BANK AL-MAGHRIB

MONETARY POLICY REPORT

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FOREWORD

By virtue of Article 6 of Law No. 40-17 on the Statutes of Bank Al-Maghrib, promulgated by the Royal Decree No. 1-19-82 , dated 21 June 2019 (17 Chaoual 1440 A.H.), "The Bank shall define and conduct monetary policy with full transparency and within the economic and financial policy of the Government. The main objective of the Bank 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 inflation moderate and stable 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 impact on interest rates across the different markets, the expectations of economic units and 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 period of time, 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 many satellite models. The central forecasting model used is the semi-structural New-Keynesian one, which relies both on the theoretical underpinnings underlying the general-equilibrium models and on adjustment to the 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.

Bank Al-Maghrib Board members (Article 26 of the Statutes of Bank Al-Maghrib)

The Governor, Chairman

The Director General

The 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, December 15, 2020

The Board of Bank Al-Maghrib held its last quarterly meeting of the year 2020 on Tuesday, December 15.

1. During this meeting, the Board analysed national and international economic developments and the Bank›s medium-term macroeconomic projections updated on the basis of the latest available data, of the recent developments related to the evolution of the pandemic and the authorities› reaction, as well as of the orientations of the 2021 Finance law.

2. The Board also inquired about the transmission of the latest monetary policy decisions and reviewed the updated record of the various support and stimulus measures put in place since the outbreak of the pandemic.

3. In view of all these assessments, the Board considered that the monetary policy stance is widely accommodative, ensuring an adequate financing of the economy. It thus deemed the present level of the key rate appropriate and decided to keep it unchanged at 1.5 percent.

4. The Board noted that after weakening in the second quarter, inflation accelerated sharply from August onwards, driven mainly by the surge in volatile food prices. However, it is expected to end the year at an average of 0.7 percent, remaining almost stable in 2021 before reaching 1.3 percent in 2022, mainly as a result of the expected improvement in domestic demand.

5. Internationally, despite signs of recovery and the optimism generated by the progress made in the Covid-19 vaccines, the health crisis continues to impact the global economy, particularly as a result of the restrictions put in place in several countries in order to contain the resurgence of infections. The world economy is thus expected to end the year with a 4.2 percent contraction, before rebounding by 5.8 percent in 2021 and then growing by 3.4 percent in 2022. In the main advanced countries, United States GDP would show a 3.5 percent drop in 2020, followed by a rise of 4.6 percent in 2021 and 2.5 percent in 2022. In the euro area, economy is expected to contract by 7.9 percent this year then, supported in particular by the recovery instrument "Next Generation EU", grow by 4.1 percent in 2021 and 2.5 percent in 2022. In the labour markets, unemployment has risen sharply in the United States and is expected to end the year with an average rate of 8.1 percent, before falling to 6.7 percent in 2021 and 6.3 percent in 2022. In the euro area, the impact of the pandemic is expected to remain contained, owing to the job retention measures. Unemployment rate would thus increase slightly to 7.9 percent in 2020 and 8.1 percent in 2021, before falling back to 6.8 percent in 2022. In the main emerging economies, China is performing remarkably well, with GDP projected to grow by 1.4 percent this year, 8.3 percent in 2021 and 5 percent in 2022. By contrast,

India's economy is expected to shrink by 10.1 percent this year, then rebound by 11.5 percent in 2021 and slow down moderately to 7.2 percent in 2022.

6. In the commodity markets, oil prices have been on an upward trend in recent weeks but are expected to fall sharply for the year as a whole. In particular, the Brent price is projected to drop by 34.5 percent compared to 2019 to average 41.9 dollars a barrel, before rising to 52.4 dollars in 2021 and 58.1 dollars in 2022. For phosphate and its derivatives, prices were down over the first eleven months of the year, and fell by 15.6 percent to $75.4 per tonne on average for rock phosphate, by 2.3 percent to $305.5 for DAP and by 13.1 percent to $260 for TSP. For the next two years, the World Bank October projections predict slight increases.

7. In this context, inflation in the euro area would remain well below the ECB target, at 0.3 percent in 2020, 0.6 percent in 2021 and 1.2 percent in 2022. In the United States, it would slow down to 1.3 percent in 2020, then accelerate to 2.4 percent in 2022.

8. As regards the monetary policy stance in the major advanced economies, it remains highly accommodative. Thus, the ECB, while keeping its key rates unchanged, has decided, at the end of its meeting on December 10, to recalibrate its other instruments, thereby raising the envelope of its Pandemic Emergency Purchase Programme (PEPP) by €500 billion and easing the conditions for the implementation of several of its measures, particularly by extending their implementation period (PEPP, TLTRO III, collateral easing measures adopted on April 7 and 22, 2020, ...). It also stated that it will continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term price stability outlook. Meanwhile, the FED decided, at its meeting on November 4 and 5, to keep the target range for the federal funds rate unchanged at [0 percent-0.25 percent]. It plans to maintain this target range until labour market conditions have reached levels consistent with the Committee's assessments of maximum employment and until inflation has risen to 2 percent and is on track to moderately exceed this rate for some time. In addition, it will increase its purchases of securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

9. At the national level, the HCP data for the last two quarters highlight the scale of the double shock borne by the national economy as a result of the pandemic and the unfavourable climatic conditions which marked the previous agricultural season. In fact, GDP contracted in the second quarter by 14.9 percent year-on-year, reflecting a value-added drop of 15.5 percent for non-agricultural activities and 6.9 percent for agricultural ones. On the labour market, a net loss of 581 thousand jobs was recorded in the third quarter compared with the same quarter of 2019. Taking into account a net outflow of 214 thousand job seekers, the participation rate fell from 44.9 percent to 43.5 percent and the unemployment rate deteriorated from 9.4 percent to 12.7 percent.

10. After this sharp decline of activity in the second quarter, post-lockdown recovery remains slow and partial, namely due to the local and sectoral restrictions set up to contain the upsurge in

contaminations, and to the uncertainties surrounding the evolution of the pandemic, both nationally and internationally. Thus, for 2020 as a whole, national economy would shrink by 6.6 percent, with a 5.3 percent drop of agricultural value added and a 6.6 percent fall of non-agricultural one. In the medium term, owing mainly to improved household incomes and to investment-supporting measures, growth of non-agricultural activities would reach 3.3 percent in 2021 and build up to 3.6 percent in 2022. On the other hand, assuming that annual cereal harvests would reach 75 million quintals, agricultural value added is projected to increase by 13.8 percent in 2021 and 2 percent in 2022. All in all, Bank Al-Maghrib forecasts a growth rebound to 4.7 percent in 2021 and further momentum to 3.5 percent in 2022. Although this scenario is surrounded by a high degree of uncertainty, the balance of risks is expected to be on the rise, in view of the recent developments, mainly including the large-scale Covid-19 vaccination initiative, both nationally and in several partner countries, as well as the creation of a strategic fund dedicated to investment.

11. With regard to external accounts, data at end-October show an almost general decline in the exchange of goods. Thus, exports fell by 10.1 percent, driven in particular by lower sales in the automotive and textile sectors, and imports dropped by 16.6 percent, particularly due to the contraction recorded in the purchases of capital goods and finished consumer products as well as in the energy bill. For the other main current operations, travel receipts fell by 60.3 percent whereas transfers from Moroccans living abroad showed notable resilience with a 1.7 percent rise. Taking these developments into account, the current account deficit would be almost stable at 4.2 percent of GDP in 2020. Over the forecast horizon, the recent recovery in exports would consolidate, driven mainly by sales in the automotive sector following the production ramp-up announced by the PSA plant. At the same time, the pace of imports would accelerate, with higher purchase of capital goods and a heavier energy bill following the expected rise in international oil prices. Travel revenues would experience a gradual recovery while remaining below the 78.8 billion dirhams observed in 2019. They would therefore rise from 29 billion in 2020 to 49.9 billion in 2021 and then to 72 billion in 2022. As for transfers of Moroccans living abroad, which would remain almost stable at 65.8 billion dirhams in 2020, they are projected to strengthen to 70 billion and then to 71.4 billion dirhams. Under these conditions, the current account deficit would narrow to 3.3 percent of GDP in 2021 and stand at 3.9 percent in 2022. Regarding financial operations, FDIs inflows, which declined to the equivalent of 2.3 percent of GDP this year, are expected to regain momentum to reach a volume corresponding to 3.1 percent of GDP annually. Overall, and taking particularly into account the Treasury issues on the international market this year and those planned for 2021 and 2022, official reserve assets would stand at 321.9 billion at end 2020 and evolve around this level over the next two years, thus providing coverage of a little more than 7 months of imports of goods and services.

12. Monetary conditions are still marked by the continued decline in lending rates following the key rate cuts operated last March and June. The overall average lending rate thus recorded a quarterly decline of 28 basis points to 4.30 percent in the third quarter, benefitting both households and businesses, particularly VSMEs. On the other hand, despite the sharp contraction in economic activity, bank credit is expected to maintain a sustained pace, supported by fiscal and monetary measures, as loans

to the non-financial sector would rise by 4.3 percent this year and in 2021 and by 4.5 percent in 2022. The real effective exchange rate would appreciate by 0.4 percent this year, whereas in 2021, it would fall by 1.2 percent as a result of a 0.9 percent fall in the nominal value of the dirham and a lower level of domestic inflation compared to trading partners and competitor countries. In 2020, this rate is projected to stabilize.

13. Concerning public finance, budget execution for the first eleven months has ended in a non-privatization deficit of 59.2 billion dirhams, thus widening by 14.2 billion dirhams compared to the same period in 2019, taking into account the positive balance of 8.3 billion dirhams of the Special Fund for the Covid-19 Pandemic Management. Overall expenditure increased by 1.9 percent, mainly reflecting higher expenditure on other goods and services as well as on the wage bill. On the other hand, ordinary revenues excluding privatization decreased by 6.3 percent, mainly as a result of a 7.6 percent decline in tax revenues. For the year as a whole, the non-privatization deficit is projected to stand at 7.7 percent of GDP according to Bank Al-Maghrib projections. In the medium term, taking into account the data of the 2021 Finance law, and assuming continued mobilization of specific financing, fiscal consolidation would gradually resume, and the non-privatization deficit would decline to 6.5 percent of GDP in 2021 and 6.4 percent in 2022. On the other hand, direct debt of the Treasury would increase by 11 GDP points to 76 percent at the end of this year and reach 79.3 percent of GDP by the end of 2022.

14. Finally, the Board approved the Bank's budget for 2021 as well as the foreign reserves investment strategy. It also set the dates of its meetings for the same year in March 23, June 22, September 28, and December 21.

OVERVIEW

After an exceptional contraction in the second quarter of the year, the global economy began to show signs of recovery in the third quarter with the easing of restrictions imposed to contain the pandemic. Indeed, national accounts data show a strong attenuation of the decline in GDP, at -2.9 percent from -9 percent in the United States, at -4.4 percent from -14.8 percent in the euro area, at -9.6 percent from-21.5 percent in the United Kingdom and at -5.9 percent from -10.3 percent in Japan. In China, the economy continued to perform remarkably well with growth at 4.9 percent, while in India the contraction of the economy eased from -22.8 percent to -7 percent.

In the labor markets, the Covid-19 pandemic weighed heavily on employment in the major advanced economies, although there has been a relative improvement in recent months in some of them. In the United States, the unemployment rate fell to 6.7 percent in November from 6.9 percent in October, while in the euro area it eased from 8.5 percent in September to 8.4 percent in October. In the United Kingdom, the latest available data for August indicate a worsening to 4.8 percent.

Buoyed by reinforced optimism following the encouraging news about Covid-19 vaccines, stock markets rallied in November. The EuroStoxx 50 appreciated by 5.3 percent month-on-month, the Dow Jones Industrial rose by 3.2 percent, the FTSE 100 by 5.4 percent and the Nikkei 225 by 6.2 percent. As for sovereign debt securities, their yields increased, between October and November, by 10 basis points to 0.9 percent for the United States, and remained virtually unchanged at -0.6 percent for Germany, -0.4 percent for France and 0.7 percent for Italy.

On the foreign exchange markets, the euro continued its upward trend against the dollar, rising 0.3 percent in November to 1.18 dollar. The euro's appreciation against the dollar continued in November. Conversely, the European currency depreciated by 1 percent against the pound sterling and by 0.4 percent against the Japanese yen. Concerning the currencies of the main emerging countries, the Chinese yuan and the Brazilian real rose against the dollar by 1.7 percent and 2.9 percent respectively, while the Indian rupee depreciated by 1 percent and the Turkish lira by 0.5 percent.

As for the commodity markets, driven by the optimism relating to the development of vaccines against Covid-19, the price of Brent crude rose 6.8 percent between October and November to 43.2 dollar per barrel. On the phosphate and derivatives market, prices showed diverging trends in November, with monthly increases of 3.1 percent to an average of 82.5 dollar per tonne for rock phosphate, 0.7 percent to 359.6 dollar per tonne for DAP and 0.9 percent to 292.5 dollar per tonne for TSP, as well as a stagnation at 245 dollar per tonne for Urea and at 202.5 dollar per tonne for potassium chloride.

Against this background, inflation stabilized in November at 1.2 percent in the United States and, according to a first Eurostat estimate, at -0.3 percent in the euro area. In the United Kingdom, it accelerated to 0.7 percent in October from 0.5 percent in September.

Concerning monetary policy decisions, the ECB decided, following its December 10 meeting, to keep its main interest rates unchanged and recalibrated its quantitative easing measures in light of the resurgence of the pandemic and its economic repercussions. It increased the envelope for the Pandemic Emergency Purchase Programme (PEPP) by 500 billion euros, bringing it to 1.850 billion euros, and extended the horizon for these net purchases at least until the end of March 2022 and, in any case, until it deems that the Covid-19 crisis is over. At the same time, the reinvestment of principal repayments of maturing securities acquired under this program is extended at least until the end of 2023.

For its part, the FED decided, at its meeting held on November 4 and 5, to keep the target range for the federal funds rate unchanged at [0 percent-0.25 percent]. It projects that it would be appropriate to keep it at that level until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed that rate for some time.

At the domestic level, the latest national accounts data for the second quarter of 2020 highlight the scale of the double shock caused by the Covid-19 pandemic outbreak and the adverse weather conditions. Indeed, GDP contracted by 14.9 percent in volume, as against a rise by 2.4 percent a year earlier, masking a decline of 15.5 percent, instead of an increase of 3.7 percent, in non-agricultural value and a decline of 6.9 percent, after that of 6 percent, in agricultural value. On the demand side, household consumption fell by 21.2 percent and investment contracted by 10.2 percent, while government spending improved by 5.8 percent. As for net exports, their negative contribution to growth eased to -0.6 point.

This underperformance was reflected in the situation of the labor market, which posted a net loss of 581 thousand jobs in the third quarter compared with the same quarter of 2019. In addition, the hourly volume of work fell by 14.6 percent, equivalent to 1.46 million full-time jobs. Taking into account a net outflow of 214 thousand job seekers, the activity rate fell from 44.9 percent to 43.5 percent and the unemployment rate worsened from 9.4 percent to 12.7 percent overall, from 12.7 percent to 16.5 percent in cities and from 4.5 percent to 6.8 percent in rural areas.

In terms of foreign trade, data as at end-October show year-on-year declines of 10.1 percent in exports and 16.6 percent in imports. As a result, the trade deficit narrowed by 44.2 billion dirhams to stand at 128.5 billion and the coverage rate rose from 57.9 percent to 62.4 percent. As for the other main items of the current account, travel receipts fell by 60.3 percent to 26.6 billion dirhams, while transfers of Moroccans living abroad (MLA) improved by 1.7 percent to 55.8 billion dirhams. With regard to the main financial operations, net FDI inflows declined by 31.2 percent to 11.7 billion and the net flow of Moroccan direct investments abroad declined by 56.3 percent to 3.6 billion. Taking into account, in particular, external drawings by the Treasury, totaling 32 billion at end-October, official reserve assets reached 292.7 billion dirhams, representing the equivalent of 7 months and 12 days of imports of goods and services.

This growth in international reserves and the expansion by 22.5 percent of currency in circulation over the same period led to an increase in banks' liquidity needs to 102.2 billion dirhams as a weekly average during the third quarter instead of 95.9 billion dirhams a quarter earlier. Under these conditions, Bank Al-Maghrib increased the amount of its injections to 111.8 billion dirhams. Monetary conditions were also characterized, following the drops in the key rate made last March and June, by a further fall in lending rates in the third quarter, with a quarterly decline of the overall average lending rate by 28 basis points to 4.30 percent. This decrease benefited both households and businesses, particularly SMEs, for which a 74-point reduction was observed. As for the effective exchange rate, it appreciated by 1.83 percent in nominal terms and 3.65 percent in real terms. As for loans to the non-financial sector, supported by the measures taken by the Economic Monitoring Committee and BAM's easing policy, they maintained a sustained pace of 5.6 percent year-on-year from 6.2 percent a quarter earlier. This trend mainly reflects a deceleration in lending to private companies to 8.4 percent from 10.1 percent and a consolidation of the rebound in lending to state-owned businesses to 4.9 percent from 1.3 percent. Concerning loans to individuals, they fell from 2.8 percent to 2.5 percent, with a further slowdown by 2.4 percent from 0.1 percent in consumer loans and a slight improvement from 2.3 percent to 2.8 percent in housing loans.

With regard to public finances, budget execution for the first eleven months of 2020 shows a deficit, excluding privatization, of 59.2 billion dirhams, as against 45 billion dirhams a year earlier, taking into account the positive balance of 8.3 billion dirhams of the Special Fund for the Management of the Covid-19 pandemic. This evolution is mainly attributed to a 6.3 percent drop in ordinary revenues to 217.2 billion dirhams, impacted by a 7.6 percent contraction of tax revenues, while non-tax revenues increased by 9.1 percent. On the expenditure side, the wage bill increased by 5.5 percent and expenditure on other goods and services rose by 8.2 percent, while subsidy costs fell by 5.1 percent. Capital spending decreased by 4.1 percent to 55.5 billion, bringing the total to 287.1 billion, an increase of 1.9 percent. Taking into account the 1.4 billion reduction in the stock of pending transactions, the Treasury's cash deficit, excluding privatization, stood at 60.6 billion, compared with 53.3 billion at end-November 2019. This shortage was covered by net domestic resources of 47.2 billion and net external financing of 13.4 billion. The stock of direct public debt is projected to have increased by 9.6 percent compared to its December 2019 level. Treasury financing conditions remained favorable, with a decline in the weighted average rates of securities issued by auction.

At the level of the asset market, real estate prices posted a quarterly increase of 3.6 percent in the third quarter of 2020 and the number of transactions increased by 117.6 percent, resuming therefore their pre-crisis levels. In the Casablanca Stock Exchange, the MASI reported a quarterly decline of 1.8 percent, mainly as a result of decreases in the sector indices of 2.2 percent for "telecommunications" and 3.9 percent for "agri-food sector". Since the beginning of the year, its under-performance stands at 17.9 percent, with in particular declines of 16.5 percent for banks, 42.5 percent for real estate and 35.2 percent for leisure and hotels. As for the volume of transactions, it fell to 4.7 billion dirhams, after 12.8 billion dirhams in the second quarter and market capitalization posted a 1.1 percent drop from one quarter to the next, reaching 517.9 billion dirhams.

As to the change in consumer prices, after a stagnation of the price index in the second quarter, inflation rose to 0.7 percent in the third quarter before reaching 1.3 percent in October. The latter rise is attributable to a 7.8 percent increase in volatile food prices and a 1.9 percent increase in regulated tariffs. On the other hand, prices of fuels and lubricants fell further to 16 percent, following the decline in international prices of oil products. As to core inflation, it weakened significantly to 0.2 percent in October from 0.5 percent on average between July and September, in a context of sluggish demand.

In terms of outlook, the global economy continues to suffer from the negative effects of the Covid-19 crisis, particularly with the restrictions imposed in several countries to stem the second wave of contamination, despite the signs of recovery and the optimism generated by the development and effectiveness of Covid-19 vaccines.

The US economy is expected to contract by 3.5 percent in 2020, before returning to growth rate levels of 4.6 percent in 2021 and 2.5 percent in 2022. In the euro area, GDP would decline by 7.9 percent this year and, supported in particular by the new €750 billion "Next Generation EU" stimulus package, would grow by 4.1 percent in 2021 and 2.5 percent in 2022. In the United Kingdom, already weakened by Brexit, the economy is expected to post a historic recession of 11.6 percent in 2020 followed by a limited improvement of 3.6 percent in 2021 and 2.5 percent in 2022.

On the labor markets, unemployment in the United States is expected to rise sharply to 8.1 percent in 2020 before falling to 6.7 percent in 2021 and 6.3 percent in 2022. In the euro area, the impact of the pandemic is expected to remain contained due to the use of job preservation measures. The unemployment rate is expected to rise slightly to 7.9 percent in 2020, then to 8.1 percent before dropping to 6.8 percent in 2022.

As to the main emerging countries, growth in China is expected to remain positive, averaging 1.4 percent in 2020, and would accelerate to 8.3 percent in 2021 and to 5 percent in 2022. In contrast, India is expected to post a 10.1 percent contraction of its GDP this year, followed by a 11.5 percent rebound in 2021 and a slowdown to 7.2 percent in 2022. In Brazil, where budget difficulties continue to hamper the recovery of economic activity, GDP is expected to decline by 6 percent in 2020 and the recovery will be limited over the medium term, with growth at 3.7 percent in 2021 and 2.9 percent in 2022.

On the commodity markets, oil prices would decline, with an average price of $41.9 a barrel for Brent oil in 2020, down 34.5 percent year-on-year, before rising to $52.4 a barrel in 2021 and $58.1 a barrel in 2022. Similarly, the price of rock phosphate would decline by 14.7 percent to $75/ton in 2020, then rise to $78 in 2021 and $81 in 2022, while the price of DAP would increase by 1.2 percent to $310/ton in 2020, then continue to rise to $326 in 2022. As for food prices, they are expected to continue to rise with rates projected at 2.1 percent in 2020, 4.6 percent in 2021 and 1.1 percent in 2022.

Under these conditions, inflation would remain low in the advanced economies, standing in the euro area in particular at levels well below the ECB's target of 0.3 percent in 2020 before rising to 0.6 percent in 2021 and then to 1.2 percent in 2022. In the United States, it would slow down to 1.3 percent in 2020 and then accelerate to an average of 2.4 percent in 2022.

At the domestic level, the economic outlook remains surrounded by a high level of uncertainty related to the evolution of the pandemic and the logistics of implementing covid-19 vaccine initiatives in Morocco and its main economic partners, as well as climatic conditions.

In terms of external accounts, exports of goods are expected to decline by 9 percent in 2020 and should return to growth with rates projected at 9.7 percent in 2021 and 6.8 percent in 2022. At the same time, imports of goods are expected to fall by 14.3 percent this year, driven mainly by a drop in the energy bill and a significant decrease in capital goods purchases, before rising by 9.1 percent in 2021 and 9.7 percent in 2022. As for travel receipts, they would decline by 63.2 percent to 29 billion dirhams in 2020 before posting a gradual recovery, reaching 49.9 billion in 2021 and 72 billion in 2022. For their part, transfers of MLA, more resilient to the crisis, would increase by 1.6 percent to 65.8 billion in 2020, 6.3 percent to 70 billion in 2021 and 2 percent to 71.4 billion in 2022. Assuming grant inflows of 4.3 billion dirhams in 2020, 4.4 billion in 2021 and 1.6 billion in 2022, the current account deficit would remain almost stable at 4.2 percent of GDP in 2020 before easing to 3.3 percent in 2021 and to 3.9 percent of GDP in 2022. FDI inflows would stand around the equivalent of 2.3 percent of GDP in 2020, compared to 2.9 percent of GDP in 2019, before returning to their pre-crisis average of 3.1 percent of GDP. Taking into account in particular the borrowings made by the Treasury on the international market this year and those planned for 2021 and 2022, official reserve assets would stand at 321.9 billion at the end of 2020 and would evolve around this level over the next two years, thus providing coverage of just over 7 months of imports of goods and services.

In view of these developments and those projected for cash circulation, the deficit in bank liquidity would reach 65.3 billion dirhams at end-2020, 85.2 billion dirhams at end-2021 and 112 billion dirhams for 2022. Concerning monetary conditions, the real effective exchange rate should appreciate by 0.4 percent in 2020, as a result of a rise of the dirham against the US dollar and the currencies of some emerging countries, notably the Chinese yuan and the Turkish lira. Over the remainder of the forecast horizon, the real effective exchange rate would depreciate by an average of 0.6 percent, due to a nominal depreciation against the euro in particular and a lower level of domestic inflation compared to trading partner and competitor countries. As for bank credit to the non-financial sector, and taking into account the expected impacts of the Intelaka program and the support and stimulus measures, it should grow by 4.3 percent this year and in 2021 and by 4.5 percent in 2022.

On the public finance side, fiscal deficit, excluding privatization receipts, would stand at 7.7 percent of GDP in 2020 before gradually declining to 6.5 percent of GDP in 2021 and 6.4 percent of GDP in 2022.

Due to the combined effect of the Covid-19 pandemic and unfavorable climatic conditions, the domestic economy would shrink by 6.6 percent in 2020, with a decline of 5.3 percent in agricultural value added and 6.6 percent in non-agricultural value added. This forecast has been adjusted downwards compared to September, in light of the second quarter's results, which were more unfavorable than expected. In 2021, growth would rebound to 4.7 percent, with a 13.8 percent increase in agricultural value added, assuming in particular a crop harvest 75 MQx, and a 3.3 percent improvement in non-agricultural value added. In 2022, it should consolidate at 3.5 percent.

Against this backdrop, inflation is expected to rise to 0.7 percent for 2020 as a whole, driven mainly by the expected rise in volatile food prices, and to stabilize at 0.6 percent in 2021 before picking up to 1.3 percent in 2022.

Its underlying component would remain at 0.5 percent in 2020 and gradually accelerate to 1.5 percent in 2022. The balance of risks appears to be tilted to the upside for both growth and inflation. With regard to growth, a possible acceleration of the pandemic at both domestic and international level could trigger a greater than expected impact on the economy's output capacity and on the confidence of economic operators and could result in a less than expected recovery of economic activity. On the other hand, announcements about the efficacy of the first vaccines developed against Covid-19 and the large-scale immunization initiative both in Morocco and among several of its economic partners have boosted optimism about a more rapid recovery of the economy, although the logistics of its implementation remain a major challenge. In addition, the strategic fund dedicated to investment could induce greater than expected positive effects on the confidence of economic operators and on growth. At the same time, agricultural production for the current season, which is largely dependent on the weather conditions that will prevail over the coming months, represents an internal risk factor for growth. As for inflation, downside risks could persist, particularly in conjunction with a more lasting impact of the pandemic on domestic demand. The uncertainties surrounding the medium-term estimate of the scale of the dual supply and demand shock underlying price developments at both the domestic and international levels are, however, significant. Upward pressure on the prices of some products could come from supply chain disruptions, higher production costs, or low domestic agricultural output.

1.INTERNATIONAL DEVELOPMENTS

The global economy is gradually recovering from the health crisis. The easing of restrictions imposed to counter the pandemic has led to an improvement in economic activity, with third-quarter national accounts data showing a marked attenuation of the decline in GDP in the United States, the euro area, the United Kingdom, and Japan. Among the main emerging countries, China again stood out with its stronger growth and India recorded an attenuation of the drop in its GDP, while the second quarter figures show a significant contraction in activity in Brazil and Russia. On the labor market, the unemployment rate in the United States continued its downward trend to reach 6.7 percent in November, although job creation slowed sharply. The financial markets were marked by a significant rise in the stock market indexes of the main advanced and emerging economies, mainly due to the promising announcements of vaccines against Covid-19. On the commodity markets, the price of Brent oil rose in November, driven in particular by improved prospects following the encouraging results for the vaccine. Similarly, prices of non-energy products went up year-on-year, driven by the prices of metals and minerals and agricultural products. Inflation remained low in the advanced economies, particularly in the euro area, Japan, and the United Kingdom.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, the easing measures implemented in the third quarter had a positive impact on growth. Thus, after a 9 percent decline in GDP in the second quarter, it fell by only 2.9 percent year-on-year, due in particular to a strengthening of private consumption and investment. Similarly, the euro area economy posted a less severe contraction, with GDP dropping 4.4 percent year-on-year in the third quarter after a 14.8 percent decline in the previous quarter, in line with the recovery in domestic and external demand. By country, growth stood at -4 percent in Germany from -11.2 percent in the second quarter, and at -3.9 percent in France from -18.9 percent. In Spain, GDP fell by 8.7 percent from a 21.5 percent decline and in Italy, it was down 5 percent after a contraction of 18 percent in the previous quarter. Similarly, in the United Kingdom, third-quarter data show that GDP decline eased from 21.5 percent to 9.6 percent, mainly as a result of a less marked drop in household consumption and private and public investment. Similarly, in Japan, GDP shrank by 5.9 percent in the third quarter, less than the 10.3 percent contraction observed a quarter earlier, reflecting in particular an improvement in private consumption and foreign demand for the country products and services.

Table 1.1: YoY change in quarterly growth

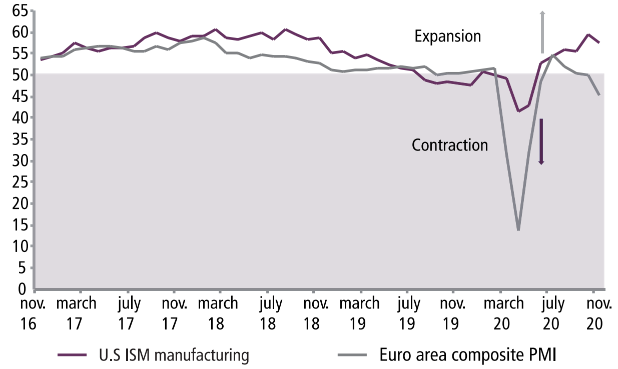
	2018				2019				2020		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Advanced economies											
United States	**3.1**	**3.3**	**3.1**	**2.5**	**2.3**	**2.0**	**2.1**	**2.3**	**0.3**	**-9.0**	**-2.9**
Euro area	**2.6**	**2.2**	**1.6**	**1.2**	**1.5**	**1.3**	**1.4**	**1.0**	**-3.3**	**-14.8**	**-4.4**
France	2.4	1.9	1.6	1.4	1.8	1.8	1.6	0.8	-5.7	-18.9	-4.3
Germany	2.2	2.0	0.8	0.3	1.1	0.1	0.8	0.4	-2.1	-11.2	-4.2
Italy	1.4	1.1	0.6	0.2	0.4	0.4	0.5	0.1	-5.6	-18.0	-5.0
Spain	2.9	2.3	2.3	2.3	2.2	2.1	1.8	1.7	-4.2	-21.5	-8.7
United Kingdom	**1.1**	**1.2**	**1.4**	**1.2**	**1.7**	**1.3**	**1.0**	**1.0**	**-2.1**	**-21.5**	**-9.6**
Japan	**0.9**	**1.0**	**-0.4**	**-0.3**	**0.8**	**0.9**	**1.8**	**-0.7**	**-1.9**	**-10.3**	**-5.9**
Emerging economies											
China	**6.9**	**6.9**	**6.7**	**6.5**	**6.4**	**6.2**	**6.0**	**6.0**	**-6.8**	**3.2**	**4.9**
India	**7.6**	**7.0**	**6.1**	**5.6**	**5.6**	**4.8**	**4.3**	**3.5**	**3.0**	**-22.8**	**-7.0**
Brazil	**1.5**	**1.1**	**1.5**	**1.2**	**0.6**	**1.1**	**1.2**	**1.7**	**-0.3**	**-11.4**	**n.d**
Turkey	**7.5**	**5.8**	**2.5**	**-2.7**	**-2.6**	**-1.7**	**1.0**	**6.4**	**4.4**	**-9.9**	**6.7**
Russia	**2.2**	**2.6**	**2.5**	**2.8**	**0.4**	**1.1**	**1.5**	**2.1**	**1.6**	**-8.0**	**n.d**

Source : Thomson Reuters.

In the major emerging economies, China is an exception, with growth consolidating at 4.9 percent in the third quarter from 3.2 percent a quarter earlier, against a backdrop of improving global demand for medical equipment and teleworking technologies. At the same time, India benefited from strong demand in the festival season, which was reflected in the attenuation of its GDP drop from 22.8 percent to 7 percent. For the other main emerging economies, the data, which remain those of the second quarter, indicate a fall in GDP in Brazil by 11.4 percent, reflecting the weakening of activity in the services and manufacturing sectors. Similarly, in Russia, growth declined to -8 percent, mainly due to the drop in oil prices and the significant decline in the services sector.

In terms of high-frequency indicators, the composite PMI index for the euro area fell into negative territory, dropping to 45.1 points in November after 50 a month earlier. Similarly, the U.S. ISM manufacturing index fell from 59.3 in October to 57.5 in November.

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 labor markets, and despite some slight improvements, the Covid-19 pandemic continues to weigh on employment in the major advanced countries. In the United States, the unemployment rate continued to drop, falling to 6.7 percent in November from 6.9 percent in October. However, this decline was accompanied by a sharp slowdown in job creation, at 245,000 jobs in November compared to 610,000 a month earlier. In the euro area, unemployment slowed slightly to 8.4 percent in October, from 8.5 percent in the previous month, supported by job retention measures (Box 1.1.). By country, it stagnated at 4.5 percent in Germany, rose from 9.7 percent to 9.8 percent in Italy, and fell from 8.8 percent to 8.6 percent in France and from 16.3 percent to 16.2 percent in Spain. In the United Kingdom, the most recent data indicate an increase in unemployment from 4.5 percent in July to 4.8 percent in August.

Table 1.2: Change in unemployment rate (%)

(In%)	2018	2019	2020		
			sept.	oct.	nov.
United States	**3. 9**	**3. 7**	**7. 9**	**6. 9**	**6. 7**
Euro area	**8. 2**	**7. 6**	**8. 5**	**8. 4**	**N.D**
France	9. 1	8. 5	8. 8	8. 6	N.D
Germany	3. 4	3. 2	4. 5	4. 5	N.D
Italy	10. 6	10. 0	9. 7	9. 8	N.D
Spain	15. 3	14. 1	16. 3	16. 2	N.D
United Kingdom	**4. 0**	**3. 8**	**N.D**	**N.D**	**N.D**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

Stock markets rallied remarkably in November, buoyed by a surge of optimism following the encouraging news about vaccines. The EuroStoxx 50 appreciated by 5.3 percent month-on-month, the Dow Jones Industrial Average by 3.2 percent, the FTSE 100 by 5.4 percent, and the Nikkei 225 by 6.2 percent. Volatility eased in both Europe and the United States, with the VIX and VSTOXX declining respectively from 29.4 to 26.2 and from 27.9 to 25.

As for the indices of the main emerging economies, rises were reported for the MSCI EM by 5.1 percent, China by 4.1 percent, India by 2.4 percent, Brazil by 5.1 percent and Turkey by 7.5 percent.

Box 1.1: The use of short-time working schemes in response to the pandemic

Faced with the Covid-19 pandemic, most European countries chose to resort to active measures to preserve employment and support businesses. Job Retention Schemes (JRS), consisting of either a relaxation and/or strengthening of short-time working arrangements, have been among the main instruments adopted in order to limit job losses and the massive rise in unemployment. These programs allow businesses suffering from economic difficulties to temporarily reduce the number of worked hours, while maintaining a certain level of income for employees through government support[1]. This assistance can take the form of social transfers, as is the case in Spain and Germany, or the form of wage subsidies provided to employers to finance their payments to employees (the examples of France and Italy). The aim of these schemes is to preserve contracts with the employer even if work is suspended, so as to maintain the firm's human capital and avoid costly processes of dismissal, re-employment and training when economic conditions improve. In the case of France in particular, the short-time working scheme has two components. Firstly, the employer receives an allowance from the State equivalent to a share of the employee's pay when he is placed in part-time employment. Secondly, the employee receives from his employer a partial activity allowance equivalent to a share of his salary for the period during which he is placed in part-time employment. Thus, the scheme provides for an allowance paid to the employer of 60 percent of the previous gross salary, limited to 4.5 times the SMIC (minimum wage) with a minimum of 8.03 euros per hour. The allowance received by the employee corresponds to 70 percent of the previous gross salary (84 percent of the net salary).

Starting January 1, 2021, the allowance received by the employer from the State will be 36 percent, still limited to 4.5 times the SMIC, but this time with a floor of 7.23 euros per hour. As for the allowance received by the employee, as of January 1, it will be a minimum of 60 percent within the limit of 4.5 times the SMIC[2]. However, in the sectors particularly affected, namely tourism, catering, hotels, air transport, sports, culture and events, the allowance provided by the State will continue to cover 70 percent of the previous gross salary, and the allowance paid to the employee will be maintained at 70 percent, i.e. without any expenses for employers.

Table E.1.1.1: Compensation Level for short-time working

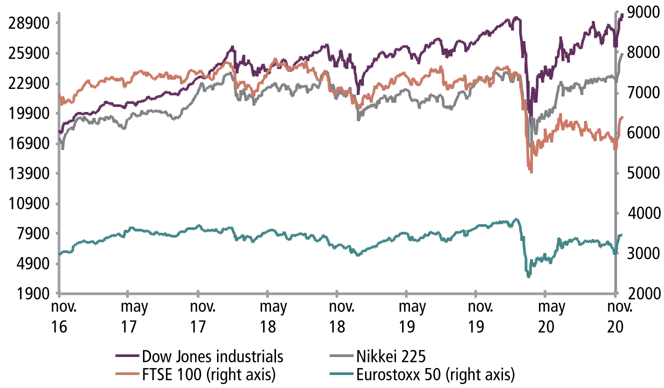
Country	Compensation, in % of net salary
France	84% of net insured salary (at least equal to the minimum wage
United Kingdom	80%
The Netherlands	90% of the salary
Belgium	70% (and an allowance of 6€ per day)
Spain	70%
Denmark	75% (limit 3.000€)
Germany	Between 60 and 67% of wages
Austria	Between 80% and 90% of wages will be covered

In addition, France provides for another long-term partial activity scheme (APLD) dedicated to companies facing a lasting drop in activity. In this case, the employer can benefit from it provided that a collective agreement[3] is concluded in which the employment commitments are specified.

1 Definition adopted by the European Commission (2020).
2 Workers earning less than the minimum wage will continue to receive an allowance equal to their previous earnings.
3 The negotiation of a collective agreement takes place between an employer or a group of employers and one or more trade unions and aims to determine the terms and conditions of employment.

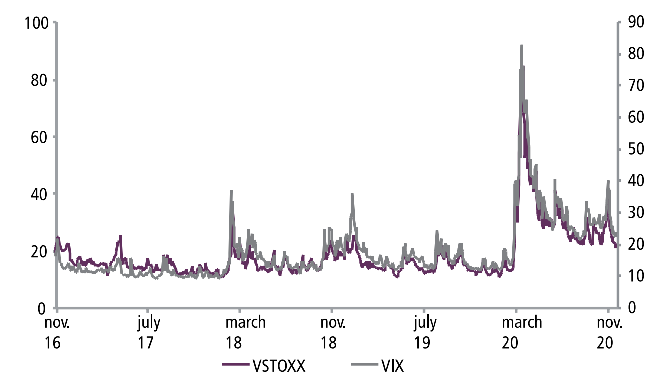
As part of the emergency programs put in place to deal with the crisis, the European Commission proposed in spring 2020 a new temporary tool to mitigate the risks of unemployment in emergency situations, called ''SURE". It is designed to support short-time working schemes and other similar measures and to help member states protect workers. It has a financing capacity of up to EUR 100 billion in the form of loans on favorable terms. By December 1 of this year, 18 member states had applied for support under this instrument and a total of 39.5 billion euros had been disbursed in three tranches. Italy received 16.5 billion euros, followed by Spain with 10 billion euros.

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



Source : Thomson Reuters.

Chart 1.3: Change in VIX and VSTOXX

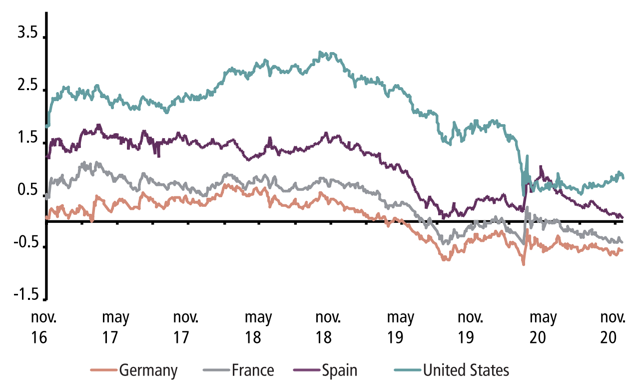


Source : Thomson Reuters.

On the bond markets, 10-year US Treasury bond yields rose 10 basis points (bps) to 0.9 percent between October and November, mainly due to the renewed appetite for risk. In the euro area, 10-year yields remained virtually unchanged at -0.6 percent for Germany, -0.4 percent for France and 0.7 percent for Italy, while they fell slightly to 0.1 percent for Spain.

For the main emerging economies, with the exception of China, where they increased by 6 bp to 3.3 percent, yields went down by 4 bp to 5.9 percent for India, 10 bp to 7.5 percent for Brazil and 51 bp to 12.8 percent for Turkey.

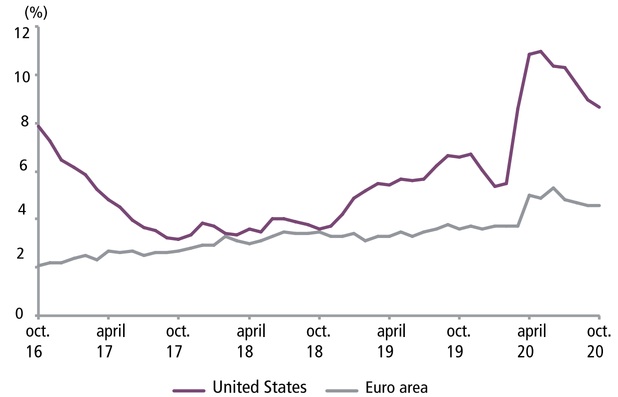
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters.

On the money markets, the 3-month Libor almost stabilized at 0.22 percent in November, while the Euribor of the same maturity decreased slightly from -0.51 percent to -0.52 percent. As for bank credit, it continued to slow down in the United States, from 9 percent in September to 8.7 percent in October, and remained at 4.6 percent in October in the euro area.

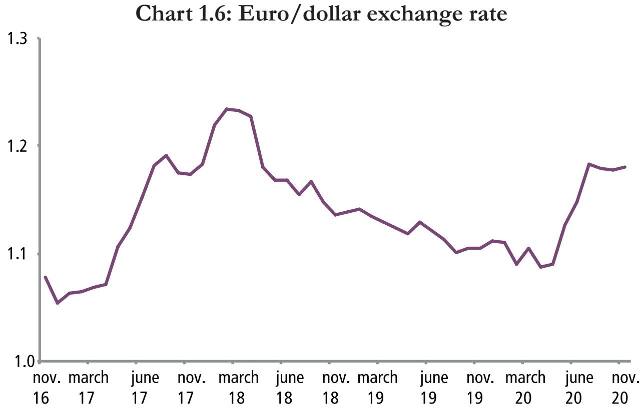
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters.

On foreign exchange markets, the euro appreciated 0.3 percent in November against the dollar to $1.181, but fell 1 percent against the pound sterling and 0.4 percent against the Japanese yen. As for the currencies of the main emerging countries, they strengthened against the dollar by 1.7 percent for the Chinese yuan and 2.9 percent for the Brazilian real, while they depreciated by 1 percent for the Indian rupee and 0.5 percent for the Turkish lira.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

With respect to monetary policy decisions, following its December 10 meeting, the ECB decided to leave its key interest rates unchanged and recalibrated its quantitative easing measures in light of the resurgence of the pandemic and its economic repercussions. It has thus increased the envelope of the Emergency Pandemic Purchasing Program (EPPP) by 500 billion euros bringing it to 1,850 billion euros and extended the horizon for these net purchases at least until the end of March 2022 and, in any case, until it deems that the Covid-19 crisis is over. At the same time, the reinvestment of principal repayments of maturing securities acquired under this program is extended at least until the end of 2023. As regards the Targeted Longer-Term Refinancing Operations (TLTRO III), it was decided (i) to extend the period over which significantly more favorable terms will apply by 12 months to June 2022; (ii) to add three additional operations to be carried out between June and December 2021; and to increase the total amount that can be borrowed from 50 percent to 55 percent of their stock of eligible loans. The ECB also decided to continue its net purchases under the Asset Purchase Program (APP) at a monthly rate of 20 billion euros.

For its part, the FED decided, at its session held on November 4 and 5, to keep the target range for the federal funds rate unchanged at [0 percent-0.25 percent]. It projects that it will be appropriate to keep it at that level until labor market conditions have reached levels consistent with the Committee' assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed that rate for some time. In addition, in the coming months, the Fed will increase its purchases of Treasury and mortgage-backed securities at least at the current pace to maintain a well-functioning market and promote accommodative financial conditions, thereby supporting the flow of credit to households and businesses. The Fed reiterated once again its commitment to use all of its instruments to support the U.S. economy during these difficult times.

As to the Bank of England, its Monetary Policy Committee kept on November 4 its key rate unchanged at 0.1 percent. At the same time, it decided (i) to maintain the stock of purchases of investment-grade UK non-financial corporate bonds at £20 billion, (ii) to continue its existing £100 billion UK government bond purchase program and (iii) to increase the target stock of UK government bonds purchases by £150, bringing the total stock of government bonds to £875 billion.

Key interest rates in the main emerging markets were kept unchanged at 4.25 percent by the Central Bank of Russia on October 23, at 4 percent by the Reserve Bank of India on December 4 and at 2 percent by the Central Bank of Brazil on December 9. For its part, at its November 19 meeting, the Central Bank of Turkey raised its rate from 10.25 percent to 15 percent, indicating that it decided to implement transparent and strong monetary tightening in order to eliminate risks to the inflation outlook, contain inflation expectations and restore the disinflation process.

1.3 Commodity prices and inflation

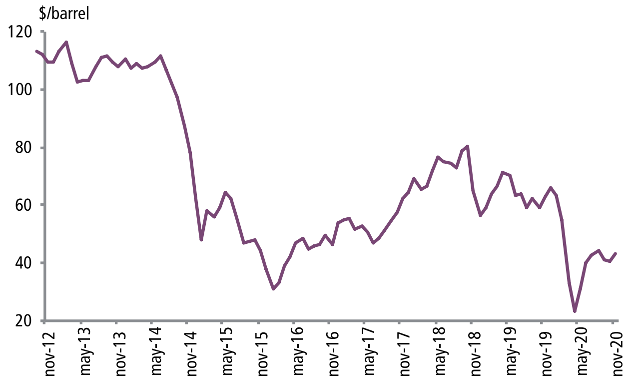
1.3.1 Energy commodity prices

On the oil market, the price of Brent crude rose by 6.8 percent between October and November to $43.2 a barrel. This increase was due in particular to the favorable effect of the announcement by several major pharmaceutical groups of the development of vaccines against Covid-19, as well as the prospect of an adjustment of oil production cuts by OPEC+ countries. Year-on-year, the price of Brent remained down 31.1 percent in November.

The price of natural gas on the European market stood at $4.84 per mBTU[1] in November, down 1.1 percent month-on-month and 6.1 percent year-on-year.

1 mBTU: Million British Thermal Unit

Chart 1.7 : Brent prices in dollars

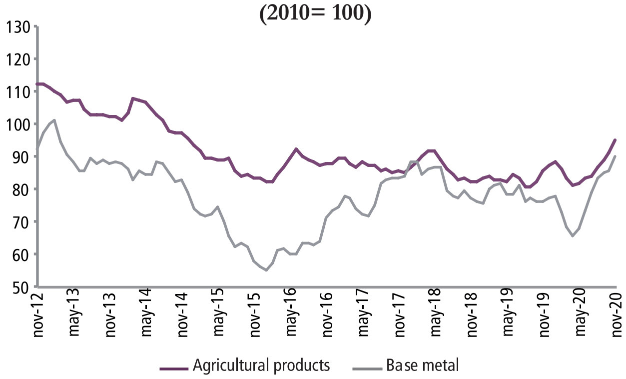


Source: Thomson Reuters.

1.3.2 Non-energy commodity prices

Prices of non-energy products rose 12.7 percent year-on-year in November, reflecting an 18.5 percent increase in the prices of metals and minerals and a 10.8 percent increase for agricultural products.

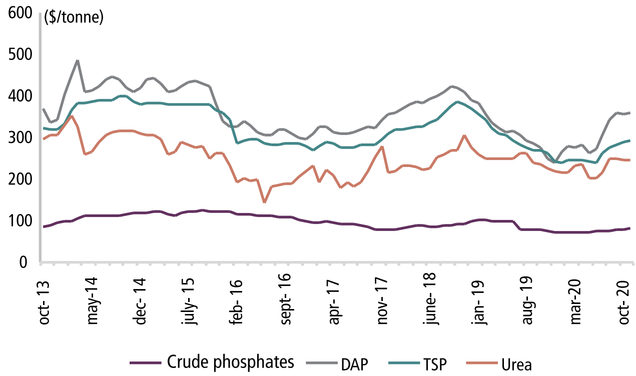
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

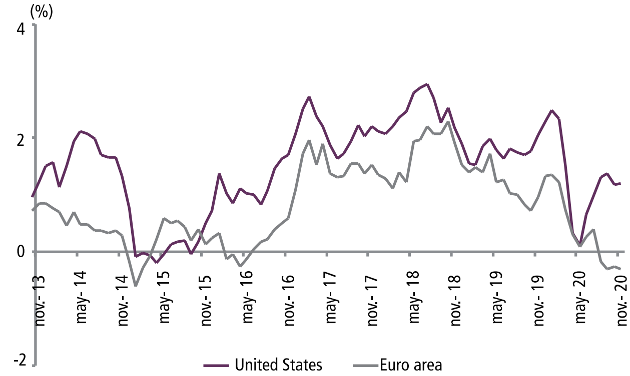
On the phosphates and fertilizers market, prices posted differentiated trends in November, with increases of 3.1 percent for rock phosphate to 82.5 $/t on average, 0.7 percent for DAP to 359.6 $/t and 0.9 percent for TSP to 292.5 $/t, as well as stagnation at 245 $/t for Urea and 202.5 $/t for potassium chloride. Year-on-year, prices increased by 11.5 percent for rock phosphate, 45 percent for DAP, 10.8 percent for TSP and 9.1 percent for Urea, while potassium chloride prices dropped by 23.7 percent.

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



Source: World Bank.

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



Sources : Eurostat and Thomson Reuters.

1.3.3 Inflation

According to a first estimate by Eurostat, month-on-month inflation stabilized in the euro area at -0.3 percent in November. This reflects in particular a decline from -0.5 percent to -0.7 percent in Germany, increases from 0.1 percent to 0.2 percent in France and from -0.6 percent to -0.3 percent in Italy, and stagnation at -0.9 percent in Spain. In the United States, inflation stabilized at 1.2 percent in November. As for the other advanced economies, inflation accelerated from 0.5 percent in September to 0.7 percent in October in the United Kingdom and, on the other hand, decelerated from 0.1 percent to -0.4 percent in Japan.

In the main emerging countries, with the exception of China, where it fell from 0.5 percent in October to -0.5 percent in November mainly due to the fall in pork prices, inflation rose from 4.0 percent to 4.4 percent in Russia, from 3.1 percent in September to 3.9 percent in October in Brazil and from 7.3 percent to 7.6 percent in India.

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

	2018	2019	2020		
			sept.	oct.	nov.
United States	**2. 4**	**1. 8**	**1. 3**	**1. 4**	**1. 2**
Euro area	**1. 8**	**1. 2**	**-0. 2**	**-0. 3**	**-0. 3**
Germany	1. 9	1. 4	-0. 1	-0. 4	-0. 7
France	2. 1	1. 3	0. 2	0	0. 2
Spain	1. 7	0. 8	-0. 6	-0. 6	-0. 9
Italy	1. 2	0. 6	-0. 5	-1. 0	-0. 3
United Kingdom	**2. 5**	**1. 8**	**0. 2**	**0. 5**	**n.d**
Japan	**1. 0**	**0. 5**	**0. 2**	**0. 1**	**n.d**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

Provisional foreign trade data at end-October 2020 show a year-on-year decline in foreign trade, with imports falling by 68.3 billion and exports by 24.1 billion. As a result, the trade deficit decreased by 44.2 billion to 128.5 billion dirhams and the coverage rate rose from 57.9 percent to 62.4 percent. At the same time, travel revenues amounted to 26.6 billion dirhams, down 60.3 percent, while transfers of MLA remained resilient, posting an improvement of 1.7 percent to 55.8 billion dirhams. Net FDI inflows declined by 31.2 percent to 11.7 billion and direct investment outflows by Moroccans fell by 56.3 percent to 3.6 billion. As for official reserve assets, their outstanding amount reached 292.7 billion dirhams by end-October 2020, representing the equivalent of 7 months and 12 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

The decline in exports reached 10.1 percent at end-October 2020 compared to the same period in 2019 and affected all sectors. In particular, sales in the automotive sector fell by 13.5 percent to 57.8 billion dirhams, reflecting drops of 17.3 percent for the construction segment and 24.2 percent for the wiring segment. Exports of the textile and leather sector dropped by 18.7 percent to 25.4 billion dirhams, reflecting declines of 22 percent for both ready-made clothes and hosiery items and 13.8 percent for shoes. Similarly, sales in the aeronautics and electronics sectors declined respectively by 28.6 percent to 10.2 billion and 2.3 percent to 8.3 billion. Sales in the agricultural and agri-food sector stayed virtually flat at 50.6 billion, covering increases of 0.3 percent for food industry products and 1.2 percent for agricultural products and a decline of 77.1 percent for the tobacco industry. Exports of phosphates and derivatives fell by 2.2 percent to 41.5 billion dirhams, mainly due to a 23.9 percent drop in sales of phosphoric acid, itself the result of an 11.8 percent decrease in export prices and a 13.7 percent decline in quantities shipped. Conversely, sales of natural fertilizers improved by 8.3 percent due to a 23.7 percent increase in exported quantities.

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

Sectors/Segments	jan.-oct. 2020	jan.-oct. 2019	Change	
			value	In %
Exports	**213 716**	**237 843**	**-24 127**	**-10. 1**
Automotive	**57 757**	**66 794**	**-9 037**	**-13. 5**
Construction	23 264	28 134	-4 870	-17. 3
cabling	20 489	27 044	-6 555	-24. 2
Vehicle interiors and seats	5 819	6 654	-835	-12. 5
Textile and Leather	**25 414**	**31 274**	**-5 860**	**-18. 7**
Ready-made garments	15 466	19 856	-4 390	-22. 1
Hosiery articles	4 911	6 315	-1 404	-22. 2
Shoes	2 057	2 387	-330	-13. 8
Aeronautics	**10 217**	**14 306**	**-4 089**	**-28. 6**
EWIS	3 931	6 017	-2 086	-34. 7
Assembly	**6 232**	8 224	-1 992	-24. 2
Agriculture and Agri-Food	**50 608**	**50 858**	**-250**	**-0. 5**
Tobacco industry	147	642	-495	-77. 1
Food Industry	27 447	27 371	76	0. 3
Agriculture, forestry, hunt	**21 636**	21 389	247	1. 2
Phosphates and derivatives	**41 485**	**42 406**	**-921**	**-2. 2**
Electronic	**8 322**	**8 514**	**-192**	**-2. 3**
Electronic components	2 346	3 552	-1 206	-34. 0
Wires, cables and other insulated conductors for electricity	3 190	1 899	1 291	68. 0
Other mining extractions	**2 585**	**3 487**	**-902**	**-25. 9**

Source: Foreign Exchange Office.

Box 2.1: Impact of Covid-19 on the car manufacturing sector in Morocco: Developments and outlook

Thanks to Morocco's policy of developing global businesses, the national automotive sector posted strong growth in recent years both in the manufacturing segment and equipment. It has thus become the leading national export sector since 2014. However, the Covid-19 pandemic was a significant blow for the sector and is expected to impact its development over the next coming years.

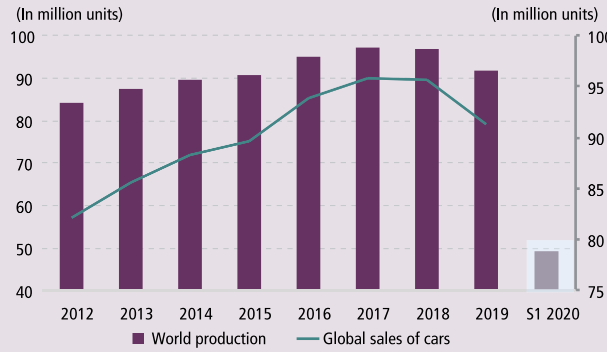
Indeed, after an upward trend since 2012, production in the automotive sector fell by 5.2 percent in 2019 and sales fell by 4.5 percent, mainly due to the slowdown in global economic growth and the implementation of new anti-pollution regulations, particularly in Europe and China. These declines were exacerbated by the health crisis, with a 29.3 percent drop in global production in the first half of 2020.

As in other countries, the sector's domestic exports were strongly impacted by the health crisis, following the halt in local production for a certain period as part of efforts to stem the spread of the pandemic, and the drastic drop in foreign demand. The decline in the sector's exports thus reached 34 percent at end- May 2020 before easing to 16.1 percent over the first nine months of the year, reflecting the gradual resumption of production despite a slow recovery in demand.

In terms of outlook, the recovery is expected to be gradual with strong regional divergences. According to a study published by PwC Strategy in May 2020, sales growth is expected to slow from 3.4 percent between 2009 and 2019 to 2.1 percent between 2019 and 2024 worldwide.

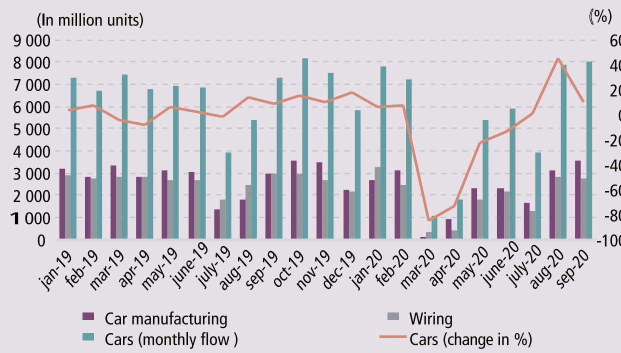
For the European market, the main destination for national production, it is expected to see a contraction in sales of between -11 percent and -17 percent over the next three years. Conversely, sales in emerging countries are expected to increase by 4.7 percent between 2019 and 2024 after 2.7 percent between 2009 and 2019.

Chart B 2.1 : Change in global production and sales



Source : International Organization of Motor vehicule Manufacturers (OICA).

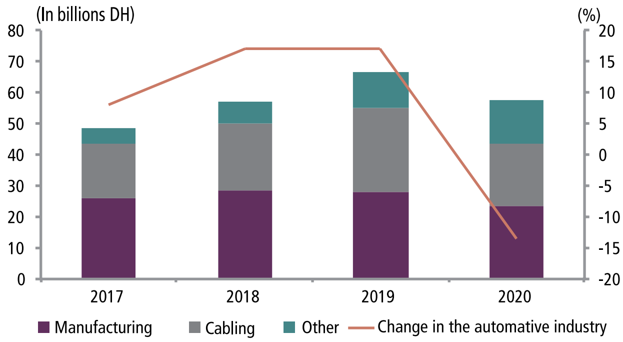
Chart B 2.2 : Evolution of the monthly flow of exports in the car manufacturing sector and its main components



Source: Foreign Exchange Office.

At the domestic level, while the expected momentum induced by the increase in production at the PSA plant should contribute to the sector's export growth, the implementation of capacity expansion projects and new units remains uncertain. Indeed, the main international manufacturers are reporting significant reductions in production capacity over the next few years. Taking into account the announced production plans, the sector's exports should accordingly increase by 18.6 percent on average in 2021 and 2022.

Chart 2.1: Change in automotive industry's exports



Source: Foreign Exchange Office.

2.1.2 Imports

Excluding food products, imports of all product groups showed significant declines during the first ten months of the year. Aggregate imports thus fell by 16.6 percent, mainly reflecting a 17.6 percent decline in capital goods purchases to 87.8 billion, with in particular a 7.5 billion drop in imports of "aircraft and other air and space vehicles" and a 2.3 billion drop in imports of "wires, cables for electricity". Purchases of finished consumer goods fell by 21 percent to 74.4 billion, with in particular a 44.3 percent decline in imports of "passenger cars" and a 24.9 percent drop in imports of "parts and components for passenger cars". Similarly, purchases of semi-finished products fell by 13 percent to 76 billion and those of raw products decreased by 14.2 percent to 16.1 billion. As to the energy bill, it fell by 35.3 percent to 41.1 billion dirhams, driven by a 40.1 percent drop in "gas and fuel oils" and 61.4 percent for "petroleum oils and lubricants" due to the decline in their import prices. Conversely, purchases of food products increased by 17.3 percent to 47 billion, mainly due to the increase in supplies of wheat from 3.6 billion dirhams to 11.7 billion dirhams and barley from 1.5 billion dirhams to 2 billion dirhams.

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

User groups	jan.-oct. 2020	jan.-oct. 2019	Change	
			value	In %
CIF imports	**342 257**	**410 592**	**-68 335**	**-16. 6**
Energy products	**41 147**	**63 550**	**-22 403**	**-35. 3**
Gas oils and fuel oils	19 081	31 870	-12 789	-40. 1
Petroleum oil and lubricants	2 784	7 215	-4 431	-61. 4
Finished consumer products	**74 351**	**94 171**	**-19 820**	**-21. 0**
Passenger cars	9 516	17 094	-7 578	-44. 3
Parts and spare parts of cars and passenger cars	11 456	15 255	-3 799	-24. 9
Synthetic and artificial fibers fabrics and threads	5 602	7 028	-1 426	-20. 3
capital goods	**87 783**	**106 540**	**-18 757**	**-17. 6**
Aircraft and other space vehicles	317	7 832	-7 515	-96. 0
Electricity cables and wires	5 307	7 635	-2 328	-30. 5
Utulity cars	4 613	5 764	-1 151	-20. 0
Semi finished products	**75 958**	**87 356**	**-11 398**	**-13. 0**
Plastics and miscellaneous plastic articles	10 580	12 015	-1 435	-11. 9
Copper wire, rods and section bars	3 272	4 471	-1 199	-26. 8
Raw products	**16 055**	**18 703**	**-2 648**	**-14. 2**
Crude and unrefined sulfur	4 008	6 242	-2 234	-35. 8
Rough, squared off or sawn wood	1 736	2 327	-591	-25. 4
Food products	**46 963**	**40 025**	**6 938**	**17. 3**
Wheat	11 672	8 080	3 592	44. 5
Barley	2 045	566	1 479	-

Source: Foreign Exchange Office.

2.2 Other components of the current account

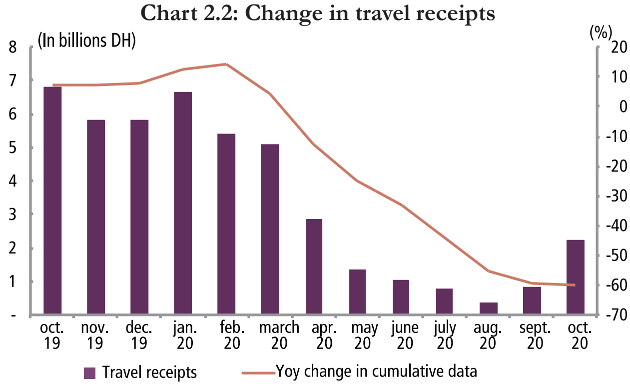
With regard to the balance of services, its surplus declined by 42.1 percent to 44 billion dirhams, reflecting a 29.8 percent drop in imports to 56.5 billion dirhams and a 35.8 percent drop in exports to 100.5 billion dirhams. In particular, travel receipts stood at 26.6 billion dirhams, down 60.3 percent, and travel expenses fell by 50.4 percent to 8.8 billion dirhams.

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

	jan.-oct. 2020	jan.-oct. 2019	Change	
			value	In %
Imports	56 465	80 427	-23 962	-29. 8
Exports	100 484	156 495	-56 011	-35. 8
Balance	44 019	76 068	-32 049	-42. 1

Source: Foreign Exchange Office.

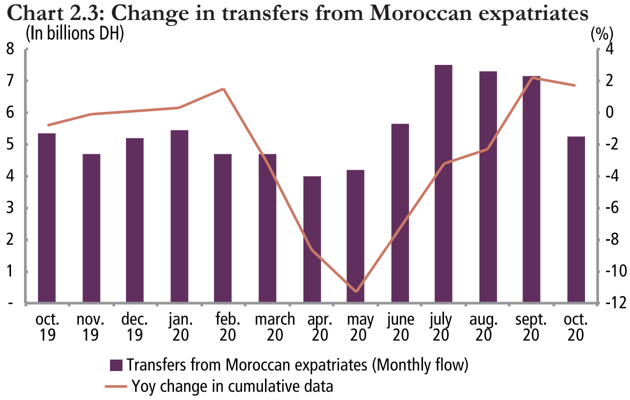
Chart 2.2: Change in travel receipts



Source: Foreign Exchange Office.

Concerning transfers of Moroccan living abroad, they showed a notable resilience in the face of the crisis, posting a 1.7 percent increase at the end of October, after an 11.3 percent drop at the end of May, to stand at 55.8 billion dirhams.

Chart 2.3: Change in transfers from Moroccan expatriates



Source: Foreign Exchange Office.

2.3 Financial account

As to financial operations, net FDI inflows declined by 31.2 percent to 11.7 billion dirhams, as a result of a decline of 7.9 billion dirhams in receipts and 2.6 billion dirhams in transfers. Similarly, the net flow of Moroccan direct investment abroad fell by 56.3 percent to 3.6 billion dirhams, including a rise of 1.4 billion dirhams in revenues and a decline of 3.2 billion dirhams in investment expenditure.

At the end of October 2020, the stock of official reserve assets stood at 292.7 billion dirhams, representing the equivalent of 7 months and 12 days of imports of goods and services.

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

	jan.-oct. 2020	jan.-oct. 2019	Change	
			Value	in %
Foreign direct investments	**11 692**	**16 992**	**-5 300**	**-31. 2**
Revenues	20 434	28 374	-7 940	-28. 0
Expenses	8 742	11 382	-2 640	-23. 2
Investments of Moroccans abroad	**3 556**	**8 138**	**-4 582**	**-56. 3**
Expenses	6 278	9 442	-3 164	-33. 5
Revenues	2 722	1 304	1 418	-

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSETS MARKET

During the third quarter of 2020, monetary conditions were marked by a further decline in lending rates and an appreciation of the effective exchange rate. The annual growth rate of credit to the nonfinancial sector declined quarter over quarter from 6.2 percent to 5.6 percent, reflecting a deceleration in the growth of loans to private businesses, a consolidation of the recovery in lending to state-owned enterprises, and a slight acceleration in the growth of household credit. With respect to other money supply counterparties, official reserve assets increased year-on-year by 25.8 percent instead of 22.1 percent, and net claims on central government rose by 22.3 percent compared with 16.8 percent in the previous quarter. Overall, money supply growth rose from 6.9 percent to 7.1 percent.

In the real estate market, asset prices rose by 3.6 percent, following a 3 percent fall in the previous quarter. This reflects increases of 3.6 percent for both residential properties and urban land and 5.1 percent for business properties. At the same time, after the significant and widespread decline in all goods during the first half of the year, the number of transactions rose by 117.6 percent, a recovery that affected all categories. At the level of the Casablanca Stock Exchange, the MASI dropped by 1.8 percent in the third quarter after a 4.8 percent increase a quarter earlier and the volume of exchanges stood at 4.7 billion from 12.8 billion.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

Over the third quarter of 2020, banks' liquidity needs increased to 102.2 billion dirhams as a average weekly, compared to 95.9 billion dirhams a quarter earlier. Under these conditions, Bank Al-Maghrib increased the amount of its injections to 111.8 billion dirhams, including 36 billion dirhams as 7-day advances, 40.1 billion dirhams as repurchase agreements, 31.6 billion dirhams as guaranteed loans granted within the framework of programs to support the financing of the VSMEs and 4 billion dirhams as foreign exchange swaps.

The latest available data indicate an easing of the bank liquidity deficit to 95.7 billion on average during the months of October and November.

In this context, the interbank rate stabilized at a monthly average of 1.50 percent since the Bank's Board decision to reduce the key rate in June 2020. In the Treasury bill market, rates fell overall in both the primary and secondary segments before rising slightly in November.

Chart 3.1: Change in the interbank rate (daily data)

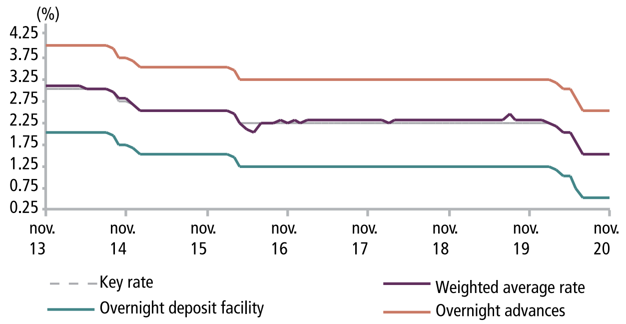
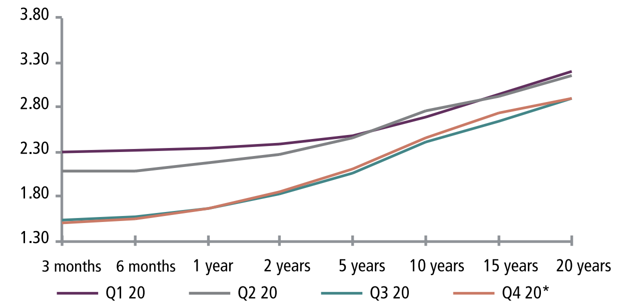


Table 3.1: Change in Treasury bond yields in the primary market

	2018	2019				2020			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	oct.
52 weeks	2. 45	2. 37	2. 31	2. 31	2. 27	2. 34	2. 16	1. 68	1. 64
2 years	2. 60	2. 51	2. 39	2. 38	2. 32	2. 40	2. 22	1. 83	1. 84
5 years	2. 86	2. 77	2. 60	2. 58	2. 46	2. 50	2. 42	2. 10	2. 10
10 years	3. 34	3. 19	3. 02	2. 97	2. 81	2. 65	2. 40	2. 39	-
15 years	-	3. 64	3. 42	3. 38	3. 10	2. 94	2. 90	-	-

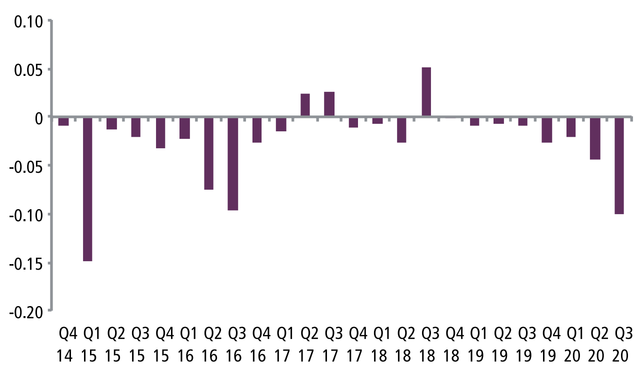
Chart 3.2: Term structure of interest rates in the secondary market



* Average observed in October and november.

In the other markets, certificates of deposit rates decreased during the third quarter of 2020. As for deposit rates, they fell by 14 basis points to 2.50 percent on average for 6-month deposits and by 32 points to 2.71 percent for one-year deposits. Under these conditions, the cost of financing[1] for banks fell by 10 points compared with the previous quarter.

Chart 3.3: Change in cost of bank financing (in percentage points)



Regarding lending rates, the results of Bank Al-Maghrib's survey of banks for the third quarter of 2020 indicate a further decline in rates. Thus, the overall average rate fell to 4.30 percent, down 28 basis points compared to the previous quarter. By institutional sector, rates on corporate loans fell by 33 points, covering decreases of 74 points for loans to SMEs and 26 points for those to large companies. Similarly, rates applied to individuals posted a 38-point decline, with decreases of 32 points for housing loans and 62 points for consumer loans.

1 The cost of financing is calculated as a weighted average of the banks› cost of funds.

Table 3.2 : Change in lending rates

	2019			2020		
	Q2	Q3	Q4	Q1	Q2	Q3
Global	**4. 98**	**5. 09**	**4. 91**	**4. 87**	**4. 58**	**4. 30**
Personal loans	**5. 34**	**5. 69**	**5. 55**	**5. 64**	**5. 53**	**5. 15**
Real estate loans	4. 18	4. 51	4. 48	4. 39	4. 64	4. 32
Consumer loans	6. 71	6. 72	6. 66	6. 75	7. 09	6. 47
Loans to businesses	**4. 85**	**4. 92**	**4. 77**	**4. 70**	**4. 44**	**4. 11**
Creditor accounts and cash advances	4. 70	4. 74	4. 65	4. 61	4. 39	3. 95
Equipment loans	5. 07	5. 20	4. 58	4. 49	4. 19	4. 37
Real estate loans	5. 46	6. 07	6. 12	6. 15	6. 12	5. 85

Source : BAM.

Table 3.3: Deposit rates

	2018		2019				2020		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
6 months	2. 80	2. 71	2. 78	2. 68	2. 75	2. 68	2. 73	2. 64	2. 50
12 months	3. 07	3. 04	3. 06	3. 00	3. 01	2. 98	3. 06	3. 02	2. 71

3.1.2 Exchange rate

During the third quarter of 2020, the euro appreciated by 6.17 percent quarter-on-quarter against the US dollar. Under these conditions, the national currency depreciated by 0.25 percent against the euro and appreciated by 5.88 percent against the US dollar. Compared to the currencies of the main emerging countries, the dirham rose by 11.20 percent against the Turkish lira, by 1.80 percent against the pound sterling and by 3.33 percent against the Chinese yuan. Consequently, the effective exchange rate appreciated by 1.83 percent in nominal terms and by 3.65 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

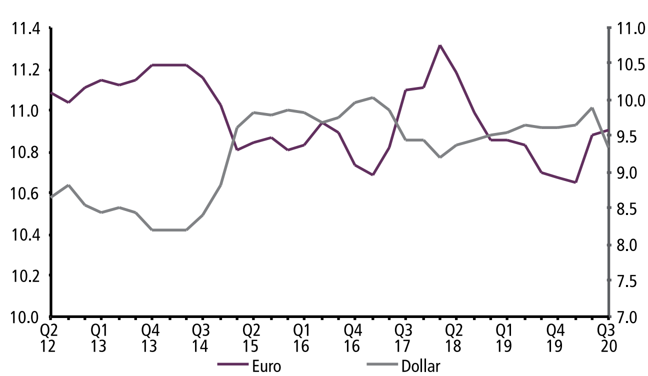
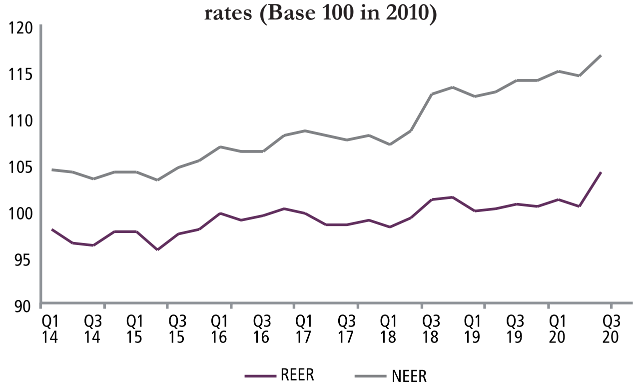


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

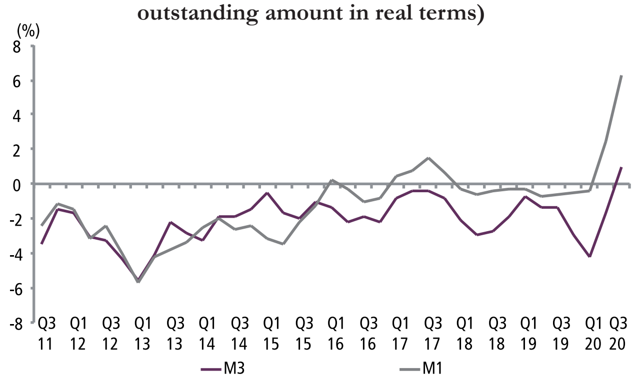
With regard to foreign currency transactions, the average volume of banks' spot transactions with customers increased by 12.8 percent to 21.9 billion dirhams for sales and by 12.6 percent to 20.4 billion dirhams for purchases. At the same time, forward purchases rose by 27.8 percent to 10.3 billion dirhams and forward sales increased by 2.6 percent to 2.7 billion dirhams. During this period, Bank Al-Maghrib did not carry out any currency buying or selling transaction with banks. Under these conditions, the net foreign exchange position of banks stood at 3.7 billion dirhams at end-September, as against 5.2 billion dirhams at end-June 2020.

3.1.3 Monetary situation

The growth rate of M3 aggregate rose from 6.9 percent in the second quarter to 7.1 percent in third quarter of 2020. This trend largely reflects the acceleration from 20.1 percent to 22.5 percent in the growth rate of currency in circulation and from 8.4 percent to 9.6 percent for sight deposits, with in particular an improvement from 7.9 percent to 9.4 percent for households and from 9.3 percent to 10.3 percent for private non-financial companies. Conversely, the growth rate of money market funds fell from 9.8 percent to 2.6 percent quarter-on-quarter. As for time deposits, they dropped by 10.3 percent, after a 7.5 percent decrease, with a further decline from 6.4 percent to 7.3 percent in deposits of private companies and from 4 percent to 6 percent in those of households.

By main counterpart, the change in money supply includes accelerations from 22.1 percent to 25.8 percent for official reserve assets and from 16.8 percent to 22.3 percent for net claims on the central government, as well as a deceleration from 6.3 percent to 5.3 percent for bank credit.

Chart 3.6: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



1: The money gap calculated in real terms is the difference between the observed and equilibrium level of the money stock. The latter, determined on the basis of the quantitative equation for money, corresponds to the rate of change in potential economic activity in real terms, minus the average rate of the decline in the velocity of money circulation.
Source : BAM.

Chart 3.7: Contribution of the major counterparts to YoY change in money supply

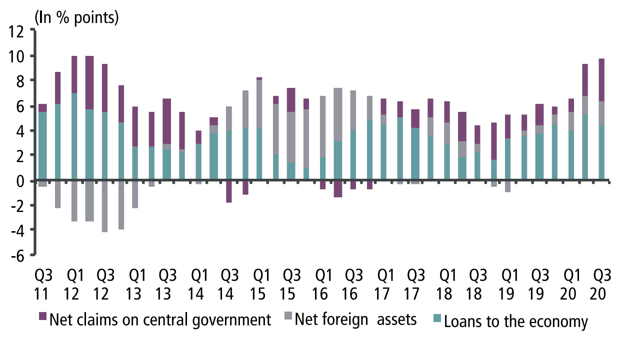
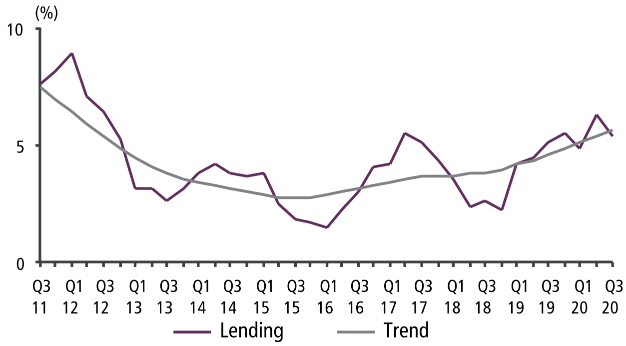


Chart 3.8: YoY change in credit



As for credit to the nonfinancial sector, its annual growth rate dropped from 6.2 percent to 5.6 percent, reflecting a deceleration in lending to private businesses and individuals, a strengthening of the recovery in lending to state-owned companies, and improved lending to individual entrepreneurs.

Accordingly, lending to private businesses increased by 8.4 percent from 10.1 percent in the second quarter, reflecting decelerations from 15.6 percent to 12.1 percent for cash facilities and from 7.5 percent to 3.8 percent for equipment loans. On the other hand, loans for real estate development rose by 2.1 percent instead of 1.1 percent in the previous quarter.

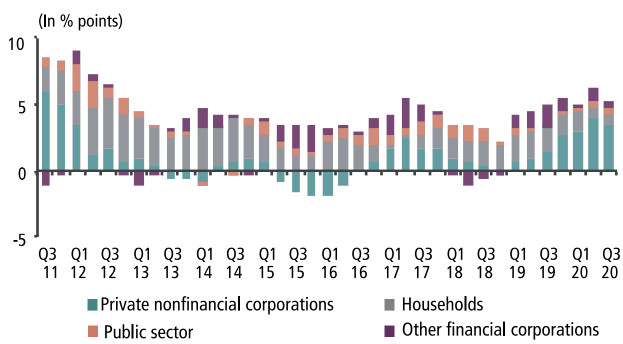
Lending to state-owned businesses increased by 4.9 percent from 1.3 percent, reflecting a speed-up in the growth of equipment loans from 0.7 percent to 2.5 percent and an easing of the decline in cash facilities from 14.4 percent to 1.1 percent.

As for loans to individual businessmen, their growth rate rose from 0.7 percent to 4.4 percent, covering an acceleration in the pace of growth in cash facilities from 9.1 percent to 23.4 percent and a sharpening of the decline in equipment loans from 3.3 percent to 6.3 percent.

By branch of activity, quarterly data for September 2020 show a 3.1 percent decline in outstanding loans to the «Electricity, Gas and Water» sector and a 9.3 percent drop in «Chemicals and Parachemicals», after increases of 6.6 percent and 3 percent respectively in June. Similarly, the growth rate of loans to the «Trade, Automotive and Household Goods» branch fell from 3.4 percent to 0.8 percent. Conversely, the sectors most affected by the covid-19 crisis had greater recourse to bank credit. Thus, the pace of credit growth in the «Hotels and Restaurants» branch accelerated from 8.5 percent to 14.9 percent. Loans to the «Transport and Communication» and «Construction « sectors posted increases of 2.1 percent and 1.5 percent after declines of 4.8 percent and 3.7 percent in the second quarter.

Personal loans decelerated from 2.8 percent to 2.5 percent, with a higher drop from 0.1 percent to 2.4 percent in consumer loans and a slight improvement from 2.3 percent to 2.8 percent in the rise of housing loans.

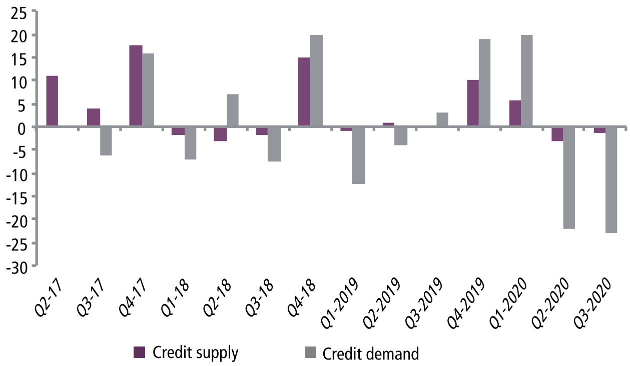
Chart 3.9: Institutional sectors' contribution to YoY change in credit



Source : BAM

Non-performing loans increased by 13.9 percent and their ratio to outstanding bank loans stood at 8.3 percent. These loans rose by 11.9 percent for private non-financial businesses and by 16.4 percent for households.

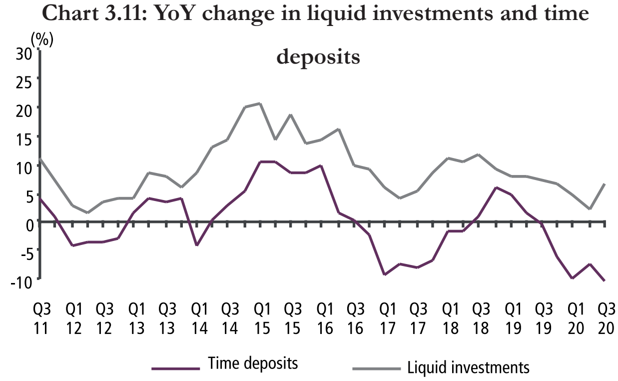
Chart 3.10: Change in supply and demand (Diffusion Index)



Loans from non-bank financial companies to the non-financial sector increased by 2.4 percent after 2.8 percent in the second quarter of 2020. This change reflects decelerations in the growth rate of loans granted by offshore banks from 24.7 percent to 13.5 percent and for those granted by microcredit associations from 2.8 percent to 1 percent. As for loans granted by finance companies, their growth stabilized at 1.8 percent.

The latest available data for the month of October show a 4.3 percent annual increase in bank loans. In particular, loans to the nonfinancial sector saw their growth rate fall back to 4.9 percent, largely reflecting the deceleration in loans to private nonfinancial businesses to 6.9 percent. Concerning liquid investment aggregates, their annual growth increased from an average of 2.1 percent in the second quarter to 6.4 percent in the third quarter of 2020. This trend reflects a 3.6 percent increase after a 0.9 percent drop in Treasury bills and an acceleration from 4.6 percent to 10.7 percent in the growth rate of bond mutual funds. Conversely, the growth rate of equity and diversified mutual funds fell from 6.8 percent to 1.7 percent.

Chart 3.11: YoY change in liquid investments and time deposits



Box 3.1: Enlarging the collateral eligible for bank refinancing

To mitigate the impact of the covid-19 crisis and stimulate recovery, Bank Al-Maghrib activated all of its instruments in all of its areas of intervention. With regard to its refinancing operations in particular, the Bank significantly eased its refinancing conditions for conventional banks and set up specific mechanisms for participatory banks and for microcredit associations (MCAs). In particular, it expanded the list of eligible assets as collateral for bank refinancing operations. The list now includes, in addition to securities issued or guaranteed by the State and negotiable debt securities (NDS), debt securities issued by Public Institutions and Enterprises (PIEs) or Collective Investment Funds in Securitization (FPCT) and bills representing claims on the State (in particular reimbursement of VAT credits) or on PIEs. Bank Al-Maghrib also eased the refinancing conditions for banks within the framework of the program to support the financing of SMEs, set up in 2013, by extending refinancing to operating loans in addition to investment loans.

Similarly, Bank Al-Maghrib extended the list of eligible assets for monetary policy operations to include representative bills of claims on MCAs and representative bills of “Wakala Bil Istitmar” concluded with participating banks to promote their refinancing.

These measures made it possible to triple the banks' refinancing potential, which increased accordingly from 150 billion dirhams to 450 billion dirhams, i.e. nearly 42 percent of GDP. Thus, and despite the fact that Bank Al-Maghrib met the totality of demand, which resulted in an increase in BAM's interventions on the money market from 72 billion dirhams on February 29 to 103.3 billion dirhams on November 20, the margin of increase of liquidity injections remains significant. This action, combined with the extension of the period of interventions, made it possible to guarantee stability on the money market with an alignment of the interbank rate to the key rate.

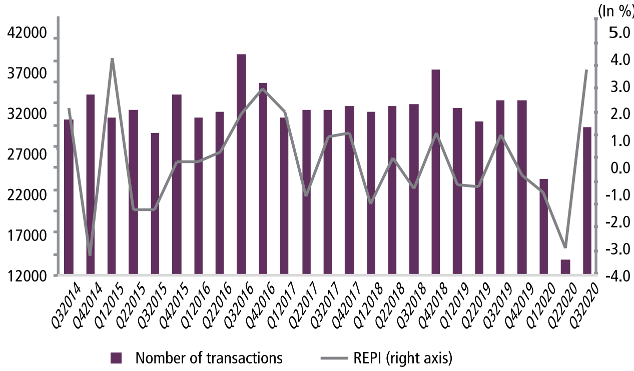
3.2 Asset prices

3.2.1 Real estate assets

In the third quarter of 2020, the real estate asset price index rose 3.6 percent quarter-on-quarter. This reflects increases of 3.6 percent in both residential and land prices and 5.1 percent in business property prices. As for the number of transactions, after dropping 41.4 percent in the second quarter of 2020 and 29 percent in the first quarter of 2020, it rose by 117.6 percent, returning to pre-crisis levels. This increase concerned all categories.

In the main cities, with the exception of El Jadida where prices fell by 0.5 percent, price increases ranged from 0.9 percent in Marrakech to 12 percent in Rabat. Similarly, the number of transactions showed significant increases ranging from 59 percent in Tangier to 228.4 percent in Rabat.

Chart 3.12: Change in the REPI and in the number of real estate transactions



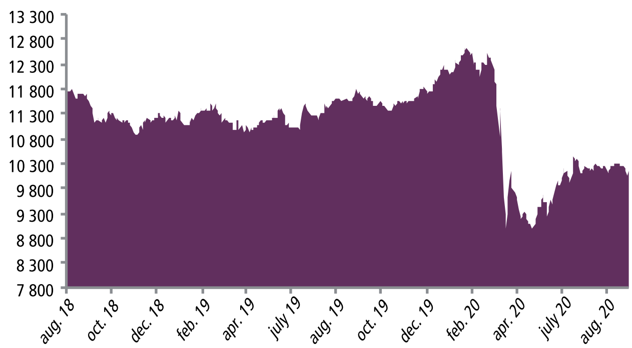
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

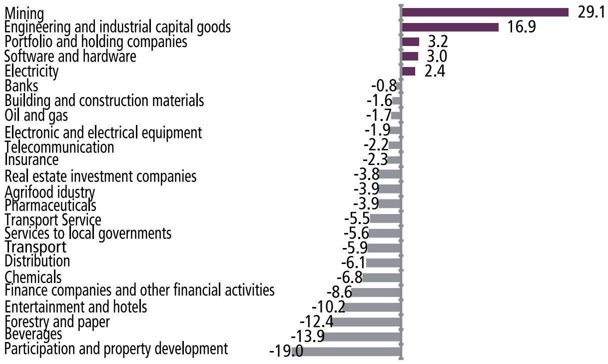
In the third quarter of 2020, the MASI declined by 1.8 percent, bringing its annual underperformance to 17.9 percent. This quarterly change is due in particular to the drops in the sectoral indices of "telecommunications" by 2.2 percent and "agri-food industries" by 3.9 percent. Conversely, the "software and computer services" and "electricity" sector indices posted increases of 3 percent and 2.4 percent respectively.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.14: Contribution of sectoral indexes in the third quarter 2020 (in%)



Source : Casablanca Stock Exchange.

As for the volume of transactions, it fell to 4.7 billion dirhams, after 12.8 billion dirhams in the second quarter. By segment, the turnover dropped from 8.6 billion dirhams to 3.2 billion dirhams on the central stock market and from 3 billion dirhams to 302.3 million dirhams on the block market.

Under these conditions, market capitalization posted a 1.1 percent decline from one quarter to the next, to 517.9 billion dirhams.

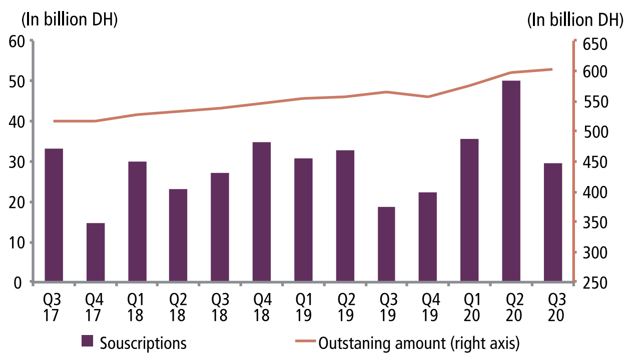
Data as at end-November2 indicate a notable easing of MASI's annual underperformance to 9.5 percent. The latter includes in particular a 16.5 percent drop in the banking sector index, a 42.5 percent drop in the " participation and real estate development" index, a 12.3 percent drop in the "building and construction materials" index and a 35.2 percent drop in the "leisure and hotels" index. The overall volume of trading stood at 3.6 billion in October and 1.5 billion in November, after a monthly average of 3.7 billion during the first nine months of the year. Market capitalization stood at 568.2 billion at end-November, down 9.3 percent since the beginning of the year.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic market stood at 29.6 billion dirhams in the third quarter, down 40.8 percent on a quarterly basis. They were composed up to 50 percent of short maturities and up to 40 percent of medium-term maturities.

In October, Treasury borrowings stood at 3.6 billion dirhams, of which 62.7 percent were for short term maturities and 37.3 percent for medium term maturities. Taking into account repayments of 3.8 billion dirhams, the outstanding amount of Treasury bills stood at 601.8 billion dirhams, up 8 percent compared to end-December.

Chart 3.15: Change in outstanding Treasury bonds



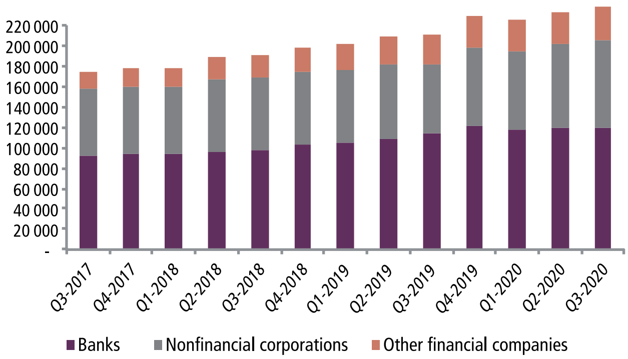
Source : BAM.

3.2.2.3 Private debt market

On the private debt market, issues increased by 6 percent to 23.1 billion dirhams in the third quarter of 2020. Banks borrowings totaled 8.1 billion after 13 billion and those of non-financial companies amounted to 11.7 billion as against 6.8 billion in the first quarter.

2 Data as at November 24, 2020

Chart 3.16: Change in outstanding private debt per issuer (In billions of dirhams)



Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund securities

During the third quarter of the year, subscriptions to UCITS securities increased quarter-on-quarter by 12 percent to 229.6 billion dirhams and redemptions by 21.2 percent to 233.7 billion dirhams, i.e. a net outflow of 4.1 billion dirhams. As regards performances, they trended upwards for all funds, with rates ranging between 0.2 percent for "diversified" funds and 0.5 percent for "short-term bonds".

October-Data show a rise in net assets of mutual funds since the beginning of the year by 6.4 percent to 500.6 billion dirhams. This increase reflects in particular increases of 9 percent for "medium- and long-term bond" funds and 6.9 percent for "money market" funds, while net assets of "equity" funds decreased by 8.3 percent.

4. FISCAL POLICY STANCE

Budget execution for the first eleven months of 2020 shows a deficit, excluding privatization receipts, of 59.2 billion, compared to 45 billion a year earlier, taking into account the positive balance of 8.3 billion of the Special Fund for the Management of the Covid-19 pandemic. This change is mainly due to a 6.3 percent drop in ordinary revenues to 217.2 billion, impacted by the 7.6 percent contraction in tax revenues, while non-tax revenues improved by 9.1 percent. At the same time, ordinary expenditure increased by 3.5 percent, mainly reflecting increases of 5.5 percent in payroll and 8.2 percent in expenditure on other goods and services, with the subsidy costs went down 5.1 percent. The ordinary balance, excluding privatization receipts, thus showed a deficit of 14.4 billion, compared with a surplus of 8 billion a year earlier. For their part, capital expenditure fell by 4.1 percent to 55.5 billion, bringing total expenditure to 287.1 billion, up 1.9 percent.

Taking into account the 1.4 billion reduction in the stock of pending operations, the Treasury's cash deficit, excluding privatization receipts, stood at 60.6 billion, compared to 53.3 billion at end- November 2019. This requirement was covered by net domestic resources up to $47.2 billion and net external financing up to $13.4 billion. The stock of direct public debt is estimated to have increased by 9.6 percent compared to its level at end-December 2019. Treasury financing conditions remain favorable, with a decline in the weighted average rates of securities issued through auction.

4.1 Current receipts

At the end of the first eleven months of 2020, ordinary revenues excluding privatization receipts dropped 6.3 percent to 217.2 billion, compared to the same period in 2019. This trend includes a 7.6 percent decrease in tax revenues to 194.9 billion, achieved up to 94 percent compared to the Amending Budget Act, and a 9.1 percent increase in non-tax revenues to 19.5 billion. The decline in tax revenues is attributed to the drop in all taxes and duties, with the exception of the corporate income tax and the solidarity contribution on profits.

Direct tax revenues fell by 2.9 percent to 78.8 billion, mainly due to the 4.8 percent decline in income tax revenues to 36.6 billion, with in particular a 1.5 percent increase in income tax on salaries paid by the Personnel Expenses Department to 8.2 billion and a 28.6 percent drop in income tax on real estate profits to 2.2 billion. On the other hand, CT revenues, based mainly on 2019 results, rose by 0.6 percent to 38.8 billion and the solidarity contribution on profits rose by 6.1 percent to 2.1 billion.

In turn, indirect taxes decreased by 9.8 percent to 96 billion dirhams, mainly as a result of a 9.5 percent drop in VAT revenues to 71.8 billion dirhams and a 10.9 percent decline in DCT revenues to 24.2 billion dirhams. The latter two taxes were impacted by the decline in activity and the drop in the prices of imported oil products. Thus, the change in VAT revenues shows a decrease of 14 percent to 43.9 billion for import VAT and 1.2 percent to 27.9 billion for domestic VAT, taking into account refunds of 9.2 billion as against 9.4 billion a year earlier.

Table 4.1: Change in current revenues (in billions of dirhams)*

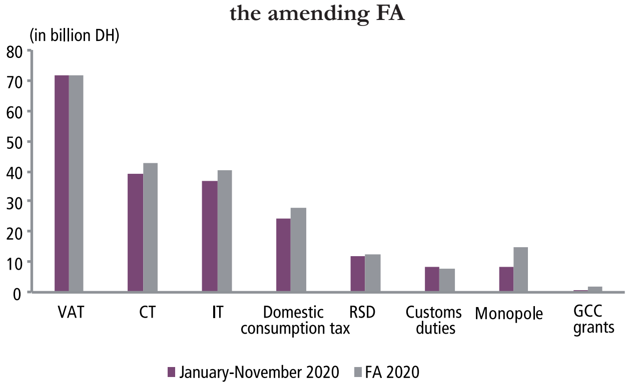
	Jan.-nov. 2019	Jan.-nov. 2020	Change in %	FA 2020	Achievements against the FA (%)
Current revenues	**231. 8**	**217. 2**	**-6. 3**	**244. 0**	**89. 0**
Tax revenues	**210. 9**	**194. 9**	**-7. 6**	**207. 3**	**94. 0**
- Direct taxes	81. 2	78. 8	-2. 9	87. 5	90. 1
Including CT	38. 6	38. 8	0. 6	42. 9	90. 5
I.T	38. 4	36. 6	-4. 8	40. 0	91. 3
- Indirect taxes	106. 4	96. 0	-9. 8	99. 2	96. 8
VAT*	79. 3	71. 8	-9. 5	71. 6	100. 3
DCT	27. 2	24. 2	-10. 9	27. 6	87. 7
- Customs duties	8. 8	8. 4	-4. 0	7. 9	106. 5
- Registration and stamp duties	14. 5	11. 7	-19. 6	12. 7	92. 2
Nontax revenues	**17. 9**	**19. 5**	**9. 1**	**33. 7**	**58. 0**
- Monopoles and shareholdings	9. 1	8. 5	-6. 9	14. 7	57. 8
- Other receipts	8. 8	11. 0	25. 7	19. 0	58. 2
Including GCC grants	1. 2	0. 1	-89. 7	1. 8	6. 7
TSA revenues	**3. 0**	**2. 8**	**-7. 8**	**3. 0**	**91. 9**

*Taking into account 30 percent of the VAT transferred to local governments.
Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

As for DCT revenues, their decline is mainly the result of declines by 16.1 percent to 12.8 billion for energy products and by 4.4 percent to 9.8 billion for tobacco.

Similarly, revenues from customs duties, registration and stamps fell by 4 percent to 8.4 billion and by 19.6 percent to 11.7 billion respectively.

Chart 4.1: Performances of the major revenues compared to the amending FA



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.
Note :
-VAT : Value added tax - CT : Corporate tax
- IT : Income tax - DCT : Domestic consumption tax
- RSD : Registration and stamp duties - CD : Customs duties

Non-tax revenues excluding privatization receipts increased by 9.1 percent, driven by the rise in support funds, which picked up from 699 million dirhams to 5.3 billion dirhams at end-November 2020. Conversely, revenues from monopolies and participations fell by 6.9 percent to 8.5 billion dirhams, of which 3.6 billion dirhams came from the OCP, 1.3 billion dirhams from the ANCFCC, 1.1 billion dirhams from BAM, and 911 million dirhams from Maroc Telecom. As for GCC grants, they stabilized at 121 million dirhams since May, instead of 1.2 billion dirhams received at end-November 2019.

4.2 Expenditure

The Treasury's overall expenditure increased by 1.9 percent to 287.1 billion, covering a 3.5 percent increase in ordinary expenditure to 231.6 billion and a 4.1 percent decrease in capital expenditure to 55.5 billion. Expenditure on goods and services increased by 6.3 percent to 171 billion, reflecting increases of 5.5 percent to 121.4 billion in payroll and 8.2 percent to 49.6 billion in expenditure on other goods and services. The latter includes payments to public institutions and enterprises amounting to 24 billion, up 10.1 percent, and 7.6 billion to special Treasury accounts, as against 3.5 billion a year earlier. As for personnel expenses, they take into account a 6 percent increase in its structural component and a 37 percent drop in payroll adjustments to 2.8 billion for the part served by the Personnel Expenses Department.

Table 4.2: Change and execution of public spending (In billions of dirhams)*

	Jan.-nov. 2019	Jan.-nov. 2020	Change in %	FA 2020	Achievements against the FA (%)
Overall spending	**281. 7**	**287. 1**	**1. 9**	**329. 8**	**87. 1**
Current spending	**223. 8**	**231. 6**	**3. 5**	**259. 0**	**89. 4**
Goods and services	160. 9	171. 0	6. 3	197. 3	86. 7
Personal**	115. 1	121. 4	5. 5	135. 9	89. 3
Other goods and services	45. 8	49. 6	8. 2	61. 4	80. 8
Debt interests	25. 5	26. 2	2. 7	28. 3	92. 5
Subsidy	13. 6	12. 9	-5. 1	11. 9	108. 5
Transfer to local governments	23. 8	21. 5	-9. 5	21. 5	100. 3
Investment	**57. 9**	**55. 5**	**-4. 1**	**70. 8**	**78. 4**

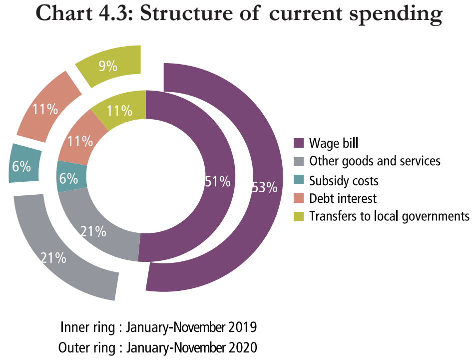
*Taking into account 30 percent of the VAT transferred to local governments.
** Social security charges relating to the employer's share, previously classified under other goods and services, have been included under staff expenditure.
Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Chart 4.2: spending execution compared to the amending FA

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

In addition, interest charges on debt were up 2.7 percent to 26.2 billion, covering increases of 1.3 percent to 22.5 billion in interest on domestic debt and 11.6 percent to 3.7 billion in interest on external debt.

Chart 4.3: Structure of current spending

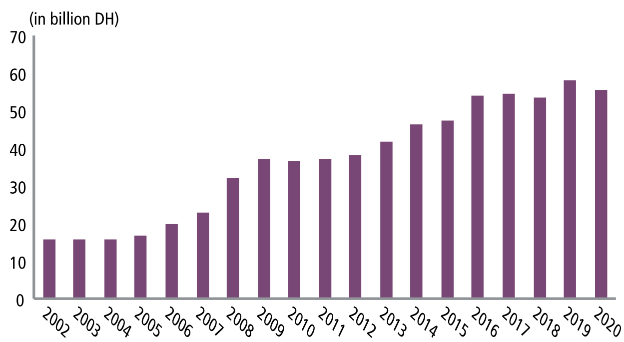


Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

As for subsidy costs, they eased by 5.1 percent to 12.9 billion at end-November 2020, representing an execution rate of 108.5 percent compared to the Amending Budget Act. According to the available data from the Subsidy Fund (SF), the average price of butane gas fell by 12.8 percent to an average of 366 dollars per tonne during the first eleven months of 2020, and the price of sugar rose by 3.8 percent to 304.1 dollars per tonne. Subsidy costs at end-October declined by 7 percent to 7.2 billion for butane gas and by 6.5 percent to 2.7 billion for sugar.

For their part, capital expenditures decreased by 4.1 percent to 55.5 billion, representing an execution rate of 78.4 percent compared to the Amending Budget Act, mainly reflecting the decrease in the ministries' expenditures. The monthly cash flow for November edged up 26 percent compared to the average monthly cash flow for the period from June to October and 19 percent compared to November 2019.

Chart 4.4: Investment spending, at end of November



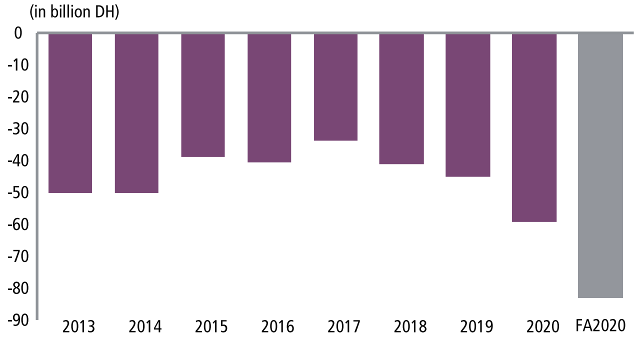
Source : Ministry of Economy and Finance and Administration Reform.

4.3 Deficit and Treasury Financing

Taking into account changes in revenues, expenditures and the special accounts of the Treasury, the fiscal deficit, excluding privatization receipts, widened from 14.2 billion dirhams to 59.2 billion dirhams at end-November 2020, taking into account the positive balance of 8.3 billion dirhams of the Special Fund for the

Management of the Covid-19 pandemic. In addition, the Treasury reduced its stock of pending operations by 1.4 billion, thus bringing the cash deficit to 60.6 billion, compared to 53.3 billion a year earlier.

Chart 4.5: Fiscal balance, at end of November



Source : Ministry of Economy and Finance and Administration Reform.

The financing requirements were covered by net domestic resources of 47.2 billion and net external financing of 13.4 billion. Gross external drawings stood at 32.4 billion, including 10.8 billion raised on the international financial market, 10.2 billion from the World Bank, 3.9 billion from the IMF and 3.4 billion from the ADB. In December, the Treasury carried out a new 3 billion dollars issue.

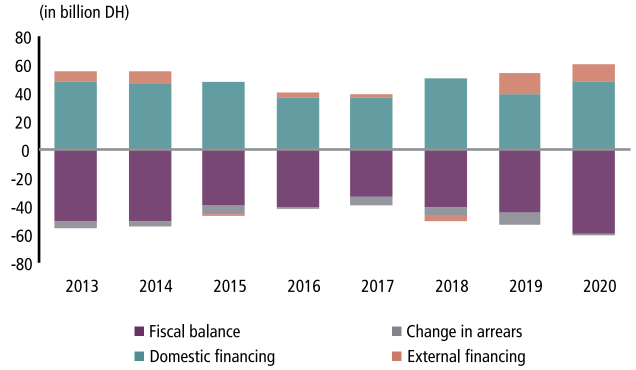
Table 4.3: Deficit financing (in billions of dirhams)

	Jan.-nov. 2019	Jan.-nov. 2020	FA 2020
Current balance	**8. 0**	**-14. 4**	**-15. 0**
Balance of TSA	4. 9	10. 7	3. 0
Covid-19 Fund	0. 0	8. 3	0. 0
Primary balance	-19. 5	-33. 0	-54. 5
Fiscal balance	**-45. 0**	**-59. 2**	**-82. 8**
Change in arrears	-8. 3	-1. 4	
Financing requirements	**-53. 3**	**-60. 6**	**-82. 8**
Domestic financing	35. 2	47. 2	39. 2
External financing	13. 7	13. 4	43. 6
Privatization	0. 0	0. 0	0. 0

* Taking into account the 30% of VAT transferred to local authorities (TC).
* Social security charges for the employer›s share, previously classified under other goods and services, have been included under personnel expenditure.
Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

With regard to domestic financing, the Treasury raised 58.4 billion on the auction market, instead of 21.2 billion a year earlier. The largest net subscriptions included 52-week bills for 16.4 billion, 5-year bills for 12.9 billion, 26-week bills for 11.6 billion, 30-year bills for 9.5 billion and 20-year bills for 6.2 billion. Net redemptions included 2-year, 15-year and 10-year bills for respective amounts of 22.3 billion, 7.1 billion and 6.5 billion respectively.

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



* Privatization receipts, limited and discontinued over time, were included in domestic financing.
Source : Ministry of Economy and Finance and Administration Reform.

Treasury financing conditions on the auction market remained favorable for the first eleven months of 2020, as evidenced by the decline in weighted average rates (WAR) for all maturities compared to the same period in 2019. The rates fell by 107 bps to 2.35 percent for 15-year maturities, by104 bps to 2.66 percent for 20-year bills and by 97 bps to 2.02 percent for 10-year bills. Similarly, declines were recorded for 26-week maturities by 74 bps to 1.49 percent, for 5-year maturities by 67 bps to 1.95 percent and for 13-week maturities by 60 bps to 1.59 percent.

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

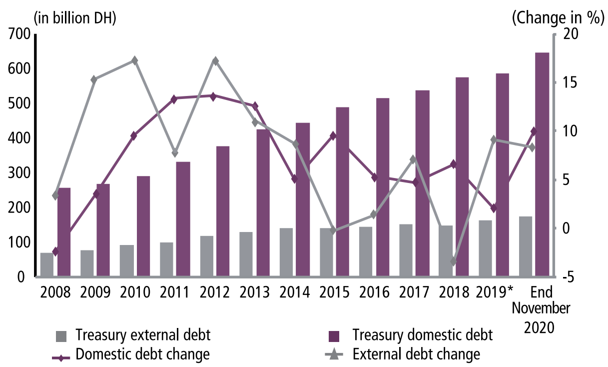
	2015	2016	2017	2018	2019	End nov. 2020*
Treasury external debt	**140. 8**	**142. 8**	**153. 2**	**148. 0**	**161. 5**	**174. 9**
Change in %	-0. 2	1. 4	7. 3	-3. 4	9. 1	8. 3
Treasury domestic debt	**488. 4**	**514. 7**	**539. 1**	**574. 6**	**586. 5**	**645. 0**
Change in %	9. 6	5. 4	4. 8	6. 6	2. 1	10. 0
Outstanding direct debt	**629. 2**	**657. 5**	**692. 3**	**722. 6**	**748. 0**	**820. 0**
Change in %	7. 3	4. 5	5. 3	4. 4	3. 5	9. 6

*Concerning debt at end october 2020, estimates are based on the flows of domestic and external financing.

Source : Ministry of Economy and Finance and Administration Reform.

In this context, estimates based on financing flows show a 9.6 percent increase in direct public debt compared to its level at end-December 2019, with a 10 percent increase in the domestic component and an 8.3 percent increase in the external component.

Chart 4.7: Treasury debt



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

*BAM estimates.

5. DEMAND, SUPPLY AND LABOR MARKET

National accounts data for the second quarter highlight the magnitude of the double economic shock caused by the Covid-19 pandemic and the adverse weather conditions. They indicate a contraction of the national economy by 14.9 percent, against a 2.4 percent growth one year earlier, with a 15.5 percent drop, instead of a 3.7 percent increase, in the added value of non-agricultural activities and a 6.9 percent decrease, after a 6 percent drop, in agricultural activities.

Owing in particular to the progressive deconfinement and the relative improvement in foreign demand to Morocco, activity would have recovered gradually in the third quarter in several sectors, though to varying degrees. In the fourth quarter, this recovery was slowed by the resurgence of the epidemic and the reintroduction of local and sectoral restrictions. Thus, activity in the non-agricultural sectors would have fallen back by 5.9 percent on average in the second half of the year, after a 3.5 percent increase, and by 4.7 percent, after a 5.7 percent decline in agriculture. Overall, GDP would have fallen by 5.8 percent on average in the second half of the year after posting an increase of 2.4 percent.

On the demand side, household consumption is reported to have continued declining, albeit moderately compared with the first half of the year, following the tightening of strict confinement. Investment, for its part, would have maintained its downward trend in a context marked by a high level of uncertainty and a fall in investment from Treasure. On the other hand, external demand would have made a positive contribution to growth, as a result of the slump of foreign demand and the contraction of purchases of various imported products.

This underperformance was reflected in the labour market situation, which showed a net loss of 581 thousand jobs in the third quarter compared to the same quarter in 2019, reflecting a decrease of 581 thousand jobs in the third quarter compared to the same quarter in 2019. This includes 260 thousand in services, 258 thousand in agriculture and 61 thousand in industry including handicrafts, and the creation of one thousand jobs in the construction industry. In addition, the hourly volume of weekly work has decreased by 14.6 percent, representing the equivalent of 1.46 million full-time jobs. Taking into account a net outflow of 214 thousand job seekers, unemployment rate worsened from 9.4 percent to 12.7 percent overall, from 12.7 percent to 16.5 percent in the cities and from 4.5 percent to 6.8 percent in rural areas.

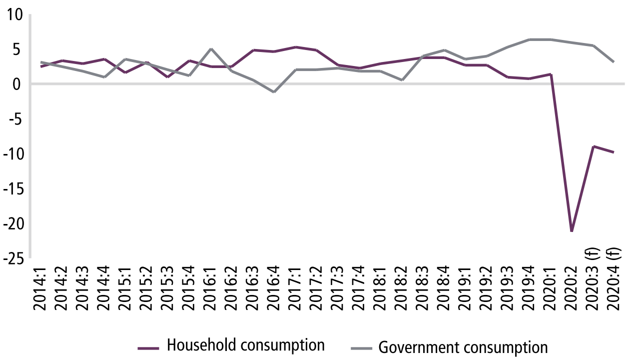
5.1 Domestic demand

5.1.1 Consumption

In the second quarter of 2020, National accounts data show a 21.2 percent contraction in household consumption as opposed to a 2.6 percent increase in the same quarter of the previous year.

In the second half of the current year and taking into account the lifting of strict confinement of the population and the increase in remittances from MREs, the decline in household consumption would have eased compared with the first half of the year, averaging around 9.4 percent.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP, and BAM forecasts.

The growth rate of final consumption of general government speeded up to 5.8 percent in the second quarter instead of 4 percent in the same period last year, bringing its contribution to growth to 1.1 percentage points, as against 0.8 in the same period a year earlier.

Over the last two quarters of the year, this component is estimated to have slowed from 5.9 percent, on average over the second half of the previous year, to 4.3 percent, mainly due to the lower transfers to local authorities and in the subsidy cost.

5.1.2 Investment

After having risen by 2.8 percent in the second quarter of 2019, investment fell by 10.2 percent in the same quarter of 2020. This decline continued in the second half of the year, with an average contraction of 9.2 percent given the persistent climate of uncertainty and the decline in Treasury investment. This trend is also evidenced by the available foreign trade data, which show a continued decline in imports of capital goods.

5.2 Foreign demand

In the second quarter, the volume of net exports of goods and services made a negative contribution to growth by 0.6 percentage points after -0.8 in the same period a year earlier. Indeed, imports of goods and services in volume terms fell by 25.7 percent instead of a 4 percent increase in the same quarter of 2019, while the volume of exports fell more sharply, by 32.9 percent after a 3 percent increase.

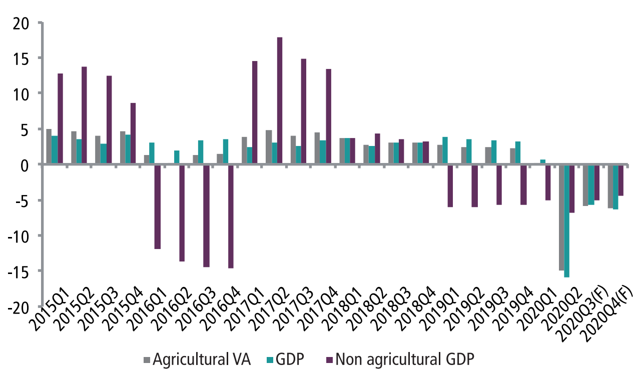
In terms of prospects, the rising sales of the automobile sector and the sustained shipments of phosphate suggest that the drop in the volume of exports of goods and services will ease to an average of 14.9 percent in the second half of 2020. At the same time, imports are expected to have fallen by 15.6 percent mainly as a result of a 41.6 percent drop in imports of energy products and a 14.4 percent fall in capital goods.

5.3 Overall supply

Spurred by the strict confinement of the population, activity in the second quarter of 2020 experienced a sharp contraction of 14.9 percent, after it rose by 2.4 percent one year earlier. This covers a 15.5 percent fall against an increase of 3.7 percent in the non-agricultural sectors and a further decrease of 6.9 percent, after 6 percent, in agriculture.

In the third quarter, activity would have recovered in several sectors of activity to varying degrees, though differentiated, mainly reflecting the deconfinement of the and the relative improvement in foreign demand to Morocco. However, this recovery is expected to slow in the fourth quarter due to the outbreak of the epidemic and the tightening of the restrictions. Thus, GDP would have decreased in the second half of the year by 5.8 percent in the first half instead of 2.4 percent. a year earlier. The added value of non-agricultural activities would have declined by 5.9 percent, after its 3.5 percent increase, while the agricultural value added would fall anew by 4.7 percent after 5.7 percent.

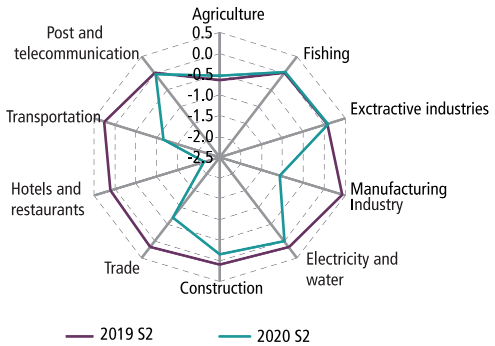
Chart 5.2: GDP per component (chained prices, change in %)



Sources: HCP data, and BAM forecasts.

Sectors wise, extractive industries would remain resilient in the second quarter, as their added value would increase by 3.7 percent, as against 2.6 percent one year earlier. Similarly, due to the higher demand for electricity further to the resumed activity in many economic sectors, especially in the third quarter, the added value of the "electricity and water" branch would have almost stagnated. On the other hand, activity would have dropped by around 7 percent in the processing industries and by 3.7 percent in the construction sector, as against respective increases of 2.7 percent and 1.8 percent one year earlier. Under this backdrop, the secondary sector may have decreased in average by 4.4 percent, after its 2.9 percent improvement.

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



Sources: HCP data, and BAM forecasts.

Tertiary activities are estimated to have declined by an average of 6.9 percent in the second half of the year, after having improved by 3.9 percent over the same period. By sector, added value would have fallen in the "hotels and restaurants" branch by 77.5 percent after it increased by 3.8 percent, while it grew by 27.5 percent in the transports sector after it rose by 6.6 percent, due to traffic disturbances, namely air, road, and railway traffic of passengers. In the commerce sector, added value would have dropped by 8.8 percent as against 2.1 percent for "post and telecommunications" branch, after it recorded respective rises by 2 percent and 0.1 percent.

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the third quarter of 2020 and the same period in 2019, the labour market situation showed a decline of 1.8 percent in the number of working people aged 15 and over to 11.6 million people. This change includes a decline of 5.3 percent in rural areas and a slight increase of 0.5 percent in the cities. Taking into account the rise in the working-age population, the activity rate fell from 44.9 percent to 43.5 percent overall, from 41.7 percent to 41 percent in urban areas and from 50.8 percent to 48 percent in rural areas.

At the same time, the economy lost 581 thousand jobs over the same period, against a creation of 143 thousand a year earlier, bringing the total number of employed people to nearly 10.2 million, down 5.4 percent. In addition, the total number of hours worked by week fell from 479 million hours to 409 million, down 14.6 percent or the equivalent of 1.46 million full-time jobs. By sector, the decrease amounted to 15.9 percent in construction, 15 percent in services, 14.6 percent in industry including crafts and 13.2 percent in agriculture.

5.4.2 Unemployment and underemployment

The unemployed labour force rebounded by 33 percent to almost 1.5 million people, and the unemployment rate rose sharply from 9.4 percent to 12.7 percent nationally, from 12.7 percent to 16.5 percent in the cities and from 4.5 percent to 6.8 percent in the rural areas. For young people aged 15 to 24 in particular, this rate increased overall by 5.6 points to 32.3 percent while for urban dwellers it rose by 6.8 points to 46.7 percent.

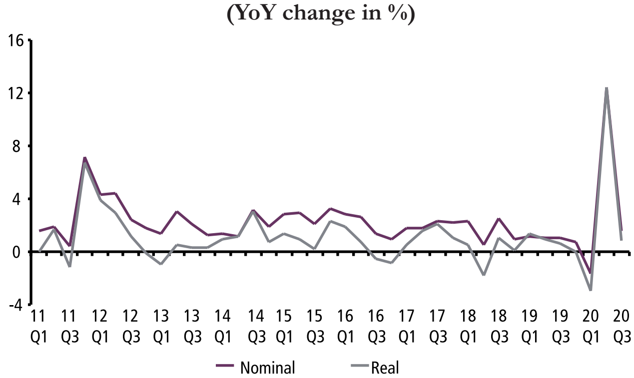
At the same time, underemployment[1] has increased from 9.1 percent to 11.6 percent nationally, from 7.8 percent to 10.5 percent in urban areas and from 10.8 percent to 13.3 percent in rural areas.

5.4.3 Productivity and wages

In non-agricultural activities, apparent labour productivity is estimated to have fallen again by 1.2 percent in the third quarter of 2020 after a 1.3 percent drop in the same quarter a year earlier. This trend reflects a 5.5 percent decline in added value and a 4.3 percent drop in the number of employees, following respective increases of 3.5 percent and 4.9 percent.

Meanwhile, average wages, calculated on the basis of CNSS data by dividing the wage bill by the number of employees, rose by 1.6 percent in nominal terms in the third quarter, up from 1.1 percent in the same period a year earlier, and by 0.9 percent in real terms instead of 0.7 percent.

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



Sources: CNSS, and BAM calculations.

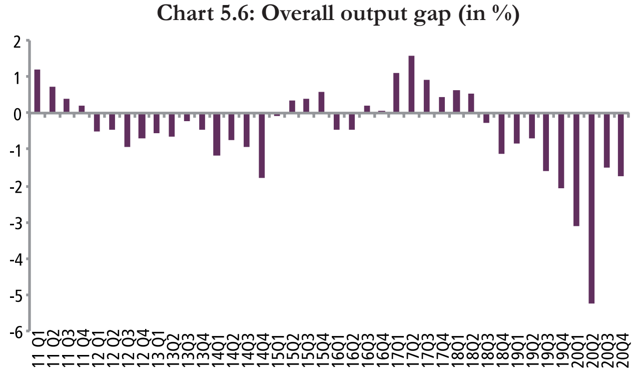
The hourly minimum wage stood in nominal terms at 14.81 Dirhams in the third quarter of 2020, up 5 percent year-on-year. taking into account a 0.7 percent rise in the consumer price index, it would have risen in real terms by 4.1 percent and is expected to rise by 4 percent in the fourth quarter.

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 is expected to ease in the third quarter before widening further in the fourth quarter.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

1 Underemployed population consists of people who have worked:
(i) during the reference week less than 48 hours but are willing and available to work overtime; or (ii) more than the threshold and who are looking for another job or are willing to change jobs because of the inadequacy of their training or qualification or the inadequacy of the income provided.

Table 5.1 : Labor market main indicators

		Q3 2019	Q3 2020
Participation rate (%)		**44. 9**	**43. 5**
Urban		41. 7	41
Rural		50. 8	48
Unemployment rate (%)		**9. 4**	**12. 7**
Youth aged between 15 and 24 years old		26. 7	32. 3
Urban		12. 7	16. 5
Youth aged between 15 and 24 years old		39. 9	46. 7
Rural		4. 5	6. 8
Job creation (in thousands)		143	-581
Urban		261	-237
Rural		-118	-344
Sectors			
- Agriculture		-204	-258
- Industry including handicraft		-26	-61
- Construction		37	1
- Services		336	-260
Nonagricultural apparent productivity (change in %)		**-1. 3**	**-1. 2**
Average wage index (change in %)	**nominal**	**1. 1**	**1. 6**
	Real	**0. 7**	**0. 9**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

In line with the projections of the previous MPR, inflation picked up in the third quarter of 2020, albeit at a faster pace than expected. After a stagnation of the general price level in the second quarter, inflation rose to 0.7 percent in the third quarter before reaching 1.3 percent in October. Its acceleration is largely due to the effect of supply shocks which affected some volatile food products and resulted in an increase of 7.8 percent in October instead of 1.4 percent in the third quarter. This change is also attributable to the increase in some regulated tariffs, particularly those for passenger road transport and certain medical services, thus raising the evolution of all these tariffs to 1.9 percent after 1.5 percent. On the other hand, the decline in the price of fuel and lubricants has become more pronounced, from 13.4 percent to 16 percent as a result of the fall in the international prices of petroleum products. Core inflation has weakened significantly to stand at 0.2 percent in October instead of 0.5 percent on average between July and September, within a context of sluggish demand.

In the fourth quarter of 2020, inflation is expected to accelerate slightly from the third quarter while remaining low. It would be around 0.9 percent and its underlying component would be close to 0.3 percent.

6.1. Inflation trends

Boosted by the dynamics of volatile food prices, inflation accelerated in the third quarter to 0.7 percent before reaching 1.3 percent in October. Rising prices of some regulated products, despite the absence of underlying regulatory decisions, also contributed to the upward movement in inflation, albeit to a lesser extent.

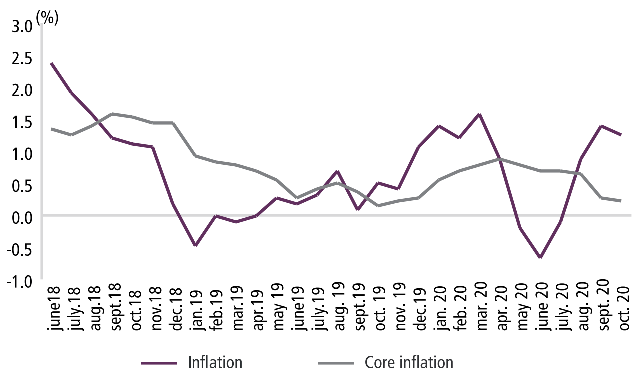
The effect of these developments was mitigated by the further decline in fuel and lubricant prices and the continued slowdown in underlying inflation, which fell to 0.2 percent after an average of 0.5 percent in the third quarter.

6.1.1. Prices of goods excluded from core inflation

As a result of the relatively persistent supply shocks, volatile food prices rose by 7.8 percent in October after an average of 1.4 percent in the third quarter. The price increase mainly concerned poultry and rabbit with 9.4 percent compared with a 12.1 percent fall, and fresh vegetables with 5.7 percent instead of a 0.3 percent fall. On the other hand, the growth rate of citrus fruit prices eased to 72.7 percent instead of 112.2 percent on average during the third quarter.

As regards their contribution to inflation, volatile food prices contributed 0.9 percentage points in October compared with an average contribution of 0.2 points in the third quarter.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

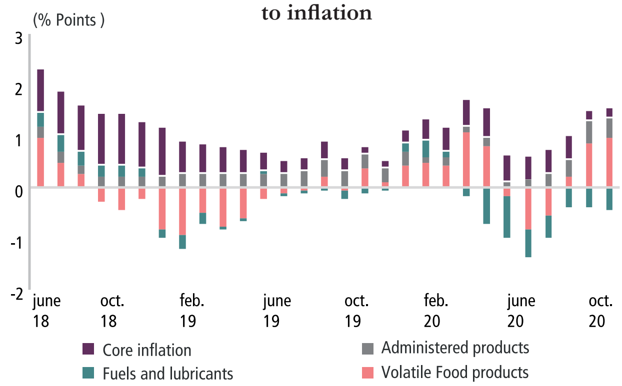
Table 6.1: Change in inflation and its components

(In %)	Monthly change			YoY change		
	aug. 20	sept. 20	oct. 20	aug. 20	sept. 20	oct. 20
Headline inflation	**1. 4**	**0. 3**	**0. 1**	**0. 9**	**1. 4**	**1. 3**
- Volatile food prices	8. 5	2. 6	1. 7	1. 7	7. 3	7. 8
- Administered prices	0. 3	0. 4	0. 1	1. 5	1. 9	1. 9
- Fuels and lubricants	0. 4	-1. 0	-1. 4	-13. 5	-12. 9	-16. 0
Core inflation	**0. 2**	**-0. 1**	**-0. 1**	**0. 6**	**0. 3**	**0. 2**
- Food products	0. 5	-0. 6	-0. 3	0. 1	-0. 3	-0. 5
- Clothing and footwear	-0. 2	0. 3	0. 3	0. 0	-0. 3	-0. 6
- Housing, water, gas, electricity and other fuels[1]	0. 0	0. 0	0. 2	1. 1	1. 1	1. 3
- Furniture, household equipment and routine house maintenance	0. 0	0. 1	0. 1	0. 1	0. 2	0. 5
- Health[1]	0. 0	0. 2	0. 0	0. 0	0. 3	0. 6
- Transportation[2]	0. 5	-0. 4	-0. 5	0. 9	0. 6	0. 4
- Communication	0. 1	0. 0	0. 0	-0. 3	-0. 2	-0. 1
- Entertainment and culture[1]	-0. 1	0. 1	0. 0	-1. 6	-1. 6	-1. 7
- Education	0. 0	1. 5	0. 3	3. 1	1. 5	1. 8
- Restaurants and hotels	0. 1	0. 1	0. 2	0. 6	0. 6	0. 8
- Miscellaneous goods and services [1]	0. 2	-0. 1	0. 0	1. 4	1. 3	1. 3

1 Excluding administered goods.
2 Excluding fuels and lubricants and administered products.

Sources: HCP, and BAM calculations.

Chart 6.2: Contribution of the prices of major components to inflation



Sources: HCP, and BAM calculations.

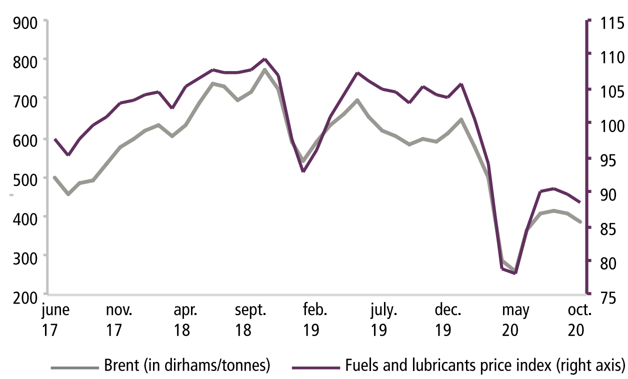
Prices for regulated products rose again by 1.9 percent in October after 1.5 percent in the third quarter. This increase is largely attributable to the continued rise in road passenger transport tariffs, with a cumulative increase of 13.2 percent in October after 9.7 percent in the third quarter, as a result of the reduced capacity imposed by the health restrictions put in place.

Overall, these prices contributed by 0.4 percentage points to inflation rise, as against 0.3 percent in the third quarter.

Prices of fuels and lubricants fell more sharply in October to 16 percent after their 13.4 percent decline in the previous quarter, as a result of the 1.45 percent rise in the value of the national currency against the dollar and the fall in international prices of petroleum products. In particular, the price of Brent crude fell to $40.5/bl in October after an average of $42.7/bl in the third quarter.

All in all, price developments for these products continue to make a negative contribution to inflation amounting to -0.5 percentage points in October instead of -0.4 percentage points on average in the previous quarter.

Chart 6.3: Change in international prices of Brent and the price index of fuels and lubricants (100=2017)

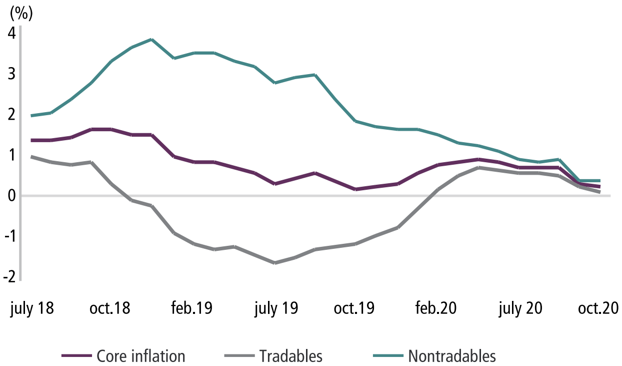


Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

The evolution of the underlying trend in inflation continues to be affected by the contraction in demand caused by the Covid 19 pandemic. Indeed, core inflation keeps on decelerating since May 2020, returning to 0.2 percent in October after a rate of 0.5 percent in the third quarter. In addition to the 0.5 percent drop in the prices of food products included, this underlying inflation trend particularly reflects the slowing pace of price changes from 2.5 percent to 1.8 percent for "education", from 0 percent to -0.6 percent for "clothing and footwear" and from 0.8 percent to 0.4 percent for "transport" excluding regulated products and prices of fuels and lubricants.

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



Sources: HCP, and BAM calculations.

The deceleration has affected the prices of both tradable and non-tradable products, though at different rates. The slowdown was more pronounced for tradable prices, which rose from an average of 0.4 percent in the third quarter to 0.1 percent in October. More particularly, price increases slowed down from 2.5 percent to 0.9 percent for "oils", from 4.4 percent to -0.4 percent. for "air transport" and from 0.5 percent to 0.1 percent for "motor cars".

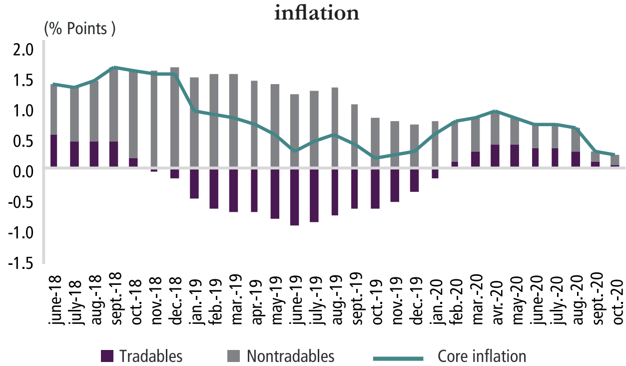
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	aug. 20	sept. 20	oct. 20	aug. 20	sept. 20	oct. 20
Tradables	0. 1	-0. 1	-0. 1	0. 4	0. 2	0. 1
Nontradables	0. 4	-0. 2	0. 0	0. 9	0. 4	0. 4
Core inflation	**0. 2**	**-0. 1**	**-0. 1**	**0. 6**	**0. 3**	**0. 2**

Sources: HCP, and BAM calculations.

For their part, prices of non-tradable products rose by 0.4 percent instead of 0.7 percent in the previous quarter, reflecting a smaller increase in prices for secondary, post-secondary and higher education, "fresh meat" and "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

Inflation is expected to remain low in the fourth quarter of 2020, albeit slightly higher than in the previous quarter. Inflation should thus stand at 0.9 percent after 0.7 percent in the third quarter. This trend would be attributable to the expected acceleration in the growth rate of volatile food prices and of regulated tariffs.

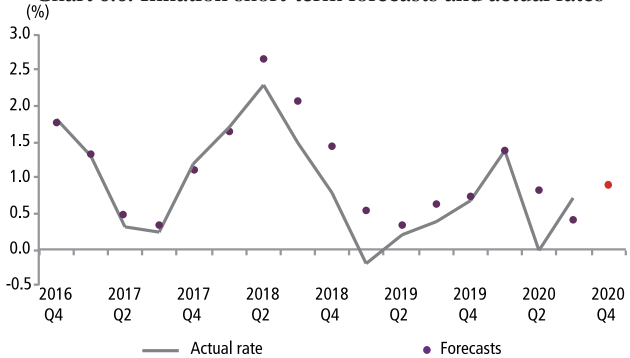
Indeed, high-frequency data on volatile wholesale food prices suggest that they would rise by progressively 6.5 percent after 1.4 percent a quarter earlier.

The continued effect of previous increases in tariffs of road transport and of medical services in October 2020 is expected to bring the increase in regulated tariffs to 1.9 percent after 1.5 percent, thus making a positive contribution to the inflation rise in the last quarter of 2020.

In turn, prices of fuels and lubricants would post a year-on-year decline of 15 percent instead of 13.4 percent in the third quarter, driven by the expected downward trend in the prices of petroleum products over the next two months.

On the other hand, core inflation is expected to slow down again during this quarter to 0.3 percent after 0.5 percent in the previous quarter.

Chart 6.6: Inflation short-term forecasts and actual rates



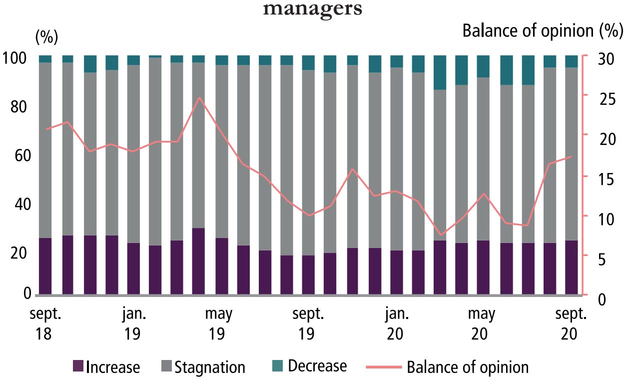
The forecast differences observed between Q1 2018 and Q1 2020 are partly related to the May 2020 HCP overhaul of the CPI. Thus, the CPI base 100=2006 is now replaced by 100=2017

Source: BAM.

6.3. Inflation expectations

Results of Bank Al-Maghrib's economic survey in the industry for the month of October 2020 indicate that 72 percent of the enterprises surveyed expect inflation to stagnate over the next three months, as 23 percent anticipate an increase while 6 percent expect a decrease. The balance of opinion thus comes out at 17 percent.

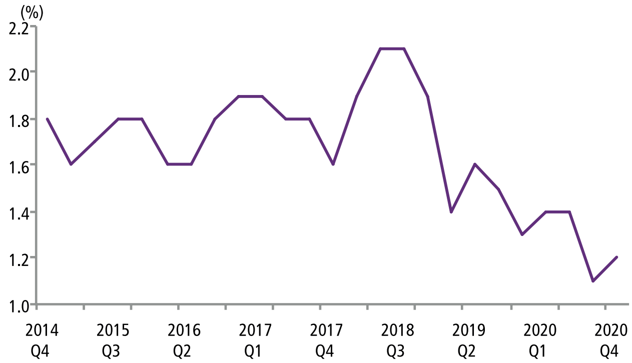
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

In addition, results of Bank Al-Maghrib's survey of inflation expectations for Q4-2020 indicate that financial experts forecast inflation of 1.2 percent over the next eight quarters, instead of 1.1 percent a quarter earlier.

Chart 6.8: Inflation expectations by financial experts*

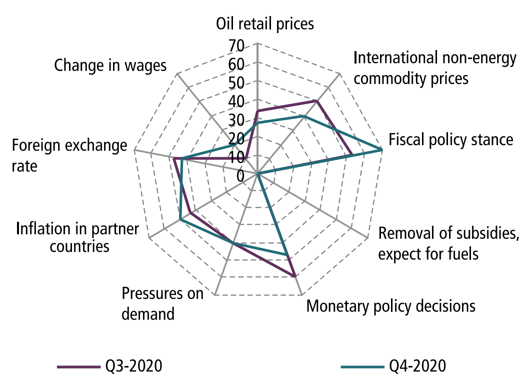


Source: BAM's quarterly survey on inflation expectations.

* As of the 2nd quarter 2016, the anticipation horizon has been raised to 8 quarters instead of 6 quarters.

The latter consider that the future trend of inflation would depend mainly on the orientations of fiscal policy as well as on inflation in partner countries.

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



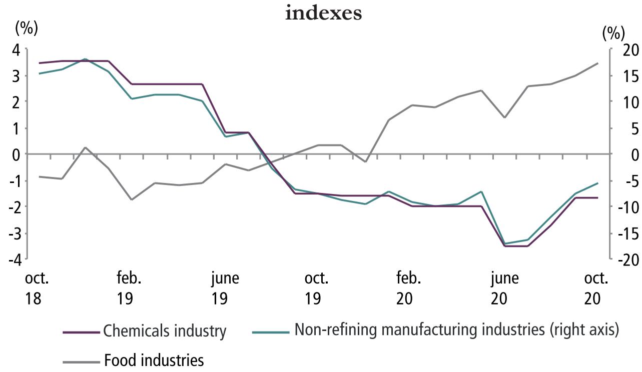
Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Producer prices

After a prolonged decrease throughout the last five quarters, the producer price index saw its decline ease to 1.1 percent in October instead of 2.4 percent in the third quarter. This development mainly reflects less pronounced falls in producer prices to -8.4 percent after 13.4 percent for the "chemical industry" and to -5.4 percent against -7.6 percent in the third quarter for "metallurgy". For their part, growth rate of the producer prices in the "food industry" speeded up from 2.8 percent to 3.4 percent.

On average over the first ten months of 2020, producer prices were down by 2 percent compared to their average level recorded during the same period in 2019.

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



* According to the HCP, due to the sanitary lockdown in force since 20 March 2020, the permanent survey of producer prices could not identify all the prices. The missing prices were allocated according to the recommendations of the Producer Price Index Manual.

Source: HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Despite the optimism surrounding the development of vaccines against the Covid-19 virus, global economic activity continues to suffer from the effects of the health crisis. The new restrictions introduced in several countries to contain the second wave of contamination are expected to weigh on global economic activity in the medium term. Global GDP is expected to decline by 4.2 percent in 2020 before growing by 5.8 percent in 2021 and 3.4 percent in 2022. The pace of recovery will depend heavily on the evolution of the pandemic and the timeline for the large-scale availability of vaccines. In advanced economies, the contraction would reach 3.5 percent in the United States in 2020 and rebound is expected over the rest of the forecast horizon. In the euro zone, GDP would fall sharply in 2020 and the expected recovery in 2021 and 2022 would be sustained, particularly in the euro zone. particularly through the new "Next Generation EU" recovery instrument. In the United Kingdom, the economy would experience a sharp contraction in 2020, and then recover in 2021 and 2022, depending in particular on of the outcome of the Brexit negotiations.

As for the main emerging countries, China quickly resumed growth in the second and third quarters and remains the only major economy to post positive growth in 2020. Its growth is expected to accelerate significantly in 2021 and 2022. On the other hand, in India, economic activity would continue suffering from severe difficulties in controlling the spread of the virus in 2020, before recording a net recovery in 2021 and 2022. In Brazil, in addition to the impact of the pandemic, fiscal difficulties constitute another constraint to the recovery of economic activity in the medium term.

In the commodities market, continued uncertainty about the demand recovery and the renewed containment measures in several advanced and emerging economies continue to weigh on energy prices, despite the increases recorded after the latest promising announcements on vaccine development. For example, the price of Brent crude oil is expected to fall to an average of 41.9 USD/bl in 2020, before rising to 52.4 USD/bl in 2021 and 58.1 USD/bl in 2022. As for raw phosphate prices, they are expected to decline in 2020 while the price of DAP would continue its upward trend in the medium term.

Against this background, the downward inflationary pressures resulting from contracting demand and low commodity prices outweigh the upward effect of supply disruptions. These downward pressures gradually ease over the remainder of the forecast period with the anticipated recovery in demand. Inflation in the euro area would be well below the ECB target and would fall significantly in the United States in 2020, before accelerating in the medium term.

Domestically, the current account deficit is expected to reach 4.2 percent of GDP in 2020, up from 4.1 percent in 2019, down from the September forecast. As for FDI revenues, they should be higher than expected at 2.3 percent of GDP. Taking into account the international drawdowns of the Treasury and a total amount of grants planned at 4.3 billion, the official reserve assets would end the year at 321.9 billion dirhams, equivalent to 7 months and 26 days of imports of goods and services. Over the rest of the forecast horizon, the current account deficit is expected to narrow to 3.3 percent of GDP in 2021 and to stand at 3.9 percent in 2022 and FDI receipts would return to their average level of around 3.1 percent of GDP. Assuming grant inflows of 4.4 billion in 2021 and 1.6 billion in 2022 and expected outflows from the Treasury in both years, the ORA would stand at 324.9 billion at the end of 2021 and 321.5 billion at the end of 2022, or the equivalent of slightly more than 7 months of imports of goods and services.

With regard to public finance, and taking into account budget implementation at end November 2020 and data from the 2021 Finance Act, the budget deficit is expected to stand at 7.7 percent of GDP in 2020 and to decrease to 6.5

percent of GDP in 2021. In 2022, it should continue easing, albeit at a slow pace, to 6.4 percent of GDP, assuming in particular a gradual recovery in tax revenues and higher spending, particularly on goods and services and investment.

Monetary conditions would remain accommodative overall. Indeed, the Bank has put in place several measures to facilitate the financing of the economy and strengthen the capacity of the banking system to meet the needs of businesses and households. Taking into account the revised growth in activity, the need for liquidity, the expected effects of the Intelaka programme and the support and recovery measures, as well as the projections of the banking system, credit to the non-financial sector should increase by 4.3 percent in 2020 and 2021 and by 4.5 percent in 2022. Meanwhile, the real effective exchange rate would end the year 2020 with a relative appreciation and would be slightly down on average over the rest of the forecast horizon.

Under the combined effect of the Covid-19 pandemic and unfavourable weather conditions, national economy would experience a strong recession in 2020, with a projected rate of -6.6 percent. This contraction is slightly larger than expected in September, reflecting falls of 6.6 percent in non-agricultural added value and 5.3 percent in the agricultural sector. Over the rest of the forecast horizon, economic recovery is subject to strong uncertainties, mainly because of the degree of control of the pandemic at both national and international level. Growth should, according to the central projection scenario, jump to 4.7 percent in 2021 before consolidating at 3.5 percent in 2022. Assuming an annual cereal harvest of 75 MQx, these developments would reflect increases 13.8 percent and 2 percent respectively in the agricultural added value and a gradual improvement of 3.3 percent and then 3.6 percent of non-agricultural added value.

In this context, inflation is expected to rise moderately to 0.7 percent in 2020, after a rate of 0.2 percent in 2019, driven by the expected rise in volatile food prices. Its underlying component is expected to remain low at 0.5 percent. Over the remainder of the forecast horizon, the negative impact of the Covid-19 pandemic on demand and the resulting downward pressure on prices is expected to ease only gradually. Inflation is projected to remain almost stable at 0.6 per cent in 2021, before accelerating to 1.3 per cent in 2022, particularly in line with the projected narrowing of the negative gap between domestic demand and its trend level.

7.1 Underlying assumptions

A deep global recession in 2020

Notwithstanding the encouraging results achieved with regard to the development and efficacy of several vaccines, global economic activity continues to suffer from the effects of the Covid-19 crisis, particularly following the introduction of new restrictions in several countries to counter the second wave of contagion. World GDP is expected to fall by 4.2 percent in 2020 before rebounding by 5.8 percent in 2021 and then by 3.4 percent in 2022. The pace of the expected recovery will heavily depend on the evolution of the pandemic and the large-scale availability of vaccines.

In the United States, the GDP would contract by 3.5 percent in 2020 before growing by 4.6 percent in 2021 and 2.5 percent in 2022. In the euro area, growth would fall to -7.9 percent in 2020 and then rise to 4.1 percent in 2021 and 2.5 percent in 2022, particularly driven by the new "Next Generation EU" recovery instrument. In the United Kingdom, economy is expected to contract sharply by 11.6 percent in 2020, followed by growth of 3.6 percent in 2021 and 2.5 percent in 2022. However, the pace of recovery over the next two years will depend heavily on the outcome of the Brexit negotiations.

On the job markets, unemployment in the United States is expected to rise sharply to 8.1 percent in 2020 before declining to 6.7 percent in 2021 and then to 6.3 percent in 2022. In the euro zone, the impact of the pandemic is expected to be contained owing to the use of employment-maintenance measures. The unemployment rate is expected to rise slightly to 7.9 percent in 2020, then to 8.1 percent before falling back to 6.8 percent in 2022.

In the main emerging countries, China, which stands out by its rapid return to growth in the second and third quarters, remains the only major economy to post positive GDP growth in 2020. Its growth is expected to be around 1.4 percent in 2020 and to accelerate to 8.3 percent in 2021 and then to 5 percent in 2022. On the other hand, the serious difficulties encountered in controlling the spread of the virus in India continue to weigh on economic activity. Indeed, GDP is expected to fall by 10.1 percent in 2020, before growing by 11.5 percent in 2021 and 7.2 percent in 2022. In Brazil, in addition to the pandemic, budgetary difficulties continue to hamper the recovery of economic activity. Thus, the country would experience a strong recession of -6.0 percent in 2020 and the recovery would be limited to 3.7 percent in 2021 and 2.9 percent in 2022.

Chart 7.1: Growth in the euro area

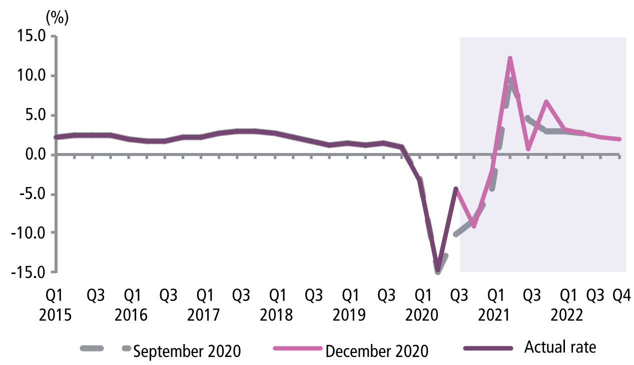
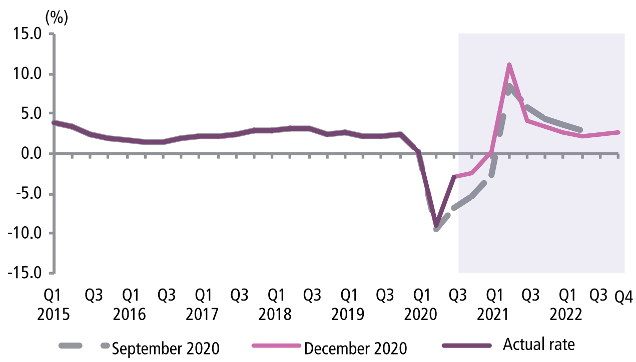


Chart 7.2: Growth in the USA



Source: GPMN[1] forecasts of November 2020.

1 Global Projection Model Network.

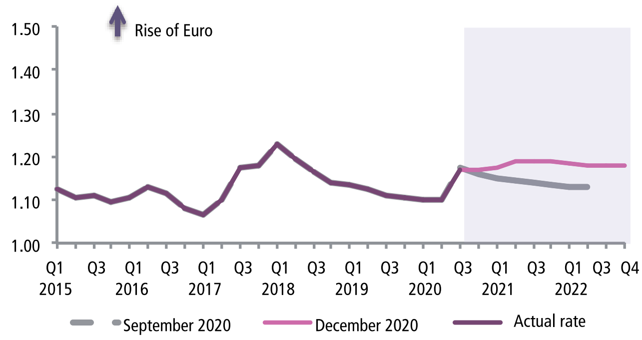
Continued monetary and fiscal support and short-term strengthening of the euro against the dollar

Faced with the economic and social fallout from the Covid-19 pandemic, central banks in both advanced and emerging countries have maintained an accommodative monetary policy stance. Thus, the ECB, while keeping its key interest rates unchanged, decided, at the end of its meeting on 10 December, to strengthen and extend its quantitative easing measures. As such, in addition to continuing its net purchases under the asset purchase programme, it specifically announced an increase in the envelope of the Pandemic emergency purchase programme by 500 billion euros, bringing it to 1,850 billion, and extending its horizon at least until the end of March 2022. At the same time, the reinvestment of principal payments from maturing Treasury securities acquired under this programme is extended at least until the end of 2023. In addition, the Bank decided to extend the significantly more favourable conditions applied to the third round of targeted longer-term refinancing operations until June 2022 and to increase the amount that can be borrowed under these operations. As for the FED, it decided, at the end of its meeting on 4 and 5 November, to keep the target range for the federal funds rate unchanged at [0 percent-0.25 percent]. It announced that it plans to keep the range at this level until labour market conditions have reached levels consistent with the Committee's assessments of maximum employment and until inflation has risen to 2 percent and is on track to moderately exceed this rate for some time. It also indicated that it will will increase its purchases of securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions.

At the budgetary level, in addition to individual responses, EU member countries reached an agreement on the next long-term EU budget 2021-2027 and on a temporary instrument for recovery (Next Generation EU) amounting to 750 billion euros. In the United States, an amount of 2.2 trillion dollars has been mobilised to support people and businesses affected by the pandemic under the "CARES Act" funding plan. Furthermore, new "CARES Act 2" fiscal stimulus measures are currently under discussion.

In the foreign exchange markets, the pressures arising from the lack of consensus on the "CARES Act 2" plan and the increased appetite for risky assets in emerging countries following optimism about the development of Covid-19 vaccines, resulted in a further weakening of the US dollar against the euro. The euro is expected to appreciate by 1.4 percent to an average of 1.14 dollars in 2020 and by 4.5 percent to 1.19 dollars in 2021, an upward revision compared with the September projections, before stabilising at 1.18 dollars in 2022.

Chart 7.3: USD/ EUR exchange rate



Source: GPMN forecasts of November 2020.

Slower upturn in energy commodity prices in connection with the resumed containment measures and the persisting disinflationary pressures

Despite increases following recent promising announcements on the development of several vaccines, continued uncertainties about the recovery in demand and the resumption of containment measures in several advanced and emerging economies continue to weigh on oil prices. Forecasts have therefore been adjusted slightly downwards, anticipating an average price of 41.9 USD/bl in 2020, down 34.5 percent year on year, before rising to 52.4 USD/bl in 2021 and 58.1 USD/bl in 2022.

As for phosphate and its derivatives, the price of crude oil is expected to fall by 14.7 percent to 75 USD/t in 2020, before rebounding by 4 percent to 78 USD/t in 2021 and by 3.8 percent to 81 USD/t in 2022. The price of DAP, which rebounded by 23 percent in the third quarter, is expected to rise by 1.2 percent to 310 USD/t for the year as a whole, reflecting production disruptions in China, strong demand in the main crop-producing regions, Mosaic's petition in the United States against phosphate imports from Morocco and Russia, and the rise in sulphur prices. In the medium term, the World Bank is expecting increases of 2.6 percent to 318 USD/t in 2021 and 2.5 percent to 326 USD/t in 2022.

Food prices have been on the rise over the first eleven months of the year, mainly reflecting higher prices of vegetable oils and cereals. They are expected to end the year up by 2.1 percent, after falling by 0.8 percent in 2019, then rise by 4.6 percent in 2021 and 1.1 percent in 2022.

In 2020, the pandemic has curbed demand and caused a downward effect on inflation, outweighing the upward effect of supply disruptions. In the euro area, inflation is expected to be much lower than the ECB's objective. It would thus fall from 1.2 percent in 2019 to 0.3 percent in 2020, before rising to 0.6 percent in 2021 and 1.2 percent in 2022. In the United States, it would slow down from 1.8 percent in 2019 to 1.3 percent in 2020 and would accelerate to average 2.5 percent in 2021 and 2.4 percent in 2022.

Chart 7.4: Brent price

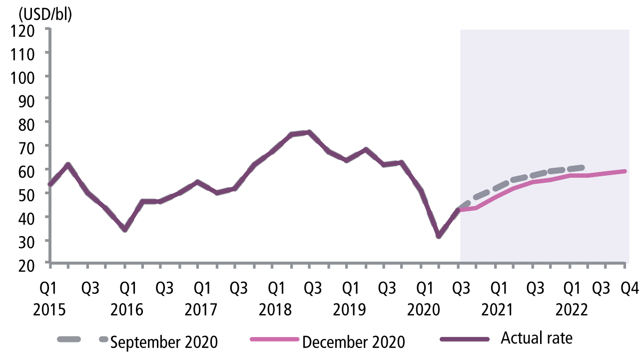


Chart 7.5: FAO food product price index (2014-2016=100)

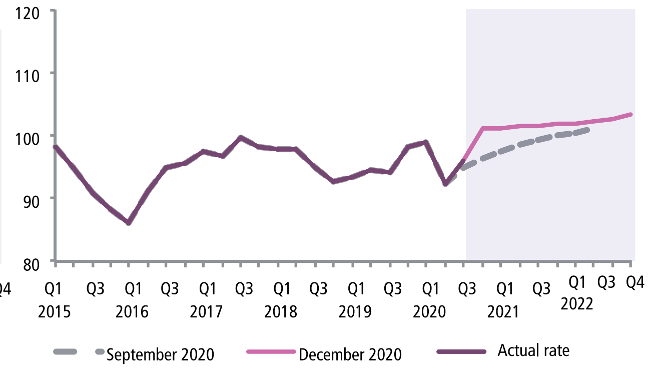


Chart 7.6: Inflation in the euro area

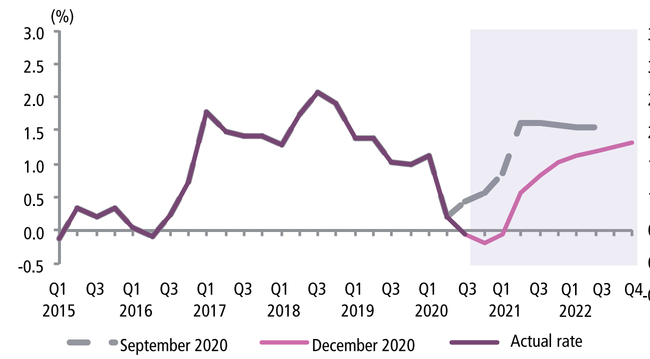
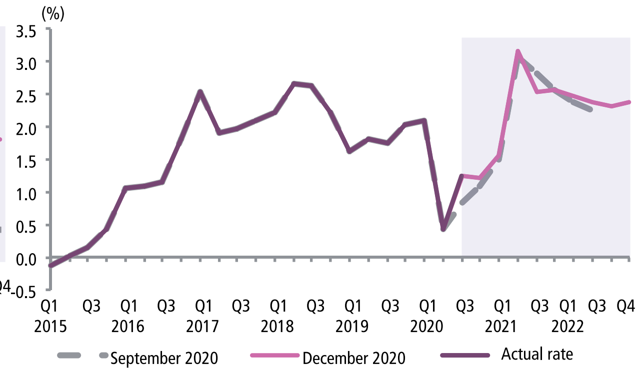


Chart 7.7: Inflation in the United states



Source: GPMN forecasts of November 2020.

32 million quintals of cereal production in 2020 and average harvests expected in 2021 and 2022.

Nationally, according to the Ministry of Agriculture, the final cereal harvest for the 2019-2020 crop year amounted to 32 million quintals (MQx), down by 39 percent compared to the previous year and 60 percent compared to the average of the last five crop years. For the 2020-2021 crop year, forecasts made by the Ministry of Agriculture are maintained, assuming increases of 29 percent in citrus fruits, 14 percent for olives and 4 percent for dates, as well as an average cereal production of 75 MQx and a continued trend performance of other crops. For the 2021-2022 crop year, projections are based on a cereal harvest of 75 MQx and a continued trend performance in other crops.

7.2 Macroeconomic projections

Downturn in foreign trade in 2020

Taking mostly into account the provisional foreign trade data at end October 2020, the current account deficit is expected to stand at 4.2 percent of GDP in 2020, after 4.1 percent of GDP in 2019. It should narrow to 3.3 percent of GDP in 2021 and to 3.9 percent in 2022.

After its 3.3 percent increase in 2019, exports should fall by 9 percent in 2020, essentially linked to the expected downturn in sales in the automobile sector and, to a lesser extent, in the textile industry. For their part, imports of goods are expected to end the year with a 14.3 percent drop in 2020 after a 2 percent increase in 2019, mainly due to a lower energy bill and a decline in the acquisition of finished consumer goods. Concerning travel revenues, they should drop to 29 billion dirhams, down by 63.2 percent. Resilience of transfers from MREs in the face of the crisis is confirmed, with an expected increase of 1.6 percent over the year as a whole. Concerning FDI inflows, they should end the year at a level equivalent to 2.3 percent of GDP after 2.9 percent of GDP in 2019.

Ultimately, taking into account the international drawdowns by the Treasury and a total amount of projected grants of 4.3 billion over the year as a whole, official reserve assets should stand at 321.9 billion, the equivalent of 7 months and 26 days of imports of goods and services.

In the medium term, growth in exports is expected to accelerate to 9.7 percent in 2021 before returning to 6.8 percent in 2022, driven in particular by higher sales in automobile construction, assuming sustained production, notably at the PSA plant. Imports are expected to increase by 9.1 percent in 2021 and 9.7 percent in 2022, mainly as a result of a rise in the energy bill and an increase in the purchase of capital goods. Travel receipts, while remaining at pre-crisis levels, are expected to recover gradually in 2021 and 2022 while remittances from MREs are expected to increase by 6.3 percent in 2021 and 2 percent in 2022. FDI inflows are projected to return to their average level, around 3.1 percent of GDP.

Taking these developments into account, and assuming an inflow of grants of 4.4 billion in 2021 and 1.6 billion in 2022 and expected outflows from the Treasury in both years, official reserve assets would be 324.9 billion at the end of 2021 and 321.5 billion at the end of 2022, providing coverage of just over 7 months of imports of goods and services.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates				Forecasts			Gap (dec./sept.)	
	2016	2017	2018	2019	2020	2021	2022	2020	2021
Exports of goods (FOB)	3. 5	10. 3	10. 7	3. 3	-9. 0	9. 7	6. 8	7. 5	-12. 7
Imports of goods (CAF)	10. 3	6. 7	9. 9	2. 0	-14. 3	9. 1	9. 7	3. 1	-7. 9
Travel receipts	5. 0	12. 3	1. 2	7. 8	-63. 2	72. 4	44. 3	6. 4	-32. 6
Expatriate remittances	4. 0	5. 3	-1. 5	-0. 2	1. 6	6. 3	2. 0	6. 6	3. 9
Current account balance (% of GDP)	**-4. 1**	**-3. 4**	**-5. 3**	**-4. 1**	**-4. 2**	**-3. 3**	**-3. 9**	**1. 8**	**1. 9**
Official reserve assets, in months of imports of goods and services	**6. 4**	**5. 6**	**5. 3**	**7. 0**	**7. 9**	**7. 2**	**7. 1**	**1. 0**	**0. 4**

Sources: Foreign Exchange Office and BAM forecasts.

Deceleration of the pace of bank credit to the non-financial sector

The real effective exchange rate (REER) would end the year 2020 with a slight appreciation of 0.4 percent, mirroring a rise of the dirham against the US dollar and the currencies of some emerging countries, notably the Chinese yuan and the Turkish lira. Over the rest of the forecast horizon, it would decrease by 0.6 percent on average, as a result of a loss in the value of the dirham, particularly against the euro and a level of domestic inflation lower than that of partner countries and commercial competitors.

Based on the expected evolution of foreign exchange reserves and paper money, bank liquidity deficit should reach 65.3 billion dirhams at end 2020, 85.2 billion dirhams at end 2021 and 112 billion dirhams at end 2022. The annual growth rate of bank credit to the non-financial sector slowed down from 6.2 percent in the second quarter to 5.6 percent in the third quarter, covering a slackening growth of loans granted to private enterprises, a consolidated recovery of loans to public enterprises and a slight pick-up in the increase of loans to households. In terms of prospects, and taking into account the revised growth, the need for liquidity, the expected effects of the Intelaka programme and the support and stimulus measures as well as the expectations of the banking system, credit to the non-financial sector should increase by 4.3 percent in 2020 and 2021 and by 4.5 percent in 2022. Given these conditions, and taking into account the evolution of the other sectors, the counterpart to the money supply, M3 growth should reach 7.9 percent in 2020 and around 3.5 percent in 2021 and 2022.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts			Gap (dec./sept.)	
	2016	2017	2018	2019	2020	2021	2022	2020	2021
Bank lending to the nonfinancial sector	3. 9	3. 8	3. 1	5. 5	4. 3	4. 3	4. 5	0. 8	0. 5
M3	4. 7	5. 5	4. 1	3. 8	7. 9	3. 6	3. 4	2. 5	-0. 7
Liquidity surplus or deficit, in billion dirhams	-14. 7	-40. 9	-69. 0	-62. 3	-65. 3	-85. 2	-112. 0	16. 7	24. 6

Worsening fiscal position due to the pandemic

The budget deficit is expected to reach 7.7 percent of GDP in 2020, instead of the 7.9 percent forecast in September.This revision mainly takes into account tax revenue achievements at the end of November 2020 and a downward revision of the GCC grants.

For the year 2021, the overall deficit has been revised upwards to 6.5 percent of GDP, rather than the 5.1 percent forecast in September, mainly incorporating data from the 2021 Finance Law. These forecasts include higher tax revenues, taking into account BAM's projections for economic growth. On the expenditure side, those of goods and services are expected to increase, while the subsidy burden is expected to decrease. On the other hand, investment expenditure is projected to be around 6 percent of GDP, after 6.6 percent of GDP in 2020.

For the year 2022, assuming a gradual recovery of economic activity, higher expenditure, particularly operating and investment expenditure, and an unchanged clearing system, the budget deficit is expected to be 6.4 percent of GDP, 0.1 points lower than in 2021.

Sharp contraction of the economy in 2020 and expected recovery over the next two years

Under the combined effect of the Covid-19 pandemic and unfavourable climatic conditions, national economy would undergo a severe recession in 2020. The contraction of GDP would appear slightly larger than expected in September, at 6.6 percent instead of 6.3 percent, due to a downward revision of non-agricultural added value. The latter should in fact fall by 6.6 percent, down by 0.3 percentage points, taking into account the more unfavourable than expected performance in the second quarter. For its part, agricultural added value is expected to fall by 5.3 percent, unchanged from the previous forecast. In terms of demand components, this deterioration would reflect a negative contribution to growth in domestic demand. Indeed, household final consumption would be penalised by the restrictions intended to contain the spread of the pandemic and by the contraction of both agricultural and non-agricultural incomes. Similarly, investment would decline, hampered by the persistence of strong uncertainties. Conversely, public administration consumption should continue to rise. At the same time, participation in the growth of net exports would be slightly positive, with the expected contraction in the volume of imports of goods and services which is expected to outweigh that of exports, mainly as a result of the contraction of foreign demand in Morocco and the total or partial suspension of activity in several export-oriented sectors during lockdown.

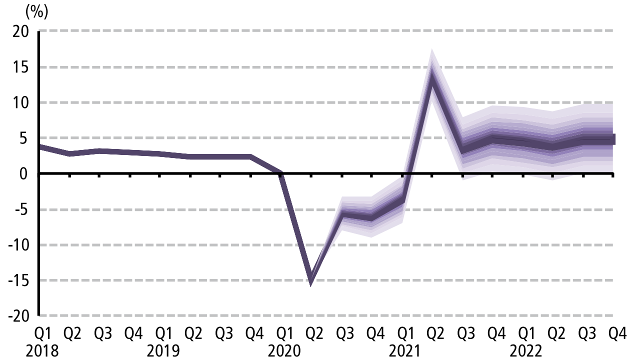
Over the rest of the forecast horizon, economic recovery is highly dependent on the evolution of the pandemic and on timing for the widespread availability of vaccines both nationally and internationally. In this context, growth is projected to pick up to 4.7 percent in 2021 according to the central projection scenario, unchanged from the forecast communicated in September, before consolidating at 3.5 percent in 2022.These developments would reflect an increase, assuming in particular an average cereal harvest of 75 MQx annually, by 13.8 percent in 2021 and 2 percent in 2022 in agricultural added value and a gradual improvement of 3.3 percent and then 3.6 percent in non-agricultural added value, albeit at lower rates than those observed in 2019. On the demand side, domestic demand is expected to strengthen, mainly supported by the expected improvement in incomes, the anticipated revival in the confidence of economic operators as well as by programmes aimed at supporting and promoting investment. On the other hand, the contribution to the growth of net exports would be almost zero on average, reflecting higher imports of goods and services and recovered exports, owing, on the one hand, to the expected strengthening of foreign demand and, on the other hand, to the gradual return to normal of the activity of the automobile sector in particular.

Table 7.3: Economic growth

Change in %	Actual rates				Forecasts			Gap (dec./sept.)	
	2016	2017	2018	2019	2020	2021	2022	2020	2021
National growth	**1. 1**	**4. 2**	**3. 1**	**2. 5**	**-6. 6**	**4. 7**	**3. 5**	**-0. 3**	**0. 0**
Agricultural VA	-13. 7	15. 2	3. 7	-5. 8	-5. 3	13. 8	2. 0	0. 0	1. 2
Nonagricultural VA	2. 1	2. 9	2. 9	3. 8	-6. 6	3. 3	3. 6	-0. 3	-0. 4
Net tax on subsidies	8. 8	3. 1	4. 6	2. 0	-8. 1	5. 0	4. 5	-1. 3	0. 5

Sources: HCP data, and BAM forecasts.

Chart 7.8: Growth outlook over the forecast horizon (Q3 2020 - Q4 2022), (YoY)*



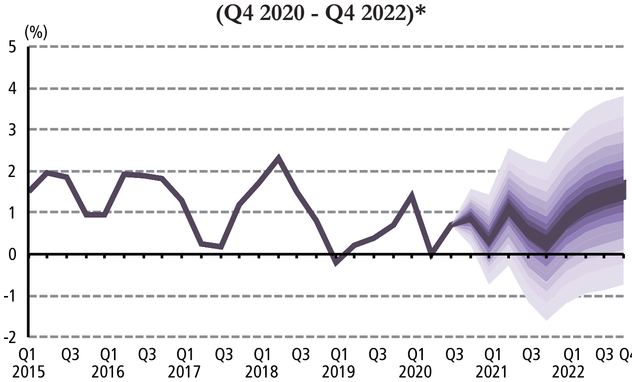
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Low inflation levels in 2020 and 2021 and projected acceleration in 2022

Following its 0.2 percent rate in 2019, inflation is expected to rise moderately to 0.7 percent in 2020, driven mainly by the expected rise in volatile food prices. This forecast has been adjusted upward compared to the one released in September following the supply shocks to these products. Meanwhile, its underlying component is expected to remain low at 0.5 percent, stagnating from one year to the next. For their part, the prices of regulated products should experience a slight slowdown in their growth, reflecting the successive increases in passenger road transport tariffs, while those of fuels and lubricants would decline, in line with the evolution of international oil prices.

Over the remainder of the forecast horizon, the negative impact of the Covid-19 pandemic on demand and the resulting downward pressure on prices is expected to ease over only a gradual period. Inflation is expected to remain almost stagnant at 0.6 percent in 2021 before accelerating to 1.3 percent in 2022, while its underlying component is projected to be 0.6 percent, before rising to 1.5 percent, mainly as a result of the predicted narrowing of the negative gap between domestic demand and its trend level.

Chart 7.9: Inflation forecast over the forecast horizon (Q4 2020 - Q4 2022)*



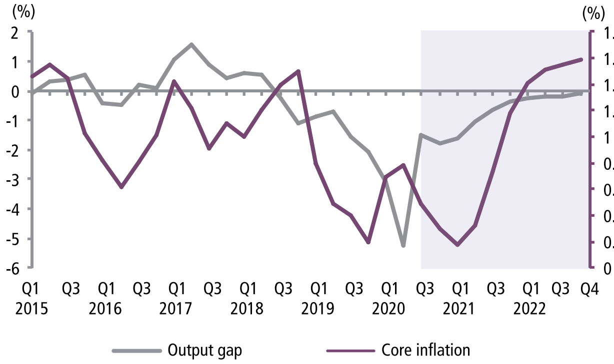
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Table 7.4: Inflation and core inflation

	Actual rates				Forecasts				Gap (dec./sept.)	
	2016	2017	2018	2019	2020	2021	2022	Horizons of 8 quarters (Q4 2020-Q3 2022)	2020	2021
Inflation	**1. 6**	**0. 7**	**1. 6**	**0. 2**	**0. 7**	**0. 6**	**1. 3**	**0. 8**	**0. 3**	**-0. 4**
Core inflation	0. 8	1. 3	1. 3	0. 5	0. 5	0. 6	1. 5	0. 9	-0. 1	-0. 1

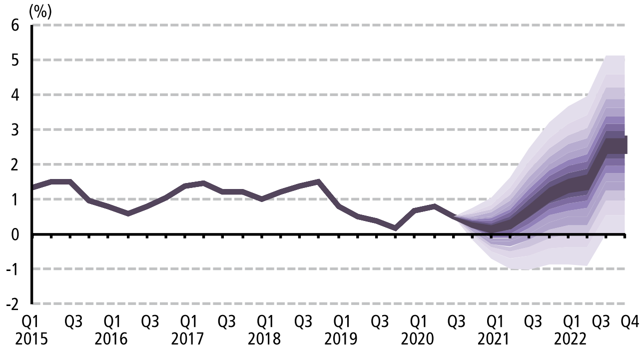
Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap



Sources: HCP, and BAM forecasts and calculations.

Chart 7.11: Projections of core inflation over the forecast horizon (Q4 2020 - Q4 2022)*



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

7.3 Balance of risks

Forecasts remain surrounded by an exceptionally high level of uncertainty, reflecting the evolution of the pandemic and the logistics of implementing a medical solution, both at national and international level. The future of Sino-American trade relations and the Brexit negotiations also accentuate the risks surrounding the outlook.

The balance of risks for both growth and inflation appears to be tilted upwards. As regards growth, a possible acceleration of the pandemic both domestically and internationally could have more pronounced than expected effects on the productive capacity of the economy and on the confidence of economic operators and could result in a weaker than expected recovery of economic activity. On the other hand, announcements about the effectiveness of the first Covid-19 vaccines developed and the large-scale vaccination initiative both in Morocco and among several of its economic partners have spurred optimism that the economy will recover more quickly, although the logistics of its implementation remain a major challenge. In addition, the strategic fund dedicated to investment could induce greater than expected positive effects on the confidence of economic operators and on growth. At the same time, the agricultural production for the current crop year, which heavily depends on the climatic conditions that will prevail over the next few months constitutes an internal risk factor for growth. As for inflation, downside risks could persist, particularly in connection with a more lasting impact of the pandemic on domestic demand. However, the uncertainties surrounding the medium-term estimate of the magnitude of the double supply and demand shock underlying price developments at both the domestic and international levels are significant. Upward pressure on the prices of some commodities could arise from disruptions in supply chains, rising production costs, or low domestic agricultural production.

LIST OF ABBREVIATIONS

ANCFCC : National Land Registry Office
APC : Cement manufacturers professional association
AMMC : Autorité Marocaine des Marchés de Capitaux (Morroccan 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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