BANK AL-MAGHRIB

MONETARY POLICY REPORT

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FOREWORD

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

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

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

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

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

The Governor, Chairman,

The Director General

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

Mrs. Mouna CHERKAOUI

Mr Mohammed DAIRI

Mrs Najat EL MEKKAOUI

Mr. Larabi JAÏDI

Mr Mustapha MOUSSAOUI

Mr. Fathallah OUALALOU

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

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 21, 2021

1. The Board of Bank Al-Maghrib held its last quarterly meeting for the year 2021 on Tuesday, December 21.

2. During this meeting, the Board analysed the evolution of the national and international environment as well as the Bank›s medium-term macroeconomic projections. In this respect, the Board noted that overall economic activity has recovered significantly this year, boosted by the progress of the vaccination campaign and the maintaining of fiscal and monetary stimulus. Nevertheless, the new waves of the pandemic in a number of partner countries and the restrictions that national authorities have had to implement reinforce the uncertainties surrounding the economic outlook. The Board also took note of the provisions of the 2022 Finance Act.

3. Based on all of these analyses, the Board considered that the monetary policy stance remains broadly accommodative, ensuring adequate financing conditions. In particular, the Board deemed the current level of the policy rate to be appropriate and thus decided to keep it unchanged at 1.50 percent.

4. The available data on consumer prices show significant increases in recent months in some food products, fuels and lubricants. This evolution is essentially the result of external pressures linked to the surge in their prices on the international markets. This was reflected in a marked acceleration in the underlying component of inflation which rose from an average of 0.7 percent in the first half of the year to 2 percent in the third quarter and to 3.3 percent in November. According to Bank Al-Maghrib's projections, it should amount to 1.7 percent on average for the whole of this year and stand at 2.7 percent in 2022 before returning to 1.8 percent in 2023 with the expected dissipation of external pressures. Despite this sharp increase in its core component, inflation is expected to remain at contained levels, rising from an average of 0.7 percent in 2020 to 1.4 percent in 2021, to 2.1 percent in 2022, and then revert to 1.4 percent in 2023.

5. Internationally, after this year's recovery, the pace of economic activity will be largely dependent on the evolution of the pandemic, which has been marked in recent weeks by a strong resurgence of infections. Thus, after a contraction of 3.5 percent in 2020 and the rebound of 5.9 percent expected this year, the growth of the world economy would decelerate to 4 percent in 2022 then to 3.1 percent in 2023. In the major advanced economies, GDP is expected to rise in the United States by 5.5 percent in 2021, 3.3 percent in 2022 and 2 percent in 2023. A similar trend would be observed in the euro zone, with GDP growth falling from 5.2 percent to 4 percent and then to 1.6 percent. In the labor markets, the situation is expected to improve significantly in the United States, where the unemployment rate is expected to drop to 5.4 percent in 2021, 4.1 percent in 2022 and 3.8 percent in 2023, nearly the same level as before the crisis. In the euro zone, this

rate is expected to fall to 7.7 percent and to be below 7 percent in the next two years, for the first time since the creation of the single currency. In the main emerging countries, growth in China is expected to be 8.1 percent this year, slowing to 5 percent in 2022 and 5.9 percent in 2023. In India, it would stand at 7.6 percent before accelerating to 10.8 percent and then returning to 6.4 percent.

6. On the commodity markets, the uptrend in energy prices induced by the recovery in global demand was strongly accentuated, particularly for natural gas and coal, which registered historic records. For oil, the price of Brent crude reached $85.8/bl in October, its highest since late 2014, and is expected to average $71.8/bl in 2021, then $75.1/bl in 2022, before declining to $70.4/bl in 2023. Food products' prices have risen significantly in 2021, reflecting in particular increases in sugar and vegetable oil prices which reached in November 38 percent and a 51.4 percent respectively year-on-year, and are expected to remain well above pre-crisis levels for the next two years. For phosphate and derivatives, prices have risen sharply this year and are expected to remain high in 2022, before falling in 2023. In particular, the DAP price would end the year up 89 percent at $590/t on average and would reach $600/t in 2022 before declining to $450/t in 2023. For phosphate rock, the price would increase by 58 percent to 120 US$/t in 2021 and would remain close to this level for the next two years.

7. The increase in commodity prices, combined with improved demand, bottlenecks in some goods production and rising freight costs continue to exert strong pressure on consumer prices. Inflation in the euro area is expected to exceed the ECB's target, reaching 2.5 percent on average this year and 3 percent in 2022, before returning to 2 percent in 2023. In the United States, inflation surged 6.8 percent in November, hitting its highest pace for the past 4 decades, and is expected to reach 4.7 percent on average in 2021, accelerate to 6.1 percent next year, and then decelerate to 3.7 percent in 2023.

8. In response to these inflationary pressures, several central banks in both developed, emerging and developing economies have tightened their monetary policies by raising rates and/or reducing their asset purchase programs. Thus, at its December 14-15 meeting, while keeping the target range for the federal funds rate unchanged at [0-0.25 percent], the FED decided to double the reduction pace of its asset purchases to $20 billion for Treasury securities and $10 billion for mortgage-backed securities starting next January. Similarly, the ECB decided on December 16 to keep its key rates unchanged, to put an end to its Pandemic Emergency Purchase Program in March 2022 and to strengthen its Asset Purchase Program before starting to gradually reduce it.

9. At the domestic level, progress made in the Covid-19 vaccination campaign, continued fiscal and monetary stimulus, as well as a very good agricultural season will lead to an economy rebound by 6.7 percent this year, with increases of 18.8 percent in agricultural value added and 5.3 percent in non-agricultural activities. Over the next two years, the activity pace will remain largely dependent on national and international health situation and restrictions that the authorities may put in place accordingly. Hence, following Bank Al-Maghrib's projections, in the central scenario, growth would be consolidated to 2.9 percent in 2022 and to 3.4 percent in 2023. The value added of non-agricultural activities would continue to improve at a rate of 3.2 percent in 2022 and 3.4 percent in 2023 and, assuming an average cereal harvests of 75 MQx annually, the value added

of the agricultural sector would fall by 2.8 percent in 2022 and increase by 2 percent in 2023. On the labor market, the 2021 third quarter data show a clear recovery with a creation of 642 thousand jobs and a net entry of 607 thousand job seekers. The activity rate has increased by 1.6 percentage points to 45.1 percent and the unemployment rate declined by 0.9 percentage points to 11.8 percent.

10. Regarding external accounts, and after a sharp decline in 2020, trade has significantly recovered this year. Exports are expected to grow by 21.7 percent, buoyed by the increase of prices of phosphate and derivatives and sales in the automotive sector, despite the difficulties in supplying semiconductors to the industry worldwide. At the same time, imports are expected to grow by 22.9 percent, mainly due to the rise in the energy bill, higher price of raw materials and the increase in purchases of finished consumer goods. As for travel receipts, they continued to be impeded by health restrictions with a further expected drop of 9.2 percent to 33.1 billion dirhams, while transfers by Moroccans living abroad should rebound by 38.9 percent reaching an all-time high amount of nearly 95 billion dirhams. Considering these developments, the current account deficit would widen from 1.5 percent to 2.5 percent of GDP this year. Over the forecast horizon, the export dynamic would continue in 2022, mainly driven by the expected increase in car manufacturing sales, before fading in 2023, with the decline in phosphate fertilizer prices. At the same time, the growth of imports would gradually slow down in line with the decline in energy prices. As for travel receipts, their trend would depend largely on developments in the health situation and should stand, based on the central scenario, at 43.4 billion in 2022 and 70.9 billion in 2023. On the other hand, remittances of Moroccans living abroad would gradually return to levels in line with their pre-crisis trend, dropping by 23.2 percent to 72.8 billion dirhams in 2022 and by 1.9 percent in 2023 to 71.4 billion dirhams. Under these conditions, the current account deficit would widen further to 5.3 percent of GDP in 2022 before narrowing to 4.9 percent in 2023. As for financial operations, FDI receipts should be equivalent to 2.5 percent of GDP this year, 3 percent of GDP in 2022 and 3.5 percent of GDP in 2023. Overall, and considering in particular the projections on the external financing of the Treasury, the official reserve assets would stand at 330.4 billion at end-2021, 341.6 billion in 2022 and 345.7 billion in 2023, thus ensuring the coverage of more than 6 months and 20 days of imports of goods and services.

11. In terms of monetary conditions, the real effective exchange rate is expected to end the year with a slight appreciation of 0.6 percent, reflecting the rise in nominal terms of the dirham against the euro in particular. It is expected to depreciate over the forecast horizon, mainly as a result of a lower domestic inflation compared to partner and competitor countries. As for the overall average lending rate, it almost stabilized at 4.35 percent in the third quarter, with a quarterly increase of 13 points for loans to companies and stability for loans to individuals. For its part, banks' need for liquidity increased to 83.2 billion dirhams in the third quarter, reflecting the rise in currency in circulation. It is expected to ease as a result of the strengthening of foreign exchange reserves to stand at 64.4 billion dirhams at end-2021, before increasing to 70 billion dirhams at end-2022 and 83.6 billion dirhams at end-2023. Concerning bank credit to the non-financial sector, it maintained a moderate growth after the completion of the granting phase of the state-guaranteed loan programs put in place in 2020. Taking into account the economic outlook and the projections of the banking system, its outstanding amount is expected to rise by 3.7 percent this year, a pace that would consolidate to 3.4 percent in 2022 before accelerating to 4.4 percent in 2023.

12. On the public finance front, with one month to go before the end of the 2021 fiscal year, the situation of the Treasury's expenses and resources shows an overall deficit, excluding proceeds from the sale of State holdings, of 68.8 billion dirhams, up 9 billion dirhams from one year to the next. Ordinary revenues improved by 11.1 percent, driven by higher tax receipts. At the same time, overall spending rose by 9.3 percent, due in particular to increases in expenditure on goods and services, subsidy costs and transfers to local authorities. Taking into account a 12.1 billion reduction in the stock of pending transactions, the financing requirement stood at 80.9 billion. It was covered by domestic resources up to a net amount of 69.4 billion, of which 41.3 billion were drawn from the domestic debt market, by a positive net external flow of 6.1 billion and by receipts from the sale of State holdings of 5.4 billion. In light of these developments in addition to the data included in the 2022 Finance Act and the economic growth forecasts, fiscal deficit, excluding income from the sale of State holdings, would reach 6.9 percent of GDP this year, before dropping to 6.3 percent in 2022 and 5.8 percent in 2023.

13. Finally, the Board validated the Bank's budget for the year 2022, approved the strategy for the investment of foreign exchange reserves and the internal audit program, and set the dates for its regular meetings for the same year on 22 March, 21 June, 27 September and 20 December.

OVERVIEW

In a context marked by a further deterioration in the health situation, insufficient and uneven deployment of vaccinations, persistent supply problems and high commodity prices, the latest data on the international economic situation show a slowdown in activity in both the main advanced and emerging countries.

Thus, after the rebound in the second quarter linked to a base effect, growth in the United States stood at 4.9 percent in the third quarter, compared with 12.2 percent one quarter earlier. It also slowed to 3.7 percent after 14.2 percent in the euro area, reflecting slowdowns to 2.6 percent in Germany, 3.3 percent in France and 4 percent in Italy. In the United Kingdom, the pace of activity slowed to 6.6 percent after 23.6 percent, on the backdrop of a downturn in business investment. In the main emerging countries, the available data indicate a slowdown to 4.9 percent after 7.9 percent in China, to 8.5 percent after 18.8 percent in India and to 4 percent instead of 12.3 percent in Brazil.

On the labor markets, the situation continues to improve in the majority of advanced countries. In the United States, the unemployment rate fell to 4.2 percent in November after 4.6 percent in October, although job creation fell from 531 thousand to 210 thousand. In the euro area, the rate fell slightly to 7.3 percent from 7.4 percent a month earlier. It stagnated at 3.3 percent in Germany and decreased slightly from 7.7 percent to 7.6 percent in France and from 14.6 percent to 14.5 percent in Spain.

On the stock markets, stock prices were up overall in November, with monthly increases of 4.2 percent for the EuroStoxx 50, 2.3 percent for the Dow-Jones and 1.4 percent for the FTSE 100. Among the emerging economies, the MSCI EM Composite Index declined by 0.5 percent, reflecting declines of 1.5 percent for China and 5.3 percent for Brazil.

On the sovereign bond yields, after an upward trend, 10-year Treasury yields fell slightly between October and November to an average of 1.56 percent for the US, -0.25 percent for Germany and 0.03 percent for France. In the emerging economies, yields rose sharply in Turkey, where the rate increased by a further 49 bp to 19.18 percent. In the other main emerging economies, the yield was virtually unchanged at 6.34 percent for India, 2.91 percent for China and 12.24 percent for Brazil.

On the foreign exchange market, reflecting the prospect of faster normalization in the United States, the euro depreciated between October and November by 1.7 percent against the US dollar. As for the currencies of the main emerging countries, the Chinese renminbi and the Indian rupee depreciated by 0.5 percent and 0.6 percent, respectively, against the dollar. On the other hand, uncertainties surrounding the direction of monetary policy in Turkey and the prospect of higher US interest rates continue to weigh on the Turkish lira. In November, the Turkish lira depreciated against the dollar by 17.1 percent month-on-month and by 46 percent since the beginning of the year. The pace of bank lending accelerated in October to 7.4 percent in the US and 3.4 percent in the euro area.

Regarding commodities, oil prices remain at high levels, with the price of Brent crude averaging $83.65 per barrel in October, up 12.1 percent month-on-month and 53.3 percent year-on-year. Excluding energy, prices were up by 30 percent year-on-year, reflecting the 42 percent increase in metals and ores and 20.8 percent for agricultural products. As for phosphates and derivatives, prices were up overall, with annual appreciations of 84.4 percent to $147.5/t for raw phosphate, 88.4 percent to $672.9/t for DAP, and more than doubled for TSP to $618/t.

Rising commodity prices, combined with improved demand, production bottlenecks for some goods, and rising freight costs, continue to generate strong inflationary pressures. Indeed, inflation in the United States reached a new peak of 6.8 percent in November, after 6.2 percent a month earlier, while in the euro are it continued to accelerate to 4.9 percent after 4.1 percent.

In response to these tensions, several central banks in both advanced and emerging and developing economies tightened their monetary policies by raising rates and/or reducing their asset purchase programs. At its 14-15 December meeting, while keeping the target range for the federal funds rate unchanged at [0-0.25 percent], the Fed decided to double the pace of its asset purchases to $20 billion for Treasury securities and $10 billion for mortgage-backed securities starting next January. Similarly, the ECB decided on 16 December to keep its key rates unchanged, end its emergency pandemic purchase program (EPPP) in March 2022 and strengthen its asset purchase program (APP) before gradually reducing it.

At the national level, the latest national accounts data for the second quarter show a 15.2 percent year-on-year expansion in GDP, reflecting an 18.6 percent increase in agricultural value added and a 14.8 percent increase in non-agricultural activities. On the demand side, this evolution includes a positive contribution of 18.2 percentage points from the domestic component and a negative contribution of 3 percentage points from the external component.

On the labor market, the situation has improved significantly between the third quarter of 2021 and the same period of 2020, with a creation of 642 thousand jobs, almost half of which in the services sector, after a loss of 581 thousand a year earlier. Considering a net entry of 607 thousand job seekers, the activity rate increased by 1.6 point to 45.1 percent and the unemployment rate fell from 12.7 percent to 11.8 percent.

Regarding foreign trade, the data at the end of October show a widening -- compared to the same period of 2020 -- of the trade deficit of 34.5 billion to reach 164.2 billion dirhams, resulting from increases of 44.6 billion in exports and 79 billion in imports. Thus, the coverage rate has returned from 62.4 percent to 61.3 percent. The improvement of exports concerns all sectors, with an acceleration of the progression of the sales of the automotive sector of 12.4 percent and those of phosphate and derivatives of 47.2 percent. For its part, the increase in imports is attributable to the 32.1 percent increase in purchases of finished consumer products, 43.2 percent increase in imports of 43.1 percent in the purchase of energy products and 12.8 percent in the import of capital goods. At the same time, the decline in travel receipts continued to ease, falling from 17.6 percent at the end of August to 6.1 percent at the end of September and 0.7 percent at the end of October. For their part, transfers from Moroccan expatriates continued their exceptional rise, with an increase of 43.3 percent.

Regarding the main financial operations, FDI receipts rose by 12.6 percent while Moroccan direct investments abroad amounted to 14 billion after 6.3 billion during the same period of 2020. As for official reserve assets, they stood at 320.7 billion dirhams at the end of October, equivalent to 6 months and 23 days of imports of goods and services.

As regards monetary conditions, banks' need for liquidity increased to 83.2 billion dirhams on weekly average during the third quarter, against 66.3 billion dirhams one quarter earlier. Under these conditions, Bank Al-Maghrib increased the overall volume of its injections to 97 billion dirhams on average. Monetary conditions were also marked by a quasi-stability of the real effective exchange rate and of the overall average lending rate at 4.35 percent, with in particular a 13-point increase of the rates applied to loans to companies and a stability of those to individuals. Bank lending to the non-financial sector increased from 3.3 percent to 3.5 percent, reflecting an acceleration in the rate of growth of loans to private non-financial companies.

In terms of public finances, budget execution for the first eleven months of 2021 was broadly in line with the programming of the Budget Law. The budget deficit, excluding proceeds from the sale of State holdings, stood at 68.8 billion, a year-on-year increase of 9 billion. Ordinary expenditure rose by 9.5 percent to $253.8 billion, reflecting mainly increases of 6.9 percent in expenditure on goods and services, 44.5 percent in compensation and 20.9 percent in transfers to local authorities. At the same time, ordinary revenues improved by 11.1 percent, reflecting increases of 11.6 percent in tax revenues and 5.4 percent in non-tax revenues. Hence, the ordinary balance showed a deficit of 12.2 billion, compared with 14.4 billion a year earlier. Investment expenditure rose by 8.6 percent, with an implementation rate of 89.2 percent, bringing total expenditure to 314.5 billion, an increase of 9.3 percent. Under these conditions, the outstanding direct public debt would have increased by 5.7 percent compared with its level at the end of December 2020. As for the Treasury's financing conditions, they remain favorable, as evidenced by the decline in the weighted average rates for securities issued by auction.

On the asset market, real estate prices rose slightly by 0.2 percent in the third quarter, with a 1.5 percent increase in land prices and decreases of 0.5 percent and 0.9 percent in residential and business property prices, respectively. As for the number of transactions, after the significant increase of 23.7 percent recorded in the second quarter, it has declined by 40.9 percent overall, 45.1 percent for sales of residential property and 41.5 percent for those of land, while acquisitions of property for professional use have experienced a slight increase of 1 percent. At the level of the Casablanca Stock Exchange, the MASI appreciated by 6.3 percent at the end of the third quarter, reflecting the increases of the sectoral indices of "buildings and construction materials" by 11.2 percent, banks by 6.8 percent and telecommunications by 3.6 percent. As for the volume of transactions, it dropped to 16.1 billion after 17.5 billion dirhams a quarter earlier. In this context, the market capitalization recorded a quarterly increase of 6.2 percent to 677.3 billion dirhams.

Regarding consumer price inflation, it accelerated to 1.7 percent in October, after averaging 1.4 percent in the third quarter of 2021. This development reflects the significant rise in its underlying component to 3.1 percent instead of 2 percent in a context marked by the surge in international commodity prices and by disruptions in the supply and production chains of certain goods at the international level. For their part, prices of fuels and lubricants continued to rise at a rapid pace, i.e., 21.2 percent in October instead of 14.3 percent on average in the third quarter. On the other hand, the 4.6 percent decline in volatile food prices after the 1.8 percent average decline between July and September, as well as the slowdown in the rate of increase in regulated tariffs to 0.2 percent after 1 percent, are helping to keep inflation at a moderate level.

The global economic outlook remains surrounded by considerable uncertainty due to persistent bottlenecks in some production chains, rising commodity prices, strong inflationary pressures, and the evolution of the pandemic. After a contraction of 3.5 percent in 2020, the world economy is expected to rebound by 5.9 percent in 2021, before slowing to 4 percent in 2022 and 3.1 percent in 2023. In the United States, it is expected to reach 5.5 percent this year, before slowing to 3.3 percent in 2022 and 2 percent in 2023, as the effects of the fiscal stimulus policy wear off. In the Euro Area, it would be 5.2 percent, then slow to 4 percent in 2022 and 1.6 percent in 2023. In the United Kingdom, the repercussions of the Brexit and the end of the short time working program will continue to weigh on activity, with growth expected to reach 6.8 percent in 2021, before decelerating to 2.9 percent in 2022 and 1.1 percent in 2023.

In the main emerging countries, shortages of electrical energy and the consequences of the crisis in the real estate sector will slow the pace of recovery in China this year. However, it would remain among the highest in the world at 8.1 percent but would hover around 5 percent and 6 percent in 2022 and 2023. In India, industrial production suffered from high input costs and supply difficulties in 2021 and is expected to recover gradually in 2022. Growth is expected to be 7.6 percent in 2021, accelerating to 10.8 percent in 2022 and then returning to 6.4 percent in 2023.

Commodity markets have continued to rise, mainly due to the recovery in economic activity. Oil prices have risen, with the price of Brent crude expected to rebound from $42.3/bl in 2020 to an average of $71.8/bl in 2021, then to $75.1/bl in 2022, before falling back to $70.4/bl in 2023. For foodstuffs, prices have increased in 2021, reflecting the rise in sugar and vegetable oil prices, but are expected to follow a downward trend in 2022, as the shocks dissipate. For phosphate and derivatives, prices moved to high levels in 2021, a situation that is expected to continue in 2022 before declining in 2023. In particular, the price of raw phosphate is expected to end 2021 up by 58 percent to an average of $120/t, then to rise by 8.3 percent to $130/t in 2022, before falling to $110/t in 2023. For DAP, the price would end the year up 89 percent to $590/t and should reach $600/t in 2022 before falling back to $450/t.

Higher commodity prices, combined with supply chain disruptions, higher freight costs and the recovery of economic activity, have led to increased inflationary pressures in both advanced and emerging countries. Inflation is expected to rise to 4.7 percent in 2021 in the United States, and to continue rising to 6.1 percent in 2022 before slowing to 3.7 percent in 2023.

In the euro area, inflation is expected to end 2021 at an average of 2.5 percent, accelerate to 3 percent in 2022 and then return to 2 percent in 2023.

At the national level, the recovery in foreign trade is expected to continue with an increase in exports of 21.7 percent in 2021, driven mainly by shipments of phosphate and derivatives, under the effect of soaring international prices. This upturn is expected to continue in 2022 with an increase of 9.2 percent, supported by the expected increase of 15.5 percent in sales of automotive construction. In 2023, with the expected decline in sales of phosphate and its derivatives, exports are expected to fall slightly by 0.8 percent. At the same time, imports are expected to rise by 22.9 percent in 2021, as a result of the 48.5 percent increase in the energy bill and the rise in purchases of capital goods and consumer goods. This growth is expected to slow to 8.3 percent in 2022 and 3.1 percent in 2023. As for travel receipts, developments in the international health situation and the new restrictions imposed by Morocco will continue to affect their recovery. They are expected to decline by 9.2 percent in 2021, before increasing by 31 percent in 2022, and by 63.5 percent to 70.9 billion in 2023. Conversely, remittances from Moroccan expatriates should continue to rise in 2021, increasing by 38.9 percent to 94.7 billion dirhams, but contracting by 23.2 percent in 2022 and by 1.9 percent in 2023. Given these developments, and assuming inflows of grants of 1.7 billion dirhams in 2021, 2.2 billion dirhams in 2022 and 1.5 billion dirhams in 2023, the current account deficit is expected to be 2.5 percent of GDP in 2021 and to widen to 5.3 percent in 2022 before narrowing to 4.9 percent in 2023. FDI receipts are expected to hover around 2.5 percent in 2021 and 3 percent of GDP in 2022 before rising to 3.5 percent in 2023.

Regarding official reserve assets, and considering the Treasury's external financing projections, they will stand at 330.4 billion at the end of 2021, 341.6 billion in 2022 and 345.7 billion in 2023, thus ensuring coverage of more than 6 months and 20 days of imports of goods and services.

In view of the expected evolution of foreign exchange reserves and currency, the bank liquidity deficit should amount to 64.4 billion dirhams at the end of 2021, 70 billion dirhams at the end of 2022 and 83.6 billion dirhams at the end of 2023. As for bank credit to the non-financial sector, taking into account the expected evolution of economic activity and the expectations of the banking system, it should increase by 3.7 percent in 2021, then rise by 3.4 percent in 2022 and 4.4 percent in 2023. For its part, the real effective exchange rate should end 2021 with a slight appreciation of 0.6 percent, reflecting the strengthening in nominal terms of the dirham against the euro. Over the remainder of the period, it should depreciate due to a domestic inflation level lower than that of partner and competitor countries.

In terms of public finances, after a significant widening in 2020, the budget deficit, excluding proceeds from the sale of State holdings, should gradually narrow to 6.9 percent of GDP this year. Over the remainder of the forecast horizon, it is expected to fall to 6.3 percent of GDP in 2022, considering the data in the 2022 Budget Plan, then to 5.8 percent in 2023.

After a contraction of 6.3 percent in 2020, the national economy is expected to rebound by 6.7 percent this year, covering increases of 18.8 percent in agricultural value added and 5.3 percent in non-agricultural activities.

Growth would consolidate at 2.9 percent in 2022 and 3.4 percent in 2023, reflecting the continued improvement in non-agricultural activities at rates of 3.2 percent in 2022 and 3.4 percent in 2023, while agricultural value added would decline by 2.8 percent in 2022 and then increase by 2 percent in 2023, under the assumption of an average cereal harvest of 75 MQx annually.

Under these conditions, and taking into account external inflationary pressures, inflation should accelerate from 0.7 percent in 2020 to 1.4 percent in 2021, driven by the significant rise in its underlying component and the increase in fuel and lubricants prices. It should then reach 2.1 percent in 2022, before falling back to 1.4 percent in 2023.

The resurgence of the pandemic and the emergence of the latest variant of Covid-19 have significantly increased the degree of uncertainty in the economic outlook. The risks remain considerable and, if they materialize, could affect the projections of the central scenario. Thus, the balance of risks is balanced for growth and to the upside for inflation. On the growth side, the progress made in the vaccination campaign, the continued accommodative stance of monetary policy, and the expected positive effects of the operationalization of the Mohammed VI Fund for Investment reinforce optimism about a more pronounced recovery in economic activity. However, many downside risks remain at both the national and international levels. These include the consequences of the resurgence of infections, in terms of the tightening of restrictive measures and the disparities in the pace of vaccine deployment at the international level. At the same time, despite a normal start to the agricultural season, cereal production remains largely dependent on the climatic conditions that will prevail in the coming months. As for inflation, upside risks dominate. Exacerbated commodity prices, higher transportation costs, bottlenecks in some supply chains, and stronger demand could lead to faster and more persistent increases in consumer prices than expected.

1.INTERNATIONAL DEVELOPMENTS

Against a backdrop of a further deterioration in the health situation, insufficient and uneven immunization coverage, persistent supply problems and high commodity prices, economic activity in both the major advanced and emerging countries slowed significantly in the third quarter. The labor market situation continued to improve, with unemployment rates falling in most advanced countries. Valuations on the main stock markets remained at very high levels, supported particularly by positive corporate results. For their part, and apart from Turkey, long-term sovereign bond yields fell slightly between October and November. At the same time, persistently high commodity prices and production bottlenecks in some goods are keeping inflation high in both advanced and emerging economies.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, after a base effect rebound in the second quarter, growth decelerated to 4.9 percent year-on-year in the third quarter from 12.2 percent in the previous quarter, reflecting a slowdown in consumer spending and a reduction in aid to businesses and households. In the Euro Area, the economy slowed to 3.7 percent year-on-year from 14.2 percent in the previous quarter, reflecting a deceleration to 2.6 percent from 10 percent in Germany, to 3.3 percent from 18.8 percent in France, to 2.7 percent from 17.5 percent in Spain, and to 4 percent from 17.1 percent in Italy.

In the United Kingdom, the pace of activity also slowed to 6.6 percent from 23.6 percent a quarter earlier, against a backdrop of falling business investment. Similarly, growth slowed to 1.3 percent from 7.7 percent in Japan, particularly to the significant decline in household consumption and weakness in private non-residential investment.

Table 1.1: YoY change in quarterly growth (%)

	2019			2020				2021		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Advanced countries										
United States	**2.1**	**2.3**	**2.6**	**0.6**	**-9.1**	**-2.9**	**-2.3**	**0.5**	**12.2**	**4.9**
Euro area	**1.6**	**1.8**	**1.2**	**-3.0**	**-14.5**	**-4.1**	**-4.4**	**-1.2**	**14.2**	**3.7**
France	2.3	2.0	0.9	-5.4	-18.6	-3.6	-4.3	1.5	18.8	3.3
Germany	0.5	1.4	0.9	-1.9	-11.3	-3.7	-2.9	-3.0	10.0	2.6
Italy	0.6	0.7	-0.1	-5.9	-18.1	-5.4	-6.6	-0.6	17.1	4.0
Spain	2.2	2.0	1.7	-4.3	-21.5	-8.7	-8.8	-4.2	17.5	2.7
United Kingdom	**1.8**	**1.6**	**1.2**	**-2.2**	**-21.4**	**-8.1**	**-7.1**	**-5.8**	**23.6**	**6.6**
Japan	**0.3**	**1.1**	**-1.3**	**-2.2**	**-10.2**	**-5.4**	**-0.8**	**-1.3**	**7.7**	**1.3**
Emerging countries										
China	**6.0**	**5.9**	**5.8**	**-6.8**	**3.2**	**4.9**	**6.5**	**18.3**	**7.9**	**4.9**
India	**5.0**	**4.6**	**3.4**	**3.7**	**-22.4**	**-7.3**	**1.0**	**3.7**	**18.8**	**8.5**
Brazil	**1.3**	**1.1**	**1.4**	**-0.1**	**-10.7**	**-3.7**	**-0.9**	**1.3**	**12.3**	**4.0**
Turkey	**-1.6**	**1.0**	**6.0**	**4.4**	**-10.4**	**6.3**	**6.2**	**7.4**	**22.0**	**4.0**
Russia	**1.2**	**2.6**	**2.9**	**1.4**	**-7.8**	**-3.5**	**-1.8**	**-0.7**	**10.5**	**4.3**

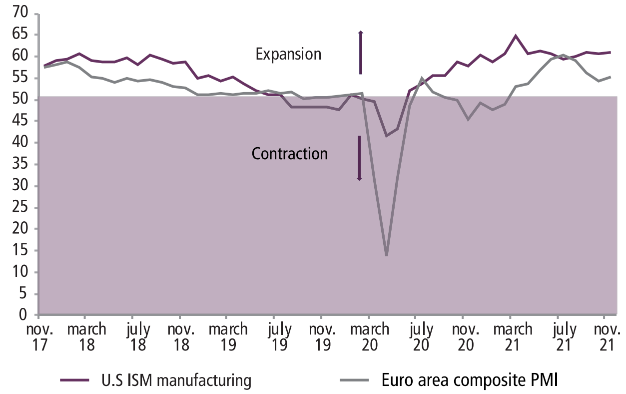
Source : Thomson Reuters.

In the major emerging economies, available data indicate a deceleration of growth to 4.9 percent in China from 7.9 percent, mainly linked to restrictions imposed by fears of a resurgence of the Covid-19 epidemic and problems of electricity shortages. Similarly, growth slowed significantly in India to 8.5

percent from 18.8 percent a quarter earlier. In the same vein, growth decelerated significantly from 12.3 percent to 4 percent in Brazil and from 10.5 percent to 4.3 percent in Russia.

In terms of high-frequency indicators, the Euro Area composite PMI index rose to 55.4 points in November from 54.2 points the previous month. The US ISM manufacturing PMI also rose to 61.1 points in November from 60.8 points a month earlier.

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

n the United States, the unemployment rate fell to 4.2 percent in November from 4.6 percent in October, with job creation down sharply to 210,000 from 546,000 in October. In the Euro Area, the unemployment rate fell slightly to 7.3 percent in October from 7.4 percent the previous month. In the major countries of the zone, the unemployment rate stagnated at 3.3 percent in Germany and fell slightly from 7.7 percent to 7.6 percent in France, from 14.6 percent to 14.5 percent in Spain and increased from 9.2 percent to 9.4 percent in Italy. In the United Kingdom, data for September showed a decline in the unemployment rate to 4.2 percent from 4.3 percent the previous month.

Table 1.2: Change in unemployment rate

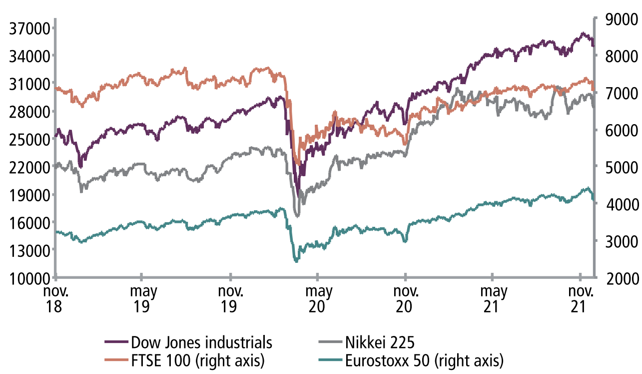
(In%)	2019	2020	2021		
			sept.	oct.	nov.
United States	**3. 7**	**8. 1**	**4. 6**	**4. 2**	**4. 6**
Euro area	**7. 6**	**7. 9**	**7. 4**	**7. 3**	**N.A**
France	8. 4	8	7. 7	7. 6	N.A
Germany	3. 1	3. 8	3. 3	3. 3	N.A
Italy	10	9. 2	9. 2	9. 4	N.A
Spain	14. 1	15. 5	14. 6	14. 5	N.A
United Kingdom	**3. 8**	**4. 5**	**4. 2**	**N.A**	**N.A**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

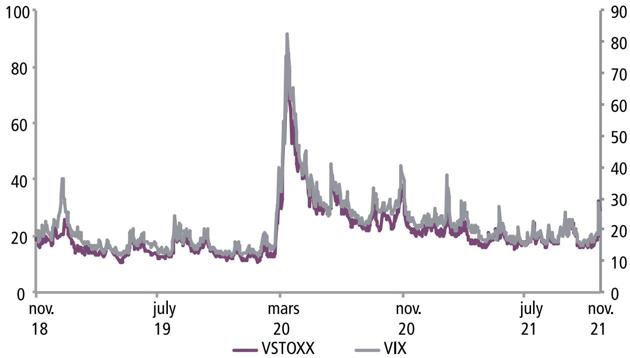
After falling in September due to concerns about inflationary pressures and the prospect of monetary tightening, stock prices recovered in November, supported by positive corporate results. Between October and November, the Dow Jones rose by 2.3 percent, the Eurostoxx 50 by 4.2 percent, the FTSE 100 by 1.4 percent and the Nikkei 225 by 2.8 percent. Volatility increased significantly in both the American and European markets, with the VSTOXX at 19.42 and the VIX at 18.50. In emerging markets, the MSCI EM index fell by 0.5 percent in November, with declines of 1.5 percent for China, 5.3 percent for Brazil and 0.3 percent for India.

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



Source: Thomson Reuters.

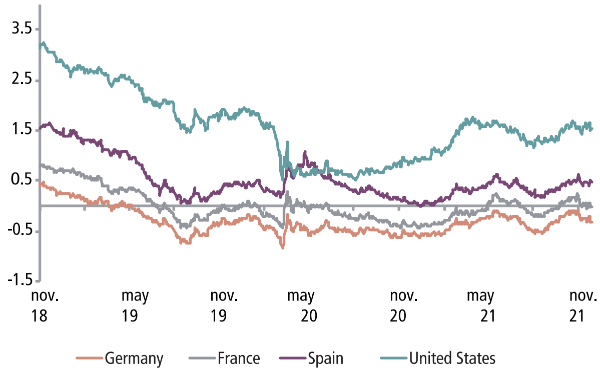
Chart 1.3: Change in the VIX and the VSTOXX



Source : Thomson Reuters.

In the bond markets, the yields on 10-year sovereign bonds of the major advanced economies fell between October and November. Thus, the 10-year bond rate fell by 2 basis points (bp) to 1.56 percent for the United States, by 11 bp to -0.25 percent for Germany, and by 9 bp to 0.03 percent for France. In contrast, it stabilized at 0.48 percent for Spain and edged up 2 bps to 0.93 percent for Italy. In the emerging economies, the 10-year sovereign rate rose by 49 bp to 19.18 percent for Turkey and by 2 bp to 6.34 percent for India. Conversely, it fell by 4 bp to 2.91 percent in China and stagnated in Brazil at 12.24 percent. As for Turkey, the 10-year sovereign rate rose by 49 bp to 19.18 percent, against a backdrop of strong inflationary pressures.

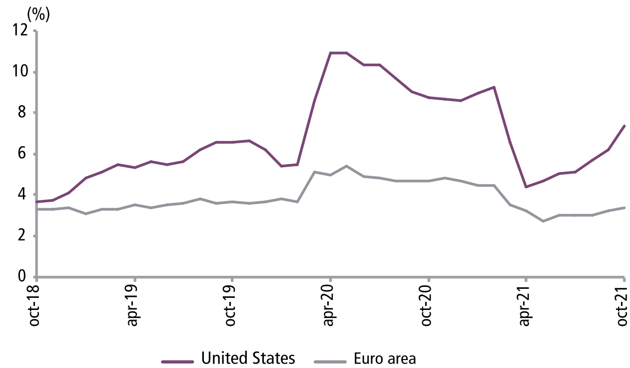
Chart 1.4: Change in 10-year sovereign bond yields



Source : Thomson Reuters.

On the money markets, the 3-month Euribor fell by 1.7 bp to -0.57 percent while the Libor for the same maturity rose by 3.2 bp to 0.16 percent between October and November. The pace of bank lending accelerated in October in the US to 7.4 percent and more slightly in the euro area to 3.4 percent.

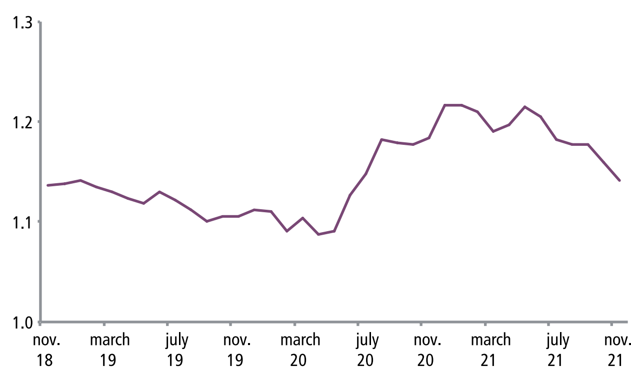
Chart 1.5: YoY credit growth in the US and euro area



Source : Thomson Reuters.

On the forex markets, the euro depreciated between October and November by 1.7 percent against the dollar and by 0.9 percent against the Japanese yen. On the other hand, it strengthened by 0.1 percent against the pound sterling. For the currencies of the main emerging countries, the Chinese renminbi and the Indian rupee appreciated by 0.5 percent and 0.6 percent, respectively, against the dollar, while the Brazilian real and the Turkish lira depreciated by 0.3 percent and 17.1 percent, respectively, against the dollar.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

In terms of monetary policy decisions, the Fed decided at its 14-15 December meeting to keep the target range for the federal funds rate unchanged at [0-0.25 percent] until labor market conditions have reached levels consistent with assessments of maximum employment. On the other hand, it has indicated that it will double the pace of reduction in its asset purchases beginning in January 2022. Specifically, it will reduce its holdings of Treasury securities by $20 billion and of mortgage-backed securities by $10 billion. It also stressed that similar reductions in the pace of net asset purchases are likely to be appropriate each month but stands ready to adjust the pace if the changing economic outlook warrants.

Similarly, the ECB decided on 16 December to keep its key rates unchanged. In the first quarter of 2022, the ECB indicated that it would conduct purchases under the emergency pandemic purchase program (EPP) at a slower pace than in the previous quarter. It also noted that this program is scheduled to end in March 2022. Regarding its asset purchase program (APP), it indicated that it will increase the monthly pace of purchases to 40 billion euros in the second quarter and to 30 billion euros in the third quarter of next year. From October 2022 onwards, it will maintain purchases under the PPA at a monthly rate of 20 billion euros for as long as necessary and will end before it starts raising its key rates.

As for the Bank of England, its committee decided on 16 December to raise its key rate by 15 bp to 0.25 percent and to maintain asset purchases of £895 billion, of which £875 billion in government bonds and £20 billion in "Investment Grade" non-financial corporate bonds.

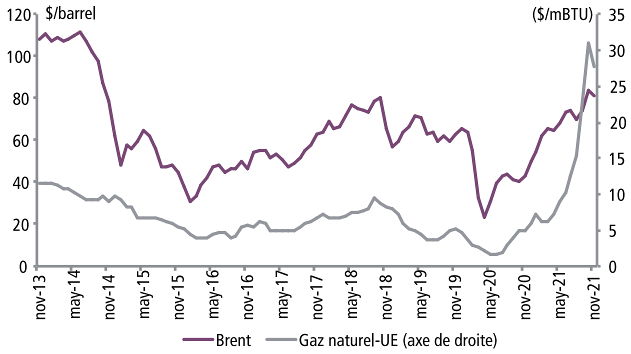
In the emerging countries, the Central Bank of Brazil decided on 8 December to raise its key rate from 7.75 percent to 9.25 percent, stressing the need for this adjustment to contain inflationary pressures. It also stated that a further increase of the same magnitude is envisaged at its next meeting. In the same vein, the Central Bank of Russia raised its key rate to 8.5 percent on 17 December, an increase of 100 bp, as the country struggles to control soaring inflation, which has exceeded twice the official target. On the other hand, the Reserve Bank of India decided on 8 December to keep its key rate unchanged at 4 percent, mainly to boost and support growth. The Central Bank of the Republic of Turkey decided on 16 December to lower its key rate by 100 bp to 14 percent, while the country is facing inflation close to 21 percent and the Turkish lira has depreciated sharply against the dollar by about 46 percent since the beginning of the year.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

On the crude oil market, the price of Brent crude averaged $80.77 per barrel in November, down 3.4 percent from October and up 48.1 percent since the beginning of the year. This trend reflects market expectations of a drop in demand after the announcement of the new "Omicron" variant in South Africa. Similarly, and after recording exceptional levels since the beginning of the year, the price of natural gas fell by 11 percent on the European market in November month-on-month to $27.6 per mBTU[1]. Year-on-year, the price of Brent crude rose by 86.8 percent and the price of natural gas increased by almost 6 times.

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

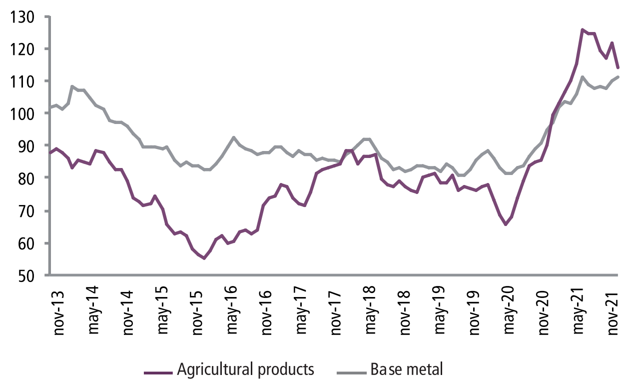


Source: Thomson Reuters.

1.3.2 Non-energy commodity prices

Non-energy commodity prices rose by 24.6 percent year-on-year in November, reflecting a 26.3 percent increase in the prices of metals and ores and a 17.5 percent increase in agricultural products.

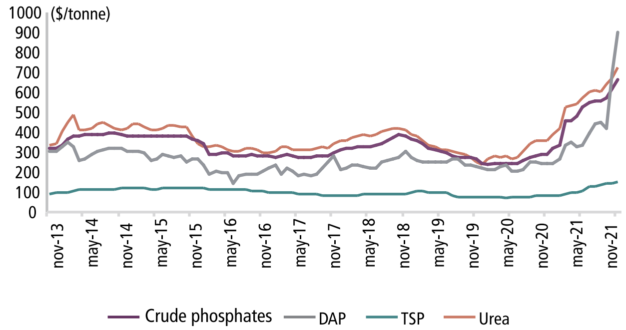
Chart 1.8: Change in non-energy commodity price indices (2010= 100)



Source : World Bank.

In the phosphates and derivatives market, prices continued their upward trend in November, with appreciations of 8 percent to $726.7/t for DAP, 7.6 percent to $665/t for TSP, 29.6 percent to $900.5/t for urea and 3.8 percent to $153.1/t for raw phosphate, while the price of potassium chloride remained stable at $221/t. Year-on-year, prices are up sharply, with increases of 85.6 percent for raw phosphate, more than double for DAP, 127.4 percent for TSP, 267.6 percent for urea and 9.1 percent for potassium chloride.

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



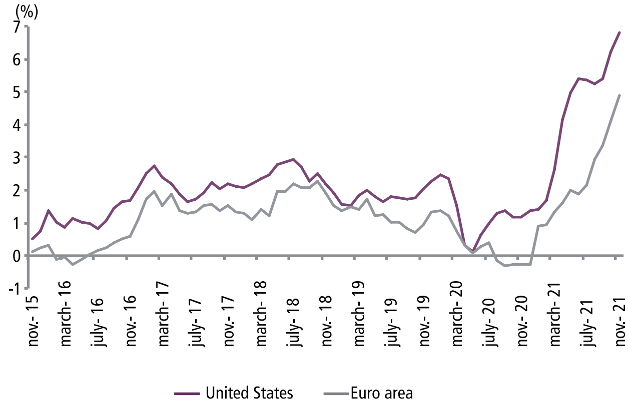
Source: World Bank.

1.3.3 Inflation

Rising commodity prices, the recovery in demand and production bottlenecks for certain products, as well as rising logistics costs continue to exert pressure on prices in both advanced and emerging countries. In this sense, inflation in the United States reached a new peak in November, standing at 6.8 percent after 6.2 percent, mainly reflecting an acceleration in the pace of growth of energy, housing and food prices. In the Euro Area, inflation continued to rise, reaching an all-time high of 4.9 percent in November after 4.1 percent in October, reflecting increases of 4.6 percent to 6 percent in Germany, 3.2 percent to 3.4 percent in France, 5.4 percent to 5.6 percent in Spain, and 3.2 percent to 4 percent in Italy. In other advanced economies, inflation rose from 4.2 percent to 5.1 percent in November in the United Kingdom, while in Japan, October data showed a slight easing to 0.1 percent from 0.2 percent in September.

In the major emerging economies, inflation accelerated from 8.1 percent to 8.4 percent in November in Russia, from 4.5 percent to 4.9 percent in India, and from 1.5 percent to 2.3 percent in China, while it remained almost stable at 10.7 percent in Brazil.

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



Sources : Eurostat and Thomson Reuters.

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

	2019	2020	2021		
			sept.	oct.	nov.
United States	**1. 8**	**1. 2**	**5. 4**	**6. 2**	**6. 8**
Euro area	**1. 2**	**0. 3**	**3. 4**	**4. 1**	**4. 9**
Germany	1. 4	0. 4	4. 1	4. 6	6. 0
France	1. 3	0. 5	2. 7	3. 2	3. 4
Spain	0. 8	-0. 3	4. 0	5. 4	5. 6
Italy	0. 6	-0. 1	2. 9	3. 2	4. 0
United Kingdom	**1. 8**	**0. 9**	**3. 1**	**4. 2**	**5. 1**
Japan	**0. 5**	**0. 0**	**0. 2**	**0. 1**	**N.A**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

Foreign trade data to the end of October 2021 indicate a widening of the trade deficit by 34.5 billion, compared to the same period in 2020, to reach 164.2 billion dirhams. Imports showed an increase of 22.9 percent or 79 billion against an increase of 20.7 percent or 44.6 billion for exports. The coverage rate thus fell from 62.4 percent to 61.3 percent. As for travel receipts, their decline was mitigated to 0.7 percent and transfers from Moroccan expatriates continued their dynamism, with an increase of 43.3 percent. As for the main financial operations, FDI receipts increased by 12.6 percent and Moroccan direct investments abroad amounted to 14 billion after 6.3 billion during the same period in 2020. At the end of October 2021, Bank Al-Maghrib's official reserve assets stood at 320.7 billion dirhams, representing a coverage of 6 months and 23 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

Continuing their recovery after a year marked by the effects of the crisis, exports increased for all sectors. Sales of phosphates and derivatives continued their upward momentum, with an increase of 47.2 percent to 61.2 billion, driven mainly by the 46.2 percent increase in sales of natural and chemical fertilizers, due to their 59.8 percent increase in price.

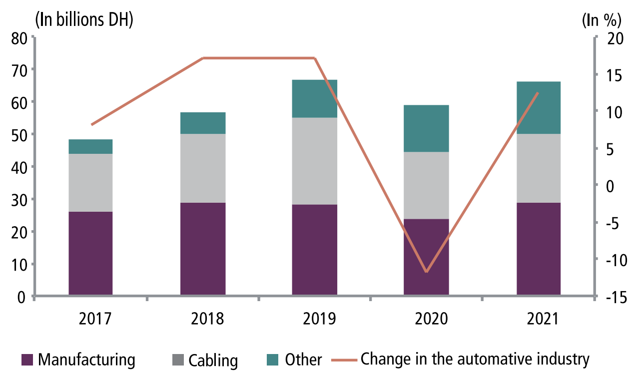
Exports of the automotive sector increased by 12.4 percent to 66.2 billion dirhams, reflecting mainly a 21.6 percent increase for the construction segment, driven by an 11.5 percent improvement in the number of cars exported. For their part, sales of the sector of "textiles and leather" have increased by 19.6 percent to 30.3 billion, reflecting increases of 22.4 percent for clothing and 29.7 percent for hosiery.

As for exports of the "agricultural and agri-food" sector, they improved by 9.1 percent to 56.3 billion, with increases of 7 percent for agricultural products and 10.7 percent for those of the food industry.

Similarly, the sectors of "electronics and electricity" and "mining" have recorded increases in their exports of 32.9 percent and 53.7 percent to 11.1 billion and 4 billion, respectively.

In the same trend, exports of the aeronautics sector continue their recovery reaching 12 billion, up 16.4 percent. This development is the result of improvements of 24 percent for the assembly segment and 4 percent for the EWIS[1].

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



Source: Foreign Exchange Office.

1 Electrical Wiring Interconnection System (EWIS).

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

Sectors/Segments	Jan. - oct.		Change	
	2021	2020	value	In %
Exportations FAB	**260 150**	**215 595**	**44 555**	**20. 7**
Automotive	**66 227**	**58 909**	**7 318**	**12. 4**
Construction	28 855	23 735	5 120	21. 6
cabling	21 311	20 958	353	1. 7
Interiors	6 169	6 172	-3	-
Phosphates and derivatives	**61 165**	**41 549**	**19 616**	**47. 2**
Textile and Leather	**30 266**	**25 312**	**4 954**	**19. 6**
Ready-made garments	18 868	15 412	3 456	22. 4
Hosiery articles	6 331	4 880	1 451	29. 7
Shoes	2 185	2 056	129	6. 3
Agriculture and Agri-Food	56 253	51 581	4 672	9. 1
Food Industry	30 409	27 474	2 935	10. 7
Agriculture, forestry, hunt	24 172	22 588	1 584	7. 0
Electronics and Electricity	**11 073**	**8 334**	**2 739**	**32. 9**
Wires, cables and other connectors for electricity	4 408	3 195	1 213	38. 0
electronic components (transistors)	3 272	2 305	967	42. 0
Devices for the disconnection or connection of electrical circuits.	1 455	1 296	159	12. 3
Other mining extractions	**4 024**	**2 618**	**1 406**	**53. 7**
Copper ore	1 367	822	545	66. 3
Barium Sulfate	774	312	462	-
Aeronautics	**12 031**	**10 332**	**1 699**	**16. 4**
Assembly	7 917	6 384	1 533	24. 0
EWIS	4 050	3 893	157	4. 0
Autres industries	**19 111**	**16 960**	**2 151**	**12. 7**
Metallurgy and metalworking	6 949	4 609	2 340	50. 8
Industry pharmaceutical	1 103	896	207	23. 1
Plastic and rubber industry	1 697	1 665	32	1. 9

Source: Foreign Exchange Office.

2.1.2 Imports

The increase in imports was driven mainly by a 32.1 percent increase in purchases of finished consumer goods to 100.6 billion. This development reflects increases of 53.2 percent in imports of passenger cars and 24.8 percent in their parts and pieces, as well as a 73.9 percent increase in purchases of medicines and other pharmaceutical products, attributable mainly to purchases of vaccines against Covid19. Similarly, imports of semi-finished products rose by 23.1 percent to 93.2 billion and those of capital goods by 12.8 percent to 100.7 billion. Regarding the energy bill, it increased by 43.1 percent to 58.9 billion, including increases in purchases of 48.3 percent for "gas-oil and fuel-oil", 45.3 percent for "petroleum gas and other hydrocarbons" and 77.4 percent for "oil" "and 77.4 percent for "petroleum gas".

Imports of crude products showed an increase of 43.8 percent to 23.2 billion, driven by increases of 85 percent in acquisitions of "crude and unrefined Sulphur" and 46 percent of "crude or refined soybean oil". For their part, purchases of food products increased by 1.6 percent to 47.6 billion, mainly due to increases of 29.3 percent and 22.5 percent, respectively, in supplies of "raw or refined sugar" and "corn".

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

User groups	Jan - oct.		Change	
	2021	2020	value	In %
Total imports CAF	**424 320**	**345 278**	**79 042**	**22. 9**
Finished consumer goods	**100 600**	**76 170**	**24 430**	**32. 1**
Spare parts	14 580	9 518	5 062	53. 2
Pharmaceutical products	11 015	6 333	4 682	73. 9
Parties et pièces pour voitures de tourisme	15 922	12 757	3 165	24. 8
Energy products	**58 881**	**41 139**	**17 742**	**43. 1**
Gas and fuel oils	28 255	19 051	9 204	48. 3
Petroleum gases and other hydrocarbons	14 105	9 706	4 399	45. 3
Petroleum gasoline	3 606	2 033	1 573	77. 4
Semi-finished products	**93 206**	**75 741**	**17 465**	**23. 1**
Plastic products and various items made of plastic	13 401	10 598	2 803	26. 4
Ammonia	5 254	3 321	1 933	58. 2

Chemical Products	9 786	7 957	1 829	23. 0
Capital goods	**100 688**	**89 258**	**11 430**	**12. 8**
Piston engines, other engines and their parts	7 017	5 748	1 269	22. 1
Wires and cables for electricity	6 788	5 533	1 255	22. 7
Cushion and pneumatic tires	3 214	2 066	1 148	55. 6
Raw products	**23 163**	**16 112**	**7 051**	**43. 8**
Raw and unrefined Sulfur	7 539	4 076	3 463	85. 0
Raw or refined soybean oil refined	4 694	3 216	1 478	46. 0
Food products	**47 630**	**46 858**	**772**	**1. 6**
Raw or refined sugar	4 900	3 790	1 110	29. 3
Corn	5 550	4 530	1 020	22. 5
Industrial gold	152	0	152	-

Source: Foreign Exchange Office.

2.2 Other components of the current account

The surplus balance of the services balance reached 53.8 billion, up 7.1 percent, as a result of a 9.6 billion increase in exports, higher than the 6 billion increase in imports.

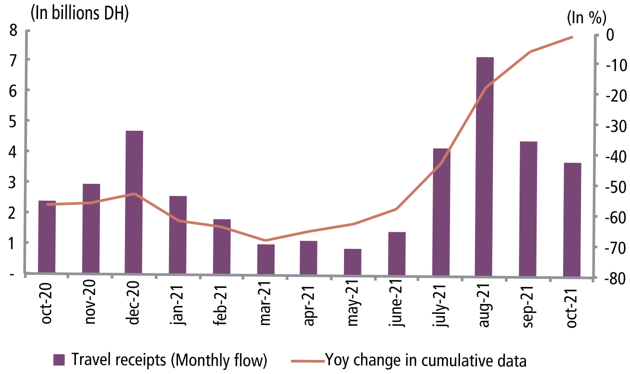
Table 2.3 : Change in the balance of services (in million dirhams)

	Jan.- oct.		Change	
	2021	2020	value	In %
Imports	61 128	55 119	6 009	10. 9
Exports	114 952	105 384	9 568	9. 1
Balance	53 824	50 265	3 559	7. 1

Source: Foreign Exchange Office.

Regarding travel receipts, their decline continued to ease, falling from 17.6 percent at the end of August to 6.1 percent at the end of September, and then to 0.7 percent at the end of October. Similarly, expenses in the same respect showed a decrease of 1 percent to 8.7 billion dirhams.

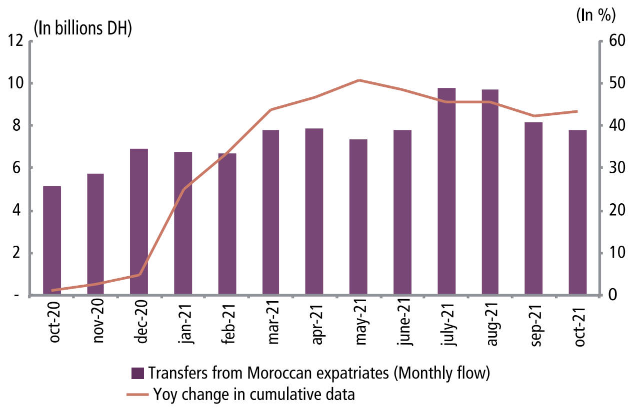
Chart 2.2: Change in travel receipts



Source: Foreign Exchange Office.

Continuing their good performance, remittances from Moroccan expatriates increased by 51.6 percent in October compared to the same month of the previous year. Thus, they amounted to 79.7 billion over the first ten months of the year, up 43.3 percent compared to the same period in 2020.

Chart 2.3: Change in transfers from Moroccan expatriates



Source: Foreign Exchange Office.

2.3 Financial account

Regarding the main financial operations, the net flow of FDI increased by 14.8 percent to 15.5 billion, as a result of a 2.8 billion increase in receipts, greater than the 784 million increase in disposals. As for the net flow of direct investments of Moroccan expatriates, it decreased by 9.6 percent to 3.2 billion, reflecting increases of 7.7 billion in expenditures and 8 billion in revenues.

At the end of October 2021, the outstanding official reserve assets reached 320.7 billion dirhams, representing the equivalent of 6 months and 23 days of imports of goods and services.

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

	January - October		Change	
	2021	2020	Value	In %
Foreign direct investments	**15 471**	**13 475**	**1 996**	**14. 8**
Revenues	24 887	22 107	2 780	12. 6
Expenses	9 416	8 632	784	9. 1
Investments of Moroccans abroad	**3 233**	**3 575**	**-342**	**-9,6**
Expenses	13 957	6 297	7 660	-
Revenues	10 724	2 722	8 002	-

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSETS MARKET

During the third quarter of 2021, monetary conditions were marked by a quasi-stability of the real effective exchange rate and lending rates overall. As for bank credit to the non-financial sector, its annual growth accelerated from 3.3 percent to 3.5 percent driven by loans to private businesses. As for the other counterparts of the money supply, official reserve assets grew by 4.1 percent and net claims on the central government by 10 percent. Overall, money supply growth was almost stable at 7.3 percent.

On the real estate market, asset prices edged up by 0.2 percent in the third quarter, covering a 1.5 percent increase in urban land prices and declines in residential and commercial property prices of 0.5 percent and 0.9 percent, respectively. As for the number of transactions, after the significant increase of 23.7 percent recorded in the second quarter, it dropped by 40.9 percent overall, 45.1 percent for sales of residential property and 41.5 percent of those of land, while the acquisition of property for professional use experienced a slight increase of 1 percent.

At the level of the Casablanca Stock Exchange, the MASI rose by 6.3 percent and the trading volume reached 16.1 billion in the third quarter against 17.5 billion a quarter earlier. As for market capitalization, it showed a quarterly increase of 6.2 percent to 677.3 billion dirhams.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

Reflecting the increase of currency in circulation, banks' need for liquidity increased during the third quarter of 2021 to 83.2 billion dirhams as a weekly average, against 66.3 billion a quarter earlier. Under these conditions, Bank Al-Maghrib increased the amount of its injections to 97 billion, of which 41.2 billion in the form of 7-day advances, 28.3 billion through repurchase agreements, 27.1 billion in the form of guaranteed loans granted within the framework of programs to support the financing of SMEs and 384.6 million in the form of foreign exchange swap. In this context, the average residual duration of the bank's interventions fell from 63 to 44.4 days and the interbank rate remained aligned with the key rate at 1.50 percent.

The latest available data indicate an easing of the bank liquidity deficit to 72.8 billion on average during October and November 2021.

In the primary market for Treasury bills, rates remained almost stable in the third quarter for short maturities and rose for medium and long maturities. In the secondary market, rates remained almost unchanged for long maturities and increased for short and medium-term maturities. During October and November, rates did not vary significantly on either the primary or secondary market.

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

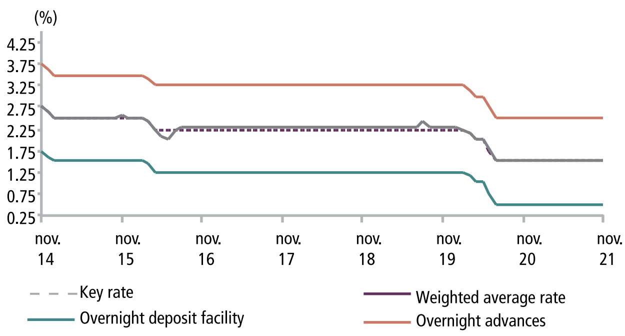
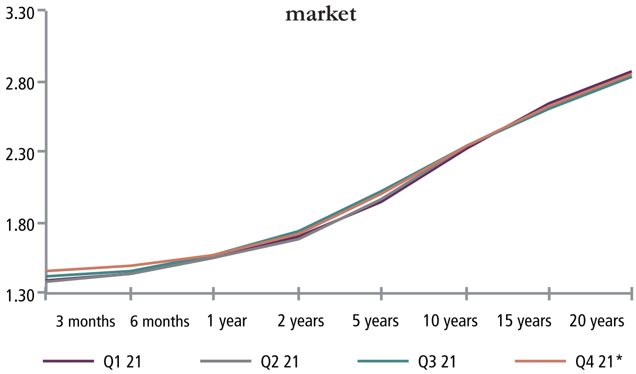


Table 3.1: Change in Treasury bond yields in the primary market

	2020			2021			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4*
26 weeks	2. 16	1. 68	1. 79	1. 43	1. 42	1. 41	1. 39
2 years	2. 22	1. 83	2. 01	1. 70	1. 69	1. 77	1. 72
5 years	2. 42	2. 10	2. 20	1. 96	1. 96	2. 04	2. 01
10 years	2. 40	2. 39	2. 62	2. 34	2. 32	2 . 36	2. 35
15 years	2. 90	-	2. 80	2. 64	2. 63	2. 64	2. 64

*Average observed in October and November.

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



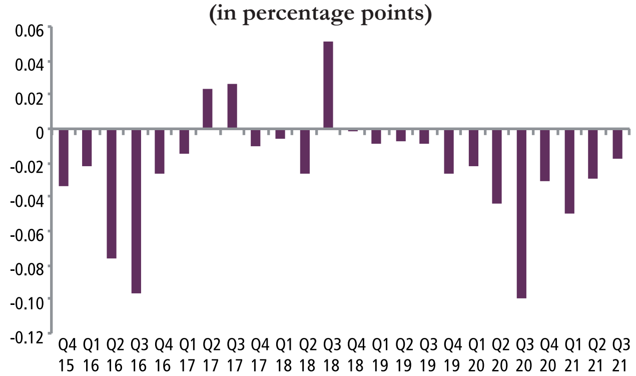
*Average observed in October and November.

On other markets, certificates of deposit issuance rates generally declined during the third quarter. Lending rates rose by 11 basis points to an average of 2.34 percent for 6-month deposits and fell by 6 basis points to 2.57 percent for 1-year deposits. Under these conditions, banks' cost of funds1 would have declined slightly compared to the previous quarter.

The latest available data for the month of October show monthly decreases in deposit rates of 22 basis points to 2.13 percent for 6-month deposits and 39 basis points to 2.21 percent for 1-year deposits.

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

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 2021 indicate a quasi-stability of the overall average rate at 4.35 percent. By institutional sector, the rates for loans to individuals remained almost unchanged at 5.20 percent, covering an increase of 66 points in the rates applied to accounts receivable and cash loans, a decrease of 13 points in those of consumer loans and a stability of those of housing loans. Rates for loans to businesses rose by 13 percentage points, with increases of 12 percentage points for loans to large companies and 15 percentage points for loans to SMEs.

Table 3.2 : Change in lending rates

	2020			2021		
	Q2	Q3	Q4	Q1	Q2	Q3
Global	**4. 55**	**4. 34**	**4. 42**	**4. 45**	**4. 32**	**4. 35**
Personal loans	**5. 14**	**5. 15**	**4. 98**	**5. 19**	**5. 19**	**5. 20**
Real estate loans	4. 66	4. 31	4. 33	4. 33	4. 26	4. 24
Consumer loans	6. 56	6. 46	6. 40	6. 50	6. 64	6. 51
Loans to businesses	**4. 46**	**4. 16**	**4. 28**	**4. 23**	**4. 04**	**4. 17**
Cash advances	4. 43	3. 96	4. 09	4. 04	3. 96	3. 95
Equipment loans	4. 18	4. 51	4. 23	4. 49	4. 13	4. 84
Real estate loans	6. 12	5. 85	5. 84	5. 81	5. 59	5. 71

Source : BAM.

Table 3.3: Deposit rates

	2019	2020				2021		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
6 months	2. 68	2. 73	2. 64	2. 50	2. 36	2. 42	2. 23	2. 34
12 months	2. 98	3. 06	3. 02	2. 71	2. 68	2. 77	2. 63	2. 57

3.1.2 Exchange rate

During the third quarter of 2021, the euro depreciated by 2.22 percent against the US dollar. In this context, the national currency appreciated by 1.42 percent against the euro and depreciated by 0.78 percent against the US dollar. Compared to the currencies of the main emerging countries, the dirham appreciated by 1.11 percent against the Turkish lira and by 0.66 percent against the pound sterling, while it depreciated by 0.60 percent against the Chinese yuan. Under these conditions, the effective exchange rate appreciated by 0.73 percent in nominal terms and remained almost stable in real terms.

Regarding foreign currency transactions, the average volume of banks' spot transactions with customers increased by 35.7 percent to 29.7 billion dirhams for sales and by 30.4 percent to 26.6 billion dirhams for purchases. At the same time, forward purchases increased by 32.5 percent to 13.6 billion and forward sales decreased by 29.4 percent to 1.9 billion. Within the framework of the foreign currency purchase auctions, Bank Al-Maghrib retained, during the third quarter, a total amount of 671 million dollars, equivalent to 6 billion dirhams. Under these conditions, the foreign exchange position of banks stood at 3.5 billion at the end of September against -1.9 billion at the end of June 2021.

Chart 3.4: Change in the exchange rate of the dirham

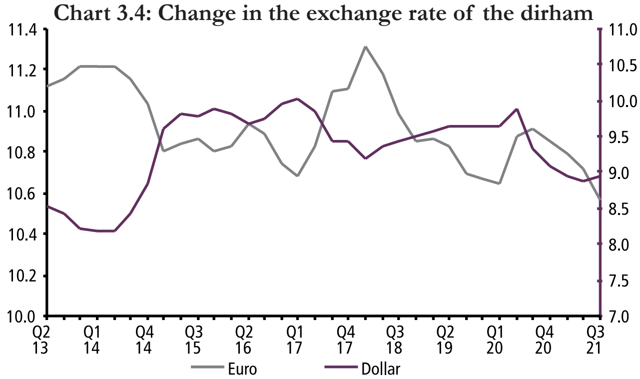
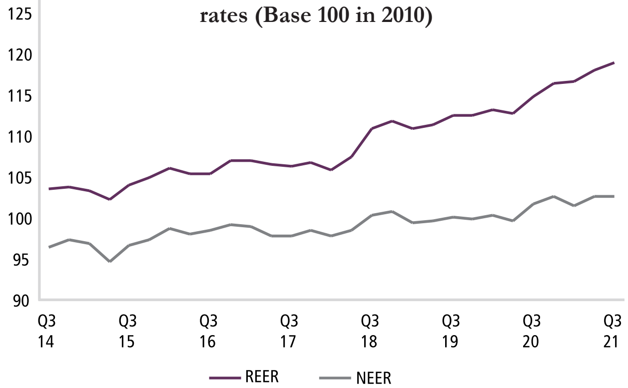


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

3.1.3 Monetary situation

The growth rate of M3 aggregate virtually stabilized at 7.3 percent in the third quarter. By main components, time deposits increased by 2 percent after a 2.5 percent decline, due in particular to the acceleration in the growth rate of deposits by financial units from 59.4 percent to 69.3 percent and the 73.2 percent rise in those of the public sector after a 9.1 percent decline a quarter earlier. Foreign currency deposits and money market fund shares/units increased by 20.1 percent and 30.3 percent, respectively, after 2.6 percent and 25.2 percent in the second quarter. As for sight deposits, their growth fell from 9.2 percent to 8.4 percent, reflecting the deceleration in the growth of household deposits from 8.6 percent to 7.2 percent and public sector deposits from 41.6 percent to 24.4 percent. At the same time, currency increased by 4.7 percent following a 6.4 percent increase in the second quarter.

By major counterparts, the growth of the money supply covers decelerations of the progression from 4.8 percent to 4.1 percent for official reserve assets, from 11 percent to 10 percent for net claims on the central government and from 3 percent to 2.8 percent for bank credit.

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

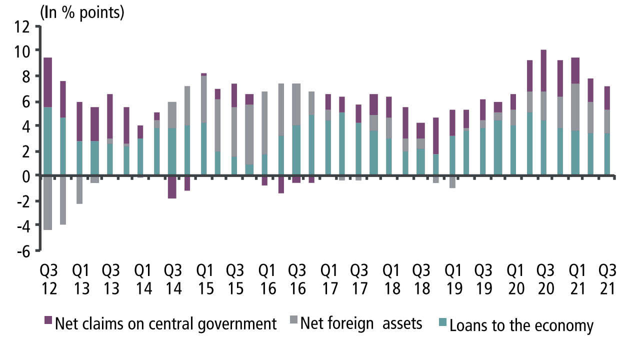
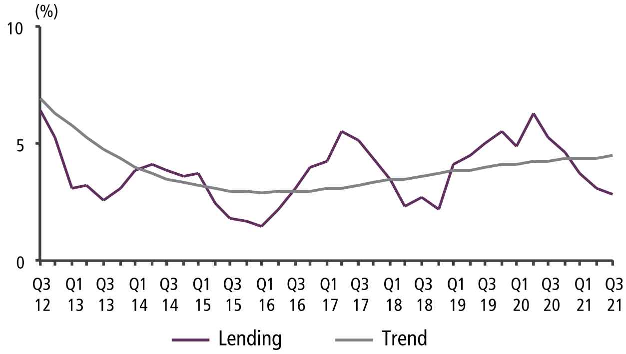


Chart 3.7: YoY change in credit



Concerning in particular credit to the non-financial sector, it rose from 3.3 percent in the second quarter to 3.5 percent in the third quarter, reflecting an acceleration in the growth of loans to private businesses, an easing of the decline in loans to public businesses and a slowdown in the growth of loans to households.

Thus, outstanding credit to private companies increased by 2.9 percent from 2.7 percent in the previous quarter, resulting mainly from the acceleration of growth in cash facilities from 7.1 percent to 8.6 percent and the easing of the drop in equipment loans from 4.1 percent to 2.6 percent.

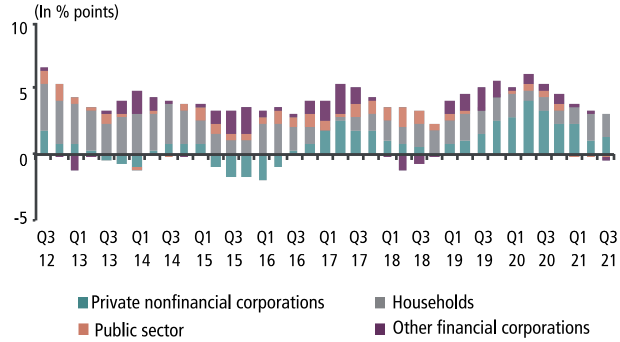
Regarding loans granted to public businesses, they decreased by 6.3 percent after 9.1 percent, with a further drop in equipment loans from 14.2 percent to 15.1 percent. and a 1.4 percent decline in cash facilities after a 12.2 percent increase in the second quarter.

Regarding loans to auto-entrepreneurs, they have marked a decline of 1.4 percent after an increase of 5 percent, with a deceleration of the growth of cash facilities from 20.2 percent to 2.9 percent and an accentuation of the decline of loans intended for the real estate development from 17 percent to 18.2 percent.

As for loans to individuals, their growth rate remained virtually unchanged at 6.4 percent, with an increase in consumer loans of 1.8 percent after stagnation in the second quarter and a slowdown in the increase in housing loans from 7.7 percent to 6.5 percent.

By branch of activity, the quarterly data of September 2021 indicate an acceleration of the rhythm of progression of 1.1 percent to 1.5 percent of the credits granted to the sector of the "trade, car repairs and domestic articles" and an improvement of 4.9 percent against a decrease of 0.3 percent for those intended for the companies of "transport and communication". On the other hand, the rates of growth of assistance to the "food and tobacco industries", and to the "textile, garment and leather industries" have decelerated from 9 percent to 7.7 percent and from 13.9 percent to 9.9 percent respectively. As for credits to the sector of the "building and public works", they recorded a fall of 4.5 percent after a rise of 4.6 percent.

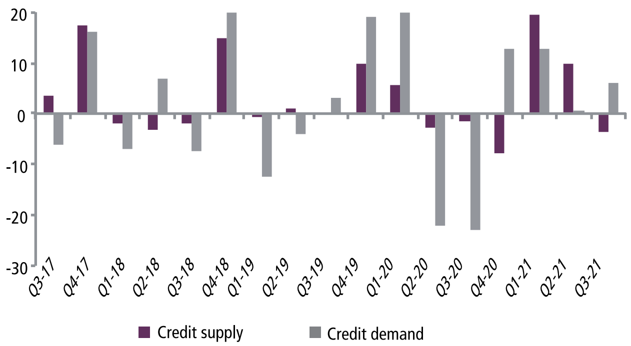
Chart 3.8: Institutional sectors' contribution to YoY change in credit



Source : BAM

Overdue loans increased by 7.9 percent and their ratio to outstanding bank credit stood at 8.7 percent compared to 8.6 percent in the second quarter. They increased by 7.3 percent for private non-financial companies and 8.9 percent for households with ratios to outstanding credit of 11.7 percent and 9.9 percent, respectively.

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



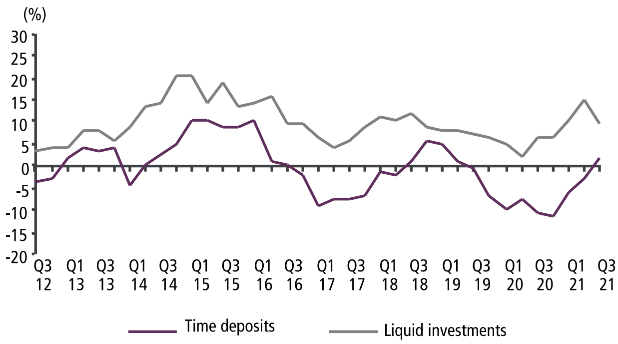
Source : BAM

Loans granted by financial companies other than banks to the non-financial sector increased by 1.8 percent in the third quarter after 0.6 percent in the previous quarter. This trend includes a reduction in the decline in loans granted by offshore banks from 26.7 percent to 11.1 percent and a deceleration in the growth of loans granted by finance companies from 3.7 percent to 2.6 percent.

The latest available data indicate a slowdown in the growth of bank credit to 3.1 percent in October, reflecting a further decline in loans to other financial companies to 3.4 percent, while the increase in loans to the non-financial sector accelerated to 4.1 percent.

As for the aggregates of liquid investments, their annual growth rate fell from 15 percent in the second quarter to 9.4 percent in the third quarter of 2021. This trend reflects a deceleration in the growth rate from 11.3 percent to 4.7 percent for Treasury bills, from 12.2 percent to 6.5 percent for bond mutual funds and an acceleration from 57.4 percent to 60 percent for equity and diversified mutual funds.

Chart 3.10: YoY change in liquid investments and time deposits



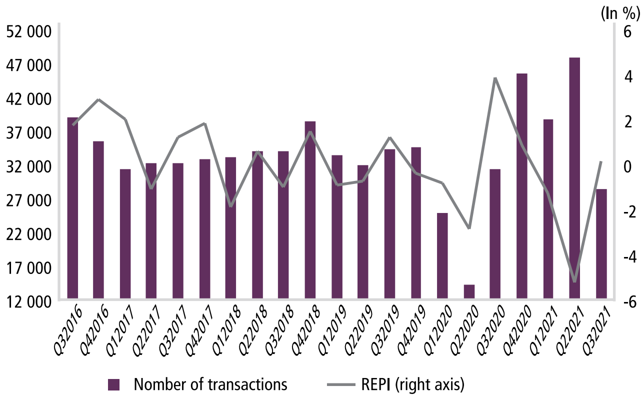
3.2 Asset prices

3.2.1 Real estate assets

After a 5.2 percent decline in the second quarter of 2021, the real estate asset price index edged up 0.2 percent in the third quarter. This change includes a 1.5 percent increase in land prices and decreases in residential and commercial property prices by 0.5 percent and 0.9 percent, respectively. As for the number of transactions, after the significant increase of 23.7 percent recorded in the second quarter, it decreased by 40.9 percent. This decline is the result of decreases of 45.1 percent of transactions involving residential property and 41.5 percent of those of land, while sales of assets for professional use posted a slight increase of 1 percent.

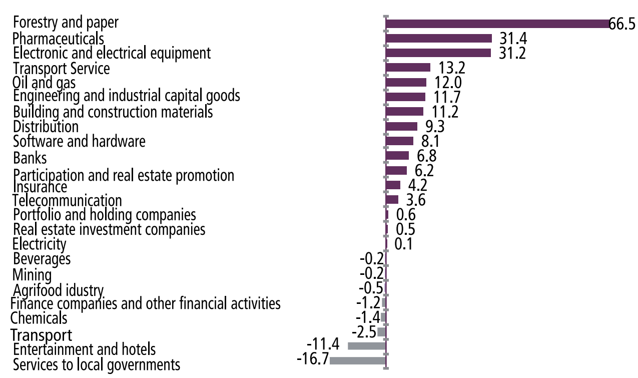
At the level of major cities, excluding Marrakech, Agadir and Oujda where prices increased by 3.3 percent, 0.9 percent and 0.8 percent, respectively, all major cities showed price decreases with rates ranging from 0.2 percent in Kenitra to 1.8 percent in Rabat. Regarding the number of transactions, all major cities posted declines, with rates reaching 54.2 percent in Marrakech, 46 percent in Casablanca and 45.7 percent in Meknes.

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



Sources : BAM and the National Land Registry and Mapping Agency

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



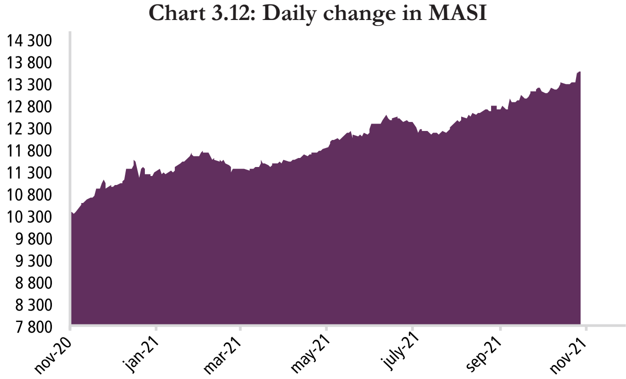
Source : Casablanca Stock Exchange.

3.2.2 Financial assets

3.2.2.1 Shares

At the end of the third quarter of 2021, the MASI index recorded a quarterly increase of 6.3 percent, bringing its year-to-date performance to 16.8 percent. This development reflects in particular the appreciation of the sectoral indices of "buildings and construction materials" by 11.2 percent, banks by 6.8 percent and telecommunications by 3.6 percent. Conversely, the food and utilities indices fell by 0.5 percent and 16.7 percent respectively.

Chart 3.12: Daily change in MASI



Source : Casablanca Stock Exchange.

As for the volume of transactions, it stood at 16.1 billion against 17.5 billion dirhams in the second quarter of 2021. By compartment, the turnover stood at 7.8 billion after 13.4 billion on the central equities market and rose from 1.7 billion to 6.4 billion on the block market.

In this context, market capitalization recorded a quarterly increase of 6.2 percent to 677.3 billion dirhams.

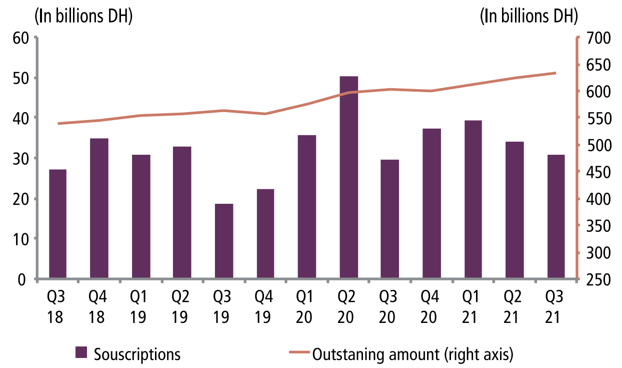
The most recent data indicates that, after having increased by 2.8 percent in October, the MASI recorded a decline of 3.5 percent in November, thus bringing its performance since the beginning of the year to 15.9 percent. This was mainly due to the depreciation of the sectoral indices for "buildings and construction materials" by 7.7 percent, banks by 3.3 percent and telecommunications by 2.3 percent. On the other hand, those of "finance companies and other financial activities" and "oil and gas" increased by 4.7 percent and 0.5 percent, respectively. As for the overall volume of trade, it stood at 2.9 billion in November after 3.7 billion in October. Market capitalization stood at 674.7 billion at end-November, up 15.3 percent since the beginning of the year.

3.2.2.2 Sovereign debt market

During the third quarter of 2021, the Treasury's borrowings on the domestic market amounted to MAD 30.8 billion, a quarterly decrease of 9.6 percent. They concerned 62 percent of medium maturities, 24 percent of short maturities and 14 percent of long maturities.

In October 2021, the Treasury issues amounted to 14.2 billion dirhams and concerned for 73 percent medium maturities and 25 percent long ones. Taking into account redemptions, amounting to 15.4 billion dirhams, the outstanding amount of Treasury bills reached MAD 633.2 billion, up 5.4 percent compared to end December 2020.

Chart 3.14: Change in Treasury bonds



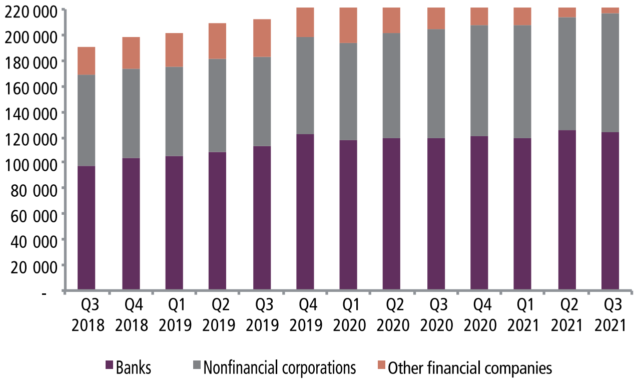
Source : BAM.

3.2.2.3 Private debt market

On the private debt market, issues amounted to 14.5 billion dirhams in the third quarter, a quarterly decrease of 31.3 percent. Banks raised 4.2 billion dirhams compared to 15.5 billion dirhams in the previous quarter and non-financial companies raised 6.2 billion dirhams after 2.9 billion dirhams.

During October, private debt issuance reached 3.7 billion, bringing its outstanding amount to 251.8 billion, up 4.3 percent since the beginning of the year.

Chart 3.15: 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 mutual fund shares amounted to 259.8 billion dirhams, up 19.7 percent, and redemptions to 254.4 billion dirhams, up 20 percent, i.e., a net collection of 5.4 billion dirhams. The performance indices continued their upward trend for all funds, with growth rates ranging from 0.3 percent for money market funds to 7.1 percent for equity funds.

The data for November[2] indicate an increase, since the beginning of the year, of the net assets of UCITS by 16.3 percent to 608.7 billion dirhams. This evolution reflects progress for almost all funds with rates varying from 5.1 percent for medium- and long-term bonds to 100.3 percent for diversified funds.

2 Data as at 19 November.

4. FISCAL POLICY STANCE

The public finance data for the first eleven months of the year show a budget execution broadly in line with the Budget Law's programming. The budget deficit, excluding proceeds from privatization, came to 68.8 billion, representing a 9 billion increase from one year to the next, taking into account the decrease of 6.4 billion in the positive balance of the Treasury's special accounts, including the 5.3 billion negative balance of the Special Fund for the Management of the COVID-19 Pandemic. Ordinary expenditure increased by 9.5 percent to 253.8 billion, mainly reflecting increases of 6.9 percent in expenditure on goods and services, 44.5 percent in compensation costs and 20.9 percent in transfers to local authorities. At the same time, ordinary revenue rose by 11.1 percent, reflecting an 11.6 percent increase in tax revenues and a 5.4 percent improvement in non-tax revenues. The ordinary balance thus showed a deficit of 12.2 billion, compared with 14.4 billion a year earlier. Investment expenditure rose by 8.6 percent, with an implementation rate of 89.2 percent, bringing total expenditure to 314.5 billion, an increase of 9.3 percent.

Considering the reduction in the stock of pending operations by 12.1 billion, the cash deficit excluding proceeds from privatization stood at 80.9 billion, instead of 61.1 billion in the same period in 2020. This requirement was covered by domestic resources in the net amount of 69.4 billion, by a net positive external flow of 6.1 billion and by proceeds from privatization of 5.4 billion. Thus, the outstanding direct public debt have increased by 5.7 percent compared to its level at the end of December 2020. As for the Treasury's financing conditions, they appear to be favorable, as evidenced by the decline in the weighted average rates of securities issued by auction.

4.1 Current receipts

At the end of the first eleven months of 2021, ordinary revenue, excluding proceeds from privatization, rose by 11.1 percent to 241.6 billion, compared with the same period in 2020. This development reflects increases of 11.6 percent to 217.4 billion in tax revenues, of which 98.1 percent was realized compared to the 2021 Budget Law, and 5.4 percent to 20.7 billion in non-tax revenues. The favorable evolution of the tax product concerns the main categories except for corporate tax.

Revenues from direct taxes, which were 97.5 percent of the budget, fell by 0.9 percent to 78.1 billion, mainly because of the 7.6 percent drop in corporate income tax receipts to 35.9 billion, due to the contraction of economic activity in 2020, as well as the non-allocation in 2021 to the general budget of receipts from the social solidarity contribution on profits and income. On the other hand, income tax revenues rose by 11.3 percent to 40.7 billion, with a generated rate of 102.3 percent, reflecting in particular increases of 76.1 percent to 3.9 billion in income tax on real estate profits and 9.2 percent to 8.9 billion in income tax on salaries paid by the Personnel Expenses Department. The improvement of the income tax is also explained by the two operations of spontaneous regularization of the tax situation of taxpayers which brought in 836 million dirhams.

Indirect tax revenues improved by 19.3 percent to 114.6 billion, mainly reflecting increases of 20.9 percent to $86.8 billion in VAT revenues and 14.7 percent to $27.8 billion in DCT revenues. These reflect increases of 15.4 percent to 14.7 billion in DCT on energy products and 11.7 percent to 10.9 billion in DCT on tobacco. The improvement in VAT was due to increases in import VAT receipts from 24.6 percent to 54.7 billion 54.7 billion and domestic VAT receipts by 15.1 percent to 32.1 billion, mainly due to the recovery in household consumption.

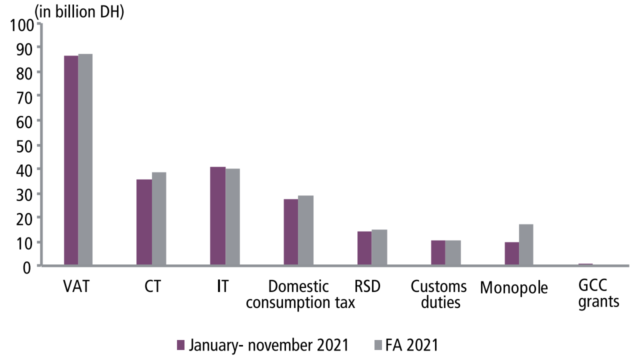
Table 4.1: Change in current revenues (in billions of dirhams)*

	Jan. nov. 2020	Jan. nov. 2021	Change in %	FA 2021	Achievements against the FA (%)
Current revenues	**217. 4**	**241. 6**	**11. 1**	**259. 0**	**93. 3**
Tax revenues	**194. 9**	**217. 4**	**11. 6**	**221. 7**	**98. 1**
- Direct taxes	78. 8	78. 1	-0. 9	80. 1	97. 5
Including CT	38. 8	35. 9	-7. 6	38. 2	93. 9
I.T	36. 6	40. 7	11. 3	39. 8	102. 3
- Indirect taxes	96. 0	114. 6	19. 3	116. 1	98. 7
VAT*	71. 8	86. 8	20. 9	87. 0	99. 7
DCT	24. 2	27. 8	14. 7	29. 1	95. 6
- Customs duties	8. 4	10. 6	26. 1	10. 8	98. 8
- Registration and stamp duties	11. 7	14. 2	21. 3	14. 7	96. 2
Nontax revenues	**19. 7**	**20. 7**	**5. 4**	**34. 0**	**60. 9**
- Monopoles and shareholdings	8. 5	9. 8	15. 3	17. 1	57. 2
- Other receipts	11. 2	10. 9	-2. 1	16. 9	64. 6
Including GCC grants	0. 1	0. 2	83. 5	0. 0	
TSA revenues	**2. 8**	**3. 4**	**20. 6**	**3. 3**	**102. 8**

*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.

Similarly, customs duties and registration and stamp duties increased by 26.1 percent to 10.6 billion and by 21.3 percent to 14.2 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

As for nontax revenues, they rose by 5.4 percent to 20.7 billion dirhams, marked mainly by the collection of 3.3 billion dirhams in revenues from specific financing mechanisms, compared with 150 million a year earlier, and 9.8 billion dirhams in revenues from monopolies and participations instead of 8.5 billion dirhams at the end of November. The latter mainly come from OCP for an amount of 4.1 billion, ANCFCC (National Land Registry Office) for 3 billion, Bank Al-Maghrib for 954 million and Maroc Telecom for 659 million dirhams.

4.2 Expenditure

Overall expenditure reached 314.5 billion dirhams at the end of November 2021, up by 9.3 percent, reflecting increases of 9.5 percent to 253.8 billion dirhams in ordinary expenditure and 8.6 percent to 60.8 billion dirhams in investments. Expenditure on goods and services amounted to 183.1 billion, up 6.9 percent compared to the same period in 2020, reflecting increases of 6.1 percent to 128.9 billion in the wage bill and 9 percent to 54.2 billion in expenditure on other goods and services. These take into account, in particular, an increase of 14.6 percent to 27.5 billion in transfers to public establishments and enterprises and a drop of 30.3 percent to 5.3 billion in payments to special Treasury accounts. The change in the wage bill, which takes into consideration the impact of the measures of the 3rd part of increases decided in the framework of social dialogue, incorporates increases of 2.8 percent in the structural component and 103.6 percent in the recalls for the part served by the Personnel Expenses Department.

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

	Jan. nov. 2020	Jan. nov. 2021	Change in %	FA 2021	Achievements against the FA (%)
Overall spending	**287. 7**	**314. 5**	**9. 3**	**341. 1**	**92. 2**
Current spending	**231. 8**	**253. 8**	**9. 5**	**273. 0**	**92. 9**
Goods and services	171. 2	183. 1	6. 9	205. 7	89. 0
Personal	121. 5	128. 9	6. 1	139. 9	92. 1
Other goods and services	49. 8	54. 2	9. 0	65. 9	82. 4
Debt interests	26. 2	26. 0	-0. 5	27. 7	94. 1
Subsidy	12. 9	18. 6	44. 5	13. 6	137. 2
Transfer to local governments	21. 5	26. 0	20. 9	26. 1	99. 7
Investment	**55. 9**	**60. 7**	**8. 6**	**68. 1**	**89. 2**

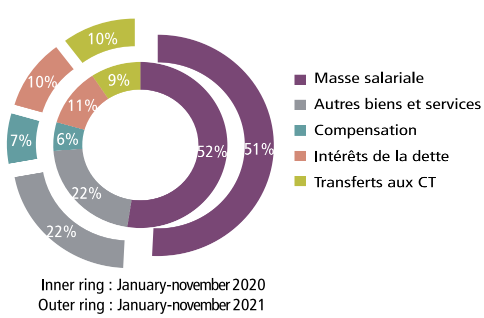
*Taking into account 30 percent of the VAT transferred to local governments.
Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Chart 4.2: spending execution compared to the amending FA

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

Interest charges on the debt amounted to 26 billion, down 0.5 percent compared to the end of November 2020, covering an increase of 4 percent to 3.8 billion for foreign debt and a decrease of 1.2 percent to 22.3 billion for domestic debt.

Chart 4.3: Structure of current spending

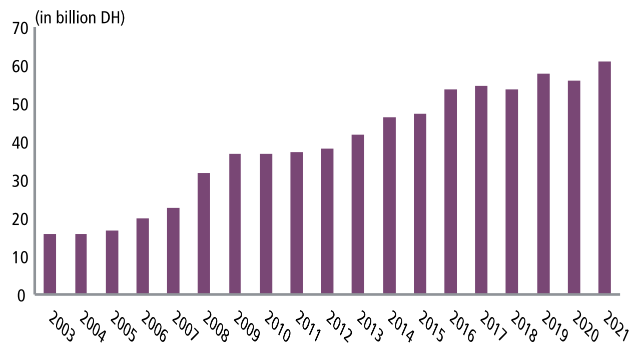


Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

For its part, the cost of subsidies jumped by 44.5 percent to 18.6 billion, corresponding to an realization rate of 137.2 percent, mainly due to an appreciation of 70.5 percent of the average price of butane gas to 626.9 dollars per ton.

As for capital expenditure, it increased by 8.6 percent to 60.8 billion, representing 89.2 percent of the forecasts in the Finance Act. The monthly flow in November was 54.6 percent higher than in the same month in 2002.

Chart 4.4: Investment spending, at end of November

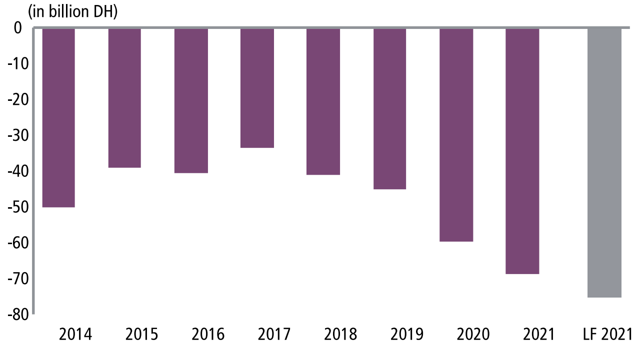


Source : Ministry of Economy and Finance and Administration Reform.

4.3 Deficit and Treasury Financing

Taking into account the changes in revenues and expenditures and the decline in the positive balance of the Treasury's special accounts from 6.4 billion to 4.2 billion, due in particular to the negative balance of 5.3 billion in the Special Fund for the Management of the Covid-19 Pandemic, the budget execution showed a deficit, excluding proceeds from privatization, of 68.8 billion, compared with 59.7 billion a year earlier. The Treasury also reduced its stock of pending transactions by 12.1 billion, bringing the cash deficit to 80.9 billion, compared with 61.1 billion in the same period in 2020.

Chart 4.5: Fiscal balance, at end of November



Source : Ministry of Economy and Finance and Administration Reform.

The Treasury's financing requirement was covered by domestic resources of a net amount of 69.4 billion, including an increase in Treasury deposits of 12.3 billion, by revenue from privatization of 5.4 billion and by a positive net external flow of 6.1 billion. Gross external borrowing reached 15.6 billion, of which 7.6 billion came from the World Bank.

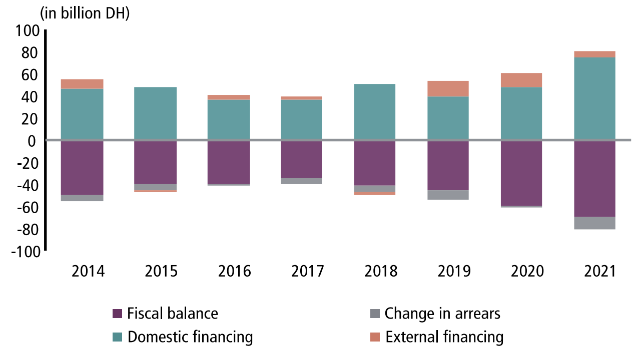
Table 4.3: Deficit financing (in billions of dirhams)

	Jan.-nov. 2020	Jan.-nov. 2021	FA 2021
Current balance	**-14. 4**	**-12. 2**	**-14. 0**
Balance of TSA	10. 6	4. 2	7. 0
Covid-19 Fund	8. 3	-5. 3	
Primary balance	-33. 6	-42. 7	-47. 5
Fiscal balance	**-59. 7**	**-68. 8**	**-75. 1**
Change in arrears	-1. 4	-12. 1	
Financing requirements	**-61. 1**	**-80. 9**	**-75. 1**
Domestic financing	47. 7	69. 4	36. 8
External financing	13. 4	6. 1	34. 4
Privatization	0. 0	5. 4	4. 0

Sources : Ministry of Economy and Finance and Administration Reform.

At the level of domestic financing, recourse to the auction market involved a net amount of 40.9 billion, compared to 58.4 billion a year earlier. The largest net subscriptions were for 2-year bills for 17.8 billion, 10-year bills for 11.4 billion, 5-year bills for 10.3 billion and 20-year bills for 6 billion. Net redemptions were mainly for 26-week, 15-year, and 13-week bills for 5.8 billion, 2.3 billion, and 1.2 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.

The Treasury's financing conditions on the auction market remained favorable during the first eleven months of the year, as evidenced by the decline in weighted average rates compared to the same period in 2020. Rates fell 53 bps to 1.54 percent for 52-week maturities, 46 bps to 3.29 percent for 30-year maturities, and 39 bps for 13-week and 2-year maturities to 1.36 percent and 1.72 percent, respectively. Declines were also recorded for 26-week maturities with 31 bps at 1.42 percent, for 15-year maturities with 28 bps at 2.64 percent, and for those with to 2.64 percent and for 5-year maturities with 27 bps to 1.99 percent.

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

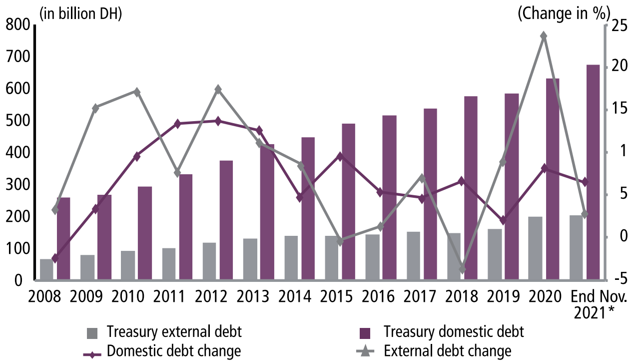
	2016	2017	2018	2019	2020	End nov. 2021*
Treasury external debt	**142. 8**	**153. 2**	**148. 0**	**161. 6**	**199. 7**	**205. 8**
Change in %	1. 4	7. 3	-3. 4	9. 2	23. 6	3. 0
Treasury domestic debt	**514. 7**	**539. 1**	**574. 6**	**585. 7**	**632. 9**	**674. 2**
Change in %	5. 4	4. 8	6. 6	1. 9	8. 1	6. 5
Outstanding direct debt	**657. 5**	**692. 3**	**722. 6**	**747. 2**	**832. 6**	**880. 0**
Change in %	4. 5	5. 3	4. 4	3. 4	11. 4	5. 7

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

Source : Ministry of Economy and Finance and Administration Reform.

Under these conditions, estimates of the direct debt based on financing flows show an increase of 5.7 percent in its stock, with increases of 6.5 percent in its domestic component and 3 percent in the external one.

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

In the second quarter of 2021, economic activity rebounded, driven both by growth in the non-agricultural sectors and the very good agricultural season after two years of drought. GDP increased by 15.2 percent overall, 14.8 percent for nonagricultural activities and 18.6 percent for agriculture. On the demand side, this change includes a positive contribution of 18.2 percentage points from the domestic component and a negative contribution of 3 percentage points from the external component.

In the second half of the year, the recovery of non-agricultural activities continued, but at a slower rate of 3.9 percent, thanks mainly to the progress made in vaccination and the easing of lockdowns, while agricultural value added continued to increase at a rate of 18.1 percent. Overall, GDP is estimated to have risen by an average of 5.4 percent, following a fall of 5.9 percent.

For the entire year, the growth of the national economy is estimated to have been around 6.7 percent, after a contraction of 6.3 percent, with GDP returning to its pre-crisis level.

This improvement in activity is also noticeable in the labor market. The situation has indeed improved significantly between the third quarter of 2021 and the same period of 2020, with 642,000 jobs created, almost half of which in the services sector. Taking into account a net entry of 607,000 job seekers, the activity rate has marked a further increase from 43.5 percent to 45.1 percent, and the unemployment rate has decreased from 12.7 percent to 11.8 percent at the national level, from 16.5 percent to 16 percent in urban areas and from 6.8 percent to 5.2 percent in rural areas.

5.1 Domestic demand

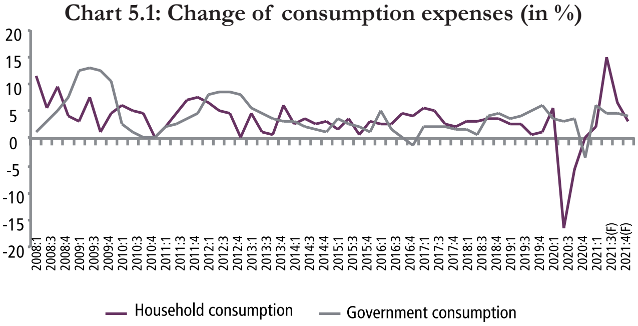
5.1.1 Consumption

National accounts data for the second quarter of 2021 show a marked improvement in final household consumption, which rose from 2.4 percent in the previous quarter to 15.2 percent. Its positive contribution to growth was thus 8.5 percentage points, compared with 1.5 points one quarter earlier.

In terms of outlook, available indicators point to an increase in household consumption of around 5 percent in the second half of the year thanks to the improvement in both agricultural and non-agricultural incomes. Several indicators corroborate this development. These include the exceptional increase in transfers from Moroccan expatriates, the increase in consumer credit, the continued recovery of VAT revenues and the improvement in the household confidence index to 65.5 points.

Regarding the final consumption of government, the achievements in the second quarter show an increase of 4.8 percent after 6.2 percent a quarter earlier, contributing to growth of 1.1 percentage points after 1.3 points. For the second half of the year, it has evolved at a rate of around 4.3 percent, as indicated by the increase in expenditure on goods and services observed in the Treasury's charges and resources situation at the end of October.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

In the second quarter of 2021, investment rebounded by 28.9 percent after a 4.1 percent increase in the first quarter. Its contribution to growth was thus 8.6 percentage points after 1 percentage point.

Forecasts for the second half of the year point to an increase of 13.4 percent, as suggested by the significant rise in imports of capital goods and Treasury investment at the end of October.

5.2 Foreign demand

In the second quarter of 2021, exports of goods and services in terms of volume recovered by 25.6 percent year-on-year, following successive declines since the first quarter of 2020. For their part, imports grew in volume by 27.2 percent after a 2.5 percent decline in the first quarter of the year. Net exports thus made a negative contribution to growth of 3 percentage points instead of -2.8 points a quarter earlier.

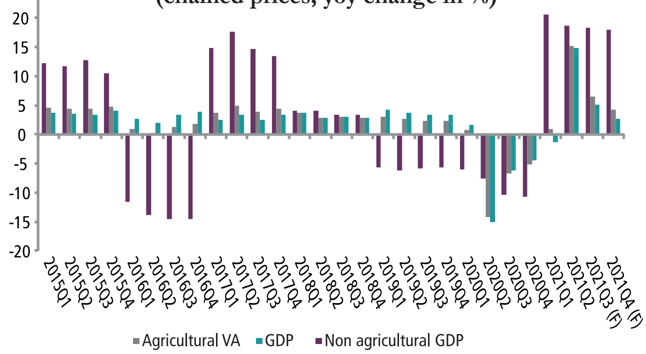
Forecasts for the second half of 2021 pointed to a continued improvement in foreign trade. Indeed, exports in volume have shown an increase of around 24 percent, as evidenced by the strong increases in sales of phosphates and derivatives at the end of October and the continued momentum observed in other sectors. As for imports, they have improved by 25 percent, in connection with the notable increase in imports of energy products and capital goods.

5.3 Overall supply

Thanks to a strong base effect and a very good agricultural season, GDP rebounded by 15.2 percent in the second quarter of 2021, after a 14.2 percent drop in the same period a year earlier, reflecting a 14.8 percent expansion in non-agricultural value added and 18.6 percent of agricultural value added.

In the second half of the year, the recovery in activity continued, albeit at a slower pace than in the second quarter. GDP is estimated to have grown by an average of 5.4 percent after a decline of 5.9 percent a year earlier. By GDP component, agricultural value added is estimated to have improved by 18.1 percent, while non-agricultural value added is estimated to have increased by 3.9 percent, benefiting mainly from the progress made on vaccination and the easing of lockdowns.

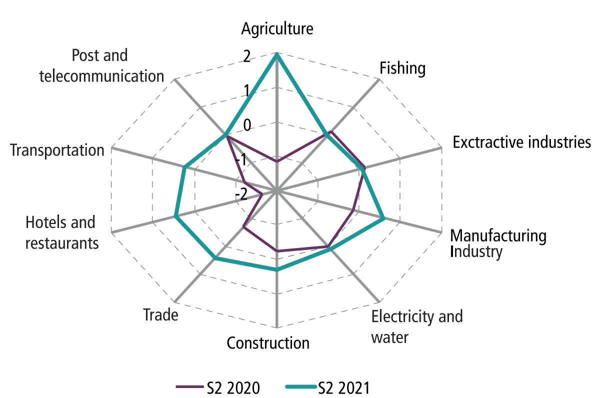
Chart 5.2: GDP per component (chained prices, yoy change in %)



Sources: HCP data, and BAM forecasts.

In the secondary sector, the added value increased by an average of 4 percent in the second half of the year, against a decrease by 0.9 percent a year earlier. By branch, it increased by 3.7 percent for processing industries, 5.5 percent for construction and public works, 3.7 percent for the "electricity and water" branch and slowed to 3.2 percent for mining industries.

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



Sources: HCP data, and BAM forecasts.

Regarding tertiary activities, their value added have increased by an average of 3.9 percent in the second half of the year after a fall of 7.5 percent in the same period the previous year. This improvement has concerned all branches, especially those affected by the pandemic in 2020 such as transport services, trade, as well as hotels and restaurants which benefited from the reopening of borders and the Marhaba 2021 operation.

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the third quarter of 2020 and the same period of 2021, the labor market recorded an increase of 5.2 percent in the number of active persons aged 15 years and over to almost 12.3 million people overall, by 5.5 percent in urban areas and 4.8 percent in rural areas.

Taking into account changes in the working age population, the labor force participation rate increased again, from 43.5 percent to 45.1 percent. This reflects an increase of 1.4 percentage points to 42.4 percent in urban areas and 2.3 percentage points to 50.3 percent in rural areas.

At the same time, the economy has created 642,000 jobs against a loss of 581,000 a year earlier, bringing the employed population to 10.8 million people, up 6.3 percent. The increase in employment has affected all sectors, with an increase of 306,000 jobs in services, 190,000 in agriculture, 92,000 in construction and 54,000 in industry including crafts.

5.4.2 Unemployment and underemployment

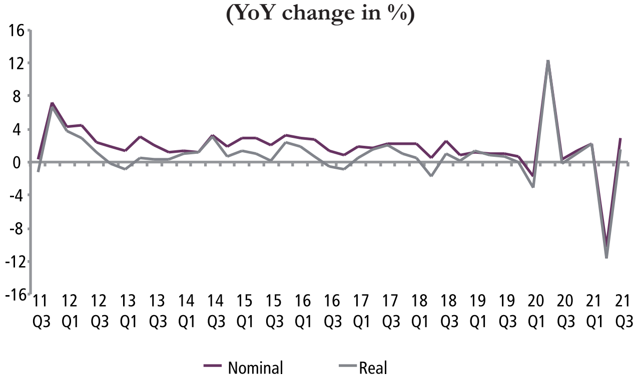
The unemployed labor force fell by 2.4 percent to 1.4 million people, and the unemployment rate declined from 12.7 percent to 11.8 percent nationally, from 16.5 percent to 16 percent in the cities, and from 6.8 percent to 5.2 percent in the countryside. For young people, aged 15 to 24, the rate fell by 1.3 percentage points to 31 percent overall and by 1.5 percentage points to 45.2 percent in the cities. At the same time, the underemployment rate[1] fell from 11.6 percent to 9.5 percent, covering a decline from 10.5 percent to 8.6 percent in cities and from 13.3 percent to 10.8 percent in the countryside.

5.4.3 Productivity and wages

In non-agricultural activities, apparent labor productivity, as measured by the ratio of value added to employment, is estimated to have fallen by a further 1.2 percent in the third quarter of 2021, following a 1.7 percent fall in the same period a year earlier. This would reflect increases of 5.1 percent in value added and 6.3 percent in the employed workforce.

At the same time, the average wage, calculated based on CNSS data by dividing the wage bill by the number of employees, improved by 2.8 percent in nominal terms in the third quarter, following an increase of 0.4 percent in the same period a year earlier, and by 1.5 percent in real terms instead of a decline of 0.3 percent.

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

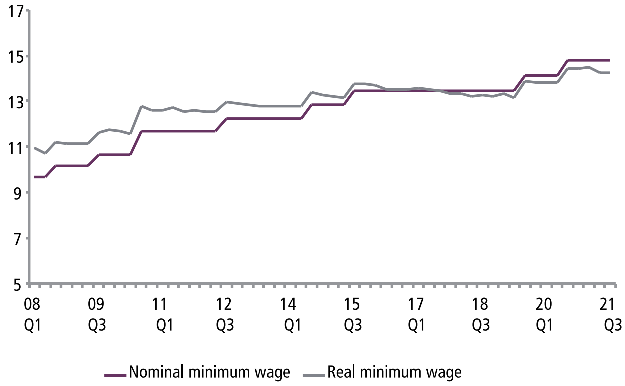


Sources: CNSS, and BAM calculations.

1 The underemployed population consists of those who have worked: (i) in the reference week less than 48 hours but are willing and available to work overtime or (ii) more than the threshold and are looking for another job or willing to change jobs due to mismatch with their training or qualification or insufficient income.

For the hourly minimum wage, it was maintained in nominal terms at 14.81 dirhams in Q3 2021. Taking into account a 1.4 percent increase in the consumer price index, it has fallen by 1.3 percent in real terms year-on-year.

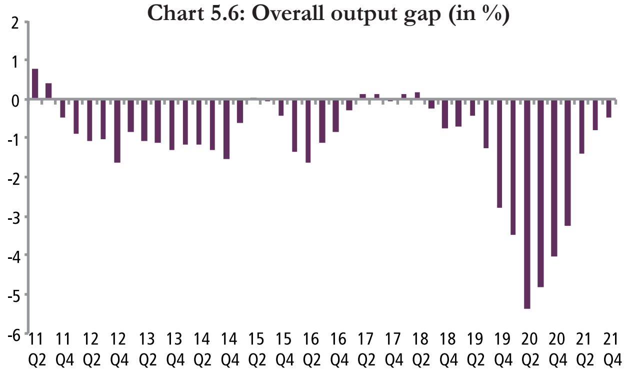
Chart 5.5: Hourly minimum wages in nominal and real terms (in DH/h)



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

Under these conditions, the output gap have narrowed in the second half of 2021, but has still been negative.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		Q3 2020	Q3 2021
Participation rate (%)		**43. 5**	**45. 1**
Urban		41	42. 4
Rural		48	50. 3
Unemployment rate (%)		**12. 7**	**11. 8**
Youth aged between 15 and 24 years old		32. 3	31
Urban		16. 5	16
Jeunes âgés de 15 à 24 ans		46. 7	45. 2
Rural		6. 8	5. 2
Créations d'emplois (en milliers)		**-581**	**642**
Urban		-238	368
Rural		-344	274
Sectors			
- Agriculture, forest and fishing		-258	190
- Industry including handicraft		-61	54
- Construction		1	92
- Services		-260	306
Nonagricultural apparent productivity (change in %)		**-1. 7**	**-1. 2**
Average wage index (change in %)	**nominal**	**0. 4**	**2. 8**
	Real	**-0. 3**	**1. 5**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

In line with the forecasts of the Monetary Policy Report of last October, inflation stood at 1.4 percent in the third quarter of 2021. It subsequently accelerated to 1.7 percent in October, bringing its average for the first ten months of the year to 1.1 percent. This evolution reflects, to a large extent, the significant increase in its underlying component, in a context marked by the accentuation of inflationary pressures of external origin, emanating from the surge in the international prices of raw materials, especially food, and the disruptions of the supply chains and production of certain goods at the international level. For their part, fuel and lubricant prices continued to rise at a high rate, i.e., 21.2 percent in October instead of 14.3 percent on average in the third quarter, contributing to a lesser extent to the acceleration in inflation. In contrast, the continued year-on-year decline in volatile food prices and the slower pace of growth in regulated tariffs are helping to keep inflation moderate.

In the coming months, prices are expected to continue to be under external pressure, with inflation expected to rise to 2.4 percent in the fourth quarter of 2021, driven by its core component of around 3.2 percent.

6.1. Inflation trends

After averaging 1.4 percent in the third quarter, inflation rose to 1.7 percent in October, bringing its average for the first ten months of the year to 1.1 percent. Most of this acceleration was mainly due to its underlying component, which rose to 3.1 percent from 2 percent, in a context marked by rising external inflationary from external sources.. Prices of fuels and lubricants continued to rise at a high pace, suffering, in addition to the base effect, from rise in international oil prices. On the other hand, the decline in prices of food products with volatile prices has been accentuated, while the rate of increase in regulated tariffs has slowed, reflecting the fall in "road passenger transport" tariffs in October.

6.1.1. Prices of goods excluded from core inflation

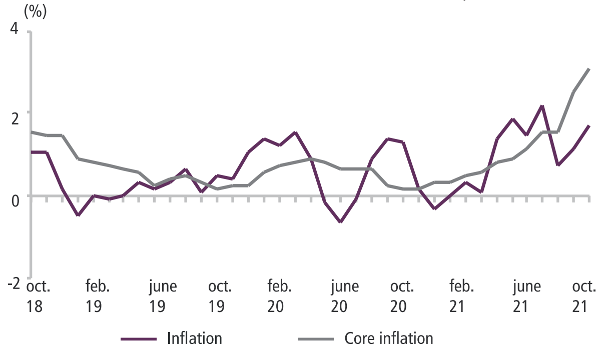
Prices of food products with volatile prices rose by 3.9 percent in October, driven by a 7.1 percent increase in "poultry and rabbit", a 5.9 percent increase in "fresh vegetables" and a 4.3 percent increase in "eggs". However, they remain 4.6 percent lower than a year earlier. As a result, they continue to contribute negatively to inflation, by -0.6 percentage points in October compared to -0.2 percentage points on average in the previous quarter.

Table 6.1: Change in inflation and its components

(In %)	Monthly change			YoY change		
	aug. 21	sept. 21	oct. 21	aug. 21	sept. 21	oct. 21
- Volatile food prices	**0.0**	**0.7**	**0.7**	**0.8**	**1.2**	**1.7**
- Administered prices	-2.4	0.3	3.9	-4.5	-6.6	-4.6
- Fuels and lubricants	0.6	0	-0.4	1.2	0.7	0.2
Core inflation	0.5	0.8	3.2	13.7	15.7	21.2
- Food products	**0.3**	**0.8**	**0.5**	**1.6**	**2.6**	**3.1**
- Clothing and footwear	0.5	1.7	0.4	1.4	3.9	4.6
- Housing, water, gas, electricity and other fuels[1]	0.1	0.5	0.8	2.4	2.5	3.0
- Furniture, household equipment and routine house maintenance	0.2	0.0	0.2	1.9	1.9	1.9
- Health[1]	0.1	0.3	0.2	1.2	1.4	1.5
- Transportation[2]	0.0	0.4	0.6	2	2.2	2.9
- Communication	0.2	0.1	0.0	1.3	1.9	2.3
- Entertainment and culture[1]	0.0	0.0	0.0	-0.4	-0.4	-0.4
- Education	0.1	0.2	0.6	1.4	1.5	2.1
- Restaurants and hotels	0.0	1	0.4	1.8	1.3	1.4
- Miscellaneous goods and services [1]	0.1	0.0	0.0	1.3	1.2	1.0
- Biens et services divers[1]	0.0	0.2	1.4	2.7	3	4.4

1 Excluding administered goods.
2 Excluding fuels and lubricants and administered products.
Sources: HCP, and BAM calculations.

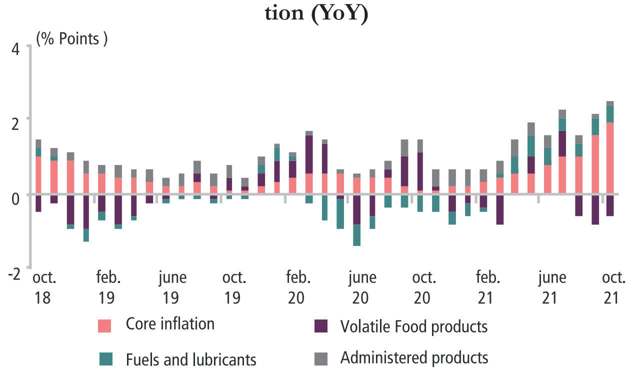
Chart 6.1: inflation and core inflation, YoY



Sources: HCP and BAM calculations.

The rate of increase in regulated tariffs slowed to 0.2 percent in October from an average of 1 percent between July and September, reflecting the 3 percent reduction in "road passenger transport" tariffs in October and the dissipation of the effect of the increases implemented in 2020[1]. In total, regulated rates contributed 0.1 percentage points to inflation, compared to 0.2 percentage points a quarter earlier.

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

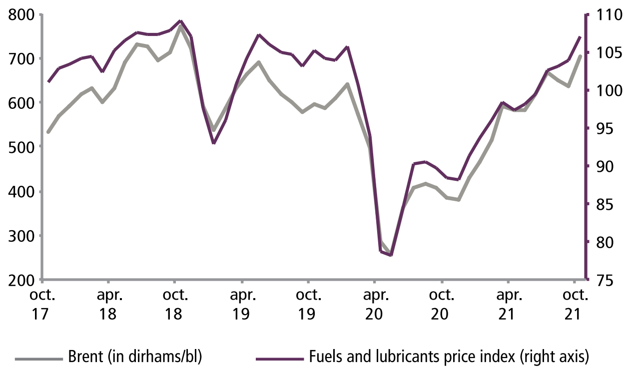


Sources: HCP, and BAM calculations.

On the other hand, the prices of fuels and lubricants increased by 21.2 percent instead of 14.3 percent on average during the third quarter, in connection with the increase in the price of oil products, with the price of Brent crude oil in particular rising from an average of $73/bl between July and September to $83.7/bl in October. Their change also reflects the effect of the 1.1 percent depreciation of the national currency against the dollar over the same period.

In terms of their contribution to inflation, the prices of these products rose by 0.5 percentage points in October, compared with 0.4 percentage points a quarter earlier.

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



Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

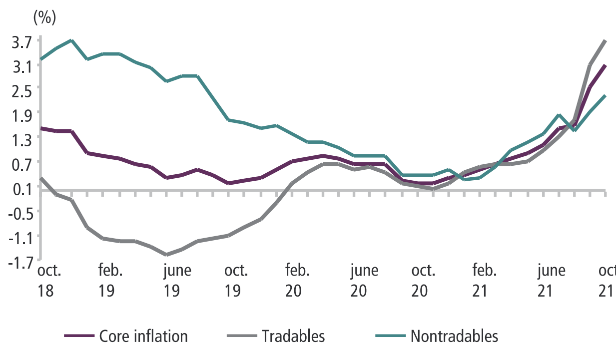
On an upward trajectory since the fourth quarter of 2020, core inflation accelerated significantly in October, reaching 3.1 percent, the highest rate since February 2009.

This upward movement was mainly driven by the evolution of prices of its food component. The latter rose by 4.6 percent in October instead of 2.2 percent in the third quarter, reflecting, on the one hand, the 6 percent rise in prices for "cereal-based products" and 15.5 percent for "oils" following the surge in international prices for these products. It is also attributable to the increase of 2.7 percent after 0.8 percent in prices of "fresh meat".

1 Passengers road transportations tariffs recoded increases between June and November 2020,

The acceleration concerned, but to a lesser extent, the prices of non-food products included in the CPIX, which rose by 2.2 percent in October instead of 1.7 percent on average between July and September.

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



Sources: HCP, and BAM calculations.

Furthermore, the decomposition into tradables and non-tradables indicates that almost 84 percent of the acceleration in core inflation was due to the acceleration in the prices of tradables. The latter rose by 3.7 percent in October after 2 percent in the third quarter of 2021, in line with the rise in imported inflation, particularly that emanating from food prices.

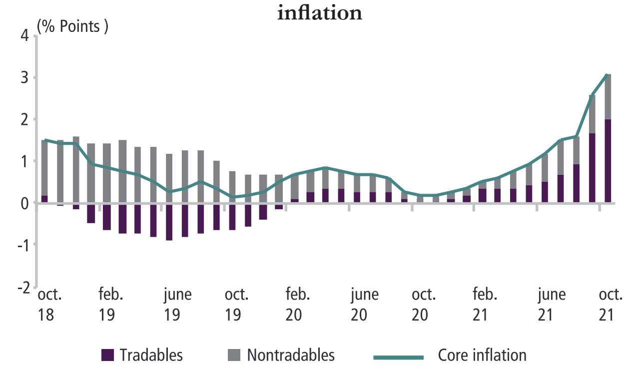
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	aug. 21	sept. 21	oct. 21	aug. 21	sept. 21	oct. 21
Tradables	0. 4	1. 3	0. 5	1. 7	3. 1	3. 7
Nontradables	0. 1	0. 2	0. 4	1. 5	1. 9	2. 4
Core inflation	**0. 3**	**0. 8**	**0. 5**	**1. 6**	**2. 6**	**3. 1**

Sources: HCP, and BAM calculations.

Regarding non-tradables, they rose by 2.4 percent in October, instead of 1.7 percent, due to successive price increases in the "hairdressing and beauty salons" category, which were 10.3 percent higher than a year earlier.

Chart 6.5: Contribution of tradables and nontradables to core inflation



Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

In the fourth quarter of 2021, inflation is expected to accelerate again to 2.4 percent from 1.4 percent a quarter earlier. This would be largely due to the expected further increase in its underlying component, which is expected to accelerate from 2 percent to 3.2 percent in connection with continued external pressures.

Similarly, the continued rise in oil prices is expected to lead to an increase in the price of fuels and lubricants, which is expected to rise by 21.8 percent in the fourth quarter compared to 14.3 percent in the previous quarter.

To a lesser extent, high-frequency data from wholesale markets suggest that the year-on-year decline in volatile food prices should ease slightly to -1.4 percent in Q4 from -1.8 in the previous quarter.

In contrast, the dissipation of the effect of previous increases in "road passenger transport" tariffs should, in the absence of new government decisions on the prices of regulated products, lead to a slowdown in the increase pace of the latter to 0.2 percent instead of 1 percent observed in the third quarter.

Box 6.1: Recent Acceleration in Inflation

In recent months, inflation has accelerated markedly at the global level due to a combination of factors. In addition to the base effect linked to the low-price levels of a year earlier, this upward movement stems from: (i) the recovery in demand following the easing of restrictions; (ii) disruptions in the supply chains of certain goods; (iii) and the surge in commodity prices, particularly energy and food.

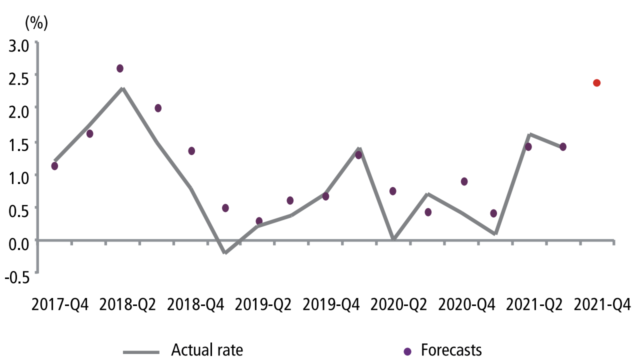
Under these conditions, inflation remained moderate at the national level, averaging 1.1 percent in the first ten months of 2021, compared with 0.8 percent in the same period a year earlier. This reflects the acceleration in the pace of fuel and lubricant prices (10.9 percent) and, to a lesser extent, the rise in core inflation (1.4 percent). The effect of these increases was, however, mitigated by the 1.7 percent decline in volatile food prices during this period.

Core inflation, which captures the underlying price trend, has been on an upward trajectory since November 2020, rising from 0.2 percent to 3.1 percent in October 2021. Its acceleration is attributable to 70 percent of its tradable component and 30 percent of its non-tradable component (see Chart 6.5).

- For tradable products, 75 percent of this increase is due to "oils", whose prices rose by 14.6 percent between November 2020 and October 2021, as well as "cereal-based products" (5.9 percent). For the remaining 25 percent, it comes mainly from three non-food products, namely: "automobiles" (+3.2 percent), "women's clothing" (+3 percent) and "sound and image reception and recording and reproduction equipment" (+3.2 percent).
- For non-tradable goods, price increases mainly reflect those for «fresh meat» (+2.7 percent), «hair and beauty salons « (+10 percent) and «rents actually paid by tenants» (+2.1 percent).

That said, BAM's projections assume a moderate level of inflation in the medium term. Moreover, the results of BAM's Q4 2021 inflation expectations survey indicate that financial sector experts still expect a moderate level of inflation (up to 1.9 percent over the next eight quarters).

Chart 6.6: Inflation short-term forecasts and actual rates



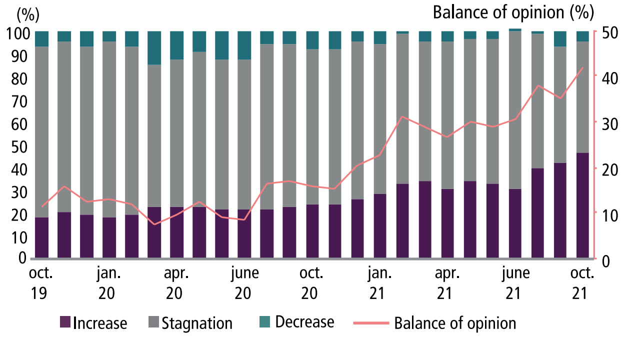
The differences in forecasts observed between Q1 2018 and Q1 2020 are partly linked to the HCP's recasting of the CPI in May 2020. Thus, the CPI base 100=2006 is now replaced by the CPI base 100=2017 (see Box 6.1: "New consumer price index (base 100=2017)" in the June 2020 MPR).

Source: BAM.

6.3. Inflation expectations

The results of Bank Al-Maghrib's business survey for October 2021 indicate that 49 percent of enterprises surveyed expect inflation to remain stable over the next three months, 46 percent expect it to rise, while 5 percent expect it to fall. The balance of opinion thus stands at 42 percent, compared with 35 percent in September.

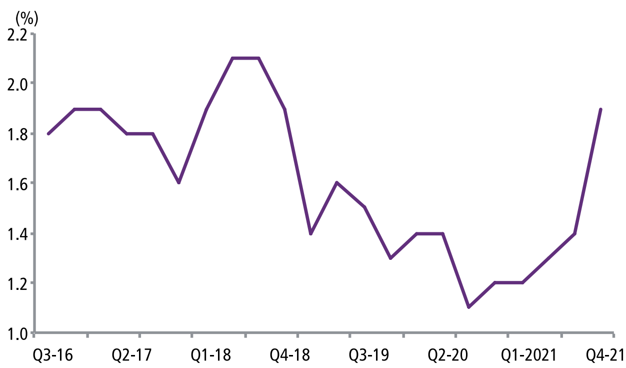
Chart 6.7: Three-month inflation expectations by business owners



Source: BAM's monthly business survey.

Furthermore, the results of Bank Al-Maghrib's inflation expectations survey for the fourth quarter of 2021 show that financial experts expect inflation to accelerate to an average of 1.9 percent over the next eight quarters, compared to 1.4 percent expected in the third quarter.

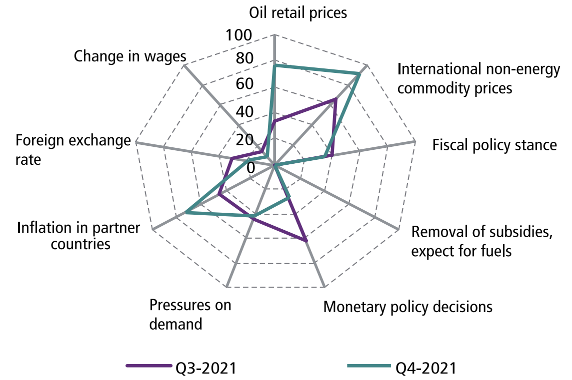
Chart 6.8: Inflation expectations by financial experts*



Source: BAM's quarterly survey on inflation expectations.

Financial experts consider that the future evolution of inflation would be driven by world commodity prices, excluding oil, prices at the pump and inflation in partner countries.

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

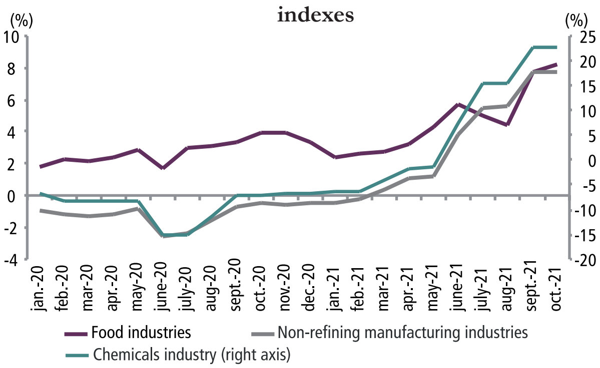


Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Producer[2] prices

Producer prices in the manufacturing industries excluding refining continue to rise at a rapid pace, increasing by 7.8 percent in October after averaging 6.3 percent in the third quarter of 2021, bringing their average increase in the first 10 months of 2021 to 3.2 percent. This acceleration is mainly attributable to the increase of 8.3 percent after 5.6 percent in producer prices in the "food industry" and 22.6 percent after 17.9 percent in the "chemical industry. It is also attributable, albeit to a lesser extent, to the surge in producer prices in the "metal industry", which rose by 29.2 percent instead of 26.3 percent in the previous quarter. In contrast, producer prices in the "manufacture of rubber and plastic products" industry fell by 2.9 percent in October, compared with 0.9 percent in the third quarter.

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



Source : HCP.

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

7. MEDIUM-TERM OUTLOOK

Summary

In addition to persistent bottlenecks in some production chains, rising commodity prices and strong inflationary pressures, the global economic outlook remains surrounded by a high level of uncertainty related to the evolution of the pandemic and the emergence of a new variant, leading many countries to tighten health restrictions. After a contraction of 3.5 percent in 2020, global growth is expected to rebound to 5.9 percent this year, before slowing to 4 percent in 2022 and 3.1 percent in 2023. In the United States, growth has been revised downward to 5.5 percent for 2021, and is expected to return to 3.3 percent in 2022, then 2 percent in 2023, as the effects of the fiscal stimulus policy wear off. In the euro area, growth would fall to 5.2 percent this year, then 4 percent in 2022 and 1.6 percent in 2023. In the United Kingdom, the impact of Brexit and the end of the short time working program continue to weigh on activity, with growth expected to be 6.8 percent in 2021, before declining to 2.9 percent in 2022 and 1.1 percent in 2023.

In the major emerging economies, power shortages and the consequences of the real estate crisis would slow the pace of recovery in China this year. The latter would still be among the highest in the world but should hover around 5.5 percent in the medium term. In India, industrial production suffered from high input costs and supply difficulties in 2021 and is expected to recover gradually in 2022. In Brazil, after a rebound in 2021, the economy is expected to slow significantly in 2022 and 2023, mainly due to structural problems, slow vaccination, rising inflation, and political uncertainties.

In response to inflationary pressures, several central banks in both developed and emerging and developing economies have tightened their monetary policies through rate increases and/or reductions in their asset purchase programs. At its 14-15 December meeting, while keeping the target range for the federal funds rate unchanged at [0-0.25 percent], the Fed decided to double the pace of its asset purchases from next January. Similarly, the ECB decided on 16 December to keep its key rates unchanged, to end its Emergency Pandemic Purchasing Program (EPPP) in March 2022 and to strengthen its Asset Purchase Program (APP) before gradually reducing it.

At the same time, commodity prices continued to rise, mainly due to the recovery in economic activity and the increase in freight costs. In the case of oil, the rebound in global demand and the control of production levels by OPEC+ countries led to a sharp rise in prices in October before showing slight declines in November 2021, in connection with the risks of the resurgence of infection that is weighing on global demand. The price of Brent crude is expected to average $71.8 per barrel in 2021, rising to $75.1 per barrel in 2022 before declining to $70.4 in 2023. Similarly, the price of natural gas on the European market sharply rose and is expected to end 2021 with a 356.3 percent increase, followed by decreases of 13.7 percent in 2022 and 27 percent in 2023. As for coal, after having reached historic highs, its price is expected to rise by 138.5 percent this year, then by 8.9 percent in 2022 before falling by 25.8 percent in 2023, mainly due to a slowdown in demand and an easing of supply constraints.

For phosphate and derivatives, the price increase in 2021 was driven by strong demand, rising input costs, production cuts, and the Chinese export ban, and prices are expected to remain at high levels in 2022, before declining in 2023. For food commodities, the price increase reflects the acceleration of prices for sugar, vegetable oils, and to a lesser extent meat. Prices are expected to trend downward in 2022, as the shocks dissipate, before stabilizing in 2023.

Under these conditions, the rise in consumer prices continued in both advanced and emerging countries. Inflation projections for all countries, except China, have been revised upwards significantly. In the US, inflation is expected to average 4.7 percent this year, rising to 6.1 percent in 2022 and then slowing to 3.7 percent in 2023. In the euro area, inflation is expected to end 2021 at an average of 2.5 percent, accelerate to 3 percent in 2022, and return to 2 percent in 2023.

At the national level, the year should be marked by a recovery in foreign trade in goods after the decline caused by the effects of the health crisis, by a low level of travel receipts, and by a continuation of the upward trend in remittances from Moroccan expatriates. The current account deficit would end the year at 2.5 percent of GDP, after 1.5 percent in 2020. Assuming inflows of donations of 1.7 billion dirhams and expected external financing from the Treasury, the official reserve assets would reach 330.4 billion dirhams at the end of 2021, equivalent to 6 months and 22 days of imports of goods and services. Over the forecast horizon, the recovery in trade should be consolidated for goods, with the assumption of a decline in remittances from Moroccan expatriates after their exceptional increases in 2020 and 2021 and a recovery in travel receipts in 2023. The current account deficit would thus widen to 5.3 percent of GDP in 2022 and 4.9 percent in 2023. FDI receipts are expected to be around 3 percent of GDP in 2022 before rising to 3.5 percent in 2023. Considering, in particular, an assumption of grant inflows of 2.2 billion dirhams in 2022 and 1.5 billion dirhams in 2023, and the Treasury's expected external financing, official reserve assets would amount to 341.6 billion dirhams in 2022 and 345.7 billion dirhams in 2023, equivalent to a coverage of 6 months and 23 days and 6 months and 25 days of imports of goods and services, respectively.

On the fiscal side, after a significant increase in 2020, the budget deficit excluding privatization should gradually narrow to 6.9 percent of GDP in 2021. Over the remainder of the forecast horizon, it would be 6.3 percent in 2022, considering the programming of the 2022 Finance Law, and then 5.8 percent in 2023 based on data from the Ministry of the Economy and Finance's multi-year framework.

Monetary conditions are expected to remain accommodating and credit to the non-financial sector is projected to grow by 3.7 percent this year and then by 3.4 percent in 2022 before increasing to 4.4 percent by the end of 2023. The real effective exchange rate is expected to end 2021 with a slight appreciation and to depreciate over the rest of the forecast horizon.

Supported by the progress of the vaccination campaign and the improvement in the health situation on the one hand, and by the fiscal stimulus and accommodating monetary conditions on the other, the national economy is expected to rebound by 6.7 percent in 2021, after a contraction of 6.3 percent in 2020, covering increases of 18.8 percent in agricultural value added and 5.3 percent in that of non-agricultural activities. In the medium term, growth is expected to consolidate at 2.9 percent in 2022 and 3.4 percent in 2023, reflecting the continued improvement in non-agricultural activities and a return to average cereal crop years. On the demand side, this development would be driven mainly by its domestic component, while the negative contribution to growth of net exports should diminish.

In a context marked by increasing external inflationary pressures, inflation is expected to accelerate from 0.7 percent in 2020 to 1.4 percent in 2021, driven by the significant rise in its underlying component and the increase in fuel and lubricants prices. It is then expected to rise to 2.1 percent in 2022, before falling back to 1.4 percent in 2023.

7.1 Underlying assumptions

After a rebound in 2021, the global economy faces "headwinds"

The global economic outlook remains surrounded by a high level of uncertainty as the emergence of the new "Omicron" variant leads many countries to tighten health restrictions, in addition to the implications of persistent bottlenecks in some production chains, rising commodity prices, and strong inflationary pressures. After contracting by 3.5 percent in 2020, global growth is expected to rebound to 5.9 percent this year, a downward revision of 0.3 percentage points from the October forecast. It is expected to decelerate to 4 percent in 2022 and then to 3.1 percent in 2023.

In the United States, growth has been revised down to 5.5 percent for 2021 and is expected to fall to 3.3 percent in 2022 and 2 percent in 2023, as the effects of fiscal stimulus fade. In the euro area, the pace of recovery is expected to slow as the easing of restrictions is withdrawn. Growth is expected to fall to 5.2 percent for 2021, then to 4 percent in 2022 and 1.6 percent in 2023. In the United Kingdom, as the impact of Brexit and the end of the short time working program continue to weigh on activity, growth is projected to be 6.8 percent in 2021, before declining to 2.9 percent in 2022 and 1.1 percent in 2023.

In the major emerging economies, growth in China slowed sharply in the third quarter, but is expected to reach 8.1 percent for 2021, revised downwards by 0.5 percentage points, reflecting shortages of electrical energy and the consequences of the crisis in the real estate sector. Thereafter, it would be 5 percent in 2022 and 5.9 percent in 2023. In India, industrial production has suffered from high input costs and supply difficulties in 2021 and is expected to recover gradually in 2022. Its growth has also been revised downward to 7.6 percent in 2021 before accelerating to 10.8 percent in 2022 and then returning to 6.4 percent in 2023. In Brazil, the economy is expected to grow by 5.2 percent in 2021, before slowing to an average of around 1.4 percent in 2022 and 2023, mainly due to structural problems, slow vaccination, rising inflation and political uncertainties.

Chart 7.1: Growth in the euro area

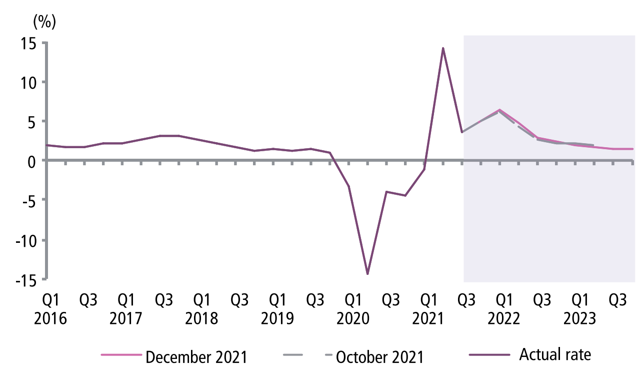
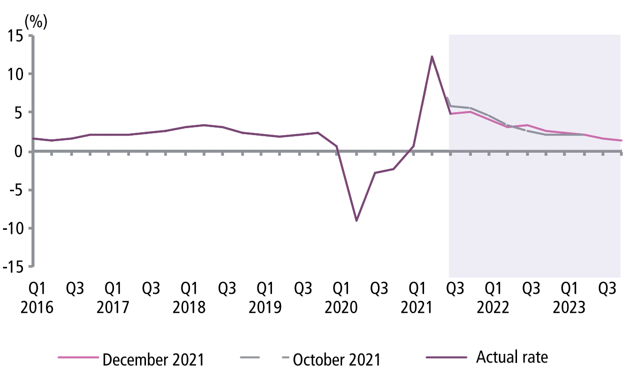


Chart 7.2: Growth in the USA



Source: GPMN[1] forecasts of November 2021.

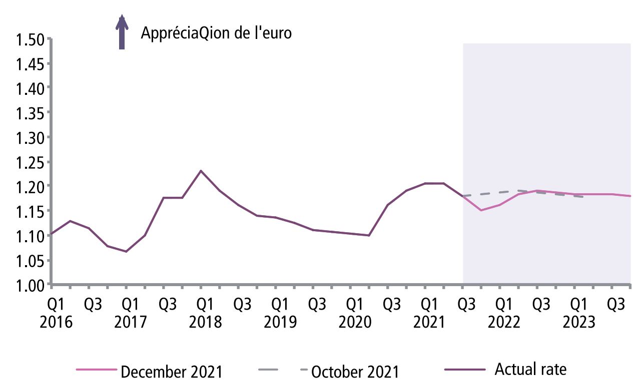
1 Global Projection Model Network.

Central banks are increasingly moving towards a normalization of monetary policy

In response to inflationary pressures, several central banks in both developed and emerging and developing economies have tightened their monetary policies through rate hikes and/or reductions in their asset purchase programs. At its 14-15 December meeting, while keeping the target range for the federal funds rate unchanged at [0-0.25 percent], the Fed decided to double the pace of its asset purchases to $20 billion for Treasury securities and $10 billion for mortgage-backed securities starting next January. Similarly, the ECB decided on 16 December to keep its key rates unchanged, to end its Emergency Pandemic Purchasing Program (EPPP) in March 2022 and to strengthen its Asset Purchase Program (APP) before gradually reducing it.

In the currency markets, supported by a more favorable economic outlook in the United States and expectations of a faster tightening of the Fed's monetary policy, the US dollar reached its highest level in 17 months against the euro in November. However, for the entire year, it is expected to average 0.84 euros, a depreciation of 3.8 percent. In 2022, it should appreciate by 0.4 percent to 0.85 euro, before stabilizing at this level in 2023.

Chart 7.3: USD/ EUR exchange rate



Source: GPMN forecasts of November 2021.

Commodity prices continue to rise, and inflation accelerates

The improvement in global demand and the limitation of production increases by OPEC+ countries have resulted in a sharp rise in oil prices. In particular, the price of Brent crude oil rose by 12 percent between September and October before falling by 3.4 percent in November in connection with the risks of a resurgence of infection that is weighing on global demand. It is expected to average $71.8 per barrel for the whole of this year and to reach $75.1 in 2022, before falling back to $70.4 in 2023. As for coal, after reaching historical highs, its price is expected to rise by 138.5 percent this year and by 8.9 percent in 2022 before falling by 25.8 percent in 2023, mainly due to the slowdown in demand and the easing of supply constraints. The price of natural gas on the European market rose by 36 percent between September and October before falling by 11 percent in November. The World Bank's October forecast calls for an increase of 356.3 percent this year, followed by decreases of 13.7 percent in 2022 and 27 percent in 2023. The expected normalization of prices is also due to the gradual transition to renewable energy.

For phosphate and derivatives, the price increase in 2021 was driven by strong demand mainly from Brazil and the US, rising input costs, production cuts and the export ban from China. In addition, countervailing duties imposed by the United States on DAP imports from Morocco and Russia, which went into effect last April, have exacerbated price pressures. According to the World Bank's October forecast, these prices are expected to remain at high levels in 2022, before declining in 2023. For raw phosphate, the price would end 2021 up 58 percent at an average of $120/t, then rise to $130/t in 2022, before falling to $110/t in 2023. For DAP, the price would end the year up 89 percent at $590/t and is expected to reach $600/t in 2022 before declining to $450/t in 2023.

Regarding food, the FAO food price index stood at 134.4 points in November, the highest level since June 2011. Reflecting a sharp rise in the prices of sugar, vegetable oils, and to a lesser extent, those of meat. The index is expected to rise by 28.6 percent in 2021, and to follow a downward trend from the second half of 2022, rising by 10.7 percent on average over the year, followed by a 9.6 percent decline in 2023. For grains in particular, the price of US soft wheat stood at $334.5/t in November, up 21 percent from the beginning of the year and would end with an average of $255/t. The price would continue to rise until the first half of 2022, mainly due to droughts in Russia, North America, Argentina, and Brazil, and would average $250/t in 2022 and $245/t in 2023.

Under these conditions, consumer prices have continued to rise in both the main advanced and emerging countries. In addition to higher commodity prices, these inflationary pressures are also due to the recovery in economic activity, bottlenecks in some production chains and higher freight costs. As a result, inflation projections for all major economies except China have been revised upwards significantly. In the US, after reaching 6.8 percent in November, inflation is expected to average 4.7 percent this year and to continue rising to 6.1 percent in 2022 before slowing to 3.7 percent in 2023. In the euro area, inflation reached 4.9 percent in November and is expected to end 2021 at 2.5 percent. It is expected to accelerate to 3 percent in 2022 before returning to 2 percent in 2023.

Chart 7.4: Brent crude oil price

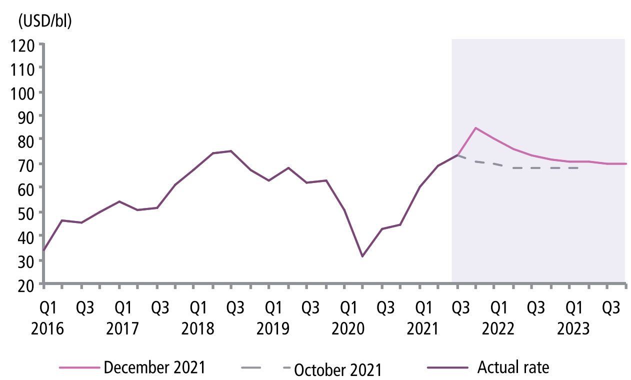


Chart 7.5: FAO food price index (2014-2016=100)

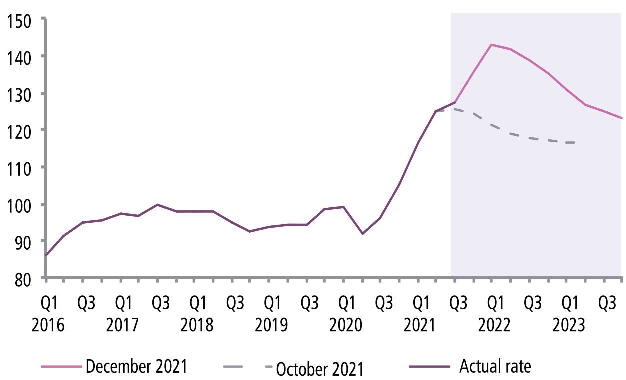


Chart 7.6: Inflation in the euro area

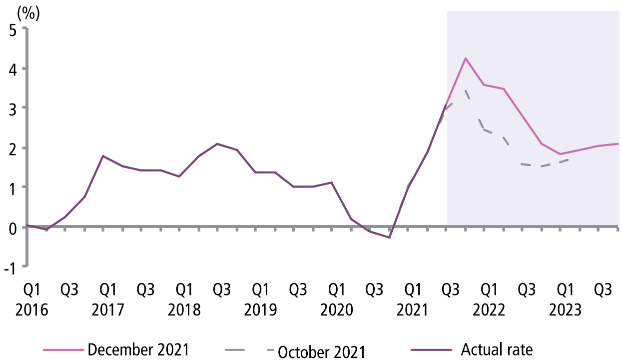
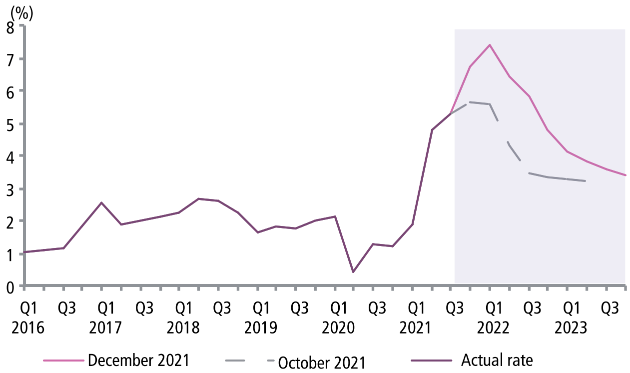


Chart 7.7: Inflation in the United states



Source: GPMN forecasts of November 2021.

Cereal production of 103.2 million quintals in 2020-2021 and an average harvest retained for 2021-2022 and 2022-2023

The final cereal crop for the 2020-2021 season was 103.2 million quintals (MQx), an increase of 221 percent compared to the previous season and 63.5 percent compared to the average of the last five years. Regarding the 2021-2022 campaign, and considering increases in production, according to the Ministry of Agriculture, of 14 percent for citrus and 21 percent for olives, and under the assumption of an average cereal production of 75 MQx and a continuation of the trend performance of other crops, the agricultural value added in 2022 would fall by 2.8 percent instead of 3.3 percent expected in the October exercise.

For the 2022-2023 crop year, the projections are based on an average cereal crop of 75 MQx and a continuation of the trend performance of other crops, bringing the agricultural value added to 2 percent.

7.2 Macroeconomic projections

Recovery of foreign trade and comfortable level of foreign exchange reserves

After narrowing to 1.5 percent of GDP in 2020, the current account deficit is expected to be 2.5 percent in 2021, before widening to 5.3 percent in 2022 and 4.9 percent in 2023.

In 2021, considering data to the end of October, exports of goods should improve by 21.7 percent, driven mainly by shipments of phosphate and derivatives, due to the surge in international prices. At the same time, imports are expected to rise by 22.9 percent, due to the increase in the energy bill and the rise in purchases of consumer goods, considering the cost of acquiring COVID-19 vaccines. Regarding travel receipts, which are suffering from the health restrictions, their projection has been adjusted downward, assuming a decline of 9.2 percent. As for transfers from Moroccan expatriates, and in line with the exceptional improvement observed, they should be up 38.9 percent for the entire year. For their part, FDI receipts should amount to 2.5 percent of GDP.

Taking into account an amount of 1.7 billion dirhams in donation and the Treasury's planned external financing, official reserve assets would amount to 330.4 billion at the end of 2021, i.e., the equivalent of 6 months and 22 days of imports of goods and services.

Over the forecast horizon, exports are expected to grow by 9.2 percent in 2022, supported mainly by the increase in automobile manufacturing sales. In 2023, they are expected to fall slightly by 0.8 percent, driven by the expected decline in sales of phosphate and derivatives because of the expected decline in DAP prices. At the same time, imports are expected to grow by 8.3 percent in 2022 and 3.1 percent in 2023, with the energy bill in particular rising in 2022 followed by an easing in 2023. Travel revenues are expected to remain low, rising from 33.1 billion dirhams in 2021 to 43.4 billion dirhams in 2022 before increasing to 70.9 billion dirhams in 2023. The increase in transfers from Moroccan expatriates is expected to come to a halt with a decrease of 23.2 percent to 72.8 billion dirhams in 2022 and 1.9 percent to 71.4 billion dirhams in 2023, after a record of 94.7 billion dirhams in 2021. For their part, FDI receipts will be close to the equivalent of 3 percent of GDP in 2022 before increasing to 3.5 percent in 2023.

Taking into account an assumption of inflows of donations of 2.2 billion dirhams in 2022 and 1.5 billion in 2023 and the expected external financing of the Treasury, the official reserve assets would amount to 341.6 billion dirhams and 345.7 billion respectively, equivalent to a coverage of 6 months and 23 days and 6 months and 25 days 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./oct.)	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2021	2022
Exports of goods (FOB)	8. 6	3. 5	10. 3	10. 7	3. 3	-7. 6	21. 7	9. 2	-0. 8	-0. 9	3. 3
Imports of goods (CAF)	-4. 9	10. 3	6. 7	9. 9	2. 0	-14. 0	22. 9	8. 3	3. 1	3. 2	4. 3
Travel receipts	-1. 4	5. 0	12. 3	1. 2	7. 8	-53. 7	-9. 2	31. 0	63. 5	-0. 7	-51. 0
Expatriate remittances	4. 8	4. 0	5. 3	-1. 5	0. 1	4. 9	38. 9	-23. 2	-1. 9	11. 3	-18. 2
Current account balance (% of GDP)	**-2. 1**	**-4. 1**	**-3. 4**	**-5. 3**	**-3. 7**	**-1. 5**	**-2. 5**	**-5. 3**	**-4. 9**	**0. 0**	**-3. 8**
Official reserve assets, in months of imports of goods and services	**6. 1**	**6. 4**	**5. 6**	**5. 4**	**6. 9**	**7. 2**	**6. 7**	**6. 8**	**6. 8**	**-0. 5**	**-0. 7**

Sources: Foreign Exchange Office and BAM forecasts.

Favorable monetary conditions and consolidation of bank credit growth to the non-financial sector

The real effective exchange rate should end 2021 with a slight appreciation, reflecting the strengthening of the dirham in nominal terms against the euro in particular. Over the remainder of the forecast horizon, it should depreciate, due to a decline in its value in nominal terms and a level of domestic inflation lower on average than that of trading partners and competitors.

Based on the projected trends in foreign exchange reserves and currency, the bank liquidity deficit is expected to reach 64.4 billion dirhams at the end of 2021, 70 billion dirhams at the end of 2022 and 83.6 billion dirhams at the end of 2023. As for bank credit to the non-financial sector, its growth accelerated from 3.5 percent in the third quarter to 4.1 percent in October 2021, driven mainly by the improvement in lending to private non-financial companies. In terms of outlook and considering economic growth forecasts and the banking system's expectations, bank credit to the non-financial sector is expected to grow by 3.7 percent in 2021, 3.4 percent in 2022, and 4.4 percent at the end of 2023. Under these conditions and considering the evolution of the other counterparts of the money supply, the growth of the M3 aggregate should be 6.4 percent at the end of December 2021 and around 5 percent at the end of 2022 and 2023.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts			Gap (dec./oct.)	
	2017	2018	2019	2020	2021	2022	2023	2021	2022
Bank lending to the nonfinancial sector	3. 8	3. 1	5. 5	3. 9	3. 7	3. 4	4. 4	0. 0	-0. 4
M3	5. 5	4. 1	3. 8	8. 5	6. 4	5. 0	5. 2	0. 9	0. 4
Liquidity surplus or deficit, in billion dirhams	-40. 9	-69. 0	-62. 3	-67. 0	-64. 4	-70	-83. 6	-6. 2	-5. 1

Gradual narrowing of the budget deficit over the forecast horizon

Broadly in line with the Finance Act 2021 forecast, the budget deficit in 2021 is projected at 6.9 percent of GDP, down from 7.3 percent projected in the October forecast. This revision is mainly the result of upward adjustments in tax revenues and specific financing receipts and a decrease in investment spending.

In 2022, taking into account the programming of the Finance Act 2022 and Bank Al-Maghrib's economic growth forecast, the budget deficit is expected to reach 6.3 percent of GDP, down 0.5 percentage points from the October forecast. These results take into account an upward revision of tax revenues, which should increase by 9.7 percent compared to 2021. On the expenditure side, goods and services expenditure is expected to increase by 4.5 percent and the subsidy burden by 2.1 percent, an upward adjustment from the October forecast. Similarly, investment spending is expected to increase by 8.6 percent to 6.3 percent of GDP, the same ratio projected in the October 2021 MPR.

In 2023, the budget deficit is expected to narrow to 5.8 percent of GDP, assuming continued spending, particularly on goods, services and investment, and the mobilization of tax revenues in line with the gradual recovery of economic activity.

Stronger-than-expected rebound of the national economy in 2021

The national economy is projected to rebound by 6.7 percent in 2021, following a contraction of 6.3 percent in 2020, an upward revision of 0.5 percentage points from the October projection, reflecting the significant progress in the vaccination campaign and the improved health situation in the fourth quarter. This would be the result of an 18.8 percent increase in agricultural value added, taking into account a grain harvest of 103.2 MQx announced by the Ministry of Agriculture for the 2020-2021 crop year. As for non-agricultural activities, their value added is expected to increase by 5.3 percent in 2021 after a decline of 5.8 percent in 2020, an upward revision of 0.7 percentage points compared to the October forecast. This would have been driven in particular by a stronger consolidation of industrial activities. On the demand side, growth is expected to be driven by a recovery in the domestic component, thanks to the recovery in agricultural and non-agricultural incomes, the exceptional rise in remittances from Moroccan expatriates and the continued accommodative stance of monetary policy. On the other hand, net exports are expected to make a negative contribution, as a result of a larger rebound in the volume of imports of goods and services than in exports.

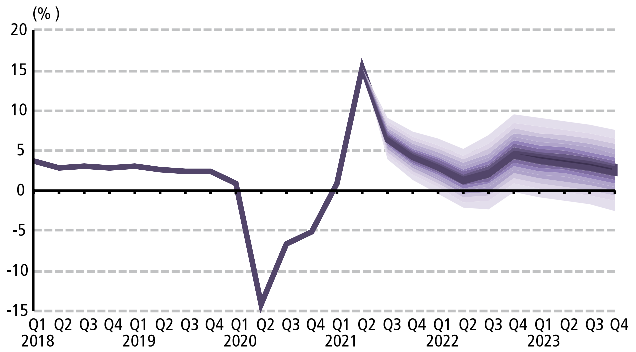
In 2022, the new wave of infections and the resurgence of a new variant weigh on the national economic growth projection. It has been revised downward by 0.1 percentage points to 2.9 percent from the October forecast and is expected to consolidate at 3.4 percent in 2023. Non-agricultural activities are expected to continue to improve at rates of 3.2 percent in 2022 and 3.4 percent in 2023, and agricultural value added is expected to decline by 2.8 percent in 2022 and then increase by 2 percent in 2023, based on the assumption of an average cereal harvest of 75 MQx per year. On the demand side, this evolution should be driven mainly by the continued improvement of the domestic component, while the negative contribution of net exports should diminish.

Table 7.3: Economic growth

Change in %	Actual rates					Forecasts			Gap (dec./oct.)	
	2016	2017	2018	2019	2020	2021	2022	2023	2021	2022
National growth	**1. 1**	**4. 2**	**3. 1**	**2. 6**	**-6. 3**	**6. 7**	**2. 9**	**3. 4**	**0. 5**	**-0. 1**
Agricultural VA	-13. 7	15. 2	3. 7	-5. 8	-8. 6	18. 8	-2. 8	2. 0	0. 0	0. 5
Nonagricultural VA	2. 1	2. 9	2. 9	3. 9	-5. 8	5. 3	3. 2	3. 4	0. 7	-0. 4
Net tax on subsidies	8. 8	3. 1	4. 6	1. 9	-7. 6	5. 4	5. 6	4. 5	0. 0	0. 3

Sources: HCP data, and BAM forecasts.

Chart 7.8: Growth outlook over the forecast horizon (Q3 2021 - Q4 2023), (YoY)*



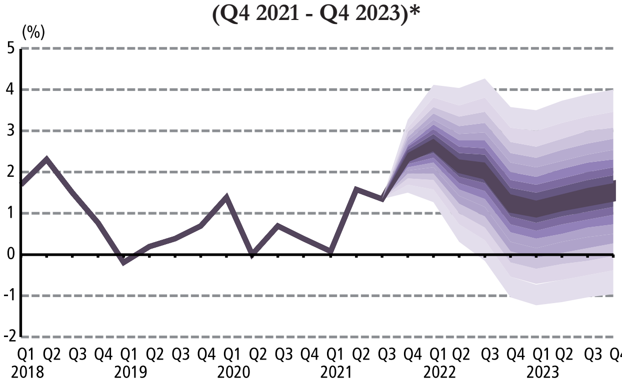
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Inflation accelerating but at contained levels

Against a backdrop of strong external inflationary pressures, and after a low rate of 0.7 percent in 2020, inflation would accelerate to 1.4 percent in 2021, up 0.2 percentage points from the October projection. By component, this increase would reflect the significant rise in underlying inflation, which is expected to increase from 0.5 percent to 1.7 percent in 2021, due to increases in international commodity prices, especially food. Fuel and lubricant prices are expected to rise at a high rate, in line with the increase in oil prices. On the other hand, prices of food products with volatile prices are expected to be much lower than a year earlier and the increase in prices of regulated products should stabilize on average from one year to the next.

In the medium term, inflation is expected to reach 2.1 percent in 2022 and then fall to 1.4 percent in 2023. This development essentially reflects that of its underlying component. Indeed, the inflationary pressures experienced in 2021 are expected to persist in the first half of 2022. Given the expected improvement in the domestic demand cycle and the expected depreciation of the real effective exchange rate, underlying inflation is expected to accelerate to 2.7 percent in 2022 and then return to 1.8 percent in 2023. As for the other components, the prices of regulated products would return to their trend rate in the medium term and those of fuels and lubricants would rise in 2022 before falling in 2023, in line with the outlook for world Brent crude oil prices and the exchange rate of the dirham against the dollar. Prices of food products with volatile prices are expected to stabilize almost over the forecast horizon, assuming that supply shocks gradually dissipate.

Chart 7.9: Inflation forecast over the forecast horizon (Q4 2021 - Q4 2023)*



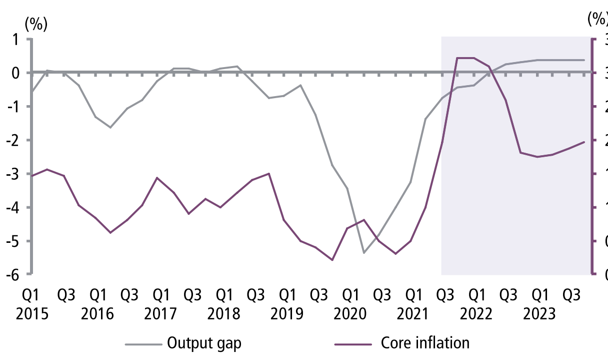
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Table 7.4: Inflation and core inflation

	Actual rates				Forecasts				Gap (dec./oct.)	
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Horizon of 8 quarters (Q4 2021-Q3 2023)**	**2021**	**2022**
Inflation	**0. 7**	**1. 6**	**0. 2**	**0. 7**	**1. 4**	**2. 1**	**1. 4**	**1. 8**	**0. 2**	**0. 5**
Core inflation	1. 3	1. 3	0. 5	0. 5	1. 7	2. 7	1. 8	2. 4	0. 3	0. 6

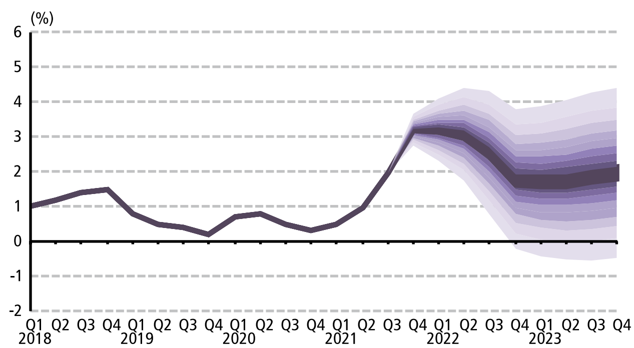
Sources: HCP data, and BAM forecasts and calculations.

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 2021 - Q4 2023)*



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

7.3 Balance of risks

The resurgence of the pandemic and the emergence of the latest "Omicron" variant have significantly increased the degree of uncertainty in the economic outlook. The risks remain considerable and, if they materialize, could affect the central scenario projections. Thus, the balance of risks is balanced for growth and to the upside for inflation.

On the growth side, the progress made in the vaccination campaign, the continued accommodative stance of monetary policy, and the expected positive effects of the operationalization of the Mohammed VI Fund for Investment reinforce optimism about a more pronounced recovery in economic activity. However, many downside risks remain at both the national and international levels. These include the consequences of the resurgence of infection in terms of tightening restrictive measures and disparities in the pace of vaccine deployment internationally. At the same time, despite a normal start to the agricultural season, cereal production remains largely dependent on the weather conditions that will prevail in the coming months. As for inflation, upside risks dominate. Exacerbated commodity prices, higher transportation costs, bottlenecks in some supply chains, and stronger demand could lead to faster and more persistent increases in consumer prices than expected.

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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