



PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 21, 2022

1. Bank Al-Maghrib Board held on Tuesday, June 21 its second meeting for the year 2022.
2. During this meeting, the Board examined and approved the annual report on the economic, monetary and financial situation of the country as well as on the Bank's activities for the year 2021.
3. It then reviewed international developments, which continue to be marked in particular by the stalemate in the war in Ukraine, the persistence of inflation at exceptionally high levels, the tightening of monetary policies and the deterioration of the economic outlook. In view of this context and unfavorable weather conditions, the domestic economy is expected to register a sharp deceleration this year combined with an exacerbation of inflationary pressures.
4. As the Bank has already incorporated in its forecasts the impact of the decisions made under the social agreement of April 30, 2022, and taking into account the nature of inflationary pressures, essentially of external factors, and 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 supporting economic activity. It therefore decided to keep the key rate unchanged at 1.50 percent, while continuing to closely monitor domestic and international developments.
5. Internationally, restrictions on Russian exports and the recovery in demand from China are accentuating the surge in energy and food prices. The price of Brent hovered around \$112.4 per barrel in May and is expected to average \$107 per barrel for the year as a whole, before returning to \$93.9 per barrel in 2023. Coal and natural gas prices are expected to increase further by 127.1 percent and 111 percent respectively compared to 2021, then to drop by 29.3 percent and 26.5 percent in 2023. Concerning food products, prices would end the year with an average increase of 34.3 percent and would decline by 9.2 percent in 2023. Phosphate and derivatives prices are expected to remain high, with World Bank projections in April pointing to prices at \$175/t this year and \$160/t in 2023 for rock phosphate and \$900/t and \$800/t for DAP.
6. Higher commodity prices, bottlenecks in production and supply chains, and strains in labor markets in some advanced economies would continue to fuel inflationary pressures. In the United States, inflation is expected to average 7.8 percent this year, before easing to 4.2 percent in 2023, and in the euro zone, it is expected to accelerate to 7.2 percent in 2022, before dropping to 3.2 percent next year.
7. In response to this situation, the ECB took a further step in the normalization of its monetary policy at its June 9 meeting, deciding to end net purchases under its asset purchase program and announcing its intention to make a first rate increase of 25 basis points in July followed by another rise in September. Concerned about the risk of fragmentation, the ECB held an emergency meeting on June 15 at which it decided to show flexibility in reinvesting the assets acquired under its pandemic emergency purchase program (PEPP). For its part, the FED decided at its June 14-15 meeting to raise the target range for the federal funds rate by 75 basis points to [1.5 percent-1.75 percent] and announced that future increases would be appropriate. It also indicated that it will continue to reduce its holdings of Treasury securities and mortgage-backed securities at the same pace announced in May.

8. As a result of this tightening of monetary conditions, the global economy is expected to decelerate sharply after the 6.1 percent rebound recorded in 2021. In the United States, growth is expected to fall to 2.4 percent in 2022 from 5.7 percent a year earlier, and then to 1.9 percent in 2023, while in the euro area it is expected to drop from 5.4 percent to 2.6 percent and then to 1.2 percent. In the main emerging countries, growth is expected to fall from 8.1 percent in 2021 to 4.7 percent in 2022 before accelerating to 5.8 percent in 2023 in China and to stabilize at around 6.8 percent in India after 8.2 percent in 2021. In Russia, the economy would slip into recession, dropping by 10.6 percent this year and by 7.8 percent in 2023.
9. At the national level, driven mainly by the surge in energy and food prices and the acceleration of inflation in main trading partners, consumer prices rose significantly in the first four months of the year, with an average year-on-year increase of 4.5 percent. This trend is expected to continue in the near term, with the Bank projecting the inflation to reach 5.3 percent for the year as a whole before decelerating to 2 percent in 2023. Its underlying component would reach 5.2 percent in 2022 and then return to 2.5 percent in the following year.
10. Due to the adverse weather conditions, cereal production is expected to decline by 69 percent to 32 million quintals in 2022, according to the estimates of the Agriculture Department. Agricultural value added is expected to fall by 15 percent this year before improving by 12.9 percent in 2023, assuming an average cereal crop of 75 million quintals. Non-agricultural activities are expected to consolidate their growth at 3.8 percent, boosted by the easing of health restrictions, before returning to their trend in 2023 with an increase of 2.8 percent. Thus, after the remarkable rebound of 7.9 percent recorded in 2021, the national economy growth is expected, according to Bank Al-Maghrif projections, to slow down to 1 percent this year and then accelerate to 4 percent in 2023.
11. In terms of external accounts, imports are expected to rise by 24.2 percent in 2022, mainly due to the increase in the energy bill, which is expected to reach 122.4 billion dirhams, and the expected increase in purchases of raw and semi-finished products. In 2023, the increase would be limited at 0.3 percent, particularly under the effect of the expected drop in energy prices. At the same time, exports are expected to improve by 22 percent in 2022 and 0.8 percent in 2023, driven mainly by sales of phosphate and derivatives and automobile sector, which are expected to reach 102.7 billion dirhams and 114.7 billion dirhams respectively in 2023. With the reopening of borders and the launch of the Marhaba operation, travel receipts would gradually recover, rising from 34.3 billion dirhams in 2021 to 54.3 billion dirhams in 2022 and 70.9 billion dirhams in 2023. After a record level of 93.7 billion in 2021, remittances will gradually return to their pre-crisis level, totaling 87.3 billion in 2022 and 84 billion in 2023. Under these conditions, the current account deficit would widen to 4.9 percent of GDP in 2022, after 2.3 percent in 2021, before declining to 3.8 percent in 2023. As regards FDI, revenues would amount to the equivalent of 3 percent of GDP over the forecast horizon. In total, and under the assumption in particular of the fulfillment of the external financing forecast of the Treasury, the official assets of reserve would stand at 342.5 billion dirhams by the end of 2022 and at 346.4 billion dirhams by the end of 2023, thus ensuring a cover of around 6 months of imports of goods and services.
12. As for monetary conditions, the real effective exchange rate is expected to decline by 2.8 percent in 2022 and by 0.9 percent in 2023, as a result of a lower domestic inflation compared to its trading partners and competitors and of a nominal depreciation in 2022, mainly against the dollar. Lending rates continue their downward trend, with a further decrease in the first quarter of 2022 of 16 basis points to 4.28 percent. Banks' liquidity needs are expected to increase to 78.2 billion dirhams by the end of 2022 and to 91.9 billion dirhams by the end of 2023, driven by the expected rise in currency in circulation. Bank lending to the non-financial sector is expected to maintain a moderate growth pace at around 4 percent in 2022 and 2023.

13. Regarding public finances, budget execution for the first five months of the year shows a 25.5 percent improvement in ordinary revenue, driven by an increase in tax revenue and specific financing. At the same time, overall expenses increased by 16.6 percent, reflecting in particular the increase in compensation costs. Taking into account, in particular, those achievements and the announced exceptional mobilization of resources through specific financing mechanisms and monopoly revenues, the budget deficit is expected, according to Bank Al-Maghrib's projections, to increase from 5.9 percent of GDP to 6.3 percent in 2022 before decreasing to 5.6 percent in 2023.