



## PRESS RELEASE

### BANK AL-MAGRIB BOARD MEETING

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Rabat, March 23, 2021

1. The Board of Bank Al-Maghrib held its first quarterly meeting of the year 2021 on Tuesday, March 23.
2. During this meeting, the Board analysed the evolution of the national and international economic and social situation as well as the macroeconomic forecasts of the Bank over the medium term. These forecasts reflect a moderate revival of optimism, particularly prompted by the smooth progress of the anti-Covid-19 vaccination campaign and the favourable climatic conditions prevailing in the current crop year. However, the Board noted that the prospects remain surrounded by a high level of uncertainty essentially related to the evolution of the pandemic inside and outside Morocco, considering the spread of new variants of the virus, the current production capacity of vaccines, and their delivery delays.
3. The Board also inquired about the progress made in the various measures put in place since the beginning of the pandemic to promote financing of the economy and mitigate the impact of the crisis on households and businesses.
4. Based on all these assessments, the Board considered that the monetary policy stance remains very accommodative, thereby ensuring adequate financing conditions. More specifically, the Board deemed that the current level of the policy rate remains appropriate and decided to keep it unchanged at 1.5 percent.
5. The Board noted that, as a result of disinflationary pressures stemming from demand, inflation remained low in 2020. With the upturn in activity and the rise in international prices of oil and some food products, inflation is projected to rise, albeit moderately, from 0.7 percent in 2020 to 0.9 percent in 2021 and 1.2 percent in 2022. Its core component is expected to follow a similar pattern, rising from 0.5 percent in 2020 to 1.2 percent in 2021, then accelerating to 1.5 percent in 2022.
6. Internationally, with the start of vaccination campaigns and the continued exceptional fiscal and monetary supports, growth prospects are improving, despite the restrictions put in place in several countries to curb the new waves of virus infection. World economy, which would have contracted by 3.7 percent in 2020, is expected to rebound by 6.2 percent in 2021 and then grow by 3.6 percent in 2022. In the main advanced countries, GDP in the United States, after its 3.5 percent decline, is forecasted to grow by 4.4 percent in 2021 and 2.8 percent in 2022. In the euro area, GDP would grow by 4.9 percent in 2021 and 3.2 percent in 2022, after its 6.8 percent decline in 2020. With regard to the labour markets, unemployment rate in the United States is expected to fall to slightly above 6 percent in 2021 and 2022, after its sharp increase to 8.1 percent in 2020. In the euro area, this rate is expected to rise by 0.6 point to 8.6 percent in 2021, before falling back to 7.6 percent in 2022. In the major emerging countries, growth in China, the only economy in the category to have recorded positive growth in 2020, at 2 percent, would surge to 9.6 percent in 2021 and stand at 5 percent in 2022. In India, on the other hand, GDP is estimated to have dropped by 7.5 percent and is expected to expand by 13.3 percent in 2021 and 6.6 percent in 2022.
7. On the commodity markets, oil prices continue their upward trend, which began late April 2020, backed by the agreement of OPEC+ members on production levels and by the demand recovery. More specifically, the price of Brent is expected to rise from 42.3 dollars per barrel on average in 2020 to nearly 60 dollars in 2021, and to hover around this level in 2022. As for phosphate fertilizers, World Bank projections issued in October 2020 indicate that the price of DAP per ton would increase from

312.4 dollars in 2020 to 318 dollars in 2021 and 326 dollars in 2022. As for food products, prices are expected to rise by 9.1 percent on average in 2021, followed by a 2.7 percent decline in 2022.

8. Under these circumstances, and after the strong disinflationary pressures in 2020, inflation is expected to accelerate sharply this year. In the United States, it would rise from 1.2 percent in 2020 to 2.5 percent in 2021 before slowing to 2.2 percent in 2022. In the euro area, following a rate of 0.3 percent in 2020, inflation is forecasted to rebound to 1.9 percent in 2021, then slowdown to 1.3 percent in 2022.
9. These evolutions should not impact the monetary policy stance in the major advanced economies, expected to remain strongly accommodative. In fact, the FED decided, at its meeting on the 16th and 17th of this month, to keep the target range for its rate unchanged at [0 percent-0.25 percent] and plans to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed this level for some time. It also reiterated that it will continue increasing its holdings of securities until substantial further progress has been made towards achieving its objectives. In the same vein, during its last meeting on the 11th of this month, the ECB decided to keep its key interest rates unchanged and confirmed that it will continue to conduct net asset purchases and step up the pace of those made under the pandemic emergency purchase programme. It also declared that it will continue to provide ample liquidity through its refinancing operations, particularly the third series of targeted longer-term refinancing operations. On the other hand, fiscal support continues, particularly as a new relief package of 1,900 billion dollars was approved in the United States earlier this month. Also, the European Union adopted, last December, a 1,800 billion euros stimulus package, based on a long-term budget and on the "Next Generation EU" program, which amounts to 750 billion euros. The exceptional monetary and fiscal easing measures, added to the favourable prospects of growth, led to an upward trend in sovereign rates, with the yield of US 10-year bonds in particular rising from 0.54 percent at the end of July 2020 to around 1.73 percent on March 19, 2021.
10. Domestically, the latest data of national accounts for the third quarter of 2020 suggest a resumption of activity after its strong drop the previous quarter. Considering these observations and the available high frequency indicators, contraction of the national economy over the year as a whole would have reached, according to Bank Al-Maghrib's forecasts, 7 percent, reflecting a decline by 8.1 percent in agricultural value added and by 6.7 percent in non-agricultural one. With regard to the labour market, HCP data point to a sharp deterioration in 2020, due to the loss of 432 thousand jobs, including 273 thousand in agriculture and 107 thousand in services. Participation rate fell from 45.8 percent to 44.8 percent and unemployment rate increased to 11.9 percent overall and 15.8 percent in urban areas.
11. Over the forecast horizon, economic activity is projected to continue recovering, supported by the 120 billion dirhams recovery plan, the accommodative monetary policy stance, and a relative renewal of confidence in view of the progress made in the vaccination campaign and of the favourable weather conditions prevailing during this crop year. However, these prospects are surrounded by considerable uncertainty, mainly with regard to the evolution of the pandemic and to the availability of vaccines, both nationally and internationally. Thus, according to Bank Al-Maghrib forecasts, the value added of non-agricultural activities would increase by 3.5 percent in 2021 and, assuming a projected cereal production of around 95 million quintals, the value added of the agricultural sector would rebound by 17.6 percent, thus bringing the growth of the national economy to 5.3 percent. In 2022, the growth rate would consolidate to 3.2 percent, reflecting an acceleration in its non-agricultural component to 3.8 percent and a 2 percent drop in agricultural value added, assuming a return to an average cereal production of 75 million quintals.
12. In terms of the external accounts, 2020 witnessed a significant decline in trade, with a steeper fall in imports compared to exports. The coverage ratio thus improved by 4.5 points to 62.4 percent and the deficit in the goods trade balance narrowed by 47.8 billion dirhams to 158.7 billion. On the other hand, the surplus in the balance of services narrowed by 27.6 billion to 60.7 billion dirhams, reflecting a 53.8 percent drop in travel receipts to 36.4 billion dirhams, while transfers from Moroccans living abroad showed a strong resilience and increased by 5 percent to 68 billion. Under these conditions, the current account deficit would have narrowed to 1.8 percent of GDP. Over the forecast horizon, this deficit is

expected to widen to 4.5 percent of GDP in 2021 before falling to 3 percent in 2022. Imports are expected to grow at a sustained pace, mainly due to the expected increases in the energy bill and in the purchase of consumer goods, while exports recovery would particularly be fostered by the announced increase of production capacity in the automobile industry. At the same time, assuming a gradual rise of foreign tourist inflows as of the second half of this year, travel receipts would grow moderately, while remaining well below pre-crisis levels, to 38.1 billion dirhams this year and 68.2 billion in 2022. As for remittances from Moroccan expatriates, they would stand at 71.9 billion dirhams then 73.4 billion dirhams, respectively. Regarding financial operations, FDI receipts are expected to reach around 3.2 percent of GDP, after having dropped to 2.4 percent in 2020. Considering the expected Treasury external financing, official reserve assets would stand at 310.3 billion dirhams at the end of 2021, representing 6 months and 25 days of imports of goods and services, and increase at end-2022 to 318.6 billion dirhams, equalling 7 months of imports of goods and services.

13. Regarding monetary conditions in 2020, an average of 49-basis-point decline was recorded in lending rates, following Bank Al-Maghrib's key rate cuts in March and June of the same year, as well as the significant rise in the cost of risk. Meanwhile, despite the sharp contraction in economic activity and the increase of non-performing loans, loans to the non-financial sector rose by 3.9 percent, boosted by the support and stimulus measures put in place. This rate is expected to be around 3.6 percent over the forecast horizon. As for the real effective exchange rate, which appreciated by 0.8 percent in 2020, it would fall by the same rate in 2021 and by 0.6 percent in 2022, as a result of a lower level of domestic inflation compared to trading partners and competitors.
14. With respect to public finances, budget implementation carried out under the corrective Finance law revealed a deficit, excluding privatization, of 82.4 billion dirhams or 7.6 percent of GDP, taking account of the positive balance, of 5.3 billion dirhams, generated by the Covid-19 pandemic management fund. Current revenues fell by 7.6 percent, reflecting drops by 6.8 percent in tax revenues and by 12.4 percent in non-tax ones. In contrast, current expenses increased by 2.1 percent, mainly driven by higher wage bill and increased spending on other goods and services. In turn, investment grew by 18.8 percent to 85.9 billion dirhams. Based on the data of the 2021 Finance Law and on the economic growth outlook, fiscal consolidation is expected to resume gradually, as the deficit, excluding privatization, is projected, according to Bank Al-Maghrib, to narrow to 7.2 percent of GDP in 2021 and then to 6.7 percent of GDP in 2022. Under these conditions, the Treasury debt ratio would continue to rise, going from 77.4 percent of GDP in 2020 to 79 percent in 2021 and 81.3 percent in 2022.