PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 21, 2023

1. The Board of Bank Al-Maghrib held its first session of the year 2023 on Tuesday, March 21.
2. During this meeting, the Board first welcomed the notable progress recently made by our country, including its removal from the FATF grey list, the positive assessment by the IMF following its request for an agreement under the Flexible Credit Line, as well as the favorable conditions of the latest Treasury issue on the international market. This progress is particularly appreciable for it has been made in a difficult and uncertain global context, with the stalemate of the conflict in Ukraine, geopolitical fragmentation, the tightening of financing conditions and the rise in banking crisis risks.
3. The Board then analyzed the evolution of the national economic situation and the Bank's macroeconomic projections for the next eight quarters. In particular, it examined the transmission of its latest policy rate hike decisions.
4. The Board noted in this regard that despite a relative easing of external pressures, recent data show that inflation continues to accelerate, driven in particular by domestic supply shocks on certain food products. In this regard, it took note of the measures put in place by the Government to improve the supply of these products and ensure the proper functioning of their markets.
5. After reaching 6.6 percent in 2022, its highest since 1992, inflation is expected to remain at high levels over the medium term. It would stand in 2023 at 5.5 percent on average and its core component at 6.2 percent, an upward revision of 2 percentage points compared to the last December forecast, mainly due to the surge in prices of some food products that it includes. These projections assume that the shocks behind this increase would gradually dissipate in the second half of the year as a result of the various measures taken by the Government in this regard. In 2024, assuming that both internal and external pressures would continue to ease, the core inflation would be at 2.3 percent, but the start of the planned decompensation of prices of subsidized products would keep inflation high overall, at 3.9 percent.
6. In view of all the above data, the Board decided to raise the policy rate by 50 basis points to 3 percent in order to prevent the outbreak of self-sustaining inflationary spirals and to strengthen the anchoring of inflation expectations so as to favor its return to levels in line with the price stability objective. The Board will continue to closely monitor economic developments and inflationary pressures, both at the domestic and international levels.
7. Internationally, with the gradual normalization of market conditions in recent months, commodity prices have returned to levels generally close to those recorded before the start of the conflict in Ukraine. After ending 2022 at an average of USD 99.8 per barrel, the price of Brent crude oil in particular is expected to fall to USD 83.3 for the year as a whole and to hover around USD 80 in 2024. Similarly, and as a result of the significant decline in the second half of 2022, food prices are expected to fall by an average of 10.4 percent in 2023 and 0.6 percent in 2024. Concerning phosphate and derivatives, prices are expected to fall from USD 266 per ton in 2022 to USD 200 in 2023 and USD 175 in 2024 for raw phosphate, and from USD 772 to USD 750 and USD 650 respectively for DAP.

8. Under these conditions, inflation is expected to continue its easing observed in recent months in the main advanced economies, while remaining above the central banks' objectives. In the United States, it would drop from 8 percent in 2022 to 3.9 percent in 2023 and then to 2.4 percent in 2024, and in the euro zone, it would fall to 5.3 percent in 2023 and then to 2.4 percent in 2024, after having peaked at 8.4 percent in 2022.

9. Continuing their efforts to contain these pressures and bring inflation back to their targets, central banks are maintaining the restrictive stance of their monetary policies. Thus, at the end of its January 31 and February 1 meeting, the Fed decided to raise the target range for the federal funds rate by a quarter percentage point to [4.50% - 4.75%] and indicated that it would be appropriate to continue these increases to bring inflation back to 2 percent. Similarly, the ECB raised its key interest rates by 50 basis points on March 16 and emphasized that it is closely monitoring the current market tensions and stands ready to take the necessary measures to preserve price stability and financial stability in the euro area.

10. Tighter monetary conditions would continue to weigh on the economic activity outlook, which have been revised slightly upwards in recent months as energy supply difficulties in Europe ease and China abandons its zero-Covid policy. Thus, in the United States, growth is expected to fall from 2.1 percent in 2022 to 1.2 percent in 2023 and 2024, and in the euro zone it would decline from 3.5 percent to 1 percent and then to 1.2 percent. Penalised by the consequences of the Ukraine conflict and the Brexit, the British economy is likely to be the only one among the major advanced economies to post a contraction of 0.5 percent this year, but it is expected to recover in 2024 with a GDP increase of 1.2 percent. In the main emerging countries, China is expected to grow by 5.3 percent in 2023 and 2024, after 3 percent in 2022, thanks in particular to the lifting of health restrictions. In India, after a 6.8 percent rate, growth is expected to stand at 6.6 percent in 2023 and 6 percent in 2024, boosted by its expansionary fiscal policy.

11. At the national level, after a difficult start, the agricultural season is showing a relative recovery thanks to the latest rainfalls. Nonetheless, the three main cereal crop is limited by the area planted, which would not have exceeded 3.65 million hectares according to the Department of Agriculture. In addition, non-cereal crops would suffer from restrictions on irrigation water and the high cost of inputs. Under these conditions, Bank Al-Maghrib's projections, based on available data as of March 10, 2023 point to a harvest of around 55 million quintals. Thus, after a 15 percent contraction in 2022, agricultural value added would increase by 1.6 percent in 2023, before improving by 6.9 percent in 2024 under the assumption of a return to an average output of 75 million quintals. Non-agricultural activities, mainly affected by the external environment deterioration, would continue to slow down in 2023, with their value added increasing by 2.7 percent instead of 3.4 percent in 2022. Afterwards, they are expected to recover relatively in 2024 with a 3.2 percent increase. Overall, after a sharp deceleration to 1.2 percent in 2022, growth in the national economy is expected to consolidate at 2.6 percent this year and to accelerate to 3.5 percent in 2024.

12. In terms of external accounts, the strong trade dynamics in 2022 resulted in a record widening of the trade balance to 311.6 billion dirhams. Nonetheless, the significant increases in remittances and travel receipts, which reached exceptional levels of 109.2 billion dirhams and 91.3 billion dirhams respectively, contributed to limit the current account deficit to 3.9 percent of GDP. The latter is projected to ease to 2.8 percent in 2023 then to 2.6 percent in 2024, thanks in particular to the expected decline in energy prices and the ongoing performance of some World crafts of Morocco. Thus, after a rebound of nearly 40 percent, imports are expected to decrease by 2.3 percent in 2023 before a slight increase of 0.8 percent in 2024, driven mainly by the decline in the energy bill. At the same time, the pace of exports is expected to slow from 29.4 percent to 3 percent in 2023 and to 0.6 percent in 2024, with in particular an annual increase of almost 7 percent in the automotive sector sales and a decline in phosphate and derivatives exports. As for travel receipts, they are expected to decrease slightly by 3 percent this year, in

relation to the expected deceleration of activity in the euro zone, before rising by 7.4 percent in 2024 to 95.1 billion dirhams, while remittances would stabilize somewhat this year, before declining by 5.4 percent in 2024 to 102.9 billion dirhams. With regard to foreign direct investments, revenues are forecast to evolve slightly above 3 percent of GDP. In total and taking notably into account the external financing already carried out and that planned by the Treasury, the official reserve assets would amount to 358.8 billion dirhams at the end of 2023 and 367 billion dirhams at the end of 2024, covering 5 months and 21 days, then 5 months and 25 days of imports of goods and services.

13. As for monetary conditions, the latest available data for the fourth quarter of 2022 indicate an increase in the overall average lending rate by 26 basis points to 4.50 percent. At the same time, deposit rates increased quarter-on-quarter by 17 basis points for 6-month deposits and 18 basis points for 1-year deposits. Additionally, in view of the expected increase in banknote circulation, banks' liquidity needs are forecast to rise from a weekly average of 80.9 billion dirhams in 2022 to 86.7 billion at the end of 2023 and 99.1 billion at the end of 2024. As for bank credit to the non-financial sector, after a leap of 7.8 percent in 2022, it should increase by 4 percent in 2023 and 4.6 percent in 2024. This forecast takes into account the expected evolution of economic activity, a base effect linked to the significant increase in 2022 in the cash flow financing needs of businesses as well as the banking system expectations. For its part, after a depreciation of nearly 4 percent in 2022, the real effective exchange rate should appreciate by 1.6 percent in 2023 and 1.9 percent in 2024, due to an increase in the value of the national currency in nominal terms and a level of domestic inflation higher on average than that of trading partners and competitors.

14. On the public finance side, after standing at 5 percent of GDP in 2022 instead of BAM's forecast of 5.3 percent and the Finance Act's target of 5.9 percent of GDP, the fiscal deficit should continue its downward trend, mainly due to the expected improvement in both tax and non-tax revenues. According to Bank Al-Maghrib's projections, the budget deficit will ease to 4.7 percent of GDP in 2023 and 4.3 percent in 2024.