PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 16, 2020

1. The Board of Bank Al-Maghrib held its second quarterly meeting of the year 2020 on Tuesday, June 16.

2. During this meeting, the Board reviewed and approved the Annual Report on the country's economic, monetary and financial situation and on the Bank's activities for the 2019 financial year.

3. The Board analysed and assessed the national and international economic and social developments, as well as the responses of the national authorities to mitigate the effects of the Covid-19 pandemic. In this regard, it noted that the Bank's macroeconomic projections established in this context remain surrounded by an exceptionally high degree of uncertainty and clearly show a sharp contraction of the national economy this year followed by a rebound in 2021.

4. In view of these estimates, the Board decided, after the 25-basis-point cut last March, to reduce the key rate by a further 50 basis points to 1.5 percent and to fully liberate the reserve account in favour of the banks. In the same vein, Bank Al-Maghrib has put in place specific measures to refinance bank credit to participatory banks and microcredit associations. These new decisions, combined with the various easing measures already implemented, namely broadening the collateral eligible for its refinancing operations, strengthening its non-conventional programmes, and temporarily relaxing the prudential rules, should help, along with those taken by the Government, to mitigate the impact of the pandemic and support economic and employment recovery. Considering the current special economic situation, the Bank will take greater care than in the past to ensure that its decisions are passed on to the real economy and will regularly review the situation with the highest banking system management, bearing in mind that it has already refined the framework of its refinancing operations to further favour banks that are making greater efforts in this regard.

5. The Board noted that, after averaging 1.4 percent in the first quarter of 2020, inflation, measured by the change in the new consumer price index introduced by the HCP last May, with 2017 as the base year, fell to 0.9 percent in April, mainly due to the lower prices of fuels and lubricants. In the medium term, and against a background of low inflationary pressure from demand and low commodity prices, Bank Al-Maghrib forecasts inflation to remain at a moderate level of around 1percent in both 2020 and 2021. Its core component, measuring the underlying price trend, is expected to rise from 0.5 percent to 0.8 percent in 2020 and fall back to 0.7 percent in 2021.

6. Internationally, although it has become evident that the global economy would go through a severe recession in 2020, the magnitude of this recession and the pace of recovery remain subject to strong uncertainties. Consequently, some central banks decided to postpone the release of their forecasts while others considered several scenarios of evolution. Based on data available on May 18, projections indicate a 6.4 percent contraction in the U.S. economy in 2020, bringing to end the longest expansion cycle in its history. In 2021, it will resume with growth with an expected rate of 4 percent. In the euro area, GDP is

expected to fall by 8.2 percent, followed by a 3.9 percent relative recovery. In the labour markets, after having evolved around 4 percent, unemployment rate surged to 14.7 percent in April in the United States with a loss of 20.7 million jobs, then declined to 13.3 percent as 2.5 million jobs were created in May. In the euro area, the increase was limited, and unemployment rate stood at 7.3 percent in April after 7.1 percent in March, particularly due to the use of partial unemployment schemes. This rate would remain high in the United States, standing at 9.6 percent on average this year and 9 percent in 2021. In the euro zone, it would continue to increase to stand at 8.6 percent in 2020 and 9.2 percent in 2021. With regard to the main emerging countries, the Chinese economy would witness a 5.1 percent contraction this year followed by a strong growth forecasted to reach 9.6 percent, while the GDP in India is expected to decrease slightly by 1 percent then bounce by 8.8 percent in 2021.

7. In the commodity markets, the agreement reached by members of the OPEC+ group to cut oil production as of May 1st would only partially offset effects on prices of the sharp drop in global demand. More particularly, the Brent price is expected to fall from $64/bl on average in 2019 to $40/bl in 2020 then rise to $52.5 in 2021. Besides, food prices would be impacted by excess of supply and weak global demand, and drop by 2.7 percent in 2020 then recover in 2021. For phosphates and derivatives, DAP price is forecasted to fall by $306.4 per ton in 2019 to $285 in 2020 then rise to $295 in 2021, while the price of rock phosphate would drop from $88 per ton to $78 then to $81, respectively.

8. Under these conditions, the world economy is expected to face strong disinflationary pressures in 2020, with a drop of inflation to 0.9 percent in the United States and to 0.5 percent in the euro area. In 2021, inflation would rise to 2.4 percent in the United States, but would remain well below the ECB's objective, at 1.3 percent.

9. Facing this situation, central banks resorted to their conventional and unconventional instruments to support activity and encourage recovery. Thus, the ECB adopted on March 12 a series of measures, including, in particular, long-term refinancing operations and a temporary envelope of further net purchases of 120 billion Euros. On March 18, it announced a new temporary net asset purchase program of an overall envelope of 750 billion Euros which it raised during its meeting on June 4 up to 1,350 billion Euros. On April 30, the ECB decided to conduct a new series of longer-term non-targeted emergency refinancing operations. Also, the FED decided on March 15, after a 50 basis points-cut on March 3, to reduce the target range for the federal funds' rate by 100 basis points, bringing it down to [0 percent-0.25 percent]. It also decided to resume purchases of at least $700 billion worth of securities. On April 9, it announced additional measures to provide up to $2,300 billion in loans to households, employers and local authorities and established dollar facilities with a few central banks to ease the pressure on liquidity. Following its meeting on June 9-10, the FED reiterated its commitment to use all its instruments to support the American economy and published its first macroeconomic forecasts. The latter particularly reveal a 6.5 percent contraction in US GDP in 2020, followed by a 5 percent rebound in 2021. At the same time, budget support measures have been largely put in place by governments. In the EU, besides the individual responses of member countries, the Eurogroup concluded an agreement for support measures worth 540 billion Euros, and the European Commission proposed a 750 billion Euros stimulus package. In the United States, a 2200-billion-dollar budget plan has been implemented, and the House of Representatives proposed, on May 15, a set of new stimulus measures worth $ 3000 billion.

10. At the national level, due to the combined effect of drought and the restrictions adopted to limit the spread of Covid-19, the economy would, according to Bank Al-Maghrib's forecasts, witness a 5.2 percent contraction in 2020, its strongest since 1996. Agricultural value added would decline by 4.6 percent, with a cereal harvest estimated by the Department of Agriculture at 30 million quintals. As for non-agricultural

activities, their value added would decrease by 5.3 percent. In 2021, growth is expected to rebound to 4.2 percent, with a 12.4 percent-higher agricultural value added, assuming a cereal production of 75 million quintals, and an improvement in the pace of non-agricultural activities to 3.1 percent. In view of the rapid and uncertain evolution of the situation, these forecasts remain surrounded by significant uncertainties, with a balance of risks trending downwards. Indeed, according to the scenarios of a slower recovery of the activity or the persistence of the weak foreign demand and disruptions to supply chains, the recession would be much deeper.

11. In the labour market, the latest data of the national employment survey were collected by the HCP between 1 January and 20 March and therefore do not include the impact of the Covid-19 pandemic. According to these data, 77 thousand jobs were created, as against a 2-thousand loss in the same period a year earlier, the participation rate improved from 45.7 percent to 46 percent and unemployment rate rose from 9.1 percent to 10.5 percent. However, a one-time survey carried out by the HCP from 1 to 3 April to capture the impact of the pandemic on employment has revealed the loss of around 726 thousand jobs, i.e. 20 percent of the labour force of organized companies.

12. In terms of external accounts, provisional data for April reveal first symptoms of the health crisis impact, with a drop by 19.7 percent in exports, 12.6 percent in imports, 12.8 percent in travel receipts and 10.1 percent in transfers of Moroccan expatriates. However, the second half of the year is expected to witness a relative improvement with the gradual lifting of restrictions at the domestic level and among trading partners as well as with the stimulus measures, which would, nonetheless, allow only a partial catch-up. Thus, for the year 2020 as a whole, exports would decrease by 15.8 percent overall, covering almost all sectors. More particularly, sales of the automotive and in the textile and leather sectors would be affected by the supply chains disruption and the foreign demand weakening. At the same time, imports would fall by 10.7 percent, mainly as a result of reduced energy bill and lower purchases of capital goods. Travel receipts are expected to decline sharply by 60 percent and transfers of Moroccan expatriates are set to fall by 25 percent. In 2021, exports would show some recovery, driven by improved global demand and higher car manufacturing capacity, albeit at a slower pace than expected before. On the other hand, travel receipts and Moroccan expatriates' transfers are expected to rebound by 60 percent and 5.2 percent respectively, reflecting the gradual dissipation of the impact of the pandemic shock. As for FDI inflows, they are forecasted to slow down to 1.5 percent of GDP this year before increasing to 3.2 percent of GDP in 2021. Considering the planned Treasury borrowing from the international market, official reserve assets would stand at 218.6 billion dirhams in 2020 and 221.7 billion dirhams in 2021, ensuring the coverage of around 5 months of imports of goods and services both in 2020 and 2021.

13. With regard to monetary conditions, lending rates fell by 4 basis points to 4.87 percent in the first quarter of 2020, driven by the dropping rates in loans to private businesses. This decline is expected to continue, particularly in view of the guarantee arrangements introduced to finance the recovery at a key rate policy rate increased by a maximum of 200 basis points. Loans to the non-financial sector continued improving, and rose by 6.7 percent at end-April, particularly reflecting a more rapid pace of lending to private non-financial businesses to 11.4 percent. Despite the expected contraction in economic activity this year, its development should remain positive, with growth rate of 1.9 percent in 2020 and 2.6 percent in 2021, owing to the various measures taken to support the economic recovery as well as to the Bank's easing measures. In turn, the real effective exchange rate, which appreciated by 0.86 percent in the first quarter, is expected to depreciate by 1.6 percent over the year as a whole and by 1 percent in 2021, as a result of the decrease in nominal terms and of the low level of domestic inflation compared to partner and competitor countries.

14. Regarding public finances, budget execution at the end of the first five months shows a deficit of 25.5 billion dirhams, as against 19.5 billion dirhams a year earlier, taking into account the positive balance of 18.1 billion dirhams in the new pandemic management special trust account. Current revenues declined by 10 percent, particularly impacted by the decline in tax revenues. Meanwhile, overall expenditure rose by 4 percent, mainly reflecting increases of 10.8 percent in the wage bill and 18.3 percent in expenses for other goods and services, while investment spending fell by 11.3 percent. Taking into account the stock replenishment of pending transactions by 433 million, the cash deficit stood at 25.1 billion dirhams, compared to 25.7 billion a year earlier. This shortage was covered by domestic resources up to a net amount of 20.5 billion and by net external borrowings of 4.6 billion. Over the medium term, based on the available estimates, fiscal deficit, excluding privatization receipts, is expected to worsen from 4.1 percent of GDP in 2019 to 7.6 percent in 2020 before narrowing to 5 percent in 2021. Against this background, the Treasury's indebtedness should increase from 65.0 percent of GDP in 2019 to 75.3 percent in 2020 and 75.4 percent in 2021.

15. In view of the huge uncertainties surrounding the development of the economic situation both at the domestic and international levels, Bank Al-Maghrib will closely monitor the situation, regularly update its projections and identify probable development scenarios. If circumstances so require, it will call for an extraordinary meeting of its Board before the meeting scheduled on 22 September.