BANK AL-MAGHRIB

MONETARY POLICY REPORT

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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, 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.

OVERVIEW

The global economy witnessed an exceptionally severe downturn in the second quarter in an environment marked by harsh restrictions on travel and activities to contain the spread of Covid-19. Indeed, apart from China, where the economic situation recovered with a growth of 3.2 percent, the decline affected advanced economies as well as emerging and developing ones. The contraction of real GDP reached 21.7 percent in the United Kingdom, 14.7 percent in the euro area, 10.1 percent in Japan, and 9.1 percent in the United States. It stood at 22.8 percent in India, 11.4 percent in Brazil and 8.5 percent in Russia.

Concerning the labor market, the repercussions of the pandemic are being heavily felt, particularly in the United States where in a period of two months, the unemployment rate rose from its lowest level in half a century to its highest in nearly 90 years. Thus, after standing at 3.5 percent in February 2020, it reached 14.7 percent in April before gradually declining to 8.4 percent in August. In the euro area, this rate rose from 7.7 percent in June to 7.9 percent in July in an economic environment marked by the rolling-out of job preservation measures and some easing of lockdown measures in several countries.

On the other hand, concerning the financial markets, the continued mitigation of risk aversion and the implementation of fiscal and monetary stimulus measures had a favorable impact on the main stock market indices which continued to move at very high levels in disconnection with the change in the real economy. Thus, in August, the Dow Jones industrial and the Nikkei 225 appreciated by 5.4 percent and 1.4 percent respectively compared to July, the EuroStoxx 50 was virtually stagnant, while the FTSE 100 fell by 1.5 percent. As for sovereign yields, they remained broadly unchanged between July and August, at 0.6 percent for the United States, -0.5 percent for Germany and -0.2 percent for France. Interest rates, on the other hand, continued to drop, falling by 8 basis points to 0.3 percent for Spain and 16 basis points to 0.9 percent for Italy.

As for foreign exchange markets, the euro strengthened between July and August by 3 percent against the dollar to 1.18 dollar and by 2.4 percent against the Japanese yen, while it remained almost stable against the pound sterling. As for currencies of the main emerging countries, they showed different trends against the dollar, with an appreciation of 1.1 percent for the Chinese yuan, stagnation for the Indian rupee and depreciations of 3.3 percent for the Brazilian real and 5.9 percent for the Turkish lira. As for bank credit, its growth slowed down slightly to 10.1 percent in July in the United States and 4.7 percent in the euro area.

On the commodity markets, the OPEC+ countries extension of their agreement to reduce oil production and the decline in inventories and production in the United States have pushed oil prices upwards. The price of Brent crude oil in particular posted a monthly increase of 4.1 percent in August to 45.1 dollar per barrel on average, while remaining down 24.4 percent year-on-year. Concerning the phosphate and derivatives market, prices increased in August by 2.5 percent for crude phosphate to 77 dollar per tonne, 12.1 percent for DAP to 342 dollar per tonne and 5.4 percent for TSP to 276 dollar per tonne. Year-on-year, prices fell 1.4 percent for crude phosphate as against increases of 0.8 percent for DAP and 7.7 percent for TSP. Finally, the prices of non-energy products increased year-on-year, driven in particular by those of metals and minerals.

As for consumer prices, the disinflationary pressures induced by the pandemic resulted in lower inflation, particularly in advanced countries. In the euro area, it stood at -0.2 percent in August after 0.4 percent in July, while in the United States, it fell from 1 percent to 1.3 percent over the same period.

With regard to monetary policy decisions, the ECB decided, at the end of its meeting on September 10, to keep its key interest rates unchanged and to continue its purchases under the Pandemic Emergency Purchase Program to a total amount of 1.350 billion euros and this, at least until the end of June 2021 and, in any case, until it deems that the crisis has passed. Regarding its asset purchase program, it indicated that its net purchases will continue at a monthly rate of 20 billion euros. The same applies to those under the temporary additional envelope of 120 billion euros until the end of the year. It will also continue to provide abundant liquidity through its refinancing operations.

For its part, at the end of its meeting on September 15 and 16, the first after the announcement of the reshaping of its monetary policy framework, the FED decided to keep the target range of the federal funds rate unchanged at [0 percent -0.25 percent]. It announced plans to maintain this range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has increased to 2 percent and is on track to moderately exceed this level for a certain period of time. It also indicated that it will increase its holdings of Treasury bills and mortgage securities over the coming months at least at the current rate in order to keep the market operating smoothly and help foster accommodative financial conditions. Finally, the FED reiterated its commitment to use all its instruments to support the economy in these difficult times.

In addition, the main recent development in the Fed's monetary policy is the review of the monetary policy framework on which it bases its objectives for maximum employment and price stability. According to the review's results, revealed by its president at the last annual Jackson Hole symposium, the maximum employment target has become broad and inclusive and the assessment will be made on the basis of «employment deficits relative to the maximum level » rather than «deviations from the maximum level». More flexibility is also being introduced in achieving the price stability target, with the Fed now targeting an average inflation of 2 percent. Finally, the Fed will review its framework every five years.

On the national level, the restrictions put in place by the authorities from mid-March onwards to contain the spread of the virus have resulted in a total or partial shutdown of several activities and a significant loss of jobs in both formal and informal sectors. After the deconfinement in June, several local and sectorial restrictions were implemented because of the resurgence of contaminations.

Thus, with regard to national accounts, the latest available data of the first quarter of 2020 partially reflect the impact of the Covid-19 pandemic on the Moroccan economy. They show a deceleration of growth to 0.1 percent compared to 2.8 percent a year earlier, with a slower drop in agricultural value added to 5 percent from 5.9 percent, and a rapid slowdown in non-agricultural activities from 4.3 percent to 0.9 percent. On the demand side, despite the stimulus measures, household consumption slowed from 2.7 percent to 1.4 percent and investment recorded a sharp decline of 4.8 percent from 4.5 percent a year earlier. Similarly, net exports in volume contributed negatively to growth by 0.5 points instead of a positive contribution of 2 points.

In this context, the second quarter labor market data show a net loss of 589 thousand jobs, four-fifths of which were in agriculture. In addition, nearly two-thirds of those who kept their jobs worked less than usual and the average number of hours worked per week and per person fell from 45 to 22 hours, a decline that was mainly observed in the non-agricultural sectors. Taking into account a net withdrawal of 93 thousand job seekers, the unemployment rate worsened from 8.1 percent to 12.3 percent overall, from 11.7 percent to 15.6 percent in urban areas and from 3 percent to 7.2 percent in rural areas.

With regard to foreign trade, data at the end of July show a decline compared to the same period of 2019, of 17 percent of exports and 17.5 percent of imports as well as a resulting easing of trade deficit by 22.3 billion dirhams to stand at 100.1 billion dirhams. For the other main items of the current account, the decline in travel receipts further worsened with a drop of 44.1 percent at end-July while the decrease in transfers from Moroccans living abroad was limited to 3.2 percent. As for the main financial operations, net FDI inflows fell by 21.5 percent to 9 billion dirhams and the net flow of Moroccan direct investments abroad fell by 2.9 billion to stand at 2.7 billion dirhams. As for Bank Al-Maghrib's official reserve assets, taking into account the drawdown on the LPL and the Treasury's external borrowing operations, their outstanding amount reached 292.5 billion dirhams, at end-July 2020, therefore representing the equivalent of 7 months and 14 days of imports of goods and services.

Regarding monetary conditions, their development continues to be significantly impacted by the easing measures implemented by BAM since the onset of the crisis (see June MPR), the latest of which consisted of a further reduction in the key rate by 50 basis points and the full release of the reserve account in favor of banks. The liquidity needs of the latter increased to 95.9 billion dirhams on a weekly average and further increased to 102.7 billion on average in July, then to 106.2 billion in August. Consequently, Bank Al-Maghrib increased significantly the amount of its injections, bringing them to 114.7 billion dirhams. Monetary conditions were also marked, in the second quarter, by a drop in the overall average lending rate by 29 basis points to 4.58 percent, mainly reflecting the 25 basis point reduction in the key rate in March, as well as a depreciation of the effective exchange rate. As for credit to the nonfinancial sector, its annual growth increased from 5.5 percent in the first quarter to 6.2 percent in the second quarter, reflecting an acceleration in the growth of loans to private companies from 7.2 percent to 10.1 percent, a resumption of lending to state-owned enterprises, and a slowdown in the growth of personal loans from 5.1 percent to 2.8 percent. As for nonperforming loans, they have risen sharply in recent months, with a ratio to bank loans rising from 7.8 percent in March to 8.2 percent in July.

With regard to public finances, in view of the expected impact of the Covid-19 pandemic, and in addition to the various measures taken within the framework of the Economic Watch Committee, the Government prepared a supplementary finance act which was adopted and published in the Official Gazette at the end of July. It expects the fiscal deficit to widen to 7.6 percent of GDP, instead of 3.7 percent initially projected in the finance law, with economic growth at -5 percent in 2020 instead of 3.7 percent as the main assumption. As for budget execution for the first eight months of 2020, it ended with a deficit of 46.5 billion, against 35.2 billion a year earlier, taking into account the positive balance of 9 billion from the Covid-19 Fund. This was mainly due to the 6.5 percent decline in current revenues to 158.5 billion, impacted by the 8.4 percent drop in tax revenues, while non-tax revenues improved by 17.3 percent.

At the same time, current expenditure rose by 4.3 percent, mainly as a result of increases of 7.2 percent in the wage bill and 8.3 percent in expenditure on other goods and services. In addition, the Treasury reduced its stock of pending operations by 1.6 billion, which brought the cash deficit to 48.1 billion, compared to 44.8 billion at the end of August 2019. This deficit was covered by net domestic resources of 32.8 billion and by a positive net external inflow of 15.2 billion. The direct outstanding public debt would have increased by 7.9 percent compared to its level at the end of December 2019. Treasury financing conditions remain favorable with a decline in the weighted average rates of securities issued by auction as at the end of July 2020.

In terms of the asset market, real estate prices fell by 3.3 percent in the second quarter of 2020 and the number of transactions fell by 42.8 percent, particularly as a result of the restrictions implemented within the framework of measures against the Covid-1 9 pandemic.

At the Casablanca stock exchange, the MASI appreciated by 4.8 percent in the second quarter, bringing its annual underperformance to 16.5 percent, particularly in connection with the increases recorded by the indices of the telecommunications and insurance sectors of 9.4 percent and 6.3 percent respectively. Conversely, the banking sector index posted a further quarterly decline of 4.2 percent after an earlier quarterly decline of 22.6 percent. As for the volume of trading, it stood at 12.8 billion after 15.8 billion a quarter earlier. For its part, market capitalization increased from one quarter to another by 4.1 percent to 523.9 billion dirhams. Under these conditions, the PER reached 19.5 against 18.1 a quarter earlier.

As for consumer price index, after increasing by 1.4 percent in the first quarter, it remained stable, year-on-year, in the second quarter before posting a slight decline of 0.1 percent in July. This decline reflects the further drop in volatile food prices to 4.7 percent and the slowdown in core inflation to 0.7 percent. On the other hand, the decline in prices of fuels and lubricants eased to 14.1 percent in line with the upward trend in international prices of petroleum products, and tariffs for regulated products accelerated to 1.2 percent, reflecting exclusively the 8 percent increase in road passenger transport tariffs.

In terms of outlook, the Covid-19 pandemic and the implemented lockdown measures across the world are expected to result in the deepest recession in the world economy since the Great Depression at the end of the 20s of the last century. Despite the gradual reopening and lifting of restrictions in several countries, growth would continue to suffer from an exceptionally high level of uncertainties, linked to the evolution of the pandemic and its economic and social impact, as well as the pace of recovery.

Accordingly, the US economy would contract by 5.3 percent, before returning to growth in 2021 at a rate of 4 percent. In the euro area, growth would stand at -9.1 percent in 2020 and would be limited to 3.1 percent in 2021, hampered by persistent structural and budgetary problems in several countries of the region. Already weakened by post-Brexit problems, the United Kingdom would experience a historic recession of 12.7 percent in 2020, followed by a moderate improvement of 2.8 percent in 2021. At the same time, unemployment is expected to rise sharply in the United States, while in the euro area, the impact of the pandemic will remain contained, thanks mainly to job preservation measures. In the main emerging countries, growth in China is expected to remain positive in 2020 thanks to fiscal stimulus measures, with a projected rate of 0.8 percent, before rebounding to 7.5 percent in 2021. On the other hand, GDP is expected to fall by 4 percent in 2020 in India due to difficulties in keeping under control the spread of the virus, before rising to 8.5 percent in 2021.

Concerning commodity markets, oil prices are expected to decline in 2020, with an average price of 43.1 dollar per barrel for Brent oil, down 32.7 percent year-on-year. However, due in particular to the expected recovery in demand, prices should rise, with Brent price expected to reach 55.7 dollar a barrel in 2021. The same applies to phosphates and derivatives, the price of DAP in particular is expected to decline by 7 percent to an average of 285 dollar per ton this year, before rising to 295 dollar in 2021, while the price of rock phosphate is expected to decline to 78 dollar per ton in 2020 and rise to 81 dollar next year. As for food prices, they are expected to increase by 0.6 percent in 2020 and 3.3 percent in 2021.

Under these conditions, inflation would remain low in advanced economies in 2020, settling in the euro area at levels well below the ECB target of 0.6 percent in 2020 and 1.4 percent on average in 2021. In the United States, inflation would slow from 1.8 percent in 2019 to 1.1 percent in 2020 before rising to an average of 2.5 percent in 2021.

At the national level, the economic outlook also remains surrounded by an exceptionally high level of uncertainty related to the evolution of the pandemic, the scale of its repercussions, and the pace of economic recovery both in Morocco and among its main economic partners.

Consequently, in terms of external accounts, exports of goods are expected to decline by 16.6 percent in 2020 before increasing by 22.4 percent in 2021. At the same time, imports of goods are expected to fall to 17.4 percent, curbed mainly by a reduction in the energy bill and a significant decline in the acquisition of capital and consumer goods, before rising by 17 percent in 2021. For travel revenues, under the hypothesis of maintaining the almost total closure of borders until the first quarter of 2021, they would decrease by 70 percent in 2020 and should more than double under a base effect in 2021 while remaining at a low level, i.e. 49.1 billion dirhams. For their part, remittances of Moroccans living abroad which were less impacted by the effect of Covid-19, would show a limited decline of 5 percent to 61.5 billion before increasing by 2.4 percent to 63 billion in 2021. Under the assumption also of grant inflows of 7.2 billion dirhams in 2020 and 2.6 billion in 2021, the current account deficit would increase to 6 percent of GDP in 2020 before easing to 5.2 percent in 2021. FDI inflows are expected to decline to the equivalent of 1.5 percent of GDP in 2020, as against 2.9 percent of GDP in 2019, before returning in 2021 to the average level observed before the crisis, i.e. 3.2 percent of GDP.

Under these conditions, and taking into account the effort to mobilize external resources, notably with two Treasury planned international borrowing operations, one in 2020 and the second in 2021, official reserve assets would amount to 294.7 billion DIRHAMS in 2020 and 289 billion dirhams in 2021, i.e. the equivalent of 6 months and 27 days and 6 months and 23 days of imports of goods and services respectively. Moreover, taking into account the expected evolution of currency in circulation, the deficit of bank liquidity should amount to 82 billion dirhams at the end of 2020 and 109.8 billion DIRHAMS at the end of 2021. Concerning monetary conditions, the real effective exchange rate (REER) is expected to depreciate over the forecast horizon, as a result of a depreciation in nominal terms as well as a domestic inflation lower on average than that of trading partners and competitors. As for bank credit to the non-financial sector, taking into account forecasts of non-agricultural value added and the expected effect of the Intelaka program as well as support and stimulus measures, it would grow at around 4 percent in 2020 and 2021.

On the public finance side, taking into account the data in the Supplementary Finance Act Law adopted at the end of July and the BAM's macroeconomic forecasts, the fiscal deficit, excluding privatization, would stand at 7.9 percent of GDP in 2020 before narrowing to 5.1 percent in 2021.

Due to the impact of the Covid-19 pandemic and unfavorable weather conditions, the domestic economy is expected to contract by 6.3 percent in 2020, with a 5.3 percent decline in agricultural value added and a 6.3 percent drop in non-agricultural growth. This scenario is based on the same approach as the one adopted in June with an adjustment of the underlying assumptions to take into account the most recent data. Consequently, the economic recovery should be slower than expected, mainly taking into account the government's decisions to limit the supply capacity for certain activities, in addition to the return to certain local or sectorial restrictive measures, following the resurgence of infections, as well as the persistence of a high degree of uncertainties. Likewise, borders are assumed to remain almost completely closed for travellers until the first quarter of 2021 instead of the second quarter of 2020. In 2021, driven by a base effect in particular, growth should rebound to 4.7 percent, with a 12.6 percent increase in agricultural value added, notably under the assumption of a cereal harvest of 75 million quintals, and a 3.7 percent improvement in non-agricultural growth.

In this context, marked by low pressure from the demand side in particular, inflation would end the year at an average of 0.4 percent and would accelerate moderately to 1 percent in 2021. Its underlying component would remain at low levels, i.e. 0.6 percent in 2020 and 0.7 percent in 2021, after standing at 0.5 percent in 2019.

The balance of risks remains on the downside for both growth and inflation. On the growth side, the accelerating rise in infections and a possible new wave of the pandemic could result in tighter restrictions and a slower recovery pace. Externally, the advent of a second wave of infections and the introduction of tougher restrictions would result in lower foreign demand; thus, lower domestic growth. High uncertainties also surround the inflation projections. Inflation projections are highly dependent on the size of the double shock of supply and demand induced by the pandemic, and consequently on the pace and strength of the recovery. Downside risks would dominate in relation to the weakening of domestic demand. For their part, upward pressures on the prices of certain products could stem from disruptions in supply chains and rising production costs.

1.INTERNATIONAL DEVELOPMENTS

Data for the second quarter, the period with the greatest restrictions on travel and activities to contain the pandemic, confirm the exceptional impact on the global economy. Indeed, growth contracted sharply in the advanced and the main emerging economies, with the exception of China, where the impact was mainly felt in the first quarter. On the labor market, the situation also remains unfavorable, particularly in the United States, where the unemployment rate stood at 8.4 percent in August.

The financial markets experienced a relative decline in risk aversion in August, as the main stock market indices of the advanced and emerging economies rose, notably as a result of the implemented fiscal and monetary measures. As for the commodity markets, oil prices continued to rise in August, mainly due to the agreement of OPEC+ countries to reduce production and the reduction of stocks and production in the United States. Similarly, prices of non-energy products were up year-on-year, driven in particular by those of metals and minerals. As for inflation, it remained at low levels in the advanced economies.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, the drastic measures implemented in the second quarter led to an unprecedented decline in growth. In fact, after a slight increase in the first quarter, GDP contracted by 9.1 percent year-on-year due to the fall in household consumption and private investment, despite government financial aid for both households and businesses. Similarly, the euro area economy experienced an exceptional recession, with GDP contracting by 15 percent year-on-year in the second quarter after a 3.1 percent decline in the previous quarter. By country, growth declined by 11.3 percent in Germany after a 2.2 percent decline in the first quarter, and by 18.9 percent in France after a decline of 5.7 percent. In Spain, the decline was more significant, with GDP contracting by 22.1 percent after a 4.1 percent drop, and in Italy growth declined by 17.7 percent after a 5.6 percent drop in the previous quarter. Similarly, in the United Kingdom, second quarter data show a sharp contraction in GDP of 21.7 percent after a 1.7 percent decline, mainly due to a significant drop in private consumption. As for Japan, GDP contracted for the third consecutive quarter, at a rate of 10 percent, notably due to the decline in private consumption and net exports.

Table 1.1: YoY change in quarterly growth

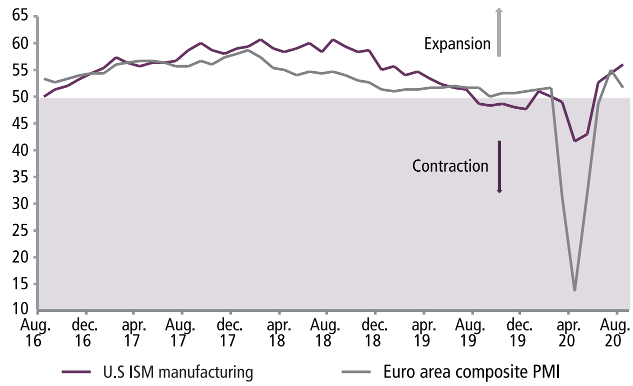
	2017	2018				2019				2020	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Advanced economies											
United States	**2. 7**	**3. 1**	**3. 3**	**3. 1**	**2. 5**	**2. 3**	**2. 0**	**2. 1**	**2. 3**	**0. 3**	**-9. 1**
Euro area	**3. 0**	**2. 6**	**2. 2**	**1. 6**	**1. 2**	**1. 4**	**1. 3**	**1. 4**	**1. 0**	**-3. 1**	**-15. 0**
France	3. 1	2. 4	1. 9	1. 6	1. 4	1. 8	1. 8	1. 6	0. 8	-5. 7	-18. 9
Germany	3. 6	2. 2	2. 0	0. 8	0. 3	1. 1	0. 1	0. 8	0. 4	-2. 2	-11. 3
Italy	1. 9	1. 3	0. 9	0. 5	0. 1	0. 3	0. 4	0. 5	0. 1	-5. 6	-17. 7
Spain	3. 0	2. 8	2. 3	2. 2	2. 1	2. 2	2. 0	1. 9	1. 8	-4. 1	-22. 1
United Kingdom	**1. 6**	**1. 1**	**1. 3**	**1. 6**	**1. 4**	**2. 0**	**1. 4**	**1. 3**	**1. 1**	**-1. 7**	**-21. 7**
Japan	**2. 6**	**0. 9**	**1. 0**	**-0. 4**	**-0. 3**	**0. 8**	**0. 9**	**1. 7**	**-0. 7**	**-2. 0**	**-10. 0**
Emerging economies											
China	**6. 8**	**6. 9**	**6. 9**	**6. 7**	**6. 5**	**6. 4**	**6. 2**	**6. 0**	**6. 0**	**-6. 8**	**3. 2**
India	**7. 1**	**7. 6**	**7. 0**	**6. 1**	**5. 6**	**5. 6**	**4. 8**	**4. 3**	**3. 5**	**3. 0**	**-22. 8**
Brazil	**2. 4**	**1. 5**	**1. 1**	**1. 5**	**1. 2**	**0. 6**	**1. 1**	**1. 2**	**1. 7**	**-0. 3**	**-11. 4**
Turkey	**7. 3**	**7. 4**	**5. 6**	**2. 3**	**-2. 8**	**-2. 3**	**-1. 6**	**1. 0**	**6. 0**	**4. 4**	**-9. 9**
Russia	**1. 0**	**2. 2**	**2. 6**	**2. 5**	**2. 8**	**0. 4**	**1. 1**	**1. 5**	**2. 1**	**1. 6**	**-8. 5**

Source : Thomson Reuters.

In the main emerging economies, second quarter data show the beginning of an economic recovery in China, with growth of 3.2 percent after a 6.8 percent contraction in the previous quarter, driven by a rebound in global demand following the easing of restrictions. Conversely, economic activity in India, the second most affected country by the pandemic in the world, experienced a historic decline with GDP contracting by 22.8 percent after a 3 percent increase, reflecting mainly the decline in private investment and expenditure. At the same time, GDP fell by 11.4 percent in Brazil after a slight 0.3 percent decline in the first quarter, hampered by lower value added in services and manufacturing sectors. Similarly, GDP declined by 8.5 percent in Russia after a 1.6 percent increase in the previous quarter, reflecting in particular the fall in oil prices and the significant contraction in the tertiary sector.

In terms of high-frequency indicators, the U.S. ISM manufacturer index rose for the fourth consecutive month, reaching 56 points in August compared to 54.2 in July. On the other hand, the euro area composite PMI index fell to 51.9 in August from 54.9 in July.

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

On the labor markets, the Covid-19 pandemic continues to weigh heavily on employment, particularly in advanced countries. In the United States, while remaining at high levels, the unemployment rate fell from 10.2 percent in July to 8.4 percent in August. This decline was accompanied by the creation of 1.4 million jobs, compared to 1.7 million a month earlier. In the euro area, the unemployment rate rose from one month to another from 7.7 percent to 7.9 percent. With the exception of Spain, where it stagnated at 15.8 percent, the rate rose from 6.6 percent to 6.9 percent in France, from 4.3 percent to 4.4 percent in Germany and from 9.3 percent to 9.7 percent in Italy. In the United Kingdom, the most recent data from May showed that the rate stagnated at 3.9 percent.

Table 1.2: Change in unemployment rate (%)

(In%)	2018	2019	2020		
			june	july	aug
United States	**3. 9**	**3. 7**	**11. 1**	**10. 2**	**8,4**
Euro area	**8. 2**	**7. 6**	**7. 7**	**7. 9**	**N.D**
France	9. 1	8. 5	6. 6	6. 9	N.D
Germany	3. 4	3. 2	4. 3	4. 4	N.D
Italy	10. 6	10. 0	9. 3	9. 7	N.D
Spain	15. 3	14. 1	15. 8	15. 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

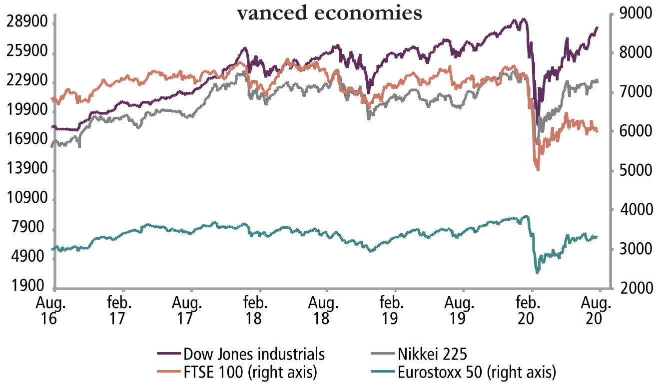
Stock markets continued to recover overall, reacting favorably to fiscal and monetary measures as well as to the rebound in activity in the first months of the third quarter, although the evolution of the virus worldwide remains a cause for concern.

Their performance, however, remains largely disconnected from developments in the real economy. The Dow Jones Industrial appreciated by 5.4 percent Between July and August and the Nikkei 225 by 1.4 percent, while the EuroStoxx 50 was virtually stagnant and the FTSE 100 was down 1.5 percent.

Volatility declined in both US and European stocks. In August, the VIX and VSTOXX declined again to 23.7 and 22.7 respectively, after peaks of almost 57.7 in March.

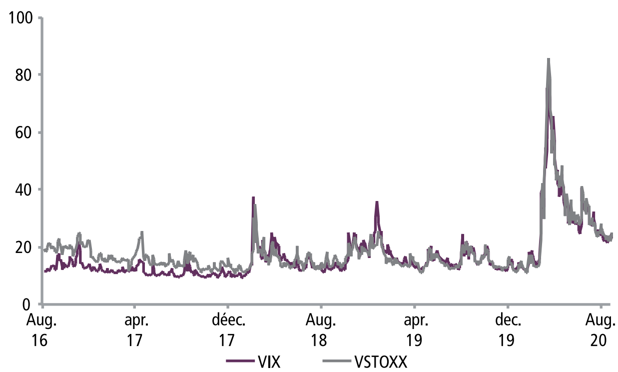
Among emerging economies, the MSCI EM grew by 3.4 percent in August, with increases of 3.1 percent for China, 5.4 percent for India, near stagnation for Brazil, and a sharp decline of 11.7 percent for Turkey.

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



Source : Thomson Reuters.

Chart 1.3: Change in VIX and VSTOXX

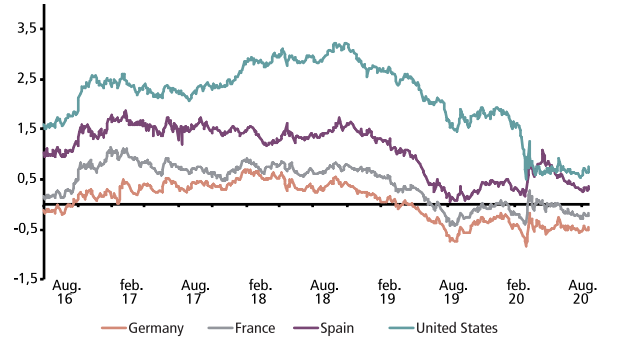


Source : Thomson Reuters.

In the bond markets, 10-year sovereign bond yields of the major advanced economies remained largely unchanged between July and August. They consequently stood at 0.6 percent for the United States, -0.5 percent for Germany and -0.2 percent for France. On the other hand, they continued to ease, falling by 8 bp to 0.3 percent for Spain and by 16 bp to 0.9 percent for Italy.

For the main emerging economies, with the exception of China, for which stagnation was recorded, the 10-year sovereign yield increased by 17 bp to 6 percent for India, by 50 bp to 6.8 percent for Brazil and by 162 bp to 13.8 percent for Turkey.

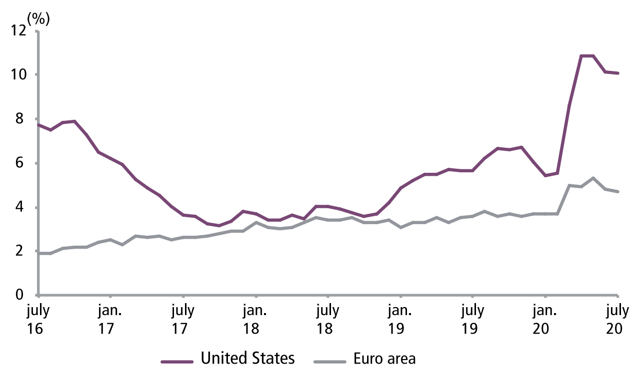
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters.

In the money markets, 3-month Libor almost stabilized at 0.3 percent in August, while Euribor of the same maturity declined from -0.4 percent to -0.5 percent. The pace of growth in bank loans slowed slightly, from 10.2 percent in June to 10.1 percent in July in the United States and from 4.8 percent to 4.7 percent in the euro area.

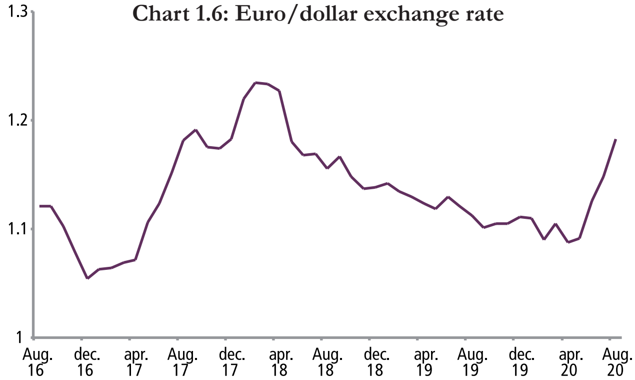
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters.

On the foreign exchange markets, the euro strengthened between July and August by 3 percent against the dollar to 1.18 and by 2.4 percent against the Japanese yen. However, it remained almost stable against the pound sterling. As for the currencies of the main emerging countries, they showed different trends against the dollar, with a 1.1 percent appreciation for the Chinese yuan, stagnation for the Indian rupee, depreciations of 3.3 percent for the Brazilian real and 5.9 percent for the Turkish lira.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

With regard to monetary policy decisions, the ECB decided, at the end of its meeting on September 10, to keep its key interest rates unchanged and to continue its purchases under the Pandemic Emergency Purchase Program to a total amount of 1,350 billion euros until at least the end of June 2021 and, in any case, until it deems that the crisis has passed. With regard to its asset purchase program, it has indicated that its net purchases will continue at a monthly rate of 20 billion euros, as well as those under the additional temporary envelope of 120 billion euros until the end of the year. It will also continue to provide abundant liquidity through its refinancing operations.

For its part, at its meeting on September 15 and 16, the FED decided to keep the target range of the federal funds rate unchanged at [0 percent -0.25 percent] and anticipates that it will be appropriate to maintain it at [0 percent- 0.25 percent] until labor market conditions would reach levels consistent with the Committee's estimates on maximum employment and inflation would increase to 2 percent and would be on track to moderately exceed this level for a certain period of time. It also indicated that it will increase its holdings of Treasury securities and mortgage securities over the next few months at least at the current rate to keep the market operating smoothly and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses. The FED reiterated its commitment to use all its instruments to support the economy in these difficult times. It should be noted that the FED's new monetary policy framework was revealed at the Jackson Hole Symposium last August (Box 1.1).

As for the Bank of England, its Monetary Policy Committee decided on September 16 to keep its key rate unchanged at 0.1 percent and to continue its program of purchasing 745 billion pounds sterling in "investment-grade" British government and non-financial corporate bonds.

With regard to the major emerging countries, the Reserve Bank of India decided at its August 6 meeting to keep its key rate unchanged at 4 percent as part of the liquidity adjustment facility. At the same time, it indicated that it will continue its accommodative approach for as long as necessary to revive growth and mitigate the impact of the pandemic on the economy, while ensuring that inflation remains close to its target.

For its part, the Central Bank of Brazil maintained its key rate at 2 percent on September 16. It indicated that this decision takes into account the outlook for inflation according to its base scenario and consequently a higher variation in the balance of risks. It is also consistent with the convergence of inflation towards its target over the forecast horizon.

For its part, the Central Bank of Russia decided, at the end of its September 18 meeting, to keep its key rate unchanged at 4.5 percent, while indicating that it will examine the need for a further reduction in future meetings if the situation develops in conformity with the baseline scenario forecasts.

Box 1.1: Revision of the FED's Monetary Policy Framework

On the occasion of the 44th Jackson Hole Symposium, held on August 27-28, 2020, FED President Jerome Powell revealed the results of the first public review of the monetary policy framework. This review, which lasted about a year and a half, aims to assess the monetary policy strategy, tools and communication in relation to the objectives of maximum employment and price stability.

The new monetary policy framework explicitly recognizes the challenges posed by interest rates close to the effective lower limit for an extended period of time. By reducing the margins to support the economy, the lower limit increases the downside risks of employment and inflation. To counter these risks, the FED has indicated that it is ready to use all its instruments to support the economy.

With regard to the employment component, the new framework emphasizes that maximum employment is now a broad and inclusive objective. The revision indicates that the monetary policy decision will be based on "assessments of employment deficits relative to its maximum level" rather than "deviations from its maximum level" as indicated in the old framework. The shift to "employment deficits" means that employment can now meet or exceed its maximum level without causing concern unless there are signs of an undesirable increase in inflation or other risks that could hinder the achievement of the targets.

In terms of price stability, the longer-term objective remains an inflation rate of 2 percent. However, if inflation falls below 2 percent after an economic slowdown but never exceeds 2 percent even during recovery, then over time it will remain below 2 percent on average. Therefore, inflation expectations would tend to be below target and would lower observed inflation. To avoid this unfavorable dynamic, the new strategy indicates that the FED will seek to achieve 2 percent inflation on average over time. Consequently, after some periods when inflation has been below 2 percent, an appropriate monetary policy will probably aim to achieve inflation slightly above 2 percent for some time. Moreover, in seeking to achieve an average inflation of 2 percent over time, the FED does not focus on a particular mathematical formula that defines the average. This new approach could be seen as a flexible form of targeting average inflation.

The FED has considered the establishment of a regular review of the monetary policy framework as an institutional practice, which would enhance transparency and accountability. Consequently, it should undertake a thorough public review of the strategy, tools, and communication practices of its monetary policy approximately every five years.

Like the FED, the ECB has launched an evaluation of its monetary policy strategy with the participation of all stakeholders. It will focus in particular on the quantitative formulation of price stability, the range of monetary policy instruments, economic and monetary analyses, communication methods, financial stability, employment and sustainable development. This assessment, which is supposed to be completed by the end of 2020, has been postponed until mid-2021 due to the Covid-19 pandemic.

The Bank of Canada is also reviewing its monetary policy strategy as part of renewing the agreement of the inflation target in 2021 with the federal government.

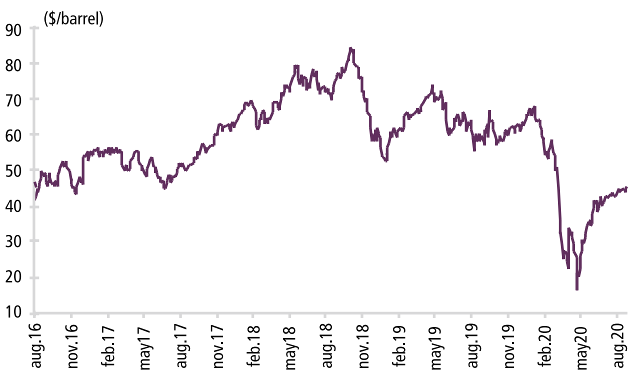
1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

On the oil market, prices continued to rise in August with, in particular, a monthly increase of 4.1 percent in the average price of Brent oil at 45.1 dollar per barrel on average. This trend is due in particular to the OPEC+ countries maintaining their agreement to reduce oil production, following their meeting on August 19, and by the decline in inventories and production in the United States. Year-on-year, the price of Brent remained down 24.4 percent in August.

For natural gas, the price on the European market stood at 2.86 dollar per mBTU in August, which is a rise of 58.8 percent month-on-month, compared with a sharp drop of 22.2 percent year-on-year.

Chart 1.7 : Brent prices in dollars

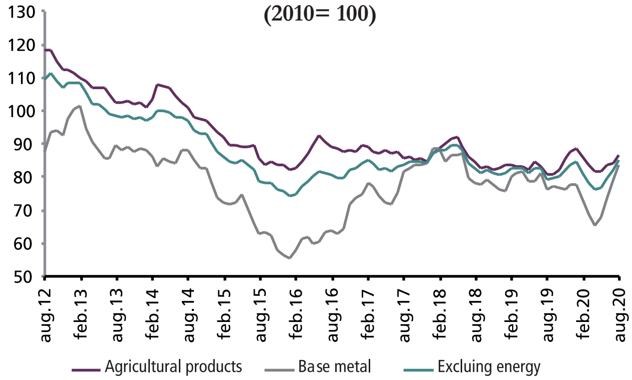


Source: Thomson Reuters.

1.3.2 Non-energy commodity prices

Prices for non-energy products increased in August by 7.4 percent year-on-year, driven mainly by those of metals and minerals. The latter rose by 9.8 percent, while prices of agricultural products increased by 7.2 percent. As for durum wheat, its price remained unchanged at 198.4 dollars per tonne from a month to another, and increased by 9.5 percent in annual change.

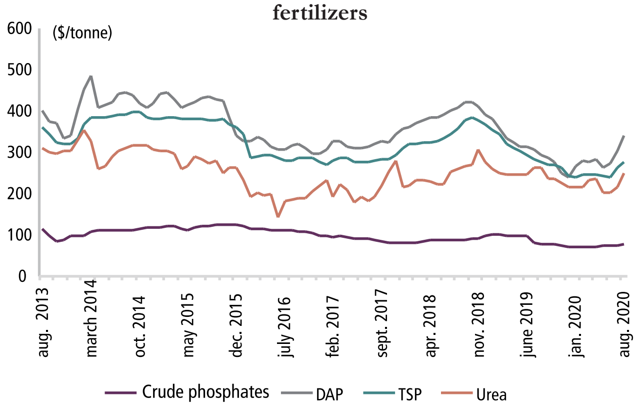
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

On the phosphate and fertilizers market, prices increased overall in August, by 2.5 percent for rock phosphate to 77 dollars per tonne, 12.1 percent for DAP to 342 dollars per tonne, 5.4 percent for TSP to 276 dollars per tonne and 16.4 percent for Urea to 249 dollars per tonne, while the price of potassium chloride stagnated at 202.5 dollars per tonne. In annual change, prices were down 1.4 percent for rock phosphate, 5 percent for Urea and 23.7 percent for potassium chloride, while DAP increased by 0.8 percent and TSP by 7.7 percent.

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



Source: World Bank.

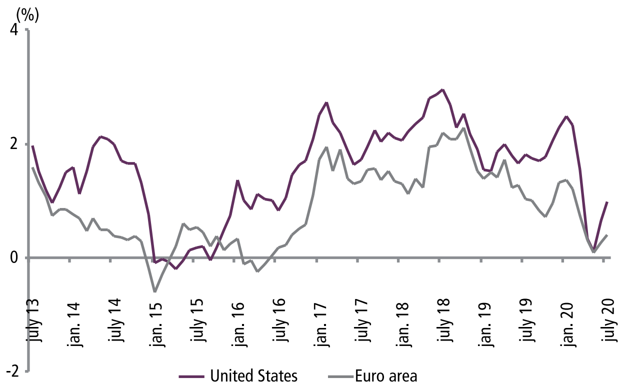
1.3.3 Inflation

In the United States, inflation continued to rise, reaching 1.3 percent in August after 1 percent in July. In the euro area, a first estimate of inflation shows that it went into negative territory in August for the first time since May 2016. Consequently, it stood at -0.2 percent in August after 0.4 percent in July. This reflects declines of 0.9 percent to 0.2 percent in France, 0 percent to -0.1 percent in Germany, 0.8 percent to -0.5 percent in Italy and -0.7 percent to -0.6 percent in Spain.

As for the other advanced economies, inflation accelerated from 0.6 percent in June to 1 percent in July in the United Kingdom and from 0.1 percent to 0.3 percent in Japan.

In the main emerging countries, inflation rose from 3.2 percent in June to 3.4 percent in July in Russia, from 2.5 percent to 2.7 percent in China, from 2.1 percent to 2.3 percent in Brazil, and from 6.2 percent to 6.9 percent in India.

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



Sources : Eurostat and Thomson Reuters.

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

	2018	2019	2020		
			june	juiy	aug.
United States	**2. 4**	**1. 8**	**0. 6**	**1. 0**	**1. 3**
Euro area	**1. 8**	**1. 2**	**0. 3**	**0. 4**	**-0. 2**
Germany	1. 9	1. 4	0. 8	0. 0	-0. 1
France	2. 1	1. 3	0. 2	0. 9	0. 2
Spain	1. 7	0. 8	-0. 3	-0. 7	-0. 6
Italy	1. 2	0. 6	-0. 4	0. 8	-0. 5
United Kingdom	**2. 5**	**1. 8**	**0. 6**	**1. 0**	**N.D**
Japan	**1. 0**	**0. 5**	**0. 1**	**0. 3**	**N.D**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

Provisional foreign trade data at the end of July 2020 indicate a sharp decline in foreign trade from one year to another, with imports falling by 50.9 billion and exports by 28.6 billion. The trade deficit stood at 100.1 billion and the coverage rate rose from 57.9 percent to 58.3 percent. The decline in travel receipts that began in April worsened to 44.1 percent, while the decline in remittances of Moroccans living abroad stood at 3.2 percent. As for the main financial operations, net FDI inflows declined by 21.5 percent to 9 billion and the net flow of Moroccan direct investment abroad fell to 2.7 billion dirhams from 5.6 billion DIRHAMS over the same period of 2019. As for Bank Al-Maghrib's official reserve assets, their outstanding amount reached 292.5 billion dirhams at the end of July 2020, representing the equivalent of 7 months and 14 days of import of goods and services.

2.1 Trade balance

2.1. 1 Exports

Exports have shown at the end of July 2020 a decline of 17 percent compared to the same period a year earlier. This decline affected all sectors. In particular, sales in the automotive sector fell by 28.7 percent to 32.8 billion dirhams, including declines of 35.3 percent for the construction segment, 35 percent for the wiring branch and 23.3 percent for the "vehicle interiors and seats" branch.

Sales in the textile and leather sector fell by 29.5 percent to 15.9 billion and those of the aeronautical sector declined by 21.2 percent to 7.6 billion. Similarly, exports of agricultural and agri-food products fell by 4.7 percent to 36.5 billion, driven mainly by a 6.4 percent decline in sales of the food industry. Exports of agricultural products were almost stagnant. Concerning exports of phosphates and derivatives, they fell by 4.2 percent to 28.8 billion dirhams, mainly due to a 33.2 percent decline in sales of phosphoric acid, resulting from a 22.6 percent drop in the shipped volume and a 13.7 percent drop in the unit price of exports. Conversely, exports of fertilizers rose by 10.3 percent, in line with a 33.9 percent increase in quantities. Sales in the electronics and electricity sector decreased by 5.6 percent to 5.6 billion, with a 34 percent decline in electronic components in particular.

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

Secteurs/Segments	jan.-july. 2020*	jan.-july 2019	Change	
			value	In %
Exports	**140 000**	**168 601**	**-28 601**	**-17. 0**
Automotive	**32 758**	**45 913**	**-13 155**	**-28. 7**
Construction	12 798	19 790	-6 992	-35. 3
cabling	12 059	18 565	-6 506	-35. 0
Vehicle interiors and seats	3 415	4 452	-1 037	-23. 3
Textile and Leather	**15 895**	**22 536**	**-6 641**	**-29. 5**
Ready-made garments	9 407	14 407	-5 000	-34. 7
Hosiery articles	2 982	4 407	-1 425	-32. 3
Shoes	1 374	1 735	-361	-20. 8
Other industries	**11 037**	**13 611**	**-2 574**	**-18. 9**
Aeronautics	**7 633**	**9 692**	**-2 059**	**-21. 2**
EWIS	2 670	4 249	-1 579	-37. 2
Assembly	4 927	5 397	-470	-8. 7
Agriculture and Agri-Food	**36 532**	**38 318**	**-1 786**	**-4. 7**
Food Industry	18 629	19 898	-1 269	-6. 4
Agriculture, forestry, hunt	17 150	17 260	-110	-0. 6
Phosphates and derivatives	**28 823**	**30 100**	**-1 277**	**-4. 2**
Electronic	**5 609**	**5 942**	**-333**	**-5. 6**
Electronic components	1 674	2 538	-864	-34. 0
Specialty Electronics	2 037	1 297	740	57. 1
Other mining extractions	**1 713**	**2 489**	**-776**	**-31. 2**

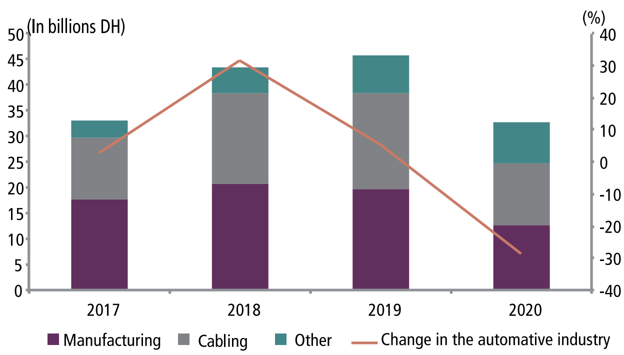
* Preliminary data
Source: Foreign Exchange Office.

Table 2.2: Change in the exports of phosphates and derivatives (YoY, in %)*

	jan.-july2020/jan.-july 2019		
	Value	Quantity	Price
Crude phosphates	-0. 9	5. 5	-6. 1
Natural and chemical fertilizers	10. 3	33. 9	-17. 7
Phosphoric acid	-33. 2	-22. 6	-13. 7

*Provisional data.
Source : Office des Changes.

Chart 2.1: Change in automotive industry's exports



*Provisional data
Source: Foreign Exchange Office.

2.1.2 Imports

At the same time, imports decreased by 17.5 percent, mainly reflecting a 24.8 percent drop in purchases of finished consumer goods of 49.6 billion, driven by a 41.2 percent drop in purchases of passenger cars and a 34.6 percent drop in purchases of "parts and components for passenger cars". The energy bill, in turn, fell by 31.6 percent to 30.9 billion, mainly as a result of the 37.1 percent decline in purchases of gas and fuel oils, mostly due to the 29.3 percent decline in import prices, and by 52.5 percent for petroleum oils and lubricants, linked to a 50.7 percent decrease in the imported volume. In addition, imports of "coal; cokes and similar solid fuels" fell by 17.7 percent, following a 19.1 percent drop in their price.

Similarly, acquisitions of capital goods fell by 18.5 percent to 61.3 billion dirhams, reflecting in particular a decline of 6.9 billion in imports of "aircraft and other air vehicles".

Purchases of semi-finished products fell by 16.6 percent to 51.9 billion dirhams and those of raw products by 17.8 percent to 11.3 billion dirhams, mainly as a result of a 44 percent decrease in acquisitions of raw sulfur. Conversely, imports of food products rose by 23.2 percent to 35 billion dirhams, reflecting in particular increases in wheat supplies by 44.4 percent to 8.6 billion dirhams and in barley supplies to 1.8 billion dirhams.

Table 2.3 : Change in imports (in millions of dirhams)

User groups	jan.-july 2020*	jan.-july 2019	Change	
			value	In %
CIF imports	**240 078**	**290 988**	**-50 910**	**-17. 5**
Energy products	**30 927**	**45 221**	**-14 294**	**-31. 6**
Gas oils and fuel oils	14 194	22 571	-8 377	-37. 1
Petroleum oil and lubricants	2 219	4 670	-2 451	-52. 5
Petroleum oils and lubricants	7 511	8 755	-1 244	-14. 2
Finished consumer products	**49 605**	**65 974**	**-16 369**	**-24. 8**
Passenger cars	6 697	11 396	-4 699	-41. 2
Parts and spare parts of cars and passenger cars	6 964	10 646	-3 682	-34. 6
Synthetic and artificial fibers fabrics and threads	3 892	5 246	-1 354	-25. 8
capital goods	**61 298**	**75 174**	**-13 876**	**-18. 5**
Aircraft and other space vehicles	99	7 043	-6 944	-98. 6
Electricity cables and wires	3 460	5 493	-2 033	-37. 0
Electricity circuit breaker or connection devices	4 604	5 604	-1 000	-17. 8
Semi finished products	**51 936**	**62 282**	**-10 346**	**-16. 6**
Plastics and miscellaneous plastic articles	7 155	8 563	-1 408	-16. 4
Copper wire, rods and section bars	2 117	3 150	-1 033	-32. 8
Raw products	**11 271**	**13 713**	**-2 442**	**-17. 8**
Crude and unrefined sulfur	2 570	4 586	-2 016	-44. 0
Rough, squared off or sawn wood	1 193	1 735	-542	-31. 2
Food products	**35 033**	**28 435**	**6 598**	**23. 2**
Wheat	8 625	5 974	2 651	44. 4
Barley	1 810	358	1 452	-

* Provisional data.
Source: Foreign Exchange Office.

2.2 Other components of the current account

Regarding the balance of services, its surplus balance decreased by 27.8 percent to 35.6 billion dirhams, following a decline of 27.7 billion in exports to 77 billion, more important than that of 14 billion in imports to 41.5 billion dirhams. In particular, and with the continued closure of borders, the downward trend in travel revenues has been accentuated with a 44.1 percent decline and expenditures decreased by 48.4 percent along the same lines.

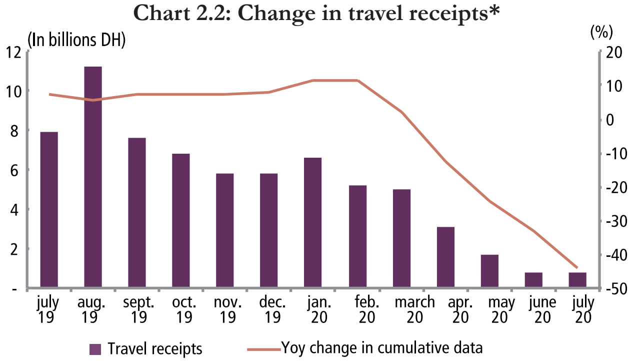
Table 2.4 : Change of the main energy products on import (YoY, in %) *

	jan.-july 2020/jan.-july 2019		
	Value	**Quantity**	**Price**
Gas oils and fuel oils	-37. 1	-11. 0	-29. 3
Petroleum gaz and other fuel	-14. 2	-3. 6	-11. 0
Coal, coke, and similar solid fuels	-17. 7	1. 8	-19. 1
Petroleum oils and lubricants	-52. 5	-50. 7	-3. 7
Petroleum gasoline	-40. 8	-17. 2	-28. 6

*Données provisoires.

Source : Office des Changes.

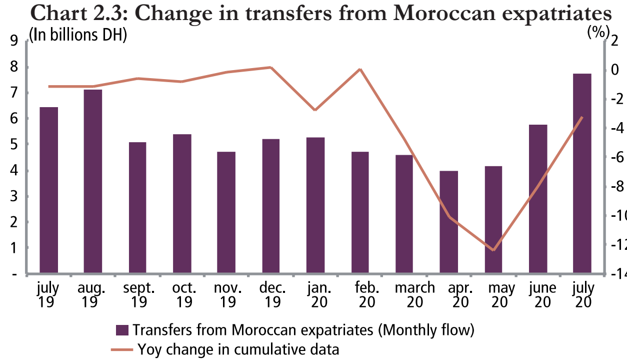
Chart 2.2: Change in travel receipts*



* Provisional data.
Source: Foreign Exchange Office.

Concerning transfers of Moroccans living abroad, they have largely improved during the last two months to reach 36.1 billion dirhams, reducing their decline from 11.3 percent at the end of May to 3.2 percent at the end of July.

Chart 2.3: Change in transfers from Moroccan expatriates



* Preliminary data

Source: Foreign Exchange Office.

Table 2.5: Change in the balance of services (in millions of dirhams)

	jan.-apr. 2020*	jan.-apr. 2019	Change	
			Value	in %
Imports	**41 468**	**55 438**	**-13 970**	**-25. 2**
Exports	**77 036**	**104 708**	**-27 672**	**-26. 4**
Balance	**35 568**	**49 270**	**-13 702**	**-27. 8**

* Provisional data.
Source: Foreign Exchange Office.

2.3 Financial account

As for financial operations, net FDI inflows decreased by 21.5 percent to 9 billion dirhams, with a 26.4 percent decline in revenues to 15 billion dirhams and a 32.7 percent decline in expenditures of the same nature to 6 billion dirhams. At the same time, the net flow of Moroccan direct investment abroad fell by 2.9 billion to 2.7 billion dirhams, due to a 1.8 billion dirhams decline in expenditure and an increase of 1.2 billion dirhams in income.

At the end of July 2020, the stock of official reserve assets stood at 292.5 billion dirhams, representing the equivalent of 7 months and 14 days of imports of goods and services.

Table 2.6: Change in Direct investments (in million dirhams)

	jan.-apr. 2020*	jan.-apr. 2019	Change	
			Value	in %
Foreign direct investments	**9 020**	**11 497**	**-2 477**	**-21,5**
Revenues	15 008	20 394	-5 386	-26,4
Expenses	5 988	8 897	-2 909	-32,7
Investments of Moroccans abroad	**2 724**	**5 644**	**-2 920**	**-51,7**
Expenses	4 921	6 687	-1 766	-26,4
Revenues	2 197	1 043	1 154	-

* Provisional data.

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSETS MARKET

Monetary conditions were marked by a further decline in lending rates and a depreciation of the effective exchange rate during the second quarter of 2020. As for credit to the non-financial sector, it grew at an annual rate of 6.2 percent, compared with 5.5 percent in the previous quarter, covering an acceleration in lending to private enterprises, a resumption in lending to public enterprises, and a slowdown in household credit growth. With respect to other money supply counterparts, official reserve assets increased by 22.1 percent instead of 9.8 percent and net claims on central government by 16.8 percent compared with 8.1 percent in the previous quarter. Overall, money supply growth accelerated from 3.9 percent to 6.9 percent.

In the real estate market, asset prices fell by 3.3 percent in the second quarter of 2020. This reflects price decreases by3.8 percent in residential property, 3 percent inland and 0.9 percent inbusiness property. As for transactions, their number decreased by 42.8 percent, particularly as a result of the implemented restrictions as part of the fight against the Covid-19 pandemic. The decline in sales stood at38.2 percent for residential assets, 53.7 percent for land and 54.2 percent for business assets. At the level of the Casablanca Stock Exchange, MASI recorded a 4.8 percent increase in the second quarter after a 20.3 percent decline and the volume of trade amounted to 12.8 billion after 15.8 billion a quarter earlier.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the second quarter of 2020, banks' liquidity needs increased to 95.9 billion DH on average weekly, compared to 71.4 billion DH a quarter earlier. Consequently, Bank Al-Maghrib increased the amount of its injections to 98.5 billion, including 31.1 billion in the form of 7-day advances, 47.6 billion through delivered securities transactions, 15.8 billion under the secured loans operations granted within the framework of the program to support the VSME financing and 3.5 billion served in the form of foreign exchange swaps.

The latest available data indicate a widening of the bank liquidity deficit to an average of 102.7 billion dollar in July and 106.2 billion dollars in August.

Within this context, the interbank rate stood at 1.93 percent in the second quarter and 1.5 percent in July and August, particularly following the decision of the Bank's Board of Directors, at its June 2020 meeting, to lower the key rate to 1.5 percent. On the Treasury bill market, rates were down overall for both primary and secondary segments.

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

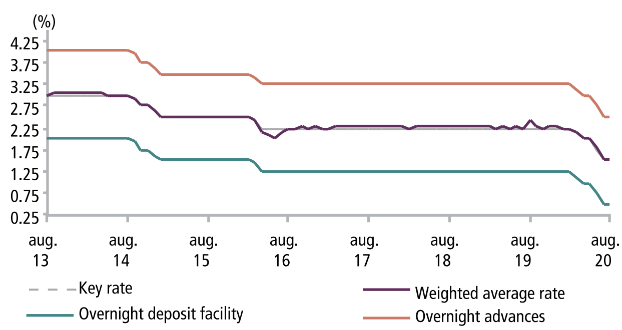
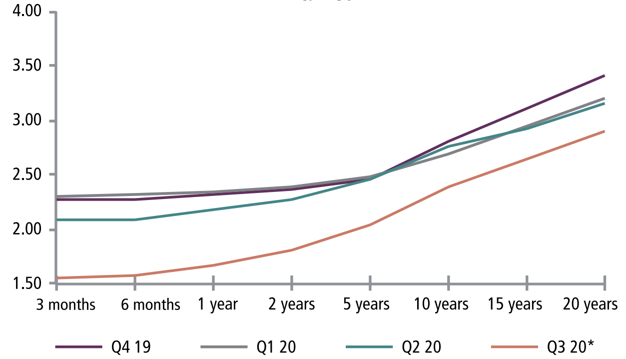


Table 3.1: Change in Treasury bond yields in the primary market

	2018		2019				2020		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*
52 weeks	2. 42	2. 45	2. 37	2. 31	2. 31	2. 27	2. 34	2. 16	-
2 years	2. 58	2. 60	2. 51	2. 39	2. 38	2. 32	2. 40	2. 22	1. 81
5 years	2. 82	2. 86	2. 77	2. 60	2. 58	2. 46	2. 50	2. 42	2. 10
10 years	3. 28	3. 34	3. 19	3. 02	2. 97	2. 81	2. 65	2. 40	2. 39
15 years	3. 70	-	3. 64	3. 42	3. 38	3. 10	2. 94	2. 90	-

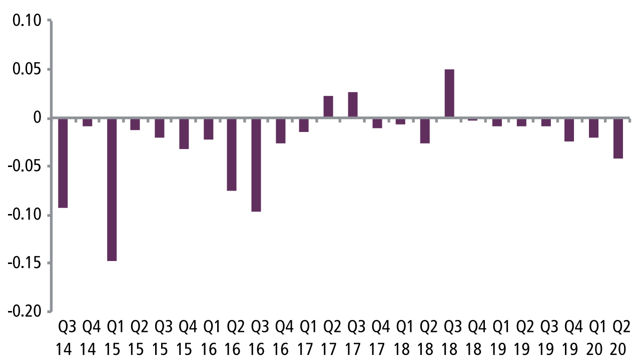
Chart 3.2: Term structure of interest rates in the secondary market



* Average observed in July and August.

On the other markets, issuance rates on certificates of deposit did not vary significantly during the second quarter of 2020. As for deposit rates, they fell by 9 basis points to 2.64 percent on average for 6-month deposits and by 4 points to 3.02 percent for one-year deposits. Under these conditions, the cost of financing[1] for banks has fallen slightly.

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



With regard to lending rates, the results of Bank Al-Maghrib's survey among banks for the second quarter of 2020 show a decline in the total average rate by 29 basis points to 4.58 percent. By institutional sector, rates on loans to corporates fell by 26 points, covering decreases of 65 points for VSME and 28 points for large enterprises. For rates applied to individuals, they declined by 11 basis points, with a 119-point drop for accounts receivable and cash advances as well as increases of 34 points for consumer loans and 25 points for real estate loans.

1 The cost of financing is calculated as a weighted average of the costs of banks liabilities.

Table 3.2 : Change in lending rates

	2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2
Global	**5. 02**	**4. 98**	**5. 09**	**4. 91**	**4. 87**	**4. 58**
Personal rate	**5. 78**	**5. 34**	**5. 69**	**5. 55**	**5. 64**	**5. 53**
Real estate loans	4. 7	4. 18	4. 51	4. 48	4. 39	4. 64
Consumer loans	6. 74	6. 71	6. 72	6. 66	6. 75	7. 09
Loans to businesses	**4. 78**	**4. 85**	**4. 92**	**4. 77**	**4. 7**	**4. 44**
Creditor accounts and cash advances	4. 72	4. 7	4. 74	4. 65	4. 61	4. 39
Equipment loans	4. 48	5. 07	5. 2	4. 58	4. 49	4. 19
Real estate loans	5. 59	5. 46	6. 07	6. 12	6. 15	6. 12

Source : BAM.

Table 3.3: Deposit rates

	2018			2019				2020	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
6 months	2. 78	2. 80	2. 71	2. 78	2. 68	2. 75	2. 68	2. 73	2. 64
12 months	3. 10	3. 07	3. 04	3. 06	3. 00	3. 01	2. 98	3. 06	3. 02

3.1.2 Exchange rate

During the second quarter of 2020, the euro depreciated by 0.15 percent from one quarter to another against the US dollar. For its part, the dirham depreciated by 2.18 percent against the euro and by 2.32 percent against the US dollar. Compared to the currencies of the main emerging countries, the national currency appreciated by 9.88 percent against the Turkish pound, 0.75 percent against the pound sterling and depreciated by 0.80 percent against the Chinese yuan. As a result, the effective exchange rate depreciated by 0.43 percent in nominal terms and 0.82 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

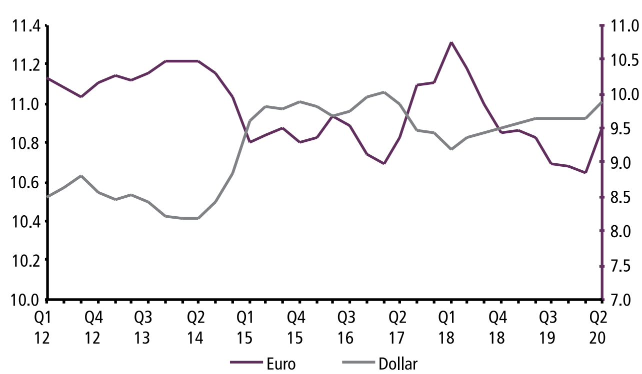
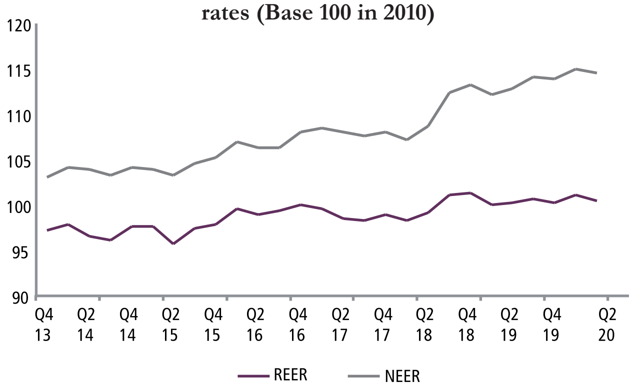


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

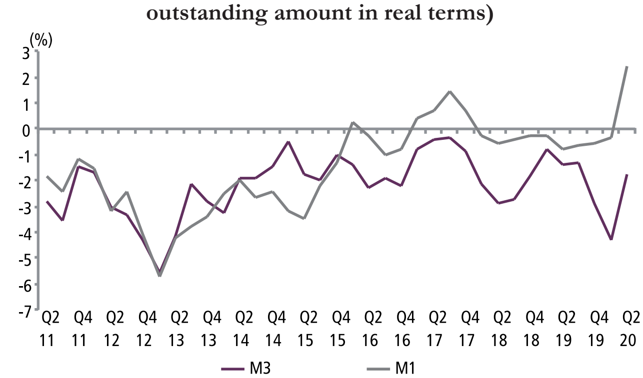
As for foreign currency transactions, they fell sharply, mainly as a result of the decline in foreign trade. The average volume of banks' cash operation with customers fell in the second quarter by 20 percent to 19.4 billion DH for sales and by 20.4 percent to 18.1 DH billion for purchases. Similarly, forward purchases fell by 41.5 percent to 8 billion DH and forward sales decreased by 29.9 percent to 2.7 billion DH. During this period, Bank Al-Maghrib did not carry out any currency purchases or sales with banks. Under these conditions, the net foreign exchange position of banks was positive at 5.2 billion DH at the end of June, against a negative balance of 0.8 billion DH at the end of March 2020.

3.1.3 Monetary situation

The pace of growth in the M3 aggregate rose from 3.9 percent in the first quarter to 6.9 percent in the second quarter of 2020. This trend reflects an acceleration from 9.5 percent to 20.1 percent in the growth of the fiduciary currency mainly under the effect of the massive outflows generated by the Tadamoun operation and the month of Ramadan. Similarly, demand deposits increased by 8.4 percent after 6.6 percent, with an improvement from 6.1 percent to 7.9 percent in the growth of household deposits and a slowdown from 9.9 percent to 9.3 percent for deposit of private non-financial enterprises. For their part, after a decline of 3.6 percent in the previous quarter, money market fund shares recorded an annual increase of 9.8 percent. On the other hand, time deposits decreased by 7.5 percent, after a 9.7 percent decline, covering a 12.2 percent to 6.4 percent decrease in private enterprises deposit and a 2.3 percent to 4 percent increase in the decline in households' deposits.

The main counterpart to this is the change in the money supply, which reflects accelerations from 9.8 percent to 22.1 percent for official reserve assets, from 8.1 percent to 16.8 percent for net claims on central government and from 4.9 percent to 6.3 percent for 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

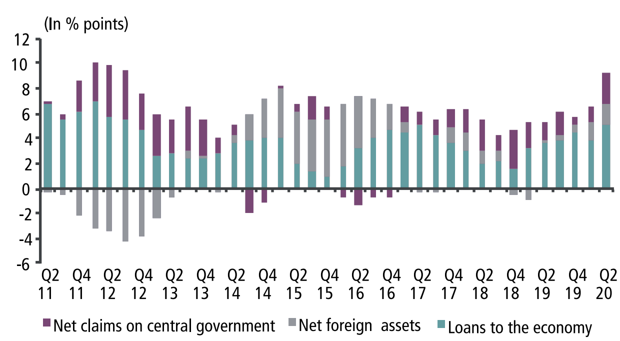
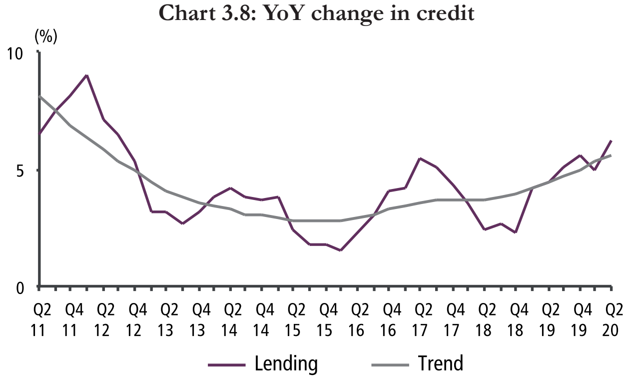


Chart 3.8: YoY change in credit



As for credit to the nonfinancial sector, its annual growth rose from 5.5 percent to 6.2 percent, covering an acceleration in the growth of loans to private firms, a resumption of lending to public enterprises, and a slowdown in the growth of household credit.

Consequently, loans to private enterprises grew by 10.1 percent after 7.2 percent in the previous quarter, reflecting accelerations from 9.5 percent to 15.7 percent for cash advances and from 6.9 percent to 7.5 percent for equipment loans. Conversely, real estate development loans slowed from 2 percent to 1.1 percent.

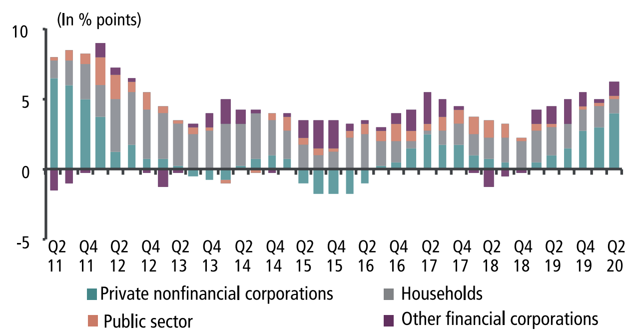
As for loans to public enterprises, after a decline of 2.2 percent in the first quarter, they increased by 1.3 percent with, in particular, a slowdown in the decline in cash advances from 19.9 percent to 14.4 percent and a slowdown in the increase in equipment loans from 1.4 percent to 0.7 percent.

Growth in loans to individual entrepreneurs fell from 1.7 percent to 0.7 percent, including a 3.2 percent decline in equipment loans, compared with a 2 percent increase, a 13.4 percent to 5.9 percent decline in real estate loans, and a 5.9 percent to 9.1 percent acceleration in the pace of growth in cash advances.

By branch of activity, quarterly data for the month of June show in particular a 5.7 percent increase in loans to the "food and tobacco industries" sector instead of a 4.4 percent decline at the end of March. Similarly, loans to the "Electricity, gas and water supply", sector increased by 6.6 percent after 5.8 percent in the previous quarter. On the other hand, loans to "construction and public works" enterprises fell by 3.7 percent, more sharply than the 1.6 percent decline recorded in the first quarter, and the rate of increase for loans granted to "Trade, repair of motor vehicles and personal and household goods" fell from 15 percent to 3.4 percent.

The growth rate of Personal loans fell from 5.1 percent to 2.8 percent, following the deceleration from 4.3 percent to 2.3 percent in housing loans and the 0.1 percent decrease after a 4.1 percent rise in consumer loans.

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



Non-performing loans increased by 9.3 percent and their ratio to bank lending almost stabilized at 7.9 percent. This trend reflects increases of 14.2 percent for households and 6.3 percent for private non-financial enterprises.

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

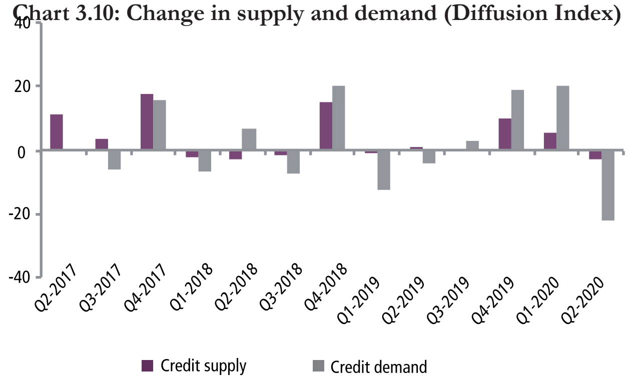
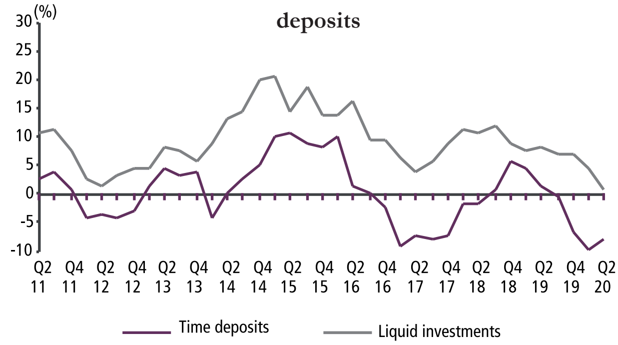


Chart 3.11: YoY change in liquid investments and time deposits



Loans from non-bank financial institutions to the non-financial sector rose by 2.8 percent at the end of June after 4.4 percent at the end of March 2020. This reflects slowdowns from 3.8 percent to 1.8 percent in the growth rate of loans distributed by finance enterprises and from 6.9 percent to 2.8 percent in the growth rate of loans distributed by microcredit associations. Conversely, loans provided by offshore banks expanded by 24.7 percent after 12.7 percent in the previous quarter.

The latest available data for the month of July show a 5.8 percent increase in bank credit. In particular, loans to the non-financial sector continued to improve with a 6 percent increase.

As for liquid investment aggregates, their growth rate fell from an average of 4.5 percent in the first quarter to 0.7 percent in the second quarter of 2020. This trend reflects a decrease of 3.4 percent after a 0.7 percent rise in Treasury bills and a deceleration from 5.4 percent to 4.6 percent for bond UCITS securities and from 20 percent to 6.8 percent for equity and diversified UCITS securities.

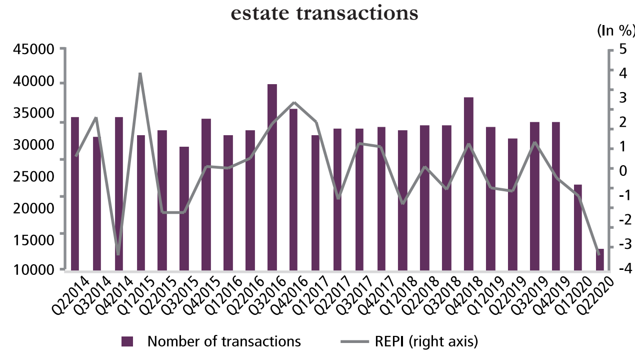
3.2 Asset prices

3.2.1 Real estate assets

In the second quarter of 2020, the real estate asset price index showed a quarterly decline of 3.3 percent. This evolution reflects declines in residential prices by 3.8 percent, land prices by3 percent and business property prices by0.9 percent. As for the number of transactions, it fell by 42.8 percent, as the quarter coincided with the containment period. The decline affected all categories with rates of 38.2 percent inresidential properties, 53.7 percent in land and 54.2 percent in commercialproperties.

In the main cities, the decline in prices varied from 0.4 percent in El Jadida to 7.2 percent in Meknes. Similarly, the number of transactions contracted from 27.4 percent in Casablanca to 57.1 percent in Rabat.

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



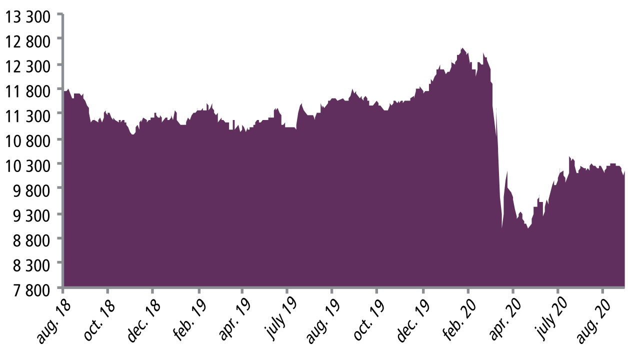
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

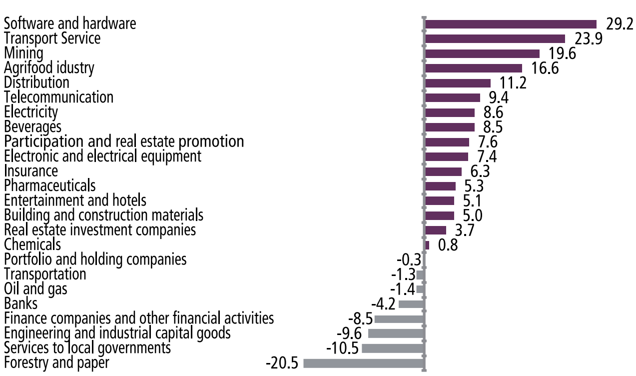
After the exceptional 20.3 percent decline recorded in the first quarter of 2020, MASI appreciated by 4.8 percent in the second quarter, bringing its annual underperformance to 16.5 percent. This quarterly evolution reflects in particular the increases in the sector indices of "buildings and construction materials" by 5 percent, "telecommunications" by 9.4 percent, "food processing" by 16.6 percent and "transport services" by 23.9 percent. On the other hand, the indices for the sectors of "banks" and "finance companies and other financial activities" recorded shortcomings of 4.2 percent and 8.5 percent respectively.

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 for the volume of transactions, it reached 12.8 billion DH in the second quarter after 15.8 billion DH one quarter earlier. By compartment, the turnover went from 12.6 billion DH to 8.6 billion DH on the central equity market and increased from 1.3 billion DH to 3 billion DH on the block market.

Under these conditions, market capitalization recorded a quarterly increase of 4.1 percent to 523.9 billion DH.

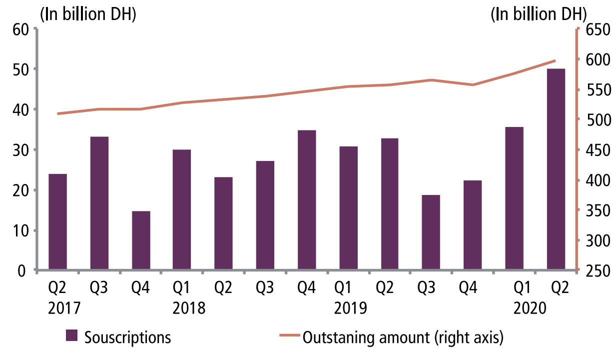
Data at the end of August indicate near stagnation of MASI's annual underperformance at 16.7 percent. Concerning the overall volume of trade, it stood at 1.5 billion in July and 1.1 billion in August, after a monthly average of 4.8 billion during the first six months of the year. Market capitalization stood at 524.7 billion at the end of August, down by 16.3 percent since the beginning of the year.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic market amounted to 50.1 billion DH in the second quarter, a quarterly increase of 40.6 percent. They accounted for 76 percent on medium maturities and 18 percent on short maturities.

In July, the Treasury issues reached 9.3 billion DH of which 51.5 percent for short maturities and 34.4 percent for long maturities. Taking into account subsidies of 7.2 billion DH, outstanding Treasury bills reached 597.2 billion HD, up 7.2 percent compared to the end of December.

Chart 3.15: Change in outstanding Treasury bonds



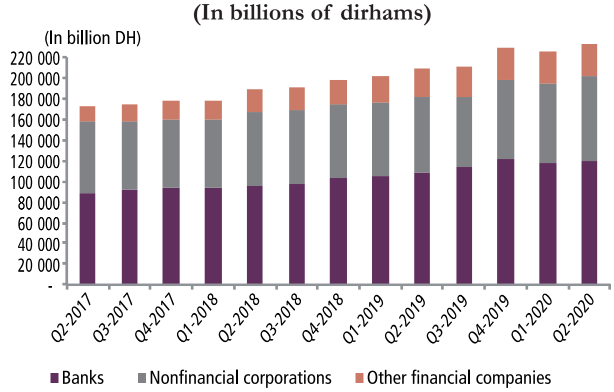
Source : BAM.

3.2.2.3 Private debt market

On the private debt market, issues increased by 50.8 percent to 21.8 billion HD in the second quarter of 2020. Banks reached 13 billion after 6.1 billion and those of non-financial companies amounted to 6.8 billion against 5.4 billion in the first quarter.

In August, the amount of issues totaled 6.4 billion after 9.9 billion in July and 6 billion on average during the first half of the year. Including subsidies, outstanding private debt has increased by 2.8 percent since the beginning of the year to 235.3 billion DH.

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

At the end of the second quarter of the year, subscriptions to UCITS securities decreased by 33.5 percent to 205 billion DH and redemptions fell by 34.6 percent to 192.8 billion DH, representing a net inflow of 12.2 billion DH. Regarding performances, they increased for all funds and varied between 0.8 percent recorded by "money market" funds and 4.9 percent by "equity" funds.

Data for the month of August indicate a rise in the UCITS net assets since the beginning of the year by 4.8 percent to 492.9 billion DH. This increase reflects in particular increases of 8.3 percent for "medium and long term bonds" and 3.7 percent for "money market" funds, while "equity" and "short term bonds" funds decreased by 11.2 percent and 0.1 percent respectively.

4. FISCAL POLICY STANCE

In view of the expected impact of the Covid-19 pandemic, the government drafted an amended finance law (AFL 2020) which was adopted and published in the official bulletin at the end of July. This law anticipates a widening of the budget deficit to 7.6 percent of the GDP instead of 3.7 percent of the GDP initially planned in the finance law (FL), with an economic growth of -5 percent instead of 3.7 percent as a main hypothesis. Compared to the FL, the AFL 2020 has programmed an overall decrease in expenditure of 9.8 billion, while revenues are expected to fall sharply by 44.3 billion DH as a result of lower tax revenues. Similarly, the balance of the Treasury's special accounts has been reduced by half to 3 billion DH.

As for the budget execution for the first eight months of 2020, it resulted in a deficit of 46.5 billion, compared to 35.2 billion one year earlier, taking into account the positive balance of 9 billion of the Covid-19 Fund. This was mainly due to the 6.5 percent decline in current revenues to 158.5 billion, impacted by the 8.4 percent drop in tax revenues, while non-tax revenues increased by 17.3 percent. At the same time, current expenditure rose by 4.3 percent, mainly as a result of increases of 7.2 percent in payroll and 8.3 percent in expenditure on other goods and services. Under these conditions, the current balance showed a deficit of 16 billion, compared with a surplus of 2.1 billion a year earlier. Investments, on the other hand, fell by 4.7 percent to 39.9 billion, bringing overall expenditure to 214.4 billion, an increase of 2.5 percent.

In addition, the Treasury reduced its stock of pending transactions by 1.6 billion, bringing the cash deficit to 48.1 billion, compared to 44.8 billion at the end of August 2019. This requirement was covered by net domestic resources of 32.8 billion and a positive net external flow of 15.2 billion. The direct outstanding public debt would have increased by 7.9 percent compared with its level at end-December 2019. Treasury financing conditions remain favourable, as demonstrated by the decline in the weighted average rates of securities issued by auction at the end of July 2020.

4.1 Current receipts

Current revenue for the first eight months of 2020 reached 158.5 billion, a decline of 6.5 percent compared to the same period in 2019. This trend includes a decrease of 8.4 percent in tax revenues to 142.2 billion, 68.6 percent lower than in the amended finance law, and an increase of 17.3 percent to 14.4 billion of non-tax revenues. The decline in tax income stems from the fall in revenue from all taxes and duties, with the exception of domestic VAT, which was impacted in particular by the decline in activity.

Direct tax revenue fell by 4.1 percent to 58.7 billion, mainly as a result of a 6.4 percent decline in products income tax to 27.7 billion, with a 2.4 percent increase in income tax on salaries paid by the Personnel Expenditure Directorate to 5.9 billion and a 36.7 percent decline in income tax on property profits to 1.4 billion. On the other hand, the social contribution on profits increased by 5.6 percent to 2.1 billion and corporate income tax revenues, based mainly on 2019 results, decreased by 0.6 percent to 28 billion.

For their part, indirect taxes recorded a decline of 10.1 percent to 68.7 billion DH, induced mainly by the decline of 15.5 percent to 31.5 billion of VAT receipts on imports and 12.8 percent to 17.1 billion of those of ICT. These last two taxes were impacted by the decline in activity and by the combined effect of the fall in prices and volumes of imports of petroleum products.

On the other hand, after the declines recorded at the end of June 2020, domestic VAT receipts increased by 1.7 percent at the end of July 2020 and by 2.7 percent to 20.1 billion at the end of August 2020, after the gradual recovery of economic activity.

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

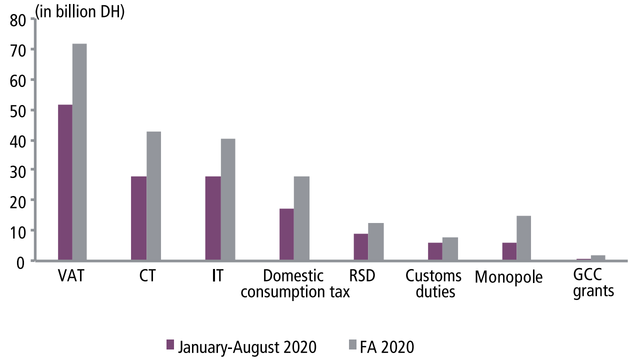
	Jan.-aug. 2019	Jan.-aug. 2020	Change in %	FA 2020	Achievements against the FA (%)
Current revenues	**169. 5**	**158. 5**	**-6. 5**	**244. 0**	**65. 0**
Tax revenues	**155. 2**	**142. 2**	**-8. 4**	**207. 3**	**68. 6**
- Direct taxes	61. 2	58. 7	-4. 1	87. 5	67. 1
Including CT	28. 2	28. 0	-0. 6	42. 9	65. 3
I.T	29. 6	27. 7	-6. 4	40. 0	69. 2
- Indirect taxes	76. 5	68. 7	-10. 1	99. 2	69. 3
VAT*	56. 9	51. 6	-9. 2	71. 6	72. 1
DCT	19. 6	17. 1	-12. 8	27. 6	61. 9
- Customs duties	6. 2	5. 8	-6. 6	7. 9	73. 5
- Registration and stamp duties	11. 3	8. 9	-21. 3	12. 7	70. 0
Nontax revenues	**12. 3**	**14. 4**	**17. 3**	**33. 7**	**42. 8**
- Monopoles	6. 7	6. 0	-9. 5	14. 7	41. 1
- Other receipts	5. 6	8. 4	49. 1	19. 0	44. 1
Including GCC grants	0. 9	0. 1	-86. 4	1. 8	6. 7
Recettes des CST	**2. 0**	**1. 9**	**-1. 1**	**3. 0**	**64. 7**

*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 domestic consumption tax revenues is mainly due to the 17 percent to 9.2 billion decline in revenues from energy products and 7.5 percent to 6.8 billion decline in revenues from tobacco.

For their part, customs duty revenue fell by 6.6 percent to 5.8 billion, while registration and stamp duty revenue fell by 21.3 percent to 8.9 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
- CT : Corporate tax
- IT : Income tax
- DCT : Domestic consumption tax
- RSD : Registration and stamp duties
- CD : Customs duties

Non-tax revenues increased by 17.3 percent, marked by an increase in the funds available for assistance which rose from 570 million DH to 4.2 billion DH. On the other hand, monopolies and shareholdings revenues decreased by 9.5 percent to 6 billion DH, of which 2 billion DH came from OCP (National Phosphates Office), 950 million DH from ANCFCC (Land registry office), 949 DH million from Bank Al-Maghrib and 911 million DH from Maroc Télécom. As for donations from the GCC countries (Gulf cooperation council), they have stabilized at 121 million DH since May, instead of 889 million DH received during the same period of 2019.

4.2 Expenditure

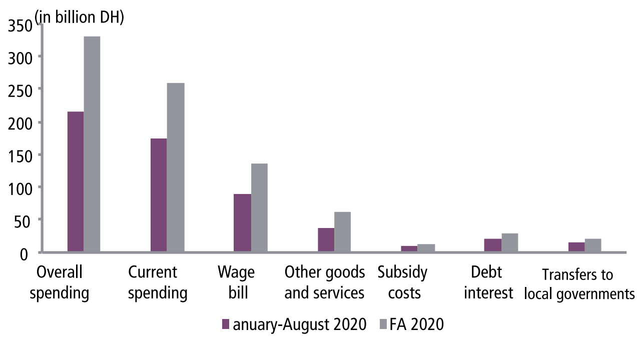
The Treasury's overall expenditure increased by 2.5 percent to 214.4 billion in the first eight months of 2020, covering a 4.3 percent increase in current expenditure to 174.5 billion and a 4.7 percent decrease in investment to 39.9 billion. Expenditure on goods and services increased by 7.6 percent to 127.6 billion, resulting from increases of 7.2 percent to 88.9 billion in the wage bill and 8.3 percent to 38.7 billion in other goods and services. The evolution of the latter includes increases of 0.6 percent to 18 billion in payments to public institutions and enterprises and 181.8 percent to 6.2 billion for the Treasury's special accounts. Personnel expenses include a 7.3 percent increase in the structural component and a 52.5 percent decrease in reminders for the part served by the Personnel Expenses Department.

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

	Jan.-aug. 2019	Jan.-aug. 2020	Change in %	FA 2020	Achievements against the FA (%)
Overall spending	**209. 3**	**214. 4**	**2. 5**	**329. 8**	**65. 0**
Current spending	**167. 4**	**174. 5**	**4. 3**	**259. 0**	**67. 4**
Goods and services	118. 6	127. 6	7. 6	197. 3	64. 7
Personal**	82. 9	88. 9	7. 2	135. 9	65. 4
Other goods and services	35. 8	38. 7	8. 3	61. 4	63. 1
Debt interests	21. 4	21. 8	1. 9	28. 3	76. 9
Clearing	10. 3	9. 6	-6. 4	11. 9	81. 3
Transfer to local governments	17. 1	15. 5	-9. 2	21. 5	72. 1
Investment	**41. 9**	**39. 9**	**-4. 7**	**70. 8**	**56. 4**

*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.

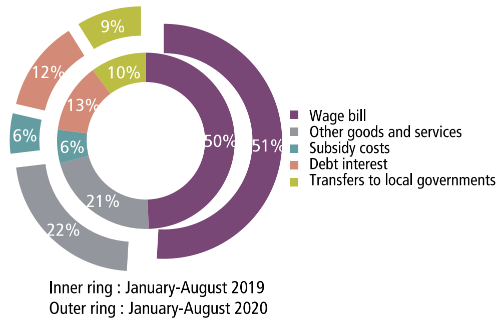
Chart 4.2: spending execution compared to the FA



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

Debt interest charges rose by 1.9 percent to 21.8 billion, covering increases of 0.9 percent to 19.3 billion in interest on domestic debt and 10.3 percent to 2.5 billion in interest on foreign debt.

Chart 4.3: Structure of current spending

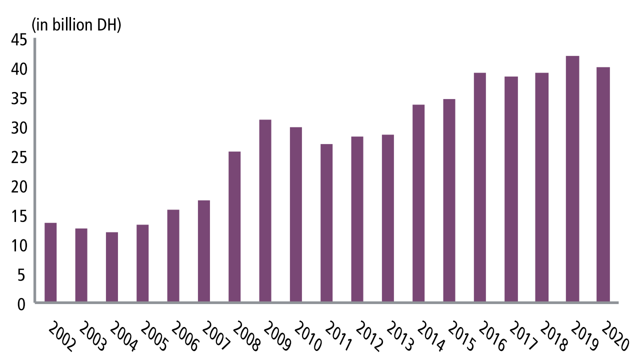


Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

The subsidy fee fell by 6.4 percent to 9.6 billion. The data available from the subsidy fund for the first seven months of the year show reductions of 10.5 percent to 5.4 billion in subsidies for butane gas and 6 percent to 1.9 billion for sugar subsidies. According to the same source, the average price of butane gas on the international market in the first seven months of 2020 fell by 14.4 percent to 359.7 dollar per tonne, while that of raw sugar fell by 0.9 percent to 292.3 dollar per tonne.

For their part, investment expenditure fell by 4.7 percent to 39.9 billion, with a year-on-year drop of 16.1 percent in the August flow, after increases of 80.1 percent and 5.4 percent of flows for the months of June and July respectively. The level of execution of these expenditures compared to the forecasts of the amended finance law is clearly down. This decrease is mainly explained by the decrease in the spending of Ministries.

Chart 4.4: Investment spending, at end of August

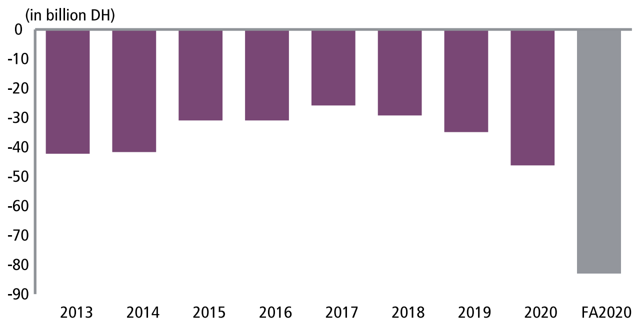


Source : Ministry of Economy and Finance and Administration Reform.

4.3 Deficit and Treasury Financing

The Treasury's situation resulted in a budget deficit of 46.5 billion, compared to 35.2 billion a year earlier, taking into account the balance of the Treasury's special accounts of 9.4 billion, compared to 4.6 billion at the end of August 2019, reflecting the positive balance of 9 billion of the Covid-19 Fund. Excluding this fund, the deficit would have been 55.5 billion. In addition, the Treasury reduced its stock of pending transactions by 1.6 billion, consequently bringing the cash deficit to 48.1 billion, compared with 44.8 billion a year earlier.

Chart 4.5: Fiscal balance, at end of August



Source : Ministry of Economy and Finance and Administration Reform.

The financing requirement was covered by domestic resources of 32.8 billion net and by net external loans of 15.2 billion. Gross external drawings amounted to 20.1 billion, of which 10.1 billion came from the World Bank, 3.9 billion from the Arab Monetary Fund and 3.4 billion from the African Development Bank.

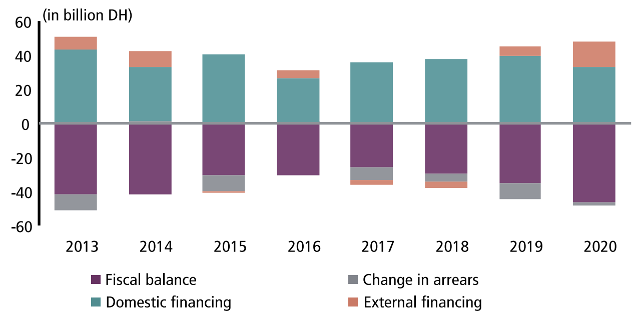
Table 4.3: Deficit financing (in billions of dirhams)

	Jan.-aug. 2019	Jan.-aug. 2020	FA 2020
Current balance	**2.1**	**-16.0**	**-15.0**
Balance of TSA	4.6	9.4	3.0
Including Covid-19 Fund	0.0	9.0	0.0
Primary balance	-13.8	-24.7	-54.5
Fiscal balance	**-35.2**	**-46.5**	**-82.8**
Change in arrears	-9.7	-1.6	
Financing requirements	**-44.8**	**-48.1**	**-82.8**
Domestic financing	35.2	32.8	39.2
External financing	5.2	15.2	43.6
Privatization	4.4	0.0	0.0

Source : Ministry of Economy and Finance and Administration Reform.

In terms of domestic financing, recourse to the Treasury bond auction market amounted to a net amount of 44.5 billion, against 16.3 billion a year earlier. The most significant net subscriptions were 14.3 billion for 2-year Treasury bill rate, 9.5 billion for 30-year Treasury bill rate, 6.5 billion for 5-year Treasury bill rate and 6.2 billion for 26-week Treasury bill rate. As for the net subsidies, they concerned only the 10-year Treasury bill rate for an amount of 6.7 billion.

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



* Privatization receipts, limited and discontinued over time, were included in domestic financing.
Source : Ministry of Economy and Finance and Administration Reform.

Treasury financing conditions on the domestic market were favourable over the first seven months of 2020 compared to the same period in 2019. In particular, rates fell by 69 basis points to 3.10 percent for 20-year Treasury bill rate, from 62 basis points to 3.75 percent for 30-year Treasury bill rate and from 57 basis points to 2.93 basis points for 15-year maturities. Similarly, the declines were 55 basis points for 10-year Treasury bill rate at 2.52 percent, 22 basis points for 5-year Treasury bill rate at 2.45 percent and 19 bps for 2-year Treasury bill rate at 2.23 percent.

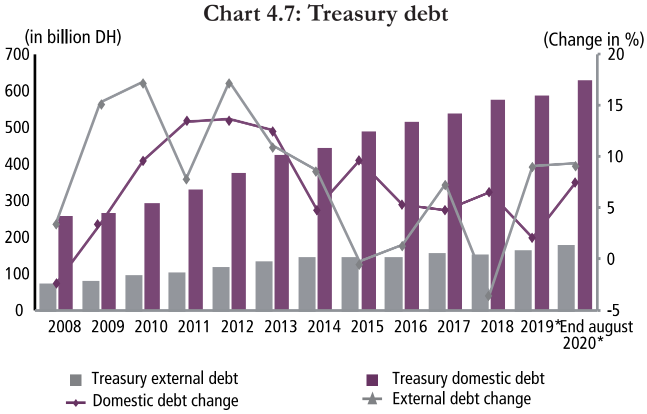
Table 4.4: Treasury debt outlook (in billions of dirhams)

	2015	2016	2017	2018	2019	At end aug. 2020*
Treasury external debt	**140.8**	**142.8**	**153.2**	**148.0**	**161.5**	**176.7**
Change in %	-0.2	1.4	7.3	-3.4	9.1	9.4
Treasury domestic debt	**488.4**	**514.7**	**539.1**	**574.6**	**586.5**	**630.0**
Change in %	9.6	5.4	4.8	6.6	2.1	7.4
Outstanding direct debt	**629.2**	**657.5**	**692.3**	**722.6**	**748.0**	**806.7**
Change in %	7.3	4.5	5.3	4.4	3.5	7.9

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 the debt, it would be up by 7.9 percent at the end of August 2020 compared to its level at the end of December 2019, with a 7.4 percent increase in the domestic component and a 9.4 percent increase in the external component.

Chart 4.7: Treasury debt



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

Box 4.1: Amended Finance Law 2020

The amended finance law 2020 (AFL) was adopted and published in the Official Bulletin at the end of July. The drafting of this law was dictated by the current health and economic crisis. In fact, the budgetary magnitudes, particularly tax revenues, have been largely impacted by the economic recession caused by this crisis. In terms of indicators, the AFL 2020 expects the budget deficit to widen to 7.6 percent of GDP or 82.8 billion, against 3.7 percent of GDP or 45.3 billion forecasted in the FL (finance law). This deficit was expected to be financed by net domestic resources of 39.2 billion, an increase of 11.5 billion, and by net external financing of 43.6 billion, an increase of 29 billion, corresponding to gross drawings of 60 billion (31 billion in the LF) and subsidies of 16.4 billion DH. It should also be noted that the privatization receipts of 3 billion programmed by the LF have been deleted in the AFL due to the current unfavourable context.

In terms of assumptions, the revised 2020 budget is built mainly around negative economic growth of 5 percent, with a 4.8 percent decline in agricultural value added resulting from an estimated grain production of 30 million quintals, instead of 70 million quintals in the 2020 FL, and an average butane gas price of 290 dollar per tonne (350 dollar in the 2020 FL 2020).

Compared to the FL 2020, current revenues, excluding privatisation, are projected to fall by 15.4 percent, covering an 18.8 percent drop in tax revenues to 207.3 billion dollar and a 12.9 percent increase in non-tax revenues to 33.7 billion dollar. The revision of the latter is due to the revenues of monopolies and specific mechanisms, which have been increased by 2.5 billion and 2 billion respectively compared to the FL 2020.

On the tax revenue side, direct taxes are expected to fall by 17.9 billion with regard to the FL. Corporate income tax decreased by 10.1 billion or 19.1 percent and income tax is expected to fall by 6.1 billion, including 2 billion in income tax on wages and salaries and 0.6 billion in income tax on property profits. Indirect tax revenues are projected to decrease by 23.5 billion dollar, which 21.1 billion dollar due to a decrease in value added tax (VAT) and 2.4 billion dollar in Internal Consumption Tax (ICT). Domestic VAT is expected to fall by 5.8 billion and import tax is expected to fall by 15.4 billion, including 5.1 billion from import VAT on energy products. As for the revenue from the domestic Consumption Tax, its decline would mainly result from the fall in the volume of energy products released for consumption. Customs duty revenue is expected to fall by 2.5 billion, along with revenues from registration and stamp duties, which are expected to fall by 4 billion in relation to the FL.

In this respect, overall expenditure under the LFR 2020 was revised downwards by 9.8 billion dollar to 329.8 billion dollar, as a result of the decline by 10.3 billion dollar to 259 billion dollar in current expenditure and an increase of 455 million dollar to 70.8 billion dollar in investment expenditure. The change in current expenditure was mainly due to a decline of 6.3 billion in Transfers to local government, a decline of 2.8 billion in subsidy fees and a decline of 1.5 billion in operating expenditure. Appropriations for the wage bill were reduced by 2.2 billion to 135.9 billion, resulting from the postponement of progress operations and recruitment, except for staff in the health and safety administrations. For their part, debt interest charges are estimated at 28.3 billion, an increase of 323 million compared with initial forecasts.

	LF 2020	LFR 2020	Ecarts	
			in value	in %
Ordinary receipts	**288. 3**	**244. 0**	**-44. 3**	**-15. 4**
Tax receipts*	**255. 2**	**207. 3**	**-47. 9**	**-18. 8**
Direct taxes	105. 4	87. 5	-17. 9	-17. 0
Of which corporate tax I.S	53. 0	42. 9	-10. 1	-19. 1
Income tax revenues - Indirect taxes	46. 2	40. 0	-6. 1	-13. 3
VAT	122. 7	99. 2	-23. 5	-19. 2
DCT	92. 7	71. 6	-21. 1	-22. 8
- Customs duties	30. 0	27. 6	-2. 4	-7. 9
- Registration and stamp	10. 4	7. 9	-2. 5	-24. 1
- Enregistrement et timbre	16. 6	12. 7	-4. 0	-23. 9
Non tax receipts	**29. 8**	**33. 7**	**3. 9**	**12. 9**
- Monopoles	12. 2	14. 7	2. 5	20. 3
- Other receipts	17. 6	19. 0	1. 4	7. 8
Donations from GCC countries	1. 8	1. 8	0. 0	0. 0
Revenues from innovative mechanisms	12. 0	14. 0	2. 0	16. 7
Receipts of some TSA	**3. 3**	**3. 0**	**-0. 3**	**-9. 1**
Overall expenses	**339. 6**	**329. 8**	**-9. 8**	**-2. 9**
Ordinary expenses	**269. 3**	**259. 0**	**-10. 3**	**-3. 8**
Goods and services	**198. 8**	**197. 3**	**-1. 5**	**-0. 8**
Personnel	138. 1	135. 9	-2. 2	-1. 6
Other goods and services	60. 7	61. 4	0. 7	1. 1
Public debts interests	**28. 0**	**28. 3**	**0. 3**	**1. 2**
Subsidy	**14. 6**	**11. 9**	**-2. 8**	**-19. 0**
Transfers to TA	**27. 8**	**21. 5**	**-6. 3**	**-22. 8**
Ordinary balance	**19. 1**	**-15. 0**		
Investment	70. 4	70. 8	0. 5	0. 6
Balance of TSA	6. 0	3. 0		
Fiscal balance	**-45. 3**	**-82. 8**		
In points of GDP	**-3. 7**	**-7. 6**		
Primary balance	**-17. 3**	**-54. 5**		
Financing balance	**-45. 3**	**-82. 8**		
Domestic financing	27. 7	39. 2		
Exterior financing	14. 6	43. 6		
Privatization	3. 0	0. 0		

Sources : - MEFAR (DTFE)
- Local government VAT reprocessing by BAM.
- Figures in billions of dirhams unless otherwise indicated.

As far as investment expenditure is concerned, it should record an increase of 0.6 percent or 455 million to 70.8 billion in terms of issuance, corresponding to payment credits of 85.7 billion instead of 78.2 billion in the FL 2020. This trend includes a reduction of 8.9 billion in the investment budgets of ministerial departments and institutions and an increase of 16.4 billion in common investment charges, allowing the allocation of credits amounting to 15 billion of the economic recovery programme.

5. DEMAND, SUPPLY AND LABOR MARKET

The latest national accounts data available date back to the first quarter of 2020 and therefore only partially reflect the effect of the COVID-19 pandemic on the Moroccan economy. They show a deceleration of growth to 0.1 percent compared to 2.8 percent a year earlier, with an easing of decline in agricultural value added to 5 percent after 5.9 percent, and a rapid slowdown in the pace of non-agricultural activities from 4.3 percent to 0.9 percent.

In the second and third quarters, periods marked by the strict containment of the population for almost the entire second quarter and localised closures linked to the emergence of clusters thereafter, non-agricultural activities would have fallen by more than 9 percent on average instead of an increase of 3.6 percent a year earlier. As for agricultural added value, it would have fallen by 5.5 percent due to the unfavourable climatic conditions in the country for the second consecutive year. In total, the GDP would have shown a significant decline of 9 percent on average after an increase of 2.4 percent during the same period a year earlier. As for demand, despite easing measures, household consumption is said to have suffered from the effects of the pandemic and investment is reported to have fallen sharply in a context of total or partial cessation of activity in several sectors. Equally, net exports would have contributed negatively to growth, mainly as a result of the recession among economic partners of Morocco.

This underperformance was reflected in the labour market situation, which showed a net loss of 589 thousand jobs in the second quarter compared to the same quarter in 2019, four-fifths of which were in agriculture. In addition, almost two-thirds of those with jobs have worked less than usual and the average number of hours worked per week per person fell from 45 to 22 hours, a decline that affected mainly the non-agricultural sectors. Taking into account a net loss of 93 thousand jobseekers, the unemployment rate deteriorated from 8.1 percent to 12.3 percent in general, from 11.7 percent to 15.6 percent in cities and from 3 percent to 7.2 percent in countryside.

5.1 Domestic demand

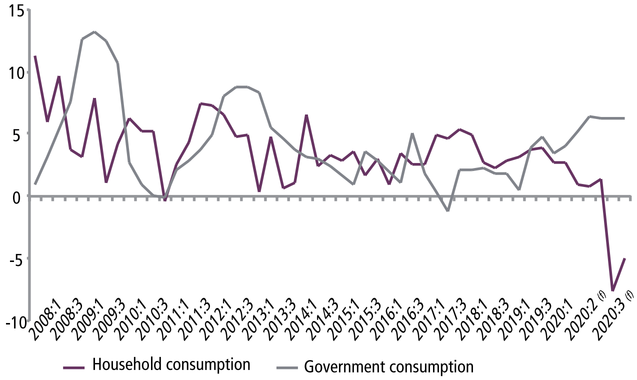
5.1.1 Consumption

In the first quarter of 2020, national accounts data show a deceleration in the pace of household consumption to 1.4 percent instead of 2.7 percent in the same quarter of the previous year. Consequently, its contribution to growth fell back to 0.8 percentage points after 1.6 points.

During the second and third quarters, the implementation of the 20 March containment until almost the end of the second quarter and the fall in agricultural incomes would have had a negative impact on household consumption, the pace of which would have fallen by 6.3 percent on average, with a marked decline in the second quarter in particular, despite the financial aid measures taken by the Economic Watch Committee in favour of employees declared to the CNSS (National Social Security Fund) as being temporarily out of work and households working in the informal sector, both registered in Ramed and non-registered .

These projections are confirmed by the Consumer Confidence Index, which fell sharply from 74.9 points in the second quarter of the previous year to 65.6 points in the same quarter of 2020.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP, and BAM forecasts.

Regarding public administration final consumption, it accelerated to 6.2 percent in the first quarter, compared with 3.4 percent in the first quarter of 2019, in connection with the rise in public sector wages. Its contribution to growth consequently increased from 0.7 to 1.3 percentage points.

In the second and third quarters, growth is estimated to have increased by almost 6.3 percent, supported by easing measures to mitigate the impact of the health crisis and wage growth.

5.1.2 Investment

After declining by 4.5 percent in the first quarter of 2019, investment continued its downward trend in the same quarter of 2020 with a decline of 4.8 percent. Its contribution to growth consequently remained negative at 1.4 percentage points instead of 1.5 percentage points in the same quarter a year earlier.

This downward trend was accentuated during the second and third quarters, with a more significant magnitude to reach -17.5 percent on average. This downturn is corroborated by foreign trade data, which show an 18.5 percent drop in imports of capital goods at the end of July.

5.2 Foreign demand

In the first quarter of 2020, in a context of the spread of the COVID-19 pandemic internationally, particularly in China and certain European countries, external demand made a negative contribution to growth of 0.5 points instead of a positive contribution of 2 points in the same quarter a year earlier. Indeed, exports of goods and services fell by 4.4 percent after growing by 6.5 percent, while imports fell by 2.4 percent against a 1.1 percent increase.

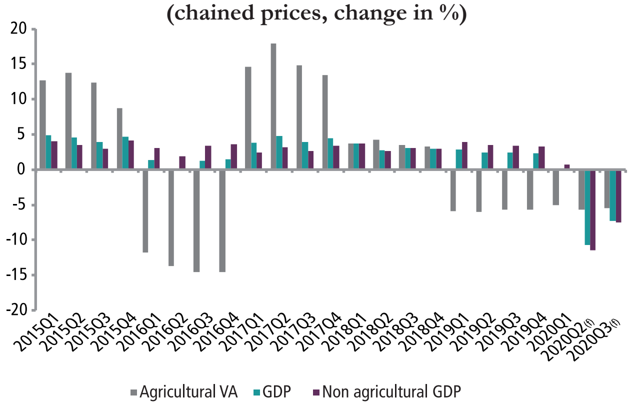
During the second and third quarters, exports of goods and services are estimated to have fallen by almost 44 percent on average as a result of the collapse in foreign demand and supply chain disruptions in several sectors. In the same wake, imports would have fallen sharply by 33.5 percent on average in connection with the contraction of purchases of various imported products, in particular capital goods.

5.3 Overall supply

In the first quarter of 2020, marked by the start of the lockdown from 20 March, economic growth slowed sharply to 0.1 percent after 2.8 percent a year earlier, with a significant slowdown from 4.3 percent to 0.9 percent in non-agricultural added value and a further 5 percent drop, after 5.9 percent, in agricultural added value.

In the second and third quarters, GDP is estimated to have contracted by around 9 percent on average, following a 2.4 percent growth in the same period of the previous year. Agricultural value added is estimated to have contracted by 5.5 percent, after a 5.8 percent decrease, following a 39 percent drop in the cereal harvest due to adverse weather conditions. Non-agricultural value added is estimated to have fallen by 9.3 percent on average, after a 3.6 percent growth a year earlier, due to the lockdown in the second quarter and the disruption of activity in the third quarter.

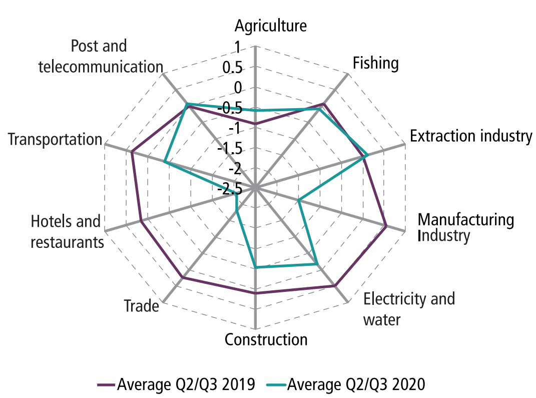
Chart 5.2: GDP per component (chained prices, change in %)



Sources: HCP data, and BAM forecasts.

In the secondary sector, activity is estimated to have declined by 9.2 percent after an improvement of 3.3 percent. With the exception of extractive industries, which would have recorded positive growth of 6.7 percent instead of 0.6 percent, the decline in activity would have affected all other sectors with a drop of 11.1 percent, after an increase of 2.6 percent in the processing industries. Similarly, added value would have fallen by 10.7 percent in the construction and public works sector, with the closure of several construction sites, and by 6.9 percent in the "electricity and water supply" branch, reflecting activity downturn in several economic sectors. .

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



Sources: HCP data, and BAM forecasts.

For the tertiary sector, its added value is estimated to have declined by 9.4 percent on average after an increase of 3.8 percent. By branch, it would have declined by 85 percent for the hotels and restaurants, which remains the branch most affected by the pandemic. It would also have fallen by 25 percent, after an increase of 2.3 percent, in "trade" and by 10 percent, after an increase of 7.1 percent, for transport services, reflecting the disruption of passenger traffic, particularly air, road and rail traffic. Conversely, the pace of activity would have accelerated to 3.6 percent after a 0.4 percent decline in "posts and telecommunications", thanks to greater use of telecommunications resources, particularly as a result of the growth of teleworking, e-commerce and distance learning during the period of lockdown.

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the second quarter of 2019 and the same period in 2020, the situation on the labour market was characterised by a 0.8 percent drop in the number of working population aged 15 and over to almost 12 million people. This trend is the result of a 6.7 percent decrease in rural areas and a 3.4 percent growth in the cities. Taking into account an increase in the population of working age, the participation rate fell from 45.8 percent to 44.8 percent overall and from 53.2 percent to 49.6 percent in the countryside, while it rose from 41.8 percent to 42.2 percent in urban areas.

At the same time, the national economy lost 589 thousand jobs, compared with a net creation of 25 thousand a year earlier, consequently bringing the employed working population to almost 10.5 million people, a decrease of 5.3 percent. This loss affected all sectors and particularly agriculture with a drop of 477 thousand jobs. In the other branches, the losses were 69 thousand in industry including handicrafts, 30 thousand in services and 9 thousand in construction.

In addition, the total number of hours worked per week fell from 499 million hours to 234 million, a decrease of 53.1 percent. Construction and public works remained the most affected sector by this decline with a fall of 71 percent, followed by industry including handicrafts (-63 percent), services (-54 percent) and agriculture, forestry and fishing (-41 percent).

5.4.2 Unemployment and underemployment

The unemployed labour force rebounded by 50.6 percent to nearly 1.5 million people, and the unemployment rate worsened by 8.1 percent to 12.3 percent nationally, by 11.7 percent to 15.6 percent in the cities and from 3 percent to 7.2 percent in the countryside. For young people aged between 15 to 24 years in particular, one in three overall and almost one in two young city dwellers have been unemployed.

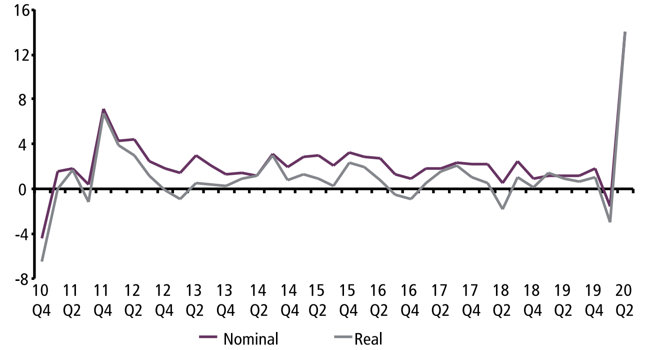
At the same time, the underemployment[1] rate increased from 9 percent to 13 percent nationally, from 7.8 percent to 12.2 percent in urban areas and from 10.6 percent to 14.1 percent in rural areas.

5.4.3 Productivity and wages

In non-agricultural activities and under the effects of the spread of the Covid-19 pandemic, apparent labour productivity is estimated to have declined by a further 6.7 percent in the second quarter of 2020, after a 3 percent drop in the same quarter a year earlier, reflecting a drop of 11.4 percent in value added and 5.1 percent in the number of employees after increases of 3.7 percent and 7 percent respectively.

For its part, the average wage, calculated on the basis of CNSS (National Social Security Fund) data by relating the payroll to the number of employees, recorded a 14 percent increase in both nominal and real terms in the second quarter. This increase is explained by the fact that those who lost their jobs during the lockdown are much more likely to be those with the lowest wages.

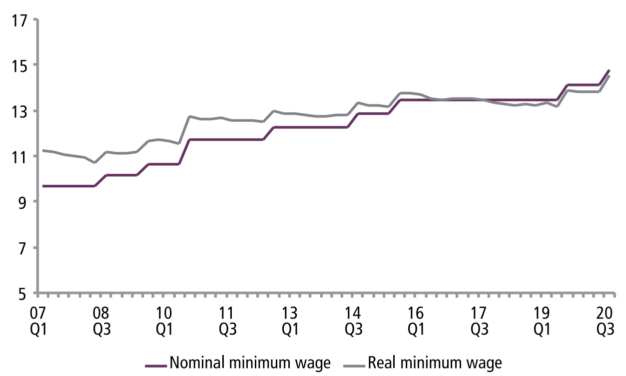
Chart 5.4: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

For the hourly SMIG (inter-professional guaranteed minimum wage), it was set in nominal terms at 14.13 DH in the second quarter of 2020 and should rise to 14.81 DH in the third quarter following the application of the revaluation agreed upon in the framework of the social dialogue concluded on April 25, 2019. In real terms, the SMIG increased by 5 percent in the second quarter and would have increased by 4.7 percent in the third quarter.

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

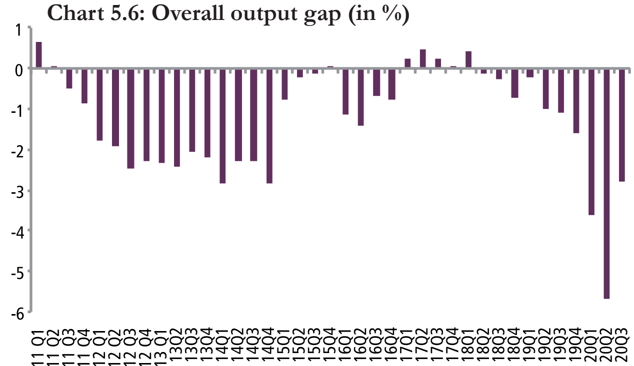


Sources: Ministry of Employment and Social Affairs, and BAM calculations.

Under these conditions, the output gap would have deteriorated further in the second quarter and would have eased slightly in the third quarter.

1 The underemployed population consists of individuals who worked: i) less than 48 hours during the reference week but are willing and available to work additional hours, or ii) more than the threshold and are looking for another job or willing to change jobs because of a mismatch with their training or qualifications or because of insufficient income.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		Q2 2019	Q2 2020
Participation rate (%)		**45. 8**	**44. 8**
Urban		41. 8	42. 2
Rural		53. 2	49. 6
Unemployment rate (%)		**8. 1**	**12. 3**
Youth aged between 15 and 24 years old		22. 2	33. 4
Urban		11. 7	15. 6
Youth aged between 15 and 24 years old		36. 1	47. 4
Rural		3. 0	7. 2
Job creation (in thousands)		25. 0	-589. 0
Urban		144. 0	-69. 0
Rural		-119. 0	-520. 0
Sectors			
- Agriculture		-	-477. 0
- Industry including handicraft		-	-69. 0
- BTP		-	-9. 0
- Services		-	-30. 0
Nonagricultural apparent productivity (change in %)		**-3. 0**	**-6. 7**
Average wage index (change in %)	**Nominal**	**1. 1**	**14. 0**
	Real	**0. 9**	**14. 0**

* Les créations d’emplois par secteur n’ont pas été publiées pour T2 2019.

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

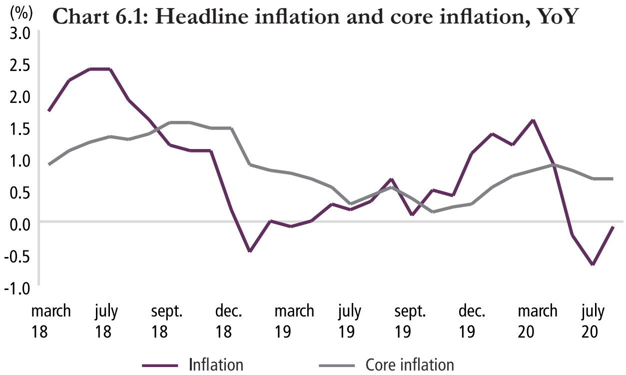
The implemented restrictive measures, starting from March, to limit the spread of the Covid-19 pandemic, implied temporary tensions on the prices of certain products, particularly food products. However, these were largely offset by the disinflationary pressures arising from the contraction in demand. As a result, the slowdown in inflation was more pronounced than expected at the last MPR. The consumer price index remained stable on an annual basis in the second quarter after increasing by 1.4 percent in the first quarter and falling slightly by 0.1 percent in July. This further deceleration is attributable to a sharper decline in volatile food prices and a slowdown in core inflation. On the other hand, prices of fuels and lubricants witnessed an easing decline of 14.1 percent instead of 24 percent in line with the trend of international prices. In addition, prices of regulated products increased from 0.6 percent to 1.2 percent in the absence of official decisions by public authorities.

In the third quarter of 2020, the inflation rate is expected to hover around 0.4 percent, reflecting the expected deceleration of its core component to 0.5 percent.

6.1. Inflation trends

After stagnating on an annual basis in the second quarter, the consumer price index declined slightly by 0.1 percent in July, driven by the sharp fall in volatile food prices and the deceleration of core inflation. Conversely, the decline in the prices of fuels and lubricants eased and the rise in the prices of regulated products accelerated.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

Volatile food prices fell by 4.7 percent in July instead of 0.5 percent on average in the second quarter. This decline was particularly significant for fresh vegetables, with a 12 percent drop, and for fresh fish and poultry and rabbit with declines of 7 percent and 14.9 percent respectively. These declines were slightly offset by the 86.4 percent rise in citrus fruit prices.

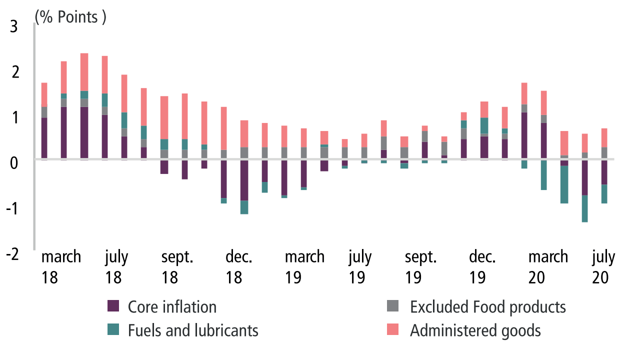
Overall, volatile food prices contributed by 0.6 percentage points to the fall in inflation in July, compared with a neutral contribution on average in the second quarter.

Table 6.1: Change in inflation and its components

(In %)	Monthly change			YoY change		
	may 20	june 20	july 20	may 20	june 20	july 20
Headline inflation	**-0. 2**	**-0. 3**	**-0. 3**	**-0. 2**	**-0. 7**	**-0. 1**
- Volatile food prices	-1. 8	-3. 5	-4. 9	-1. 3	-6. 2	-4. 7
- Fuels and lubricants	0. 0	0. 2	0. 6	0. 5	0. 6	1. 2
- Administered prices	-0. 9	8. 1	6. 9	-27. 2	-20. 4	-14. 1
Core inflation	**0. 0**	**-0. 2**	**0. 0**	**0. 8**	**0. 7**	**0. 7**
- Food products	-0. 2	-0. 5	-0. 1	0. 3	0. 1	0. 1
- Clothing and footwear	0. 1	-0. 3	-0. 1	0. 5	0. 4	0. 3
- Housing, water, gas, electricity and other fuels[1]	0. 4	0. 2	0. 2	1. 5	1. 7	1. 5
- Furnishings, household equipment and routine house maintenance	0. 1	0. 0	0. 0	0. 2	0. 1	0. 1
- Health[1]	0. 0	0. 0	0. 0	0. 9	0. 3	0. 3
- Transportation[2]	0. 2	0. 1	0. 4	1. 1	0. 7	0. 8
- Communication	0. 0	0. 0	0. 0	-0. 4	-0. 4	-0. 4
- Entertainment and culture[1]	-0. 4	0. 0	-0. 1	-1. 6	-1. 4	-1. 6
- Education	0. 0	-0. 1	0. 0	3. 2	3. 1	3. 1
- Restaurants and hotels	-0. 1	0. 1	0. 2	1. 2	1. 0	0. 7
- Miscellaneous goods and services [1]	0. 0	0. 0	0. 2	1. 2	1. 3	1. 4

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

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

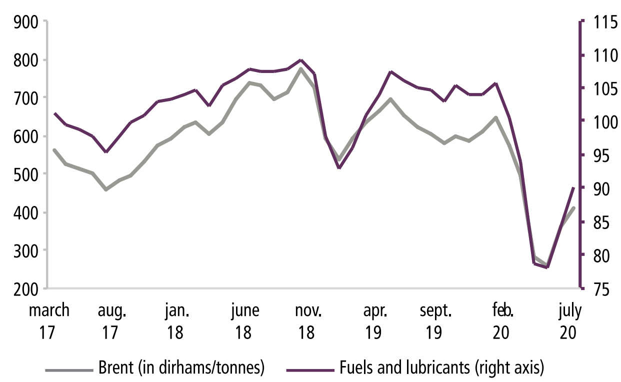


Sources: HCP, and BAM calculations.

The decline in prices of fuels and lubricants eased in July to 14.1 percent, compared with 24 percent in the previous quarter as a result of higher oil prices. Boosted by the recovery in world demand for oil following the easing of restrictions and the drop in production, particularly from OPEC+ member countries, the price of Brent reached 42.8 dollar per barrel compared with 31.4 dollar per barrel in the second quarter, but remains below the levels observed before the spread of Covid-19. At the same time, the national currency appreciated by 3.4 percent against the dollar in July.

All in all, the contribution to inflation of the development of prices of these products continues to be negative, standing at -0.4 percentage points in July instead of -0.7 points on average in the second 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.

As for tariffs for regulated products, they recorded an acceleration in their rate of increase to 1.2 percent in July instead of 0.6 percent, exclusively reflecting the 8 percent increase in July, following the 1.6 percent increase in the second quarter, in road passenger transport tariffs in response to new health requirements, including the reduction in the number of passengers carried to a 50 percent capacity.

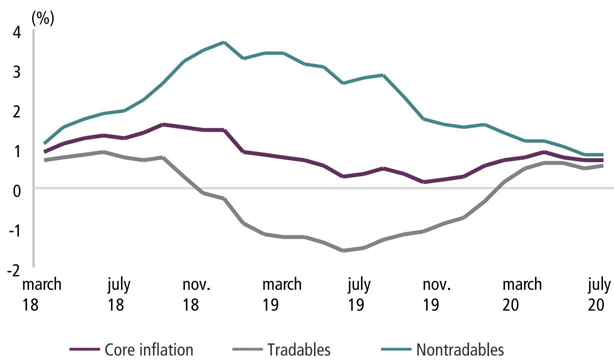
In terms of their contribution to inflation, these tariffs contributed by 0.3 percentage points to the growth in inflation, compared with 0.1 points in the previous quarter.

6.1.2. Core inflation

The downward effects of the contraction in demand begin to be gradually felt in core inflation. The latter slowed to 0.7 percent in July after standing at 0.8 percent in the second quarter, impacted by the deceleration in the rate of price trends from 0.4 percent to 0.1 percent for food products included in the price index, from 0.6 percent to 0.3 percent for «clothing and footwear», from 1.2 percent to 0.7 percent for «restaurants and hotels» and from 0.6 percent to 0.3 percent for «health». Prices for the other items, for their part, trended at an almost unchanged rate compared to that recorded in the second quarter.

This deceleration was particularly noticeable in the prices of non-tradable goods, which fell from 1 percent to 0.8 percent in July, while prices of tradable goods increased at the same rate as in the previous quarter, i.e. 0.6 percent.

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



Sources: HCP, and BAM calculations.

In fact, the 5.6 percent growth, instead of the 2.1 percent decline, recorded in passenger air transport prices offset the deceleration in the prices of the main tradable food products such as «cereal-based products», «coffee», «oils» and «oils and fats» and non-food products such as «women›s clothing».

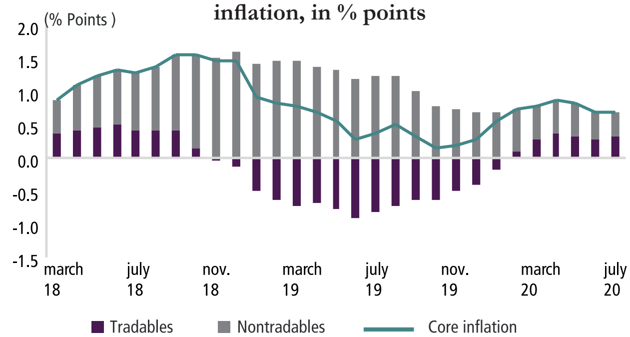
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	may 20	june 20	july 20	may 20	june 20	july 20
Tradables	-0. 1	-0. 2	0. 0	0. 6	0. 5	0. 6
Nontradables	0. 0	-0. 1	0. 1	1. 0	0. 9	0. 8
Core inflation	0. 0	-0. 2	0. 0	0. 8	0. 7	0. 7

Sources: HCP, and BAM calculations.

In terms of non-tradable products, the slowdown concerned both the prices of «fresh meat» and certain services such as «restaurants, cafés and similar establishments» and the «maintenance and repair of private vehicles».

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

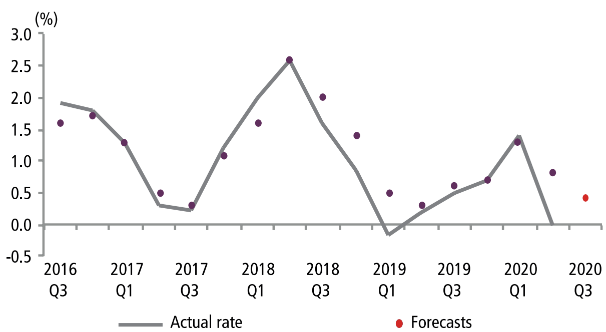
In the third quarter of 2020, inflation is expected to be low at around 0.4 percent.

Disinflationary pressures should indeed lead to a sharper deceleration of core inflation during this quarter to reach 0.5 percent instead of 0.8 percent in the previous quarter.

Volatile food prices are expected to rise by 1 percent instead of a 0.5 percent decline in the previous quarter, as suggested by the high-frequency data on wholesale prices.

On the other hand, the expected upward trend in international oil prices should contribute, together with the effect of the increase in the prices of some products with regulated tariffs in July, to slightly ease the impact of these downward pressures on prices. The price of fuels and lubricants is consequently expected to fall by 12.3 percent instead of 24 percent a quarter earlier, contributing by 0.3 percentage points to the growth in inflation.

Chart 6.6: Inflation short-term forecasts and actual rates

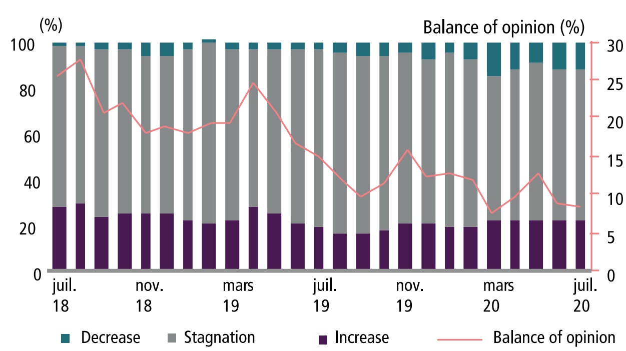


Source: BAM.

6.3. Inflation expectations

The results of Bank Al-Maghrib›s business survey in industry for the month of July 2020 indicate that 66 percent of the industrialists surveyed anticipate a stagnation of inflation over the next three months, 21 percent expect a growth and 13 percent expect a decrease. The balance of opinion consequently comes out at 9 percent.

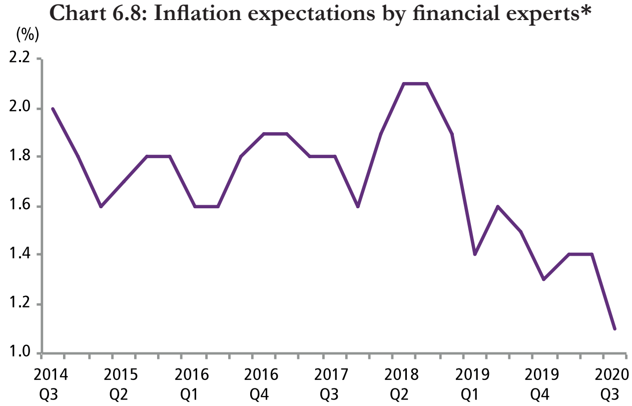
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

In addition, the results of Bank Al-Maghrib›s survey on inflation expectations for the third quarter of 2020 indicate that financial experts project inflation to stand at 1.1 percent over the next eight quarters, instead of 1.4 percent a quarter earlier.

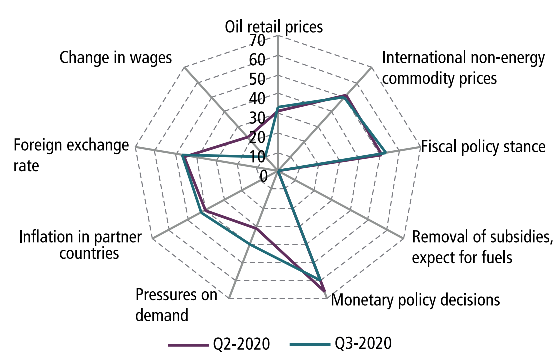
Chart 6.8: Inflation expectations by financial experts*



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

These financial experts consider that the future trend in inflation should be determined mainly by monetary policy decisions, world commodity prices excluding oil and the trend of fiscal policy.

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

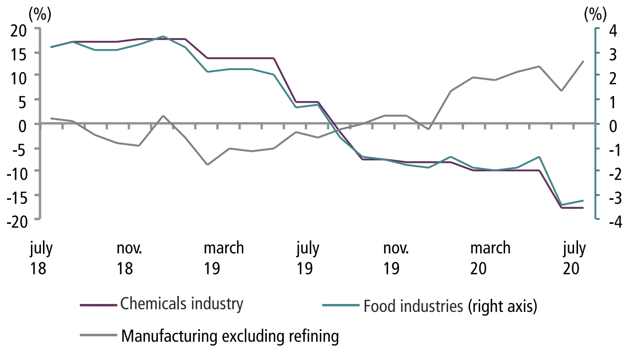


Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Producer prices

The decline in producer prices for manufacturing industries excluding refining, which started in the third quarter of 2019, continued to deepen in July, reaching -3.2 percent after -2.2 percent in the second quarter and -1.7 percent on average over the first three months of 2020. This trend mainly reflects the 17.7 percent drop in producer prices in the «chemical industry» after a 12.4 percent drop in producer prices and the deceleration from 1.8 percent to 0.4 percent in the rate of growth in the «clothing industry». On the other hand, producer prices in the food industries rose by 2.6 percent instead of 2 percent in the second quarter.

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



* According to the HCP, due to the sanitary lockdown that has been in effect since March 20, 2020, the ongoing survey of producer prices could not identify all prices. The missing prices were imputed according to the recommendations of the Producer Price Index Manual.

Source: HCP.

7. MEDIUM-TERM OUTLOOK

Summary

The Covid-19 pandemic and the implemented lockdown measures by the authorities led to a sharp decline in global economic activity and a significant loss of employment, consequently resulting in the deepest recession since the Great Depression of the late 1920s. Although most countries have begun a gradual reopening of their economies, these economies continue to suffer from exceptionally high uncertainties related to the evolution of the pandemic and its economic and social impact as well as the pace of recovery. This chapter presents a scenario for the evolution of the main national macroeconomic aggregates. It is based on a number of assumptions related in particular to the evolution of the pandemic and the scale of the economic shock of the crisis. It is therefore more a scenario of evolution than a projection in the conventional sense of the term.

Impacting both supply and demand, the pandemic is expected to result in a 4.4 percent decline in global GDP in 2020, before rebounding by 4.9 percent in 2021, a recovery which would however be uneven and surrounded by strong uncertainties. In advanced economies, GDP would fall significantly in the United States before resuming growth in 2021. Similarly, the euro area would experience a sharp contraction and its recovery in 2021 would be hampered by persistent structural and budgetary problems in several countries of the region. For its part, the United Kingdom, already weakened by post-Brexit problems, would experience a historic recession and would be one of the advanced countries most affected by the pandemic. In the main emerging countries, growth in China is expected to remain positive in 2020, as the economic situation improved significantly in the second quarter thanks to strong industrial production and fiscal stimulus measures, and is expected to accelerate significantly in 2021. Activity in India would be heavily impacted in 2020, given the difficulties in controlling the virus, but should strengthen in 2021.

As far as commodities are concerned, the price of Brent oil should reach 43.1 dollar per barrel on average this year, down 32.7 percent from one year to the next, and 55.7 dollar per barrel in 2021. For their part, the prices of phosphate and derivatives should record in 2020 levels lower on average than those recorded in 2019, before increasing in 2021, while those of food products should follow an upward trend over the forecast horizon.

The Covid-19 pandemic, combined with low energy prices, would put pressure on inflation in 2020. These downward pressures are expected to ease gradually over the remainder of the forecast horizon in line with the expected recovery in demand. Inflation would slow significantly in the United States in particular, before rising in 2021, while in the euro area, it would be well below the European Central Bank›s (ECB) target over the forecast horizon.

At the domestic level, the widening of the current account deficit should increase in 2020 to 6 percent of GDP before easing to 5.2 percent in 2021. As far as foreign direct investment (FDI) inflows are concerned, they are expected to decline to the equivalent of 1.5 percent of GDP in 2020, before returning to their pre-crisis average of 3.2 percent of GDP.

Assuming grant inflows of 7.2 billion in 2020, of which 0.8 billion from GCC countries, and 2.6 billion in 2021, of which 1 billion from GCC countries, as well as Treasury borrowings from the international market in 2020 and 2021, the outstanding Official reserve assets (ORA) should stand at 294.7 billion at end-2020 and 289 billion at end-2021, the equivalent of 6 months and 27 days and 6 months and 23 days of imports of goods and services respectively.

In terms of public finances, the fiscal deficit, excluding privatisation, would stand at 7.9 percent of GDP in 2020, instead of the 7.6 percent projected in June and the 4.1 percent achieved in 2019. This worsening is the result of the decline in revenues induced by the economic recession, as well as some fiscal stimulus measures as part of mitigating the impact of the crisis. In 2021, the deficit is expected to be easing to 5.1 percent of GDP.

Monetary conditions would remain generally accommodative. Indeed, the Bank has put in place 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. Taking into account the expected change in economic activity, the need for liquidity, the expected effects of the Intelaka programme and the support and stimulus measures, as well as the projections of the banking system, credit to the non-financial sector should grow at around 4 percent in 2020 and 2021. In addition, the real effective exchange rate should depreciate over the forecast horizon, after appreciating in 2019.

The domestic economy would contract by 6.3 percent in 2020, following a 5.3 percent drop in agricultural added value and a 6.3 percent drop in non-agricultural added value, as a result of the fall in foreign demand and the measures taken in the context of the fight against the spread of the Covid-19 pandemic. In 2021, growth would strengthen to 4.7 percent. This rebound would reflect an increase of 12.6 percent in agricultural added value, under the assumption in particular of a cereal harvest of 75 million quintals, and an improvement of 3.7 percent in non-agricultural growth.

In this context of low inflationary pressures, inflation would remain at a low level of 0.7 percent on average between 2020 and 2021. Its core component would stand at 0.6 percent on average.

7.1 Underlying assumptions

Strong global recession in 2020 and uneven recovery expected in 2021

Impacting both supply and demand, the Covid-19 pandemic is expected to plunge the global economy in 2020 into its worst recession since the Great Depression. Global GDP is expected to decline by 4.4 percent in 2020 before rebounding by 4.9 percent in 2021, but still the recovery would be uneven. These prospects are surrounded by strong uncertainties linked to the evolution of the pandemic and the impact of the measures put in place by public authorities.

In the United States, GDP would fall by 5.3 percent, before returning to growth with a rate of 4 percent in 2021. In the euro area, economic activity would contract by 9.1 percent in 2020, followed by a recovery with a rate of 3.1 percent in 2021, hampered by persistent structural and budgetary problems in several countries in the region. On the labour markets, unemployment is expected to grow significantly in the United States, while in the euro area the impact of the pandemic will be limited, thanks mainly to job preservation measures. For its part, the United Kingdom, already weakened by the post-Brexit problems, would experience a historic recession and would be one of the advanced countries most affected by the pandemic. It would record a 12.7 percent drop in GDP in 2020, followed by a limited improvement of 2.8 percent in 2021.

In the main emerging countries, the economic situation in China recovered significantly in the second quarter of 2020 thanks to fiscal stimulus measures, with in particular a clear improvement in industrial production. Under these conditions, growth would remain positive in 2020, with a forecast rate of 0.8 percent, before rebounding to 7.5 percent in 2021. In India, GDP is expected to fall by 4 percent in 2020, with a sharp downward revision due to difficulties in controlling the spread of the virus, before rising by 8.5 percent in 2021. In Brazil, persistent budgetary problems should weigh on growth. Activity would experience a sharp recession of 7.8 percent in 2020 and the recovery is expected to be limited in 2021, with a growth rate of 4.2 percent.

Chart 7.1: Growth in the euro area

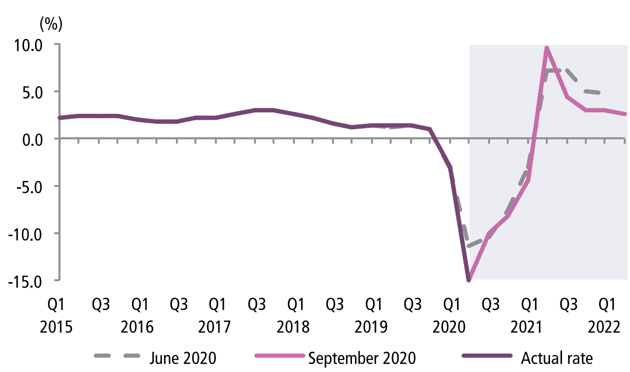
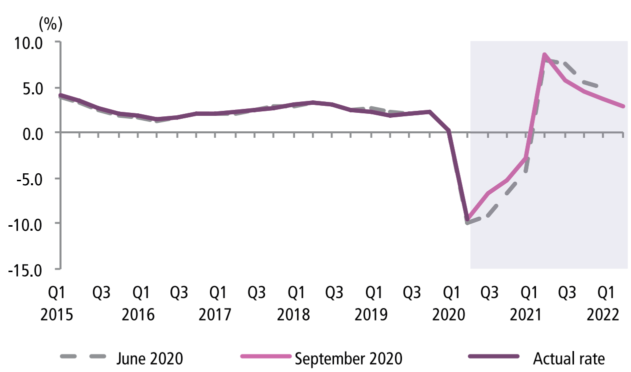


Chart 7.2: Growth in the USA



Source: GPMN[1] forecasts of August 2020.

Further monetary easing and short-term strengthening of the euro against the dollar

Central banks in both advanced and emerging countries have sustained an accommodative monetary policy approach to cope with the economic and social consequences of the Covid-19 pandemic.

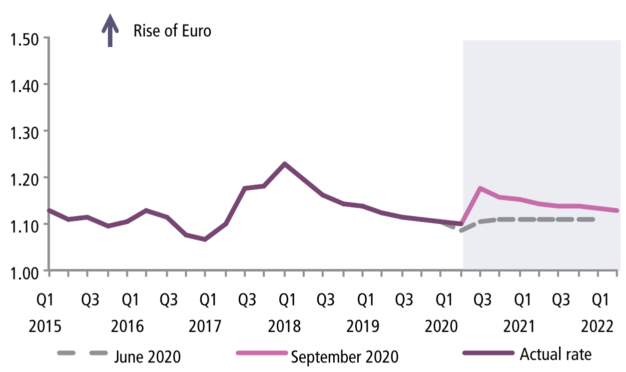
1 Global Projection Model Network.

In particular, the ECB decided at its last meeting on 10 September this year to keep its key interest rates unchanged and expects them to remain at their current levels or lower until it sees that the inflation outlook converges sustainably towards its objective. At the same time, it has confirmed that it will continue its purchases under the Pandemic Emergency Purchase Program to a total amount of 1,350 billion euros until at least the end of June 2021 and, in any case, until it deems that the crisis has passed. It has also announced that its net purchases under the asset purchase programme will continue at a monthly rate of 20 billion euros and that it plans to use it for as long as necessary. The same applies to those under the additional temporary envelope of 120 billion euros until the end of the year. Finally, it has decided to continue to provide abundant liquidity through its refinancing operations.

For its part, at its meeting on September 15 and 16, the first after the announcement of the overhaul of its monetary policy framework, the FED decided to keep the target range of the federal funds rate unchanged at [0 percent -0.25 percent]. It announced that it plans to maintain this range until labour market conditions would reach levels consistent with the Committee›s estimates on maximum employment and inflation would increase to 2 percent and would be on track to moderately exceed this level for a certain period of time. It also indicated that it will increase its holdings of Treasury securities and mortgage securities over the next few months at least at the current rate to keep the market operating smoothly and help foster accommodative financial conditions.

On the foreign exchange market, the euro has strengthened significantly against the US dollar since June, supported in particular by the post-Covid-19 European recovery plan. It is expected to appreciate by 1.3 percent to an average of 1.13 dollar in 2020, with an upward revision compared to June›s projections, before stabilising at 1.14 dollar in 2021.

Chart 7.3: USD/ EUR exchange rate



Source: GPMN forecasts of August 2020.

Sharp fall in energy prices and disinflationary pressures

After the recovery in world demand for oil following the reopening of the economies and the drop in production in the United States and OPEC+ member countries, the price of Brent has been on an upward trend since May 2020, while remaining well below its pre-Covid-19 price. Forecasts have consequently been revised upwards, with a price that should reach 43.1 dollar per barrel in 2020, down 32.7 percent year-on-year, and 55.7 dollar per barrel in 2021.

As for phosphates and derivatives, prices remained during the first eight months of the year at levels lower on average than those recorded in 2019. For DAP in particular, although it has been on the rise since January 2020, its price averaged 285.7 dollar per tonne compared to 306.4 dollar per tonne. For the year as a whole, prices are projected by the World Bank in April to fall by 11.3 percent to 78 dollar per tonne for rock phosphate, by 13.4 percent to 250 dollar per tonne for TSP and by 7 percent to 285 dollar per tonne for DAP. In 2021, prices are expected to increase by about 3 percent. As for food prices, after a drop of 0.8 percent in 2019, they should increase by 0.6 percent in 2020 and 3.3 percent in 2021.

Under these conditions, the downward effects on inflation of the contraction in demand exceed the inflationary pressures caused by supply disruptions in 2020. They are, however, expected to ease gradually over the remainder of the projection period in line with the expected recovery in demand. In the United States in particular, inflation would slow from 1.8 percent in 2019 to 1.1 percent in 2020 before rising to an average of 2.5 percent in 2021. In the euro area, it is expected to evolve at levels well below the ECB›s objective, with rates projected at 0.6 percent in 2020 and 1.4 percent in 2021.

Chart 7.4: Brent price

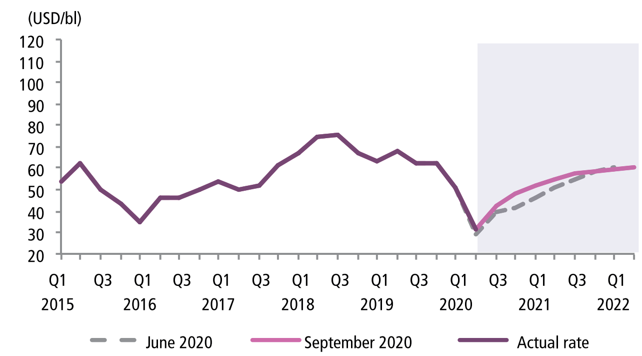


Chart 7.5: FAO food product price index

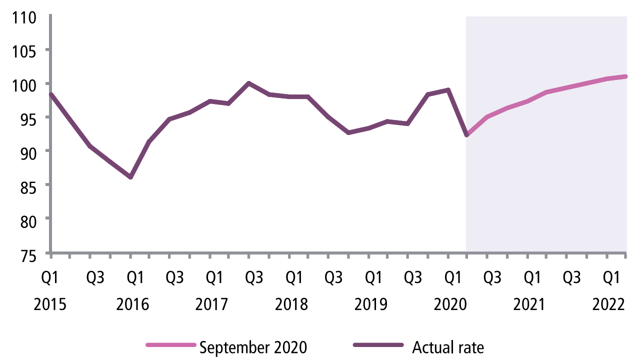


Chart 7.6: Inflation in the euro area

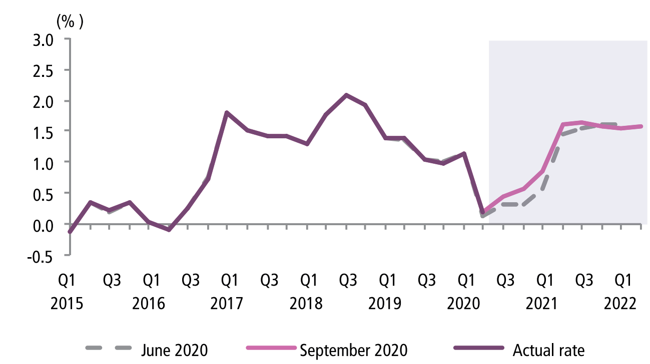
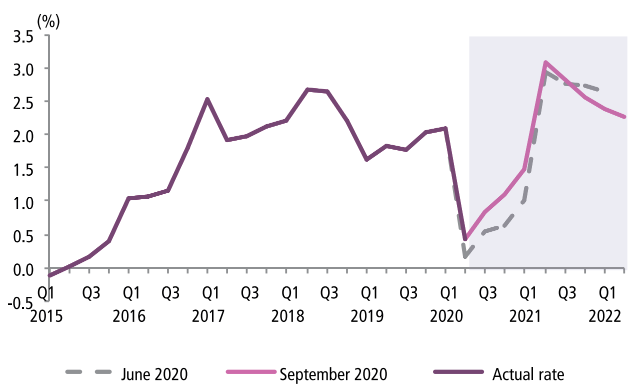


Chart 7.7: Inflation in the United states



Source: GPMN forecasts of August 2020.

Cereal production of 32 million quintals in 2020 and an average harvest in 2021

At the domestic level, the final cereal harvest for the 2019-2020 crop year stood at 32 million quintals (MQx), according to the Department of Agriculture, a drop of 39 percent compared to the previous year and 60 percent compared to the average of the last five years. For the 2020-2021 crop year, the assumptions of an average cereal production of 75 MQx and a continued trend for other crops are maintained.

7.2 Macroeconomic projections

Widening of current account deficit in 2020

In 2020, as a result of the disruption of supply chains and activity in certain sectors and the decline in domestic and external demand, the current account deficit is expected to widen from 4.1 percent of GDP in 2019 to 6 percent of GDP in 2020, despite the recovery recorded after the end of the lockdown. Assuming the consolidation of the dynamics of the latter and the opening of borders in the second quarter of 2021, the current account deficit should ease to 5.2 percent of GDP in 2021. These forecasts include projected grant inflows of 7.2 billion in 2020, including 0.8 billion from the GCC, and 2.6 billion in 2021, including 1 billion from the GCC.

In 2020, exports are expected to decline by 16.6 percent after a 2.4 percent growth in 2019. The downturn should concern all sectors, particularly those with the most intensive workforce and those impacted by significant declines in foreign demand such as car manufacturing, cabling and textiles.

At the same time, imports of goods are expected to drop by 17.4 percent in 2020, mainly due to the reduction in the energy bill and the decline in the acquisition of capital goods. As far as travel revenues are concerned, assuming the continued almost total closure of borders until the first quarter of 2021, they should decrease by 70 percent. Less impacted, the decline in transfers from Moroccans living abroad should be limited to 5 percent.

In 2021, exports should rise by 22.4 percent, mainly due to the increase in PSA plant production in Kenitra. Imports are expected to increase by 17 percent, mainly as a result of a rebound in acquisitions of capital goods and an increase in the energy bill. Travel receipts are expected to more than double, but would remain well below the 2019 level, and transfers of Moroccans living abroad are expected to increase by 2.4 percent.

Regarding FDI inflows, they are expected to decline to 1.5 percent of GDP in 2020, compared to 2.9 percent of GDP in 2019, before returning in 2021 to the pre-crisis average level, which is the equivalent of 3.2 percent of GDP.

Taking into account these changes as well as projected borrowing operations by the Treasury from international markets, the official reserve assets would stand at 294.7 billion DH in 2020 and 289 billion DH in 2021, or the equivalent of 6 months and 27 days and 6 months and 23 days of imports of goods and services respectively.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates					Forecasts		Gap (sept./june)	
	2015	2016	2017	2018	2019	2020	2021	2020	2021
Exports of goods (FOB)	8. 6	3. 5	10. 3	10. 7	2. 4	-16. 6	22. 4	-0. 8	-8. 3
Imports of goods (CAF)	-4. 9	10. 3	6. 7	9. 9	2. 0	-17. 4	17. 0	-6. 7	5. 9
Travel receipts	-1. 4	5. 0	12. 3	1. 2	7. 8	-69. 6	105. 1	-9. 6	45. 1
Expatriate remittances	4. 8	4. 0	5. 3	-1. 5	-0. 2	-5. 0	2. 4	20. 0	-2. 8
Current account balance (% of GDP)	**-2. 1**	**-4. 1**	**-3. 4**	**-5. 3**	**-4. 1**	**-6. 0**	**-5. 2**	**4. 3**	**0. 6**
Foreign exchange reserves in months of imports of goods and services	**6. 1**	**6. 4**	**5. 6**	**5. 3**	**7. 1**	**6. 9**	**6. 8**	**1. 9**	**1. 7**

Sources: Foreign Exchange Office and BAM forecasts.

Deceleration of the pace of bank credit to the non-financial sector

After an appreciation in 2019, the real effective exchange rate (REER) is expected to decrease over the forecast horizon, as a result of a depreciation in nominal terms as well as lower domestic inflation compared to trading partners and competitors.

On the basis of the forecasted changes in foreign exchange reserves and currency in circulation, bank liquidity needs should reach 82 billion dirhams at end-2020 and 109.8 billion dirhams at end-2021. As for bank credit to the non-financial sector, it grew by 6 percent in July 2020, largely reflecting the continued growth of liquidity facilities to private non-financial enterprises. In terms of prospects, and taking into account the expected development of economic activity, the need for liquidity, the expected effects of the "Intelaka" programme and the stimulus and recovery measures, as well as the projections of the banking system, credit to the non-financial sector should increase by 3.5 percent in 2020 and 3.8 percent in 2021. Under these conditions, and taking into account the development of the other counterparts of the money supply, the growth of the M3 aggregate should reach 5.4 percent in 2020 and 3.6 percent in 2021.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (sept./june)	
	2016	2017	2018	2019	2020	2021	2020	2021
Bank lending to the nonfinancial sector	3. 9	3. 8	3. 1	5. 5	3. 5	3. 8	1. 6	1. 2
M3	4. 7	5. 5	4. 1	3. 8	5. 4	3. 6	4. 7	-0. 5
Liquidity surplus or deficit, in billion dirhams	-14. 7	-40. 9	-69. 0	-62. 3	-82. 0	-109. 8	71. 9	61. 1

Deterioration of the fiscal situation due to the Covid-19 pandemic

On the basis of the data in the Supplementary Financial Act, the 2020 fiscal deficit should stand at 7.9 percent of GDP, an adjustment of 0.3 points of GDP compared with the June forecasting exercise. This deterioration is attributed, on the revenue side, mainly by the downward revision of tax revenues, taking into account the projection of a more significant drop in economic activity. On the expenditure side, the Supplementary Financial Act has planned reductions in the wage bill and the subsidy cost compared with the initial Financial Act. In addition, investment expenditure was slightly increased, with a re-routing of funds towards the economic stimulus programme, by reducing investment credits in most ministerial departments.

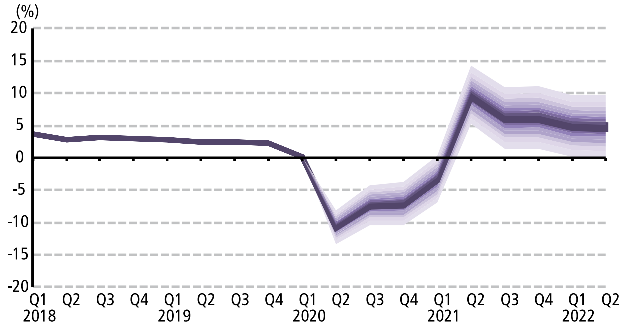
In 2021, the fiscal deficit would stand at 5.1 percent of GDP, an increase of 0.1 percentage points from the June forecast period, driven mainly by the downward revision in economic growth.

Sharp contraction of the economy in 2020 and expected recovery in 2021

Under the combined effect of unfavourable climatic conditions and the Covid-19 pandemic, the domestic economy is expected to contract by 6.3 percent in 2020. This decline is 1.1 percentage points sharper compared to the June scenario, taking into account a recovery in activity that is slower than expected, the return to certain local restriction measures following the resurgence of infections, and the persistence of a high degree of uncertainty. On the supply side, this trend reflects expected declines of 5.3 percent in agricultural and 6.3 percent in non-agricultural added value. On the demand side, this deterioration results from the negative contributions to growth of both domestic and foreign demand. In fact, despite the stimulus measures put in place by the Economic Watch Committee, household final consumption would be heavily affected by the restrictions intended to contain the spread of the pandemic and by the contraction of both agricultural and non-agricultural incomes as well as transfers of Moroccans living abroad. Investment is also expected to decline, due to persisting uncertainties. On the other hand, general government consumption is expected to strengthen, in particular with the increase in public expenditure to finance the measures put in place by the Economic Watch Committee. At the same time, exports of goods and services are expected to fall, mainly as a result of the contraction of foreign demand in Morocco and the total or partial cessation of activity in several export-oriented sectors during the period of lockdown. Imports of goods and services are expected to decline in line with the expected downturn in economic activity.

In 2021, the domestic economy is expected to grow by 4.7 percent, revised upwards by 0.5 percentage points. This rebound would reflect a 12.6 percent increase in agricultural added value, under the assumption of a 75 MQx cereal harvest, and a 3.7 percent improvement in non-agricultural added value. On the demand side, this trend would reflect a positive contribution from domestic demand, in line with expected improvements in household final consumption and investment, and a slight easing in the negative contribution from net exports, following an increase in exports of goods and services, supported by the expected recovery in foreign demand. At the same time, imports of goods and services are expected to increase, in line with the expected strengthening of domestic demand and exports.

Chart 7.8: Growth outlook over the forecast horizon (Q2 2020 - Q2 2022), (YoY)*



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

Table 7.3: Economic growth

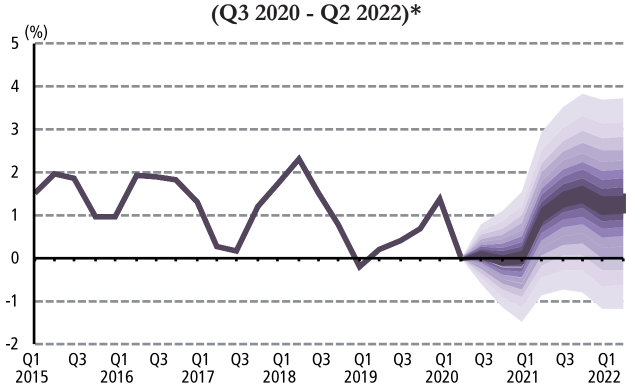
Change in %	Actual rates				Forecasts		Gap (sept./june)	
	2016	2017	2018	2019	2020	2021	2020	2021
National GROWTH	**1. 1**	**4. 2**	**3. 1**	**2. 5**	**-6. 3**	**4. 7**	**-1. 1**	**0. 5**
Agricultural VA	-13. 7	15. 2	3. 7	-5. 8	-5. 3	12. 6	-0. 7	0. 2
Nonagricultural VA	2. 1	2. 9	2. 9	3. 8	-6. 3	3. 7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

Sources: HCP data, and BAM forecasts.

Low levels of inflation over the forecast horizon.

In this context of low inflationary pressures, inflation would average 0.7 percent between 2020 and 2021 and its core component would remain at a low level of 0.6 percent in 2020 and 0.7 percent in 2021. As for the prices of regulated products, their growth would slow down in 2020, before returning to their trend in 2021. For food products with volatile prices, prices should remain stable over the forecast horizon. Finally, the prices of fuels and lubricants are expected to fall in 2020 followed by a rise in 2021, in line with the expected trend of international prices.

Chart 7.9: Inflation forecast over the forecast horizon (Q3 2020 - Q2 2022)*



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

Table 7.4: Inflation and core inflation

	Actual rates				Forecasts			Gap (sept./june)	
	2016	2017	2018	2019	2020	2021	Horizons of 8 quarters (Q3 2020-Q2 2022)	2020	2021
Inflation	**1.6**	**0.7**	**1.6**	**0.2**	**0.4**	**1.0**	**0. 8**	**-0. 6**	**0. 0**
Core inflation	0. 8	1. 3	1. 3	0. 5	0. 6	0. 7	0. 8	-0. 2	0. 0

Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

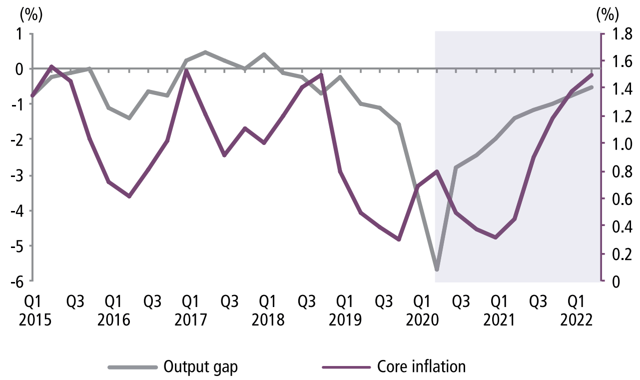
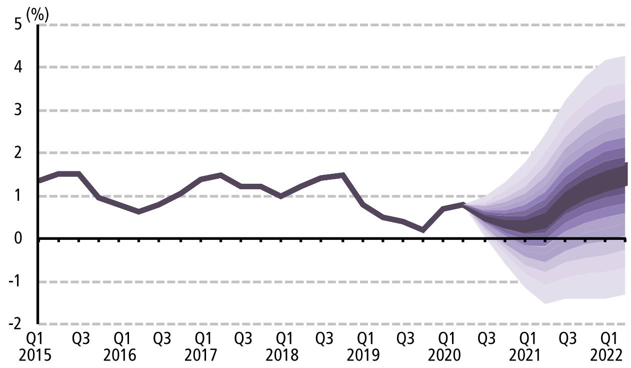


Chart 7.11: Projections of core inflation over the forecast horizon (Q3 2020 - Q2 2022)*



* 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 domestic economy remains surrounded by an exceptionally high level of uncertainty regarding the development of the pandemic, the extent of its repercussions and the pace of recovery of economic activity.

The balance of risks remains on negative territory for both growth and inflation. On the growth side, and despite the relative recovery in activity following the lifting of most restrictions, a possible further increase in the number of infections could lead to a tightening of the preventive measures imposed and to a slowing of the expected pace of recovery. Similarly, a decline in foreign demand in case of a second wave in the main economic partners would also translate into a weaker than expected recovery. High uncertainties also surround the inflation projections. They are therefore highly dependent on the size of the double shock of supply and demand induced by the pandemic, as well as on the pace and strength of the recovery. Downside risks would dominate, in particular due to the sharp weakening of domestic demand and the deterioration in confidence. For their part, upward pressure of certain product prices could lead to disruptions in supply chains and growth 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

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