PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 27, 2022

1. The Board of Bank Al-Maghrib held its third meeting of the year 2022 on Tuesday September 27.

2. During this meeting, the Board analyzed the international economic developments and noted that they remain deeply marked by the aftermath of the pandemic and the implications of the war in Ukraine, namely through the persistence of higher energy and food prices, as well as supply chains disruptions. These developments are driving inflation to exceptionally high levels, leading central banks to reinforce the rapid and largely synchronized tightening of their monetary policies, entailing a significant slowdown in the global economy after the rebound marked in 2021.

3. At the domestic level, the Board noted that the economy continues to suffer from this unfavorable external environment and the repercussions of a particularly severe drought, along with a pronounced deceleration in growth and a sharp acceleration in inflation, which continues to be fueled by external pressures. However, the latest available data show a broad spread to non-tradable products prices. Compared to its June forecasts, Bank Al-Maghrib is expecting a significantly higher level of inflation in 2022, followed by a less pronounced downturn in 2023.

4. To forestall any de-anchoring of inflation expectations and to guarantee the conditions for a rapid return to levels in line with the price stability objective, the Board decided to raise the key interest rate by 50 basis points to 2 percent and to continue to monitor closely the economic developments, both nationally and internationally, and in particular, the evolution of inflationary pressures.

5. Data related to the first eight months of the year indicate that inflation continued to accelerate, reaching 8 percent in August after 7.7 percent in July, 6.3 percent on average in the second quarter and 4 percent in the first one. It is mainly driven by higher food and fuel and lubricant prices. Furthermore, the available data show an increasingly widespread of price increases. Indeed, out of the 116 sections of goods and services of the reference basket of the consumer price index, 60.3 percent increased by more than 2 percent in August compared with 42.2 percent in January. Considering these developments, Bank Al-Maghrib projects that inflation will accelerate to 6.3 percent on average this year compared with 1.4 percent in 2021, before returning to 2.4 percent in 2023. Driven by the increase in food prices included therein, core inflation would accelerate to 6.3 percent in 2022 after 1.7 percent in 2021, before decelerating to 2.5 percent in 2023.

6. At the international level, oil prices have been on a downward trend for the past three months, yet their levels remain very high. Brent crude oil price is expected to average $104.1/bl in 2022, after $70.4 in 2021, before declining to $93.5 in 2023. The price of coal is expected to average $322.7 per ton in 2022, increasing by 170 percent, and would fall to $236.9 in 2023. Similarly, after standing at 16.1 dollars/mmBTU (million British Thermal Units) in 2021, Europe's natural gas price stood at 39.3 dollars in average in the first eight months of the year. Food prices would continue to be driven by changes in global supply and input prices, particularly energy. They would end the year on an average increase of 15.4 percent, before receding by 8.1 percent in 2023. In relation to phosphate and its derivatives, prices are expected to remain supported by the surging input costs and supply chain disruptions. In 2022, they are expected to rise by 42 percent for raw phosphate at $175/t and by 49.8 percent for DAP at $900/t, before declining in 2023 by 8.6 percent and 11.1 percent respectively.

7. Under these conditions, inflation at the international level continues to evolve at the highest levels in decades in several countries. In the United States, after peaking at 9.1 percent in June, inflation is expected to stand at 8.2 percent for the year as a whole, before returning to 4 percent in 2023. In the Euro area, it stood at 9.1 percent in August and is expected to reach 7.7 percent on average in 2022, then decelerate to around 3.7 percent on average throughout 2023. In the emerging countries, it is expected to reach 7.3 percent in 2022 and 6 percent in 2023 in India, while it will remain contained in China at 2.5 percent and 2.7 percent respectively.

8. Faced with persistently high levels of inflation and concerns about inflation expectations de-anchoring, central banks are accelerating and strengthening their monetary policy tightening despite the risks of recession in several economies, particularly advanced ones. The onset of self-sustaining inflationary spirals is considered more damaging to long-term growth than a strong and rapid tightening that would curb inflationary pressures. Thus, during its meeting held on September 20-21, the Fed decided once again to raise interest rates by three-quarters of a percentage point to [3%-3.25%]. It also indicated that continued increases in the target range will be appropriate and that it will continue reducing the size of its balance sheet in accordance with the plan announced in May. Similarly, the ECB raised its key interest rates by 75 basis points (bp) on September 8, while maintaining the reinvestment of all principal repayments on maturing securities acquired under its asset purchase programs. It also stated that it expects further raises over its next meetings. In addition to central banks, governments in many countries have implemented various measures to mitigate the impact of inflation on household purchase power and production cost of companies.

9. This rapid tightening of monetary conditions and fears over energy supplies in Europe induce a sharp slowdown in the global economy. Thus, growth is expected to decelerate to 1.6 percent in 2022 then to 1.1 percent in 2023 in the United States, and to 3 percent followed by 0.7 percent in the euro zone. In the labor markets, unemployment rates are expected to remain low this year, before going upward as of 2023, particularly in the UK and the US. In the main emerging countries, growth is expected to decline to 3.4 percent

in China in 2022 before rising to 6.1 percent in 2023. In India, it would decrease to 6.6 percent then to 6.5 percent, while in Russia, GDP is expected to contract by 5.4 percent in 2022 and by 3.6 percent in 2023.

10. At the domestic level, according to Bank Al-Maghrib's projections, economic growth will slow down markedly to 0.8 percent this year, as a result of a 14.7 percent decline in agricultural value added and a slowdown to 3.4 percent of the growth pace of non-agricultural activities. In 2023, it would accelerate to 3.6 percent, linked to the projected 11.9 percent increase in agricultural value added, under the assumption of a return to an average cereal production of 75 million quintals. However, non-agricultural activities would continue to slow, with their pace returning to 2.5 percent.

11. As regards external accounts, the strong trade dynamic is expected to continue this year with an increase in exports by 34 percent, driven mainly by sales of phosphate and derivatives, which would reach 144.5 billion dirhams, and of the automotive sector, which would amount to nearly 100 billion. In 2023, exports are projected to decline by 1.1 percent, with a relative decrease in phosphate and derivatives prices. Concurrently, imports are expected to rise by 34.5 percent in 2022, due to the increase in the energy bill to 135.1 billion dirhams and the increase in purchases of semi-finished products to 167 billion. In 2023, they would decline by 4.6 percent, mainly due to the expected drops in oil prices and wheat supplies. Travel receipts, benefiting from the reopening of borders and the significant decline in the pandemic worldwide, are expected to improve significantly to 79.8 billion dirhams this year and to stabilize at this level in 2023. Taking into consideration the performance recorded since the beginning of the year, remittances are expected to continue to rise, totaling around 100 billion dirhams for the year as a whole before returning to 92.4 billion in 2023. Under these conditions, the current account deficit would be equivalent to 3.2 percent of GDP in 2022 before narrowing to 1.9 percent in 2023. Regarding FDI, revenues would amount to about 3.2 percent of GDP annually over the next two years. Overall, and assuming in particular the fulfilment of the external financing forecasts of the Treasury, the official assets of reserves would stand at 343.7 billion dirhams at the end of 2022 and 360.7 billion dirhams at the end of 2023, thus ensuring a cover of approximately 6 months of imports of goods and services.

12. As to monetary conditions, the strong appreciation of the dollar against the euro, induced notably by the divergence in the pace of monetary policy tightening by the FED and the ECB, is reflected in the nominal effective exchange rate of the dirham. After an increase of 2.1 percent in 2021, the latter is expected to slightly decline over the year as a whole before appreciating by 1.7 percent in 2023. Considering the lower levels of domestic inflation compared to partner and competitor countries, this rate will depreciate in real terms by 1.8 percent in 2022 before increasing by 0.4 percent in 2023. On the same note, the quarterly assessments conducted by Bank Al-Maghrib continue to show the absence of signs of misalignment of the dirham with the fundamentals of the national economy. Lending rates were broadly unchanged in the second quarter of 2022, covering an 18 basis point decline in consumer loans and increases of 29 bp in equipment loans and 30 bp in real estate loans to companies. As for the banks' liquidity needs, they would increase to 85.1

billion dirhams at the end of 2022 and to 89.6 billion at the end of 2023. Bank credit to the non-financial sector would increase by 4 percent in 2022 and by 3.6 percent in 2023.

13. Regarding public finance, fiscal execution for the first eight months of the year shows a 24.5 percent improvement in ordinary revenue, owing mainly to an increase in tax receipts. At the same time, overall expenses increased by 13.1 percent, reflecting in particular the increase in compensation costs. Taking into account the expected increase in tax revenues, the mobilization of resources under specific financing as well as the expected evolution of the subsidy costs, the fiscal deficit would, according to Bank Al-Maghrib's projections, increase from 5.9 percent of GDP in 2021 to 5.5 percent in 2022 before decreasing to 5 percent in 2023.