# 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.*

# 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.

# OVERVIEW

In recent months, the global economy has continued to undergo the repercussions of the stalled conflict in Ukraine, persistently high inflation and the rapid tightening of monetary policies. These developments further dampen the outlook for economic activity and are expected to result in a sharp deceleration in its pace in 2023.

For the year 2022, the latest available data concern the third quarter and show growth of 1.9 percent year-on-year in the US, after 1.8 percent a quarter earlier, and 2.3 percent after 4.2 percent in the euro area which is still affected by the energy crisis. In the UK, growth decelerated from 4.4 percent to 2.4 percent, while in Japan it accelerated from 1.4 percent to 1.7 percent.

In the major emerging economies, GDP grew by 3.9 percent in China, up from 0.4 percent, driven in particular by the good performance of the industrial and mining sectors. In contrast, there was a marked slowdown in India from 12.8 percent to 5.6 percent, in Turkey from 7.7 percent to 3.9 percent, and in Brazil from 3.7 percent to 3.6 percent. In Russia, GDP fell by 3.7 percent after declining by 4.1 percent in the previous quarter.

On the labour markets, conditions in the advanced countries remain broadly favourable despite weaker economic growth. In the United States, the unemployment rate stabilised at 3.7 percent in November, with 263,000 new jobs created, and in the euro zone, the rate fell slightly to 6.5 percent in October.

In the financial markets, the upward trend in prices continued, with higher stock market indices for the main advanced economies in November, in particular with increases of 9.2 percent for the Dow Jones Industrials, 10.5 percent for the Eurostoxx 50, 5.4 percent for the FTSE 100 and 3.3 percent for the Nikkei 225. These developments were accompanied by a decrease in volatility in both the US and European markets, with the VIX at 23.5 and the VSTOXX at 21.7. In emerging markets, the MSCI EM rose by 5.6 percent in November, covering increases of 3.9 percent for China, 4.7 percent for India and a decrease of 3.7 percent for Brazil.

In the bond markets, recent yield developments have been impacted by inflation performance which in some advanced countries is showing signs of deceleration, suggesting a possible slowdown in the pace of monetary tightening, 10-year sovereign rates in the major advanced economies having fallen in November, with month-on-month decreases in 10-year bond yields of 8 basis points (bps) to 3.9 percent for the US, 12 bps to 2.1 percent for Germany, 19 bps to 2.6 percent for France, 20 bps to 3.1 percent for Spain and 43 bps to 4 percent for Italy. In the emerging economies, the rate fell by 10 bps to 7.3 percent for India, while it rose by 4 bps to 2.8 percent for China and by 96 bps to 12.9 percent for Brazil.

Similarly, in the foreign exchange markets, the prospect of a slowdown in monetary tightening led to a reversal in the uptrend of the US dollar. The latter depreciated between October and November by 3.6 percent against the euro and by 3.4 percent against the Japanese yen. The currencies of the main emerging economies showed disparate trends against the dollar in November, with the Chinese renminbi depreciating by 0.2 percent and the Indian rupee falling by 0.8 percent, while the Brazilian real gained 0.5 percent.

In commodity markets, the downward trend in oil prices continues, with Brent crude averaging $91.1 /bl in November after peaking at $120.1 in June. Non-energy prices rose slightly by 0.7 percent month-on-month between October and November, including a 5 percent rise in the prices of metals and ores and a 0.4 percent decline in agricultural products. As for phosphates and derivatives, prices showed monthly decreases of 5.5 percent in November to $300/t for raw phosphate, 8.2 percent to $665.6 for DAP and 7.4 percent to $625 for TSP. Year-on-year, prices were up 96 percent for raw phosphate and down 8.4 percent for DAP and 6 percent for TSP.



Under these conditions, inflationary pressures have started to ease overall, but inflation levels remain very high. In the euro area, inflation reached 10.1 percent in November after 10.6 percent a month earlier. Similarly, in the US, it decelerated for the fifth month in a row, to 7.1 percent from 7.7 percent, and in the UK it slowed to 10.7 percent from 11.1 percent. In Japan, October data showed an acceleration of inflation to 3.8 percent from 3 percent in September.

Against this backdrop, central banks continue to tighten their monetary policies despite the deterioration of the economic outlook, stressing that their priority remains the achievement of their inflation targets. The FED thus decided at its 13-14 December meeting to raise the target range for the federal funds rate by half a percentage point to [4.25 percent-4.5 percent] and expects that continued increases in the target range will be appropriate to achieve a sufficiently tight monetary policy stance to bring inflation down to 2 percent. It has also indicated that it will continue to reduce its holdings of Treasury and mortgage-backed securities in line with the plan published in May. Similarly, the Bank of England decided, at the end of its meeting on 14 December, to raise its key rate by 0.5 percentage points to 3.5 percent. In addition, it considered that if the economy evolves broadly in line with its projections, further increases in the policy rate might be necessary for a sustainable return of inflation to the target. The ECB also decided on 15 December to raise rates by 50 basis points and, on the basis of the significant upward revision of the inflation outlook, plans to raise them further. In particular, it considers that interest rates should continue to be raised substantially at a steady pace in order to reach levels that are sufficiently restrictive to ensure that inflation returns to the 2 percent target as soon as possible in the medium term. It has also decided to start reducing its asset purchase programme (APP) from March 2023, while for its pandemic emergency purchase programme (PEPP), it intends to continue its strategy of reinvesting repayments at least until the end of 2024.

At the national level, the latest national accounts data for the second quarter show a year-on-year slowdown in growth to 2 percent from 14.2 percent a year earlier, due to the deceleration in non-agricultural value added from 13.3 percent to 4.2 percent and a contraction of 15.5 percent in agricultural value added after an increase of 17.5 percent. On the demand side, the contribution to growth of the domestic component weakened from 11.3 percentage points to 2.2 points, while that of net exports was negative at -0.2 points instead of a positive contribution of 2.9 points.

In the labour market, the situation deteriorated relatively in the third quarter of 2022 compared to the same period in 2021. The national economy has indeed lost 58 thousand jobs after the creation of 642 thousand a year earlier, covering decreases of 237 thousand jobs in agriculture and 38 thousand in construction, and net creations of 189 thousand jobs in services and 29 thousand in industry including handicrafts. At the same time, 128 thousand active people left the labour market, which led to a 1.1 point drop in the activity rate to 44 percent. Consequently, the unemployment rate decreased from 11.8 percent to 11.4 percent, with a drop of one point to 15 percent in urban areas and stagnation at 5.2 percent in rural areas.

As regards foreign trade, the data at end-October show a notably dynamic foreign trade with increases of 36.4 percent in exports and 44.2 percent in imports. As a result, the trade deficit increased by 94.1 billion dirhams and the coverage rate fell from 60.9 percent to 57.6 percent. The improvement of exports concerned all sectors with, in particular, the rebound of phosphate and derivatives sales by 63 percent to 100.1 billion dirhams and those of the automobile industry by 36.7 percent to 89.2 billion dirhams. For its part, the rise in imports reflects in particular an increase in the energy bill to 128.3 billion, against 59.3 billion a year earlier, as well as increases of 51.3 percent to 141.6 billion in the purchase of semi-finished goods and 20.8 percent to 121.6 billion in the acquisition of capital goods. As regards travel receipts, they exceeded their pre-crisis level, reaching 71.1 billion dirhams in October after 28.6 billion during the first ten months of 2021. At the same time, remittances from Moroccans living abroad remained dynamic, improving by 11.5 percent to 89 billion dirhams. As for the main financial transactions, FDI receipts increased by 33 percent to 32.5 billion and direct investments of Moroccans abroad rose by 8.6 percent to 15.3 billion. Against this background, the outstanding official reserve assets of Bank Al-Maghrib stood at 339.6 billion dirhams at end-October 2022, representing the equivalent of 5 months and 20 days of imports of goods and services.

Concerning monetary conditions, third quarter data show an increase in banks' need for liquidity to 91.7 billion dirhams on weekly average, due in particular to the increase in currency in circulation. Bank Al-Maghrib thus increased the amount of its injections to 105.1 billion dirhams. Monetary conditions were also marked by a further depreciation of the real effective exchange rate and a slight drop in lending rates by 5 basis points to 4.24 percent. As for bank credit to the non-financial sector, its annual growth accelerated from 3.6 percent in the second quarter to 5 percent in the third one and 6.7 percent in October, mainly driven by the cash facilities granted to private companies.

As regards public finances, one month before the end of the 2022 fiscal year, the budget execution showed a budget deficit, excluding proceeds from the sale of State holdings, of 48.1 billion dirhams, down 20.6 billion dirhams compared to the same period in 2021, partly reflecting an increase of 9.6 billion dirhams in the positive balance of the Treasury's special accounts to 17.1 billion. Ordinary revenues improved by 25.6 percent, with an increase of 17.5 percent in tax revenues and 131.3 percent in non-tax revenues to 40.6 billion dirhams, including 21 billion dirhams in revenues from specific financing mechanisms. At the same time, ordinary expenses increased by 14 percent to 289.4 billion, mainly reflecting rises of 107.5 percent in subsidization costs and 5.7 percent in expenditure on goods and services. The ordinary balance was thus in surplus at 10 billion, instead of an ordinary deficit of 15.4 billion at end-November 2021. As for investment expenditure, it improved by 23.7 percent to 75.1 billion, thus bringing the overall expenditure to 364.5 billion, with an increase of 15.9 percent. Under these conditions, the outstanding direct public debt would have increased by 4.7 percent compared to its level at end-December 2021. With regard to the cost of the Treasury's domestic financing during the first eleven months of 2022, conditions on the auction market have tightened compared to the same period in 2021.

In the asset markets, property prices in the third quarter rose by 0.6 percent quarter-on-quarter, reflecting increases of 2 percent for commercial property, 0.8 percent for urban land and 0.4 percent for residential property. At the same time, the number of transactions increased by 11.1 percent overall, 13.8 percent for urban land, 11.3 percent for residential property and 4.9 percent for commercial property. At the level of the Casablanca Stock Exchange, the MASI depreciated in the third quarter by 3.3 percent, reflecting mainly decreases in the sectoral indices of buildings and construction materials by 8.1 percent, banks by 4.1 percent and telecommunications by 3.9 percent. Conversely, the indices of the "hardware, software and computer services", mining and electricity sectors increased by 8.4 percent, 5.9 percent and 5.6 percent, respectively. As for the volume of trade, it stood at 8.3 billion against 10.3 billion a quarter earlier and market capitalization showed a quarterly decline of 3.2 percent to 603.6 billion dirhams.

Against this backdrop, inflation continues to evolve at a high pace with the dispersion of pressures and their origin becoming internal. The October data indicate an inflation rate of 8.1 percent, unchanged from that recorded in the third quarter. This change reflects the 16.8 percent rise instead of 15.8 percent in volatile food prices, the rise in core inflation from 7.5 percent to 7.6 percent, and the 0.1 percent rise in prices of regulated products after a 0.3 percent fall. As for the prices of fuels and lubricants, their growth rate decelerated from 52.3 percent to 40 percent.

In terms of outlook, the international situation would be marked in the medium term by a clear slowdown in economic activity as a result of the rapid tightening of monetary policies and the implications of the stalemate in the Ukraine. Against this background, world GDP growth should weaken from 6.1 percent in 2021 to 3.1 percent in 2022 and 2.2 percent in 2023. Thereafter, it would stand at 2.9 percent in 2024. In the United States, growth is expected at 1.9 percent in 2022 and 0.6 percent in 2023, before accelerating to 2 percent in 2024. In the euro zone, the pace of activity, which remains impacted by the energy crisis, is projected to decelerate from 3.3 percent in 2022 to 0.7 percent in 2023, then to 1.5 percent in 2024. In the UK, after an expected growth rate of 4.3 percent this year, GDP is forecast to fall by 0.7 percent in 2023, due to higher energy prices and the aftermath of Brexit, before growing by 2.3 percent in 2024. In labour markets, the impact of slower growth is forecast to begin to be felt, with projections of rising unemployment over the forecast horizon, particularly in the UK and the US.

In the main emerging countries, economic growth is expected to decelerate to 3.1 percent in China in 2022, after 8.5 percent in 2021, due to the authorities' continued zero-covid policy, but should then accelerate to average 5.3 percent over the forecast horizon. In India, the economy is foreseen to grow by 6.8 percent in 2022 and 6.7 percent in 2023 before returning to 6 percent in 2024. The ambitious fiscal plan would support the recovery, mitigate the effect of monetary policy tightening and maintain a high growth rate. Russia would continue to suffer from the effects of war and sanctions and is expected to experience a recession, but to a lesser extent than anticipated at the start of the conflict. Its GDP should contract by 2.9 percent in 2022 and 2.6 percent in 2023, before growing by 3.3 percent in 2024.

In the commodity markets, energy prices are expected to fall sharply in the medium term, but would remain at high levels compared to the previous year. The price of Brent crude oil is expected to average $99/bl in 2022, before falling to $82.4 in 2023 as demand declines, and then to $80.2 in 2024. The price of coal is forecast to remain high, averaging $287.8/t in 2022 before dropping to $191.3 in 2023 and $154.8 in 2024. For phosphate and derivatives, the World Bank's October forecast indicates that after peaking in 2022, prices are expected to decline over the next two years. However, they would remain at high levels in the medium term due to rising input prices and uncertainties related to sanctions against Belarus and Russia. In particular, the price of raw phosphate is projected to rise from $123/t in 2021 to $270 in 2022, before declining to $200 in 2023 and $175 in 2024. DAP and TSP prices are projected to increase from $601/t to $790 and from $538 to $735 in 2022 respectively, before declining to $750 and $650 in 2023, and then to $650 and $550 in 2024. For food, the FAO price index stagnated for the second month in a row in November, following continuous declines from April to September, mainly due to the agreement on Ukrainian grain exports. It is expected to rise by 14.6 percent in 2022 on average before falling by 9.4 percent in 2023 and 1.4 percent in 2024. However, food prices would remain, on average, at high levels in 2023 due to continued global supply pressures and rising input costs.

Under these conditions, inflation is expected to remain high in both advanced and emerging countries. It is projected at 8 percent on average for the year as a whole in the US before falling to 3.9 percent in 2023 and 2.4 percent in 2024. In the euro area, growth is forecast to reach 8.4 percent in 2022 and to decelerate to 6.5 percent in 2023 and 2.2 percent in 2024.

At the national level, exports are projected to improve by 32.3 percent in 2022, mainly driven by shipments of phosphates and derivatives which have benefited from the rise in international prices. In 2023, their growth rate would slow down to 2.7 percent, reflecting mainly the drop in sales of phosphates and derivatives in relation to the forecast decline in international prices, and those of agricultural and agro-food products, which suffer from water stress. In 2024, they would be virtually stagnant. At the same time, imports are expected to increase by 38.4 percent in 2022, essentially covering a 102.1 percent increase in the energy bill and a rise in purchases of semi-finished goods. Their growth rate should then decrease by 3 percent in 2023 under the effect in particular of a 13 percent fall in the energy bill and a 41.2 percent drop in wheat supplies. In 2024, imports should increase slightly by 0.9 percent. As regards travel receipts, they would end the year with a record jump to 88.8 billion dirhams after 34.3 billion in 2021, in connection with the strong recovery of the tourist activity and would experience quasi-stagnation in 2023 before improving by 5.5 percent to 94.1 billion in 2024. For their part, after having totalled 93.7 billion dirhams in 2021, expatriate remittances would record an increase of 12.9 percent to 105.8 billion in 2022, before falling by 4 percent to 101.5 billion in 2023 and then increasing by 2.3 percent to 103.8 billion in 2024. Under these conditions, the current account deficit would increase to 3.3 percent of GDP in 2022 before decreasing to 2.1 percent in 2023 and 1.9 percent in 2024. With regard to FDIs, receipts would be around the equivalent of 3 percent of GDP this year and 3.2 percent of GDP annually over the next two years.

Assuming grant inflows of nearly 2 billion annually and the realisation of the Treasury's planned external financing, official reserve assets would stand at 341.7 billion in 2022 before rising to 362.9 billion at the end of 2023 and 371 billion in 2024, or the equivalent of 5 months and 18 days of imports of goods and services in 2022 and nearly 6 months over the forecast horizon.

With regard to monetary conditions, based on the expected development of the Bank's foreign exchange reserves and currency in circulation, the bank liquidity deficit should amount to 89.1 billion dirhams at the end of 2022, 87.7 billion dirhams at the end of 2023 and 100.5 billion dirhams at the end of 2024. As for bank credit to the non-financial sector, it should improve by 5.1 percent in 2022, 3.3 percent in 2023 and 5.5 percent in 2024.

In terms of public finances, the budget deficit is expected to reach 5.3 percent of GDP, down 0.2 percentage points compared to projections of September, incorporating updates made by the Ministry of Economy and Finance for 2022, the budget execution as at end-October 2022 and the recent BAM projections. In 2023, the deficit is forecast at 4.6 percent of GDP before easing to 4 percent in 2024, incorporating elements of the 2023 Finance Act, the multiannual budgetary programme (2023-2025) and BAM's macroeconomic forecasts.

After rebounding to 7.9 percent in 2021, the growth of the national economy would decelerate to 1.1 percent in 2022, as a result of a 15 percent contraction in agricultural value added and a 3.4 percent increase in non-agricultural value added. In 2023, growth would accelerate to 3 percent, driven mainly by a mechanical rebound in agricultural value added. Even under the hypothesis of an average cereal harvest of 75 MQx, the growth of the latter should not exceed 7 percent, suffering from the level of hydric stress and the unfavourable conditions at the start of the current campaign which should impact the non-cereal harvest. For its part, the growth rate of non-agricultural activities should slow down to 2.4 percent in 2023 amid deteriorating prospects for foreign demand. For the year 2024, growth should rise to 3.2 percent, covering increases of 1.8 percent in agricultural value added under the assumption of an average cereal harvest, and 3.5 percent in non-agricultural activities.

Against this background, the still high level of food and energy commodity prices and the growth of imported inflation would continue to weigh on the trend of consumer prices over the remainder of 2022 and in the first half of 2023. Thus, after reaching 1.4 percent in 2021, inflation should rise to 6.6 percent in 2022, mainly due to the acceleration to 6.6 percent of its underlying component and the very pronounced rise in the price of fuels and lubricants. It should average 3.9 percent in 2023 before rebounding again in 2024 to 4.2 percent in connection with the planned reform of the subsidization fund.



The current projection exercise takes place amid persistently strong uncertainties in connection with the prolongation of the war in Ukraine and geopolitical tensions which are likely to keep energy and food prices at high levels. An economic recession particularly in the United States and the major European countries, a further tightening of the monetary policy stance in advanced countries and tighter financial conditions would also represent additional risks to the global economy. The materialisation of these risks can significantly affect the central scenario of the macroeconomic projections. Thus, the balance of risks is clearly tilted to the downside for growth and to the upside for inflation.

As far as growth is concerned, and despite the expected positive effects of the measures adopted as part of the social dialogue, several downside risks surround the central trajectory of growth projections. These relate, on the one hand, to water stress and climatic disturbances that threaten the prospects for both cereal and non-cereal agricultural production. On the other hand, there would be a further weakening of foreign demand in connection with the deterioration in the prospects of the main trading partners. On the other hand, the positive repercussions of the efforts aiming to boost investment should contribute to the acceleration of growth, as and when the royal directives announced in particular in the last speech of His Majesty to the Parliament on the occasion of the opening of the 1st session of the 2nd legislative year of the 11th legislative period are implemented.

The risks to the inflation outlook are mainly tilted to the upside. Indeed, a prolonged period of high food and energy commodity prices, combined with the stronger domestic inflationary pressures and an uptrend in inflation expectations, would lead to inflation persisting at high levels. However, the easing of bottlenecks, particularly in connection with the return to normal supplier delivery deadlines, and the decline in maritime transport costs would ease pressures on prices.

# 1. INTERNATIONAL DEVELOPMENTS

The international situation is still marked by the implications of the Ukrainian conflict stalemate and the pandemic. These include in particular persistently high inflation levels driven by soaring international energy and food products and the tightening of monetary policies. These developments are weighing on the global economy and worsen its outlook. At the same time, the situation in the labor markets of the main advanced countries remains generally favorable, while conditions in the financial markets, particularly the stock markets, remain volatile. Against this backdrop, inflationary pressures have begun to ease in both advanced and emerging economies.

## 1.1 Activité économique et emploi

### 1.1.1 Economic activity

National accounts data for the third quarter of 2022 show a year-on-year increase of 1.9 percent in the United States, compared to1.8 percent in the previous quarter. In the euro zone, the pace of activity decelerated significantly, from 4.2 percent to 2.3 percent, reflecting slowdowns from 1.7 percent to 1.3 percent in Germany, from 6.8 percent to 3.8 percent in Spain, from 4.2 percent to 1 percent in France, and from 5 percent to 2.6 percent in Italy. In the other major advanced economies, growth in the United Kingdom decelerated to 2.4 percent in the third quarter from 4.4 percent a quarter earlier, while it accelerated from 1.4 percent to 1.7 percent in Japan, quarter-on-quarter.

In the major emerging economies, growth picked up in China in the third quarter from 0.4 percent to 3.9 percent, driven in particular by the good performance of the industrial and mining sectors. On the other hand, growth slowed sharply from 12.8 percent in the third quarter to 5.6 percent in the second quarter in India and from 7.7 percent to 3.9 percent in Turkey, and to a lesser extent in Brazil, where it fell from 3.7 percent to 3.6 percent. The Russian economy continues to suffer from the war and sanctions and contracted by 3.7 percent in the third quarter after 4.1 percent in the previous quarter.

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

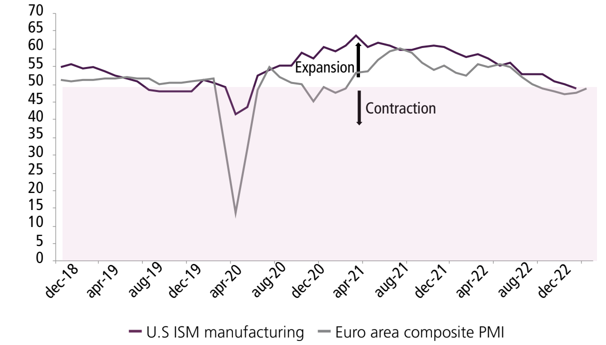
| | 2020 | | 2021 | | | | 2022 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| **Advanced countries** | | | | | | | | | |
| **United States** | -2,0 | -1,5 | 1,2 | 12,5 | 5,0 | 5,7 | 3,7 | 1,8 | 1,9 |
| **Euro area** | -3,7 | -4,1 | -0,8 | 14,4 | 3,7 | 4,8 | 5,5 | 4,2 | 2,3 |
| France | -3,6 | -4,2 | 1,5 | 18,7 | 3,6 | 5,1 | 4,7 | 4,2 | 1,0 |
| Germany | -2,5 | -2,1 | -2,2 | 10,2 | 1,8 | 1,2 | 3,5 | 1,7 | 1,3 |
| Italy | -6,0 | -6,1 | 0,1 | 16,7 | 4,8 | 6,5 | 6,4 | 5,0 | 2,6 |
| Spain | -9,2 | -9,5 | -4,4 | 17,9 | 4,2 | 6,6 | 6,7 | 6,8 | 3,8 |
| **United Kingdom** | -10,3 | -9,2 | -7,8 | 24,3 | 8,5 | 8,9 | 10,9 | 4,4 | 2,4 |
| **Japan** | -5,3 | -0,9 | -1,7 | 7,3 | 1,2 | 0,5 | 0,9 | 1,4 | 1,7 |
| **Emerging countries** | | | | | | | | | |
| **China** | 4,8 | 6,4 | 18,3 | 7,9 | 4,9 | 4,0 | 4,8 | 0,4 | 3,9 |
| **India** | -5,9 | 2,1 | 5,7 | 18,2 | 8,3 | 4,7 | 3,9 | 12,8 | 5,6 |
| **Brazil** | -3,7 | -0,9 | 1,3 | 12,3 | 4,0 | 1,6 | 1,7 | 3,7 | 3,6 |
| **Turkey** | 6,5 | 6,4 | 7,5 | 22,2 | 7,9 | 9,6 | 7,5 | 7,7 | 3,9 |
| **Russia** | -3,3 | -1,3 | -0,3 | 10,5 | 4,0 | 5,0 | 3,5 | -4,1 | -3,7 |

Source : Thomson Reuters.

As regards the leading indicators, although the composite PMI index for the euro zone remained below the 50-point threshold for the sixth consecutive month, it recovered to 48.8 points in December after 47.8 points in November. This change reflects higher activity levels in both the manufacturing and services sectors.

In the United States, the ISM manufacturing index fell to 49 points compared to 50.2 points a month earlier.

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




Source : Thomson Reuters.

### 1.1.2 Job market

Conditions in the labor markets remain generally favorable. In the United States, the unemployment rate remained stable at 3.7 percent in November from one month to the next, although job creations were down to 263,000 jobs compared to 284,000 jobs a month earlier.

In the Euro area, the unemployment rate fell slightly to 6.5 percent in October from 6.6 percent the previous month. In the main countries of the zone, apart from France and Germany where it stabilized at 7.1 percent and 3 percent respectively month-on-month, the unemployment rate fell from 7.9 percent to 7.8 percent in Italy and from 12.7 percent to 12.5 percent in Spain. In the United Kingdom, according to the latest employment Charts for August, the unemployment rate rose slightly to 3.6 percent from 3.5 percent the month before.

**Table 1.2: Change in unemployment rate (%)**

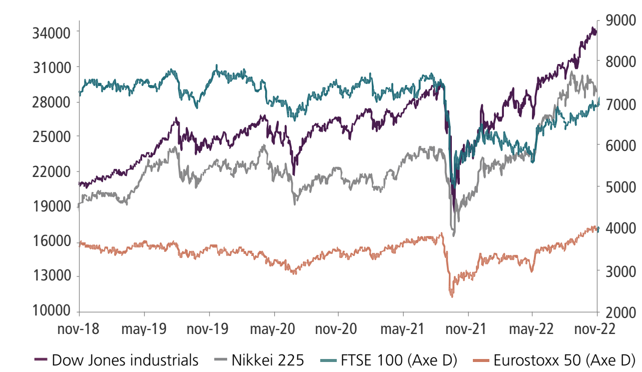
| (in%) | 2020 | 2021 | 2022 | | |
|---|---|---|---|---|---|
| | | | Sep. | Oct. | Nov. |
| **United States** | 8,1 | 5,4 | 3,5 | 3,7 | 3,7 |
| **Euro area** | 8,0 | 7,7 | 6,6 | 6,5 | N.D |
| France | 8,0 | 7,9 | 7,1 | 7,1 | N.D |
| Germany | 3,7 | 3,5 | 3,0 | 3,0 | N.D |
| Italy | 9,3 | 9,5 | 7,9 | 7,8 | N.D |
| Spain | 15,5 | 14,8 | 12,7 | 12,5 | N.D |
| **United Kingdom** | 4,5 | 4,5 | N.D | N.D | N.D |

Source : Eurostat and BLS.

## 1.2 Monetary and financial conditions

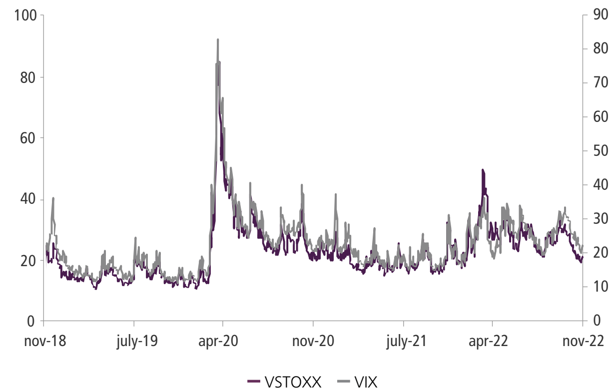
The stock market indices of the main advanced economies rose during November, with in particular month-on-month rises of 9.2 percent for the Dow Jones Industrials, 10.5 percent for the Eurostoxx 50, 5.4 percent for the FTSE 100 and 3.3 percent for the Nikkei 225. These changes were accompanied by a decrease in volatility indicators on both the American and European markets, with the VIX standing at 23.5 and the VSTOXX at 21.7. In emerging markets, the MSCI EM rose by 5.6 percent in November, including rises of 3.9 percent for China and 4.7 percent for India, as well as a 3.7 percent decline for Brazil.

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




Source : Thomson Reuters.

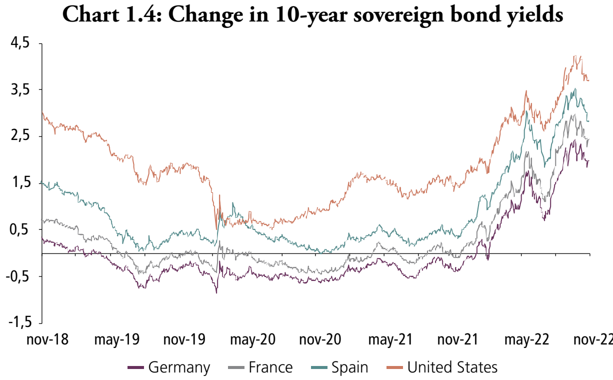
**Chart 1.3: Change in the VIX and the VSTOXX**




Source : Thomson Reuters.

In the bond markets, the 10-year sovereign yields of the major advanced economies fell slightly in November. Thus, the 10-year bond rate decreased month-on-month by 8 basis points (bps) to 3.9 percent for the United States, by 12 bps to 2.1 percent for Germany, by 19 bps to 2.6 percent for France, by 20 bps to 3.1 percent for Spain and by 43 bps to 4 percent for Italy. As regards emerging economies, the rate fell by 10 bps to 7.3 percent for India, while it gained 4 bps to 2.8 percent for China and by 96 bps to 12.9 percent for Brazil.

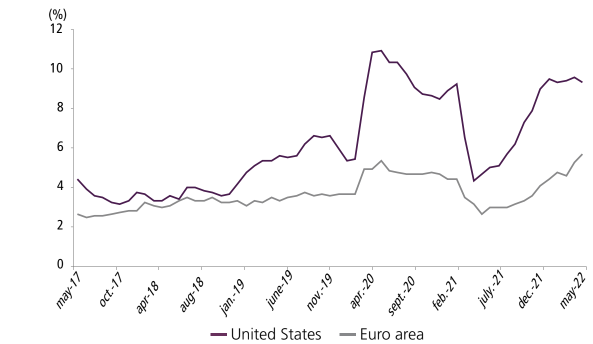
**Chart 1.4: Change in 10-year sovereign bond yields**




Source : Thomson Reuters.

In the money markets, the 3-month Euribor and the Libor for the same maturity increased between October and November by 37 bps to 1.8 percent and 49 bps to 4.6 percent, respectively. As for bank credit, its pace decelerated in October to 7.8 percent in the United States and 6.5 percent in the euro area, compared to 9 percent and 7 percent in September, respectively.

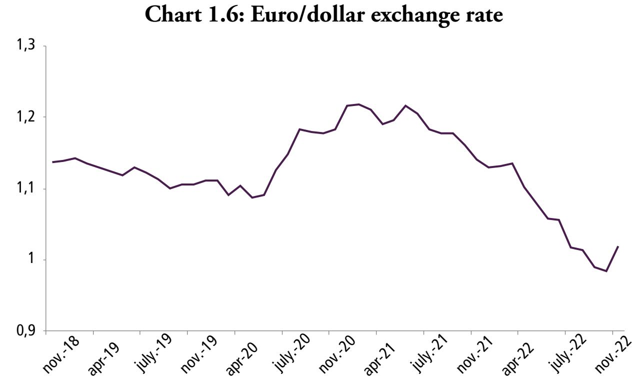
**Chart 1.5: YoY credit growth in the US and euro area**




Source : Thomson Reuters.

In the foreign exchange markets, the euro appreciated in November by 3.6 percent against the dollar and by 0.2 percent against the Japanese yen, while it remained unchanged against the pound sterling. The currencies of the main emerging economies showed mixed trends against the dollar in November, mainly with the Chinese renminbi depreciating by 0.2 percent and the Indian rupee by 0.8 percent, while the Brazilian real appreciated by 0.5 percent.

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



Source : Thomson Reuters.

In terms of monetary policy decisions, at its December 13-14 meeting, the FED decided to raise the target range for the federal funds rate by one-half of one percentage point to [4.25 percent-4.5 percent] and anticipates that continued increases in the target range will be appropriate to achieve a monetary policy stance that is sufficiently tight to bring inflation back to 2 percent. It also indicated that it will continue to reduce its holdings of Treasury securities and mortgage-backed securities in accordance with the plan published in May[1].

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

Similarly, the Bank of England decided at the end of its meeting on December 14 to raise its key rate by 0.5 percentage points to 3.5 percent. In addition, it considered that, if the economy evolves broadly in line with its projections, further increases in the policy rate might be necessary for a sustainable return of inflation to its target.

At its meeting on December 15, the European Central Bank decided to raise its three policy rates by 50 basis points to 2.5 percent for the interest rate on the main refinancing operations, 2.75 percent for the marginal lending facility and 2 percent for the deposit facility. Based on the significant upward revision of the inflation outlook, it plans to continue to raise them and, in particular, it believes that interest rates should continue to be raised substantially at a steady pace in order to reach levels that are sufficiently restrictive to ensure that inflation returns to the 2 percent target as soon as possible. In addition, it has decided to reduce its asset purchase program (APP) portfolio from the beginning of March 2023, at a measured and predictable pace, by not reinvesting all repayments for the principal of maturing securities. There will be a reduction of 15 billion euro per month on average until the end of the second quarter of 2023, after which the pace of reduction will be adjusted over time. With respect to the Pandemic Emergency Purchase Program (EPPP), it intends to reinvest repayments for the principal of maturing securities acquired under the program until at least the end of 2024.

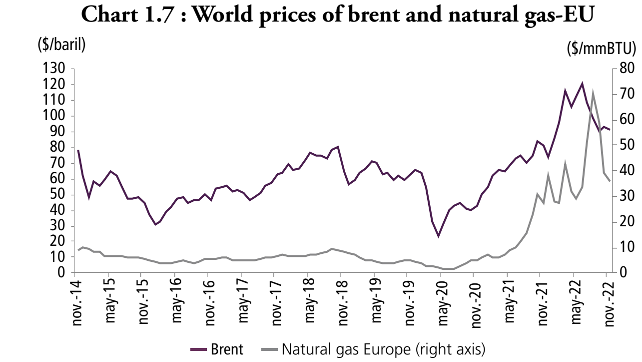
Regarding the main emerging countries, the Central Bank of Brazil and the Central Bank of Russia, at their respective meetings in December, both kept their key rates unchanged at 13.75 percent and 7.5 percent, respectively. For its part, the Reserve Bank of India raised its key rate by 35 bps to 6.25 percent on December 7.

## 1.3 Commodity prices and inflation

### 1.3.1 Energy commodity prices

In the oil market, the price of Brent crude oil fell for the fourth consecutive month by 2.2 percent in November 2022, to an average of $91.07 per barrel, mainly due to persistent signs of weaker demand. However, it is still up 12.8 percent year-on-year. In the same vein, the price of natural gas on the European market fell again, dropping by 8.5 percent between October and November to 35.7 dollars per mBTU[1], while it remained up 29.3 percent year-on-year.

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



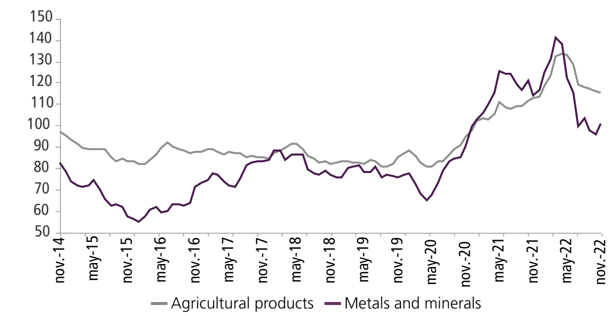

Source: World Bank.

### 1.3.2 Non-energy commodity prices

Non-energy prices rose slightly by 0.7 percent between October and November, including a 5 percent increase in the price of metals and minerals and a 0.4 percent decline in agricultural commodities, with significant falls in the prices of coffee and grains. Conversely, prices dropped by 2.1 percent in November year-on-year, reflecting an 11.5 percent decline in metals and minerals' prices and a 2.4 percent increase in agricultural commodity prices, with US durum wheat in particular rising by 11.4 percent to $422.7/t.

[1] Million of British Thermal Unit

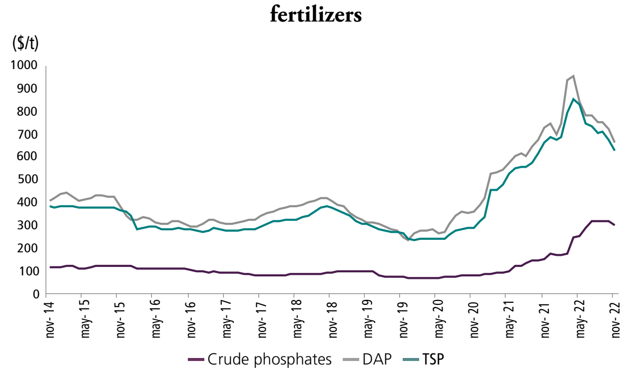
**Chart 1.8: Change in non-energy commodity price indices (2010= 100)**




Source : Thomson Reuters.

As for phosphates and derivatives, prices fell by 5.5 percent in November to $300/t for raw phosphate, by 8.2 percent to $665.6/t for DAP and by 7.4 percent to $625/t for TSP. On a year-on-year basis, the price of raw phosphate rose by 96 percent, while it fell by 8.4 percent for DAP and 6 percent for TSP.

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




Source : Banque Mondiale.

### 1.3.3 Inflation

Although decelerating, inflation in the Euro area remained high at 10.1 percent in November after 10.6 percent a month earlier, reflecting in particular slowdowns from 11.6 percent to 11.3 percent in Germany and from 7.3 percent to 6.7 percent in Spain, while it stagnated at 7.1 percent in France and at 12.6 percent in Italy. In the United States, the inflation rate slowed for the fifth consecutive month to 7.1 percent in November after 7.7 percent, reflecting a deceleration in the growth rate of energy, food and used car prices. Similarly, growth slowed in the United Kingdom to 10.7 percent from 11.1 percent in October, mainly as a result of lower fuel costs. In Japan, October data showed an acceleration of inflation to 3.8 percent from 3 percent in September.

In the main emerging countries, November data show a slowdown in inflation from 2.1 percent to 1.6 percent in China, from 6.5 percent to 5.9 percent in Brazil, from 12.6 percent to 12 percent in Russia and from 6.8 percent to 5.9 percent in India.

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

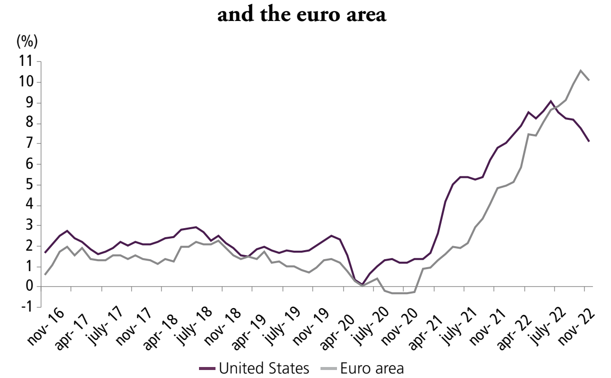



**Table 1.3 : Recent year-on-year change in inflation in main advanced countries in %**

| | 2020 | 2021 | 2022 | | |
|---|---|---|---|---|---|
| | | | Sept. | Oct. | Nov. |
| **United States** | **1,2** | **4,7** | **8,2** | **7,7** | **7,1** |
| **Euro area** | **0,3** | **2,6** | **9,9** | **10,6** | **10,1** |
| Germany | 0,4 | 3,2 | 10,9 | 11,6 | 11,3 |
| France | 0,5 | 2,1 | 6,2 | 7,1 | 7,1 |
| Spain | -0,3 | 3,0 | 9,0 | 7,3 | 6,7 |
| Italy | -0,1 | 1,9 | 9,4 | 12,6 | 12,6 |
| **United Kingdom** | **0,9** | **2,6** | **10,1** | **11,1** | **10,7** |
| **Japan** | **0,0** | **-0,2** | **3,0** | **3,8** | **N.D** |

Sources : Thomson Reuters, Eurostat and IMF.

## Box 1.1: Recent developments in the UK economic situation

The UK economy has shown signs of a marked slowdown since the beginning of the year, with year-on-year growth falling from 10.9 percent in the first quarter to 4.4 percent in the second one and 2.4 percent in the third one, and is expected to become negative with a rate of 0.1 percent in the fourth quarter1. In addition, according to the latest NSO2 Charts, the level of GDP in the third quarter is 0.4 percent below what it was in the fourth quarter of 2019, making the UK the only country in the G7 that has not yet returned to its pre-pandemic GDP level. These developments are due to a combination of factors that relate primarily to the aftermath of the Brexit, the implications of the conflict in Ukraine and more recently the political difficulties experienced by the country.

- Nearly six years after the vote in favour of Brexit, its negative effects continue to affect several parts of the British economy. They are reflected in (i) a decline in FDI of around 30 percent since 2017 and a level of inflows compared to GDP that has not been so low since the 1980s; (ii) a drop, since 2017, of 6 percent in trade in goods and services, which is one of the largest declines recorded in advanced countries; (iii) a loss of productivity compared to the other G7 countries. In 2019, one hour of work in the UK produced 19 percent less than in the US, 15 percent less than in France and 9 percent less than in Germany; and (iv) persistent labour shortages especially in the agriculture, manufacturing and services sectors.
- A record rise in inflation. The United Kingdom, like other European economies, is suffering from its dependence on Russian gas and the increase in the price of this same product on international markets. As a result, after starting the year at 5.5 percent, the inflation rate has continued to rise, reaching 11.1 percent year-on-year in October, its highest level since 1981. The BoE3 expects this trend to continue in December. In the same vein, the OBR4 estimates that British living standard will fall by 7 percent over the next two years (2023-2024), erasing the effects of the previous eight years of growth.
- More recently, the fiscal sustainability and financial stability of the U.K. was called into question by the announcement of the "mini-budget" proposal on September 23 by former Prime Minister Lizz Truss' government. The mini-budget was a two-year, 150 billion budget plan consisting of major tax cuts (the largest since the 1970s) and other measures that would have put the government on an unsustainable debt path. The announcement led to financial turmoil two days later, with, in particular, a 3.2 percent fall of the sterling against the dollar and a rise of 70 bps in the 10-year government bond yield. In addition, taking into account the "increased unpredictability" of the authorities' decisions, all three major international rating agencies revised, starting from October, the outlook for the UK's sovereign rating from "stable" to "negative".

1 Observed data from Datastream and fourth quarter forecast from GPMN October 2022.
2 National Statistics Office, Statistical Bulletin: Quarterly GDP, November 11, 2022.
3 Bank of England Economic Forecast, November 3, 2022.
4 Office for Budget Responsibility: " Economic and fiscal outlook ", November 2022.

These developments led to the resignation of the government and the appointment of a new prime minister. The latter has drawn up a fiscal austerity plan whose main objective is to stabilize public finances, fight inflation and restore confidence in the financial markets. At the same time, the Central Bank has begun an aggressive monetary tightening. Thus,

- Since the beginning of the year, the Bank of England has raised its key rate eight times, from 0.25 percent in December 2021 to 3.5 percent in December 2022. It has also continued its quantitative tightening by ceasing to reinvest the proceeds of maturing government bonds in new securities purchases and by gradually reducing its holdings of sterling-denominated government and corporate bonds until the end of 2023.
- The new government is planning a fiscal consolidation totaling £55 billion, of which 25 billion will come from tax increases and 30 billion from spending cuts. Among the main measures announced in terms of tax increases are: (i) the increase, as of January 2023, from 25 percent to 35 percent of the exceptional tax on the profits of oil and gas companies, which will remain in force until March 2028; (ii) the introduction, from January 2023, of a temporary tax of 45 percent on electricity producers; (iii) the increase in the corporate tax rate from 19 percent to 25 percent in April 2023. As regards support for the purchasing power, the government has allocated a budget of £26 billion, including (i) the introduction of an Energy Price Guarantee for households, which will limit the average annual energy bill for each household to 2500 at present, rising to £3000 from April 2023; (ii) an increase in the minimum wage from 9.7 percent to 10.42 per hour starting from April 2023; and (iii) an increase in pensions in line with rising inflation. In terms of spending, the government has planned to save £30 billion since, except for the health and education sectors, the budgets of which are increasing, the spending of the other ministries will increase at a slower pace over the next five years. In addition, it includes £20 billion of investment in research and development and £6 billion on energy efficiency from 2025.

Finally, concerning the outlook, while political instability and financial market conditions have eased, the UK will, according to the latest BoE projections, fall into recession over the next two years. After a projected growth rate of 4.25 percent in 2022, economic activity is expected to contract by 1.5 percent in 2023 and 1 percent in 2024, due in particular to the effects of high energy prices and tighter financial conditions, which would result in a contraction in household spending and a drop in business confidence. In terms of price developments, inflation is expected to reach 10.75 percent in 2022, then 5.25 percent in 2023, and then to decelerate to 1.5 percent in 2024, below the BoE's target of 2 percent.



# 2. EXTERNAL ACCOUNTS

Data as at end-October 2022 show the continued dynamism of foreign trade in goods and services and the maintenance of a high level of transfers from Moroccan expatriates. Exports thus increased by 36.4 percent and imports by 44.2 percent. As a result, the trade deficit rose by 94.1 billion, compared to the same period in 2021, to 260.8 billion dirhams and the coverage rate fell from 60.9 percent to 57.6 percent. In particular, travel receipts exceeded in October their pre-crisis level, reaching 71.1 billion dirhams after 28.6 billion dirhams during the first ten months of 2021, and remittances from Moroccan expatriates amounted to 89 billion dirhams, up 11.5 percent. As regards the main financial operations, FDI receipts gained 33 percent to 32.5 billion and direct investments by Moroccans abroad rose by 8.6 percent to 15.3 billion. Under these conditions, the official reserve assets of Bank Al-Maghrib stood at 339.6 billion dirhams at end-October 2022, which represents the equivalent of a coverage of 5 months and 20 days of imports of goods and services.

## 2.1 Trade balance

### 2.1.1 Exports

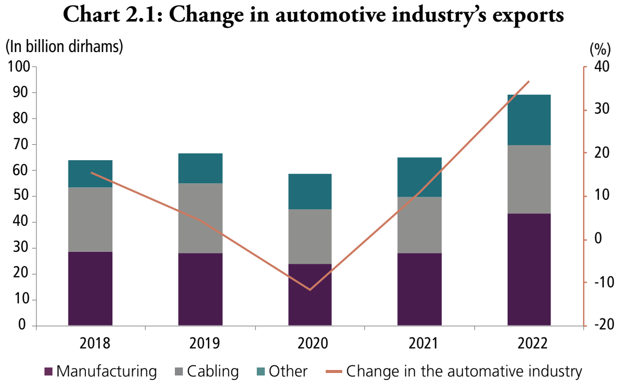
The increase in exports concerned all sectors. Sales of phosphates and derivatives went up 63 percent to 100.1 billion, driven mainly by a 79 percent increase in sales of fertilizers in line with the 98 percent rise in their price. Exports of raw phosphate and phosphoric acid also increased by 56.1 percent and 26.1 percent, respectively.

For their part, exports of the automotive sector increased by 36.7 percent to 89.2 billion, reflecting improvements of 54 percent to 43.4 billion for the construction segment and 24.6 percent to 26.5 billion for the wiring segment. Sales in the "agriculture and agri-food" sector improved by 19.9 percent to 67 billion, resulting from rises of 22.1 percent to 36.9 billion for the food industry and 16.9 percent to 28 billion for agricultural products.

The exports of the "textile and leather" sector improved by 24.4 percent to 37.5 billion, driven mainly by increases in the sales of "ready-made garments" by 26.2 percent and "hosiery" by 16.6 percent.

Concerning shipments of the aeronautics industries, they increased by 45.4 percent to 17.7 billion, with rises of 50 percent for the assembly segment and 36.7 percent for that of "EWIS[1]". As for the "electronics and electricity" exports, they increased by 37.1 percent to 15.1 billion, with an improvement of 66.3 percent for electrical components.

**Chart 2.1: Change in automotive industry's exports**




Source: Foreign Exchange Office.

1 Electrical Wiring Interconnection System (EWIS).

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

| Secteurs/Segments | Jan. - oct. | | Change | |
|---|---|---|---|---|
| | 2022 | 2021 | Value | In % |
| **Exportations** | **354 095** | **259 559** | **94 536** | **36,4** |
| **Phosphates and derivatives** | **100 137** | **61 416** | **38 721** | **63,0** |
| **Automobile** | **89 180** | **65 259** | **23 921** | **36,7** |
| Construction | 43 382 | 28 161 | 15 221 | 54,0 |
| Cabling | 26 525 | 21 294 | 5 231 | 24,6 |
| Interiors | 6 023 | 5 926 | 97 | 1,6 |
| **Agriculture and Agri-Food** | **66 957** | **55 844** | **11 113** | **19,9** |
| Food Industry | 36 865 | 30 202 | 6 663 | 22,1 |
| Agriculture, forestry, hunt | 28 014 | 23 972 | 4 042 | 16,9 |
| **Textile and Leather** | **37 474** | **30 116** | **7 358** | **24,4** |
| Ready-made garments | 23 815 | 18 876 | 4 939 | 26,2 |
| Hosiery articles | 7 195 | 6 170 | 1 025 | 16,6 |
| Shoes | 2 873 | 2 185 | 688 | 31,5 |
| **Aeronautics** | **17 681** | **12 160** | **5 521** | **45,4** |
| Assembly | 11 989 | 7 995 | 3 994 | 50,0 |
| EWIS | 5 606 | 4 100 | 1 506 | 36,7 |
| **Electronics and Electricity** | **15 057** | **10 981** | **4 076** | **37,1** |
| electronic components (transistors) | 5 440 | 3 272 | 2 168 | 66,3 |
| Wires, cables and other connectors for electricity | 5 850 | 4 361 | 1 489 | 34,1 |
| Devices for the disconnection or connection of electrical circuits. | 1 597 | 1 449 | 148 | 10,2 |
| **Other mining extractions** | **4 557** | **3 983** | **574** | **14,4** |
| Copper ore | 1 348 | 1 345 | 3 | 0,2 |
| Barium Sulfate | 936 | 774 | 162 | 20,9 |
| **Other industries** | **23 052** | **19 800** | **3 252** | **16,4** |
| Metallurgy and metalworking | 7 382 | 6 903 | 479 | 6,9 |
| Plastic and rubber industry | 2 082 | 1 696 | 386 | 22,8 |
| Industry pharmaceutical | 1 144 | 1 103 | 41 | 3,7 |

Source: Foreign Exchange Office.

## 2.1.2 Imports

The change in imports was driven, to a large extent, by the rise in commodity prices on the international market. Thus, the energy bill more than doubled to 128.3 billion. Purchases of "gas oils and fuel oils" expanded, from 35.3 billion to 63.6 billion under the effect of an increase of 98.8 percent in their import price, those of "coal, cokes and similar solid fuels" from 14.1 billion to 21.3 billion following the increase in their price by 170 percent compared to the first 10 months of 2021. Imports of "petroleum gas and other hydrocarbons", for their part, went up 7.6 billion, to 21.7 billion dirhams.

Similarly, imports of semi-finished products rose by 51.3 percent to 141.6 billion, reflecting in particular an increase, to 17.4 billion, in the supply of ammonia against 5.3 billion in 2021, due to a 199 percent hike in its import price. Purchases of food products have, for their part, increased by 54.4 percent, mainly in relation to the rise in supplies of wheat to 22.3 billion under the combined effect of the increase of 27.2 percent of its import price and that of 21.4 percent in quantity in connection with the poor agricultural campaign. At the same time, purchases of raw materials amounted to 38.2 billion, with an increase of 14.1 billion, of which 8.8 billion concerned purchases of "crude and unrefined sulfurs".

For their part, purchases of capital goods increased by 20.8 percent to 121.6 billion with, in particular, rises of 74.1 percent of imports of "Parts of airplanes and other aerial vehicles" and 34.5 percent in purchases of "piston engines". As regards purchases of finished consumer products, they increased by 10.5 percent to 111.5 billion, reflecting in particular rises of 27.2 percent for "parts and spare parts for passenger cars" and 31.5 percent for "fabrics and yarns of synthetic and artificial fabrics".

**Table 2.2 : Importations par groupement d'utilisation de produits (en millions de dirhams)**

| Groupements d'utilisation | Jan. - oct. | | Change | |
|---|---|---|---|---|
| | 2022 | 2021 | Value | In % |
| **Importations CAF** | **614 935** | **426 318** | **188 617** | **44,2** |
| **Energy products** | **128 313** | **59 323** | **68 990** | **-** |
| Gas and fuel oils | 63 610 | 28 329 | 35 281 | - |
| Coals; cokes and solid fuels fuels | 21 336 | 7 257 | 14 079 | - |
| Petroleum gases and other | 21 688 | 14 111 | 7 577 | 53,7 |
| **Half products** | **141 584** | **93 589** | **47 995** | **51,3** |
| Ammoniac | 17 449 | 5 295 | 12 154 | - |
| Chemical products | 14 637 | 10 151 | 4 486 | 44,2 |
| Plastics | 18 548 | 13 402 | 5 146 | 38,4 |
| **Food products** | **73 544** | **47 624** | **25 920** | **54,4** |
| Wheat | 22 334 | 9 854 | 12 480 | - |
| Barley | 3 180 | 742 | 2 438 | - |
| Raw or refined sugar | 6 268 | 4 900 | 1 368 | 27,9 |
| **Raw products** | **38 198** | **24 050** | **14 148** | **58,8** |
| Crude or refined soybean oil refined | 17 190 | 8 432 | 8 758 | - |
| Raw or refined soybean oil refined | 6 948 | 4 694 | 2 254 | 48,0 |
| Scrap metal, waste and other ores | 2 697 | 1854 | 843 | 45,5 |
| **Capital goods** | **121 615** | **100 652** | **20 963** | **20,8** |
| Parts of aircraft and other air vehicles | 12 327 | 7 079 | 5 248 | 74,1 |
| Piston engines | 10 844 | 8 064 | 2 780 | 34,5 |
| Wires and cables | 9 196 | 6 667 | 2 529 | 37,9 |
| **Finished consumer products** | **111 499** | **100 928** | **10 571** | **10,5** |
| products Parts and pieces for passenger cars | 17 690 | 14 450 | 3 240 | 22,4 |
| Synthetic and artificial fibre fabrics and synthetic and artificial fibers | 8 938 | 6 723 | 2 215 | 32,9 |

Source: Foreign Exchange Office.

## 2.2 Other components of the current account

The surplus of the services balance improved by 69.1 percent to 88.7 billion, due to a 56 percent increase in exports to 176.6 billion, greater than the 44.7 percent rise in imports to 87.9 billion.

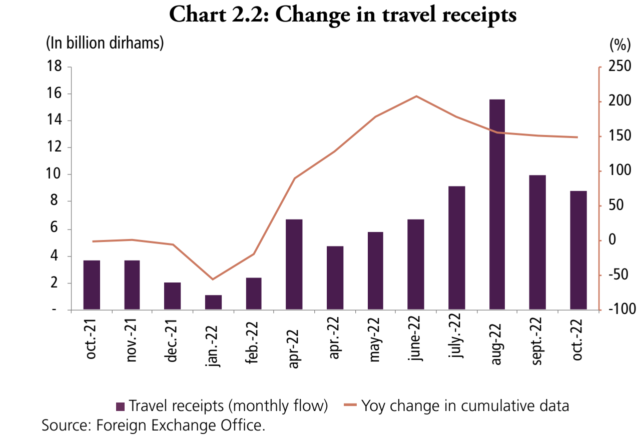
**Table 2.3 : Change in the balance of services (in million dirhams)**

| | Jan. - oct. | | Change | |
|---|---|---|---|---|
| | 2022 | 2021 | Change | In % |
| Imports | 87 863 | 60 740 | 27 123 | 44,7 |
| Exports | 176 592 | 113 220 | 63 372 | 56,0 |
| Balance | 88 729 | 52 480 | 36 249 | 69,1 |

Source: Foreign Exchange Office.

As for travel receipts, under the effect of the significant recovery in tourism activity, they exceeded their pre-crisis level, standing at 71.1 billion at end-October, compared to 28.6 billion during the same period in 2021 and 67 billion in 2019. Expenditures under the same heading also went up by 54.3 percent, to 13.4 billion dirhams.

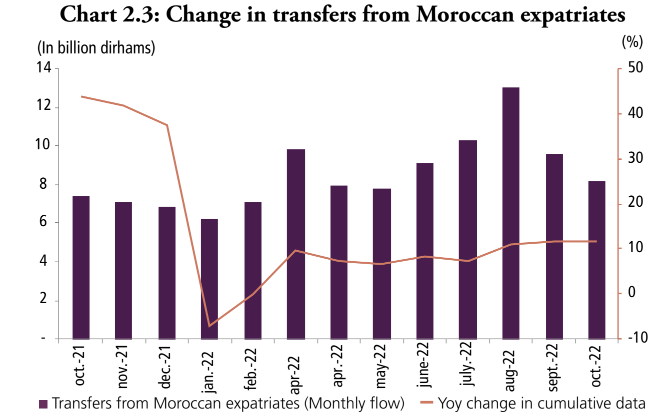
**Chart 2.2: Change in travel receipts**




Source: Foreign Exchange Office.

Concerning transfers from Moroccans expatriates, they maintain their dynamism with an increase of 11.5 percent, to 89 billion dirhams.

**Chart 2.3: Change in transfers from Moroccan expatriates**



Source: Foreign Exchange Office.

## 2.3 Financial account

Concerning the main financial operations, the net flow of FDIs increased by 50.5 percent to 21.9 billion, owing to a 33 percent rise in receipts and a 7.3 percent decrease in redemptions. The net flow of direct investments of Moroccans abroad gained 59 percent to 5.2 billion, reflecting an increase of 1.2 billion in investments and a decline of 737 million in revenues.

At the end of October 2022, the outstanding official reserve assets stood at 339.6 billion dirhams, representing the equivalent of 5 months and 20 days of imports of goods and services.

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

| | Jan. - oct. | | Change | |
|---|---|---|---|---|
| | **2022** | **2021** | **Change** | **In %** |
| **Foreign direct investments** | **21 851** | **14 520** | **7 331** | **50,5** |
| Revenues | 32 479 | 24 428 | 8 051 | 33,0 |
| Expenses | 10 628 | 9 908 | 720 | 7,3 |
| **Investments of Moroccans abroad** | **5 245** | **3 299** | **1 946** | **59,0** |
| Expenses | 15 266 | 14 057 | 1 209 | 8,6 |
| Revenues | 10 021 | 10 758 | -737 | -6,9 |

Source: Foreign Exchange Office.

# 3. MONEY, CREDIT AND ASSETS MARKET

During the third quarter of 2022, monetary conditions were marked by a further depreciation of the real effective exchange rate and a slight decline in lending rates. As for bank credit to the nonfinancial sector, its annual growth accelerated from 3.6 percent in the second quarter to 5 percent and 6.7 percent in October, driven mainly by the cash facilities provided to private companies. As regards the other counterparts of the money supply, the growth of official reserve assets remained virtually unchanged at 8.2 percent and net claims on the central government increased by 10.3 percent after 15.4 percent. Overall, money supply growth fell from 4.9 percent to 4.6 percent quarter-on-quarter.

In the real estate market, asset prices went up 0.6 percent in the third quarter of 2022, reflecting rises of 2 percent for commercial property, 0.8 percent for urban land and 0.4 percent for residential property. At the same time, the number of transactions increased by 11.1 percent overall, by 13.8 percent for urban land, 11.3 percent for residential property and 4.9 percent for commercial property.

At the Casablanca Stock Exchange, the MASI depreciated in the third quarter by 3.3 percent and the volume of stock market transactions stood at 8.3 billion against 10.3 billion a quarter earlier. As for market capitalization, it posted a quarterly decline of 3.2 percent, to 603.6 billion dirhams.

## 3.1 Monetary conditions

### 3.1.1 Bank liquidity and interest rates

The banks' need for liquidity continued to intensify during the third quarter of 2022, reaching 91.7 billion dirhams per week on average, compared to 77.5 billion dirhams a quarter earlier, mainly in connection with the increase of currency in circulation. Under these conditions, the Bank increased the amount of its injections to 105.1 billion, 41.8 billion of which were in the form of 7-day advances, 38.3 billion through repurchase agreements, 24.9 billion through guaranteed loans granted within the framework of support programs for SMEs financing and 193 million in the form of foreign exchange swaps. Against this background, the average residual duration of the Bank's interventions increased from 40.6 days to 44.7 days and the interbank rate stood at an average of 1.52 percent, a level that takes into account the decision of the Bank's Board taken on 27 September 2022 to raise the key rate by 50 basis points.

The latest available data indicate an easing of the bank's liquidity need to an average of 88.6 billion in October and November 2022.

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

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

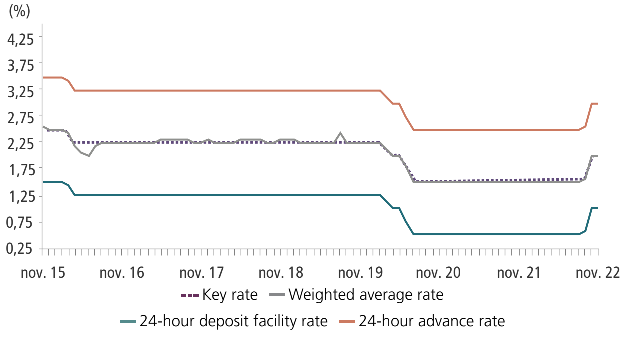
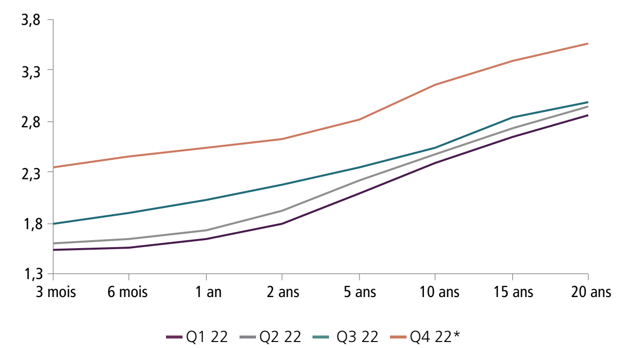


**Table 3.1 : Change in Treasury bond yields in the primary market**

| | 2021 | | | 2022 | | | | |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Oct. | Nov. |
| 26 weeks | 1,42 | 1,41 | 1,40 | 1,49 | 1,66 | 1,90 | - | - |
| 2 years | 1,69 | 1,77 | 1,72 | 1,83 | 1,91 | 2,33 | - | 2,44 |
| 5 years | 1,96 | 2,04 | 2,01 | 2,08 | 2,27 | 2,64 | - | - |
| 10 years | 2,32 | 2,36 | 2,34 | 2,43 | - | - | 3,20 | - |
| 15 years | 2,63 | 2,64 | 2,64 | 2,70 | - | - | - | - |

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

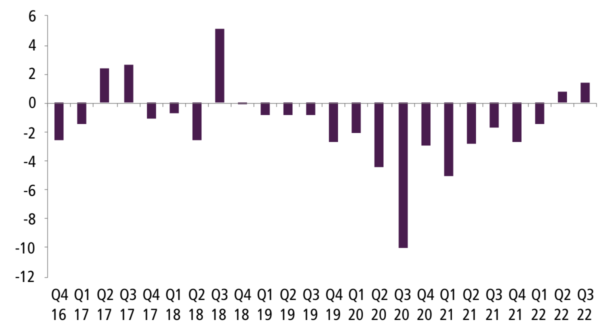



*Average observed in October and November.

In the same vein, rates on certificates of deposit issues rose during the third quarter. For their part, deposit rates remained virtually unchanged at 2.07 percent on average for 6-month deposits compared to the previous quarter and fell by 8 basis points to 2.39 percent for 1-year deposits. Under these conditions, banks' cost of funding[1] has almost stabilized at its second quarter level.

The latest available data for the month of October indicate a virtual stagnation in deposit rates month-on-month.

**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 third quarter of 2022 indicate a slight decrease of 5 basis points in the overall average rate to 4.24 percent. By institutional sector, rates on loans to companies remained almost stable at 4.04 percent, covering a decrease of 46 basis points for equipment loans and an increase of 9 basis points for cash facilities. Rates on loans to individuals went up 19 points, with a rise of 7 points for rates on consumer loans and a stability for rates on housing loans.

**Table 3.2 : Change in lending rates**

| | 2020 | 2021 | | | | 2022 | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| 6 months | 2,36 | 2,42 | 2,23 | 2,34 | 2,16 | 2,10 | 2,05 | 2,07 |
| 12 months | 2,68 | 2,77 | 2,63 | 2,57 | 2,42 | 2,48 | 2,47 | 2,39 |

**Table 3.3: Deposit rates**

| | 2021 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| **Global** | **4,32** | **4,35** | **4,44** | **4,28** | **4,29** | **4,24** |
| **Personal loans** | **5,19** | **5,20** | **5,16** | **5,23** | **5,14** | **5,33** |
| Real estate loans | 4,26 | 4,24 | 4,24 | 4,21 | 4,19 | 4,19 |
| Consumer loans | 6,64 | 6,51 | 6,47 | 6,50 | 6,32 | 6,39 |
| **Loans to businesses** | **4,04** | **4,17** | **4,26** | **4,00** | **4,03** | **4,04** |
| Cash advances | 3,96 | 3,95 | 4,06 | 3,83 | 3,84 | 3,93 |
| Equipment loans | 4,13 | 4,84 | 4,58 | 4,31 | 4,60 | 4,14 |
| Real estate loans | 5,59 | 5,71 | 5,78 | 5,53 | 5,83 | 5,41 |

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

### 3.1.2 Exchange rate

During the third quarter of 2022, and in a context marked by the depreciation of the euro by 5.48 percent against the US dollar, the dirham appreciated by 0.40 percent against the euro and depreciated by 5.11 percent against the dollar. Compared to the currencies of the main emerging countries, the national currency appreciated by 8.10 percent against the Turkish lira and depreciated by 1.59 percent against the Chinese yuan. In total, the effective exchange rate depreciated by 0.37 percent in nominal terms and 0.44 percent in real ones.

**Chart 3.4: Change in the exchange rate of the dirham**

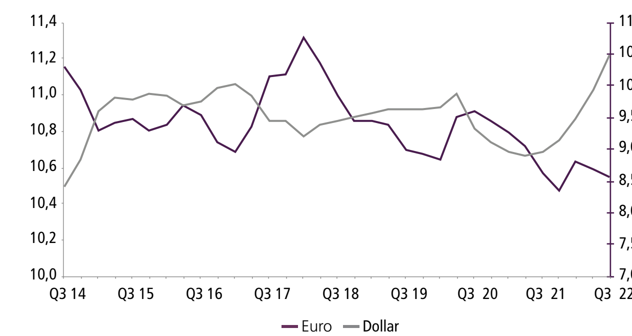
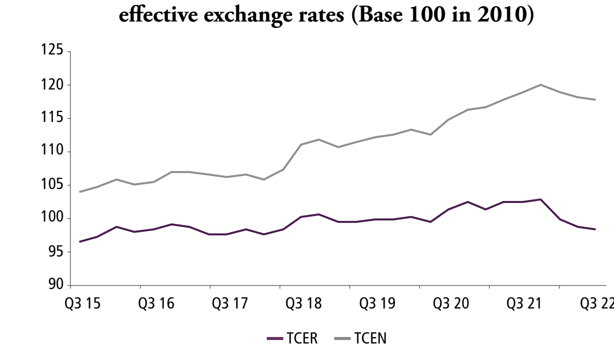



**Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)**




Sources : BAM and IMF calculations.

As regards foreign currency transactions, the average volume of banks' spot transactions with customers recorded, in the third quarter of 2022, an annual increase of 43 percent to 42.5 billion dirhams for sales and 42.1 percent to 37.8 billion for purchases. Similarly, forward transactions increased by 120 percent to 29.9 billion for purchases and by 254.4 percent to 6.8 billion for sales. Under Bank Al-Maghrib's foreign exchange auctions with banks, no auction session has been held since December 2021. Under these conditions, the foreign exchange deficit position of banks decreased to 1.4 billion dirhams at end-September, after 6.2 billion dirhams observed at end-June 2022.

### 3.1.3 Monetary situation

The M3 aggregate grew by 4.6 percent in the third quarter of 2022, after 4.9 percent a quarter earlier. This reflects a deceleration in the growth rate of currency in circulation from 8.2 percent to 7.1 percent. At the same time, time deposits fell by 11 percent after a decline of 8.9 percent, with a further decrease in deposits by financial agents from 29.9 percent to 36.9 percent and a fall in those of the public sector by 31 percent, after a rise of 8.3 percent. Similarly, growth in foreign currency deposits decelerated from 8 percent to 1.2 percent. On the other hand, the growth of sight deposits remained almost unchanged at 8 percent, covering in particular a higher rise of 4 percent to 19.5 percent in the deposits of financial agents and a slowdown from 20.6 percent to 13.8 percent for those of the public sector. In the same vein, money market mutual funds increased by 8.1 percent after 3.1 percent.

By main counterparts, the change of the money supply includes a deceleration from 15.4 percent to 10.3 percent in the growth rate of net claims on the central government, acceleration from 3.5 percent to 5.1 percent in bank credit, and a virtual stability at 8.2 percent in the growth of official reserve assets.

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

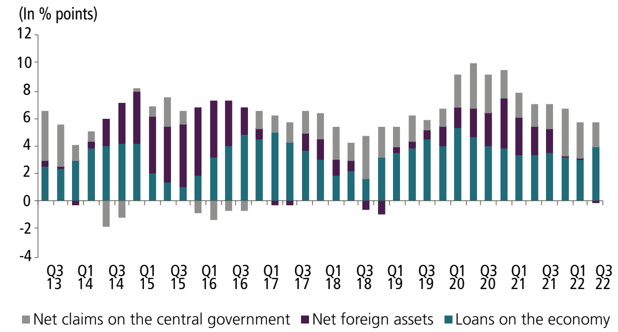
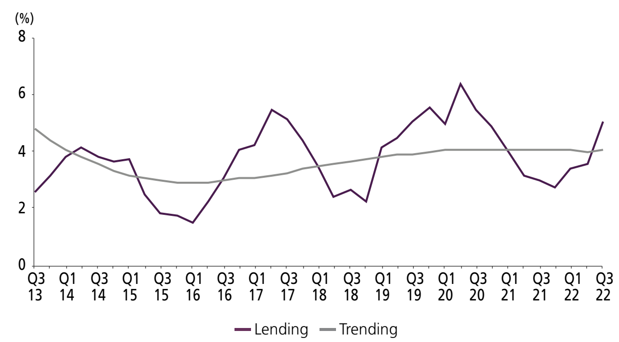



**Chart 3.7: Bank credit**




In particular, credit to the non-financial sector grew by 5 percent, up from 3.6 percent in the previous quarter, as a result of an acceleration in the growth rate of loans to private companies, an easing of the decline in loans to public companies, and a stagnation in the pace of credit to households.

Thus, outstanding credit to private companies increased by 8.7 percent after 5.9 percent in the previous quarter, reflecting in particular accelerations in the growth of cash facilities from 10.9 percent to 14.7 percent and equipment loans from 1.5 percent to 3.2 percent.

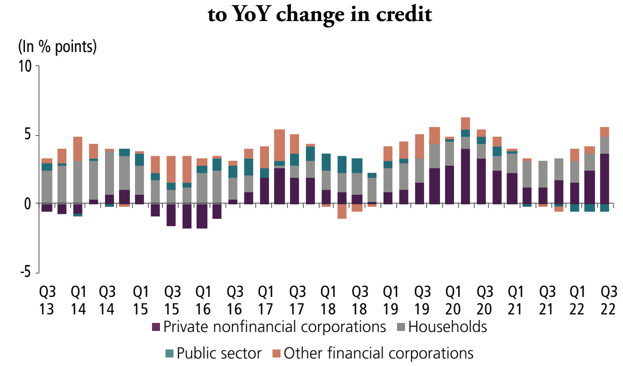
As for loans granted to public companies, they fell by 10.9 percent after a decline of 13.2 percent, with a lower decrease in equipment loans from 20.5 percent to 16.9 percent and an acceleration of the rise in cash facilities from 13 percent to 54.9 percent.

With regard to loans to individual entrepreneurs, their growth rate rose from 4.5 percent to 7.5 percent, covering in particular improvements in real estate loans and cash facilities by 21.2 percent and 9.2 percent respectively after rises of 12.6 percent and 8.4 percent.

As for loans to private individuals, their growth stabilized at 3 percent, due to an acceleration in the growth of housing loans from 2.3 percent to 2.9 percent and a deceleration in the growth of cash facilities from 5.8 percent to 2.7 percent.

By branch of activity, data for the third quarter of 2022 show annual increases of 37.1 percent in loans to companies in the "electricity, gas and water" sector, 14.3 percent for "food industries and tobacco", and 7.6 percent for "agriculture and fishing. On the opposite, loans to companies operating in "extractive industries", "transport and communications" and "construction" sectors fell by 15.2 percent, 11.6 percent and 0.6 percent, respectively.

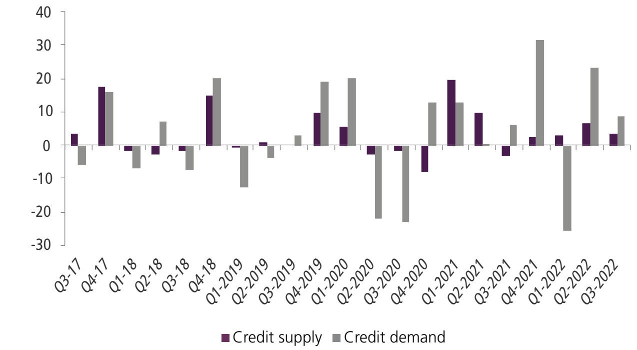
**Chart 3.8: Institutional sectors' contribution to YoY change in credit**




Source : BAM.

Non-performing loans increased by 5.1 percent and their ratio to outstanding bank credit remained almost stable at 8.7 percent. They increased by 7.1 percent for private non-financial companies and by 2.9 percent for households, with ratios to outstanding loans of 11.5 percent and 9.8 percent, respectively.

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



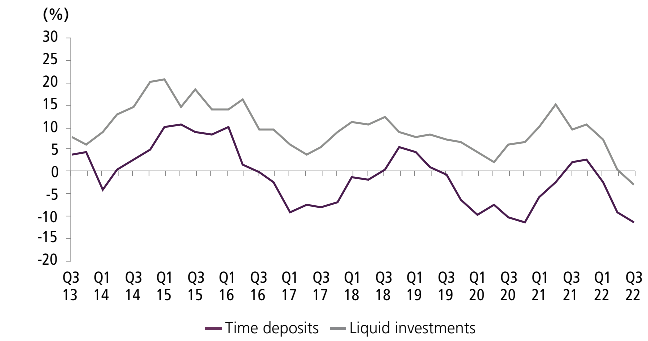

Source : BAM.

For loans granted by non-bank financial companies to the non-financial sector, they increased by 4.3 percent in the third quarter of 2022. This reflects improvements of 5 percent for loans granted by finance companies, 13.8 percent for those distributed by off-shore banks and 2.4 percent for loans distributed by microcredit associations.

The latest available data concern the month of October and show an annual growth of bank credit by 6.7 percent, reflecting accelerations in the growth rate of loans to other financial companies to 9.2 percent and those granted to the non-financial sector to 6.3 percent.

The growth rate of liquid investment aggregates declined to 3.1 percent in the third quarter, following a 0.5 percent increase in the second quarter. This trend reflects a further decline in bond mutual fund shares from 2.8 percent to 11.9 percent and a deceleration in the growth of the shares of equity and diversified mutual funds from 18.3 percent to 8 percent. Treasury bills increased by 0.9 percent, following a decline of 0.9 percent.

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



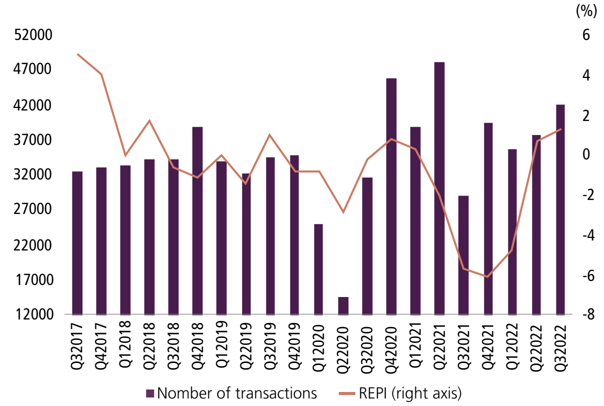

## 3.2 Asset prices

### 3.2.1 Real estate assets

In the third quarter of 2022, the real-estate asset price index increased by 0.6 percent, reflecting price rises of 0.4 percent for residential property, 0.8 percent for urban land, and 2 percent for commercial property. At the same time, the number of transactions rose by 11.1 percent, reflecting increases of 11.3 percent for residential property, 13.8 percent for urban land and 4.9 percent for commercial property.

At the level of major cities, with the exception of Marrakech, which posted a decline of 0.6 percent in prices, the others have experienced increases with rates ranging from 0.2 percent in Rabat to 4.4 percent in Oujda. As regards the number of transactions, apart from Rabat and Casablanca where it declined by 6.7 percent and 5.6 percent respectively, it recorded increases ranging from 1.9 percent in Kenitra to 36.1 percent in Oujda.

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



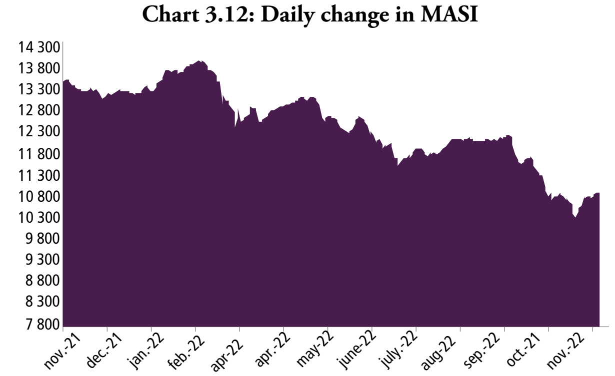

Sources: BAM and ANCFCC

## 3.2.2 Financial assets

### 3.2.2.1 Shares

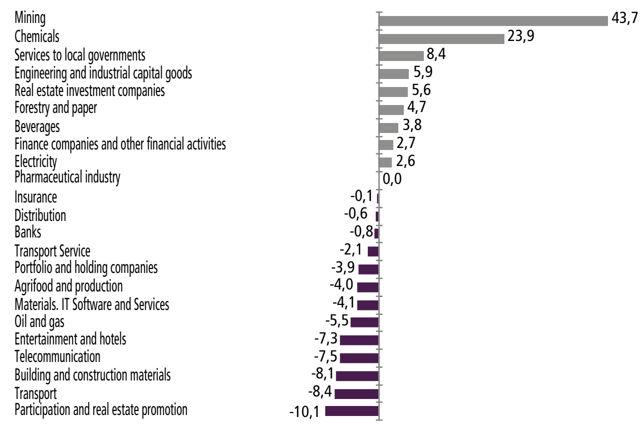
In the third quarter of 2022, the MASI declined by 3.3 percent, bringing its year-to-date underperformance to 13.1 percent. This quarterly change mainly reflects decreases in the indexes of the buildings and construction materials' sector by 8.1 percent, banks by 4.1 percent, and telecommunications by 3.9 percent. In contrast, the indices for "hardware, software and computer services", mining and electricity increased by 8.4 percent, 5.9 percent and 5.6 percent, respectively.

**Chart 3.12: Daily change in MASI**



Source : Bourse of Casablanca.

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




Source : Bourse of Casablanca.

As for the volume of trade, it fell to 8.3 billion dirhams after 10.3 billion a quarter earlier. By compartment, the turnover amounted to 5.5 billion after 8.2 billion on the central market and to 2.5 billion after 906.1 million on the block market. Against this background, market capitalization showed a quarterly decline of 3.2 percent to 603.6 billion dirhams.

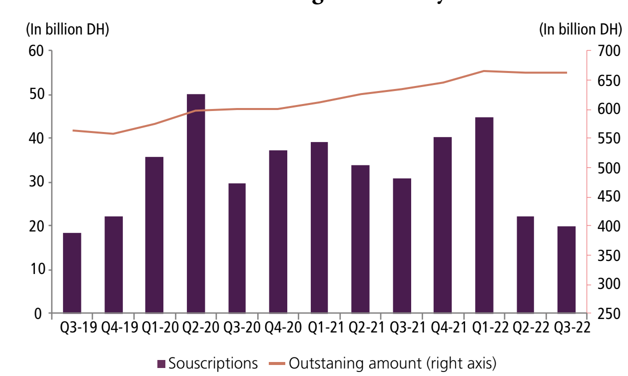
The latest available data indicate that the MASI rose by 0.8 percent in November, following a 6.8 percent decline in October, representing an annual underperformance of 18.3 percent. The monthly change in the reference index includes in particular increases in the sector indices of banks by 3.5 percent, agri-food by 3 percent and telecommunications by 2.3 percent, as well as decreases in the sector indices for transportation services and buildings and construction materials by 6.8 percent and 4 percent, respectively. In terms of transaction volume, it reached 6.5 billion in October and 2.4 billion in November, and market capitalization stood at 567.3 billion, down 17.9 percent since the beginning of the year.

### 3.2.2.2 Sovereign debt market

The Treasury's borrowings on the domestic market amounted to 20 billion dirhams in the third quarter of 2022, down 10.3 percent quarter-on-quarters. They concerned short maturities for 70 percent and medium maturities for 30 percent. Taking into account repayments, the outstanding amount of Treasury bills stood at 661.9 billion, up 2.4 percent since the beginning of the year.

During the month of October, issues amounted to 12.3 billion dirhams and almost entirely concerned short maturities. Taking into account repayments, the outstanding amount of Treasury bills stood at end-October at 661.2 billion, up 2.2 percent since the beginning of the year.

**Chart 3.14: Change in Treasury bonds**



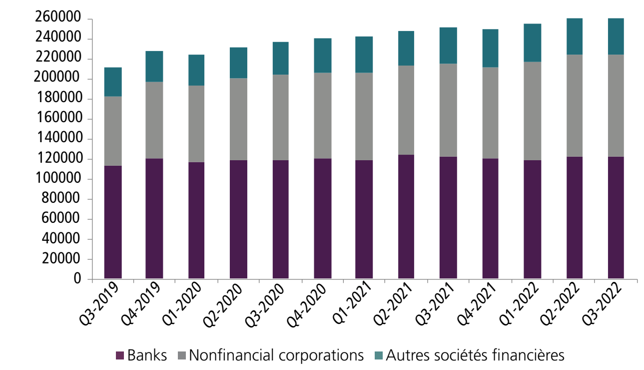

Source : BAM.

### 3.2.2.3 Sovereign debt market

On the private debt market, issues decreased by 37.9 percent to 12 billion dirhams in the third quarter of 2022. Banks sourced 8.5 billion against 13.8 billion in the previous quarter and non-financial companies 1.7 billion after 3 billion.

During the month of October, private debt issues amounted to 6.5 billion. Taking into consideration repayments, the outstanding amount of this debt stood at 262.9 billion, up 4.9 percent since the beginning of the year.

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




Sources : Maroclear and BAM calculations .

### 3.2.2.4 Mutual funds

During the third quarter of 2022, subscriptions to mutual funds increased by 6.5 percent to 284.4 billion and redemptions by 11.9 percent to 326.6 billion, with a net outflow of 42.2 billion dirhams. As regards performances, they trended downwards for diversified funds, medium- and long-term bond funds and equity funds with respective rates of 2.2 percent, 2 percent and 1.2 percent, and upwards for money market funds and short-term bond funds with rates of 0.3 percent and 0.2 percent, respectively.

The data of November show an 8.9 percent decline in the net assets of mutual funds since the beginning of the year to 540.2 billion dirhams. This decrease reflects in particular the 18.5 percent and 17.4 percent drop in the outstanding amounts of equity and bond mutual funds, respectively. The net assets of money market funds increased by 29.4 percent and those of contractual funds more than quadrupled to 6.9 billion.

# 4. FISCAL POLICY STANCE

One month still before the end of the 2022 fiscal year, budget execution shows a budget deficit, excluding proceeds from the sale of State shareholdings, of 48.1 billion dirhams, down 20.6 billion dirhams compared with the same period in 2021, partly reflecting the increase of 9.6 billion dirhams in the positive balance of the Treasury's special accounts to 17.1 billion dirhams. Ordinary revenues improved by 25.6 percent, with increases of 17.5 percent in tax revenues and 131.3 percent in non-tax revenues to 40.6 billion dirhams, including 21 billion dirhams in revenues from specific financing mechanisms. At the same time, ordinary expenditure increased by 14 percent to 289.4 billion, reflecting mainly increases of 107.5 percent in subsidy costs and 5.7 percent in expenditure on goods and services. Thus, the ordinary balance was in surplus at 10 billion, instead of an ordinary deficit of 15.4 billion at the end of November 2021. As for capital expenditure, it increased by 23.7 percent to 75.1 billion, bringing total expenditure to 364.5 billion, up 15.9 percent.

Taking into account the reduction of the stock of pending transactions by 1.7 billion, the cash deficit, excluding proceeds from the sale of State shareholdings, reached 49.7 billion, compared with 80.8 billion. This need was covered by domestic resources with a net amount of 39.6 billion and by a positive net external flow of 10.1 billion. Thus, the outstanding direct public debt would have increased by 4.7 percent compared to its level at end-December 2021. With regard to the Treasury's domestic financing costs in the first eleven months of 2022, conditions on the auction market have tightened compared to the same period in 2021.

## 4.1 Current receipts

At the end of the first eleven months of 2022, ordinary revenues, excluding proceeds from the sale of State shareholdings, rose by 25.6 percent compared with the same period in 2021, to 299.4 billion. This change reflects rises of 17.5 percent to 255.5 billion in tax revenues, realized at the rate of 101.5 percent compared to the Finance Act 2022, and of 131.3 percent to 40.6 billion in non-tax revenues.

Direct tax revenues, which were realized at the rate of 100.1 percent compared to the Finance Act, rose by 25.3 percent to 97.8 billion, mainly as a result of a 44.2 percent increase to 51.8 billion in corporate tax revenues. This rise is mainly due to the 6.4 billion improvement in the supplement of regularized amounts, 3.5 billion in the first installment, 3 billion in the second installment and 2.4 billion in the third one. For their part, income tax revenues increased by 7.1 percent to 43.6 billion, with a realization rate of 101.3 percent, reflecting in particular rises of 5.6 percent to 9.4 billion in income tax on salaries paid by the Personnel Expenses Department and 1 percent to 4 billion in income tax on real-estate profits.

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

| | Janv.-Nov. 2021 | Janv.-Nov. 2022 | Change in % | FA 2022 | Achievements against the FA (In %) |
|---|---|---|---|---|---|
| **Current revenues** | **238,4** | **299,4** | **25,6** | **286,8** | **104,4** |
| **Tax revenues** | **217,4** | **255,5** | **17,5** | **251,8** | **101,5** |
| - Direct taxes | 78,1 | 97,8 | 25,3 | 97,7 | 100,1 |
| Including CT | 35,9 | 51,8 | 44,2 | 51,4 | 100,6 |
| I.T | 40,7 | 43,6 | 7,1 | 43,0 | 101,3 |
| - Indirect taxes | 114,6 | 128,3 | 12,0 | 127,1 | 100,9 |
| VAT* | 86,8 | 99,8 | 15,0 | 96,4 | 103,6 |
| DCT | 27,8 | 28,5 | 2,6 | 30,8 | 92,6 |
| - Customs duties | 10,6 | 12,8 | 20,4 | 12,0 | 106,5 |
| - Registration and stamp duties | 14,2 | 16,6 | 17,0 | 14,9 | 111,2 |
| **Nontax revenues** | **17,6** | **40,6** | **131,3** | **30,9** | **131,3** |
| - Monopoles and shareholdings | 9,8 | 11,8 | 20,3 | 14,0 | 84,2 |
| - Other receipts | 7,8 | 28,9 | 270,9 | 17,0 | 170,1 |
| GCC donations | 0,2 | 0,4 | 71,2 | 0,7 | 54,3 |
| Specific mechanisms revenues | 0,2 | 21,0 | - | 12,0 | 174,7 |
| **TSA revenues** | **3,4** | **3,2** | **-5,3** | **4,1** | **78,3** |

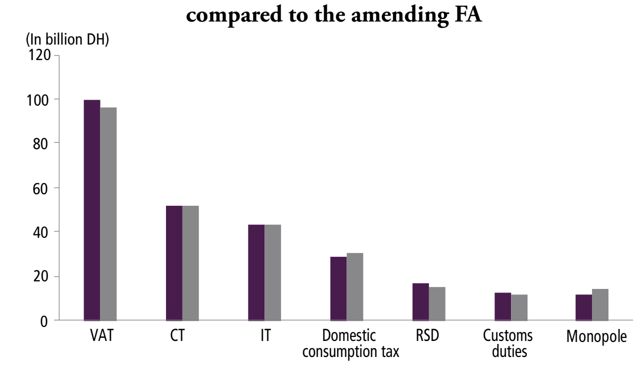
*Taking into account 30 percent of the VAT transferred to local governments.
Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.



Indirect tax revenues improved by 12 percent to 128.3 billion, with increases of 15 percent to 99.8 billion in VAT revenues and 2.6 percent to 28.5 billion in DCT revenues. These reflect in particular increases of 3 percent to 11.3 billion in DCT revenues from tobacco and 18.6 percent to 2.5 billion in DCT revenues from other products excluding energy products and tobacco. The improvement in VAT is attributable to the import VAT, which generated revenues of 71.7 billion, up 31.1 percent, driven by the rise in the price of energy products, while the domestic VAT fell by 12.3 percent to 28.1 billion, mainly due to the increase in VAT credit refunds to 13.5 billion instead of 8.8 billion at end-November 2021.

For their part, customs duties revenues increased by 20.4 percent to 12.8 billion, while revenues from registration and stamp duties gained 17 percent to 16.6 billion in connection with the rise in registration duties, the tax on insurance contracts and the annual special 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

At the level of non-tax revenues, they increased by 131.3 percent to 40.6 billion dirhams, marked mainly by the collection of revenues worth 21 billion under specific financing mechanisms, against 150 million a year earlier, and 11.8 billion from those of monopolies and shareholdings instead of 9.8 billion. The latter came from the OCP for an amount of 6.5 billion, from the National Land Registry Office (ANCFCC) for 2.9 billion, Maroc Télécom for 786 million and Bank Al-Maghrib for 672 million.

## 4.2 Expenditure

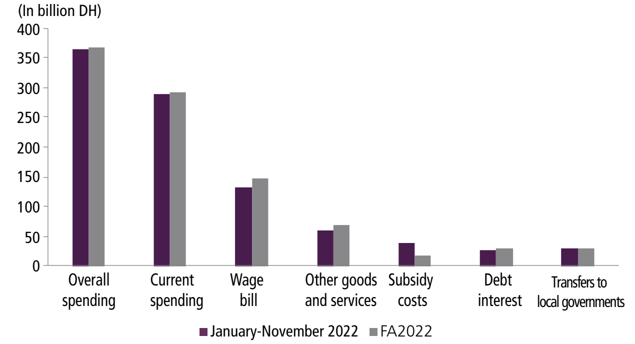
Overall expenditure reached 364.5 billion at the end of November 2022, up 15.9 percent, reflecting increases of 14 percent to 289.4 billion in ordinary expenditure and 23.7 percent to 75.1 billion in capital expenses. Expenditure on goods and services amounted to 193.5 billion, up 5.7 percent compared to end-November 2021, reflecting increases of 3.5 percent to 133.4 billion in the wage bill and 10.8 percent to 60.1 billion in expenditure on other goods and services. These take into account, in particular, the 10.9 percent increase to 30.5 billion in transfers to public entities and enterprises and the 3.8 percent decrease to 5.1 billion in payments to the Treasury's special accounts. The change in the wage bill incorporates, for the part served by the Personnel Expenses Department, increases of 2 percent in its structural component and 22.8 percent to 6.9 billion in arrears.

**Table 4.2 : Execution of public spending (in billions of dirhams)**

| | Janv.-Nov. 2021 | Janv.-Nov. 2022 | Change in % | FA 2022 | Achievements against the FA (%) |
|---|---|---|---|---|---|
| **Overall spending** | **314,5** | **364,5** | **15,9** | **369,0** | **98,8** |
| **Current spending** | **253,8** | **289,4** | **14,0** | **291,0** | **99,4** |
| Goods and services | 183,1 | 193,5 | 5,7 | 217,0 | 89,2 |
| Personal | 128,9 | 133,4 | 3,5 | 147,5 | 90,4 |
| Other goods and services | 54,3 | 60,1 | 10,8 | 69,4 | 86,6 |
| Debt interests | 26,0 | 27,3 | 5,0 | 28,1 | 97,4 |
| Subsidy | 18,6 | 38,6 | 107,5 | 17,0 | 226,6 |
| Transfer to local governments | 26,0 | 29,9 | 15,0 | 28,9 | 103,6 |
| **Investment** | **60,8** | **75,1** | **23,7** | **78,0** | **96,3** |

*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.

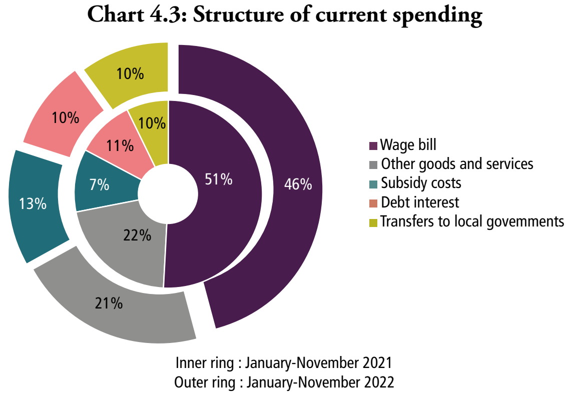
**Chart 4.2: spending execution compared to the amending FA**




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

Interest charges on debt increased by 5 percent to 27.3 billion, covering rises of 5.2 percent to 23.4 billion for domestic debt and 4 percent to 3.9 billion for foreign debt.

**Chart 4.3: Structure of current spending**

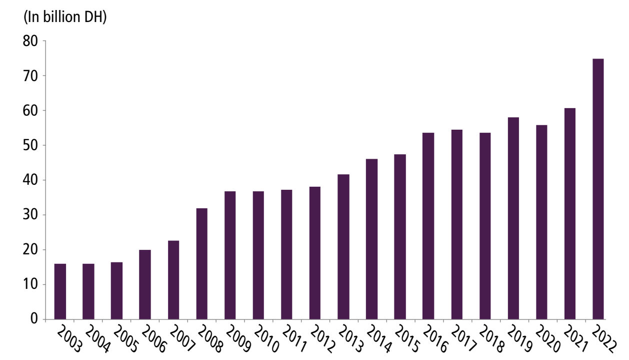



Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

For its part, subsidy costs soared to 107.5 percent to 38.6 billion, corresponding to a realization rate of 116.8 percent compared to the forecasts of the Finance Act plus the new credits opened by virtue of a decree for an amount of 16 billion. This change is due in particular to the appreciation of the average price of butane gas by 20.3 percent to 754 dollars per ton at end-November. In addition, these expenses include subsidies granted to professionals in the transport sector for an amount of nearly 4 billion, as part of measures decided by the Government to cope with the increasing price of energy products.

Capital expenditure increased by 23.7 percent to 75.1 billion, taking into account in particular a payment of 25 billion to the balance of the Treasury's special accounts, compared with 22.9 billion at end-November 2021. The execution rate of this expenditure compared to Finance Act forecasts is 96.3 percent.

**Chart 4.4: Investment spending, at end of November**

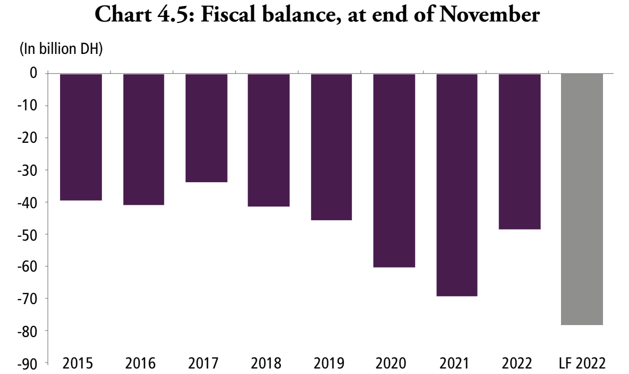



Source : Ministry of Economy and Finance and Administration Reform.

## 4.3 Deficit and Treasury Financing

Budget execution resulted in a deficit of 48.1 billion at end-November, compared with 68.7 billion a year earlier. This change takes into account an improvement from 9.6 billion to 17.1 billion in the positive balance of the Treasury's special accounts, which includes revenues of 6.5 billion from the Social Solidarity Contribution on profits and income, allocated to the Social Protection and Social Cohesion Support Fund, compared with 3.9 billion. The Treasury also reduced its stock of pending transactions by 1.7 billion, thereby reducing the cash deficit, excluding income from the sales of State shareholdings, from 80.8 billion to 49.7 billion at end-November 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 net domestic resources of 39.6 billion and by a positive net external flow of 10.1 billion, compared to 6.1 billion a year earlier. Gross external borrowings amounted to 19.4 billion, including 10 billion from the World Bank and 4.3 billion from the African Development Bank.

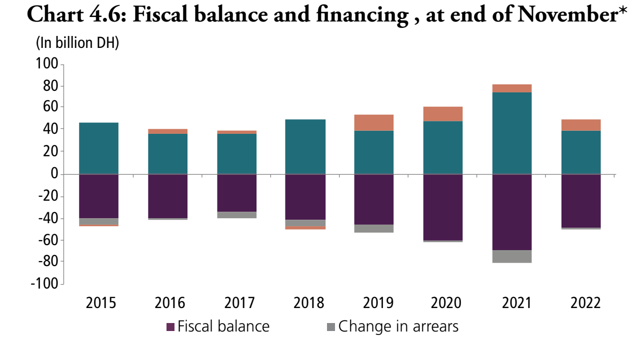
**Table 4.3: Deficit financing (in billions of dirhams)**

| | Janv. - Nov. 2021 | Janv. - Nov. 2022 | LF 2022 |
|---|---|---|---|
| Current balance | -15,4 | 10,0 | -4,2 |
| Balance of TSA | 7,5 | 17,1 | 4,5 |
| Primary balance | -42,6 | -20,7 | -49,6 |
| Fiscal balance | -68,7 | -48,1 | -77,6 |
| Change in arrears | -12,1 | -1,7 | |
| Financing requirements | -80,8 | -49,7 | -77,6 |
| Domestic financing | 69,3 | 39,6 | 52,0 |
| External financing | 6,1 | 10,1 | 20,7 |
| Privatization | 5,4 | 0,0 | 5,0 |

Sources : Ministry of Economy and Finance and Administration Reform.

Concerning domestic financing, recourse to the auction market involved a net amount of 7.8 billion compared to 40.9 billion a year earlier. Net subscriptions concerned in particular 45-day bills for an amount of 8.6 billion, 26-week bills for an amount of 5.1 billion, and 13-week bills for 7.4 billion. At the same time, net redemptions concerned mainly 2-year bills for 6 billion, 52-week bills for 5.2 billion and 5-year bonds for 2.4 billion.

**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 end- November indicate an increase in weighted average rates compared with the same period in 2021. For short maturities, increases reached 53 basis points (bps) to 1.89 percent for 13-week bills, 34 bps to 1.75 percent for 26-week bills, 32 bps to 2.04 percent for 2-year bills and 30 bps to 1.84 percent for 52-week bills. Similarly, for medium- and long-term maturities, rates increased in particular by 34 bps to 2.68 percent for 10-year bills and 28 bps to 2.27 percent for 5-year bonds.

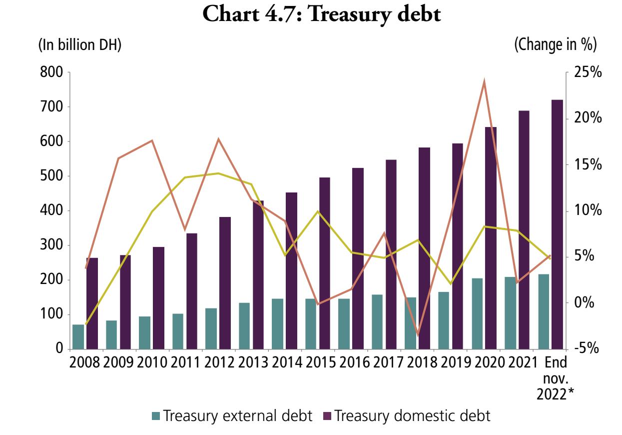
**Table 4.4: Treasury's indebtedness (in billions of dirhams)**

| | 2017 | 2018 | 2019 | 2020 | 2021 | End Nov. 2022* |
|---|---|---|---|---|---|---|
| Treasury external debt | 153,2 | 148,0 | 161,6 | 199,7 | 203,8 | 213,9 |
| Change in % | 7,3 | -3,4 | 9,2 | 23,6 | 2,0 | 5,0 |
| Treasury domestic debt | 539,1 | 574,6 | 585,7 | 632,9 | 681,5 | 712,7 |
| Change in % | 4,8 | 6,6 | 1,9 | 8,1 | 7,7 | 4,6 |
| Outstanding direct debt | 692,3 | 722,6 | 747,3 | 832,6 | 885,3 | 926,6 |
| Change in % | 5,3 | 4,4 | 3,4 | 11,4 | 6,3 | 4,7 |

* 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 regards direct public debt, its outstanding amount would have increased by 4.7 percent at the end of November 2022 compared to its level at end-December 2021, with rises of 4.6 percent in its domestic component and 5 percent in the external one.

**Chart 4.7: Treasury debt**




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

## Box 4.1: Three-year budget programming

As part of the Finance Act 2023, the Ministry of Economy and Finance has published, for the first time, a document on the overall three-year budget programming for the period 2023-2025. As a summary of this document, this box presents the assumptions and choices made in terms of fiscal policy. Thus, taking into account the macroeconomic outlook and assumptions, the Government targets the realization of the following budget deficits and debt ratios:

| | 2023 | 2024 | 2025 |
|---|---|---|---|
| **Overall deficit in % of GDP** | **4,5** | **4,0** | **3,5** |
| **Overall deficit as % of GDP, excluding income from the sales of State shareholdings** | **4,9** | **4,3** | **3,8** |
| **Treasury debt in % of GDP** | **69,5** | **69,9** | **69,5** |

Source: Document on the overall three-year budget programming for the period 2023-2025, FA 2023, MEF.

### I- Main macroeconomic assumptions

The main assumptions of the macroeconomic framework for the period 2023-2025 are as follows:

| In % | FA 2023 | Projections 2024 | Projections 2025 |
|---|---|---|---|
| **Growth rate** | **4,0** | **3,7** | **3,9** |
| - Agricultural VA | 12,9 | 4,0 | 4,4 |
| - Nonagricultural VA | 3,1 | 3,8 | 3,8 |
| **Inflation rate** | **2,0** | **2,0** | **2,0** |
| Dollar-Dirham parity | 10,6 | 9,82 | 9,82 |
| Euro-dirham parity | 10,6 | 10,86 | 10,86 |
| **Oil prices** | **93** | **84** | **78** |
| **Butane gas price** | **800** | **700** | **700** |
| **Cereal production (in million quintals)** | **75** | **75** | **75** |

Source: Document on the overall three-year budget programming for the period 2023-2025, FA 2023, MEF

### II- Three-year budget programming of revenues

The change in ordinary revenues for the period 2023-2025 reflects an improvement in both domestic tax and customs revenues and non-tax revenues. The forecasts for the latter are based on the assumptions of the macroeconomic framework and the intrinsic characteristics of the various revenue items. They also take into account exceptional events and the impact on the budget of the measures that the State has undertaken to implement in order to meet the fundamental objectives of the framework law on tax reform.

**Table B.4.1.1: Three-year budget programming of revenues**

| In million dirhams | FA 2023 | Projections 2024 | Projections 2025 |
|---|---|---|---|
| **Current revenues** | **343 421** | **362 329** | **377 847** |
| **Tax revenues (1)** | **289 273** | **300 151** | **311 923** |
| Direct taxes | 113 165 | 119 412 | 125 611 |
| CT | 60 914 | 64 347 | 67 808 |
| IT | 47 931 | 50 053 | 52 745 |
| Increases and other taxes | 4 320 | 5 012 | 5 058 |
| Indirect taxes | 145 142 | 149 038 | 153 215 |
| VAT | 113 329 | 115 889 | 119 244 |
| DCT | 31 813 | 33 149 | 33 971 |
| Customs duties | 15 019 | 15 413 | 15 933 |
| Registration and stamp duties | 15 947 | 16 288 | 17 164 |
| **Nontax revenues** | **54 148** | **62 178** | **65 924** |
| Receipts from PEEs | 19 464 | 22 146 | 24 604 |
| Other receipts | 29 684 | 35 032 | 36 321 |
| Sale of State shareholdings | 5 000 | 5 000 | 5 000 |

(1) Including VAT for local authorities (VAT reprocessing by BAM)
Source: Document on the overall three-year budget programming for the period 2023-2025, Draft Finance Act 2023, MEF.

Projections for other non-tax revenues include the continued mobilization of resources under **the innovative financing mechanism**s for an amount of 25 billion in 2023 and 30 billion per year over the period 2024-2025.

**Projections of revenues from PEEs** (Public Entities and Enterprises) are based on the rates realized in 2021, closing forecasts for 2022, and projections made of the relevant PEEs. They take into account the implementation of the provisions contained in the framework law on the reform of PEEs, in particular through the entry into operation of the National Agency for the Strategic Management of State Shareholdings and the monitoring of the Performance of Public Entities and Enterprises

### III- Three-year budget programming of expenses

The assumptions underlying spending projections take into account the guidelines for rationalizing public expenses, prioritizing social expenses, particularly those relating to the generalization of social protection, pension reform and the government's commitments in the context of social dialogue, and improving the efficiency of capital expenditure.

As for **personnel expenses**, in addition to taking into account permanent expenses, promotions and retirements, they include the impact of decisions taken within the framework of social dialogue, estimated at 6.8 billion, including 4.3 billion in 2023, 1.6 billion in 2024 and 0.9 billion in 2025.

At the level of equipment and miscellaneous expenses, it is noted that the cost to be borne by the State in 2023, within the framework of **the generalization of social protection, would reach 12.5 billion dirhams, including 9.5 billion for the generalization of health coverage and 3 billion for family allowances. This package will be increased to 26.3 billion in 2025, including 9.5 billion for the generalization of health coverage and 16.8 billion for family allowances**. These expenses will be financed from resources mobilized by the social protection and social cohesion support fund, as well as by the gradual re-allocation of resources currently allocated to the financing of various social programs and subsidization.

Table B.4.1.2: Three-year budget programming of expenses

| In million dirhams | FA 2023 | Projections 2024 | Projections 2025 |
|---|---|---|---|
| **Overall spending** | **416 594** | **431 036** | **442 286** |
| **Orinary expenses** | **325 456** | **339 616** | **351 620** |
| Personnel expenses | 155 750 | 161 257 | 166 151 |
| Spending on other goods and services | 79161 | 101 680 | 114947 |
| Public debt Interests | 29 966 | 33 006 | 34 549 |
| Subsidization | 26 580 | 8 906 | 200 |
| Transfers to local governments (1) | 33 999 | 34 767 | 35 773 |
| Capital expenditure | 91 138 | 91 420 | 90 666 |

(1) Reprocessing of transfers to local governments by BAM
Source: Document on the overall three-year budget programming for the period 2023-2025, FA 2023, MEF.

With regard to subsidization expenditure, and in accordance with Article 8 of the framework law on social protection, the continuation of the reform of the subsidization system is planned to be implemented gradually in order to provide margins to partially finance the distribution of family allowances. **Thus, the total subsidization burden will be reduced to 26.6 billion in 2023, 8.9 billion in 2024 and then to only 200 million in 2025.**

With regard to capital expenditure, the budget proposals for the period 2023-2025 take into account, in particular, the guidelines for capital expenditure through the use of innovative financing mechanisms, the implementation of the new legal framework for public-private partnerships and the rationalization of investment subsidies for PEEs.

# 5. DEMAND, SUPPLY AND LABOR MARKET

In the second quarter of 2022, economic growth stood at 2 percent after 14.2 percent a year earlier, as a result of an increase in non-agricultural value added by 4.2 percent instead of 13.3 percent and a decline in agricultural value added by 15.5 percent after a rise of 17.5 percent. On the demand side, the contribution of the domestic component to growth weakened from 11.3 percentage points to 2.2 points, while the contribution of foreign trade in goods and services was negative at -0.2 points, compared to a positive contribution of 2.9 points a year earlier.

In the second half of the year, non-agricultural activities grew by 3.5 percent, driven mainly by the dynamism of tourism, transport and non-market sectors, while agricultural value added continued to contract by 15.1 percent. In total, GDP would have increased on average by 1.1 percent instead of 8.2 percent in the same period of 2021.

For the year as a whole, growth of the national economy would thus slow down significantly to 1.1 percent after rebounding by 7.9 percent in 2021.

On the labor market, the situation has relatively deteriorated between the third quarter of 2021 and the same period of 2022, with a loss of 58 thousand jobs after the creation of 642 thousand a year earlier, covering respective decreases of 237 thousand and 38 thousand jobs in agriculture and construction, and increases amounting to 189 thousand jobs in services and 29 thousand in industry including crafts. Against this background, 128 thousand active people left the labor market, which led to a 1.1 point drop in the activity rate to 44 percent. As a result, the unemployment rate decreased from 11.8 percent to 11.4 percent, with a drop of one point to 15 percent in urban areas and stagnation at 5.2 percent in rural areas.

## 5.1 Domestic demand

### 5.1.1 Consumption

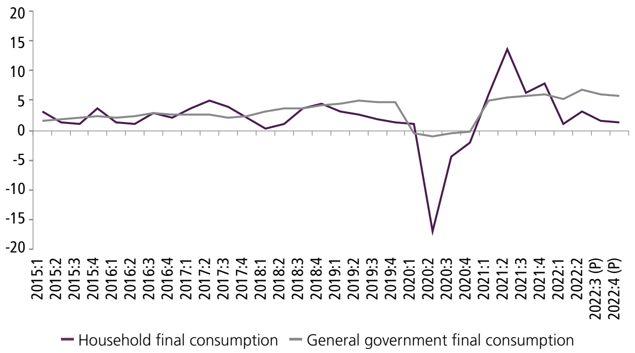
The latest national accounts data for the second quarter of 2022 demonstrate a marked deceleration in the pace of household consumption expenses to 3.2 percent from 13.6 percent in the same quarter a year earlier, thus contributing 1.7 percentage points to growth instead of 7.4 points.

In the second half of 2022, the growth rate in household consumption would have slowed to an average of 1.4 percent after 7.1 percent in the same period of 2021. This change reflects in particular the deceleration of the transfers from Moroccan expatriates, the fall of agricultural revenues and the deterioration of the purchasing power generated by the rise in consumer prices. In addition, the household confidence index has deteriorated sharply, reaching its lowest level since the HCP set up its household survey on the economic situation in 2008. On the other hand, consumer loans improved by 3.8 percent at end-October after 1.5 percent a year earlier.

As regards the final consumption of the general government, it increased by 6.7 percent in the first quarter of 2022 after 5.5 percent, and its contribution to growth went up from 1.2 percentage points to 1.3 percentage points.

In the second half of 2022, it would have evolved at a similar rate to that recorded in the same period one year earlier, or 5.9 percent, covering a slowdown of expenditure on goods and services and an acceleration of the subsidization charges observed at the level of the Treasury's expenses and resources at end-November.

**Chart 5.1: Change of consumption expenses (in %)**




Sources: HCP, and BAM forecasts.

### 5.1.2 Investment

In the second quarter of 2022, investment fell by 2.4 percent after increasing by 7.3 percent a year earlier. Its contribution to growth was thus negative at -0.8 percentage points instead of a positive contribution of 2.7 percentage points.

Available indicators suggest that its pace would have decreased by 2.1 percent in the second half of the year, compared to an increase of 18.3 percent in the same period of the previous year. Thus, at end-October, equipment loans declined by 0.2 percent after 2.4 percent, and real-estate loans decelerated from 3.1 percent to 2.7 percent. Similarly, the volume of capital goods imports fell by 1.7 percent between July and October after improving by 17.8 percent a year earlier. In addition, the results of Bank Al-Maghrib's business survey in industry for the third quarter show that the business climate was described as "normal" by 66 percent of businesses and "unfavourable" by 29 percent of them.

## 5.2 Foreign demand

In the second quarter of 2022, the contribution to the growth of net exports of goods and services in volume terms was negative at -0.2 percentage points instead of a positive contribution of 2.9 percentage points, as exports accelerated from 22.4 percent to 36.4 percent and imports from 8.3 percent to 28.7 percent.

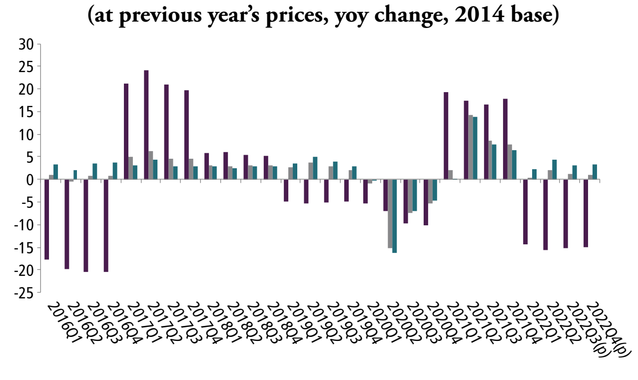
In terms of outlook, exports would have decelerated slightly to 12.3 percent in the second half of the year, due in particular to the contraction of the volume of phosphates and derivatives' exports by 26.1 percent between July and October instead of an increase of 2.4 percent a year earlier. In contrast, car shipments in volume terms rose by 44.3 percent after a 25.5 percent fall. By contrast, imports would have slowed to 10.1 percent from 16.1 percent, as a result of the decrease in volume of capital goods' imports between July and October and the increase in imports of energy products by 15.3 percent after 9.9 percent.

## 5.3 Overall supply

In the second quarter of 2022, GDP increased by 2 percent after 14.2 percent in the same period of the previous year, reflecting a sharp deceleration from 13.3 percent to 4.2 percent in the growth of non-agricultural activities and a decline of 15.5 percent, after a 17.5 percent increase, in agricultural value added.

In the second half of the year, growth would have averaged 1.1 percent instead of 8.2 percent a year earlier. Agricultural value added would have fallen by 15.1 percent as a result of the unfavourable climatic conditions that witnessed in the 2021-2022 agricultural season. For their part, non-agricultural activities would have improved by 3.5 percent after 7 percent.

**Chart 5.2: GDP per component (at previous year's prices, yoy change, 2014 base)**

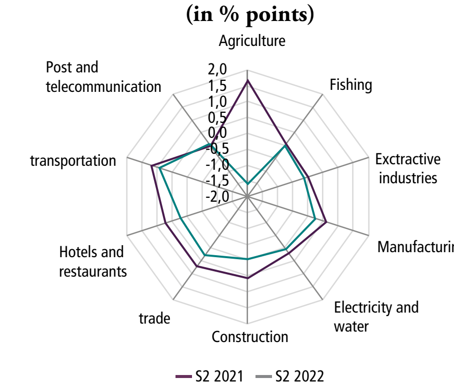



Sources: HCP, and BAM forecasts.



In the secondary sector, the value added is expected to have slowed down to an average of 0.4 percent after 5.3 percent. It would have decelerated to 1.6 percent in the processing industry, to 1.1 percent in the "electricity and water" branch and would have fallen by 7.4 percent in the extraction industries and by 0.6 percent in construction.

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




Sources: HCP, and BAM forecasts.

At the same time, the growth of tertiary activities is estimated to have reached 5.1 percent on average in the second half of the year instead of 7.9 percent in the same period of the previous year. In particular, it would have reached 35 percent after 62.5 percent in the same period of the previous year for the "accommodation and catering services" branch, 7 percent after 24.9 percent for transport services and 2.8 percent instead of 7.4 percent for trade.

## 5.4 Labor market and output capacity

### 5.4.1 Activity and employment

Compared to the third quarter of 2021, the labor market situation in the third quarter of 2022 was marked by a 1 percent decline in the number of active persons aged 15 and over to 12.1 million people, due to a 4.3 percent decline in the countryside and a 1 percent increase in the cities.

Considering the change in the population of working age, the activity rate fell from 45.1 percent to 44 percent, with a drop of 2.2 points to 48.1 percent in rural areas and of 0.5 points to 41.9 percent in the cities.

At the same time, the national economy suffered a loss of 58 thousand jobs, after the creation of 642 thousand jobs a year earlier, and the employed active population fell by 0.5 percent to 10.8 million people. The decline in employment concerned the agriculture and construction sectors with decreases of 237 thousand and 38 thousand jobs, respectively. On the contrary, the other sectors experienced increases amounting to 189 thousand jobs in services and 29 thousand in industry including handicrafts.

### 5.4.2 Unemployment and underemployment

The unemployed labor force fell again by 4.8 percent to almost 1.4 million people, and the unemployment rate fell slightly from 11.8 percent to 11.4 percent at the national level, covering a drop of one point to 15 percent in urban areas and stagnation at 5.2 percent in rural areas. Among young people aged 15 to 24 in particular, this rate increased by 0.7 points to 31.7 percent at the national level and contracted by 1.4 points to 43.8 percent for urban dwellers. At the same time, the underemployment rate[1] decreased from 9.5 percent to 8.5 percent overall, from 8.6 percent to 7.5 percent in urban areas and from 10.8 percent to 9.9 percent in rural areas.

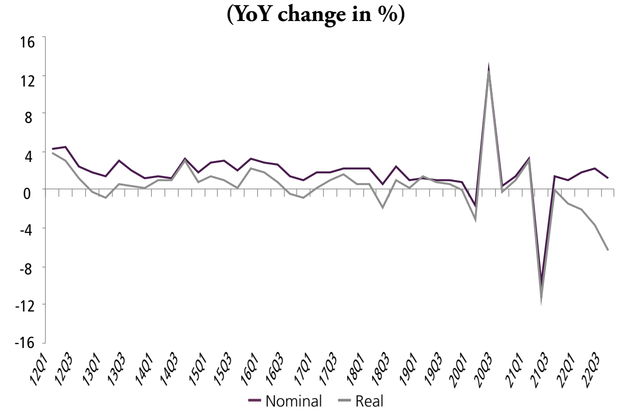
### 5.4.3 Productivity and wages

In non-agricultural activities, apparent labor productivity, as measured by the ratio of value added to employment, is expected to have improved in the third quarter by 1.2 percent year-on-year, after 1 percent in the same period of the previous year. This change reflects increases of 3.6 percent in value added and 2.4 percent in the employed workforce.

1 The underemployed population consists of those who have worked: (i) in 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 due to mismatch with their training or qualification or insufficient income.

For its part, the average wage, calculated on the basis of CNSS data as a ratio of the wage bill to the number of employees, maintained its growth rate in the third quarter of 2022, in nominal terms, at 1.3 percent, whereas it dropped, in real terms, by 6.3 percent after stagnating in the same period of the previous year.

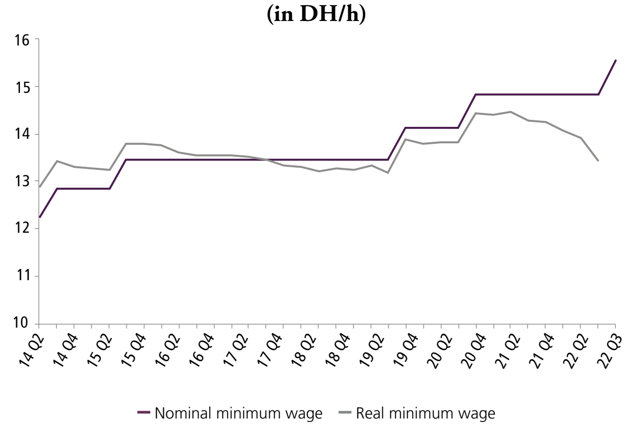
**Chart 5.4: Private sector average wage index (YoY change in %)**




Sources: CNSS, and BAM calculations.

In application of the social agreement concluded on April 30, 2022, the hourly minimum wage (SMIG) was revalued in nominal terms by 5 percent on September 1, 2022, to 15.55 dirhams. Taking into account an 8.1 percent rise in the consumer price index, it would have fallen by 2.9 percent in real terms year-on-year in the third quarter.

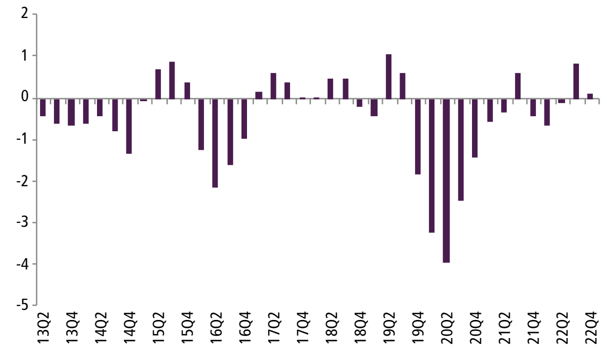
**Chart 5.5: Hourly minimum wages in nominal and real terms (in DH/h)**




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

Under these conditions, the output gap would be positive in the second half of 2022, while remaining close to zero.

**Chart 5.6: Overall output gap (in %)**



Source: BAM estimates.

**Table 5.1 : Labor market main indicators**

| | | Q2 2022 | Q2 2021 |
|---|---|---|---|
| **Participation rate (%)** | | **45,1** | **44,0** |
| Urbain | | 42,4 | 41,9 |
| Rural | | 50,3 | 48,1 |
| **Unemployment rate (%)** | | **11,8** | **11,4** |
| Youth aged between 15 and 24 years old | | 31,0 | 31,7 |
| Urban | | 16,0 | 15,0 |
| Jeunes âgés de 15 à 24 years | | 45,2 | 43,8 |
| Rural | | 5,2 | 5,2 |
| **Job creation (in thousands)** | | **642** | **-58** |
| Urban | | 368 | 136 |
| Rural | | 274 | -194 |
| Sectors | | | |
| - Agriculture, forest and fishing | | 190 | -237 |
| - Industry including handicraft | | 54 | 29 |
| - Construction | | 92 | -38 |
| - Services | | 306 | 189 |
| **Nonagricultural apparent productivity (change in %)** | | 1,0 | 1,2 |
| **Average wage index (change in %)** | **nominal** | 1,3 | 1,3 |
| | **Real** | 0,0 | -6,3 |

Sources: HPC, CNSS and BAM calculations.

## Box 5.1: Water stress in Morocco

Due to its geographical position and dry climate, Morocco is considered among the most vulnerable countries to climate change. Between 1990 and 2022[1], it recorded a trend rise in temperatures of 0.1°C on average per year and rainfall has been on a downward trend at a rate of 1.9 percent[2] per year. These changes prevent the regeneration of water stocks, thus reducing water resources. The latter are currently estimated[3] at around 620 m3/capita/year, compared to around 2560 $m^3$/capita/year in the early 1960s, a threshold that remains well below the limit of 1000 $m^3$/ha/year set according to international standards for the definition of water stress[4].

**Chart B.5.1.1: Average annual temperature in Morocco between 1990 and 2022 (in °C)**

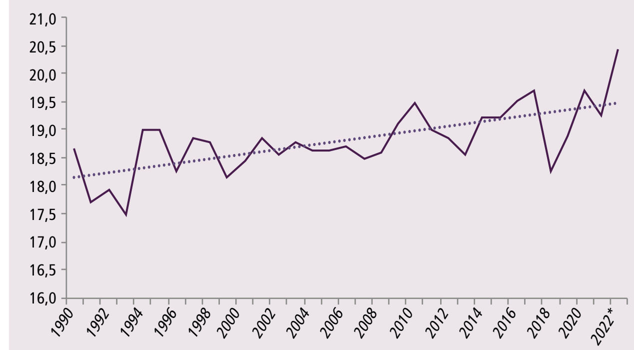
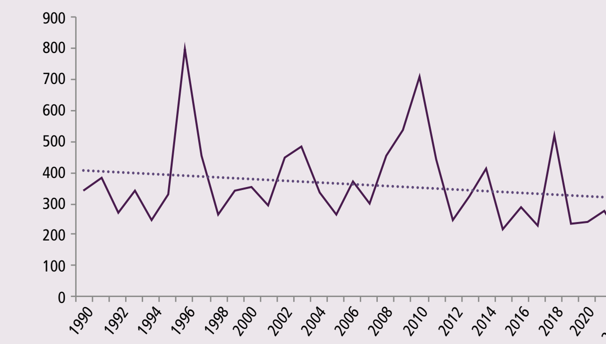


**Chart B.5.1.2: Cumulative rainfall in Morocco between 1990 and 2022 (in mm)**



Source: General Directorate of Meteorology.
* For 2022, the data concerns the period up to end-November.

Over the period 2018-2022 in particular, the situation has deteriorated significantly with delays in rainfall observed at the start of the agricultural seasons and a succession of drought years, resulting in rainfall decreases of 22.7 percent in 2019, 14.5 percent in 2020 and 28.5 percent in 2022. In addition, the snow-covered area, which plays an important role in the water cycle, has decreased significantly according to the Ministry of Equipment and Water Resources[5], from a maximum value of 45 thousand $km^2$ in 2018 to 5 thousand $km^2$ in 2022, and the number of snow days has fallen sharply, from 41 days in 2018 to 14 days in 2022.

Under these conditions, the filling rate of the dams reached 24.9 percent on December 12, 2022 compared to 34.5 percent in the same period of the previous year and 63.9 percent in 2015[6]. This level would be overestimated if one takes into account the decreasing capacity due to the silting of reservoirs[7], which does not allow the dams to play their role as shock absorbers during dry years. In particular, the filling rates of the dams "AL MASSIRA" and "BIN EL OUIDANE", the second and third largest dams in the country, are limited to 3.3 percent and 8.6 percent against more than 72 percent in the same period of 2015.

[1] For the year 2022, the data covers the period up to end-November.
[2] Calculated by BAM on the basis of data from the Directorate General of Meteorology.
[3] Source: World Bank "Climate and Development" Report (October 2022).
[4] Hydrological drought is defined as the situation where surface and groundwater supplies fall below normal levels. It results from prolonged periods of rainfall shortage that reduces surface flow in water courses, leading to a decrease in the volumes stored in hydraulic structures and in groundwater tables.
[5] Source: Presentation by the Minister of Equipment and Water to the Committee on Infrastructure, Energy, Mines and the Environment on July 6, 2022.
[6] Date of data availability.
[7] The total silted volume is estimated in 2018 at nearly 2.24 billion m3, which represented nearly 12.72 percent of the total capacity of dams estimated at 17.6 billion $m^3$, corresponding to a decrease of about 0.5 percent per year, according to the report of the Court of Auditors on the "Management of the public hydraulic domain.

**Chart B.5.1.3: Decadal profile of cumulative rainfall since the start of the campaign for some campaigns**

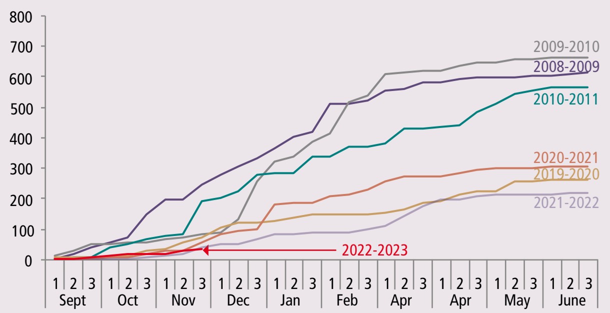
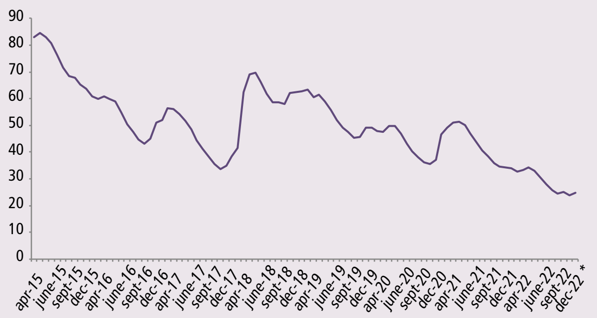



**Chart B.5.1.4: Dam filling rate (%)**



Source: Ministry of Water.
* The latest available data are as of 12 December 2022.

According to simulations carried out by the World Bank in its October 2022 "Climate and Development" Report, the warming and aridification of the Moroccan climate is expected to continue, leading by 2050 to a drop in water resources to a level close to the "absolute water shortage threshold" estimated at 500[8] m$^3$ per inhabitant. A 25 percent decrease in water availability in all sectors of the economy, combined with a drop in agricultural crops, would have considerable economic and social consequences, with a contraction in GDP of around 6.5 percent and a drop in agricultural exports of 24.7 percent.

Today, in view of these data, it is imperative to adapt and readjust public policies and sectoral strategies in all areas to take account of this new context, which is increasingly becoming a new reality in our country.

[8] According to simulations made in its "Climate and Development" Report, October 2022.

# 6. RECENT INFLATION TRENDS

The expected acceleration of inflation was confirmed during the third quarter, amid persistently high commodity prices, particularly those of energy and food, and a broad dissemination of inflationary pressures to products other than those directly impacted by the surge in international prices. It stood at 8.1 percent in the third quarter and then stabilized at the same rate in October. This change covers a slowdown in the growth rate of the prices of fuels and lubricants from 52.3 percent to 40 percent, an acceleration from 15.8 percent to 16.8 percent in those of food products with volatile prices and an increase of 0.1 percent after a fall of 0.3 percent in those of regulated tariffs. Core inflation rose from 7.5 percent to 7.6 percent, with increases of 10.8 percent after 11.1 percent for tradable products and 3.6 percent after 3.2 percent for non-tradables, suggesting that the sources of some of inflationary pressures are domestic now.

In the fourth quarter of 2022, inflation should continue to accelerate to 8.2 percent. Its underlying component is expected to rise to 7.7 percent.

## 6.1. Inflation trends

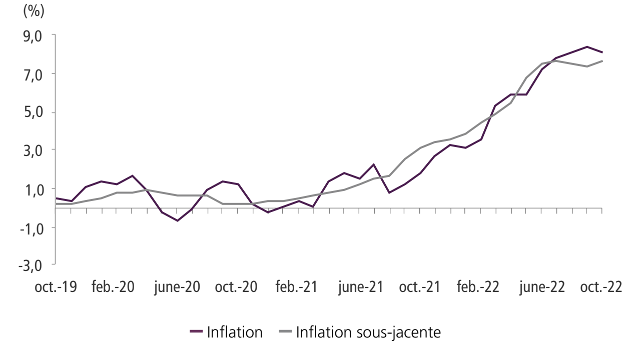
Inflation continues to evolve at high levels, standing at 8.1 percent in October, unchanged from the average for the third quarter. This stabilisation covers, on the one hand, accelerations to 16.8 percent in the growth rate of the prices of food products with volatile prices, to 0.1 percent in that of regulated tariffs and to 7.6 percent for the indicator of core inflation, and on the other hand, a deceleration from 52.3 percent to 40 percent in the prices of fuels and lubricants.

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

Following their rapid increase in the previous quarter, resulting in particular from supply constraints, prices of volatile food products recorded a monthly increase of 0.3 percent in October, driven mainly by a 2.5 percent rise in "fresh vegetables" and a 5.4 percent increase in "eggs". Year-on-year, these prices rose by 16.8 percent in October, after an average of 15.8 percent in the third quarter.

Overall, the contribution of the volatile food component to inflation amounted to 2 percentage points in October, compared to 1.9 percentage points on average a quarter earlier.

**Chart 6.1: inflation and core inflation, (YoY)**




Sources: HCP and BAM calculations.

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

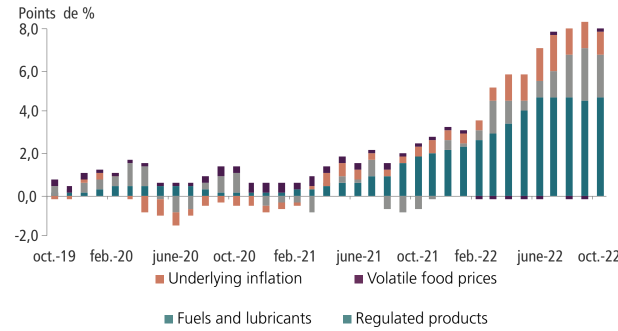
| (In %) | Monthly change | | | YoY change | | |
|---|---|---|---|---|---|---|
| | Aug 22 | Sept 22 | Oct 22 | Aug 22 | Sept 22 | Oct 22 |
| **Inflation** | **0,3** | **1,0** | **0,4** | **8,0** | **8,3** | **8,1** |
| - Volatile food prices | 4,2 | 3,7 | 0,3 | 16,9 | 20,9 | 16,8 |
| - Administered prices | 0,0 | 0,2 | 0,0 | -0,5 | -0,3 | 0,1 |
| - Fuels and lubricants | -10,1 | 0,3 | -1,2 | 46,8 | 46,1 | 40,0 |
| **Core inflation** | **0,2** | **0,7** | **0,6** | **7,5** | **7,4** | **7,6** |
| - Food products | 0,1 | 0,7 | 1,0 | 14,0 | 12,8 | 13,5 |
| - Clothing and footwear | 0,5 | 0,4 | 0,3 | 5,8 | 5,7 | 5,2 |
| - Housing, water, gas, electricity and other fuels[1] | 0,2 | 0,2 | 0,2 | 2,1 | 2,3 | 2,2 |
| - Furniture, household equipment and routine house maintenance | 0,3 | 0,5 | 0,6 | 6,2 | 6,4 | 6,7 |
| - Health[1] | -0,4 | -0,1 | 0,0 | 2,4 | 1,9 | 1,3 |
| - Transportation[2] | 1,1 | -0,3 | 0,5 | 5,5 | 5,1 | 5,6 |
| - Communication | 0,2 | 0,0 | 0,1 | 0,6 | 0,6 | 0,7 |
| - Entertainment and culture[1] | 0,3 | 0,4 | 0,3 | 7,7 | 7,9 | 7,5 |
| - Education | 0,0 | 3,2 | 1,0 | 1,3 | 3,5 | 4,2 |
| - Restaurants and hotels | 0,6 | 0,5 | 0,5 | 3,6 | 4,1 | 4,6 |
| - Miscellaneous goods and services[1] | 0,1 | 0,5 | 0,1 | 3,2 | 3,5 | 2,2 |

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

Regulated tariffs rose by 0.1 percent after a 0.3 percent fall in the third quarter, driven by the lesser drop in road passenger transport prices to 2.2 percent after 4.7 percent. The latter accumulated a rise of 2 percent between July and September, which would be linked to the transmission of pump price increases in spite of the subsidies granted by the State to the transporters. Yet, they remain lower than their level observed during the same period a year earlier.

Overall, the contribution of regulated tariffs was zero in October, compared with -0.1 percentage point in the previous quarter.

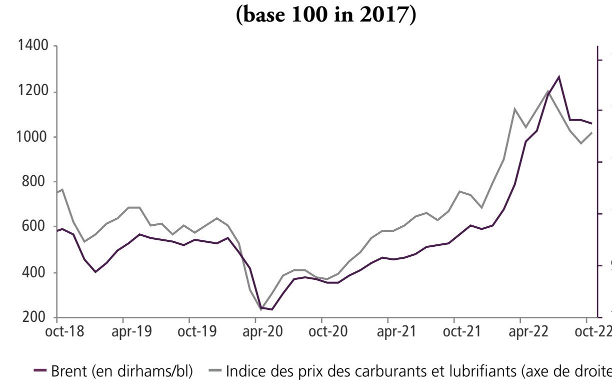
**Chart 6.2: Price contributions of major components to inflation (YoY)**




Sources: HCP, and BAM calculations.

On the other hand, the growth rate of fuels and lubricants prices slowed down from 52.3 percent in the third quarter to 40 percent in October, due to the drop in the prices of oil products, with in particular a decrease in the price of Brent from $99.2/bl to $93.1/bl. The impact of this fall would have been partly moderated by the 4.5 percent depreciation of the dirham against the dollar over the same period. Thus, the contribution of the prices of these products to inflation reached 1.1 percentage points in October against 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.

### 6.1.2. Core inflation

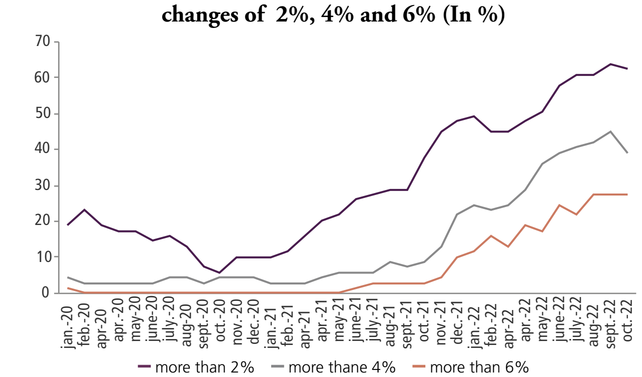
Core inflation, as measured by the exclusion method[1], continued to accelerate, reaching 7.6 percent in October from 7.5 percent in the third quarter. This change is mainly attributable to its non-food component, with in particular an increase in "education" prices of 4.2

1 Calculated by BAM.

percent. In contrast, and in line with the consecutive declines in international food prices, the growth rate of the prices of food products included in the CPIX slowed to 13.5 percent in October after 13.8 percent in the third quarter, driven by the deceleration in the prices of "cereal-based products" from 14.6 percent to 11 percent and "unprocessed cereals" from 31.9 percent to 25.7 percent.

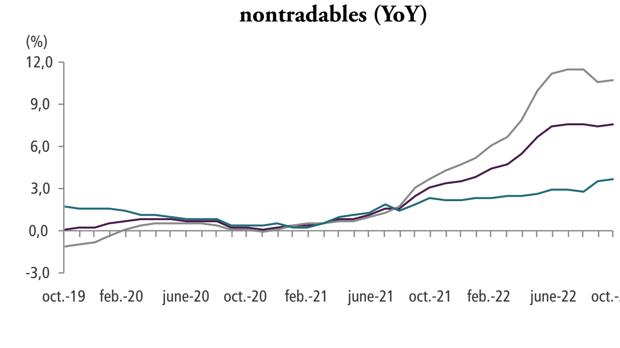
The spread of the increase in non-food prices has continued during the recent months, albeit with a slight decline in October, for the first time since January 2021. In fact, the share of products that rose by more than 2 percent stood at 62 percent instead of 64 percent in September and 61 percent in August 2022.

**Chart 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.
Sources : HCP et calcul BAM.

**Chart 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 in October was due to the acceleration in non-tradable prices which more than offset the slowdown in tradable prices, reflecting a relative easing of external inflationary pressures.

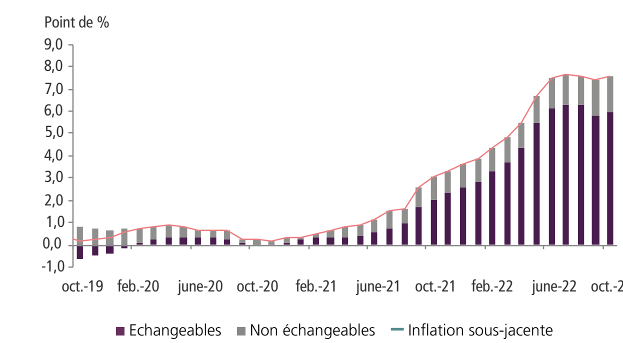
**Table 6.2: Change in the price indexes of tradables and nontradables**

| (In %) | Monthly change | | | YoY change | | |
|---|---|---|---|---|---|---|
| | Aug 22 | Sept 22 | Oct 22 | Aug 22 | Sept 22 | Oct 22 |
| **Tradables** | 0,4 | 0,5 | 0,7 | 11,4 | 10,5 | 10,8 |
| **Nontradables** | -0,1 | 0,9 | 0,6 | 2,8 | 3,5 | 3,6 |
| **Core inflation** | **0,2** | **0,7** | **0,6** | **7,5** | **7,4** | **7,6** |

Sources: HCP, and BAM calculations

Non-tradable goods prices rose by 3.6 percent in October after 3.2 percent in the third quarter, suggesting that core inflation would increasingly be driven by domestic factors.

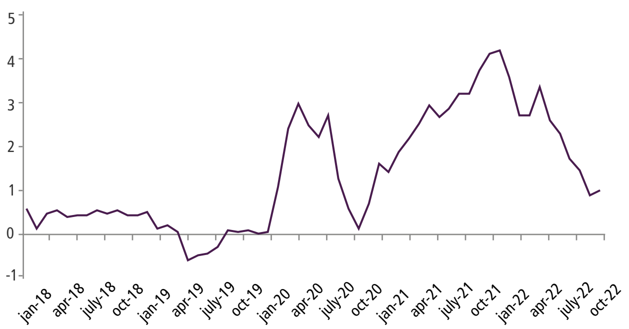
**Chart 6.6: Contribution of tradables and nontradables to core inflation**




Sources: HCP, and BAM calculations.

In contrast, the growth rate in tradable goods prices slowed to 10.8 percent in October from an average of 11.1 percent between July and September. This reflects the easing of inflationary pressures emanating from bottlenecks, particularly in connection with the return to normal delivery times by suppliers and the fall in the cost of maritime transport. In the same vein, the increase in the FAO food index decelerated significantly from 8.5 percent in the third quarter to 2 percent in October.

**Chart 6.7 : Pressures on global supply chains : GSCPI Index (*)**



Source: New York Fed.
(*) This is an index that integrates data on transportation costs and delivery times to provide an assessment of global supply chain conditions.

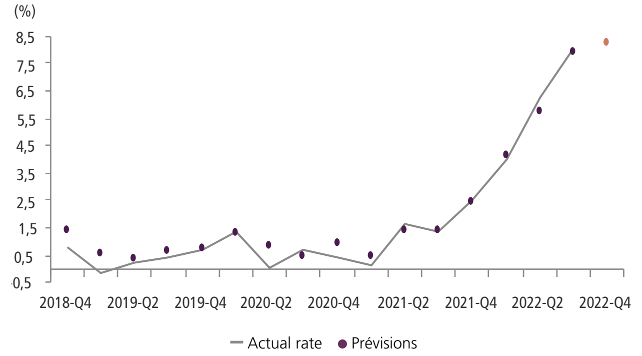
## 6.2 Short-term outlook for inflation

Inflation is expected to continue its acceleration in the short term, reaching 8.2 percent on average in the fourth quarter of 2022 after 8.1 percent a quarter earlier. Its trend would be largely related to the expected continuation of the increase in the price of food products with volatile prices, which would rise to 17.8 percent after 15.8 percent in the previous quarter, taking into account wholesale price data.

Core inflation is also expected to accelerate to 7.7 percent from 7.5 percent in the previous quarter, driven mainly by its dynamic food component.

On the other hand, the expected decline in international oil prices should lead to a slowdown in the growth rate of the prices of fuels and lubricants from 52.3 percent to 42 percent in the fourth quarter.

**Chart 6.8: Inflation short-term forecasts and actual rates**



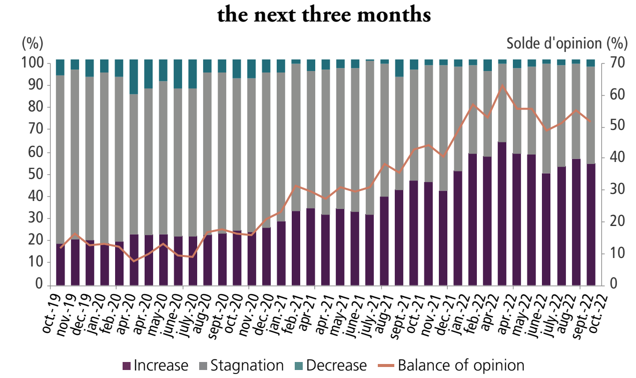

The differences in forecasts observed between Q1 2018 and Q1 2020 are partly linked to the HCP's recasting of the CPI in May 2020. Thus, the CPI base 100=2006 is now replaced by the CPI base 100=2017 (see Box 6.1: "New consumer price index (base 100=2017)" in the June 2020 MPR).

Source: HCP data, and BAM forecasts.

## 6.3 Inflation expectations

The results of Bank Al-Maghrib's business survey in the industrial sector, relating to October 2022, indicate that 54 percent of the industrialists surveyed anticipate an increase in inflation during the next three months, 43 percent of them expect stagnation while 3 percent foresee a decrease. The balance of opinion thus stands at 51 percent.

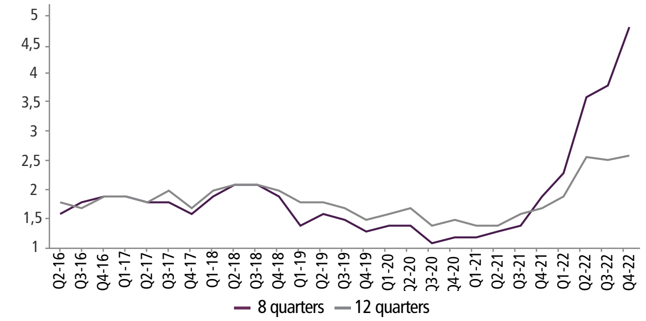
**Chart 6.9 : Business leaders' expectations for inflation over the next three months**




Source: BAM monthly business survey.

In addition, the results of Bank Al-Maghrib's inflationary expectations survey for the fourth quarter of 2022 show that financial experts expect inflation to accelerate to an average of 4.8 percent over the next eight quarters, compared to the 3.8 percent forecast one quarter earlier. In the longer term, they anticipate inflation at 2.6 percent over the next 12 quarters, compared to 2.5 percent in the previous quarter[1].

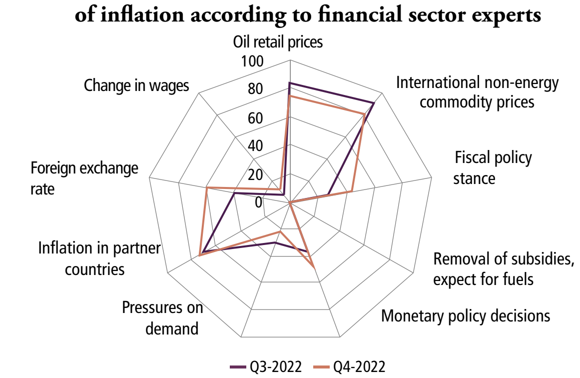
**Chart 6.10 : Inflation expectations by financial sector experts over the next eight quarters**




Source: BAM's Quarterly Inflation Expectations Survey of Financial Sector experts.

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

**Chart 6.11 : Determinants of the future evolution of inflation according to financial sector experts**

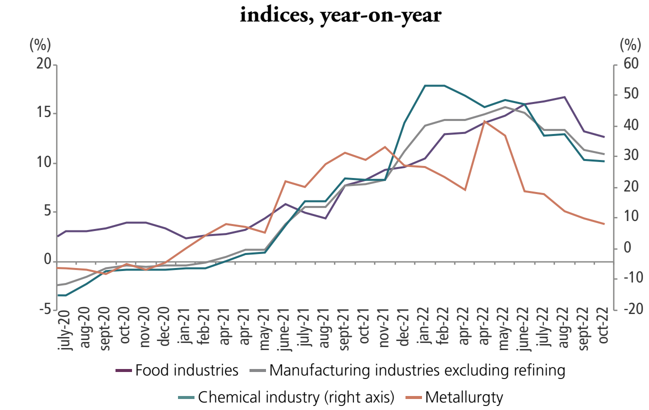



Source: BAM Quarterly Inflation Expectations Survey.

## 6.4. Producer prices[2]

With regard to the producer prices of the non-refining manufacturing industries, their growth rate continues to slow down, from 12.7 percent on average in the third quarter to 11 percent in October. This change is mainly due to the deceleration from 15.4 percent to 12.6 percent of producer prices for the "food industry", from 34.3 percent to 28.6 percent for the "chemical industry" and from 13.4 percent to 7.9 percent for the "metal industry"

**Chart 6.12 : Change in the main industrial producer price indices, year-on-year**




Source : HCP.

[1] Data for the last edition of the survey have been updated.

[2] The HCP started on February 26, 2021 the publication of a new producer price index with 2018 as base year instead of 2010 for the old index.

# 7. MEDIUM-TERM OUTLOOK

## Summary

The international economic outlook has been clouded by the consequences of rapidly tightening monetary policies and the implications of the stalemate in Ukraine. In the US, growth is expected to slow from 1.9 percent in 2022 to 0.6 percent in 2023, before accelerating to 2 percent in 2024. In the euro area, the pace of economic activity, which is significantly impacted by the energy crisis, is expected to decelerate from 3.3 percent in 2022 to 0.7 percent in 2023 and then to 1.5 percent in 2024. In the emerging economies, China's continued zero-Covid policy continues to weigh on growth, which is projected at 3.1 percent in 2022 down from 8.5 percent a year earlier and to accelerate to an average of 5.3 percent over the forecast horizon. As to Russia, it would continue to undergo the consequences of war and sanctions, with GDP contracting by around 2.9 percent in 2022 and 2.6 percent in 2023, before rising by 3.3 percent in 2024.

In the commodity markets, commodity prices, while remaining high, have generally fallen in recent months. The price of Brent crude oil is expected to average $99/bl in 2022 before falling to $82.4 in 2023, as demand declines, and then to $80.2 in 2024. The price of coal is expected to remain high, averaging $287.8/t in 2022 before falling to $191.3 in 2023 and $154.8 in 2024. For food, the FAO food price index stagnated in November for the second month in a row, after continuous declines between April and September of the same year, thanks in particular to the agreement on Ukrainian cereal exports. On average, it is expected to rise by 14.6 percent in 2022 before falling by 9.4 percent in 2023 and 1.4 percent in 2024. However, food prices are projected to remain at high levels on average, in 2023, due to continued pressures on global supply and high input costs, especially energy.

Global inflation is expected to slow down gradually over the forecast horizon, while remaining at high levels. In the United States, inflation is projected to average 8 percent over the year 2022, falling to 3.9 percent in 2023 and 2.4 percent in 2024. In the euro area, the outlook has been revised upwards from the September forecast, with inflation reaching 8.4 percent in 2022, then 6.5 percent in 2023 and returning to the ECB's target from 2024 onwards.

Against this backdrop, the central banks are continuing to tighten their monetary policies, a move deemed necessary to contain inflationary pressures and converge towards their inflation targets despite the negative impact on economic activity. The FED thus decided at its 13-14 December meeting to raise the target range for the federal funds rate by half a percentage point to [4.25 percent-4.5 percent] and expects that continued increases in the target range will be appropriate to achieve a sufficiently tight monetary policy stance to bring inflation down to 2 percent. It also indicated that it will continue to reduce its holdings of Treasury securities and mortgage-backed securities in line with the plan published in May.

Similarly, the ECB decided on 15 December to raise its rates by 50 basis points and plans, on the basis of the significant upward revision of the inflation outlook, to continue to raise them. In particular, it considers that interest rates should be raised substantially at a steady rate in order to reach levels that are sufficiently restrictive to ensure that inflation returns to the 2 percent inflation target as soon as possible in the medium term. It has also decided to start reducing its asset purchase programme (APP) from March 2023, while for its pandemic emergency purchase programme (PEPP), it intends to continue its strategy of reinvesting repayments at least until the end of 2024.

At the national level, the year 2022 should see a strong recovery in tourism activity, an acceleration of foreign trade in goods and the maintenance of a high level of transfers from Moroccan expatriates. The current account deficit would end the year at 3.3 percent of GDP, after 2.3 percent in 2021. In the medium term, trade in goods should decrease slightly in 2023, driven by the fall in imports under the effect mainly of the drop of the energy bill and the decrease in wheat supplies, while travel receipts should almost stagnate, according to BAM's assumptions .In ,2024 they are expected to increase ,covering a virtual stagnation of total exports and an increase in imports .Surrounded by great uncertainties ,BAM's projections assume an improvement in travel receipts and transfers from Moroccan expatriates .The current account deficit should thus be 2.1 percent of GDP in 2023 before decreasing to 1.9 percent of GDP in 2024. Concerning FDI receipts, they should increase to the equivalent of 3.2 percent of GDP over the forecast horizon.

Taking into account, in particular, the hypotheses of grant inflows nearing 2 billion in both 2022 and over the forecast horizon and the realization of the Treasury's planned external financing, official reserve assets will stand at 341.7 billion at the end of 2022 before increasing to 362.9 billion in 2023 and 371 billion in 2024, or the equivalent of 5 months and 18 days of imports of goods and services in 2022 and 6 months of them over the next two years.

Concerning public finances, the budget situation would continue to improve, taking into account the expected increase in tax and non-tax revenues, particularly from specific financing mechanisms. After reaching 5.9 percent of GDP in 2021, the budget deficit would stand at 5.3 percent, down 0.2 percentage points compared to the forecasts of September, taking into account the updates made by the MEF for 2022 and the budget execution at end-October 2022. Over the rest of the horizon, the budget deficit, excluding the proceeds from the sale of state holdings, is expected to be 4.6 percent of GDP, taking into consideration the elements of the 2023 Finance Act, and then 4 percent of GDP in 2024, based on the MEF's multi-annual budget programming and BAM's macroeconomic projections.

As for monetary conditions, they would get less accommodating in real terms in the short term, and the growth of credit to the non-financial sector would evolve at around 5.1 percent in 2022, 3.3 percent in 2023 and 5.5 percent in 2024. For its part, and under the effect of a depreciation in nominal terms and a level of domestic inflation that is lower than that of trading partners and competitors, the real effective exchange rate should depreciate in 2022. On the other hand, it should appreciate slightly in 2023, in line with the depreciation in nominal terms attenuated by the inflation differential.

After rebounding to 7.9 percent in 2021, the growth of the national economy would slow down to 1.1 percent this year, covering, on the one hand, a 15 percent drop in agricultural value added, and on the other hand, a 3.4 percent increase in non-agricultural value added. In the medium term, it would accelerate to 3 percent in 2023 and then to 3.2 percent in 2024, under the hypothesis of a return to average cereal seasons. As for non-agricultural activities, their added value would decelerate, under the influence of an unfavorable external environment, followed by a relative improvement in 2024. On the demand side, the domestic component would continue to drive growth, while the contribution of net exports would remain negative.

The still high level of food and energy commodity prices and rising imported inflation continue to weigh on consumer price developments. Similarly, domestic pressures are intensifying and the inflationary phenomenon has now domestic sources. Thus, after standing at 1.4 percent in 2021, inflation should reach 6.6 percent on average this year, and then decelerate, but more slowly than expected in September, to reach 3.9 percent on average in 2023 before rebounding to 4.2 percent in 2024, taking into account the discontinuation of butane gas and sugar subsidization announced in the MEF's multi-year budget programme. Its underlying component would reach 6.6 percent on average in 2022, before gradually moderating to 4.2 percent in 2023and 2.1 percent in.2024

## 7.1 Underlying assumptions

### Further deterioration of the global economic outlook

The rapid tightening of monetary policy and the implications of the conflict in Ukraine continue to weigh heavily on the outlook for global economic growth. After a strong rebound to 6.1 percent in 2021, growth is expected to slow to 3.1 percent in 2022 and 2.2 percent in 2023, with a 0.4 percentage point revision from the September forecast. Thereafter, growth is projected at 2.9 percent in 2024. In the United States, growth is expected to slow from 1.9 percent in 2022 to 0.6 percent in 2023, partly as a result of weaker domestic demand, before accelerating to 2 percent in 2024. In the euro area, the energy crisis would continue to weigh on economic growth, which is projected to decelerate from 3.3 percent in 2022 to 0.7 percent in 2023, before rebounding to 1.5 percent in 2024.

For the main emerging countries, especially China, the zero-Covid policy is still maintained, restricting household consumption and reducing the chances of a faster rebound after the lockdown. Its economic growth is expected to reach 3.1 percent in 2022 and then accelerate to 5.2 percent in 2023 and 5.4 percent in 2024. The Russian economy, on the other hand, would continue to suffer from the war and sanctions, contracting by 2.9 percent in 2022, 2.6 percent in 2023, before growing by 3.3 percent in 2024.

**Chart 7.1: Growth in the euro area**

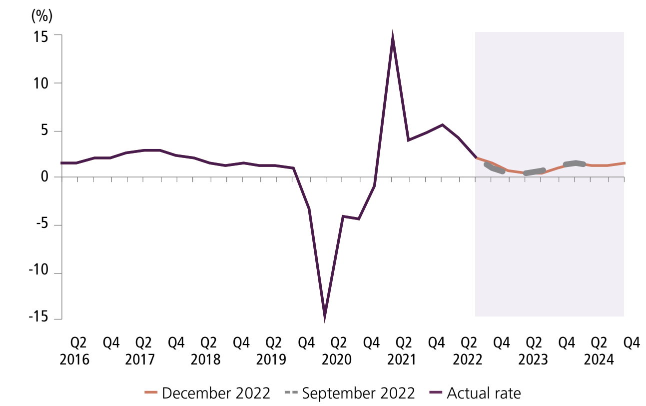
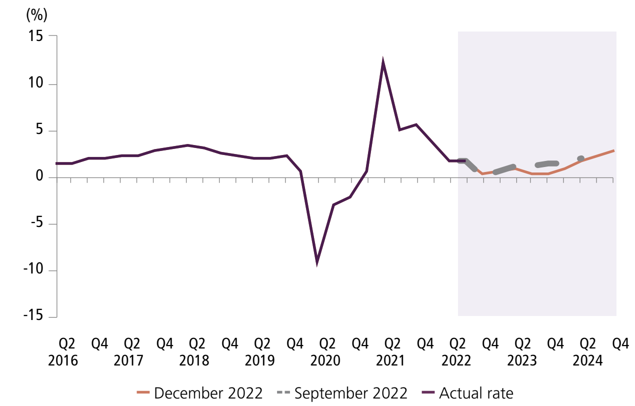



**Chart 7.2: Growth in the USA**




Source : GPMN, forecasts of November 2022..

### High commodity prices

Commodity prices remain at high levels in 2022 compared to the previous year, particularly for Brent crude oil at $99/bl, before falling to $82.4/bl in 2023 as demand declines and then to $80.2/bl in 2024. Coal prices would also remain high this year at $287.8/t, before falling to $191.3 in 2023 and $154.8 in 2024.

Concerning phosphate and derivatives, the World Bank's October forecasts indicate that after peaking in 2022, prices are expected to slow down in 2023 and 2024. However, prices would remain at high levels in the medium term, as supply remains tight due to rising input prices (e.g. sulphur, ammonia) as well as uncertainties related to sanctions against Belarus and Russia. In particular, the price of raw projected to rise from $123/t in 2021 to $270 in 2022, before falling to $200 in 2023 and $175 in 2024. DAP and TSP prices are expected to increase from $601/t to $790 and from $538/t to $735 in 2022, respectively, before declining to $750 and $650 in 2023, then to $650 and $550 in 2024, respectively.

For food, the FAO index almost stabilized in November after recording consecutive declines over the previous seven months, thanks in particular to the Ukrainian cereal export agreement. On average, it is expected to rise by 14.6 percent in 2022 before falling by 9.4 percent in 2023 and 1.4 percent in 2024. However, food prices would remain, on average, at high levels in 2023 due to continued pressure on global supply and rising input costs.

Global inflation is estimated to have peaked in the third quarter of this year and inflationary pressures are projected to ease gradually. In the US, after peaking at 9.1 percent in June, inflation has started a downtrend which is forecast to continue over the rest of this year to average 8 percent. It is expected to fall to 3.9 percent in 2023 and 2.4 percent in 2024 as domestic demand weakens and commodity prices fall. In the euro area, the outlook has been revised upwards from the September forecast, with inflation rising to 8.4 percent in 2022 and 6.5 percent in 2023 before returning to the ECB's target from 2024.

**Chart 7.3: Price of brent**

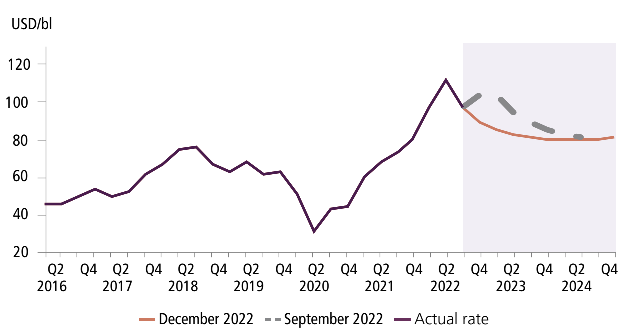



**Chart 7.4: FAO food price index (2014-2016=100)**

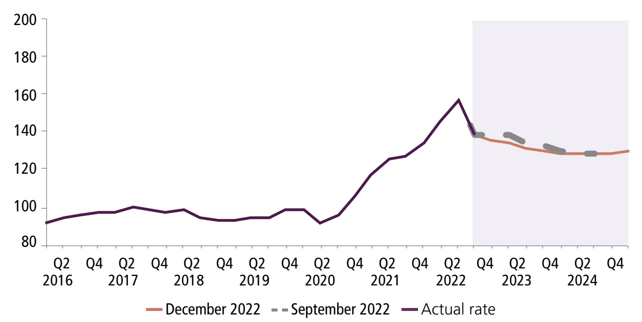



**Chart 7.5: Inflation in the euro area**

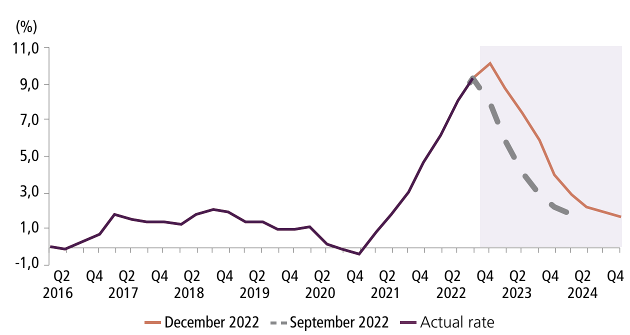
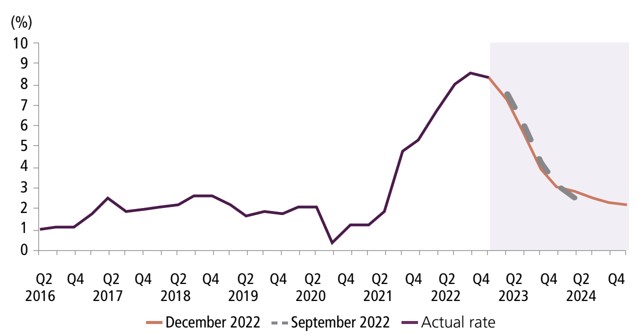



**Chart 7.6: Inflation in the United states**




Source : GPMN, november 2022.

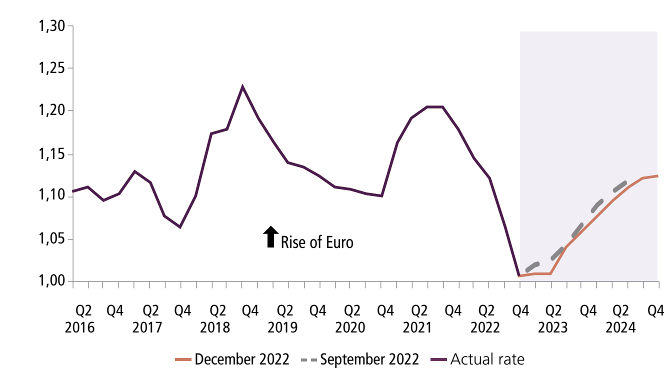
## Continued sustained and largely synchronized tightening of monetary policies

Central banks continue to tighten their monetary policies with sustained increases in key rates and reductions in the volume of their non-conventional programmes. Thus, the FED decided at the end of its meeting on 13 and 14 December to raise the target range for the federal funds rate by half a percentage point to [4.25 percent-4.5 percent] and expects that continued increases in the target range will be appropriate to achieve a monetary policy stance sufficiently tight to bring inflation back to 2 percent. It also indicated that it will continue to reduce its holdings of Treasury securities and mortgage-backed securities in accordance with the plan published in May[1].

For its part, at its meeting on 15 December, the ECB decided to raise its three key rates by 50 basis points. On the basis of the significant upward revision of the inflation outlook, it plans to continue to raise them and it considers, in particular, that interest rates should further be raised substantially at a steady pace in order to reach levels that are sufficiently restrictive to ensure that inflation returns to the 2 percent target as soon as possible. Furthermore, it has decided to reduce its portfolio of the asset purchase programme (APP) from the beginning of March 2023, at a measured and predictable pace, by not reinvesting all repayments for the principal on maturing securities. This reduction will concern 15 billion per month on average until the end of the second quarter of 2023, after which the pace of reduction will be adjusted over time. With regard to the Pandemic Emergency Purchase Programme (EPPP), it intends to reinvest principal repayments on maturing securities acquired under the programme until at least the end of 2024.

In the foreign exchange markets, the dollar appreciated significantly against the euro. For the year as a whole, it should average 0.95 euros, up 12.8 percent, due in particular to faster monetary tightening by the Fed than by the ECB. In 2023, it should average around 0.96 euro, before depreciating to 0.9 euro in 2024.

**Chart 7.7: USD/EUR exchange rate**




Source : GPMN, november 2022.

## Cereal production of 34 million quintals 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. According to the Department of Agriculture, the final cereal harvest was 34 million quintals (MQx), down 67 percent from the previous season. For non-cereal crops, production increased by 14 percent for citrus fruits and 21 percent for olives, but decreased by 21 percent for sugar crops and 13 percent for legumes. The Department of Agriculture also reported a poor performance in the livestock sector with a decrease in the dairy herd, declines in milk and honey production of 11 percent and 10 percent respectively, as well as a stagnation of white meat production. Taking these developments into account, the decline in agricultural value added for 2022 has increased slightly to 15 percent instead of the 14.7 percent retained in the September projections.

For the 2022-2023 season, the growth rate of agricultural activities should increase by 7 percent in 2023, instead of the 11.9 percent forecast in the previous report, under the assumption of an average cereal production of 75 MQx. However, these forecasts are subject to downward risks in view of the current water situation, which is considered worrying, with a delay in rainfall and an extremely low filling rate of dams.

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

## 7.2 Macroeconomic projections

### Acceleration of foreign trade in goods and services in 2022 and reduction of the current account deficit in the medium term

Taking into account end-October foreign trade data and BAM's macroeconomic projections, the external accounts' forecast assumes a narrowing of the current account deficit to 3.3 per cent of GDP in 2022, 2.1 per cent in 2023 and 1.9 per cent in 2024.

In 2022, exports would increase by 32.3 percent in 2022, mainly driven by shipments of phosphates and derivatives, thanks to the increase in international prices, and sales of the automotive sector. Imports are expected to increase by 38.4 percent, mainly due to a rise in the energy bill and an increase in imports of semi-finished products and foodstuffs impacted both by the weakening of national production as well as by the rise in international prices.

In parallel, the forecasts of travel receipts have been clearly revised upwards compared to the September projections, in connection with the confirmation of the strong recovery of tourist activity after an exceptional summer period. They should thus end the year with a rise of 88.8 billion dirhams after 34.3 billion in 2021 and 78.7 billion in 2019. Similarly, the transfers of Moroccan expatriates should reach 105.8 billion, up 12.9 percent compared to 2021. As regards FDI receipts, they would be close to the equivalent of 3 percent of GDP, meaning 41.4 billion dirhams after 31.9 billion in 2021.

Under the assumptions of inflows of grants worth 1.9 billion dirhams and Treasury's external financing for 34 billion, instead of 40 billion in the previous projections, the official reserve assets would stand at 341.7 billion at the end of 2022, or the equivalent of 5 months and 18 days of imports of goods and services.

In the medium term, the growth rate of exports would slow down to 2.7 percent in 2023, reflecting mainly the decline in sales of phosphates and derivatives, in relation to the expected drop in international prices, and those of agricultural and food products, which would suffer from water stress. Shipments of the automobile sector should, on the other hand, post an increase, under the effect of the announced increase in the production capacities of the manufacturer PSA. In 2024, exports should be virtually stagnant, covering a decrease in phosphate sales due to the expected drop in prices, and increases in those of the automobile, agricultural and agri-food sectors. In parallel, imports should decrease by 3 percent in 2023, due in particular to a drop in the energy bill and a fall in wheat supplies. In 2024, they should increase slightly by 1.1 percent, mainly reflecting a decrease in the energy bill and an increase in purchases of consumer goods.

As to travel receipts, they should stagnate at 89.2 billion in 2023 before increasing by 5.5 percent to 94.1 billion in 2024, while the transfers of Moroccan expatriates should, according to BAM forecasts, fall by 4 percent to 101.5 billion in 2023 and then increase by 2.3 percent to 103.8 billion in 2024. Concerning FDI receipts, they should increase to the equivalent of 3.2 percent of GDP over the forecast horizon.

Assuming the reception of 2 billion dirhams in donations annually and Treasury's external financing for up to 39 billion dirhams in 2023 and 38 billion in 2024, the official reserve assets would reach 362.9 billion at the end of 2023 and then 371 billion in 2024, or the equivalent of 6 months 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 (dec./sept.) | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2022 | 2023 |
| Exports of goods (FOB) | 10,7 | 3,3 | -7,5 | 25,2 | 32,3 | 2,7 | 0,3 | -1,8 | 3,8 |
| Imports of goods (CAF) | 9,9 | 2,0 | -13,9 | 25,0 | 38,4 | -3,0 | 1,1 | 3,9 | 1,6 |
| Travel receipts | 1,2 | 7,8 | -53,7 | -5,9 | 158,7 | 0,4 | 5,5 | 26,2 | 1,1 |
| Expatriate remittances | -1,5 | 0,1 | 4,8 | 37,5 | 12,9 | -4,0 | 2,3 | 7,3 | 2,6 |
| **Current account balance (% of GDP)** | -4,9 | -3,4 | -1,2 | -2,3 | -3,3 | -2,1 | -1,9 | 0,0 | -0,2 |
| **Official reserve assets, in months of imports of goods and services** | 5,4 | 6,9 | 7,1 | 5,4 | 5,6 | 5,9 | 6,0 | -0,2 | -0,3 |

Sources: Foreign Exchange Office and BAM forecasts

### Short-term easing of the accommodating monetary conditions and moderate growth rate of credit to the non-financial sector

After a depreciation of 3.2 percent, the real effective exchange rate (REER) is expected to appreciate slightly by 0.3 percent in 2023, as a result of an appreciation of its value in nominal terms attenuated by the inflation differential. This appreciation should increase in 2024 to 1.9 percent, mainly due to a higher level of domestic inflation than that of trading partners and competitors.

Based on the expected change in BAM's foreign exchange reserves and currency in circulation, the bank liquidity deficit should reach 89.1 billion dirhams at the end of 2022, 87.7 billion at the end of 2023 and 100.5 billion at the end of 2024. As for bank credit to the non-financial sector, it increased by 6.3 percent in October year-on-year, reflecting in particular the significant increase in cash facilities. For the outlook, and taking into account the expected evolution of economic activity and the expectations of the banking system, it would evolve at around 5.1 percent in 2022, then return to 3.3 percent in 2023 and rise to 5.5 percent in 2024. Under these conditions, and in line with the expected development of the other counterparts of the money supply, the growth of the M3 aggregate should be 5.9 percent at the end of 2022, 5.4 percent at the end of 2023 and 5.5 percent at the end of 2024.

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

| Change in %, unless otherwise indicated | Actual rates | | | | Forecasts | | | Gap (dec./sept.) | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2022 | 2023 |
| Bank lending to the nonfinancial sector | 3,1 | 5,5 | 4,0 | 3,0 | 5,1 | 3,3 | 5,5 | 1,0 | -0,3 |
| M3 | 4,1 | 3,8 | 8,4 | 5,1 | 5,9 | 5,4 | 5,5 | 0,2 | 0,4 |
| Liquidity surplus or deficit, in billion dirhams | -69,0 | -62,3 | -67,0 | -64,4 | -89,1 | -87,7 | -100,5 | -4,0 | 1,9 |

### Gradual fiscal adjustment planned over the forecast horizon

For the current year, the budget deficit is projected at 5.3 percent of GDP, down 0.2 percentage points from the September projections. This revision incorporates MEF updates for 2022 and budget execution as at end-October 2022.

In 2023, taking into account the programming of the 2023 Finance Act and BAM's new macroeconomic projections, the budget deficit, excluding the proceeds from the sale of State shareholdings, is expected to narrow to 4.6 percent of GDP, compared with 5 percent forecast in the previous report. This forecast mainly takes into account an upward revision of tax revenues, which should increase by 5.4 percent from one year to the next, and an increase in revenues from specific financing mechanisms forecast at 25 billion dirhams. With regard to expenditure, expenses on goods and services should increase by 7 percent from one year to the next, and the subsidization charges should fall by 35 percent to 26.6 billion. For their part, investment expenditure should increase by 4.8 percent, to 5.7 percent of GDP.

In 2024, the projections mainly integrate the elements of the multi-annual budget programming and the macroeconomic forecasts of BAM. The budget deficit, excluding proceeds from the sale of State shareholdings, should lighten to 4 percent of GDP, reflecting an improvement in tax and non-tax revenues, in particular a forecast of revenues from specific financing mechanisms at 30 billion dirhams. As regards expenditure, it is planned to increase from one year to the next, with the exception of the subsidization charges which should decrease significantly under the assumption of the effective start of the subsidization discontinuation process.

## Deceleration in the growth rate of non-agricultural activities in 2023 after a recovery in 2022

After a rebound to 7.9 percent in 2021, the growth of the national economy should decelerate to 1.1 percent in 2022 instead of the 0.8 percent forecast in September. This revision mainly takes into account the more positive than expected achievements in the second quarter. On the supply side, non-agricultural value added is expected to grow by 3.4 percent, driven in particular by the dynamism of the tourism and transport sectors as well as the non-market sectors. With regard to agricultural activities, their value added would fall by 15 percent, taking into account a cereal harvest of 34 MQx for the 2021-2022 crop year. On the demand side, the positive contribution of its domestic component is expected to diminish, mainly reflecting the projected deterioration of agricultural incomes, as well as a decline in investment, as evidenced by its underperformance in the first half of the current year. The contribution of net exports is expected to remain negative, with the anticipated increase in imported volumes of goods and services more than offsetting the effect of export growth.

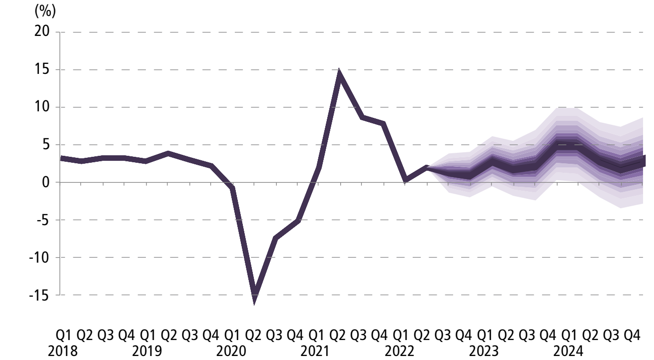
In the medium term, growth would accelerate to 3 percent in 2023, reflecting a rebound in agricultural value added under the assumption of a cereal harvest of 75MQx, then consolidate at 3.2 percent in 2024. Taking into account the level of water stress and unfavorable conditions at the start of the agricultural campaign, the growth rate of agricultural activities should not exceed 7 percent in 2023, a downward revision of 4.9 percentage points compared to the September projections. In 2024, the agricultural value added should increase by nearly 2 percent assuming an average cereal crop. As to non-agricultural value added, it would slow down to 2.4 percent in 2023, amid deteriorating economic prospects for Morocco's main partners, before returning to 3.5 percent in 2024. On the demand side, its domestic component would continue to drive economic growth, while the participation of net exports would remain negative, although decreasing from one year to the next.

**Table 7.3 : Croissance économique**

| Change In % | Réalisations | | | | Prévisions | | | Gap (dec./sept.) | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2022 | 2023 |
| **National growth** | **3,1** | **2,9** | **-7,2** | **7,9** | **1,1** | **3,0** | **3,2** | **0,3** | **-0,6** |
| Agricultural VA | 5,6 | -5,0 | -8,1 | 17,8 | -15,0 | 7,0 | 1,8 | -0,3 | -4,9 |
| Nonagricultural VA | 2,8 | 4,0 | -6,9 | 6,6 | 3,4 | 2,4 | 3,5 | 0,0 | -0,1 |

Sources: HCP data, and BAM forecasts

**Chart 7.8: Growth outlook over the forecast horizon (Q3 2022 - Q4 2024), (YoY)***




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

## After its strong acceleration in 2022, inflation is expected at high levels in the medium term

The still high level of food and energy commodity prices and the rise in imported inflation continue to weigh on consumer price developments in the short term. Moreover, the now internal inflationary pressures contribute to high inflation. Additionally, the realisation of the reform consisting in the discontinuation of gas and sugar price subsidization would keep inflation at a high level in 2024.

Thus, after recording a rate of 1.4 percent in 2021, inflation would rise to 6.6 percent for the current year, up 0.3 percentage points from the September forecasts. Its underlying component is expected to rise from 1.7 percent in 2021 to 6.6 percent in 2022, up 0.2 percentage points from September projections, reflecting the observed intensification of inflationary pressures from non-tradables. Fuel and lubricant prices are projected to rise sharply this year, driven mainly by international oil prices and exchange rate developments. Similarly, the prices of food products with volatile prices should also accelerate, driven by the strong increases recorded in the third and fourth quarters. In contrast, regulated prices are forecast to fall slightly, mainly reflecting a base effect.

Over the rest of the forecast horizon, inflation is expected at 3.9 percent in 2023 before rebounding again in 2024 to 4.2 percent, driven mainly by the projected increase in regulated tariffs, which would accelerate in 2024, taking into account the planned discontinuation of butane gas and sugar subsidy in the MEF's multi-year budget programme. As for its underlying component, it would gradually slow down to 4.2 percent in 2023 and 2.1 percent in 2024. Concerning the prices of fuels and lubricants, they are expected to slow down in 2023 before falling in 2024, in line with the anticipated moderation in the international price of Brent crude.

**Chart 7.9: Inflation forecast over the forecast horizon (Q4 2022 - Q4 2024)***

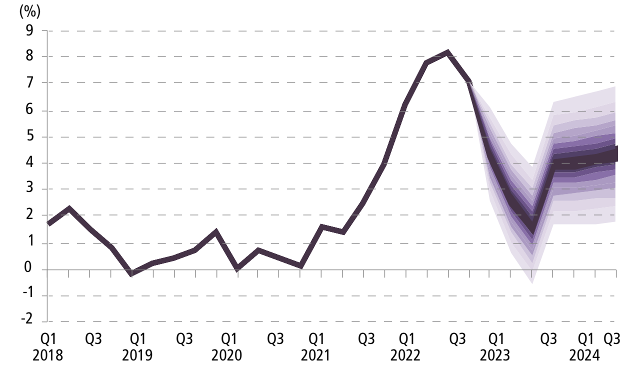



**Table 7.4: Inflation and core inflation**

| | Actual rates | | | | Forecasts | | | | Gap (dec./sept.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Horizon of 8 quarters (Q4 2022 au Q3 2024) | 2022 | 2023 |
| **Inflation** | **1,6** | **0,2** | **0,7** | **1,4** | **6,6** | **3,9** | **4,2** | **4,5** | **0,3** | **1,5** |
| Core inflation | 1,3 | 0,5 | 0,5 | 1,7 | 6,6 | 4,2 | 2,1 | 3,8 | 0,2 | 1,7 |

Sources: HCP data, and BAM forecasts and calculations.

**Chart 7.10: Change in core inflation and output gap**

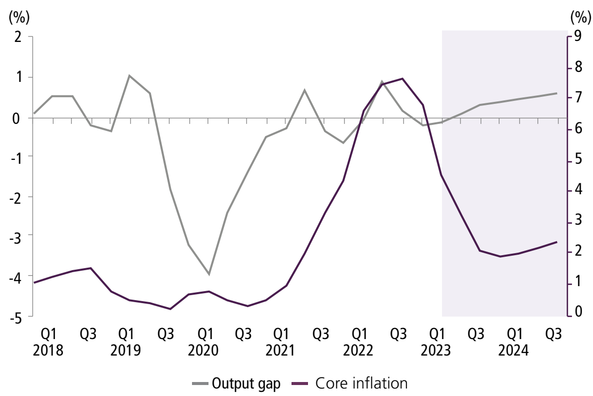
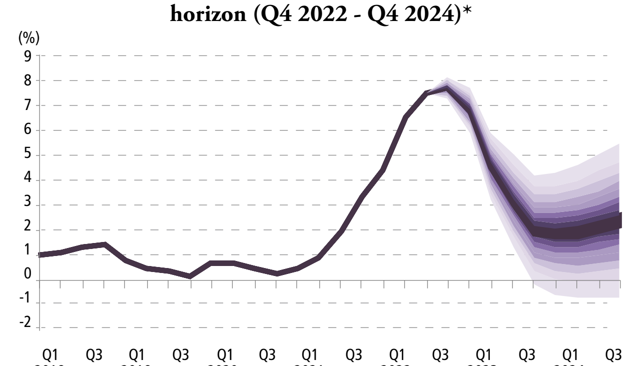



**Chart 7.11: Projections of core inflation over the forecast horizon (Q4 2022 - Q4 2024)***




* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.
Sources: HCP, and BAM forecasts and calculations.

## 7.3 Balance of risks

The present projection exercise takes place amid high uncertainties related to the prolongation of the war in Ukraine and geopolitical tensions that are likely to keep energy and food costs at persistently high levels. An economic recession in particular in the United States and in the major European countries, a further tightening of monetary policies in advanced countries and the tightening of financial conditions would also pose additional risks to the global economy. The materialisation of these risks can significantly affect the central scenario of the macroeconomic projections. Thus, the balance of risks is clearly tilted to the downside for growth and to the upside for inflation.





As regards growth, and despite the relative resilience of non-agricultural activities in the short term, a combination of downside risks surrounds the central path of the growth projections. These relate, on the one hand, to the risk of water stress and climatic disturbances threatening the prospects for both cereal and non-cereal agricultural production. On the other hand, there would be a more significant weakening of foreign demand in connection with the deteriorating economic prospects of Morocco's main partners. In the medium term, the positive effects of efforts aiming to boost investment should contribute to the acceleration of growth, as the royal instructions are implemented, notably those contained in his last speech before the Parliament on the occasion of the opening of the first session of the second legislative year of the 11th legislature.

As for inflation, the risks weighing on its prospects are essentially on the rise. A prolonged maintenance of food and energy commodity prices at high levels, combined with a continuation of the medium-term depreciation of the exchange rate of the dirham against the dollar, the now internal sources of inflationary pressures and an upward trend in inflation expectations, would induce a persistence of the latter at high levels. However, the attenuation of bottlenecks, particularly in connection with the return to the normalisation of suppliers' delivery times and the fall in the costs of maritime transport would alleviate the pressure on prices.

## 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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