BANK AL-MAGHRIB

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 15, 2020

1. The Board of Bank Al-Maghrib held its last quarterly meeting of the year 2020 on Tuesday, December 15.

2. During this meeting, the Board analysed national and international economic developments and the Bank's medium-term macroeconomic projections updated on the basis of the latest available data, of the recent developments related to the evolution of the pandemic and the authorities' reaction, as well as of the orientations of the 2021 Finance law.

3. The Board also inquired about the transmission of the latest monetary policy decisions and reviewed the updated record of the various support and stimulus measures put in place since the outbreak of the pandemic.

4. In view of all these assessments, the Board considered that the monetary policy stance is widely accommodative, ensuring an adequate financing of the economy. It thus deemed the present level of the key rate appropriate and decided to keep it unchanged at 1.5 percent.

5. The Board noted that after weakening in the second quarter, inflation accelerated sharply from August onwards, driven mainly by the surge in volatile food prices. However, it is expected to end the year at an average of 0.7 percent, remaining almost stable in 2021 before reaching 1.3 percent in 2022, mainly as a result of the expected improvement in domestic demand.

6. Internationally, despite signs of recovery and the optimism generated by the progress made in the Covid-19 vaccines, the health crisis continues to impact the global economy, particularly as a result of the restrictions put in place in several countries in order to contain the resurgence of infections. The world economy is thus expected to end the year with a 4.2 percent contraction, before rebounding by 5.8 percent in 2021 and then growing by 3.4 percent in 2022. In the main advanced countries, United States GDP would show a 3.5 percent drop in 2020, followed by a rise of 4.6 percent in 2021 and 2.5 percent in 2022. In the euro area, economy is expected to contract by 7.9 percent this year then, supported in particular by the recovery instrument "Next Generation EU", grow by 4.1 percent in 2021 and 2.5 percent in 2022. In the labour markets, unemployment has risen sharply in the United States and is expected to end the year with an average rate of 8.1 percent, before falling to 6.7 percent in 2021 and 6.3 percent in 2022. In the euro area, the impact of the pandemic is expected to remain contained, owing to the job retention measures. Unemployment rate would thus increase slightly to 7.9 percent in 2020 and 8.1 percent in 2021, before falling back to 6.8 percent in 2022. In the main emerging economies, China is performing remarkably well, with GDP projected to grow by 1.4 percent this year, 8.3 percent in 2021 and 5 percent in 2022. By contrast, India's economy is expected to shrink by 10.1 percent this year, then rebound by 11.5 percent in 2021 and slow down moderately to 7.2 percent in 2022.

7. In the commodity markets, oil prices have been on an upward trend in recent weeks but are expected to fall sharply for the year as a whole. In particular, the Brent price is projected to drop by 34.5 percent compared to 2019 to average 41.9 dollars a barrel, before rising to 52.4 dollars in

2021 and 58.1 dollars in 2022. For phosphate and its derivatives, prices were down over the first eleven months of the year, and fell by 15.6 percent to $75.4 per tonne on average for rock phosphate, by 2.3 percent to $305.5 for DAP and by 13.1 percent to $260 for TSP. For the next two years, the World Bank October projections predict slight increases.

8. In this context, inflation in the euro area would remain well below the ECB target, at 0.3 percent in 2020, 0.6 percent in 2021 and 1.2 percent in 2022. In the United States, it would slow down to 1.3 percent in 2020, then accelerate to 2.4 percent in 2022.

9. As regards the monetary policy stance in the major advanced economies, it remains highly accommodative. Thus, the ECB, while keeping its key rates unchanged, has decided, at the end of its meeting on December 10, to recalibrate its other instruments, thereby raising the envelope of its Pandemic Emergency Purchase Programme (PEPP) by €500 billion and easing the conditions for the implementation of several of its measures, particularly by extending their implementation period (PEPP, TLTRO III, collateral easing measures adopted on April 7 and 22, 2020, ...). It also stated that it will continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term price stability outlook. Meanwhile, the FED decided, at its meeting on November 4 and 5, to keep the target range for the federal funds rate unchanged at [0 percent-0.25 percent]. It plans to maintain this target range until labour market conditions have reached levels consistent with the Committee's assessments of maximum employment and until inflation has risen to 2 percent and is on track to moderately exceed this rate for some time. In addition, it will increase its purchases of securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

10. At the national level, the HCP data for the last two quarters highlight the scale of the double shock borne by the national economy as a result of the pandemic and the unfavourable climatic conditions which marked the previous agricultural season. In fact, GDP contracted in the second quarter by 14.9 percent year-on-year, reflecting a value-added drop of 15.5 percent for non-agricultural activities and 6.9 percent for agricultural ones. On the labour market, a net loss of 581 thousand jobs was recorded in the third quarter compared with the same quarter of 2019. Taking into account a net outflow of 214 thousand job seekers, the participation rate fell from 44.9 percent to 43.5 percent and the unemployment rate deteriorated from 9.4 percent to 12.7 percent.

11. After this sharp decline of activity in the second quarter, post-lockdown recovery remains slow and partial, namely due to the local and sectoral restrictions set up to contain the upsurge in contaminations, and to the uncertainties surrounding the evolution of the pandemic, both nationally and internationally. Thus, for 2020 as a whole, national economy would shrink by 6.6 percent, with a 5.3 percent drop of agricultural value added and a 6.6 percent fall of non-agricultural one. In the medium term, owing mainly to improved household incomes and to investment-supporting measures, growth of non-agricultural activities would reach 3.3 percent in 2021 and build up to 3.6 percent in 2022. On the other hand, assuming that annual cereal harvests would reach 75 million quintals, agricultural value added is projected to increase by 13.8 percent in 2021 and 2 percent in 2022. All in all, Bank Al-Maghrib forecasts a growth rebound to 4.7 percent in 2021 and further momentum to 3.5 percent in 2022. Although this scenario is surrounded by a high degree of uncertainty, the balance of risks is expected to be on the rise, in view of the recent developments, mainly including the large-scale Covid-19 vaccination initiative, both nationally and in several partner countries, as well as the creation of a strategic fund dedicated to investment.

12. With regard to external accounts, data at end-October show an almost general decline in the exchange of goods. Thus, exports fell by 10.1 percent, driven in particular by lower sales in the automotive and textile sectors, and imports dropped by 16.6 percent, particularly due to the contraction recorded in the purchases of capital goods and finished consumer products as well as in the energy bill. For the other main current operations, travel receipts fell by 60.3 percent whereas transfers from Moroccans living abroad showed notable resilience with a 1.7 percent rise. Taking these developments into account, the current account deficit would be almost stable at 4.2 percent of GDP in 2020. Over the forecast horizon, the recent recovery in exports would consolidate, driven mainly by sales in the automotive sector following the production ramp-up announced by the PSA plant. At the same time, the pace of imports would accelerate, with higher purchase of capital goods and a heavier energy bill following the expected rise in international oil prices. Travel revenues would experience a gradual recovery while remaining below the 78.8 billion dirhams observed in 2019. They would therefore rise from 29 billion in 2020 to 49.9 billion in 2021 and then to 72 billion in 2022. As for transfers of Moroccans living abroad, which would remain almost stable at 65.8 billion dirhams in 2020, they are projected to strengthen to 70 billion and then to 71.4 billion dirhams. Under these conditions, the current account deficit would narrow to 3.3 percent of GDP in 2021 and stand at 3.9 percent in 2022. Regarding financial operations, FDIs inflows, which declined to the equivalent of 2.3 percent of GDP this year, are expected to regain momentum to reach a volume corresponding to 3.1 percent of GDP annually. Overall, and taking particularly into account the Treasury issues on the international market this year and those planned for 2021 and 2022, official reserve assets would stand at 321.9 billion at end 2020 and evolve around this level over the next two years, thus providing coverage of a little more than 7 months of imports of goods and services.

13. Monetary conditions are still marked by the continued decline in lending rates following the key rate cuts operated last March and June. The overall average lending rate thus recorded a quarterly decline of 28 basis points to 4.30 percent in the third quarter, benefitting both households and businesses, particularly VSMEs. On the other hand, despite the sharp contraction in economic activity, bank credit is expected to maintain a sustained pace, supported by fiscal and monetary measures, as loans to the non-financial sector would rise by 4.3 percent this year and in 2021 and by 4.5 percent in 2022. The real effective exchange rate would appreciate by 0.4 percent this year, whereas in 2021, it would fall by 1.2 percent as a result of a 0.9 percent fall in the nominal value of the dirham and a lower level of domestic inflation compared to trading partners and competitor countries. In 2020, this rate is projected to stabilize.

14. Concerning public finance, budget execution for the first eleven months has ended in a non-privatization deficit of 59.2 billion dirhams, thus widening by 14.2 billion dirhams compared to the same period in 2019, taking into account the positive balance of 8.3 billion dirhams of the Special Fund for the Covid-19 Pandemic Management. Overall expenditure increased by 1.9 percent, mainly reflecting higher expenditure on other goods and services as well as on the wage bill. On the other hand, ordinary revenues excluding privatization decreased by 6.3 percent, mainly as a result of a 7.6 percent decline in tax revenues. For the year as a whole, the non-privatization deficit is projected to stand at 7.7 percent of GDP according to Bank Al-Maghrib projections. In the medium term, taking into account the data of the 2021 Finance law, and assuming continued mobilization of specific financing, fiscal consolidation would gradually resume, and the non-privatization deficit would decline to 6.5 percent of GDP in 2021 and 6.4 percent in 2022. On the other hand, direct debt of the Treasury would increase by 11 GDP points to 76 percent at the end of this year and reach 79.3 percent of GDP by the end of 2022.

15. Finally, the Board approved the Bank's budget for 2021 as well as the foreign reserves investment strategy. It also set the dates of its meetings for the same year in March 23, June 22, September 28, and December 21.