PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 22, 2021

1. The Board of Bank Al-Maghrib held its second quarterly meeting of the year 2021 on Tuesday, June 22.
2. During this meeting, it reviewed and approved the annual report on the country's economic, monetary and financial situation, as well as on the Bank's activities for the year 2020.
3. The Board then analyzed the health and economic developments at the national and international levels, as well as the Bank's medium-term macroeconomic projections. In this regard, the Board considered that the economic recovery is under way at a steady pace, supported by the easing of restrictions, the accommodative financial conditions and the fiscal stimulus. Yet, the outlook remains surrounded by high uncertainties due mostly to the emergence of new variants of the virus and disparities in the pace of vaccination across countries.
4. In view of these assessments, the Board considered that the monetary policy stance remains very accommodative, thereby ensuring adequate financing conditions. In particular, the Board deemed that the current level of the policy rate remains appropriate and thus decided to maintain it unchanged at 1.5 percent.
5. The Board noted that, after recording 0.7 percent in 2020 and 0.1 percent in the first quarter of 2021, inflation averaged 1.7 percent during April and May. As a result of the expected rise of oil and some food international prices, as well as the revival of domestic demand, inflation would pursue its acceleration yet remaining at moderate levels, standing at 1 percent in 2021 and 1.2 percent in 2022. Its core component would increase from 0.5 percent in 2020 to reach 1.2 percent in 2021 and 1.5 percent in 2022.
6. Internationally, after a contraction of 3.6 percent in 2020, the world economic outlook continues to improve with an expected growth of 6.4 percent this year and 4 percent in 2022. In the main advanced economies, after a 3.5 percent decline, real GDP would rebound by 6.4 percent in 2021 and then grow by 3.2 percent in 2022 in the United States, while it is expected to recover in the euro area by 4.4 percent and then by 3.5 percent respectively, after a 6.6 percent decline in 2020. The labor

market showed a significant improvement in the United States, with an expected fall in unemployment rate from 8.1 percent to 5.8 percent in 2021 and then to 4.7 percent in 2022, while in the euro area, this rate would rise from 8 percent to 8.4 percent this year before declining to 7.4 percent in 2022. In the main emerging countries, China's growth would accelerate from 2 percent to 9.2 percent, followed by a consolidation to 5.1 percent in 2022, a pace in line with its economy rebalancing policy. In India, after a decline of 7.1 percent, and despite a sharp increase in Covid-19 cases, real GDP would expand by 11.5 percent in 2021 and by 9.8 percent in 2022, mainly due to the strengthening of foreign demand.

7. In the commodity markets, the favorable outlook for the global demand would keep upward pressure on prices. The Brent in particular is expected to end 2021 at an average price of $65.1/bl, up 53.9 percent, which would increase to $65.8 in 2022. Regarding phosphates and derivatives, the price of rock phosphate would increase from $76.1/t in 2020 to $90 in 2021 and to $91.9 in 2022. For its part, the price of DAP is expected to rise by 44 percent to $450/t this year and then to drop to $425 in 2022. Food prices would rise by 20.8 percent this year, before declining by 6.4 percent in 2022.

8. In this context, the recent acceleration in inflation is likely to continue, still would be of a temporary nature. In the United States, inflation would reach 3.7 percent in 2021 and 3.5 percent in 2022, while in the euro area, it would stand at 1.8 percent, for 2021 as a whole, before dropping to 1.2 percent in 2022.

9. Despite these developments, central banks of the major advanced economies are foreshadowing in their prospective communications that they would maintain a highly accommodative monetary policy stance. In fact, the ECB decided, at its last meeting held on June 10, to keep its key rates and the pace of its net purchases under the Asset Purchase Programme unchanged, pointed out that it expects net purchases under the Pandemic Emergency Purchase Programme to continue to be conducted at a significantly higher pace over the coming quarter and pledged to continue to provide ample liquidity through its targeted longer-term refinancing operations. Similarly, the FED unanimously decided during its meetings held on June 15-16 to keep the target range for the federal funds rate unchanged at [0%-0.25 percent]. It pointed out that it expects 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 rate for some time. In addition, it will continue to increase its holdings of securities by at least $120 billion per month until substantial further progress has been made toward its objectives. The Federal Reserve also announced the extension of its temporary U.S. dollar liquidity swap with nine central banks through December 31, 2021. On the other hand, the upsurge of inflationary pressures has led some central banks in emerging countries to raise their key rates, as is the case in particular for Brazil, Turkey and Russia.

10. At the domestic level, the provisional annual national accounts data for 2020 published by the HCP indicate a contraction by 6.3 percent instead of 7.1 percent based on the average of quarterly data. This reflects declines by 8.6 percent in agricultural value added and by 5.8 percent in non-agricultural one. In terms of outlook, the economic recovery observed over the recent months is set to continue driven, on the one hand, by fiscal stimulus measures and the accommodative monetary policy stance and, on the other hand, by the notable progress in vaccination and the easing of restrictions. Based on Bank Al-Maghrib's projections, growth would reach 5.3 percent this year, driven by a 3.6 percent increase in the value added of non-agricultural activities and a 17.6 percent rebound in the agricultural sector. The latter reflects in particular the very favorable weather conditions that marked the current crop year and which resulted in an increase in cereal production to 98 million quintals. In 2022, growth is expected to consolidate to 3.3 percent, with a further improvement in the pace of non-agricultural activities to 3.8 percent and a 2 percent drop in agricultural value added, assuming an average level of cereal production at 75 million quintals. On the labor market, signs of recovery are visible with a significant reduction in annual net job losses to 202 thousand in the first quarter of 2021 instead of 451 thousand a quarter earlier. Taking into account a net entry to the market of 40 thousand job seekers, the participation rate declined year-on-year to 45.5 percent and the unemployment rate worsened to 12.5 percent overall and 17.1 percent in urban areas.

11. As for external accounts, provisional data at end-April show a significant revival in trade of goods with year-on-year increases by 22.3 percent in exports and 10.7 percent in imports. At the same time, travel receipts fell by 65.7 percent, while remittances showed a strong resilience, with an increase of 45.3 percent. The recovery in trade of goods is set to continue, with Bank Al-Maghrib’s projections indicating a 14.5 percent increase in exports for the whole of this year, followed by a 5.6 percent increase in 2022, driven mainly by car manufacturing and phosphates and derivatives sales. Imports, on the other hand, are expected to grow by 16.6 percent in 2021, mainly as a result of a rise in the energy bill and consumer goods purchases, before recording a slower pace of 3 percent in 2022. Travel receipts are expected to recover gradually with borders opening, rising from 36.5 billion dirhams in 2020 to 44.4 billion dirhams in 2021 and 63.4 billion dirhams in 2022. As for remittances, they would continue to grow steadily at 7.6 percent to 73.3 billion in 2021 and at 2.8

percent to 75.4 billion in 2022. Under these conditions, and after a significant narrowing to 1.5 percent of GDP in 2020, the current account deficit would end the year at 3.8 percent of GDP before falling to 2.6 percent in 2022. As to FDI receipts, they would reach around 3 percent of GDP in 2021 and in 2022. Taking into account in particular the Treasury's external drawings, as well as the projected allocation of SDRs by the IMF, the official reserve assets of Bank Al-Maghrib would stand at around 328.5 billion dirhams by end-2021 and 338.6 billion by end-2022, representing the equivalent of more than 7 months of imports of goods and services.

12. With regard to monetary conditions, lending rates were almost stable overall in the first quarter, averaging 4.45 percent, with a quarterly increase of 21 basis points for individuals and a decrease of 5 basis points for businesses. Year-on-year, they declined by 44 basis points on average, a drop that affected all categories of loans and institutional units. As to bank credit, loans to the non-financial sector growth has slowed from 4.5 percent in the fourth quarter of 2020 to 4.1 percent in the first quarter of 2021, covering a deceleration from 5.3 percent to 4.2 percent for loans to businesses and an improvement from 3 percent to 3.7 percent for loans to households. Taking into account the economic outlook, it would end the year with a 3.5 percent growth and then increase by 3.8 percent in 2022. For its part, and after an appreciation by 0.8 percent in 2020, the real effective exchange rate is expected to depreciate by 0.6 percent in 2021 and by 1.4 percent in 2022, mainly due to a lower level of domestic inflation compared to trading partners and competitors.

13. Concerning public finances, budget implementation for the first five months of the year showed a deficit of 25.1 billion dirhams, down slightly from one year to the next. Current revenues improved by 9.3 percent, driven by the increase in tax revenues. At the same time, overall expenditures increased by 1.9 percent due to a 5.2 percent rise in the wage bill and a 18.1 percent increase in subsidy costs, while investment stabilized at 28.1 billion dirhams. Taking account of the reduction in the stock of pending transactions by 20.6 billion, the cash deficit stood at 45.6 billion, instead of 25.4 billion over the same period of 2020. This requirement was covered by net domestic resources up to 41.9 billion and by net external borrowings up to 3.7 billion. In view, in particular, of these results, the fiscal deficit would, according to Bank Al-Maghrib's projections, gradually decrease from 7.6 percent of GDP to 7.1 percent in 2021 and to 6.6 percent in 2022, while the Treasury debt would continue to rise from 76.4 percent of GDP in 2020 to 77.8 percent in 2021 and 80 percent in 2022.