PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 22, 2020

1. The Board of Bank Al-Maghrib held its third quarterly meeting of the year 2020 on Tuesday, September 22.

2. During this meeting, the Board analysed social and economic developments as well as the Bank's medium-term macroeconomic projections. The latter were adjusted from the June edition based on the available data, the health developments and the authorities' responses. The resulting central scenario assumes a more pronounced contraction of the economy in 2020, followed by a relative rebound in 2021. However, it remains surrounded by an exceptionally high degree of uncertainty, particularly due to the national and international evolution of the pandemic and its consequences.

3. Subsequently, the Board enquired about the transmission of monetary policy decisions taken since the beginning of the pandemic to support the economy financing, mitigate the impact of the crisis and promote the recovery. It also analysed the outcome of the various measures adopted by the Economic Monitoring Committee.

4. In view of these assessments, the Board considered that the economy financing conditions remain adequate and decided to maintain the key rate unchanged at 1.5 percent, while continuing to monitor all these evolutions closely.

5. The Board noted that, after its stagnation in the second quarter and its slight year-on-year decline in July, the Consumer Price Index rose by 0.9 percent in August as a result of higher volatile food prices. Thus, its average increase in the first eight months of the year amounted to 0.7 percent. Against a background of weak demand pressures, inflation is expected to continue evolving at low levels, averaging 0.4 percent in 2020 before speeding up moderately to 1 percent in 2021.

6. Internationally, recent data, particularly for the second quarter of 2020, confirm the extent of the expected recession, likely to be the deepest since the Great Depression of the late 1920's. The medium-term outlook also remains surrounded by very high uncertainties due mostly to the evolution of the pandemic, which recorded, in recent weeks, an escalating number of infections, foreshadowing a second wave of contaminations in several countries, particularly among our main European partners. The baseline scenario for the euro area forecasts a 9.1 percent decline in GDP this year, followed by a limited growth of 3.1 percent in 2021. As for the US economy, it is expected to show a 5.3 percent contraction, before rebounding by 4 percent in 2021. Regarding the job market, the unemployment rate in the United States has gone, within two months, from its lowest level in half a century, 3.5 percent in February, to its highest level in nearly 90 years, namely 14.7 percent in April, before declining progressively to 8.4 percent in August. In 2021, it would continue its gradual decline to around 8 percent. In the euro area, this rate is not expected to change significantly, as it would average 7.6 percent in 2020 and 7.1 percent in 2021, owing in particular to job retention measures. In the main emerging countries, growth is expected to remain positive in China in 2020, with a projected rate of 0.8 percent, before accelerating to 7.5 percent in 2021, while in India, GDP would fall by 4 percent this year and rebound by 8.5 percent in 2021.

7. In the commodity markets, extension by the OPEC+ countries of the oil supply cut agreement, on the one hand, and the decline in inventories and output in the United States, on the other, have reversed the downward trend observed in the oil prices since end-April. However, prices will, on average, decline in 2020 compared to 2019. The price of Brent in particular is expected to drop by 32.7 percent on average over the year to $43.1/bl, before rising to $55.7/bl in 2021, mainly due to the expected recovery in demand. Prices of phosphates and derivatives stood during the first eight months of the year at levels below those observed in 2019. In 2020, they are expected to decline to average $78 per ton for rock phosphate and $285 per ton for DAP, then rise in 2021 to $81/t and $295/t respectively.

8. In this context of strong disinflationary pressures, the inflation rate in 2020 would stand at 0.6 percent in the euro area and 1.1 percent in the United States. In 2021, it would remain well below the ECB's target in the euro area, at 1.4 percent, and reach 2.5 percent in the United States.

9. Concerning monetary policy decisions, after an exceptionally extensive series of measures taken in the first half of 2020, central banks of the major advanced economies maintained an accommodative monetary policy stance. The ECB thus decided, at the end of its meeting on September 10, to keep its key rates unchanged and to continue implementing its pandemic emergency purchase program, with a total envelope of 1.350 billion euros, at least until the end of June 2021 and, in any case, until it deems that the crisis is over. It reiterated that it will continue its net purchases under the asset purchase program at a monthly rate of 20 billion euros, as well as those under the temporary additional 120 billion euros package. It will also continue to provide abundant liquidity through its refinancing operations. For its part, the FED decided, at the end of its meeting held on September 15-16, the first after its monetary policy framework overhaul, to keep the target range for the federal funds rate unchanged at [0 percent-0.25 percent]. It plans to maintain this range until labour market conditions have reached levels consistent with its maximum employment estimates and inflation has moved in line with its new orientation regarding price stability. It also indicated that it will increase its holdings of Treasury bills and mortgage-backed securities over the next months at least at the current pace, in order to maintain a well-functioning market and help foster accommodative financial conditions.

10. At the domestic level, the latest available national accounts data concern the first quarter of 2020 and therefore only partially reflect the impact of the pandemic on the economy. These data show a strong deceleration of growth to 0.1 percent as against 2.8 percent in the same quarter a year earlier. For the whole of 2020, the forecast announced in June was adjusted downwards in view of the slower-than-expected recovery of activity, the implementation of some local or sector-based restrictions following the resurgence of infections, and the continued almost general closure of borders for travellers. Hence, according to the baseline scenario adopted by Bank Al-Maghrib, domestic economy would post a contraction of 6.3 percent, with declines of 5.3 percent in agricultural value added and 6.3 percent in non-agricultural sectors. In 2021, GDP would rebound by 4.7 percent, driven by a 12.6 percent increase in agricultural value added, assuming a cereal harvest of 75 million quintals, and a 3.7 percent improvement in non-agricultural value added. These projections, which remain surrounded by an exceptionally high degree of uncertainties related in particular to the evolution of the pandemic, the scope of its repercussions and the pace of recovery, will have to be regularly updated.

11. On the labour market, the HCP second quarter data indicate a net loss, compared to the same quarter of 2019, of 589 thousand jobs, four fifths of which were in agriculture. In addition, nearly two thirds of the persons who preserved their jobs worked less than usual, and the weekly hourly volume per person fell from 45 to 22 hours, a decline mostly observed in non-agricultural sectors. At the same time, the number of employed people fell by 93 thousand and the participation rate fell from 45.8 percent to 44.8 percent. Under these circumstances, unemployment rate worsened from 8.1 percent to 12.3 percent overall, from 11.7 percent to 15.6 percent in cities and from 3 percent to 7.2 percent in rural areas.

12. Regarding external accounts, exports of goods fell by 17 percent year-on-year at the end of July, mainly due to the sales decline by 28.7 percent in the automotive sector and 29.5 percent in the textile industry. Imports fell by 17.5 percent, mainly reflecting a drop of purchases by 18.5 percent in capital goods and 24.8 percent in finished consumer goods, as well as a 31.6 percent lower energy bill. As for travel receipts, they fell by 44.1 percent, while the decline of Moroccan expatriates' remittances was limited to 3.2 percent. For 2020 as a whole, exports would, according to Bank Al-Maghrib's projections, fall by 16.6 percent before improving by 22.4 percent in 2021, driven in particular by the expected increase in shipments of the automotive sector. At the same time, imports of goods would contract by 17.4 percent before increasing by 17 percent in 2021. As for travel receipts, they would slump sharply from 78.8 billion in 2019 to 23.9 billion dirhams in 2020 then rebound to 49.1 billion dirhams in 2021. More resilient to the crisis, Moroccan expatriates' remittances would show a limited decline of 5 percent to 61.5 billion before improving by 2.4 percent to 63 billion in 2021. Against this background, and taking into account grant inflows of 7.2 billion dirhams in 2020 and 2.6 billion in 2021, the current account deficit would widen to 6 percent of GDP in 2020, as against 10.3 percent forecasted in June, and ease to 5.2 percent in 2021. As to FDI inflows, they would decline to the equivalent of 1.5 percent of GDP this year, against 2.9 percent in 2019, before recovering in 2021 to the average level observed before the crisis. Thus, bearing in mind the exceptional mobilization of external financing, the outstanding amount of official reserves assets would stand at around 294.7 billion dirhams at end 2020 and 289 billion dirhams at end 2021, ensuring coverage of around 6 months and 20 days of imports of goods and services.

13. Concerning monetary conditions, outstanding bank loans to the non-financial sector increased by 6 percent year-on-year at the end of July, mainly due to the significant surge in cash loans granted to private enterprises. In view of the expected evolution of economic activity and the projected impact of both the Intelaka program and the various support and stimulus measures, outstanding bank credit to the non-financial sector would grow by around 4 percent in 2020 and in 2021. As a main result of the 25-basis points reduction in the key interest rate in March, lending rates fell by 29 basis points to 4.58 percent on average in the second quarter, benefiting both large enterprises and very small, small, and medium-sized ones. This decline is expected to continue in view of the 50-basis points cut of the key rate in June and the implementation of guarantee schemes designed to finance the recovery under conditions tied to this rate. The real effective exchange rate, which increased by 1.1 percent in 2019, would depreciate by 0.8 percent in 2020 and 2 percent in 2021, reflecting a decrease in nominal terms as well as a lower domestic inflation compared to partner countries and trading competitors.

14. With regard to public finances, budget implementation at the end of the first eight months of the year reveals a deficit of 46.5 billion dirhams, as against 35.2 billion a year earlier, considering the positive balance of 9 billion dirhams recorded in the special fund for the pandemic management. Current revenues declined by 6.5 percent, impacted by an 8.4 percent drop in tax revenues. At the same time, overall expenditure went up by 2.5 percent, mainly reflecting an 8.3 percent increase in expenses of «other goods and services», whereas investment expenditures fell by 4.7 percent and subsidy expenses by 6.4 percent. Considering the reduction of the stock of pending operations by 1.6 billion, cash deficit stood at 48.1 billion dirhams, worsening by 3.2 billion dirhams compared to its level at end-August 2019. This need was covered by domestic resources of a net amount of 32.8 billion dirhams and by net external loans of 15.2 billion dirhams. Taking into account the data of the 2020 Amended Finance Act and the continued mobilization of specific financing in 2021, the budget deficit, excluding privatization, is expected to widen from 4.1 percent of GDP in 2019 to 7.9 percent this year, before narrowing to 5.1 percent in 2021. In addition to domestic resources, the Treasury needs are covered by an exceptional mobilization of external financing. As a result, debt of the Treasury would increase from 65 percent of GDP in 2019 to 76.1 percent in 2020 and 75.9 percent in 2021.