BANK AL-MAGHRIB

MONETARY POLICY REPORT

No. 55 / 2020

DOCUMENT PREPARED FOR
THE BANK BOARD
JUNE 16, 2020

Legal deposit: 2020/0033

BANK AL-MAGHRIB
Head office
277, Avenue Mohammed V - P.O. 445 - Rabat
Tel. : (212) 5 37 57 41 04 / 05
Fax : (212) 5 37 57 41 11
E mail : deri@bkam.ma
www.bkam.ma

@BankAlMaghrib

TABLE OF CONTENTS

بنك المغرب

FOREWORD

By virtue of Article 6 of Law No. 40-17 on the Statutes of Bank Al-Maghrib, promulgated by the Royal Decree No. 1-19-82 , dated 21 June 2019 (17 Chaoual 1440 A.H.), "The Bank shall define and conduct monetary policy with full transparency and within the economic and financial policy of the Government. The main objective of the Bank is to maintain price stability."

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

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

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

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

The Governor, Chairman

The Director General

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

Mrs. Mouna CHERKAOUI

Mr. Mohammed DAIRI

Mrs. Najat EL MEKKAOUI DE FREITAS

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.

بنك المغرب

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.

OVERVIEW

In a context marked by the implementation of drastic restrictions throughout the world as part of the fight against the spread of the Covid-19 pandemic, global economic activity contracted sharply. The data available relate to the first quarter and make it possible to assess, to varying degrees, the first signs of the economic and social impact of this crisis. In particular, they show a decline of 6.8 percent of GDP in China where the pandemic broke out in December 2019, 3.2 percent in the euro area, 2.2 percent in Japan and 1.6 percent in the United Kingdom. In the United States, growth decelerated clearly to 0.3 percent.

On the labour market, the situation deteriorated sharply in the advanced countries. In the United States, after hovering around 4 percent, the unemployment rate jumped to 14.7 percent in April with a loss of 20.7 million jobs before falling to 13.3 percent in May following the creation of 2.5 million jobs. In the euro area, the increase in the unemployment rate was limited to 7.3 percent in April compared to 7.1 percent in March, mainly due to the use of partial unemployment schemes in several countries.

As for the financial markets, after undergoing strong pressure at the end of the first quarter of 2020, they experienced a relative attenuation of risk aversion backed by fiscal and monetary support measures, as well as by the hope of developing a vaccine sooner than expected. In May, the Dow Jones Industrials was up 3.9 percent month-on-month, the EuroStoxx 50 increased by 2 percent, the FTSE 100 by 3.7 percent, the Nikkei 225 by 5.7 percent and the MSCI EM by 3.4 percent. Likewise, sovereign bond yields eased overall between April and May with, in particular, a decline to -0.5 percent for Germany, 0 percent for France, 0.8 percent for Spain and 1.7 percent for Italy.

Concerning foreign exchange markets, the euro remained virtually unchanged at $1.09 in May. It increased by 1.2 percent against the pound sterling and depreciated by 0.3 percent against the Japanese yen. As for the currencies of the main emerging countries, with the exception of the Indian rupee, they continued to appreciate against the dollar. The annual growth rate of bank lending accelerated significantly in the United States from one month to the next, rising to 11 percent in April, and slowed slightly in the euro area, to 4.9 percent.

On commodity markets, concerns about global demand continued to put downward pressure on oil prices. In May, the price of Brent crude oil in particular fell sharply by 54.2 percent year-on-year to an average of $32.3 per barrel, but rose by 20.2 percent month-on-month, mainly as a result of reduced production in OPEC+ countries. Non-energy prices were also down, with a 13.5 percent drop for metals and ores and a 0.8 percent decrease for agricultural products. As to phosphates and fertilizers, the price increased, between April and May, by 3 percent to $72.9/t for raw phosphate, while it fell by 6.7 percent to $263/t for DAP, by 0.8 percent to $243/t for TSP, by 14.1 percent to $201.9/t for Urea and by 11.8 percent to $216/t for potassium chloride. Year-on-year, prices fell by 25.2 percent for raw phosphate, 16.1 percent for DAP, 20.3 percent for TSP, 18.4 percent for Urea and 18.6 percent for potassium chloride.

In terms of price developments, the shock of the pandemic is generally reflected in disinflationary pressures, particularly in the advanced countries. Inflation slowed down from 0.3 percent in April to 0.1 percent in May in both the euro area and the United States.

With regard to monetary policy decisions, on March 12, the ECB adopted a series of measures, including additional long-term refinancing operations and an additional temporary envelope of further net purchases of 120 billion euros, and announced on March 18 a new temporary net private and public asset purchase program of an overall envelope of 750 billion Euros, which it increased by 600 billion on June 4, while extending the horizon for these purchases to at least end-June 2021, compared with end-2020 as initially announced. At its meeting on April 30, it decided to conduct a new series of longer-term non-targeted emergency refinancing operations in response to the pandemic. However, it is facing pressure, as the German Constitutional Court required it on May 5 to present, within three months, a justification of the compliance with its mandate of its extensive asset buybacks under the programme launched in 2015. If necessary, it would order the Bundesbank, the ECB's main shareholder, to cease participating in this programme.

For its part, the FED reduced the target range for the federal funds rate by 50 bps on March 3 and 100 bps on March 15 to [0 percent-0.25 percent] and decided to resume its purchases with at least $700 billion worth of treasury bills and securitized mortgage loans. It also announced the establishment of dollar liquidity facilities with a few central banks to ease pressures on liquidity. In addition, on April 9, it announced additional measures to provide up to $2300 billion in loans to households, employers and local authorities. At its recent meeting on June 9-10, it reconfirmed its commitment to maintain an accommodative monetary policy stance. The Bank left the target range for the federal funds rate unchanged and plans to keep it at that level until it becomes confident that the economy has overcome the recent events and is on track to achieve its objectives of full employment and price stability.

At the national level, the restrictions introduced by the authorities from mid-March onwards to halt the spread of the virus resulted in the total or partial suspension of several activities and a significant part of the working population employed in both the formal and informal sectors became unemployed. However, the latest available data only partially cover the period following the restrictions and still provide only limited information on the impact of these measures.

Thus, with regard to foreign trade, data at end-April indicate a widening of the trade deficit, compared to the same period of 2019, from 1.3 billion dirhams to 66.2 billion dirhams, as a result of the decline of exports and imports by 19.7 percent and 12.6 percent, respectively. For the other main items of the current account, travel receipts fell by 12.8 percent compared to an increase of 11.5 percent at end-February and remittances of Moroccan expatriates posted a decrease of 10.1 percent instead of a near stagnation. Concerning the main financial operations, the net flow of FDIs fell by 16.8 percent to 5.3 billion dirhams and that of direct investments by Moroccans abroad dropped by 1.7 billion dirhams to 1.5 billion dirhams. As for Bank Al-Maghrib's official reserve assets, their outstanding amount reached 286.5 billion dirhams, at the end of April 2020, thanks in particular to the drawdown under the Precautionary and Liquidity Line (PLL), thus representing the equivalent of 7 months of imports of goods and services.

On the monetary side, banks' liquidity requirements reached 93.8 billion dirhams on average during April and May, as a result of the exceptional rise in paper money. Consequently, Bank Al-Maghrib significantly increased the amount of its injections, bringing it up to 95.4 billion dirhams. Monetary conditions were also marked, in the first quarter, by a decrease in lending rates by 4 basis points to 4.87 percent on average as well as by an appreciation of the effective exchange rate. As regards credit to the non-financial sector, it continued to improve with an increase of 5.5 percent on average, reflecting in particular the acceleration of the growth rate of loans to private non-financial businesses which reached 11.4 percent.

With regard to public finances, budget execution at the end of the first four months of 2020 shows a deficit of 5 billion dirhams, compared to 11.1 billion dirhams a year earlier, taking into account the positive balance of 25.4 billion dirhams in the new special purpose account entitled «Special Fund for the Management of the Coronavirus Covid-19 Pandemic», created on March 19, 2020 on the high instructions of His Majesty the King. Current revenues decreased by 5.2 percent, particularly impacted by the decline in tax revenues. At the same time, overall expenditure increased by 6.3 percent to 115.8 billion, mainly reflecting rises of 11.5 percent in the wage bill and 15.8 percent in expenditure on other goods and services. Taking into account the decrease of the stock of pending operations by 4.8 billion dirhams, the cash deficit stood at 9.7 billion dirhams, compared to 20.7 billion dirhams a year earlier. This requirement was met by domestic resources amounting to a net 6.5 billion dirhams and by net external loans of 3.2 billion dirhams. Under these conditions, the outstanding direct public debt would have increased by 2.9 percent compared to its level at end-December 2019. The Treasury's financing conditions were favourable, as shown by the downtrend in the weighted average rate of securities issued by auction.

National accounts data show a deceleration of growth to 2.5 percent in 2019 against 3.1 percent in 2018, resulting from a 5.8 percent contraction in agricultural value added, due to unfavourable climatic conditions, while the value added of non-agricultural sectors, on the other hand, accelerated from 2.9 percent to 3.8 percent. On the demand side, the domestic component of demand weakened, with a slowdown in the growth rate of household consumption and investment. Its contribution to growth thus decreased from 4.4 percentage points to 2 points. As regards net exports in terms of volume, their contribution became positive again by around 0.5 percentage point, after being negative at -1.2 percentage points in 2018.

On the labour market, first quarter data were collected between January 1 and March 20 and therefore do not integrate the effect of the Covid-19 pandemic. They show a creation of 77 thousand jobs after a loss of 2 thousand in the same period of the previous year. This change resulted from a creation in non-agricultural activities, particularly in services, which more than offset the loss observed in agriculture. Taking into consideration a net inflow of 285 thousand job seekers, the participation rate increased from 45.7 percent to 46 percent and the unemployment rate worsened from 9.1 percent to 10.5 percent at the national level.

In addition, two recent surveys highlight the effect of the pandemic on employment in Morocco. The first was launched by the HCP from 1 to 3 April 2020 and targeted a sample of 4,000 organized businesses operating in the manufacturing, construction, energy, mining, fishing, trade and non-financial market services sectors. Its main results indicate that 27 percent of the businesses would have temporarily or permanently reduced their workforce. Thus, nearly 726 thousand jobs would have been cut, i.e. 20 percent of the workforce of organised businesses. The other survey was carried out by the General Confederation of Moroccan Enterprises (CGEM) between 17 April and 1 May and is based on the responses of 1,740 companies. Its main preliminary results indicate that the surveyed companies fear the loss of nearly 166 thousand jobs, i.e. 55.1 percent of their workforce.

In the asset market, property prices fell by 1.6 percent quarter-on-quarter in the first quarter of 2020 and the number of transactions contracted by 31.2 percent, reflecting declines in sales across all categories. In the equity market, the MASI was down sharply by 20.3 percent at the end of the first quarter of 2020 compared with the previous quarter and transaction volumes fell from 25.9 billion to 15.8 billion. Under these conditions, the market capitalization dropped by 19.7 percent from one quarter to the other, and now stands at 503 billion dirhams.

As for inflation, after averaging 1.4 percent in the first quarter of 2020, it fell to 0.9 percent in April, in a context marked, internationally, by a significant drop in the price of petroleum products and, nationally, by the measures taken to combat the spread of the Covid-19 pandemic and the advent of the month of Ramadan. This trend is attributable to the sharp decline of 24.2 percent instead of a 3.7 percent increase in the prices of fuels and lubricants. On the other hand, the rise in volatile food prices accelerated from 5.6 percent to 6.8 percent and core inflation went up from 0.7 percent to 0.9 percent. Tariffs for regulated products showed the same pace as in the previous quarter, in the absence of government decisions in this regard.

In terms of outlook, while it is clear that the world economy would experience a severe recession in 2020, quantifying its magnitude remains difficult in view of the rapid and uncertain development of the situation. The pace at which the pandemic would spread in the coming months, the impact of the various restrictions introduced and the support and stimulus measures, as well as the changes in the behaviour of the various economic agents, mean that the economic outlook is surrounded by a great uncertainties. Some central banks have postponed the publication of their forecasts until the situation has relatively stabilised, while others have opted for the development of several scenarios. The institutions that have published their forecasts, such as the IMF or the GPMN network on which BAM bases its projections, have issued warnings about the exceptionally high degree of uncertainty surrounding them.

Thus, according to the GPMN network forecasts at end-May, the US economy is expected to contract by 6.4 percent, marking the end of a decade of expansion, and would recover in 2021, albeit surrounded by major uncertainties linked in particular to the revival of trade tensions with China. In the euro area, after rising by 1.2 percent in 2019, GDP is forecast to decline by 8.2 percent in 2020 before posting a limited increase of 3.9 percent in 2021, due in particular to the heterogeneity of its economies and the accumulation of fiscal difficulties in many of them. With regard to labour market conditions, the unemployment rate is forecast to rise exceptionally in the United States and to increase moderately in the euro area due to the use of partial unemployment schemes.

In the main emerging countries, China's GDP is expected to fall by 5.1 percent in 2020, followed by a 9.6 percent increase in 2021. Similarly, in India, the GDP is forecast to decline by 1 percent in 2020 and to improve by 8.8 percent in 2021.

On commodity markets, the agreement by OPEC+ members to cut production starting from 1 May would only partially offset the effect of the sharp fall in world demand on oil prices. In particular, the Brent oil price is expected to fall from an average of $64 per barrel in 2019 to nearly $40 in 2020, before rising to $52.5 in

2021. Food prices are projected to fall by 2.7 percent in 2020 against a backdrop of excess supply and falling global demand before rebounding in 2021. As for phosphates and derivatives, the price of DAP in particular is expected to drop from $306.4/t in 2019 to $285 in 2020 before rising to $295 in 2021.

Against this background, inflation would drop significantly in 2020 before moving up again in 2021. In the United States, after a projected deceleration of 0.9 percent, it would converge towards the Fed's target for 2021, with a projected rate of 2.4 percent. In the euro area, it would settle at 0.5 percent in 2020 after 1.2 percent in 2019, before rising to 1.3 percent in 2021.

At the national level, apart from financial, external accounts and inflation data, the official data available at end-April relate to the period prior to the introduction of the restrictions and measures taken as part of efforts aiming to contain the spread of the Covid-19 virus. As a result, they do not yet include the impact of these measures which are expected to be significant viewing the total or partial suspension of activity in several branches of the economy. These developments are confirmed by the results of a number of one-off qualitative surveys conducted by certain institutions among businesses which show significant declines in activity and employment.

Despite this context, BAM has opted for the publication of its projections, but the latter should be interpreted in the light of the great uncertainty surrounding them owing to the exceptional context. The forecasts for several aggregates have been prepared on the basis of scenarios for the development of their main determinants in the light of existing data, but sometimes on the basis of assumptions which appear to be the most plausible. These scenarios were developed for the first two quarters of the year and were integrated into the central forecasting model (MQPM) assuming the end of the lockdown on 10 June and a rapid V-shaped recovery, backed by the measures implemented by the Economic Intelligence Committee and Bank Al-Maghrib. If such considerations do not materialize, these forecasts would be significantly updated as data become available.

At the level of macro-prudential supervision, the Systemic Risk Coordination and Monitoring Committee continued its weekly meetings to analyse the development of the country's financial stability which, so far, has not given rise to any particular concern.

Thus, in terms of external accounts, exports are expected to fall by 15.8 percent in 2020, which would practically concern all sectors, and would increase by 30.8 percent in 2021, with an expected rise for automobile manufacturing. Similarly, imports are projected to fall by 10.7 percent in 2020, due in particular to the reduction in the energy bill, before rising by 11.2 percent in 2021. Travel revenues are expected to drop by 60 percent, impacted by border closures and fears of Covid-19 contamination, before improving by 60 percent in 2021. Similarly, remittances of Moroccan expatriates are expected to contract by 25 percent in 2020 and increase by 5.2 percent in 2021. In total, the current account deficit would widen to 10.3 percent of GDP in 2020 before easing to 5.8 percent in 2021. FDI receipts are projected to decline to 1.5 percent of GDP in 2020 compared to 2.9 percent in 2019, as a result of increased uncertainty about the evolution of the world economy, before increasing to 3.2 percent of GDP in 2021.

Against this backdrop, and under the assumptions of a Treasury' borrowing on the international market for amounts of 10 billion dirhams in 2020 and 10.8 billion dirhams in 2021 and an increase in bilateral and multilateral loans to nearly 40 billion dirhams in 2020 and 20 billion dirhams in 2021, the official reserve assets of Bank Al-Maghrib would stand at 218.6 billion dirhams at the end of 2020 and 221.7 billion dirhams at the end of 2021, ensuring a coverage of around 5 months of imports of goods and services. Also taking into account the expected trend of banknotes and coins, the deficit of bank liquidity would increase to 153.9 billion dirhams at the end of 2020 and to 170.9 billion dirhams at the end of 2021. Concerning monetary conditions, the real effective exchange rate, after appreciating in 2019, is expected to depreciate over the forecast horizon, due to a depreciation in nominal terms as well as to a domestic inflation level lower than that of commercial partners and competitors. Bank lending to the non-financial sector is projected to decelerate to 1.9 percent in 2020 before rising to 2.6 percent in 2021.

On the public finance side, on the basis of available estimates, the budget deficit, excluding privatisation, is projected to widen from 4.1 percent of GDP in 2019 to 7.6 percent in 2020, before narrowing to 5 percent in 2021.

Due to the combined effect of drought and measures taken to limit the spread of the Covid-19 pandemic, GDP is expected to decline by 5.2 percent, the largest decline since 1996. Agricultural value added is forecast to contract by 4.6 percent, with a cereal harvest estimated by the Department of Agriculture at 30 million quintals, while the value added of non-agricultural activities is expected to decline by 5.3 percent as a result of the contraction in foreign demand and the total or partial suspension of activity in several sectors during the first half of the year. In 2021, growth would rebound to 4.2 percent, with an increase in agricultural value added by 12.4 percent, assuming an average cereal harvest of 75 million quintals, and an improvement in the pace of non-agricultural activities to 3.1 percent.

Against this background of low inflationary pressures emanating from demand and low energy prices, inflation is expected to accelerate to 1 percent in 2020 and 2021, after 0.2 percent in 2019. Its underlying component is projected at 0.8 percent in 2020 and 0.7 percent in 2021, instead of 0.5 percent in 2019.

The balance of risks appears to be tilted downwards for both growth and inflation. On the growth side, and despite the expected upturn in activity, the lockdown period could be more damaging than expected, in addition to the high level of uncertainty and the negative repercussions of recession on output capacity and the behaviour of economic agents. On the external front, this pandemic could also have more significant and persistent effects, leading to a slower recovery than assumed in the baseline scenario for foreign demand and thus for domestic growth. Higher-than-usual uncertainties also surround inflation projections, viewing the double shock of supply and demand induced by the Covid-19 pandemic. Downside risks would dominate, due in particular to the slow recovery in demand but also to a likely escalation in the trade war between the United States and China, which would have a negative impact on global growth. Upward pressure on the prices of certain products could stem from disruptions in supply chains and increased production costs.

1.INTERNATIONAL DEVELOPMENTS

The drastic lockdown measures introduced by governments around the world in response to the spread of the Covid-19 pandemic led to a sharp decline in global economic activity. National accounts data for the first quarter incorporate the impact of the crisis to varying degrees depending on the country. They show a sharp deceleration of growth in the United States and a decline of GDP in the euro area, the United Kingdom, Japan and China, where the pandemic began. In the other major emerging economies, the data show a deceleration of growth in India and a slight decline of GDP in Brazil, while in Russia, fourth-quarter data, which do not integrate the impact of the crisis, show a stronger growth. On the labour market, the situation has deteriorated sharply in the advanced countries, with an unemployment rate of 13.3 percent in the United States. As for financial markets, they experienced in May a relative easing of risk aversion triggered by the health crisis, as the main stock market indices of advanced and emerging economies rebounded, and sovereign bond rates eased overall. On commodity markets, after trending downwards since the beginning of the year, oil prices went up on a month-on-month basis in May, due in particular to lower production in OPEC+ countries. Non-energy commodity prices decreased year-on-year, dragged down in particular by the prices of metals and minerals. Inflation decelerated in both the United States and the euro area.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, growth slowed down sharply in the first quarter of this year from 2.3 percent to 0.3 percent, mainly reflecting a sharp decline in private consumption. Similarly, growth in the euro area declined to -3.2 percent after 1 percent, reflecting a 5 percent drop of GDP in France after a 0.9 percent increase, as a result of falling private demand. The same factors led to a contraction of 2.3 percent in Germany after a growth of 0.4 percent. Similarly, the growth rate declined to -4.1 percent after 1.8 percent in Spain and to -5.5 percent after 0.1 percent in Italy, in connection with a negative contribution of both domestic and external demand.

In the United Kingdom, the pace of economic activity slowed down in the first quarter to -1.6 percent after 1.1 percent, mainly due to the decrease of investment and household consumption. Similarly, Japanese GDP fell again by -2.2 percent, after -0.7 percent, mainly due to the decline in public investment and net exports.

Table 1.1: YoY change in quarterly growth

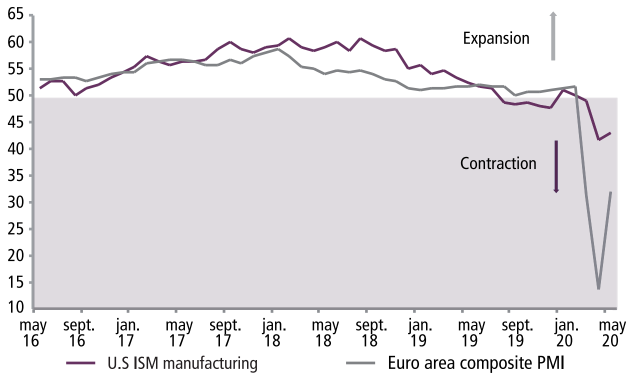
	2017		2018				2019				2020
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Advanced economies											
United States	**2.4**	**2.8**	**2.9**	**3.2**	**3.1**	**2.5**	**2.7**	**2.3**	**2.1**	**2.3**	**0.3**
Euro area	**2.9**	**3.0**	**2.6**	**2.2**	**1.6**	**1.2**	**1.4**	**1.2**	**1.3**	**1.0**	**-3.2**
France	2.9	3.1	2.4	1.9	1.6	1.4	1.7	1.8	1.6	0.9	-5.0
Germany	3.0	3.4	2.3	2.1	1.1	0.6	1.0	0.3	0.7	0.4	-2.3
Italy	1.6	1.9	1.3	0.9	0.5	0.1	0.3	0.4	0.5	0.1	-5.5
Spain	2.8	3.0	2.8	2.3	2.2	2.1	2.2	2.0	1.9	1.8	-4.1
United Kingdom	**1.8**	**1.6**	**1.1**	**1.3**	**1.6**	**1.4**	**2.0**	**1.3**	**1.3**	**1.1**	**-1.6**
Japan	**2.4**	**2.6**	**0.9**	**1.0**	**-0.4**	**-0.3**	**0.8**	**0.9**	**1.8**	**-0.7**	**-2.2**
Emerging economies											
China	**6.9**	**6.8**	**6.9**	**6.9**	**6.7**	**6.5**	**6.4**	**6.2**	**6.0**	**6.0**	**-6.8**
India	**6.1**	**7.1**	**7.6**	**6.9**	**6.1**	**5.6**	**5.6**	**4.8**	**4.3**	**3.5**	**3.0**
Brazil	**1.6**	**2.4**	**1.5**	**1.1**	**1.5**	**1.2**	**0.6**	**1.1**	**1.2**	**1.7**	**-0.3**
Turkey	**11.6**	**7.3**	**7.4**	**5.6**	**2.3**	**-2.8**	**-2.3**	**-1.6**	**1.0**	**6.0**	**4.5**
Russia	**2.6**	**1.0**	**2.2**	**2.6**	**2.5**	**2.8**	**0.4**	**1.1**	**1.5**	**2.1**	**n.d**

Source : Thomson Reuters.

In the main emerging economies, growth contracted sharply in China from 6 percent to -6.8 percent in the first quarter, mainly as a result of the decline in industrial output and activity in the services sector. For the other main emerging economies, activity growth rate continued to decelerate in India to 3 percent after 3.5 percent, impacted mainly by the decline in construction and the slowdown in financial services, hotels and transport in particular. In Brazil, GDP declined by 0.3 percent after growing by 1.7 percent, reflecting a decline in the tertiary and industrial sectors. By contrast, Russia's economic data, which still concern the fourth quarter of 2019 and do not integrate the effect of the health crisis, show a consolidation of growth from 1.5 percent to 2.1 percent, thanks to an acceleration in the growth rate of investment.

The advanced activity indicators in May show the beginnings of a recovery in the advanced countries. Thus, the U.S. ISM manufacturing index rose to 43.1 in May from 41.5 in April. Similarly, the composite PMI index of the euro area increased to 31.9 in May after posting its lowest level in April at 13.6.

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



Source : Thomson Reuters.

1.1.2 Job market

In the United States, the covid-19 epidemic continues to weigh heavily on the labour market, leading to very high levels of unemployment. The unemployment rate rose from 4.4 percent in March to 14.7 percent in April, before falling slightly to 13.3 percent in May. This worsening was accompanied by major job losses reaching 20.7 million jobs in April, compared with a creation of 2.5 million in May.

In the euro area, the unemployment rate increased to 7.3 percent, after 7.1 percent a month earlier. In the main countries of the area, except for France and Spain where this rate rose to 8.7 percent and 14.8 percent respectively, compared with 7.6 percent and 14.2 percent in the previous month, it remained stable at 3.5 percent in Germany, while it fell to 6.3 percent in Italy, compared to 8.0 percent a month earlier.

In the United Kingdom, the most recent data, which relate to February 2020, show that the unemployment rate decreased to 3.9 percent.

Table 1.2: Change in unemployment rate (%)

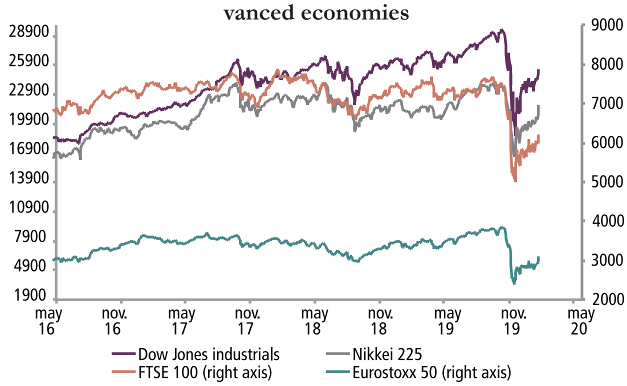
	2018	2019	2020		
			march	april	may
United States	**3.9**	**3.7**	**4.4**	**14.7**	**13.3**
Euro area	**8.1**	**7.5**	**7.1**	**7.3**	**N.D**
France	9.0	8.5	7.6	8.7	N.D
Germany	3.4	3.2	3.5	3.5	N.D
Italy	10.6	10.0	8.0	6.3	N.D
Spain	15.3	14.1	14.2	14.8	N.D
United Kingdom	**4.0**	**3.8**	**N.D**	**N.D**	**N.D**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

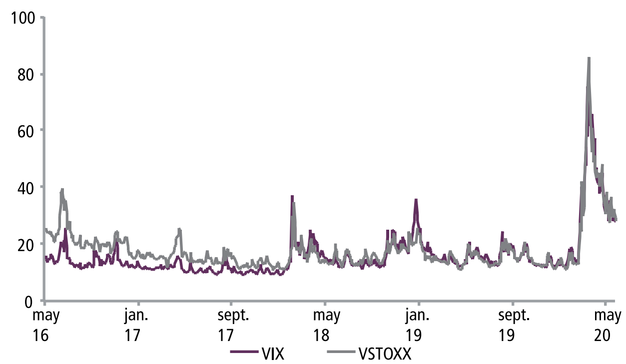
After undergoing extreme pressure at the end of the first quarter of 2020, the main stock exchange markets continued to rebound in May, supported by, among other things, the gradual reopening of economic activity, as well as the hope of developing a vaccine sooner than expected. In advanced countries, the Dow Jones Industrials posted a month-on-month increase of 3.9 percent, the EuroStoxx 50 rose by 2 percent, the FTSE 100 by 3.7 percent and the Nikkei 225 by 5.7 percent. At the same time, volatility on the US and European markets has continued to decrease, with the VIX and VSTOXX down by nearly 10 points to 31 and 32, respectively. In emerging economies, the MSCI EM was up 3.4 percent, with increases of 2.4 percent for China, 4.1 percent for India and 4.3 percent for Brazil.

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



Source : Thomson Reuters.

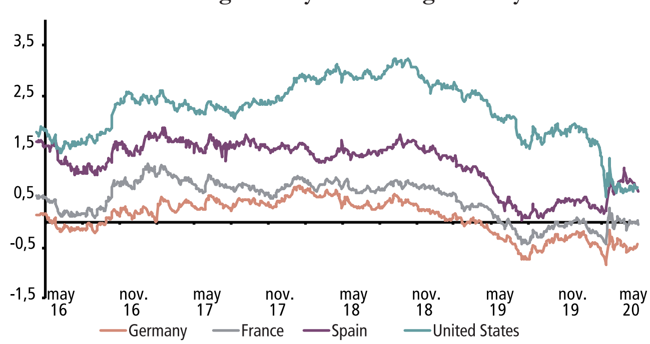
Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters.

As regards 10-year government bond yields, they fell between April and May in the main euro area economies to -0.5 percent for Germany, 0 percent for France, 0.8 percent for Spain and 1.7 percent for Italy. On the other hand, this rate increased for US Treasury bills to 0.7 percent. In emerging countries, the 10-year rate rose to 2.6 percent for China and 7.6 percent for Brazil, while it fell sharply to 6 percent for India and 12.3 percent for Turkey.

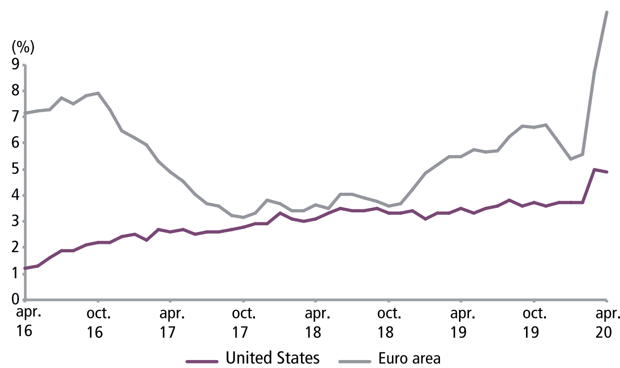
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters Eikon.

On the money markets, the three-month Euribor almost stabilised at -0.3 percent in May, while three-month Libor fell sharply from 1.1 percent to 0.4 percent. The growth of bank lending accelerated again significantly in the United States, rising from 8.7 percent in March to 11 percent in April, while it slowed down from 5 percent to 4.9 percent in the euro area.

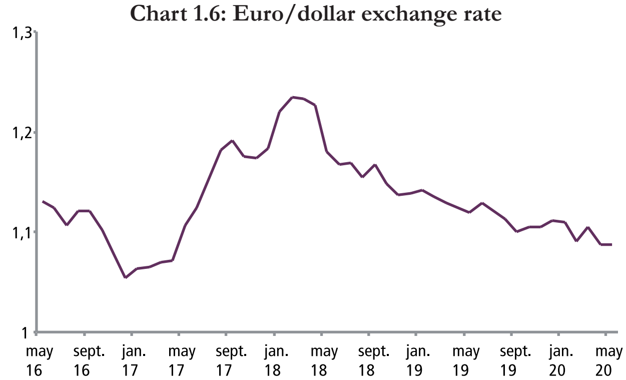
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters.

On the foreign exchange markets, the euro/dollar exchange rate remained almost stable in May at 1.09. However, the euro appreciated by 1.2 percent against the pound sterling, while it depreciated by 0.3 percent against the Japanese yen. In the main emerging economies, with the exception of the Indian rupee which fell 0.7 percent against the dollar, the other currencies continued to appreciate, gaining 0.4 percent for the renminbi, 6.2 percent for the Brazilian real and 1.1 percent for the Turkish lira.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

Concerning monetary policy decisions (see Box 1.1), the ECB decided, at the end of its meeting of June 4, the introduction of a package of measures to support the economy of the area in its gradual recovery and maintain medium-term price stability. It has thus kept its key interest rates unchanged as well as its forward-looking orientations. At the same time, it decided to increase purchases under the temporary pandemic emergency purchase programme (PEPP) by €600 billion, bringing it up to a total of €1350 billion, and to extend the horizon for these purchases to at least end-June 2021, instead of the end of 2020 as previously announced.

As to the FED, and after the decreases of March 3 and 15, it decided on June 10 to keep unchanged the target range for the federal funds rate at [0 percent-0.25 percent]. It plans to maintain it at this level until it is confident that the economy has overcome recent events and that it is on the right track allowing it to achieve its goals of full employment and price stability. In addition, in order to support the flows of credit to households and businesses, the Fed will increase its purchases of Treasury bills and mortgage-backed securities, at least at the current rhythm, to ensure the smooth functioning of the market, thus promoting an efficient transmission of monetary policy decisions to broader financial conditions. It also reiterated its commitment to use all its instruments in order to support the U.S. economy in these difficult times.

As for the Bank of England, following the meeting of its Monetary Policy Committee on May 6, it decided to maitain its key rate at 0.1 percent and to continue with its £200 billion government bond and non-financial investment-grade corporate bond purchases, bringing the total stock of asset purchased to £645 billion.

In the main emerging countries, the Reserve Bank of India decided on May 22 to reduce its key rate by 40 basis points to 4 percent and its repo rate under the liquidity adjustment facility to 3.75 percent. In parallel, it indicated that it will maintin its accommodative stance for as long as necessary to revive growth and mitigate the impact of Covid-19 on the economy, while ensuring that inflation remains close to its target.

For its part, the Central Bank of Brazil reduced, on May 6, its key rate by 75 basis points to 3 percent. However, it indicated that the changes in the balance of risks have increased and that more information on the economic effects of the pandemic as well as less uncertainties will be essential in determining its next steps.

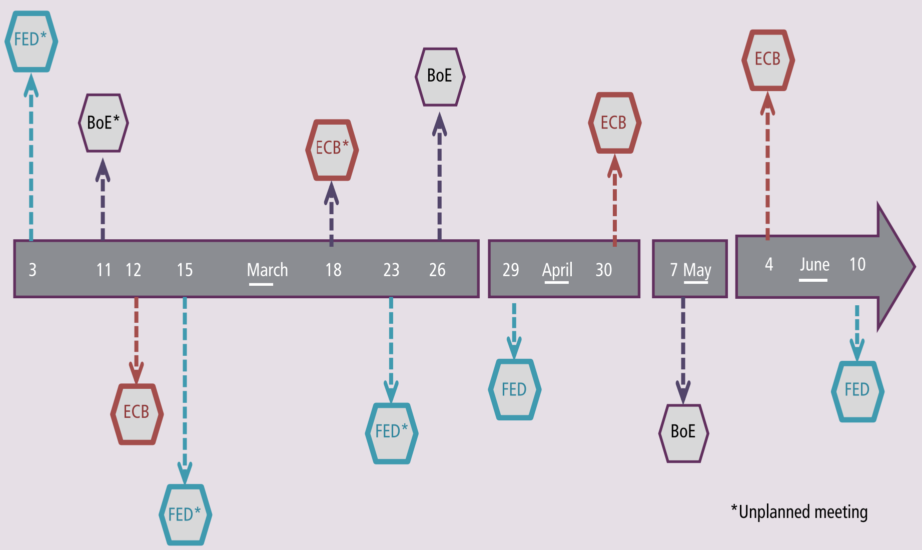
As to the Central Bank of Russia, it decided, at its last meeting on April 24, to lower its key rate by 50 bps, bringing it to 5.5 percent. It indicated that it has revised its central forecast and expects to adopt from now on an accommodative stance for its monetary policy.

Box 1.1: Measures taken by Central Banks and governments of major advanced countries in response to the shock of Covid-19

To attenuate the unprecedented impact of the Covid-19 pandemic, central banks around the world took measures at an unprecedented pace and on an unprecedented scale to support the economy and the financial system. These measures have accompanied and complemented the drastic plans devised by governments, particularly at the fiscal level. They have mainly involved interest rate cuts, massive asset purchases, liquidity injections and support to credit flows. At the prudential level, several monetary authorities have eased their capital and liquidity requirements, thereby freeing up liquidity for the economy.

Moreover, 6 central banks[1] worked together to enhance liquidity provision through standing US dollar swap arrangements. They have decided to reduce the rate applied, extend the maturity, and increase the frequency as long as necessary to promote the smoot functioning of dollar funding markets. In the same vein, the Fed concluded temporary agreements with 9 central banks[2] and created a facility for the others. For its part, the ECB reactivated the swap agreement with the Bank of Denmark and made temporary precautionary arrangements with the banks of Croatia and Bulgaria.

Calendar of monetary policy decisions taken by the FED, the ECB, the Bank of England (BoE) and the Bank of Japan (BoJ)



[1] Bank of England, Bank of Canada, ECB, FED, Bank of Japan and Swiss National Bank.

[2] Australia, Brazil, South Korea, Denmark, Mexico, Norway, New Zealand, Singapore and Sweden.

Summary table of the main measures taken by the FED, ECB, BoE and BoJ

	Décision de taux	Programmes d'Achats d'actifs	Facilités de prêt
FED	• Reducing the target range for the federal funds rate to [0 percent-0.25 percent] and the discount rate to 0.25 percent, effective March 16, 2020. • Reducing the reserve requirement ratio to 0 percent from March 26, 2020	• Initially restarting purchases of at least $700 billion of Treasury bills and securitized mortgage-backed securities (RSBs) in amounts of $500 billion and $200 billion, respectively, and thereafter in amounts necessary to support a well-functioning market and the effective transmission of monetary policy decisions to the financial conditions and the economy. Purchases of mortgage-backed securities will include commercial securities.	• Establishment of 9 facilities, by reactivating some and creating others: • (1) Primary Dealer Credit Facility (PDCF): a facility through which the Fed grants loans against good collateral to primary dealers who are essential intermediaries on the short-term funding markets. • (2) Commercial Paper Funding Facility (CPFF) and (3) Money Market Mutual Fund Liquidity Facility (MMLF). The two facilities are funded by the Treasury to protect the Fed from potential losses. • (4) Term Asset-Backed Securities Loan Facility (TALF): • the aim of this scheme is to support credit flows to consumers and small businesses. • (5) Primary Market Corporate Credit Facility and (6) Secondary Market Corporate Credit Facility: these two facilities mainly allow the purchase of bonds issued by US "investment- grade" businesses as at March 22, 2020. • (7) Paycheck Protection Program Liquidity Facility (PPPLF): a facility to support the provision of credit to small businesses and (8) Main Street Lending Program (MSLP), designed to provide loans to SMEs that were in good financial conditions before the pandemic, and easing of conditions for their access. • (9) Municipal Lending Facility: a facility for the direct purchase of the short-term debt of states, departments, cities...
ECB	• Keeping key interest rates unchanged.	• A temporary €120 billion package for net additional purchases under the asset purchase programme in addition to the current €20 billion asset purchase programme. • Launching a new temporary asset purchase programme - Pandemic Emergency Purchase Programme)PEPP(- with an initial total amount of €750 billion and its increase by €600 billion to a total of €1350 billion. The PEPP will be flexible over time, across asset classes and jurisdictions. Purchases will be made until at least the end of June 2021 and in any case until the ECB judges that the crisis is over. • Expanding the range of Corporate Sector Purchase Programme (CSPP) • to include non-financial commercial paper, and relaxing collateral standards by adjusting the main risk parameters of the collateral framework.	• Introducing, on a temporary basis, of long-term refinancing operations (LTROs). These will provide liquidity on favourable terms, thereby ensuring transition to the TLTRO III operation scheduled for June 2020. • Easing of the conditions of the TLTROs III by lowering their rate by 50 bps compared to the refinancing rate, from June 2020 to June 2021 (i.e. to -0.5 percent). For banks that have reached their credit performance threshold, the rate will be 50 bps below the deposit rate (i.e. -1 percent). • Launching a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTRO). They consist of 7 additional refinancing operations, starting in May 2020 and maturing according to a staggered schedule between July and September 2021 in line with the duration of the collateral easing measures. They will be executed as fixed rate tenders with full allotment, with an interest rate 25 bps below the average rate of the main refinancing operations prevailing over the maturity of each PELTRO.

BoE	• Reducing the key rate by 65 bps to 0.1 percent.	• Increasing the programme of investment-grade UK government and UK non-financial corporate bond purchases by £200 billion, bringing the total stock of purchased assets to £645 billion.	• Introducing a Term Funding Scheme for banks with additional incentives to support SMEs. This programme will provide, over the next 12 months, financing for a period of 4 years at a rate equal to, or very close to, the key rate. The amount of funding, initially set at a minimum of 5 percent of the stock of bank loans, has been increased to 10 percent. Additional financing will be available for banks that increase their lending, particularly to SMEs. • Launching, jointly with the Treasury, of a Covid Corporate Financing Facility (CCFF), which is an unlimited financing facility for large companies for a minimum period of 12 months.
BoJ	• Maintaining the key rate unchanged at -0.1 percent.	• Buying Japanese Treasury bills in the amounts needed without limit to keep the 10-year sovereign rate close to 0 percent. • Raising annual purchases of commercial paper and corporate bonds to JPY 2 trillion and JPY 3 trillion, respectively. • Increasing annual purchases of Exchange-traded funds (ETFs) to JPY 12 trillion and Japan real estate investment. • trusts (J-REITS) to 180 billion yen.	• Introducing a Special Funds-Supplying operations, a one-year facility that would offer loans using corporate debt as collateral at 0 percent interest.

In terms of government decisions, particularly in the United States, the Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES act), a $2.2 trillion budget plan that should enable the Fed and the Treasury to develop the many loan programs mentioned above. In addition to guaranteed loans to businesses, CARES includes transfers from the federal government to U.S. households at a time when unemployment benefits vary from one state to another, but with a contribution from the federal administration of $600 a week. A new $3 trillion stimulus package, proposed by the Democratic Party, was adopted on May 15 by the House of Representatives, to mitigate the effects of the pandemic, but its adoption by the Senate remains uncertain.

In the European Union, each member country has introduced emergency measures according to the spread of the pandemic within it. As an example, the German authorities have put in place a budgetary response named the «protection shield for companies and employees» which is based on 4 pillars: (i) an easing of recourse to partial unemployment schemes; (ii) tax aid to businesses; (iii) support for the liquidity of businesses through the public investment bank (KFW); and (iv) strengthening European cohesion. At early-June, they announced a €130 billion recovery plan for the rest of this year and for 2021. This plan includes, among others, a temporary reduction in VAT, a €300 bonus per child, incentives for vehicle purchases. Concerning Spain, it has announced a partial unemployment scheme amounting to €18 billion, support to SMEs and the self-employed through lower taxes, deferred payments, moratoria and a €1.5 billion package for the benefit of vulnerable households. The State will also provide a €100 billion guarantee line to facilitate credit to businesses and to the self-employed.

On April 9, the Eurogroup prepared a plan worth €540 billion to fight against the economic effects of the Covid-19 crisis, including direct budget outlays and other financial support measures. At the same time, the European Commission, calling for a joint action, proposed a new €750 billion stimulus package called «Next Generation EU». Its purpose is to invest in repairing the social fabric, protecting the single market and helping to rebalance Europe's balance sheets, while ensuring climate neutrality and a digital transition. It will be distributed as follows: €500 billion subsidies and €250 billion in loans to Member States.

As to the British government, it has announced a £12 billion aid package, including £5 billion to support public services, particularly health services, and £7 billion for households and businesses. Measures taken jointly with the BoE concern state-guaranteed loans through two facilities: Covid Corporate Financing Facility (CCFF) and Coronavirus Business Interruption Loan Scheme. With regard to job retention, the government has launched the Coronavirus Job Retention Scheme which pays 80 percent of the salary of any employee put on furlough, and has implemented at the same time a Self-employed Income Support Scheme which pays direct aid for 80 percent of the profits. Both measures are capped at £2,500 per month for a period of at least 3 months.

For its part, the Japanese government has announced a JPY 108,000 billion package, which is equivalent to 20 percent of GDP. The latter includes direct support to households and SMEs, low-interest loans from public financial institutions, loan guarantees, the extension of the subsidy program for employment adjustment and tax deferrals.

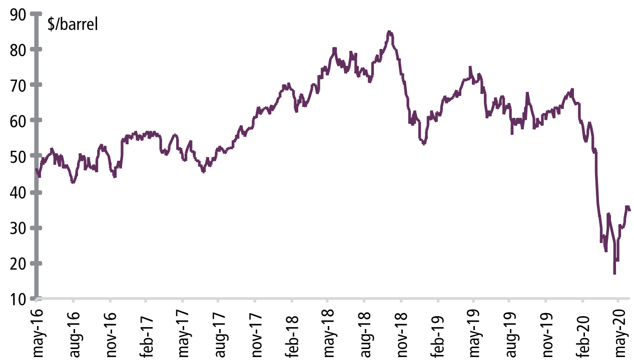
1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

On the oil market, the downtrend observed since the beginning of the year was reversed in May, with a monthly increase of 20.2 percent in the average price of Brent crude oil to $32.3/barrel. Prices were sustained by the historical reduction in oil production announced on April 12 by the OPEC+ countries, consisting in a decrease of 9.7 million barrels per day (mbpd) for two months from May 1, before introducing one adjustment to 7.7 mbpd until the end of December 2020, as well as by the projected recovery in demand as some countries were considering or pursuing relaxation of lockdown measures. Year-on-year, the price of Brent crude oil remains in a net decline of 54.2 percent in May (Box 1.2).

The price of natural gas on the European market stood at $1.58 per mmBTU in May, down 25.7 percent month-on-month and 63.7 percent year-on-year. This trend can be explained by a decrease in consumption combined with overproduction in the main suppliers of the European continent and at the same time by the decline in the storage capacity of the latter.

Chart 1.7 : Brent prices in dollars



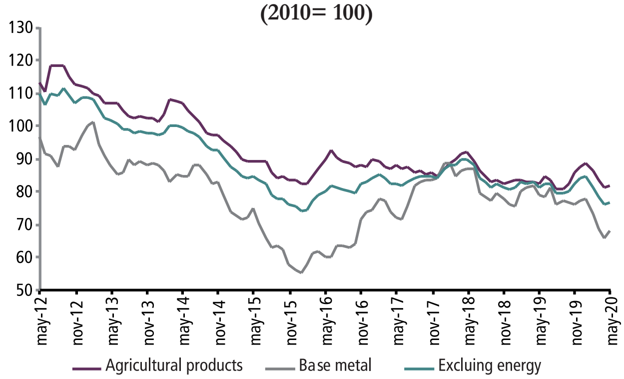
Source : World Bank.

1.3.2 Non-energy commodity prices

Non-energy commodity prices declined in May by 5.5 percent year-on-year, mainly driven by those of metals and minerals. The latter fell by 13.5 percent, while agricultural product prices recorded a moderate decline of 0.8 percent.

The price of durum wheat fell by 6 percent month-on-month, mainly as a result of the heightened tensions between the United States and China, which is giving rise to fears of a decline in exports to China, especially among U.S. producers. On the other hand, it was up 3.1 percent year-on-year.

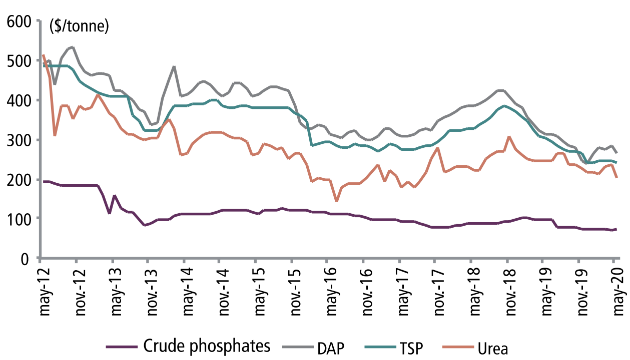
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

On the phosphates and fertilizers market, the price of raw phosphate increased by 3 percent between April and May to $72.9/t, whereas it decreased by 6.7 percent for DAP to $263/t, by 0.8 percent for TSP to $243/t, by 14.1 percent for Urea to $201.9/t and by 11.8 percent for potassium chloride to $216/t. Year-on-year, prices recorded declines of 25.2 percent for raw phosphate, 16.1 percent for DAP, 20.3 percent for TSP, 18.4 percent for Urea and 18.6 percent for Potassium Chloride.

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



Source: World Bank.

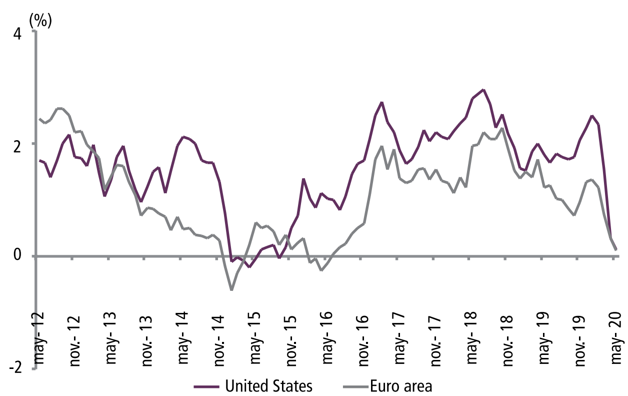
1.3.3 Inflation

The Covid-19 pandemic crisis is exerting significant disinflationary pressure on prices. In the euro area, according to a first estimate of Eurostat, inflation was at 0.1 percent in May, after 0.3 percent in April, notably covering declines from 0.4 percent to 0.2 percent in France, from -0.7 percent to -0.9 percent in Spain, from 0.8 percent to 0.5 percent in Germany and from 0.1 percent to -0.2 percent in Italy.

As for the other advanced economies, inflation decelerated from 0.3 percent in April to 0.1 percent in May in the United States, from 1.5 percent to 0.8 percent in the United Kingdom and from 0.4 percent to 0.1 percent in Japan.

In the main emerging countries, the inflation rate fell in China from 3.3 percent in April to 2.4 percent in May, from 2.4 percent to 1.9 percent in Brazil, from 3.1 percent to 3 percent in Russia and from 6.6 percent in February to 5.9 percent in March in India.

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



Sources : Eurostat and BLS.

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

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

Sources : Thomson Reuters, Eurostat and IMF.

Box 1.2 : Falling oil prices in the wake of the Covid -19 pandemic

The Covid-19 health crisis represents an unprecedented shock causing major economic and social disruptions at the global level. In particular, it has had a significant impact on demand for and supply of commodities, which has resulted in a general decline in world prices. Oil prices have been the most affected, especially as they have already been on a downtrend since the beginning of the year, particularly in connection with the increase in trade tensions and the economic slowdown and, thus, in global demand. The spread of the pandemic has, in fact, accentuated this fall and caused a severe drop in prices on the oil market.

On the demand side, the lockdown measures aiming to contain the spread of Covid-19 have caused: (i) a sharp contraction in economic activity; and (ii) a halt in global transport and travel, the latter accounting alone for almost two thirds of world oil consumption[1]. The combination of these two factors generated a sharp fall in oil demand, estimated by the International Energy Agency[2] (IEA) for the month of April alone to 29 million barrels per day (mbpd) year-on-year, which is expected to continue with declines of 26 mbpd in May and 15 mbpd in June. In total, the IEA predicts a historical year-on-year collapse of 9.3 mbpd in 2020, which is expected to bring world consumption down to around 90.6 mbpd.

Chart B1.2.1 : World oil consumption (millions of barrels per day)

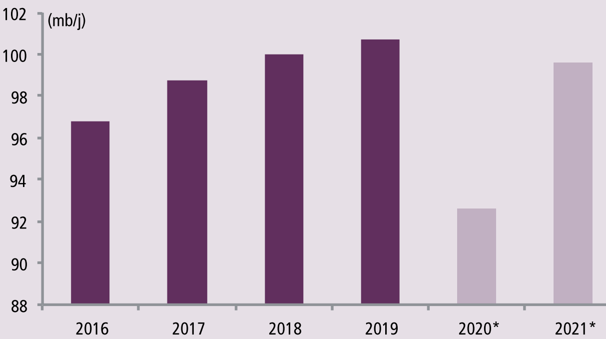
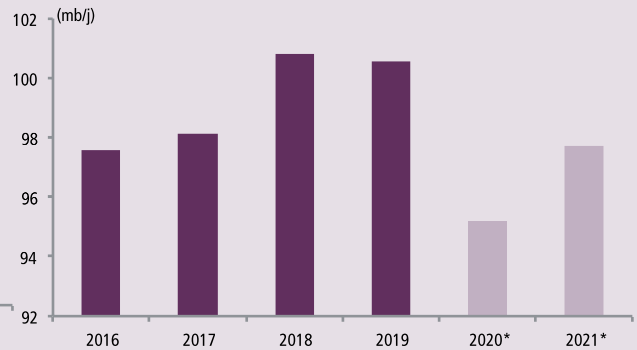


Chart B1.2.2 : World oil production (millions of barrels per day)



*Forecasrs.
Source : Data and forecasts of « U.S. Energy Information Administration », may 2020.

On the supply side, oil prices have been impacted by the strategies adopted by the OPEC+ and American operators. Concerning the impact of OPEC+ decisions, prices fluctuated following disruptions and then renewal of production agreements between these countries. In the beginning, the latter did not succeed, at the end of their meeting on March 6, in agreeing on a reduction in oil production, which worsened expectations of oversupply, further exacerbating the fall in prices. By way of illustration, the price of Brent crude oil decreased by 19.8 percent the day after this announcement. Subsequently, in mid-April, this same group agreed to a significant reduction of production by 9.7 mbpd from May 1, over two months, or nearly 10 percent of world demand, which will be followed by an adjustment of 7.7 mbpd until the end of December 2020.

[1] World Bank "Commodity Markets Outlook" Report, April 2020
[2] International Energy Agency (IEA) Monthly Report, April 2020

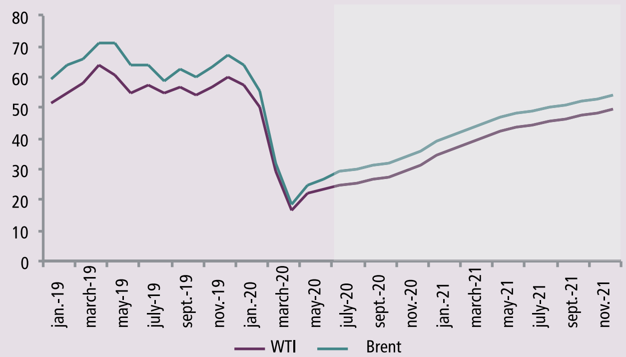
As regards oil production in the United States, while it has continued to grow until recently, it seems that it would reverse trend as many producers have accelerated the reduction of their investments and drilling shutdowns. Under these circumstances, and according to the latest estimates[3] of the US Energy Information Administration (EIA), US crude oil production is expected to average 11.7 mbpd in 2020, down from 12.2 mbpd in 2019, with a further decline in 2021 to 10.9 mbpd approximately.

However, all of the initiatives mentioned above, aimed at curbing the fall in oil prices, only slightly supported prices which continued to undergo, especially in April, downward pressure in view of the uncertainty about demand trends in the context of the Covid-19 crisis and fears that the announced cuts in supply would be insufficient. Thus:

- Between January and April, the price of Brent crude oil fell by 58 percent, averaging $26.8 per barrel in April, reaching the lowest level in 21 years at $16.5 per barrel on the 21st of the same month. This decline is even more apparent year-on-year, with the price of Brent crule oil falling 62.4 percent in April.

- Similarly, the WTI price, the reference price of the US oil market, dropped by 70.8 percent in the same period to $16.8 per barrel on average. It should be noted that it was negotiated on April 20, at - $37 a barrel. While this development is linked to the main factors mentioned above, it has been amplified by the impending expiry of the WTI futures contracts on the same date, prompting investors to try to get rid of them at any price, as well as by concerns about the saturation of American storage capacities[4]. As of April 17, these stocks amounted to 60 million barrels compared to a capacity of 76 million, while all the remaining capacity was already booked at the same time[5].

Chart B1.2.3 : Development of prices in cash WTI and brent (dollars/ baril)



Source : Data and forecasts of « U.S. Energy Information Administration », may 2020.

3 « Short term economic outlook » Report of May 2020 published by the U.S Energy Information Administration.
4 These stocks are located in Cushing, Oklahoma, where oil shipments are exchanged on the basis of WTI.
5 Crédit Agricole France, Economic Report No. 20/084 of 27 April 2020.

More recently, the outlook has improved relatively and prices, although still below their level before the start of the Covid-19 crisis, have rebounded from their April lows. Oil prices posted, between April and May, an increase of 20.2 percent for the Brent crude oil and 69 percent for WTI. This trend can be explained mainly by the decline in oil production in the United States and OPEC+ countries and by the easing of lockdown measures, which should support demand from the transport sector in particular. The IEA[6] slightly revised upwards its forecasts for world oil demand in 2020, which is expected to decrease by 8.6 mbpd. However, this improvement will not call into question the scenario of an unprecedented drop in global requirements and its impact on oil prices is expected to remain limited. Thus, prices would stand for Brent crude oil, according to the most recent forecast[7], at $34.4 per barrel in 2020 compared to $64.4 per barrel in 2019, before rising to $47.7 dollars a barrel in 2021. WTI price is expected to reach $30.4 per barrel, after $57 per barrel in 2019, and then $43.2 a barrel in 2021.

[6] Monthly Report, May 2020.
[7] EIA, May 2020 projections.

2. EXTERNAL ACCOUNTS

The latest available data on foreign trade relate to April 2020 and reflect the first effects of the crisis. They show a widening of the trade deficit, compared to the same period in 2019, from 1.3 billion dirhams to 66.2 billion dirhams. This change is the result of the 20- billion decrease in exports and the 21.3-billion fall in imports. The coverage rate thus dropped from 60 percent to 55.2 percent. Travel receipts were down 12.8 percent, compared with an increase of 11.5 percent at end-February, while remittances from Moroccan expatriates decreased by 10.1 percent instead of near stagnation. As regards the main financial operations, net FDI inflows fell by 16.8 percent to 5.3 billion and direct investments by Moroccans abroad decreased by 1.7 billion dirhams to 1.5 billion. The outstanding official reserve assets of Bank Al-Maghrib reached 286.5 billion dirhams at the end of April 2020, representing the equivalent of 7 months of goods and services' imports.

2.1 Trade balance

2.1. 1 Exports

During the first four months of the year, exports fell by 19.7 percent. The decline affected almost all sectors with, in particular, a drop of 39 percent to 17.2 billion in the automotive sector sales, including a 45.7 percent decline in the «construction» segment, and decreases of 44.7 percent for the «cabling» segment and 33.6 percent for the «Car seats and interiors» segment. Shipments in aeronautics fell by 33.9 percent to 3.7 billion and those in the textile and leather sector declined by 28.3 percent to 9.1 billion, mainly as a result of a decrease by 32.2 percent in ready-made clothes' sales and by 30 percent in hosiery articles' exports. In the same vein, exports of agricultural products and agri-food were down 7 percent to 24.8 billion, with a decline of 5.8 percent for agricultural products and 7.4 percent for food industry products. The sales of the electronics and electricity sector decreased by 1.9 percent to 3.2 billion and those of the metallurgical industry from 15.9 percent to 1.7 billion while the pharmaceutical industry was down 30.5 percent. Conversely, the phosphates and derivatives sector shows some resilience, with sales up 0.2 percent to 15.9 billion in connection with increases of 23.3 percent in sales of natural and chemical fertilizers and 1.9 percent in the exports of raw phosphates. Shipments of phosphoric acid, on the other hand, posted a 38.7 percent decline.

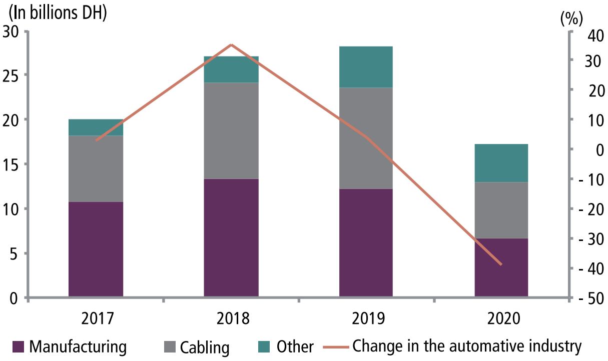
Table 2.1: Change in exports (in millions of dirhams)

Secteurs/Segments	jan.-apr. 2020*	jan.-apr. 2019	Change	
			value	In %
Exports	**81 494**	**101 494**	**-20 000**	**-19,7**
Phosphates and derivatives	**15 912**	**15 878**	**34**	**0,2**
Crude phosphates	2 356	2 312	44	1,9
Natural and chemical fertilizers	10 418	8 447	1 971	23,3
Phosphoric acid	**3 138**	**5 119**	**-1 981**	**-38,7**
Automotive	**17 227**	**28 234**	**-11 007**	**-39,0**
Construction	6 649	12 242	-5 593	-45,7
Wiring	6 279	11 355	-5 076	-44,7
Vehicle interiors and seats	**1 801**	**2 713**	**-912**	**-33,6**
Aeronautics	**3 675**	**5 560**	**-1 885**	**-33,9**
Assembly	2 036	2 998	-962	-32,1
EWIS	**1 612**	**2 535**	**-923**	**-36,4**
Textile and Leather	**9 125**	**12 727**	**-3 602**	**-28,3**
Ready-made garments	5 571	8 218	-2 647	-32,2
Hosiery articles	1 734	2 478	-744	-30,0
Shoes	**929**	**963**	**-34**	**-3,5**
Agriculture and Agri-Food	**24 835**	**26 695**	**-1 860**	**-7,0**
Agriculture, forestry, hunting	13 214	14 023	-809	-5,8
Agri-Food	**11 191**	**12 082**	**-891**	**-7,4**
Electronics	**3 228**	**3 291**	**-63**	**-1,9**
Electronic components	1 023	1 492	-469	-31,4
Specialty Electronics	1 154	717	437	60,9
Other mining extractions	**933**	**1 333**	**-400**	**-30,0**
Other industries	**6 559**	**7 776**	**-1 217**	**-15,7**
Metallurgy and metalworking	**1 717**	**2 041**	**-324**	**-15,9**
Pharmaceutical industry	**301**	**433**	**-132**	**-30,5**
Plastics and rubber industry	**604**	**528**	**76**	**14,4**

* Preliminary data

Source: Foreign Exchange Office.

Chart 2.1: Change in automotive industry's exports



*Provisional data
Source: Foreign Exchange Office.

2.1.2 Imports

The 12.6 percent decline in imports reflects mainly the 18 percent decrease in purchases of capital goods to 35.7 billion dirhams, driven in particular by a 4.2 billion decline in purchases of « Aeroplanes and other aircraft «. The energy bill fell by 21.8 percent to 20.4 billion, mainly due to drops by 29.1 percent in purchases of gas oil and fuel oil and by18.3 percent in sales of coal. Similarly, imports of finished consumer goods fell by 14.9 percent to 31.2 billion, with a 29.3 percent decline in purchases of «parts and components for cars ad passenger vehicles" and 20.8 percent in acquisitions of passenger cars. Purchases of semi-finished products decreased by 12.1 percent to 32.1 billion, with decreases of 35.4 percent in purchases of «non-alloy iron wires, bars and sections» and 14.2 percent in acquisitions of chemicals. Purchases of raw products declined by 21.3 percent to 6.5 billion dirhams, following in particular the 59.5 percent decrease in sulphur acquisitions. Conversely, purchases of food products increased by 22.1 percent to 21.9 billion, mainly as a result of the rise in wheat supplies to 6.5 billion dirhams and barley to 1.2 billion.

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

User groups	jan.-apr. 2020*	jan.-apr. 2019	Change	
			value	In %
CIF imports	**147 741**	**169 033**	**-21 292**	**-12,6**
Energy products	**20 448**	**26 163**	**-5 715**	**-21,8**
Gas oils and fuel oils	9 251	13 047	-3 796	-29,1
Coal; coke and similar solid fuels Other crude or refined vegetable oils	2 909	3 560	-651	-18,3
Petroleum oil and lubricants	2 000	2 534	-534	-21,1
capital goods	**35 683**	**43 509**	**-7 826**	**-18,0**
Aircraft and other space vehicles	29	4 206	-4 177	-99,3
Wires, cables	2 270	3 227	-957	-29,7
Miscellaneous machines and appliances	3 646	4 428	-782	-17,7
Finished consumer products	**31 194**	**36 638**	**-5 444**	**-14,9**
Parts and spare parts of cars and passenger cars	4 324	6 118	-1 794	-29,3
Passenger cars	4 805	6 069	-1 264	-20,8
Semi finished products	**32 060**	**36 466**	**-4 406**	**-12,1**
Wire, rods and sections of non-alloy steel.	1 044	1 615	-571	-35,4
Chemical products	3 236	3 772	-536	-14,2
Raw products	**6 491**	**8 251**	**-1 760**	**-21,3**
Raw and unrefined sulfur	1 197	2 957	-1 760	-59,5
Ferraille et déchets Scrap metal and waste	353	553	-200	-36,2
Food products	**21 865**	**17 914**	**3 951**	**22,1**
Wheat	6 462	5 328	1 134	21,3
Barley	1 167	65	1 102	-

* Provisional data.
Source: Foreign Exchange Office.

2.2 Other components of the current account

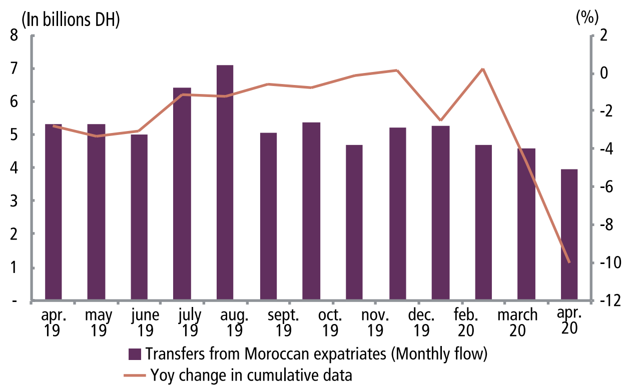
With regard to the balance of services, its surplus declined by 9.1 percent to 24.7 billion dirhams, following the decreases of 11.1 percent in exports to 52.1 billion and 12.8 percent in imports to 27.4 billion dirhams. In particular, travel receipts posted a 12.8 percent decline and expenses related to the same item decreased by 30.2 percent, compared with increases of 11.5 percent and 15.5 percent, respectively, at the end of February.

Chart 2.2: Change in travel receipts*

* Provisional data.
Source: Foreign Exchange Office.

Remittances by Moroccan expatriates dropped by 10.1 percent to 18.5 billion dirhams.

Chart 2.3: Change in transfers from Moroccan expatriates



* Preliminary data
Source: Foreign Exchange Office.

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

	jan.-apr. 2020*	jan.-apr. 2019	Change	
			Value	in %
Imports	**27 387**	**31 398**	**-4 011**	**-12,8**
Exports	**52 053**	**58 544**	**-6 491**	**-11,1**
Balance	**24 666**	**27 146**	**-2 480**	**-9,1**

* Provisional data.
Source: Foreign Exchange Office.

2.3 Financial account

As for financial operations, the net FDI flow decreased by 16.8 percent to 5.3 billion dirhams, with drops by 25.9 percent to 8.3 billion in revenues and by 37.8 percent to 3 billion in expenses under the same heading. At the same time, the net flow of direct investments of Moroccans abroad declined by 1.7 billion to 1.5 billion dirhams, due to the fall of 973 million dirhams in expenses and the increase of 724 million in revenues.

At the end of April 2020, the outstanding official reserve assets reached 286.5 billion dirhams, representing the equivalent of 7 months of goods and services' imports (see box).

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

	jan.-apr. 2020*	jan.-apr. 2019	Change	
			Value	in %
Foreign direct investments	**5 315**	**6 387**	**-1 072**	**-16,8**
Revenues	8 345	11 260	-2 915	-25,9
Expenses	3 030	4 873	-1 843	-37,8
Investments of Moroccans abroad	**1 549**	**3 246**	**-1 697**	**-52,3**
Expenses	2 992	3 965	-973	-24,5
Revenues	1 443	719	724	-

* Provisional data.

Source: Foreign Exchange Office.

Box 2.1 : Adoption of official reserve assets as a reference indicator for foreign exchange reserves

To better monitor the change in foreign exchange reserves, Bank Al-Maghrib has adopted the official reserve assets (ORA) as a reference indicator of foreign exchange reserves as of May 22, 2020, following best international practices in this area. Previously, in addition to the ORAs, the Bank would publish the net international reserves (NIR). The latter have been used since 2012 as a measurement defined in consultation with the IMF in the framework of the PLL-supported program, while the ORA indicator is a standard based on a methodological framework defined in 6th Edition of the IMF's Balance of Payments Manual and allows for international comparability. As a reminder, ORAs are defined as «those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets … and for other related purposes «. They are composed of monetary gold (4.1 percent at end-2019), SDRs (2.8 percent), convertible foreign currency holdings of the Central Bank (92.3 percent) and Morocco's IMF reserve position (0.8 percent).

Chart B2.1.1 : Yearly change of ORAs and NIRs

3. MONEY, CREDIT AND ASSETS MARKET

In the first quarter of 2020, monetary conditions were marked by a further decline in lending rates and a rise in the effective exchange rate. Credit to the non-financial sector continued to improve, with a 5.5 percent increase, mainly due to the acceleration in the growth rate of lending to private non-financial companies. As to the other counterparts of the money supply, the growth rate accelerated to 8.1 percent for net claims on the central government and 9.8 percent for the official reserve assets. In total, money supply growth rose from 3.5 percent to 3.9 percent.

In the real-estate market, the number of transactions decreased by 31.2 percent in the first quarter of 2020, reflecting declines in sales across all categories. Similarly, prices were down 1.6 percent, in connection with the impact of decreases of 1.8 percent for residential property, 1.1 percent for urban land and 3.3 percent for property for professional use. In the Casablanca Stock Exchange, the MASI dropped by 20.3 percent and the volume of trade reached 15.8 billion after 25.9 billion a quarter earlier. Under these conditions, market capitalization posted a quarterly decline of 19.7 percent to 503 billion dirhams.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the first quarter of 2020, banks' liquidity needs slightly decreased to 71.4 billion dirhams on weekly average. Bank Al-Maghrib, thus, reduced the amount of its injections to 72.9 billion, including in particular 62.3 billion dirhams in the form of 7-day advances, 3.8 billion dirhams in the form of foreign exchange swaps and 2.3 billion dirhams in the form of guaranteed loans granted under the VSMEs financing program.

The latest available data indicate a significant widening of the bank liquidity deficit to 93.8 billion on a monthly average in April and May, as a result of the exceptional rise in notes and coins following in particular the distribution of aids to households as part of efforts to mitigate the impacts of Covid-19. In this context, the Bank significantly increased the volume of its injections, and adapted the mechanism used for these interventions (see box).

In this context, the interbank rate reached 2.22 percent on average in the first quarter and 2 percent in April and May, particularly as a result of the decision of the Bank's Board, during its meeting of March 18, 2020, to lower the key rate to 2 percent. On the Treasury bill market, rates trended downwards on the primary as well as on the secondary markets.

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

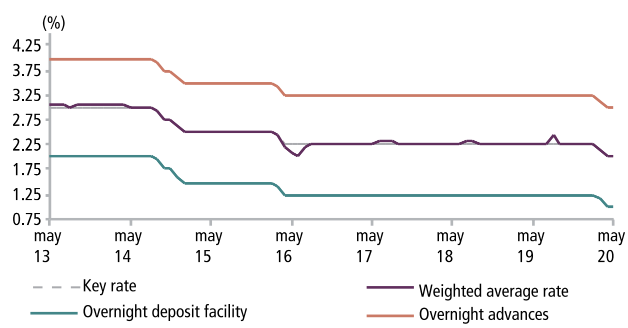
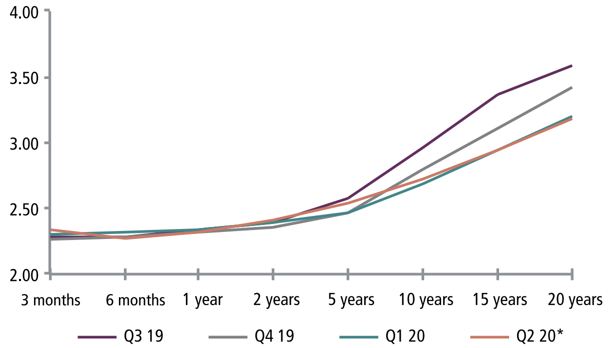


Table 3.1: Change in Treasury bond yields in the primary market

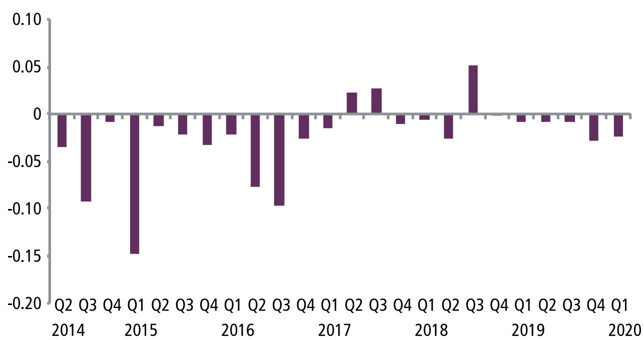
	2018				2019				2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	jan.
52 weeks	2.35	2.31	2.42	2.45	2.37	2.31	2.31	2.27	3.32
2 years	2.53	2.50	2.58	2.60	2.51	2.39	2.38	2.32	3.36
5 years	2.81	2.76	2.82	2.86	2.77	2.60	2.58	2.46	-
10 years	3.28	3.24	3.28	3.34	3.19	3.02	2.97	2.81	2.65
15 years	3.68	3.68	3.70	-	3.64	3.42	3.38	3.10	2.94

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



In other markets, rates on certificates of deposit fell in the first quarter of 2020. Conversely, borrowing rates increased by 5 basis points to 2.73 percent on average for 6-month deposits and by 8 basis points to 3.06 percent for one-year deposits. Under these conditions, banks' funding costs[1] fell slightly.

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



Concerning lending rates, the results of Bank Al-Maghrib's survey with banks for the first quarter of 2020 show a decline in the overall average rate by 4 basis points to 4.87 percent. By institutional sector, rates on loans to private companies fell by 7 points, covering a decrease of 5 points for large companies and an increase of 15 points for SMEs. As to rates applied to private individuals, they increased by 9 basis points, with a 9-point increase for consumer loans and a 9-point decline for housing loans.

1 The funding cost of is calculated as a weighted average of the bank resource costs.

Table 3.2 : Change in lending rates

	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
Global	**5.10**	**5.09**	**5.02**	**4.98**	**5.09**	**4.91**
Personal loans	**5.90**	**5.83**	**5.78**	**5.34**	**5.69**	**5.55**
Real estate loans	4.88	4.89	4.70	4.18	4.51	4.48
Consumer loans	6.61	6.84	6.74	6.71	6.72	6.66
Loans to businesses	**4.85**	**4.90**	**4.78**	**4.85**	**4.92**	**4.77**
Creditor accounts and cash advances	4.70	4.81	4.72	4.70	4.74	4.65
Equipment loans	4.86	4.86	4.48	5.07	5.20	4.58
Real estate loans	5.71	5.91	5.59	5.46	6.07	6.12

Source : BAM.

Table 3.3: Deposit rates

	2017	2018				2019			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6 months	2.80	2.79	2.78	2.80	2.71	2.78	2.68	2.75	2.68
12 months	3.10	3.15	3.10	3.07	3.04	3.06	3.00	3.01	2.98

3.1.2 Exchange rate

During the first three months of the year, the euro depreciated by 0.43 percent against the US dollar. Under these conditions, the dirham gained 0.31 percent against the euro and depreciated by 0.14 percent against the US dollar. Compared to the currencies of the main emerging countries, the national currency appreciated by 5.25 percent against the Turkish lira, by 0.43 percent against the pound sterling and depreciated by 1.07 percent against the Chinese yuan. As a result, the effective exchange rate appreciated by 1.06 percent in nominal terms and by 0.86 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

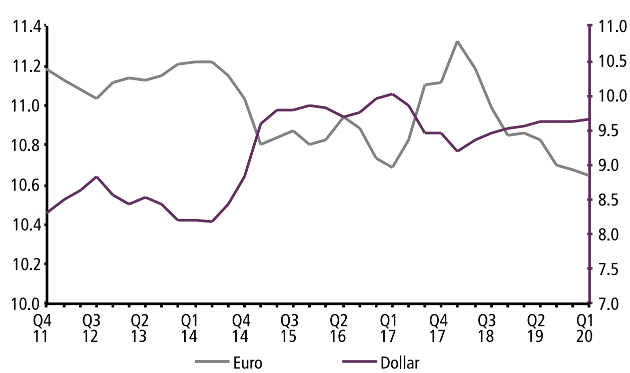
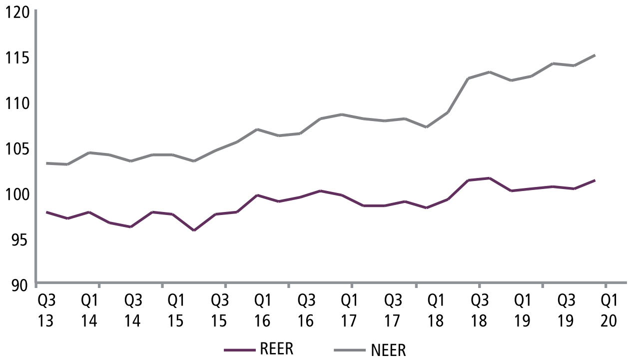


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

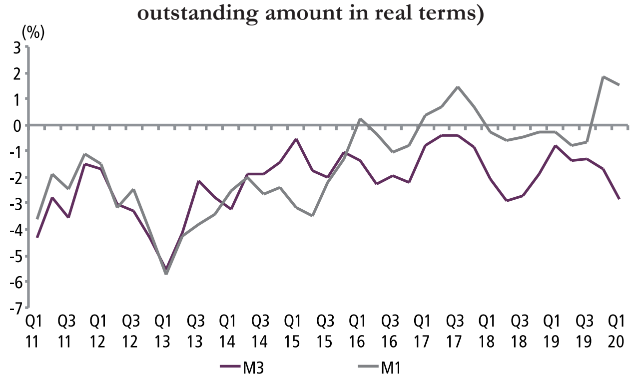
With respect to foreign exchange transactions, the average volume of banks' spot transactions with customers fell by 2.8 percent, to 24.2 billion for sales, and by 5.5 percent, to 22.8 billion for purchases. On the other hand, forward purchases increased by 8.8 percent, to 13.7 billion and forward sales rose by 28.9 percent, to 3.8 billion. During this period, Bank Al-Maghrib did not carry out any transactions for foreign-currency purchase or sale with banks. Under these conditions, banks' net foreign exchange position was negative at -0.8 billion dirhams at end-March, compared with -2.1 billion at end-December 2019.

3.1.3 Monetary situation

M3 aggregate growth stood at 3.9 percent at the end of 2008, instead of 3.5 percent in the fourth quarter of 2019. The analysis of the change in its components shows an acceleration from 7.4 percent to 9.5 percent in currency in circulation as a result of the mass cash outflows, particularly following the announcement of the lockdown. Similarly, demand deposits increased by 6.6 percent after 5.2 percent, in connection with rises from 6.6 percent to 9.9 percent for deposits of private nonfinancial companies and from 4.5 percent to 6.1 percent for households' deposits. On the other hand, the decline in time deposits was more marked, moving from 6.3 percent to 9.7 percent, reflecting mainly a 2.3 percent contraction in households' deposits compared to a 0.6 percent increase and a worsening of the decline from 9.1 percent to 12.2 percent for the deposits of private companies. At the same time, the securities of money market funds decreased by 3.9 percent after 8.3 percent a quarter before.

By main counterpart, the change in the volume of money supply covers accelerations from 7.5 percent to 9.8 percent in the rise of the official reserve assets, from 4.3 percent to 8.1 percent in that of net claims on the central government and a slowdown from 5.5 percent to 4.9 percent for the bank credit.

Chart 3.6: Money gap1 (in % of M3 and M1 equilibrium outstanding amount in real terms)



1:The money gap, calculated in real terms, is the difference between the actual level of the money stock and the equilibrium level. The latter, defined based on the quantity equation of money, corresponds to the growth of the potential economic activity in real terms, minus the average pace of decrease in the velocity of currency in circulation.

Source : BAM.

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

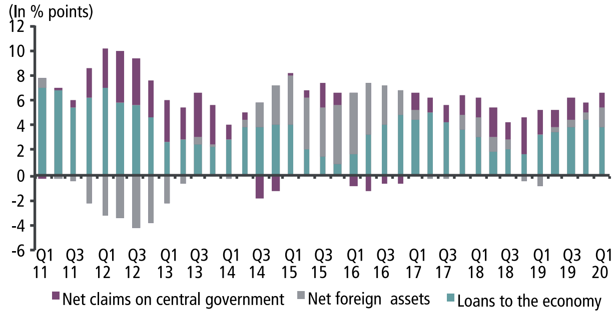
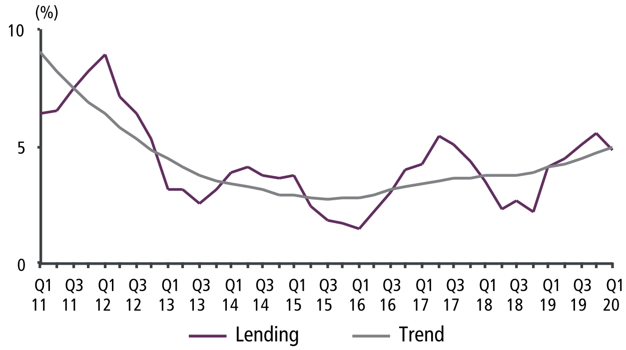


Chart 3.8: YoY change in credit



Credit to the non-financial sector continued to improve, with an increase of 5.5 percent after 5.1 percent. This trend reflects an acceleration in the growth of lending to private companies, a slowdown of the decline in loans to public companies and a slowdown of the increase in loans to households.

Loans to private companies were up 7.3 percent after 6.6 percent in the previous quarter, reflecting accelerations from 5.8 percent to 6.9 percent for equipment loans and from 4.4 percent to 5 percent for mortgage loans, as well as a slowdown in the growth rate of cash facilities from 10.1 percent to 9.6 percent.

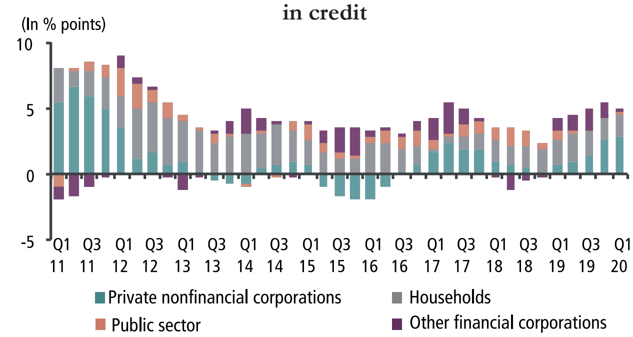
The decline in loans to public companies reached 2.3 percent instead of 4.6, with a 1.4 percent rise for equipment loans after a decline of 5.7 percent and a 19.9 percent contraction for cash facilities compared to an increase of 1.8 percent.

Concerning loans to individual entrepreneurs, their increase went up from 0.8 percent to 1.7 percent, covering a slowdown from 18.3 percent to 13.4 percent in the decrease of real estate loans, stability at 5.9 percent in the growth of cash facilities and a slowdown from 8.1 percent to 2 percent in the growth of equipment loans

By activity branch, quarterly data for the month of March indicate in particular an acceleration of the growth rate from 7.3 percent in December to 15 percent for loans to the «trade, car repairs and household goods» sector and from 25.8 percent to 62.5 percent for loans to the «extractive industries». On the other hand, loans to the «food industries and tobacco» posted a decline of 4.4 percent, more than that of 0.4 percent, and those granted to the «building» sector decreased by 1.6 percent after an increase of 1.3 percent one quarter earlier.

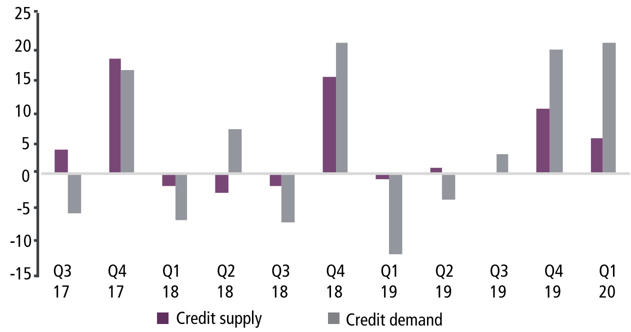
As to loans to private individuals, their growth rate stabilised at 5.1 percent, covering an acceleration from 4.2 percent to 4.3 percent for housing loans and a slowdown from 4.9 percent to 4.1 percent for consumer loans.

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



As regards nonperforming loans, they increased by 7.6 percent and their ratio to bank credit stood at 7.9 percent. This change reflects increases of 14.4 percent in those of households and 3.7 percent in those of private nonfinancial companies.

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

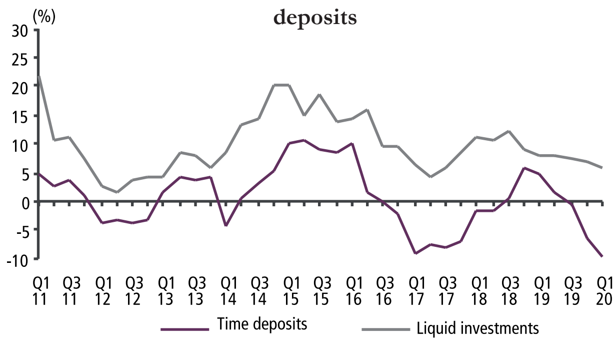


Loans granted by nonbank financial companies to the non-financial sector were up 4.6 percent after 4 percent in the fourth quarter of 2019. This trend includes a 12.7 percent expansion in loans granted by offshore banks, after a contraction of 13.4 percent and slowdowns in the increase from 5.7 percent to 3.8 percent for loans distributed by finance companies and from 9 percent to 6.9 percent for loans granted by microcredit associations.

The latest available data for the month of April indicate an acceleration of bank loans' growth to 6.7 percent. In particular, loans to the non-financial sector continued to improve, with an increase of 7.1 percent.

As for liquid investment aggregates, their growth declined on average from 6.8 percent in the fourth quarter of 2019 to 5.4 percent in the first quarter of 2020. This trend reflects decelerations in growth from 4.7 percent to 2.3 percent for Treasury bills and from 6.8 percent to 5.4 percent for bond mutual fund securities, as well as an acceleration from 13.4 percent to 20 percent for equity and diversified mutual fund securities.

Chart 3.11: YoY change in liquid investments and time deposits



Box 3.1: Measures adopted by Bank Al-Maghrib to mitigate the impact of the pandemic

Since the outbreak of the crisis caused by the spread of the Covid-19 pandemic, the authorities have put in place a mechanism to monitor changes in the economic and social situation, as well as an action plan to mitigate the impact of the pandemic. This box presents a summary of the main measures introduced by Bank Al- Maghrib.

In addition to its contribution in the framework of the Economic Intelligence Committee where it is represented by the Wali, the Bank has introduced several measures to facilitate the financing of the economy and strengthen the capacity of the banking system to meet the needs of businesses and households. In terms of monetary policy, the Bank's Board decided at its meeting of March 17 to reduce the key rate from 2,25 percent to 2 percent. Similarly, and to meet banks' liquidity needs, it activated the whole set of the available dirham- and foreign-currency refinancing instruments and extended the list of assets accepted as collateral by including: (i) foreign-currency debt securities issued by the State ; (ii) dirham- or euro-denominated debt securities issued by public companies and entities; (iii) debt securities issued by mutual funds investing in securitization; (iv) finance companies bonds; (v) bills representing claims on the State, including those emanating from the factoring operation of VAT credits; (vi) bills representing claims on public companies and entities; and (vii) bills representing mortgage loans.

In addition, the Bank has extended its VSMEs refinancing program to cash loans in addition to equipment loans, with an increase in the frequency of refinancing operations. It also decided to grant refinancing in foreign currencies, secured by an eligible collateral in foreign currencies and in Moroccan dirhams, to enter into foreign currency/dirham swaps.

On the prudential level, and in order to further strengthen the lending capacity of banks, Bank Al-Maghrib decided to relax some rules. In particular, it allowed banks:

- To use, if required, during the second quarter of 2020, the liquidity cushions, made of high-quality liquid assets below the minimum LCR set at 100 percent;
- To suspend the provisioning of loans that will be subject to a moratorium by banks;
- To release, over a 12-month period, a capital conservation cushion of 50 bps, reducing the minimum regulatory ratios to 8.5 percent for Tier 1 capital and 11.5 percent for the solvency capital ratio.

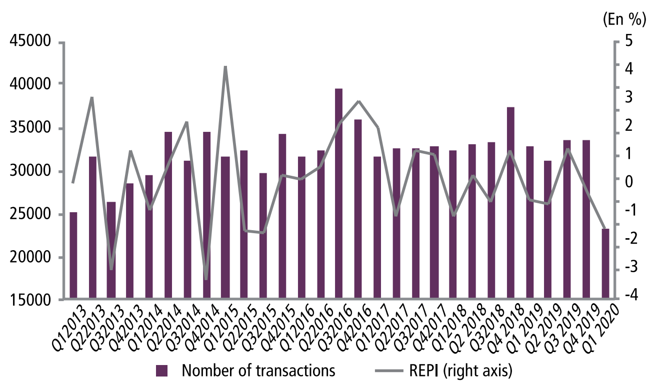
3.2 Asset prices

3.2.1 Real estate assets

In the first quarter of 2020, the real estate price index (IPAI) fell by 1.6 percent, reflecting declines of 1.8 percent for residential property, 1.1 percent for urban land and 3.3 percent for property for professional use. The volume of transactions dropped by 31.2 percent, reflecting declines in sales for all categories with rates of 32.9 percent for residential property, 27.2 percent for urban land and 25.6 percent for property for professional use.

At the level of the main cities, except for El Jadida and Marrakech, which recorded quarterly increases of 0.6 percent and 0.3 percent respectively, prices fell by rates ranging between 0.5 percent for Casablanca and 4.8 percent for Kenitra. The number of transactions recorded significant decreases in all major cities, ranging from 24.1 percent in Fez to 47.1 percent in Kenitra.

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



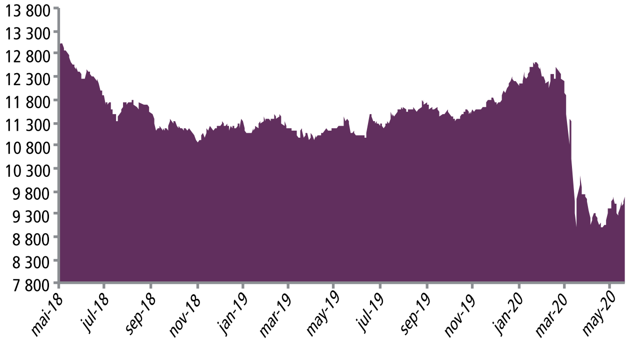
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

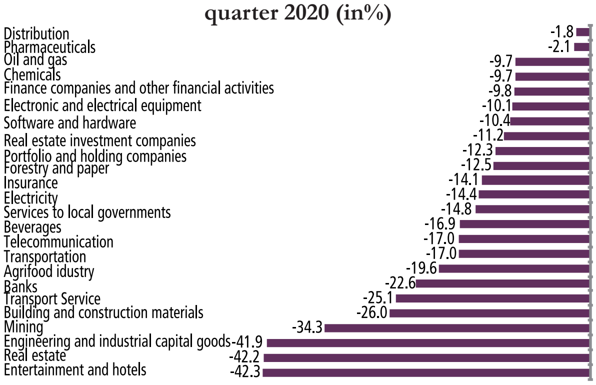
On the stock market, the MASI fell sharply by 20.3 percent during the first three months of the year. The downtrend affected all the sectors, with declines ranging from 1.8 percent for «distributors» to 42.3 percent for «leisure and hotels».

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

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



Source : Casablanca Stock Exchange.

As regards the volume of transactions, it reached 15.8 billion in the first quarter compared with 25.9 billion dirhams a quarter earlier. By compartment, the turnover went from 11 billion to 12.6 billion in the central market and dropped from 12.7 billion to 1.3 billion on the block market. As for capital increases, they reached 1.5 billion after 1.9 billion in the previous quarter.

Under these conditions, the market capitalization posted a quarterly decline of 19.7 percent to 503 billion dirhams.

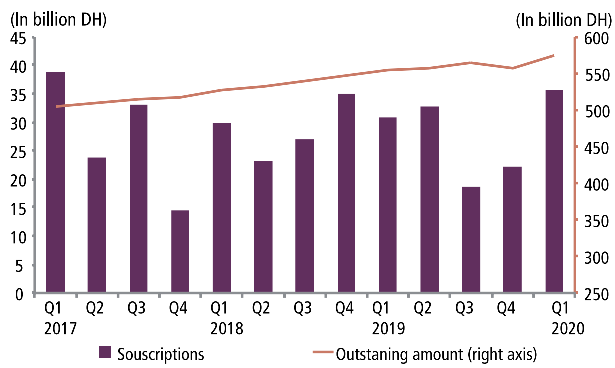
The data of May shows that the MASI has underperformed by 19.1 percent since the beginning of the year. The trading volume reached 5.1 billion after 2.6 billion in April. Market capitalisation, thus, stood at 509.2 billion, down 18.8 percent compared with December 2019.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic market were up 35.7 billion in the first quarter of 2020, with a quarterly growth of 60.2 percent. They concerned long-term maturities for 62 percent and medium-term maturities for 25 percent. Taking into account repayments amounting to 17.1 billion dirhams, the outstanding Treasury bills reached 575.7 billion dirhams at end-March, up 3.3 percent compared to its level at end-December 2019.

In April, the Treasury raised 4.6 billion dirhams, 54.8 percent of which was on medium-term maturities and 45.2 percent on short-term ones. Taking into account repayment for 5.7 billion dirhams, outstanding Treasury bills amounted to 574.6 billion dirhams, up 3.1 percent compared to end-December.

Chart 3.15: Change in outstanding Treasury bonds



Source : BAM.

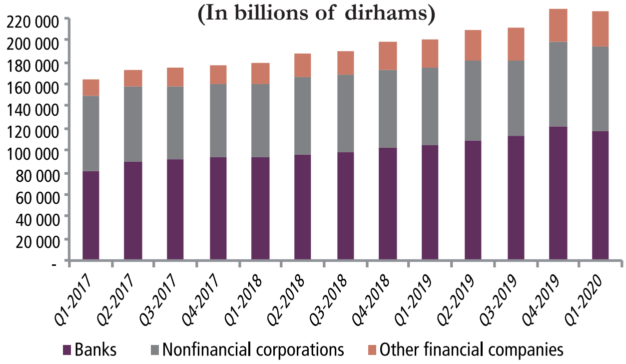
3.2.2.3 Private debt market

On the private debt market, issues reached 14.5 billion dirhams, down 57.4 percent compared to the fourth quarter of 2019. Banks' issues dropped from 19.5 billion to 6.1 billion and those of non-financial companies from 9.8 billion to 5.4 billion.

Taking into account repayments, the outstanding private debt decreased by1.3 percent since the beginning of the year, to 226 billion dirhams.

Private debt issues amounted to 2.4 billion dirhams in April, with no bond issues for the second month in a row. Taking into account repayments, the outstanding private debt reached 224.9 billion, down 1.8 percent compared to the end of December.

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



Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund securities

During the first quarter of the year, subscriptions to mutual fund securities increased by 64.8 percent to 308.1 billion dirhams and redemptions by 65.9 percent to 294.7 billion, representing a net inflow of 13.4 billion dirhams which concerned «medium and long-term bond» funds with 18.5 billion, «money market» and «diversified» funds with 2 billion each and «equity» funds with 955.3 million. On the other hand, short-term and contractual bond funds recorded net outflows of 9.9 billion and 316.8 million, respectively. In terms of performance, they reached 0.6 percent for short-term bond funds, 0.5 percent for money market funds and 0.3 percent for medium- and long-term bond funds. On the other hand, equity and diversified funds posted underperformances of 18.2 percent and 6.1 percent, respectively. Against this background, the net assets of the mutual funds increased by 1.2 percent to 476.1 billion. This change covers increases of 6.9 percent for «medium and long-term bond funds» and 3.9 percent for «money market funds» and decreases for the other funds.

Data as at May 22 show net inflows of 1.6 billion, which concerned bond funds. Under these conditions, the net assets of mutual funds fell by 0.1 percent since the beginning of the year to 469.9 billion dirhams. This change is attributed to decreases of 17.2 percent for "equity" funds and 8.4 percent for «short-term bonds funds». Conversely, the assets of «money market» funds and «medium- and long-term bond funds» increased by 6.4 percent and 2.8 percent, respectively.

4. FISCAL POLICY STANCE

Budget implementation in the first four months of 2020 resulted in a budget deficit of 5 billion dirhams, compared to 11.1 billion a year earlier, taking into account the positive balance of 25.4 billion of the new special purpose account entitled «Special Fund for the Management of the Coronavirus Covid-19 Pandemic». Excluding the latter, the deficit would increase to 30.4 billion dirhams, mainly due to a drop of 5.2 percent to 82.4 billion in current revenues, impacted in particular by the 7.2 percent drop in tax receipts, as a result of the lockdown measures and those adopted by the Economic Intelligence Committee, although slightly mitigated by the 75.1 percent improvement in nontax revenues. At the same time, current expenses increased by 9 percent to 91.2 billion, mainly as a result of the rise of 11.5 percent in the wage bill and by 15.8 percent in spending on other goods and services. The ordinary balance thus showed a deficit of 8.8 billion, instead of a surplus of 3.2 billion a year earlier. Capital expenditure fell by 2.6 percent to 24.6 billion, bringing overall spending to 115.8 billion, up 6.3 percent.

The Treasury reduced its stock of pending transactions by 4.8 billion at end-April 2020, bringing the cash deficit to 9.7 billion, compared with 20.7 billion at end-April 2019. This requirement was financed by domestic resources for a net amount of 6.5 billion and a positive net external flow of 3.2 billion. As a result, outstanding direct public debt would have increased by 2.9 percent compared to its level at end-December 2019. The Treasury's financing conditions are favourable, as shown by the downward trend in the weighted interest rate of securities issued on the auction market.

4.1 Current receipts

Current receipts during the first four months of 2020 were down 5.2 percent, to 82.4 billion, compared to the same period in 2019. This change covers a decrease of 7.2 percent to 77.3 billion in tax revenues, of which 30.3 percent were realized compared to the Finance Act, and an increase of 75.1 percent to 4.6 billion in non-tax revenues. The decline in tax income is mainly due to the fall in revenues from the income tax, corporate tax, import VAT, domestic consumer tax, registration and stamp duties, which were impacted in particular by the decline in activity, due to the lockdown and certain measures taken by the Economic Intelligence Committee.

Direct tax revenues decreased by 6.4 percent to 32.6 billion, mainly the result of a decrease of 3.5 percent to 15.1 billion in the income of corporate tax (CT) and 10.2 percent to 14.9 billion in the receipts of income tax (IT). The change in the latter includes in particular an increase of 8.8 percent to 3 billion in IT on salaries paid by the Personnel Expenditure Department and a drop by 25.6 percent to 827 million in IT on real-estate profits. Concerning the social contribution on profits, it increased by 8.6 percent to 2.1 billion.

Indirect taxes, on the other hand, decreased by 8.5 percent to 35.5 billion dirhams, mainly due to a decline of 8.6 percent to 17.2 billion in import VAT receipts and 19.5 percent to 8.4 billion in domestic consumer tax receipts. The latter two taxes were impacted by the decline of activity and the combined effect of lower prices and lower volumes of imported petroleum products. Not yet fully impacted by lockdown measures due to the one-month lag between tax returns and the collection of this tax by businesses, the domestic VAT receipts increased by 3.7 percent to 9.9 billion, taking into account repayments of 4.9 billion instead of 4.4 billion at end-April 2019.

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

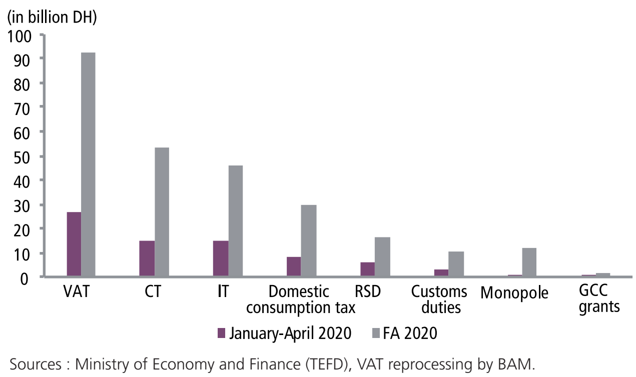
	Jan. 2019	Jan. 2020	Change in %	FA 2020	Achievements against the FA (%)
Current revenues	**86,9**	**82,4**	**-5,2**	**288,3**	**28,6**
Tax revenues	**83,3**	**77,3**	**-7,2**	**255,2**	**30,3**
- Direct taxes	34,8	32,6	-6,4	105,4	30,9
Including CT	15,7	15,1	-3,5	53,0	28,5
I.T	16,6	14,9	-10,2	46,2	32,3
- Indirect taxes	38,8	35,5	-8,5	122,7	28,9
VAT*	28,4	27,1	-4,4	92,7	29,2
DCT	10,4	8,4	-19,5	30,0	28,0
- Customs duties	3,1	3,1	0,5	10,4	29,9
- Registration and stamp duties	6,7	6,1	-7,8	16,6	36,9
Nontax revenues	**2,6**	**4,6**	**75,1**	**29,8**	**15,4**
- Monopoles	0,89	0,93	5,2	12,2	7,7
- Other receipts	1,7	3,7	111,0	17,6	20,7
Including GCC grants	0,3	0,1	-72,5	1,8	4,9
Recettes des CST	**0,9**	**0,5**	**-45,5**	**3,3**	**15,5**

*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.

The decline in DCT receipts is mainly due to the decreases of 22.8 percent to 4.4 billion in DCT on energy revenues and 16.1 percent to 3.5 billion DCT on in tobacco products.

Receipts from customs duties increased by 0.5 percent to 3.1 billion, whereas those of registration and stamp duties declined by 7.8 percent to 6.1 billion.

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



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

Nontax revenues increased by 75.1 percent, marked by a 5.2 percent rise in monopoly and shareholding revenues to 934 million, 786 million of which came from Bank Al-Maghrib, and by an inflow of 1.8 billion from aid funds, instead of 158 million one year earlier. Donations from GCC countries reached 89 million dirhams, compared to 324 million dirhams received at end-April 2019.

4.2 Expenditure

Overall spending increased by 6.3 percent to 115.8 billion over the first four months of 2020, covering a rise of 9 percent, to 91.2 billion, in ordinary expenditure and a 2.6 percent decline, to 24.6 billion, in capital expenditures. Expenditure on goods and services were up 12.9 percent to 67.9 billion, reflecting increases of 15.8 percent, to 22.9 billion, in other goods and services and 11.5 percent, to 45 billion, in the wage bill. The change in the latter is due to an increase of 10.6 percent in its structural component and a decrease of 19.6 percent in back-pays on payrolls served by the Personnel Expenditure Department. Concerning expenses on other goods and services, they incorporate increases of 12.2 percent, to 9.2 billion, in payments to public institutions and companies and of 350 percent, to 5.4 billion, in the Treasury's special accounts.

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

	Jan.-apr. 2019	Jan.-apr. 2020	Change in %	FA 2020	Achievements against the FA (%)
Overall spending	**108,9**	**115,8**	**6,3**	**339,6**	**34,1**
Current spending	**83,7**	**91,2**	**9,0**	**269,3**	**33,9**
Goods and services	60,1	67,9	12,9	198,8	34,2
Personal**	40,4	45,0	11,5	138,1	32,6
Other goods and services	19,7	22,9	15,8	60,7	37,7
Debt interests	9,7	9,8	0,5	28,0	35,0
Clearing	5,3	5,4	2,3	14,6	36,8
Transfer to local governments	8,5	8,1	-4,4	27,8	29,2
Investment	**25,2**	**24,6**	**-2,6**	**70,4**	**34,9**

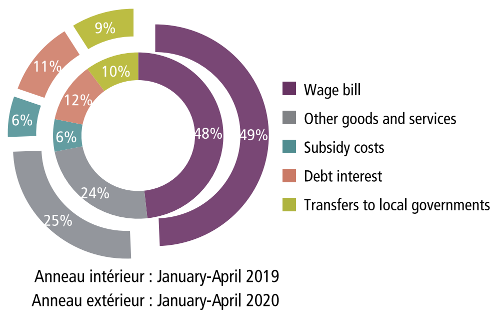
*Taking into account 30 percent of the VAT transferred to local governments.
** Social security charges relating to the employer's share, previously classified under other goods and services, have been included under staff expenditure.
Sources : Ministry of Economy and Finance and Administration Reform,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

Chart 4.2: spending execution compared to the FA

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

For their part, debt interest charges rose by 0.5 percent to 9.8 billion, the result of increases of 0.4 percent, to 9.1 billion, in interests on domestic debt and of 2.6 percent, to 727 million, in interests on foreign debt.

Chart 4.3: Structure of current spending



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

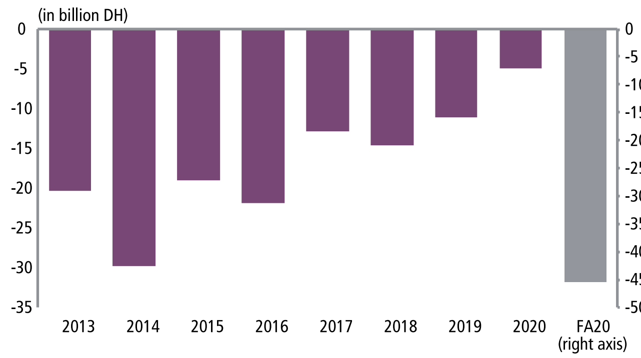
With regard to subsidization charges, they increased by 2.3 percent to 5.4 billion. Available data of the Subsidization Fund relating to the first quarter indicate an increase of 25.6 percent, to 3 billion, in butane gas subsidies and an increase of 2.4 percent, to 873 million, in sugar subsidies. According to the same source, the average price of butane gas on the international market over the first four months of 2020 fell by 19.4 percent, to 381.3 dollar per tonne, while the price of raw sugar increased by 1 percent, to 305 per tonne.

As regards capital expenditure, they were down 2.6 percent to 24.6 billion, with a 10.5 percent year-on-year decline in the flow in April 2020. Despite this decrease, the execution of this expenditure remains in line with the forecasts of the Finance Act.

4.3 Deficit and Treasury Financing

The position of the Treasury posted a budgetary deficit of 5 billion, compared with 11.1 billion a year earlier, taking into account the 28.4 billion balance of the Treasury's special accounts, compared with 10.9 billion at the end of April 2019, reflecting the positive balance of 25.4 billion of the Covid-19 Fund. Moreover, the Treasury reduced its stock of pending transactions by 4.8 billion, bringing the cash deficit to 9.7 billion, compared with 20.7 billion a year earlier.

Chart 4.5: Fiscal balance, at end of January



Source : Ministry of Economy and Finance and Administration Reform.

This need was financed by domestic resources for a net amount of 6.5 billion and by net external aids worth 3.2 billion. Gross external flows amounted to 6 billion, including 4.3 billion from the World Bank and 1.5 billion from the Arab Monetary Fund.

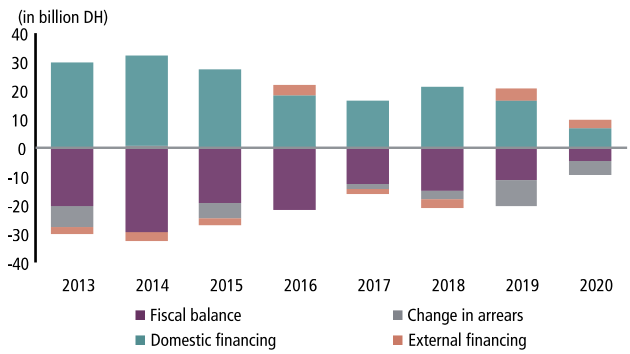
Table 4.3: Deficit financing (in billions of dirhams)

	Jan.-apr. 2019	Jan.-apr. 2020	FA 2020
Current balance	**3,2**	**-8,8**	**19,1**
Balance of TSA	10,9	28,4	6,0
Including Covid-19 Fund	-	25,4	-
Primary balance	-1,4	4,8	-17,3
Fiscal balance	**-11,1**	**-5,0**	**-45,3**
Change in arrears	-9,5	-4,8	
Financing requirements	**-20,7**	**-9,7**	**-45,3**
Domestic financing	16,5	6,5	27,7
External financing	4,2	3,2	14,6
Privatization	0,0	0,0	3,0

Source : Ministry of Economy and Finance and Administration Reform.

Concerning domestic funding, recourse to the Treasury bill auction market concerned a net amount of 17.4 billion, compared to 8.1 billion a year earlier. Net subscriptions mainly concerned 2-year bills, for 9.2 billion, 30-year bonds for 5.7 billion, 15-year bonds for 5.6 billion, 20-year bonds for 5.3 billion and 52-week bonds for 1.9 billion. Net repayments concerned 10-year and 5-year bonds for amounts of 5.4 billion and 4.8 billion, respectively.

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



* 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 remain favourable over the first four months of 2020 compared to the same period in 2019. The average weighted rate of 52-week and 2-year bonds slightly decreased, respectively by 3 basis points (bps) to 2.33 percent and by 9 bps to 2.38 percent. For long maturities, rates continued their downtrend with, in particular, drops of 66 bps to 2.94 percent for15 year-bonds, 60 bps to 3.22 percent for 20-year bonds and 59 bps to 3.84 percent for 30-year bonds.

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

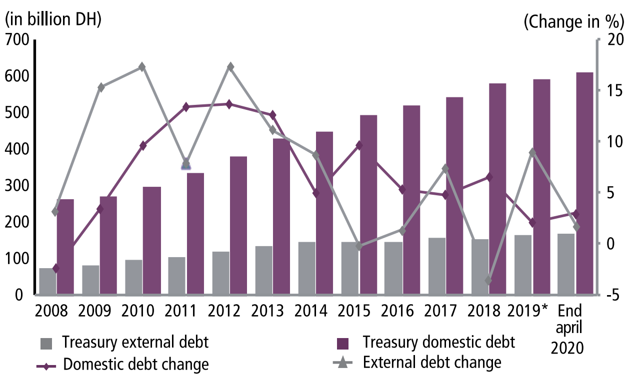
	2015	2016	2017	2018	2019*	At end Apr. 2020*
Treasury external debt	**140,8**	**142,8**	**153,2**	**148,0**	**161,5**	**164,7**
Change in %	-0,2	1,4	7,3	-3,4	9,1	2,0
Treasury domestic debt	**488,4**	**514,7**	**539,1**	**574,6**	**586,5**	**604,6**
Change in %	9,6	5,4	4,8	6,6	2,1	3,1
Outstanding direct debt	**629,2**	**657,5**	**692,3**	**722,6**	**748,0**	**769,3**
Change in %	7,3	4,5	5,3	4,4	3,5	2,9

Source : Ministry of Economy and Finance and Administration Reform.

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

As for debt at end-April 2020, it is up 2.9 percent from its level at end-December 2019. This change reflects an increase of 3.1 percent in its domestic component, while its external component rose by 2 percent.

Chart 4.7: Treasury debt



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

5. DEMAND, SUPPLY AND LABOR MARKET

The latest available national accounts data for the fourth quarter of 2019 show a deceleration of growth to 2.1 percent compared to 2.8 percent a year earlier, with a 5.2 percent decline, after a 3.5 percent rise, in agricultural value added and an acceleration from 2.5 percent to 3 percent in the growth rate of non-agricultural activities. Over the whole year 2019, GDP increased by 2.5 percent, with a 3.8 percent rise in non-agricultural value added and a 5.8 percent decline in agricultural value added.

In the first half of 2020, economic activity was marked by the combined fall in cereal production due to drought, on the one hand, and the severe effect of the covid-19 pandemic on non-agricultural activities, on the other hand, especially after the implementation of the lockdown measures from March 20. This shock would impact activity across multiple channels, through the total or partial cessation of activity in several sectors, supply chain disruptions and the decline of both domestic and international demand. Under these conditions, agricultural value added would have fallen by 4.8 percent on average in the first half of the year and non-agricultural activities would virtually have stagnated year-on-year in the first quarter and fallen by 9.6 percent in the second quarter. Growth would have averaged -4.7 percent in the first half of the year, after an average of 2.4 percent one year earlier.

On the labor market, data for the first quarter of 2020 indicate that the national economy generated 77 thousand net jobs since the same quarter of 2019, compared to a loss of 2 thousand a year earlier, due to the creation of 192 thousand jobs in services and 23 thousand in industry, including handicrafts, as well as the loss of 134 thousand jobs in agriculture and one thousand in construction. Taking into account a net inflow of 285 thousand job-seekers, the unemployment rate rose from 9.1 percent to 10.5 percent overall, from 13.3 percent to 15.1 percent in the cities and from 3.1 percent to 3.9 percent in rural areas. With regard to labor costs, available data for the first quarter show an annual decline of 1.4 percent in nominal terms in the private sector's wage index after an increase of 1.2 percent a year earlier and a decrease of 2.6 percent in real terms instead of an increase of 1.4 percent.

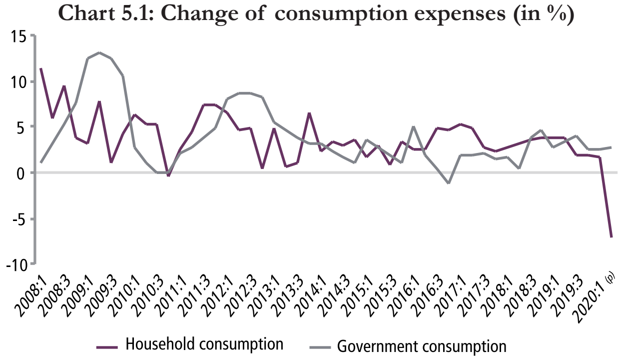
5.1 Domestic demand

5.1.1 Consumption

In the fourth quarter of 2019, national accounts data show a deceleration in the growth rate of household consumption to 1.8 percent instead of 3.7 percent in the same quarter of the previous year. Its contribution to growth was 1 percentage point after 2.1 points. For the year as a whole, its growth rate stood at 1.8 percent compared with 3.4 percent in 2018.

In the first half of 2020, the start of the lockdown from March 20 would have negatively affected household consumption, the growth rate of which would have fallen by 2.7 percent on average, with, in particular, a sharp dip in the second quarter. However, massive purchases, particularly from food products and the financial aid measures decided by the Economic Intelligence Committee in favour of employees declared with the CNSS as temporarily unemployed and households working in the informal sector would have mitigated the impact on the household consumer expenditure.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP, and BAM forecasts.

As regards the final consumption of the public administration, it slowed down to 2.5 percent in the fourth quarter, compared to 4.6 percent a year earlier, bringing its contribution to growth to 0.5 percentage points instead of 0.8 points. For the year 2019 as a whole, its growth rate accelerated by 4.7 instead of 2.7 percent a year earlier.

In the first half of 2020, it would have risen by 2.7 percent mainly in connection with expenses made to mitigate the impact of the health crisis.

5.1.2 Investment

Investment was down 3.8 percent in the fourth quarter of 2019, compared with an increase of 1.6 percent one year earlier. Its participation in growth was thus negative at 1.3 percentage points instead of a positive contribution of 0.6 point in the same quarter a year earlier. Over the year as a whole, its growth rate stood at 0.1 percent compared to 5.8 percent in 2018.

This downward trend would have continued, in the first half of 2020, more markedly in the context of the total or partial suspension of activity in several sectors at the national level, following the introduction of the lockdown measures, and lower foreign direct investment. Imports of capital goods would have declined markedly, as companies would have resorted to their stocks to meet demand.

5.2 Foreign demand

Foreign demand continued to recover in the fourth quarter, with a positive contribution of 1.9 percentage points to growth, instead of a negative contribution of 0.6 percentage point in the same quarter of the previous year. The growth rate of goods and services' imports recorded a net slowdown to 0.4 percent against 5.4 percent, while the growth rate of exports remained almost stable at 5.3 percent.

Over the year 2019 as a whole, the contribution of net exports to growth was 0.5 percentage point after -1.2 points a year earlier.

In the first half of 2020, exports of goods and services would have recorded a decline of 22.2 percent, following the decline of foreign demand, supply chain disruptions and partial or total shutdown in several exporting sectors. As to imports, they would have fallen by 17.8 percent on average, in connection with the contraction in purchases of various imported products, particularly capital goods, semi-finished products and raw materials.

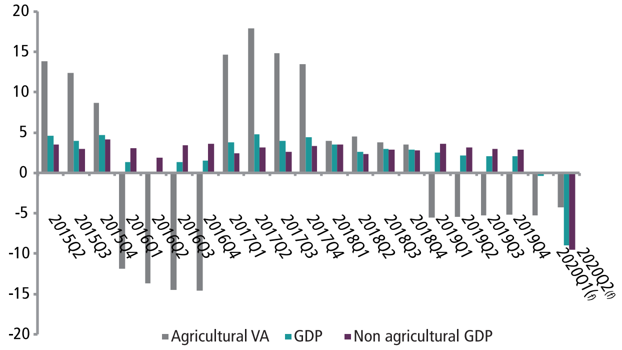
5.3 Overall supply

In the fourth quarter of 2019, growth decelerated to 2.1 percent, with a 5.2 percent fall in the agricultural value added and a 3 percent increase in non-agricultural one. Over the year 2019 as a whole, economic growth slowed again, moving down to 2.5 percent compared with 3.1 percent in 2018. This change resulted from a 5.8 percent decline, after a 3.7 percent increase, in agricultural value added and an acceleration from 2.9 percent to 3.8 percent in the growth rate of non-agricultural activities.

In the first half of 2020, GDP would have contracted by 4.7 percent, following a 2.4 percent increase a year earlier. The agricultural value added would have fallen by a further 4.8 percent, after 5.5 percent, reflecting a significant drop of 42 percent in cereal harvest, due to unfavourable weather conditions.

With regard to non-agricultural activities, they would have recorded from mid-March 2020 a trend reversal that has affected most of the activity branches due, in particular, to the lockdown measures introduced to limit the spread of the Covid-19 pandemic, supply chain disruptions and the drop in foreign demand. Under these conditions, the non-agricultural value added would have almost stagnated in the first quarter of 2020 and dropped 9.6 percent in the second one, after respective increases of 3.8 percent and 3.3 percent a year earlier.

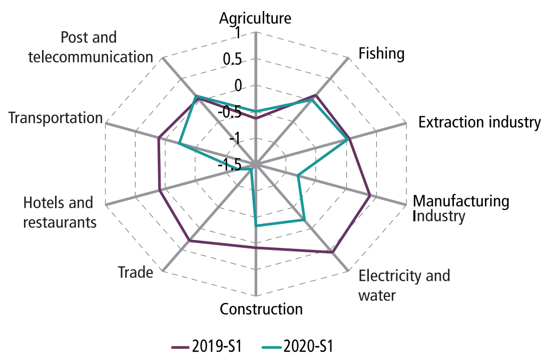
Chart 5.2: GDP per component (chained prices, change in %)



Sources: HCP data, and BAM forecasts.

Concerning the secondary sector, activity would have declined by 5.2 percent in the first half of 2020 after improving by 4.1 percent a year earlier. By branch, except for industry which would have maintained a positive rate of 1.1 percent after 2.2 percent, activity would have declined by 5.3 percent, after an increase of 2.5 percent, in manufacturing industries, particularly following the slowdown or the temporary suspension of activity in several branches (car manufacturing, aeronautics, textiles, etc.). It would also have decreased by 6.9 percent, compared to a rise of 22.2 percent in the «electricity and water» branch, due to the downturn in economic activity, and by 6.4 percent, after a 1.4 percent increase, in construction, with the shutdown of many construction sites.

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



Sources: HCP data, and BAM forecasts.

As regards the tertiary sector, activity would have shown a contraction of 4.6 percent after an increase of 3.1 percent. By branch, it would have been down 47.7 percent, compared with a rise of 4.1 percent, for the hotel and catering sector, which remains the branch most affected by the impact of the pandemic due to border closure and the lockdown imposed by the authorities. It would also have experienced a decline of 5.9 percent, after an increase of 2.9 percent, for transport services, reflecting in particular the cessation of passenger traffic, the decline in economic activity and foreign trade, and by 17.9 percent, after an increase of 3.6 percent, in «trade». Conversely, the value added of the «posts and telecommunications» branch would have accelerated by 1.9 percent to 5.1 percent, benefiting from a greater use of the telecommunications, particularly during the lockdown period (for education, teleworking, etc.).

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the first quarter of 2019 and the same period in 2020, the labor market situation was marked by a 2.4 percent increase in the number of active people aged 15 and over to about 12.2 million people. This rise was more marked in urban areas with a rate of 3.5 percent compared to 0.8 percent in rural ones. Taking into account an increase in the working-age population, the participation rate rose from 45.7 percent to 46 percent overall, from 41.6 percent to 42.1 percent in urban areas and from 53 percent to 53.3 percent in rural areas.

At the same time, job creations reached 77 thousand jobs, against a loss of 2 thousand one year earlier, thus bringing the employed labor force to nearly 11 million people, up 0.7 percent. By activity sector, services created 192 thousand jobs and industry, including handicrafts, 23 thousand jobs, while agriculture and construction posted losses of 134 thousand jobs and one thousand jobs, respectively.

5.4.2 Unemployment and underemployment

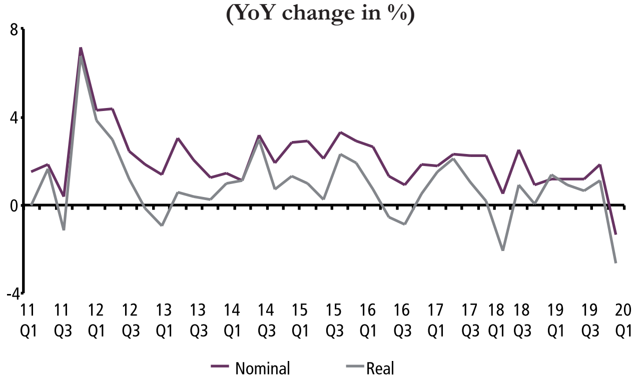
The unemployed labor force rebounded by 19.2 percent to nearly 1.3 million people, and the unemployment rate rose from 9.1 percent to 10.5 percent at the national level, from 13.3 percent to 15.1 percent in urban areas and from 3.1 percent to 3.9 percent in rural ones. For young people aged between 15 and 24 years in particular, this rate increased by 3.9 points, to 26.8 percent overall and by 3.4 points to 41.4 percent for city dwellers. The underemployment rate[1] moved down from 9.7 percent to 8.8 percent at the national level, covering a decline from 8.8 percent to 8.7 percent in urban areas and from 10.7 percent to 8.9 percent in rural ones.

5.4.3 Productivity and wages

In non-agricultural activities, apparent labor productivity would have fallen by 3.6 percent in the first quarter of 2020, after an increase of 1.3 percent, reflecting a deceleration from 3.8 percent to 0.2 percent in the value added, linked to the effects of the spread of the pandemic, and an acceleration from 2.5 percent to 4 percent in the number of employees[2].

The average wage, calculated on the basis of CNSS data, showed a decline of 1.4 percent in nominal terms in the first quarter after an increase of 1.2 percent in the same period of the previous year and decreased by 2.6 percent in real terms instead of a rise by 1.4 percent.

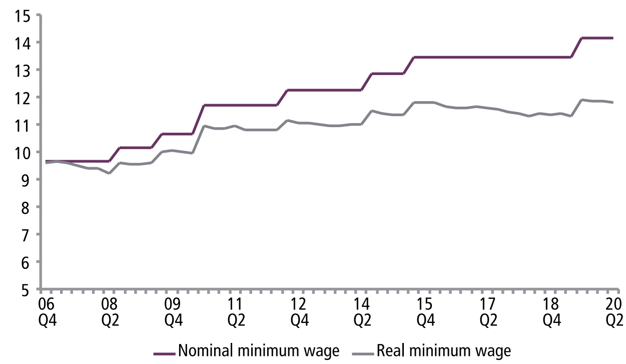
Chart 5.4: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

The hourly SMIG (minimum wage) amounted in the first quarter of 2020 to 14.13 dirhams in nominal terms, up 5 percent compared to the same period of last year, following the agreement reached within the framework of the social dialogue in May 2019. Taking into account a 1.3 percent rise in the consumer price index, it increased in real terms by 3.6 percent and is expected to grow by 4.4 percent in the second quarter of 2020.

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



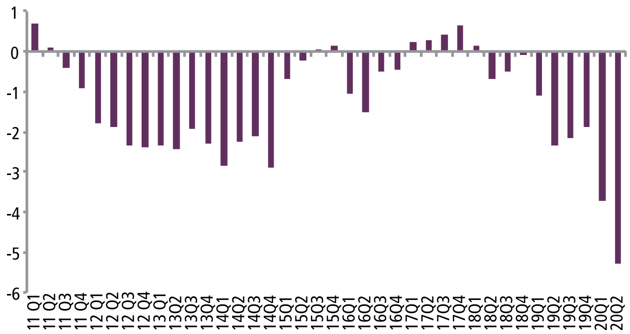
Sources: Ministry of Employment and Social Affairs, and BAM calculations.

Under these conditions, the output gap would remain negative in the first half of 2020.

1 The underemployed population consists of people who have worked :(i) during the reference week less than 48 hours but are willing to work extra-hours and are available to do so, or (ii) more than the set threshold and who are looking for another job or willing to change their job due to the mismatch with their training or qualification or insufficient income.

2 Data on the labor market situation for the first quarter of 2020 were collected between January 1 and March 20 and therefore do not provide information on the impact of the restrictions related to the pandemic.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

	Q1 2019	Q1 2020
Participation rate (%)	**45,7**	**46,0**
Urban	41,6	42,1
Rural	53,0	53,3
Unemployment rate (%)	**9,1**	**10,5**
Youth aged between 15 and 24 years old	22,9	26,8
Urban	13,3	15,1
Youth aged between 15 and 24 years old	38,0	41,4
Rural	3,1	3,9
Job creation (in thousands)	-2	77
Urban	181	80
Rural	-183	-3
Sectors		
- Agriculture	-	-134
- Industry including handicraft	-	23
- BTP	-	-1
- Services	-	192
Nonagricultural apparent productivity (change in %)	**1,3**	**-3,6**
Average wage index (change in %) – Nominal	**1,2**	**-1,4**
Average wage index (change in %) – Real	**1,4**	**-2,6**

* Les créations d'emplois par secteur n'ont pas été publiées pour T1 2019.

Sources: HPC, CNSS and BAM calculations.

Box 5.1 : Actions taken by the Economic Intelligence Committee to mitigate the economic impact of the health crisis caused by the COVID-19 pandemic

In order to limit the spread of the COVID-19 pandemic on the national territory, the Moroccan authorities have taken several decisive steps under the guidance of His Majesty the King. They have thus begun a gradual suspension of international passenger flights from the end of January and a general halt to passenger maritime and air connections as of March 15. They subsequently declared a state of health emergency throughout the national territory from March 20, 2020 to April 20, 2020. This period was subsequently extended for the first time for a month and then a second time for 20 days until June 10. At the same time, in order to establish social distancing, other restrictive measures have been gradually adopted throughout the country, including the closure, as of March 16, of schools and universities, cafes, restaurants, cinema and theatre as well as mosques. On March 21, 2020, coach and train passenger transport between cities was suspended and so were domestic flights and road traffic.

On the economic side, on the instructions of His Majesty the King, a special fund dedicated to the management of the Coronavirus pandemic was created on March 19, 2020. It is reserved, on the one hand, for the payment of medical expenses related to the upgrade of infrastructure and additional resources that have to be promptly acquired. On the other hand, it is used to support of the national economy, through a battery of measures that will be proposed by the government, in particular in terms of support to sectors that are vulnerable to crisis-induced shocks, such as tourism, as well as to support job preservation and mitigate the social impact of this crisis. With an initial budget of 10 billion dirhams, its resources, to which both public and private companies and institutions as well as private individuals, have contributed, have more than tripled within a few weeks to 32.7 billion on May 18 thanks to an exceptional solidarity pulse.

Faced with the expected impact on the balance of payments, the Ministry of the Economy, Finance and the Administration Reform and Bank Al-Maghrib drew down on April 7 the entire amount of the agreement concluded between Morocco and the IMF under the Precautionary and Liquidity Line (PLL), i.e. $2.9 billion, repayable over a period of 5 years, with a 3-year grace period.

In the same vein, and to enable the Treasury to maximize the mobilization of external financing, a decree-law on exceeding the external borrowing ceiling set by the 2020 Budget Act was adopted on April 7, 2020.

At the same time, an Economic Intelligence Committee was set up on March 11 to monitor economic developments and to decide on appropriate responses in terms of support to sectors vulnerable to shocks induced by the Coronavirus crisis and to the purchasing power of affected households. Chaired by the Minister of the Economy, Finance and the Administration Reform, this committee is made up of several ministerial departments, BAM and representatives of the banking system and businesses. It held eight meetings up to May 21, during which a number of decisions have been made to the benefit of households and businesses. In support of the latter, the main measures concerned:

- The postponement, if necessary, of tax liability deadlines from March 31 to June 30, 2020 for businesses with an annual turnover of less than 20 million dirhams;
- The suspension of the payment of social security charges until June 30, 2020;
- The postponement of bank loans and leasing instalments for businesses and households impacted by the crisis as well as persons exercising a liberal profession and encountering difficulties, until June 30 without paying fees or penalties;
- The launch by the Central Guarantee Fund of a new guarantee product called «Damane Oxygene» aimed at mobilizing financing resources for companies, including those operating in the real-estate sector, whose cash flow has deteriorated because of the decline in their activity. It covers 95 percent of the amount of the credit and thus allows banks to quickly provide exceptional overdrafts to finance the working capital requirements of target companies. It should be pointed out that the granting of this guarantee has been extended until December 31, 2020 and made more flexible, with the abolition of the securities required, in favour of VSEs, SMEs and Intermediate-sized Enterprises (ITEs);
- The implementation of a zero-interest loan for self-entrepreneurs impacted by the Covid-19 crisis, for up to 15 thousand dirhams, with related interests being fully covered by the insurance sector;
- The establishment of a Commission in charge of ruling on the files of businesses having declared more than 500 employees on a temporary work stoppage or with a decline in sales ranging between 25 percent and 50 percent; and
- The set-up of the State guarantee mechanism for financing the post-crisis recovery phase. This covers all public and private companies impacted by the pandemic. It enables the financing of working capital requirements with a maximum interest rate of 4 percent and a repayment that can be spread over seven years with a two-year grace period. Two new guarantee products have been launched: « Relance TPE « for which the State guarantees amounts to approximately 95 percent, granted to VSEs with a turnover of less than 10 million dirhams and «Damane Relance», with a State guarantee varying between 80 percent and 90 percent depending on the size of the company. For public companies, the state guarantee will be 100 percent.

On the social front, several measures have been introduced to help workers and households affected by the crisis in the period from March 1to June 30, 2020. In particular:

- The suspension of the payment of CNSS social security contributions for affiliates and the cancellation of surcharges for late payment for the abovementioned period;

- The granting of a net monthly lump-sum indemnity of 2,000 dirhams and the maintenance of the benefits relating to the compulsory health insurance (AMO), and family allowances for the benefit of employees affiliated to the CNSS and who are on partial or total stoppage of work as a result of the health crisis repercussions.
- The payment of compensation in two phases, as part of “Tadamon» Operation, to workers in the informal sector benefiting from RAMED. Depending on the size of the household, this allowance amounts to 800 dirhams per month for households of 2 persons or less, 1000 dirhams for those of three to four persons and 1200 dirhams for those of more than 4 persons. Households without RAMED operating in the informal sector and who have lost their income as a result of the lockdown also benefit from this provision on the basis of a request to be made via a dedicated electronic platform;
- Exemption, on the instructions of His Majesty the King, from rental fees during the period of the state of health emergency for the tenants of Habous commercial, trade, service and residential premises1;
- The extension of tax return deadlines for individuals who so wish, from end-April to June 30, 2020;
- Exemption from income tax and any additional compensation paid to the benefit of employees (affiliated to the CNSS) by their employers, up to 50 percent of the average net monthly salary; and
- The postponement until June 30, 2020 of the housing and consumer loan maturity for people with monthly loan instalments of up to 3000 dirhams for housing loans and 1500 dirhams for consumer loans. All the interim interest generated by this deferral will be paid by the State and the banking sector;

In terms of results, the number of «Damane Oxygene» state-guaranteed credit files reached, at end-May, 21,450 companies for an amount of 11 billion dirhams. They benefited companies operating in trade (35 percent), services (16 percent), industry (15 percent), construction (12 percent) and transport and communications (8 percent).

With regard to the extension of credit deadlines, nearly 438,800 requests were approved at the end of April, 94 percent of which for the benefit of private individuals and 6 percent for companies. By type of loan, the number of extensions concerned housing loans (48.5 percent), followed by consumer loans (45.8 percent), leasing (4.5 percent), equipment loans (1 percent) and cash facilities (0.2 percent). The maturity extensions for companies in terms of number benefited SMEs for 84 percent, followed by large businesses (16 percent). In terms of amount, 42 percent of the deferred maturities concern SMEs and 58 percent large businesses. By sector of activity, 34 percent of deferments concerned industries, followed by trade (18 percent), transport and communications (12 percent), agriculture, fishing and construction (9 percent each) and hotels and restaurants (5 percent). In terms of amounts, the share of the transport and construction sector is 20 percent each, followed by industries (18 percent), construction (13 percent), trade (9 percent) and hotels and restaurants (6 percent).

In addition, 134,000 companies declared 950,000 employees on temporary work stoppage in April. Concerning the support to the beneficiaries of RAMED and those with no RAMED in the framework of the «Tadamon» operation, more than 4.2 million beneficiaries were compensated for an overall budget of 4.1 billion dirhams respectively in phases 1 and 2. In addition, following the processing of the two million claims received since May 21, the date when the dedicated platform was opened, nearly 1.4 million new beneficiaries were served for a total amount of 1.3 billion dirhams. In total, more than 5.5 million households would have benefited from financial support.

1 This exemption does not concern civil servants.

6. RECENT INFLATION TRENDS

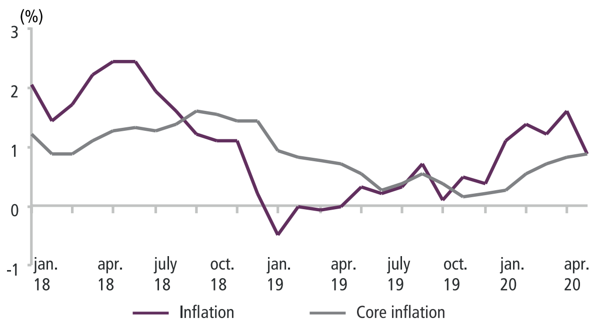
Restrictions put in place by the authorities since mid-March 2020 to halt the spread of the Covid-19 pandemic have led to voluntary and involuntary changes in household consumption habits. However, given the approach taken by the HCP, as well as other international statistical institutes, the structure of the consumer price index basket remained unchanged and a statistical method for processing prices of certain products was used. Under these conditions, inflation in the first quarter was almost at the same level projected in the MPR of March 2020, i.e. 1.4 percent after 0.2 percent in 2019. However, this acceleration was halted in April, when inflation fell to 0.9 percent, mainly as a result of the 24.2 percent decline, instead of the 3.7 percent rise in the first quarter, in the prices of fuels and lubricants, which were themselves impacted by the downturn in international oil prices. At the same time, the prices of volatile food products, rose by 6.8 percent instead of 5.6 percent due to higher demand during the lockdown period and the month of Ramadan which was approaching. These two events also led to an acceleration in the growth rate of the prices of food products included in core inflation, bringing the latter to 0.9 percent after 0.7 percent in the previous quarter.

Inflation trend in the second quarter of 2020 remains surrounded by major internal and external sources of uncertainty. Overall, inflation is expected to be around 0.8 percent, with its core component at around 1 percent.

6.1. Inflation trends

After settling at a low level in 2019, inflation accelerated sharply over the first few months of 2020 to 1.4 percent on average in the first quarter. This trend was, however, interrupted in April, in a context marked, at the international level, by a significant drop in oil product prices and, at the national level, by the measures taken to limit the spread of the Covid-19 pandemic and by the advent of the month of Ramadan. Thus, inflation weakened again to 0.9 percent, driven by the net decline in the prices of fuels and lubricants, the effect of which has been slightly mitigated by the acceleration of the growth rate of the prices of volatile food products as well as those included in core inflation. As a result, core inflation moved from 0.7 percent to 0.9 percent. As for regulated products, they evolved at the same pace as in the previous quarter, in the absence of related government decisions.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

Table 6.1: Change in inflation and its components

(In %)	MoM			YoY		
	nov. 19	dec. 19	jan. 20	nov. 19	dec. 19	jan. 20
Headline inflation	**0.4**	**0.0**	**-0.1**	**0.4**	**1.2**	**1.3**
- Volatile food prices	3.3	0.0	-1.6	0.7	4.5	6.0
- Fuels and lubricants	-1.3	-0.2	2.0	-3.2	5.9	13.9
- Administered prices	0.1	0.0	0.0	1.6	1.5	0.5
Core inflation	**0.1**	**0.0**	**0.2**	**0.3**	**0.3**	**0.5**
- Food products	0.1	0.0	0.2	-1.0	-1.0	-0.6
- Clothing and footwear	0.2	0.0	0.0	1.2	1.2	1.3
- Housing, water, gas, electricity and other fuels[1]	0.1	-0.3	0.1	1.7	1.4	1.3
- Furnishings, household equipment and routine house maintenance	0.1	0.4	-0.1	0.8	1.2	0.4
- Health[1]	0.0	0.1	0.3	3.7	3.1	2.9
- Transportation[2]	-0.4	-0.3	0.1	-0.1	-0.5	-0.2
- Communication	-0.3	0.0	0.0	-0.2	-0.2	-0.2
- Entertainment and culture[1]	-0.1	0.0	-0.1	1.9	1.9	1.8
- Education	0.4	0.0	0.0	2.7	2.7	2.7
- Restaurants and hotels	0.2	0.0	0.1	1.5	1.4	1.4
- Miscellaneous goods and services [1]	0.1	0.0	1.0	0.9	0.9	1.9

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

Encadré 6.1 : New consumer price index (base 100=2017)

The Consumer Price Index (CPI) was published by the HCP for the first time in 2009, to replace the Cost of Living Index (CLI) used until then as a basis for the calculation of inflation. Since then, the CPI has used 2006 as a base year.

In March 2018, the HCP updated the structure of the CPI, maintaining 2006 as the base year and using the month of December 2017 as the intermediary base.

In order to incorporate changes in the consumption habits of Moroccan households observed in recent years, as captured by the survey conducted on household consumption and spending in 2014, the HCP carried out a new reform of this index the results of which were published on May 20, following the adoption, by the Governmental Council, of the decree setting out its constituting elements and its publication in the official Gazette n° 6880 of May 7, 2020. Thus, from January 2017, the CPI data adopt 2017 as the base year instead of 2006 previously.

Two main changes have been made to the CPI. Firstly, the geographical coverage has been extended to 18 cities instead of 17 previously, with the introduction of the city of Errachidia

to represent the region of Draa-Tafilalet in accordance with the new regional division of the Kingdom. On the other hand, the composition of its basket was expanded to 546 items and 1391 varieties instead of 478 items and 1067 varieties in the basket of the 2006 base index.

Compared with the consumption structure of the index with the base year 2006, the proportion of «food products and non-alcoholic beverages» in the household consumption basket fell from 39.3 percent to 37.5 percent, while the weighting of «non-food products» increased, mainly driven by the rise in the weight of «health» from 5.5 percent to 7.7 percent, «education» from 3.9 percent to 5.6 percent and «goods and services» from 5.5 percent to 7.1 percent.

As to its level, inflation was significantly revised by the HCP, particularly in 2018, with a downward adjustment of 0.8 percentage point in March and 0.3 percentage point on average over the year as a whole. Thus, in 2018, inflation was at 1.6 percent instead of the 1.9 percent previously reported by the HCP.

Taking these developments into account, Bank Al-Maghrib has updated the analytical components of inflation. Thus, the weighting increased to 12.3 percent, instead of 12.1 percent at the level of the CPI with the base year 2006, for food products with volatile prices and 22 percent, compared to 20.4 percent, for products with regulated tariffs. Similarly, fuels and lubricants now represent 2.8 percent instead of 2.4 percent previously.

The weight of the core inflation indicator (CPIX) decreased to 62.9 percent from 65.2 percent, mainly as a result of the decline from 26.1 percent to 24.3 percent in the share of food products included. Tradable items included in the CPIX now constitute 35.5 percent instead of 34.9 percent and non-tradable ones 27.4 percent instead of 30.3 percent.

Table B6.1.1 : Consumer Price Index weighting structure

	Base 100=2006	Base 100=2006 with an intermediary december 2017	Base 100=2017
Food products with volatile prices	12,1	11,3	12,3
Regulated goods	20,4	22,9	22,0
Fuels and lubricants	2,4	2,7	2,8
Core inflation	**65,2**	**63,1**	**62,9**
Tradable goods	34,9	32,8	35,5
Nontradable goods	30,3	30,3	27,4

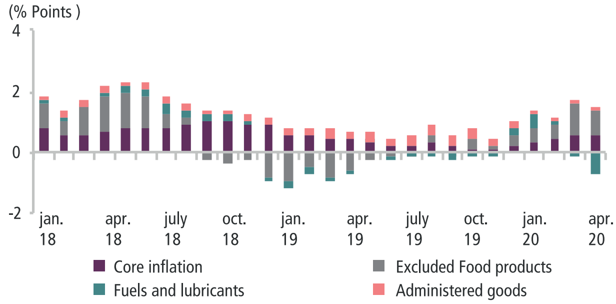
Sources : Données HCP et calculs BAM.

6.1.1. Prices of goods excluded from core inflation

Volatile food products rose by 6.8 percent in April after 5.6 percent in the first quarter, driven mainly by the rise in prices by 8.2 percent, instead of a decrease of 3.5 percent, for fresh fish, by 66.6 percent, after 50.9 percent, for citrus and by 5.2 percent, compared to a 5.6 percent decline, for dried leguminous plants. On the other hand, prices fell to 8.5 percent after 3.9 percent for poultry and rabbits and their growth rate slowed to 11.5 percent after 14 percent for fresh vegetables.

Overall, the contribution of volatile food prices to inflation was 0.8 percentage point in April, after 1.1 percentage points in March and 0.5 percentage point on average in the first two months.

Chart 6.2: Contribution of the prices of major CPI items to inflation



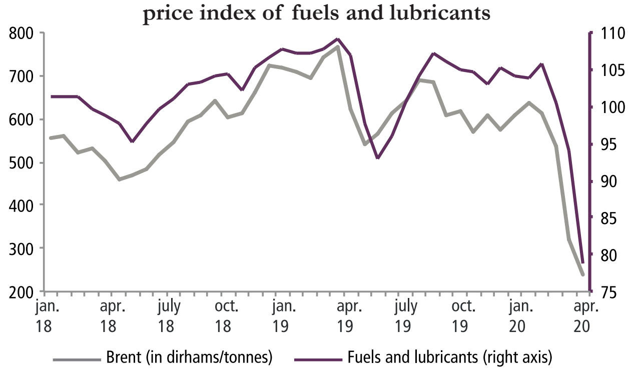
Sources: HCP, and BAM calculations.

With regard to the prices of fuels and lubricants, they decreased by 24.2 percent in April, after rising by 3.7 percent in the first quarter. This change is linked to the collapse of international prices of petroleum products, mainly as a result of the contraction in global demand itself related to the Covid-19 pandemic. The price of Brent crude oil, in particular, declined by an average 53.8 percent between the first quarter and the month of April to $23.3/b in this month.

On the other hand, the national currency depreciated by 4.7 percent against the dollar.

In total, the contribution of the change in these products to inflation came out negative at -0.7 percentage point in April instead of 0.1 percentage point on average in the first quarter.

Chart 6.3: Change in international prices of Brent and the price index of fuels and lubricants



Sources: World Bank, HCP, and BAM calculations.

In the absence of government decisions impacting their development, prices of regulated products increased at the same rate in April as in the previous quarter, at 0.5 percent. Their contribution to inflation remained stable at 0.1 percentage point over the same period.

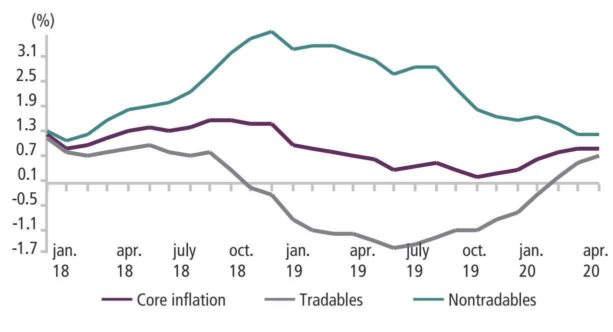
6.1.2. Core inflation

The acceleration in core inflation, which began in the first half of 2020, continued in April, rising from 0.7 percent to 0.9 percent, mainly as a result of the acceleration in the price increase of its food component from 0.1 percent on average between January and March to 0.7 percent in April.

On the other hand, the growth rate of prices slowed from 1.3 percent to 1.1 percent for «housing, water, electricity, gas and other fuels» and from 1.5 percent to 1.3 percent for «restaurants and hotels» services.

The breakdown of the basket of the core inflation indicator into tradable and non-tradable goods indicates that its acceleration reflects that of its tradable component.

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



Sources: HCP, and BAM calculations.

Indeed, the downward trend in the prices of tradable goods, observed since the fourth quarter of 2018, reversed. The price of the latter increased by 0.6 percent in April instead of 0.1 percent in the first quarter and an average decline of -1.2 percent in 2019, driven by the 3.1 percent rise in the price of oils. Their contribution to core inflation moved up from 0.1 percentage point to 0.4 percentage point.

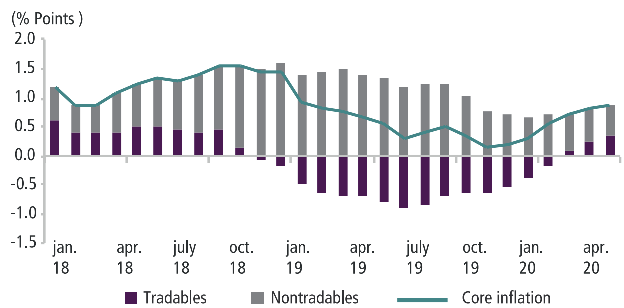
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	feb. 20	march 20	apr. 20	feb. 20	march 20	apr. 20
Tradables	0,1	0,2	0,2	0,1	0,5	0,6
Nontradables	0,0	-0,1	-0,1	1,4	1,2	1,2
Core inflation	0,0	0,1	0,0	0,7	0,8	0,9

Sources: HCP, and BAM calculations.

On the other hand, the growth rate of the prices of non-tradable goods slowed slightly, returning from 1.3 percent to 1.2 percent, mainly in relation to a further decline in the price of fresh meat to -1.4 percent after -0.8 percent. Their contribution to core inflation was 0.5 percentage point compared to 0.6 point.

Chart 6.5: Contribution of tradables and nontradables to core inflation, in % points



Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

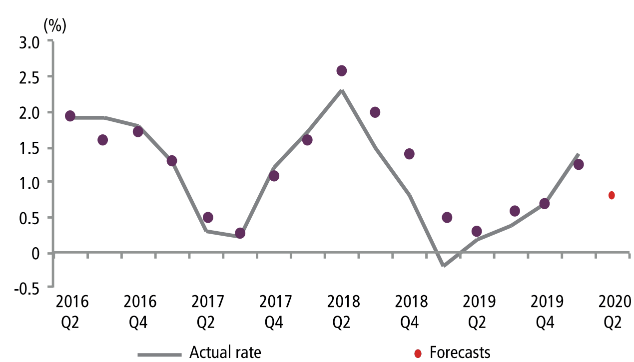
The estimation of the change in inflation in the second quarter of 2020 remains surrounded by significant uncertainties arising from both the national and international environments. In the present difficult conditions, the quality of the CPI values can be altered, in connection with the large share of imputed data.

In addition, fears about soaring prices of cereals following the cessation of exports of Russia, the world's largest wheat exporter, represent an upside risk on cereal prices and cereal products and ultimately on inflation.

Overall, inflation is expected to be around 0.8 percent in the second quarter, impacted mainly by the projected decline of 25.8 percent, following a rise of 3.7 percent in the previous quarter, of fuel and lubricant prices. This decrease is expected to be partially offset on the one hand, by the expected increase of 6.4 percent, after 5.6 percent, in volatile food prices due to the combined effect of the of two major events, namely the lockdown and the month of Ramadan; on the other, by the acceleration of core inflation to 1 percent after 0.7 percent due to the continued acceleration of the price of its food component.

With regard to the tariffs of regulated products, they are expected to show a 0.8 percent year-on-year increase despite the absence of any underlying regulatory decisions.

Chart 6.6: Inflation short-term forecasts and actual rates

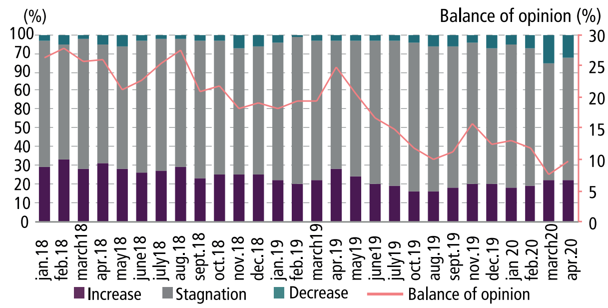


Source: BAM.

6.3. Inflation expectations

The results of the Bank Al-Maghrib survey in the industry for April 2020 indicate that 65 percent of the industry operators surveyed anticipate a stagnant inflation over the next three months, 22 percent an increase and 13 percent a drop. The balance of opinion thus stands at almost 10 percent.

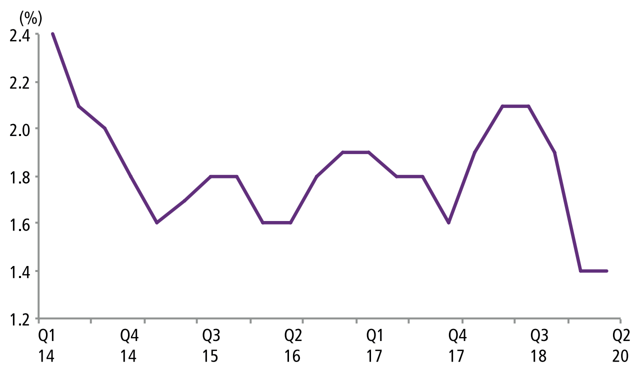
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

In addition, the results of the survey on Bank Al-Maghrib's inflation expectations for the second half of 2020 indicate that financial experts expect an inflation of 1.4 percent over the next eight quarters, which is the same rate projected one quarter before.

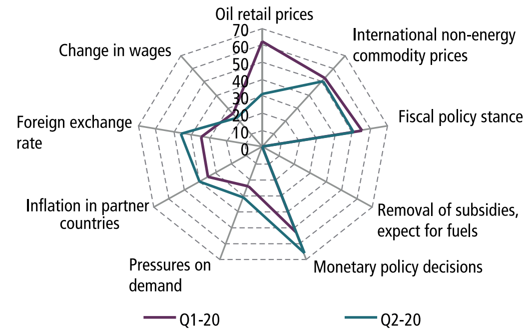
Chart 6.8: Inflation expectations by financial experts*



Source: BAM's quarterly survey on inflation expectations.
* From the second quarter of 2016, the expectation horizon increased from 6 to 8 quarters.

They consider that the future trend of inflation would be determined primarily by monetary policy decisions, world prices of non-oil commodities, the orientation of fiscal policy and the exchange rate of the dirham.

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

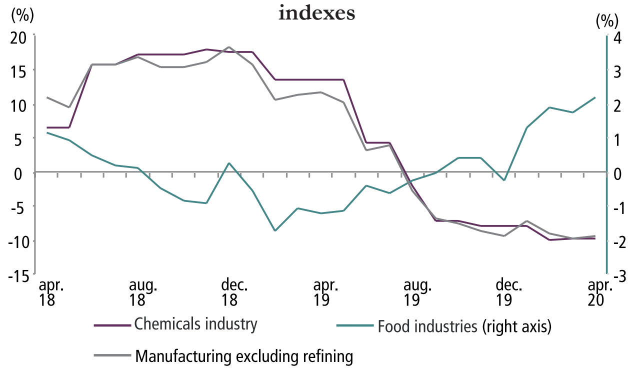


Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Producer prices

Producer prices in non-refining manufacturing industries fell by a further 1.9 percent in April after 1.7 percent in the first quarter. This development is mainly attributable to the further decline in producer prices in the chemical industry to 9.8 percent after 9.2 percent and to the 2.2 percent fall in prices in the sector of «paper and cardboard industry» after their stagnation the month before. The effect of these declines was, however, mitigated by the acceleration in producer prices of food industries to 2.2 percent against 1.7 percent.

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



* Selon le HCP, en raison du confinement sanitaire entré en vigueur depuis 20 mars 2020, l'enquête permanente sur les prix à la production n'a pas pu relever tous les prix. Les prix manquants ont été imputés selon les recommandations du manuel de l'indice des prix à la production.

Source: HCP.

7. MEDIUM-TERM OUTLOOK

Summary

While it is clear that the economic and social consequences of the Covid-19 pandemic have an exceptional dimension, the prospects of an upturn are also surrounded by considerable uncertainties. The severity of the recession and the strength of the recovery depend greatly on several factors, including the persistence of the effects of this pandemic in the post-lockdown period, the scope and impact of the support measures taken by public authorities and the change in the behaviour of economic agents. In addition, quantifying the effects of this pandemic is associated with high uncertainty, given the rapidity with which the environment is changing and the difficulties and delays in official data production.

Impacting both supply and demand, the Covid-19 pandemic is expected to drag down the global economy into a severe recession in 2020. A recovery is foreseen in 2021, but it would be uneven.

In advanced economies, GDP is projected to decline in 2020 in the United States, marking the end of a ten-year expansion period, before restarting to go up in 2021. This improvement is nevertheless surrounded by great uncertainties, particularly in connection with the resurgence of trade tensions with China. Similarly, GDP is expected to contract in the euro area, before experiencing a limited recovery in 2021, due in particular to the heterogeneity of its economies and the accumulation of fiscal difficulties in many of them.

In the main emerging countries, China is expected to experience a contraction in 2020 followed by a strong recovery the following year. In India, GDP would decline slightly in 2020, even if the lockdown period was prolonged until the end of May and the deterioration of growth in trading partners, before rebounding in 2021.

With regard to commodities, the agreement by OPEC members + to cut production from May 1st would only partially offset the effect of the sharp fall in global demand on oil prices. In particular, the Brent crude oil price is expected to fall by 37 percent to nearly $40/bl on average this year, before rebounding to $52.5/bl in 2021. The prices for phosphates and derivatives and food prices are expected to decline in 2020 before rising in 2021.

Against this background, inflation is projected to fall significantly in 2020 before going up in 2021. In the United States in particular, it is expected to decelerate sharply in the second quarter of the current year before gradually converging towards the target set by the FED, while in the euro area, it would remain below the ECB's target over the forecast horizon.

Concerning external accounts, after widening to 4.1 percent of GDP in 2019, the current account deficit is expected to increase in 2020 to 10.3 percent. It would fall to 5.8 percent in 2021, reflecting in particular the expected improvement in foreign demand to Morocco. FDI receipts are projected to decline to 1.5 percent of GDP in 2020, before returning to their pre-crisis average, i.e. 3.2 percent of GDP.

Assuming GCC donations amounting to 0.8 billion dirhams and a Treasury borrowing from the international market for 10 billion dirhams in 2020 and 10.8 billion dirhams in 2021, the outstanding amount of the official reserve assets is expected to reach 218.6 billion in 2020 and 221.7 billion in 2021, providing coverage of around 5 months of imports of goods and services over the forecast horizon.

At the level of public finances, the budget deficit, excluding privatisation, would be 7.6 percent of GDP in 2020, instead of the 4 percent of GDP as forecast in March, and the 4.1 percent recorded in 2019. This worsening is the result of the impact of the lockdown measures taken by the Economic Intelligence Committee to mitigate the effects of the Covid-19 pandemic crisis. In 2021, the deficit is expected to widen from 1.1 point of GDP in March to 5 percent of GDP, compared with the issue of March, due to the effect of the continued decline in activity on tax revenues.

Monetary conditions would remain accommodative overall. The Bank has introduced several measures to facilitate the financing of the economy and strengthen the capacity of the banking system to meet the needs of businesses and households impacted by the pandemic. Taking into account the expected effect of these measures and the new Intelaka programme, as well as the planned downward revision of the non-agricultural value added, credit to the non-financial sector is expected to grow by 1.9 percent in 2020 and 2.6 percent in 2021. In addition, the real effective exchange rate is expected to depreciate over the forecast horizon, after having appreciated in 2019.

The national economy is expected to contract by 5.2 percent in 2020, under the effect of a projected decline of 4.6 percent in the agricultural value added and a 5.3 percent fall in non-agricultural value added, in connection with the contraction of foreign demand and the total or partial suspension of activity in several sectors during the first semester of the year. In 2021, the national economy is expected to grow again, at a projected 4.2 percent, supported by an expected increase of 12.4 percent in the agricultural value added, mainly under the assumption of a 75 MQx cereal production, and by a 3.1 percent improvement in the non-agricultural value added.

Against this background of low demand-driven inflationary pressures and low energy commodity price, inflation would average 1 percent over the forecast horizon. As for its core component, it would remain at a low level of 0.8 percent on average.

7.1 Underlying assumptions

Strong global recession in 2020 induced by the Covid-19 pandemic

The Covid-19 pandemic is expected to plunge the global economy into a severe recession in 2020. World GDP is expected to decline by 5 percent, a downward revision of 7.2 percentage points from the projections of March. In 2021, a recovery is expected but would be uneven, with a growth rate of 5.2 percent.

In the United States, the economy is expected to contract by 6.4 percent in 2020, marking the end of a decade of expansion. In 2021, it should recover and grow at a projected 4 percent, although the recovery is expected to be surrounded by significant uncertainties in connection with renewed trade tensions with China. In the euro area, the GDP would decline by 8.2 percent in 2020, after an increase of 1.2 percent in 2019. The recovery of growth in 2021 would be limited, with an expected rate of 3.9 percent, due in particular to the heterogeneity of its economies and the accumulation of fiscal difficulties in several of them. At the same time, while the unemployment rate is forecast to rise exceptionally in the United States, its increase in the euro area will remain limited due to the use of partial unemployment schemes. Recession in Japan in 2020 is expected to be less deep, thanks to the monetary and fiscal policies and restrictions adopted on a voluntary basis as part of the fight against the pandemic. However, high levels of debt and declining foreign demand are expected to weigh on the pace of recovery.

In the main emerging countries, China, the first country to suffer the impact of the pandemic, is projected to experience a 5.1 percent contraction of its GDP in 2020 followed by a strong recovery, with an expected increase of 9.6 percent in 2021. In India, and despite the extension of the lockdown until the end of May and the deterioration of growth in the trading partner countries, GDP would record a decrease of no more than 1 percent in 2020 before rebounding by 8.8 percent in 2021. In Brazil, the already weak activity would experience a sharp recession of 7.7 percent in 2020 followed by a relative recovery in 2021, with an expected growth rate of 2.2 percent.

Chart 7.1: Growth in the euro area

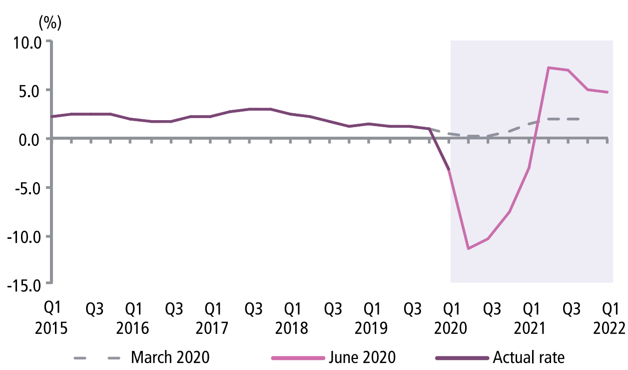
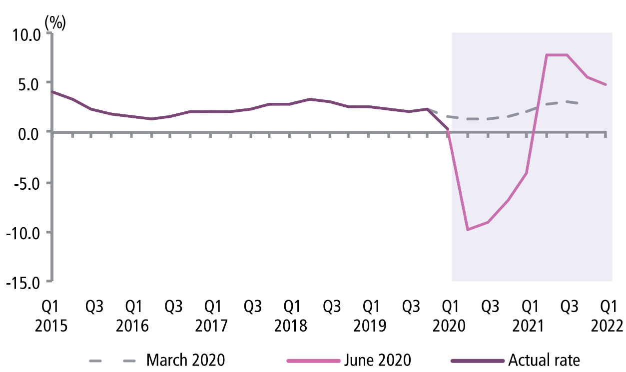


Chart 7.2: Growth in the USA



Source: GPMN[1] forecasts of may 2020.

1 Global Projection Model Network.

Further monetary easing and the weakening of the euro against the dollar in short term

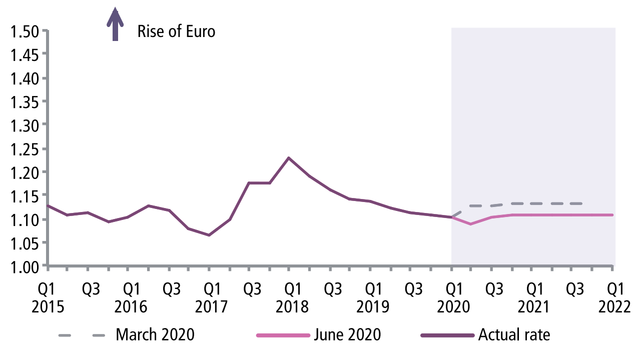
In response to the economic and financial fallout from the Covid-19 pandemic, central banks in both advanced and emerging economies have increased their accommodative measures to support their economies.

In particular, on March 12, the ECB adopted a series of measures, including, inter alia, long-term refinancing operations and a temporary budget for additional net asset purchases in the amount of €120 billion, and announced on March 18 a new temporary net asset purchase programme for €750 billion which was increased by €600 billion on June 4, with an extension of the horizon of these purchases until the end of June 2021, compared with end-2020 as initially announced. At its meeting on April 30, it decided to conduct a new series of non-emergency non-targeted longer-term emergency refinancing operations in response to the pandemic. At the same time, the Bank has kept its key rates unchanged and expects them to remain at their current levels or at lower ones until it has found that the inflation outlook converges on a sustained basis towards a level sufficiently close to, but below, 2 percent over its projection horizon.

In turn, after a 50 basis-point cut on March 3, the FED, on March 15, reduced by 100 basis points the target range for the federal funds rate to [0 percent-0.25 percent] and decided to resume its purchases of treasury bills and securitized real-estate loans for at least $700 billion. In addition, it has established dollar liquidity facilities with a few central banks to ease the pressure on liquidity. Moreover, it announced on April 9 additional measures to provide up to $2300 billion in loans to households, employers and local authorities. At its recent meeting of June 9-10, it reconfirmed its commitment to maintain an accommodative monetary policy stance. It maintained the target range of the federal funds rate and plans to keep it unchanged until it becomes confident that the economy has overcome the recent events and is on track to achieve its goals of full employment and price stability.

In the foreign exchange market, reflecting in particular the increased risks generated by the Covid-19 pandemic, the single currency is expected to depreciate by 1.7 percent to $1.10 on average in 2020, before strengthening slightly over the rest of the forecast horizon.

Chart 7.3: USD/ EUR exchange rate



Source: GPMN forecasts of may 2020.

Significant drop in energy prices and disinflationary pressures

The agreement by OPEC+ members to cut production from May 1 would only partially offset the effects on oil prices of the sharp fall in world demand. The price of Brent crude oil in particular is expected to fall by 37 percent to nearly $40/bl on average this year, before rising to $52.5/bl in 2021.

For phosphate and derivatives, prices in 2020 are expected to fall by 11.3 percent to $78/t for raw phosphate, by 13.4 percent to $255/t for TSP and by 7 percent to $285/t for DAP. For the latter in particular, the increase in output capacity, especially in Morocco and Saudi Arabia, as well as the decline in demand are expected to be only partially offset by the increase that would result from the supply chain disruptions caused by the Covid-19 pandemic. In 2021, prices are expected to grow by more than 3 percent each. As for food prices, and after an increase of 1.8 percent in 2019, the price index is expected to decline by 2.7 percent in 2020, in a context of oversupply and decline in global demand in connection with the Covid-19 pandemic, before rebounding in 2021.

Under these conditions, inflation would fall significantly in the second quarter of 2020 in the euro area and the United States before gradually recovering over the forecast horizon. It would decelerate by 1.8 percent in 2019 to 0.9 percent in 2020 before increasing to an average of 2.4 percent in 2021 in the United States and would remain below the target of the ECB in the euro area, with rates forecast at 0.5 percent and 1.3 percent, respectively.

Chart 7.4: Brent price

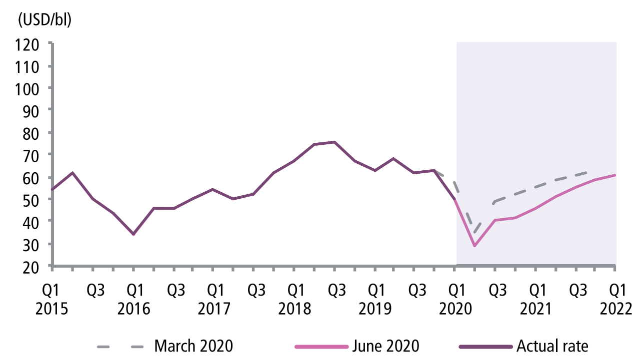


Chart 7.5: FAO food product price index

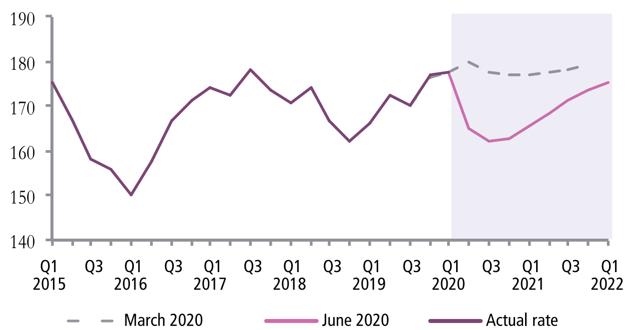
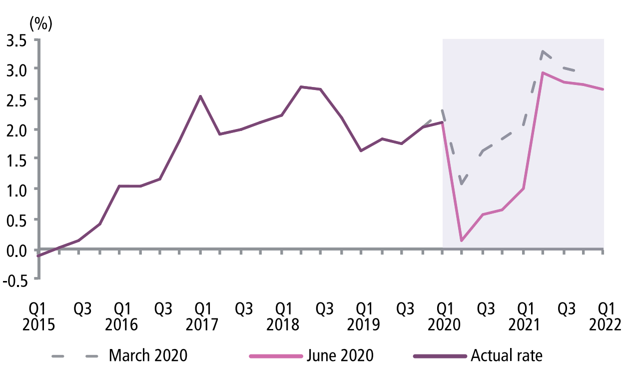


Chart 7.6: Inflation in the euro area

Chart 7.7: Inflation in the United states



Source: GPMN forecasts of may 2020.

A cereal production of 30 million quintals in 2020 and an average production in 2021

At the national level, and in a context marked by a rainfall deficit and a poor distribution of rainfall in time, the cereal production was limited to 30 million quintals (MQx) according to the Ministry of Agriculture, down 42 percent from the previous year and 62.3 percent from the average of the last five years. For the 2020-2021 crop year, the assumptions for an average cereal production of 75 MQx and the underlying changes in other crops were taken into account.

7.2 Macroeconomic projections

Wider current account deficit in 2020

After easing to 4.1 percent of GDP in 2019, the current account deficit is expected to end 2020 at 10.3 percent, mainly as a result of the Covid-19 pandemic on Morocco's trade, and would ease to 5.8 percent in 2021.

Exports are forecast to record a sharp fall of 15.8 percent in 2020, driven mainly by the decline in all sectors. In particular, shipments from the automotive industry are expected to be affected by the suspension of production decided by the Renault plants (SOMACA and Renault Tangiers) from March 19, assuming a suspension of the exports of these units in the second quarter and a gradual recovery starting from the third quarter of 2020. Concerning the shipments of phosphates and derivatives, they would almost stabilize at 0.1 percent, mainly due to the lower international prices and the increase in quantities exported. Sales in the textile and leather sector would decline by 20.5 percent, affected by the disruption in raw material and input supply chains and the decline in foreign demand for Moroccan products, mainly from Europe.

Imports are expected to decrease by 10.7 percent, mainly due to the 39.5 percent fall in the energy bill and the 8.9 percent decline in capital goods purchases. Travel receipts are expected to drop by 60 percent, following the closure of borders since the end of March and the worldwide decline in income, despite the gradual opening of borders starting from the third quarter. With regard to the transfers of Moroccans residing abroad, they are expected to decrease by 25 percent, mainly due to the decline in economic activity and the increase in unemployment in the main host countries.

In 2021, exports are expected to grow by 30.8 percent, with a 111.1 percent increase for automobile construction, assuming a drop in sales at the PSA plant to 80 thousand units instead of 160 thousand units considered in the issue of March.

Imports would increase by 11.2 percent, with a rise of 53,4 percent in energy product purchases. Travel receipts and transfers by Moroccans residing abroad are expected to record increases of 60 percent and 5.2 percent, reflecting the mitigation of the shock of the pandemic.

FDI inflows are forecast to decline to 1.5 percent of GDP in 2020, compared to 2.9 percent in 2019, following growing uncertainties on the development of the global economy and will return to the average pre-crisis level, at 3.2 percent of GDP in 2021.

Also under the assumptions of GCC grant inflows of 0.8 billion in 2020 and borrowings on the international market by the Treasury for an amount of 10 billion dirhams in 2020 and 10.8 billion dirhams in 2021, the official reserve assets would reach 218.6 billion in 2020 and 221.7 billion in 2021, thus ensuring a coverage of around 5 months of imports of goods and services over the forecast horizon.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates					Forecasts		Gap (june/march)	
	2015	2016	2017	2018	2019	2020	2021	2020	2021
Exports of goods (FOB)	8,6	3,5	10,3	10,7	2,4	-15,8	30,8	-24,9	22,2
Imports of goods (CAF)	-4,9	10,3	6,7	9,9	2,0	-10,7	11,2	-11,8	4,2
Travel receipts	-1,4	5,0	12,3	1,2	7,8	-60,0	60,0	-51,3	44,0
Expatriate remittances	4,8	4,0	5,3	-1,5	-0,2	-25,0	5,2	-25,2	2,8
Current account balance (% of GDP)	**-2,1**	**-4,1**	**-3,4**	**-5,3**	**-4,1**	**-10,3**	**-5,8**	**-6,8**	**-3,3**
Foreign exchange reserves in months of imports of goods and services	**6,1**	**6,4**	**5,6**	**5,3**	**6,3**	**5,0**	**5,1**	**-0,4**	**-0,4**

Sources: Foreign Exchange Office and BAM forecasts.

Deceleration in the pace of bank lending to the non-financial sector

After appreciating in 2019, the real effective exchange rate (REER) is expected to depreciate on the forecast horizon, as a result of a depreciation in nominal terms as well as lower domestic inflation compared to its level in trading partners and competitors.

On the basis of the expected developments in foreign exchange reserves and currency in circulation, bank liquidity shortage is expected to grow to 153.9 billion dirhams by the end of 2020 and 170.9 billion dirhams by the end of 2021. As for bank credit to the non-financial sector, its growth accelerated to 7.1 percent in April 2020, mainly reflecting the strong expansion of cash facilities for private non-financial companies. In terms of outlook and taking into account the downward revision of non-agricultural value added and the expected effect of the new Intelaka programme and support measures, it should increase by 1.9 percent in 2020 and 2.6 percent in 2021. Under these conditions and taking into account developments in the other counterparts of the money supply, the growth of M3 aggregate is expected to reach 0.7 percent in 2020 and 4.1 percent in 2021.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (june/march)	
	2016	2017	2018	2019	2020	2021	2020	2021
Bank lending to the nonfinancial sector	3,9	3,8	3,1	5,5	1,9	2,6	-2,6	-2,7
M3	4,7	5,5	4,1	3,8	0,7	4,1	-2,7	0,0
Liquidity surplus or deficit, in billion dirhams	-14,7	-40,9	-69,0	-62,3	-153,9	-170,9	-74,5	-78,5

Deterioration of the fiscal situation

On the basis of available estimates, the budget deficit excluding privatisation in 2020 is expected to widen by 3.6 GDP percentage points compared to the issue of March, to 7.6 percent of GDP. This increase was mainly due, on the revenue side, to the downward revision of tax revenues following the sharp decrease of the economic activity generated by the lockdown measures. On the expenditure side, savings would be made in operating costs and would cover the 6.7 billion contribution of the budget to the Covid-19 Fund. In addition, the subsidization costs would be reduced in connection with the expected fall in international butane gas prices for the year as a whole. In addition, investment efforts would slightly strengthen compared to the issue of March.

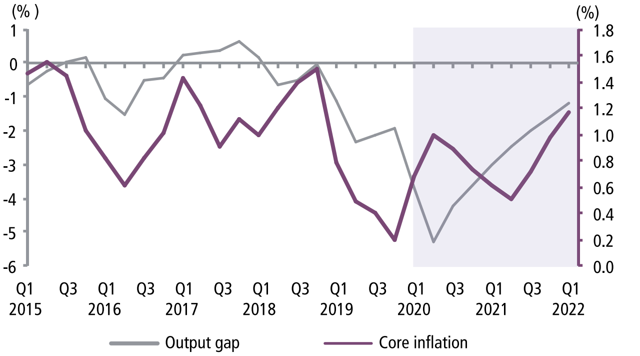
In 2021, the budget deficit would stand at 5 percent of GDP, an increase of 1.1 percentage points of GDP compared to the issue of March, mainly due to the downward revision of the GDP levels in 2020 and 2021 and its impact on tax revenues.

Significant deterioration of growth in 2020 and expected recovery in 2021

Under the combined effect of the spread of the Covid-19 pandemic and adverse weather conditions, the national economy is expected to contract by 5.2 percent in 2020. The agricultural value added would decline by 4.6 percent, a downward revision compared to the projections of March, taking into account effective cereal production which was below the expectations. Non-agricultural value added is expected to fall by 5.3 percent, in connection with the total or partial suspension of activity in several sectors during the first half of the year due to the effect of restrictions introduced in the context of the fight against the spread of the pandemic. On the demand side, this trend includes a negative contribution to growth from both its domestic component and net exports. Impacted by the restrictions imposed to control the spread of the pandemic and by the contraction of agricultural and non-agricultural incomes and transfers of Moroccans residing abroad, household final consumption is projected to decline. The support measures introduced by the Economic Intelligence Committee in favour of employees on temporary stoppage of work and households operating in the informal sector would, however, mitigate this impact. Similarly, investment is expected to decline, suffering from the impact of uncertainties surrounding the business environment and the resulting freeze on investment projects. Conversely, growth in general government consumption is expected to consolidate, reflecting the increase in public expenditure aiming to finance measures adopted by the Economic Intelligence Committee. At the same time, exports of goods and services would fall, mainly as a result of the contraction in foreign demand for Moroccan products and the total or partial suspension of activity in several exporting sectors. Imports of goods and services are expected to decline, in line with the projected slowdown in economic activity.

In 2021, the national economy is expected to expand again, with a projected rate of 4.2 percent. This development would translate into a 12.4 percent increase in the agricultural value added, assuming in particular a 75 MQx cereal production and a 3.1 percent improvement in the non-agricultural value added. On the demand side, this rebound covers a positive contribution from domestic demand and a reduction in the negative contribution of net exports.

Chart 7.8: Growth outlook over the forecast horizon (Q1 2020 - Q1 2022), (YoY)*



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

Table 7.3: Economic growth

Change in %	Actual rates				Forecasts		Gap (june/march)	
	2016	2017	2018	2019	2020	2021	2020	2021
National GROWTH	**1,1**	**4,2**	**3,1**	**2,5**	**-5,2**	**4,2**	**-7,5**	**0,4**
Agricultural VA	-13,7	15,2	3,7	-5,8	-4,6	12,4	-1,9	4,3
Nonagricultural VA	2,1	2,9	2,9	3,8	-5,3	3,1	-8,2	-0,2
Net tax on subsdies	8,8	3,1	4,6	2,0	-5,4	4,5	-8,4	1,4

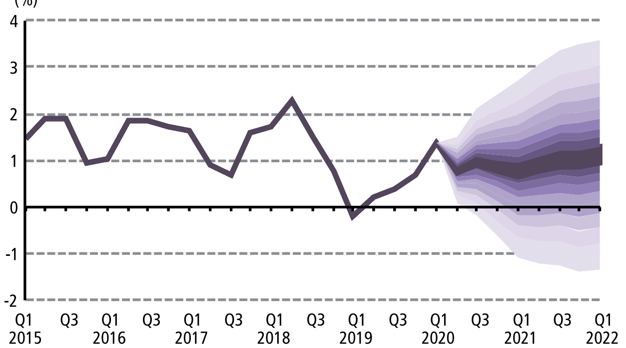
Sources: HCP data, and BAM forecasts.

Low levels of core inflation over the forecast horizon

Against a background of low demand-driven inflationary pressures and low energy commodity prices, inflation would average 1 percent over the forecast horizon.

Its underlying component would maintain a low level of 0.8 percent in 2020 and 0.7 percent in 2021. As for the prices of regulated products, their rise would slow down in 2020, before recovering their underlying levels in 2021. As to volatile food prices, they are expected to rise in 2020, driven in particular by the increase recorded in the first half of the year in relation to the entry into force of the state of health emergency and the advent of the month of Ramadan, before stabilizing in 2021. Finally, the prices of fuels and lubricants would fall in 2020 before rising in 2021, in line with the outlook for the world Brent price.

Chart 7.9: Inflation forecast over the forecast horizon (Q2 2020 - Q1 2022)*



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

Table 7.4: Inflation and core inflation

	Réalisations				Prévisions			Ecarts (juin/mars)	
	2016	2017	2018	2019	2020	2021	Horizons of 8 quarters (Q2 2020-Q1 2022)	2020	2021
Inflation	**1,6**	**0,7**	**1,6**	**0,2**	**1,0**	**1,0**	**1,0**	**0,3**	**-0,2**
Core inflation	0,8	1,3	1,3	0,5	0,8	0,7	0,8	-0,2	-0,6

Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

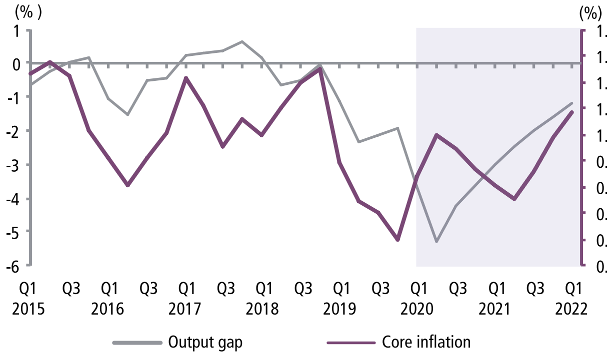
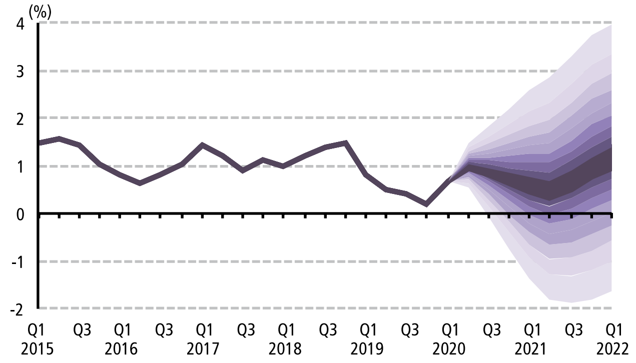


Chart 7.11: Projections of core inflation over the forecast horizon (Q2 2020 - Q1 2022)*



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

Sources: HCP, and BAM forecasts and calculations.

7.3 Balance of risks

The outlook for the national economy is surrounded by exceptionally high uncertainties, related to the unprecedented and difficult-to-quantify fallout from the Covid-19 pandemic. The balance of risks is tilted to the downside for both growth and inflation.

With regard to growth and despite the expected recovery of activity in several sectors, the lockdown period could be more damaging than expected, let alone the high uncertainties and the negative impact of the recession on production capacity, confidence and the behaviour of economic agents. Externally, this pandemic could also have a greater and more significant impact, which would lead to a slower recovery than assumed in the baseline scenario for foreign demand and, therefore, national growth.

Higher-than-usual uncertainties also surround the inflation projections, given the combined supply and demand shock induced by this pandemic. The downside risks would dominate, in particular due to the slow recovery in demand, but also a likely escalation of the trade war between the United States and China, which would negatively impact global growth. In turn, upward pressures on the prices of certain products could be caused by disruptions in supply chains and the rise in production costs.

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

LIST OF CHARTS

LIST OF TABLES

LIST OF TABLES