MONETARY POLICY REPORT

No. 59 / 2021

DOCUMENT PREPARED FOR
THE BANK BOARD
JUNE 22, 2021

Legal deposit: 2020/0033

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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 change 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

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, 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.

OVERVIEW

The progress achieved in the Covid vaccination campaigns and the gradual recovery of activities in several major economies continue to have a positive impact on the global economy and its outlook. However, the outlook is still surrounded by a high level of uncertainty in connection with the appearance of new variants of the virus and the divergence of vaccination pace between countries.

National accounts data for the first quarter of 2021 point to a continuation of the recovery that began overall in the second half of 2020. In the United States, GDP grew by 0.4 percent year-on-year, following a 2.4 percent decline a quarter earlier, reflecting in particular improving household consumption and investment. In the Eurozone, contraction eased from 4.7 percent to 1.3 percent, with an increase of 1.2 percent in France after a decline of 4.6 percent and an easing of the decline to 4.3 percent in Spain and 0.8 percent in Italy. In the same vein, GDP lost 6.1 percent compared to 7.3 percent in the United Kingdom, reflecting improved public investment and external demand, as well as rapid progress in the vaccination campaign.

In the main emerging countries, growth in China posted a significant acceleration to 18.3 percent over the same period, reflecting stronger domestic and external demand. Similarly, and despite a sharp upsurge in infections, GDP grew by 3.7 percent in India thanks to higher private and public spending and improved investment. In Brazil, after four quarters of consecutive declines, GDP gained 1 percent for the first time, and in Russia, data for the fourth quarter of 2020 showed an easing of the contraction to 1.8 percent compared to 3.5 percent a quarter earlier.

In the labor market, the situation continues to improve in the United States, with the unemployment rate down to 5.8 percent in May and 559 thousand jobs created. In the Eurozone, however, it continues to suffer from the effects of the pandemic, with the unemployment rate at 8 percent in April compared with 8.1 percent in March.

In the financial markets, the stock market indicators of the major advanced economies continued to rise in May. The Dow Jones Industrials rose month-on-month by 4.2 percent, the EuroStoxx 50 by 4.3 percent, the FTSE 100 by 2.6 percent and the Nikkei 225 by 0.7 percent. As to sovereign yields, and after rising for several months, the rate on 10-year U.S. Treasury bonds virtually stabilized at 1.6 percent in May. In the euro zone, rates on long maturities continued to rise, with 10-year bonds increasing by 11 basis points (bps) to -0.2 percent for Germany, by 24 bps to 0.1 percent for France, by 15 bps to 0.5 percent for Spain and by 19 bps to 0.9 percent for Italy.

In the foreign exchange markets, the euro appreciated between April and May by 1.6 percent against both the US dollar and the Japanese yen, while it depreciated by 0.2 percent against the pound sterling. The currencies of the main emerging countries strengthened overall against the dollar over the same period. As for bank credit, its growth rate slowed significantly from 6.1 percent in March to 3.9 percent in April in the United States, and from 3.6 percent to 3.2 percent in the euro zone.

With regard to commodity prices, driven by the recovery in global demand and the implementation of the production cuts agreed by OPEC+ members with compliance rates exceeding 100 percent, the price of Brent crude oil preserved its uptrend in May, averaging 68 dollars per barrel, up 5 percent month-on-month and nearly 25 percent since the beginning of the year. Similarly, non-energy commodity prices rose by 50.6 percent year-on-year in May, with an 85 percent increase for metals and ores and 36.3 percent for agricultural products. Prices of phosphate and derivatives also rose in May, with increases of 7.9 percent for raw phosphate, 5.7 percent for DAP and 10.4 percent for TSP.

Against this background, price developments were marked by an upward movement in the main advanced as well as emerging countries. Favored by other factors, especially the recovery in hiring and direct aid to households, inflation continued to accelerate in the United States, rising from 4.2 percent in April to 5 percent in May, the fastest pace since August 2008. In the Eurozone, according to a first estimate from Eurostat, it rose from 1.6 percent in April to 2 percent in May.

As for monetary policy decisions, and despite these developments, the central banks of the main advanced economies are indicating in their forward-looking statements that they will maintain their highly accommodating monetary policies. During its last meeting on June 10, the ECB decided to keep its key interest rates and the pace of its net purchases under the asset purchase program unchanged and to increase, in the next quarter, those under its emergency purchase program launched to address the pandemic. Similarly, the Fed unanimously decided, at its June 15-16 meeting, to keep the target range for the federal funds rate at [0 percent-0.25 percent], while indicating that it plans to maintain it at that level until labor market conditions have reached levels consistent with the MPC's assessments of maximal employment and inflation has risen to 2 percent and is on track to moderately exceed that rate for some time. In addition, it will continue to increase its security holdings by at least $120 billion per month until substantial additional progress is made in meeting its objectives. It also announced the extension of its temporary U.S. dollar liquidity swap agreements with nine central banks through December 31, 2021. On the other hand, rising inflationary pressures have led some central banks in emerging countries to raise their policy rates, as is the case for Brazil, Turkey and Russia in particular.

At the same time, governments continue to provide support to cope with the economic and social repercussions of the Covid-19 pandemic, although this support was relatively withdrawn in some emerging countries. In the United States, two major budgetary plans, the American Jobs Plan and the American Families Plan, have been proposed, with a total budget of around 4500 billion dollars. In the European Union, following the approval of all member states on May 31, 2021, the Commission will begin to mobilize resources to finance Europe's recovery under the "Next Generation EU" program. To this end, it announced on June 1 a plan to issue around €80 billion in long-term bonds in 2021, in addition to tens of billions of euros in short-term EU-Bills to meet the remaining financing needs. The first bond issue in this framework was carried out in June for €20 billion.

At the domestic level, the latest annual national accounts data show a decline in GDP of 6.3 percent in 2020, instead of the average of -7.1 percent shown in the quarterly accounts data. Agricultural value added dropped by 8.6 percent and non-agricultural value added by 5.8 percent. On the demand side, this change includes a negative contribution of 6.5 percentage points from the domestic component and a positive contribution of 0.2 percentage points from the external component.

On the labor market, the situation has improved slightly with a clear reduction in job losses to 202 thousand jobs, resulting in decreases of 231 thousand in agriculture and 48 thousand in industry, including handicrafts, as well as increases of 42 thousand in services and 39 thousand in construction. Taking into account a net entry of 40 thousand job seekers, the activity rate has declined to 45.5 percent and the unemployment rate has worsened by 2 points to 12.5 percent overall, by 2 points to 17.1 percent in cities and by 1.4 points to 5.3 percent in the countryside.

Foreign trade data at end-April showed a year-on-year reduction of 2.8 billion dirhams in the trade deficit to 62.8 billion dirhams, owing to a 22.3 percent increase in exports, greater than the 10.7 percent rise in imports. The coverage rate has thus improved by 5.9 points to 62 percent. The increase in exports concerned all sectors, except for aeronautics, which fell by 10.8 percent. In particular, the dynamics of exports of phosphate and derivatives continued with an increase of 16.9 percent and sales of the automotive sector experienced an expansion of 62.6 percent, due mainly to a base effect. As for imports, their increase was driven mainly by increases of 24.7 percent for the purchases of finished consumer products, 10 percent for acquisitions of semi-finished products and 7.1 percent for those of capital goods. Conversely, the energy bill remained virtually unchanged at $20 billion. At the same time, impacted by the continued and almost total border closure, travel receipts plummeted by 65.7 percent to 6.4 billion, while the transfers of Moroccan expatriates maintained their notable resilience, with a rise of 45.3 percent to 28.8 billion. As for the main financial operations, FDI receipts rebounded by 23.7 percent to 10.6 billion dirhams and Moroccan direct investment expenditure abroad increased by 3.2 billion dirhams to 6.5 billion dirhams. As for official reserve assets, they stood at 304 billion dirhams at end-April 2021, representing the equivalent of 6 months and 28 days of imports of goods and services.

As regards monetary conditions, the banks› liquidity needs decreased in the first quarter of 2021 to 63.7 billion dirhams on a weekly average, compared to 91.5 billion dirhams a quarter earlier. As a result, Bank Al-Maghrib reduced the amount of its injections to 75 billion. Monetary conditions were also marked during the same period by a virtually stable average lending rate at 4.45 percent, covering in particular an increase of 21 points for private individuals and a decrease of 5 points for businesses, as well as by a depreciation of the real effective exchange rate. As for bank credit to the non-financial sector, its growth slowed down slightly from 4.5 percent in the fourth quarter to 4.1 percent in the first one, corresponding to a deceleration in the growth rate of loans to businesses and an increase in loans to households.

Concerning public finances, the budget execution for the first five months of the year resulted in an overall deficit of 25.1 billion dirhams, compared with 25.9 billion a year earlier. This change is mainly due to a 29.6 percent drop to 12.9 billion in the positive balance of the Treasury›s special accounts, including the balance of the Special Fund for the Management of the Pandemic which was positive at 18.1 billion in 2020 and negative at 3.7 billion in 2021. Ordinary revenues improved by 9.3 percent to $104.9 billion, covering a 10.4 percent increase in tax revenues and a 15.5 percent decline in non-tax ones. At the same time, ordinary expenditure increased by 2.4 percent to 114.8 billion, mainly due to a 5.2 percent increase in personnel expenditure, a 21.1

percent rise in transfers to local authorities and an 18.1 percent increase in subsidization costs. Investment expenditure stabilized at 28.1 billion, bringing total expenditure to 142.9 billion, up 1.9 percent. Under these conditions, the outstanding direct public debt would have increased by 3.1 percent compared to its level at end-December 2020. The Treasury›s financing conditions are favorable, as evidenced by the downtrend in the weighted average rates of securities issued through auction.

On the asset market, real-estate prices in the first quarter of 2021 stagnated quarter-on-quarter, with a 0.9 percent decline in residential prices and increases of 1.4 percent and 0.3 percent in urban land and business property prices, respectively. At the same time, after increasing by 43.1 percent in the fourth quarter of 2020, the number of transactions posted a decrease of 17.4 percent, reflecting those of residential property and urban land with rates of 21.1 percent and 14 percent respectively, while that of business property went up 2.3 percent. On the stock market, the MASI appreciated by 1.7 percent during the same period, reflecting in particular rises in the sectoral indices of pharmaceutical industries by 54.9 percent, mining by 11.7 percent, food processing by 11.6 percent and oil and gas by 7.4 percent. As for the volume of transactions, it stood at 14.2 billion dirhams, compared to 22.5 billion in the fourth quarter of 2020. Against this background, market capitalization posted a quarterly increase of 1.8 percent to 595.3 billion dirhams.

With regard to consumer prices, and after an increase of 0.1 percent in the first quarter, inflation went up to 1.4 percent in April, driven by rises of 23.6 percent in the prices of fuels and lubricants and 0.4 percent in volatile food prices. Its underlying component rose to 0.8 percent in April after averaging 0.5 percent in the first quarter.

In terms of outlook, development in the world economy remains largely dependent on the development of the health situation and on fiscal and monetary support. After contracting by 3.6 percent in 2020, the world economy is expected to rebound to 6.4 percent in 2021 before growing by 4 percent in 2022. In the United States, after declining by 3.5 percent, GDP is projected to rebound by 6.4 percent, driven by household consumption and fiscal spending, and then to grow by 3.2 percent in 2022. In the euro zone, growth is expected to recover to 4.4 percent in 2021 and to consolidate to 3.5 percent in 2022. On the labor markets, the unemployment rate is forecast to fall sharply in the United States, from 8.1 percent in 2020 to 5.8 percent in 2021 and then to 4.7 percent in 2022, while in the euro zone it would go on rising, reaching 8.4 percent in 2021 before falling to 7.4 percent in 2022.

In the major emerging countries, growth in China is expected to rebound in 2021 to 9.2 percent, followed by an increase of 5.1 percent in 2022, which is consistent with the country›s policy aiming to rebalance the economy. In India, despite the negative economic fallout from the new wave of infections, GDP is forecast to expand by 11.5 percent in 2021, driven by stronger external demand, and would grow by 9.8 percent in 2022. In Brazil, growth is projected to be limited to 4.6 percent in 2021 and 3 percent in 2022, with the pace of recovery still largely dependent on fiscal consolidation.

On commodity markets, the favorable outlook for global demand is driving oil prices higher. In particular, the price of Brent crude oil is expected to close 2021 at an average of $65.1 per barrel, up from $42.3 per barrel in

2020, before rising to $65.8 per barrel in 2022. Food prices are projected to end the year up by 20.8 percent before falling by 6.4 percent in 2022. As for phosphates and derivatives, the price of raw phosphate would increase over the forecast horizon, rising from $76.1 per ton in 2020 to $90 per ton in 2021 and $91.9 per ton in 2022. The price of DAP is expected to remain high in the absence of additional production, particularly in Morocco and Saudi Arabia. It is projected to rise by 44 percent this year to an average of $450 per ton, before falling by 6 percent to $425 per ton in 2022.

Against this background, inflation would maintain its upward trend, which would however be transitory. In the euro zone, after a rate of 0.3 percent in 2020, it would average 1.8 percent for the year as a whole before slowing to 1.2 percent in 2022. In the United States, it is expected to end the year at an average of 3.7 percent, up from 1.2 percent in 2020, before slowing down to 3.5 percent in 2022.

At the national level, foreign trade in goods is expected to continue its recovery over the forecast horizon. Exports are projected to rebound by 14.5 percent in 2021, then increase by 5.6 percent in 2022, driven mainly by car manufacturing sales, under the assumption of a doubling of production capacity at the PSA plant, as well as by shipments of phosphates and derivatives. At the same time, imports are expected to grow by 16.6 percent in 2021, mainly due to a rise in the energy bill and an increase in purchases of consumer goods, before slowing to 3 percent in 2022. Travel receipts will gradually recover to 44.4 billion in 2021, after 36.5 billion a year earlier, and 63.4 billion in 2022. As for remittances from Moroccan expatriates, their growth rate would remain rapid in 2021, with an increase of 7.6 percent, before consolidating at 2.8 percent in 2022. Assuming grant inflows of 3 billion in 2021 and 1.6 billion in 2022, the current account deficit, after a significant fall to 1.5 percent of GDP in 2020, would end the year at 3.8 percent of GDP before falling to 2.6 percent in 2022. FDI receipts are expected to reach about 3 percent of GDP over the forecast horizon.

Taking into account, in particular, the Treasury›s borrowings on the international market, as well as the SDR allocation planned by the IMF, official reserve assets would amount to 328.5 billion at the end of 2021 and 338.6 billion at the end of 2022, the equivalent of slightly more than 7 months of imports of goods and services. Also taking into account the expected change in currency in circulation, the bank liquidity deficit would decrease to 64.8 billion at the end of 2021 before increasing to 71.4 billion at the end of 2022. With regard to monetary conditions, after gaining 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. As for bank credit to the non-financial sector, and taking into account economic growth forecasts and the expectations of the banking system, it would rise by 3.5 percent in 2021 and 3.8 percent in 2022.

As regards public finances, after having reached 7.6 percent of GDP in 2020, and taking into account the expected recovery of economic activity, the budget deficit, excluding privatization, would decrease to 7.1 percent of GDP in 2021 and then to 6.6 percent of GDP in 2022. Under these conditions, the Treasury›s debt would increase from 76.4 percent of GDP in 2020 to 77.8 percent of GDP in 2021 and 80 percent in 2022.

The recovery in economic activity, which began in the third quarter of 2020, is expected to continue over the forecast horizon, supported particularly by the significant progress in the vaccination campaign and the easing of health restrictions. Similarly, the very favorable weather conditions that have marked the current crop year have resulted in an increase in cereal production to 98 million quintals (MQx) according to the Department of Agriculture. In 2021, growth is expected to reach 5.3 percent, with rises of 17.6 percent in agricultural value added and 3.6 percent in non-agricultural activities. In 2022, growth is forecast to consolidate at 3.3 percent, reflecting a 2 percent decline in agricultural value added, assuming a return to an average cereal production of 75 MQx, while non-agricultural activities are expected to continue to improve, with an increase of 3.8 percent in the value added.

Against this background, inflation would be driven in 2021 by the expected improvement in domestic demand and the rise in the international prices of oil and certain food products. It is projected to accelerate moderately from 0.7 percent in 2020 to 1 percent in 2021. In 2022, it would continue to rise, averaging 1.2 percent. Its underlying component is expected to accelerate from 0.5 percent in 2020 to 1.2 percent in 2021 and 1.5 percent in 2022.

The balance of risks to this outlook is broadly balanced for growth and tilted to the upside for inflation. The sustained pace of the vaccination campaign and the easing of domestic restrictions, on the one hand, and the continued accommodative stance of monetary policy and the expected positive effects of the operationalization of the Mohammed VI Fund for Investment, on the other, are a good sign of a stronger recovery in economic activity. Nevertheless, the risk associated with the development of the pandemic continues to weigh on the outlook at both the national and international levels. A faster spread of new Covid-19 variants, combined with a slow or continued asynchronous rollout of vaccination campaigns around the world, would slow the economic recovery. As for inflation, the risks of stronger-than-expected upward pressure remain dominant. The strong pressure on certain commodity prices, particularly those of food and energy, the increase in transport costs and the greater demand following the easing of restrictions would imply higher price levels than those retained in the central scenario.

1.INTERNATIONAL DEVELOPMENTS

The gradual resumption of activity in several major economies, thanks to progress in vaccination, continues to strengthen the recovery and improve the economic outlook. However, there still remains considerable uncertainty, particularly in relation to the spread of new virus variants and the divergence in the pace of vaccination. Thus, the latest available data indicate a slight increase in GDP in the first quarter in the United States and an easing of its decline in the euro zone and the United Kingdom.

As for the main emerging countries, growth has significantly strengthened in China, while in India and Brazil, the recovery has been less pronounced.

In the labor markets, the situation continued to improve in the United States, while the euro zone continued to suffer from the repercussions of the pandemic, with unemployment rates still high in many countries. In the financial markets, the upward trend observed on the stock markets of the main advanced economies continued and long-term sovereign bond rates rose overall. As regards commodities, price developments were marked mainly by a sharp rise in the prices of energy products and metals and ores. Against this background, a broad inflationary movement was observed, particularly in the United States.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, the gradual lifting of restrictive measures following progress in the vaccination campaign has had a positive impact on growth. After a 2.4 percent year-on-year decline in the fourth quarter of 2020, GDP rose slightly by 0.4 percent in the first quarter of 2021, reflecting in particular stronger household consumption and investment. In the euro zone, GDP contracted by 1.3 percent year-on-year in the first quarter, less than the 4.7 percent contraction observed a quarter earlier. By country, growth reached -3.1 percent after -3.3 percent in Germany, -0.8 percent after -6.5 percent in Italy and -4.3 percent after -8.9 percent in Spain. In France, it was positive at 1.2 percent after -4.6 percent, driven mainly by investment. In the United Kingdom, with the remarkable progress in the vaccination campaign, the data of the first quarter indicate an attenuation of the year-on-year decline in GDP from 7.3 percent to 6.1 percent, thanks to higher public investment and external demand.

Conversely, amid a resurgence of infections and the slow vaccination pace in Japan, GDP contracted by 1.9 percent as a result of lower investment and private and public spending.

Table 1.1: YoY change in quarterly growth

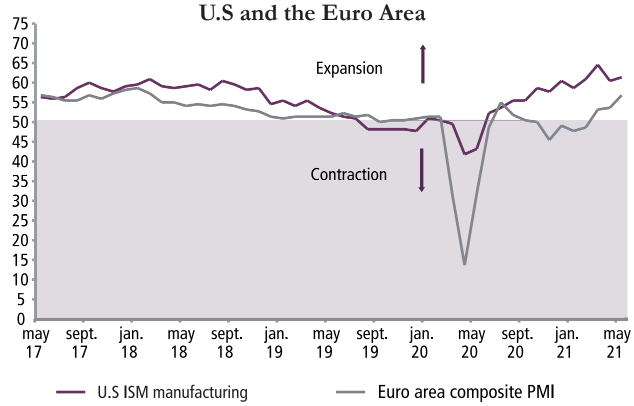
	2018	2019				2020				2021
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Advanced economies										
United States	**2.5**	**2.3**	**2.0**	**2.1**	**2.3**	**0.3**	**-9.0**	**-2.8**	**-2.4**	**0.4**
Euro area	**1.2**	**1.6**	**1.3**	**1.4**	**1.0**	**-3.3**	**-14.6**	**-4.1**	**-4.7**	**-1.3**
France	1.5	2.1	2.3	2.0	1.0	-5.5	-18.4	-3.5	-4.6	1.2
Germany	0.3	1.1	0.1	0.8	0.4	-2.2	-11.2	-3.8	-3.3	-3.1
Italy	0.3	0.3	0.4	0.5	-0.1	-5.8	-18.1	-5.2	-6.5	-0.8
Spain	2.3	2.2	2.1	1.8	1.7	-4.3	-21.6	-8.6	-8.9	-4.3
United Kingdom	**1.2**	**1.7**	**1.5**	**1.4**	**1.2**	**-2.2**	**-21.4**	**-8.5**	**-7.3**	**-6.1**
Japan	**-0.2**	**0.1**	**0.3**	**1.1**	**-1.3**	**-2.2**	**-10.2**	**-5.6**	**-1.0**	**-1.9**
Emerging economies										
China	**6.5**	**6.3**	**6.0**	**5.9**	**5.8**	**-6.8**	**3.2**	**4.9**	**6.5**	**18.3**
India	**5.4**	**4.9**	**5.0**	**4.6**	**3.4**	**3.7**	**-22.4**	**-7.3**	**1.0**	**3.7**
Brazil	**1.7**	**1.2**	**1.5**	**1.3**	**1.6**	**-0.3**	**-10.9**	**-3.9**	**-1.1**	**1.0**
Turkey	**-2.7**	**-2.6**	**-1.7**	**1.0**	**6.4**	**4.5**	**-10.3**	**6.3**	**5.9**	**7.0**
Russia	**3.2**	**1.3**	**1.2**	**2.6**	**2.9**	**1.4**	**-7.8**	**-3.5**	**-1.8**	**-0.7**

Source : Thomson Reuters.

In the major emerging economies, China recorded a significant acceleration in growth to 18.3 percent in the first quarter from 6.5 percent a quarter earlier, reflecting, in addition to a base effect, stronger domestic and external demand. In India, the epidemiological situation has deteriorated dramatically in recent months. Growth reached 3.7 percent after 1 percent, thanks to increased private and public spending and improved investment. Brazil's GDP grew by 1 percent in the first quarter, compared with a decline of 1.1 percent, driven by a rebound in investment in particular. In Russia, first-quarter data showed a further easing of the decline in GDP from 1.8 percent to 0.7 percent, on the back of improvements in industrial output and wholesale trade.

In terms of advanced activity indicators, the Eurozone's composite PMI index rose to 57.1 points in May and the U.S. ISM manufacturing index increased to 61.2.

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

In the United States, the labor market situation continued to improve, with the unemployment rate falling to 5.8 percent in May and job creations reaching 559 thousand jobs.

In the euro zone, however, it continues to suffer from the effects of the pandemic, with the rate standing at 8.0 percent in April compared with 8.1 percent in March. By country, it decreased from 4.5 percent to 4.4 percent in Germany, from 7.9 percent to 7.3 percent in France, and it conversely increased from 15.3 percent to 15.4 percent in Spain and from 10.4 percent to 10.7 percent in Italy.

In the United Kingdom, according to the latest available data, the unemployment rate edged down to 4.8 percent in February from 4.9 percent a month earlier.

Table 1.2: Change in unemployment rate (%)

(In%)	2019	2020	2021		
			March	April	May
United States	**3. 7**	**8. 1**	**6. 0**	**6. 1**	**5. 8**
Euro area	**7. 5**	**7. 8**	**8. 1**	**8. 0**	**N.A**
France	8. 4	8. 0	7. 9	7. 3	N.A
Germany	3. 1	3. 8	4. 5	4. 4	N.A
Italy	10. 0	9. 2	10. 4	10. 7	N.A
Spain	14. 1	15. 5	15. 3	15. 4	N.A
United Kingdom	**3. 8**	**4. 5**	**N.A**	**N.A**	**N.A**

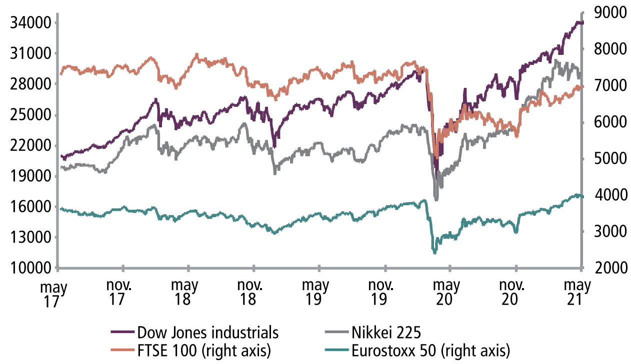
Source : Eurostat and BLS.

1.2 Monetary and financial conditions

The upward trend observed on the stock markets broadly continued in May, bringing the main US and European indices up to new highs. The Dow Jones Industrial rose, month-on-month, by 4.2 percent, the EuroStoxx 50 by 4.3 percent, the FTSE 100 by 2.6 percent and the Nikkei 225 by 0.7 percent. At the same time, volatility continued to decline, returning to 17 in May for both the VSTOXX and the VIX.

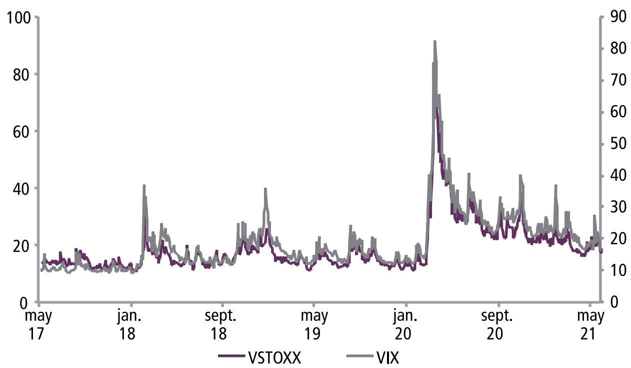
In the emerging markets, with the exception of the MSCI Brazil, which rose by 3.6 percent in May, the main stock markets declined, with China's index down 1.8 percent, India's losing 3 percent and Turkey's down 13.3 percent.

Chart 1.2: Change in major stock market indexes of advanced economies in 10 years



Source: Thomson Reuters.

Chart 1.3: Change in VIX and VSTOXX

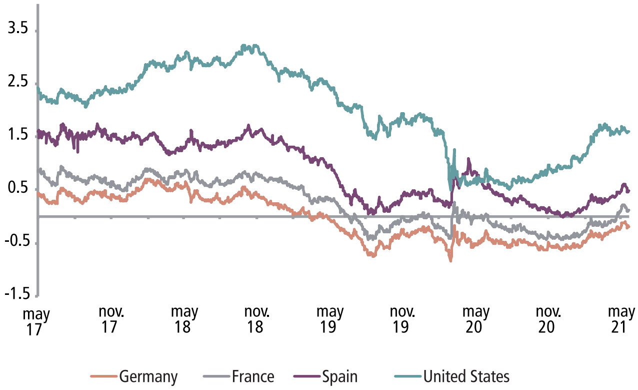


Source : Thomson Reuters.

In the sovereign bond markets, after rising for several months, the yield on the 10-year US Treasury bills virtually stabilized at 1.6 percent in May. In the Eurozone, the 10-year yield rose by 11 basis points (bps) to -0.2 percent for Germany, by 24 bps to 0.1 percent for France, by 15 bps to 0.5 percent for Spain and by 19 bps to 0.9 percent for Italy.

For the major emerging economies, the rate eased to 3.2 percent for China, to 6 percent for India, to 8.8 percent for Brazil and to 17.5 percent for Turkey.

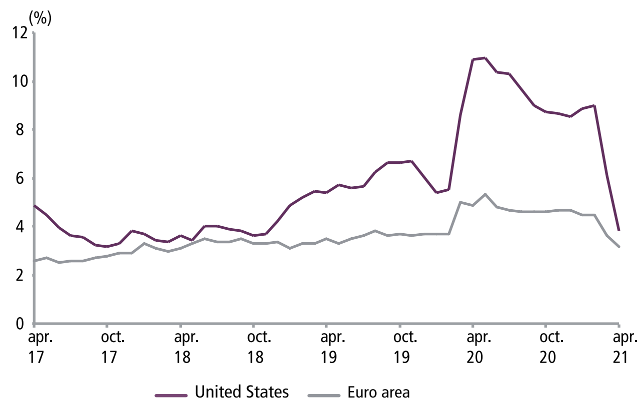
Chart 1.4: Change in 10-year sovereign bond yields



Source : Thomson Reuters.

On the interbank markets, between April and May, the 3-month dollar Libor decreased from 0.19 percent to 0.15 percent, while the Euribor for the same maturity almost stabilized at -0.54 percent. As for bank credit, its growth rate slowed significantly in the United States, falling from 6.1 percent in March to 3.9 percent in April. Similarly, in the euro zone, it decelerated from 3.6 percent to 3.2 percent.

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

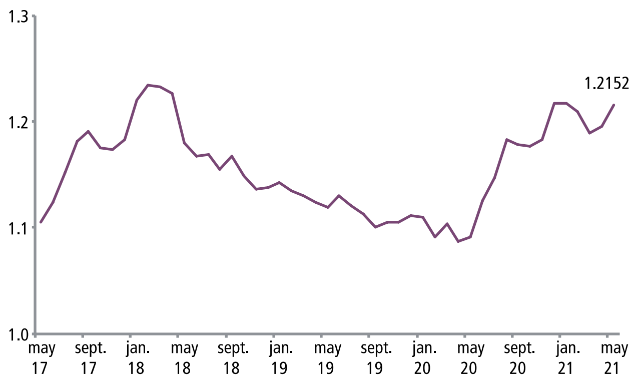


Source : Thomson Reuters.

On foreign exchange markets, between April and May, the euro strengthened by 1.6 percent against both the US dollar and the Japanese yen, while it depreciated by 0.2 percent against the pound sterling. The currencies of the main emerging countries appreciated against the dollar, with gains of 1.4 percent for the Chinese renminbi, 4.8 percent for the Brazilian real and 1.8 percent for the

Indian rupee. In contrast, the Turkish lira continued to depreciate, losing 2.6 percent of its value compared to April and nearly 13 percent since the beginning of the year.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

Regarding monetary policy decisions, the Fed decided at its June 15-16 meeting to keep the target range for the federal funds rate unchanged at [0 percent-0.25 percent] and plans to maintain it at that level 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 be moderately above that rate for some time. In addition, it will continue to increase its security holdings by at least $120 billion per month until substantial progress has been made toward maximum employment and price stability. It also reiterated its commitment to use the full range of its instruments to support the economy in these difficult times. On June 2, the FED announced its intention to start reducing, in a gradual and orderly manner, the volume of assets acquired through the corporate credit facility in the secondary market, a temporary emergency measure introduced in March 2020 and ending at the end of that year.

For its part, the ECB reaffirmed its accommodative monetary policy stance on June 10 and kept its key interest rates unchanged. At the same time, it indicated that it would continue its net purchases under the asset purchase program (APP) at a monthly rate of 20 billion euros, and emphasized, with regard to its emergency pandemic purchase program (EPPP), whose total budget amounts to €1,850 billion, that its purchases will continue in the next quarter at a much higher rate than in the first months of the year. It also indicated that it will continue to provide ample liquidity through its refinancing operations, in particular the third round of targeted longer-term refinancing operations (TLTRO III).

As for the Bank of England, its Committee decided on May 6 to keep its key rate unchanged at 0.1 percent and to maintain its stock of asset purchases at £895 billion, including £875 billion of government bonds and £20 billion of investment-grade British non-financial corporate bonds.

In the emerging countries, at the end of its meeting on June 11, the Russian central bank again raised its key interest rate by 50 bp to 5.5 percent from 4.25 percent at the end of 2020. It stressed that increased inflationary pressures against a backdrop of economic recovery could lead to a significant and prolonged deviation from its inflation target, requiring further rate hikes at future meetings. Similarly, the Brazilian Central Bank raised its Selic rate from 3.5 percent to 4.25 percent on June 16, indicating that it plans to continue its partial normalization process with another adjustment of the same magnitude at its next meeting. For its part, the Central Bank of Turkey decided, at the end of its meeting of June 17, to keep its key rate unchanged at 19 percent. Similarly, the Reserve Bank of India on May 4 kept its key interest rate unchanged at 4 percent, and decided to maintain its accommodative monetary policy stance for as long as necessary to boost economic growth in a sustainable manner and to continue to mitigate the impact of Covid-19 on the economy, while ensuring that inflation remains within its target range.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

On the oil market, the price of Brent crude oil averaged $68 per barrel in May, up 5 percent from April and nearly 25 percent since the beginning of the year. This upward trend is due to the recovery in global demand and OPEC+ members' respect of production quotas, with compliance rates exceeding 100 percent.

Following the same trend, the price of natural gas on the European market rose by 24.7 percent month-on-month to $8.91 per mBtu1 in May, the highest level in almost two and a half years.

On a year-on-year basis, the price of Brent has more than doubled, while the price of natural gas has increased by more than 5.5. times.

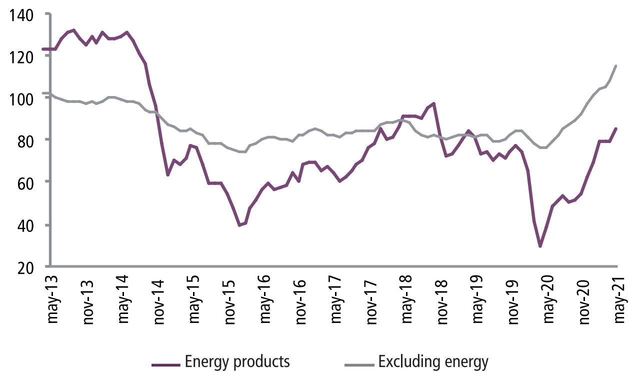
Chart 1.7 : World prices of brent

Source: Thomson Reuters.

1.3.2 Non-energy commodity prices

Non-energy commodity prices rose by 50.6 percent year-on-year in May, driven by a sharp increase in the price of metals and ores and, to a lesser extent, agricultural products. The latter recorded increases of 85 percent and 36.3 percent, respectively.

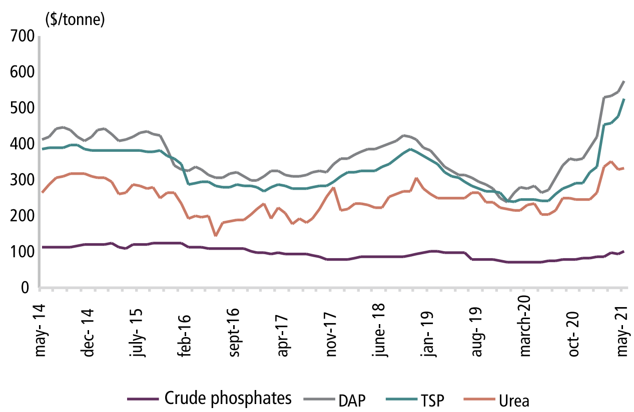
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

On the phosphate and fertilizer market, prices continued their upward trend in May, with rises of 7.9 percent to $102.5/t for raw phosphate, 5.7 percent to $574.6/t for DAP, 10.4 percent to $527.5/t for TSP and 1.1 percent to $331.6/t for Urea. The price of potassium chloride continued to stagnate at $202.5/t. Year-on-year, prices were up 40.6 percent for raw phosphate, 118.5 percent for DAP, 117.1 percent for TSP, 64.3 percent for Urea and were down 6.3 percent for potassium chloride.

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



Source: World Bank.

1.3.3 Inflation

Recent price trends have been marked by an upward movement in both the main advanced and emerging countries. In addition to a significant base effect, particularly for energy products, this was due to the

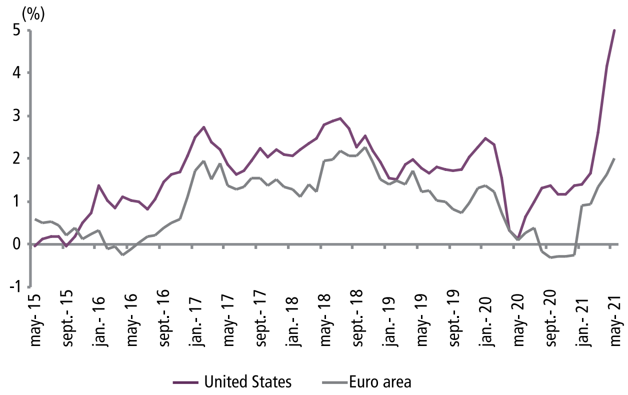
1 mBTU: Million of British Thermal Unit

rise in commodity prices and the rebound in demand. In the United States in particular, inflation was more pronounced in May, reaching 5 percent after 4.2 percent in April, reflecting a strong recovery in demand, backed by the resumption of hiring and direct aids to households.

In the euro zone, inflation accelerated to 2 percent in May from 1.6 percent in April. This reflects increases from 2.1 percent to 2.4 percent in Germany, from 1.6 percent to 1.8 percent in France, from 2 percent to 2.4 percent in Spain and from 1 percent to 1.2 percent in Italy. In the other advanced economies, inflation rose to 2.1 percent in May from 1.5 percent in April in the United Kingdom, and to -0.1 percent from -0.5 percent in Japan.

In the major emerging economies, inflation went up from 5.5 percent in April to 6 percent in May in Russia, from 6.8 percent to 8.1 percent in Brazil and from 0.9 percent to 1.3 percent in China. In India, data to the end of April showed an increase in inflation to 5.5 percent from 4.3 percent.

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 in %

	2019	2020	2021		
			March	April	May
United States	**1. 8**	**1. 2**	**2. 6**	**4. 2**	**5. 0**
Euro area	**1. 2**	**0. 3**	**1. 3**	**1. 6**	**2. 0**
Germany	1. 4	0. 4	2. 0	2. 1	2. 4
France	1. 3	0. 5	1. 4	1. 6	1. 8
Spain	0. 8	-0. 3	1. 2	2. 0	2. 4
Italy	0. 6	-0. 1	0. 6	1. 0	1. 2
United Kingdom	**1. 8**	**0. 9**	**0. 7**	**1. 5**	**2. 1**
Japan	**0. 5**	**0. 0**	**-0. 1**	**-0. 5**	**-01**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

Foreign trade data to end-April 2021 indicate a decrease of 2.8 billion in the trade deficit to 62.8 billion dirhams, compared to the same period in 2020. Exports grew by 18.7 billion or 22.3 percent, more than the 15.9 billion or 10.7 percent increase in imports. The coverage rate has thus increased from 56.1 percent to 62 percent. On the other hand, and with the continued and virtually total closure of borders, travel receipts fell by 65.7 percent to 6.4 billion, while transfers from Moroccan expatriates remained resilient with an increase of 45.3 percent to 28.8 billion. As for the main financial operations, FDI receipts increased by 23.7 percent and Moroccan direct investment expenditure abroad improved by 3.2 billion. Bank Al-Maghrib›s official reserve assets stood at 304 billion dirhams at the end of April 2021, equivalent to 6 months and 28 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

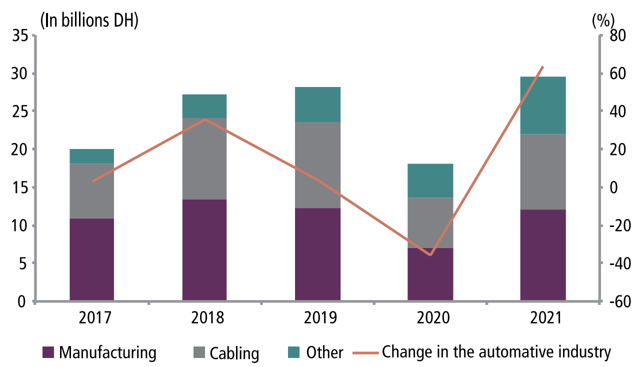
Reflecting a base effect in particular, the increase in exports concerned all sectors, except for aeronautics. Sales in the automotive sector increased by 62.6 percent to 29.5 billion dirhams, driven by rises of 71.9 percent for the construction segment and 50.4 percent for the wiring segment.

Exports of phosphates and derivatives maintained their momentum, with an increase of 16.9 percent to 18.2 billion, reflecting mainly that of 52.7 percent in the sales of phosphoric acid under the effect of a rise of 25.7 percent in exported quantities. As for the exports of the "agricultural and agri-food" sector, they improved by 3.2 percent to 26.6 billion, particularly in connection with a 5.9 percent increase in the sales of the food industry.

For their part, the sales of the "textile and leather" sector increased by 22,8 percent to 10,9 billion, reflecting in particular a rise of 24,1 percent for "ready-made clothes" and 37,3 percent for " hosiery goods". Similarly, sales of the "electronics and electricity" and "other extractions" sectors increased by 33.9 percent and 53.9 percent to 4.3 billion and 1.4 billion, respectively.

On the other hand, suffering from the persistent sluggishness of the sector at the international level, aeronautics exports fell by 10.8 percent to 4.5 billion, due to a 15.5 percent drop in the "assembly" segment and a virtual stagnation in "EWIS "1 at 1.6 billion.

Chart 2.1: Change in automotive industry's exports



Source: Foreign Exchange Office.

1 Electrical Wiring Interconnection System (EWIS).

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

Sectors/Segments	January - april		Change	
	2021	2020	value	In %
Exportations FOB	**102 624**	**83 895**	**18 729**	**22. 3**
Automotive	**29 522**	**18 155**	**11 367**	**62. 6**
Construction	12 118	7 049	5 069	71. 9
cabling	9 855	6 554	3 301	50. 4
Interiors	2 875	2 010	865	43. 0
Phosphates and derivatives	**18 173**	**15 544**	**2 629**	**16. 9**
Textile and Leather	**10 868**	**8 851**	**2 017**	**22. 8**
Ready-made garments	6 709	5 404	1 305	24. 1
Hosiery articles	2 239	1 631	608	37. 3
Shoes	832	929	-97	-10. 4
Electronic	4 334	3 236	1 098	33. 9
Wires, cables	**1 677**	**1 129**	**548**	**48. 5**
Electronic compo nents (transistors)	1 202	1 023	179	17. 5
Electrical shutdown devices	596	468	128	27. 4
Agriculture and Agri-Food	**26 598**	**25 761**	**837**	**3. 2**
Food Industry	**11 486**	10 843	643	5. 9
Agriculture, forestry, hunt	14 675	14 537	138	0. 9
Other mining extractions	**1 439**	**935**	**504**	**53. 9**
Copper ore	466	216	250	115. 7
Barium Sulfate	259	181	78	43. 1
Aeronautics	**4 470**	**5 011**	**-541**	**-10. 8**
Assembly	2 848	3 371	-523	-15. 5
EWIS	1 598	1 612	-14	-0. 9
Other industries	**7 220**	**6 402**	**818**	**12. 8**
Metallurgy and meta-lworking	2 507	1 745	762	43. 7
Plastic and rubber industry	788	614	174	28. 3
Industry pharmaceutical	466	301	165	54. 8

Source: Foreign Exchange Office.

2.1.2 Imports

The recovery in imports was driven mainly by a 24.7 percent increase in purchases of finished consumer goods to 39.6 billion, reflecting increases of 36.2 percent in the acquisition of passenger cars and 51.6 percent in those of the parts and pieces of passengers' cars. Similarly, purchases of semi-finished goods increased by 10 percent to 35.7 billion and those of capital goods gained 7.1 percent to 39.2 billion. Imports of raw products, for their part, increased by 18.8 percent to 7.9 billion, reflecting in particular a hike of 40.9 percent in the purchases of "raw and unrefined sulfur". Purchases of food products increased by 5.1 percent to 22.9 billion, mainly due to a 7.6 percent rise in wheat supplies.

On the other hand, the energy bill remained virtually stable at 20 billion, including respective decreases of 41.9 percent and 5.9 percent in imports of "petroleum oils and lubricants" and "coal, cokes and solid fuels", as well as rises of 1.2 percent and 10.6 percent in those of "gas-oil and fuel-oil" and "petroleum gas and other hydrocarbons", respectively.

Table 2.2 : Change in imports by user groups (in millions of dirhams)

User groups	January - april		Change	
	2021	2020	value	In %
Importations CAF	**165 391**	**149 444**	**15 947**	**10,7**
Finished consumer products	**39 622**	**31 777**	**7 845**	**24. 7**
Parts and spare parts of cars and passenger cars	7 335	4 838	2 497	51. 6
Passenger cars	6 628	4 865	1 763	36. 2
knited fabrics	2 031	1 544	487	31. 5
Semi finished pro-ducts	**35 650**	**32 409**	**3 241**	**10. 0**
copper wires, bars and profiles	2 083	1 352	731	54. 1
Plastics and miscellaneous plastic articles	4 949	4 521	428	9. 5
Raw aluminum, aluminum waste and powders	804	538	266	49. 4
Capital goods	**39 205**	**36 599**	**2 606**	**7. 1**
Electrical shutdown devices	3 205	2 622	583	22. 2
Electrical device for telephony	2 346	1 806	540	29. 9
Piston engine	3 143	2 638	505	19. 1
Raw products	**7 900**	**6 649**	**1 251**	**18. 8**
Crude and unrefined sulfur	1 912	1 357	555	40. 9
Rough, squared off or sawn wood	776	353	248	73. 4
Food products	**22 926**	**21 804**	**1 122**	**5. 1**

Wheat	6 955	6 462	493	7. 6
Barley	2 265	1 815	450	24. 8
Energy products	**20 029**	**20 206**	**-177**	**-0. 9**
Petroleum oil and lubricants	1 109	1 909	-800	-41. 9
Coal, coke and similar solid fuels	2 738	2 909	-171	-5. 9
Electric energy	14	31	-17	-54. 8

Source: Foreign Exchange Office.

2.2 Other components of the current account

The surplus balance of services continued to decline, falling to 14.8 billion, due to a drop of 24.3 percent or 12.3 billion in exports, greater than the decline of 7.1 percent or 1.8 billion in imports.

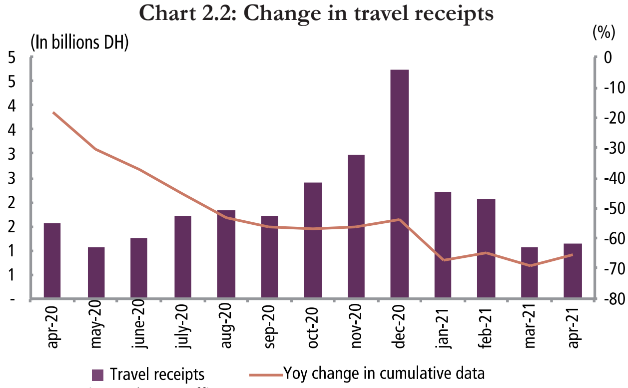
Table 2.3 : Change in the balance of services (in million dirhams)

	January - april		Change	
	2021	2020	value	In %
Imports	**23 585**	**25 380**	**-1 795**	**-7. 1**
Exports	**38 417**	**50 735**	**-12 318**	**-24. 3**
Balance	**14 832**	**25 355**	**-10 523**	**-41. 5**

Source: Foreign Exchange Office.

Travel revenues continued to suffer from the effects of the crisis and plummeted by 65.7 percent to 6.4 billion dirhams. Travel expenditure also contracted by 39.5 percent to 2.8 billion dirhams.

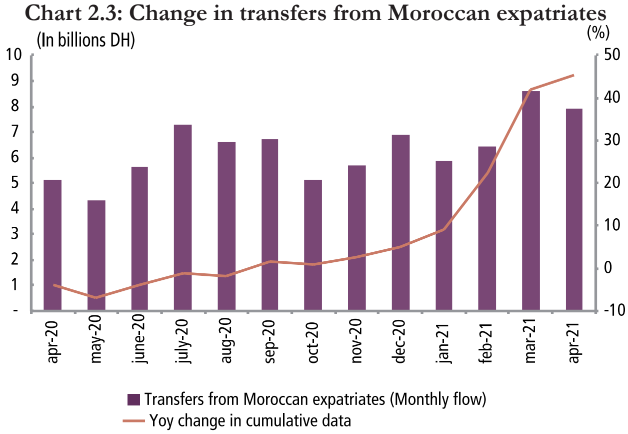
Chart 2.2: Change in travel receipts



Source: Foreign Exchange Office.

For their part, the transfers of Moroccan expatriates showed a marked resilience to the effects of the crisis, posting a record hike of 45.3 percent after an increase of 4.9 percent over the whole year 2020.

Chart 2.3: Change in transfers from Moroccan expatriates



Source: Foreign Exchange Office.

2.3 Financial account

Concerning the main financial operations, the net flow of FDIs rose by 12 percent to 6.5 billion, owing to a 23.7 percent increase in receipts and a 48 percent surge in transfers. At the same time, the net flow of Moroccan direct investments abroad fell by 11.2 percent to 1.6 billion, reflecting increases of 3.4 billion in revenues and 3.2 billion in capital expenditure.

As of end-April 2021, outstanding official reserve assets stood at 304 billion, representing the equivalent of 6 months and 28 days of imports of goods and services.

Table 2.4: Change in Direct investments (in million dirhams)

	January - april		Change	
	2021	2020	Value	In %
Foreign direct investments	**6 452**	**5 763**	**689**	**12,0**
Revenues	10 579	8 551	2 028	23,7
Expenses	4 127	2 788	1 339	48,0
Investments of Moroccans abroad	**1 591**	**1 791**	**-200**	**-11,2**
Expenses	6 454	3 286	3 168	96,4
Revenues	4 863	1 495	3 368	-

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSETS MARKET

In the first quarter of 2021, monetary conditions were marked by a slight increase in lending rates and a depreciation of the real effective exchange rate. Credit to the non-financial sector increased by 4.1 percent, reflecting a deceleration in the growth rate of loans to businesses and an improvement in the growth rate of those granted to households. As regards the other counterparts of the money supply, official reserve assets rose by 22.1 percent and net claims on the central government went up 13.4 percent against 19.2 percent. Overall, money supply growth accelerated from 7.8 percent to 8.7 percent.

In the real-estate market in 2021, the real-estate asset price index stagnated in the first quarter, due to a 0.9 percent decline in residential prices and increases of 1.4 percent and 0.3 percent, respectively, in urban land and business property prices. At the same time, the number of transactions decreased by 17.4 percent after having increased by 43.1 percent in the fourth quarter of 2020.

At the Casablanca Stock Exchange, the MASI appreciated by 1.7 percent and the trading volume reached 14.2 billion compared to 22.5 billion a quarter earlier. As for market capitalization, it posted a quarterly increase of 1.8 percent to 595.3 billion dirhams.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the first quarter of 2021, banks' liquidity needs decreased to 63.7 billion dirhams on a weekly average, against 91.5 billion a quarter earlier. Under these conditions, Bank Al-Maghrib reduced the amount of its injections to 75 billion, of which 29.8 billion were in the form of 7-day advances, 15.6 billion through repurchase agreements, 26.6 billion through guaranteed loans granted under programs aiming to support the financing of VSMEs, and 3 billion in the form of foreign exchange swaps.

The latest available data indicate a slight increase of the bank liquidity deficit to 65.3 billion on average during the months of April and May 2021. This is mainly due to the increase in currency in circulation.

Against this background, the interbank rate remained stable at 1.50 percent since the Bank Board's decision to cut the policy rate in June 2020. In the Treasury bill market, rates trended downward in the first quarter of 2021, before remaining almost stable in April and May.

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

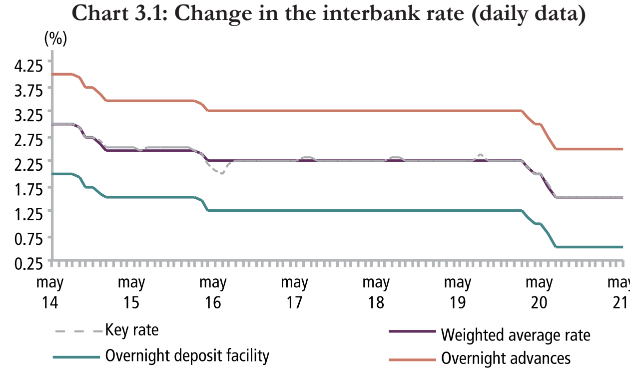
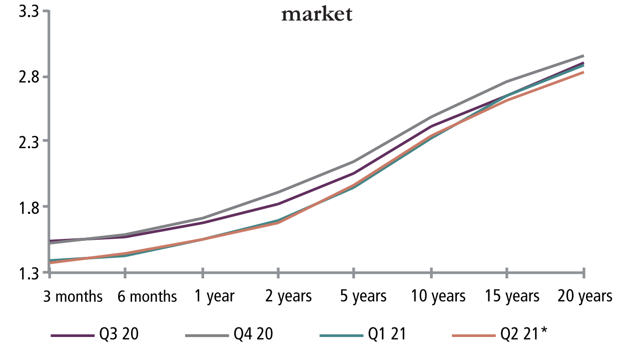


Table 3.1: Change in Treasury bond yields in the primary market

	2019			2020				2021	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	apr.
52 weeks	2. 31	2. 31	2. 27	2. 34	2. 16	1. 68	1. 79	1. 53	-
2 years	2. 39	2. 38	2. 32	2. 40	2. 22	1. 83	2. 01	1. 70	1. 71
5 years	2. 60	2. 58	2. 46	2. 50	2. 42	2. 10	2. 20	1. 96	1. 95
10 years	3. 02	2. 97	2. 81	2. 65	2. 40	2. 39	2. 62	2. 34	-
15 years	3. 42	3. 38	3. 10	2. 94	2. 90	-	2. 80	2. 64	-

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

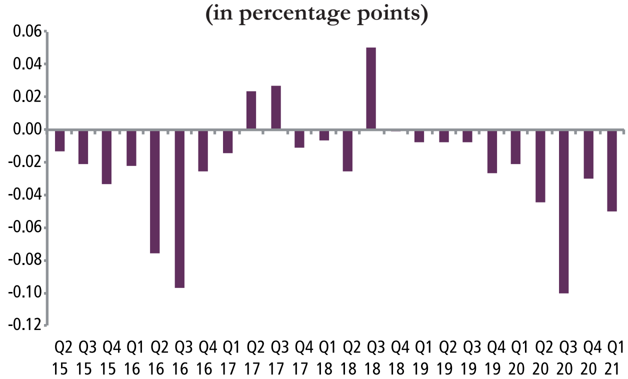


* Average observed in January and February.

In other markets, rates on certificates of deposit issues trended upward during the first quarter of 2021.

Borrowing rates increased by 6 basis points to an average of 2.42 percent for 6-month deposits and by 9 basis points to 2.77 percent for 1-year deposits. Under these conditions, the banks' cost of funding11 decreased compared to the previous quarter.

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



Regarding lending rates, the results of Bank Al-Maghrib's survey with banks for the first quarter of 2021 indicate a slight quarterly increase of 3 basis points in the overall average rate to 4.45 percent. By institutional sector, rates on loans to private individuals increased by 21 points, covering rises of 38 points on the rates applied to debit accounts and 10 points on the rates applied to consumer loans, while those on housing loans were stable. Conversely, rates on loans to companies fell by 5 percentage points, reflecting a 24-point drop in loans to large companies and a 40 percentage point increase for loans to VSMEs.

Table 3.2 : Change in lending rates

	2019	2020				2021
	Q4	Q1	Q2	Q3	Q4	Q1
Global	**4. 91**	**4. 89**	**4. 55**	**4. 34**	**4. 42**	**4. 45**
Personal loans	**5. 55**	**5. 51**	**5. 14**	**5. 15**	**4. 98**	**5. 19**
Real estate loans	4. 48	4. 43	4. 66	4. 31	4. 33	4. 33
Consumer loans	6. 66	6. 55	6. 56	6. 46	6. 40	6. 50
Loans to businesses	**4. 77**	**4. 76**	**4. 46**	**4. 16**	**4. 28**	**4. 23**
Creditor accounts and cash advances	4. 65	4. 67	4. 43	3. 96	4. 09	4. 06
Equipment loans	4. 58	4. 53	4. 18	4. 51	4. 23	4. 34
Real estate loans	6. 12	6. 15	6. 12	5. 85	5. 84	5. 81

Source : BAM.

Table 3.3: Deposit rates

	2019			2020				2021
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
6 months	2. 68	2. 75	2. 68	2. 73	2. 64	2. 50	2. 36	2. 42
12 months	3. 00	3. 01	2. 98	3. 06	3. 02	2. 71	2. 68	2. 77

3.1.2 Exchange rate

During the first quarter of 2021, the euro appreciated by 1.26 percent against the US dollar. Under these conditions, the national currency gained 0.61 percent against the euro and 1.74 percent against the US dollar. Compared to the currencies of the main emerging countries, the dirham depreciated by 4.59 percent against the Turkish lira, by 2.60 percent against the pound sterling and by 0.50 percent against the Chinese yuan. As a result, the effective exchange rate appreciated by 0.40 percent in nominal terms and depreciated by 0.72 percent in real terms.

1 The cost of financing is calculated as a weighted average of the cost of banks' resources.

Chart 3.4: Change in the exchange rate of the dirham

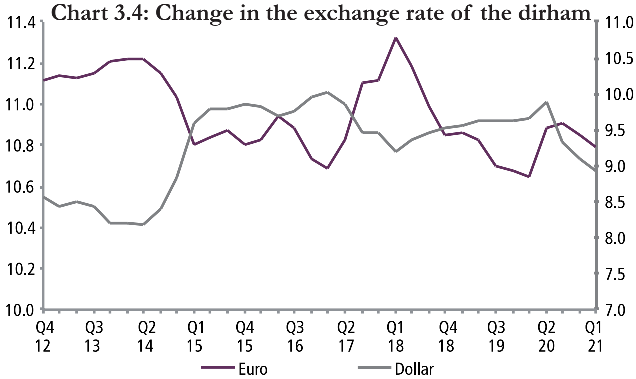
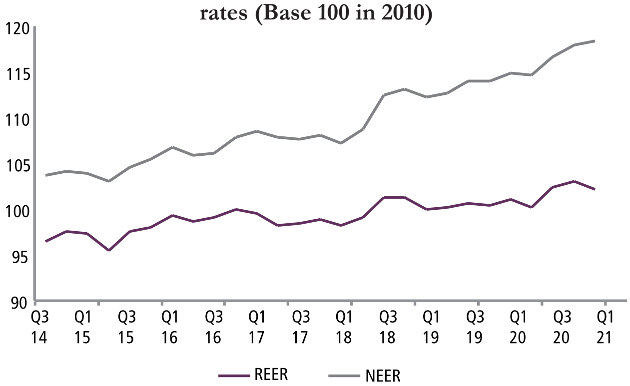


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

As regards transactions in foreign currencies, the average volume of spot transactions of banks' with customers increased by 9.1 percent to 26.4 billion dirhams for sales and 13.3 percent to 25.8 billion dirhams for purchases. In parallel, forward purchases increased by 11 percent to 15.2 billion and forward sales decreased by 23.6 percent to 2.9 billion. During this period, Bank Al-Maghrib did not carry out any foreign exchange purchase or sale operation with banks. Under these conditions, banks' net foreign exchange position amounted to 1.4 billion dirhams at end-March 2021, against 7.6 billion dirhams at end-December 2020.

3.1.3 Monetary situation

The growth rate of the M3 aggregate increased from 7.8 percent in the fourth quarter of 2020 to 8.7 percent in the first quarter of 2021. This development reflects the mitigation of the decline of time deposits from 11.5 percent to 5.9 percent, with in particular an expansion of 21.8 percent for financial companies's deposits after a 13.3 percent decline, and the 5.4 percent decrease compared to 7.6 percent in household deposits. In the same vein, money market fund shares increased by 22.4 percent compared to 11 percent a quarter earlier.

Concerning sight deposits, their growth rate rose from 10.3 percent to 10.9 percent, reflecting an acceleration from 0.1 percent to 21.1 percent in public sector deposits and from 10 percent to 10.3 percent in household deposits. Currency in circulation increased by 17.1 percent after the 21.1 percent rise in the fourth quarter.

By main counterpart, the change in money supply covers increases of 22.1 percent in official reserve assets, 13.4 percent in net claims on the central government and 3.7 percent in bank credit.

Chart 3.6: Contribution of the major counterparts to YoY change in money supply

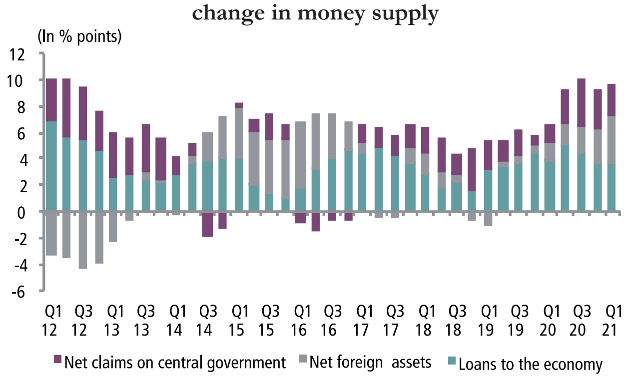
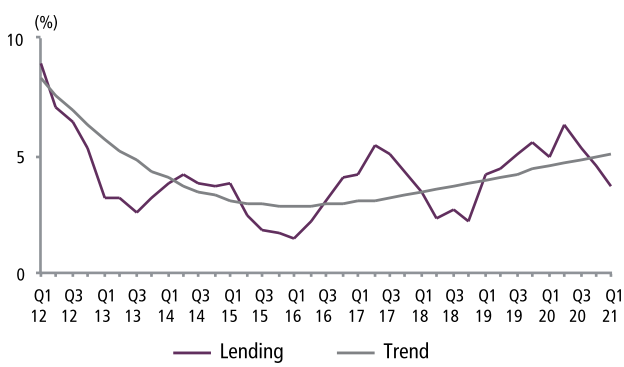


Chart 3.7: YoY change in credit



As for credit to the non-financial sector, its annual growth fell from 4.5 percent in the fourth quarter of 2021 to 4.1 percent, reflecting in particular a deceleration in the growth rate of loans to private non-financial companies and an improvement in the growth rate of loans to households.

Thus, loans to private companies increased by 5.6 percent compared to 5.8 percent in the fourth quarter, reflecting an increase in the decline of equipment loans from 3.9 percent to 4.1 percent. As to liquidity facilities, they increased by 13.6 percent compared to 12.1 percent a quarter earlier, and real-estate loans to developers by 1.2 percent after 1 percent.

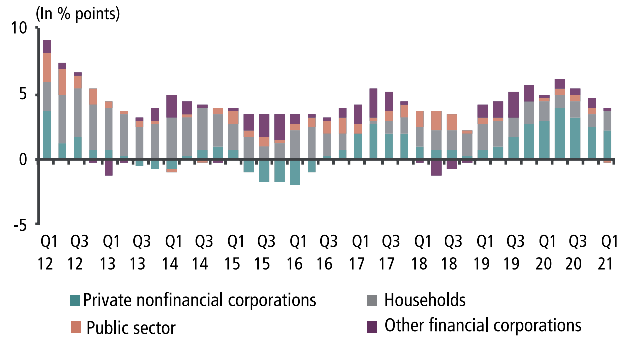
With regard to loans to individual entrepreneurs, their growth rate rose from 6.7 percent to 8 percent, due to the acceleration of cash facilities from 23 percent to 23.7 percent and the attenuation of the decline in equipment loans from 4.7 percent to 2.8 percent. On the other hand, real estate development loans fell by 12.4 percent compared to 11.2 percent a quarter earlier.

By activity branch, the quarterly data of March 2021 show decreases of 6.8 percent and 0.6 percent in loans to the "trade, car repairs and household goods" and "construction" branches after increases of 3.4 percent and 1.1 percent, respectively. In the same vein, the decline of loans to the "electricity, gas and water" sector intensified from 12.9 percent to 15.2 percent. On the other hand, the growth rates of loans to companies in the "food industries and tobacco" and "transport and communications" sectors accelerated, from 4.6 percent and 0.9 percent, respectively, to 12.5 percent and 9 percent. As for loans to "hotels and restaurants", they increased by 23.8 percent after 21.8 percent.

Concerning loans granted to public companies, they fell by 6.2 percent compared to a rise of 1.9 percent, with an 11.3 percent drop in equipment loans against a 1.9 percent increase one quarter earlier. On the other hand, the decline in liquidity facilities eased from 16.7 percent to 2.2 percent.

As for loans to private individuals, their growth rate rose from 3 percent to 3.8 percent, reflecting an improvement from 3.8 percent to 4.7 percent in the growth of housing loans while consumer loans declined further by 3.6 percent.

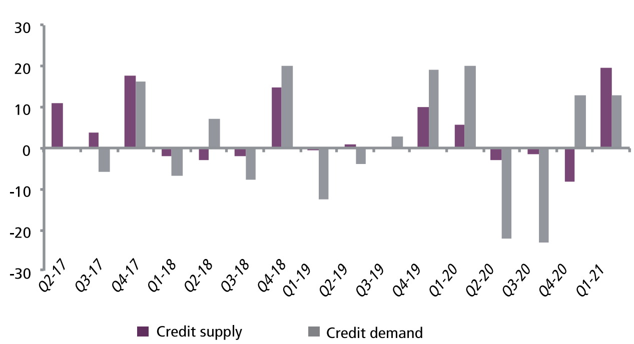
Chart 3.8: Institutional sectors' contribution to YoY change in credit



Source : BAM

As for non-performing loans, they increased by 14 percent and their ratio to outstanding bank credit reached 8.7 percent. They rose by 11 percent for private non-financial companies and 18.7 percent for households.

Chart 3.9: Change in supply and demand (Diffusion Index)



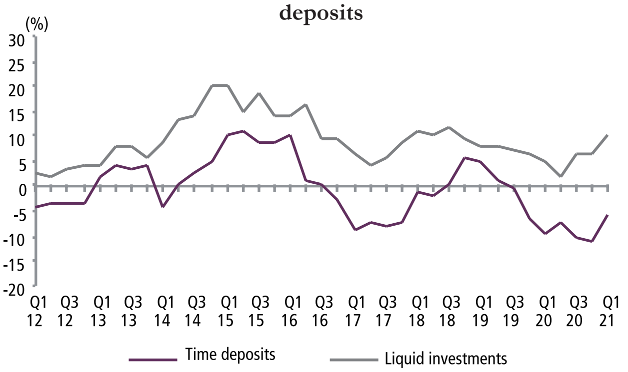
Source : BAM

As for loans granted by non-bank financial companies to the non-financial sector, they decreased by 1 percent after falling 2.4 percent a quarter earlier. This reflects an increase of 0.5 percent in loans granted by finance companies after a decline of 0.9 percent, and a mitigation of the decline in those distributed by offshore banks from 11.4 percent to 10.1 percent.

The latest available data for April 2021 indicate an increase of 2.9 percent in bank credit with, in particular, a deceleration in lending to the non-financial sector to 2.9 percent.

As regards liquid investment aggregates, their annual growth rate rose from 6.6 percent in the fourth quarter of 2021 to 10.1 percent. This reflects an acceleration of the increase from 4 percent to 6.2 percent in Treasury bills and from 4 percent to 21.9 percent in equity and diversified mutual fund securities. Similarly, bond mutual fund shares rose from 9.4 percent to 11.9 percent.

Chart 3.10: YoY change in liquid investments and time deposits



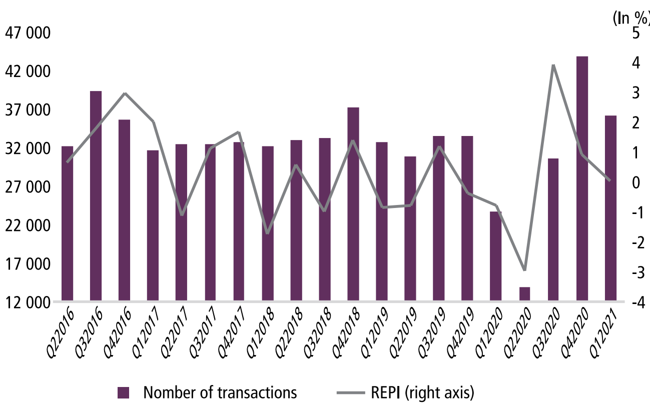
3.2 Asset prices

3.2.1 Real estate assets

In the first quarter of 2021, the real-estate asset price index stagnated quarter-on-quarter. This change covers a fall of 0.9 percent in residential property prices and rises of 1.4 percent and 0.3 percent in those of urban land and business property, respectively. As for the number of transactions, it decreased by 17.4 percent, reflecting those of residential property and urban land with rates of 21.1 percent and 14 percent respectively, while that of business property increased by 2.3 percent.

Prices increased on average by 3.5 percent in Marrakech and 0.5 percent in Oujda, stagnated in Agadir and, in the other main cities, posted decreases ranging from 0.1 percent in Casablanca to 1.8 percent in Meknes. As for the number of transactions, all the main cities posted significant declines, reaching 28.8 percent in Casablanca, 25.8 percent in Fes and 19.8 percent in Agadir.

Chart 3.11: Change in the REPI and in the number of real estate transactions



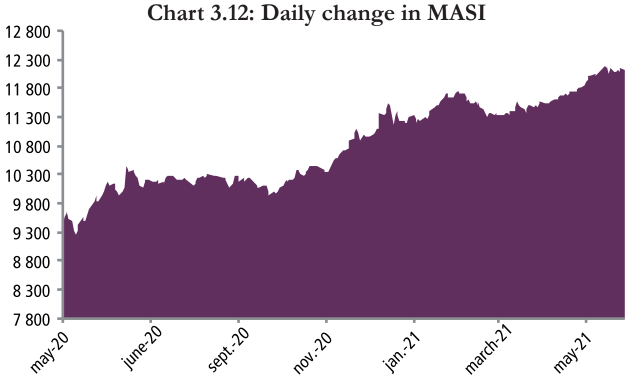
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

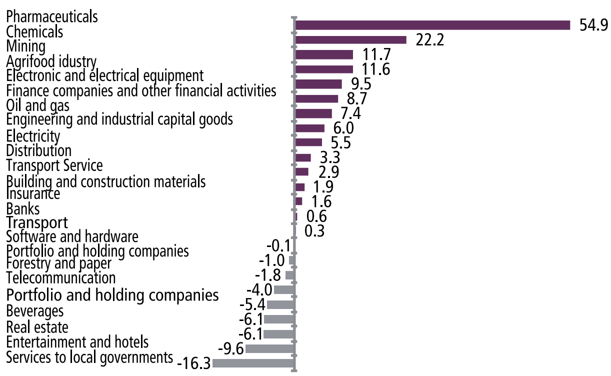
In the first quarter of 2021, the MASI appreciated by 1.7 percent. This reflects, in particular, increases in the sectoral indices of the pharmaceutical industry by 54.9 percent, mining by 11.7 percent, food-industry by 11.6 percent and oil and gas by 7.4 percent. On the other hand, the "leisure and hotels" and real-estate sectors fell by 9.6 percent and 6.1 percent, respectively.

Chart 3.12: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.13: Contribution of sectoral indexes in the first quarter 2020 (in%)



Source : Casablanca Stock Exchange.

As for the volume of transactions, it stood at 14.2 billion dirhams, compared to 22.5 billion in the fourth quarter of 2020. By compartment, the turnover fell from 8.6 billion to 6 billion on the central equity market and from 11.4 billion to 2.9 billion on the block market.

Against this backdrop, market capitalization recorded a quarterly increase of 1.8 percent to 595.3 billion dirhams.

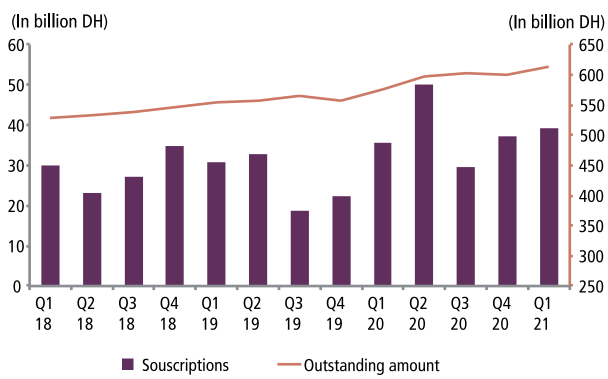
The most recent data indicate a continuation of the uptrend of MASI, with monthly increases of 2.9 percent in April and 2.6 percent in May, bringing its performance since the beginning of the year to 7.3 percent. This change is due in particular to the appreciation of the sectoral indices of banks by 3.4 percent and "building and construction materials" by 2.2 percent. The overall trading volume reached 5.8 billion in May after 2.1 billion in April. Market capitalization amounted to 626.2 billion at end-May, up 7 percent since the beginning of the year.

3.2.2.2 Sovereign debt market

The Treasury issues on the domestic market reached 39.3 billion dirhams in the first quarter of 2021, up 5.7 percent quarter-on-quarter. They concerned medium maturities for 41 percent and long maturities for 39 percent.

In April 2021, the Treasury's issues reached 9.4 billion dirhams, almost all of which were medium maturities. Taking into account repayments, for 6.9 billion dirhams, the outstanding Treasury bills reached 615.9 billion dirhams, up 2.5 percent compared to end-December 2020.

Chart 3.14: Change in outstanding Treasury bonds



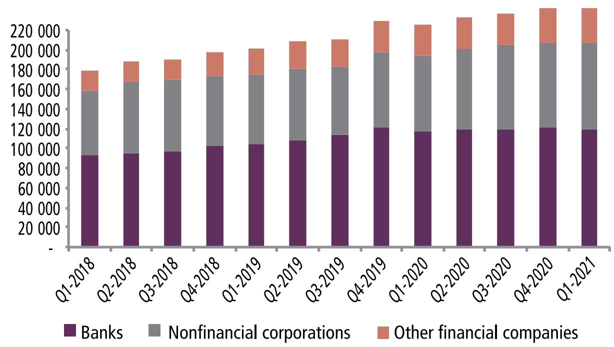
Source : BAM.

3.2.2.3 Private debt market

On the private debt market, issues amounted to 10.9 billion dirhams in the first quarter of 2021, which represents a quarterly decrease of 40.8 percent. Banks' issues reached 5.8 billion against 11.6 billion the previous quarter and non-financial companies's issues reached 3.4 billion after 4.5 billion.

In April 2021, private debt issues amounted to 6.8 billion, bringing its outstanding amount to 244.4 billion, up 1.2 percent since the beginning of the year.

Chart 3.15: Change in outstanding private debt per issuer (In billions of dirhams)



Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund securities

During the first quarter of the year, subscriptions to mutual fund securities amounted to 250.1 billion dirhams, up 27 percent, and redemptions reached 268.6 billion, up 50.7 percent, which represents a net outflow of 18.5 billion. Performance indices continued to trend upward for all funds, with rates ranging from 0.4 percent for money market funds to 2.7 percent for equity funds.

Data for May22 indicate a year-to-date increase in net assets of mutual funds by 10 percent to 575.5 billion dirhams. This change is mainly due to increases of 63.8 percent for diversified funds, 16.5 percent for short-term bond funds and 3.7 percent for medium- and long-term bond funds. On the other hand, the outstanding amount of contractual mutual funds dropped by 24.4 percent.

2 [2] Data as of May 21, 2021.

4. FISCAL POLICY STANCE

Budget execution for the first five months of 2021 resulted in an overall deficit of 25.1 billion dirhams, against 25.9 billion a year earlier. This change covers the 29.6 percent drop to 12.9 billion of the positive balance of the Treasury's special accounts, including the balance of the Special Fund for the Management of the Pandemic which was positive with 18.1 billion in 2020 and negative with 3.7 billion in 2021. Ordinary revenues improved by 9.3 percent to 104.9 billion, covering a 10.4 percent increase in tax revenues and a 15.5 percent decline in non-tax revenues. Ordinary expenditure, on the other hand, rose by 2.4 percent to 114.8 billion, mainly as a result of increases of 5.2 percent in personnel costs, 21.1 percent in transfers to local authorities and 18.1 percent in subsidy costs. The ordinary balance thus showed a deficit of 9.9 billion, instead of the 16.2 billion recorded at the end of May 2020. On the other hand, investment expenditure stabilized at 28.1 billion, bringing total expenditure to 142.9 billion, with an increase of 1.9 percent.

Taking into account the fall in the stock of pending operations in the amount of 20.6 billion, the cash deficit stood at 45.6 billion, instead of 25.4 billion in the same period in 2020. This need was covered by domestic resources worth 41.9 billion and a net positive external flow of 3.7 billion. Thus, the stock of direct public debt would have increased by 3.1 percent compared to its level at end- December 2020. The Treasury's financing conditions were favorable, with a decrease in the weighted average rates of securities issued on the auction market.

4.1 Current receipts

At the end of the first five months of 2021, ordinary revenues improved by 9.3 percent to 104.9 billion, covering a 10.4 percent increase in tax revenues and a 15.5 percent decline in non-tax ones. The rise in tax revenues concerned most of the headings, except for corporate tax revenues.

Direct taxes fell by 2.2 percent to 35.9 billion dirhams, mainly due to the non-allocation in 2021 to the general budget of revenues from the social solidarity contribution on profits and income, as well as the 9.4 percent drop in corporate tax revenues to 14.6 billion dirhams, particularly in connection with the contraction in economic activity in 2020. On the other hand, income tax revenues increased by 14.9 percent to 20.7 billion, due in particular to rises of 93.4 percent to 1.7 billion in income tax on real estate profits and 9.2 percent to 4 billion in income tax on salaries paid by the Personnel Expenses Department, as well as to the effects of two operations of spontaneous regularization of taxpayers' situation.

As for indirect tax revenues, they increased by 19.9 percent to 50.3 billion dirhams, mainly reflecting rises of 21.1 percent to 38.7 billion dirhams in VAT revenues and 16 percent to 11.6 billion dirhams in DCT revenues following increases of 23.3 percent to 6.5 billion dirhams in DCT on energy products and 7.1 percent to 4.5 billion dirhams in DCT on tobacco. The improvement in VAT reflects rises of 20.5 percent to 24.2 billion in import VAT receipts, due mainly to VAT on non-energy products, and 22.2 percent to 14.6 billion in domestic VAT receipts.

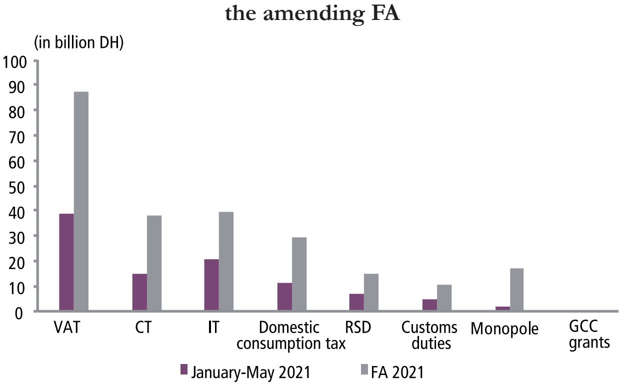
Table 4.1: Change in current revenues (in billions of dirhams)*

	Jan. may 2020	Jan. may 2021	Change in %	FA 2021	Achievements against the FA (%)
Current revenues	**95. 9**	**104. 9**	**9. 3**	**259. 0**	**40. 5**
Tax revenues	**88. 8**	**98. 1**	**10. 4**	**221. 7**	**44. 2**
- Direct taxes	36. 7	35. 9	-2. 2	80. 1	44. 8
Including CT	16. 1	14. 6	-9. 4	38. 2	38. 3
I.T	18. 0	20. 7	14. 9	39. 8	52. 0
- Indirect taxes	42. 0	50. 3	19. 9	116. 1	43. 4
VAT*	32. 0	38. 7	21. 1	87. 0	44. 5
DCT	10. 0	11. 6	16. 0	29. 1	39. 9
- Customs duties	3. 7	4. 6	25. 6	10. 8	42. 6
- Registration and stamp duties	6. 5	7. 2	11. 8	14. 7	49. 2
Nontax revenues	**6. 5**	**5. 5**	**-15. 5**	**34. 0**	**16. 3**
- Monopoles and shareholdings	1. 0	1. 9	89. 2	17. 1	11. 2
- Other receipts	5. 5	3. 6	-34. 7	16. 9	21. 3
Including GCC grants	0. 12	0. 09	-27. 3	0. 0	
TSA revenues	**0. 5**	**1. 3**	**139. 2**	**3. 3**	**38. 1**

*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.

On the other hand, revenues from customs duties and registration and stamp duties increased by 25.6 percent to 4.6 billion and 11.8 percent to 7.2 billion, respectively. The improvement in registration fees is explained by the recovery in real estate activity.

Chart 4.1: Performances of the major revenues compared to the amending 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

As for non-tax revenues, they fell by 15.5 percent to 5.5 billion dirhams. This change covers, in particular, a drop of 82.2 percent to 346 million dirhams in grants, and a surge of 89.2 percent to 1.9 billion dirhams in the receipts of monopolies and holdings, originating mainly from the ANCFCC (National Land Registry Office) for one billion and Bank Al-Maghrib for 722 million.

4.2 Expenditure

Overall expenditure increased by 1.9 percent to 142.9 billion, with ordinary expenditure rising by 2.4 percent to 114.8 billion and investments remaining stable at 28.1 billion. Operating expenses fell by 0.1 percent to 85.2 billion, covering a 5.2 percent increase to 58.8 billion in personnel expenditure and a 10.3 percent fall to 26.5 billion in expenditure on other goods and services. The latter include a payment of 13.5 billion to public establishments and companies, which were stable compared with end-May 2020, and a fall of 71.4 percent to 1.6 billion in transfers to the Treasury's special accounts. The change in the wage bill, which takes into account the impact of the measures of the third phase of the social dialogue, covers increases of 2.5 percent in its structural component and 144.1 percent in the payment of arrears on the part served by the Personnel Expenses Department.

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

	Jan. may 2020	Jan. may 2021	Change in %	FA 2021	Achievements against the FA (%)
Overall spending	**140. 2**	**142. 9**	**1. 9**	**341. 1**	**41. 9**
Current spending	**112. 1**	**114. 8**	**2. 4**	**273. 0**	**42. 0**
Goods and services	85. 3	85. 2	-0. 1	205. 7	41. 4
Personal	55. 8	58. 8	5. 2	139. 9	42. 0
Other goods and services	29. 5	26. 5	-10. 3	65. 9	40. 2
Debt interests	10. 7	10. 3	-3. 7	27. 7	37. 1
Subsidy	6. 5	7. 6	18. 1	13. 6	56. 3
Transfer to local governments	9. 6	11. 6	21. 1	26. 1	44. 5
Investment	**28. 1**	**28. 1**	**0. 0**	**68. 1**	**41. 3**

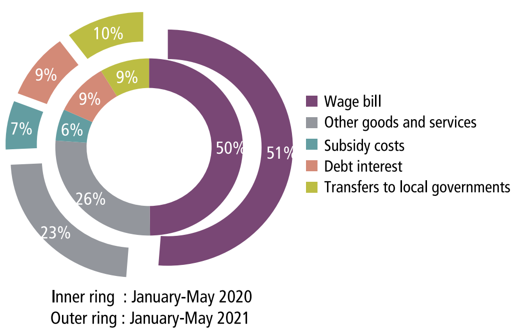
*Taking into account 30 percent of the VAT transferred to local governments.
Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Chart 4.2: spending execution compared to the amending FA

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

For their part, debt interest charges declined by 3.7 percent to 10.3 billion, covering a decrease of 7.7 percent to 9 billion in interest on domestic debt and an increase of 37.2 percent to 1.3 billion dirhams in interest on foreign debt.

Chart 4.3: Structure of current spending

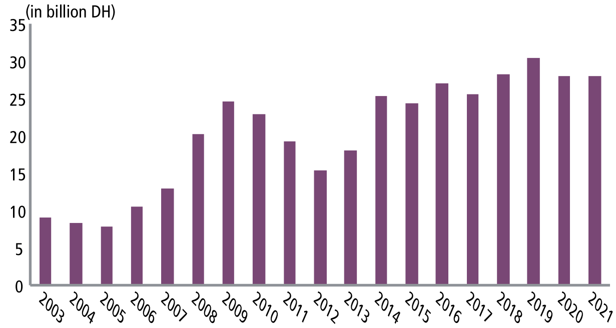


Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

For their part, subsidy costs increased by 18.1 percent to 7.6 billion, partly due to the rise in the average price of butane gas at end-May 2021 by 45.1 percent to 520.2 dollars per ton.

Investment issues stabilized at 28.1 billion. It should be noted that the monthly flow of May skyrocketed by 67.7 percent compared to the flow of the same month of 2020. As for the execution rate, it was almost in line with the issuance forecasts of the Finance Act, with a rate of 41.3 percent.

Chart 4.4: Investment spending, at end of May

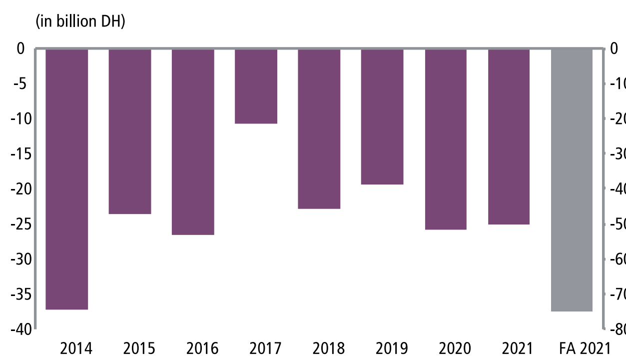


Source : Ministry of Economy and Finance and Administration Reform.

4.3 Deficit and Treasury Financing

The Treasury's position for the first five months of 2021 resulted in a budget deficit of 25.1 billion, compared to 25.9 billion a year earlier, taking into account the negative balance of 3.7 billion of the Special Fund for the Management of the Covid-19 Pandemic. Moreover, the Treasury reduced its stock of pending transactions by 20.6 billion, bringing the cash deficit to 45.6 billion against 25.4 billion in the same period of 2020.

Chart 4.5: Fiscal balance, at end of May



Source : Ministry of Economy and Finance and Administration Reform.

The Treasury's financing requirement was covered by net domestic resources worth 41.9 billion, including an increase in Treasury deposits of 14.1 billion, and by a positive net external flow of 3.7 billion, compared with 4.6 billion a year earlier, with gross drawings reaching 8 billion, including the contribution of the World Bank by 3.2 billion.

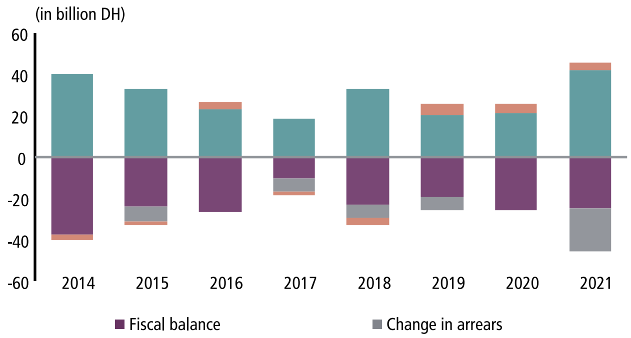
Table 4.3: Deficit financing (in billions of dirhams)

	Jan.-may 2020	Jan.-may 2021	FA 2021
Current balance	**-16. 2**	**-9. 9**	**-14. 0**
Balance of TSA	18. 4	12. 9	7. 0
Covid-19 Fund	18. 1	-3. 7	0. 0
Primary balance	-15. 2	-14. 8	-47. 5
Fiscal balance	**-25. 9**	**-25. 1**	**-75. 1**
Change in arrears	0. 4	-20. 6	
Financing requirements	**-25. 4**	**-45. 6**	**-75. 1**
Domestic financing	20. 8	41. 9	36. 8
External financing	4. 6	3. 7	34. 4
Privatization	0. 0	0. 0	4. 0

Sources : Ministry of Economy and Finance and Administration Reform.

With regard to domestic financing, recourse to the auction market amounted to 21.7 billion compared to 25.8 billion a year earlier. The largest net subscriptions were for 2-year maturities with 12.6 billion, 5-year maturities with 11.7 billion and 20-year maturities with 5.2 billion. At the same time, net redemptions included 26-week bills and 15-year bonds for 4.8 billion and 4 billion, respectively.

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



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

The Treasury's financing conditions on the auction market were favorable for the first five months of the year. Rates on its issues fell by 78 bps to 1.36 percent for 13-week bills, 77 bps to 1.53 percent for 52-week bills and 73 bps to 1.43 percent for 26-week bills. Similarly, decreases were recorded for 2-year maturities with 68 bps to 1.69 percent, 30-year maturities with 55 bps to 3.29 percent, 5-year maturities with 53 bps to 1.96 percent and 20-year maturities with 35 bps to 2.86 percent.

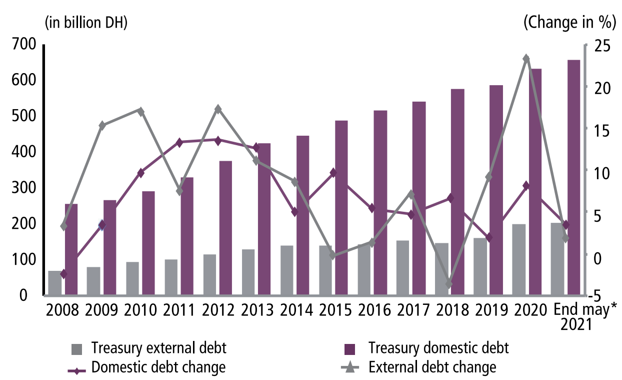
Table 4.4: Treasury debt outlook (in billions of dirhams)

	2016	2017	2018	2019	2020	End may 2021*
Treasury external debt	**142. 8**	**153. 2**	**148. 0**	**161. 5**	**199. 5**	**203. 2**
Change in %	1. 4	7. 3	-3. 4	9. 1	23. 5	1. 9
Treasury domestic debt	**514. 7**	**539. 1**	**574. 6**	**585. 7**	**632. 9**	**654. 9**
Change in %	5. 4	4. 8	6. 6	1. 9	8. 1	3. 5
Outstanding direct debt	**657. 5**	**692. 3**	**722. 6**	**747. 2**	**832. 4**	**858. 2**
Change in %	4. 5	5. 3	4. 4	3. 4	11. 4	3. 1

*Concerning debt at end october 2020, estimates are based on the flows of domestic and external financing.
Source : Ministry of Economy and Finance and Administration Reform.

As for the direct public debt at end-May 2021, its outstanding amount would have increased by 3.1 percent compared to its level at the end of December 2020, with a rise of 3.5 percent in its domestic component and 1.9 percent in the external one.

Chart 4.7: Treasury debt



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

5. DEMAND, SUPPLY AND LABOR MARKET[1]

In the fourth quarter of 2020, economic activity continued to decline year-on-year, albeit at a slower pace compared to the two quarters following the outbreak of the Covid-19 crisis. GDP fell by 6 percent, compared with 7.2 percent in the previous quarter, including decreases of 5.5 percent in nonagricultural value added and 7.3 percent in the agricultural one, bringing the yearly decline to -6.3 percent. This annual trend reflects, on the supply side, a fall of 8.6 percent in agricultural value added and of 5.8 percent in non-agricultural one and, on the demand side, a contribution of -6.5 percentage points for the domestic component and of 0.2 percentage points for the external component.

In the first half of 2021, in line with the recovery of activity in several sectors, the value added of non-agricultural activities would have increased by 5.6 percent. At the same time, and thanks to very favorable weather conditions, agricultural value added would have rebounded by 17.9 percent. In total, the GDP would have increased by 6.9 percent, while remaining below its level at the second half of 2019.

On the other hand, the situation on the labor market improved slightly with a significant mitigation of job losses to 202 thousand positions against 516 thousand on average during the second half of 2020. This development includes decreases of 231 thousand jobs in agriculture and 48 thousand in industry including crafts, and increases of 42 thousand in services and 39 thousand in construction. Taking into account a net entry of 40 thousand job seekers, the activity rate declined by 0.5 point to 45.5 percent and the unemployment rate worsened by 2 points to 12.5 percent overall, 2 points to 17.1 percent in cities and 1.4 points to 5.3 percent in the countryside. With regard to labor costs, the private sector wage index rose in the first quarter by 3.7 percent in nominal terms and 3.6 percent in real terms.

5.1 Domestic demand

5.1.1 Consumption

The national accounts data for the fourth quarter of 2020 show an easing of the decline in household final consumption to -4.3 percent from -10.5 percent in the third quarter. Its negative contribution to growth thus reached 2.4 percentage points. For the year as a whole, it contracted by 4.1 percent, compared with an increase of 1.9 percent in 2019.

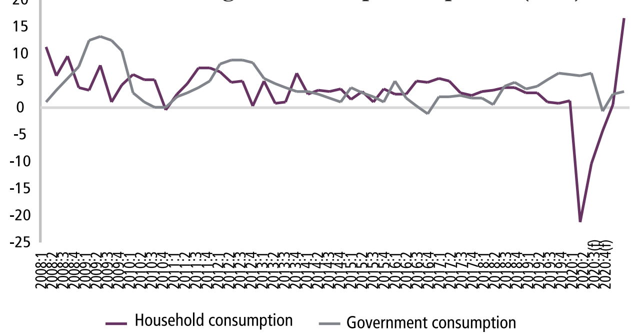
Regarding the outlook, the available indicators suggest an increase of 8.5 percent in the first half of 2021, due to higher income backed by the good agricultural campaign and the increase in transfers from Moroccan expatriates. On the other hand, the quarterly survey conducted by the HCP with households on the economic conditions indicates a deterioration in the confidence index in the first quarter to 68.3 points while the growth rate of consumer loans slowed to 3.1 percent.

With regard to the final consumption of the general government, data for the fourth quarter show a decline of 0.7 percent instead of an increase of 6.4 percent one quarter earlier, or a negative contribution to growth of 0.1 percentage points instead of a positive contribution of 1.2 points. Its annual growth thus reached 1.7 percent compared to 4.7 percent in 2019.

For the first half of 2021, the growth rate of the final consumption of the general government would have slowed to an average of 2.8 percent, due in particular to the 1.5 percent decline in operating expenditure in the first quarter.

1 The quarterly national accounts data used in this chapter were published by the HCP on March 31st.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

In the fourth quarter of 2020, investment continued to decline, falling by 9.8 percent after 7.8 percent a quarter earlier. It was thus significantly down, by 14.2 percent for the whole of the year, compared with a decline of 0.4 percent in 2019.

This downward trend would have reversed in the first half of 2021, with an increase of 5 percent, mainly as a result of the economic recovery and the successful advancement of the vaccination campaign. Several indicators confirm these forecasts, especially the increase in housing loans by 4.3 percent and the mitigation of the decline in imports of capital goods to -1.3 percent. In addition, the results of Bank Al-Maghrib's survey for the first quarter indicate that the business climate was described as "normal" by 51 percent of companies and "unfavorable" by 43 percent of them.

5.2 Foreign demand

In the fourth quarter of 2020, both exports and imports of goods and services in volume terms significantly declined by 8.1 percent and 6.6 percent, respectively, following drops of 13.7 percent and 11.3 percent a quarter earlier. Under these conditions, the contribution of net exports to growth reached 0.1 percent instead of -0.1 points in the third quarter. It would be positive at 0.2 over 2020 as a whole.

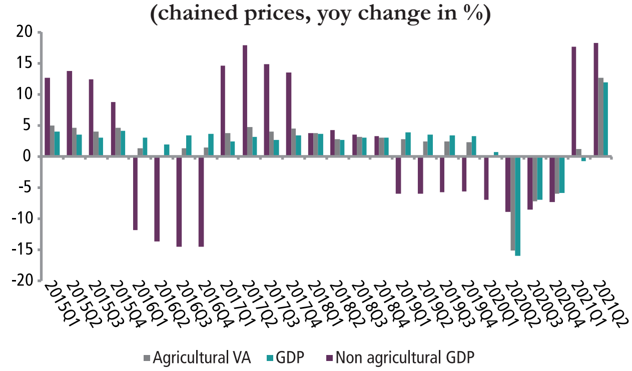
Estimates for the first half of 2021 indicate a clear recovery in foreign trade volumes. Exports would have increased by 13 percent, as evidenced by the 62.6 percent increase in automotive shipments and the 16.9 percent increase in phosphates and derivatives at the end of April 2021. As for imports, they would have increased by 9.3 percent in the first half of the year.

5.3 Overall supply

In the fourth quarter of 2020, economic growth fell back to -6 percent compared with -7.2 percent a quarter earlier, with an easing of the decline in non-agricultural value added from -6.7 percent to -5.5 percent and in agricultural value added from -8.6 percent to -7.3 percent . For the year as a whole, GDP fell by 6.3 percent, due to declines of 5.8 percent in non-agricultural value added and 8.6 percent in the agricultural one.

In the first half of 2021, the GDP would have recovered by 6.9 percent, under the effect, on the one hand, of a rebound of 17.9 percent in the agricultural value added in connection with a very good agricultural campaign, with in particular a cereal harvest of 98 million quintals. On the other hand, non-agricultural value added would have risen by 5.6 percent, reflecting improved activity in several branches and a significant base effect.

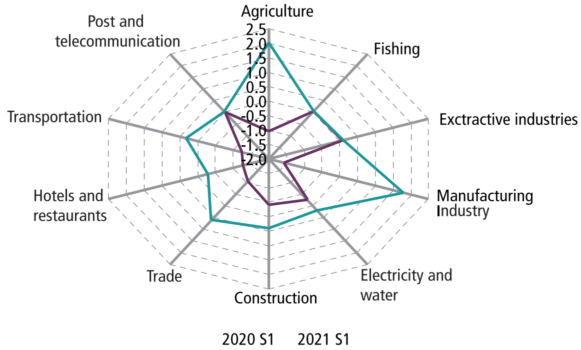
Chart 5.2: GDP per component
(chained prices, yoy change in %)



Sources: HCP data, and BAM forecasts.

In the secondary sector, activity would have increased by 10.3 percent in the first half of 2021, reflecting rises of 4.9 percent for extractive industries, 13.1 percent for manufacturing, thanks in particular to the revival in foreign demand, 6.3 percent for electricity and water, and 7.8 percent for construction.

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



Sources: HCP data, and BAM forecasts.

Tertiary activities would have increased by 3.5 percent. By branch, this increase would reach 73.4 percent for hotels and restaurants due to a base effect, 18.7 percent for transport services, nearly 9.5 percent for "trade" and 1.1 percent for "post and telecommunications".

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the first quarter of 2020 and the same period of 2021, the situation in the labor market was marked by an increase of 0.3 percent in the number of working people aged 15 years and over to 12.3 million people, with a fall of 4.1 percent in the countryside and an increase of 3.3 percent in the cities.

Taking into account the change in the population of working age, the activity rate decreased from 46 percent to 45.5 percent overall, from 53.3 percent to 51.1 percent in rural areas and increased from 42.1 percent to 42.6 percent in urban areas.

At the same time, the economy lost 202 thousand jobs, compared with 77 thousand created the previous year, and the employed population thus contracted by 1.8 percent to nearly 10.8 million people. By activity sector, agriculture and industry, including crafts, posted respective losses of 231 thousand and 48 thousand jobs, while services created 42 thousand and construction 39 thousand.

5.4.2 Unemployment and underemployment

The unemployed labor force increased by 18.7 percent to 1.5 million people, and the unemployment rate worsened from 10.5 percent to 12.5 percent at the national level, from 15.1 percent to 17.1 percent in the cities and from 3.9 percent to 5.3 percent in the countryside. For young people aged 15 to 24 years in particular, this rate increased by 5.7 points to 32.5 percent overall and by 4.2 points to 45.6 percent for city-dwellers.

At the same time, the underemployment rate11 rose from 8.8 percent to 9.2 percent overall, from 8.7 percent to 8.9 percent in the cities and from 8.9 percent to 9.6 percent in the countryside.

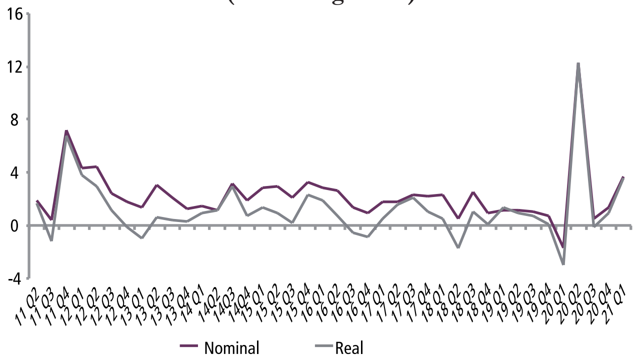
5.4.3 Productivity and wages

In the non-agricultural sectors, apparent labor productivity, as measured by the ratio of value added to employment, fell further by 1.7 percent in the first quarter of 2021, compared to 1.9 percent in the same period of last year. This is due to a 1.3 percent decline in the value added and a 0.4 percent increase in the number of employed people.

1 The underemployed population consists of people who have worked: i) during the reference week less than 48 hours but are willing to work extra-hours and are available to do so or ii) more than the set threshold and who are looking for another job or willing to change their job due to mismatch with their training or qualification or the insufficient income perceived.

Against this backdrop, the average wage, calculated on the basis of CNSS data as the ratio of the wage bill to the number of employees, improved year-on-year in the first quarter of 2021 by 3.7 percent in nominal terms and by 3.6 percent in real terms.

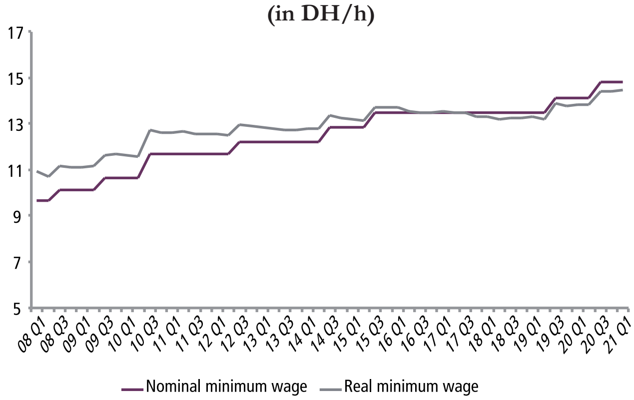
Chart 5.4: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

The hourly minimum wage (SMIG) stood at 14.81 dirhams in nominal terms in the first quarter of 2021, up 4.8 percent year-on-year. Taking into account a 0.1 percent rise in the consumer price index, it would have increased by 4.7 percent in real terms.

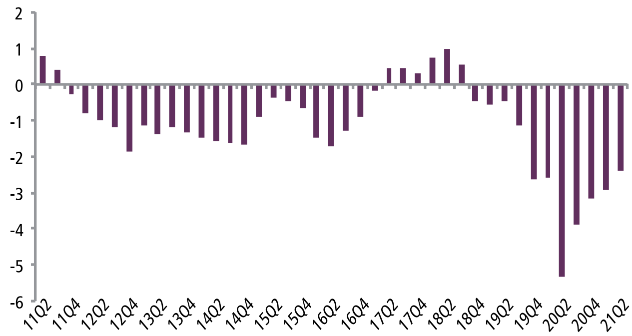
Chart 5.5: Hourly minimum wages in nominal and real terms (in DH/h)



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

Under these conditions, the output gap is expected to narrow in the first half of 2021, but would remain negative.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		Q1 2020	Q1 2021
Participation rate (%)		**46. 0**	**45. 5**
Urban		42. 1	42. 6
Rural		53. 3	51. 1
Unemployment rate (%)		**10. 5**	**12. 5**
Youth aged between 15 and 24 years old		26. 8	32. 5
Urban		15. 1	17. 1
Youth aged between 15 and 24 years old		41. 4	45. 6
Rural		3. 9	5. 3
Job creation (in thousands)		77	-202
Urban		80	56
Rural		-3	-258
Sectors			
- Agriculture		-134	-231
- Industry including handicraft		23	-48
- Construction		-1	39
- Services		192	42
Nonagricultural apparent productivity (change in %)		**-1. 9**	**-1. 7**
Average wage index (change in %)	**nominal**	**-1. 7**	**3. 7**
	Real	**-3. 0**	**3. 6**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

In the first quarter of 2021, inflation was low at 0.1 percent. In April, it accelerated to 1.4 percent, driven by a 23.6 percent rise in the price of fuels and lubricants, instead of a 4.2 percent decline, and by a 0.4 percent increase in the volatile food prices, instead of a 3.8 percent decline. Its underlying component rose to 0.8 percent in April after averaging 0.5 percent in the first quarter of 2021. The price of regulated products went up 1.8 percent compared to 2 percent in the first quarter.

Concerning the second quarter, inflation is expected to rise sharply to around 1.4 percent, reflecting in particular a base effect of fuel and lubricant prices. Its change is also attributable to the rise in underlying inflation to 1 percent in connection with the increase in the international prices of certain products, particularly food.

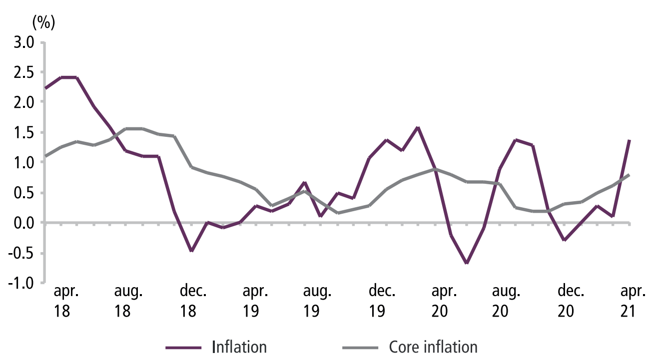
6.1. Inflation trends

Having been at low levels since the first quarter of 2019[1], inflation increased significantly, reaching 1.4 percent in April 2021. This acceleration is mostly attributable to the exceptional hike of 23.6 percent in fuel and lubricant prices instead of a 4.2 percent decline in the first quarter of 2021. The latter reflects a base effect linked to the historically low levels recorded in the same period a year earlier. The rise in inflation is also related to the 0.4 percent increase after a 3.8 percent decline in volatile food prices and the acceleration of core inflation to 0.8 percent from 0.5 percent. On the other hand, regulated tariffs rose by 1.8 percent instead of 2 percent a quarter earlier.

6.1.1. Prices of goods excluded from core inflation

Due to pressure from rising domestic demand during the month of Ramadan and external demand for some products22 as well as higher prices for some inputs, notably soybeans, prices of food products with volatile prices rose by 0.4 percent in April, compared to a 3.8 percent decline in the first quarter. By component, this development is attributable mainly to increases of 13.3 percent, instead of a decline of 5.1 percent, for fresh fruits, 6.2 percent, against a decline of 1.2 percent, for poultry and rabbit and 8.3 percent, after a 6 percent increase, for eggs.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

1 Apart from the first quarter of 2020 when inflation reached 1.4 due to supply shocks, it did not exceed 0.7 percent during this period.

2 This is particularly true for tomatoes, which have experienced excess demand for exports since the end of March, according to statements by the president of the Moroccan Association of Fruit and Vegetables' Producers and Exporters (Apefel).

Table 6.1: Change in inflation and its components

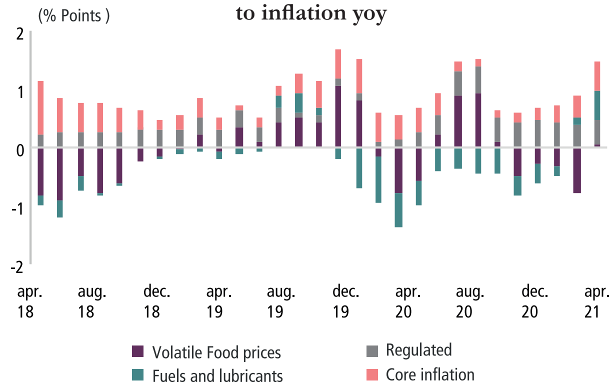
(In %)	Monthly change			YoY change		
	Feb. 21	March 21	April 21	Feb. 21	March 21	April 21
inflation	**0. 1**	**0. 2**	**1. 2**	**0. 3**	**0. 1**	**1. 4**
- Volatile food prices	-1. 0	0. 4	9. 1	-2. 8	-6. 1	0. 4
- Administered prices	0. 0	0. 0	0. 0	1. 9	1. 8	1. 8
- Fuels and lubricants	2. 5	2. 5	-0. 9	-4. 7	4. 6	23. 6
Core inflation	**0. 2**	**0. 2**	**0. 2**	**0. 5**	**0. 6**	**0. 8**
- Food products	0. 3	0. 3	0. 2	0. 0	0. 0	0. 1
- Clothing and footwear	-0. 1	0. 0	0. 6	0. 7	1. 0	1. 6
- Housing, water, gas, electricity and other fuels[1]	0. 0	0. 4	0. 0	1. 1	1. 5	1. 5
- Furniture, household equipment and routine house maintenance	0. 0	0. 2	0. 2	0. 5	0. 5	0. 7
- Health[1]	0. 0	0. 4	0. 2	1. 7	2. 0	2. 2
- Transportation[2]	0. 6	0. 2	0. 2	0. 9	1. 0	1. 4
- Communication	-0. 1	0. 0	0. 0	-0. 1	-0. 1	-0. 1
- Entertainment and culture[1]	0. 1	0. 1	0. 1	-0. 2	0. 1	0. 2
- Education	0. 0	0. 0	0. 0	1. 7	1. 7	1. 7
- Restaurants and hotels	0. 1	0. 1	0. 0	0. 8	0. 9	0. 9
- Miscellaneous goods and services [1]	0. 0	0. 3	0. 5	0. 6	0. 9	1. 4

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

As to fresh vegetables, the decline in their prices eased to 6.7 percent after 9.8 percent in the first quarter.

In total, the contribution of volatile food prices to inflation was almost zero in April, compared with an average of -0.5 points in the first quarter of 2021.

Chart 6.2: Contribution of the prices of major components to inflation yoy



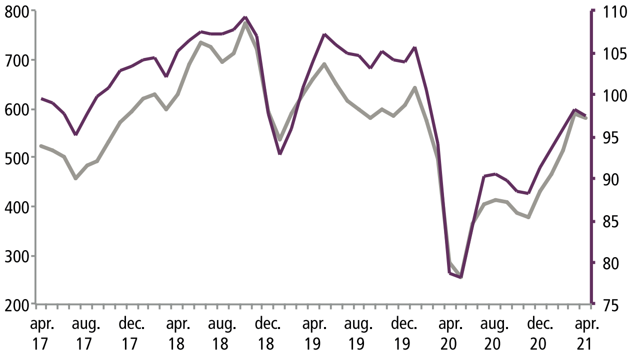
Sources: HCP, and BAM calculations.

The growth rate of the prices of regulated products slowed down slightly, from 2 percent in the first quarter to 1.8 percent in April, due to a deceleration from 13.4 percent to 12.9 percent in the prices of "passenger road transport" and from 1.3 percent to 0.4 percent in medical services prices. In terms of contribution to inflation, prices of regulated products contributed 0.4 percentage points in April, the same level as in the first quarter of previous year.

As for the prices of fuels and lubricants, they posted their first increase on a year-on-year basis in April after four quarters of decline. They rose by 23.6 percent in April instead of -4.2 percent in the first quarter. In addition to the impact of the recent recovery in international oil prices and the slight depreciation of the Dirham's exchange rate against the dollar, this strong acceleration would mainly reflect a base effect linked to the significant decline in international oil prices at the beginning of 2020. In particular, the price of Brent crude oil rose from $23.3/bl in April 2020 to $64.8/bl in April 2021, which represents a surge of 177.5 percent.

In sum, the contribution of price changes in these products to inflation was positive at 0.5 percentage points in April compared to -0.1 percentage point on average in the first quarter of 2021.

Chart 6.3: Change in international prices of Brent and the price index of fuels and lubricants (100=2017)



Sources: World Bank, HCP, and BAM calculations.

Box 6.1: Contribution of the base effect to the sharp acceleration in fuel and lubricant prices in April 2021

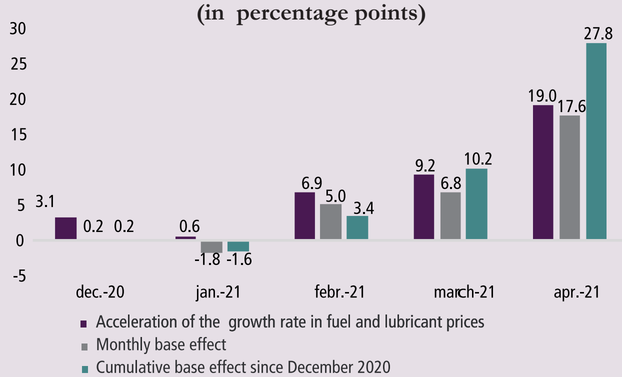
After successive declines between March 2020 and February 2021, prices of fuels and lubricants rose by 4.6 percent year-on-year in March 2021 before accelerating sharply to 23.6 percent in April. In addition to the impact of recent changes in the international prices of petroleum products, this significant increase, which has also been observed in many countries, reflects the base effects generated by the historically low levels of these prices during the same period a year earlier.

Indeed, 93 percent of the acceleration in fuel and lubricant prices between March and April and 74 percent of the acceleration noted between February and March is attributable to a base effect. The latter contributed 17.6 percentage points to the acceleration of 19-point in the prices of these products and contributed 6.8 percentage points to the 9.2 percentage point increase in the growth rate of these prices between March and February.

In total, of the 0.4 percentage point acceleration in inflation between December 2020 and March 2021, 0.3 percentage points are related to the base effect of fuels and lubricants. In addition, the 1.7 percentage point increase in inflation between December 2020 and April 2021 was driven by a base effect of 0.8 percentage point.

This effect is expected to continue during the second quarter of 2021 before gradually fading over the rest of the year.

Chart E.6.1.1: Estimate of the base effect behind the change in fuel and lubricant prices (in percentage points)

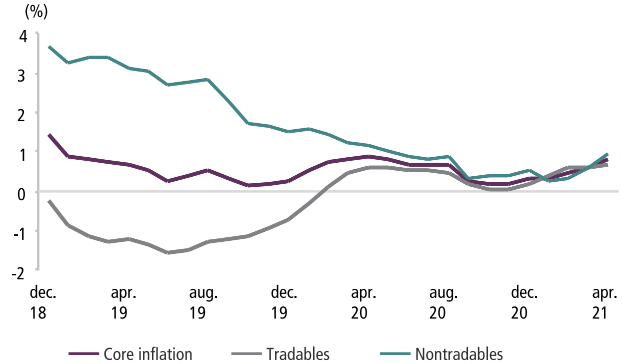


Source : HCP data and BAM calculations

6.1.2. Core inflation

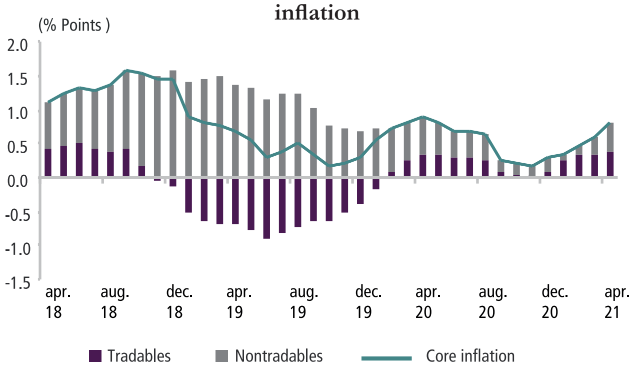
Core inflation continued to rise, reaching 0.8 percent in April after an average of 0.5 percent in the first quarter. This acceleration is linked in particular to the change in its food component with, in particular, an easing in the fall in the prices of "fresh meats" to 1.1 percent, against 2.9 percent, and a rise of 5.8 percent after 4.6 percent in the prices of "oils" following the surge in the international prices of soya.

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



Sources: HCP, and BAM calculations.

Chart 6.5: Contribution of tradables and nontradables to core inflation



Sources: HCP, and BAM calculations.

The distinction between tradable and non-tradable goods shows that the acceleration in core inflation stems from the acceleration in the growth rate of the prices of these two components. Prices of tradable goods rose by 0.7 percent in April after 0.5 percent in the first quarter amid rising imported inflation, with in particular an acceleration of inflation in the euro zone to 1.6 percent compared to 1.1 percent in the first quarter of 2021, as well as by the increase in production costs. As for non-tradable goods, their prices rose by 1 percent compared to 0.5 percent a quarter earlier, in parallel with a relative recovery in domestic demand.

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

(In %)	Monthly change			YoY change		
	Feb. 21	March 21	April 21	Feb. 21	March 21	April 21
Tradables	0. 3	0. 2	0. 2	0. 6	0. 6	0. 7
Nontradables	0. 0	0. 2	0. 3	0. 3	0. 6	1. 0
Core inflation	0. 2	0. 2	0. 2	0. 5	0. 6	0. 8

Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

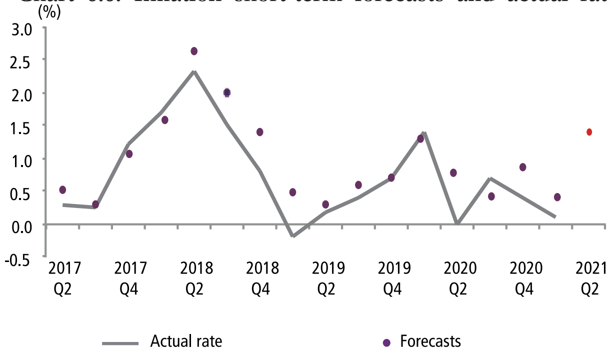
In the second quarter of 2021, inflation is expected to accelerate significantly, while remaining moderate. It is projected to be around 1.4 percent, compared with 0.1 percent in the first quarter of 2021. This change would be linked to a strong increase in the price of fuels and lubricants, which would be around 22.9 percent.

In the same vein, taking into account wholesale price data, the prices of volatile food products increased by 0.3 percent on average between April and June, driven in particular by the effect of higher demand during the month of Ramadan.

Underlying inflation is expected to rise to 1 percent instead of 0.5 percent, partly reflecting the change in its food component, which is impacted by rising international prices for some products.

Concerning the tariffs of regulated products, their growth rates would be virtually stable at 1.9 percent on average during the second quarter, in the absence of new governmental decisions in this regard.

Chart 6.6: Inflation short-term forecasts and actual rates



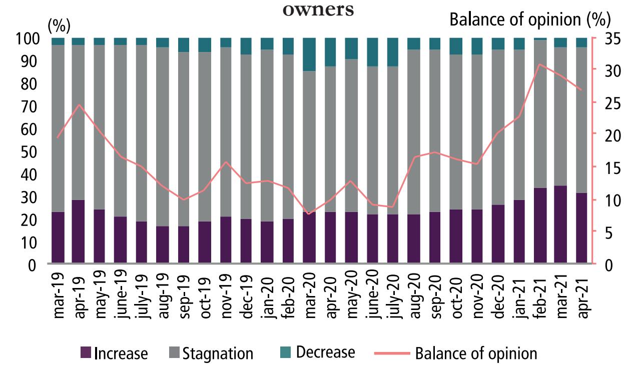
The forecast differences observed between Q1 2018 and Q1 2020 are partly related to the May 2020 HCP overhaul of the CPI. Thus, the CPI base 100=2006 is now replaced by 100=2017

Source: BAM.

6.3. Inflation expectations

The results of Bank Al-Maghrib's business survey in the industry, for April 2021, indicate that 64 percent of participating industrialists expect inflation to stagnate over the next three months, 31 percent forecast an increase while 5 percent of them anticipate a decline. The balance of opinion is thus 27 percent.

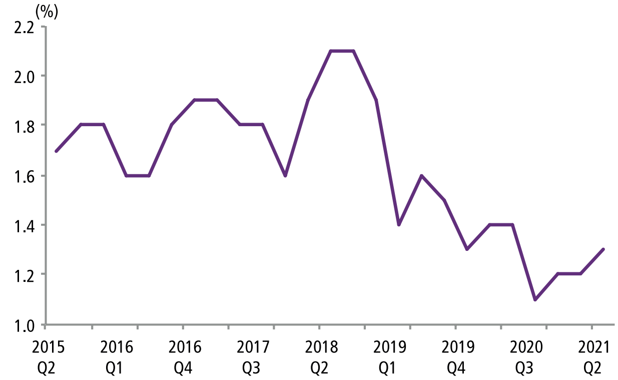
Chart 6.7: Three-month inflation expectations by business owners



Source: BAM's monthly business survey.

In addition, the results of Bank Al-Maghrib's inflation expectations survey for the second quarter of 2021 indicate that financial experts forecast inflation to rise slightly to 1.3 percent over the next eight quarters, instead of the 1.2 percent projected one quarter earlier.

Chart 6.8: Inflation expectations by financial experts*

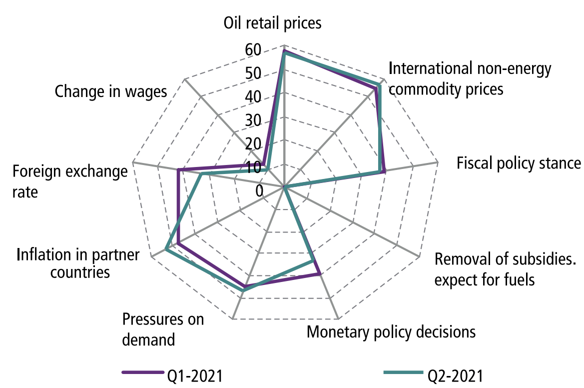


Source: BAM's quarterly survey on inflation expectations.

* As of the 2nd quarter 2016, the anticipation horizon has been raised to 8 quarters instead of 6 quarters.

They consider that the future change in inflation would be determined mainly by pump prices, world commodity prices excluding oil and the inflation of partner countries.

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



Source: BAM's Quarterly Survey on Inflation Expectations.

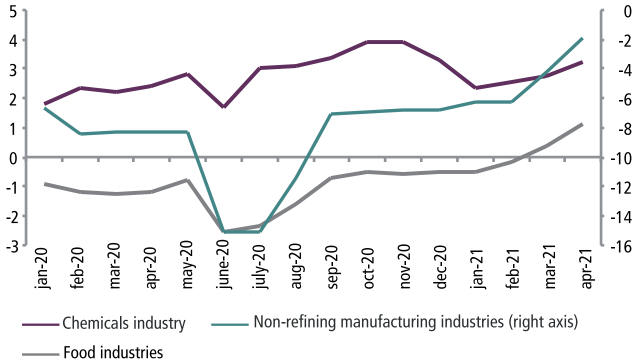
6.4. Producer[3] prices

Following a slight decline of -0.1 percent in the first quarter of 2021, producer prices in manufacturing industries increased by 1.1 percent in April. In particular, this acceleration reflects an easing of the

3 The HCP started on February 26, 2021 the publication of a new producer price index with 2018 as base year instead of 2010 for the old index.

decline in producer prices in the "chemical industry" from 5.6 percent to 1.8 percent, a more pronounced rise in prices, by 3.2 percent instead of 2.6 percent for the "food industry," 5.1 percent after 1.8 percent for "textile manufacturing", and 7.3 percent compared to 4.2 percent for "metallurgy".

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



Source : HCP.

7. MEDIUM-TERM OUTLOOK

Summary

The global economic outlook continues to improve with the gradual opening of activity in several major economies, thanks to the progress of vaccination campaigns. However, the outlook remains surrounded by great uncertainty related to the resurgence of new waves of infection and the varying pace of vaccination campaigns. In the United States, growth is forecast to rebound this year before slowing in 2022, as the impact of the fiscal stimulus plan dissipates. In the euro zone, a recovery is expected in 2021, benefiting from the easing of measures aiming to counter the pandemic, but growth would decelerate slightly in 2022. Similarly, in the United Kingdom, growth is expected to revive strongly in 2021, which would be followed by a slowdown in 2022.

In the main emerging countries, growth in China would accelerate sharply in 2021, despite the tightening of financial regulations, and would stabilize in 2022 at a level consistent with the policy aiming at economic rebalancing. In India, and despite the tightening of restrictive measures after the rise in infections in April, economic activity would rebound in 2021 before consolidating in 2022. In Brazil, growth would benefit from reviving external demand this year but would remain limited in 2022.

As for monetary policy, while it is starting to diverge among the main emerging countries, it remains very accommodative in the advanced ones. In particular, the ECB and the FED decided at their latest policy meetings to maintain their key interest rates unchanged and to maintain their asset purchase programs, while keeping their related forward-looking statements unchanged. Similarly, fiscal support measures are continuing, although with a relative withdrawal in some emerging countries.

In the commodity markets, the recovery in global demand and OPEC+ compliance with production quotas have led to an increase in oil prices in recent months. In particular, the price of Brent crude oil has risen by 26.1 percent since the beginning of the year and is expected to close 2021 at $65.1/bl on average before rising to $65.8/bl in 2022. As for phosphates and derivatives, according to the World Bank's April projections, the price of raw phosphate is expected to rise over the forecast horizon to $91.9/t in 2022. DAP prices are expected to remain high in the absence of additional production, particularly from Morocco and Saudi Arabia. Food prices are projected to remain at high levels against a backdrop of unfavorable weather conditions, strong Chinese demand and increasing use of biofuels.

The reopening of the economies and the rise in commodity prices would lead to an almost generalized rise in inflation this year, although this would be temporary.

At the national level, 2021 would be marked by a recovery in foreign trade in goods, low travel receipts and a continuation of the dynamics of transfers from Moroccans living abroad. The current account deficit would end the year at 3.8 percent of GDP, after 1.5 percent in 2020. In 2022, the recovery would be confirmed for trade in both goods and services, bringing the current account deficit down to 2.6 percent of GDP. FDI receipts are expected to be around 3 percent of GDP over the forecast horizon. Taking into account, in particular, the assumptions of grant inflows worth 3 billion in 2021 and 1.6 billion in 2022 and the Treasury's planned borrowings on the external market, official reserve assets would amount to 328.5 billion at the end of 2021 and 338.6 billion at the end of 2022, or the equivalent of more than 7 months of imports of goods and services.

The situation would remain difficult as regards public finance. Given the expected recovery in economic activity, the budget deficit is projected by BAM at 7.1 percent of GDP in 2021, after 7.6 percent of GDP in 2020, and at 6.6 percent in 2022.

Monetary conditions are expected to remain accommodative and credit to the non-financial sector is projected to grow by 3.5 percent in 2021 and 3.8 percent in 2022. The real effective exchange rate is projected to depreciate over the forecast horizon, mainly due to the level of domestic inflation compared to partner and competitor countries.

After falling by 6.3 percent in 2020, the national economy would start to grow again this year. Backed by the gradual lifting of restrictions, the revival of economic operators' confidence, particularly in connection with the significant progress in vaccination, a good agricultural campaign with a cereal harvest of 98 million quintals, as well as fiscal stimulus measures and the accommodating stance of monetary policy, growth would rebound to 5.3 percent. This improvement reflects increases of 3.6 percent in nonagricultural value added and 17.6 percent in the agricultural sector. In 2022, growth is projected to consolidate to 3.3 percent, covering a 2 percent decline in agricultural value added, assuming the average cereal production would return 75 MQx, while nonagricultural activities would continue to improve with a projected increase in value added to 3.8 percent. On the demand side, growth is expected to be driven by the domestic component, which would gain momentum, while the contribution to growth of net exports in volume terms would be negative.

Against this backdrop, inflation is expected to rise but would remain at a moderate level. It would accelerate from 0.7 percent in 2020 to 1 percent in 2021 and 1.2 percent in 2022, reflecting in particular an increase in its underlying component from 0.5 percent to 1.2 percent and 1.5 percent, respectively.

7.1 Underlying assumptions

Growth outlook more favorable overall than March expectations

The global economic outlook continues to improve with the gradual restart of activities in several major economies, thanks to the progress achieved in vaccination. However, forecasts are still surrounded by great uncertainty related to the resurgence of new waves of infection and the varying pace of vaccination campaigns. Although some Asian countries have suffered from an excessive rise in infections in recent months and the slow pace of vaccination, world growth would continue to benefit from the stimulus plans in 2021. In this regard, and taking into account better-than-expected performance in the United States and the United Kingdom, global growth projections have been revised upwards from the March forecast to 6.4 percent in 2021 and 4 percent in 2022.

In the USA, a rebound in household consumption, thanks to household support programs, combined with increased fiscal spending and easier financial conditions for consumers and businesses would help growth consolidate to 6.4 percent this year. Growth is expected to slow to 3.2 percent in 2022 as the impact of the fiscal stimulus package wears off. In the euro zone, growth is projected to recover to 4.4 percent in 2021, benefiting from the easing of restrictions, but would decelerate slightly to 3.5 percent in 2022. In the United Kingdom, following progress on vaccinations and the opening up of the economy, GDP is expected to grow by 6.3 percent in 2021 and 3.3 percent in 2022.

In the major emerging economies, growth in China is expected to rebound to 9.2 percent in 2021 and to 5.1 percent in 2022, despite tighter financial regulations. In India, despite the negative economic fallout from the new wave of infection, GDP is projected to expand by 11.5 percent in 2021, driven by stronger external demand, and then rise by 9.8 percent in 2022. Similarly, in Brazil, growth is expected to benefit from the recovery in foreign demand, rising to 4.6 percent this year but remaining limited to 3 percent in 2022.

Chart 7.1: Growth in the euro area

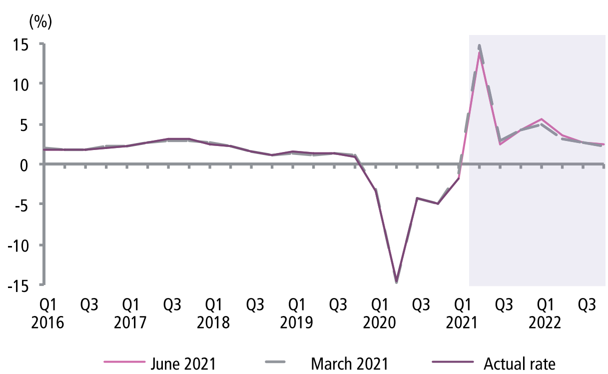
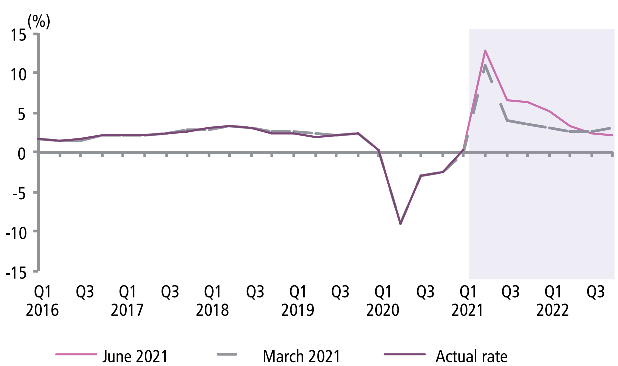


Chart 7.2: Growth in the USA



Source: GPMN[1] forecasts of May 2021.

1 Global Projection Model Network.

Continued monetary and fiscal support and appreciation of the euro against the dollar

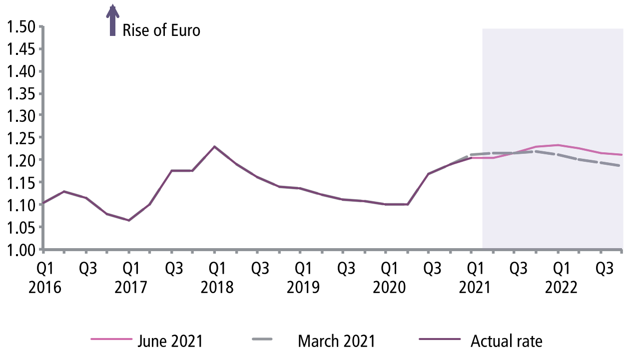
While monetary policy is beginning to diverge among the major emerging countries, it remains very accommodating in the advanced economies. At its June 10 meeting, the ECB kept its key interest rates unchanged, indicating that they will remain at current or lower levels until inflation outlook converges on a sustainable basis to a level sufficiently close to, but below, 2 percent over its projection horizon. At the same time, it indicated that it would continue its net purchases under its emergency pandemic purchase programme at a monthly rate of €20 billion, and expects purchases under its €1,850 billion emergency pandemic purchase program to continue in the coming quarter at a significantly higher rate than in the early months of the year. Furthermore, it reiterated that it will continue to provide ample liquidity through its refinancing operations, in particular the third round of targeted longer-term refinancing operations.

As to the Fed, it unanimously decided at its June 15-16 meeting to keep the target range for the federal funds rate unchanged at [0 percent-0.25 percent], while indicating that it plans to maintain it at that level until labor market conditions have reached levels consistent with the Committee's assessments of full employment and inflation has risen to 2 percent and is on track to be moderately above that rate for some time. In addition, it will continue to increase its security holdings by at least $120 billion per month until substantial further progress is made towards meeting its objectives. It also announced the extension of its temporary U.S. dollar liquidity swaps with nine central banks through December 31, 2021.

At the same time, fiscal support measures are maintained, albeit with a relative withdrawal in some emerging countries. In the United States, the new administration is currently approving two major budget plans, the American Jobs Plan and the American Families Plan, with a total budget of around $4500 billion, or over 20 percent of GDP. At the European Union level, following the approval of all Member States on May 31, 2021, the Commission will begin to mobilize resources to finance Europe's recovery under the "Next Generation EU" program. To this end, it announced on June 1 a plan to issue around €80 billion in long-term bonds in 2021, in addition to tens of billions of euros in short-term EU-Bills to cover the remaining financing needs. The first bond issue within this framework was carried out in June for an amount of €20 billion.

On the currency markets, the euro is expected to strengthen by 6.4 percent against the dollar to $1.214 on average in 2021 and by 0.6 percent to $1.221 in 2022. Compared to projections from last March, the expected value of the euro has remained almost unchanged for this year but has been revised upwards for 2022.

Chart 7.3: USD/ EUR exchange rate



Source: GPMN forecasts of May 2021.

Rise of commodity prices and temporary acceleration of inflation

Oil prices have risen in recent months in line with the recovery in global demand and compliance with production cuts agreed by OPEC+ countries, with compliance rates exceeding 100 percent. The price of Brent crude oil in particular gained 26.1 percent over the first five months of the year compared to the end of 2020 and is expected to close 2021 at $65.1/bl on average before rising to $65.8/bl in 2022.

As for phosphate and derivatives, according to the World Bank's April projections, the price of raw phosphate would increase over the forecast horizon to $91.9/t in 2022. The price of DAP is expected to remain high in the absence of additional production, particularly from Morocco and Saudi Arabia. It is projected to rise by 44 percent this year to $450/t before falling by 6 percent to $425/t in 2022.

With regard to food products, prices have continued their uninterrupted rise over the past year, reaching their highest level since October 2010 in May, driven mainly by the continued increase in oil prices for the twelfth month in a row. They are expected to remain high amid unfavorable weather conditions, strong Chinese demand and increasing use of biofuels. They are projected to rise by 20.8 percent this year before falling by 6.4 percent in 2022.

Against this backdrop, recent consumer price changes have been marked by an uptrend in both the main advanced and emerging countries. In the United States in particular, inflationary pressures have been more pronounced in view of the strong recovery in demand, which has been boosted by the resumption of hiring and direct aids to households. Thus, inflation is expected to end 2021 at 3.7 percent on average and to slow to 3.5 percent in 2022. In the euro zone and due to other transitory factors, in particular the end of the temporary VAT cut, inflation accelerated in the first five months of the year, averaging 1.3 percent. It is expected to reach 1.8 percent for the year as a whole before slowing to 1.2 percent in 2022.

Chart 7.4: Brent price

Chart 7.5: FAO food product price index (2014-2016=100)

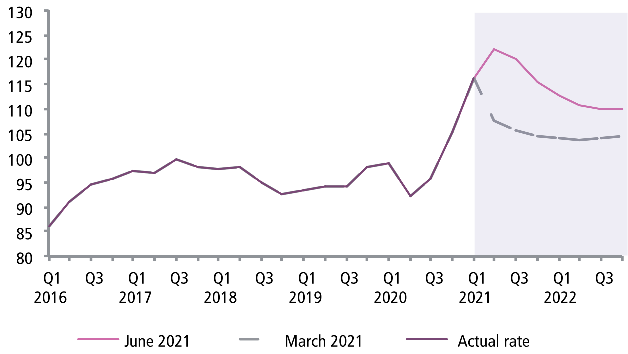


Chart 7.6: Inflation in the euro area

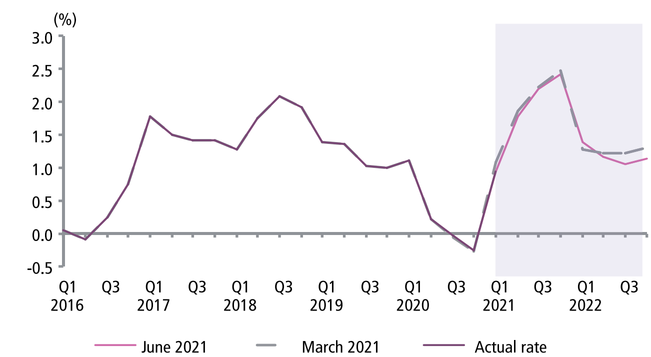
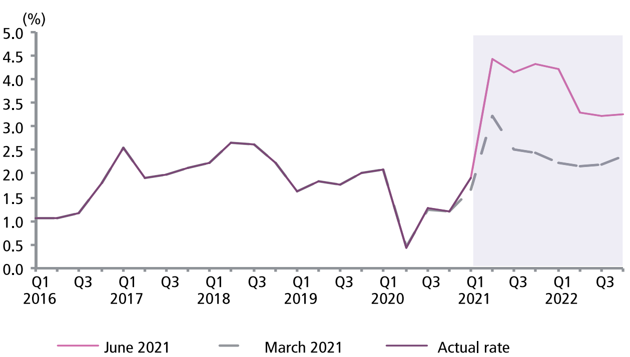


Chart 7.7: Inflation in the United states



Source: GPMN forecasts of May 2021.

Cereal production of 98 million quintals for 2020-2021 and average harvest expected in 2021-2022

The 2020-2021 agricultural campaign has been marked by very favorable climatic conditions. The Department of Agriculture estimate cereal production at 98 million quintals (MQx), compared to a BAM forecast of 95 MQx in March, up 206 percent compared to the previous campaign and 55 percent compared to the average of the last five years. At the same time, other plant crops and arboriculture are in good shape, and the availability of fodder from the rangeland and the good cereal season would help the livestock sector to recover after two dry seasons.

For the 2021-2022 crop year, the assumptions of an average cereal crop of 75 MQx and a continuation of the trend in other crops are maintained.

7.2 Macroeconomic projections

Recovery of foreign trade over the forecast horizon

After narrowing to 1.5 percent of GDP in 2020, the current account deficit is expected to widen to 3.8 percent of GDP in 2021 before narrowing to 2.6 percent in 2022. Exports are projected to pick up, rising by 14.5 percent in 2021, driven mainly by increased sales of automobile manufacturing and phosphates and derivatives. Imports are expected to grow by 16.6 percent, mainly due to an increase in the effect mainly of an increase in the energy bill and a rise in purchases of consumer goods. At the same time, taking into account the decision to gradually reopen the borders from June 15, travel receipts would increase by 21.7 percent to 44.4 billion dirhams, while remittances from Moroccan expatriates would remain dynamic with a rise of 7.6 percent to 73.3 billion dirhams. As to FDI receipts, they would approach the equivalent of 3 percent of GDP, compared to 2.5 percent in 2020.

Assuming grant inflows of $3 billion and taking into account the Treasury's planned external financing, official reserve assets would end the year at $328.5 billion, equivalent to seven months and six days of imports of goods and services.

In 2022, exports are projected to grow by 5.6 percent, reflecting increased sales of automotive, agricultural, and agribusiness products. At the same time, imports are expected to grow by 3 percent, driven in particular by the projected increase in imports of capital goods. Travel receipts, while remaining below pre-crisis levels, would recover to 63.4 billion. With regard to transfers from Moroccan expatriates, their growth would consolidate to 2.8 percent, bringing them to 75.4 billion. FDI receipts are projected to remain at around 3 percent of GDP in 2022.

Assuming grant inflows of 1.6 billion and taking into account, in particular, the Treasury's external financing planned in 2022, official reserve assets would reach 338.6 billion at the end of 2022, the equivalent of 7 months and 13 days of imports of goods and services.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates						Forecasts		Gap (june/march)	
	2015	2016	2017	2018	2019	2020	2021	2022	2021	2022
Exports of goods (FOB)	8. 6	3. 5	10. 3	10. 7	3. 3	-7. 6	14. 5	5. 6	1. 9	-0. 6
Imports of goods (CAF)	-4. 9	10. 3	6. 7	9. 9	2. 0	-14. 0	16. 6	3. 0	3. 4	-3. 0
Travel receipts	-1. 4	5. 0	12. 3	1. 2	7. 8	-53. 7	21. 7	42. 9	16. 9	-35. 9
Expatriate remittances	4. 8	4. 0	5. 3	-1. 5	0. 1	4. 9	7. 6	2. 8	1. 9	0. 6
Current account balance (% of GDP)	**-2. 1**	**-4. 1**	**-3. 4**	**-5. 3**	**-3. 7***	**-1. 5***	**-3. 8**	**-2. 6**	**0. 7**	**0. 4**
Official reserve assets, in months of imports of goods and services	**6. 1**	**6. 4**	**5. 6**	**5. 4**	**6. 9**	**7. 4**	**7. 2**	**7. 4**	**0. 4**	**0. 4**

* Estimate
** Updated statistics
Sources: Foreign Exchange Office and BAM forecasts.

Favorable monetary conditions and consolidation of the growth of bank credit to the non-financial sector

After appreciating 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. This depreciation would be mainly attributable to a lower level of domestic inflation than that of trading partners and competitors.

On the basis of the projected trends in foreign exchange reserves and currency in circulation, the bank liquidity deficit is expected to reach 64.8 billion at the end of 2021 and 71.4 billion at the end of 2022. As to bank credit to the non-financial sector, its growth decelerated to 2.9 percent in April 2021, covering a slowdown for loans granted to companies and an improvement for loans to households. In terms of outlook, and taking into account the economic growth forecasts and the expectations of the banking system, it would increase by 3.5 percent in 2021 and 3.8 percent in 2022. Under these conditions, and taking into account the change in the other counterparts of the money supply, the growth of the M3 aggregate would slow down to 5 percent in 2021 and 4.5 percent in 2022.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts		Gap (june/march)	
	2017	2018	2019	2020	2021	2022	2021	2022
Bank lending to the nonfinancial sector	3. 8	3. 1	5. 5	3. 9	3. 5	3. 8	-0. 1	0. 1
M3	5. 5	4. 1	3. 8	8. 5	5. 0	4. 5	1. 8	0. 2
Liquidity surplus or deficit, in billion dirhams	-40. 9	-69. 0	-62. 3	-67. 0	-64. 8	-71. 4	19. 3	21. 2

Difficult budget situation during the forecast horizon

The budget deficit is expected to reach 7.1 percent of GDP in 2021, down 0.1 percentage point from the March fiscal year, taking into account budgetary achievements to end-May 2021 and BAM's macroeconomic projections. Tax revenues are expected to increase, in line with the projected improvement in economic activity. Expenditure forecasts, for their part, have been marked by an upward adjustment of the subsidization costs, incorporating in particular the new assumptions relating to butane gas prices and exchange rates.

For 2022, and taking into account the economic growth forecasts and an increase in some current expenses, the budget deficit is expected to reach 6.6 percent of GDP, down 0.1 percentage point compared to the forecasts of March 2021.

Continued recovery in economic activity

Just over a year after the sudden and near-total halt in economic activity following the unprecedented restrictions put in place to contain the spread of Covid-19, the second quarter of 2021 was marked by significant progress in the vaccination campaign and an easing of health restrictions at the national level. Against this backdrop, available high-frequency indicators suggest that economic activity is performing well. However, the outlook still largely depends on the development of the health situation, particularly with regard to the appearance of new virus variants and the effectiveness of vaccination campaigns.

After falling by 6.3 percent in 2020, the national economy is expected to return to growth this year at a rate of 5.3 percent, unchanged from March projections. On the supply side, this improvement reflects a 3.6 percent rebound in non-agricultural value added combined with a 17.6 percent increase in agricultural value added, particularly given the 98 million-dollar cereal harvest. On the demand side, growth would be driven by the domestic component.

It would gain momentum, thanks to the expected recovery in agricultural and non-agricultural revenues against a backdrop of moderate inflation, renewed confidence among economic operators, as well as fiscal stimulus measures and an accommodating monetary policy stance. In contrast, the contribution of net exports to growth is expected to be negative, as the projected increase in the volume of imports of goods and services is projected to more than offset the forecast rebound in exports.

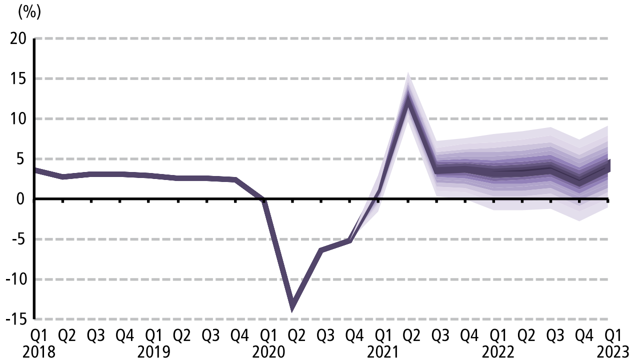
In 2022, growth is expected to consolidate at 3.3 percent, covering a 2 percent decline in agricultural value added, assuming average cereal production would again reach 75 MQx, and a continued improvement in nonagricultural activities, whose value added is expected to grow by 3.8 percent. On the demand side, this development reflects, on the one hand, a slowdown in the growth of the various components of domestic demand and, on the other, a continued negative contribution of net exports in terms of volume.

Table 7.3: Economic growth

Change in %	Actual rates					Forecasts		Gap (june/march)	
	2016	2017	2018	2019	2020	2021	2022	2021	2022
National growth	**1. 1**	**4. 2**	**3. 1**	**2. 6**	**-6. 3**	**5. 3**	**3. 3**	**0. 0**	**0. 1**
Agricultural VA	-13. 7	15. 2	3. 7	-5. 8	-8. 6	17. 6	-2. 0	0. 0	0. 0
Nonagricultural VA	2. 1	2. 9	2. 9	3. 9	-5. 8	3. 6	3. 8	0. 1	0. 0
Net tax on subsidies	8. 8	3. 1	4. 6	1. 9	-7. 6	5. 0	4. 5	0. 0	0. 0

Sources: HCP data, and BAM forecasts.

Chart 7.8: Growth outlook over the forecast horizon (Q1 2021 - Q1 2023), (YoY)*



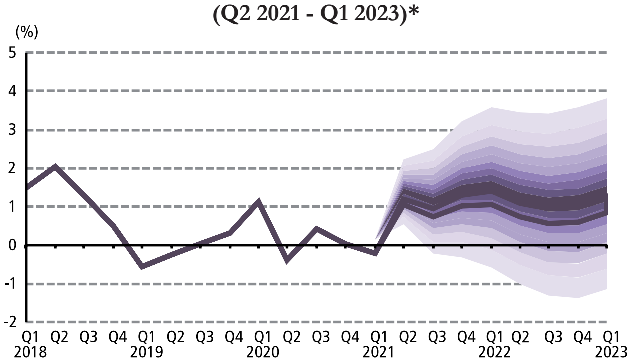
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Moderate inflationary pressures over the forecast horizon, driven by temporary factors

After a low rate of 0.7 percent in 2020, inflation is expected to trend upwards but would remain at a moderate level over the forecast horizon. It would be driven in particular by the expected revival of domestic demand against a backdrop of the reopening of the economy and the expected improvement in incomes, and to a lesser extent by the projected depreciation of the real effective exchange rate. In addition, other temporary factors related to higher prices for oil and some imported food are also expected to exert upward pressures on consumer prices in 2021 in particular.

Thus, inflation would accelerate to 1 percent in 2021 and 1.2 percent in 2022, and its underlying component would rise from 0.5 percent in 2020 to 1.2 percent in 2021 and 1.5 percent in 2022, virtually unchanged from the March forecast.

Chart 7.9: Inflation forecast over the forecast horizon (Q2 2021 - Q1 2023)*



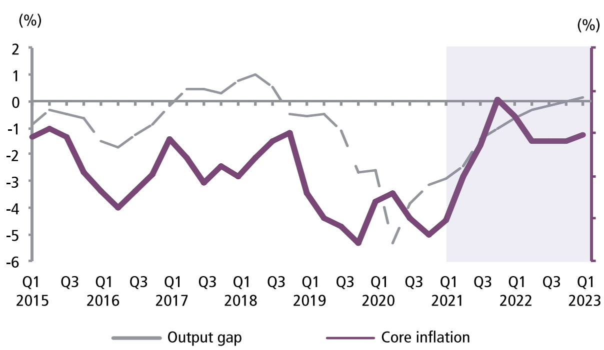
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Table 7.4: Inflation and core inflation

	Actual rates				Forecasts			Gap (june/march)	
	2017	2018	2019	2020	2021	2022	Horizons of 8 quarters (Q2 2021-Q1 2023)	2021	2022
Inflation	**0. 7**	**1. 6**	**0. 2**	**0. 7**	**1. 0**	**1. 2**	**1. 3**	**0. 1**	**0. 0**
Core inflation	1. 3	1. 3	0. 5	0. 5	1. 2	1. 5	1. 5	0. 0	0. 0

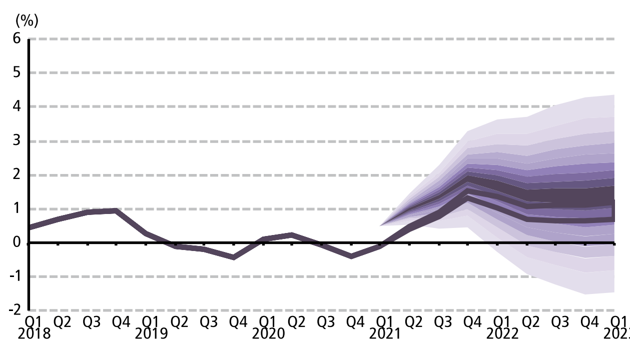
Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap



Sources: HCP, and BAM forecasts and calculations.

Chart 7.11: Projections of core inflation over the forecast horizon (Q2 2021 - Q1 2023)*



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

7.3 Balance of risks

Significant risks surrounding the outlook persist and could affect the central projection if they materialize. The balance of risks is balanced for growth and tilted to the upside for inflation.

As regards growth, the sustained pace of the vaccination campaign and the easing of restrictive measures at the national level, on the one hand, and the continued accommodative stance of monetary policy as well as the expected positive effects of the start of operation of the Mohammed VI Fund for Investment, on the other hand, reinforce optimism about a stronger economic recovery. Nevertheless, the risk associated with the evolution of the pandemic continues to weigh on the outlook at both the national and international levels. A more rapid spread of new Covid-19 variants, coupled with a slow or continued asynchronous rollout of vaccination campaigns around the world, could slow the opening of economies and dampen economic recovery. As far as inflation is concerned, the risks of more pronounced upward pressure than expected remain dominant. The strong pressure on the prices of some commodities, particularly food and energy, the increase in transport costs and greater demand following the easing of restrictions could imply higher prices than those retained in the central projection scenario.

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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