



PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 21, 2021

1. The Board of Bank Al-Maghrib held its last quarterly meeting for the year 2021 on Tuesday, December 21.
2. During this meeting, the Board analysed the evolution of the national and international environment as well as the Bank's medium-term macroeconomic projections. In this respect, the Board noted that overall economic activity has recovered significantly this year, boosted by the progress of the vaccination campaign and the maintaining of fiscal and monetary stimulus. Nevertheless, the new waves of the pandemic in a number of partner countries and the restrictions that national authorities have had to implement reinforce the uncertainties surrounding the economic outlook. The Board also took note of the provisions of the 2022 Finance Act.
3. Based on all of these analyses, the Board considered that the monetary policy stance remains broadly accommodative, ensuring adequate financing conditions. In particular, the Board deemed the current level of the policy rate to be appropriate and thus decided to keep it unchanged at 1.50 percent.
4. The available data on consumer prices show significant increases in recent months in some food products, fuels and lubricants. This evolution is essentially the result of external pressures linked to the surge in their prices on the international markets. This was reflected in a marked acceleration in the underlying component of inflation which rose from an average of 0.7 percent in the first half of the year to 2 percent in the third quarter and to 3.3 percent in November. According to Bank Al-Maghrib's projections, it should amount to 1.7 percent on average for the whole of this year and stand at 2.7 percent in 2022 before returning to 1.8 percent in 2023 with the expected dissipation of external pressures. Despite this sharp increase in its core component, inflation is expected to remain at contained levels, rising from an average of 0.7 percent in 2020 to 1.4 percent in 2021, to 2.1 percent in 2022, and then revert to 1.4 percent in 2023.
5. Internationally, after this year's recovery, the pace of economic activity will be largely dependent on the evolution of the pandemic, which has been marked in recent weeks by a strong resurgence of infections. Thus, after a contraction of 3.5 percent in 2020 and the rebound of 5.9 percent expected this year, the growth of the world economy would decelerate to 4 percent in 2022 then to 3.1 percent in 2023. In the major advanced economies, GDP is expected to rise in the United States by 5.5 percent in 2021, 3.3 percent in 2022 and 2 percent in 2023. A similar trend would be observed in the euro zone, with GDP growth falling from 5.2 percent to 4 percent and then to 1.6 percent. In the labor markets, the situation is expected to improve significantly in the United States, where the unemployment rate is expected to drop to 5.4 percent in 2021, 4.1 percent in 2022 and 3.8 percent in 2023, nearly the same level as before the crisis. In the euro zone, this rate is expected to fall to 7.7 percent and to be below 7 percent in the next two years, for the first time since the creation of the single currency. In the main emerging countries, growth in China is expected to be 8.1 percent this year, slowing to 5 percent in 2022 and 5.9 percent in 2023. In India, it would stand at 7.6 percent before accelerating to 10.8 percent and then returning to 6.4 percent.
6. On the commodity markets, the uptrend in energy prices induced by the recovery in global demand was strongly accentuated, particularly for natural gas and coal, which registered historic records. For

oil, the price of Brent crude reached \$85.8/bl in October, its highest since late 2014, and is expected to average \$71.8/bl in 2021, then \$75.1/bl in 2022, before declining to \$70.4/bl in 2023. Food products' prices have risen significantly in 2021, reflecting in particular increases in sugar and vegetable oil prices which reached in November 38 percent and a 51.4 percent respectively year-on-year, and are expected to remain well above pre-crisis levels for the next two years. For phosphate and derivatives, prices have risen sharply this year and are expected to remain high in 2022, before falling in 2023. In particular, the DAP price would end the year up 89 percent at \$590/t on average and would reach \$600/t in 2022 before declining to \$450/t in 2023. For phosphate rock, the price would increase by 58 percent to 120 US\$/t in 2021 and would remain close to this level for the next two years.

7. The increase in commodity prices, combined with improved demand, bottlenecks in some goods production and rising freight costs continue to exert strong pressure on consumer prices. Inflation in the euro area is expected to exceed the ECB's target, reaching 2.5 percent on average this year and 3 percent in 2022, before returning to 2 percent in 2023. In the United States, inflation surged 6.8 percent in November, hitting its highest pace for the past 4 decades, and is expected to reach 4.7 percent on average in 2021, accelerate to 6.1 percent next year, and then decelerate to 3.7 percent in 2023.

8. In response to these inflationary pressures, several central banks in both developed, emerging and developing economies have tightened their monetary policies by raising rates and/or reducing their asset purchase programs. Thus, at its December 14-15 meeting, while keeping the target range for the federal funds rate unchanged at [0-0.25 percent], the FED decided to double the reduction pace of its asset purchases to \$20 billion for Treasury securities and \$10 billion for mortgage-backed securities starting next January. Similarly, the ECB decided on December 16 to keep its key rates unchanged, to put an end to its Pandemic Emergency Purchase Program in March 2022 and to strengthen its Asset Purchase Program before starting to gradually reduce it.

9. At the domestic level, progress made in the Covid-19 vaccination campaign, continued fiscal and monetary stimulus, as well as a very good agricultural season will lead to an economy rebound by 6.7 percent this year, with increases of 18.8 percent in agricultural value added and 5.3 percent in non-agricultural activities. Over the next two years, the activity pace will remain largely dependent on national and international health situation and restrictions that the authorities may put in place accordingly. Hence, following Bank Al-Maghrib's projections, in the central scenario, growth would be consolidated to 2.9 percent in 2022 and to 3.4 percent in 2023. The value added of non-agricultural activities would continue to improve at a rate of 3.2 percent in 2022 and 3.4 percent in 2023 and, assuming an average cereal harvests of 75 MQx annually, the value added of the agricultural sector would fall by 2.8 percent in 2022 and increase by 2 percent in 2023. On the labor market, the 2021 third quarter data show a clear recovery with a creation of 642 thousand jobs and a net entry of 607 thousand job seekers. The activity rate has increased by 1.6 percentage points to 45.1 percent and the unemployment rate declined by 0.9 percentage points to 11.8 percent.

10. Regarding external accounts, and after a sharp decline in 2020, trade has significantly recovered this year. Exports are expected to grow by 21.7 percent, buoyed by the increase of prices of phosphate and derivatives and sales in the automotive sector, despite the difficulties in supplying semiconductors to the industry worldwide. At the same time, imports are expected to grow by 22.9 percent, mainly due to the rise in the energy bill, higher price of raw materials and the increase in purchases of finished consumer goods. As for travel receipts, they continued to be impeded by health restrictions with a further expected drop of 9.2 percent to 33.1 billion dirhams, while transfers by Moroccans living abroad should rebound by 38.9 percent reaching an all-time high amount of nearly 95 billion dirhams. Considering these developments, the current account deficit would widen from 1.5 percent to 2.5 percent of GDP this year. Over the forecast horizon, the export dynamic

would continue in 2022, mainly driven by the expected increase in car manufacturing sales, before fading in 2023, with the decline in phosphate fertilizer prices. At the same time, the growth of imports would gradually slow down in line with the decline in energy prices. As for travel receipts, their trend would depend largely on developments in the health situation and should stand, based on the central scenario, at 43.4 billion in 2022 and 70.9 billion in 2023. On the other hand, remittances of Moroccans living abroad would gradually return to levels in line with their pre-crisis trend, dropping by 23.2 percent to 72.8 billion dirhams in 2022 and by 1.9 percent in 2023 to 71.4 billion dirhams. Under these conditions, the current account deficit would widen further to 5.3 percent of GDP in 2022 before narrowing to 4.9 percent in 2023. As for financial operations, FDI receipts should be equivalent to 2.5 percent of GDP this year, 3 percent of GDP in 2022 and 3.5 percent of GDP in 2023. Overall, and considering in particular the projections on the external financing of the Treasury, the official reserve assets would stand at 330.4 billion at end-2021, 341.6 billion in 2022 and 345.7 billion in 2023, thus ensuring the coverage of more than 6 months and 20 days of imports of goods and services.

11. In terms of monetary conditions, the real effective exchange rate is expected to end the year with a slight appreciation of 0.6 percent, reflecting the rise in nominal terms of the dirham against the euro in particular. It is expected to depreciate over the forecast horizon, mainly as a result of a lower domestic inflation compared to partner and competitor countries. As for the overall average lending rate, it almost stabilized at 4.35 percent in the third quarter, with a quarterly increase of 13 points for loans to companies and stability for loans to individuals. For its part, banks' need for liquidity increased to 83.2 billion dirhams in the third quarter, reflecting the rise in currency in circulation. It is expected to ease as a result of the strengthening of foreign exchange reserves to stand at 64.4 billion dirhams at end-2021, before increasing to 70 billion dirhams at end-2022 and 83.6 billion dirhams at end-2023. Concerning bank credit to the non-financial sector, it maintained a moderate growth after the completion of the granting phase of the state-guaranteed loan programs put in place in 2020. Taking into account the economic outlook and the projections of the banking system, its outstanding amount is expected to rise by 3.7 percent this year, a pace that would consolidate to 3.4 percent in 2022 before accelerating to 4.4 percent in 2023.

12. On the public finance front, with one month to go before the end of the 2021 fiscal year, the situation of the Treasury's expenses and resources shows an overall deficit, excluding proceeds from the sale of State holdings, of 68.8 billion dirhams, up 9 billion dirhams from one year to the next. Ordinary revenues improved by 11.1 percent, driven by higher tax receipts. At the same time, overall spending rose by 9.3 percent, due in particular to increases in expenditure on goods and services, subsidy costs and transfers to local authorities. Taking into account a 12.1 billion reduction in the stock of pending transactions, the financing requirement stood at 80.9 billion. It was covered by domestic resources up to a net amount of 69.4 billion, of which 41.3 billion were drawn from the domestic debt market, by a positive net external flow of 6.1 billion and by receipts from the sale of State holdings of 5.4 billion. In light of these developments in addition to the data included in the 2022 Finance Act and the economic growth forecasts, fiscal deficit, excluding income from the sale of State holdings, would reach 6.9 percent of GDP this year, before dropping to 6.3 percent in 2022 and 5.8 percent in 2023.

13. Finally, the Board validated the Bank's budget for the year 2022, approved the strategy for the investment of foreign exchange reserves and the internal audit program, and set the dates for its regular meetings for the same year on 22 March, 21 June, 27 September and 20 December.