PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 17, 2020

1. The Board of Bank Al-Maghrib held its first quarterly meeting of the year on Tuesday, March 17.
2. During this meeting, the Board first inquired about the progress made in implementing the integrated program to support and finance enterprises, set up further to the speech given by His Majesty the King on October 11, 2019.
3. It also reviewed developments on the foreign exchange market following the decision to widen the fluctuation band of the dirham against the reference rate from ±2.5% to ±5%, as of March 9, 2020. In this respect, the Board noted that this new phase was launched in a timely manner and that the market continues to operate in good conditions.
4. The Board then analysed recent economic developments as well as the macroeconomic forecasts prepared by the Bank for the next eight quarters. It particularly dwelled on the repercussions of the unfavourable climatic conditions prevailing in our country and of the global spread of the Covid-19 disease. It noted that the rapid evolution of this pandemic requires a frequent update of the situation assessment and of the economic forecasts.
5. Taking into account these assessments, as well as the inflation evolution over the medium term, the Board decided, with a view to supporting economic activity, to reduce the key policy rate by 25 basis points to 2 percent and to continue to monitor all these developments very closely.
6. The Board noted that after standing at a low level of 0.2% in 2019, inflation rose to 1.3% in January 2020, mainly driven by higher volatile food prices, after their decrease one year before. It is expected to average 0.7% over the year as a whole and to accelerate to 1.2% in 2021, with a gradual increase of its underlying component from 0.6% in 2019 to 1% then to 1.3% in 2021.
7. At the international level, hopes for an economic recovery in 2020 have faded with the spread of the Covid-19 disease, whose impact is proving to be increasingly significant. In the main advanced countries, growth would weaken significantly, before rebounding in 2021. In the United States, it is expected to fall from 2.3% in 2019 to 1.4% in 2020 before strengthening to 2.7% in 2021, owing in particular to favourable monetary conditions. In the euro area, the pace of activity is expected to decline significantly from 1.2% to 0.4%, particularly affected by economic difficulties in Germany and Italy, and to accelerate to 1.8% in 2021. In the labour markets of advanced economies, unemployment is expected to rise moderately in the United States and stagnate in the euro area. In the major emerging countries, China is expected to experience a sharp deceleration in its growth rate, from 6.1% in 2019 to 4.1% in 2020, its lowest level in nearly 30 years, before rebounding to 7.3% in 2021. In India, growth is expected to improve from 5.3% to 6.3% then to 6.7% respectively. However, these rates remain significantly lower compared to the projections of last December.
8. Commodity markets are still influenced by raising concerns over global demand evolution due to the spread of the Covid-19 disease and to the divergence of the OPEC+ alliance on production cuts. Oil prices are thus expected to drop again this year, to reach $48.5/bl for Brent prices, then rise to $59.5/bl in 2021. On the other hand, in its latest forecasts of October 2019, the World Bank expects prices of phosphate and derivatives to rise. Prices per ton would hence rise from $306 to

$324 in 2020 and to $335 in 2021 for DAP and from $295 to $304 then to $311 for TSP. As for crude phosphate, its price per ton is expected to reach $92 in 2020 and $95 in 2021, after $88 in 2019.

9. Regarding inflation, after a deceleration in 2019, it would continue to evolve in the euro zone at rates below the ECB's objective, with an average of 0.6%in 2020 and 1.3%in 2021. In the United States, it would slow from 1.8%in 2019 to 1.7%in 2020, before running closer to the FED's objective in 2021.

10. Concerning monetary policy decisions, and in view of strong concerns about the spread of the Covid-19 disease, the Fed announced, on March 15, a further decline by 100 basis points, after the 50 basis points decline announced on March 3, of the target range for the federal funds' rate to 0-0.25 percent. It plans to maintain this range until it is confident that the economy is on track to achieve the goals of maximum employment and price stability. The Bank has also decided to resume its securities purchases of at least $700 billion in Treasury bills and mortgage-backed securities. On the other hand, the ECB adopted, on March 12, a series of additional quantitative easing measures while keeping its key rates unchanged and reiterating that it expects them to remain at their levels or lower until it notices that the inflation forecasts converge sustainably towards its objective. At the same time, the FED, the ECB, the Bank of Japan, the Bank of England, the Bank of Canada and the Swiss National Bank announced on March 15 a coordinated action to enhance liquidity provision via the standing U.S. dollar liquidity swap line arrangements and agreed to reduce rates on these swaps by 25 basis points.

11. At the national level, the latest available national accounts data for Q3-2019 indicate a year-on-year slower growth from 3 percent to 2.1 percent, impacted in particular by the underperformance of agricultural activities. For 2019 as a whole, growth is estimated to have slowed to 2.3 percent, as a result of the 5.3 percent decline expected in agricultural value added, while non-agricultural activities would have speeded up to 3.3 percent. In 2020, suffering from the combined effect of unfavourable climate conditions and the global spread of the Covid-19 disease, BAM expects growth to stagnate at 2.3 percent. Agricultural value added would decline by 2.7 percent, with a cereal harvest estimated on the basis of data on climatic conditions and the state of vegetation available on 10 March at 40 million quintals, and the pace of non-agricultural activities would slow to 2.9 percent. In 2021, growth would rebound to 3.8 percent with an increase in agricultural value added of 8.1 percent, assuming an average cereal production of 75 million quintals, and an improvement in non-agricultural growth to 3.3 percent. These forecasts remain surrounded by significant uncertainties and are subject to downward revision if the global spread of the Covid-19 disease is not contained in the short term.

12. In the labour market, the national economy posted a net gain of 165 thousand jobs in 2019. This performance is to be attributed, in particular, to an increase in employment by 267 thousand new jobs created in the tertiary sector and a loss of 146 thousand jobs in agriculture. Taking into account a net entry into the market of 135 thousand job seekers, the participation rate fell from 46 percent in 2018 to 45.8 percent in 2019 and the unemployment rate from 9.5 percent to 9.2 percent.

13. In terms of external accounts, provisional data for 2019 indicate a marked slowdown of goods imports to 2%, mainly as a result of lower energy bills. At the same time, exports increased by 2.4% after 10.7% in 2018, largely impacted by lower sales of phosphates and derivatives. On the other hand, travel receipts rebounded by 7.7% to 78.7 billion dirhams, while transfers from Moroccan expatriates stabilised at their 2018 level, equal to 64.9 billion dirhams. Under these conditions, the current account deficit would have narrowed to 4.4% of GDP. The latter is expected to narrow further over the forecast horizon to 3.5% in 2020 and 2.5% of GDP in 2021. Imports would continue to grow at a moderate pace in 2020 before accelerating in 2021, mainly due to the change in the energy bill. Conversely, exports would accelerate sharply, particularly reflecting the higher production expected in the car manufacturing industry according to the figures announced by the PSA plant. As for travel revenues, they are projected to decrease in 2020 due to the spread of the Covid-19 disease and increase again in 2021. As regards financial transactions, after the decline observed in 2019, FDI receipts would stabilise at a level around 3% of GDP in 2020 before rising to the equivalent of 3.2% of GDP in 2021. Considering the planned Treasury borrowing from the international market in 2020, NIRs would increase from 245.6 billion dirhams in 2019 to 246 billion dirhams at the end of 2020 and to 251.9 billion dirhams at end -2021. They should thus ensure coverage of more than 5 months of imports of goods and services.

14. With regard to monetary conditions, the real effective exchange rate appreciated by 1.1% in 2019, mainly as a result of a significant increase in the nominal value of the national currency. This increase is expected to ease significantly in 2020 and dissipate in 2021. Also taking into account lower domestic inflation compared to the main partners and competitors, the real effective exchange rate is expected to remain virtually stable over the forecast horizon. Lending rates fell by 15 basis points in 2019, benefiting mainly individuals and SMEs, and averaged 4.91% in the fourth quarter of the year. As for bank lending to the non-financial sector, its pace accelerated markedly in 2019 to 5.3%, with a significant improvement in lending to private enterprises. The latest data for January point to a continuation of this trend. In terms of prospects, based on the growth forecasts and on the expected effects of the integrated program to support and finance enterprises, credit to the nonfinancial sector should end the year up by 4.5% before strengthening by 5.3% in 2021.

15. Regarding public finances, the 2019 budget execution resulted in a widening of the deficit, excluding privatization, to 47 billion dirhams, i.e. the equivalent of 4.1% of GDP, against the 3.7% projected in the Finance Act. Current revenues, excluding privatization, increased by 4.6%, driven in particular by the inflow of 9.4 billion under specific financing mechanisms. At the same time, current expenditure increased by 4.6%, mainly as a result of higher expenses on goods and services, while subsidies fell by 9.3% to 16.1 billion dirhams. Capital expenditure rose by 7.3% to 70.4 billion dirhams. In the medium term, the fiscal consolidation process is expected to continue, albeit at a slower pace than projected in December. Budget deficit, excluding privatization, should, according to Bank Al-Maghrib's forecasts, disregarding the exceptional efforts that the Government is called to make in the current difficult economic situation, decline slightly to 4% of GDP in 2020, then to 3.9% of GDP in 2021.