms.

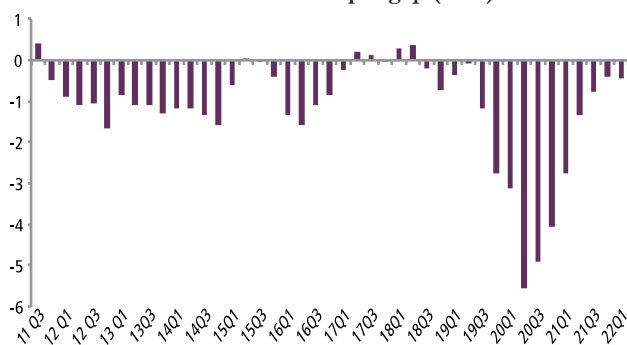
Chart 5.5: Hourly minimum wages in nominal and real terms (in DH/h)



Sources: Ministry of Employment and Social Affairs, and BAM calculations.

Under these conditions, the output gap would have remained negative in the fourth quarter of 2021 and the first quarter of 2022

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

	2020	2021
Participation rate (%)	44.8	45.3
Urban	41.9	42.3
Rural	50.0	50.9
Unemployment rate (%)	11.9	12.3
Youth aged between 15 and 24 years old	31.2	31.8
Urban	15.8	16.9
Jeunes âgés de 15 à 24 ans	45.3	46.7
Rural	5.9	5.0
Créations d'emplois (en milliers)	-432	230
Urban	-137	100
Rural	-295	130
Sectors		
- Agriculture, forest and fishing	-273	68
- Industry including handicraft	-37	-19
- Construction	-9	71
- Services	-107	115
Nonagricultural apparent productivity (change in %)	-3.8	3.6
	Q4 2020	Q4 2021
Average wage index (change in %)		
nominal	1.3	1.0
Real	0.9	-1.5

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

In line with the forecasts of the Monetary Policy Report of December 2021, inflation stood at 2.5 percent in the fourth quarter of 2021, bringing its average for the year 2021 to 1.4 percent. Inflationary pressures continued to gain strength in January 2022 with inflation rising to 3.1 percent, driven largely by the acceleration in its underlying component (CPIX). The latter rose to 3.9 percent from an average of 3.3 percent in the fourth quarter of 2021, reflecting the intensification of external pressures in a context marked by the persistent surge in international commodity prices and bottlenecks in international supply and production chains. Among the products excluded from the CPIX, volatile food prices rose by 1.3 percent after a 1 percent fall and regulated tariffs rose by 0.3 percent after 0.2 percent following the increase in tobacco prices. On the other hand, reflecting a base effect, prices of fuels and lubricants rose by 18.3 percent, instead of an average 22.1 percent recorded in the fourth quarter of 2021.

The expected continued acceleration of inflation in Morocco's main trading partners and an even higher level of international food and energy prices in the first quarter of 2022 are expected to raise core inflation to an average of 4.1 percent between January and March 2022. In addition, upward pressures on fresh food prices due to adverse weather conditions would support the upward path of inflation which would reach 4.1 percent over the same period.

6.1. Inflation trends

Inflation accelerated again in January 2022, rising to 3.1 percent from 2.5 percent in the fourth quarter 2021. This was due to an increase in its underlying component to 3.9 percent from 3.3 percent, a rise in volatile food prices instead of a decline a quarter earlier, and a faster increase in regulated tariffs. The impact of these increases was, however, mitigated by the slowdown in fuel and lubricant prices due to a base effect.

6.1.1. Prices of goods excluded from core inflation

In January 2022, prices of food products with volatile prices fell by 2.3 percent on a monthly basis, mainly due to a decrease of 5.7 percent in prices of «fresh vegetables», 1.6 percent in «poultry and rabbits» and 9 percent in «citrus fruit». However, they were up by 1.3 percent compared with their level a year earlier, against a year-on-year decline of 1 percent in the fourth quarter of 2021.

All in all, the contribution of food products with volatile prices reached 0.1 percentage point, compared with -0.1 percentage point on average between October and December 2021.

Table 6.1: Change in inflation and its components

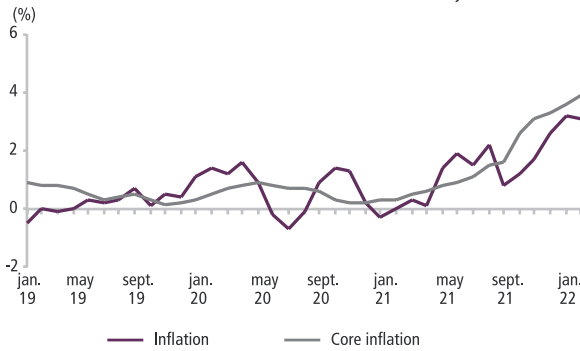
(In %)	Monthly change			YoY change		
	nov. 21	dec. 21	janv. 22	nov. 21	dec. 21	janv. 22
Inflation	0.2	0.1	0.0	2.6	3.2	3.1
- Volatile food prices	-0.6	-0.9	-2.3	-0.9	3.1	1.3
- Administered prices	0.0	0.0	0.3	0.2	0.1	0.3
- Fuels and lubricants	3.1	-0.8	1.1	25.2	19.9	18.3
Core inflation	0.3	0.4	0.4	3.3	3.6	3.9
- Food products	0.4	0.8	0.8	5.0	5.5	6.0
- Clothing and footwear	0.5	0.4	0.2	3.1	3.0	3.1
- Housing, water, gas, electricity and other fuels ¹	0.0	0.2	0.2	1.9	2.1	2.3
- Furniture, household equipment and routine house maintenance	0.6	0.3	0.3	2.0	2.4	2.7
- Health ¹	0.3	0.0	0.0	3.2	2.1	1.9
- Transportation ²	0.3	0.3	0.2	2.6	3.1	3.2
- Communication	0.0	0.1	0.0	-0.3	-0.2	-0.2
- Entertainment and culture ¹	0.3	0.8	0.0	2.2	3.4	2.8
- Education	-0.1	0.0	0.0	1.3	1.3	1.3
- Restaurants and hotels	0.2	0.0	0.5	1.0	1.0	1.5
- Miscellaneous goods and services ¹	0.2	0.0	0.1	4.4	4.5	4.4

¹ Excluding administered goods.

² Excluding fuels and lubricants and administered products.

Sources: HCP, and BAM calculations.

Chart 6.1: inflation and core inflation, YoY

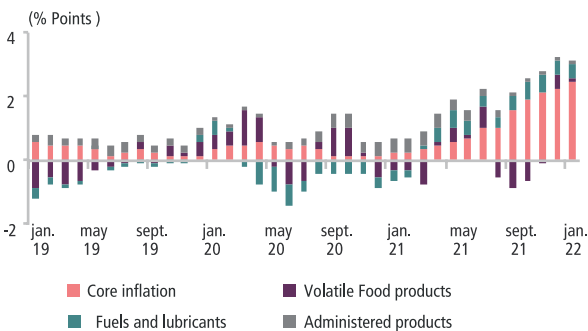


Sources: HCP and BAM calculations.

As regards prices of regulated tariffs, their growth rate accelerated slightly from 0.2 percent in the last quarter of 2021 to 0.3 percent in January, mainly reflecting the 3.5 percent increase in tobacco prices as a result of the revision of cigarette taxation provided for in the Finance Act 2022.

Concerning contribution to inflation, prices of tariff-regulated products contributed by 0.1 percentage point to inflation in January instead a zero contribution in the last quarter of 2021.

Chart 6.2: Price contributions of major components to inflation (YoY)

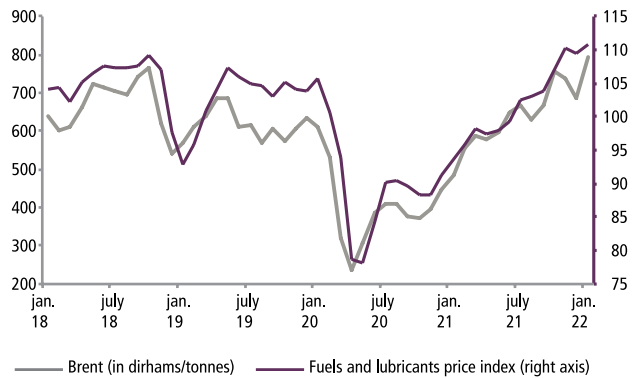


Sources: HCP, and BAM calculations.

Prices of fuels and lubricants recorded a monthly increase of 1.1 percent in January, due to the increase in petroleum product prices at the international level, the price of Brent crude oil in particular having risen by 15.1 percent during this month to \$85.5/b, as well as the depreciation of the dirham by 0.4 percent against

the US dollar. However, their year-on-year growth rate decelerated to 18.3 percent in January after 22.1 percent on average between October and December 2021.

Chart 6.3: Trends in the international price of Brent crude oil and in the price index for fuels and lubricants (base 100 in 2017)



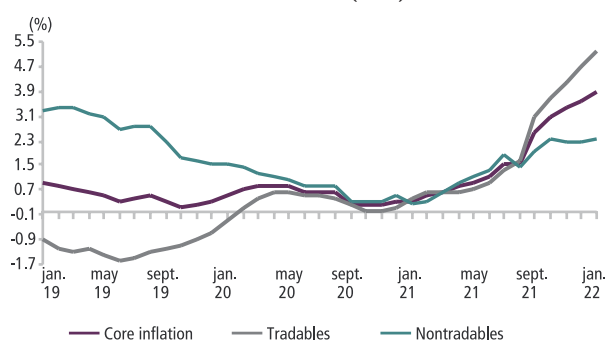
Sources: World Bank, HCP, and BAM calculations.

The contribution of these products' prices to inflation stood at 0.5 percentage points in January, which is the same contribution level recorded in the fourth quarter of the year 2021.

6.1.2. Core inflation

On an upward trajectory since the end of 2020, core inflation rose from 3.3 percent in the fourth quarter of 2021 to 3.9 percent in January 2022, its highest level recorded in the last 13 years.

This acceleration is essentially linked to that from 5 percent to 6 percent of its food component, itself linked to the increase in prices of 9.5 percent, instead of 6.6 percent, for «cereal-based products», 14.1 percent instead of 8.4 percent for «unprocessed cereals» and 6.6 percent instead of 4.3 percent for «oils and fats» in a context of continued surge in international prices for these products. On the other hand, the growth rate of prices of fresh meats slowed down to 1.8 percent after 2.2 percent on average in the fourth quarter of 2021.

Chart 6.4: change in the price indexes of tradables and nontradables (YoY)

Sources: HCP, and BAM calculations.

Non-food prices rose by 2.7 percent, after 2 percent, for «furniture, household goods and routine household maintenance», by 2.3 percent, instead of 2 percent, for «housing, water, gas, electricity and other fuels¹ », and by 3.2 percent, against 2.8 percent, for «transport²».

Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	nov. 21	dec. 21	janv. 22	nov. 21	dec. 21	janv. 22
Tradables	0.6	0.6	0.7	4.2	4.7	5.2
Nontradables	0.0	0.2	0.1	2.3	2.3	2.3
Core inflation	0.3	0.4	0.4	3.3	3.6	3.9

Sources: HCP, and BAM calculations.

The breakdown of the basket of the core inflation indicator into tradable and non-tradable products indicates that its acceleration exclusively reflects that of its tradable component. The growth rate of the prices of tradable goods increased from 4.2 percent in the last quarter of 2021 to 5.2 percent in January, against the backdrop of the intensifying external inflationary pressures, with in particular an acceleration from 4.7 percent to 5.1 percent of inflation in the Euro zone, Morocco's main trading partner.

¹Excluding regulated products.²Excluding regulated products, fuels and lubricants.

As for non-tradable goods, they evolved at the same rate as in the fourth quarter of 2021, or 2.3 percent. The acceleration effect of price increases from 1.9 percent to 2.9 percent for «services relating to housing maintenance and repair » and from 0.8 percent to 1.4 percent for «restaurants, cafés and similar entities» was counterbalanced by the slowdown in price increases from 2.2 percent to 1.8 percent for fresh meat and from 2.1 percent to 2 percent for «rents actually paid by tenants».

Chart 6.5: Contribution of tradables and nontradables to core inflation

Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

In the first quarter of 2022, inflation is expected to evolve at relatively high levels, averaging 4.1 percent compared to 2.5 percent one quarter earlier, impacted by inflationary pressures mainly from external sources. It would be driven largely by higher prices for volatile food products, which would rise by 6.7 percent, compared with a fall of 1 percent a quarter earlier. This development would reflect in particular the impact of the unfavourable weather conditions that marked the current agricultural season and the increase in demand expected in the run-up to the month of Ramadan.

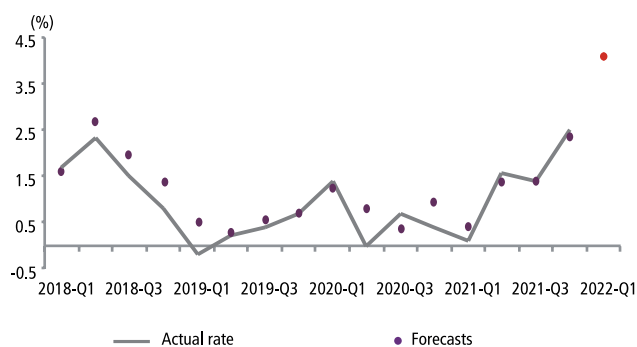
Similarly, core inflation is forecast to accelerate sharply to 4.1 percent from 3.3 percent, reflecting the expected change in its food component due to the surge in international food prices amid the expectation

of continuously high prices for these products. The FAO food index is forecast to rise by 2.8 percent on a quarterly basis in the first quarter of 2022.

To a lesser extent, regulated tariffs are expected to rise by 0.4 percent after 0.2 percent in the fourth quarter of 2021, mainly as a result of the increase in tobacco prices that came into effect in January 2022.

Prices of fuels and lubricants would increase by 25.9 percent after 22.1 percent one quarter earlier in connection with the expected change in the international prices of oil products.

Chart 6.6: Inflation short-term forecasts and actual rates



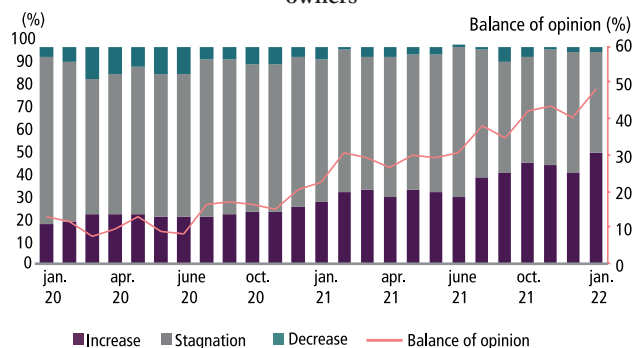
The differences in forecasts observed between Q1 2018 and Q1 2020 are partly linked to the HCP's recasting of the CPI in May 2020. Thus, the CPI base 100=2006 is now replaced by the CPI base 100=2017 (see Box 6.1: "New consumer price index (base 100=2017)" in the June 2020 MPR).

Source: BAM.

6.3. Inflation expectations

The results of Bank Al-Maghrib's business survey in industry, relating to January 2022, indicate that 51 percent of the industrialists surveyed expect an increase in inflation over the next three months, 46 percent project it to stagnate while 3 percent of them anticipate a decrease. The balance of opinion thus stands at 48 percent, compared with 40 percent in December.

Chart 6.7: Three-month inflation expectations by business owners



Source: BAM's monthly business survey.

In addition, the results of Bank Al-Maghrib's inflation expectations survey for the first quarter of 2022 show that financial experts project inflation to accelerate to an average of 2.3 percent over the next eight quarters, compared to the 1.9 percent forecast one quarter earlier.

Box 6.1: Inflation trend in 2021

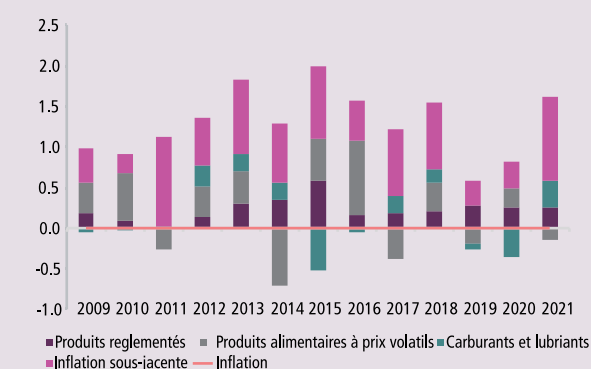
Inflation, as measured by the annual change in the consumer price index (CPI), accelerated gradually during 2021 amid increasing external tensions and recovering demand after the easing of health restrictions. However, it stood at a moderate level of 1.4 percent on average over the year instead of 0.7 percent in 2020.

The acceleration was more noticeable in its core component, which averaged 1.7 percent after 0.5 percent in 2020, reflecting the transmission to domestic prices of the effects of soaring commodity prices, particularly food prices, and disruptions in global production and supply chains.

The prices of fuels and lubricants increased by 12.9 percent in 2021 against a fall of 12.4 percent, reflecting, in addition to a base effect relating to their low levels in 2020, the increase in the price of petroleum products which reached levels well above those before the Covid-19 pandemic.

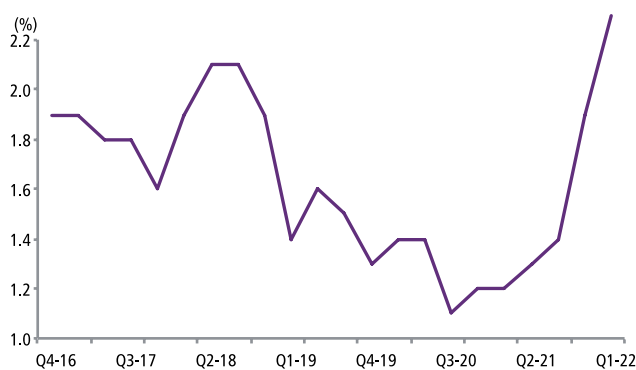
On the other hand, the prices of volatile food products fell by 1.3 percent after an increase of 2 percent a year earlier, supported by the favourable weather conditions that marked the 2020/2021 agricultural campaign, despite the surge in the prices of certain inputs and a reduction in the supply of some products caused by the health crisis. For their part, regulated tariffs maintained the same growth rate as in the previous year, namely 1.2 percent.

Chart E 6.1.1: Contributions of inflation (in percentage points)



Source : HCP data and BAM calculations

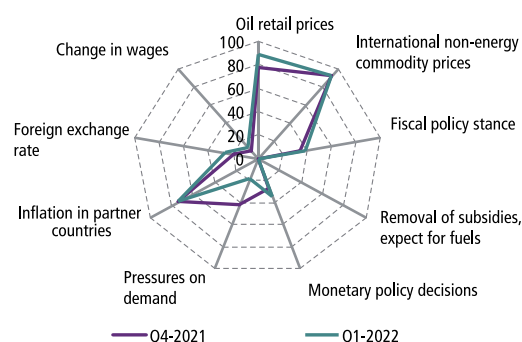
Chart 6.8: Inflation expectations by financial experts*



Source: BAM's quarterly survey on inflation expectations.

The latter consider that the future change in inflation would be determined mainly by world non-oil commodity prices, pump prices and inflation in partner countries.

Chart 6.9: Determinants of the future trend in inflation as expected by financial experts



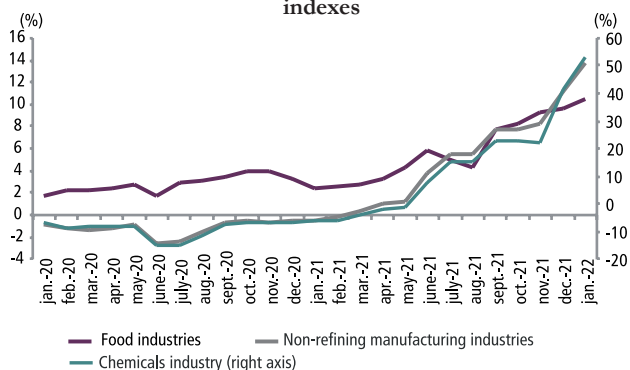
Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Producer³ prices

Producer prices in non-refining manufacturing industries increased significantly to 13.8 percent in January from 9.1 percent in the fourth quarter of 2021. This change is mainly attributable to the rise in producer prices by 53.2 percent after 28.7 percent in the «chemical industry», 10.5 percent instead of 9 percent in the «food industry» branch and 1 percent after 0.3 percent in the «manufacturing of other non-metallic mineral products».

In contrast, producer prices in the «manufacturing of textiles» branch rose by 3.7 percent after an average of 5.2 percent in the previous quarter.

Chart 6.10: YoY change in the main industrial producer price indexes



Source : HCP.

³ The HCP started on 26 February 2021 the publication of a new producer price index with 2018 as base year instead of 2010 for the old index.

7. MEDIUM-TERM OUTLOOK

Summary

The economic recovery faces substantial risks related to geopolitical tensions and the new orientation of major central banks. Beyond the challenges it has been facing for several months such as bottlenecks and inflationary pressures following the Covid-19 pandemic, the global economy is expected to suffer from the fallout of the conflict in Ukraine and its implications. Given the highly uncertain context, the forecasts presented in this document are based on a simulation of a scenario of the impact of this conflict on the world economy prepared by the GPMN1. They will therefore be subject to significant revisions as the situation evolves.

In the United States, growth is expected to reach 3.4 percent in 2022 and 2.1 percent in 2023, as the country has little direct exposure to Russia and Ukraine. In the euro zone, which is more exposed to the repercussions of the Ukrainian crisis, GDP growth would decelerate to 3.5 percent in 2022 and then to 1.7 percent in 2023, after 5.2 percent in 2021. As for the main emerging countries, in China, the problems of the property market and falling private consumption would weigh on growth in 2022, which would drop to 5.4 percent after 8.5 percent in 2021, and would not exceed 6 percent in 2023. Russia, for its part, although in a good economic situation before the conflict with Ukraine, would enter a recession from 2022. Projections indicate a contraction in growth of 1.1 percent in 2022 and 1.4 percent in 2023.

In the commodities market, commodity prices continued to rise amidst high geopolitical tensions and supply disruptions. Despite the agreement of the International Energy Agency's (IEA) member countries to release 60 million oil barrels from their emergency reserves and the continuation of Russian exports, and taking into account the forecasts of international institutions, the price of Brent crude oil is expected to average \$106.8 per barrel in 2022, before falling to \$96.5 in 2023. In the case of foodstuffs, prices for wheat in particular, of which Russia and Ukraine account for almost a third of world exports, rose by 35 percent year-on-year in February. As for food prices, the FAO index rose by 20.7 percent year-on-year in February, mainly reflecting higher prices for vegetable oils and dairy products. The index is projected to rise by an average of almost 30 percent in 2022, according to GPMN projections, before falling by 9.5 percent in 2023.

In these conditions, inflation in both the advanced countries and most emerging economies continues to surprise on the upside, reaching exceptional levels. In the euro zone, according to the same GPMN projections, it is projected to reach 5.4 percent in 2022, before slowing down to 2.8 percent in 2023, due to soaring energy costs and heavy dependence on Russia for oil and gas. Similarly, in the United States, inflation is projected at 7.2 percent in 2022 and 4.2 percent in 2023.

Against this backdrop of strong inflationary pressures, central banks have begun to withdraw the monetary stimulus measures deployed to counteract the effects of the health crisis. In particular, the FED raised the target range for the federal funds rate by a quarter point to [0.25 percent-0.5 percent] in a context of high inflation and a labor market

judged solid. In turn, the ECB maintained its accommodating policy stance, but reconfirmed the discontinuation of its pandemic emergency purchase programme (PEPP) at end-March and the faster-than-expected reduction of its asset purchases under the APP.

At the national level, the year 2021 was marked by an outstanding recovery in trade, with an increase in imports of goods and services greater than that of exports. The current account deficit thus closed the year at 2.6 percent of GDP, compared with 1.5 percent in 2020. As for FDI receipts, they stood at 2.7 percent of GDP after 2.5 percent in 2020. Over the forecasting horizon, the current account deficit would increase to 5.5 percent of GDP in 2022 before easing to 3.7 percent in 2023 and FDI receipts would return to their average level of around 3 percent of GDP in 2022 and 3.5 percent in 2023. Against this background and considering the hypotheses of donation inflows of 1.5 billion dirhams in 2022 and 2023 and Treasury's external financing up to 40 billion in 2022 and 21 billion in 2023, the official reserve assets would reach 342.8 billion at the end of 2022 and 347.3 billion at the end of 2023, or the equivalent of 6 months and 15 days and 6 months and 18 days of imports of goods and services, respectively.

On the public finance side, taking into account an exceptional mobilization of 20 billion dirhams of revenues from specific financing mechanisms and 18 billion in revenues from monopolies and shareholdings, the budget deficit would not exceed 6.3 percent of GDP in 2022, down from 6.4 percent of GDP in 2021. This result covers a sharp increase in subsidy costs, taking into account new assumptions relating to the rebound in butane gas and exchange rates, and an increase in the subsidy on imported wheat. In 2023, the deficit is expected to narrow to 5.9 percent of GDP, mainly as a result of improved tax revenues.

Monetary conditions would remain accommodating and credit growth to the non-financial sector would be around 4 percent in 2022 and 2023. The real effective exchange rate is expected to depreciate over the forecast horizon, reflecting lower domestic inflation than in partner and competitor countries.

Supported by progress in vaccination, the fiscal stimulus, accommodating monetary conditions and the good agricultural season, the national economy would have rebounded by 7.3 percent in 2021, after a contraction of 6.3 percent in 2020, covering increases of 18.8 percent in agricultural value added and 6 percent in non-agricultural activities. In 2022, growth is expected to decelerate to 0.7 percent, suffering from unfavorable climatic conditions and a difficult international geopolitical context. Taking into account the hypothesis of a cereal harvest of nearly 25 million quintals (MQx), according to the BAM forecasts, agricultural value added would show a sharp fall of 19.8 percent, while non-agricultural value added would increase by 3 percent, thanks in particular to the easing of sanitary restrictions and the maintenance of fiscal stimulus and sectoral support measures. In 2023, national growth would accelerate to 4.6 percent, reflecting a 17 percent rise in agricultural value added, assuming a return to an average cereal harvest, and a 3 percent increase in non-agricultural value added. On the demand side, after strengthening in 2021, the domestic component of demand would continue to improve over the medium term, while the contribution of net exports to growth would become negative in 2022, before improving to a positive contribution in 2023.

Against a backdrop of intensifying internal and external inflationary pressures, inflation would accelerate from 1.4 percent in 2021 to 4.7 percent in 2022, driven mainly by rises in its underlying component and the prices of fuels and lubricants. It would then fall to 1.9 percent in 2023.

7.1 Underlying assumptions

Higher risks for economic recovery due to rising geopolitical tensions

In addition to the challenges it has been facing for several months, such as bottlenecks and inflationary pressures, the world economy is expected to suffer the fallout of the conflict in Ukraine, the implications and consequences of which are still uncertain. Thus, according to the GPMN forecasts, after expanding at an estimated 6.1 percent in 2021, world growth would slow to 4 percent in 2022 and then 3 percent in 2023.

In the United States, growth is expected to fall from the 5.7 percent recorded in 2021 to 3.4 percent in 2022 and 2.1 percent in 2023, as the country has little direct exposure to Ukraine and Russia, with less than 1 percent of its total trade being with the latter. More exposed to the repercussions of the Ukrainian crisis and heavily dependent on oil and gas from Russia, growth in the euro zone is projected to slow to 3.5 percent in 2022 and 1.7 percent in 2023. For its part, after a strong rebound in 2021 with growth of 7.5 percent, growth in the United Kingdom is expected to decelerate to 3.5 percent in 2022 and then to 0.9 percent, due to low productivity and uncertainties linked to Brexit, which weigh on investment.

As regards the main emerging countries, in China, the problems of the property market and the fall in private consumption would weigh on growth in 2022, as it would decrease to 5.4 percent after 8.5 percent in 2021, then to 6 percent in 2023. In India, growth is expected to accelerate to 8.8 percent in 2022, against 7.9 percent in 2021, thanks to increased public spending on economic recovery and ongoing reforms, before reaching 6.4 percent in 2023. In Brazil, growth would slow sharply in 2022 to 1.3 percent from 4.8 percent a year earlier, mainly due to the impact of drought, high interest rates and rising inflation, before returning to 2.9 percent in 2023. As to Russia, although it was in a good economic situation before the conflict with Ukraine, it will enter into a recession from 2022. Projections are for a contraction of 1.1 percent in 2022 and 1.4 percent in 2023, but these figures are likely to be revised substantially in view of the sanctions imposed on the country.

Chart 7.1: Growth in the euro area

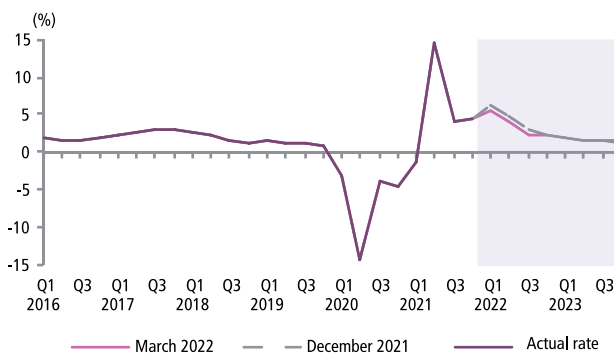
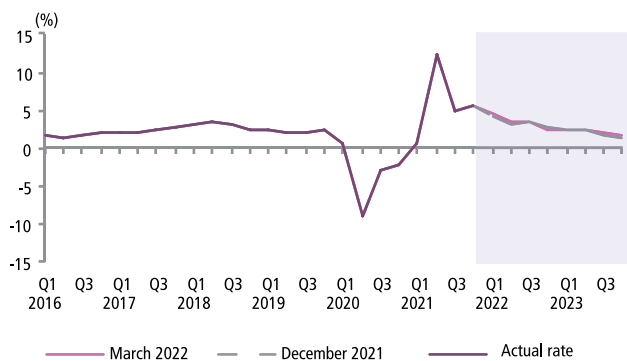


Chart 7.2: Growth in the USA



Source: GPMN (Ukraine conflict scenario, as of 03 March 2022).

Rising commodity prices amid a tense geopolitical context, and persistent inflationary pressures

Commodity prices continued to rise amid high geopolitical tensions and supply disruptions. Energy prices are expected to continue their uptrend, in particular as a result of the fallout from the conflict in Ukraine, mainly on the supply of crude oil, gas and cereals. Despite the agreement of the member countries of the International Energy Agency (IEA) to release 60 million oil barrels from their emergency reserves and the continuation of Russian exports, and taking into account the forecasts of international institutions, the price of Brent crude oil is expected to rise to an average \$106.8 per barrel in 2022, before falling to \$96.5 in 2023. As for coal, after an exceptional increase in 2021, its price would continue to rise, reaching an average of \$225/t in 2022 against the backdrop of current tensions and sustained demand. In 2023, the price would adjust downwards to \$141/t.

As for phosphate and derivatives, the forecasts expect them to evolve in a proportional way to agricultural product prices. Thus, the price of raw phosphate and that of DAP would stand, respectively, at \$159.9 /t and \$780.1/t in 2022 before returning to \$144.8/t and \$706.2/t in 2023.

For food commodities, prices of wheat in particular, of which Russia and Ukraine account for almost a third of world exports, rose by 35 percent year-on-year in February, and are forecast to rise to exceptional levels in 2022. As for food prices, the FAO index rose by 20.7 percent year-on-year in February, mainly reflecting higher prices for vegetable oils and dairy products. The index is forecast to rise by an average of almost 30 percent in 2022, according to GPMN projections, before falling by 9.5 percent in 2023.

Against this backdrop, inflation continues to surprise on the upside, recording exceptional levels in both advanced and emerging countries. In the euro area, inflation is projected by the GPMN at 5.4 percent in 2022, followed by a slowdown to 2.8 percent in 2023, due to soaring energy prices and heavy dependence on Russian oil and gas. Similarly, in the US, inflation is projected at 7.2 percent in 2022 and 4.2 percent in 2023.

Chart 7.3: USD/ EUR exchange rate

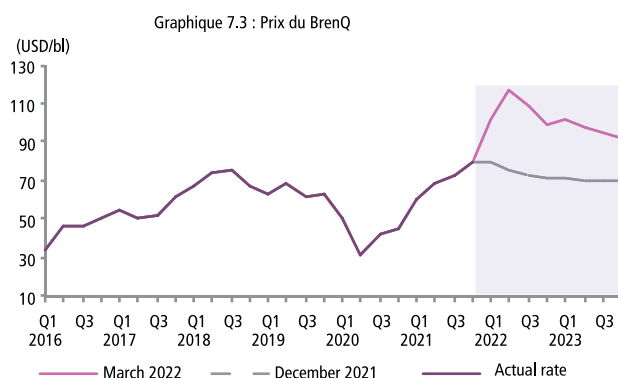


Chart 7.4: FAO food price index (2014-2016=100)

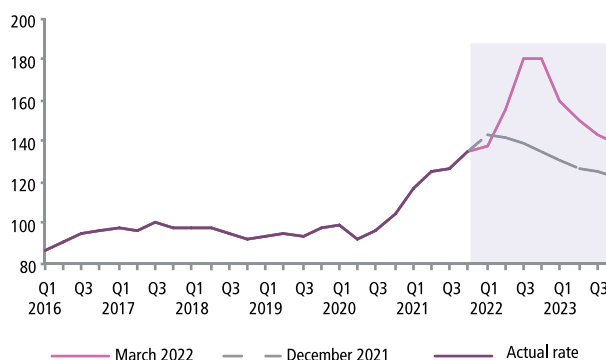


Chart 7.5: Inflation in the euro area

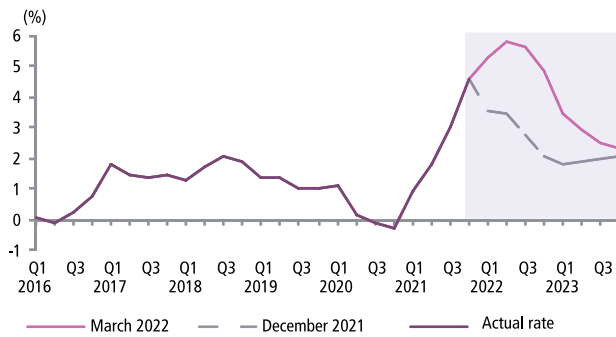
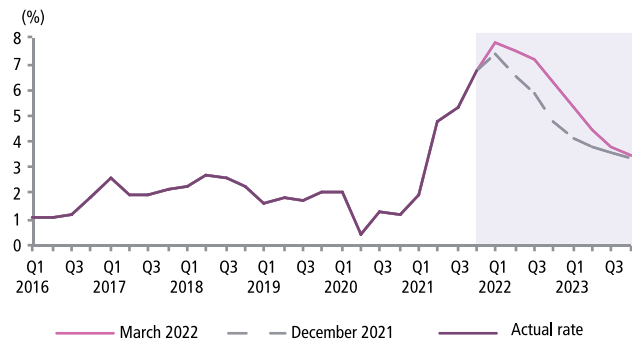


Chart 7.6: Inflation in the United states



Source: GPMN (Ukraine conflict scenario, as of 03 March 2022).

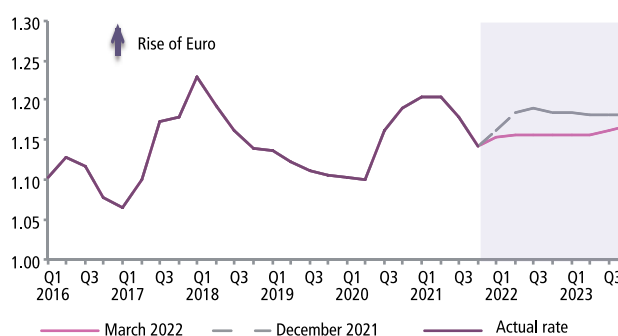
Central banks are moving towards normalising their monetary policy in order to curb rising inflation

Faced with strong inflationary pressures, many Central Banks have begun to normalise their monetary policy, with a reduction in asset purchase programmes and/or an increase in key rates, despite the vulnerability of the post-pandemic recovery. For its part, the Fed decided at the end of its meeting on 15 and 16 March to raise the target range for the federal funds rate by a quarter of a point to [0.25 percent-0.5 percent] in a context of high inflation and a labour market that is considered solid. It also plans to start reducing the size of its balance sheet at a future meeting. It should be noted that, in addition to this increase, the Committee members expect six rate hikes by the end of the year.

In view of the current geopolitical tensions in Ukraine, the ECB decided at its 10 March Council meeting to keep its key interest rates unchanged and indicated that any adjustment of rates will take place sometime after the end of net purchases under the APP and would be gradual. It indicated that bond purchases under the Pandemic Emergency Purchase Programme (PEPP) would be completed by end-March 2022 and announced that it will end asset purchases under the APP sooner than expected. Furthermore, in view of the current context, the Council decided to extend the central bank repos (EUREP) until 15 January 2023.

On the foreign exchange markets, the euro reached, in the fourth quarter of 2021, its weakest level since the second quarter of 2020, and strengthened by 0.2 percent against the dollar between January and February in 2022. For the year as a whole, it is expected to depreciate by 2.4 percent to \$1.155. In 2023, it is projected to appreciate slightly by 0.4 percent to \$1.16.

Chart 7.7: USD/EUR exchange rate



Cereal production of around 25 million quintals for the 2021/2022 crop year and an average crop retained for 2022/2023

At the national level, climatic data as of 10 March show a widespread and significant rainfall deficit with a cumulative total of 111.1 mm, the second lowest since 1991, down 57.2 percent compared to the previous season and 54.2 percent compared to the average of the last five years. Under these conditions, the filling rate of dams was 31.7 percent at the same date, compared to 49.3 percent a year earlier. As regards the state of vegetation, the available data for the first 10 days of March indicate that the vegetation cover¹ is the lowest since 2008 and remains about 34.7 percent lower on average than in the previous season and 33.5 percent lower than the average for the last five years. Under these conditions, the cereal harvest for the 2020-2021 season is estimated by BAM to be around 25 million quintals. Taking into account developments in non-cereal crops, which are also expected to be impacted by drought and water stress, agricultural value added is projected to decline by 19.8 percent compared to a 2.8 percent decline in the December report.

For the 2022-2023 season, under the assumption of an average cereal harvest of 75 MQx and a continuation of the trend in other crops, agricultural value added would increase by 17 percent.

7.2 Macroeconomic projections

Increase in the current account deficit in 2022, mainly due to the rise in the energy bill

Taking into account the foreign trade data at the end of 2021, the current account deficit has been revised slightly upwards to 2.6 percent of GDP, compared to 2.5 percent forecast last December. It is expected to rise to 5.5 percent of GDP in 2022 and then narrow to 3.7 percent in 2023.

The revision for the year 2021 is essentially explained by the higher than expected increases in imports, which rose by 24.5 percent, mainly due to the 51.6 percent rise in the energy bill and the 29.7 percent increase in the acquisitions of consumer goods. Exports gained 24.3 percent, driven by a 57.1 percent hike in sales of phosphate and derivatives and a 15.9 percent increase in the automotive sector. Sales of the textile sector rose by 21.6 percent and those of the agro-food sector by 9.2 percent. At the same time, travel receipts fell by 6 percent to 34.3 billion dirhams, while transfers from Moroccans living abroad improved by 36.8 percent to 93.3 billion dirhams. As for FDI receipts, they amounted to 32.2 billion, the equivalent of 2.7 percent of GDP after 2.5 percent in 2020.

Over the forecast horizon, exports are expected to improve by 12.5 percent in 2022 and then increase by 3.4 percent in 2023, mainly driven by the increase in sales of the phosphate and derivatives sector in 2022 in connection with the surge in international prices, before falling in 2023. As for exports of automobile construction, they would improve in 2022 and 2023, in relation to new production capacities in automobile construction. Exports from the 'agricultural and agri-food' sector are expected to virtually stagnate in 2022, under the effect of the drought, before increasing in 2023. Imports are expected to rise by 14.9 percent in 2022, mainly due to a rise in the energy bill, an increase in wheat imports and a rise in purchases of consumer goods. In 2023, the increase in imports would be limited to 1.1 percent, due in particular to the fall of the energy bill. Travel receipts, while remaining lower than before the crisis, would gradually recover with the reopening of the borders, reaching 47 billion in 2022 and 70.9 billion in 2023. After a record level of 93.3 billion in 2021, remittances from Moroccans living abroad would return to their pre-crisis level in the medium term, reaching 79.3 billion in 2022 and 70.8 billion in 2023. Concerning FDIs, the receipts would return to their average level of around 3 percent of GDP in 2022 and 3.5 percent in 2023.

Under these conditions and taking into account the hypotheses of grant inflows for 1.5 billion dirhams in 2022 and 2023, Treasury's external financing for 40 billion in 2022 and 21 billion in 2023, the official reserve assets would reach 342.8 billion at the end of 2022 and 347.3 billion at the end of 2023, or the equivalent of 6 months and 15 days and 6 months and 18 days of imports of goods and services, respectively.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates					Forecasts		Gap (March/dec.)	
	2017	2018	2019	2020	2021	2022	2023	2022	2023
Exports of goods (FOB)	10.3	10.7	3.3	-7.5	24.3	12.5	3.4	3.3	4.2
Imports of goods (CAF)	6.7	9.9	2.0	-13.9	24.5	14.9	1.1	6.7	-2.0
Travel receipts	12.3	1.2	7.8	-53.7	-6.0	37.2	50.7	6.1	-12.7
Expatriate remittances	5.3	-1.5	0.1	4.9	36.8	-15.0	-10.6	8.2	-8.8
Current account balance (% of GDP)	-3.4	-5.3	-3.7	-1.5	-2.6*	-5.5	-3.7	-0.3	1.2
Official reserve assets, in months of imports of goods and services	5.6	5.4	6.9	7.2**	6.3*	6.5	6.6	-0.3	-0.3

* calculations.

** Updated figures

Sources: Foreign Exchange Office and BAM forecasts.

Favorable monetary conditions and moderate growth of bank lending to the non-financial sector

After rising by 0.6 percent in 2021, the real effective exchange rate is expected to depreciate by 1.3 percent on average over the forecast horizon, reflecting a lower domestic inflation than in trading partners and competitors.

Based on the expected change in the Bank's foreign exchange reserves and the moderate increase of currency in circulation, the bank liquidity deficit would be at 75.1 at the end of 2022 and at 88.3 billion dirhams at the end of 2023. As for bank credit to the non-financial sector, its growth fell from 3.8 percent in the fourth quarter of 2021 to 3.3 percent in January 2022, reflecting a deceleration of credit to private non-financial companies and households as well as a stronger decline in loans to public companies. As regards the outlook and taking into

account the expected evolution of the economic activity and the expectations of the banking system, its growth would reach around 4 percent in 2022 and 2023. Under these conditions and taking into account the projected change in the other counterparts of the money supply, M3 aggregate growth would stand at 5.9 percent at the end of 2022 and 4 percent at the end of 2023.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (March/dec.)	
	2018	2019	2020	2021	2022	2023	2022	2023
Bank lending to the nonfinancial sector	3.1	5.5	4.0	3.4	4.1	4.1	0.7	-0.3
M3	4.1	3.8	8.5	5.2	5.9	4.0	0.9	-1.2
Liquidity surplus or deficit, in billion dirhams	-69.0	-62.3	-67.0	-64.4	-75.1	88.3	-5.1	-4.7

Virtual stability of the fiscal situation in 2022 and slight easing in 2023

After reaching 6.4 percent of GDP in 2021, the budget deficit would stabilise at 6.3 percent of GDP in 2022, the same ratio forecast in the December edition. These projections take into account, in particular, a strong upward revision of non-tax revenues with an additional 8 billion dirhams in revenues from specific financing mechanisms, to 20 billion dirhams, and an additional 4 billion dirhams in revenues from monopolies and shareholdings, to 18 billion dirhams. These mobilised revenues would result from the will of the budgetary authorities to cover additional expenditure, notably those for sectoral support, and to maintain the budget deficit in line with the target of the Finance Act. On the expenditure side, the subsidy cost rose to 2.4 percent of GDP from 1.7 percent in December, taking into account, in particular, upward revisions of assumptions on butane gas prices and an increase in the subsidy for imported wheat.

In 2023, the budget deficit would narrow to 5.9 percent, under the assumption of higher tax receipts due to the recovery of economic activity, and an increase in expenditure with, in particular, a higher subsidy burden than that forecast in December.

Rebound of the national economy in 2021 and sharp fall in agricultural value added in 2022

The national economy is estimated to have rebounded by 7.3 percent in 2021, following a contraction of 6.3 percent in 2020, which represents an upward revision of 0.6 percentage points (pp) compared to the December projection. This reflects an 18.8 percent increase in agricultural value added, taking into account a cereal harvest of 103.2 million quintals in the 2020-2021 crop year. As for non-agricultural activities, after a 5.8 percent decline in 2020, their value added would have increased by 6 percent in 2021 instead of the 5.3 percent retained in the December projections, mainly driven by a stronger-than-expected recovery in industrial activity, construction and trade. On the demand side, growth would have been driven by a strengthening of its domestic component thanks to the fiscal stimulus, accommodating monetary conditions, the recovery of agricultural and non-agricultural incomes and the exceptional rise in remittances from Moroccans residing abroad. On the other hand, albeit at a lower level than projected in December, net exports would have contributed negatively to growth, due to a larger rebound in the volume of imports of goods and services compared to exports.

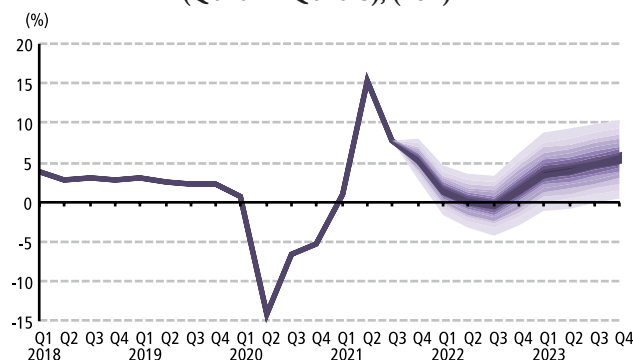
In 2022, suffering from unfavourable climatic conditions and the repercussions of the Russian-Ukrainian conflict on the world economy, growth would decelerate sharply to 0.7 percent, revised downwards by 2.2 percentage points, before accelerating to 4.6 percent in 2023. This change would reflect a sharp 19.8 percent drop in agricultural value added in 2022, taking into account the hypothesis of a cereal harvest of around 25 MQx, according to the BAM forecasts, followed by an increase of 17 percent in 2023, under the hypothesis of a return to an average cereal harvest of 75 MQx. Non-agricultural activities would continue to improve, thanks in particular to the easing of sanitary restrictions and the continuation of monetary stimulus and sectoral support measures. However, their growth rate has been revised downwards compared to the December projections, to an average of 3 percent in 2022 and 2023. On the demand side, the positive contribution of the domestic component is expected to moderate over the medium term. In particular, growth in household final consumption is expected to contract in 2022, given the expected weakening of agricultural incomes, before recovering in 2023, while the growth rate of government consumption is projected to slow down gradually in 2022 and 2023. Net exports are forecast to maintain a negative contribution in 2022. The growth of exports of goods and services, in volume terms, would consolidate, although impacted in particular by the expected slowdown in foreign demand amid Russian-Ukrainian geopolitical tensions, while imports would increase, reflecting in particular the rise in those of wheat in connection with the poor agricultural year. This outlook would gradually improve, contributing positively to growth in 2023 as the agricultural shock dissipates.

Table 7.3: Economic growth

Change in %	Actual rates					Forecasts			Gap (March/dec.)		
	2016	2017	2018	2019	2020	2021	2022	2023	2021	2022	2023
National growth	1.1	4.2	3.1	2.6	-6.3	7.3	0.7	4.6	0.6	-2.2	1.2
Agricultural VA	-13.7	15.2	3.7	-5.8	-8.6	18.8	-19.8	17.0	0.0	-17.0	15.0
Nonagricultural VA	2.1	2.9	2.9	3.9	-5.8	6.0	3.0	3.0	0.7	-0.2	-0.4
Net tax on subsidies	8.8	3.1	4.6	1.9	-7.6	6.3	5.0	4.5	0.9	-0.6	0.0

Sources: HCP data, and BAM forecasts.

**Chart 7.8: Growth outlook over the forecast horizon
(Q4 2021 - Q4 2023), (YoY)***



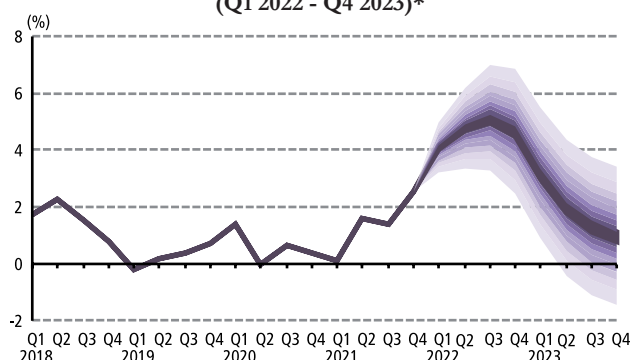
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Strong acceleration of inflation in 2022

After a strong acceleration from 0.7 percent in 2020 to 1.4 percent in 2021, inflation is expected to continue on its upward trend in 2022, driven mainly by increases in its underlying component and in the prices of fuels and lubricants. Under the effect of internal and external inflationary pressures, namely, the rise in international energy

and food commodity prices and the increase in imported inflation combined with a poor national agricultural season, core inflation would peak at 4.7 percent in 2022 instead of 1.7 percent in 2021, before returning to 2.6 percent in 2023, as inflationary pressures dissipate. For the other components, the dynamics of the prices of fuels and lubricants would be punctuated by that of the international oil price, which is expected to rise in 2022 and 2023. In addition, the prices of food products with volatile prices are expected to rise in 2022, in a context of unfavourable climatic conditions, and those of regulated products will decelerate, taking into account the measures envisaged in the 2022 Finance Act, before returning to their underlying growth rate in 2023. In this context, inflation would reach 4.7 percent in 2022 and return to 1.9 percent in 2023.

Chart 7.9: Inflation forecast over the forecast horizon (Q1 2022 - Q4 2023)*



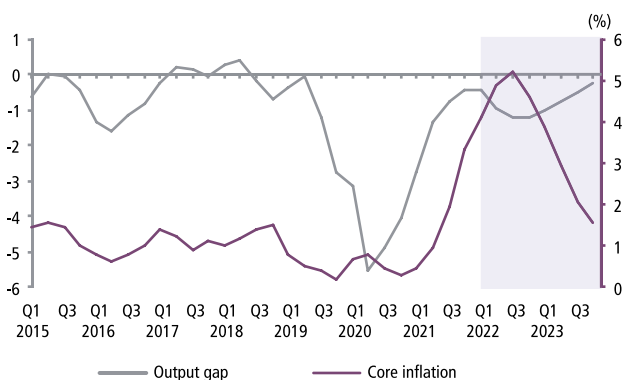
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Table 7.4: Inflation and core inflation

	Actual rates				Forecasts			Gap (March/dec.)	
	2018	2019	2020	2021	2022	2023	Horizon of 8 quarters (Q1 2022-Q4 2023)	2022	2023
Inflation	1.6	0.2	0.7	1.4	4.7	1.9	3.3	2.6	0.5
Core inflation	1.3	0.5	0.5	1.7	4.7	2.6	3.6	2.0	0.8

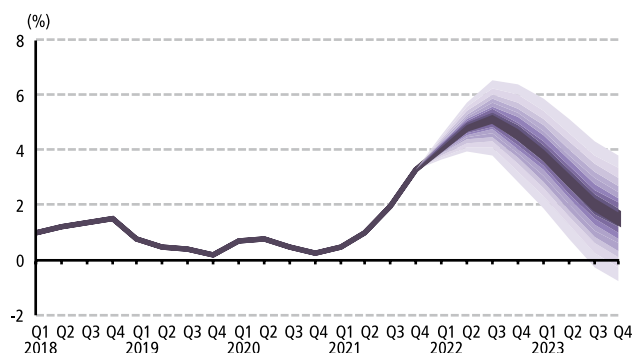
Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap



Sources: HCP data, and BAM forecasts and calculations.

Chart 7.11: Projections of core inflation over the forecast horizon (Q1 2022 - Q4 2023)*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

7.3 Balance of risks

This forecasting is undertaken amid strong uncertainties and significant risks related to the Russian-Ukrainian conflict and its implications. These tensions exacerbate the surge in commodity prices following the pandemic, further weaken the economic recovery and amplify inflationary risks. The materialisation of these risks can significantly affect the central scenario of the macroeconomic projections. Thus, the balance of risks is tilted to the downside for growth and to the upside for inflation.

As for growth, and despite the progress made in vaccination, the end of the «Omicron» wave, the maintenance of the accommodating monetary policy stance as well as the expected positive effects of the operationalisation of the Mohammed VI Fund for Investment, downside risks surround the central trajectory of the growth forecasts. These risks relate, on the international level, to deterioration in foreign demand, particularly from the euro zone, and to the rise in commodity prices.

As regards the inflation outlook, upside risks dominate. Indeed, the intensification of energy and food commodity prices, in the case of the prolongation of the Russian-Ukrainian crisis and the implementation of sanctions against Russia, the increase in freight costs, and the persistence of bottlenecks in global supply chains could lead to a stronger and more persistent increase than expected in consumer prices. Similarly, adverse weather conditions and water stress are likely to weigh on the prices of volatile food products.

LIST OF ABBREVIATIONS

ANCFCC	: National Land Registry Office
APC	: Cement manufacturers professional association
AMMC	: Autorité Marocaine des Marchés de Capitaux (Moroccan Capital Markets Authority)
BAM	: Bank Al-Maghrib
CFG	: Casablanca Finance Group
CNSS	: Caisse nationale de sécurité sociale (National Social Security Fund)
CPI	: Consumer Price Index
CPIX	: Core inflation indicator
CPIXNT	: Consumer price index of nontradables
CPIXT	: Consumer price index of tradables
CT	: Corporate tax
CUR	: Capacity utilization rate
DAP	: Diammonium Phosphate
DCT	: Domestic consumption tax
DH	: Dirham
ECB	: European Central Bank
ESI	: Economic Sentiment Indicator (Indicateur de climat économique)
FA	: Finance Act
FDI	: Foreign direct investments
FISIM	: Financial intermediation services indirectly measured
GCC	: Gulf Cooperation Council
GDP	: Gross domestic product
HCP	: High Commission for Planning
IMF	: International Monetary Fund
IPI	: Import price index
IPPI	: Industrial producer price index
IT	: Income tax
MASI	: Moroccan All Shares Index
MPR	: Monetary Policy Report
MSCI EM	: Morgan Stanley Capital International, Emerging Markets
NPL	: Nonperforming loans
OCP	: Office chérifien des phosphates (Moroccan Phosphates Office)
OECD	: Organization for Economic Cooperation and Development
ONEE	: Office national d'électricité (National Electricity Office)
OPEC	: Organization of the Petroleum Exporting Countries
PER	: Price Earning Ratio
PMI	: Purchasing Managers Index
REPI	: Real estate price index

SMIG	: Salaire Minimum Interprofessionnel Garanti (minimum wage)
TEFD	: Treasury and External Finance Department
TSA	: Treasury special accounts
TSP	: Triple superphosphate
QoQ	: Quarter-on-quarter
YoY	: Year-on-year
UCITS	: Undertakings for collective investment in transferable securities
UPC	: Unit production cost
VA	: Value added
VAT	: Value added tax

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