PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 22, 2022

1. The Board of Bank Al-Maghrib held its first meeting for the year 2022 on Tuesday, March 22.
2. During this meeting, the Board carried out an in-depth analysis of the international environment marked by the events related to the war in Ukraine, at a time when the global economic recovery was already facing several challenges, namely the rise in commodity prices, the persistence of disruptions in global production and supply chains as well as strong inflationary pressures. While the outcome and the duration of this conflict remain unpredictable, its impact on financial markets, commodity prices, global trade and overall economic activity is already tangible. These developments will not be without consequences on the national economy, which is also facing particularly adverse weather conditions due to a significant rainfall shortage.
3. The Board took note of the extremely high level of uncertainty surrounding the macroeconomic projections prepared by the Bank's staff. These projections show a substantial decline in agricultural value-added and some consolidation of non-agricultural activities, boosted by the significant progress in the vaccination campaign, the easing of sanitary restrictions, and the continuation of monetary stimulus and sectoral support measures. According to these projections, inflation would sharply accelerate this year, while external balances and public finances would remain relatively resilient.
4. In this context and considering the expected return of inflation to moderate levels in 2023, the Board decided to maintain the accommodative stance of monetary policy in order to continue to support economic activity and mitigate the impact of the adverse international environment. The Board, thus, decided to keep the policy rate unchanged at 1.50 percent.
5. The Board noted that inflation’s acceleration, started in 2021, is continuing, driven by external pressures related to the surge of energy and food products prices and the increase of inflation in key economic partners. Thus, after a rate of 1.4 percent in 2021, inflation would attain 4.7 percent in 2022 before returning to 1.9 percent in 2023. Similarly, its underlying component would rise from 1.7 percent to 4.7 percent and then decelerate to 2.6 percent.
6. Due to particularly adverse weather conditions, the agricultural season would record, according to Bank Al-Maghrib forecasts, a cereal production of around 25 million quintals (MQx), after 103.2 MQx a year earlier. Agricultural value-added is thus expected to fall by 19.8 percent, reducing economic growth to 0.7 percent in 2022 after a rebound that would have reached 7.3 percent in 2021. In 2023, assuming an average harvest of 75 MQx, agricultural value-added would increase by 17 percent, bringing growth to 4.6 percent. Non-agricultural activities would gradually consolidate, with a 3 percent increase in their value added in 2022 and 2023.
7. Internationally, the upward trend in energy prices, linked to the recovery in demand and concerns about supply developments, has significantly accelerated since the outbreak of the conflict in Ukraine and the sanctions against Russia. Brent price reached 95.8 dollars per baril on average in February and, taking into account international institutions forecasts, is expected to average 106.8 USD /bl for 2022 as a whole, before returning to 96.5 USD/bl in 2023. Excluding energy, commodity prices rose by 22.7 percent year-on-year in February, reflecting a

23.3 percent increase in metals and ores prices and an 18.4 percent increase in agricultural products, with a 35 percent rise in wheat prices. Food prices would remain high, against a backdrop of severe supply disruptions, before easing in 2023. As for phosphate and derivatives, prices remained almost stable between January and February at 172.5 USD/t for rock phosphate and increased by 6.8 percent to 747.1 USD/t for DAP. They are expected to increase over the rest of 2022, in line with the rise in prices of agricultural products and fertilizers industry inputs.

8. These significant increases in energy and food prices would continue to fuel inflationary pressures. In the United States, inflation is expected to rise to 7.2 percent in 2022, after 4.7 percent in 2021, before decelerating to 4.2 percent in 2023. In the euro area, the ECB forecasts an acceleration to 5.1 percent in 2022, after 2.6 percent in 2021, before slowing down to 2.1 percent in 2023.

9. In these adverse and uncertain circumstances, and after the 2021's rebound, the global economy is expected to slow down sharply. Growth in the United States is, thus, expected to fall to 3.4 percent in 2022 after 5.7 percent a year earlier, then to 2.1 percent in 2023, reflecting the dissipation of the impact of the fiscal stimulus in response to the pandemic. Due to its larger exposure to the implications of the Ukrainian crisis, the euro area GDP growth is set to decelerate to 3.5 percent in 2022 and to 1.7 percent in 2023, after 5.2 percent in 2021. In the main emerging markets, growth would dampen in China from 8.5 percent in 2021 to 5.4 percent in 2022, before picking up to 6 percent in 2023. In India, it is expected to increase from 7.9 percent in 2021 to 8.8 percent in 2022, before settling at 6.4 percent in 2023.

10. Concerning monetary policy, the ECB decided on March 10 to keep its key rates unchanged and stated that any adjustment on rates will take place in a gradual manner sometime after the end of its net purchases under the APP. It indicated that bond purchases under the Emergency Pandemic Purchasing Program (EPPP) will be completed by the end of March 2022 and announced that it will end its asset purchases under the APP sooner than expected. In addition, its Board decided to extend the central bank repo facility (EUREP) until January 15, 2023. At its March 15-16 meeting, the Fed decided to raise the target range for the federal funds rate by 25 basis points to [0.25%; 0.50%] indicating that it anticipates that ongoing increases will be appropriate. It also expects to begin reducing its holdings of Treasury securities and mortgage-backed securities at future meetings.

11. At the domestic level, and mainly owing to the run-up in commodity prices, the current account deficit would widen to 5.5 percent of GDP in 2022 from 2.6 percent in 2021, before easing to 3.7 percent in 2023. Imports would increase by 14.9 percent in 2022 due to higher energy bill, purchases of agricultural and food staples as well as consumer goods. In 2023, the rise would be limited to 1.1 percent, due in particular to the expected drop in the energy bill. Meanwhile, exports would increase by 12.5 percent in 2022 and 3.4 percent in 2023, driven mainly by higher sales of the car manufacturing and phosphate and derivates sectors in 2022. While remaining below their pre-crisis levels, travel receipts would improve gradually, rising from 34.3 billion dirhams in 2021 to 47 billion in 2022 and to 70.9 billion in 2023. Remittances would progressively resume their pre-crisis level, falling to 79.3 billion in 2022 and to 70.8 billion in 2023, after peaking to 93.3 billion in 2021. As to FDI, receipts would average 3 percent of GDP in 2022 and 3.5 percent in 2023. Overall, and taking account of the expected Treasury's external debt, official reserve assets would hover around 342.8 billion dirhams at end-2022 and 347.3 billion at end-2023, thereby covering around 6 and a half months of imports of goods and services.

12. In terms of monetary conditions, the real effective exchange rate would depreciate by 1.3 percent in 2022 and in 2023, reflecting a lower level of domestic inflation compared to trading partners and competitors. As for lending rates, they rose by 9 basis points to an average of 4.44 percent in the fourth quarter of 2021, but they wound up the year 2021 as a whole down by 16

basis points, following the 45 basis point drop in 2020. Banks' liquidity needs decreased to 69.9 billion dirhams as a weekly average in the fourth quarter in conjunction with the rise in foreign exchange reserves, but should increase to 75.1 billion in 2022 and 88.3 billion at end-2023, driven by the growth of currency in circulation. Bank credit to the non-financial sector is expected to maintain a moderate growth of around 4 percent in 2022 and 2023.

13. On the public finance front, despite the substantial rise in subsidy costs of butane gas and wheat, fiscal deficit is expected to stabilize at 6.3 percent of GDP in 2022, as a result of an exceptional mobilization of resources through in particular specific funding mechanisms and monopoly revenues. In 2023, it would narrow to 5.9 percent of GDP, mainly in anticipation of improved tax revenues.

14. Finally, in view of the strong uncertainties surrounding the geopolitical developments relating to the war in Ukraine and their implications both internationally and domestically, Bank Al-Maghrib will continue to closely monitor the economic and financial situation and will regularly update its projections and analyses.