BANK AL-MAGHRIB

MONETARY POLICY REPORT

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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, itseFA 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.

بنك المغرب

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 seFA-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 fuFAilment 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.

OVERVIEW

In an international context marked by the continuing conflict in Ukraine, the persistence of high inflation, the rapid tightening of financial conditions and concerns surrounding energy supply, particularly in Europe, the outlook for the world economy remains surrounded by strong uncertainties, with a risk of recession in several advanced economies.

The first signs of a slowdown are already visible in the latest national accounts data available for the major advanced economies for the second quarter of 2022. Indeed, GDP in the US grew by 1.7 percent after 3.5 percent a quarter earlier. Similarly, the euro area saw its pace of activity decelerate from 5.4 percent to 4.1 percent, reflecting decreases from 3.5 percent to 1.7 percent in Germany, from 4.7 percent to 4.2 percent in France and from 6.3 percent to 4.7 percent in Italy, while in Spain growth stabilized at 6.3 percent. In the United Kingdom, growth slowed from 8.7 percent to 2.9 percent, while in Japan it fell from 0.9 percent to 1.4 percent.

In the major emerging economies, growth in China sharply decelerated, falling from 4.8 percent to 0.4 percent as a result of the country's zero-covid policy and difficulties in the property sector. On the other hand, reflecting a base effect, it accelerated from 3.9 percent to 12.8 percent in India. In Russia, the latest data for the first quarter show a slowdown to 3.5 percent from 5 percent a quarter earlier.

On the labor markets, the situation remains paradoxically favorable in most advanced countries. Indeed, the unemployment rate continued to fall in the euro area, returning to 6.6 percent in July, after 6.7 percent in June, while it slightly increased in the Unites States from 3.5 percent to 3.7 percent between July and August with job creation down from 526 thousand to 315 thousand.

In terms of financial markets, the stock markets of the major advanced economies decreased end- August, affected by fears about energy supply in Europe, very high inflation and the rapid tightening of monetary policies. Thus, the main indices posted monthly declines of 3.9 percent for the Dow-Jones, 5.1 percent for the Eurostoxx and 1.7 percent for the FTSE 100. As for the emerging countries, the MSCI EM index was almost stable, with increases of 0.8 percent for China, 2.4 percent for India and 2.9 percent for Brazil, and declines of 15.3 percent for Poland, 6.5 percent for Colombia and 5.4 percent for South Africa. As for sovereign yields, the upward trend has continued since the beginning of the year, with 10-year Treasury yields increasing from 1.6 percent in January to 3.1 percent in August for the United States, from -0.1 percent to 1.5 percent for Germany, from 0.2 percent to 1.9 percent for France, from 0.6 percent to 2.6 percent for Spain and from 1.2 percent to 3.8 percent for Italy.

On the commodities markets, while remaining at very high levels, the oil price continued the decline that started in June 2022 in a context marked by concerns about the slowdown in the global economy. The price of Brent crude oil, in particular, fell by 9.5 percent month-on-month to stand on average at USD 98.6 per barrel in August, but remains up 40.8 percent year-on-year. Commodity prices, except energy, rose by 3.2 percent in August, covering a 7.9 percent increase for agricultural products and a 12.8 percent decrease for metals and ores. As for phosphate and derivatives, DAP and TSP prices fell between July and August to average USD 749.4/t and USD 703.8/t respectively, while that of raw phosphate stagnated at USD320/t. Year-on-year, prices continue to rise sharply, with increases of 133.8 percent for raw phosphate, 24.2 percent for DAP and 26.8 percent for TSP.

These developments continue to put strong pressure on consumer prices, which in many countries are reaching levels not seen in decades. Inflation in August stood at 9.1 percent in the euro area and 8.3 percent in the US, while in the main emerging countries it stood at 15.1 percent in Russia, 8.7 percent in Brazil and 7 percent in India, and remained moderate at 2.5 percent in China.

In this context, central banks are accelerating the tightening of their monetary policies with rapid and significant rate hikes as well as downward revisions of the volume of their unconventional programs. In addition to the persistence of high levels of inflation, the main fear expressed by the monetary authorities is that inflation expectations will become unhinged as the increase becomes more widespread, wages sharp rise and the trigger of seFA-sustaining inflationary spirals. In order to justify accelerated tightening in a context marked by the risk of recession, central banks are emphasizing the much higher cost of persistent inflation compared to the cost of rapid tightening of monetary conditions, which would make it possible to curb inflationary pressures. Thus, the Fed decided at its September 20-21 meeting to raise the target range for the federal funds rate by three-quarters of a percentage point to [3 percent-3.25 percent] and also indicated that continued increases in the target range will be appropriate. In addition, it will continue to reduce the size of its balance sheet in accordance with the plan announced in May. Similarly, the Bank of England decided on September 22 to raise its key rate by 50 bp to 2.25 percent and indicated that it plans to reduce the stock of government bonds by £80 billion over the next 12 months. As for the ECB, it raised its key rates by 75 basis points on September 8 and announced plans to continue to raise them. With respect to the PPA, the ECB indicated that it would continue its total reinvestments in total principal repayments on maturing securities acquired under this program for an extended period after the date on which it began raising rates and, in any event, for as long as necessary to maintain conditions of ample liquidity and an appropriate monetary policy stance. For its emergency pandemic purchase program, it intends to reinvest principal repayments on maturing securities acquired under this program at least until the end of 2024. In addition to central banks, governments in many countries have implemented various fiscal measures to mitigate the impact of inflation on household purchasing power and business production costs.

Under these conditions, the US dollar has continued to strengthen, with appreciations since the beginning of the year reaching in August 11 percent against the euro and 20.2 percent against the Japanese yen. The currencies of the main emerging economies showed disparate trends against the dollar in August, with depreciations of 1.8 percent for the Chinese renminbi and 0.7 percent for the Indian rupee, virtual stagnation for the Brazilian real and a 4.1 percent appreciation for the Russian ruble. Bank lending continued to grow at a rapid pace in July with increases of 6.2 percent in the euro area and 9.8 percent in the US.

At the national level, the latest national accounts data for the first quarter show a year-on-year deceleration in growth to 0.3 percent, after 2 percent in the same quarter of 2021. This reflects a 14.3 percent contraction in agricultural value added, compared with a 19.4 percent rebound, and a 2.5 percent increase in non-agricultural value added, instead of a near-stagnation. As for demand, the contribution of the domestic component to growth sharply fell from 6.8 percentage points to 0.8 percentage points, while the contribution of foreign trade in goods and services fell from -4.8 percentage points to -0.5 percentage points.

In the labor market, the situation has improved relatively between the second quarter of 2021 and the same period of 2022 with the creation of 133 thousand jobs, after 405 thousand a year earlier. This development covers a loss of 210 thousand jobs in agriculture and a creation of 343 thousand in non-agricultural activities of which more than two thirds in services. Taking into account a net exit of 86 thousand job seekers, the activity rate fell by 0.9 point to 45.2 percent and the unemployment rate fell from 12.8 percent to 11.2 percent overall, from 18.2 percent to 15.5 percent in the cities and from 4.8 percent to 4.2 percent in the countryside.

In terms of foreign trade, data up to the end of July 2022 show a significant dynamic with increases of 40.7 percent in exports and 45.9 percent in imports. The trade deficit widened by 64 billion dirhams and the coverage rate fell from 59.4 percent to 57.3 percent. The improvement of exports included all sectors with, in particular, increases in sales of phosphate and derivatives by 81.1 percent to 68.8 billion and automotive by 31.6 percent to 59.7 billion mainly due to the performance recorded by the construction segment. As for imports, their increase reflects the rise in the energy bill to 88.1 billion, against 38.8 billion a year earlier, as well as increases in purchases of semi-finished goods by 55.6 percent to 100.2 billion and capital goods by 18 percent to 82.1 billion. Regarding travel receipts, and under the effect of the reopening of borders since February 2022 and the decline of the pandemic worldwide, they have increased to 36.7 billion after 13.1 billion during the same period of 2021 and 41.5 billion in 2019. At the same time, remittances from Moroccans living abroad improved by 7.4 percent to 58.2 billion dirhams compared to the same period in 2021. As for the main financial operations, the net flow of FDI increased by 80.3 percent to 17.6 billion, reflecting an increase of 40.3 percent of revenues and 72.6 percent of direct investments of Moroccan expatriates to 3.3 billion.

Under these conditions, Bank Al-Maghrib’s outstanding official reserve assets stood at 330.1 billion dirhams at the end of July 2022, representing the equivalent of 5 months and 19 days of imports of goods and services.

Regarding monetary conditions, the data for the second quarter of 2022 show an increase in the need for liquidity of banks to 77.5 billion, due in particular to the increase in cash. Bank Al-Maghrib has thus increased the amount of its injections to 88.8 billion dirhams on weekly average. Monetary conditions were also characterized by a further depreciation of the real effective exchange rate and a quasi-stability from one quarter to another of the lending rates at 4.29 percent. In addition, bank loans to the non-financial sector rose by an average of 3.6 percent, following the 3.1 percent increase in the first quarter, with an acceleration in the growth of loans granted to private companies and an accentuation of the decline in those granted to public companies.

As regards public finances, budget execution for the first eight months of the year showed a deficit of 30.4 billion dirhams, down by 18.3 billion compared with the end of August 2021, partly reflecting the 6.3 billion increase in the positive balance of the Treasury's special accounts to 16 billion. Ordinary expenditure increased by 13.4 percent to 215 billion, reflecting mainly increases of 125.2 percent in compensation expenses and 3.8 percent in goods and services expenditure. In contrast, ordinary revenue improved by 24.5 percent, as a result of a 19.6 percent increase in tax receipts and a 92.7 percent increase in non-tax receipts. The ordinary balance thus showed a surplus of 779 million, instead of a negative balance of 16.2 billion at the end of August 2021. For their part, investment expenditure increased by 11.6 percent to 47.2 billion, taking overall expenditure to 262.2 billion, an increase of 13.1 percent. Under these conditions, the outstanding direct public debt would have increased by 2.4 percent compared to its level at the end of December 2021. As regards the Treasury's financing conditions, the weighted average rates were up at the end of August 2022 compared with the same period in 2021.

In terms of asset markets, real estate prices in the second quarter of 2022 rose slightly by 0.2 percent quarter-on-quarter, with increases of 1.1 percent for business property, 0.3 percent for residential and 0.1 percent for land. At the same time, the number of transactions increased by 4.6 percent overall, covering an increase of 8.1 percent in residential property and decreases of 3.7 percent in land and 1.9 percent in business assets. On the Casablanca Stock Exchange, MASI declined by 6.3 percent, reflecting in particular falls of 9.4 percent in the "buildings and construction materials" sector index, 8 percent in telecommunications and 6.2 percent in banking. Conversely, those of "leisure and hotels", mining and electricity increased by 14.7 percent, 6.7 percent and 0.9 percent respectively. As for the volume of trade, it stood at 10.3 billion dirhams against 10.6 billion a quarter earlier and the market capitalization showed a quarterly decrease of 6.6 percent to 623.9 billion dirhams.

Against this backdrop, inflation continued to accelerate, reaching 8 percent in August, which is its highest level since March 1992. This development reflects for the most part the significant increase in prices of volatile food products, which rose by an average of 13.1 percent in July and August, compared with 6.4 percent in the second quarter of 2022. The acceleration of inflation is also linked to that of its underlying component at 7.6 percent, instead of 6.6 percent, reflecting mainly an increase of 11.5 percent, compared to 9.7 percent, in prices of tradable goods. In addition, prices of fuels and lubricants rose by an average of 55.4 percent in July and August, after 53.1 percent in the previous quarter. As for regulated tariffs, they were down by 0.3 percent on average in July and August instead of 0.1 percent in the previous quarter. An analysis of inflation trends since the last Council meeting in June shows a wider spread of price increases to products other than food and energy. Out of the 116 product sections that make up the CPI, the share of those that saw their prices rise by more than 2 percent was up from 42.2 percent last January to 60.3 percent in August.

In terms of outlook, the international economic situation is likely to be marked in the medium term by a clear slowdown in economic activity impacted by the rapid tightening of monetary conditions and the consequences of the conflict in Ukraine, including the energy crisis in Europe. World economic growth is thus expected to fall from 6.1 percent in 2021 to 2.8 percent in 2022 and 2.6 percent in 2023. In the United States, after posting a rate of 5.7 percent, it is expected to slow to 1.6 percent in 2022 and 1.1 percent in 2023. In the euro zone, the pace of activity is expected to fall from 3 percent in 2022 to 0.7 percent in 2023. In the United Kingdom, the economy would slow to 3.5 percent in 2022 and then limit itseFA to 0.3 percent in 2023, suffering from numerous structural problems stemming from the Brexit and rising energy costs. In the labor markets, the unemployment rate is expected to remain low in 2022, before rising from 2023 onwards, particularly in the UK and the US.

In the main emerging countries, economic growth is expected to slow to 3.4 percent in China in 2022, after 8.5 percent in 2021, due to the zero Covid policy adopted by the authorities and the difficulties of the real estate sector but should then accelerate to 6.1 percent. In india, growth is expected to decline to 6.6 percent in 2022 and 6.5 percent in 2023 from 8.3 percent in 2021, reflecting weaker external demand and faster monetary policy normalization. In Russia, the economic outlook points to a GDP contraction of 5.4 percent in 2022 and 3.6 percent in 2023, impacted by the conflict with Ukraine and international sanctions.

In commodity markets, energy prices are expected to remain high. The price of Brent crude oil is expected to average $104.1 a barrel in 2022, up from $70.4 in 2021, before declining to $93.5 in 2023. Coal prices are expected to remain at very high levels, averaging $322.7 a tonne in 2022, up from $119.5 in 2021, before declining to $236.9 in 2023. With regard to food prices, due to continued pressure on world supply and rising input costs, particularly energy, the FAO index is expected to rise by an average of 15.4 percent in 2022, before falling by 8.1 percent in 2023. For phosphate and derivatives, prices continue to evolve at high levels due to rising input costs and supply chain disruptions caused by sanctions against Russia. According to the World Bank's April projections, the price of raw phosphate is expected to rise from $123 a tonne in 2021 to $175 in 2022, before returning to $160 in 2023. Derivatives prices are expected to average $900 a tonne for DAP and $750 for TSP in 2022, before declining to $800 and $650 in 2023, respectively.

Under these conditions, inflation should remain at high levels in both advanced and emerging countries. In the euro area, it should reach 7.7 percent in 2022 and decelerate throughout 2023 as supply shocks dissipate, to an average of 3.7 percent. In emerging countries, with the exception of China where growth is projected at 2.5 percent in 2022 and 2.7 percent in 2023, it is expected to reach in 2022 and 2023 respectively 7.3 percent and 6.0 percent in India, and 9.7 percent and 5 percent in Brazil.

At the domestic level, the dynamism of foreign trade in goods is expected to continue, with a projected 34 percent improvement in exports in 2022, driven mainly by the 80 percent increase in sales of phosphate and derivatives and a 19.3 percent increase in the automotive sector. At the same time, imports are expected to increase by 34.5 percent, mainly due to a 78.3 percent rise in the energy bill and a 44.6 percent increase in purchases of semi-finished products. Travel receipts, benefiting from the reopening of borders in February 2022 and the significant decline in the pandemic, are expected to improve significantly to 79.8 billion dirhams, a level higher compared to 2019. Taking into account end-of-July data, remittances from Moroccan nationals should end the year up 5.6 percent to nearly 100 billion. Under these conditions, the current account deficit would end the year at 3.2 percent of GDP, after a slight increase to 2.3 percent of GDP in 2021.

In 2023, exports are expected to decline by 1.1 percent, with phosphate and derivatives sales falling by 12.8 percent to 126 billion dirhams. Sales in the automotive sector, on the other hand, are expected to improve by 11.4 percent to 111 billion dirhams as a result of increased production capacity. At the same time, imports are expected to fall by 4.6 percent, mainly due to a reduction in the energy bill to 113.4 billion and a drop in wheat supplies to 14.5 billion dirhams. Surrounded by great uncertainty, particularly regarding the evolution of activity in the euro area in 2023, BAM's projections are based on a virtual stagnation of travel receipts at 79.3 billion, while remittances from Moroccan expatriates are expected to fall by 6.6 percent to 92.4 billion. As for FDI receipts, they should remain at around 3.2 percent of GDP over the forecast horizon. Under these conditions, the current account deficit is expected to fall to the equivalent of 1.9 percent of GDP.

Overall, under the assumptions of grant inflows of 2.2 billion in 2022 and 1.5 billion in 2023 and the realization of external financing expected by the Treasury, official reserve assets would stand at 343.7 billion at end-2022 and at 360.7 billion by the end of 2023, or the equivalent of 5 months and 25 days and 6 months and 4 days of imports of goods and services respectively.

In terms of monetary conditions, loans to the non-financial sector are expected to grow at around 4 percent in 2022 and 3.6 percent in 2023. The real effective exchange rate is expected to depreciate in 2022, mainly as a result of a domestic inflation rate lower than that of partner and competitor countries, before appreciating slightly in 2023, in line with the nominal exchange rate, which will be mitigated by a domestic inflation rate still lower than that of partner and competitor countries.

In terms of public finance, fiscal deficit should continue to narrow, taking into account the expected increase in tax revenues. Indeed, after reaching 5.9 percent of GDP in 2021, it is expected to stand at 5.5 percent of GDP in 2022, a downward revision of 0.8 percentage points compared to the June forecast, integrating the budgetary results at the end of August 2022, the three-year budgetary programming and the new BAM economic projections. In 2023, the deficit is projected to stand at 5 percent of GDP, mainly reflecting continued improvement in tax revenues and a reduction in the subsidy burden.

After rebounding to 7.9 percent in 2021, the national economy is expected to slow down markedly to 0.8 percent in 2022, as a result of a 14.7 percent decline in agricultural value added and a 3.4 percent improvement in non-agricultural value added. In 2023, it would accelerate to 3.6 percent, mainly due to the projected 11.9 percent rise in agricultural value added, assuming a return to average cereal production of 75 MQx. Meanwhile, non-agricultural activities are expected to slow down to 2.5 percent. On the demand side, economic growth in 2022 is expected to be marked by a positive contribution from its domestic component, while the contribution from net exports is set to be negative.

Under these conditions, inflation is expected to average 6.3 percent in 2022, from 1.4 percent in 2021, driven by the high level of its underlying component as well as the rise in the price of fuels and lubricants and food products with volatile prices. In 2023, it is expected to drop to an average of 2.4 percent, reflecting a slowdown in the rise in fuel and lubricant prices to 10.6 percent and a gradual deceleration in underlying inflation to an average of 2.5 percent.

The current projection exercise takes place in a global macroeconomic context surrounded by strong uncertainties, mainly due to the implications of the conflict in Ukraine. In particular, several advanced economies are at risk of entering into recession and exacerbating the global economic slowdown. In addition, the rapid change in the stance of monetary policy, particularly in advanced countries, and the tightening of financial conditions are weighing on growth and financial stability in the emerging economies. In addition, the emergence of a new variant of Covid-19 remains a risk factor with the arrival of autumn. The materialization of these risks could significantly affect the central scenario of macroeconomic projections, with a downward balance for growth and an upward balance for inflation.

In Morocco, a further weakening of foreign demand in connection with a deteriorating outlook for the main economic partners would diminish even more the recovery of non-agricultural activities. On the agricultural side, the specter of water stress and climatic disruptions threaten the prospects for agricultural production. As for inflation, upside risks dominate, linked to a greater-than-expected rise in energy commodity prices, combined with a continued strengthening of the dollar and/or a transmission of inflationary pressures to products not directly impacted by external factors.

1. INTERNATIONAL DEVELOPMENTS

The international environment continues to be marked by the conflict in Ukraine, the persistence of high commodity prices, the rapid tightening of financial conditions, and concerns about energy supplies in Europe. The latest available national accounts data related to the major advanced economies show a slowdown in growth in the second quarter, while for the main emerging countries, except for the significant case of china which experienced a marked deceleration, performance revealed contrasting patterns. At the same time, the situation in the labor markets of the main advanced countries remains favorable. On the other hand, conditions on the financial markets have been generally impacted by the deterioration of the global economic outlook, persistently high inflation and the rapid tightening of monetary policies. Against this backdrop, inflationary pressures persist in the advanced economies, but signs of easing are beginning to appear in several economies.

1.1 Economic activity and employment

1.1.1 Economic activity

Data for the second quarter of 2022 show a marked slowdown in growth in the United States to 1.7 percent year-on-year after 3.5 percent a quarter earlier. Similarly, the euro area's pace of activity decelerates from 5.4 percent to 4.1 percent, reflecting declines from 3.5 percent to 1.7 percent in Germany, from 4.7 percent to 4.2 percent in France and from 6.3 percent to 4.7 percent in Italy, while in Spain growth remained stable at 6.3 percent. In the other major advanced economies, GDP growth decelerated in the United Kingdom to 2.9 percent in the second quarter from 8.7 percent a quarter earlier and accelerated in Japan from 0.9 percent to 1.4 percent.

In the major emerging economies, growth slowed sharply in the second quarter in China from 4.8 percent to 0.4 percent, and also fell from 3.5 percent to -4.1 percent in Russia. However, growth rebounded from 3.9 percent to 12.8 percent in India, mainly due to the dynamism of the manufacturing and services sectors, from 1.7 percent to 3.2 percent in Brazil and, to a lesser extent, from 7.5 percent to 7.6 percent in Turkey.

Table 1.1: YoY change in quarterly growth (%)

	2020			2021				2022	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Advanced countries									
United States	**-9,1**	**-2,9**	**-2,3**	**0,5**	**12,2**	**4,9**	**5,5**	**3,5**	**1,7**
Euro area	**-14,7**	**-4,0**	**-4,3**	**-0,9**	**14,6**	**3,7**	**4,6**	**5,4**	**4,1**
France	-18,6	-3,6	-4,2	1,5	18,7	3,6	5,0	4,7	4,2
Germany	-10,4	-2,5	-2,1	-2,2	10,2	1,8	1,2	3,5	1,7
Italy	-18,5	-5,4	-6,1	0,0	17,5	4,0	6,4	6,3	4,7
Spain	-21,5	-8,7	-8,8	-4,1	17,8	3,5	5,5	6,3	6,3
United Kingdom	**-21,1**	**-7,7**	**-6,3**	**-5,0**	**24,5**	**6,9**	**6,6**	**8,7**	**2,9**
Japan	**-10,2**	**-5,3**	**-0,9**	**-1,7**	**7,3**	**1,2**	**0,5**	**0,9**	**1,4**
Emerging countries									
China	**3,1**	**4,8**	**6,4**	**18,3**	**7,9**	**4,9**	**4,0**	**4,8**	**0,4**
India	**-21,4**	**-5,9**	**2,1**	**5,7**	**18,2**	**8,3**	**4,7**	**3,9**	**12,8**
Brazil	**-10,7**	**-3,7**	**-0,9**	**1,3**	**12,3**	**4,0**	**1,7**	**1,7**	**3,2**
Turkey	**-10,3**	**6,5**	**6,4**	**7,5**	**22,2**	**7,9**	**9,6**	**7,5**	**7,6**
Russia	**-7,4**	**-3,3**	**-1,3**	**-0,3**	**10,5**	**4,0**	**5,0**	**3,5**	**-4,1**

Source : Thomson Reuters..

In terms of leading indicators, the Euro area's composite PMI index fell below 50 points in August for the second consecutive month, i.e. 48.9 points, after standing at 49.9 points in July. This change reflects a decline in activity levels in both the manufacturing and services sectors. In the United States, the ISM manufacturing index remained unchanged in August from the previous month, standing at 52.8 points.

Chart 1.1: Change in some high-frequency indicators in the U.S and the Euro Area

Source : Thomson Reuters.

1.1.2 Labor Market

The labor market conditions remained favorable in the United States, although unemployment slightly increased from 3.5 percent in July to 3.7 percent in August and job creation decreased from 526 thousand to 315 thousand.

In the Euro area, the unemployment rate recorded a slight month-on-month decrease to 6.6 percent in July from 6.7 percent a month earlier. It dropped from 7.6 percent to 7.5 percent in France, from 8 percent to 7.9 percent in Italy, and stagnated at 2.9 percent in Germany and 12.6 percent in Spain.

In the United Kingdom, according to June's latest figures, the unemployment rate remained stable month-on-month at 3.8 percent.

Table 1.2: Change in unemployment rate (%)

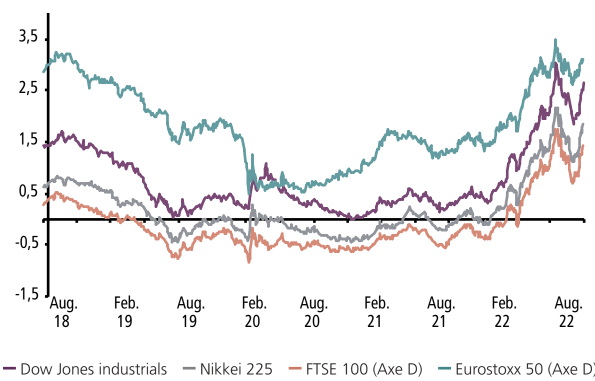
(in%)	2020	2021	2021	2022	
			June	Juillet	Aug
United States	**8,1**	**5,4**	**3,6**	**3,5**	**3,7**
Euro area	**8,0**	**7,7**	**6,7**	**6,6**	**N.D**
France	8,0	7,9	7,6	7,5	N.D
Germany	3,7	3,5	2,9	2,9	N.D
Italy	9,3	9,5	8	7,9	N.D
Spain	15,5	14,8	12,6	12,6	N.D
United Kingdom	**4,5**	**4,5**	**3,8**	**N.D**	**N.D**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

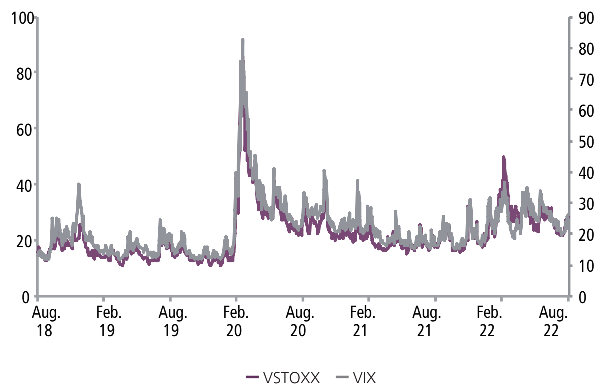
Stock markets of the major advanced economies declined by the end of August affected by concerns about energy supply in Europe, very high inflation and expectations of faster monetary policy tightening. As a result, the Dow Jones Industrials recorded a monthly decline of 3.93 percent, the Eurostoxx 50 of 5.11 percent and the FTSE 100 of 1.74 percent. As for volatility, it has increased in both the U.S. and European markets, with the VIX standing at 25.87 and the VSTOXX at 27.95. In terms of emerging and developing countries, the MSCI EM was virtually unchanged in August, with declines of 15.3 percent for Poland, 6.5 percent for Colombia and 5.4 percent for South Africa, and increases of 0.8 percent for China, 2.4 percent for India and 2.9 percent for Brazil.

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



Source : Thomson Reuters.

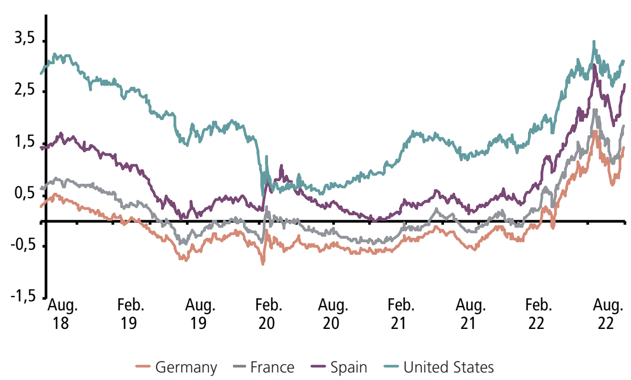
Chart 1.3: Change in the VIX and the VSTOXX



Source : Thomson Reuters.

In the bond markets, 10-year sovereign yields in the major advanced economies have intensified in August. Thus, the 10-year bond rate recorded a monthly increase of 53 basis points (bps) to 3.1 percent for the United States, 78 bps to 1.5 percent for Germany, 77 bps to 1.9 percent for France, 71 bps to 2.6 percent for Spain and 90 bps to 3.8 percent for Italy. For emerging economies, this rate declined by 9 bp to 2.6 percent for China, 71 bp to 12.2 percent for Brazil and 5 bp to 7.2 percent for India.

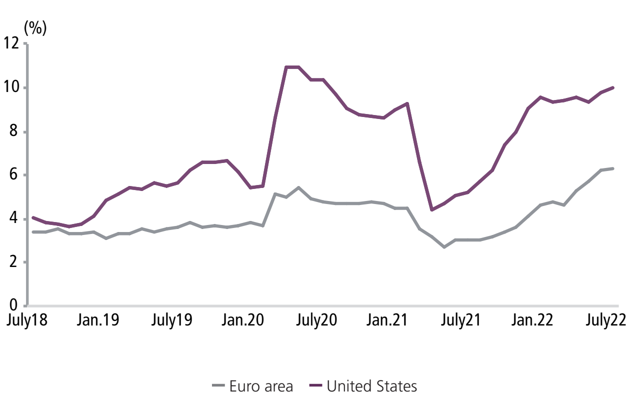
Chart 1.4: Change in 10-year sovereign bond yields



Source : Thomson Reuters.

In the money markets, the 3-month Euribor and the 3-month Libor increased between increased between July and August by 36 bp to 0.4 percent and 34 bp to 2.95 percent respectively. As for bank credit, its pace accelerated in July to 10% in the United States and 6.3% in the euro zone to 6.3 percent in the euro zone, compared to 9.8 percent and 6.2 percent in June respectively.

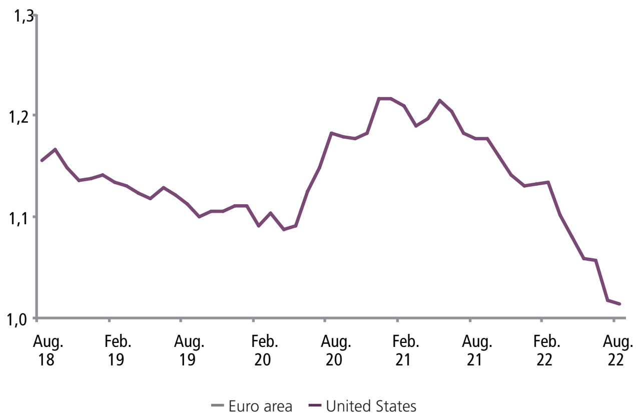
Chart 1.5: YoY credit growth in the US and euro area



Source : Thomson Reuters.

In the exchange market, the euro strengthened in August by 3.3 percent against the pound sterling and by 2.9 percent against the Japanese yen, and continued to weaken against the dollar due to the impact of energy supply problems in Europe on economic activity and the adverse interest rate differential. The exchange rate fell from 1.03 at the beginning of the month to 1.01 at the end of August, a decline of 2.1 percent. In this regard, it should be noted that the euro has been below parity for several days during the month of August, a level not seen for 20 years. The currencies of the main emerging economies posted disparate trends against the dollar in August, with the Chinese renminbi depreciating by 1.8 percent and the Indian rupee by 0.7 percent, the Brazilian real virtually stagnating and the Russian ruble appreciating by 4.1 percent.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

In terms of monetary policy decisions, the FED decided at its September 20-21 meeting to raise the target range for the federal funds rate by three-quarters of a percentage point to [3%- 3.25%] and indicated that continued increases in the target range will be appropriate. At the same time, it will continue to reduce the size of its balance sheet in line with the plan announced in May[1].

Similarly, the Bank of England decided on September 22 to raise its key rate by 50 bp to 2.25 percent and

1 This reduction will be capped at 47.5 billion dollars per month in June, July and August, and then at 95 billion dollars per month starting in September.

indicated that it plans to reduce the stock of government bonds by £80 billion over the next twelve months.

For its part, the ECB decided on September 8 to raise its three key rates by 75 basis points to 1.25 percent for the interest rate on the main refinancing operations, 1.5 percent for the interest rate on the marginal lending facility and 0.75 percent for the interest rate on the deposit facility. In upcoming meetings, the Council plans to raise policy rates again to dampen demand and guard against the risk of a persistent rise in inflation expectations. In addition, the Board intends to continue to reinvest, in full, principal payments on maturing securities purchased under the APP for an extended period after the date of its policy rate raise and, in any event, for as long as necessary to maintain ample liquidity conditions and appropriate monetary policy. Concurrently, the Council intends to reinvest principal payments on maturing securities acquired under the EPPP at least until the end of 2024. In all cases, future liquidation of the EPPP portfolio will be managed to avoid interference with the appropriate currency orientation.

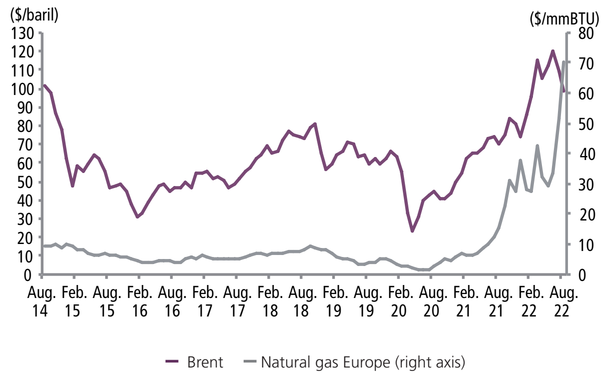
In the emerging countries, the Reserve Bank of India decided on August 5 to raise its key rate by 50 bp to 5.4 percent, aiming to contain the rise in prices and mitigate the impact of geopolitical tensions. For its part, the Central Bank of Brazil decided on 21 September to keep its key rate unchanged at 13.75 percent, while inflation is beginning to fall back to below 10 percent. For its part, the Central Bank of Russia lowered its rate by 50 bp to 7.5 percent on September 16, citing a decrease in inflation.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

In the oil market, the price of Brent crude oil continued to decline in August 2022, falling by 9.5percent month-on-month to $98.60 per barrel, while it rose by 40.8 percent year-on-year. This decline mainly reflects concerns about the global economic slowdown and the progress made in the Iranian nuclear negotiations. Conversely, the price of natural gas in Europe continued to rise, rebounding by 36.5 percent to 70 dollars mBTU[2] between July and August, reflecting in particular Gazprom's announcement of a new interruption in its deliveries via Nord Stream 1 and Germany's failure to extend the life of three nuclear power plants, entailing additional demand for gas.

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



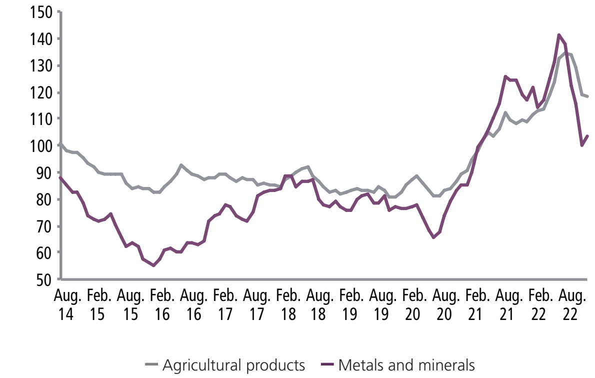
Source: World Bank.

1.3.2 Commodity prices excluding energy

Excluding energy, prices remained almost stable from July to August, resulting in particular from a slight drop of 1 percent in the prices of agricultural products, with notable declines in the prices of oils and corn, and an increase of 3.7 percent in those of metals and minerals. Year-on-year, commodities rose by 3.2 percent in August, covering a 7.9 percent increase in agricultural commodity prices, with US durum wheat prices rising by 18 percent to $382.9/t, while metals and minerals prices fell by 12.8 percent.

2 mBTU : Million de British Thermal Unit.

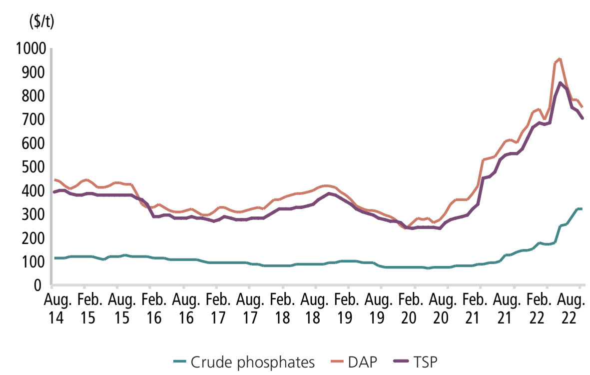
Chart 1.8: Change in non-energy commodity price indices (2010= 100)



Source : Thomson Reuters.

As for phosphates and derivatives, DAP and TSP prices fell by 4.4% between July and August to $749.4/t and $703.8/t respectively, while the price of raw phosphate stagnated in August at $320/t. Year-on-year, prices recorded significant increases, with 133.8 percent for raw phosphate, 24.2 percent for DAP and 26.8 percent for TSP.

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



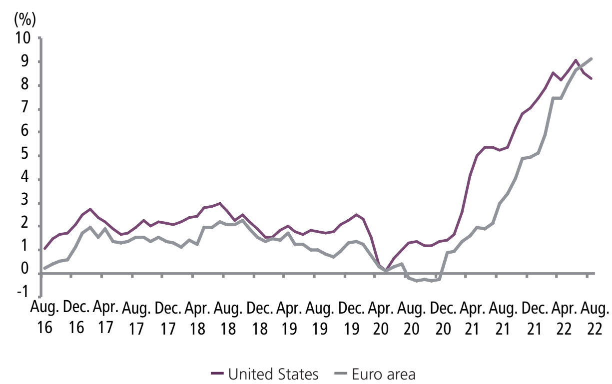
Source : World Bank.

1.3.3 Inflation

High energy and food prices continue to fuel inflationary pressures, mainly in the advanced economies. Against this background, inflation in the Euro area continued its upward trend, reaching an exceptional level of 9.1 percent in August after 8.9 percent in July, reflecting accelerations from 8.5 percent to 8.8 percent in Germany and from 8.4 percent to 9.1 percent in Italy, while in France and Spain it decelerated to 6.6 percent and 10.5 percent respectively. Inflation in the United States fell for the second consecutive month, from 8.5 percent to 8.3 percent in August, due in part to a slowdown in energy prices. Similarly, it decelerated in the United Kingdom, falling from 10.1 percent to 9.9 percent in August, while in Japan, inflation continued its upward trend, reaching 3 percent after 2.6 percent in July, against a backdrop of soaring food and fuel prices and a falling yen.

In the main emerging countries, inflation slowed down in August from 15.1 percent to 14.3 percent in Russia, from 10.1 percent to 8.7 percent in Brazil and from 2.7 percent to 2.5 percent in China, while it picked up in India, reaching 7 percent in August compared to 6.7 percent one month earlier.

Chart 1.10: Inflation in the United States and the euro area



Source : World Bank.

Table 1.3 : Recent year-on-year change in inflation in main advanced countries in %

	2020	2021	2022		
			June	Juillet	Aug
United States	**1,2**	**4,7**	**9,1**	**8,5**	**8,3**
Euro area	**0,3**	**2,6**	**8,6**	**8,9**	**9,1**
Germany	0,4	3,2	8,2	8,5	8,8
France	0,5	2,1	6,5	6,8	6,6
Spain	-0,3	3,0	10,0	10,7	10,5
Italy	-0,1	1,9	8,5	8,4	9,1
United Kingdom	**0,9**	**2,6**	**9,4**	**10,1**	**9,9**
Japan	**0,0**	**-0,2**	**2,3**	**2,6**	**3,0**

Sources : Thomson Reuters, Eurostat and IMF.

Box 1.1: Government response to rising inflation

Following the reopening of economies after the health crisis, inflation was an upward trend in most countries, reflecting in particular an imbalance between growing demand and limited supply. This trend was exacerbated by the outbreak of the Russian-Ukrainian conflict, which led to a surge in commodity prices, particularly those of energy. Inflation also reached exceptional levels in the advanced economies, with rates reaching 9.1 percent in the United States in June, 9.1 percent in the euro area in August and 10.1 percent in the United Kingdom in July, as well as in emerging countries, with rates at 12.1 percent in Brazil and 17.8 percent in Russia in April, and at 80.2 percent in Turkey in August.

As a result, central banks, particularly in the major advanced economies, adopted restrictive monetary policies, significantly raising their key rates and reducing their asset purchase programs. They also showed a strong determination to fight inflation so as to prevent it from taking hold over time, despite the repercussions on economic activity. Accordingly, since the beginning of the year, the US Federal Reserve raised its target rate four times by a total of 225 basis points (bp) and the European Central Bank twice raised its key rates by 125 bp.

In parallel with the monetary policy response, governments in advanced and emerging countries took numerous measures to reduce the impact of rising inflation on household purchasing power.

- In the **U.S.**, President Biden signed the "Inflation Reduction Act" into law on August 16, providing for a government spending program of nearly $430 billion over 10 years. Among the measures taken are tax credits for households to offset energy costs and others to reduce carbon emissions, an extension of the Affordable Care Act subsidy through 2025 and the prescription drug pricing reform for seniors. The package also includes building America's clean energy supply chains by encouraging domestic production in clean energy technologies. In order to fund these expenditures, the legislation stipulates, inter alia, for the adoption of a minimum tax rate of 15 percent for all corporations with profits over $1 billion.
- In the **UK**, the government introduced a number of measures totalling 1.1 per cent of GDP, designed to stimulate growth and protect households from the impact of high inflation. A first package, amounting to nearly £10 billion (0.4 per cent of GDP), included a £150 council tax rebate and a £200 energy rebate, discretionary funding for local authorities to support households not eligible for the council tax rebate, and a 12-month fuel tax cut. A second £15 billion (0.7 per cent of GDP) stimulus package was announced at the end of May, which includes a one-off payment of £650 to households, £300 to pensioners and £150 to people on disability benefits. In addition, the Energy 24 rebate from the first program was doubled to £400. It should be noted that on September 8, the new British Prime Minister announced a plan* to help households and businesses, including: (i) a cap on household energy bills at £2,500 per year for two years starting October 1, which implies an annual saving of £1,000 for each household, (ii) equivalent support for businesses, charities and public sector organizations for a period of six months, which will be reviewed every three months, and, (iii) a temporary lifting of energy taxes intended to finance the transition to carbon neutrality. She further noted that the program will not be financed by a one-time tax on energy companies and that details on financing will be provided at a later date.

- In the same vein, the **German** government approved a 65-billion-euro plan on September 4. Among the measures adopted are a cap on the price of basic electricity consumption, the payment of an energy voucher of 200 euros to students and 300 euros to pensioners, and an increase in the number of recipients of housing benefit. In order to finance this plan, the government is considering taxing companies that produce electricity from coal or nuclear power and that benefit from the soaring price of gas.
- In **France**, a range of direct stimulus measures were adopted, including temporary caps on gas and electricity costs, increasing energy vouchers for the poorest households and a one-off means-tested additional transfer. The government also temporarily reduced fuel taxes, increased targeted subsidies for businesses and extended government-backed loans as part of its resilience plan. In addition, and to support businesses and jobs, the plan included hiring subsidies and a reduction in business tax.
- With regard to emerging countries, and in particular **Brazil**, the government allocated $7.9 billion (0.5 per cent of GDP) to increase transfers to low-income households from R$400 to R$600, distribute R$1,000 in monthly aid to truckers, increase the value of vouchers given to poor families to buy gas and provide subsidies to ensure free public transportation for the elderly. It also decided to cap state-level taxes on essential services and to support fuel price cuts by Petrobras (Brazil's largest oil company). The latter announced in early September a 7 percent decrease in gasoline prices at the refinery, its fourth consecutive reduction since mid-July.

* This plan has not yet been adopted

2. EXTERNAL ACCOUNTS

Foreign trade data to the end of July 2022 indicate a significant dynamic in foreign trade in goods, with exports up by 40.7 percent and imports by 45.9 percent. The trade deficit thus increased by 64 billion dirhams compared to the same period in 2021, to 183.5 billion dirhams, and the coverage rate fell from 59.4 percent to 57.3 percent. At the same time, and with the borders reopening in February and the return to normal tourist activity, travel receipts more than doubled to reach MAD 36.7 billion and remittances from Moroccan Expatriates recorded an increase of 7.4 percent to 58.2 billion. As for the main financial operations, FDI receipts increased by 6.8 billion and direct investment expenditure by Moroccans living abroad contracted by 860 million. Under these conditions, Bank Al-Maghrib's official reserve assets stood at MAD 330.1 billion at the end of July 2022, representing the equivalent of 5 months and 19 days of imports of goods and services.

2.1 Trade Balance

2.1.1 Exports

With regard to exports, the increase concerned all sectors. Taking advantage, in particular from the surge in international prices, sales of phosphates and derivatives maintained their momentum with an increase of 81.1 percent to 68.8 billion, despite the decline in quantities shipped. By product, sales of natural and chemical fertilizers almost doubled to reach 47 billion and those of phosphoric acid and raw phosphate improved by 56.7 percent to 14.7 billion and 61.6 percent to 7.1 billion dirhams respectively.

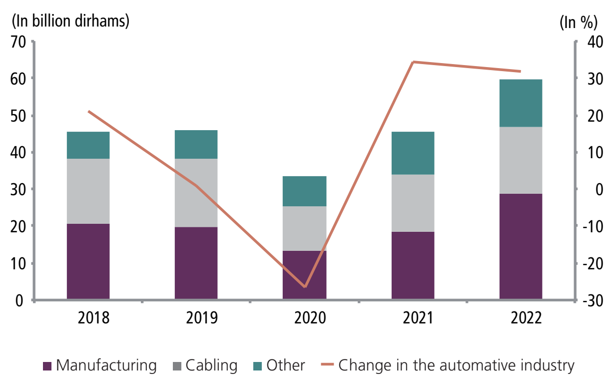
For its part and despite the disruption of supply chains that the automotive sector is experiencing worldwide, the activity at national level remains positive. Its exports have increased by 31.6 percent to 59.7 billion following mainly the performance recorded by the construction segment, whose sales have increased by 56.7 percent to 28.9 billion. Similarly, exports of automotive wiring continue their upward trend, recording an increase of 14.6 percent to 17.9 billion.

Sales of the "agricultural and agri-food" sector have improved by 23.3 percent to 50 billion, the result of progress of 27.8 percent to 25.4 billion those of the food industry and 18.5 percent to 23.5 billion for agricultural products.

As for exports of the "textile and leather" sector, they increased by 28.8 percent to 25.6 billion, reflecting mainly increases of 31.2 percent for "made-up garments" and 23.6 percent for "hosiery items".

Regarding shipments of aerospace, they recorded a significant increase of 57.9 percent to 12.1 billion, driven mainly by increases of 66.2 percent of those of the segment "assembly" and 42.8 percent for the "EWIS1 ". As for exports of "electronics and electricity", they have increased by 32.4 percent and 10 billion with an improvement of 62.9 percent for electrical components (transistors).

Chart 2.1: Change in automotive industry's exports



Source: Foreign Exchange Office.

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

Sectors/Segments	January - july		Change	
	2022	2021	Value	In %
Exportations	**246 081**	**174 954**	**71 127**	**40,7**
Phosphates and derivatives	**68 773**	**37 974**	**30 799**	**81,1**
Automobile	**59 657**	**45 337**	**14 320**	**31,6**
Construction	28 887	18 431	10 456	56,7
cabling	17 938	15 656	2 282	14,6
Interiors	4 100	4 194	-94	-2,2
Agriculture and Agri-Food	**50 016**	**40 567**	**9 449**	**23,3**
Food Industry	25 385	19 856	5 529	27,8
Agriculture, forestry, hunt	23 530	19 853	3 677	18,5
Textile and Leather	**25 597**	**19 866**	**5 731**	**28,8**
Ready-made garments	16 159	12 314	3 845	31,2
Hosiery articles	5 029	4 070	959	23,6
Shoes	1 923	1 501	422	28,1
Aeronautics	**12 134**	**7 685**	**4 449**	**57,9**
Assembly	8 162	4 912	3 250	66,2
EWIS	3 899	2 731	1 168	42,8
Electronics and Electricity	**9 976**	**7 535**	**2 441**	**32,4**
Wires, cables and other connectors for electricity	3 543	2 175	1 368	62,9
electronic components (transistors)	3 906	2 998	908	30,3
Devices for the disconnection or connection of electrical circuits.	1 083	1 022	61	6,0
Other mining extractions	**3 262**	**2 637**	**625**	**23,7**
Copper ore	991	848	143	16,9
Barium Sulfate	665	533	132	24,8
Other industries	**16 666**	**13 353**	**3 313**	**24,8**
Metallurgy and metalworking	5 308	4 578	730	15,9
Industry pharmaceutical	1 548	1 184	364	30,7
Plastic and rubber industry	835	813	22	2,7

Source: Foreign Exchange Office.

2.1.2 Imports

In addition to the recovery in domestic demand and the poor performance of the cereal crop year, the increase in imports was largely driven by the significant rise in raw material prices. Thus, the energy bill more than doubled to reach 88.1 billion, in line with the increase in the price of energy products on the international market. Purchases of "gas oils and fuel oils" increased from 23.7 billion to 42.5 billion, those of "coal, cokes and similar solid fuels" from 9.9 billion to 14.9 billion and imports of "petroleum gas and other hydrocarbons" from 7 billion to 16.4 billion dirhams.

Similarly, imports of semi-finished products increased by 55.6 percent to 100.2 billion, reflecting in particular the increase to 12.2 billion in the supply of ammonia, against 3.5 billion, driven by import prices that have more than tripled compared to the same period of the previous year.

Purchases of food products have, for their part, increased by 52.8 percent, mainly in relation to the doubling of wheat imports to 17.1 billion under the combined effect of the increase in its international price and the poor agricultural campaign. At the same time, purchases of raw products amounted to 28.2 billion, up 12.6 billion, including 8.8 billion for purchases of "raw and unrefined fuels".

For their part, purchases of capital goods have increased by 18 percent to 82.1 billion, driven by increases of 65 percent of imports of "aircraft parts and other air vehicles", 29.4 percent of "piston engines" and 25.8 percent of "wires and cables". Regarding purchases of finished consumer products, they recorded an increase of 8.7 percent to 76.4 billion reflecting increases of 20.6 percent for "parts and spare parts for cars" and 38.4 percent for "fabrics and yarn of man-made and synthetic filaments".

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

User groups	january - july		Change	
	2022	2021	Value	In %
Total imports CAF	**429 550**	**294 454**	**135 096**	**45,9**
Energy products	**88 114**	**38 776**	**49 338**	**-**
Gas and fuel oils	42 488	18 755	23 733	-
Coals; cokes and solid fuels fuels	14 889	4 941	9 948	-
Petroleum gases and other	16 446	9 479	6 967	73,5
Half products	**100 197**	**64 402**	**35 795**	**55,6**
Ammonia	12 224	3 468	8 756	-
Chemical products	10 761	6 531	4 230	64,8
Plastics	13 139	9 258	3 881	41,9
Food products	**54 391**	**35 600**	**18 791**	**52,8**
Barley	17 147	8 616	8 531	99,0
Wheat	3 170	400	2 770	-
Raw or refined sugar	4 350	3 017	1 333	44,2
Raw products	**28 237**	**15 665**	**12 572**	**80,3**
Raw and unrefined sulphur refined	13 537	4 696	8 841	-
Crude or refined soybean oil refined	4 792	3 135	1 657	52,9
Scrap metal, waste and other ores	2 191	1399	792	56,6
Capital goods	**82 145**	**69 604**	**12 541**	**18,0**
Parts of aircraft and other air vehicles	7 371	4 468	2 903	65,0
Piston engines	7 333	5 667	1 666	29,4
Wire and cable	6 198	4 927	1 271	25,8
Finished consumer products	**76 372**	**70 291**	**6 081**	**8,7**
products Parts and pieces for passenger cars	13 403	11 113	2 290	20,6
Synthetic and artificial fibre fabrics and synthetic and artificial fibers	7 099	5 131	1 968	38,4

Source: Foreign Exchange Office.

2.2 Other components of the current account

The surplus on the services balance improved by 65.2 percent to 51.1 billion, the result of a 47.2 percent or 34.2 billion increase in exports, which was greater than the 33.8 percent or 14 billion increase in imports

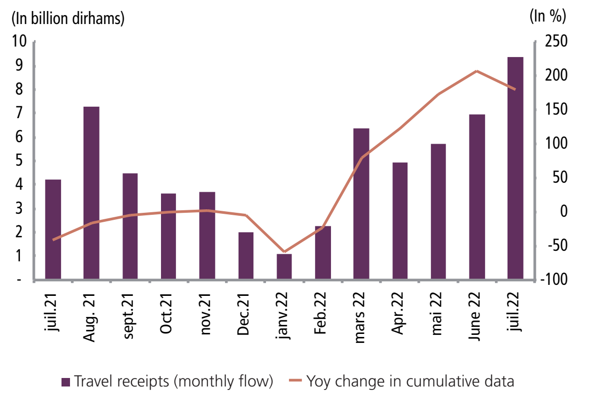
Table 2.3 : Change in the balance of services (in million dirhams)

	january - july		Change	
	2022	2021	value	In %
Imports	**55 527**	**41 487**	**14 040**	**33,8**
Exports	**106 594**	**72 404**	**34 190**	**47,2**
Balance	**51 067**	**30 917**	**20 150**	**65,2**

Source: Foreign Exchange Office.

In terms of travel receipts, and due to the borders reopening since February 2022 and the return to normal of the tourism activity, they have increased over the first 7 months of the year to 36.7 billion after 13.1 billion during the same period in 2021 and 41.5 billion in 2019. Expenditure on the same title has also increased by 70.5 percent to 8.5 billion dirhams.

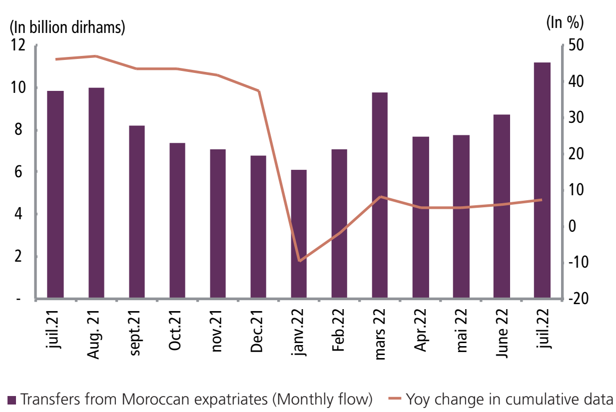
Chart 2.2: Change in travel receipts



Source: Foreign Exchange Office.

Regarding the transfers of Moroccan expatriates, they were up by 7.4 percent to 58.2 billion dirhams in the first seven months of the year

Chart 2.3: Change in transfers from Moroccan expatriates



Source: Foreign Exchange Office.

2.3 Financial Accounts

Regarding the main financial operations, the FDI net flow increased by 80.3 percent to 17.6 billion, the result of a 40.3 percent increase in receipts and a 14.2 percent fall in disposals. As for direct investments by Moroccans living abroad, their net flow increased by 72.6 percent to 3.3 billion, reflecting a decline of 860 million in investments less important than the 2.2 billion in revenues.

At the end of July 2022, outstanding official reserve assets stood at MAD 330.1 billion, representing the equivalent of 5 months and 19 days of imports of goods and services.

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

	january - july		Change	
	2022	2021	value	In %
Foreign direct investments	**17 624**	**9 774**	**7 850**	**80,3**
Revenues	23 785	16 954	6 831	40,3
Expenses	6 161	7 180	-1 019	-14,2
Investments of Moroccans abroad	**3 263**	**1 890**	**1 373**	**72,6**
Expenses	10 384	11 244	-860	-7,6
Revenues	7 121	9 354	-2 233	-23,9

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSETS MARKET

In the second quarter of 2022, monetary conditions were marked by a further depreciation of the real effective exchange rate and near stability in lending rates. As for bank loans, its component for the non-financial sector increased by 3.6% year-on-year compared to 3.1% one quarter earlier, covering in particular an acceleration in the growth of loans granted to private businesses. As for the other counterparts of the money supply, official reserve assets increased by 8.3% and net claims on central government rose by 15.4%. Overall, money supply growth fell from 5.7% to 4.9% quarter-on-quarter.

In the real estate market, asset prices rose slightly by 0.2% in the second quarter of 2022, with increases of 1.1% for assets for professional use, 0.3% for residential property and 0.1% for urban land. At the same time, the number of transactions rose by 4.6% overall, covering an increase of 8.1% for residential and decreases of 3.7% for urban land and 1.9% for assets for professional use.

Concerning the Casablanca Stock Exchange, the MASI depreciated in the second quarter by 6.3% and the volume of stock exchange transactions stood at 10.3 billion as against 10.6 billion a quarter earlier. As for market capitalization, it posted a quarterly decline of 6.6% to 623.9 billion dirhams.

3.1 Monetary Conditions

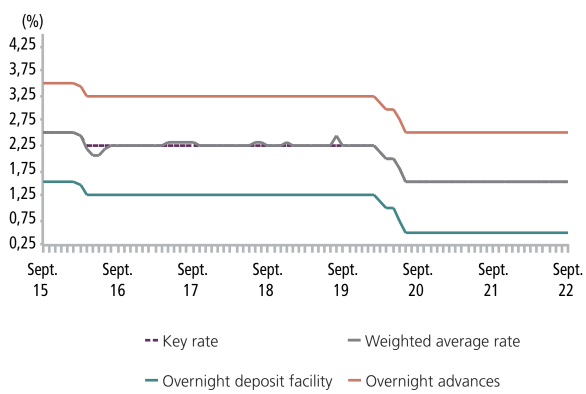
3.1.1 Bank liquidity and interest rates

Reflecting the increase in currency in circulation, Banks' need for liquidity rose during the second quarter of 2022 to 77.5 billion dirhams on a weekly average, against 64.6 billion a quarter earlier. Under these conditions, the Bank increased the amount of its injections to 88.8 billion, after 75.5 billion, of which 42.1 billion in the form of 7-day advances, 25 billion through repurchase agreements, 21.6 billion in the form of guaranteed loans within the framework of programs to support the financing of SMEs and 146.2 million in the form of foreign exchange swap. In this context, the average residual duration of the Bank's interventions fell to 40.6 days from 46.9 days in the first quarter, and the interbank rate remained in line with the policy rate.

In the Treasury bill market, rates continued to rise in the second quarter on both the primary and secondary markets.

The latest available data indicate an increase in the need for bank liquidity to 93.1 billion on average during July and August 2022.Tableau 3.1 : Taux des bons du Trésor sur le marché primaire (In %)

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

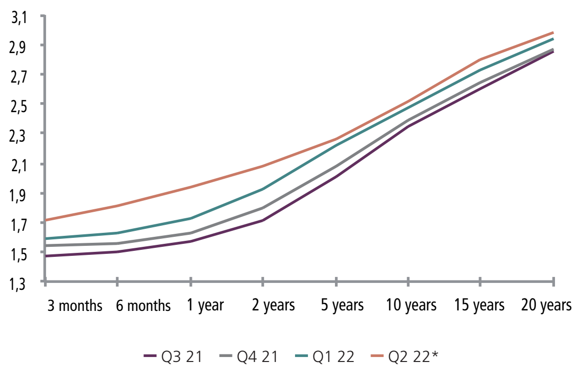


Source: Foreign Exchange Office.

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

	2021				2022		
	Q1	Q2	Q3	Q4	Q1	Q2	Aug
26 weeks	1.43	1.42	1.41	1.40	1.49	1.66	1.93
2 years	1.70	1.69	1.77	1.72	1.83	1.91	2.27
5 years	1.96	1.96	2.04	2.01	2.08	2.27	-
10 years	2.34	2.32	2 .36	2.34	2.43	-	-
15 years	2.64	2.63	2.64	2.64	2.70	-	-

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

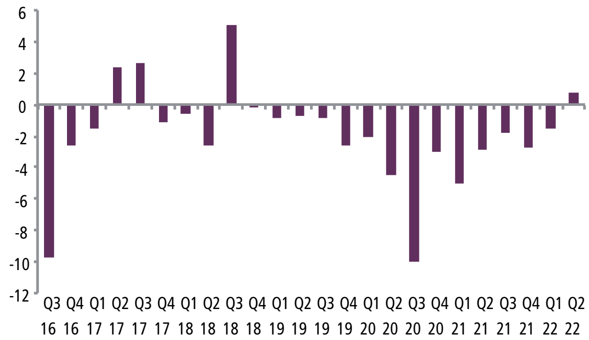


*Average observed in October and November.

In the same vein, the issuance rate of certificates of deposit rose again in the second quarter. As for deposit rates, they fell by 5 basis points to an average of 2.05% for 6-month deposits and remained virtually unchanged at 2.47% for 1-year deposits. Under these conditions, banks' cost of funds[1] remained virtually unchanged compared to the previous quarter.

The latest available data for July indicate that deposit rates for both 6-month and 1-year deposits were almost unchanged from one month to the next.

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 second quarter of 2022 indicate that the overall average rate remained almost stable at 4.29%. By institutional sector, rates on loans to companies rose by 3 basis points, with a 14 point increase for loans to large companies and a 3 point decrease for those to VSMEs. Conversely, rates on loans to individuals fell by 9 basis points, with drops of 18 points for consumer loans and 2 points for housing loans.

Table 3.2 : Change in lending rates

	2020		2021				2022	
	Q3	Q4	Q1	Q2	Q3	Q4	Q2	Q1
6 months	2.50	2.36	2.42	2.23	2.34	2.16	2.10	2.05
12 months	2.71	2.68	2.77	2.63	2.57	2.42	2.48	2.47

Table 3.3: Deposit rates

	2021				2022	
	Q1	Q2	Q3	Q4	Q1	Q2
Global	**4,45**	**4,32**	**4,35**	**4,44**	**4,28**	**4,29**
Personal loans	**5,19**	**5,19**	**5,20**	**5,16**	**5,23**	**5,14**
Real estate loans	4,33	4,26	4,24	4,24	4,21	4,19
Consumer loans	6,50	6,64	6,51	6,47	6,50	6,32
Loans to businesses	**4,23**	**4,04**	**4,17**	**4,26**	**4,00**	**4,03**
Cash advances	4,04	3,96	3,95	4,06	3,83	3,84
Equipment loans	4,49	4,13	4,84	4,58	4,31	4,60
Real estate loans	5,81	5,59	5,71	5,78	5,53	5,83

[1] The cost of funds is calculated as a weighted average of the banks' cost of liabilities

3.1.2 Exchange rates

During the second quarter of 2022, the euro depreciated by 5.07% against the US dollar. Under these conditions, the dirham appreciated by 0.37% against the Euro and depreciated by 4.70% against the US dollar. Compared to the currencies of the main emerging countries, the national currency appreciated by 7.72% against the Turkish lira and depreciated by 0.81% against the Chinese yuan. Overall, the effective exchange rate fell by 0.65 percent in nominal terms and 0.82 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

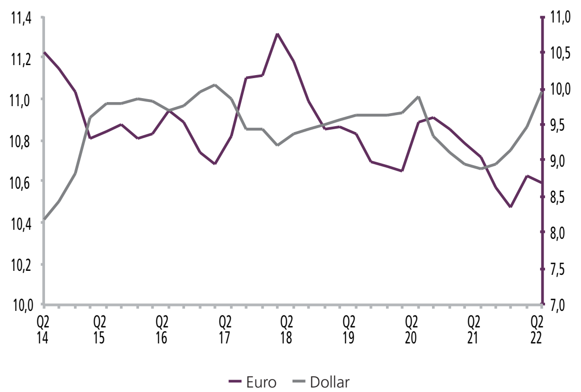
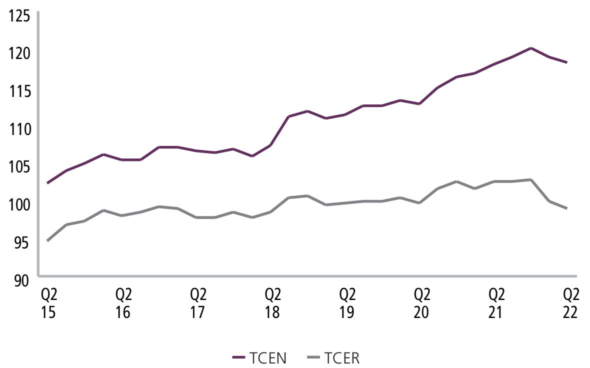


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Sources : BAM and IMF calculations.

As regards foreign currency transactions, the average volume of banks' spot transactions with customers increased, during the second quarter of 2022, by 38% to 40.9 billion dirhams for sales and by 21.9% to 35.1 billion dirhams for purchases.

Similarly, forward transactions increased by 59.9% to 26.9 billion for purchases and 122.9% to 6.2 billion for sales. Within the framework of Bank Al-Maghrib's foreign exchange auctions with banks, no auction session was held since December 2021. Under these conditions, banks showed a foreign exchange deficit position of 6.2 billion dirhams at the end of June, against 3.6 billion dirhams observed at the end of March 2022.

3.1.3 Monetary situation

Annual growth of the M3 aggregate stood at 4.9% in Q2 2022 after 5.7% one quarter earlier. This deceleration reflects an accentuation of the decline in time deposits from 2.3% to 8.8%, with a 30.3% drop in deposits by financial units, after an 8.4% increase, and a 7.8% decline in those of households, after a 9% increase. In the same vein, the growth rate of foreign currency deposits fell from 12.6% to 8.3% and that of money market funds from 12.6% to 3.1%. On the other hand, sight deposits saw their growth accelerate from 7.5% to 7.8%, mainly covering an improvement in the growth of household deposits from 6% to 7% and a slowdown from 12.5% to 4% for those of financial units. At the same time, growth in currency in circulation increased rose from 6.8% to 8.2%.

By main counterparts, the change in the money supply covers a deceleration from 19.8% to 15.4% in the growth of net claims on the central government, an acceleration from 7.7% to 8.3% in that of official reserve assets, and a virtual stability at 3.6% for bank loans.

Chart 3.6: Contribution of the major counterparts to YoY change in money supply

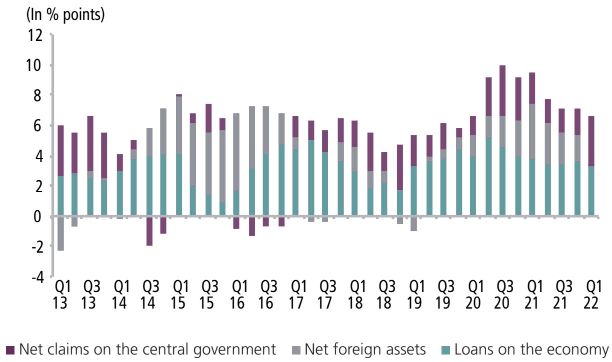


Chart 3.7: YoY change in credit

In particular, loans to the nonfinancial sector grew by 3.6%, up from 3.1% a quarter earlier, reflecting an acceleration in the growth of loans to private businesses from 3.9% to 6% in the second quarter. This change reflects in particular an acceleration in the growth of cash facilities from 6.9% to 10.9%, while growth in equipment loans fell from 2.1% to 1.5%.

With regard to loans granted to public companies, they have dropped by 12.5 percent after 10 percent a quarter earlier, covering an alleviation of the decline in equipment loans from 23.6 percent to 18.9 percent and an acceleration of the increase in liquidity facilities from 13.3 percent to 15.5 percent.

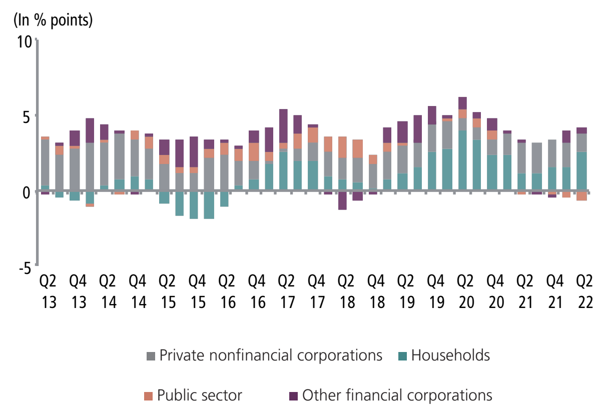
Concerning loans to individual entrepreneurs, the rate of increase stabilized at 4.2 percent. Including a 10.1 percent improvement in home loans, after a 4.5 percent decline, and an acceleration in the growth of liquidity facilities from 7.3 percent to 9 percent.

As for loans to individuals, their growth fell from 4.1 percent to 2.9 percent, the result of a deceleration for housing loans from 4 percent to 2.3 percent and an acceleration for consumer loans from 2.9 percent to 3.3 percent.

By branch of activity, the data for the second quarter of 2022 indicate annual increases of 29.8 percent in loans to companies in the "electricity, gas and water" sector, 18.5 percent for "food industries and tobacco" and 10 percent for "agriculture and fishing".

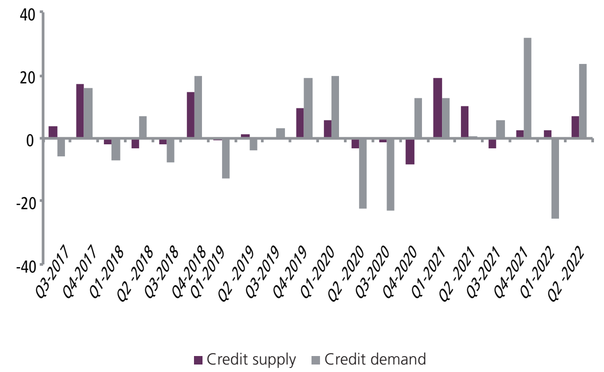
Conversely, the assistance of companies in the "chemical and parachemical industries", "transport and communications" and "construction and public works" decreased by 18.3 percent, 10 percent and 9.2 percent respectively.

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



Outstanding loans increased by 5.3 percent and their ratio to outstanding bank credit remained almost stable at 8.7 percent. They increased by 6.1 percent for private non-financial companies and by 4percent for households with ratios to outstanding loans of 11.6 percent and 9.8 percent respectively.

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



Source : BAM

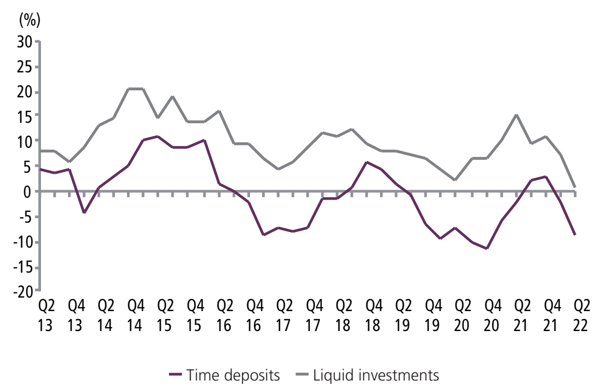
Outstanding loans increased by 5.3 percent and their ratio to outstanding bank credit remained almost stable at 8.7 percent. They increased by 6.1 percent for private non-financial companies and by 4percent for households with ratios to outstanding loans of 11.6 percent and 9.8 percent respectively.

For loans granted by financial companies other than banks to the non-financial sector, they improved by 2.2 percent in the second quarter of 2022. This change reflects in particular increases of 3.4 percent for loans granted by finance companies, 22.8 percent for those distributed by off-shore banks and 0.5 percent for loans granted by microcredit associations.

The latest available data for July indicate annual bank credit growth of 5 percent, reflecting accelerations to 7.5 percent for loans to other financial companies and 4.6 percent for loans to the non-financial sector.

As for investment aggregates, their annual growth fell from 7.2 percent in the first quarter to 0.5 percent in the second quarter. This change reflects decreases of 0.9 percent for Treasury bills and 2.8 percent for bond money market fund shares, after increases of 6 percent and 1.8 percent respectively, as well as a deceleration in the growth of equity and diversified mutual fundsfrom 38.7 percent to 18.3 percent.

Chart 3.10: YoY change in liquid investments and time deposits



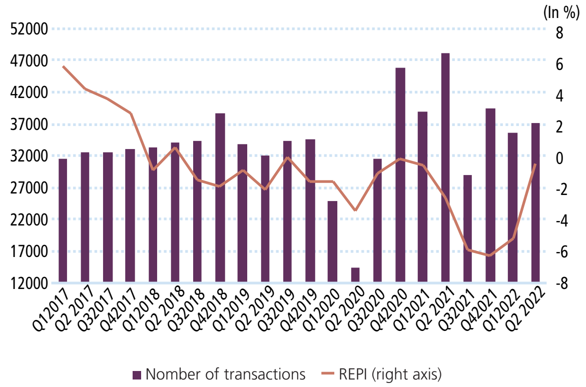
3.2 Asset prices

3.2.1 Real estate assets

In the second quarter of 2022, the real estate asset price index edged up 0.2 percent, reflecting price increases of 0.3 percent for residential, 0.1 percent for land, and 1.1 percent for business property. Concurrently, the number of transactions recorded an increase of 4.6 percent, covering an increase of 8.1 percent for residential property and decreases of 3.7 percent for land and 1.9 percent for business property.

At the level of major cities, with the exception of Agadir, El Jadida, Marrakech and Kenitra which recorded price decreases, all the main cities have experienced price increases with rates ranging from 0.2 percent in Fez to 0.8 percent in Tangier and Rabat. Regarding the number of transactions, except Agadir, Fez and Oujda where it has regressed by 0.1 percent 1.9 percent and 2.8 percent respectively, it has recorded increases ranging from 2.3 percent in El Jadida to 12.9 percent in Casablanca.

Chart 3.11: Change in the REPI and in the number of real estate transactions

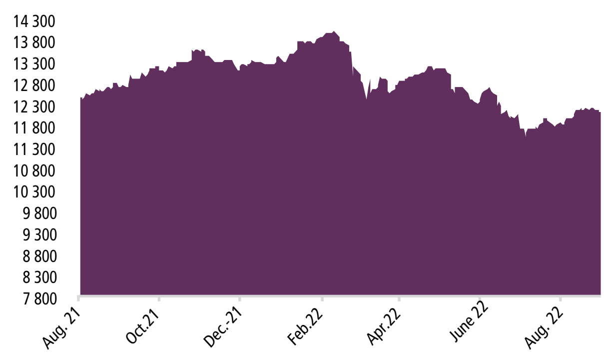


3.2.2 Financial assets

3.2.2.1 Shares

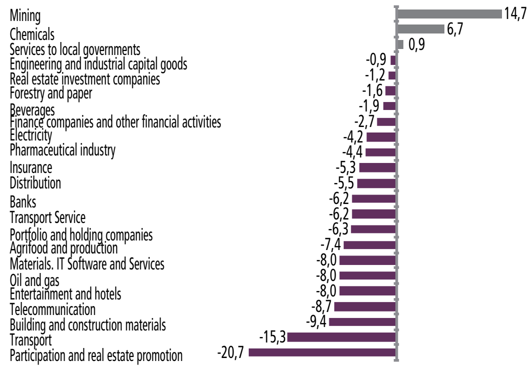
During the second quarter of 2022, MASI declined by 6.3 percent, bringing its underperformance on a year-to-date basis to 10.1 percent. This quarterly change mainly reflects decreases in the sector indices for "buildings and construction materials" by 9.4 percent, telecommunications by 8 percent and banks by 6.2 percent. Conversely, "leisure and hotels", mining and electricity increased by 14.7 percent, 6.7 percent and 0.9 percent respectively.

Chart 3.12: Daily change in MASI



Source : Bourse de Casablanca.

Chart 3.13: Contribution of sectoral indexes in the third quarter 2021 (in%)



Source : Bourse de Casablanca

As for the volume of trade, it stood at 10.3 billion dirhams against 10.6 billion a quarter earlier. By compartment, revenues reached 8.2 billion after 9.5 billion in the central market and 906.1 million after 686.8 million in the block market. In this context, the market capitalization recorded a quarterly decline of 6.6 percent to 623.9 billion dirhams.

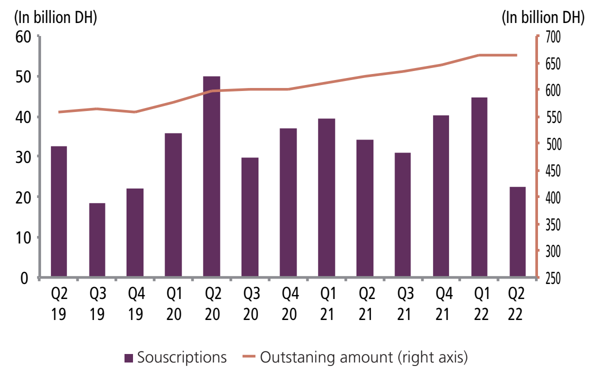
The latest available data indicate that after declining by 1.6 percent in July, the MASI appreciated by 2.6 percent in August, reducing its annual underperformance to 9.2 percent. The monthly change in the benchmark index was due in particular to increases of 4.2 percent in the "buildings and construction materials" sector index and 1.3 percent in the "banks" sector index. Conversely, the beverages index fell by 1 percent and the transport services index by 0.8 percent. Concurrently, sales were 1.8 billion in July and 1.1 billion in August and market capitalization reached 630.2 billion, down 8.8 percent since the beginning of the year.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic market amounted to 22.3 billion dirhams in the second quarter of 2022, down 50.2 percent in quarterly variation. Of these, 77 percent were for short maturities and 23 percent for medium maturities. Considering repayments, the outstanding amount of Treasury bills stood at 664.1 billion, up 2.7 percent since the beginning of the year.

During the month of July, issues amounted to 5.2 billion dirhams and were all in short maturities. Considering repayments, the outstanding amount of Treasury bills stood at 661.5 billion, up 2.3 percent since the beginning of the year.

Chart 3.14: Change in Treasury bonds



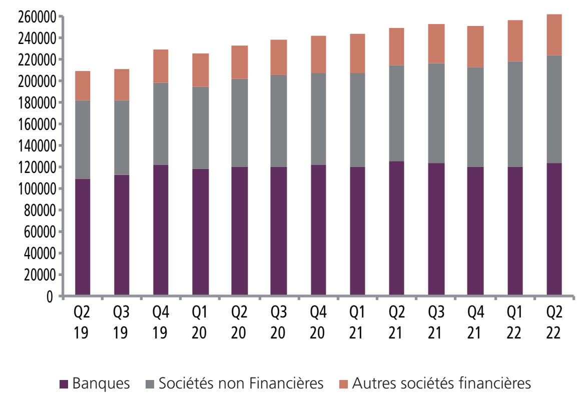
Source : BAM.

3.2.2.3 Private debt market

In the private debt market, issuance rose by 17.8 percent to 19.3 billion dirhams in the second quarter of 2022. Banks raised an amount of 13.8 billion, against 7.3 billion the previous quarter and non-financial companies 3 billion after 7.3 billion.

During July and August, private debt raised amounted to 6.1 billion and 4.4 billion respectively. Including repayments, the amount outstanding was 268.6 billion, an increase of 7.2 percent since the beginning of the year.

Chart 3.15: Change in outstanding private debt per issuer (In billions of dirhams)



Sources : Maroclear et calculs BAM.

3.2.2.4 Mutual funds

During the second quarter of 2022, subscriptions to mutual funds regressed by 1.1 percent to 267 billion and redemptions increased by 11.2 percent to 291.7 billion, i.e. a net outflow of 24.7 billion dirhams. As for performances, they were down for equity and diversified funds with respective rates of 3.6 percent and 1.5 percent, and up for money market and short term bond funds with rates of 0.4 percent and 0.3 percent respectively. The performance index for medium- to long-term mutual funds remained virtually stable from one quarter to the next.

August data shows a 4.5 percent decline in net assets of mutual funds since the beginning of the year to 566 billion dirhams. This includes a 14.1 percent decline in medium- to long-term bond funds and an 8 percent decline in equity funds, as well as increases of 17.6 percent, 8.6 percent and 3 percent, respectively, in short-term bond funds, money market funds and diversified funds.

4. FISCAL POLICY TREND

Over the first eight months of 2022, budget execution showed a deficit, excluding proceeds from the sale of State holdings, of 30.4 billion dirhams, down by 18.3 billion dirhams compared with end-August 2021, partly reflecting an increase of 6.3 billion dirhams in the positive balance of the Treasury's special accounts to 16 billion. Ordinary expenditure rose by 13.4 percent to 215 billion, reflecting mainly increases of 125.2 percent in subsidy costs and 3.8 percent in spending on goods and services. Ordinary revenues, on the other hand, improved by 24.5 percent to 215.8 billion, as a result of a 19.6 percent increase in tax revenue and a 92.7 percent increase in non-tax revenue. Under these conditions, the ordinary balance showed a surplus of 779 million, instead of a negative balance of 16.2 billion at end-August 2021. For their part, investment expenditure increased by 11.6 percent to 47.2 billion, taking overall expenditure to 262.2 billion, up 13.1 percent.

Taking into account the reduction in the stock of pending operations by 3.6 billion, compared with 18.5 billion a year earlier, the cash deficit, excluding the proceeds from the sale of government holdings, stood at 34 billion, instead of 67.2 billion. This need was covered by domestic resources up to a net amount of 26.6 billion and by a positive net external inflow of 7.3 billion. Thus, outstanding direct public debt is set to have increased by 2.4 percent compared to its level at end-December 2021. As for the Treasury's financing conditions, weighted average rates were up at end-August 2022 compared with the same period in 2021.

4.1 Ordinary revenues

Budget execution for the first eight months of the year showed a 24.5 percent increase in ordinary revenues to 215.8 billion, reflecting increases of 19.6 percent to 189.9 billion in tax revenues and of 92.7 percent to 23.4 billion in non-tax revenues. The favorable trend in tax income concerns the main headings with the exception of domestic VAT.

Direct tax revenues stood at 74.5 percent of what was projected in the Finance Act (FA), up 26.6 percent to 72.8 billion, mainly due to the 51.4 percent improvement in CT revenues to 38.2 billion. This increase is driven in particular by companies operating in the phosphates, financial and cement sectors. The rebound is the result of the 6.9 billion increase in revenue from the complement of adjustments, 3.6 billion from the first installment and 2.9 billion from the second installment. For their part, receipts from IT rose by 5.7 percent to 33 billion, thus registering a realization rate of 76.7 percent, with in particular increases of 4.6 percent to 6.9 billion of the IT on salaries served by the Directorate of Personnel Expenses and a decrease of 4.9 percent to 2.7 billion of the IT on real estate profits. It should be noted that the improvement of the IT allowed to outweigh the base effect related to the exceptional revenues achieved in 2021 within the framework of the operations of spontaneous regularization of the tax situation of taxpayers which totaled 836 million dirhams.

Indirect tax revenues improved by 15 percent to 95.5 billion dirhams, reflecting increases of 18.2 percent to 74.9 billion in VAT revenues and 4.6 percent to 20.6 billion in DCT revenues. These include increases of 7 percent to 8 billion in DCT revenues from tobacco and of 22.9 percent to 1.7 billion from other products excluding energy products and tobacco. The improvement in VAT is attributable to import VAT, which generated revenues of 52.5 billion, up 32.7 percent, driven by the rise in the price of energy products, while domestic VAT edged down 5.7 percent to 22.4 billion, mainly as a result of the increase in VAT credit refunds from 5.6 billion to 7.6 billion at end-August 2021.

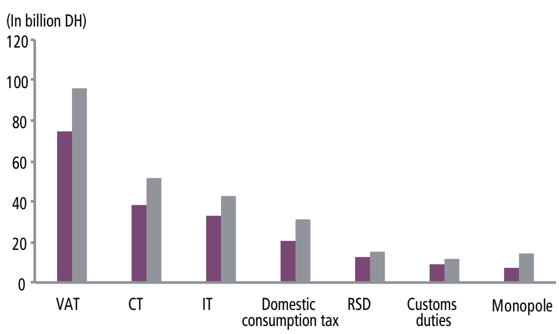
Table 4.1: Change in current revenues (in billions of dirhams)*

	Jan. aug 2021	Jan. aug 2022	Change in %	FA 2022	Achievements against the FA (%)
Current revenues	**173,4**	**215,8**	**24,5**	**286,8**	**75,2**
Tax revenues	**158,8**	**189,9**	**19,6**	**251,8**	**75,4**
- Direct taxes	57,5	72,8	26,6	97,7	74,5
Including CT	25,2	38,2	51,4	51,4	74,3
I.T	31,2	33,0	5,7	43,0	76,7
- Indirect taxes	83,0	95,5	15,0	127,1	75,1
VAT*	63,3	74,9	18,2	96,4	77,7
DCT	19,7	20,6	4,6	30,8	66,8
- Customs duties	7,7	9,3	21,2	12,0	77,3
- Registration and stamp duties	10,6	12,4	16,2	14,9	82,9
Nontax revenues	**12,1**	**23,4**	**92,7**	**30,9**	**75,6**
- Monopoles and shareholdings	6,8	7,1	4,7	14,0	50,8
- Other receipts	5,4	16,3	204,1	17,0	96,1
Including GCC grants	0,2	0,4	143,6	0,7	54,3
TSA revenues	0,0	10,2		12,0	85,0
Recettes des CST	**2,4**	**2,5**	**2,2%**	**4,1**	**59,8**

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

As for customs duty revenues, they rose by 21.2 percent to 9.3 billion, while registration and stamp duties increased by 16.2 percent to 12.4 billion in connection with the increase in registration duties, the tax on insurance contracts 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 - CT : Corporate tax
- IT : Income tax - DCT : Domestic consumption tax
- RSD : Registration and stamp duties - CD : Customs duties
- DET : Droits d'enregistrement et de timbre - DD : Droits de douane

Non-tax revenues amounted 23.4 billion, up 11.3 billion compared to end-August 2021. This improvement is mainly due to the improvement in "other revenues", which stood at 16.3 billion, including 10.2 billion in revenues from specific financing mechanisms and 380 million in GCC grants. As for revenues from monopoles and participations, they reached 7.1 billion, instead of 6.8 billion a year earlier, paid by OCP up 4 billion, by ANCFCC up 2.2 billion and by Bank Al-Maghrib up 505 million.

4.2 Expenditure

Overall expenditure amounted 262.2 billion at the end of the first eight months of 2022, showing an increase of 13.1 percent. This change reflects rises of 13.4 percent to 215 billion in ordinary expenditure and of 11.6 percent to 47.2 billion in investment expenditure. In relation to expenditure in goods and services, they reached 140.6 billion, up 3.8 percent compared with end of August 2021, as a result of increases of 3.5 percent to 97.9 billion in the payroll and 4.6 percent to 42.6 billion in expenditure on other goods and services. These latter take particularly into consideration, increases of 4.2 percent to 22.2 billion in transfers to public institutions and companies and of 14.7 percent to 3.9 billion in payments to special Treasury accounts. The change in the payroll incorporates, for the part served by the Personnel Expenditure Department, increases of 1.6 percent in its structural component and 24.5 percent to 5.2 billion in backpays.

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

	Jan. aug 2021	Jan. aug 2022	Change in %	FA 2022	Achievements against the FA (%)
Overall spending	**231,9**	**262,2**	**13,1**	**369,0**	**71,1**
Current spending	**189,6**	**215,0**	**13,4**	**291,0**	**73,9**
Goods and services	135,4	140,6	3,8	217,0	64,8
Personal	94,7	97,9	3,5	147,5	66,4
Other goods and services	40,8	42,6	4,6	69,4	61,4
Debt interests	22,4	23,4	4,2	28,1	83,3
Subsidy	12,7	28,6	125,2	17,0	168,0
Transfer to local governments	19,0	22,5	18,2	28,9	77,7
Investment	**42,3**	**47,2**	**11,6**	**78,0**	**60,5**

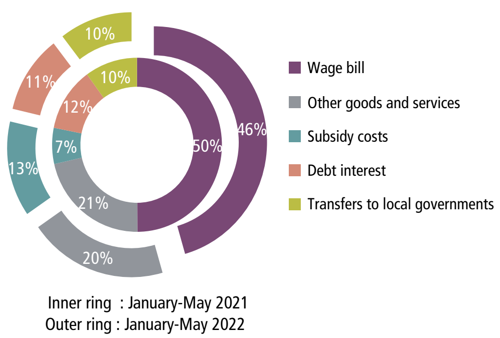
*Taking into account 30 percent of the VAT transferred to local governments.
Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Chart 4.2: spending execution compared to the amending FA

Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Expenditure related to debt interest increased by 4.2 percent to 23.4 billion, with a 5.2 percent rise to 20.4 billion for domestic debt and a 2 percent decrease to 3 billion for foreign debt.

Chart 4.3: Structure of current spending



Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

The compensation charge stood at 28.6 billion, recording a rebound of 125.2 percent, i.e. an execution rate of 168 percent compared to the Finance Law and 86.6 percent if we take into consideration the additional credits of 16 billion opened by decree adopted in June. This change is explained in particular by the appreciation of the average price of butane gas by 42.4 percent to 801.5 dollars per ton at the end of August. Furthermore, these expenses include subsidies granted to professionals in the transport sector amounting 2.1 billion for the four payments made up by end of August, as part of the measures decided by the Government to deal with the price of energy products rise.

As for investment spending, it increased by 11.6 percent to 47.2 billion, taking into account in particular a payment of 19.4 billion to the Special Treasury Accounts, compared with 16.3 billion at the end of August 2021. The execution level of these expenditures in relation to the Finance Law averaged 60.5 percent.

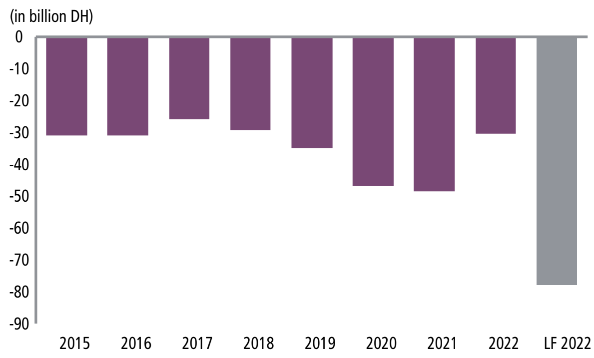
Chart 4.4: Investment spending, at end of November

Source : Ministry of Economy and Finance and Administration Reform.

4.3 Deficit and Treasury Financing

The budget execution resulted in a deficit, excluding income from the sales of State shareholdings of 30.4 billion compared with 48.7 billion a year earlier. This change partly reflects the improvement from 6.3 billion to 16 billion in the positive balance of the Treasury's special accounts, which includes a revenue of 6.4 billion from the Social Solidarity Contribution on Profits and Income, allocated to the Social Protection and Social Cohesion Support Fund, compared with 3.6 billion at end-August 2021. The Treasury has also reduced its stock of pending transactions by 3.6 billion, thereby reducing the cash deficit from 67.2 billion to 34 billion at the end of August 2022.

Chart 4.5: Fiscal balance, at end of November



Source : Ministry of Economy and Finance and Administration Reform.

The Treasury's financing requirement was covered by domestic resources in the net amount of 26.6 billion and by a net external flow of 7.3 billion, compared with 3 billion a year earlier. Gross external drawings amounted to 13.6 billion, including 9.6 billion from the World Bank and 1.8 billion from the African Development Bank.

Table 4.3: Deficit financing (in billions of dirhams)

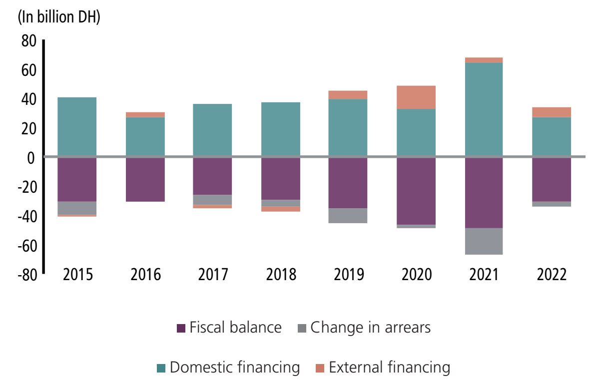
	Jan.-aug 2021	Jan.-aug 2022	FA 2022
Current balance	**-16,2**	**0,8**	**-4,2**
Balance of TSA	9,8	16,0	4,5
Primary balance	-26,3	-7,0	-49,6
Fiscal balance	**-48,7**	**-30,4**	**-77,6**
Change in arrears	-18,5	-3,6	
Financing requirements	**-67,2**	**-34,0**	**-77,6**
Domestic financing	58,8	26,6	52,0
External financing	3,0	7,3	20,7
Privatization	5,4	0,0	5,0

Sources : Ministry of Economy and Finance and Administration Reform.

In terms of domestic financing, recourse to the auction market involved a net amount of 12.8 billion compared to 35.2 billion a year earlier.

Net subscriptions included 26-week bills for 7.2 billion, 13-week bills for 5.6 billion and 5-year bills for 5 billion. At the same time, net redemptions included 52-week bills for 2.7 billion, 2-year bills for 2.4 billion and 15-year bills for 357 million.

Chart 4.6: Fiscal balance and financing , at end of November*



* Privatization receipts, limited and discontinued over time, were included in domestic financing.
Source : Ministry of Economy and Finance and Administration Reform.

With regard to the Treasury's financing conditions on the auction market, the data at the end of August indicate an increase in weighted average rates compared with the same period in 2021. For short maturities, the increases reached 28 basis points (bps) to 1.70 percent for 26-week maturities, 25 bps to 1.79 percent for 52-week maturities, 25 bps to 1.61 percent for 13-week maturities and 21 bps to 1.93 percent for 2-year maturities. Similarly, for medium and long maturities, rates rose by 22 bps to 2.2 percent for 5-year bills, 9 bps to 2.43 percent for 10-year bills and 6 bps for 15-year bills.

Table 4.4: Treasury's indebtedness (in billions of dirhams))

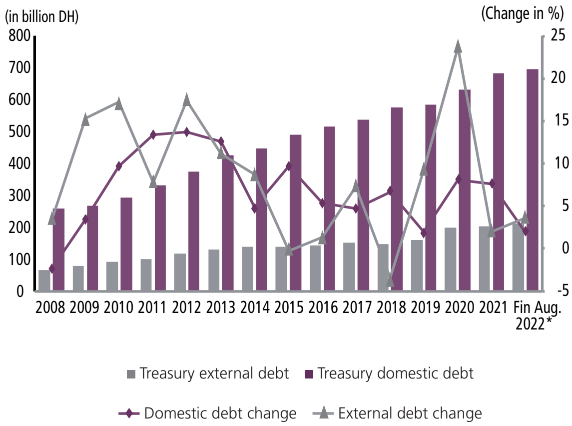
	2017	2018	2019	2020	2021	End aug 2022*
Treasury external debt	**153,2**	**148,0**	**161,6**	**199,7**	**203,8**	**211,1**
Change in %	7,3	-3,4	9,2	23,6	2,0	3,6
Treasury domestic debt	**539,1**	**574,6**	**585,7**	**632,9**	**681,5**	**695,7**
Change in %	4,8	6,6	1,9	8,1	7,7	2,1
Outstanding direct debt	**692,3**	**722,6**	**747,3**	**832,6**	**885,3**	**906,8**
Change in %	5,3	4,4	3,4	11,4	6,3	2,4

* For the debt at the end of November 2021, it is estimated based on net financing flows generating debt.

Source : Ministry of Economy and Finance and Administration Reform.

As for direct public debt, its stock would have increased by 2.4 percent at the end of August 2022 compared to its level at the end of December 2021, with increases of 3.6 percent in its domestic component and 2.1 percent in the external component.

Chart 4.7: Treasury debt



Sources : Ministry of Economy and Finance and Administration Reform, and BAM estimates.
*BAM estimates.

5. DEMAND, SUPPLY AND LABOR MARKET

In the first quarter of 2022, domestic growth decelerated to 0.3 percent after 2 percent in the same quarter of 2021, as a result of a 14.3 percent contraction, after a 19.4 percent rebound, in agricultural value added and a 2.5 percent increase in non-agricultural value-added following a near-stagnation. On the demand side, the contribution of its domestic component to growth fell sharply from 6.8 percentage points to 0.8 percentage points, while the contribution of foreign trade in goods and services declined from -4.8 percentage points to -0.5 percentage points.

In the second and third quarters of 2022, and in a context marked by the fallouts of the conflict in Ukraine and the unfavorable weather conditions that characterized the 2021-2022 agricultural season, economic activity is expected to have continued its sluggishness with average growth limited to 0.9 percent, from 11.4 percent a year earlier, reflecting a 14.8 percent decrease in agricultural value added and a 3.7 percent increase in nonagricultural value added.

On the labor market, the situation slightly improved between the second quarter of 2021 and the same period of 2022, with a creation of 133 thousand jobs, after 405 thousand a year earlier, covering a decline of 210 thousand jobs in agriculture and an increase of 343 thousand in non-agricultural activities including more than two thirds in services. Taking into account a net exit of 86 thousand job seekers, the activity rate fell by 0.9 point to 45.2 percent and the unemployment rate fell from 12.8 percent to 11.2 percent overall, from 18.2 percent to 15.5 percent in cities and from 4.8 percent to 4.2 percent in the rural areas.

5.1 Domestic demand

5.1.1 Consumption

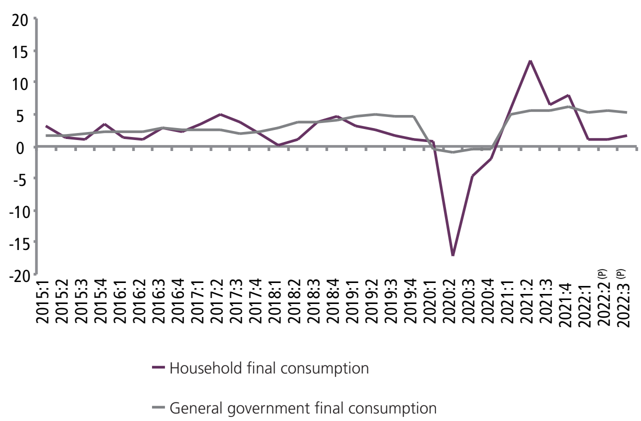
The latest national accounts data for the first quarter of 2022 show a deceleration in the growth of household consumption to 1.1 percent after 6 percent in the same quarter a year earlier, and its contribution to growth fell by 3.5 percentage points to 0.7 percentage points.

In the second and third quarters, household consumption slowed to an average of 1.3 percent after 10 percent in the same period of 2021, reflecting a decline in agricultural income, A surge in consumer prices and A sharp deterioration in the household confidence index, which stands at its lowest level since the HCP set up the household business survey in 2008. On the other hand, consumer loans improved by 2.8 percent at end-July after 1.1 percent a year earlier.

As regards final consumption by the general government, its momentum accelerated year-on-year from 4.9 percent to 5.4 percent in the first quarter of 2022 after 4.9 percent a year earlier, and its contribution to growth remained stable at around one percentage point.

In the second and third quarters, its growth slowed from 5.6 percent to 5.4 percent, mainly due to the slower growth in spending on goods and services, which stood at 5.2 percent at end-July after 5.3 percent in the same period a year earlier.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

In the first quarter of 2022, investment fell by 3.4 percent after increasing by 10.2 percent a year earlier.

Available indicators suggest that its pace slowed to an average of 2.3 percent in the second and third quarters of the current year, compared with 10.2 percent a year earlier. This development reflects in particular the deceleration to 3.4 percent of imports of capital goods in volume and the 2.3 percent decline at the end of July in equipment loans. In addition, the results of the business survey of Bank Al-Maghrib for the second quarter show that the business climate was described as "unfavorable" by 34 percent of companies surveyed against 30 percent a year earlier.

5.2 External demand

In the first quarter of 2022, net exports of goods and services in terms of volume contributed once again negatively to growth by -0.5 percentage points instead of -4.8 points in the first quarter of 2021. Exports grew by 6.6 percent compared to a decline of 8.2 percent, while imports increased by 6.8 percent after 6.2 percent.

In terms of outlook, exports are projected to have slowed down to 5 percent in the second and third quarters, in particular due to the deceleration in the pace of car shipments at end-July, while exports of phosphates and derivatives have, conversely, accelerated.

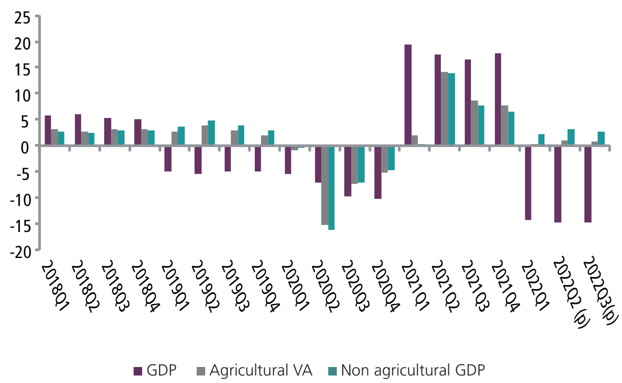
Imports, on the other hand, slowed to 8.8 percent, particularly due to the decline in the volume of capital goods imports.

5.3 Aggregate supply

In the first quarter of 2022, economic growth decelerated to 0.3 percent after 2 percent in the same quarter of 2021. This reflects a 14.3 percent contraction in agricultural value added after a 19.4 percent rebound and a 2.5 percent increase in nonagricultural value added after a near stagnation.

In the second and third quarters, activity slowed sharply to an average of 0.9 percent after 11.4 percent a year earlier. Agricultural value added fell by 14.8 percent due to a poor crop year, with a cereal harvest at 34 million quintals and a significant water deficit. Non-agricultural value added is projected to have increased by 3.7 percent instead of 10.4 percent.

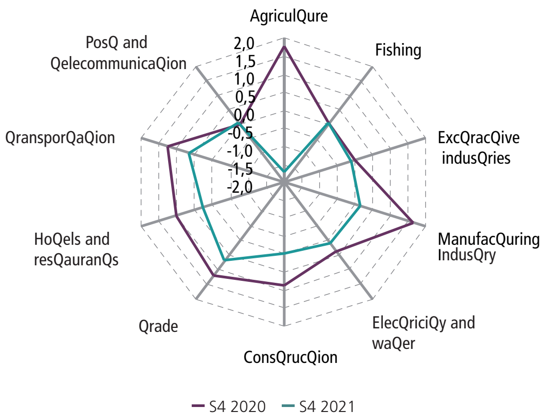
Chart 5.2: GDP per component (chained prices, yoy change in %)



Sources: HCP, and BAM forecasts.

In the secondary sector, value added reportedly increased slightly by 0.5 percent, following an 11.2 percent rise a year earlier. It contracted by 5.5 percent in the extraction industry, in connection with the fall in world demand for fertilizers and by 0.6 percent in construction. Conversely, it increased by 2.8 percent in the electricity, gas, water, sewerage and waste management sector and by 1.1 percent in the manufacturing industry.

Chart 5.3: Sectoral contribution to growth (in % points)



Sources: HCP data, and BAM forecasts.

In the tertiary sector, the pace of activity would have improved by an average of 5.3 percent in the second and third quarters instead of 10.1 percent in the same period of the previous year. In particular, the two branches "Accommodation and Catering Activities" and "Transport and Storage" have continued their recovery, although partial, with respective increases of 26.7 percent and 8 percent benefiting from the opening of borders and the operation Marhaba 2022.

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the second quarter of 2021 and the same period of 2022, the labor market situation was marked by a decline of 0.7 percent in the number of working individuals aged 15 years and over to almost 12.4 million people, the result of a regression of 3.8 percent in the countryside and an increase of 1.4 percent in the cities.

Given a 1.4 percent increase in the working age population, the labor force participation rate declined by 0.9 percentage points to 45.2 percent, with a sharper decline of 2.1 percentage points in rural areas compared with 0.3 percentage points in urban areas.

At the same time, the national economy created 133 thousand jobs, after 405 thousand a year earlier, and the employed population increased by 1.2 percent to 11 million people. With the exception of agriculture, which has suffered a loss of 210 thousand jobs, the other sectors posted increases amounting to 237 thousand jobs in services, 76 thousand in industry including crafts and 30 thousand in construction.

5.4.2 Unemployment and underemployment

Taking into account the decline in the active population, the unemployed population fell by 13.6 percent to almost 1.4 million people, and the unemployment rate dropped from 12.8 percent to 11.2 percent at the national level, from 18.2 percent to 15.5 percent in the cities and from 4.8 percent to 4.2 percent in rural areas. For young people aged between 15 and 24 in particular, the rate fell by 0.6 percentage points to 30.2 percent overall and by 0.8 percentage points to 46.4 percent for city residents. At the same time, the underemployment rate[1] fell from 9.2 percent to 8.5 percent overall, from 8.9 percent to 7.7 percent in urban areas and from 9.5 percent to 9.6 percent in rural areas.

5.4.3 Productivity and wages

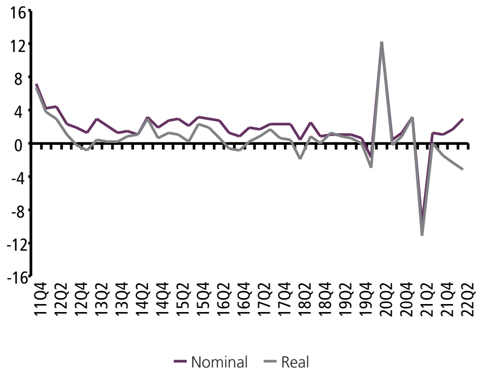
In nonfarm activities, apparent labor productivity, as measured by the ratio of value added to employment, would have contracted by 0.7 percent year-on-year in the second quarter of 2022, after improving by 12 percent in the same period of the previous year. This would have resulted from a slowdown from 13.3 percent to 4 percent in value added and an acceleration from 1.2 percent to 4.7 percent in employment.

For its part, the average wage, calculated on the basis of CNSS data by relating the wage bill to the number of employees, increased in the second quarter of 2022, in nominal terms, by 2. 9 percent instead of a decline of

1 The underemployed population consists of persons who worked: i) during the reference week less than 48 hours but are willing and available to work overtime or ii) more than the threshold and are looking for another job or willing to change jobs because of mismatch with their training or qualification or insufficient income.

9.7 percent in the same period of the previous year, and showed, in real terms, a further decline of 3.1 percent after the 11.1 percent.

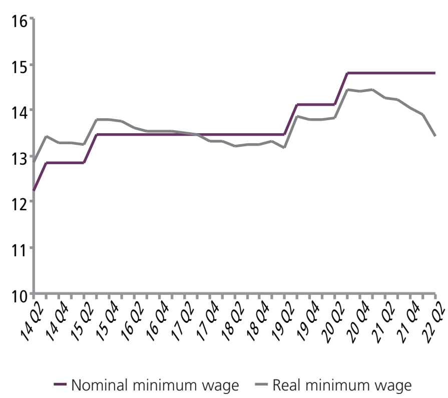
Chart 5.4: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

The hourly SMIG remained unchanged in the second quarter of 2022 at 14.81 dirhams in nominal terms. Taking into account a 6.3 percent increase in the consumer price index, it will have fallen by 5.9 percent in real terms. In the third quarter, as part of the adoption of the decree setting the amount of the minimum wage on September the 1st in application of the social agreement concluded on April the 30th, the hourly SMIG is expected to rise by 5 percent to 15.55 dirhams in nominal terms and fall by 2.7 percent in real terms.

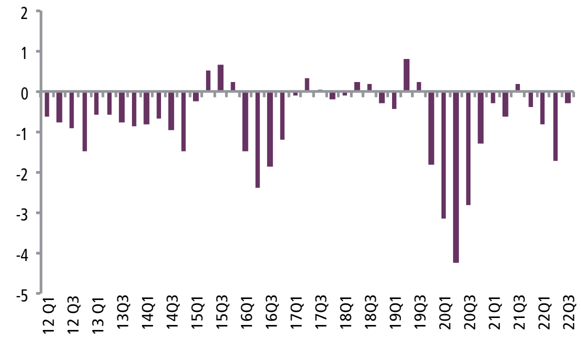
Chart 5.5: Hourly minimum wages in nominal and real terms (in DH/h)



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

Under these conditions, the output gap is expected to remain negative in the second and third quarters of 2022.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

	Q2 2021	Q2 2022
Participation rate (%)	**46,1**	**45,2**
Urban	42,6	42,3
Rural	52,9	50,8
Unemployment rate (%)	**12,8**	**11,2**
Youth aged between 15 and 24 years old	30,8	30,2
Urban	18,2	15,5
Jeunes âgés de 15 à 24 ans	47,2	46,4
Rural	4,8	4,2
Créations d'emplois (en milliers)	**405**	**133**
Urban	-9	285
Rural	414	-152
Sectors		
- Agriculture, forest and fishing	318	-210
- Industry including handicraft	-53	76
- Construction	108	30
- Services	40	237
Nonagricultural apparent productivity (change in %)	**12**	**-0,7**
Average wage index (change in %) nominal	**-9,7**	**2,9**
Real	**-11,1**	**-3,1**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

Inflationary pressures intensified over the last few months and expanded to products other than those directly impacted by external factors. Against the backdrop of persistent bottlenecks and high commodity prices, especially for food and energy, inflation emerged higher than expected in lest June monetary policy report, averaging 6.3 percent in the second quarter of 2022. It then rose to 7.7 percent in July and 8 percent in August, its highest level in nearly 30 years. In addition to the larger increase in prices of volatile food products and fuels and lubricants, core inflation accelerated sharply to an average of 7.6 percent in July and August from an average of 6.6 percent in the second quarter, driven by an increase in the rate of growth of tradable prices to 11.4 percent and a relative increase in the rate of growth of nontradables to 2.9 percent.

In the third quarter of 2022, inflation is expected to reach a peak of 7.9 percent. It would continue to be driven by the expected acceleration of its underlying component to 7.5 percent.

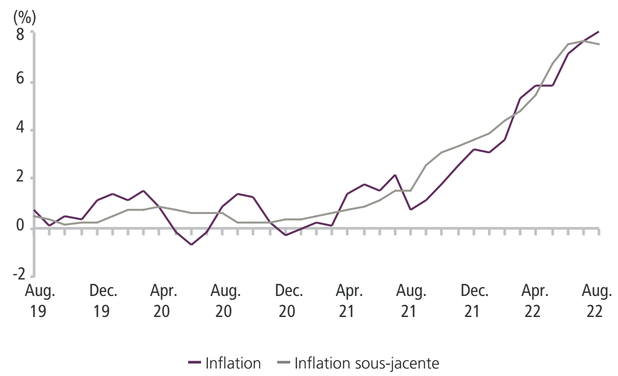
6.1 Inflation trends

Inflation continued to rise, from 6.3 percent in the second quarter to an average of 7.9 percent in July and August. The acceleration was largely attributable to a 6.4 percent to 13.1 percent increase in the pace of volatile food prices and a 6.6 percent to 7.6 percent increase in core inflation, which was driven mainly by the surge in prices of its food component. Similarly, the faster rise in fuel and lubricant prices in these two months compared to the second quarter contributed, albeit to a lesser extent, to the observed increase in inflation. On the other hand, regulated tariffs fell by an average of 0.3 percent in July and August, compared with 0.1 percent in the previous quarter.

6.1.1 Prices of goods excluded from core inflation

Suffering internally from supply constraints and externally from the still high level of agricultural inputs, the prices of volatile food products rose by a total of 6.9 percent in July and August, reflecting mainly an increase of 56.2 percent in the price of "citrus fruits", 5.8 percent increase in the price of "fresh vegetables" and 7.8 percent in "fresh fish". In annual comparison, these prices rose by an average of 13.1 percent in July and August instead of 6.4 percent in the second quarter, bringing their contribution to inflation to 1.6 percentage points compared to 0.8 points in the previous quarter.

Chart 6.1: inflation and core inflation, (YoY)



Sources: HCP and BAM calculations.

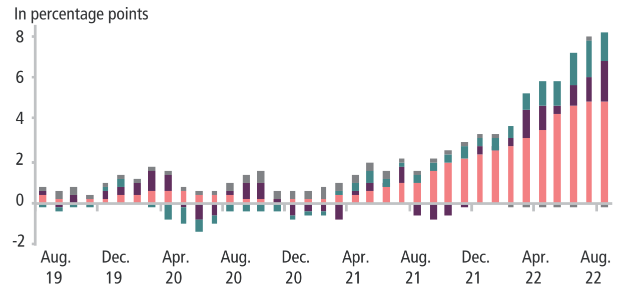
Table 6.1: Change in inflation and its components

(In %)	Monthly change			YoY change		
	june 22	july 22	aug 22	june 22	july 22	aug 22
Inflation	**0,5**	**0,9**	**0,3**	**7,2**	**7,7**	**8,0**
- Volatile food prices	-2,4	2,7	4,2	6,8	9,6	16,9
- Administered prices	0,0	0,0	0,0	0,0	0,0	-0,5
- Fuels and lubricants	9,2	4,4	-10,1	62,1	64	46,8
Core inflation	**0,8**	**0,6**	**0,2**	**7,5**	**7,6**	**7,5**
- Food products	1,3	1,1	0,1	13,9	14,5	14,0
- Clothing and footwear	0,2	0,2	0,5	5,1	5,4	5,8
- Housing, water, gas, electricity and other fuels[1]	0,4	0,2	0,2	2,1	2,1	2,1
- Furniture, household equipment and routine house maintenance	0,8	0,5	0,3	5,7	6	6,2
- Health[1]	0,4	0,0	-0,4	2,9	2,9	2,4
- Transportation[2]	1,0	0,3	1,1	5,0	4,6	5,5
- Communication	0,2	0,0	0,2	0,4	0,4	0,6
- Entertainment and culture[1]	0,9	0,1	0,3	7,4	7,5	7,7
- Education	0,0	0,0	0,0	1,3	1,3	1,3
- Restaurants and hotels	1,4	0,9	0,6	2,5	3,1	3,6
- Miscellaneous goods and services [1]	0,2	0,1	0,1	4,4	3,1	3,2

1 Excluding administered goods.
2 Excluding fuels and lubricants and administered products.
Sources: HCP, and BAM calculations.

Regulated tariffs were virtually unchanged on average in July and August compared to the second quarter of 2022, as government subsidies to transporters limited the transmission of pump price increases to road passenger transport prices. On an annual comparison basis, and under a base effect, prices of regulated products are slightly down by 0.3 percent on average in July and August instead of 0.1 percent in the second quarter of 2022. Overall, the contribution of regulated tariffs to inflation was negative at -0.1 percentage point, after a zero contribution in the second quarter of 2022.

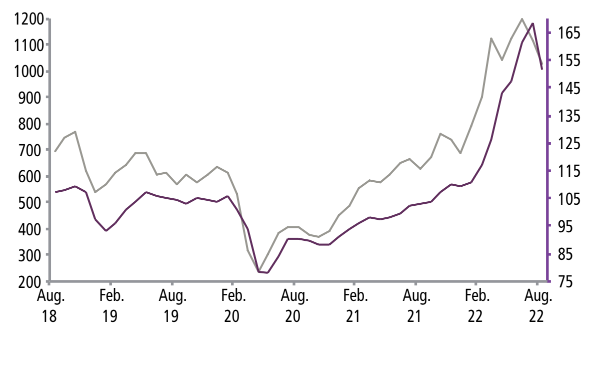
Chart 6.2: Price contributions of major components to inflation (YoY)



Sources: HCP, and BAM calculations.

Fuels and lubricants prices rose again in July and August compared to the second quarter despite the decline in oil product prices, with a drop from $112.7/bl in the second quarter to $103.8/bl for Brent and a drop in gross refining margin[1] of nearly haFA. These downward effects were partially offset by the 3.7 percent depreciation of the national currency against the U.S. dollar. Compared to the same month last year, fuel and lubricants prices rose by 55.4 percent, contributing by 1.5 percentage points to inflation on average in July and August 2022, compared to 1.4 percentage points in the previous 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.

1 Sources: World Bank, HCP and BAM calculations.

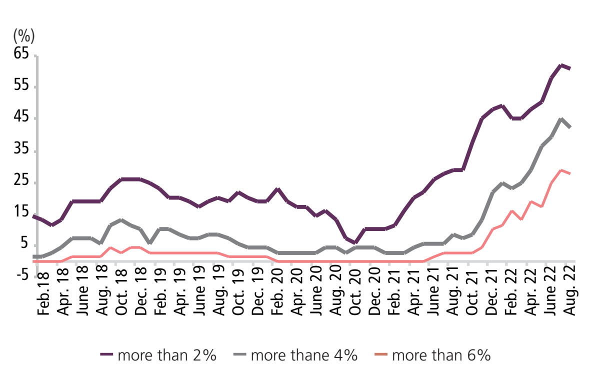
6.1.2 Core inflation

Core inflation continued to rise in July and August, reflecting the buildup of inflationary pressures. Core inflation, as measured by the exclusion method, rose from an average of 6.6 percent in the second quarter to an average of 7.6 percent in July and August, largely driven by the acceleration of food prices, which are included in core inflation. Despite successive declines in world prices since April 2022, world prices continue to rise month-on-month, rising by an average of 14.3 percent in July and August instead of 12 percent year-on-year in the second quarter. They are driven by price increases of 32.4 percent instead of 28.9 percent for "oils", 8.9 percent after 2.7 percent for "dairy products" and 5.2 percent against 3.3 percent for "fresh meat".

Excluding food products, prices increased by 6.1 percent after 4.6 percent for "furnishing, household equipment and routine house maintenance" and by 7.7 percent instead of 5.5 percent for "entertainment and culture" excluding regulated products.

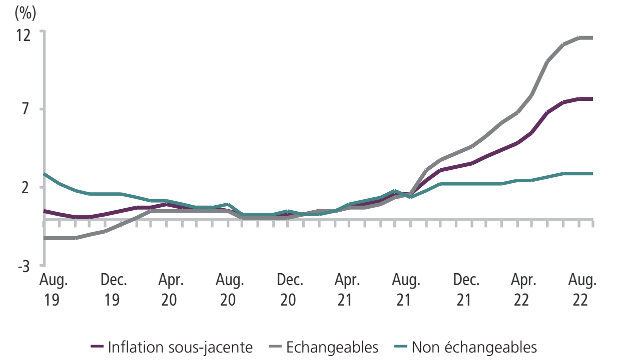
The price increase continues to spread among non-food products. The share of those whose prices rose by more than 2 percent reached 62 percent on average in July and August instead of 49 percent in January 2022 and 20 percent on average between 2018 and 2019.

Figure 6.4: Share* of non-food products with year-on-year changes of 2%, 4% and 6% (In %)



*This is the share in the CPIX basket excluding food products.

Figure 6.5 : change in the price indexes of tradables and nontradables (YoY)



Sources : Données HCP et calculs BAM.

The breakdown of the core inflation indicator basket into tradable and non-tradable products indicates that its acceleration continues to be driven mainly by that of its tradable component. The pace of growth for prices of this component increased to 11.4 percent on average in July and August instead of 9.7 percent in the second quarter in a context marked by a rise from 8.1 percent to 9 percent in inflation in the euro area, Morocco's main trading partner.

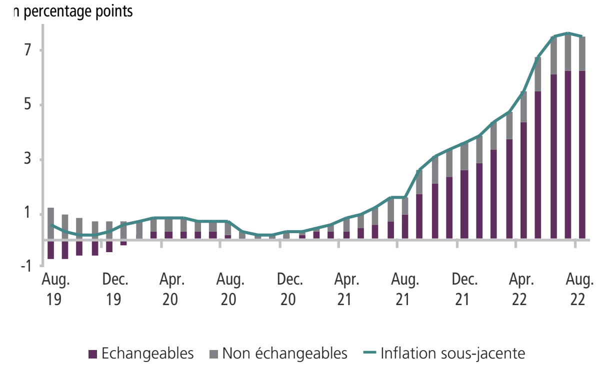
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	june 22	july 22	aug 22	june 22	july 22	aug 22
Tradables	1,1	0,6	0,4	11,1	11,4	11,4
Nontradables	0,4	0,5	-0,1	3,0	3,0	2,8
Core inflation	**0,8**	**0,6**	**0,2**	**7,5**	**7,6**	**7,5**

Sources: HCP, and BAM calculations

As for the prices of non-tradable goods, their growth rate from 2.8 percent in the second quarter to 2.9 percent on average in July and August. Their contribution to underlying inflation stood at 1.3 percentage points, after 1.2 percentage points in the previous quarter.

Chart 6.6: Contribution of tradables and nontradables to core inflation



Sources: HCP, and BAM calculations.

6.2 Short-term outlook for inflation

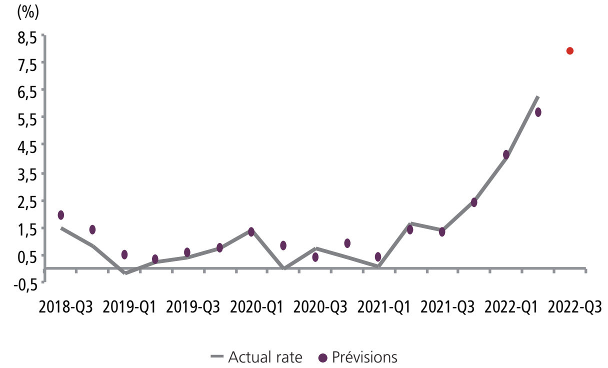
Inflation is expected to further accelerate in the short term, to reach a peak of 7.9 percent on average in the third quarter of 2022, after 6.3 percent a quarter earlier. It would be driven mainly by higher prices for volatile food products, which, taking into account price data at the wholesale level, would rise to 13 percent from 6.4 percent in the previous quarter.

Similarly, core inflation is expected to continue to be driven by its food component. It is expected to stand at 7.5 percent instead of 6.6 percent.

For the prices of fuels and lubricants, they whould increase from one year to another by 61.1 percent after 53.1 percent observed during the second quarter in connection with the expected evolution of international prices of petroleum products and the exchange rate of the dirham against the dollar.

Taking into account the measures taken to maintain the prices of school books unchanged, the renewal of the additional exceptional support for road transport professionals, and in the absence of new government decisions in relation to other regulated products, the tariffs of the latter should continue their trend from one quarter to another. However, they are expected to fall by 0.3 percent after a 0.1 percent decline in the previous quarter, due to a base effect.

Chart 6.7: 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: HCP data, and BAM forecasts.

Box 6.1: Expanding the range of indicators of underlying inflation

In their inflation analyses and forecasts as a basis for monetary policy decisions, central banks refer to the consumer price index (CPI). The CPI can be highly volatile in the short term due to changes in the prices of certain products, which are often exogenous and very short-term, and do not necessarily reflect a persistent trend or a change in price formation mechanisms and therefore do not justify central bank intervention.

In order to better assess inflation core evolution and to identify price movements resulting from persistent demand pressures, the monetary authorities use measures of underlying inflation. While the principle and objective of this indicator are clear, namely to distinguish between temporary changes and the underlying trend in prices, its measurement can be based on multiple methodologies. The use of different approaches allows for a more detailed assessment of the inflation core evolution.

One of the most widely used methodologies, other than the exclusion method, is the truncated average, the principle of which is to exclude from each period the components that show the most erratic Change. Its main disadvantage is the difficulty of interpreting its evolution on the basis of the contribution of its different components, because of the change in its composition.

One way to overcome this problem is to use a combination of the traditional exclusion approach and truncation. The Banque de France, for example, introduced a new indicator called "fine core inflation" for extracting core inflation in the euro area[1]. The principle of this new measure is based on the permanent exclusion of the most volatile components over a reference period instead of entire groups of consumer product categories (food and energy) in the case of the traditional underlying indicator. The new indicator thus obtained shows better stability and responsiveness to the economic cycle[2] than the traditional indicator.

Calculation of the « fine core inflation » index for Morocco

Since the official monthly CPI data go back to 2007, the adopted reference period is 2008-2019. The period from 2020 to July 2022 was excluded because of the particular context that marked it and that generated unusual behavior of some CPI components. The implementation of this method to the components of the CPI indicates that at the 70% threshold, the exclusion should concern:

1 Bulletin de la Banque de France. May-June 2022 edition «A possible new indicator to measure underlying inflation in the euro area». https://publications. banque-france. fr/un-nouvelle-indicateur-possible-pour-meurer-linflation-sous-jacente-en-zone-euro.

2 Measured by the output gap or the unemployment rate.

- Food products totaling 25.6% of the CPI, including almost all of those excluded from the CPIX, which represent 12.3% of the CPI. It should be noted that in calculating the CPIX, BAM opted for the volatility criterion in selecting the food products to be included in this indicator. Indeed, the exclusion of all prices of these commodities, which account for nearly 37.5% of the CPI, would have reduced its representativeness (see reference document on the development of these indicators at Bank Al-Maghrib website).

- Five non-food products, representing 6% of the CPI, namely fuels and lubricants, newspapers and periodicals, jewelry and watches, air transport of passengers and telephone and fax services.

Regulated products are included in the "core fine inflation" indicator in view of the low volatility of their prices. This component would thus contribute to moderating the level of the underlying trend compared to that estimated by the exclusion method.

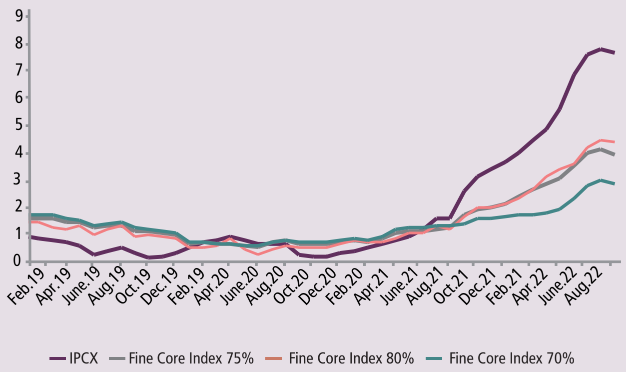
Two other measures that include a larger share of products in the CPI basket, i.e. 75% and 80%, were also tested.

Table E.6.1.1: Products excluded at the 70% 75% and 80% thresholds

At 70% threshold	At 70% threshold	At 80% threshold	Products excluded from the «fine core inflation»	Indicator Weight in the CPI
			Citrus fruit	0,5
			Fresh vegetables	3,6
			Unprocessed cereals	0,6
			Oils	3,6
			Fuels and lubricants for passenger vehicles	2,8
			Fresh fruits	1,8
			Dried legumes	0,6
			Eggs	0,8
			Telephone and fax services	2,6
			Beer	0,0
			Newspapers and periodicals	0,2
			Passenger air transport	0,2
			Poultry and rabbit	2,9
			Other aromatic plants	0,1
			Jewelry and watches	0,2
			Oils and fats	0,7
			Fresh fish	1,8
			Tea	0,9
			Food products n.e.c.	1,3
			Cereal-based products	6,4

Source : HCP.

Chart E.6.1.1: Trends in different measures of underlying inflation (in annual % change)



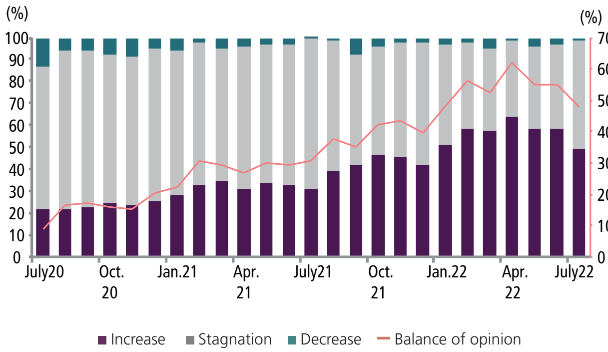
Source : Données HCP et calcul BAM.

All in all, these measures confirm the strengthening of inflationary pressures over the recent period, as do others based on the exclusion method (CPIX), the truncated average or the double weighting (CPPI). In terms of the scope of the change, the 70% (75% and 80% respectively) fine core inflation indicator is up 2.8% in August 2022 (3.9% and 4.3% respectively) instead of 7.5% for the exclusion method.

6.3 Inflation expectations

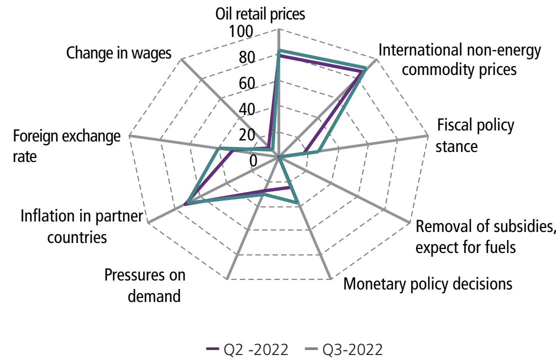
The results of Bank Al-Maghrib's business survey for July 2022 indicate that 49% of manufacturers surveyed expect inflation to rise over the next three months, compared with an average of 60% in the second quarter. 49% of them expect it to stagnate, while 2% expect it to fall. The balance of opinion stands therefore at 47%.

Chart 6.8: Three-month inflation expectations by business owners



Source: BAM's monthly business survey.

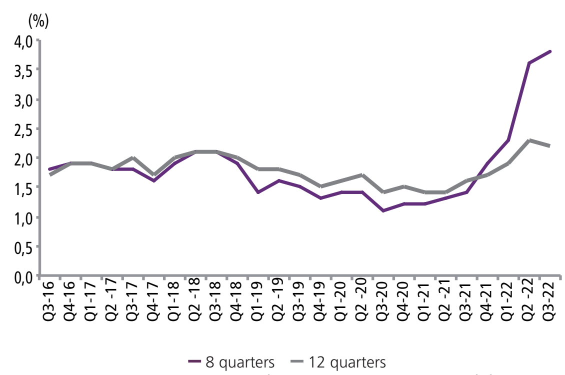
Chart 6.10: Determinants of the future trend in inflation as expected by financial experts



Source: BAM's Quarterly Survey on Inflation Expectations.

In addition, the results of Bank Al-Maghrib's inflation expectations survey for the third quarter of 2022 show that financial experts expect inflation to accelerate to an average of 3.8% over the next eight quarters, compared to 3.6% expected a quarter earlier. In the longer term, they expect inflation to reach 2.2% over the next 12 quarters, up from 2.3% in the previous quarter.

Chart 6.9: Inflation expectations of financial sector experts



Source: Bank Al Maghrib's Quarterly Inflation Expectations Survey of financial sector experts.

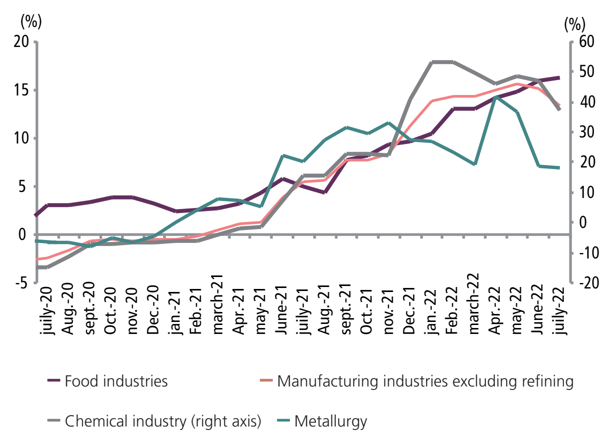
The respondents consider that the trend of inflation over the next eight quarters will be determined mainly by the change in global commodity prices excluding oil, pump prices and inflation in partner countries.

6.4 Producer price[2]

Producer prices in the manufacturing industries excluding refining fell from an average of 15.3% in the second quarter to 13.4% in July. This slower pace was mainly due to the deceleration of producer prices from 47.3% to 37% for the "chemical industry", from 31.9% to 17.9% for the "metal industry" and from 9.9% to 4.3% for the "electrical equipment manufacturing" branch.

Conversely, producer prices in the food industry rose by 16.3% instead of 15% in the second quarter.

Chart 6.11: YoY change in the main industrial producer price indexes



Source : HCP.

[2] On February 26, 2021, the HCP published a new producer price index based on the year 2018 instead of 2010.

7. MEDIUM-TERM OUTLOOK

Summary

The outlook for the global economy continues to deteriorate in conjunction with the rapid tightening of monetary conditions in both advanced and emerging economies and concerns about energy supply in Europe. In the United States, growth is expected to fall from 5.7 percent in 2021 to 1.6 percent in 2022 and 1.1 percent in 2023. In the euro area, growth is expected to fall from 5.4 percent in 2021 to 3 percent in 2022 and then decelerate to 0.7 percent in 2023. In China, the zero-covid policy and the difficulties of the real estate sector continue to weigh on growth. After 8.5 percent in 2021, growth is expected to slow to 3.4 percent in 2022, before accelerating to 6.1 percent in 2023, benefiting in particular from tax easing measures, support to loans and investment in infrastructure projects. Russia is expected to enter a recession in 2022, with a contraction of 5.4 percent in 2022 and 3.6 percent in 2023.

On the commodity market, prices have fallen in recent months, mainly driven by expectations of a global recession and the agreement on cereals exports from Ukraine. Energy prices are, however, expected to remain at high levels in 2022 compared to the previous year, averaging $104.1 per barrel for Brent crude oil, driven by limited supply, before declining to $93.5 in 2023. Similarly, the price of coal is expected to remain at a high level, standing at $322.7 per ton in 2022 before declining to $236.9 in 2023. As for food, the FAO index recorded a cumulative decline by 21.7 basis points between March and August but is expected to rise by 15.4 percent on average over 2022, due to continued pressure on global supply and rising input costs, particularly for energy and fertilizers, before falling by 8.1 percent in 2023.

Under these conditions, after reaching exceptionally high levels in both advanced and emerging economies in the first half of this year, inflationary pressures are expected to gradually ease over the remainder of the year. In the United States, inflation is expected to average 8.2 percent in 2022 after 4.7 percent in 2021, and then return to 4 percent in 2023 as domestic demand slows, the dollar strengthens, and inflation expectations decline. In the euro area, it is expected to rise to 7.7 percent in 2022 from 2.6 percent in 2021 and to decelerate throughout 2023 as supply shocks dissipate.

Against this backdrop, central banks, particularly those of the advanced countries, are showing a strong determination to fight inflation, significantly raising their key rates and reducing their asset purchase programs. The FED, thus, decided at the end of its September 20-21 meeting to raise the target range for the federal funds rate by three quarters of a percentage point to [3 percent-3.25 percent] and indicated that continued increases in the target range will be appropriate. It also announced that it will continue to reduce its holdings of Treasury securities and mortgage-backed securities according to the plan announced in May. Furthermore, it outlined that it remains firmly committed to returning inflation to its 2 percent target.

For its part, the ECB decided during its meeting held on September 8 to raise its three key rates by 75 basis points. In addition, it plans to raise rates again in future meetings in order to curb demand and to guard against the risk of a persistent rise in inflation expectations. The ECB intends to continue to reinvest, in full, principal payments on maturing securities purchased under the PPA for an extended period after the date of the policy rate hike and, in any event, for as long as necessary to maintain ample liquidity conditions and appropriate monetary policy. It also intends to reinvest principal payments on maturing securities acquired under the PEPP at least until end-2024. In all cases, future liquidation of the PEPP portfolio will be managed to avoid interference with the appropriate monetary stance.

At the national level, 2022 would see a strong recovery in tourism, an acceleration in foreign trade in goods, and continued high levels of remittances from Moroccan expatriates. The current account deficit would thus end the year at 3.2 percent of GDP, after 2.3 percent in 2021. In 2023, imports are expected to fall, mainly as a result of the reduction in the energy bill and lower wheat supplies, while travel receipts would almost stagnate. The current account deficit is expected to be 1.9 percent of GDP. FDI revenues are expected to stand at around 3.2 percent of GDP over the forecast horizon.

Taking into account, in particular, the hypotheses of grant inflows of 2.2 billion dirhams in 2022 and 1.5 billion dirhams in 2023 and the realization of the Treasury's planned external financing, official reserve assets would amount to 343.7 billion dirhams at the end of 2022 and 360.7 billion dirhams at the end of 2023, i.e. the equivalent of 5 months and 25 days and 6 months and 4 days of imports of goods and services, respectively.

In terms of public finances, the budgetary situation would continue to improve, taking into account the expected increase in tax revenues. Indeed, after having reached 5.9 percent of GDP in 2021, the budget deficit would be 5.5 percent of GDP, down 0.8 percentage points from the June forecast, incorporating the budgetary achievements to the end

of August 2022, the three-year budgetary program and the new BAM economic projections. In 2023, it would ease further to 5 percent of GDP, assuming mainly continued improvement in tax receipts and a reduction in the compensation burden from one year to the next.

Real monetary conditions are expected to tighten slightly, and credit growth to the nonfinancial sector is projected to grow at a rate of around 4 percent in 2022 and 3.6 percent in 2023. The real effective exchange rate would depreciate in 2022, while in 2023 it would slightly appreciate, mainly due to a domestic inflation rate lower than that of trading partners and competitors.

After rebounding to 7.9 percent in 2021, growth in the national economy is expected to slow to 0.8 percent this year, reflecting a 14.7 percent drop in agricultural value added, taking into account in particular a cereal harvest of 34 MQx, and a 3.4 percent increase in the value added of non-agricultural activities. In 2023, it would accelerate to 3.6 percent, covering an 11.9 percent recovery in agricultural value added, assuming a return to an average cereal production of 75 MQx as well as a deceleration to 2.5 percent in non-agricultural activities.

The persistence of high food and energy commodity prices would push inflation to an exceptionally high level in 2022, after reaching 1.4 percent in 2021, averaging 6.3 percent for the current year, before returning to around 2.4 percent in 2023. Its underlying component would continue to be driven mainly by external factors. It would reach 6.3 percent on average in 2022, before gradually moderating to 2.5 percent in 2023.

7.1 Underlying assumptions

Further deterioration in the global economic outlook

The rapid tightening of monetary conditions and the prolongation of the Russian-Ukrainian conflict have further dampened the outlook for global economic growth. Growth is expected to slow from 6.1 percent in 2021 to 2.8 percent in 2022 and 2.6 percent in 2023. In the United States, growth is expected to fall from 5.7 percent in 2021 to 1.6 percent in 2022 and 1.1 percent in 2023. In the euro area, growth is expected to fall from 5.4 percent in 2021 to 3 percent in 2022, then decelerate to 0.7 percent in 2023.

In the main emerging countries, particularly China, the zero-covid policy and the difficulties of the real estate sector continue to weigh on growth. Growth is expected to fall to 3.4 percent in 2022 from 8.5 percent in 2021, before accelerating to 6.1 percent in 2023 as a result of government measures in terms of tax relief, loan support and investment in infrastructure projects. Russia is expected to enter a recession in 2022, but to a lesser extent than anticipated at the start of the conflict with Ukraine. Its GDP is expected to contract by 5.4 percent in 2022 and by 3.6 percent in 2023.

Chart 7.1: Growth in the euro area

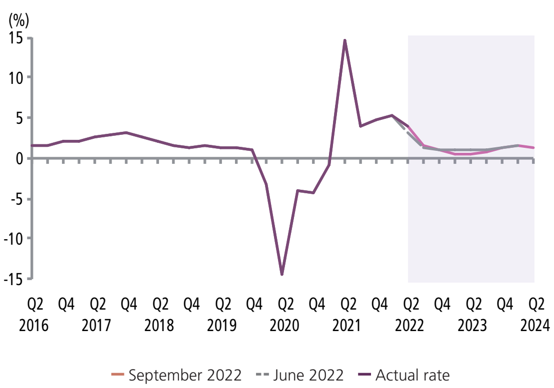


Chart 7.2: Growth in the USA

Source: GPMN[1] forecasts of November 2021.

Persistence of high commodity prices in 2022

Commodity prices have fallen in recent months, driven mainly by expectations of a global recession for oil prices and by the Ukraine grain export agreement for food products. Energy prices, however, are expected to remain high in 2022 compared to the previous year, averaging 104.1 dollars per barrel for Brent crude oil, due to continued tight supply and sanctions against Russia, before falling to an average of 93.5 dollars per barrel in 2023. Similarly, the price of coal would remain very high, averaging 322.7 dollars per ton in 2022 before falling to 236.9 dollars in 2023, as coal is one of the main alternatives to natural gas.

For phosphate and derivatives, the World Bank's April forecast indicates that prices would remain at high levels in 2022 due to a combination of factors, namely, record energy and input costs, supply disruptions, and uncertainties due to sanctions against Russia. With regard to raw phosphate in particular, its price is expected to increase from 123 dollars per ton in 2021 to 175 dollars in 2022, before falling to 160 dollars in 2023. Derivatives prices are

1 Global Projection Model Network.

expected to increase by 49.8 percent in 2022 to 900 dollars per ton for DAP and by 39.4 percent to 750 dollars per ton for TSP, before decreasing in 2023 to 800 dollars and 650 dollars respectively.

While remaining at high levels due to continued pressure on global supply and rising input costs, particularly energy, food prices are expected to decline. The FAO index is expected to rise by 15.4 percent in 2022 on average before falling by 8.1 percent in 2023.

Under these conditions, after reaching exceptionally high levels in both advanced and emerging economies, inflationary pressures are expected to ease in the second half of 2022 in line with: (i) global supply chain pressures continuing to ease; (ii) commodity prices, which fell in recent months and are expected to continue their decline; and (iii) monetary conditions in many countries, which are already restrictive. In the United States, inflation is expected to average 8.2 percent in 2022, after 4.7 percent in 2021, and to return to 4 percent in 2023 as domestic demand slows, the dollar strengthens, and inflation expectations decline. In the euro area, it would be 7.7 percent in 2022, up from 2.6 percent in 2021, and would decelerate rapidly through 2023 to average 3.7 percent as supply shocks dissipate.

Chart 7.2: Growth in the USA

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

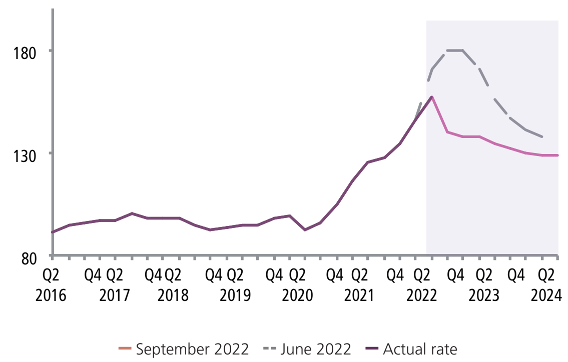


Chart 7.5: Inflation in the euro area

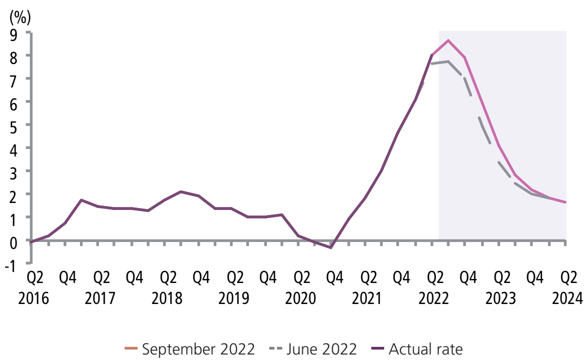


Chart 7.6: Inflation in the United states

Source: GPMN forecasts of March, 03 2022

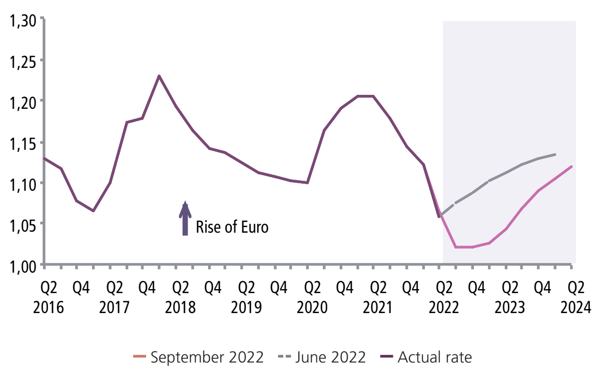
Significant tightening of monetary policies

Central banks in both advanced and emerging economies are showing a strong determination to fight inflation with significant increases in their key rates. For example, the Fed decided at its September 20-21 meeting to raise the target range for the federal funds rate by three-quarters of a percentage point to [3%-3.25%] and indicated that continued increases in the target range will be appropriate. The median rate forecast is now 4.4 percent by the end of this year and 4.6 percent next year, before returning to 3.9 percent in 2024 and 2.9 percent in 2025. It also announced that it will continue to reduce its holdings of Treasury securities and mortgage-backed securities according to the plan announced in May and stressed that it remains firmly committed to bringing inflation back to its 2 percent target.

For its part, the ECB decided at its September 8 meeting to raise its three key rates by 75 basis points to 1.25 percent for the interest rate on main refinancing operations, 1.5 percent for the interest rate on the marginal lending facility and 0.75 percent for the interest rate on the deposit facility. In future meetings, it plans to raise rates again to dampen demand and guard against the risk of a persistent rise in inflation expectations. The Bank intends to continue to reinvest, in full, principal payments on maturing securities purchased under the EPPP for an extended period after the date of the policy rate hike and, in any event, for as long as necessary to maintain ample liquidity and appropriate monetary policy. It also intends to reinvest principal payments on maturing securities acquired under the PPA at least through the end of 2024. In all cases, future liquidation of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance. At the same time, the Board intends to reinvest principal payments on maturing securities acquired under the PEPP at least through the end of 2024. In all cases, future liquidation of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

On the currency markets, the euro continues to depreciate against the dollar. For the year as a whole, it is expected to average 1.06 dollar, down 10.8 percent, as the FED's monetary tightening is faster than that of the ECB. In 2023, it should stabilize at an average of 1.06 dollar.

Chart 7.7: USD/EUR exchange rate



Source : GPMN, aug 2022.

A cereal production of 34 MQx for the 2021/2022 crop year and an average crop retained for 2022/2023

The 2021-2022 crop year was marked by unfavorable weather conditions. The final cereal harvest was, according to the Department of Agriculture, 34 million quintals (MQx), against an initial estimate of 32 MQx, down 67 percent from the previous season's harvest. At the same time, the Ministry reports a good performance of arboriculture and spring crops and vegetables as well as the positive effects of the program to reduce the impact of rainfall deficit, especially on livestock. Taking these developments into account, agricultural value added for 2022 would contract by 14.7 percent instead of the 15 percent retained in the June report.

For the 2022-2023 season, under the assumption of an average cereal production of 75 MQx and the continuation of the trend performance of the other crops, agricultural value added should increase by 11.9 percent in 2023. This outlook is subject to downward revision due to the exceptional level of water stress.

7.2 Macroeconomic Projections

Strong foreign trade dynamics in 2022 and reduction of the current account deficit in 2023

Taking into account end-July foreign trade data and expected commodity prices, the current account deficit is projected to rise to 3.2 percent of GDP in 2022, from 2.3 percent of GDP in 2021, before narrowing to 1.9 percent in 2023. Exports are expected to increase by 34 percent in 2022, driven mainly by shipments of phosphate and derivatives, benefiting from higher international prices, and sales in the automotive sector. At the same time, imports are expected to grow by 34.5 percent, mainly reflecting a rise in the energy bill and an increase in purchases of half-products. Food imports are also expected to increase in relation to the low local cereal production and the rise in international prices. With regard to travel revenues, in connection with the decision to reopen borders in February 2022 and the notable decline in the pandemic at the international level, they would see a clear improvement to MAD 79.8 billion. Taking into account the record level reached in July, remittances from Moroccans living abroad should end the year up by 5.6 percent to nearly MAD 100 billion. As for FDI receipts, they would be close to the equivalent of 3.2 percent of GDP, or an amount of MAD 43.6 billion after 31.9 billion in 2021.

Under the hypotheses of grant inflows of 2.2 billion and external Treasury financing of up to 40 billion, official reserve assets would amount to 343.7 billion at the end of 2022, or the equivalent of 5 months and 25 days of imports of goods and services.

In 2023, exports are expected to fall by 1.1 percent, mainly reflecting declines in sales of phosphates and derivatives, due to lower international prices, and in the textile and leather sector, in connection with the expected slowdown in foreign demand. Shipments in the automotive sector, on the other hand, are expected to improve in line with the increase in production capacity. Meanwhile, imports are expected to drop by 4.6 percent, mainly due to a reduction in the energy bill and a fall in wheat supplies. In 2023, Bank Al-Maghrib's projections anticipate a virtual stagnation of travel receipts at 79.3 billion, while remittances from Moroccan nationals should fall by 6.6 percent to 92.4 billion after the record levels observed in 2021 and expected in 2022. FDI receipts are expected to remain at around 3.2 percent of GDP, or the equivalent of 47 billion.

Under the assumptions of grant inflows of 1.5 billion, external financing of the Treasury of 35.6 billion dirhams, including an outflow on the international market for an amount of 10.6 billion dirhams, the official reserve assets would be 360.7 billion at the end of 2023, or the equivalent of 6 months and 4 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 (sept./june)	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2022	2023
Exports of goods (FOB)	8,6	3,5	10,3	10,7	3,3	-7,5	25,0	34,0	-1,1	12,0	-1,9
Imports of goods (CAF)	-4,9	10,3	6,7	9,9	2,0	-13,9	24,7	34,5	-4,6	10,3	-4,9
Travel receipts	-1,4	5,0	12,3	1,2	7,8	-53,7	-5,9	132,6	-0,7	74,2	-31,1
Expatriate remittances	4,8	4,0	5,3	-1,5	0,1	4,8	37,5	5,6	-6,6	12,5	-2,8
Current account balance (% of GDP)	**-2,0**	**-3,8**	**-3,2**	**-4,9**	**-3,4**	**-1,2**	**-2,3**	**-3,2**	**-1,9**	**1,7**	**1,9**
Official reserve assets, in months of imports of goods and services	**6,1**	**6,4**	**5,6**	**5,4**	**6,9**	**7,1**	**5,5**	**5,8**	**6,1**	**-0,2**	**0,0**

Sources: Foreign Exchange Office and BAM forecasts.

Monetary conditions are slightly tighter and the pace of credit to the non-financial sector is moderate.

After an increase of 0.6 in 2021, the real effective exchange rate would depreciate by 1.8 percent in 2022, as a result of a decline in the value of the national currency in nominal terms, mainly against the dollar and the Chinese yuan, and a level of domestic inflation lower than that of trading partners and competitors. In 2023, the real effective exchange rate is expected to appreciate slightly by 0.4 percent, in line with the appreciation in nominal terms, mitigated by a level of domestic inflation still lower than that of trading partners and competitors.

Based on the expected development of the Bank's foreign exchange reserves and banknote circulation, the bank liquidity deficit is expected to reach 85.1 billion dirhams at the end of 2022 and 89.6 billion dirhams at the end of 2023. As for Bank credit to the non-financial sector, it posted an increase by 4.6 percent year-on-year in July, reflecting the continued increase in liquidity facilities, particularly those for the energy sector. In terms of outlook and taking into account the expected evolution of economic activity and the expectations of the banking system, it should evolve at a rate of around 4.0 percent in 2022 and 3.6 percent in 2023. Under these conditions, and in line with the expected evolution of the other counterparts of the money supply, the growth of the M3 aggregate should be 5.7 percent at the end of 2022 and 5 percent at the end of 2023.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Réalisations				Prévisions		Gap (sept./June)	
	2018	2019	2020	2021	2022	2023	2022	2023
Bank lending to the nonfinancial sector	3,1	5,5	4,0	3,0	4,0	3,6	-0,2	-0,2
M3	4,1	3,8	8,5	5,1	5,7	5,0	0,0	0,3
Liquidity surplus or deficit, in billion dirhams	-69,0	-62,3	-67,0	-64,4	-85,1	-89,6	-6,9	2,3

Continued budget deficit reduction in 2022 and in 2023

In 2022, the budget deficit is expected to be 5.5 percent of GDP, down 0.8 percentage points from the June forecast. The current forecast essentially incorporates the budgetary achievements to the end of August 2022, the three-year budgetary programming and the new economic projections of Bank Al-Maghrib. The forecasts for 2022 are based on an improvement in tax revenues, in particular that of the corporate tax revenues and import VAT. In terms of non-tax revenues, an amount of 16 billion dirhams is forecast for specific financing mechanisms. As for expenditures, the compensation charge was revised upwards considering the new assumptions of butane gas prices and the exchange rate.

In 2023, the budget deficit would stand at 5 percent of GDP, a reduction of 0.6 percentage points compared to the June fiscal year. The updated forecast shows a larger increase in tax revenues, taking into account the expected improvement in economic activity. At the same time, although lower than in 2022, the compensation charge has been revised upwards to reflect the new assumptions for butane gas and the exchange rate.

Strong deceleration of domestic growth in 2022 after the sharp rebound in 2021

After rebounding to 7.9 percent in 2021, the national economy is expected to slow sharply to 0.8 percent this year, a downward revision of 0.2 percentage points from the June projection. This downward adjustment mainly reflects the weaker than expected realizations in the first quarter of the year. On the supply side, this reflects a 3.4 percent increase in nonagricultural value added, a downward adjustment of 0.4 percentage points, combined with a 14.7 percent decline in agricultural value added, particularly in view of a 34 MQx grain harvest. On the demand side, growth is expected to be driven by the domestic component, while remaining at moderate levels following the expected deterioration in incomes and the surge in imported commodity prices. As for net exports, the significant increase in the volume of imports of goods and services would more than compensate for the expected export momentum.

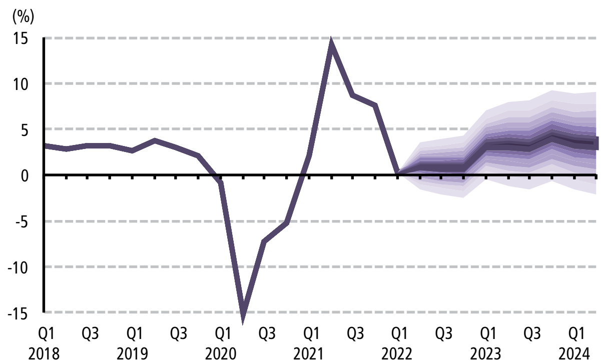
In 2023, growth would stand at 3.6 percent, covering an 11.9 percent rebound in agricultural value added, assuming a return to an average cereal production of 75 MQx and a deceleration to 2.5 percent in the rate of growth of non-agricultural activities. The latter has been revised downward by 0.3 percentage points compared to the June forecast as a result of a stronger expected slowdown in foreign demand. On the demand side, the domestic component is expected to strengthen, benefiting in particular from the expected positive effects of the wage increase following the agreement reached in the framework of the social dialogue, the expected improvement in agricultural incomes and public investment. At the same time, its external component is expected to make a positive contribution, mainly reflecting a moderation in the increase in imports of goods and services in volume.

Table 7.3: Economic growth

Change in %	Actual rates					Forecasts			Gap (sept./June)	
	2016	2017	2018	2019	2020	2021	2022	2023	2022	2023
National growth	**0,5**	**5,1**	**3,1**	**2,9**	**-7,2**	**7,9**	**0,8**	**3,6**	**-0,2**	**-0,4**
Agricultural VA	-19,7	21,5	5,6	-5,0	-8,1	17,8	-14,7	11,9	0,3	-1,0
Nonagricultural VA	2,8	3,2	2,8	4,0	-6,9	6,6	3,4	2,5	-0,4	-0,3

Sources: HCP data, and BAM forecasts.

Chart 7.8: Growth outlook over the forecast horizon (Q4 2021 - Q4 2023), (YoY)*



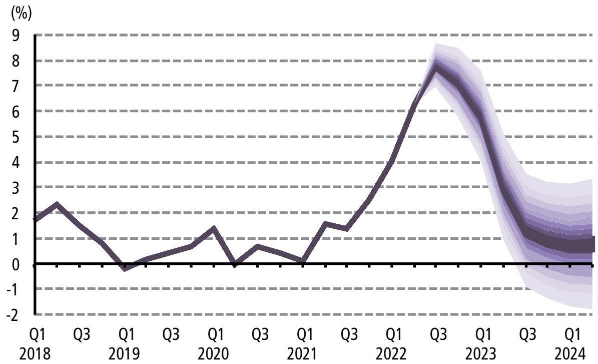
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Strong acceleration of inflation in 2022

Persistently high food and energy commodity prices would push inflation to a high level in 2022, averaging 6.3 percent for the year as a whole. In 2023, inflationary pressures are expected to dissipate gradually, and inflation would decelerate gradually to end the year at an average of 2.4 percent.

Its underlying component would continue to be driven mainly by external factors. It is expected to accelerate to an average of 6.3 percent in 2022, before gradually moderating to 2.5 percent in 2023. For the other components, the price dynamics of fuels and lubricants are expected to increase sharply in 2022, reflecting high international oil prices. In addition, food products with volatile prices are expected to rise in 2022, as a result of the sharp increases recorded at the end of August. In contrast, prices of regulated products are expected to stabilize in 2022, before returning to their trend growth rate in 2023.

Chart 7.9: Inflation forecast over the forecast horizon (Q1 2022 - Q4 2023)*



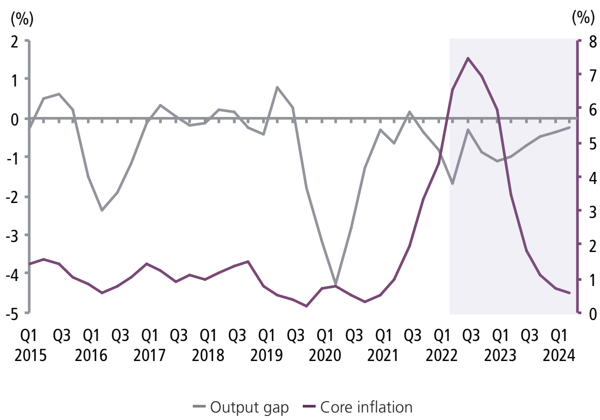
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Table 7.4: Inflation and core inflation

	Actual rates				Forecasts			Gap (sept./june)	
	2018	2019	2020	2021	2022	2023	Horizon of 8 quarters (Q3 2022 au Q2 2024)	2022	2023
Inflation	**1,6**	**0,2**	**0,7**	**1,4**	**6,3**	**2,4**	**3,2**	**1,0**	**0,4**
Core inflation	1,3	0,5	0,5	1,7	6,3	2,5	3,1	1,1	0,0

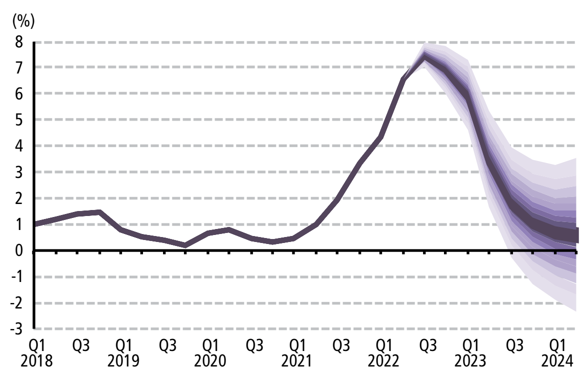
Sources: HCP data, and BAM forecasts and calculations.

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 (Q3 2022 - Q2 2024)*



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

7.3 Balance of risks

The current projection exercise takes place in a global macroeconomic context of high uncertainty, with expectations of an economic recession, particularly in the United States and in some European countries. This risk is accentuated by the rapid change in monetary policy stance in advanced countries and the tightening of financial conditions. In addition, the appearance of a new variant of Covid-19 remains a risk factor with the arrival of autumn. The materialization of these risks could significantly affect the central scenario of the macroeconomic projections, with a downward balance for growth and an upward balance for inflation.

On the growth side, a further weakening of foreign demand in conjunction with a worsening outlook for key trading partners may further weaken the recovery in non-agricultural activities. At the agricultural level, the prospect of water stress and weather-related disruptions threatens the outlook of value added. As for inflation, upside risks dominate, emanating from higher energy commodity prices combined with a further strengthening of the dollar and/or a widening of inflationary pressures to products not directly impacted by external factors.

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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