



# MONETARY POLICY REPORT

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THE BANK BOARD  
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# FOREWORD

According to the provisions of Article 6 of Law No. 40-17 on the Statute of Bank Al-Maghrib, promulgated by Dahir No. 1-19-82 of 17 Chaoual 1440 (June 21, 2019), “the Bank defines and conducts the monetary policy in full transparency and within the framework of the economic and financial policy of the Government. The Bank’s primary objective 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 it at a moderate and stable level 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 impacts on interest rates across various markets, the expectations of economic units and on 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 time period, 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 several satellite models. The central forecasting model used is of the semi-structural New-Keynesian one, which relies both on the theoretical underpinnings underlying general-equilibrium models and on the adjustment to 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.

## **Members of the Board of Bank Al-Maghrib (Article 26 of the Bank’s Statute)**

*The Governor, Chairman,*

*The Director General*

*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.*

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# 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-Maghrib 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.

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## OVERVIEW

After the rebound of 2021, the global economy is facing adverse winds and the outlook is highly uncertain. The conflict in Ukraine, the continuing disruptions of supply and production chains, soaring commodity prices and rising inflation continue to weigh on economic activity and slow its pace. Against this backdrop, growth forecasts for the global economy have been revised significantly downward since the March report, with risks remaining predominantly on the downside.

The latest available national accounts data for the first quarter of 2022 show accelerating growth in the main advanced economies, except for the United States, where it decelerated to 3.5 percent year-on-year, after 5.5 percent a quarter earlier. It, in fact, rose from 4.7 percent to 5.1 percent in the euro zone, from 6.6 percent to 8.7 percent in the United Kingdom and, to a lesser extent, from 0.4 percent to 0.5 percent in Japan.

In the main emerging countries, economic activity improved in China by 4.8 percent in the first quarter after 4 percent a quarter earlier. Conversely, it slowed down from 9.1 percent to 7.3 percent in Turkey and from 4.7 percent to 3.9 percent in India. As regards Russia, the data, from the fourth quarter of 2021, shows an increase in activity to 5 percent after 4 percent a quarter earlier.

In the labor markets, the situation remained favorable in most advanced countries. The unemployment rate stabilized in May at 3.6 percent in the United States, although job creations fell to 390 thousand from 436 thousand the previous month. Similarly, the unemployment rate stagnated at 6.8 percent in April in the Eurozone.

On the financial markets, conditions tightened further in May following growing concerns about accelerating inflation, decelerating economic momentum, and expectations of further monetary policy tightening in advanced countries. Thus, on the stock markets, prices declined between April and May, with the Dow-Jones down 5.6 percent, the Eurostoxx 50 down 3.9 percent, the FTSE 100 down 1.5 percent and the Nikkei 225 down 1.4 percent. As for sovereign yields, 10-year Treasury bond yields rose overall between April and May, reaching in particular 2.9 percent in the US, 1 percent in Germany, 1.4 percent in France, 2 percent in Spain and 2.9 percent in Italy.

On the currency markets, the euro strengthened in May by 2.4 percent against the dollar, 1.4 percent against the pound sterling and 0.4 percent against the Japanese yen. As for the currencies of the main emerging economies, their performance was uneven, with depreciations against the dollar reaching 0.8 percent for the Chinese renminbi and 1.4 percent for the Indian rupee, and an appreciation of 6.5 percent for the Brazilian real. For its part, stimulated by capital controls and the Russian authorities' decision to impose payment for their natural gas exports in rubles, the latter appreciated by 10.4 percent against the dollar since the beginning of the month. As for bank credit, its pace accelerated in April to 9.5 percent in the US and 5.3 percent in the euro zone.

In the commodity markets, the price of Brent crude oil recovered in May 2022, rising 6.2 percent month-on-month to \$112.37 per barrel, and 65.2 percent year-on-year. This rise mainly reflects the announcement of European restrictions on Russian oil exports and the gradual recovery of the Chinese economy with the easing of anti-covid measures. Non-energy commodities rose by 14.9 percent year-on-year in May, covering a 19.5 percent increase in agricultural commodity prices, with a 75.7 percent rise in US durum wheat in particular, and a 2.7 percent decline in metals and ores. Concerning phosphates and derivatives, prices fell between April and May by 11.7 percent to \$842.5/t for DAP and by 3.3 percent to \$827.5/t for TSP, while they rose by 2.2 percent to \$255/t. Year-on-year, prices recorded notable increases, with 148.8 percent for raw phosphate, 46.6 percent for DAP and 56.9 percent for TSP.

Against this backdrop, inflationary pressures have increased in both the advanced countries and the main emerging economies. Inflation continued its uptrend in the euro zone, reaching a record level of 8.1 percent in May after 7.4 percent in April. Similarly, in the United States, it reached 8.6 percent in May, its highest level since December 1981, mainly reflecting exceptional rises in energy prices.

In terms of monetary policy stance, the Fed decided at the end of 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], the largest increase since 1994, amid high inflation and a strong labor market. It also indicated that it would continue to reduce its holdings of Treasury securities and mortgage-backed securities at the same pace announced in May. The reduction will be capped at \$47.5 billion per month in June, July and August, and then at \$95 billion per month as from September. Its chairman expects future increases in the target range to be appropriate. Similarly, the Bank of England decided on June 16 to raise its key rate by 25 bps to 1.25 percent and forecast a 0.3 percent contraction in GDP in the second quarter of the year. As for the ECB, its Board decided on June 9 to keep its key rates unchanged and announced its intention to introduce an initial 25 bp- increase at its next meeting in July and plans to raise key rates again in September. It also decided to end net purchases under the APP as of July 1, 2022. The fine-tuning of monetary policy will depend on the updated medium-term inflation outlook and will reflect its development. Concerned about the risk of fragmentation, the ECB held a special meeting on June 15 at which it decided to show flexibility in the reinvestment of the assets acquired under its pandemic emergency purchase program (PEPP).

In the emerging countries, the Brazilian central bank announced, on May 4, a further increase of 100 bps in its key rate to 12.75 percent, in order to curb rising inflation. In the same vein, the Reserve Bank of India decided, on June 8, to raise its key rate by 50 bps to 4.9 percent. As to the Central Bank of Russia, it decided, on June 10, to lower its key rate from 11 percent to 9.5 percent, its level at the beginning of the Russian-Ukrainian conflict.

At the national level, national accounts data consolidated according to the new 2014 base show an economic rebound of 7.9 percent in 2021 after a contraction of 7.2 percent in 2020, due to rises of 17.8 percent in agricultural value added and 6.6 percent in non-agricultural activities. In addition to the base effect, this rise was also triggered by the progress made in the vaccination campaign and the maintenance of monetary and fiscal stimuli, as well as by the good weather conditions that marked the 2020/2021 crop year.

The labor market was characterized in the first quarter of 2022 by a loss of 58 thousand jobs, compared to 202 thousand a year earlier, with a decline of 183 thousand posts in agriculture and the creation of 127 thousand posts in non-agricultural activities, two thirds of which were in services. Taking into account a net outflow of 126 thousand job seekers, the activity rate fell by one point to 44.5 percent and the unemployment rate dropped from 12.5 percent to 12.1 percent overall, from 17.1 percent to 16.3 percent in the cities and from 5.3 percent to 5.1 percent in the countryside.

Foreign trade data at end-April 2022 indicate a widening of the trade deficit by 27.6 billion dirhams to 91 billion dirhams. Exports grew by 34.2 percent, less than the 37.8 percent increase in imports, and the coverage rate fell from 62 percent to 60.4 percent.

The increase in exports was mainly driven by rises of 98.6 percent in the sales of phosphates and derivatives, 15.4 percent in shipments of the «agricultural and agri-food» sector, 33.6 percent in exports of «textiles and leather» and 12.9 percent in the sales of the «automotive sector». As for imports, their increase reflects mainly the rise in the energy bill to 43.8 billion as well as hikes of 53 percent in purchases of semi-finished products and 72.6 percent in raw materials.

With regard to travel receipts, they expanded by 123.3 percent at end-April thanks to the opening of the borders since February 2022. The improvement in remittances from Moroccan expatriates slowed down to 5.3 percent after 8.3 percent at end-March, reaching 30.6 billion. As for the main financial operations, FDI receipts fell by 739 million and direct capital expenditure by Moroccans abroad contracted by 1.3 billion.

Under these conditions, Bank Al-Maghrib's official reserve assets stood at 329.2 billion dirhams at the end of April 2022, or the equivalent of 5 months and 27 days of imports of goods and services.

As regards monetary conditions, the data for the first quarter of 2022 show a fall in the banks' liquidity needs to 64.6 billion, due in particular to the increase in foreign exchange reserves. Bank Al-Maghrib has thus reduced the amount of its injections to 75.5 billion dirhams in weekly average. Monetary conditions were also characterized by a drop in lending rates by 16 basis points to 4.28 percent and a depreciation of the real effective exchange rate. Bank credit to the non-financial sector rose by 3.1 percent, following the 3.7 percent increase in the fourth quarter of 2021, with a deceleration in the growth of loans granted to households and an accentuation of the decline in those granted to public enterprises.

As regards public finance, the fiscal situation in the first five months of 2022 posted a deficit of 14 billion dirhams, down 11 billion compared to the same period in 2021. This is mainly due to a 25.5 percent improvement in ordinary revenues, reflecting increases of 19.8 percent in tax revenues and 126.6 percent in non-tax ones. On the other hand, ordinary expenditure increased by 16.5 percent, mainly reflecting rises of 117.9 percent in subsidization costs and 9.3 percent in expenditure on goods and services. The ordinary balance thus showed a deficit of 2.1 billion, instead of -9.9 billion at the end of May 2021. On the other hand, capital expenditure rose by 16.7 percent to 32.8 billion. The outstanding amount of direct public debt increased by 1.5 percent compared with its level at end-December 2021.

On asset markets, property prices in the first quarter of 2022 fell slightly by 0.3 percent quarter-on-quarter, with decreases of 2.5 percent and 0.3 percent respectively for business and residential property, and stagnation for urban land. At the same time, the number of transactions dropped by 10.5 percent with falls of 13.5 percent for business property, 11.2 percent for urban land and 9.8 percent for residential property. At the the Casablanca Stock Exchange, the MASI recorded an underperformance of 4 percent, reflecting in particular the declines of the sectoral indices of «buildings and construction materials» by 8.7 percent, telecommunications by 7.2 percent and banks by 3.2 percent. In contrast, the indices of mining and real-estate investment companies rose by 14.7 percent and 11.1 percent, respectively. As for the volume of trade, it amounted to 10.6 billion dirhams against 26.9 billion a quarter earlier and the market capitalization showed a quarterly decrease of 3.3 percent, to 667.8 billion dirhams.

Against this backdrop, inflation accelerated significantly in April to reach its highest level since October 1995, at 5.9 percent after 4 percent on average during the first quarter of the year. In addition to the rise in fuel and lubricants, this acceleration was due to the increase in core inflation, which rose to 5.5 percent from 4.4 percent, driven exclusively by the surge in prices of its tradable component, especially food. Similarly, food products with volatile prices rose by 9.6 percent instead of 5.7 percent on average in the previous quarter. On the other hand, regulated tariffs fell by 0.2 percent in April after having stagnated in the first quarter, reflecting in particular a drop in prices for «road passenger transportation».

As to the outlook, the international environment has darkened considerably in recent months, mainly due to heightened geopolitical tensions, particularly the Russian-Ukrainian conflict. Global economic growth is expected to slow from 6.1 percent in 2021 to 2.9 percent in 2022 and 2.6 percent in 2023. In the United States, after an increase of 5.7 percent, growth would fall to 2.4 percent in 2022, then to 1.9 percent in 2023, due to the effect of tighter monetary conditions and the absence of new fiscal stimulus measures over the forecast horizon. In the euro zone, after peaking at 5.4 percent in 2021, it is expected to slow down to 2.6 percent in 2022 and then to 1.2 percent in 2023, due in particular to less favorable monetary conditions. In the labor markets, unemployment would continue to fall in 2022 in the main advanced countries, before rising from 2023 onwards as the economic outlook deteriorates.

In the main emerging countries, GDP growth in China is expected to slow to 4.7 percent in 2022 from 8.1 percent a year earlier, as a result of severe health restrictions and slowing global demand but would nevertheless accelerate to 5.8 percent in 2023. In India, after recording 8.2 percent in 2021, growth would slow to 6.8 percent in 2022 and would remain at that level in 2023. In Brazil, after posting 5 percent in 2021, growth is expected to fall to 0.9 percent in 2022 due to persistent supply problems, a restrictive monetary policy stance and weakening demand, before improving to 1.3 percent in 2023. Russia is expected to enter a recession this year, with GDP down 10.6 percent in 2022 and 7.8 percent in 2023, due to the negative effects of sanctions.

In commodity markets, energy prices are forecast to continue on their uptrend owing to the conflict in Ukraine and measures against Russian exports. The price of Brent crude oil is expected to rise to an average of \$107 per barrel in 2022 from \$70.4 in 2021, before falling back to \$93.9 in 2023. Coal prices are projected to continue to rise to an average of \$271.4 per ton in 2022, before falling back to \$191.9 in 2023. Food prices are expected

to rise by an average of 34.3 percent in 2022 before falling by 9.2 percent in 2023, reflecting the situation in the Black Sea, the drought in South America and the recent heat wave in India. As for phosphates and derivatives, the price of raw phosphate is expected to rise from \$123 per ton in 2021 to \$175 in 2022, before falling down to \$160 in 2023. Derivatives prices are forecast to average \$900 per ton for DAP and \$750 for TSP in 2022, before falling back to \$800 and \$650, respectively, in 2023.

Under these conditions, inflation would continue its upward trend in both advanced and emerging countries. In the United States, after standing at 4.7 percent in 2021, it is expected to average 7.8 percent for the year as a whole, mainly reflecting a tightened labor market that has put upward pressure on wages, before falling back to 4.2 percent in 2023. Similarly, in the euro zone, it is expected to rise to 7.2 percent in 2022, before slowing down to 3.2 percent in 2023.

At the national level, exports are forecast to increase by 22 percent, before rising by 0.8 percent in 2023, driven mainly by shipments of phosphate and derivatives, which are forecast to rebound by 43.4 percent to 115.1 billion dirhams, in line with the expected rise in prices, before falling by 10.8 percent in 2023 to 102.7 billion dirhams. In the same vein, sales of automotive construction would increase by 33.7 percent to 52.6 billion dirhams in 2022 and by 10.5 percent to 58.1 billion in 2023. Exports in the «agricultural and agri-food» sector are expected to improve by 6.5 percent to 74.2 billion dirhams in 2022 and by 1.3 percent to 75.2 billion dirhams in 2023. Imports would show an increase of 24.2 percent, mainly driven by a 61.6 percent increase in the energy bill. In 2023, the rise in imports would not exceed 0.3 percent, due mainly to the 7.8 percent increase in consumer goods and a 9.2 percent fall in the energy bill to 111.2 billion dirhams. In parallel, and in connection with the reopening of borders, travel receipts are expected to improve, while remaining lower than pre-crisis levels, rising from 34.3 billion dirhams in 2021 to 54.3 billion dirhams in 2022, then to 70.9 billion dirhams in 2023. As for remittances from Moroccan expatriates, and after a 37.5 percent increase to a record amount of 93.7 billion dirhams in 2021, they would fall by 6.8 percent to 87.3 billion dirhams in 2022 and by 3.8 percent to 84 billion dirhams in 2023. As for FDI flows, revenues would be around 3 percent of GDP over the forecast horizon.

Taking into account, in particular, the assumptions of grant inflows worth 2.2 billion in 2022 and 2 billion in 2023, and the Treasury's planned external borrowing, official reserve assets would reach 342.5 billion by the end of 2022 and 346.4 billion by the end of 2023, equivalent to more than six months of imports of goods and services.

With regard to monetary conditions, after a rise of 0.6 percent in 2021, the real effective exchange rate is expected to depreciate by 2.8 percent in 2022, as a result of a decline in the value of the national currency in nominal terms, mainly against the dollar, and a domestic inflation that is lower than in trading partners and competitors. In 2023, this depreciation is projected to ease to 0.9 percent, due in particular to the decline in the inflation differential and the appreciation of the dirham in nominal terms. As for bank credit to the non-financial sector, it is expected to grow by around 4 percent on average in 2022 and 2023.

As regards public finances, after having reached 5.9 percent of GDP in 2021, the budget deficit, excluding privatization, is projected to reach 6.3 percent of GDP in 2022 before easing to 5.6 percent of GDP in 2023.

Concerning national accounts, the growth of the national economy is expected to slow to 1 percent with a 15 percent decline in agricultural value added, taking into account a cereal harvest of 32 MQx, according to the estimates of the Department of Agriculture, and a 3.8 percent increase in the value added of non-agricultural activities. In 2023, it would accelerate to 4 percent, essentially reflecting a 12.9 percent recovery in agricultural value added, assuming a return to average cereal production. The pace of non-agricultural activities is expected to slow to 2.8 percent amid moderating external demand. On the demand side, after strengthening in 2021, its domestic component would continue to improve in the medium term, while the contribution of net exports to growth would be negative in 2022, considering the expected increase in import volumes, before improving to make a positive contribution in 2023, reflecting continued export momentum.

Inflationary pressures continue to be fuelled mainly by external factors, namely energy and food prices. Against this background, inflation is expected to accelerate from 1.4 percent in 2021 to 5.3 percent in 2022, driven mainly by the increase in its underlying component and, to a lesser extent, by the rise in fuel and lubricant prices and volatile food products. It would then return to around 2 percent in 2023, with an underlying component at 2.5 percent.

This exercise is taking place against a backdrop of great uncertainty regarding developments in the Russian-Ukrainian conflict. The balance of risks is tilted to the downside for growth and to the upside for inflation. With regard to growth, and despite the continued accommodative stance of monetary policy, a further weakening of foreign demand, in connection with a deterioration in the outlook for the main partner countries, could have a negative impact on non-agricultural activities. As for inflation, the risks are linked to the restrictions imposed by certain countries such as India, Indonesia and Malaysia on their food exports. In addition, the persistence of bottlenecks in global supply chains could lead to higher and more persistent consumer price increases than expected.



## 1. INTERNATIONAL DEVELOPMENTS

The global economy continues to face adverse winds from the situation in Ukraine, continued disruptions in supply and production chains, soaring commodity prices and rising inflation. These factors intensify the risks to its outlook and are expected to lead to a significant deceleration in growth. The latest available data are for the first quarter of 2022 and indicate accelerating growth in the major advanced economies, with the exception of the United States. In the main emerging countries, these data indicate in particular a revival of economic activity in China. At the same time, labor market conditions continued to improve, with lower unemployment rates in most advanced countries. On the other hand, financial market conditions tightened further during the month of May in response to growing concerns about accelerating inflation, slowing economic momentum in the United States and expectations of tighter monetary policies in advanced countries. Against this backdrop, inflationary pressures intensified in both the advanced and major emerging economies.

### 1.1 Economic activity and employment

#### 1.1.1 Economic activity

Data for the first quarter of 2022 showed a deceleration of activity in the US to 3.5 percent year-on-year after 5.5 percent a quarter earlier, mainly due to the underperformance of net exports. In the Euro area, growth rose from 4.7 percent to 5.1 percent, essentially reflecting an increase to 3.7 percent from 1.8 percent in Germany and to 6.4 percent from 5.5 percent in Spain. On the other hand, the growth rate of the economy in Italy slowed to 5.8 percent from 6.2 percent and in France to 5.3 percent.

As for the other major advanced economies, growth accelerated in the first quarter of 2022 from 6.6 percent to 8.7 percent in the United Kingdom, and to a lesser extent in Japan, from 0.4 percent to 0.5 percent.

In the main emerging economies, growth improved in China to 4.8 percent in the first quarter from 4 percent a quarter earlier, despite the continuation of restrictive anti-pandemic policies. It also increased in Brazil where it reached 1.7 percent after 1.6 percent in the previous quarter. On the other hand, it slowed down from 9.1 percent to 7.3 percent in Turkey and from 4.7 percent to 3.9 percent in India. In Russia, the

data is from the fourth quarter of 2021 and shows an improvement in the activity rate to 5 percent from 4 percent a quarter earlier.

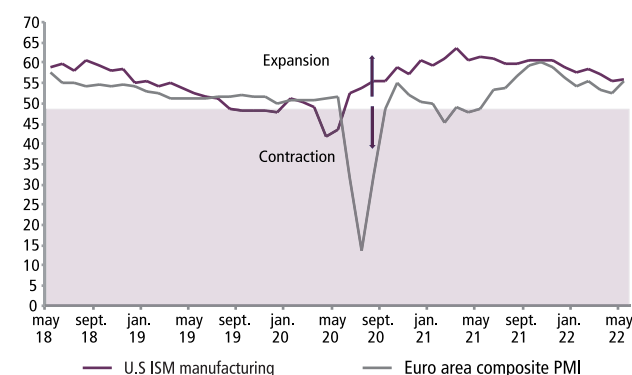
**Table 1.1: YoY change in quarterly growth (%)**

|                           | 2020 |       |      |      | 2021 |      |     |     | 2022 |
|---------------------------|------|-------|------|------|------|------|-----|-----|------|
|                           | Q1   | Q2    | Q3   | Q4   | Q1   | Q2   | Q3  | Q4  | Q1   |
| <b>Advanced countries</b> |      |       |      |      |      |      |     |     |      |
| <b>United States</b>      | 0.6  | -9.1  | -2.9 | -2.3 | 0.5  | 12.2 | 4.9 | 5.5 | 3.5  |
| <b>Euro area</b>          | -3.2 | -14.6 | -4.0 | -4.3 | -0.9 | 14.6 | 4.1 | 4.7 | 5.1  |
| France                    | -5.3 | -18.9 | -3.2 | -4.2 | 1.8  | 19.1 | 3.5 | 5.5 | 5.3  |
| Germany                   | -1.9 | -11.3 | -3.7 | -2.9 | -2.8 | 10.4 | 2.9 | 1.8 | 3.7  |
| Italy                     | -6.4 | -18.5 | -5.4 | -6.1 | 0.0  | 17.7 | 3.9 | 6.2 | 5.8  |
| Spain                     | -4.3 | -21.5 | -8.7 | -8.8 | -4.1 | 17.8 | 3.5 | 5.5 | 6.4  |
| <b>United Kingdom</b>     | -2.0 | -21.1 | -7.7 | -6.3 | -5.0 | 24.5 | 6.9 | 6.6 | 8.7  |
| <b>Japan</b>              | -1.9 | -10.1 | -5.3 | -0.9 | -1.7 | 7.4  | 1.2 | 0.4 | 0.5  |
| <b>Emerging countries</b> |      |       |      |      |      |      |     |     |      |
| <b>China</b>              | -6.9 | 3.1   | 4.8  | 6.4  | 18.3 | 7.9  | 4.9 | 4.0 | 4.8  |
| <b>India</b>              | 3.4  | -21.4 | -5.9 | 2.1  | 5.7  | 18.2 | 8.3 | 4.7 | 3.9  |
| <b>Brazil</b>             | -0.1 | -10.7 | -3.7 | -0.9 | 1.3  | 12.3 | 4.0 | 1.6 | 1.7  |
| <b>Turkey</b>             | 4.4  | -10.4 | 6.3  | 6.2  | 7.3  | 21.9 | 7.5 | 9.1 | 7.3  |
| <b>Russia</b>             | 1.5  | -7.4  | -3.3 | -1.3 | -0.3 | 10.5 | 4.0 | 5.0 | N.A  |

Source : Thomson Reuters.

With regard to leading economic indicators, a first estimate of the composite PMI index for the euro area showed a decline to 54.9 points in May from 55.8 points in April, which, although slightly down, indicates continued growth in the private sector for the fifteenth consecutive month. This is mainly due to the vigorous services sector, while the manufacturing sector only slightly expanded. In the US, May data showed an increase in the ISM manufacturing index to 56.1 after 55.4 in April.

**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

Conditions in the labor markets continue to improve. In the US, the unemployment rate stagnated at 3.6 percent in May, with job creations falling, in parallel, to 390 thousand from 436 thousand posts the previous month.

In the euro area, the unemployment rate remained stable at 6.8 percent in April compared to the previous month. In the main countries of the area, developments were uneven with a decrease from 7.3 percent to 7.2 percent in France, from 13.5 percent to 13.3 percent in Spain, and stagnation at 3 percent in Germany and 8.4 percent in Italy.

In the United Kingdom, according to the latest figures for February, the rate fell slightly to 3.7 percent from 3.8 percent a month earlier.

**Table 1.2: Change in unemployment rate**

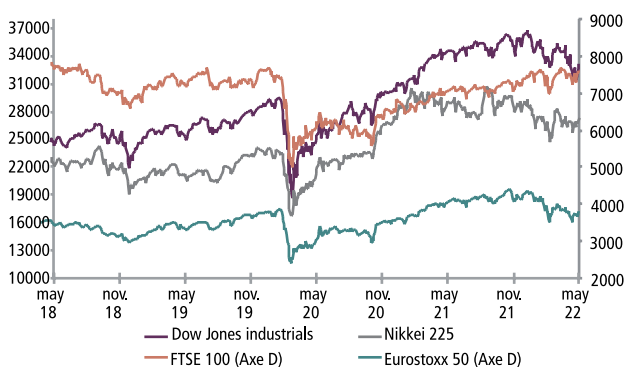
| (in%)                 | 2020       | 2021       | 2021       | 2022       |            |
|-----------------------|------------|------------|------------|------------|------------|
|                       |            |            | March      | April      | May        |
| <b>United States</b>  | <b>8.1</b> | <b>5.4</b> | <b>3.6</b> | <b>3.6</b> | <b>3.6</b> |
| <b>Euro area</b>      | <b>8.0</b> | <b>7.7</b> | <b>6.8</b> | <b>6.8</b> | <b>N.A</b> |
| France                | 8.0        | 7.9        | 7.3        | 7.2        | <b>N.A</b> |
| Germany               | 3.7        | 3.5        | 3.0        | 3.0        | <b>N.A</b> |
| Italy                 | 9.3        | 9.5        | 8.4        | 8.4        | <b>N.A</b> |
| Spain                 | 15.5       | 14.8       | 13.5       | 13.3       | <b>N.A</b> |
| <b>United Kingdom</b> | <b>4.5</b> | <b>4.5</b> | <b>N.D</b> | <b>N.D</b> | <b>N.A</b> |

Source : Eurostat and BLS.

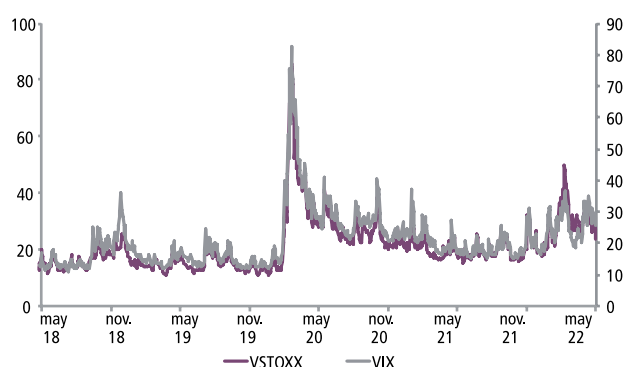
## 1.2 Monetary and financial conditions

Faced with growing concerns about inflation, slowing economic momentum and expectations of faster monetary policy tightening, stock markets fell between April and May, with the Dow-Jones down 5.6 percent, the Eurostoxx 50 down 3.9 percent, the FTSE 100 down 1.5 percent and the Nikkei 225 down 1.4 percent. At the same time, volatility increased in both the US and European markets, with the VIX reaching 29.42 and the VSTOXX 29.66. In the emerging markets, the main stock markets declined, with the MSCI EM falling by 6.6 percent between April and May, mainly reflecting falls of 5.1 percent in China and 8.5 percent in India.

**Chart 1.2: Change in major stock market indices of advanced economies**

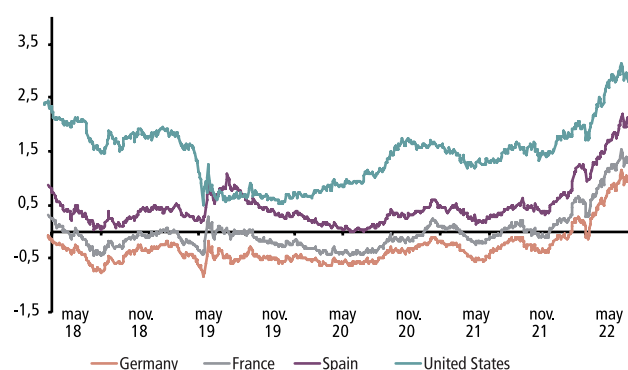


Source: Thomson Reuters.

**Chart 1.3: Change in the VIX and the VSTOXX**

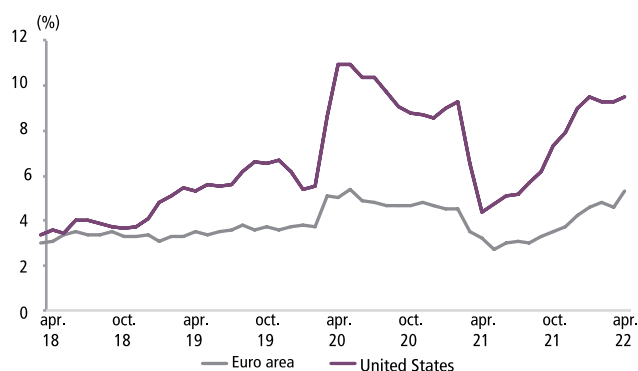
Source : Thomson Reuters.

In the bond markets, the 10-year sovereign yields of the major advanced economies rose between April and May. Thus, the 10-year bond rate rose by 15 basis points (bps) to 2.9 percent for the United States, by 23 bps to 1 percent for Germany, by 20 bps to 1.4 percent for France, by 35 bps to 2 percent for Spain and by 55 bps to 2.9 percent for Italy. In the emerging economies, the rate rose by 57 bps to 12.5 percent for Brazil and by 24 bps to 7.3 percent for India. On the other hand, it fell by 1 bp to 2.8 percent in China.

**Chart 1.4: Change in 10-year sovereign bond yields**

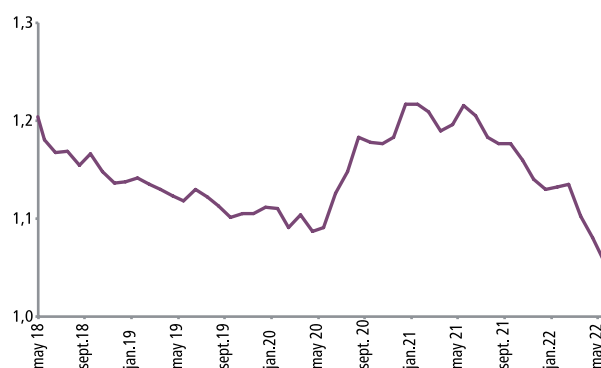
Source : Thomson Reuters.

On the money markets, the 3-month Euribor and the Libor for the same maturity increased between April and May by 6 bps to -0.39 percent and by 36 bps to 1.46 percent, respectively. The pace of bank lending accelerated in April to 9.5 percent in the US and 5.3 percent in the euro area.

**Chart 1.5: YoY credit growth in the US and euro area**

Source : Thomson Reuters.

While the ECB plans to raise rates from July, the euro strengthened in May by 2.4 percent against the dollar, by 1.4 percent against the pound sterling and by 0.4 percent against the Japanese yen. As for the currencies of the main emerging economies, they recorded disparate performances, with depreciations against the dollar of 0.8 percent for the Chinese renminbi and 1.4 percent for the Indian rupee, as well as an appreciation of 6.5 percent for the Brazilian real. On the other hand, the ruble has appreciated by 10.4 percent against the dollar since the beginning of the month, boosted by capital controls and the decision of the Russian authorities to impose payment in rubles for gas exports.

**Chart 1.6: Euro/dollar exchange rate**

Source : Thomson Reuters.

In terms of monetary policy decisions, the FED decided at its June 14-15 meeting to raise the target range for the federal funds rate by three quarters of a

percentage point to [1.5 percent-1.75 percent] amid high inflation and a labor market that is considered strong. It also indicated that it would go on reducing the size of its balance sheet starting from this month.

Similarly, the Bank of England decided on June 16 to raise its key rate by 25 bps to 1.25 percent and forecast a 0.3 percent contraction in GDP in the second quarter of the year.

As for the ECB, its Board decided on June 9 to keep its key rates unchanged and announced its intention to introduce an initial 25-bp increase at its next meeting in July and plans to raise key rates again in September. It also announced, on June 15, new measures to combat the risk of fragmentation, as the pandemic has left lasting vulnerabilities in the euro-area economy.

In emerging markets, the Brazilian Central Bank announced on June 15 a further increase in its key rate by 50 bps to 13.25 percent, in an effort to curb inflation amidst pressures exacerbated by the war in Ukraine. It also said that a hike of lesser or equal magnitude is being considered at its next meeting. Similarly, the Reserve Bank of India decided on June 8 to raise its key rate by 50 bps to 4.9 percent, aiming to curb price increases and mitigate the impact of geopolitical tensions. As to the Central Bank of Russia, it decided on June 10 to lower its key rate from 11 percent to 9.5 percent, the same level as at the beginning of the Russian-Ukrainian conflict.

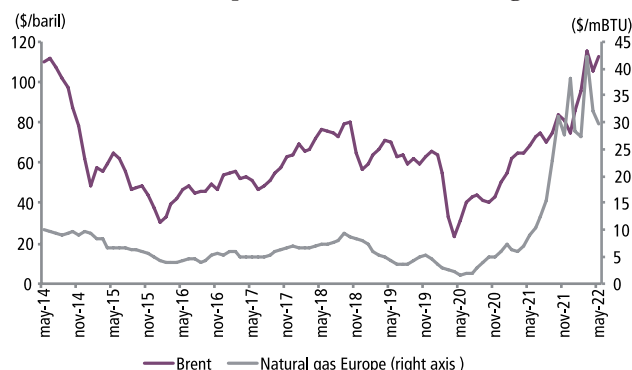
## 1.3 Commodity prices and inflation

### 1.3.1 Energy commodity prices

On the oil market, the price of Brent crude picked up in May 2022, rising by 6.2 percent month-on-month to \$112.37 per barrel, and by 65.2 percent year-on-year. This increase mainly reflects the announcement of the European embargo on Russian oil and the

gradual recovery of the Chinese economy with the easing of anti-Covid measures. Conversely, the price of natural gas in Europe contracted again by 7.3 percent in May to 29.9 dollars mBTU<sup>1</sup>, while it increased by almost 3.5 times year-on-year.

Chart 1.7 : World prices of brent and natural gas-EU

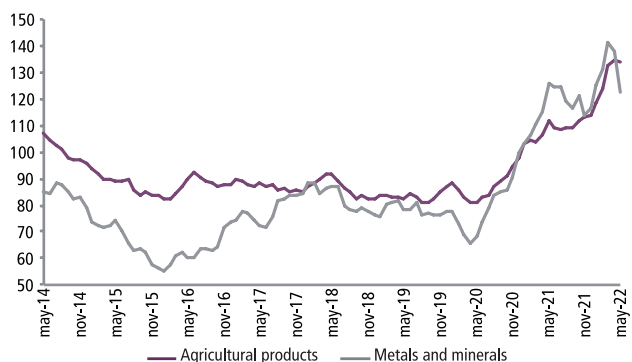


Source: World Bank.

### 1.3.2 Non-energy commodity prices

Non-energy commodities rose by 14.9 percent year-on-year in May, including a 19.5 percent increase in agricultural commodity prices, with a 75.7 percent hike in US durum wheat prices and a 2.7 percent decrease for base metals and mining.

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

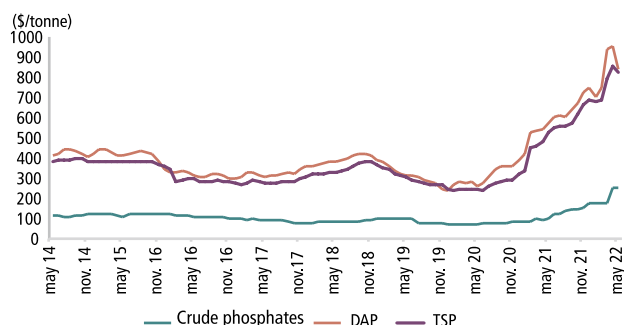


Source : World Bank.

On the phosphate and derivatives market, prices fell between April and May by 11.7 percent to \$842.5/t for DAP and by 3.3 percent to \$827.5/t for TSP,

while the price of raw phosphate continued to rise in May by 2.2 percent, to \$255/t. Year-on-year, prices recorded significant increases, with rates of 148.8 percent for raw phosphate, 46.6 percent for DAP and 56.9 percent for TSP.

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



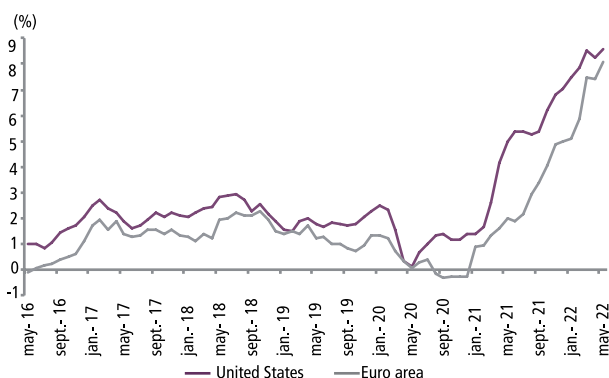
Source: World Bank.

### 1.3.3 Inflation

The increase in commodity prices, accelerated by the Russian-Ukrainian conflict and the persistence of supply bottlenecks, continues to rekindle inflationary pressures. In this regard, inflation in the euro area has continued its upward trend, reaching a record 8.1 percent in May after 7.4 percent in April. This reflects accelerations from 7.8 percent to 8.7 percent in Germany, from 5.4 percent to 5.8 percent in France, from 6.3 percent to 7.3 percent in Italy and from 8.3 percent to 8.5 percent in Spain. Similarly, inflation in the US reached 8.6 percent in May, the highest rate since December 1981, mainly reflecting exceptional increases in energy prices. For the other major advanced countries, the data, which remain from April, show inflation rising from 7 percent to 9 percent in the UK and from 1.2 percent to 2.4 percent in Japan, its highest level since February 2015.

In the main emerging countries, inflation declined in May, falling from 17.8 percent to 17.1 percent in Russia, from 12.1 percent to 11.7 percent in Brazil, from 7.8 percent to 7 percent in India, while it stagnated at 2.1 percent in China.

**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 %**

|                       | 2020       | 2021        | 2021       | 2022       |            |
|-----------------------|------------|-------------|------------|------------|------------|
|                       |            |             | March      | April      | May        |
| <b>United States</b>  | <b>1,2</b> | <b>4,7</b>  | <b>8,5</b> | <b>8,3</b> | <b>8,6</b> |
| <b>Euro area</b>      | <b>0,3</b> | <b>2,6</b>  | <b>7,4</b> | <b>7,4</b> | <b>8,1</b> |
| Germany               | 0,4        | 3,2         | 7,6        | 7,8        | 8,7        |
| France                | 0,5        | 2,1         | 5,1        | 5,4        | 5,8        |
| Spain                 | -0,3       | 3,0         | 9,8        | 8,3        | 8,5        |
| Italy                 | -0,1       | 1,9         | 6,8        | 6,3        | 7,3        |
| <b>United Kingdom</b> | <b>0,9</b> | <b>2,6</b>  | <b>7,0</b> | <b>9,0</b> | <b>N.A</b> |
| <b>Japan</b>          | <b>0,0</b> | <b>-0,2</b> | <b>1,2</b> | <b>2,4</b> | <b>N.A</b> |

Sources : Thomson Reuters, Eurostat and IMF.

## 2. EXTERNAL ACCOUNTS

Foreign trade data at end-April 2022 indicate an increase of 27.6 billion dirhams in the trade deficit, compared to the same period in 2021, to stand at 91 billion dirhams. Exports grew by 35.4 billion or 34.2 percent, less than the 63.1 billion or 37.8 percent increase in imports. The coverage rate has thus dropped from 62 percent to 60.4 percent. On the other hand, and with the opening of borders, travel receipts more than doubled to reach 14.6 billion dirhams and transfers from Moroccan expatriates increased by 5.3 percent to 30.6 billion. As regards the main financial operations, FDI receipts fell by 739 million and direct investment expenditure by Moroccans abroad contracted by 1.3 billion. Under these conditions, Bank Al-Maghrib's official reserve assets stood at 329.2 billion dirhams at the end of April 2022, representing the equivalent of 5 months and 27 days of imports of goods and services.

### 2.1 Trade balance

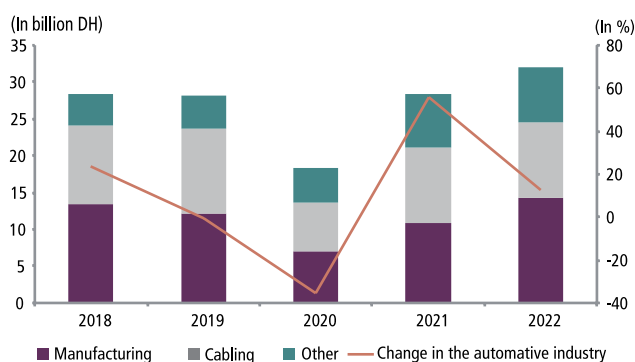
#### 2.1. 1 Exports

The increase in exports concerned all sectors. Sales of phosphates and derivatives went up 98.6 percent to 36.1 billion dirhams, reflecting mainly a 120.8 percent rebound in sales of «natural and chemical fertilizers» due to a 132.7 percent increase in their export price. As for shipments of the «agricultural and agri-food» sector, they have improved by 15.4 percent to 32.8 billion, with in particular a progress of 26.5 percent for the food industry and 7 percent for agricultural products. As to the exports of the «textiles and leather» sector, they have increased by 33.6 percent to 14.5 billion, reflecting increases of 37.6 percent for «Ready-made clothing», 29.7 percent for «hosiery fabrics» and 28 percent for shoes.

Despite the difficulties experienced by the automotive sector internationally, sales increased by 12.9 percent to 32 billion dirhams, driven mainly by the 31.5 percent rise in the construction segment in connection with increased production capacity. On the other hand, shipments in the «cabling segment» were virtually stagnant at 10.2 billion dirhams and those of vehicle interiors and seating fell by 10.7 percent.

At the same time, exports of the aeronautics industry improved by 64.1 percent to 7.4 billion, due to an increase of 80.5 percent for the «assembly» segment and 35.5 percent for the electrical wiring interconnection systems. Similarly, sales of the «electronics and electricity» sector went up 19.1 percent to 5.3 billion dirhams.

Chart 2.1: Change in automotive industry's exports



**Table 2.1: Change in exports (in millions of dirhams)**

| Secteurs/Segments   | Jan. - Apr.    |                | Change        |             |
|---|----------------|----------------|---------------|-------------|
|   | 2022           | 2021           | value         | In %        |
| <b>Exportations</b>   | <b>139 014</b> | <b>103 596</b> | <b>35 418</b> | <b>34.2</b> |
| <b>Phosphates and derivatives</b>                                   | <b>36 141</b>  | <b>18 195</b>  | <b>17 946</b> | <b>98.6</b> |
| <b>Agriculture and Agri-Food</b>                                    | <b>32 837</b>  | <b>28 445</b>  | <b>4 392</b>  | <b>15.4</b> |
| Food Industry   | 15 044         | 11 892         | 3 152         | 26.5        |
| Agriculture, forestry, hunt   | 17 268         | 16 131         | 1 137         | 7.0         |
| <b>Textile and Leather</b>  | <b>14 535</b>  | <b>10 878</b>  | <b>3 657</b>  | <b>33.6</b> |
| Ready-made garments   | 9 296          | 6 756          | 2 540         | 37.6        |
| Hosiery articles  | 2 826          | 2 179          | 647           | 29.7        |
| Shoes   | 1 065          | 832            | 233           | 28.0        |
| <b>Automotive</b>   | <b>31 990</b>  | <b>28 344</b>  | <b>3 646</b>  | <b>12.9</b> |
| Construction  | 14 332         | 10 898         | 3 434         | 31.5        |
| cabling   | 10 207         | 10 212         | -5            | 0.0         |
| Interiors   | 2 392          | 2 679          | -287          | -10.7       |
| <b>Electronics and Electricity</b>                                  | <b>5 277</b>   | <b>4 431</b>   | <b>846</b>    | <b>19.1</b> |
| Wires, cables and other connectors for electricity                  | 2 162          | 1 764          | 398           | 22.6        |
| electronic components (transistors)                                 | 1 592          | 1 202          | 390           | 32.4        |
| Devices for the disconnection or connection of electrical circuits. | 632            | 549            | 83            | 15.1        |
| <b>Aeronautics</b>  | <b>7 375</b>   | <b>4 494</b>   | <b>2 881</b>  | <b>64.1</b> |
| Assembly  | 5 130          | 2 842          | 2 288         | 80.5        |
| EWIS  | 2 205          | 1 627          | 578           | 35.5        |
| <b>Autres extractions minières</b>                                  | <b>1 806</b>   | <b>1 456</b>   | <b>350</b>    | <b>24.0</b> |
| Minerai de cuivre   | 395            | 274            | 121           | 44.2        |
| Sulfate de baryum   | 529            | 455            | 74            | 16.3        |
| <b>Other Industries</b>   | <b>9 053</b>   | <b>7 353</b>   | <b>1 700</b>  | <b>23.1</b> |
| Metallurgy and metalworking   | 3 317          | 2 524          | 793           | 31.4        |
| Plastic and rubber industry   | 749            | 742            | 7             | 0.9         |
| Industry pharmaceutical   | 453            | 465            | -12           | -2.6        |

Source: Foreign Exchange Office.

## 2.1.2 Imports

The increase in imports was driven mainly by the rise in the energy bill to 43.8 billion. This development reflects primarily the surge in international prices, but also increases in the quantities imported, particularly by 15.8 percent for «gas oils and fuel oils». Purchases of semi-finished products increased by 53 percent to 55.1 billion and those of raw products rose by 72.6 percent to 13.9 billion, reflecting respectively increases in purchases of ammonia (+368 percent) and «crude and unrefined sulphur» (+193 percent).

Driven by soaring prices, food imports rose by 5.8 billion to 28.8 billion, including in particular increases capital goods rose by 14.4 percent to \$45.7 billion, and those of finished consumer goods gained 7.7 percent to \$42.8 billion, reflecting increases of 54.5 percent in purchases of fabrics and yarns and 13.1 percent in parts and pieces of 2 billion in supplies of «barley» and 1.1 billion for wheat. Similarly, purchases passenger car of cars.

**Table 2.2 : Change in imports (in millions of dirhams)**

| User groups   | Jan. - Apr.    |                | Change        |             |
|---|----------------|----------------|---------------|-------------|
|   | 2022           | 2021           | value         | In %        |
| <b>Importations CAF</b>                                 | <b>230 052</b> | <b>166 993</b> | <b>63 059</b> | <b>37.8</b> |
| <b>Produits énergétiques</b>                            | <b>43 789</b>  | <b>20 259</b>  | <b>23 530</b> | <b>-</b>    |
| Gas and fuel oils                                       | 21 632         | 9 492          | 12 140        | -           |
| Coals; cokes and similar solid fuels                    | 6 983          | 2 741          | 4 242         | -           |
| Petroleum gases and other hydrocarbons                  | 9 136          | 5 331          | 3 805         | 71.4        |
| <b>Demi produits</b>                                    | <b>55 089</b>  | <b>36 004</b>  | <b>19 085</b> | <b>53.0</b> |
| Ammonia   | 7 451          | 1 593          | 5 858         | -           |
| Chemical Products                                       | 6 213          | 3 674          | 2 539         | 69.1        |
| Plastic products  | 7 285          | 4 976          | 2 309         | 46.4        |
| <b>Raw products</b>                                     | <b>13 877</b>  | <b>8 042</b>   | <b>5 835</b>  | <b>72.6</b> |
| Raw and unrefined Sulfur                                | 6 027          | 2 056          | 3 971         | -           |
| Raw or refined soybean oil refined                      | 2 366          | 1 339          | 1 027         | 76.7        |
| <b>Food products</b>                                    | <b>28 762</b>  | <b>22 932</b>  | <b>5 830</b>  | <b>25.4</b> |
| Barley  | 2 272          | 263            | 2 009         | -           |
| Wheat   | 8066           | 6954           | 1112          | 16.0        |
| <b>Capital goods</b>                                    | <b>45 692</b>  | <b>39 940</b>  | <b>5 752</b>  | <b>14.4</b> |
| Parts of airplanes and other aerial vehicles            | 3 553          | 2 284          | 1 269         | 55.6        |
| Piston engines  | 3 931          | 3 176          | 755           | 23.8        |
| Apparatus for the production of cold for industrial use | 851            | 271            | 580           | -           |
| <b>Consumer end products</b>                            | <b>42 820</b>  | <b>39 758</b>  | <b>3 062</b>  | <b>7.7</b>  |
| Fabrics and yarns                                       | 4 052          | 2 622          | 1 430         | 54.5        |
| Parts and parts for passenger cars                      | 7 560          | 6 686          | 874           | 13.1        |

Source: Foreign Exchange Office.

## 2.2 Other components of the current account

The surplus of the services balance improved by 72.5 percent to \$23 billion, the result of a 35 percent



or \$13.2 billion increase in exports, greater than the 14.5 percent or \$3.5 billion rise in imports.

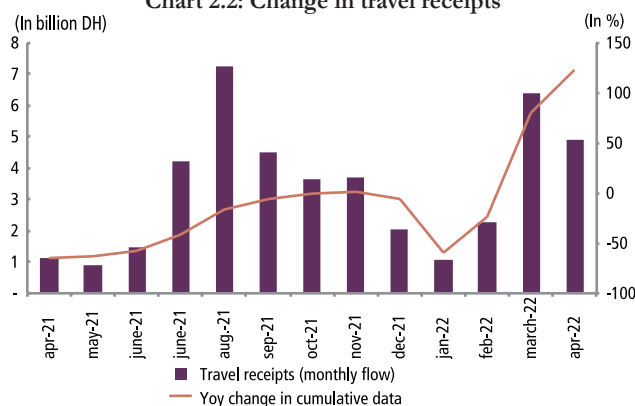
**Table 2.3 : Change in the balance of services**  
(in million dirhams)

|                | Jan. - Apr.   |               | Change        |             |
|----------------|---------------|---------------|---------------|-------------|
|                | 2022          | 2021          | value         | In %        |
| <b>Imports</b> | <b>27 843</b> | <b>24 317</b> | <b>3 526</b>  | <b>14.5</b> |
| <b>Exports</b> | <b>50 816</b> | <b>37 634</b> | <b>13 182</b> | <b>35.0</b> |
| <b>Balance</b> | <b>22 973</b> | <b>13 316</b> | <b>9 656</b>  | <b>72.5</b> |

Source: Foreign Exchange Office.

Travel receipts rose sharply by 123.3 percent at the end of April as a result of the opening of borders since February 2022. Expenditure on the same category also increased by 54.2 percent to 4.2 billion dirhams.

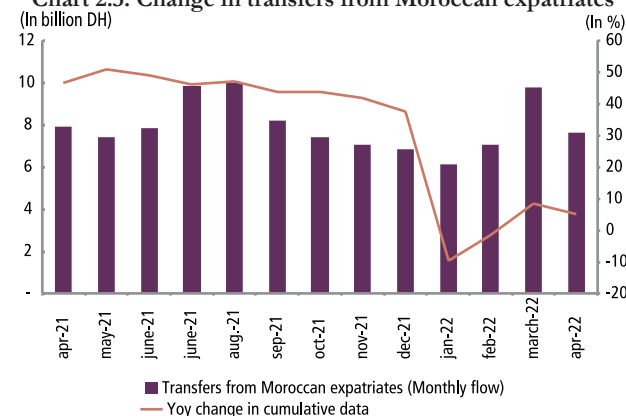
**Chart 2.2: Change in travel receipts**



Source: Foreign Exchange Office.

For their part, the growth in transfers from Moroccan expatriates slowed to 5.3 percent after 8.3 percent at the end of March, reaching 30.6 billion.

**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 5 percent to 6.1 billion, due to a 7 percent decline in receipts, less than the 22 percent drop in disposals. At the same time, the net flow of direct investment by Moroccans abroad fell by 50.9 percent to 738 million, reflecting a decline of 1.3 billion in expenditure that was greater than the 527 million drop in revenues. As of end-April 2022, outstanding official reserve assets stood at \$329.2 billion, equivalent to 5 months and 27 days of imports of goods and services.

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

|  | Jan. - Apr.  |              | Change      |              |
|--|--------------|--------------|-------------|--------------|
|  | 2022         | 2021         | Value       | In %         |
| <b>Foreign direct investments</b>      | <b>6 142</b> | <b>5 850</b> | <b>292</b>  | <b>5.0</b>   |
| Revenues                               | 9 800        | 10 539       | -739        | -7.0         |
| Expenses                               | 3 658        | 4 689        | -1 031      | -22.0        |
| <b>Investments of Moroccans abroad</b> | <b>738</b>   | <b>1 503</b> | <b>-765</b> | <b>-50.9</b> |
| Expenses                               | 5 173        | 6 465        | -1 292      | -20.0        |
| Revenues                               | 4 435        | 4 962        | -527        | -10.6        |

Source: Foreign Exchange Office.



### 3. MONEY, CREDIT AND ASSETS MARKET

In the first quarter of 2022, monetary conditions were characterized by a depreciation of the real effective exchange rate and a decline in lending rates. As for bank credit to the non-financial sector, its annual growth slowed down to 3.1 percent against 3.7 percent in the previous quarter, due to the deceleration in the growth of loans to households and the further decline in those granted to public enterprises. As regards the other counterparts of the money supply, official reserve assets gained 7.7 percent and net claims on the central government rose by 19.8 percent. In total, the growth of the money supply dropped down from 6.5 percent to 5.6 percent quarter on quarter.

In the real-estate market, asset prices fell slightly by 0.3 percent in the first quarter of 2022, with decreases of 2.5 percent and 0.3 percent respectively in business and residential property, and stagnation in urban land. At the same time, the number of transactions fell by 10.5 percent overall, with declines of 13.5 percent in business property, 11.2 percent in urban land and 9.8 percent in residential property.

In the Casablanca Stock Exchange, the MASI depreciated in the first quarter by 4 percent and the volume of trade amounted to 10.6 billion against 26.9 billion a quarter earlier. As for market capitalisation, it posted a quarterly decline of 3.3 percent to 667.8 billion dirhams.

#### 3.1 Monetary conditions

##### 3.1.1 Bank liquidity and interest rates

During the first quarter of 2022, banks' liquidity needs decreased to 64.6 billion dirhams on weekly average, against 69.9 billion a quarter earlier, reflecting an increase in Bank Al-Maghrib's foreign exchange reserves. As for the Treasury's investments on the money market, they averaged 6.9 billion dirhams, after 7 billion, and were mainly made on the repo market at 1.41 percent on average. Under these conditions, the Bank reduced the amount of its injections from 83.4 billion to 75.5 billion, of which 33.2 billion were in the form of 7-day advances, 22.2 billion through repurchase agreements and 20.1 billion in the form of guaranteed loans distributed under support programmes for the financing of VSMEs. Against this backdrop, the average residual duration of Bank's interventions rose from 41.1 days to 46.9 days and the interbank rate remained aligned with the key rate.

The latest available data indicate an increase in banks' liquidity needs to 77 billion on average in April and May 2022.

On the Treasury bill market, rates increased overall in the first quarter, a trend that became more pronounced in April and May on both the primary and secondary markets.

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

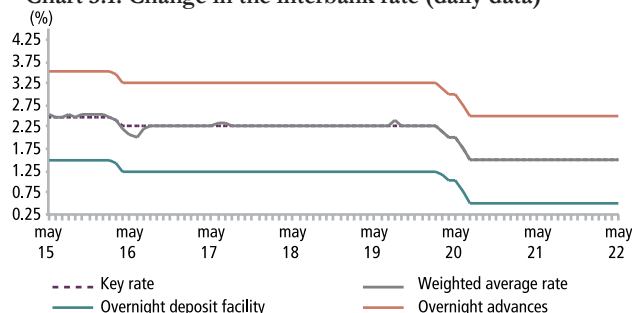
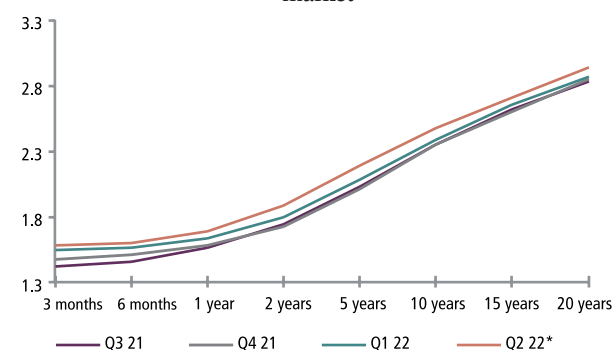


Table 3.1: Change in Treasury bond yields in the primary market

|          | 2020 | 2021 |      |      |      | 2022 |      |
|----------|------|------|------|------|------|------|------|
|          | Q4   | Q1   | Q2   | Q3   | Q4   | Q1   | Mai  |
| 26 weeks | 1.79 | 1.43 | 1.42 | 1.41 | 1.40 | 1.49 | 1.64 |
| 2 years  | 2.01 | 1.70 | 1.69 | 1.77 | 1.72 | 1.83 | 1.93 |
| 5 years  | 2.20 | 1.96 | 1.96 | 2.04 | 2.01 | 2.08 | 2.32 |
| 10 years | 2.62 | 2.34 | 2.32 | 2.36 | 2.34 | 2.43 | -    |
| 15 years | 2.80 | 2.64 | 2.63 | 2.64 | 2.64 | 2.70 | -    |

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

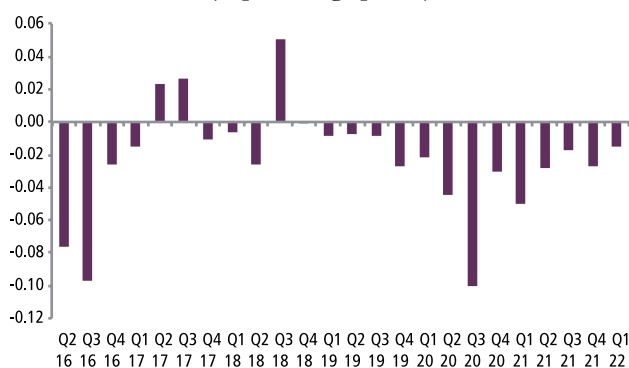


\*Average observed in April and May.

On other markets, rates on certificate of deposit issues rose in the first quarter. As for deposit rates, they dropped by 6 basis points on a quarterly basis to 2.10 percent on average for 6-month deposits and rose by 6 basis points to 2.48 percent for 1-year deposits. Under these conditions, banks' cost of financing<sup>1</sup> decreased slightly compared to the previous quarter.

The latest available data for April show a monthly decrease in deposit rates by 12 basis points to 2.04 percent for 6-month rates and an increase of 15 basis points to 2.62 percent for one-year rates.

**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 2022 show a quarterly decline of 16 basis points in the overall average rate to 4.28 percent. By institutional

sector, rates on loans to companies decreased by 26 points, with declines of 36 points for loans to large companies and 3 points for those granted to VSMEs. Conversely, rates on loans to private individuals increased by 7 points, with in particular a 3 point rise for consumer loans and a 3-point decrease for housing loans.

**Table 3.2: Deposit rates**

|           | 2020 |      |      | 2021 |      |      |      | 2022 |
|-----------|------|------|------|------|------|------|------|------|
|           | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   | Q1   |
| 6 months  | 2.64 | 2.50 | 2.36 | 2.42 | 2.23 | 2.34 | 2.16 | 2.10 |
| 12 months | 3.02 | 2.71 | 2.68 | 2.77 | 2.63 | 2.57 | 2.42 | 2.48 |

**Table 3.3 : Change in lending rates**

|                            | 2020        |             | 2021        |             |             | 2022        |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                            | Q4          | Q1          | Q2          | Q3          | Q4          | Q1          |
| <b>Global</b>              | <b>4.42</b> | <b>4.45</b> | <b>4.32</b> | <b>4.35</b> | <b>4.44</b> | <b>4.28</b> |
| <b>Personal loans</b>      | <b>4.98</b> | <b>5.19</b> | <b>5.19</b> | <b>5.20</b> | <b>5.16</b> | <b>5.23</b> |
| Real estate loans          | 4.33        | 4.33        | 4.26        | 4.24        | 4.24        | 4.21        |
| Consumer loans             | 6.40        | 6.50        | 6.64        | 6.51        | 6.47        | 6.50        |
| <b>Loans to businesses</b> | <b>4.28</b> | <b>4.23</b> | <b>4.04</b> | <b>4.17</b> | <b>4.26</b> | <b>4.00</b> |
| Cash advances              | 4.04        | 4.04        | 3.96        | 3.95        | 4.06        | 3.83        |
| Equipment loans            | 4.62        | 4.49        | 4.13        | 4.84        | 4.58        | 4.31        |
| Real estate loans          | 5.84        | 5.81        | 5.59        | 5.71        | 5.78        | 5.53        |

### 3.1.2 Exchange rate

During the first quarter of 2022, the euro depreciated by 1.88 percent against the US dollar. On the domestic market, the dirham depreciated by 1.47 percent against the euro and by 3.32 percent against the US dollar. Compared to the currencies of the main emerging countries, the national currency appreciated by 24.57 percent against the Turkish lira and depreciated by 4.01 percent against the Chinese yuan. Under these conditions, the effective exchange rate fell by 0.92 percent in nominal terms and by 2.90 percent in real terms.

<sup>1</sup> The cost of funding is calculated as a weighted average of banks' costs of funds.

Chart 3.4: Change in the exchange rate of the dirham

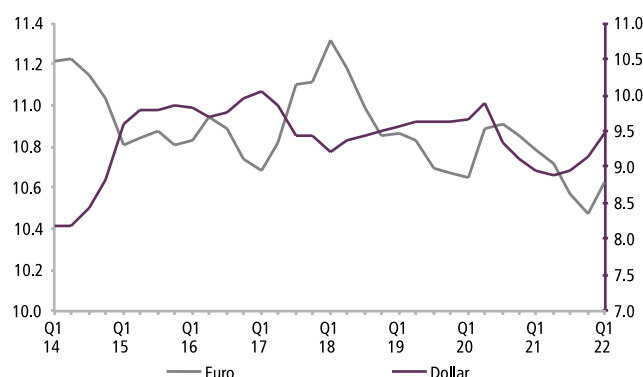
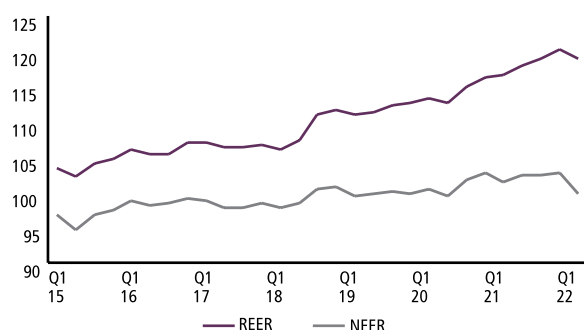


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

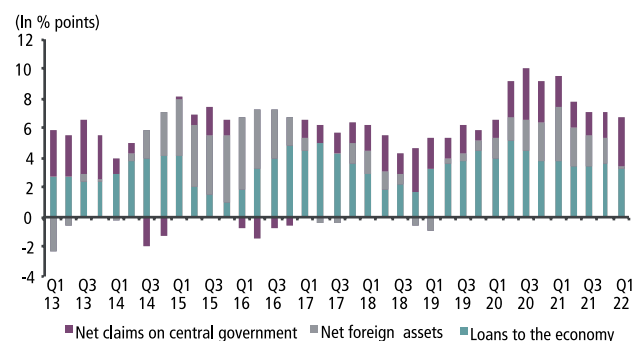
As regards foreign exchange transactions, the average volume of banks' spot transactions with customers increased, during the first quarter of 2022, by 23.4 percent to 32.6 billion dirhams for sales and by 19.8 percent to 30.9 billion dirhams for purchases. Similarly, forward purchases rose by 45.5 percent to 4.2 billion, while forward sales decreased by 15 percent to 12.9 billion. Within the framework of Bank Al-Maghrib's foreign currency auctions with banks, no auction session has been held since December 2021. Against this background, banks posted, at end-March, a foreign exchange deficit position of 3.6 billion dirhams, almost similar to that observed at end-December 2021.

### 3.1.3 Monetary situation

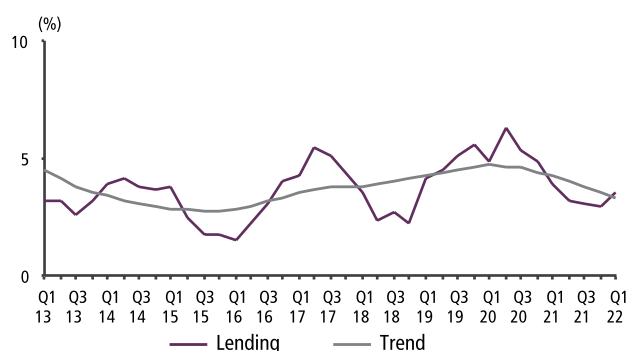
The M3 aggregate increased by 5.6 percent in the first quarter of 2022, after 6.5 percent in the fourth quarter of 2021. This change reflects a decline of 2.3 percent in time deposits, after an increase of 2.8 percent, with in particular a sharper fall of 9 percent in household deposits compared to 6 percent and a slowdown in the growth of financial agents' deposits from 52.1 percent to 9.3 percent. At the same time, the growth rate of sight deposits decelerated from 7.6 percent to 7.4 percent, mainly reflecting a slowdown in the growth of household deposits from 6.2 percent to 5.3 percent and that of financial agents from 27.6 percent to 12.4 percent. At the same time, foreign currency deposits and money market fund shares/units grew by 12.4 percent and 12.6 percent respectively, compared to 18.7 percent and 23.9 percent a quarter earlier. On the other hand, the growth of currency in circulation accelerated from 5.9 percent to 6.8 percent.

By main counterparts, the change in money supply covers a virtual stability in the growth rate of official reserve assets at 7.7 percent and accelerations from 10.2 percent to 19.8 percent in net claims on the central government and from 2.9 percent to 3.6 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**



In particular, loans to the non-financial sector grew by 3.1 percent instead of 3.7 percent one quarter earlier, owing to a deceleration in the growth of loans to households and a sharper fall in those granted to public companies.

Growth in loans to private companies stabilised at 4.4 percent, with an increase of 3.1 percent in equipment loans, following the 1.5 percent rise in the fourth quarter of 2021, and a slowdown in the growth of cash facilities from 9.1 percent to 6.9 percent.

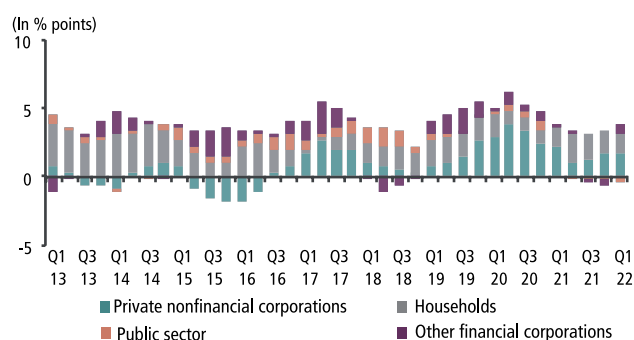
As regards loans to public companies, they declined by 10 percent after 5.5 percent one quarter earlier, covering a sharper decline in equipment loans from 19 percent to 23.6 percent and an acceleration of the increase in cash facilities from 0.7 percent to 13.3 percent.

Loans to individual entrepreneurs fell by 0.2 percent, with a 4.5 percent decrease after a 9 percent fall in real estate loans and a deceleration in the growth of cash facilities from 7.8 percent to 7.2 percent.

As for loans to private individuals, their growth fell from 5.2 percent to 4.1 percent, covering a deceleration for housing loans from 4.9 percent to 4 percent and an acceleration for consumer loans from 2.5 percent to 2.9 percent.

By industry branch, the data for the first quarter of 2022 indicate accelerations in growth by 9.8 percent to 20 percent for loans granted to the «food and tobacco industries», 10.4 percent to 15.6 percent for those granted to the «electricity, gas and water» branch and by 7.9 percent to 10.6 percent for loans to «trade, car repairs and household goods». On the other hand, the growth rates of loans granted to the «textile, clothing and leather industries» and to the «hotels and restaurants» sector decelerated from 12.9 percent to 9.4 percent and from 19.7 percent to 13.2 percent, respectively.

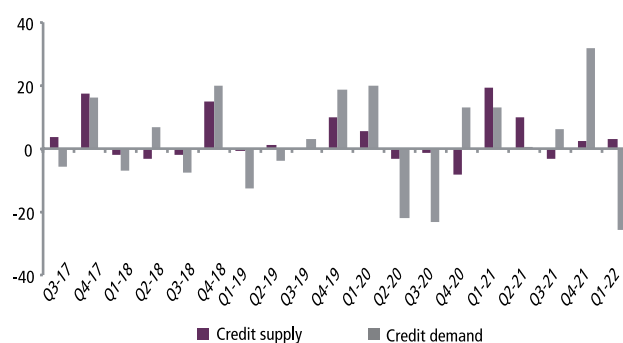
**Chart 3.8: Institutional sectors' contribution to YoY change in credit**



Source : BAM

Nonperforming loans increased by 5 percent and their ratio to outstanding bank credit virtually stabilised at 8.8 percent. They went up 6.7 percent for private non-financial companies and by 3.2 percent for households with ratios to outstanding loans of 11.9 percent and 10 percent, respectively.

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



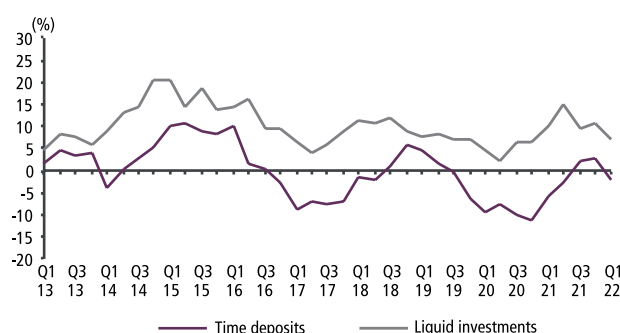
Source : BAM

As for loans granted by non-bank financial companies to the non-financial sector, they increased by 1.7 percent in the first quarter after 3.1 percent a quarter earlier. This change covers in particular a slowdown in the growth of loans distributed by offshore banks from 9.9 percent to 1 percent and an acceleration in those granted by finance companies from 3.7 percent to 3.9 percent.

The latest available data for April show a growth of 3.2 percent in bank credit year-on-year, reflecting a deceleration in the growth rate of loans to other financial corporations to 3.2 percent and an acceleration in those granted to the non-financial sector to 3.2 percent.

As regards liquid investment aggregates, their annual growth fell from 10.9 percent in the fourth quarter of 2021 to 7.2 percent in the first quarter of 2022. This change reflects decelerations in growth from 6.9 percent to 6 percent for Treasury bills, from 69.5 percent to 38.7 percent for equity and diversified mutual fund shares/units and from 5.1 percent to 1.8 percent for bond mutual fund shares/units.

**Chart 3.10: YoY change in liquid investments and time deposits**



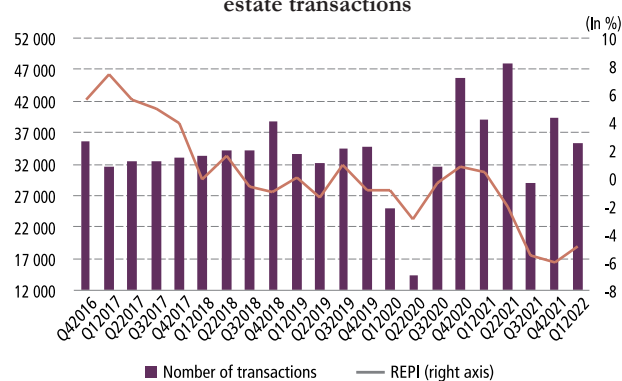
## 3.2 Asset prices

### 3.2.1 Real estate assets

In the first quarter of 2022, the real-estate asset price index posted a slight decrease of 0.3 percent, covering falls of 2.5 percent and 0.3 percent, respectively, in business and residential property, and stagnation in urban land. At the same time, the number of transactions fell by 10.5 percent, with decreases of 13.5 percent in business property, 11.2 percent in urban land and 9.8 percent in residential property.

In the main cities, except for Marrakech, Kenitra, Agadir and El Jadida where prices gained respectively 2 percent, 0.7 percent, 0.7 percent and 0.2 percent, all the main cities recorded price decreases ranging between 0.4 percent in Oujda and 1.8 percent in Rabat. As regards the number of transactions, except for Agadir and Kenitra where it has increased by 25 percent and 2.6 percent respectively, it has marked decreases ranging between 1.3 percent in Fez and 22.6 percent in Rabat.

**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

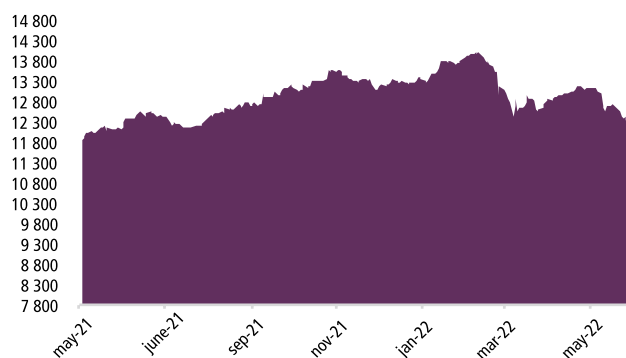
### 3.2.2 Financial assets

#### 3.2.2.1 Shares

In the first quarter of 2022, the MASI underperformed by 4 percent, reflecting in particular declines in the sector indices of «buildings and construction

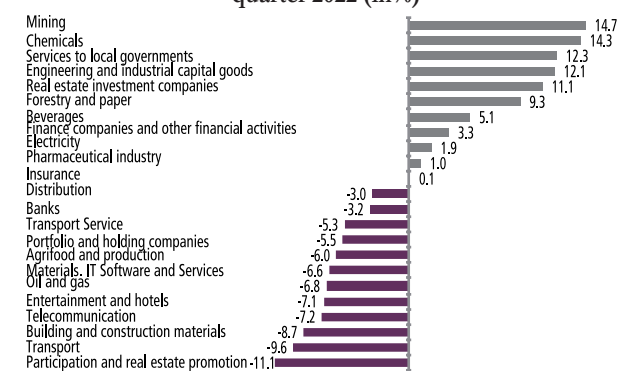
materials» by 8.7 percent, telecommunications by 7.2 percent and banks by 3.2 percent. In contrast, indices for the mining and real-estate investment companies rose by 14.7 percent and 11.1 percent, respectively.

**Chart 3.12: Daily change in MASI**



Source : Casablanca Stock Exchange.

**Chart 3.13: Contribution of sectoral indexes in the first quarter 2022 (in%)**



Source : Casablanca Stock Exchange.

As for the trading volume, it amounted to 10.6 billion dirhams against 26.9 billion a quarter earlier. By compartment, the turnover amounted to 9.5 billion against 13.5 billion on the central equity market and to 686.8 million against 12.6 billion on the block market. Against this background, market capitalisation posted a quarterly drop of 3.3 percent to 667.8 billion dirhams.

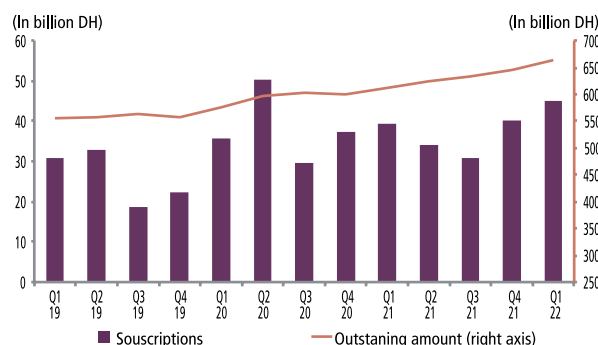
The latest available data indicate that the MASI fell by 6.1 percent in May, recording an annual underperformance of 7.6 percent. The monthly change

in the benchmark index was due in particular to declines in the sector indices of «building and construction materials» by 8.6 percent, telecommunications by 7 percent and the banking sector by 6.4 percent. On the other hand, the indices of mining and «leisure and hotels» rose by 2.5 percent each. Against this background, the turnover stood at 2.9 billion in May and market capitalisation reached 645 billion, down 6.6 percent since the beginning of the year.

### 3.2.2.2 Sovereign debt market

The Treasury issues on the domestic market amounted to 44.8 billion dirhams in the first quarter of 2022, with a quarterly increase of 11.4 percent. They concerned medium maturities for 70 percent and long ones for 27 percent. In May 2022, the Treasury's issues reached 9.9 billion dirhams, against 3 billion in April 2022, 75 percent of which concerned short maturities and the rest medium ones.

**Chart 3.14: Change in Treasury bonds**



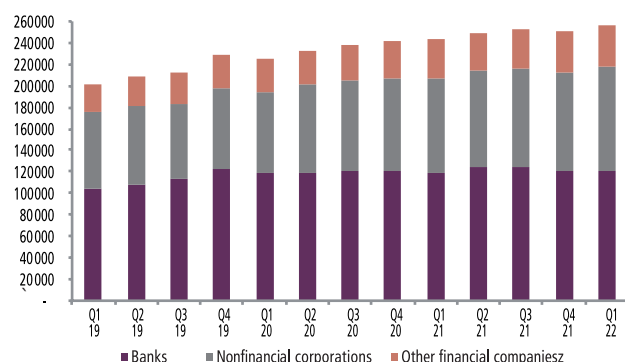
Source : BAM.

### 3.2.2.3 Private debt market

On the private debt market, issues increased by 30.2 percent to 16.4 billion dirhams in the first quarter of 2022. Banks raised an amount of 7.3 billion, almost similar to the previous quarter, and non-financial companies 7.3 billion after 1.8 billion.

In April 2022, private debt issues fell back to 5 billion and, taking into account repayments, the outstanding private debt stood at 257.5 billion, with an increase of 2.8 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 funds decreased by 10.5 percent to 270 billion and redemptions by 13.3 percent to 262.4 billion, equivalent to a net collection of 7.6 billion dirhams. As regards performances, they were trending downwards for equity and diversified funds with respective rates of 5.4 percent and 2 percent and remained virtually stable for the other categories.

Data for May<sup>2</sup> indicate a slight decrease, since the beginning of the year, in the net assets of mutual funds by 0.2 percent to 591.6 billion dirhams. This change includes decreases of 7.9 percent for medium and long-term bond funds and 5.6 percent for equity funds, as well as increases of 32.8 percent for contractual funds, 27 percent for short-term bond funds, 7.1 percent for money market funds and 0.5 percent for diversified funds.

<sup>2</sup> Data as of May 20.



## 4. FISCAL POLICY STANCE

The budget execution for the first five months of 2022 resulted in a deficit of 14 billion dirhams, down 11 billion compared to the same period in 2021. This change is mainly due to a 25.5 percent improvement in ordinary revenues, reflecting increases of 19.8 percent in tax revenues and 126.6 percent in non-tax ones. On the other hand, ordinary expenditure increased by 16.5 percent, mainly reflecting rises of 117.9 percent in the subsidization costs and 9.3 percent in expenditure on goods and services. Under these conditions, the ordinary balance showed a deficit of 2.1 billion, compared to -9.9 billion at end-May 2021. As to investment expenditure, they went up 16.7 percent to 32.8 billion, thus bringing total expenditure to 166.6 billion, up 16.6 percent. The balance of the Treasury's special accounts stood at 20.9 billion, with an increase of 7.9 billion.

Taking into account the reduction in the stock of pending transactions by 9.7 billion, the cash deficit stood at 23.7 billion, compared with 45.5 billion a year earlier. This deficit and the negative net external flow of 921 million were covered by domestic resources for up to 24.6 billion. Thus, the outstanding direct public debt would have increased by 1.5 percent compared to its level at end-December 2021. As regards the Treasury's financing conditions, the weighted average rates were up at end-May 2022 compared to the same period in 2021.

### 4.1 Current receipts

At the end of the first five months of 2022, ordinary revenues gained 25.5 percent to 131.7 billion, reflecting increases of 19.8 percent to 117.5 billion in tax revenues and 126.6 percent to 12.5 billion in non-tax ones. The improvement in tax revenues concerned the main headings, with the exception of domestic VAT and domestic consumption tax on tobacco and energy products.

Direct taxes have thus drained 47.4 billion dirhams, up 32 percent, mainly in connection with the 67 percent improvement to 24.4 billion in the corporate tax income, emanating in particular from companies in the phosphate, financial and cement sectors. This rebound is the result of the 3.6 billion increase in the first instalment and the 6.9 billion rise in the adjustment complement. For their part, income tax revenues increased by 6.7 percent to 22.1 billion, driven in particular by income tax on salaries, tax audit operations, income tax on professionals and on profits from the sale of securities.

Indirect tax revenues rose by 11.6 percent to 56.2 billion, mainly reflecting increases of 14.5 percent to 44.4 billion in VAT revenues and 1.8 percent to 11.8 billion in revenues from domestic consumption

tax. The change in the latter is mainly attributable to the 36.8 percent increase to 882 million in domestic consumption tax on products other than tobacco and energy products, which generated 4.5 billion and 6.4 billion respectively, down 0.1 percent and 0.4 percent year-on-year. Improvement in VAT is the result of the 30.1 percent increase in import VAT revenues to 31.4 billion, while domestic VAT revenues fell by 11.3 percent to 12.9 billion, mainly due to the increase in VAT credit refunds to 5.9 billion from 4.3 billion at end-May 2021.

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

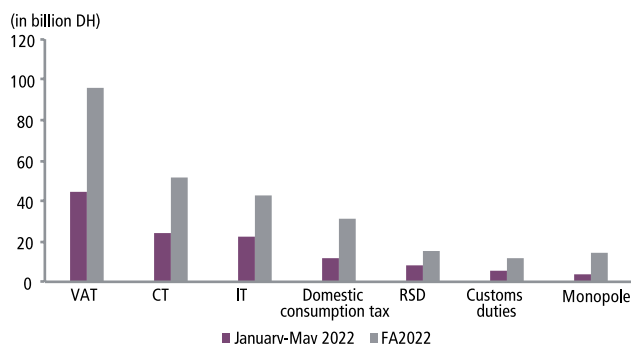
|                                 | Janv.<br>may<br>2021 | Janv.<br>may<br>2022 | Change<br>en % | FA<br>2022   | Achievements<br>against<br>the FA (%) |
|---------------------------------|----------------------|----------------------|----------------|--------------|---------------------------------------|
| <b>Current revenues</b>         | <b>104.9</b>         | <b>131.7</b>         | <b>25.5</b>    | <b>286.8</b> | <b>45.9</b>                           |
| <b>Tax revenues</b>             | <b>98.1</b>          | <b>117.5</b>         | <b>19.8</b>    | <b>251.8</b> | <b>46.7</b>                           |
| - Direct taxes                  | 35.9                 | 47.4                 | 32.0           | 97.7         | 48.5                                  |
| Including CT                    | 14.6                 | 24.4                 | 67.0           | 51.4         | 47.5                                  |
| I.T                             | 20.7                 | 22.1                 | 6.7            | 43.0         | 51.3                                  |
| - Indirect taxes                | 50.3                 | 56.2                 | 11.6           | 127.1        | 44.2                                  |
| VAT*                            | 38.7                 | 44.4                 | 14.5           | 96.4         | 46.0                                  |
| DCT                             | 11.6                 | 11.8                 | 1.8            | 30.8         | 38.3                                  |
| - Customs duties                | 4.6                  | 5.5                  | 19.7           | 12.0         | 45.7                                  |
| - Registration and stamp duties | 7.2                  | 8.5                  | 16.7           | 14.9         | 56.7                                  |
| <b>Nontax revenues</b>          | <b>5.5</b>           | <b>12.5</b>          | <b>126.6</b>   | <b>30.9</b>  | <b>40.5</b>                           |
| - Monopolies and share-holdings | 1.9                  | 3.7                  | 94.2           | 14.0         | 26.7                                  |
| - Other receipts                | 3.6                  | 8.8                  | 143.9          | 17.0         | 51.9                                  |
| <b>TSA revenues</b>             | <b>1.3</b>           | <b>1.6</b>           | <b>26.2</b>    | <b>4.1</b>   | <b>39.7</b>                           |

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



For their part, customs duties increased by 19.7 percent to 5.5 billion, while those of registration and stamp duties rose by 16.7 percent to 8.5 billion in connection with the rise in registration duties and the special annual tax on vehicles.

**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  
- IT : Income tax  
- RSD : Registration and stamp duties  
- CT : Corporate tax  
- DCT : Domestic consumption tax  
- CD : Customs duties

Non-tax revenues amounted to 12.5 billion, up 7 billion compared to end-May 2021. This improvement is mainly explained by that of «other revenues» which amounted to 8.8 billion, including 5.2 billion from «innovative financing», 2.7 billion from ministries and 380 million from GCC grants. As for revenues from monopolies and participations, they amounted to 3.7 billion, instead of 1.9 billion a year earlier, paid by the OCP for 2 billion, the ANCFCC (National Land Registry Office) for 1.2 billion and Bank Al-Maghrib for 356 million.

## 4.2 Expenditure

Overall expenditure increased by 16.6 percent to 166.6 billion dirhams, reflecting increases of 16.5 percent to 133.8 billion dirhams in ordinary expenditure and 16.7 percent to 32.8 billion dirhams in investment expenditure. Expenses on goods and services amounted to 93.2 billion dirhams, up 9.3 percent compared to end-May 2021, as a result of the increases of 5.7

percent to 62.1 billion dirhams in the wage bill and 17.3 percent to 31.1 billion dirhams in expenses on other goods and services. The change in this last heading includes rises of 20 percent to 16.2 billion in transfers to public entities and companies and 62.5 percent to 2.6 billion in payments to the Special Treasury Accounts. Concerning personnel expenditure, their trend reflects in particular increases of 1.4 percent in the structural component and 75 percent in payment reminders to 3.9 billion for the part served by the Directorate of Personnel Expenses.

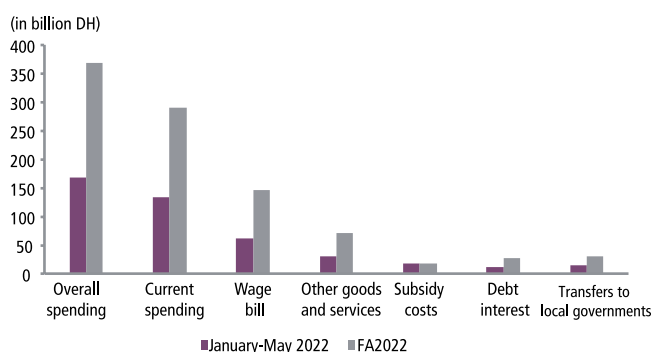
**Table 4.2: Change and execution of public spending (In billions of dirhams)\***

|                               | Jan. May 2021 | Jan. May 2022 | Change in % | FA 2022      | Achievements against the FA (%) |
|-------------------------------|---------------|---------------|-------------|--------------|---------------------------------|
| <b>Overall spending</b>       | <b>142.9</b>  | <b>166.6</b>  | <b>16.6</b> | <b>369.0</b> | <b>45.1</b>                     |
| <b>Current spending</b>       | <b>114.8</b>  | <b>133.8</b>  | <b>16.5</b> | <b>291.0</b> | <b>46.0</b>                     |
| Goods and services            | 85.3          | 93.2          | 9.3         | 217.0        | 43.0                            |
| Personal                      | 58.8          | 62.1          | 5.7         | 147.5        | 42.1                            |
| Other goods and services      | 26.5          | 31.1          | 17.3        | 69.4         | 44.8                            |
| Debt interests                | 10.3          | 10.7          | 3.6         | 28.1         | 37.9                            |
| Subsidy                       | 7.6           | 16.6          | 117.9       | 17.0         | 97.7                            |
| Transfer to local governments | 11.6          | 13.3          | 14.5        | 28.9         | 46.0                            |
| <b>Investment</b>             | <b>28.1</b>   | <b>32.8</b>   | <b>16.7</b> | <b>78.0</b>  | <b>42.0</b>                     |

\*Taking into account 30 percent of the VAT transferred to local governments.

Sources : Ministry of Economy and Finance (DTFE), VAT reprocessing by BAM.

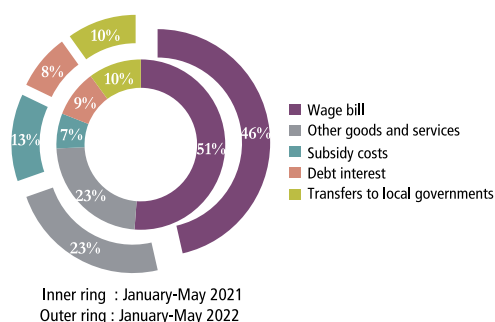
**Chart 4.2: spending execution compared to the amending FA**



Sources : Ministry of Economy and Finance (DTFE), VAT reprocessing by BAM.

As to debt interest charges, they rose by 3.6 percent to 10.7 billion, with an increase of 6.5 percent to 9.5 billion for domestic debt and a decrease of 15.6 percent to 1.1 billion for foreign debt.

Chart 4.3: Structure of current spending

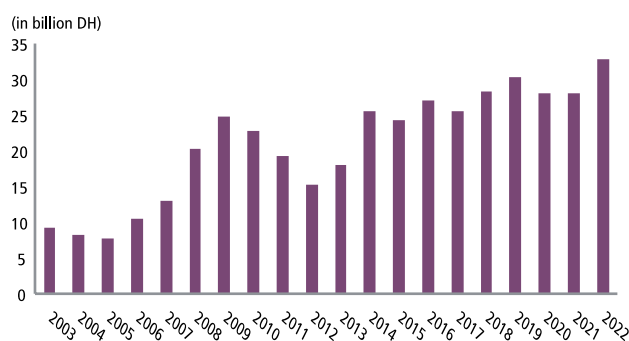


Sources : Ministry of Economy and Finance (DTFE), VAT reprocessing by BAM.

As regards subsidization costs, they increased by 117.9 percent to 16.6 billion dirhams, equivalent to an execution rate of 97.7 percent, under the effect in particular of a 69 percent appreciation to 879 dollars per ton in the average price of butane gas, against a hypothetical price of 450 dollars in the Finance Act. Out of this cost, 9.8 billion was allocated to the subsidization of butane gas, 3.3 billion to imported wheat and 1.1 billion to subsidies granted to transport professionals to cope with the surge in the price of energy products.

Investment expenditure amounted to 32.8 billion, an increase of 16.7 percent compared to the end of May 2021, taking into account in particular a payment of 14.3 billion to the Special Treasury Accounts, compared to 12 billion at the end of May 2021. The execution rate of this expenditure item was 42 percent, a rate in line with the Finance Act forecasts.

Chart 4.4: Investment spending, at end of November

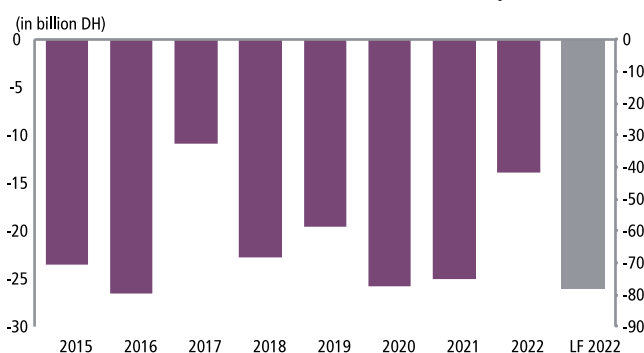


Sources : Ministry of Economy and Finance.

## 4.3 Deficit and Treasury Financing

Taking into account the change in revenues and expenditure as well as the improvement of the balance of the Treasury's special accounts, the Treasury's situation resulted in an easing of the deficit to 14 billion dirhams, against 25 billion at end-May 2021. In addition, the Treasury reduced its stock of pending transactions by 9.7 billion, thus reducing the cash deficit from 45.5 billion to 23.7 billion at the end of May 2022.

Chart 4.5: Fiscal balance, at end of May



Source : Ministry of Economy and Finance.

The Treasury's financing requirement and the negative net external flow of 921 million dirhams were covered by domestic resources of a net amount of 24.6 billion. Gross external drawings amounted to 3.5 billion, including 1.8 billion from the African Development Bank and 1.1 billion from the World Bank

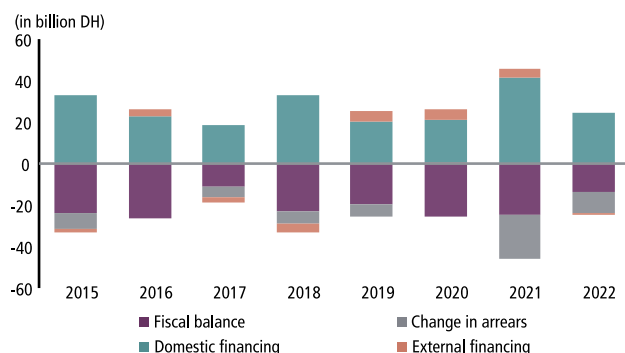
Table 4.3: Deficit financing (in billions of dirhams)

|                                   | Jan.-may 2021 | Jan.-may 2022 | LF 2022      |
|-----------------------------------|---------------|---------------|--------------|
| <b>Current balance</b>            | <b>-9.9</b>   | <b>-2.1</b>   | <b>-4.2</b>  |
| Balance of TSA                    | 13.0          | 20.9          | 4.5          |
| Primary balance                   | -14.7         | -3.3          | -49.6        |
| <b>Fiscal balance</b>             | <b>-25.0</b>  | <b>-14.0</b>  | <b>-77.6</b> |
| Change in arrears                 | -20.6         | -9.7          |              |
| <b>Financing requirements</b>     | <b>-45.5</b>  | <b>-23.7</b>  | <b>-77.6</b> |
| Domestic financing                | 41.8          | 24.6          | 52.0         |
| External financing                | 3.7           | -0.9          | 20.7         |
| Sale of government participations | 0.0           | 0.0           | 5.0          |

Sources : Ministry of Economy and Finance data (DTFE).

As regards domestic financing, recourse to the auction market concerned a net amount of 12.7 billion compared to 21.7 billion a year earlier. Net subscriptions concerned 2-year bills for 10.4 billion, 5-year bonds for 4.3 billion, 13-week bills for 1.5 billion and 30-year bonds for 622 million. At the same time, 52-week bills were redeemed for a net amount of 3.9 billion, 15-year bonds for 357 million and 10-year bonds for 228 million.

**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.

With regard to the Treasury's financing conditions on the auction market, the latest data for the month of May indicate increases in weighted average rates compared with the same period in 2021. They went up 21 basis points (bps) to 2.16 percent for 5-year maturities, 16 bps to 1.85 percent for 2-year maturities, and 13 bps to 1.57 percent for 26-week bills.

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

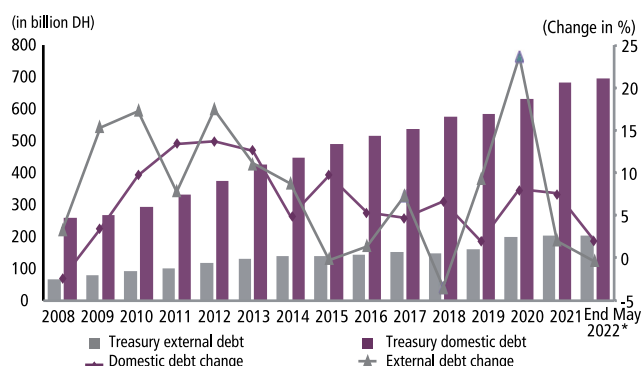
|                                | 2017         | 2018         | 2019         | 2020         | 2021         | End<br>may<br>2022* |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|---------------------|
| <b>Treasury external debt</b>  | <b>153.2</b> | <b>148.0</b> | <b>161.6</b> | <b>199.7</b> | <b>203.8</b> | <b>202.9</b>        |
| Change in %                    | 7.3          | -3.4         | 9.2          | 23.6         | 2.0          | -0.5                |
| <b>Treasury domestic debt</b>  | <b>539.1</b> | <b>574.6</b> | <b>585.7</b> | <b>632.9</b> | <b>681.5</b> | <b>695.7</b>        |
| Change in %                    | 4.8          | 6.6          | 1.9          | 8.1          | 7.7          | 2.1                 |
| <b>Outstanding direct debt</b> | <b>692.3</b> | <b>722.6</b> | <b>747.3</b> | <b>832.6</b> | <b>885.3</b> | <b>898.5</b>        |
| Change in %                    | 5.3          | 4.4          | 3.4          | 11.4         | 6.3          | 1.5                 |

\* For the debt at the end of May 2022, it is estimated based on net financing flows generating debt.

Source : Ministry of Economy and Finance data (DTFE).

As for direct public debt, it would have increased by 1.5 percent at the end of May 2021 compared to its level at end-December 2021, with an increase of 2.1 percent in its domestic component and a decrease of 0.5 percent in the external one.

**Chart 4.7: Treasury debt**



Sources : Ministry of Economy and Finance, and BAM estimates.

\*BAM estimates.

## 5. DEMAND, SUPPLY AND LABOR MARKET

After a contraction of 7.2 percent in 2020, the national economy rebounded by 7.9 percent in 2021. In addition to the base effect, this increase was favoured by the progress made in the vaccination campaign, the maintenance of monetary and budgetary incentives, as well as by the good climatic conditions that characterised the 2020/2021 crop year.

In the first half of 2022, and under the effect of the unfavourable climatic conditions that marked the current agricultural season, the agricultural value added would have fallen by 15 percent on average. As regards non-agricultural activities, their rate would have slowed to 3.9 percent in a difficult external environment linked in particular to the conflict in Ukraine and its repercussions on global production and supply chains and on raw material prices. Under these conditions, the growth of the national economy would have posted a clear deceleration to 1 percent on average.

On the labour market, the situation was marked in the first quarter of 2022 by a loss of 58 thousand jobs, after 202 thousand a year earlier, with a decrease of 183 thousand jobs in agriculture and a creation of 127 thousand jobs in non-agricultural activities, including two thirds in services. Taking into account a net exit of 126 thousand job-seekers, the activity rate fell by one point to 44.5 percent and the unemployment rate dropped from 12.5 percent to 12.1 percent overall, from 17.1 percent to 16.3 percent in the cities and from 5.3 percent to 5.1 percent in the countryside.

### 5.1 Domestic demand

#### 5.1.1 Consumption

In 2021, household final consumption increased by 8.2 percent after a decline of 5.6 percent in 2020. Its contribution to growth thus reached 4.8 percentage points instead of a negative contribution of 3.3 percentage points.

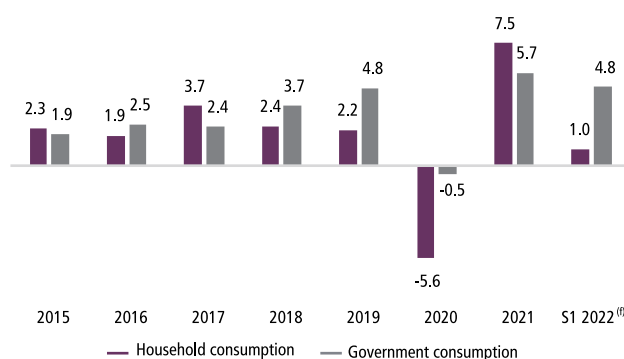
In the first half of 2022, its pace would have slowed down to 1 percent as indicated by the development of several infra-annual indicators. The household confidence index fell in the first quarter to 53.7 points, the lowest level since the launch of the survey in 2008, the growth of remittances from Moroccan expatriates decelerated from 46.5 percent to 5.3 percent at the end of April, and agricultural incomes were also down. On the other hand, consumer loans improved by 2.3 percent against a decline of 1.3 percent.

With regard to the final consumption of the general government, the achievements for the year 2021 show

an increase of 5.6 percent after a drop of 0.5 percent in 2020 and its contribution to growth thus increased from -0.1 point to 1.1 percentage point

In the first half of 2022, the rate of final consumption of the general government would have increased by 4.8 percent, in particular in connection with the increase of 6.5 percent in operating expenses at the end of April.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP, and BAM forecasts.

## 5.1.2 Investment

As to investment, it rebounded by 13.3 percent in 2021 after a decline of 11.9 percent a year earlier, bringing its contribution to growth to +3.8 percentage points after -3.6 points.

Available indicators suggest that it would have grown by 4.9 percent in the first half of 2022, reflecting in particular the improvements, at end-April, of 14.4 percent in capital goods imports and 8.6 percent in Treasury investment. Similarly, housing loans increased by 3.2 percent at the end of April. On the other hand, equipment loans fell by 2.9 percent. In addition, the results of Bank Al-Maghrib's business survey in industry for the first quarter show that the business climate was qualified as «normal» by 57 percent of respondent companies and as «unfavourable» by 36 percent of them.

## 5.2 Foreign demand

In 2021, the volume of exports of goods and services increased by 8.7 percent and imports by 11.8 percent instead of declines of 15 percent and 11.9 percent, respectively. Under these conditions, the contribution of net exports to growth was again negative by -1.8 percentage points after -0.1 percentage points.

In terms of outlook, exports would have increased by 5.8 percent in the first half of 2022, as a result of an acceleration in the growth rate of exports of phosphates and derivatives and a slowdown in that of automobile shipments. In contrast, imports would have increased by 8.9 percent, due to the rise in imports of energy products.

### Box 5.1: National accounts: changing the base year from 2007 to 2014

The HCP has published the first national accounts data compiled with 2014 as the new base year instead of 2007. This change of the base year has led to revisions in the national accounts aggregates and their increases. The GDP in value terms has thus increased by 81.4 billion dirhams, on average, between 2014 and 2019.

The adoption of the new base year has impacted both demand and supply components. Thus, on average over the 2014-2020 period, the weight in GDP fell from 12.1 percent to 10.9 percent for the primary sector and from 26 percent to 25.6 percent for the secondary sector, while it rose from 50.5 percent to 53.3 percent for the tertiary sector.

Growth in volume terms has been revised downwards, on average between 2015 and 2020, by 0.1 percentage points, with quite significant changes in 2016, 2017 and 2020.

**Table B.5.1.1: Gross domestic product, in value (in billion dirhams)**

|               | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   |             |
|---------------|--------|--------|--------|--------|--------|--------|--------|-------------|
| GDP base 2007 | 925.4  | 988    | 1013.2 | 1063   | 1108.5 | 1152.8 | 1089.5 | Average gap |
| GDP base 2014 | 1001.5 | 1078.1 | 1094.2 | 1148.9 | 1195.2 | 1239.8 | 1152.4 |             |
| Gap           | 76.1   | 90.2   | 81     | 85.8   | 86.8   | 87     | 62.9   |             |

Source : HCP.

**Table B.5.1.2: Economic growth (%)**

|               | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------|------|------|------|------|------|------|
| GDP base 2014 | 4.3  | 0.5  | 5.1  | 3.1  | 2.9  | -7.2 |
| GDP base 2007 | 4.5  | 1.1  | 4.2  | 3.1  | 2.6  | -6.3 |
| Gap in %      | -0.2 | -0.6 | 0.9  | 0.0  | 0.3  | -0.9 |

Source : HCP.

Concerning the agricultural value added, these revaluations show an average growth of 1.4 percent between 2015 and 2020 (base year 2014) compared to 0.5 percent (base year 2007). As for non-agricultural GDP, it has been adjusted downwards by 0.2 percentage points to 1.5 percent (base year 2014).

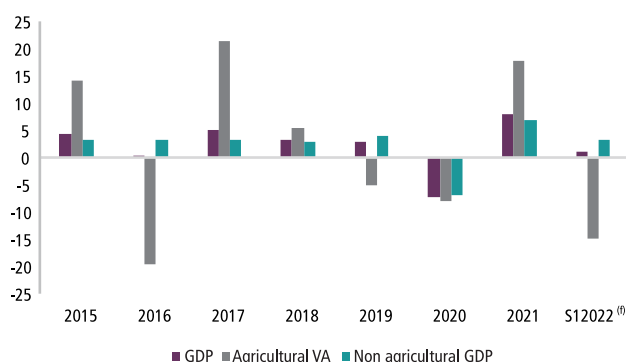
On the demand side, the growth rates of its components recorded differentiated revisions on average over the same period. Growth was revised downwards by 0.7 percentage points for household final consumption expenditure and by 0.1 percentage points for the general government, while it was adjusted upwards by 2.1 percentage points for gross fixed capital formation.

## 5.3 Overall supply

In 2021, GDP rebounded by 7.9 percent, as a result of increases of 17.8 percent in the agricultural value added, thanks to a good agricultural season, and of 6.6 percent in non-agricultural activities.

In the first half of 2022, the pace of economic activity would have decelerated on average to 1 percent. Agricultural value added would have contracted by 15 percent, under the effect of a poor agricultural season with, in particular, a cereal harvest estimated by the Department of Agriculture at 32 million quintals. Non-agricultural activities continued to rise, albeit at a slower rate of 3.9 percent.

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



Sources: HCP data, and BAM forecasts.

In the secondary sector, the growth rate of its added value would have slowed down significantly to 1.3

percent on average. This change would translate in particular a strong deceleration to 3 percent in the processing industries and to 3.9 percent in the «electricity and water» branch. In addition, activity would have diminished by 9 percent in the extraction industry and by 0.4 percent in construction.

In the tertiary sector, the value added would have experienced a relative acceleration of its growth to 5.7 percent on average. This performance reflects in particular the recovery, albeit partial, recorded in the «accommodation and catering activities», «wholesale and retail trade» and «transport and storage» branches.

## 5.4 Labor market and output capacity

### 5.4.1 Activity and employment

Between the first quarter of 2021 and the same period in 2022, the situation on the labour market was marked by a decline of 1 percent in the number of working people aged 15 and over to almost 12.2 million, with a drop of 3.4 percent in the countryside and an increase of 0.5 percent in the cities.

Taking into consideration an increase of 1.4 percent in the working age population, the activity rate decreased

from 45.5 percent to 44.5 percent overall, from 51.1 percent to 49.3 percent in rural areas and from 42.6 percent to 41.9 percent in urban areas.

At the same time, the national economy suffered a loss of 58,000 jobs, after 202,000 a year earlier, and the employed population contracted by 0.5 percent to almost 10.7 million people. The decrease in employment was recorded exclusively in agriculture with 183 thousand jobs lost. In the other sectors, the rise reached 85 thousand jobs in services, 29 thousand in construction and 13 thousand in industry, including handicrafts.

### 5.4.2 Unemployment and underemployment

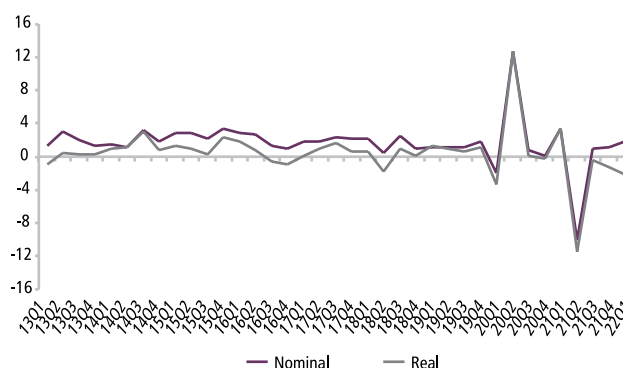
The unemployed labour force fell by 4.4 percent to almost 1.5 million people, and the unemployment rate fell from 12.5 percent to 12.1 percent at the national level, from 17.1 percent to 16.3 percent in the cities and from 5.3 percent to 5.1 percent in the countryside. For young people aged 15 to 24 in particular, this rate worsened by 0.9 points to 33.4 percent overall and by 2.1 points to 47.7 percent for urban dwellers. At the same time, the underemployment rate<sup>1</sup> remained stable at 9.2 percent, covering a decrease from 8.9 percent to 8.3 percent in urban areas and an increase from 9.6 percent to 10.6 percent in rural ones.

### 5.4.3 Productivity and wages

In non-agricultural activities, apparent labour productivity, as measured by the ratio of value added to employment, is estimated to have improved by 2.4 percent in the first quarter of 2022, following a decline of 1.9 percent in the same period of the previous year. This development would reflect increases of 1.7 percent in the number of employees and 4.1 percent in value added.

For its part, the average wage, calculated on the basis of CNSS data through the wage bill to the number of employees, increased in the first quarter of 2022, in nominal terms, by 1.8 percent after 3.5 percent in the same period of the previous year and showed, in real terms, a decrease of 2.1 percent against an increase of 3.3 percent.

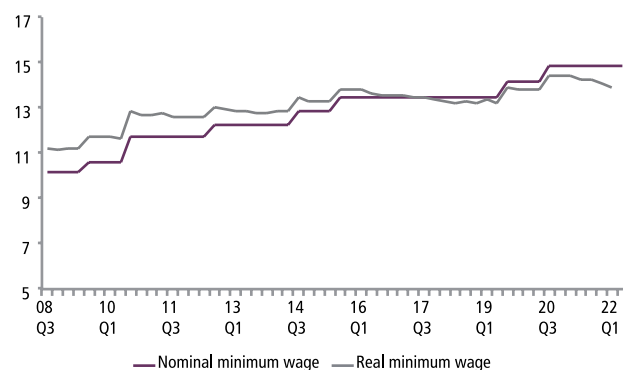
**Chart 5.4: Private sector average wage index (YoY change in %)**



Sources: CNSS, and BAM calculations.

The hourly minimum wage remained unchanged in the first quarter of 2022 at 14.81 dirhams in nominal terms. Taking into account a 4 percent rise in the consumer price index, it will have fallen by 3.8 percent in real terms.

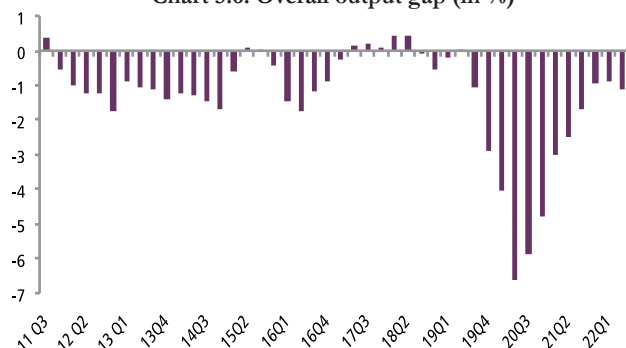
**Chart 5.5: Hourly minimum wages in nominal and real terms (in DH/h)**



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

Under these conditions, the output gap would remain negative in the first half of 2022.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

|  | Q1 2021     | Q1 2022    |
|--|-------------|------------|
| <b>Participation rate (%)</b>                              | 45.5        | 44.5       |
| Urban  | 42.6        | 41.9       |
| Rural  | 51.1        | 49.3       |
| <b>Unemployment rate (%)</b>                               | 12.5        | 12.1       |
| Youth aged between 15 and 24 years old                     | 32.5        | 33.4       |
| Urban  | 17.1        | 16.3       |
| Jeunes âgés de 15 à 24 ans                                 | 45.6        | 47.7       |
| Rural  | 5.3         | 5.1        |
| <b>Créations d'emplois (en milliers)</b>                   | -202        | -58        |
| Urban  | 56          | 90         |
| Rural  | -258        | -148       |
| Sectors  |             |            |
| - Agriculture, forest and fishing                          | -231        | -183       |
| - Industry including handicraft                            | -48         | 13         |
| - Construction   | 39          | 29         |
| - Services   | 42          | 85         |
| <b>Nonagricultural apparent productivity (change in %)</b> | <b>-1.9</b> | <b>2.4</b> |
| <b>Average wage index (change in %)</b>                    |             |            |
| Nominal  | 3.5         | 1.8        |
| Real   | 3.3         | -2.1       |

Sources: HPC, CNSS and BAM calculations.



## 6. RECENT INFLATION TRENDS

Exacerbated by the Russian-Ukrainian conflict and the new wave of Covid-19 contamination in China, bottlenecks in global production and supply chains and soaring commodity prices continue to weigh heavily on global inflation. Under these external pressures, and in line with the March MPR projections, the consumer price index (CPI) rose by 4 percent on average in the first quarter of 2022. This rate accelerated sharply in April, with inflation reaching 5.9 percent, its highest level since October 1995. Most of this acceleration was due to the underlying component of inflation, which stood at 5.5 percent compared to 4.4 percent in the first quarter of 2022, to the faster growth rate in the prices of fuels and lubricants and, to a lesser extent, to the surge in the prices of volatile food products. In contrast, regulated tariffs fell in line with the decline in road passenger transport tariffs.

In the second quarter of 2022, inflation would continue to rise to 5.7 percent. Surrounded by strong uncertainties linked in particular to the evolution of the Russian-Ukrainian conflict, this trend would be driven by the anticipated acceleration of core inflation to 5.6 percent, which would reflect the expected rise in food prices and the continued surge in inflation among our main trading partners. It would also be intensified by a greater contribution from the prices of fuels and lubricants in connection with the uptrend in the prices of oil products.

### 6.1. Inflation trends

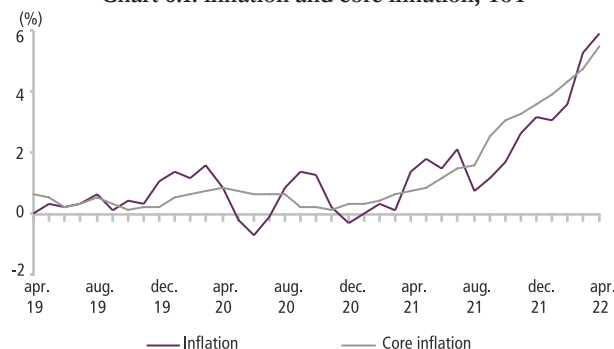
Inflation accelerated significantly in April, reaching 5.9 percent, its highest level since October 1995, following an average of 4 percent in the first quarter of the year. In addition to the greater contribution of the rise in fuel and lubricant prices, this change in consumer prices was intensified by the sharp rise in core inflation, which rose from 4.4 percent to 5.5 percent, driven exclusively by the surge in the prices of its tradable component, in particular food. It was also exacerbated by the surge in the prices of volatile food products following supply and demand shocks during the period surrounding the month of Ramadan. In contrast, regulated tariffs dropped by 0.2 percent, mainly reflecting earlier reductions in those for road passenger transport.

#### 6.1.1. Prices of goods excluded from core inflation

Under pressure from rising demand during the month of Ramadan, lower production of some fruits and vegetables due to, among other things, poor rainfall and lower night-time temperatures<sup>1</sup>, as well as higher

production costs<sup>2</sup>, prices of volatile food products rose by 6 percent in April, driven by an increase of 22.8 percent in the prices of 'fresh fruits', 10.3 percent in the prices of 'fresh fish' and 3.5 percent in the price of 'fresh vegetables'. Year-on-year, these prices rose by 9.6 percent, compared with 5.7 percent on average in the previous quarter. As a result, they continue to make a positive contribution to inflation, amounting to 1.2 percentage points in April, compared with an average of 0.7 percentage points in the first three months of the year.

Chart 6.1: inflation and core inflation, YoY



Sources: HCP and BAM calculations.

<sup>2</sup> Linked in particular to the increase in fertiliser prices.

<sup>1</sup> It results into a slowdown in greenhouse production in particular.

**Table 6.1: Change in inflation and its components**

| (En %)  | Monthly change |            |            | YoY change |            |            |
|---|----------------|------------|------------|------------|------------|------------|
|   | febr. 22       | march 22   | apr. 22    | febr. 22   | march 22   | apr. 22    |
| <b>Inflation</b>  | <b>0.6</b>     | <b>1.8</b> | <b>1.8</b> | <b>3.6</b> | <b>5.3</b> | <b>5.9</b> |
| - Volatile food prices  | 0.6            | 10.1       | 6.0        | 2.9        | 12.8       | 9.6        |
| - Administered prices   | -0.4           | -0.1       | 0.0        | -0.1       | -0.2       | -0.2       |
| - Fuels and lubricants  | 5.7            | 8.0        | 13.2       | 22.0       | 28.6       | 46.9       |
| <b>Core inflation</b>   | <b>0.6</b>     | <b>0.6</b> | <b>0.9</b> | <b>4.4</b> | <b>4.8</b> | <b>5.5</b> |
| - Food products   | 1.4            | 1.2        | 1.8        | 7.2        | 8.2        | 9.9        |
| - Clothing and footwear   | 0.0            | 0.5        | 1.6        | 3.2        | 3.7        | 4.7        |
| - Housing, water, gas, electricity and other fuels <sup>1</sup> | 0.2            | 0.2        | 0.0        | 2.5        | 2.3        | 2.3        |
| - Furniture, household equipment and routine house maintenance  | 0.4            | 0.4        | 0.3        | 3.1        | 3.3        | 3.4        |
| - Health <sup>1</sup>   | 0.1            | 0.2        | 0.6        | 1.9        | 1.8        | 2.1        |
| - Transportation <sup>2</sup>                                   | 0.7            | -0.1       | 0.3        | 3.3        | 3.0        | 3.2        |
| - Communication   | 0.1            | 0.0        | 0.1        | 0.0        | 0.0        | 0.1        |
| - Entertainment and culture <sup>1</sup>                        | 0.1            | 0.0        | 0.1        | 2.8        | 2.6        | 2.6        |
| - Education   | 0.0            | 0.0        | 0.0        | 1.3        | 1.3        | 1.3        |
| - Restaurants and hotels  | -0.2           | 0.0        | -0.2       | 1.2        | 1.2        | 1.0        |
| - Miscellaneous goods and services <sup>1</sup>                 | 0.2            | 0.2        | 0.3        | 4.6        | 4.4        | 4.2        |

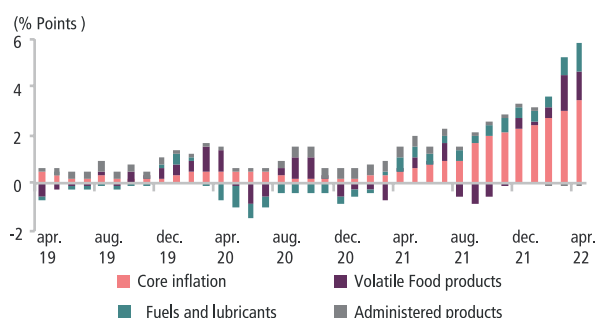
<sup>1</sup> Excluding administered goods.

<sup>2</sup> Excluding fuels and lubricants and administered products.

Sources: HCP, and BAM calculations.

Regulated tariffs remained unchanged from one month to the next in April, with the 0.3 percent downward revision of «pharmaceutical product» prices that offset the increase in «medical services» and «household waste collection» tariffs. Compared to their level in the same month of 2021, regulated tariffs fell by 0.2 percent in April, mainly as a result of the cumulative 4.2 percent decline in «road passenger transport» tariffs in February and March. In total, the contribution of regulated tariffs remains insignificant in April as well as in the first quarter of 2022.

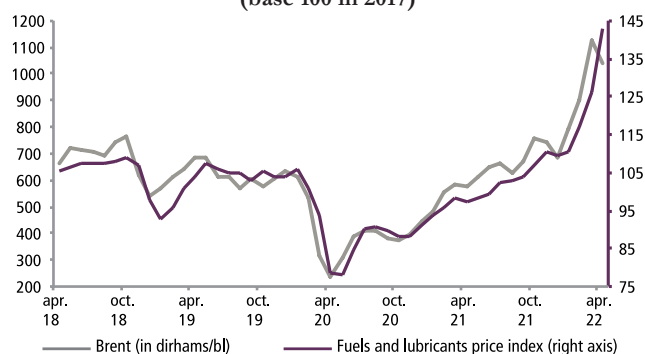
**Chart 6.2: Price contributions of major components to inflation (YoY)**



Sources: HCP, and BAM calculations.

Prices of fuels and lubricants rose by 13.2 percent in April, the largest monthly increase since their full liberalisation, despite the 8.5 percent fall in Brent crude oil prices in the same month. The increase in pump prices is thought to be partly related to the surge in international gross refining margins<sup>3</sup> and sea freight and, to a lesser extent, to the 0.9 percent depreciation of the national currency against the US dollar between March and April 2022. Year-on-year, prices of fuels and lubricants rebounded by almost 47 percent from 23 percent on average in the first quarter of the year, contributing 1.2 percentage points to inflation in April instead of 0.6 percentage points in the first quarter.

**Chart 6.3: Trends in the international price of Brent crude oil and in the price index for fuels and lubricants (base 100 in 2017)**



Sources: World Bank, HCP, and BAM calculations.

<sup>3</sup> For example, this margin, which represents the difference between the valuation of a representative basket of refined petroleum products on the Rotterdam market and the price of Brent crude oil rose from \$12.25/bl in March to \$22.47/bl in April, with an increase of 83.4 percent and 926 percent compared to its average in 2021.

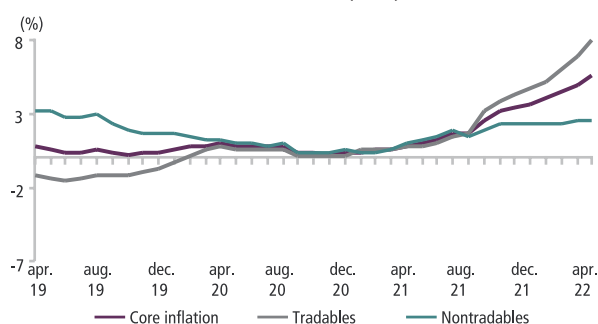
Source: The French General Directorate for Energy and the Climate.

### 6.1.2. Core inflation

Core inflation, which has been on an uptrend since the end of 2020, accelerated significantly from an average of 4.4 percent in the first three months of 2022 to 5.5 percent in April.

Its evolution essentially reflects the acceleration of the growth rate of its food component from 7.2 percent to 9.9 percent, in a context of continued rise in international food prices. In particular, prices rose by 15.4 percent instead of 12.2 percent for «cereal-based products», by 30.9 percent instead of 19.9 percent for «unprocessed cereals» and by 20.4 percent instead of 15 percent for «oils», together contributing 1.9 percentage points, or almost 69 percent, to the increase in food prices included in core inflation between the first quarter and April.

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



Sources: HCP, and BAM calculations.

Non-food prices rose by 4.7 percent after 3.4 percent for «clothing and footwear» and by 3.4 percent instead of 3 percent for «furniture, household equipment and routine house maintenance».

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

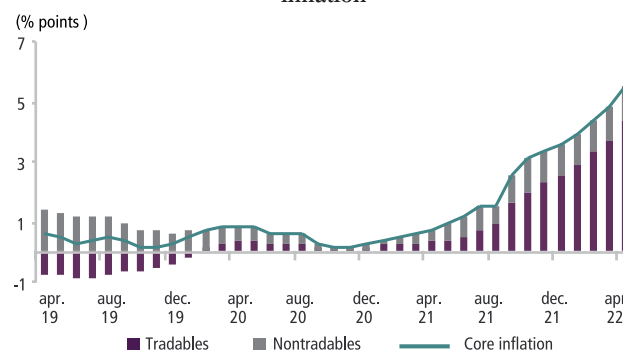
| (En %)                | Variation mensuelle |            |            | Glissement annuel |            |            |
|-----------------------|---------------------|------------|------------|-------------------|------------|------------|
|                       | febr. 22            | march 22   | apr. 22    | febr. 22          | march 22   | apr. 22    |
| <b>Tradables</b>      | 1.1                 | 0.9        | 1.3        | 6.0               | 6.7        | 7.9        |
| <b>Nontradables</b>   | 0.1                 | 0.2        | 0.3        | 2.4               | 2.4        | 2.5        |
| <b>Core inflation</b> | <b>0.6</b>          | <b>0.6</b> | <b>0.9</b> | <b>4.4</b>        | <b>4.8</b> | <b>5.5</b> |

Sources: HCP data, and BAM calculations.

The breakdown into tradable and non-tradable goods indicates that the acceleration of the underlying trend of inflation exclusively reflects that from 6 percent in the first quarter to 7.9 percent in the prices of tradable goods, itself linked to the rise in imported inflation, with in particular an intensification from 6.1 percent to 7.5 percent of inflation in the euro zone, Morocco's main trading partner.

In contrast, the growth rate of non-tradable goods prices remained almost stable at 2.5 percent instead of 2.4 percent, reflecting the moderate level of domestic inflationary pressure.

**Chart 6.5: Contribution of tradables and nontradables to core inflation**



Sources: HCP, and BAM calculations.

## 6.2. Short-term outlook for inflation

Against a backdrop of continuing external inflationary pressures, inflation is expected to accelerate significantly to 5.7 percent in the second quarter of 2022 from 4 percent a quarter earlier.

Its evolution would be attributable mainly to that of its underlying component, which is expected to stand at 5.6 percent instead of 4.4 percent, reflecting the increase in the prices of the foodstuffs included in it in connection with the expected change in their international prices, in particular those of wheat, for which tensions have intensified following India's decision to suspend its wheat exports from mid-May 2022 (see Box 6.1). The

FAO food price index is projected to post a quarterly increase of 16.9 percent in the second quarter of 2022.

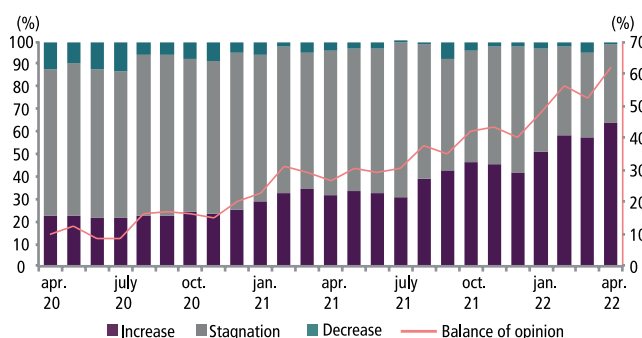
Similarly, fuel and lubricant prices are expected to rebound by 49 percent after 23 percent a quarter earlier, in line with the projected continued surge in international Brent crude oil prices.

For their part and taking into account daily price data at the wholesale market level, the prices of volatile food products are expected to increase by 7.5 percent instead of 5.7 percent, driven by the observed persistence of prices of certain product categories at relatively high levels.

In contrast, the government's downward revision of tariffs for certain pharmaceutical products from 21 April 2022<sup>4</sup> is expected to result in a year-on-year decline of 0.1 percent in regulated tariffs.

expect a stagnation while 2 percent of them project a decrease. The balance of opinion thus stands at 62 percent compared to 52 percent in March.

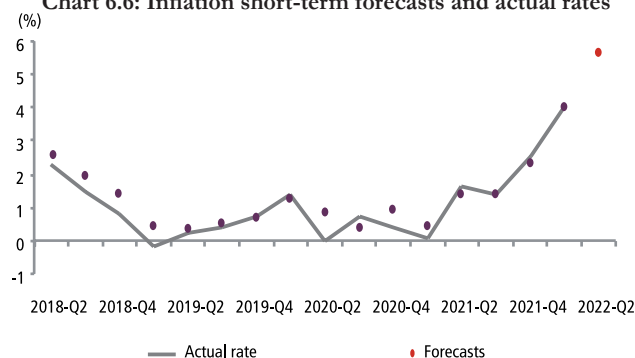
**Chart 6.7: Three-month inflation expectations by business owners**



Source: BAM's monthly business survey.

Furthermore, th

**Chart 6.6: Inflation short-term forecasts and actual rates**



The differences in forecasts observed between Q1 2018 and Q1 2020 are partly linked to the HCP's recasting of the CPI in May 2020. Thus, the CPI base 100=2006 is now replaced by the CPI base 100=2017 (see Box 6.1: "New consumer price index (base 100=2017)" in the June 2020 MPR).

Source: BAM.

## 6.3. Inflation expectations

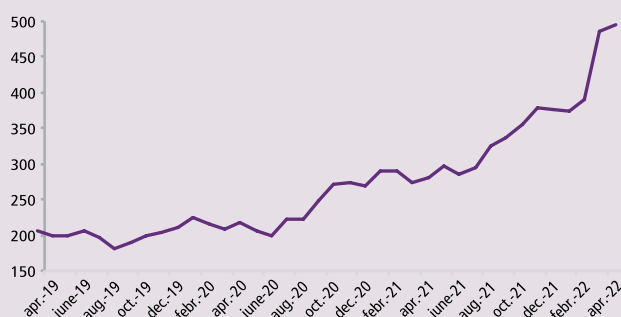
The results of Bank Al-Maghrib's business survey in industry, for April 2022, indicate that 63 percent of respondent industrialists anticipate an increase in inflation over the next three months, 35 percent

<sup>4</sup> Order of the Minister of Health and Social Protection revising the public selling prices of original, generic and biosimilar drugs marketed in Morocco, published on 21 April 2022 in the Official Gazette n° 7084.

### Box 6.1 : Soaring international wheat prices

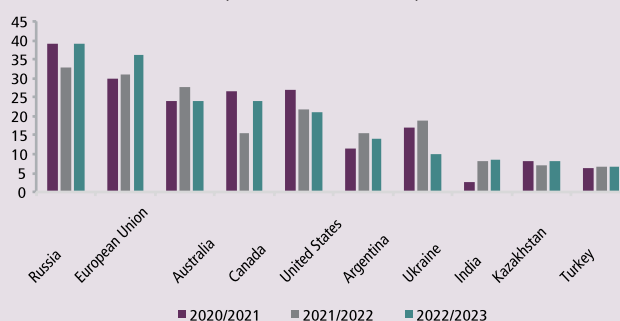
International wheat prices rose significantly from the second half of 2021. The prices of US wheat, in particular, rose by 28.7 percent in the second half of 2021. This development is the result of a combination of factors, including: (i) strong global demand generated by the economic recovery in several regions of the world; (ii) the drop in production in some exporting countries, especially Canada; (iii) the effects of the Covid-19 pandemic on world trade with the return of protectionist measures in certain countries; (iv) massive purchases by several importing countries in the Middle East and North Africa, as well as those in South-East Asia, mainly China<sup>1</sup>; (v) the surge in energy prices; and (vi) speculation on the futures markets.

Chart B.6.1.1 : US Wheat prices (\$/mt)



Source : World Bank.

Chart B.6.1.2 : The main wheat exporting countries (in millions of tons)



Source: World Markets and Trade, May 2022, United States, Department of Agriculture.

In 2022, and after a virtual stagnation during the first two months, wheat prices rose rapidly from the start of the conflict between Russia and Ukraine, the two countries representing nearly 30 percent of world exports<sup>2</sup>. The price of US wheat, for example, rose by 30.7 percent between February and April to reach an average of \$495.3 metric ton<sup>3</sup> in April, or 145.6 percent above its 2019 average. Furthermore, world production in 2021/2022 is estimated at 776.6 million tons<sup>4</sup>, which means a stagnation compared to the previous year. Thus, production is expected to fall in Ukraine, where the yield is expected to be one-third lower than in the previous year, as well as in Australia and India due to heat waves that have damaged yields. China, the world's second largest producer of cereals<sup>5</sup>, is also expecting a slightly lower harvest. On the contrary, production is expected to increase year-on-year in Canada with improved weather conditions, in the United States following the recovery of spring wheat production after a drought year, in Russia and in Turkey.

<sup>1</sup> USDA- Foreign Agricultural Service Grain: World Markets and Trade. May 2022.

<sup>2</sup> The importance of Ukraine and the Russian Federation for global agricultural markets and the risks associated with the current conflict. FAO information Note. 25 march 2022.

<sup>3</sup> US Wheat is quoted in USD per metric ton equivalent to 0.984 tons.

<sup>4</sup> FAO Cereal Supply and Demand Brief, 6 May 2022.

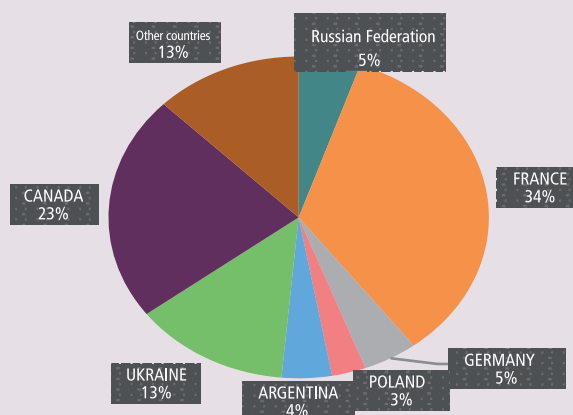
<sup>5</sup> In average of the last 10 years according to data from the US Department of Agriculture data (USDA).

Tensions on wheat prices have been exacerbated recently with India's ban on wheat exports from 14 May, which was aimed at prioritising its food security and limiting the rapid rise in domestic consumer prices following the decline in its production. Even though it is the third largest wheat producer in the world<sup>5</sup>, India remains a marginal player in terms of exports, representing less than 4 percent of total exports of this commodity. However, this share has increased sharply in recent months, giving rise to some optimism about the possible easing of the deficit caused by the war in Ukraine<sup>6</sup>. The decision to suspend its exports has thus induced some panic in the market.

Compared to the World Bank's April 2022 forecast, which does not include the effect of this recent decision, US wheat futures expect an average \$460.6/mt instead of the \$450/mt forecast by this institution. The gap would widen in 2023, with futures projected at \$463.7/mt instead of the \$380/mt projected by the World Bank.

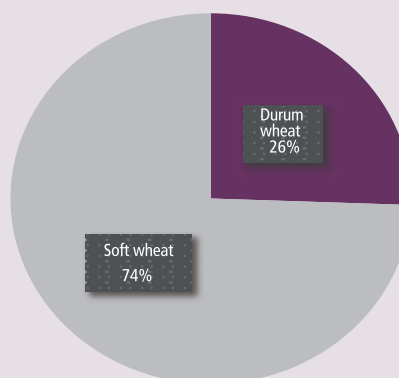
In Morocco, 45 percent of national wheat needs are covered by local production (on average over the last 10 years)<sup>7</sup>. With the drought that marked the current crop year, national wheat production would be limited to 25.1 million hundredweights according to the first estimate of the Ministry of Agriculture, Maritime Fishing, Rural Development and Waters and Forests. Most of Morocco's wheat imports, or 70.4 percent over the period 2010-2021, come from three countries, namely France, Canada and Ukraine. Nearly three quarters of these imports concern soft wheat.

**Chart B.6.1.3 : Structure of Morocco's wheat imports by country (2010-2021)**



Source : Foreign Exchange Office.

**Chart B.6.1.4 : Distribution of imports by type of products (2010-2021)**



<sup>6</sup> The impact of the war in Ukraine on commodity markets, Commodity markets outlook, World Bank, April 2022.

<sup>7</sup> According to ONICL (National Interprofessional Office for Cereals and Leguminous Plants) data.

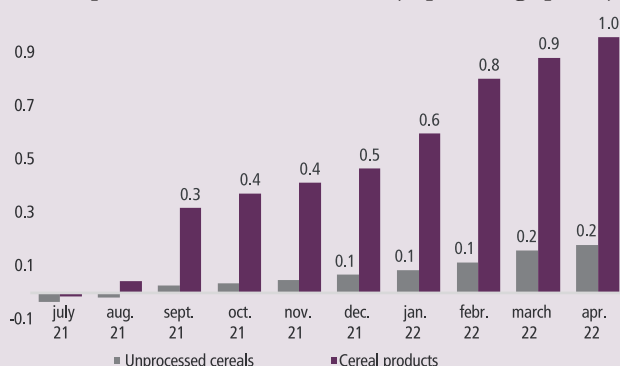
Concerning the latter, and in order to neutralise the unprecedented rise in its prices and maintain unchanged the national prices of flour and bread, the Government has adopted two main measures:

- The suspension, from 1 November 2021, of customs duties on imports of durum and soft wheat,
- Allocation of additional subsidies to importers: It has been decided to set up, for importers, a refund system for soft wheat imports between 1 November 2021 and 30 April 2022. The State will pay a flat-rate premium to importers if the cost price ex-Port is higher than 270 dirhams per hundredweight. Initially scheduled to run from 1 November 2021 to 30 April 2022, two amendments to the circular setting this subsidy were published in March and April 2022 with the aim of extending its duration to 31 June 2022 and December 2022, respectively.

As for durum wheat, Morocco's sources of supply are particularly concentrated, with Canada accounting for over 85 percent of our imports of this commodity. Most of these imports are used in the production of semolina, pasta and couscous. Unlike soft wheat, national durum wheat prices are liberalised and are subject to the vagaries of world markets.

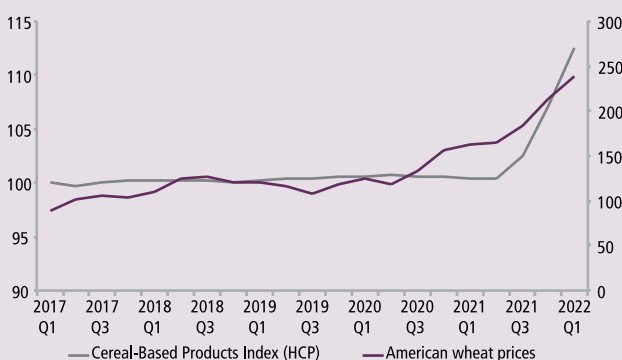
In the structure of Moroccan households' consumption expenditure, cereals and their derivatives account for 7 percent, of which 6.4 percent is allocated to «cereal-based products» and 0.6 percent to «unprocessed cereals». These two product categories contributed 0.9 percentage points to the acceleration of inflation between January and April 2022.

**Chart B.6.1.5 : Contribution of cereal-based product prices and unprocessed cereals to inflation (in percentage points)**



Sources : HCP data and BAM calculations.

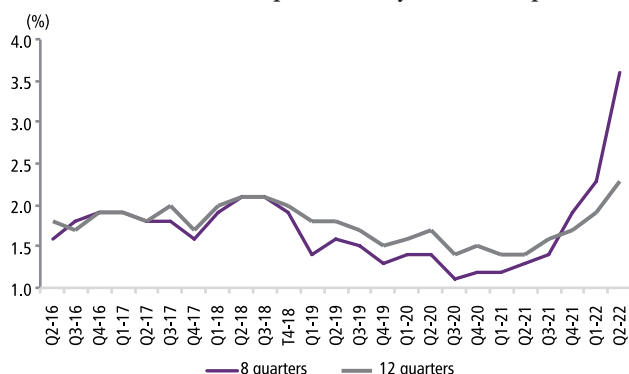
**Chart B.6.1.6 : IPrice index (base 100 in 2017)**



Sources : HCP and World Bank.

In addition, the results of Bank Al-Maghrib's inflation expectations survey for the second quarter of 2022 show that financial experts forecast an acceleration of inflation to 3.6 percent on average over the next eight quarters, compared to 2.3 percent expected a quarter earlier. In the longer term, they expect inflation at 2.3 percent over the next 12 quarters, instead of 1.9 percent in the last quarter.

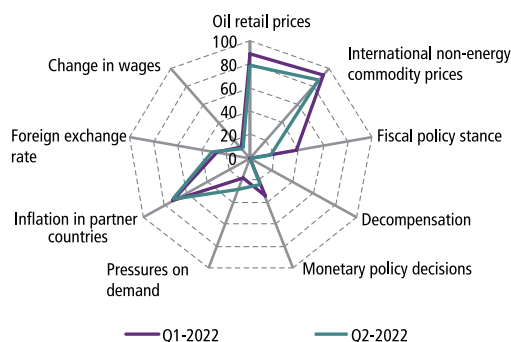
**Chart 6.8: Inflation expectations by financial experts\***



Source: BAM's quarterly survey on inflation expectations conducted among financial sector experts.

The respondents consider that the evolution of inflation over the next eight quarters would be driven mainly by world non-oil commodity prices, pump prices and inflation in partner countries.

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



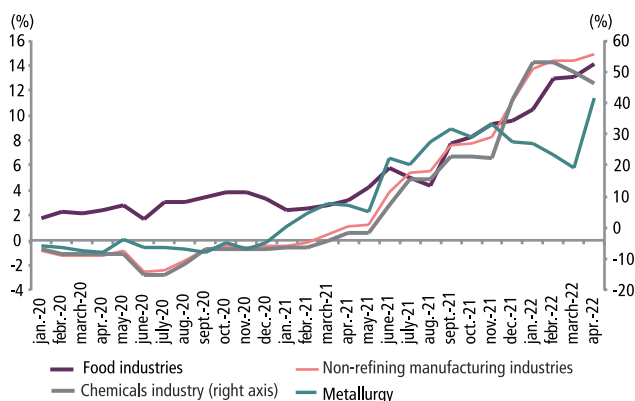
Source: BAM's Quarterly Survey on Inflation Expectations.

## 6.4. Producer prices<sup>5</sup>

The increase in producer prices in the non-refining manufacturing industries observed since the second quarter of 2021 increased in April to 15 percent after an average of 14.2 percent in the first three months of 2022.

This dynamism mainly reflects the acceleration of producer prices from 23 percent to 41.7 percent for the «metalworking» branch and, to a lesser extent, that from 12.2 percent to 14.2 percent for the «food industries» and from 5.6 percent to 14.5 percent for the «woodworking and manufacture of wooden articles» branch. Conversely, the growth rate of producer prices in the «chemical industry» decelerated from 52 percent to 46.1 percent.

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



Source : HCP.

<sup>5</sup> On 26 February 2021, the HCP published a new index of producer prices with 2018 as base year instead of 2010 before.



## 7. MEDIUM-TERM OUTLOOK

### Summary

The international economic outlook has darkened considerably in recent months, mainly due to increased geopolitical tensions, particularly the Russian-Ukrainian conflict. The latter has sent shockwaves through international commodity prices, thus contributing to heightened inflationary pressures. Against this background, several central banks were forced to raise their key rates and/or reduce their asset purchases. The extent of the effects of this conflict will depend on how it evolves, the impact of the sanctions in force and any additional measures.

In the United States, growth is expected to slow from 5.7 percent to 2.4 percent in 2022 and then to 1.9 percent in 2023, mainly as a result of the tightening of monetary conditions. In the euro zone, after reaching 5.4 percent in 2021, growth is projected to slow to 2.6 percent in 2022 and 1.2 percent in 2023. In China, the slowdown in global demand would weigh on growth, which would get down to 4.7 percent in 2022 after 8.1 percent in 2021. However, it would accelerate to 5.8 percent in 2023, as mobility restrictions would only have a temporary effect on the economy. Russia, on the other hand, is expected to enter a recession this year, with the GPMN<sup>1</sup> forecasting GDP to contract by 10.6 percent and 7.8 percent in 2023.

On the commodities market, prices continued to rise amid geopolitical difficulties, limited supply and supply difficulties. The price of a barrel of Brent crude oil is expected to rise to \$107 on average in 2022, from \$70.4 in 2021, before falling back to \$93.9 in 2023. In the same vein, the price of coal is expected to continue its uptrend to reach an average of \$271.4 per ton in 2022. In 2023, the price is projected to adjust downwards to \$191.9. For food, the FAO food price index is forecast to rise by an average of 34.3 percent in 2022 before falling down 9.2 percent in 2023, reflecting the situation in the Black Sea, the drought in South America and the recent heat wave in India.

Against this background, inflation in both the advanced and most emerging economies is expected to reach exceptional levels. In the US, it is projected at 7.8 percent in 2022, reflecting in particular a tightened labour market, before returning to 4.2 percent in 2023. Similarly, in the euro area, inflation is forecast to reach 7.2 percent in 2022 before slowing down to 3.2 percent in 2023.

In this context of strong inflationary pressures, central banks have tightened their monetary policies. In particular, at its meeting on 14-15 June, the FED raised the target range for the federal funds rate to [1.5 percent-1.75 percent], the largest increase since 1994. It also indicated that it will continue to reduce its holdings of Treasury securities and mortgage-backed securities at the pace announced in May.

For its part, the ECB announced its intention to make an initial 25 basis point increase at its July meeting and plans to raise key rates again in September. The calibration of monetary policy will depend on the update of the medium-term outlook for inflation and will reflect its trend. In parallel, the Board decided to end net purchases under the APP as of 1 July 2022.

At the national level, the year 2022 would see an increase in foreign trade in goods, a recovery in travel receipts and a slight decline in transfers from Moroccan expatriates. The current account deficit would reach 4.9 percent of GDP at year-end, after 2.3 percent in 2021. In 2023, the growth of trade in goods would decelerate while that of travel receipts would consolidate, bringing the current account deficit down to 3.8 percent of GDP. As for FDI receipts, they would be around 3 percent of GDP over the forecast horizon. Taking into account, in particular, the

<sup>1</sup> Global Projection Model Network to which Bank Al-Maghrib is affiliated for projections of the world economy.

hypotheses of grant inflows worth 2.2 billion in 2022 and 2 billion in 2023 and the Treasury's expected external borrowing, the official reserve assets would reach 342.5 billion at the end of 2022 and 346.4 billion at the end of 2023, or the equivalent of more than six months of imports of goods and services.

As regards public finances, after a rate of 5.9 percent in 2021, the budget deficit would reach 6.3 percent of GDP in 2022, or the same ratio forecast in March. This result takes into account a rebound in the subsidization costs under the effect of the new assumptions relating to butane gas prices and exchange rates, an increase in the subsidy for soft wheat as well as the budgetary achievements as at end-April 2022. In 2023, the deficit is expected to narrow to 5.6 percent of GDP, mainly due to improved tax receipts, although expenditure on goods and services is projected to increase in line with the impact of the social dialogue agreement.

Monetary conditions are expected to remain accommodative and the growth of loans to the non-financial sector is forecast to average 4 percent in 2022 and 2023. The real effective exchange rate is projected to depreciate over the forecast horizon, mainly due to a lower domestic inflation compared to that of partner and competitor countries.

After the sharp rebound of 7.9 percent in 2021, the growth of the national economy would decelerate from 7.9 percent to 1 percent this year, reflecting a 15 percent drop in agricultural value added, taking into account a cereal harvest of 32 MQx, and a 3.8 percent increase in the value added of non-agricultural activities. In 2023, growth would accelerate to 4 percent, essentially reflecting a base effect of 12.9 percent in agricultural value added, assuming a return to average cereal production. The pace of non-agricultural activities would slow to 2.8 percent against a backdrop of moderating external demand. As regards demand, after strengthening in 2021, its domestic component would continue to improve in the medium term, while the contribution of net exports to growth would be negative in 2022 under the effect of the expected increase in imports, before making a positive contribution in 2023, driven by the projected continuation of the positive dynamics of exports.

Inflationary pressures continue to be fuelled mainly by external factors, especially soaring energy and food prices. Against this background, inflation is expected to accelerate from 1.4 percent in 2021 to 5.3 percent in 2022, driven mainly by the rise in its underlying component, and to a lesser extent by higher fuel, lubricants and volatile food prices. In 2023, it would reach 2 percent overall and its underlying component would stand at 2.5 percent.

## 7.1 Underlying assumptions

### Deteriorating global growth prospects

The prolongation of the Russian-Ukrainian conflict, the tightening of monetary conditions and China's zero Covid policy continue to weigh on global growth. Growth is expected to slow from 6.1 percent in 2021 to 2.9 percent in 2022 and 2.6 percent in 2023. In the United States, after having reached 5.7 percent, growth would fall down to 2.4 percent in 2022, then to 1.9 percent in 2023. In the euro zone, it is expected to decelerate from 5.4 percent in 2021 to 2.6 percent in 2022 and then to 1.2 percent in 2023.

In the main emerging countries, and more particularly in China, the strong health restrictions and the slowdown in global demand are weighing on growth, which is forecast at 4.7 percent in 2022 after 8.1 percent in 2021. It would nevertheless accelerate to 5.8 percent in 2023 under the effect of the lifting of mobility restrictions. Russia is expected to enter a recession, with GDP contracting by 10.6 percent in 2022 and 7.8 percent in 2023, reflecting the impact of sanctions.

Chart 7.1: Growth in the euro area

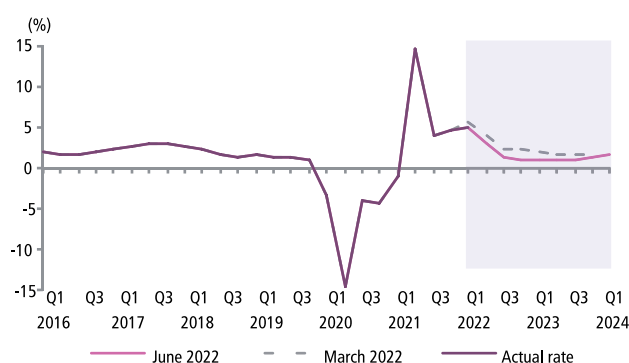
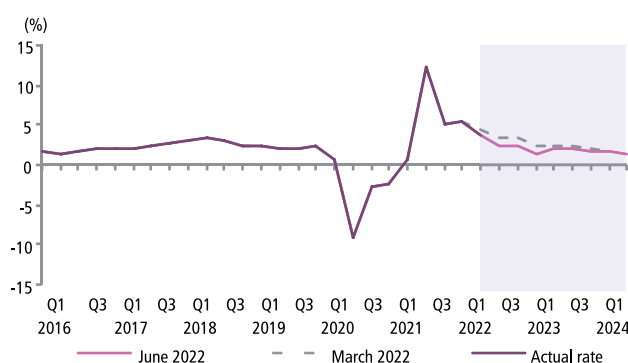


Chart 7.2: Growth in the USA



Source: GPMN, may 2022.

### Stronger increase in commodity prices

Commodity prices continued to rise in a critical geopolitical context and amid supply shortages. Energy prices are expected to continue their uptrend due to the conflict in Ukraine and sanctions against Russian oil companies. After an average price of \$70.4 per barrel in 2021, Brent is expected to rise to an average of \$107 in 2022, before falling back to \$93.9 in 2023. Coal prices are also projected to maintain their uptrend, reaching an average of \$271.4 per ton in 2022 due to the EU ban on Russian imports. In 2023, the price is expected to adjust downwards to \$191.9.

Concerning phosphate and derivatives, the World Bank's April forecasts indicate that prices would remain high in 2022 due to difficulties of supply from China and Russia. China has suspended phosphate exports until June 2022 to ensure sufficient supplies for national food production, while Russia has imposed an export ban ammonium nitrate, a key input in the manufacture of DAP. In particular, the price of raw phosphate is expected to rise from

\$123 per ton in 2021 to \$175 in 2022, before falling back to \$160 in 2023. Derivative prices are projected to increase by 49.8 percent in 2022 to \$900 per ton for DAP and by 42.3 percent to \$750 per ton for TSP, before declining in 2023 to \$800 and \$650, respectively.

Food prices remain very high, and with the situation in the Black Sea, the drought in South America and the recent heat wave in India, the FAO index is expected to rise by an average of 34.3 percent in 2022 to its highest level ever before declining by 9.2 percent in 2023.

Against this backdrop of soaring commodity prices and continued supply chain disruptions, rising inflation has continued to surprise on the rise in both advanced and emerging countries. In the US, inflation is projected at 7.8 percent in 2022 from 4.7 percent in 2021, mainly reflecting a tighter labour market that has put some upward pressure on wages. However, it is expected to decline to 4.2 percent in 2023 as a result of tighter monetary conditions. Similarly, in the euro area, inflation is forecast at 7.2 percent in 2022, after 2.6 percent in 2021, followed by a slowdown to 3.2 percent in 2023.

Chart 7.3: Price of brent

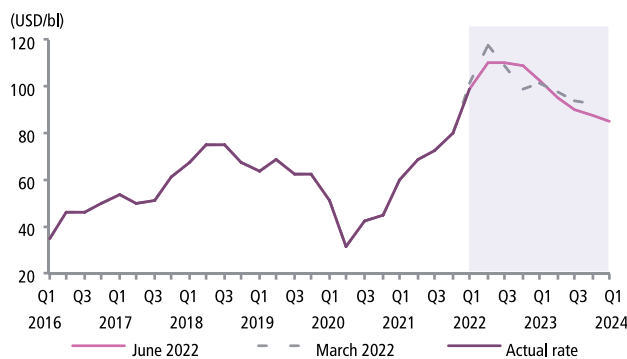
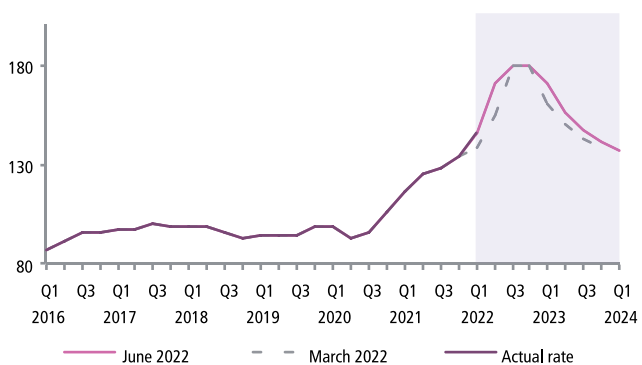


Chart 7.4: FAO food price index (2014-2016=100)



Source: GPMN, may 2022.

Chart 7.5: Inflation in the euro area

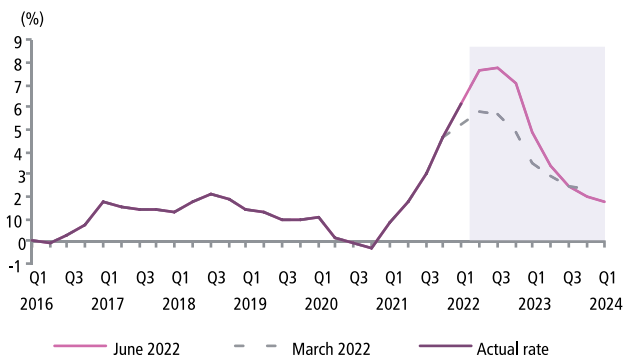


Chart 7.6: Inflation in the United states



Source: GPMN, may 2022.

## Tighter monetary policies to contain accelerating inflation

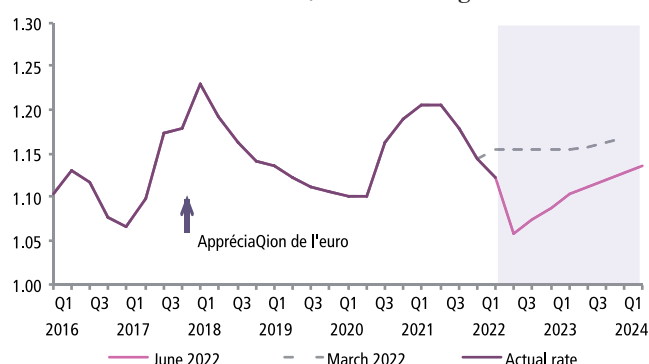
Faced with strong inflationary pressures, many Central Banks have tightened their monetary policies, with the reduction of asset purchase programmes and/or increases in key rates. Thus, the Fed decided at the end of its

14-15 June meeting to raise the target range for the federal funds rate by 75 basis points to [1.5 percent-1.75 percent], the largest increase since 1994, against a backdrop of high inflation and a strong labour market. It also indicated that it will continue to reduce its holdings of Treasury securities and mortgage-backed securities at the pace announced in May. The reduction will be capped at \$47.5 billion per month in June, July and August, and then at \$95 billion per month starting from September. Its chairman also anticipates that future increases in the target range would be appropriate.

The ECB kept its key interest rates unchanged at its Board meeting on 9 June, announced its intention to raise them first by 25 basis points at its July meeting and plans to raise them again in September. The calibration of monetary policy will depend on the update of the medium-term inflation outlook and will reflect its trend. In parallel, the Board decided to end net purchases under the APP as of 1 July 2022. In addition, and following an exceptional meeting on 15 June, the Board decided to design a new anti-fragmentation instrument to combat the uneven transmission of monetary policy normalisation across countries and decided to show some flexibility in the reinvestment of maturing redemptions in the PEPP portfolio, in order to preserve the functioning of the monetary policy transmission mechanism.

In foreign exchange markets, the euro is expected to depreciate by 8 percent in 2022 to an average of \$1.09 on expectations of faster FED monetary tightening compared to the ECB, before appreciating slightly to \$1.12 in 2023.

Chart 7.7: USD/ EUR exchange rate



Source: GPMN, may 2022.

## Cereal production of 32 MQx for the 2021/2022 crop year and an average crop assumed for 2022/2023

The 2021-2022 crop year has been marked by unfavourable climatic conditions. Cereal production is estimated by the Department of Agriculture at 32 million quintals (MQx), compared to a BAM forecast of 25 MQx in the March report, down 69 percent from the previous year and 58 percent from the average of the last five years. At the same time, the state of spring vegetable crop is good, thanks to the rains recorded in March and April, and the performance of the livestock sector would be maintained overall, according to the Department of Agriculture, thanks to the support provided to livestock farmers and the improvement of pastureland.

For the 2022-2023 crop year, and assuming an average cereal harvest of 75 MQx and a trend in other crops, agricultural value added would increase by 12.9 percent.

## 7.2 Macroeconomic projections

### Higher current account deficit in 2022 mainly due to rising import prices

After a slight increase to 2.3 percent of GDP in 2021, the current account deficit would reach 4.9 percent of GDP this year before narrowing to 3.8 percent in 2023. Exports would increase by 22 percent in 2022, mainly driven by shipments of phosphate and derivatives and sales of automobile construction. Imports would rise by 24.2 percent, mainly due to a notable increase in purchases of semi-finished and raw products, in addition to higher energy bill and the rise in wheat purchases. In parallel, in connection with the reopening of the borders, travel receipts would improve by 58.3 percent to 54.3 billion dirhams, while the transfers of the Moroccan expatriates would decrease by 6.8 percent to 87.3 billion dirhams.

Taking these developments into account and assuming grant inflows of 2.2 billion and Treasury's external financing for 40 billion, the official reserve assets would stand at 342.5 billion at the end of 2022, the equivalent of six months of imports of goods and services.

In 2023, exports would increase by 0.8 percent, reflecting a rise in sales of automobile construction and a fall in shipments of phosphates and derivatives. At the same time, imports are expected to grow by 0.3 percent, due in particular to the expected increase in imports of consumer goods and the decrease of the energy bill. Travel receipts would increase to 70.9 billion, transfers from Moroccan expatriates would reach 84 billion, down 3.8 percent and FDI receipts would evolve around 3 percent of GDP.

Under the assumption of grant inflows worth 2 billion dirhams, Treasury's external financing for up to 20 billion dirhams, the official reserve assets would reach 346.4 billion at the end of 2023, or the equivalent of 6 months and 2 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<br>(june/march) |             |
|--|--------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------|-------------|
|  | 2017         | 2018        | 2019        | 2020        | 2021        | 2022        | 2023        | 2022                | 2023        |
| Exports of goods (FOB)   | 10.3         | 10.7        | 3.3         | -7.5        | 25.0        | 22.0        | 0.8         | 9.6                 | -2.6        |
| Imports of goods (CAF)   | 6.7          | 9.9         | 2.0         | -13.9       | 24.7        | 24.2        | 0.3         | 9.2                 | -0.8        |
| Travel receipts  | 12.3         | 1.2         | 7.8         | -53.7       | -5.9        | 58.3        | 30.5        | 21.2                | -20.3       |
| Expatriate remittances   | 5.3          | -1.5        | 0.1         | 4.8         | 37.5        | -6.8        | -3.8        | 8.2                 | 6.9         |
| <b>Current account balance (% of GDP)</b>                                  | <b>-3.2</b>  | <b>-4.9</b> | <b>-3.4</b> | <b>-1.2</b> | <b>-2.3</b> | <b>-4.9</b> | <b>-3.8</b> | <b>0.7</b>          | <b>-0.1</b> |
| <b>Official reserve assets, in months of imports of goods and services</b> | <b>5.6</b>   | <b>5.4</b>  | <b>6.9</b>  | <b>7.1</b>  | <b>5.95</b> | <b>6.0</b>  | <b>6.1</b>  | <b>-0.5</b>         | <b>-0.5</b> |

Sources: Foreign Exchange Office and BAM forecasts.

## Accommodating monetary conditions and moderate growth rate of loans to the non-financial sector

After an appreciation of 0.6 percent in 2021, the real effective exchange rate would depreciate by 2.8 percent in 2022, as a result of a fall in the value of the national currency in nominal terms, mainly against the dollar, and a domestic inflation that is lower compared to its level in commercial partners and competitors. This depreciation would ease to 0.9 percent in 2023, in connection with the narrowing of the inflation differential and the appreciation of the dirham in nominal terms.

Based on the anticipated development of the Bank's foreign exchange reserves and the moderate increase of currency in circulation, the banking liquidity deficit would stand at 78.2 billion dirhams at the end of 2022 and 91.9 billion at the end of 2023. As for bank loans to the non-financial sector, they increased by 3.2 percent at end-April instead of 3.1 percent on average during the first quarter of 2022, with an acceleration in the growth of loans to private non-financial companies, a slowdown of that of loans to households and a further decline in loans to public companies. In terms of outlook and taking into account the anticipated development of economic activity and the expectations of the banking system, it would evolve at around 4 percent on average in 2022 and 2023. Under these conditions and taking into account the expected change in the other counterparts of the money supply, the growth of the M3 aggregate would reach 5.7 percent at the end of 2022 and 4.7 percent at the end of 2023.

**Table 7.2: Money supply and bank lending**

| Change in %, unless otherwise indicated          | Actual rates |       |       |       | Forecasts |       | Gap<br>(june/march) |      |
|--|--------------|-------|-------|-------|-----------|-------|---------------------|------|
|  | 2018         | 2019  | 2020  | 2021  | 2022      | 2023  | 2022                | 2023 |
| Bank lending to the nonfinancial sector          | 3.1          | 5.5   | 4.0   | 3.1   | 4.2       | 3.8   | 0.1                 | -0.3 |
| M3   | 4.1          | 3.8   | 8.5   | 5.1   | 5.7       | 4.7   | -0.2                | 0.7  |
| Liquidity surplus or deficit, in billion dirhams | -69.0        | -62.3 | -67.0 | -64.4 | -78.2     | -91.9 | -3.1                | -3.6 |

## Slight widening of the deficit in 2022 and expected easing in 2023

After a rate of 5.9 percent in 2021, the budget deficit would reach 6.3 percent of GDP in 2022, before easing to 5.6 percent in 2023, down 0.3 points compared to the report of March. This forecasting exercise was marked in particular by the integration of budgetary achievements as at end-May 2022, the impact of social dialogue measures as well as the change in the base year of the national accounts.

Taking into account the pace of budgetary execution at the end-May 2022, tax revenues have been adjusted upwards, while non-tax revenues have been revised downwards, in particular those from monopolies and shareholdings and revenues from 'innovative financing mechanisms'. On the expenditure side, the subsidization costs in particular are expected to rebound by 60.7 percent year-on-year to 35.1 billion, taking into account new assumptions on butane gas prices, the exchange rate and an increase in subsidies for the national soft wheat flour.

In 2023, the measures emanating from the social dialogue are expected to result in an increase in the wage bill and in expenditure on other goods and services. The subsidization costs have also been revised downwards to reflect

the new assumptions on gas prices and the exchange rate. On the revenue side, tax revenues have been revised upwards due to the expected improvement in economic activity.

## Strong deceleration of national growth in 2022 after a sharp rebound in 2021

After the 7.9 percent rebound recorded in 2021, the growth of the national economy would decelerate to 1 percent this year instead of the 0.7 percent forecast in March. This adjustment reflects, in addition to the integration of new data from the national accounts with base year 2014, a less marked fall of 15 percent instead of 19.8 percent in agricultural value added, taking into account a cereal harvest of 32 MQx, according to the Department of Agriculture's estimate, against 25 MQx as forecast by BAM. On the other hand, non-agricultural activities, mainly tertiary ones, would have recovered more vigorously than expected thanks to the opening up of the economy since last February. They would grow by 3.8 percent instead of the 3 percent expected in March, despite a deceleration in foreign demand.

On the demand side, supported by the maintenance of accommodating monetary conditions, its domestic component would make a positive contribution in it, while remaining moderate following the expected deterioration in agricultural and non-agricultural incomes, amid strong inflationary pressures. On the other hand, the contribution of net exports in 2022 would remain negative, as the expected significant increase in the volume of imports of goods and services would more than offset the effect of the increase in exports, which would remain limited in a context of deteriorating outlook for our main partners.

In 2023, growth would accelerate to 4 percent, essentially reflecting a base effect of 12.9 percent of agricultural value added, under the assumption of a return to an average cereal production. The growth rate of non-agricultural activities would slow down to 2.8 percent against a backdrop of moderating external demand. At the same time, the expected positive effects of the measures adopted within the framework of the social dialogue and the anticipated recovery of agricultural incomes would favour a continued improvement in domestic demand. As for net exports, they would make a positive contribution to growth, driven by the maintenance of export dynamics.

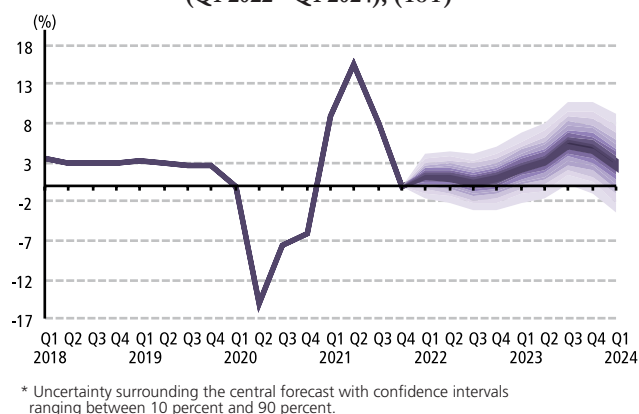
**Table 7.3: Economic growth**

| Variation en %         | Actual rates |            |            |            |             |            | Forecasts  |            | Gap<br>(june/march) |             |
|------------------------|--------------|------------|------------|------------|-------------|------------|------------|------------|---------------------|-------------|
|                        | 2016         | 2017       | 2018       | 2019       | 2020        | 2021       | 2022       | 2023       | 2022                | 2023        |
| <b>National growth</b> | <b>0.5</b>   | <b>5.1</b> | <b>3.1</b> | <b>2.9</b> | <b>-7.2</b> | <b>7.9</b> | <b>1.0</b> | <b>4.0</b> | <b>0.3</b>          | <b>-0.6</b> |
| Agricultural VA        | -19.7        | 21.5       | 5.6        | -5.0       | -8.1        | 17.8       | -15.0      | 12.9       | 4.8                 | -4.1        |
| Nonagricultural VA     | 2.8          | 3.2        | 2.8        | 4.0        | -6.9        | 6.6        | 3.8        | 2.8        | 0.8                 | -0.2        |

Sources: HCP data, and BAM forecasts.



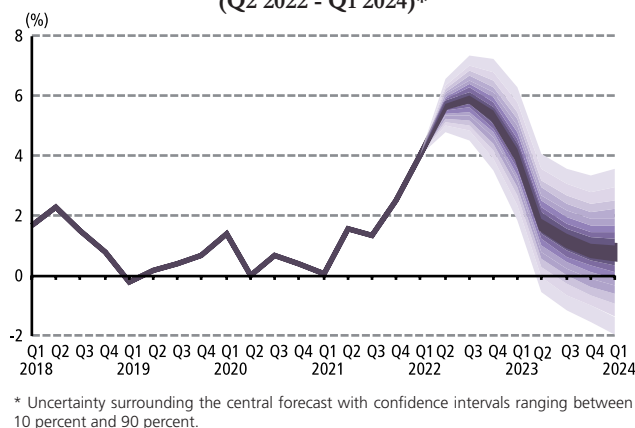
**Chart 7.8: Growth outlook over the forecast horizon  
(Q1 2022 - Q1 2024), (YoY)\***



## Strong acceleration of inflation in 2022

Under the effect of a stronger rise in international energy commodity and food prices and the increase in imported inflation, inflation would maintain its uptrend in 2022. The rise in its underlying component would continue to be fuelled mainly by external factors, as shown by the significant acceleration in tradable goods inflation. It would peak at 5.2 percent in 2022 and then fall back to 2.5 percent in 2023, as inflationary pressures ease. For the other components, the dynamics of fuel and lubricant prices are expected to rise in 2022, reflecting high international oil prices. In addition, the prices of volatile food products are expected to rise in 2022, driven by the strong increases recorded in March and April. In contrast, prices of regulated products are expected to stabilise in 2022, before falling back to their trend growth rate in 2023. In total, inflation would reach 5.3 percent in 2022 and would get down to around 2 percent in 2023.

**Chart 7.9: Inflation forecast over the forecast horizon  
(Q2 2022 - Q1 2024)\***

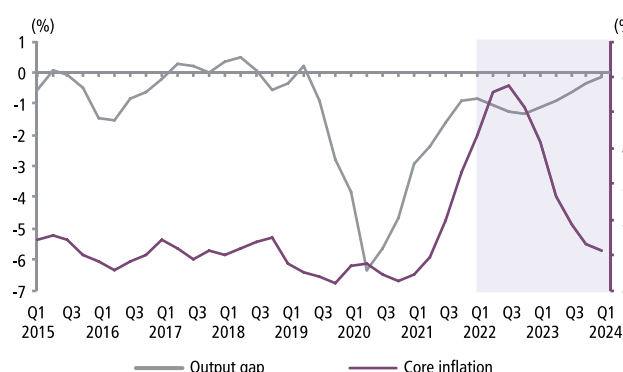


**Table 7.4: Inflation and core inflation**

|                        | Actual rates |            |            |            | Forecasts  |            |  | Gap<br>(june/march) |            |
|------------------------|--------------|------------|------------|------------|------------|------------|--|---------------------|------------|
|                        | 2018         | 2019       | 2020       | 2021       | 2022       | 2023       | Horizon of 8<br>quarters<br>(Q2 2022 au Q1 2024) | 2022                | 2023       |
| <b>Inflation</b>       | <b>1.6</b>   | <b>0.2</b> | <b>0.7</b> | <b>1.4</b> | <b>5.3</b> | <b>2.0</b> | <b>3.2</b>                                       | <b>0.6</b>          | <b>0.1</b> |
| Inflation sous-jacente | 1.3          | 0.5        | 0.5        | 1.7        | 5.2        | 2.5        | 3.5  | 0.5                 | -0.1       |

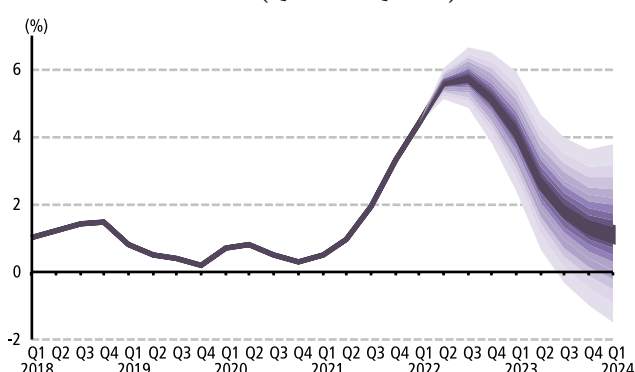
Sources: HCP data, and BAM forecasts and calculations.

**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 2022 - Q1 2024)\***



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

## 7.3 Balance of risks

This exercise takes place amid strong uncertainties relating mainly to the consequences of the Russian-Ukrainian conflict on the world economy which, if they materialise, would affect the central projection. The balance of risks is tilted to the downside for growth and to the upside for inflation.

With regard to growth, and despite the maintenance of an accommodating monetary policy stance, a further weakening of foreign demand linked to a deterioration in the outlook of the main partner countries would have negative effects on non-agricultural activities. Concerning inflation, risks are linked to the recent rise in protectionism as some countries such as India, Indonesia and Malaysia have restricted their food exports. In addition, the persistence of bottlenecks in global supply chains is likely to lead to a stronger and more persistent rise in consumer prices than expected.

## 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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