BANK AL-MAGHRIB

**PRESS RELEASE**

**BANK AL-MAGHRIB BOARD MEETING**

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Rabat, October 13, 2021

**1.** The Board of Bank Al-Maghrib held its third quarterly meeting of the year 2021 on Wednesday, October 13.

**2.** During this meeting, it analyzed, in light of the pandemic related developments, the national and international economic situation as well as the Bank's medium-term macroeconomic projections. In this regard, the Board noted the significant progress Morocco made in vaccination, as well as the ongoing recovery in economic activity and the evolution of inflation at moderate levels despite some increase in external inflationary pressures.

**3.** The Board also inquired about the latest developments in the foreign exchange market and the impact of the Bank's recent interventions aiming at resorbing temporary foreign currency surpluses.

**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%.

**5.** The Board noted that after a relative acceleration to an average of 1.6 percent in the second quarter of 2021 and to 2.2 percent in July, inflation fell to 0.8 percent in August as a result of a decline in volatile food prices. Against the background of the substantial rise in energy products prices, the recovery of domestic demand and the increase of imported inflation, it should come out at 1.2 percent in 2021 and stand at 1.6 percent in 2022, after 0.7 percent in 2020. Its core component is expected to rise from an average of 0.5 percent in 2020 to 1.4 percent in 2021 and 2.1 percent in 2022.

**6.** Internationally, the economic outlook appears favorable yet surrounded by high uncertainties. In the United States, after contracting by 3.4 percent in 2020, the economy is expected to rebound by 5.9 percent this year, buoyed by the progress in the vaccination campaign and the strong fiscal stimulus, then its growth should consolidate to 3.2 percent in 2022. Similarly, in the euro area, after the 6.3 percent decline, GDP would grow by 5.2 percent in 2021 and 3.8 percent in 2022. In the labor markets, the situation is expected to improve significantly in the United States, with the unemployment rate falling from 8.1 percent average to 5.6 percent in 2021, then to 4.7 percent in 2022. In the euro area, job retention schemes have highly mitigated the impact of the crisis, with the unemployment rate expected to rise slightly from 7.9 percent in 2020 to 8.1 percent in 2021 before falling to 7.3 percent in 2022, close to pre-crisis levels. In the main emerging countries, growth would accelerate in China, rising from 2 percent in 2020 to 8.6 percent in 2021, before converging to a pace in line with the economy rebalancing policy, i.e. around 5 percent. In India, suffering from the repercussions of the surge in Covid-19 cases in April and May, growth would be limited at 8 percent after a 7.1 percent contraction in 2020, and would accelerate to 12.7 percent.

**7.** On the commodity markets, the upward trend in prices continues. For energy products, the price of Brent in particular is expected to rise from an average of \$42.3/bl in 2020 to \$68.1/bl in 2021, then to \$68.5/bl in 2022. As regards phosphate and derivatives, the stronger demand and the rise in input costs led to a significant increase in their prices over the first nine months of the year, up 78.8 percent to \$147.5/t for phosphate rock and 79 percent to \$643.8/t for DAP. These levels are well above the World Bank's estimates of last April which projected respective prices of \$90/t and \$450/t in 2021 and \$91.9 /t and \$425/t in 2022.

**8.** This increase in commodity prices, coupled in particular with the recovery in economic activity and supply constraints, should continue to exert strong pressure on consumer prices. Hence, inflation is expected to reach 4.4 percent on average in the United States this year, before slightly easing to 4.2 percent in 2022, while in the euro area it will remain close to the ECB's target, reaching 2.3 percent in 2021 and 1.9 percent in 2022.

**9.** In response to inflationary pressures, several central banks in emerging and developing countries tightened their monetary policies. Conversely, the central banks of the major advanced economies, considering these pressures to be temporary, kept accommodative stances. Thus, at its September 9 Board meeting, the ECB left its key rates unchanged, maintained the pace of its monthly purchases under its APP program and indicated that it would continue its PEPP program until at least the end of March 2022. Similarly, the Fed decided at its September 21-22 meeting to keep the target range for the federal funds rate unchanged at [0-0.25 percent] and stated, however, that it would soon begin to reduce its asset purchase program, provided that progress toward its price stability and maximum employment goals continues.

**10.** At the domestic level, the latest national accounts data related to the second quarter of 2021 indicate a year-on-year growth of 15.2 percent, with an increase of 18.6 percent in agricultural value added and 14.8 percent in nonagricultural activities. The recovery is expected to continue, driven by the notable progress in the vaccination campaign, the very good agricultural campaign as well as the fiscal stimulus and the accommodative monetary policy stance. Thus, according to Bank Al-Maghrib's updated projections, GDP in real terms would end the year with a rebound of 6.2 percent, an upward revision of 0.9 percentage points compared to last June's forecast. This improvement reflects an increase of 18.8 percent in agricultural value added, taking into account a cereal production of 103.2 million quintals, and an increase of 4.6 percent in non-agricultural value added. In 2022, growth would consolidate to 3 percent, covering a 3.3 percent drop in agricultural value added, assuming a return to an average cereal production, and a 3.6 percent increase in non-agricultural activities. On the labor market, the 2021 second quarter data shows the creation of 405 thousand jobs year-on-year, a number that remains below the 533 thousand active people who joined the market during the same period. As a result, the participation rate improved by 1.3 points to 46.1 percent while the unemployment rate worsened by 0.5 points to 12.8 percent.

**11.** As regards foreign trade, data at the end of August indicate a generalized acceleration of the recovery in goods trade. This dynamic would continue, with exports rising by 21.2 percent in 2021, then by 6 percent in 2022, driven mainly by sales of car manufacturing industry and phosphate and derivatives. At the same time, imports would grow by 19.5 percent in 2021, mainly reflecting the expected increase in purchases of capital and consumer goods, as well as the rise in the energy bill, before slowing down to 3.8 percent in 2022. Besides, health restrictions continue to weigh on travel revenues, with a further decline of 8.6 percent to 33.3 billion dirhams expected in 2021, following a 53.7 percent fall in 2020. In 2022, assuming a significant easing of these measures, these revenues would rebound to 60.7 billion dirhams, a level that remains well below the 78.7 billion dirhams of 2019. For their part, after a 4.9 percent increase in 2020, remittances would show a significant increase of 27.7 percent in 2021 to a record 87 billion dirhams, before falling by 5 percent to 82.7 billion in 2022. Under these circumstances, the current account deficit would widen from 1.5 percent of GDP in 2020 to 2.8 percent in 2021 before easing to 1.6 percent in 2022. Foreign direct investment flows would hover around the equivalent of 3 percent of GDP over the forecast horizon. Taking into account, in particular, the Treasury's expected external funding and the SDR allocation of 10.8 billion dirhams, official reserve assets would amount to 335 billion dirhams at the end of 2021 and 345.1 billion dirhams at the end of 2022, equivalent to more than 7 months of imports of goods and services.

**12.** As regards monetary conditions, the real effective exchange rate should end the year with a 0.4 percent increase, as a result of the nominal rise of the value of the dirham and a lower domestic inflation compared to that of partners and competitors. In 2022, it should depreciate by 1.9 percent as a result of the decline in the domestic currency nominal value. As for lending rates, they recorded a quarterly decline of 13 basis points in the second quarter, which mainly benefited businesses. Bank lending to the non-financial sector slowed slightly to 3.3 percent during the second quarter, reflecting, in particular, the deceleration of lending to private non-financial companies after the end of a number of support programs put in place in 2020 in response to the Covid-19 crisis. It is expected to end this year with a 3.7 percent increase followed by a rise by 3.8 percent in 2022.

**13.** In terms of public finances, budget implementation at the end of the first eight months of the year shows a deficit of 48.8 billion dirhams, widening by 2.2 billion dirhams year-on-year. Current revenues improved by 9.3 percent, driven by the increase in the revenues of all tax categories, except for corporate income tax, which was rather lower. At the same time, overall expenditure grew by 8 percent, due in particular, to increases in expenditure on goods and services, transfers to local governments and subsidy costs. Including a reduction in the stock of pending transactions of 18.5 billion, the cash deficit stood at 67.4 billion against 48.2 billion in the same period in 2020. This requirement was covered by domestic resources of a net amount of 59 billion, proceeds from the sale of State holdings for 5.4 billion and a positive net external flow of 3 billion. Taking into account these developments, the fiscal deficit, excluding privatization, should improve, according to Bank Al-Maghrib's projections, from 7.6 percent of GDP in 2020 to 7.3 percent in 2021 and 6.8 percent in 2022.