PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 20, 2022

1. The Board of Bank Al-Maghrib held its last quarterly meeting for the year 2022 on Tuesday, December 20.
2. During this meeting, the board analyzed the recent evolution of the international economic environment and noted that it remains marked by the stalemate of the conflict in Ukraine, the geopolitical and economic fragmentation and the aftermath of the pandemic. Despite signs of deceleration in some countries, inflation remains very high overall, leading central banks to continue their largely synchronized tightening of monetary policy. As a result, the outlook for the global economy continues to deteriorate with a sharp deceleration in growth expected in 2023.
3. At the national level, this environment is weighing on economic activity and inflation trends. The latter would persist to reach high levels for a much longer period than expected in September, mainly due to external pressures that spread to non-tradable goods and services and to the implementation of the subsidy system reform starting 2024.
4. Indeed, considering the most recent data, inflation is expected to reach 6.6 percent in 2022, after 1.4 percent in 2021, driven mainly by an acceleration in food and fuels and lubricants prices. It would subsequently average 3.9 percent in 2023 before rebounding to 4.2 percent in 2024, in line with the planned decompensation of subsidized products.
5. In view of these developments, and to prevent inflation expectations' de-anchoring and make inflation return to rates in line with the price stability objective, the Board decided to raise the key rate by 50 basis points to 2.50 percent. It will continue to closely monitor the economic situation as well as inflationary pressures, both domestically and internationally.
6. At the international level, after peaking in June, oil prices continue their downward trend yet remaining high, with Brent crude oil expected to average \$99/bl in 2022, up from \$70.4/ bl in 2021, before declining to \$82.4 / bl in 2023 and to \$80.2 / bl in 2024. With regard to food products, prices would end the year with an increase of 14.6 percent but would decrease by 9.4 percent in 2023 and 1.4 percent in 2024. At the same time, and according to the World Bank's October projections, the price of raw phosphate, after increasing by 119.5 percent this year to \$270 /t, it would fall to \$200 in 2023 and to \$175 in 2024. Similarly, the DAP price would rise by 31.4 percent to \$790 in 2022. Yet it is expected to return to \$750 in 2023 and then to \$650 in 2024.
7. Under these conditions, global inflation is somewhat decelerating, but is expected to remain at high levels and for longer than expected in September. Thus, in the United States, after peaking at 9.1 percent in June, it is expected to average 8 percent for the year as a whole before dropping back to 3.9 percent in 2023 and to 2.4 percent in 2024. In the Euro area, the significant impact of the energy crisis results in stronger and more persistent inflationary pressures with a projected return to around the ECB's target in

2024. Inflation would thus stand at 8.4 percent in 2022 and would decelerate to 6.5 percent in 2023, a substantial upward revision, then to 2.2 percent in 2024.

8. In this context, central banks are pursuing the tightening of their monetary policies despite the deteriorating economic outlook, emphasizing that their priority is the achievement of their inflation objectives. Thus, the FED decided after its meeting held on December 13-14 to raise the target range for the federal funds rate by half a percentage point to [4.25 percent-4.50 percent] and indicated that it will continue to reduce its Treasury securities holdings and mortgage-backed securities in accordance with the plan published in May. Similarly, the ECB decided on the 15th December to raise its rates by 50 basis points and to start reducing its Asset Purchase Program (APP) as of March 2023. Regarding its Pandemic Emergency Purchase Program (PEPP), it intends to continue its strategy of reinvesting repayments at least until the end of 2024.

9. Tighter monetary conditions and the implications of the stalemate in Ukraine continue to weigh on the global economy. In the United States, growth is expected to be limited to 1.9 percent in 2022 and to slow down to 0.6 percent in 2023, before accelerating to 2 percent in 2024. Similarly, the economic activity's pace in the euro area is expected to decelerate to 0.7 percent in 2023, from the 3.3 percent in 2022, before standing at 1.5 percent in 2024. In the United Kingdom, real GDP would grow by 4.3 percent this year, but would contract by 0.7 percent in 2023 before rising by 2.3 percent in 2024. In the main emerging countries, growth in China is expected to decelerate to 3.1 percent in 2022, suffering particularly from the zero-covid policy, before improving to 5.2 percent in 2023 and 5.4 percent in 2024. In India, on the other hand, the economy is expected to grow steadily, reaching a pace of 6.8 percent in 2022, 6.7 percent in 2023 and 6 percent in 2024.

10. At the national level, and after the 7.9 percent rebound posted in 2021, economic growth would, according to Bank Al-Maghrib's updated projections, slow down sharply this year to 1.1 percent, as a result of a 15 percent decline in agricultural value added and a 3.4 percent slowdown in the pace of non-agricultural activities. In 2023, it is expected to speed up to 3 percent, driven by the 7 percent increase in agricultural value added, under the assumption of a return to average cereal production, while growth in non-agricultural activities is projected to decelerate to 2.4 percent, suffering in particular from the deterioration of the external environment. In 2024, growth would stand at 3.2 percent, covering increases of 1.8 percent in agricultural value added, assuming average agricultural production, and 3.5 percent in non-agricultural activities.

11. In terms of external accounts, the year 2022 is marked by a strong performance of trade and a significant increase in travel receipts and remittances. Exports are expected to improve by 32.3 percent, driven mainly by sales of phosphate and derivatives, thanks to higher prices, and those of the automotive sector. Their growth would decelerate to 2.7 percent in 2023, with decreases expected for phosphate and derivatives and agricultural and agri-food products, before a quasi-stagnation in 2024. At the same time, imports are expected to be up 38.4 percent in 2022, covering mainly a 102.1 percent rise in the energy bill to 153.2 billion dirhams, an increase in purchases of semi-finished products and a rebound of 89.9 percent to 27.2 billion dirhams in wheat supplies. They should fall by 3 percent in 2023, with decreases of 13 percent in the energy bill and 41.2 percent decrease in wheat supplies, then rise by 1.1 percent in 2024. As for travel receipts, they are projected to end the year with a record growth to 88.8 billion dirhams after 34.3 billion in 2021 and would stabilize in 2023, then improve by 5.5 percent to 94.1 billion in 2024. As regards remittances, they would increase by 12.9 percent to 105.8 billion dirhams in 2022, drop by 4 percent to 101.5 billion dirhams in 2023, due in particular to the deterioration of economic conditions in the host countries, and then rise to almost 104 billion dirhams in 2024. Under these circumstances, the current

account deficit would widen from 2.3 percent of GDP in 2021 to 3.3 percent in 2022 before narrowing to 2.1 percent in 2023 and 1.9 percent in 2024. As regards foreign direct investments (FDI), revenues are forecasted to be approximately equivalent to 3 percent of GDP this year and 3.2 percent of GDP annually over the next two years. In total, and under the assumption in particular of the materialization of the external financing forecast of the Treasury, the official assets of reserves would reach 341.7 billion dirhams in 2022 before rising to 362.9 billion at the end of 2023 then to 371 billion in 2024. They would thus represent the equivalent of 5 months and 18 days of imports of goods and services in 2022 and nearly 6 months at the end of 2023 and 2024.

12. As for monetary conditions, the strong appreciation of the dollar against the euro is reflected in the nominal effective exchange rate of the dirham, which is expected to depreciate by 1.7 percent in 2022, before appreciating by 2 percent in 2023 and stabilizing in 2024. Taking into account inflation differentials between Morocco and its main partners and competitors, this rate would depreciate in real terms by 3.2 percent in 2022 and then gradually appreciate by 0.3 percent in 2023 and 1.9 percent in 2024. In the same vein, 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. As for lending rates, they have slightly decreased by 5 basis points in the third quarter, covering a 46 basis points decline for equipment loans, increases of 9 points for cash facilities and 7 points for consumer loans, as well as a stability of those for housing loans. As regards bank lending to the non-financial sector, driven by the increase in cash loans to private companies, it has gradually accelerated with an increase of 6.3 percent in October and would end the year with an increase of 5.1 percent, a rate that would slow down to 3.3 percent in 2023 and then accelerate again to 5.5 percent in 2024. As regards the banks' liquidity needs, they would approximate 90 billion dirhams at the end of this year and 2023 before rising to more than 100 billion by the end of 2024.

13. Regarding public finances, budget execution over the first eleven months of the year posted a 25.6 percent improvement in ordinary revenues, mainly due to the significant increase in tax revenues and the strong growth in revenues from specific financing mechanisms. At the same time, overall expenditure grew by 15.9 percent, reflecting in particular the rise in subsidy costs. Taking into account these performances, the data of the 2023 finance law and the multi-year budgetary programming (2023-2025), the budget deficit would, according to Bank Al-Maghrib's projections, gradually decrease from 5.9 percent of GDP in 2021 to 5.3 percent in 2022, before declining to 4.6 percent in 2023 and 4 percent in 2024.

14. Finally, the Board validated the Bank's budget for fiscal year 2023, approved the foreign exchange reserve management strategy and the internal audit program, and set the dates of its regular meetings for the same year on March 21, June 20, September 26 and December 19.