BANK AL-MAGHRIB

MONETARY POLICY REPORT

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THE BANK BOARD
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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.

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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.

OVERVIEW

Against the backdrop of the stalled conflict in Ukraine, persistently high inflation and continued monetary policy tightening, the most recent international economic data point to a slowdown in activity in both the advanced and emerging economies. However, this deceleration would be slightly less severe than initially expected in December, due in particular to the resilience of labour markets in the main advanced economies and the discontinuation of the zero-covid policy in China.

In the United States, after a year-on-year rate of 1.9 percent, growth fell to 0.9 percent in the fourth quarter. In the euro area, growth increased by 1.8 percent instead of 2.4 percent in the third quarter, reflecting in particular slowdowns from 1.4 percent to 0.9 percent in Germany, from 4.8 percent to 2.7 percent in Spain, from 1 percent to 0.5 percent in France and from 2.7 percent to 1.7 percent in Italy. In the UK, GDP growth decelerated to 0.4 percent from 1.9 percent.

In the major emerging economies, growth reached 2.9 percent in China, down from 3.9 percent in the previous quarter, due in particular to a slowdown in industrial production and retail sales. In Russia, the latest data for the third quarter showed GDP contracting by 3.7 percent after 4.1 percent in the previous quarter, due to the repercussions of war and sanctions.

On the **labour markets**, the unemployment rate rose in the US, to 3.6 percent in February against 3.4 percent a month earlier, with job creations falling to 311 thousand from 504 thousand. In the Euro zone, this rate stagnated month-on-month, reaching 6.7 percent in January.

In **financial markets**, after being down overall at year-end, the stock market indices of the main advanced economies rose in the first two months of 2023, with in particular month-on-month rises in February of 3.6 percent for the Eurostoxx 50, 2.4 percent for the FTSE 100, 3.6 percent for the Nikkei 225 and 0.1 percent for the Dow Jones Industrials. These increases were accompanied by diverging trends in volatility, with an easing on US markets where the VIX stood at 20.1 and an increase in European ones, with the VSTOXX up from 18.8 points to 19.2. In the emerging markets, the MSCI EM fell by 1 percent, with declines of 2.7 percent for China, 4.7 percent for India and 2 percent for Brazil.

After a certain lull in their uptrends, the rise in **sovereign yields** accelerated again, driven by the prospect of a continued rapid monetary tightening with persistent inflationary pressures. Thus, the 10-year bond rate rose between January and February, by 19 basis points (bp) to 3.7 percent for the United States, by 17 bp to 2.4 percent for Germany, by 17 bp to 2.9 percent for France, by 16 bp to 3.4 percent for Spain and by 4 bp to 4.1 percent for Italy. In the emerging economies, this rate stabilised at 2.9 percent for China and increased by 27 bp to 13.3 percent for Brazil.

On the **foreign exchange markets**, after a 6.5 percent depreciation against the dollar in 2022, the euro rose by 1.7 percent in January, while in February it fell by 0.6 percent. Against other currencies, the euro strengthened between January and February by 0.6 percent against the pound sterling and by 1.3 percent against the Japanese yen. The currencies of the main emerging economies showed diverging trends against the dollar, with in particular the Chinese renminbi depreciating by 0.6 percent and the Indian rupee by 1 percent, while the Brazilian real gained 0.4 percent.

As for the **commodity markets**, the price of Brent crude oil in particular remained virtually stagnant at an average of 82.71 dollars per barrel in February, after rising 2.7 percent in January, while it fell by 13.6 percent year-on-year. Non-energy prices remained almost stable in February on a month-on-month basis, due in particular to a 1.2 percent increase in the prices of agricultural products and a 1.7 percent fall in those of metals and ores. As for phosphates and derivatives, their prices fell by 2.9 percent to 612.5/t dollars for DAP and by 3.8 percent to 547.5/t dollars for TSP in February. Conversely, the price of raw phosphate rose by 7.5 percent to 322.5/t dollars. Year-on-year, prices are up 87 percent for raw phosphate, while they have decreased by 18 percent for DAP and 20.4 percent for TSP.

Under these conditions, **inflationary pressures** continue to trend downwards, although there has been some recovery in some euro zone countries. Inflation thus decelerated between January and February, falling from 6.4 percent to 6 percent in the United States and from 8.6 percent to 8.5 percent in the euro zone, including increases from 7 percent to 7.3 percent in France and from 5.9 percent to 6 percent in Spain, as well as a drop in Italy from 10.7 percent to 9.8 percent.

Against this background, central banks continue to tighten their monetary policies, a measure deemed necessary to curb inflationary pressures and converge towards their inflation targets despite the negative impact on economic activity. The **FED** decided at the end of its meeting on 31 January and 1 February to raise the target range for the federal funds rate by a quarter point to [4.50 percent-4.75 percent] in a context of inflation still considered high and a strong labour market. It also expects that continued increases will be appropriate, even though inflation has been falling for more than 6 months. Similarly, the **ECB** raised its key interest rates by 50 basis points on 16 March and emphasized that it is closely monitoring the current market tensions and stands ready to take the necessary measures to preserve price and financial stability in the euro area. It also indicated that it would reduce the APP portfolio by 15 billion euros per month on average until end-June 2023.

At the national level, the latest national accounts data concern the third quarter of 2022 and show a sharp slowdown in growth year-on-year, to 1.6 percent from 8.7 percent in the same quarter a year earlier, due to a 15.1 percent decline in agricultural value added and a deceleration to 3.6 percent in the growth rate of non-agricultural activities. On the demand side, this change covers a positive contribution of 4.7 percentage points from its domestic component and a negative one of 3.1 percentage points from foreign trade in goods and services.

On **the labour market**, the national economy suffered a loss of 24 thousand jobs, in rural areas only, after a creation of 230 thousand a year earlier and a loss of 432 thousand in 2020. By sector, the volume of jobs decreased by 215 thousand in agriculture and by one thousand in Construction and building materials, while it increased by 164 thousand in services and by 28 thousand in industry, including handicrafts. Taking into account a net exit of 89 thousand job seekers, the activity rate decreased from 45.3 percent to 44.3 percent, and the unemployment rate decreased from 12.3 percent to 11.8 percent at the national level and from 16.9 percent to 15.8 percent in urban areas. For young people aged 15 to 24 in particular, the unemployment rate rose by 0.9 percentage points to 32.7 percent overall and stagnated at 46.7 percent in the cities.

With regard to **external accounts**, the year 2022 was marked by the acceleration of the growth rate of foreign trade, with rises of 39.6 percent in imports and 29.4 percent in exports. The trade deficit showed a record rise of 112.5 billion dirhams to 311.6 billion, and the coverage rate fell from 62.3 percent to 57.8 percent. The increase in imports is mainly due to a 102.6 percent rise in the energy bill to 153.5 billion dirhams, a 46.4 percent rise in the imports of semi-finished products and a 44.9 percent rise in food products. As for the increase of exports, it reflects the positive dynamics recorded by all the main sectors. Thanks to persistently high international fertilizer prices, exports of phosphates and derivatives have thus posted a 43.9 percent increase to 115.5 billion, thus recovering its position as the leading export sector for the first time since 2014. Sales of the automotive sector, for their part, increased by 33 percent to 111.3 billion and those of the agricultural and agri-food sector rose by 16.2 percent to 81.2 billion. In parallel, travel receipts reached a record level of 91.3 billion after 34.3 billion a year earlier and 78.7 billion in 2019 and the transfers of Moroccan nationals continued their strong dynamics with an increase of 16.5 percent to 109.2 billion dirhams. Under these conditions, the current account deficit would have increased, according to Bank Al-Maghrib estimates, from 2.3 percent of GDP in 2021 to 3.9 percent of GDP in 2022. As for the main financial operations, the net flow of FDIs increased by 8.3 percent to 21 billion and that of direct investments of Moroccan expats improved by 36.7 percent to 6.2 billion. At the end of 2022, the outstanding official reserve assets stood at 337.6 billion dirhams, representing the equivalent of 5 months and 13 days of imports of goods and services.

On the **monetary front**, the banks' liquidity needs decreased to 87.8 billion dirhams on a weekly average during the fourth quarter of 2022, against 91.7 billion dirhams a quarter earlier. Against this background, Bank Al-Maghrib reduced the amount of its injections to 102.5 billion dirhams. Monetary conditions were also characterised by a depreciation of the real effective exchange rate and an increase in lending rates by 26 basis points to 4.50 percent. Concerning bank credit to the non-financial sector, it ended the year up 7.8 percent, a trend that continued in January, with an increase of 6.8 percent, driven particularly by the acceleration of the growth of cash facilities.

As regards **public finance**, the budgetary exercise for the year 2022 shows a continued downward trend in the budget deficit, excluding proceeds from the sale of State holdings, to 5 percent of GDP, against 5.9 percent in 2021. Ordinary revenues increased by 20.8 percent, reflecting rebounds of 17.1 percent in tax revenues and 50.5 percent in non-tax revenues, driven mainly by revenues from specific financing mechanisms, which reached 25.1 billion. On the other hand, ordinary expenditure increased by 14.5 percent, in particular due to the 92.8 percent surge in subsidization costs to 42.1 billion dirhams and the 7.2 percent increase in spending on goods and services. For their part, capital expenditure increased by 20.6 percent to 93.8 billion dirhams, thus bringing total spending to 414.6 billion dirhams, up 15.8 percent. The change in the deficit also takes into account the increase by 5 billion of the positive balance of the Treasury's special accounts to 8.6 billion. Under these conditions, the outstanding direct public debt would have fallen from 68.9 percent of GDP to 68.6 percent at the end of 2022. Data for end-February 2023 show a budget deficit of 10.6 billion, instead of 10.4 billion in the same month of 2022, covering an improvement of 10.8 percent in ordinary revenues and an increase of 8.1 percent in ordinary expenditure.

At **the level of the Casablanca Stock Exchange**, the MASI depreciated in the fourth quarter by 7.7 percent and the volume of stock exchange transactions increased from one quarter to the other from 8.3 billion dirhams to 28.5 billion dirhams, of which 16.9 billion dirhams were realized on the block market and 9.2 billion dirhams on the central market. As for market capitalisation, it showed a quarterly decrease of 7 percent to 561.1 billion dirhams. Over the year as a whole, the stock market posted a historic underperformance with a decline of the MASI index by 19.7 percent. This change concerned the majority of sectors, particularly those of buildings and Construction materials, telecommunications and banks. As regards the volume of trade, it fell by 22.8 percent to 57.7 billion dirhams and the market capitalisation decreased by 129.6 billion dirhams.

In **the property market**, prices fell by 0.7 percent in the fourth quarter of 2022, reflecting declines of 0.8 percent for residential property and 0.7 percent for urban land, while prices of business property stagnated from one quarter to the next. At the same time, the number of transactions contracted by 4.8 percent overall, by 6.1 percent for business property, by 5.5 percent for residential property and by 1.3 percent for urban land. For the year 2022 as a whole, the price index for real estate assets fell by 0.7 percent, covering decreases of 1.3 percent for residential property and 1.7 percent for business property as well as a rise of 0.7 percent for urban land. As for the number of transactions, after the rebound of 33.5 percent recorded in 2021, it fell by 15.4 percent, owing to decreases in sales by 18 percent for urban land, 15.4 percent for residential property and 9.8 percent for business property.

Concerning **inflation**, it continued to accelerate, reaching 8.9 percent in January, after an average of 8.3 percent in the fourth quarter of 2022 and 6.6 percent for 2022 as a whole. This rise mainly reflects the accentuation of the change in the prices of volatile food products to 21.7 percent against 16.4 percent one quarter earlier, the rise to 8.4 percent instead of 7.9 percent of the core inflation and the increase of 0.2 percent after 0.1 percent in regulated tariffs. In contrast, the growth rate of fuel and lubricant prices slowed to 29.7 percent from an average 40.3 percent in the fourth quarter.

In terms of outlook, the global economy is expected to continue to slow down as inflation is persistently high, monetary tightening continues and the conflict in Ukraine goes on. The economy is expected to weaken at a slower pace than previously expected in December, in part due to resilient labour markets in the advanced economies and the reopening of China. Global growth is expected to decelerate to 2.5 percent in 2023, from 3.2 percent a year earlier, before rising slightly to 2.6 percent in 2024. In the United States, GDP growth would be limited to 1.2 percent in 2023, down from 2.1 percent a year earlier, and to maintain this pace in 2024. In the euro zone, growth is also projected to slow, albeit at a moderate pace, helped by the resolution of energy supply problems, falling from 3.5 percent in 2022 to 1 percent in 2023 and standing at 1.2 percent in 2024. The United Kingdom would be the only major advanced country in recession in 2023, with a 0.5 percent decline in its GDP as a result of lower consumer spending and tighter monetary conditions, before growing at 1.2 percent in 2024. The Japanese economy will benefit from interest rates below zero and from the dynamic tourism sector thanks to the reopening of China. It should grow by 1 percent in 2023 before slowing to 0.8 percent in 2024.

In the main emerging countries, economic growth is expected to accelerate in China to 5.3 percent in 2023, after 3 percent in 2022, reflecting some improvement in business and consumer confidence after the zero-covid policy. India's GDP is projected to grow by 6.6 percent in 2023 and 6 percent in 2024, helped by its expansionary fiscal policy. Brazil's growth would slow to 1 percent in the medium term, reflecting weaker external demand, less favourable trade terms and tighter monetary conditions. With the war in Ukraine continuing, the Russian economy is projected to contract again in 2023 by 1.4 percent, before recording positive growth in 2024.

On **the commodity markets**, after an average price of 99.8 dollars per barrel, the price of Brent should range between 80 and 83 dollars per barrel in 2023 and 2024, under the effect of the increase in world demand, driven by the reopening of China and falling supply from the producing countries. Coal and natural gas prices should continue their downtrend, particularly due to sufficient stock levels in Europe and a relatively mild winter. Prices of phosphate and phosphate derivatives are expected to decline over the forecast horizon, after peaking in 2022. Raw phosphate prices would fall from 266/t dollars in 2022 to 200/t dollars in 2023 and to 175/t dollars in 2024. Similarly, DAP prices would fall from 772/t dollars to dollars 750/t dollars in 2023 and then to 650/t dollars in 2024. TSP prices are expected to drop from 716/t dollars to 650/t dollars in 2023 and 550/t dollars in 2024. As for food, the FAO index is projected to fall by 10.4 percent in 2023 and 0.6 percent in 2024, in line with better global supply and falling input prices.

Under these conditions, **inflationary pressures** would gradually ease over the medium term, but inflation levels would remain high. In the United States, inflation would fall from 8 percent in 2022 to 3.9 percent in 2023 and then to 2.4 percent in 2024, as commodity prices fall and domestic demand weakens in response to tighter monetary conditions. In the euro area, while remaining at high levels, it would fall on average to 5.3 percent in 2023 and then to 2.4 percent in 2024, amid more aggressive interest rate hikes and faster-than-expected declines in the prices of some energy products.

At **the national level**, the growth rate of exports should decelerate to 3 percent in 2023 and then to 0.6 percent in 2024, reflecting mainly the respective decreases of 1.8 percent and 8.3 percent in exports of phosphates and derivatives, in connection with the expected decline in their international prices. In parallel, imports would decrease by 2.3 percent in 2023, under the effect mainly of a 15.9 percent drop in the energy bill to 129.1 billion. In 2024, they should slightly increase by 0.8 percent, in relation to the increase in the purchases of finished consumer products and capital goods. As for travel receipts, they should fall by 3 percent to 88.6 billion in 2023, in connection with the slowdown in the activity of the issuing countries, in particular the Euro zone, before increasing by 7.4 percent to 95.1 billion in 2024. The change in the transfers of Moroccan expatriates remains surrounded by strong uncertainties, which are supposed to remain virtually stable at around 108.9 billion dirhams in 2023 and show a decline of 5.4 percent to 102.9 billion in 2024. Under these conditions, the current account deficit should fall to 2.8 percent of GDP in 2023, after 3.9 percent in 2022, then to 2.6 percent of GDP in 2024. Concerning FDIs, they would represent 3.1 percent of GDP in 2023 and then 3.2 percent in 2024.

Taking into account the last issue of the Treasury on the international financial market and assuming the materialization of the remainder of the planned external financing, the official reserve assets would reach 358.8 billion at the end of 2023 then 367 billion in 2024, the equivalent of 5 months and 21 days, then 5 months and 25 days of imports of goods and services.

With regard to **monetary conditions**, on the basis of the expected change in the Bank's foreign exchange reserves and currency in circulation, the bank liquidity deficit should increase to 86.7 billion dirhams at the end of 2023, and to 99.1 billion dirhams at the end of 2024. As for bank credit to the non-financial sector, it would increase by 4 percent in 2023, after 7.8 percent in 2022, and by 4.6 percent in 2024, taking into account the expected change in economic activity and the expectations of the banking system.

Concerning **public finance**, the budget deficit should continue its downward trend, mainly due to the expected improvement in tax and non-tax revenues. The deficit is projected to narrow from 5 percent of GDP in 2022 to 4.7 percent in 2023, assuming a greater increase in ordinary revenues, particularly tax revenues, compared to that of overall expenditure. In 2024, the deficit is projected to narrow to 4.3 percent of GDP, mainly taking into account the new macroeconomic projections, stronger non-tax revenues and a sharp decline in the subsidization costs, as indicated in the multi-annual budgetary programming.

As for the pace of **economic activity**, after the 7.9 percent rebound in 2021, it would have fallen by 1.2 percent in 2022, covering a 15 percent drop in agricultural value added and a 3.4 percent increase in non-agricultural one. In 2023, growth is expected to consolidate at 2.6 percent, reflecting a slowdown in the growth rate of non-agricultural activities to 2.7 percent and an increase of 1.6 percent in agricultural value added. The latter takes into account a cereal production estimated by Bank Al-Maghrib at around 55 million quintals (MQx), based on climate data and a sown area evaluated by the Department of Agriculture at 3.65 million hectares. In 2024, growth would rise to 3.5 percent, driven by a 6.9 percent improvement in agricultural value added, under the assumption of an average cereal production of 75 MQx, and by a 3.2 percent increase in non-agricultural value added.

Against this background, and after the strong acceleration to 6.6 percent in 2022, **inflation** would remain high, despite the relative easing of external pressures. It would thus average 5.5 percent in 2023, and 3.9 percent in 2024, in line with the rise that would be induced by the sharp reduction in the subsidization costs, as shown by the data in the three-year budgetary programming. Its underlying component would rise to 6.2 percent in 2023, due in particular to the surge in prices of some food products included in it, before falling back to 2.3 percent in 2024.

The risks surrounding the outlook remain very high and, if they materialise, could affect the central projection, with the balance of growth tilted to the downside and that of inflation tilted to the upside. The intensification of the war in Ukraine and geopolitical tensions as well as the tightening of global financing costs could keep the cost of commodities at high levels.

At the national level, the risks mainly have to do with weather-related disruptions that may affect both cereal and non-cereal agricultural production, as well as a weakening of foreign demand, linked to a deterioration of activity in the main partner countries. In the medium term, the positive effects of efforts aiming to boost investment should contribute to accelerating growth.

As for inflation, the risks to its outlook are still on the rise. Higher energy costs and persistent domestic inflationary pressures could lead to a stronger-than-expected increase in consumer prices. However, a more rapid easing of external inflationary pressures could lead to a faster deceleration of inflation.

1. INTERNATIONAL DEVELOPMENTS

The global economy continues to be affected by the implications of the war in Ukraine, persistently high inflation and continued monetary policy tightening. Against this background, economic activity continued to slow down in the fourth quarter of 2022 in both the major advanced and emerging economies. However, labor market conditions remain favorable. In financial markets, stock prices in the major advanced and emerging economies continued to rise, parallel to an increase in sovereign bond yields with longer maturities, amid tighter monetary policies by major central banks. Commodity markets recorded overall year-on-year price declines in February, mainly in connection with the deteriorating economic outlook. In this context, inflation remains at high levels, although it is still trending downwards overall.

1.1 Economic activity and employment

1.1.1 Economic activity

National accounts data for Q4 2022 show year-on-year growth of 0.9 percent in the US, following a rate of 1.9 percent a quarter earlier. In the euro area, growth decelerated from 2.4 percent to 1.8 percent, reflecting in particular slowdowns from 1.4 percent to 0.9 percent in Germany, from 4.8 percent to 2.7 percent in Spain, from 1 percent to 0.5 percent in France and from 2.5 percent to 1.4 percent in Italy. In the other major advanced economies, growth also continued to decline, from 1.9 percent to 0.4 percent in the United Kingdom and from 1.5 percent to 0.4 percent in Japan.

In the main emerging economies, growth decelerated in China in the fourth quarter, from 3.9 percent to 2.9 percent, due in particular to a slowdown in the growth rate of industrial production and retail sales. Similarly, GDP growth fell from 5.5 percent to 4.6 percent in India, from 3.6 percent to 1.9 percent in Brazil and from 4 percent to 3.5 percent in Turkey. The Russian economy continues to suffer from the war and sanctions, with GDP contracting by 3.7 percent after 4.1 percent.

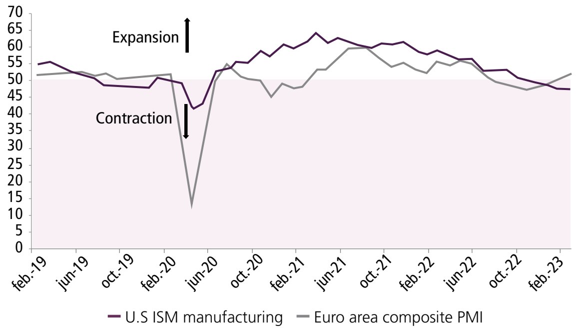
Table 1.1: YoY change in quarterly growth (%)

	2020	2021				2022			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Advanced countries									
United States	-1,5	1,2	12,5	5,0	5,7	3,7	1,8	1,9	0,9
Euro area	-4,1	-0,8	14,2	4,0	4,8	5,5	4,4	2,4	1,8
France	-4,3	1,5	18,7	3,6	5,1	4,8	4,2	1,0	0,5
Germany	-2,1	-2,2	10,2	1,9	1,2	3,5	1,7	1,4	0,9
Italy	-6,0	0,3	16,8	5,2	6,9	6,5	5,1	2,5	1,4
Spain	-9,5	-4,4	17,9	4,2	6,6	6,9	7,8	4,8	2,7
United Kingdom	-9,2	-7,7	24,4	8,5	8,9	10,5	3,9	1,9	0,4
Japan	-0,5	-1,1	7,8	1,7	0,9	0,6	1,4	1,5	0,4
Emerging countries									
China	6,4	18,7	8,3	5,2	4,3	4,8	0,4	3,9	2,9
India	2,8	6,3	20,3	9,3	4,7	3,9	12,1	5,5	4,6
Brazil	-0,4	1,7	12,4	4,4	2,1	2,4	3,7	3,6	1,9
Turkey	6,4	7,5	22,2	7,9	9,6	7,6	7,8	4,0	3,5
Russia	-1,3	-0,3	10,5	4,0	5,0	3,5	-4,1	-3,7	N.D

Source : Thomson Reuters and Eurostat.

In terms of leading economic indicators, the Eurozone's composite PMI index continued to recover in February, rising to 52 points from 50.3 points in January. Similarly, in the United States, the ISM manufacturing index rose slightly to 47.7 points in February, from 47.4 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 Labor Market

In the US, the unemployment rate rose to 3.6 percent in February from 3.4 percent a month earlier, with job creations down to 311 thousand from 504 thousand.

In the euro area, the unemployment rate remained unchanged in January at 6.7 percent compared to the previous month. In the main countries, the rate fell slightly from 7.2 percent to 7.1 percent in France, rose from 7.8 percent to 7.9 percent in Italy, and remained stable at 3 percent in Germany and 13 percent in Spain.

In the United Kingdom, according to the latest figures for December 2022, the unemployment rate remained stable at 3.7 percent compared to the previous month.

Table 1.2: Change in unemployment rate (%)

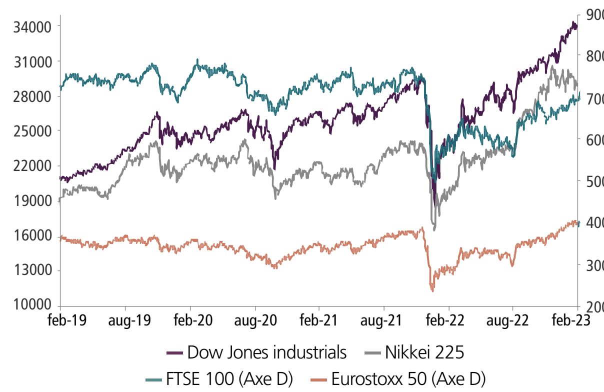
(in %)	2021	2022	2022		2023
			Dec.	Jan.	Feb.
United States	**5,4**	**3,7**	**3,5**	**3,4**	**3,6**
Euro area	**7,7**	**6,7**	**6,7**	**6,7**	N.D
France	7,9	7,3	7,2	7,1	N.D
Germany	3,7	3,1	3,0	3,0	N.D
Italy	9,6	8,1	7,8	7,9	N.D
Spain	14,8	12,9	13,0	13,0	N.D
United Kingdom	**4,5**	**3,7**	**3,7**	**N.D**	**N.D**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

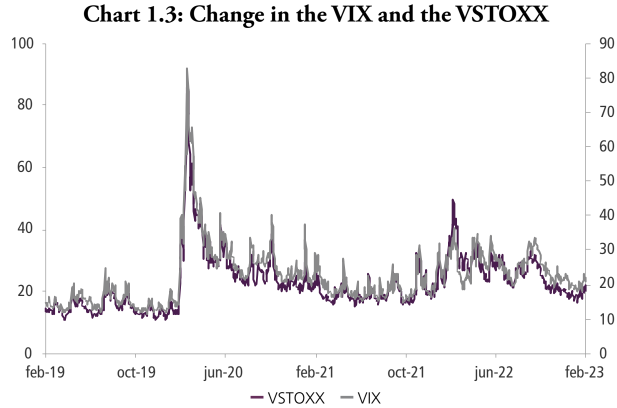
After ending the year generally down, the stock market indices of the major advanced economies rose in the first two months of 2023, with month-on-month increases in February of 3.6 percent for the Eurostoxx 50, 2.4 percent for the FTSE 100, 3.6 percent for the Nikkei 225 and 0.1 percent for the Dow Jones Industrials. These developments were accompanied by a slight decrease in volatility in the US markets, with the VIX standing at 20.1, and an increase in the European markets, with the VSTOXX rising from 18.8 to 19.2. In the emerging markets, the MSCI EM fell by 1 percent with drops of 2.7 percent for China, 4.7 percent for India and 2 percent for Brazil.

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



Source : Thomson Reuters.

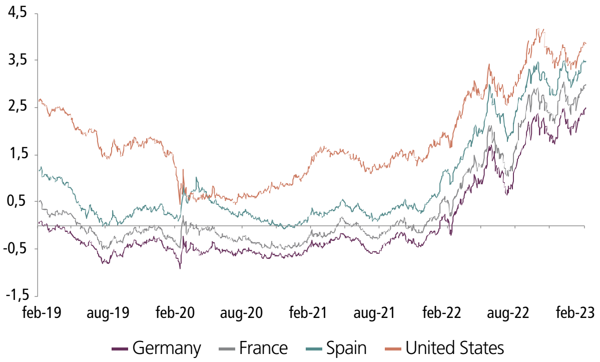
Chart 1.3: Change in the VIX and the VSTOXX



Source : Thomson Reuters.

On the bond markets, after a certain lull in the upward trend, sovereign yields rose again, driven by the prospect of a continued rapid monetary tightening viewing persistent inflationary pressures. Thus, between January and February, the 10-year bond rate rose by 19 basis points (bp) to 3.7 percent for the United States, by 17 bp to 2.4 percent for Germany, by 17 bp to 2.9 percent for France, by 16 bp to 3.4 percent for Spain and by 4 bp to 4.1 percent for Italy. For the emerging economies, the rate almost stabilised at 2.9 percent for China and 7.4 percent for India and increased by 27 bp to 13.3 percent for Brazil.

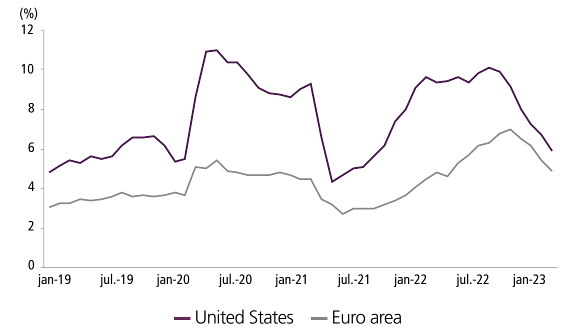
Chart 1.4: Change in 10-year sovereign bond yields



Source : Thomson Reuters.

On the money markets, the 3-month Euribor and the 3-month Libor rose between January and February, by 29 bp to 2.6 percent and by 8 bp to 4.9 percent, respectively. As for bank lending, its pace decelerated month-on-month in January from 6.7 percent to 5.9 percent in the US and from 5.4 percent to 4.9 percent in the euro area.

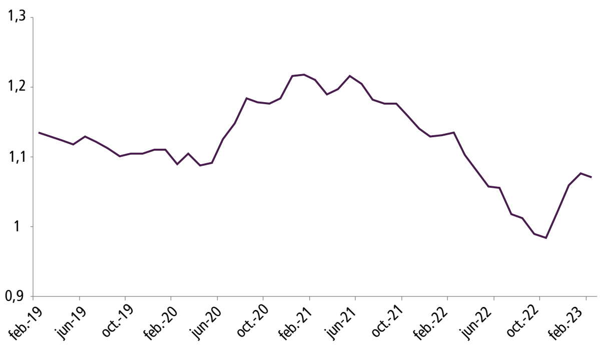
Chart 1.5: YoY credit growth in the US and euro area



Source : Thomson Reuters.

In the exchange markets, after ending the year with a 6.5 percent depreciation against the dollar, the euro has been on the rise since the beginning of the year, and reversed trend one month later, with a 0.6 percent fall in February. Against other currencies, the euro gained 0.6 percent against the pound sterling between January and February and 1.3 percent against the Japanese yen. The currencies of the main emerging economies showed mixed movements against the dollar in February, with in particular falls of 0.6 percent for the Chinese renminbi and 1 percent for the Indian rupee, while the Brazilian real appreciated by 0.4 percent.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

As regards monetary policy decisions, at its meeting of 31 January-1 February, the FED raised the target range for the federal funds rate by a quarter of a percentage point to [4.50 percent - 4.75 percent] and expects that continued increases in the target range would be appropriate. At the same time, it will continue to reduce its holdings of Treasury bonds and mortgage-backed securities according to the plan announced in May 2022[1]. Similarly, the Bank of England decided on 1 February to raise its key rate by 50 bp to 4 percent.

The European Central Bank also raised its three key rates on 16 March by 50 basis points to 3.5 percent for the interest rate on main refinancing operations, 3.75 percent for the interest rate on the marginal lending facility and 3 percent for the interest rate on the deposit facility. In view of the current market tensions, it stressed that it stands ready to react if necessary to preserve price and financial system stability. Moreover, it indicated that it will also reduce its APP portfolio at a measured and predictable pace, with a reduction of €15 billion per month on average until the end of June 2023. With regard to the Pandemic Emergency Purchase Programme (PEPP), it intends to reinvest the principal repayments of maturing securities acquired under this programme at least until the end of 2024. In any case, the future unwinding of the PEPP portfolio will be managed in such a way as to avoid any interference with the appropriate monetary policy stance.

Among the main emerging countries, the Brazilian central bank kept its key rate unchanged at 13.75 percent on 1 February, while the Reserve Bank of India raised its rate by 25 bp to 6.5 percent on 8 February amidst slowing inflation due to falling food prices. Russia's central bank kept its key rate unchanged at 7.5 percent at its meeting on 17 March and indicated that the current capacity to expand production remains largely limited by the labour market.

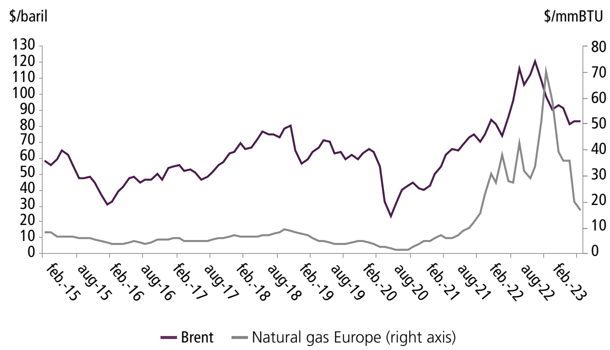
[1] The reduction was capped at 47.5 billion dollars per month in June, July and August, and then at 95 billion dollars per month from September 2022

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

On the oil market, after a 2.7 percent increase in January, the price of Brent crude oil remained virtually unchanged at an average of 82.71 dollars per barrel in February, while it fell by 13.6 percent year-on-year. At the same time, the price of natural gas on the European market contracted by 18.1 percent month-on-month to 16.54 dollars per mBTU[2] in February and by 39.3 percent year-on-year.

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



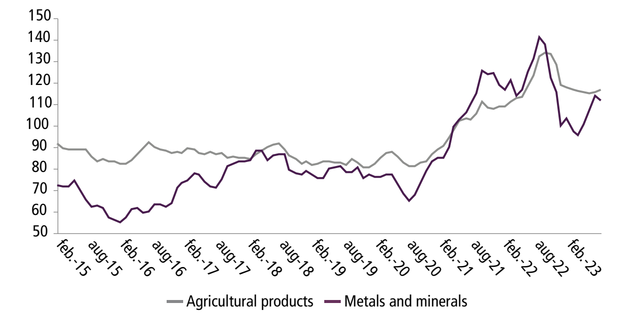
Source : Banque Mondiale.

1.3.2 Commodity prices excluding energy

Non-energy prices remained almost stable in February month-on-month, resulting in particular in a 1.2 percent increase in the prices of agricultural products and a 1.7 percent decrease in those of metals and ores. Year-on-year, prices dropped by 8.9 percent, reflecting declines of 14.6 percent in the prices of metals and ores and 5.5 percent in the prices of agricultural products, with in particular a fall in the price of several categories of oil.

[2] Million British Thermal Unit.

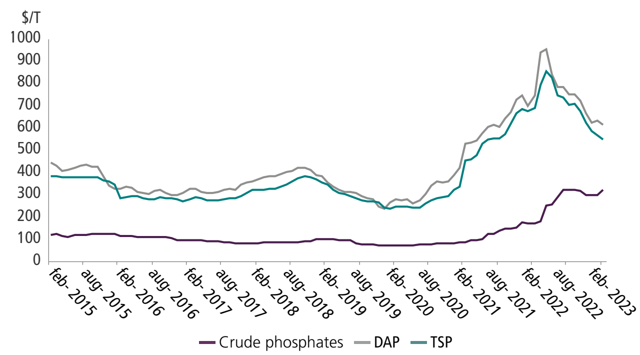
Chart 1.8: Change in non-energy commodity price indices (2010= 100)



Source : Banque Mondiale.

As for phosphates and derivatives, prices fell in February by 2.9 percent to 612.5/t dollars for DAP and by 3.8 percent to 547.5/t dollars for TSP. Conversely, the price of raw phosphate rose by 7.5 percent to 322.5/t dollars. Year-on-year, prices were up 87 percent for raw phosphate, while they decreased by 18 percent for DAP and 20.4 percent for TSP.

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



Source : Banque Mondiale.

1.3.3 Inflation

The latest data for February showed a slight fall in inflation from 8.6 percent to 8.5 percent in the euro area, covering in particular increases in inflation from 7 percent to 7.3 percent in France, from 5.9 percent to 6 percent in Spain and from 9.2 percent to 9.3 percent in Germany, while in Italy it slowed down from 10.7 percent to 9.8 percent. In the same vein, inflation in the US continued to slow down to 6 percent in February from 6.4 percent, reflecting a deceleration in fuel and food prices. In the other major advanced economies, January data showed a deceleration in inflation from 10.5 percent to 10.1 percent in the UK, while in Japan it accelerated from 4 percent to 4.4 percent.

In the main emerging countries, February data showed inflation slowing down from 2.1 percent to 1 percent in China, from 5.8 percent to 5.6 percent in Brazil, from 11.8 percent to 11 percent in Russia and from 6.5 percent to 6.4 percent in India.

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

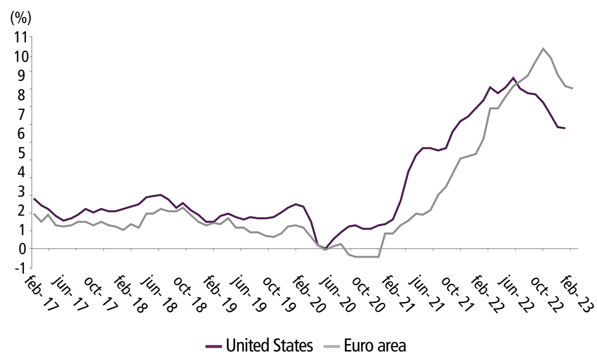


Table 1.3 : Recent year-on-year change in inflation in main advanced countries in %

	2020	2021	2022	2023	
			Dec.	Jan.	Feb.
United States	**1,2**	**4,7**	**6,5**	**6,4**	**6,0**
Euro area	**0,3**	**2,6**	**9,2**	**8,6**	**8,5**
Germany	0,4	3,2	9,6	9,2	9,3
France	0,5	2,1	6,7	7,0	7,3
Spain	-0,3	3,0	5,5	5,9	6,0
Italy	-0,1	1,9	12,3	10,7	9,8
United Kingdom	**0,9**	**2,6**	**10,5**	**10,1**	**N.D**
Japan	**0,0**	**-0,2**	**4,0**	**4,4**	**N.D**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

The year 2022 was marked by a strong momentum in foreign trade in goods, the recovery of travel receipts which reached a higher level compared to pre-crisis figures and by continuously high transfers from Moroccan expatriates. Exports of goods thus increased by 29.4 percent and imports by 39.6 percent. As a result, the trade deficit widened by 56.5 percent compared to 2021 to reach 311.6 billion dirhams, and the coverage rate fell from 62.3 percent to 57.8 percent. In particular, travel receipts reached 91.3 billion dirhams after 34.3 billion dirhams in 2021 and 78.7 billion dirhams in 2019, and remittances from Moroccan expatriates amounted to 109.2 billion dirhams, up 16.5 percent from one year to the next. With regard to the main financial operations, FDI receipts increased by 20.5 percent to 38.4 billion and direct investments of Moroccans abroad rose by 6.8 percent to 19.4 billion. Under these conditions, the official reserve assets of Bank Al-Maghrib stood at 337.6 billion dirhams, representing the equivalent of 5 months and 13 days of imports of goods and services.

In January 2023, foreign trade in goods and services continued to trend upwards, with increases of 3.6 percent in exports and 6.3 percent in imports. At the same time, travel receipts and transfers from Moroccan expatriates posted significant progress and the official reserve assets of Bank Al-Maghrib reached 333.6 billion dirhams at end-January, thus representing the equivalent of 5 months and 11 days of imports of goods and services.

2.1 Trade Balance

2.1.1 Exports

In 2022, the increase in exports concerned all sectors. Benefiting from the rise in international prices, sales of phosphates and derivatives posted an increase of 43.9 percent to 115.5 billion, mainly driven by a 53.9 percent increase in shipments of "natural and chemical fertilisers" and 49.7 percent in sales of raw phosphates.

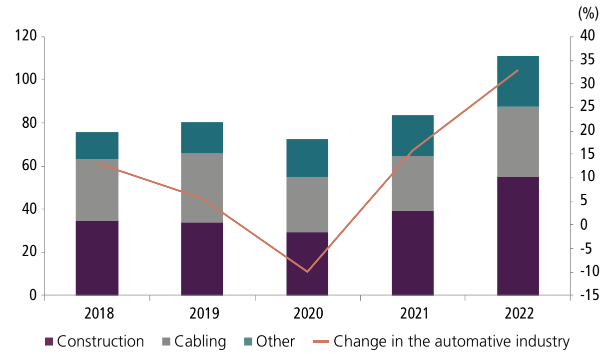
Exports of the automotive sector also maintained their momentum, with an increase of 33 percent to 111.3 billion, reflecting improvements of 40 percent to 55.1 billion for the construction segment and 28.9 percent to 32.6 billion for the wiring segment. Sales in the "agricultural and agri-food" sector also rose by 16.2 percent to 81.2 billion, the result of increases of 19.9 percent to 43.9 billion in the food industry and 11.4 percent to 34.9 billion in agricultural products, despite drought that marked the agricultural campaign.

As for exports of the "textile and leather" sector, they increased by 20.7 percent to 44 billion, mainly due to the 21.9 percent increase in sales of the "ready-made garments" branch, which represented 63 percent of the sector's exports in 2022.

Concerning the sales of aeronautics, they increased by 34.4 percent to 21.3 billion, with rises of 35.8 percent for the assembly segment and 31.7 percent for that of "EWIS[1]". As for the exports of "electronics and electricity", they gained 38.5 percent to 18.6 billion, with an improvement of 62.8 percent for electronic components.

1 Electrical Wiring Interconnection System

Chart 2.1: Change in automotive industry's exports



Source : Foreign Exchange Office.

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

Secteurs/Segments	Year		Change	
	2022	2021	In billion	in %
Exportations	**426,1**	**329,4**	**96,7**	**29,4**
Phosphates and derivatives	**115,5**	**80,3**	**35,2**	**43,9**
Automobile	**111,3**	**83,7**	**27,6**	**33,0**
Construction	55,1	39,4	15,7	40,0
Cabling	32,6	25,3	7,3	28,9
Interiors	7,3	7,0	0,3	3,7
Agriculture and Agri-Food	**81,2**	**69,9**	**11,3**	**16,2**
Food Industry	43,9	36,6	7,3	19,9
Agriculture, forestry, hunt	34,9	31,4	3,6	11,4
Textile and Leather	**44,0**	**36,4**	**7,5**	**20,7**
Ready-made garments	27,6	22,6	5,0	21,9
Hosiery articles	8,5	7,5	0,9	12,5
Shoes	3,5	2,7	0,9	32,0
Aeronautics	**21,3**	**15,8**	**5,4**	**34,4**
Assembly	14,5	10,7	3,8	35,8
EWIS	6,7	5,1	1,6	31,7
Electronics and Electricity	**18,6**	**13,4**	**5,2**	**38,5**
electronic components (transistors)	6,7	4,1	2,6	62,8
Wires, cables and other connectors for electricity	7,2	5,3	1,9	36,0
Devices for the disconnection or connection of electrical circuits.	2,0	1,7	0,3	16,6
Other mining extractions	**5,7**	**5,0**	**0,7**	**13,8**
Copper ore	1,7	1,7	0,0	-0,2
Barium Sulfate	1,2	0,9	0,3	32,5
Other industries	**28,6**	**24,9**	**3,7**	**14,8**
Metallurgy and metalworking	9,0	8,7	0,3	3,5
Plastic and rubber industry	2,4	2,1	0,4	19,2
Industry pharmaceutical	1,4	1,4	0,1	5,6

Source : Foreign Exchange Office.

2.1.2 Imports

The change in imports was essentially marked by higher price for commodities on the international market. Thus, the energy bill more than doubled to 153.5 billion. Purchases of "gas oils and fuel oils" increased from 40.3 billion to 76.3 billion, those of "coal, cokes and similar solid fuels" from 13.6 billion to 24.2 billion and those of "petroleum gas and other hydrocarbons" from 8.9 billion dirhams to 26.3 billion dirhams.

Similarly, the imports of semi-finished products showed an exceptional increase of 46.4 percent to 169.7 billion, reflecting in particular the rise in the supply of ammonia to 21.4 billion against 6.9 billion in 2021, under the effect of the increase in its import price by 206.9 percent. Purchases of food products went up 44.9 percent, mainly due to the rise in wheat supplies to 25.9 billion against 14.3 billion in 2021. In parallel, purchases of raw products amounted to 44.3 billion, up 14.7 billion, including 8 billion representing an increase in purchases of "raw and unrefined sulphur", an important input in the phosphate fertiliser industry.

Imports of capital goods increased by 20.2 percent to 148.9 billion, with notably rises of 57.4 percent in imports of "aircraft parts and other air vehicles" and 31.2 percent in purchases of "piston engines". Concerning the purchases of finished consumer products, they posted an increase of 8.8 percent to 134.4 billion, reflecting in particular rises of 22.4 percent for "parts and spare parts for passenger cars" and 26.7 percent for "fabrics and yarns of synthetic and man-made fibres".

Table 2.2 : Change in imports by user groups
(in millions of dirhams)

Groupements d'utilisation	Year		Change	
	2022	2021	In billion	in %
Importations CAF	737,7	528,6	209,2	39,6
Energy products	**153,5**	**75,8**	**77,7**	**-**
Gas and fuel oils	76,3	36,0	40,3	-
Coals; cokes and solid fuels fuels	24,2	10,6	13,6	-
Petroleum gases and other	26,3	17,4	8,9	50,9
Half products	**169,7**	**115,9**	**53,8**	**46,4**
Ammoniac	21,4	6,9	14,5	-
Chemical products	21,7	16,1	5,5	34,4
Plastics	16,9	12,5	4,4	35,0
Food products	**86,7**	**59,9**	**26,9**	**44,9**
Wheat	25,9	14,3	11,6	81,2
Barley	3,2	0,7	2,5	-
Raw or refined sugar	7,9	5,9	2,0	33,7
Raw products	**44,3**	**29,5**	**14,7**	**49,9**
Crude or refined soybean oil refined	18,8	10,7	8,0	74,8
Raw or refined soybean oil refined	8,1	5,8	2,3	40,6
Scrap metal, waste and other ores	3,6	2,0	1,6	76,1
Capital goods	**148,9**	**123,9**	**25,0**	**20,2**
Parts of aircraft and other air vehicles	15,0	9,5	5,5	57,4
Piston engines	13,2	10,1	3,1	31,2
Wires and cables	11,2	8,0	3,1	39,0
Finished consumer products	**134,4**	**123,5**	**10,9**	**8,8**
products Parts and pieces for passenger cars	24,1	19,7	4,4	22,4
Synthetic and artificial fibre fabrics and synthetic and artificial fibers	11,4	9,0	2,4	26,7

Source : Foreign Exchange Office.

2.2 Other components of the current account

The surplus of the balance of services improved by 82.2 percent to 113.6 billion, as a result of a 58.3 percent hike in exports to 220.2 billion, higher than the 38.9 percent rise in imports to 106.5 billion.

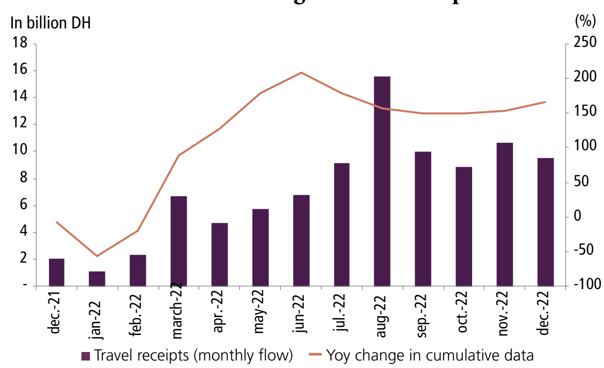
Table 2.3 : Change in the balance of services
(in million dirhams)

	Year		Change	
	2022	2021	In billion	in %
Importations	106,5	76,7	29,8	38,9
Exportations	220,2	139,1	81,1	58,3
Solde	113,6	62,4	51,3	82,2

Source : Foreign Exchange Office.

With regard to travel receipts, as a result of the significant recovery in tourism activity, they ended the year at a higher level than before the crisis, standing at 91.3 billion after 34.3 billion in 2021 and 78.7 billion in 2019. Expenses under the same heading also increased by 52.8 percent to 16.3 billion dirhams after 10.7 billion in 2021 and 20.9 billion in 2019.

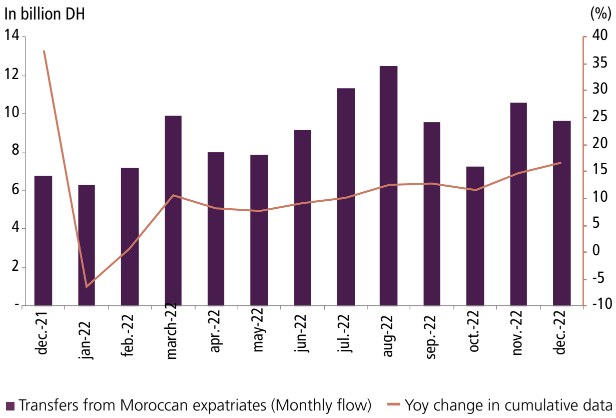
Chart 2.2: Change in travel receipts



Source : Foreign Exchange Office.

Concerning the transfers of Moroccan expatriates, they continued the exceptional upward momentum started since the beginning of the crisis with a new increase to 109.2 billion dirhams after 93.7 billion in 2021 and an average of 65.3 billion in 2017 and 2019.

Chart 2.3: Change in transfers from Moroccan expatriates



Source : Foreign Exchange Office.

2.3 Financial Accounts

Concerning the main financial operations, the net flow of FDIs increased by 8.3 percent to 21 billion, as a result of the 20.5 percent rise in receipts and 39.2 percent increase in disposals. As for the direct investments of Moroccan expatriates, their net flow increased by 36.7 percent to 6.2 billion, reflecting a rise of 1.2 billion in investments and a decline of 429 million in receipts.

At the end of 2022, the outstanding official reserve assets stood at 337.6 billion dirhams, representing the equivalent of 5 months and 13 days of imports of goods and services.

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

	Year		Change	
	2022	2021	In billions	in %
Foreign direct investments	**21,0**	**19,4**	**1,6**	**8,3**
Revenues	38,4	31,9	6,5	20,5
Expenses	17,5	12,6	4,9	39,2
Investments of Moroccans abroad	**6,2**	**4,6**	**1,7**	**36,7**
Expenses	19,4	18,2	1,2	6,8
Revenues	13,2	13,6	-0,4	-3,2

Source : Foreign Exchange Office.

The data relating to January 2023 show a widening of the trade deficit by 2.1 billion, reflecting an increase of 6.3 percent in imports, higher than the 3.6 percent rise of exports. The coverage rate thus fell from 61.5 percent to 60 percent.

The increase in imports was mainly driven by the purchases of energy products and capital goods. The energy bill increased by 30 percent to 10.5 billion, including rises of 61.6 percent for purchases of "coal, cokes and similar solid fuels", 17.8 percent for those of "gas oils and fuel oils" and 32 percent for those of "petroleum gas and other hydrocarbons". Concerning imports of capital goods, they went up 16.8 percent to 12.8 billion, in particular in connection with the 74.6 percent increase in purchases of "piston engines". Conversely, imports of raw products and semi-finished products fell by 18.4 percent and 7.1 percent, respectively.

The improvement of exports concerned all sectors, except for the phosphates and derivatives sector whose sales dropped by 38.6 percent to 5.4 billion. Thus, the sales of the automotive sector gained 44.8 percent to 10 billion dirhams, reflecting increases in shipments of the segments of construction by 48.4 percent and wiring by 51 percent. As regards exports of the "textile and leather" and "agriculture and agri-food" sectors, they gained 14.1 percent and 2.5 percent, respectively.

At the same time, travel receipts posted a significant increase of 7.1 billion to 8.2 billion. Similarly, transfers from Moroccan expatriates preserved their momentum, with a rise of 46.3 percent to 9.2 billion. Concerning the other main headings of the balance of payments, the receipts of foreign direct investments amounted to 3 billion dirhams after 1.8 billion in January 2022 whereas the investments of Moroccans abroad decreased by 25.2 percent to 1.2 billion.

At the end of January 2023, the outstanding official reserve assets reached 333.6 billion dirhams, representing the equivalent of 5 months and 11 days of imports of goods and services.

Table 2.5: Change of main components of balance of payments (In billions of dirhams)

Sectors/Groups of use	January		Changes	
	2023	2022	In billion	in %
Goods exports	**32,6**	**31,5**	**1,1**	**3,6**
Automobile	10,0	6,9	3,1	44,7
Textile and Leather	3,4	3,0	0,4	14,1
Agriculture and agri-food	7,8	7,6	0,2	2,5
Phosphates and derivatives	5,4	8,8	-3,4	-38,6
Imports of goods	**54,4**	**51,2**	**3,2**	**6,3**
Energy products	10,5	8,1	2,4	30,0
Capital goods	12,8	10,9	1,8	16,8
Food products	7,2	6,9	0,3	4,2
Finished consumer products	9,7	9,5	0,2	2,0
Travel receipts	**8,2**	**1,1**	**7,1**	**-**
Transfers from Moroccans living abroad	**9,2**	**6,3**	**2,9**	**46,3**
Foreign direct investments receipts	**3,0**	**1,8**	**1,2**	**65,9**
Investment expenses of Moroccans living abroad	**1,2**	**1,5**	**-0,4**	**-25,2**

Source : Foreign Exchange Office.

3. MONEY, CREDIT AND ASSETS MARKET

During the fourth quarter of 2022, monetary conditions were marked by the depreciation of the real effective exchange rate and an increase in lending rates. Annual growth in bank credit to the non-financial sector accelerated from 5 percent in the third quarter to 6.7 percent in the fourth quarter and to 6.8 percent in January, driven mainly by cash facilities. As regards the other counterparts of the money supply, the growth of official reserve assets fell from 8.2 percent to 4.9 percent and that of net claims on the central government accelerated from 10.3 percent to 14.4 percent. Overall, the growth of the money supply went up from 4.6 percent to 6.6 percent.

In the real estate market, asset prices dropped by 0.7 percent in the fourth quarter of 2022, reflecting declines of 0.8 percent for residential property and 0.7 percent for urban land, while prices for business property stagnated quarter on quarter. In parallel, the number of transactions decreased by 4.8 percent overall, by 6.1 percent for business property, by 5.5 percent for residential property and by 1.3 percent for urban land.

At the level of the Casablanca Stock Exchange, the MASI depreciated in the fourth quarter by 7.7 percent and the volume of stock exchange transactions increased from one quarter to the other from 8.3 billion dirhams to 28.5 billion, including 16.9 billion on the block market and 9.2 billion on the central market. As for market capitalization, it posted a quarterly decrease of 7 percent to 561.1 billion dirhams.

3.1 Monetary Conditions

3.1.1 Bank liquidity and interest rates

During the fourth quarter of 2022, the banks' needs for liquidity decreased to 87.8 billion dirhams on weekly average, against 91.7 billion a quarter earlier.

Against this backdrop, the Bank reduced the amount of its injections from 105.1 billion to 102.5 billion, including 50.5 billion in the form of 7-day advances, 26.8 billion through repurchase agreements, 25.1 billion in the form of guaranteed loans granted within the framework of the support programs for the financing of SMEs and 40 million in the form of foreign exchange swaps.

Against this background, the average residual duration of the Bank's interventions rose from 44.7 days to 45.1 days and the interbank rate remained aligned with the key rate at 2.06 percent on average, a level that incorporates the decision of the Bank's Board to raise the key rate by 50 basis points in December.

For the year 2022 as a whole, banks' liquidity deficit increased to 80.9 billion dirhams on average against 70.8 billion in 2021, mainly due to the rise in currency in circulation.

The latest available data indicate a drop in the banks' liquidity needs to 75.5 billion on average in January and February 2022.

On the Treasury bill market, rates continued to rise in the fourth quarter on both the primary and secondary markets. In January and February, the uptrend in yields continued on both markets, particularly for medium and long maturities.

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

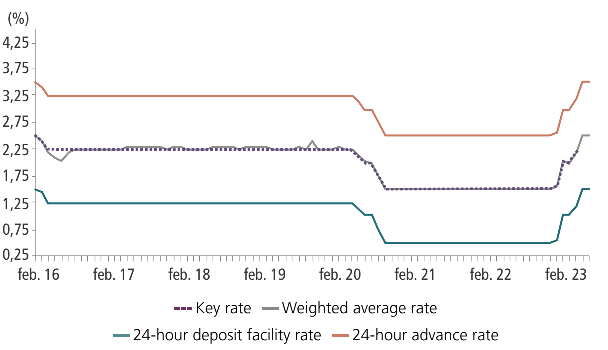
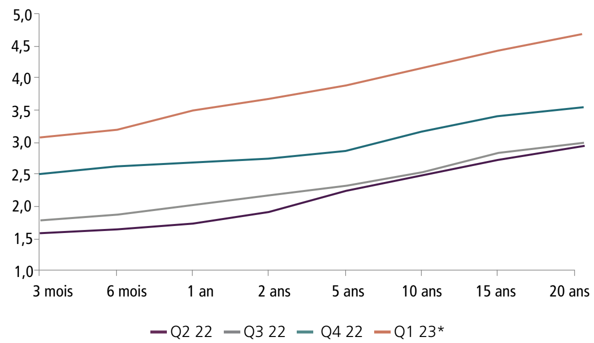


Table 3.1 : Change in Treasury bond yields in the primary market

	2021	2022				2023	
	Q4	Q1	Q2	Q3	Q4	Jan.	Feb.
26 weeks	1,40	1,49	1,66	1,90	3,07	3,30	3,15
2 years	1,72	1,83	1,91	2,33	2,44	3,70	3,84
5 years	2,01	2,08	2,27	2,64	-	3,90	4,07
10 years	2,34	2,43	-	-	3,20	4,20	4,55
15 years	2,64	2,70	-	-	-	-	-

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



*Moyenne observée en january and february

In the same vein, in the private debt market, rates on certificates of deposit issues rose in the fourth quarter. As for deposit rates, they increased by 17 basis points to 2.24 percent on average for 6-month deposits and by 18 basis points to 2.57 percent for one-year deposits. Under these conditions, banks' cost of funds[1] increased slightly compared to the third quarter.

The latest available data for January show monthly increases in deposit rates of 4 basis points to 2.28 percent for 6-month deposits and 20 basis points to 2.87 percent for one-year deposits.

Chart 3.3: Change in cost of bank financing (in percentage points)

With regard to lending rates, the results of Bank Al-Maghrib's survey with banks for the fourth quarter of 2022 indicate a quarterly increase of 26 basis points in the overall average rate to 4.50 percent. By institutional sector, rates on loans to companies rose by 26 basis points to 4.30 percent, reflecting increases of 26 basis points in cash facilities and 24 basis points in equipment loans. Rates on loans to individuals rose by 39 points, with a 13-point increase for housing loans and a quasi-stability for consumer loans.

Table 3.2 : Change in lending rates

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6 months	2,42	2,23	2,34	2,16	2,10	2,05	2,07	2,24
12 months	2,77	2,63	2,57	2,42	2,48	2,47	2,39	2,57

Table 3.3 : Deposit rates

	2021		2022			
	Q3	Q4	Q1	Q2	Q3	Q4
Global	**4,35**	**4,44**	**4,28**	**4,29**	**4,24**	**4,50**
Personal loans	**5,20**	**5,16**	**5,23**	**5,14**	**5,33**	**5,72**
Real estate loans	4,24	4,24	4,21	4,19	4,19	4,32
Consumer loans	6,51	6,47	6,50	6,32	6,39	6,40
Loans to businesses	**4,17**	**4,26**	**4,00**	**4,03**	**4,04**	**4,30**
Cash advances	3,95	4,06	3,83	3,84	3,93	4,19
Equipment loans	4,84	4,58	4,31	4,60	4,14	4,38
Real estate loans	5,71	5,78	5,53	5,83	5,41	5,61

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

3.1.2 Exchange rate

During the fourth quarter of 2022, the euro appreciated by 1.32 percent against the US dollar. Against this backdrop, the dirham depreciated by 3.86 percent against the euro and by 2.67 percent against the US dollar. Compared to the currencies of the main emerging countries, the national currency appreciated by 1 percent against the Turkish lira and by 1.11 percent against the Chinese yuan. In total, the effective exchange rate fell by 2.28 percent in nominal terms and by 2.75 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

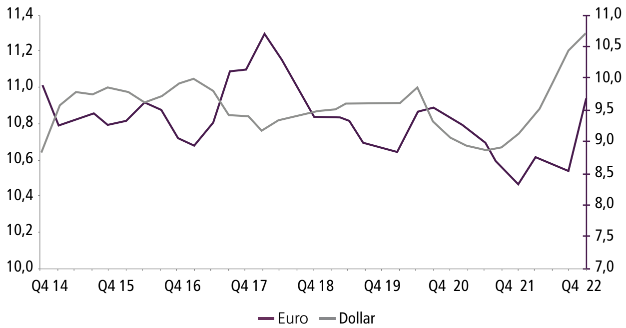
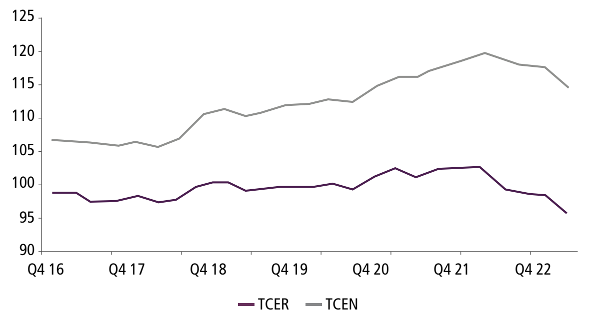


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Sources : BAM and IMF calculations.

As regards foreign currency transactions, the average volume of banks' spot transactions with customers recorded, in the fourth quarter of 2022, an annual increase of 18.5 percent to 42.3 billion dirhams for sales and 29.1 percent to 41.1 billion dirhams for purchases. Similarly, forward transactions increased by 79.9 percent to 30.2 billion dirhams for purchases and 79.5 percent to 11.8 billion for sales. Within the framework of Bank Al-Maghrib's foreign exchange auctions with banks, no auction session has been held since December 2021. Against this backdrop, the foreign exchange deficit position of banks improved to 692.9 million dirhams at end-December.

3.1.3 Monetary situation

The M3 aggregate increased by 6.6 percent in the fourth quarter of 2022, compared with 4.6 percent in the previous quarter. This reflects an acceleration in the growth rate of currency in circulation from 7.1 percent to 9 percent. At the same time, the decline in time deposits eased to 8.3 percent from 11 percent, in line with the 36.3 percent increase in public sector deposits, following a 31 percent decline a quarter earlier. Similarly, growth in foreign currency deposits accelerated from 1.2 percent to 3 percent. The growth of sight deposits with banks rose from 8 percent to 8.7 percent, mainly due to the acceleration in the growth of public sector deposits from 13.8 percent to 16.8 percent. In the same vein, money market fund shares/units increased by 18.1 percent after 8.1 percent one quarter earlier.

For the year as a whole, the growth rate of the M3 aggregate accelerated to 8 percent, after 5.1 percent in December 2021, reflecting in particular a net increase in the growth of currency in circulation from 6.5 percent in 2021 to 10.8 percent and sight deposits with banks to 8.9 percent after 7.6 percent.

By main counterparts, the change in the money supply reflects in particular accelerations from 10.3 percent to 14.4 percent in the growth rate of net claims on the central government, and from 5.1 percent to 6.7 percent for bank credit, whereas the growth of official reserve assets fell from 8.2 percent to 4.9 percent.

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

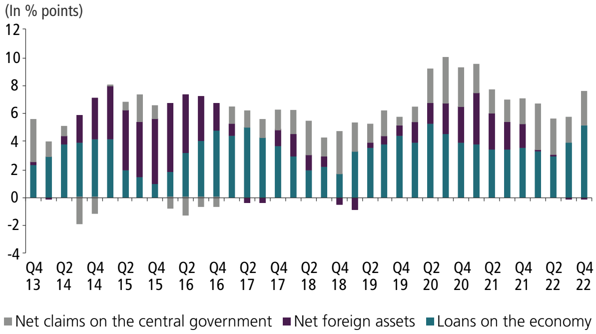
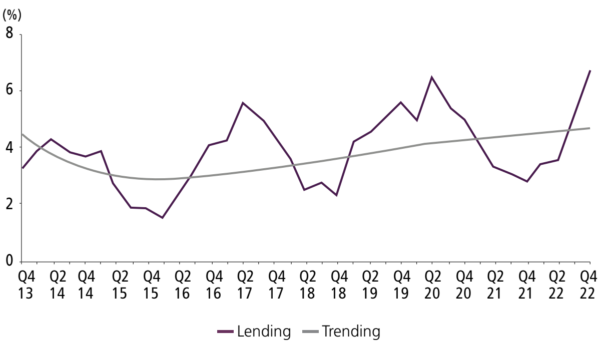


Chart 3.7: Bank credit (Year-on-year change)



In particular, credit to the non-financial sector grew by 6.7 percent instead of 5 percent in the previous quarter, due to accelerations in the growth rates of loans to private companies from 8.7 percent to 9.8 percent, and to households from 3.4 percent to 3.6 percent, as well as a 6.3 percent increase in loans to public companies, compared with a decline of 10.9 percent in the third quarter.

The change in loans to private enterprises reflects in particular a 4 percent increase in equipment loans after 3.2 percent and a consolidation of the growth rate of cash facilities at 14.7 percent.

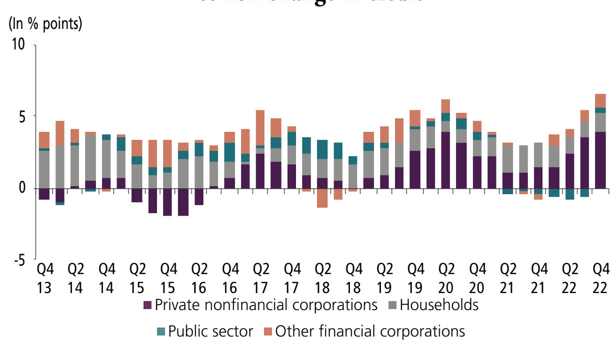
As to loans granted to public companies, cash facilities increased by 166.1 percent after 54.9 percent in the third quarter and the decline in equipment loans eased from 16.9 percent to 5.9 percent.

With regard to loans to individual entrepreneurs, their growth rate rose from 7.5 percent to 7.8 percent, reflecting in particular an increase in cash facilities from 9.2 percent to 11.9 percent.

Loans to individuals increased by 3.3 percent after 3 percent in the previous quarter, as a result of a rise of 3.2 percent after 2.9 percent in housing loans and of 4 percent after 3.5 percent in consumer loans.

By branch of activity, data for the fourth quarter of 2022 indicate annual increases of 39.9 percent in loans granted to companies in the "electricity, gas and water" sector, 10.1 percent for "food industries and tobacco", 7.5 percent for "agriculture and fishing" and 12.5 percent for "extractive industries". Conversely, loans to companies operating in "transport and communications" and "construction and public works" fell by 5.7 percent and 1 percent, respectively.

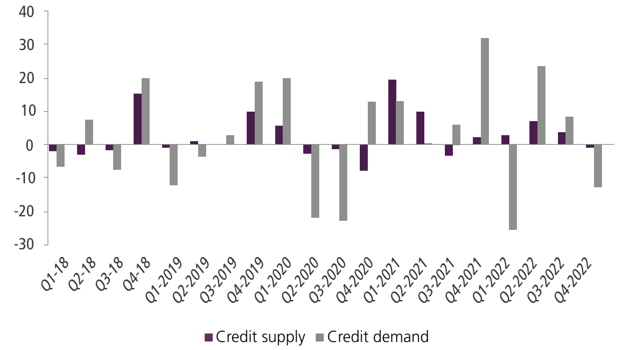
Chart 3.8: Institutional sectors' contribution to YoY change in credit



Source : BAM.

As for non-performing loans, they increased by 5.2 percent and their ratio to outstanding bank credit fell from 8.7 percent in the third quarter to 8.6 percent. They went up by 9.2 percent for private non-financial companies and by 1.2 percent for households with ratios to outstanding loans of 11.7 percent and 9.8 percent, respectively.

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



Source : BAM.

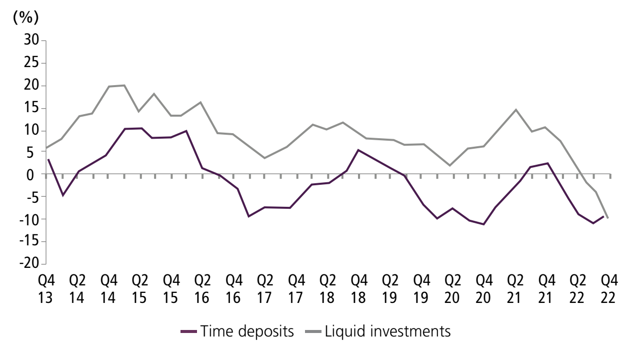
For loans granted to the non-financial sector by financial corporations other than banks, they increased by 6.5 percent in the fourth quarter of 2022. This reflects, in particular, improvements of 6.4 percent in loans granted by finance companies, 17.5 percent in those distributed by off-shore banks and 4.4 percent in loans granted by microcredit associations.

Year-on-year, the growth of bank credit to the non-financial sector accelerated to 7.8 percent after 2.9 percent in 2021, reflecting an increase in the growth rate of loans to private companies from 4.1 percent to 10.5 percent, a rise in loans to public companies by 22.6 percent, after a drop of 14.9 percent, and a deceleration in the growth of loans to households from 4.1 percent to 3.5 percent.

The latest available data relating to January indicate an annual growth of bank credit by 7.1 percent, reflecting accelerations in the growth rate of loans granted to other financial companies to 9.2 percent and those intended for the non-financial sector to 6.8 percent.

Concerning investment aggregates, they recorded a fall of 9.9 percent after that of 3.1 percent one quarter earlier, reflecting the accentuation of the drop of the securities of bond funds from 11.9 percent to 19.7 percent and the fall of 11.3 percent in the securities of equity and diversified mutual funds after an increase of 8 percent. Treasury bills fell by 3.5 percent, after increasing by 0.9 percent one quarter earlier.

Chart 3.10: YoY change in liquid investments and time deposits



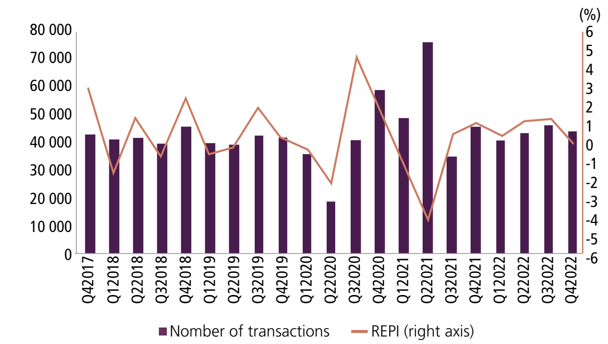
3.2 Asset prices

3.2.1 Real estate assets

In the fourth quarter of 2022, the real-estate asset price index fell by 0.7 percent, reflecting price declines of 0.8 percent for residential property and 0.7 percent for urban land, with business property prices stagnating quarter-on-quarter. At the same time, the number of transactions fell by 4.8 percent, reflecting declines of 6.1 percent for business property, 5.5 percent for residential property and 1.3 percent for urban land.

In the main cities, apart from Casablanca, Agadir and Rabat, where prices posted increases varying from 0.2 percent to 0.7 percent and Marrakech which has known a stagnation of prices, the other cities have shown decreases with rates going from 0.4 percent in Kenitra to 3.4 percent in El Jadida. As regards sales, with the exception of Rabat, Tangier and Meknes which showed respective increases of 10 percent, 2.2 percent and 0.2 percent, decreases were recorded in the other cities ranging from 0.7 percent in Casablanca to 18.1 percent in Kenitra.

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



Sources: BAM and ANCFCC.

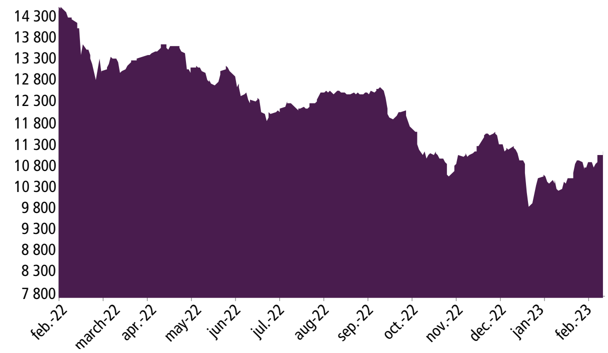
For the year as a whole, after a 3.5 percent decline in 2021, the real-estate asset price index fell by 0.7 percent, covering decreases of 1.3 percent for residential property and 1.7 percent for business property as well as an increase of 0.7 percent for urban land. As for the number of transactions, after the rebound of 33.5 percent recorded in 2021, it fell by 15.4 percent, due to decreases in sales of 18 percent for urban land, 15.4 percent for residential property and 9.8 percent for business property.

3.2.2 Actifs financiers

3.2.2.1 Actions

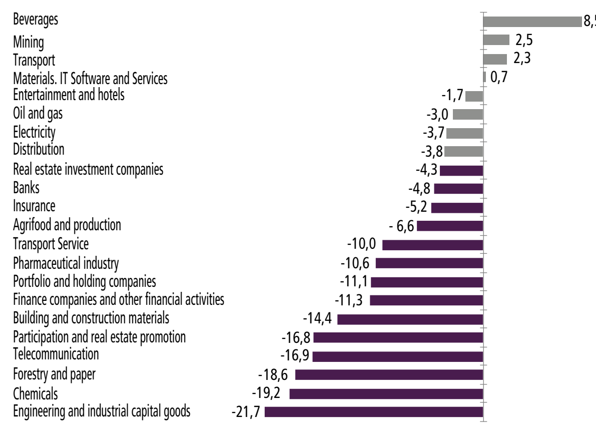
Au cours du quatrième trimestre de 2022, le MASI a reculé de 7,7%, portant sa contreperformance depuis le début de l'Year à 19,7%. Cette évolution trimestrielle reflète principalement les diminutions des indices sectoriels des bâtiments et matériaux de Construction de 14,4%, des banques de 4,8% et des sociétés de placement immobilier de 4,3%. A l'inverse, les indices des secteurs des boissons et des mines ont augmenté respectivement de 8,5% et 2,5%.

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 rose from 8.3 billion dirhams to 28.5 billion quarter-on-quarter. By compartments, the turnover amounted to 16.9 billion after 2.5 billion on the block market and to 9.2 billion against 5.5 billion on the central market. Against this backdrop, the market capitalization recorded a quarterly fall of 7 percent to 561.1 billion dirhams.

It should be noted that the month of December was characterised by the listing of the company Akdital, which operates in the health sector. The operation concerned an amount of 1.2 billion dirhams, through a capital increase and the sale of shares for 800 million and 400 million, respectively.

The latest available data indicate that the MASI rose by 6.2 percent in February, after a decrease of 4.1 percent in January, representing an annual performance of 1.7 percent. The monthly change in the reference index covers in particular rises of the sectoral indices of insurances by 14.3 percent, banks by 13 percent, and real estate investment companies by 3.7 percent. In addition, there were declines of 4.2 percent and 3.9 percent in telecommunications and "engineering and industrial goods", respectively. In terms of trading volume, it amounted to 11.1 billion in February and market capitalization stood at 570.4 billion, up 1.6 percent since the beginning of the year.

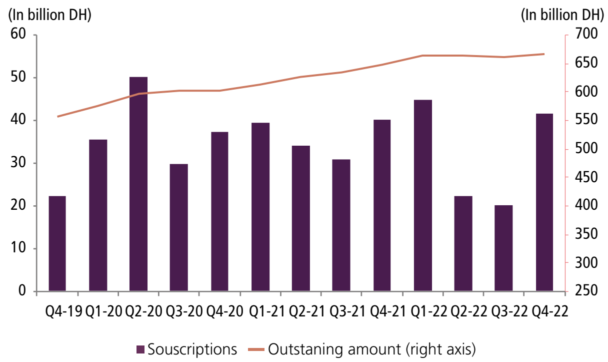
3.2.2.2 Sovereign debt market

The Treasury issues on the domestic market more than doubled in the fourth quarter of 2022, to 41.5 billion dirhams. They concerned short maturities for 77 percent and medium maturities for 23 percent. Taking into account repayments, the outstanding amount of Treasury bills stood at 665.8 billion, up 3 percent since the beginning of the year.

For the year as a whole, the domestic market for Treasury bills showed an increase in yields. At the same time, subscriptions fell by 10.9 percent to 128.7 billion, half of which, compared with 17 percent a year earlier, were for short-term maturities. The share of long-term bonds was limited to 10 percent, instead of 25 percent, and that of medium-term securities fell from 58 percent to 40 percent. It should be noted that, for the first time since 2013, the Treasury issued bills with a maturity of less than 13 weeks and, at the end of the year, introduced securities with revisable rates, in connection with the high uncertainty surrounding the change in rates.

The latest available data show that issues of Treasury bills amounted to 42 billion dirhams in February 2023 against 40.8 billion in January, and more than half of them concerned medium-term maturities. Taking into account repayments, the outstanding amount of Treasury bills reached 716.5 billion, up 7.6 percent since the beginning of the year.

Chart 3.14: Change in Treasury bonds



Source : BAM.

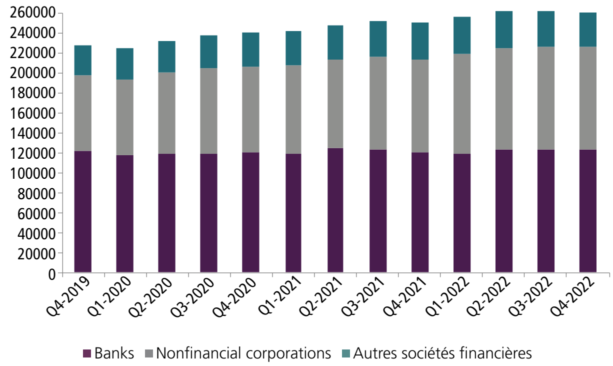
3.2.2.3 Private debt market

In the private debt market, issues increased by 29.6 percent to 15.5 billion dirhams in the fourth quarter of 2022. Banks raised an amount of 12.2 billion after 8.5 billion the previous quarter and non-financial companies 3 billion against 1.7 billion.

For the year as a whole, private securities issues increased by 5.3 percent to 63.7 billion, with banks raising 27.3 percent to 42.3 billion and issues of non-financial companies declining by 2 percent to 14.9 billion.

The latest available data show that private debt issues amounted to 8.9 billion in February against 2.7 billion in January and taking into account the repayments, the outstanding private debt reached 258.5 billion dirhams, down 1.2 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 fourth quarter of 2022, subscriptions to mutual funds decreased by 6.1 percent to 267.1 billion and redemptions by 13.8 percent to 281.6 billion, or a net outflow of 14.5 billion dirhams. As regards performances, they were down for equity, medium- and long-term diversified bond funds with respective rates of 7 percent, 2.3 percent and 0.1 percent, and up for monetary market and short-term bond funds, with rates of 0.3 percent and 0.2 percent respectively.

Over the year 2022 as a whole, the rise in rates resulted in a decline in the net assets of mutual funds, which fell by 15.5 percent to 500.9 billion dirhams. The decline reached 24 percent to 304 billion for bond funds, 19.5 percent to 37.9 billion for equity funds and 8 percent to 58 billion for diversified funds. In contrast, net outstanding assets increased by 10.2 percent to 89.2 billion for money market funds and went up from 1.7 billion to 11.8 billion for contractual funds.

The February data indicate a 2.7 percent increase in net assets of mutual funds since the beginning of the year to 514.3 billion dirhams, in connection with increases of 34.5 percent and 6.9 percent in money market and short-term bond funds, respectively. On the other hand, the net assets of mutual funds decreased by 11.2 percent for contractual funds, by 6.8 percent for diversified funds, by 5.9 percent for medium- and long-term bond funds and by 0.2 percent for equity funds.

4. FISCAL POLICY TREND

At the end of 2022, the situation of the Treasury's expenses and revenues showed a continued downtrend in the budget deficit, excluding proceeds from the sale of government holdings, to 69.5 billion, or 5 percent of GDP, against 75.6 billion or 5.9 percent in 2021. Ordinary revenues improved by 20.8 percent, reflecting a 17.1 percent increase in tax revenues and a 50.5 percent rise in non-tax revenues, driven mainly by revenues from specific financing mechanisms, which reached 25.1 billion. On the other hand, ordinary expenditure increased by 14.5 percent, due in particular to rises of 92.8 percent in the subsidy costs and 7.2 percent in expenditure on goods and services. The change in the deficit also takes into account the increase of 5 billion in the positive balance of the Treasury's special accounts to 8.6 billion.

Budget execution at end-February 2023 resulted in a deficit of 10.6 billion, against 10.4 billion a year earlier. This change is mainly the result of a 10.8 percent improvement in ordinary revenues, covering a 10.8 percent rise in tax revenues and a 2.7 percent drop in non-tax revenues, and an 8.1 percent increase in ordinary expenses. The ordinary balance thus posted a deficit of 7.9 billion, against 8.4 billion, and that of the Treasury's special accounts stood at 13.6 billion, after 12.9 billion.

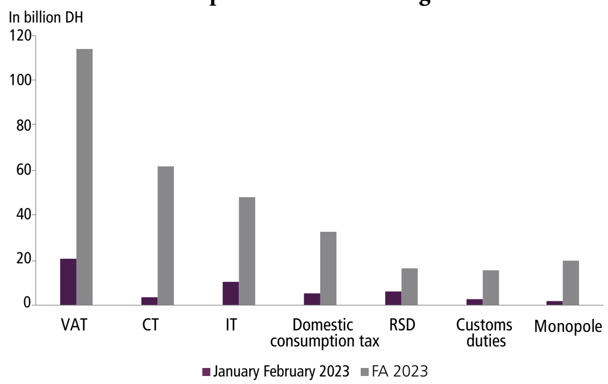
Taking into account the reduction of the stock of pending operations by 7 billion, the cash deficit eased to 17.7 billion in February 2023, instead of 18.9 billion in the same period in 2022. This need was covered by domestic resources for a net amount of 17 billion and by a positive net external flow of 718 million dirhams. Thus, the outstanding direct public debt would have increased by 5.4 percent compared to its level at end-December 2022. As for the Treasury's financing conditions on the auction market, they have tightened compared to the same period in 2022.

4.1 Ordinary revenues

Budget execution at end-February 2023 showed a 10.8 percent improvement in ordinary revenues to 49.1 billion, reflecting a 10.8 percent increase in tax revenues to 46.1 billion and a 2.7 percent decrease in non-tax revenues to 2.2 billion. Tax revenues were driven mainly by receipts from VAT, income tax and registration and stamp duties.

Direct tax revenues rose by 11 percent to 13.5 billion, including increases of 18.1 percent to 2.8 billion in the proceeds of corporate tax and 7.9 percent to 10.3 billion in income tax receipts, with in particular declines of 5.7 percent, to 1.5 billion, in income tax on public salaries paid by the Directorate of Personnel Expenses and 6.9 percent, to 643 million, in income tax on real-estate profits.

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

For their part, indirect taxes drained 24.8 billion, up 9.7 percent, reflecting increases of 11 percent to 20 billion in VAT revenues and 4.5 percent to 4.9 billion in revenues from domestic consumption tax (DCT). The latter includes, in particular, an increase of 12.3 percent, to 2.1 billion, in DCT revenues from tobacco and a decrease of 0.4 percent, to 2.4 billion, in DCT on energy products. The change in VAT revenues results from increases of 10.3 percent, to 11.7 billion, in import VAT revenues and 12.1 percent, to 8.3 billion, in domestic VAT revenues. The latter takes into account, according to data from the General Treasury of the Kingdom, VAT credit refunds amounting to 1 billion instead of 1.6 billion at end-February 2022.

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

	Jan.-Feb. 2022	Jan.-Feb. 2023	Var. in %	FA 2023	Achievements against the FA (In %)
Current revenues	**44,3**	**49,1**	**10,8**	**341,7**	**14,4**
Tax revenues	**41,5**	**46,1**	**10,8**	**289,3**	**15,9**
- Direct taxes	12,2	13,5	11,0	113,2	12,0
Including CT	2,4	2,8	18,1	60,9	4,6
I.T	9,5	10,3	7,9	47,9	21,4
- Indirect taxes	22,7	24,8	9,7	145,1	17,1
VAT*	18,0	20,0	11,0	113,3	17,6
DCT	4,7	4,9	4,5	31,8	15,3
- Customs duties	1,9	2,4	22,2	15,0	15,8
- Registration and stamp duties	4,8	5,3	11,2	15,9	33,3
Nontax revenues	**2,2**	**2,2**	**-2,7**	**49,1**	**4,4**
- Monopoles and sharehol-dings	0,8	1,3	53,6	19,5	6,4
- Other receipts	1,4	0,9	-35,5	29,7	3,0
TSA revenues	**0,6**	**0,9**	**58,4**	**3,3**	**27,0**

*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.

On the other hand, receipts from customs and registration and stamp duties improved by 22.2 percent to 2.4 billion and 11.2 percent to 5.3 billion, respectively.

As regards non-tax revenues, they decreased by 2.7 percent to 2.2 billion, reflecting a collection of 1.3 billion in revenues from public institutions and enterprises, instead of 814 million a year earlier, of which one billion was paid by the ANCFCC and 130 million by Bank Al-Maghrib.

4.2 Expenditure

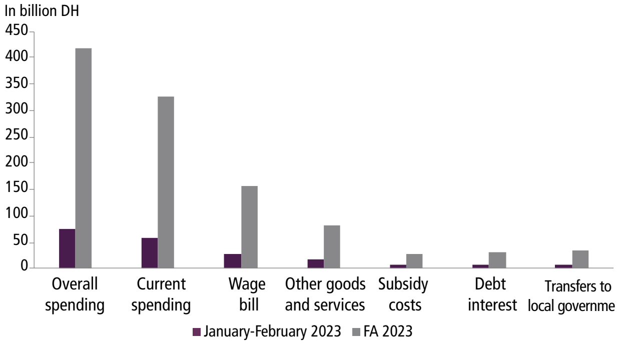
Overall expenditure increased by 8.5 percent to 73.3 billion dirhams, resulting from increases of 8.1 percent, to 57 billion dirhams, in ordinary expenditure and 9.6 percent, to 16.4 billion dirhams, in investment. Expenditure on goods and services increased by 7.3 percent, to 40.6 billion dirhams, reflecting rises of 6.4 percent to 25.6 billion in personnel expenditure and 8.9 percent to 15 billion in expenditure on other goods and services. The latter reflects, in particular, rises of 4.3 percent, to 7.2 billion, in transfers to public institutions and enterprises and 198.7 percent, to 1.3 billion, in payments to Treasury's special accounts. The change in the wage bill, concerning the part served by the Directorate of Personnel Expenses (General Treasury of the Kingdom), reflects increases of 0.8 percent in its structural component and 5.4 percent to 840 million in backpays.

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

	Jan.-Feb. 2022	Jan.-Feb. 2023	Change in %	FA 2023	Achievements against the FA (%)
Overall spending	**67,6**	**73,3**	**8,5**	**416,6**	**17,6**
Current spending	**52,7**	**57,0**	**8,1**	**325,5**	**17,5**
Goods and services	37,8	40,6	7,3	234,9	17,3
Personal	24,0	25,6	6,4	155,8	16,4
Other goods and services	13,8	15,0	8,9	79,2	18,9
Debt interests	4,2	4,7	12,6	30,0	15,8
Subsidy	5,3	5,7	7,6	26,6	21,3
Transfer to local governments	5,4	6,0	11,0	34,0	17,6
Investment	**14,9**	**16,4**	**9,6**	**91,1**	**18,0**

*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.

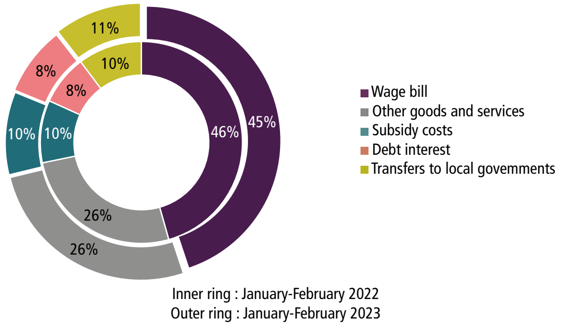
Chart 4.2: spending execution compared to the amending FA



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

Interest charges on the debt went up 12.6 percent to 4.7 billion, as a result of increases of 4 percent to 3.9 billion in interest payments on domestic debt and 80.1 percent to 862 million in interest payments on foreign debt.

Chart 4.3: Structure of current spending

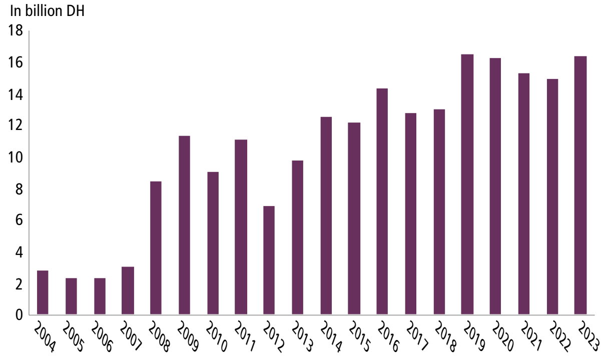


Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

As to subsidy costs, they increased by 7.6 percent to 5.7 billion, with an execution rate of 21.3 percent compared to the Finance Act programming.

Concerning investment expenditure, it increased by 9.6 percent to 16.4 billion at end-February 2023, due to rises of 24.8 percent in the expenditure of ministries and 6.3 percent in that of common costs. Compared to the forecasts of the Finance Act, the execution rate of investments in terms of issues reached 18 percent.

Chart 4.4: Investment spending, at end of November

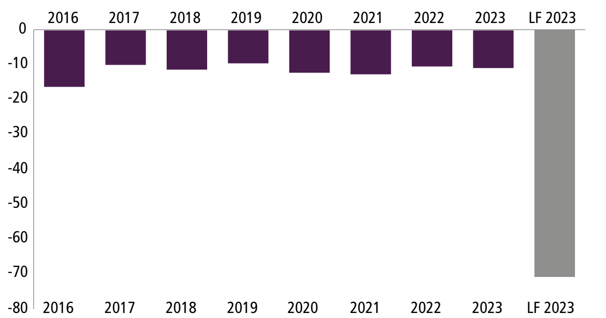


Source : Ministry of Economy and Finance and Administration Reform.

4.3 Deficit and Treasury Financing

Taking into account the change in revenues and expenditure as well as the balance of the Treasury's special accounts, the Treasury's situation resulted in a deficit of 10.6 billion compared to 10.4 billion a year earlier. The Treasury also reduced its stock of pending operations by 7 billion, thus reducing the cash deficit from 18.9 billion to 17.7 billion.

Chart 4.5: Fiscal balance, at end of November



Source : Ministry of Economy and Finance and Administration Reform.

The Treasury's financing requirement was covered by domestic resources in the net amount of 17 billion dirhams and a positive net external flow of 718 million dirhams.

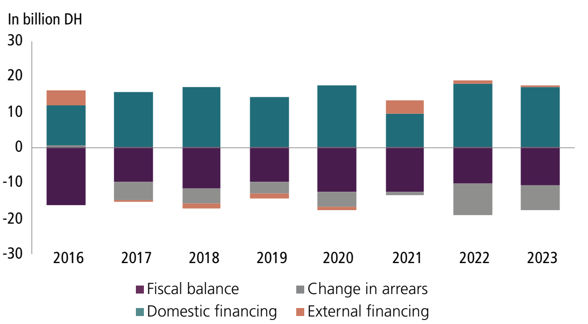
Table 4.3: Deficit financing (in billions of dirhams)

	Jan.- Feb. 2022	Jan.- Feb. 2023	FA 2023
Current balance	**-8,4**	**-7,9**	**16,3**
Balance of TSA	12,9	13,6	4,2
Primary balance	-6,1	-5,9	-40,7
Fiscal balance	**-10,4**	**-10,6**	**-70,7**
Change in arrears	-8,5	-7,0	
Financing requirements	**-18,9**	**-17,7**	**-70,7**
Domestic financing	17,9	17,0	13,1
External financing	0,9	0,7	52,5
Privatization	0,0	0,0	5,0

Sources : Ministry of Economy and Finance and Administration Reform.

As regards domestic financing, the use of the auction market reached a net amount of 50.8 billion, compared with 21.3 billion a year earlier. Net subscriptions on short maturities reached 21.7 billion for 2-year bills, a net amount of 16.2 billion for 13-week bills, 10 billion for 26-week bills and a net amount of 5.9 billion for 52-week bills. For medium and long maturities, net subscriptions concerned 10-year bonds for 6.1 billion, 5-year bonds for 889 million and 20-year bonds for 30 million. Net redemptions were limited to 32-day bills for an amount of 10 billion.

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



* 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, data as at end- February indicate an increase in the weighted average rates compared with the same period in 2022. They went up by 195 basis points (bps) for 2-year and 10-year maturities, to 3.77 percent and 4.38 percent, respectively, and by 190 bps, to 3.98 percent, for 5-year bonds.

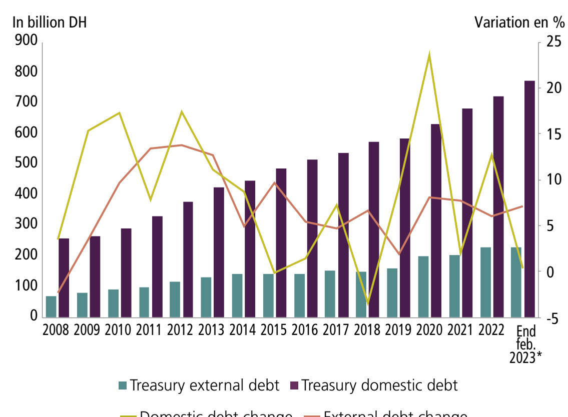
Table 4.4: Treasury's indebtedness (in billions of dirhams)

	2018	2019	2020	2021	2022	End Feb. 2023*
Treasury external debt	**148,0**	**161,6**	**199,7**	**203,7**	**229,5**	**230,2**
Change in %	-3,4	9,2	23,6	2,0	12,6	0,3
Treasury domestic debt	**574,6**	**585,7**	**632,9**	**681,5**	**722,2**	**773,2**
Change in %	6,6	1,9	8,1	7,7	6,0	7,1
Outstanding direct debt	**722,6**	**747,2**	**832,6**	**885,3**	**951,7**	**1003,5**
Change in %	4,4	3,4	11,4	6,3	7,5	5,4

* For the debt at the end of November 2021, it is estimated based on net financing flows generating debt.
Source : Ministry of Economy and Finance and Administration Reform.

Under these conditions, estimates of direct public debt based on financing flows show an increase of 5.4 percent in its outstanding amount, with a 7.1 percent rise in its domestic component and a slight increase of 0.3 percent in its external component.

Chart 4.7: Treasury debt



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

Box 4.1: 2022 Budget execution

The budgetary situation for the year 2022 shows a deficit, excluding proceeds from the sale of State holdings, of 69.5 billion instead of 75.6 billion dirhams a year earlier. As a ratio to the GDP*, this deficit fell from 5.9 percent to 5 percent in 2022. Ordinary revenues rose by 20.8 percent to 336.5 billion, reflecting increases of 17.1 percent in tax revenues and 50.5 percent in non-tax revenues, including 25.1 billion in proceeds from specific financing mechanisms. At the same time, ordinary expenditure increased by 14.5 percent to 320.8 billion, mainly as a result of the 92.8 percent rise in subsidy costs and 7.2 percent increase in expenditure on goods and services. The ordinary balance thus showed a surplus of 15.7 billion, instead of a deficit of 1.4 billion a year earlier. On the other hand, investment expenditure increased by 20.6 percent to 93.8 billion, thus bringing total expenditure to 414.6 billion, up 15.8 percent. As for the balance of the Treasury's special accounts, it increased by 5 billion to 8.6 billion, considering an amount of 6.7 billion corresponding to the proceeds of the social solidarity contribution on profits and income, allocated to the Social Protection and Social Cohesion Support Fund, against 4 billion in 2021.

In terms of tax revenues, direct tax receipts rose by 24.8 percent to 113.3 billion, mainly due to the 40 percent rebound, to 62.4 billion, of the corporate tax revenues. This change mainly reflects increases of 6.3 billion in the supplement of adjustments and10.5 billion in advance payments. Corporate tax revenues improved by 8.1 percent to 48 billion, with a realisation rate of 111.6 percent compared to the Finance Act, covering an increase of 9.7 percent, to 10.6 billion, in the income tax on salaries paid by the Directorate

* Based on BAM's forecast of 2022 GDP..

Table 4.1.1: Fiscal execution in 2021 and 2022, In billions of dirhams

	2021	2022	Deviations		Gap / FA 2022
			in %	in value	
Current revenues	**278,7**	**336,5**	**20,8**	**57,8**	**117,3**
Tax revenues*	242,5	284,0	17,1	41,6	112,8
- Direct taxes	90,8	113,3	24,8	22,5	116,0
Including : Corporate Tax	44,6	62,4	40,0	17,8	121,4
Income Tax	44,4	48,0	8,1	3,6	111,6
- Indirect taxes	124,0	138,7	11,9	14,8	109,1
VAT	93,0	107,1	15,2	14,1	111,2
DCT	31,0	31,6	2,1	0,6	102,6
- Custom duties	11,9	13,9	16,9	2,0	115,5
- Registration and stamp duties	15,8	18,1	14,5	2,3	121,6
Non-tax revenues	32,3	48,7	50,5	16,3	157,3
- Monopoles	10,7	13,1	22,7	2,4	94,0
- Other revenues	21,6	35,5	64,3	13,9	209,4
Including Revenues from specific mechanisms	11,9	25,1	110,6	13,2	208,9
Revenue from some TSA	3,9	3,8	-1,9	-0,1	92,7
Overall expenditure	**357,9**	**414,6**	**15,8**	**56,7**	**112,4**
Ordinary expenditure	**280,1**	**320,8**	**14,5**	**40,7**	**110,2**
Goods and services	203,3	217,9	7,2	14,7	100,4
- Personnel	140,5	147,8	5,2	7,3	100,1
- Other goods and services	62,8	70,2	11,7	7,4	101,1
Public debt	27,1	28,6	5,5	1,5	101,9
Compensation	21,8	42,1	92,8	20,3	247,4
Transfers to TC	27,9	32,1	15,2	4,2	111,2
Ordinary balance	**-1,4**	**15,7**			
Investment	77,8	93,8	20,6	16,0	120,3
TSA balance	3,6	8,6			
Budget balance	**-75,6**	**-69,5**			
In GDP points	-5,9	-5,0			
Primary balance	-48,5	-40,9			
Exchange rate of pending operations	-4,8	-1,6			
Financing balance	**-80,4**	**-71,1**			
Domestic financing	66,8	65,0			
External financing	8,2	6,1			
Proceeds from the sale of State holdings	5,4	0,0			

* Including 30 percent of VAT transferred to local authorities.
Sources: Ministry of Economy and Finance (Department of Treasury and External Finance (DTFE), VAT reprocessed by BAM.

of Personnel Expenses and a 0.7 percent decrease, to 4.4 billion, in the income tax on real-estate profits. Indirect taxes, realized at 109.1 percent, generated revenues of 138.7 billion, up 11.9 percent, driven by increases of 15.2 percent to 107.1 billion in VAT receipts and 2.1 percent to 31.6 billion in DCT receipts. The change in the latter tax is mainly attributable to increases of 3.7 percent to 12.7 billion in DCT on tobacco and 15.5 percent to 2.7 billion in DCT on products other than energy products and tobacco. The improvement in VAT revenues includes a 28.1 percent increase to 78.2 billion in import VAT revenues and a 9.4 percent decrease to 28.9 billion in domestic VAT revenues which, according to the General Treasury of the Kingdom, takes into account VAT credit reimbursements which, according to the General Treasury of the Kingdom, amounted to 16.7 billion instead of 12.6 billion by the end of 2021. As for revenues from customs and registration and stamp duties, they increased by 16.9 percent, to 13.9 billion, and 14.5 percent, to 18.1 billion, respectively.

With regard to non-tax revenues, their change is marked essentially by the collection of 25.1 billion in revenues from specific financing mechanisms, against 11.9 billion in 2021 and 12 billion in the 2022 Finance Act, as well as 13.1 billion from public institutions and enterprises instead of 10.7 billion. The latter come from the OCP for an amount of 6.5 billion, the ANCFCC for 4 billion, Maroc Télécom for 786 million and Bank Al-Maghrib for 738 million.

On the other hand, expenditure on goods and services increased by 7.2 percent to 217.9 billion, reflecting rises of 5.2 percent to 147.8 billion in personnel expenses and 11.7 percent to 70.2 billion in expenses on other goods and services. The latter include, in particular, an increase of 16.7 percent to 35 billion in transfers to public institutions and enterprises and a decrease of 4.7 percent to 6.1 billion in payments to the Treasury's special accounts. The change in the wage bill is attributable to the 2.1 percent increase in its structural component and a 50.7 percent rise to 9.3 billion in the paybacks for wages paid by the Directorate of Personnel Expenses. For their part, debt interest costs increased by 5.5 percent to 28.6 billion, due to rises of 5.4 percent to 23.6 billion in interests on domestic debt and 5.8 percent to 5 billion in those on foreign debt. For their part, the subsidy costs rebounded by 92.8 percent to 42.1 billion, under the effect in particular of the increase of 17.9 percent to 739 dollars per ton of the average price of butane gas.

Taking into account the reduction in the stock of pending operations by 1.6 billion, the cash deficit reached 71.1 billion, after 80.4 billion a year earlier. This need was covered by domestic resources for a net amount of 65 billion and by a net external flow of 6.1 billion. According to TEFD data, the total debt of the Treasury reached 951.7 billion dirhams at end- December 2022, up 66.5 billion dirhams or 7.5 percent. It should be noted that the structure of this debt is still dominated by its domestic component with a share of 75.9 percent of the outstanding amount.

5. DEMAND, SUPPLY AND LABOR MARKET

In the third quarter of 2022, economic growth slowed markedly to 1.6 percent after 8.7 percent a year earlier, owing to a 15.1 percent decline in agricultural value added and a deceleration to 3.6 percent in non-agricultural activities. On the demand side, the contribution of its domestic component to growth fell to 4.7 percentage points, while that of foreign trade in goods and services was negative at -3.1 points. In the fourth quarter, economic activity remained sluggish amid the cumulative effects of several unfavourable shocks.

In total, GDP would have experienced a limited increase of 1.2 percent in 2022 after a rebound of 7.9 percent in 2021. This change would reflect an increase of 3.4 percent, instead of 6.6 percent, in non-agricultural activities and a contraction of 15 percent, after an increase of 17.8 percent, in the agricultural value added. In the first quarter of 2023, growth should accelerate to 2.9 percent, covering increases of 2 percent in agricultural value added, considering a BAM estimate of the cereal harvest at around 55 million quintals11, and of 3.1 percent in non-agricultural value added, albeit with sectoral disparities.

On the labour market, the national economy suffered a loss of 24 thousand jobs, exclusively in rural areas, after the creation of 230 thousand jobs one year earlier. By sector, the volume of jobs decreased by 215 thousand in agriculture and one thousand in construction, while it increased by 164 thousand in services and 28 thousand in industry, including handicrafts. Taking into account a net exit of 89 thousand job seekers, the activity rate decreased from 45.3 percent to 44.3 percent, and the unemployment rate went down from 12.3 percent to 11.8 percent at the national level and from 16.9 percent to 15.8 percent in urban areas. For young people aged 15 to 24 in particular, the unemployment rate rose by 0.9 percentage points to 32.7 percent overall and stagnated at 46.7 percent in the cities.

5.1 Domestic demand

5.1.1 Investment

The latest national accounts data for the third quarter show a clear deceleration in household consumption expenditure to 2.4 percent from 6.4 percent a year earlier, with its contribution to growth falling from 3.8 percentage points to 1.4 points. This change would have continued in the fourth quarter with an increase of no more than 2.6 percent after 7.9 percent, in particular in connection with the rise in consumer prices. In addition, the household confidence index deteriorated sharply, reaching its lowest level since the HCP set up the household business survey in 2008. On the other hand, transfers from Moroccans living abroad continue to strengthen, as do consumer credits.

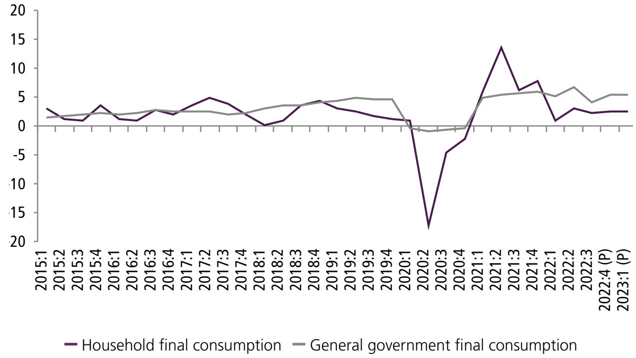
In total, over the whole year 2022, household consumption would have slowed down considerably, from 8.2 percent to 2.3 percent, i.e. a lower rate than before the crisis. In the first quarter of 2023, it should increase by 2.3 percent against the backdrop of higher agricultural income.

As regards final consumption of the general government, it increased by 4.1 percent in the third quarter of 2022 after 5.7 percent, and its contribution to growth thus fell from 1.1 percentage points to 0.8 points.

In the last quarter of 2022, general government consumption is estimated to have slowed to 5.5 percent from 6.1 percent in the same quarter a year earlier, thus bringing the increase over the whole of 2022 to 5.4 percent, a pace that should stabilise in the first quarter of 2023.

1 [1] Based on climate data as at 28 February 2023.

Chart 5.1: Change of consumption expenses (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

In the third quarter of 2022, investment grew by 8.4 percent after a 13 percent increase in the same quarter a year earlier. In the fourth quarter, it would have grown by 7 percent, following the 23.5 percent rebound. However, equipment loans and investment by the Treasury improved in terms of flows in the fourth quarter of 2022 after declines recorded in the same quarter of the previous year.

In addition, the quarterly results of Bank Al-Maghrib business survey for the fourth quarter of 2022 indicate that the business climate was described as "normal" by 61 percent of businesses and "unfavourable" by 30 percent of them.

Over the whole year 2022, investment would have increased by 2.4 percent after 13.3 percent in 2021 and its rhythm should accelerate, in the first quarter of 2023, to 8.6 percent.

5.2 External demand

In the third quarter of 2022, net exports of goods and services in volume terms made a negative contribution of 3.1 percentage points to growth, compared with a zero contribution a year earlier. Exports gained 23.2 percent after 19.5 percent and imports increased by 25.8 percent after 15.1 percent.

In the fourth quarter of 2022, exports, in volume terms, would have improved by 13.7 percent, driven in particular by an acceleration from 16.9 percent to 28.7 percent in car shipments. On the other hand, exports of phosphates and derivatives fell by 4 percent after a surge of 94.1 percent.

In parallel, imports would have increased by 19 percent after 17 percent, owing to a rebound of 22.3 percent after 9.9 percent in capital goods imports. Nevertheless, imports of energy products would have decelerated from 93.7 percent to 59.5 percent.

Over the year 2022 as a whole, exports and imports of goods and services would have increased by 20 percent and 20.1 percent, respectively, against 8.7 percent and 11.8 percent in 2021.

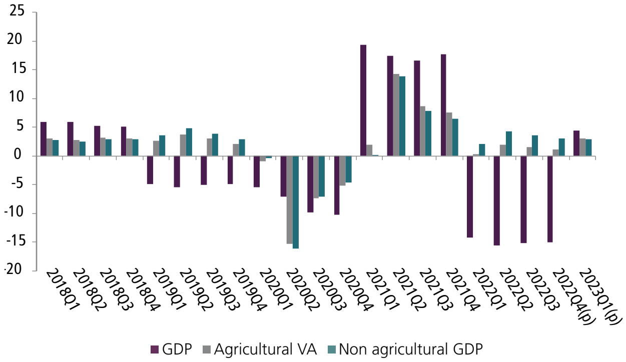
In the first quarter of 2023, they should increase by 12.8 percent for exports and 15.2 percent for imports.

5.3 Aggregate supply

In the third quarter of 2022, GDP growth slowed sharply to 1.6 percent after 8.7 percent in the same period a year earlier, reflecting a 15.1 percent contraction, after a 16.6 percent rebound, in agricultural value added and a 3.6 percent increase, instead of 7.4 percent, in non-agricultural activities.

In the fourth quarter, activity remained sluggish, with GDP growth limited to 1.1 percent after 7.6 percent a year earlier, reflecting a fall of 15.1 percent, against a rise of 17.8 percent, in the agricultural value added and an increase of 3.2 percent, instead of 6.6 percent, in non-agricultural activities.

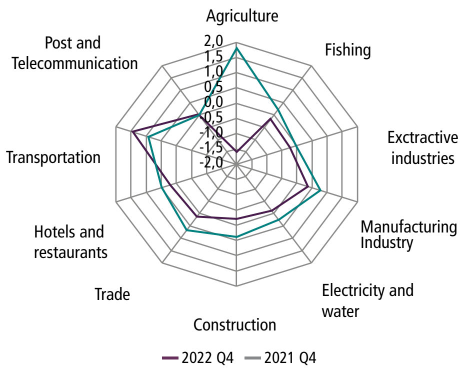
Chart 5.2: GDP per component (at previous year's prices, yoy change, 2014 base)



Sources: HCP, and BAM forecasts.

In the secondary sector, activity is estimated to have fallen by 0.8 percent after a rise of 5.4 percent. This change reflects a 13.5 percent drop in the extraction industries, a 3.7 percent decrease in the "electricity and water" branch and a 3.5 percent fall in construction, as well as a deceleration in growth to 2.2 percent of the processing industry.

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



Sources : Données HCP et prévisions BAM.

Tertiary activities are estimated to have increased by 5.6 percent, instead of 6.9 percent, reflecting in particular the continued dynamism observed in the "accommodation and catering" branch, "transport services" and "non-market services".

For the year 2022 as a whole, GDP growth would have been limited to 1.2 percent after a rebound of 7.9 percent in 2021, resulting from a contraction of 15 percent, after an improvement of 17.8 percent, in agricultural value added and a slowdown from 6.6 percent to 3.4 percent in the pace of non-agricultural activities.

In the first quarter of 2023, national growth should accelerate to 2.9 percent instead of 0.3 percent a year earlier. The agricultural value added should gain 2 percent, taking into account a cereal harvest estimated by BAM at around 55 million quintals. As to non-agricultural sectors, they should grow by 3.1 percent, reflecting in particular the continued dynamism observed in the branches of "Accommodation and catering", "Transport services" and "general government".

5.4 Labor market and output capacity

5.4.1 Activity and employment

In 2022, the labour force declined by 0.7 percent to 12.2 million people, with a net exit of 89 thousand job seekers. This change covers a decline of 3.6 percent in rural areas and an increase of 1.1 percent in the cities. Taking into account the increase in the working-age population, the activity rate fell by one point to 44.3 percent at national level, by 0.4 points to 41.9 percent in urban areas and by 1.8 points to 49.1 percent in rural areas.

At the same time, the national economy lost 24 thousand jobs after creating 230 thousand a year earlier, and the employed population decreased by 0.2 percent to 10.7 million people. At the sectoral level, the volume of jobs decreased by 215 thousand in agriculture and by one thousand in construction and increased by 164 thousand jobs in services and by 28 thousand in industry, including handicrafts.

5.4.2 Unemployment and underemployment

After a sharp slowdown in 2021, the unemployed population contracted by 4.4 percent to almost 1.4 million, and the unemployment rate fell from 12.3 percent to 11.8 percent at the national level and from16.9 percent to 15.8 percent in urban areas. In rural areas, the rate rose slightly by 0.2 points to 5.2 percent.

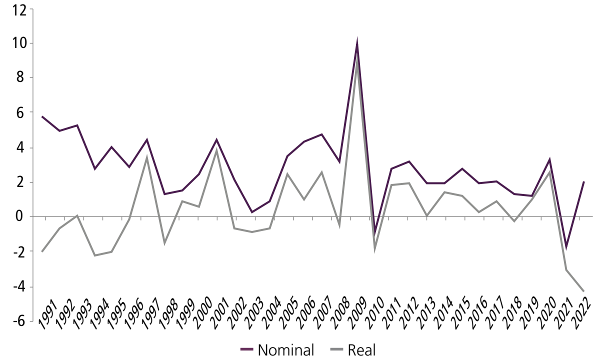
For young people aged 15 to 24 in particular, the rate rose by 0.9 points to 32.7 percent overall and stagnated at 46.7 percent for urban dwellers. At the same time, the underemployment rate[1] fell from 9.3 percent to 9 percent at national level, from 8.8 percent to 8.1 percent in urban areas and from 10 percent to 10.4 percent in rural areas.

5.4.3 Productivity and wages

In non-agricultural activities, apparent labour productivity, as measured by the ratio of value added to employment, would have increased by 0.8 percent in 2022 after 4.2 percent one year earlier. This change would reflect increases of 3.4 percent, after 6.6 percent, in the value added and of 2.6 percent, instead of 2.3 percent, in the number of employed people.

For its part, the average wage, calculated on the basis of CNSS data as a ratio of the wage bill to the number of employed people, posted an increase of 2.1 percent in 2022 against a decrease of 1.7 percent one year earlier, while in real terms, it decreased by 4.3 percent after 3 percent.

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



Sources: CNSS, and BAM calculations.

For the hourly SMIG, it stood in nominal terms at 15.55 dirhams in the fourth quarter of 2022, up 5 percent year-on-year. Considering a rebound of 8.2 percent in the consumer price index, it would have decreased in real terms by 3 percent.

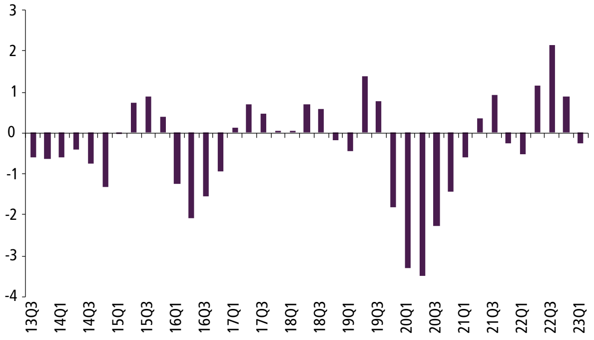
Chart 5.5: Hourly minimum wages in nominal and real terms (in DH/h)

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

Under these conditions, the output gap would have been close to zero in the fourth quarter of 2022 and the first quarter of 2023.

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

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		2021	2022
Participation rate (%)		**45,3**	**44,3**
Urbain		42,3	49,1
Rural		50,9	41,9
Unemployment rate (%)		**12,3**	**11,8**
Youth aged between 15 and 24 years old		31,8	32,7
Urban		16,9	15,8
Jeunes âgés de 15 à 24 years		46,7	46,7
Rural		5,0	5,2
Job creation (in thousands)		**230**	**-24**
Urban		100	150
Rural		130	-174
Sectors			
- Agriculture, forest and fishing		68	-215
- Industry including handicraft		-19	28
- Construction		71	-1
- Services		115	164
Nonagricultural apparent productivity (change in %)		**4,2**	**0,8**
Average wage index (change in %)	**nominal**	**-1,7**	**2,1**
	Real	**-3,0**	**-4,3**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

Despite a relative easing of external pressures, with notably an easing of pressures emanating from bottlenecks in international supply and production chains and lower energy and food prices, inflation continued its upward trend, driven in particular by the effect of the decline in the national supply of certain food products. Thus, in line with the forecast of the December 2022 MPR, it accelerated to 8.3 percent in the fourth quarter of 2022, bringing its average to 6.6 percent for the whole of 2022 before rebounding again to 8.9 percent in January 2023. By component, volatile food prices rose from 16.4 percent in the fourth quarter to 21.7 percent. Similarly, core inflation increased from 7.9 percent to 8.4 percent, reflecting an acceleration in the prices of the food products composing it, with in particular a significant increase in the prices of "fresh meat", "milk" and "oils". As to regulated tariffs, they rose by 0.2 percent instead of 0.1 percent, in connection with the 5.4 percent rise in tobacco prices. On the other hand, the growth rate of those of fuels and lubricants slowed down from 40.3 percent in the fourth quarter to 29.7 percent in January 2023 amid falling international prices of oil products and rising exchange rate of the dirham against the dollar.

In the first quarter of 2023, inflation should continue to rise, reaching 9.1 percent. As to its underlying component, it should stand at 9.1 percent.

6.1 Inflation trends

Inflation continues to trend upwards, rising from 8.3 percent in the fourth quarter of 2022 to 8.9 percent in January 2023, its highest level since October 1991. This change covers, on the one hand, an acceleration of the growth rate of the prices of its food component with volatile prices, of the tariffs of regulated products and an increase in the core inflation and, on the other hand, a slowdown in the growth rate of the prices of fuels and lubricants.

6.1.1. Prices of goods excluded from core inflation

Particularly affected by the negative supply shocks for some commodities, prices of volatile food products recorded a monthly increase of 2.2 percent in January. This was mainly due to increases of 3.5 percent for "fresh vegetables, 3.5 percent for "fresh fruit" and 7.1 percent for "eggs". Year-on-year, the prices of volatile food products rose by 21.7 percent in January after 16.4 percent in the fourth quarter of 2022. They, thus, continue to make a positive contribution to inflation by 2.5 percentage points after 2 percentage points on average during the last three months of 2022.

Table 6.1: Change in inflation and its components

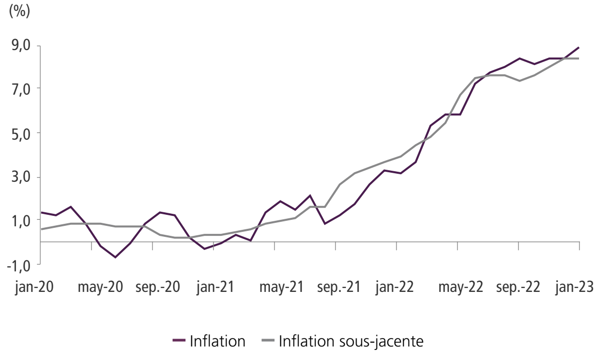
(In %)	Monthly change			YoY change		
	nov. 22	dec. 22	Jan. 23	nov. 22	dec. 22	Jan. 23
Inflation	**0,4**	**0,1**	**0,5**	**8,3**	**8,3**	**8,9**
- Volatile food prices	-1,2	-0,6	2,2	16,1	16,4	21,7
- Administered prices	0,0	0,0	0,4	0,1	0,1	0,2
- Fuels and lubricants	7,0	-7,5	-3,2	45,3	35,5	29,7
Core inflation	**0,7**	**0,7**	**0,4**	**8,0**	**8,3**	**8,4**
- Food products	1,5	1,5	0,8	14,6	15,5	15,5
- Clothing and footwear	0,4	0,4	0,2	5,1	5,1	5,1
- Housing, water, gas, electricity and other fuels[1]	0,2	0,2	0,0	2,5	2,4	2,2
- Furniture, household equipment and routine house maintenance	0,3	0,2	0,2	6,4	6,3	6,2
- Health[1]	1,2	-0,2	0,5	2,2	1,9	2,4
- Transportation[2]	0,2	0,5	-0,1	5,4	5,6	5,3
- Communication	0,0	0,0	0,0	0,7	0,6	0,6
- Entertainment and culture[1]	-0,1	-0,1	-0,1	7,1	6,1	5,9
- Education	0,2	0,0	0,0	4,5	4,5	4,5
- Restaurants and hotels	0,2	0,5	0,4	4,6	5,1	5,0
- Miscellaneous goods and services[1]	0,1	0,2	0,3	2,1	2,3	2,5

[1] Excluding administered goods.

[2] Excluding fuels and lubricants and administered products.

Sources: HCP, and BAM calculations.

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

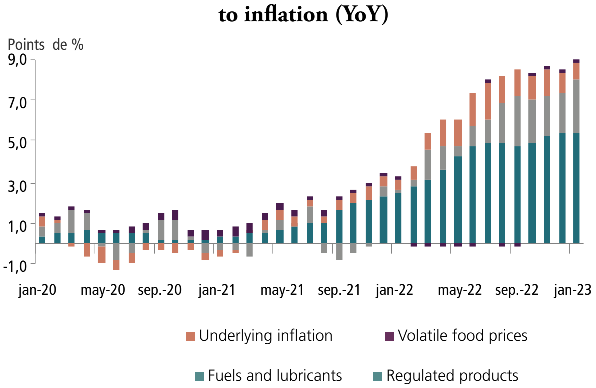


Sources: HCP and BAM calculations.

Regulated tariffs rose by 0.2 percent in January after 0.1 percent in the fourth quarter. The increase was due to a rise of 5.4 percent instead of 3.5 percent in "tobacco" tariffs as a result of the revision of the taxation of cigarettes enacted in the Finance Act 2022. This was mitigated by the 2.9 percent decline in prices for "passenger road transport".

Thus, the contribution of regulated tariffs to inflation reached 0.1 percentage points in January, compared with zero in the last quarter of 2022.

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

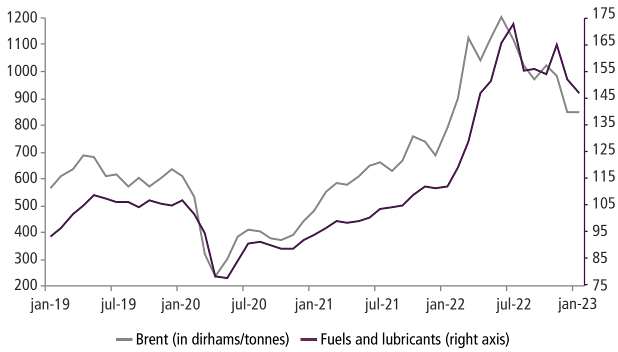


Sources: HCP, and BAM calculations.

In contrast, the growth rate of fuel and lubricant prices slowed down from 40.3 percent in the fourth quarter of 2022 to 29.7 percent in January.

In terms of their contribution to inflation, prices of these products contributed 0.9 percentage points to inflation in January, compared with 1.2 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)

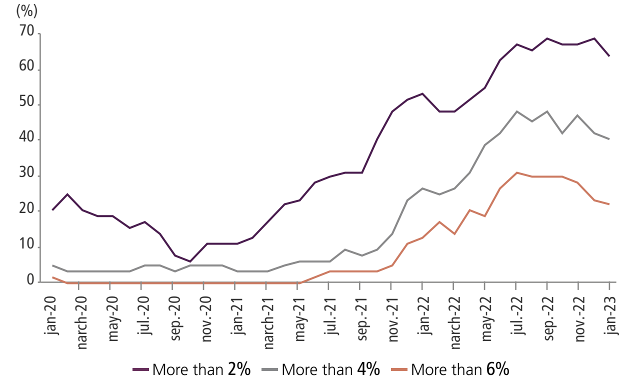


Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

Core inflation continues to accelerate, reaching 8.4 percent in January 2023 against 7.9 percent on average in the fourth quarter of 2022. It is mainly driven by its food component, whose prices increased by 15.5 percent instead of 14.5 percent, mainly due to the surge in prices by 12.4 percent for "fresh meats", 35.8 percent for "oils" and 18.6 percent for "milk", as a result of domestic supply shocks. Excluding food products, the rate of price increases rose from 2.2 percent to 2.5 percent for "other goods and services", from 4.4 percent to 4.5 percent for "education" and from 4.8 percent to 5 percent for "restaurants and hotels". In contrast, prices for "leisure and culture" slowed from 6.9 percent to 5.9 percent, those for "furniture, household equipment and routine household maintenance" from 6.5 percent to 6.2 percent and those for "transport" from 5.5 percent to 5.3 percent.

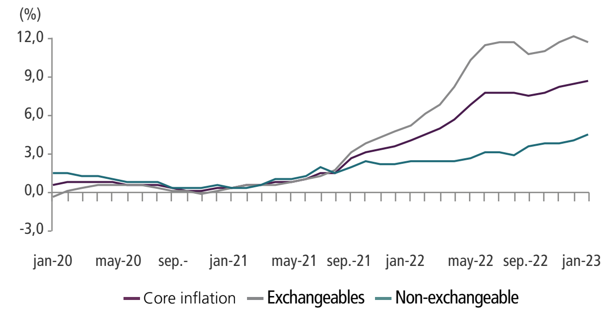
Chart 6.4: Share* of non-food products with year-on-year changes of 2%, 4% and 6% (In %)



*This is the share in the CPIX basket excluding food products.
Sources : HCP et calcul BAM.

The share of non-food products included in the CPIX that rose by more than 2 percent remains high but was down to 59 percent in January after peaking at 64 percent last December. The proportions of products with a price increase exceeding 4 percent and 6 percent continue to decline.

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



Sources: HCP, and BAM calculations.

The breakdown of the products included in the core inflation indicator basket into tradable and non-tradable products shows that the acceleration of the underlying price trend in January largely reflects the acceleration in the prices of non-tradable products.

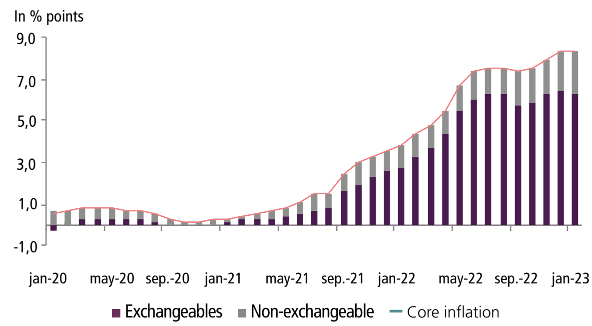
Table 6.2: Change in the price indexes of tradables and nontradables

	Monthly change			YoY change		
	nov. 22	Dec. 22	jan. 23	nov. 22	Dec. 22	jan. 23
Tradables	1,1	1,0	0,4	11,4	11,8	11,4
Nontradables	0,2	0,4	0,5	3,8	4,1	4,5
Core inflation	**0,7**	**0,7**	**0,4**	**8,0**	**8,3**	**8,4**

Sources: HCP, and BAM calculations.

The latter increased by 4.5 percent in January after 3.9 percent in the fourth quarter of 2022.

Chart 6.6: Contribution of tradables and nontradables to core inflation

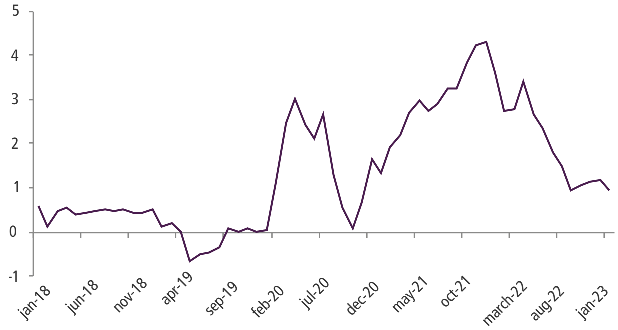


Sources: HCP, and BAM calculations.

In contrast, prices of tradable goods rose by 11.4 percent in January, unchanged from the previous quarter.

Excluding "milk" and "oil" prices, they would have decelerated somewhat, to 8 percent from 8.4 percent and 8.9 percent in the fourth and third quarters of 2022, respectively. These developments would be linked to the continued normalisation of conditions in global supply chains, successive declines in international food prices, with the FAO index falling year-on-year by 3.3 percent in January instead of stagnating in the fourth quarter of 2022, and the slowing of inflation in the euro area to 8.5 percent from 10 percent a quarter earlier.

Graphique 6.7 : Pressions sur les chaînes d'approvisionnement mondiales : Indice GSCPI(*)



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.

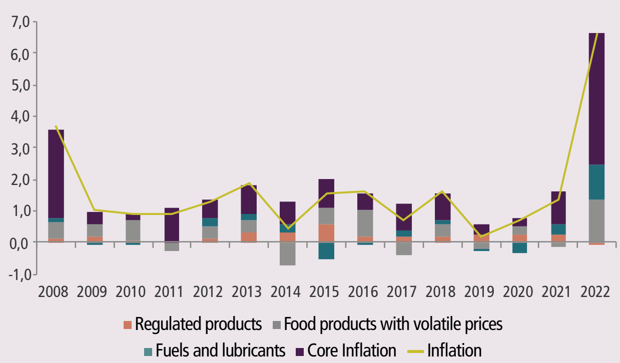
Box 6.1: Inflation developments in 2022

Inflation rose sharply in 2022, in connection with the consequences of the pandemic, the new wave of Covid-19 in China and the implications of the war in Ukraine. These externally-induced inflationary pressures were reflected in a continued surge in food and energy prices that spread to a wide range of products and services included in the CPI basket. The upward trend in inflation was further exacerbated by the impact on the supply of certain food products, a particularly severe drought and the increase in the price of agricultural inputs. Thus, after a rate of 1.4 percent in 2021, inflation, measured by the change in the consumer price index, reached 6.6 percent in 2022, its highest rate since 1992.

The acceleration concerned its underlying component, which maintained its upward trend throughout the year, averaging 6.6 percent instead of 1.7 percent, driven by its tradable component for 87 percent. Despite a relative easing of external pressures towards the end of the year, the fundamental trend of inflation continued to increase, impacted by the decline in the domestic supply of certain food products, namely "oils", "fresh meats" and "milk".

In the same vein, the prices of fuels and lubricants rebounded by 42.3 percent instead of 12.9 percent in 2021 and the prices of food products with volatile prices increased by 11.1 percent after falling 1.3 percent. In contrast, regulated tariffs fell slightly by 0.1 percent after an increase of 1.2 percent, covering a 3.1 percent decrease in the prices of "road passenger transport" and a 3.5 percent rise in "tobacco" prices.

Chart B.6.1.1: Contributions to inflation (in % points)



Sources : HCP data and BAM calculations.

6.2 Short-term outlook for inflation

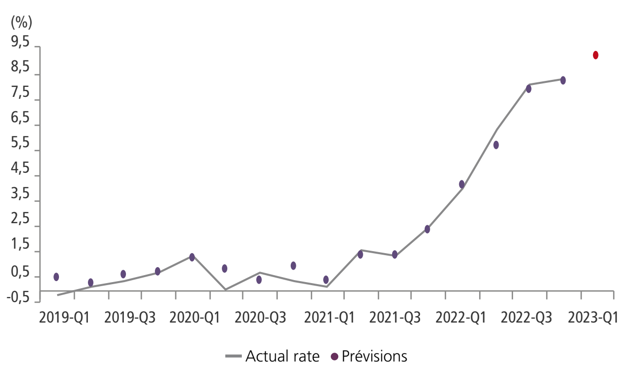
In the short term, inflation should continue to rise, reaching 9.1 percent in the first quarter of 2023 after 8.3 percent in the previous quarter, driven mainly by the acceleration in the prices of food products with volatile prices. The latter should increase by 22.4 percent instead of 16.4 percent, impacted by the supply shocks caused by the cold wave, the repercussions of water stress, the increase in the price of agricultural inputs and the rise in demand during the period preceding the month of Ramadan.

The acceleration of inflation would also be linked to the acceleration of its underlying component, which is expected at 9.1 percent, after 7.9 percent in the fourth quarter, driven mainly by the increase in its food component.

In the same vein, regulated tariffs are expected to increase by 0.6 percent on average over the first three months instead of 0.1 percent in the previous quarter, reflecting mainly the effect of the 5.4 percent increase in tobacco prices on 1 January 2023.

In contrast, prices of fuels and lubricants are expected to continue to slow in the first quarter, falling to 19.2 percent from 40.3 percent in the previous quarter, due to the anticipated decline in international oil prices.

Chart 6.8: Inflation short-term forecasts and actual rates



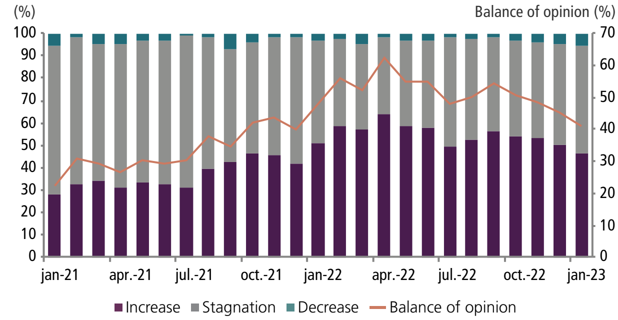
The differences in forecasts observed between Q1 2018 and Q1 2020 are partly linked to the HCP's recasting of the CPI in May 2020. Thus, the CPI base 100=2006 is now replaced by the CPI base 100=2017 (see Box 6.1: "New consumer price index (base 100=2017)" in the June 2020 MPR).

Source: HCP data, and BAM forecasts.

6.3 Inflation expectations

The results of Bank Al-Maghrib's business survey in industry for the month of January 2023 indicate that 48 percent of the industrialists surveyed anticipate a stagnation of inflation during the next three months, 46 percent of them expect an increase, while 6 percent foresee a decrease. Thus, the balance of opinion stands at 41 percent, down from the fourth quarter of 2022.

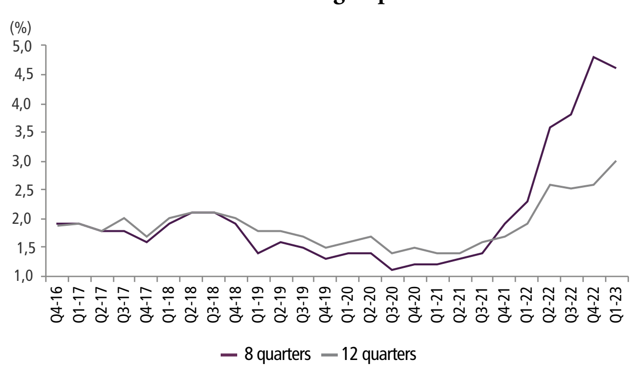
Chart 6.9 : Business leaders' expectations for inflation over the next three months



Source: BAM monthly business survey.

Moreover, the results of the Bank Al-Maghrib inflation expectations survey for the first quarter of 2023 show a deceleration of inflation anticipated by experts in the financial sector to 4.6 percent on average over the next eight quarters, against 4.8 percent expected one quarter earlier. In the longer term, or over the next 12 quarters, they expect it at 3 percent instead of 2.6 percent.

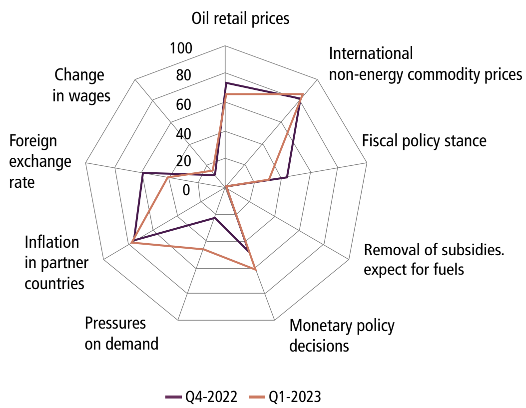
Chart 6.10 : Inflation expectations by financial sector experts over the next eight quarters



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

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

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



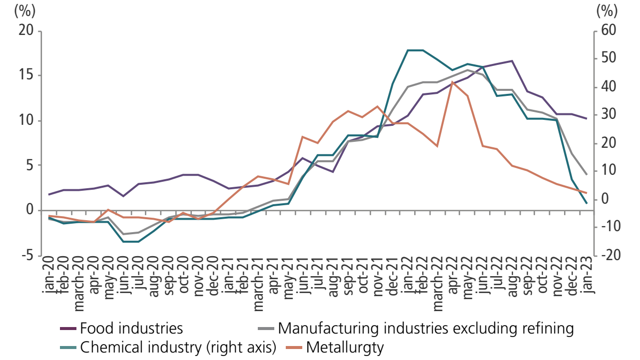
Source: BAM Quarterly Inflation Expectations Survey.

6.4 Producer price

Producer prices in the manufacturing industries, excluding refining, continue to decelerate, falling from an average of 9.1 percent in the fourth quarter of 2022 to 4 percent in January 2023.

This change mainly reflects the decline of 1.6 percent, instead of an increase of 20.6 percent, of the producer prices of the "chemical industry", the slowdown of those of the "food industries" from 11.4 percent to 10.3 percent and of the "metallurgy" branch, from 5.8 percent to 2 percent.

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



Source : HCP.

7. MEDIUM-TERM OUTLOOK

Summary

The global economy is expected to continue its deceleration as inflation remains high, monetary tightening continues and the conflict in Ukraine is prolonged. However, the slowdown would be less pronounced than expected in December, thanks in particular to resilient labor markets in the advanced economies and the reopening of China. The global growth forecast was thus revised up by 0.3 percentage points to 2.5 percent in 2023, before rising slightly to 2.6 percent in 2024. In the United States, the growth rate was revised upwards, despite the weakening of the manufacturing sector and the slowdown in household consumption, following the depletion of savings accumulated during the pandemic. The euro area also proved resilient in the face of the energy shock caused by the war in Ukraine. It managed to secure its energy supply by reducing its energy consumption and diversifying its sources of supply. The UK economy is expected to be the only major economy to experience a recession in 2023, as a result of lower consumer spending and tighter monetary conditions. In Japan, the economy should benefit from interest rates below zero and the momentum of tourism due to the reopening of China.

As regards the main emerging countries, in China, growth has been revised slightly upwards, reflecting some improvement in business and consumer confidence after the discontinuation of the zero-covid policy. In India, the expansionary fiscal stance is expected to boost growth, thanks in particular to income tax cuts and record capital expenditure. The growth of the Brazilian economy is projected to decelerate, reflecting weaker external demand, less favorable terms of trade and tighter monetary conditions. As the war in Ukraine continues, the Russian economy is forecast to contract again in 2023, before recording positive growth in 2024.

In commodity markets, oil prices are expected to hover between 80 and 83 dollars per barrel in the medium term, with a slight upward revision. Global demand is projected to be driven by the re-opening of China and producing countries are expected to continue their supply-reduction strategy. As for coal and gas, their prices should continue to fall in line with sufficient reserves in Europe and a relatively mild winter. As regards phosphate and derivatives, after peaking in 2022, prices are expected to fall in 2023 and 2024. However, they would remain at high levels in the medium term, with supply remaining tight due in particular to high input prices and uncertainties related to sanctions against Belarus and Russia. For their part, food prices have been falling in recent months, particularly for vegetable oils, dairy products and sugar. The FAO index projections have been revised slightly downwards, due to higher global supply and easing pressures on input costs.

Against this background, inflationary pressures would gradually ease over the medium term, but inflation levels would remain high. In the US, inflation is expected to fall back as commodity prices drop, domestic demand weakens, and monetary conditions tighten. In the euro area, while remaining at high levels, inflation has been revised downwards, against a background of more aggressive interest rate hikes and faster-than-expected declines in some energy prices.

Against this backdrop, the main central banks continued to tighten their monetary policies. Thus, the ECB and the FED decided, at the end of their latest meetings, to raise their key rates by 50 basis points (bps) and 25 bps, bringing the cumulative increases to 350 bps and 450 bps, respectively.

At the national level, the year 2022 was marked by a strong increase in foreign trade in goods, the recovery of travel receipts which were higher than before the crisis and by the maintenance of the exceptional momentum in the transfers from Moroccan expatriates. The current account deficit would have ended the year at 3.9 percent of GDP, after 2.3 percent in 2021. Over the forecast horizon, the growth rate of exports should slow down, mainly due to the decline in shipments of phosphates and derivatives, while imports would decrease in 2023, due to a lower energy bill, before increasing slightly in 2024. For their part, travel receipts should fall in 2023, in connection with the deterioration of the activity of the issuing countries, notably the Euro zone, before increasing in 2024. As to changes in the transfers of Moroccan expatriates, they are still surrounded by strong uncertainties. After the notable increases recorded since the beginning of the health crisis, these transfers should stabilize in 2023 before falling in 2024, while remaining at high levels. The current account deficit is thus expected at 2.8 percent of GDP in 2023 before narrowing to 2.6 percent in 2024. As for FDI receipts and after standing at 2.8 percent in 2022, they would reach 3.1 percent of GDP in 2023 and then 3.2 percent in 2024.

Taking into account the last Treasury issue on the international financial market and under the assumption of the materialization of the remaining planned external financing, the official reserve assets would reach 358.8 billion at the end of 2023 then 367 billion in 2024, or the equivalent of 5 months and 21 days, then 5 months and 25 days, of imports of goods and services.

As regards public finance, the budget deficit is expected to continue its downtrend, mainly due to the anticipated improvement in tax and non-tax revenues. In fact, the deficit should decrease from 5 percent of GDP in 2022 to 4.7 percent in 2023 and then to 4.3 percent in 2024, mainly taking into account the new macroeconomic projections and data from the multi-annual budgetary programming.

Monetary conditions are expected to become less accommodative in real terms in the short term. Bank credit to the non-financial sector is projected to grow by 4 percent in 2023 and 4.6 percent in 2024. The real effective exchange rate is foreseen to appreciate in the medium term, following its depreciation in 2022.

As for the pace of economic activity, after the rebound of 7.9 percent in 2021, the growth of the national economy would have slowed down to 1.2 percent in 2022, covering a decline of 15 percent of the agricultural value added, and an increase of 3.4 percent of the non-agricultural one. In 2023, growth would accelerate to 2.6 percent and then consolidate at 3.5 percent in 2024. This change would reflect an increase of 1.6 percent in the agricultural value added, assuming a cereal production estimated by Bank Al-Maghrib at around 55 MQx (million quintals), followed by a rise of 6.9 percent in 2024, assuming an average cereal production of 75 MQx. As to non-agricultural activities, their growth rate should slow down to 2.7 percent in 2023 before accelerating to 3.2 percent in 2024. On the demand side, the domestic component should consolidate, despite high inflation rates. On the other hand, although attenuated, the contribution to growth of net exports would remain negative.

Against this backdrop, and after a strong acceleration from 1.4 percent in 2021 to 6.6 percent in 2022, inflation would remain at high levels. It should thus average 5.5 percent in 2023 and 3.9 percent in 2024, in connection with the rise that would be induced by the strong reduction in the subsidy costs. Its underlying component would reach 6.2 percent on average in 2023 before falling to 2.3 percent in 2024.

7.1 Underlying assumptions

A slight improvement in the global economic outlook

The global economy is expected to continue to decelerate as inflation remains high, monetary tightening continues and the conflict in Ukraine drags on, but at a slower pace than expected in December, in particular due to resilient labour markets in advanced economies and the reopening of China. The global growth forecast was thus revised upwards by 0.3 percentage points to 2.5 percent in 2023, before rising slightly to 2.6 percent in 2024.

In the US, the economic deceleration is expected to be less severe than previously anticipated, despite the weakening of the manufacturing sector and the slowdown in household consumption, following the depletion of savings accumulated during the pandemic. Growth is expected to slow to 1.2 percent in 2023, with an upward revision of 0.6 percentage points, and to stabilise at this level in 2024. The euro area has also proved resilient in the face of the energy shock resulting from the war in Ukraine. It has managed to secure its energy supply thanks in part to lower energy consumption. As a result, the slowdown in the region is expected to be more moderate, with growth estimated at 1 percent in 2023 and 1.2 percent in 2024. As for the UK economy, it is projected to be the only one among the major economies to experience a recession in 2023, with its GDP expected to contract by 0.5 percent in connection with lower consumer spending, tighter monetary conditions and the structural impacts of Brexit. In Japan, the economy is expected to benefit from interest rates below zero and the momentum of tourism due to the reopening of China. Its GDP is projected to grow this year by 1 percent before slowing to 0.8 percent in 2024.

In the main emerging countries, China is expected to grow by 5.3 percent in 2023, a slight upward revision reflecting the marginal improvement in business and consumer confidence after the discontinuation of the zero-covid policy. It is expected to remain at around 5 percent for the coming years as the population ages and productivity slows. In India, growth is expected to reach 6.6 percent in 2023 and 6 percent in 2024. The expansionary fiscal stance for the 2023/2024 financial year is projected to boost growth, thanks in particular to the reduction in income tax and record capital expenditure. In Brazil, the growth of the economy is expected to decelerate to around 1 percent over the forecast horizon, reflecting weaker external demand, less favourable terms of trade and tighter monetary conditions. Against the backdrop of the continuing war in Ukraine, the Russian economy is expected to contract again in 2023, with growth standing at -1.4 percent. This forecast has been revised slightly upwards, in particular because of the recent improvement in economic confidence indicators. In 2024, it should record positive growth.

Chart 7.1: Growth in the euro area

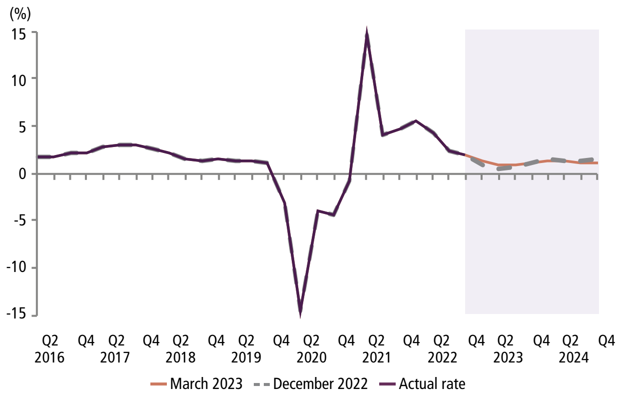
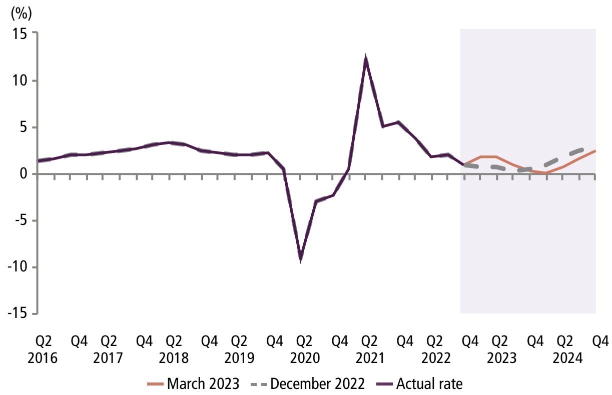


Chart 7.2: Growth in the USA



Source : GPMN, february 2023.

Oil prices revised upwards as China reopens and inflation gradually decelerates in the medium term

After an average price of 99.8 dollars per barrel in 2022, the price of Brent crude oil is expected to fluctuate between 80 dollars and 83 dollars per barrel in the medium term, a higher level than projected. This is because global demand is expected to be driven by the re-opening of China and producing countries are forecast to continue their strategy of supply reduction. Coal and gas prices are expected to continue their downward trend due to lower demand, sufficient reserves in Europe and a mild winter.

Phosphate and phosphate derivatives prices, after peaking in 2022, are expected to decline in 2023 and 2024. However, they would remain at high levels due to high input prices and uncertainties related to sanctions against Belarus and Russia. With regard to raw phosphate in particular, while remaining at high levels, its price is expected to fall from 266/t dollars in 2022 to 200/t dollars in 2023, and to 175/t dollars in 2024. The price of DAP is foreseen to fall from 772/t dollars to 750/t dollars in 2023 and 650/t dollars in 2024. The TSP prices is forecast to fall from 716/t dollars to 650/t dollars in 2023 and 550/t dollars in 2024.

Food prices continue their downward trend. The FAO index fell in February 2023 for the eleventh consecutive month, by 0.6 percent compared to January 2023 and by 8.1 percent year-on-year. Under these conditions and viewing the expected improvement in global supply and the easing of pressures on input costs (oil and gas), the FAO index is projected to decline by an average of 10.4 percent in 2023 and 0.6 percent in 2024.

Under these conditions, inflationary pressures would continue to ease gradually. Global inflation would be 4.4 percent in 2023 and 2.8 percent in 2024. In the US, it is expected to fall from 8 percent in 2022 to 3.9 percent in 2023 and 2.4 percent in 2024, as commodity prices fall, domestic demand weakens, and monetary conditions tighten. While remaining at high levels, inflation in the euro area has been revised down significantly for this year, amid rapidly falling energy commodity prices. The forecast is for an average rate of 5.3 percent in 2023 and 2.4 percent in 2024.

Chart 7.3: Price of brent

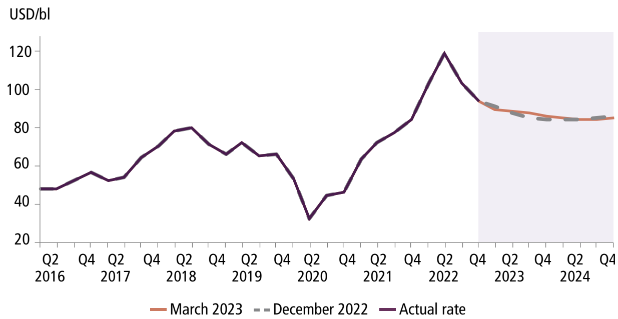


Chart 7.4: FAO food price index (2014-2016=100)

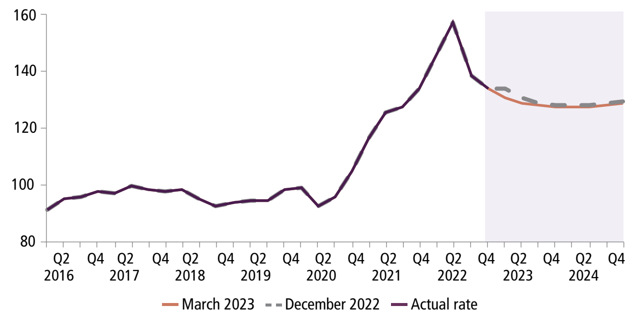


Chart 7.5: Inflation in the euro area

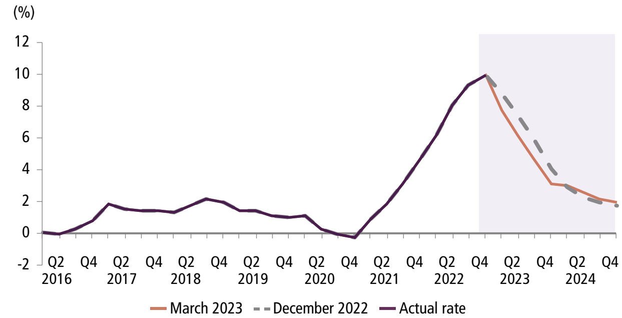
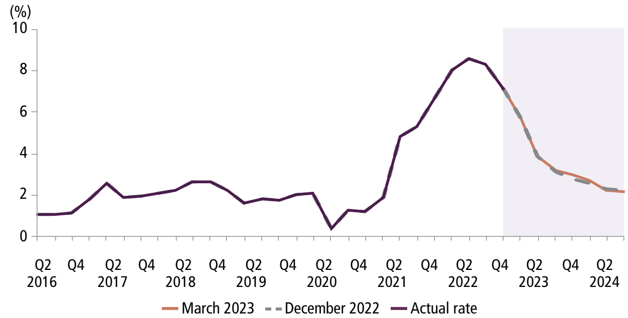


Chart 7.6: Inflation in the United states



Source : GPMN, february 2023.

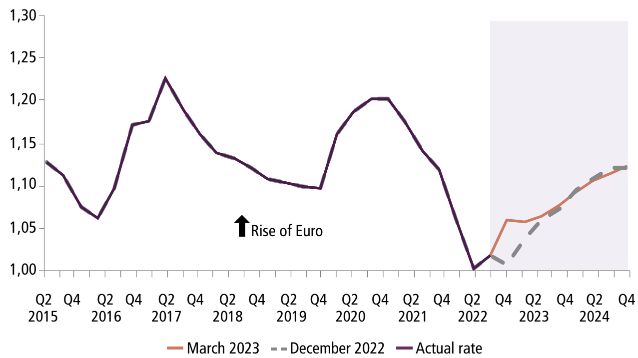
Major central banks show their commitment to further monetary tightening

The main central banks have continued to tighten their monetary policies and remain committed to further increases in key interest rates. Concerning the ECB, it decided at its meeting on 16 March to raise its key rates by 50 bps and stressed that it is closely monitoring the current market tensions and stands ready to take the necessary measures to preserve price and financial stability in the euro area. It has also indicated that it will reduce the portfolio of its APP program by an average of 15 billion euros per month until the end of June 2023.

Similarly, the FED decided at its meeting on 31 January and 1 February to raise the target range for the federal funds rate by a quarter of a percentage point to [4.5 percent-4.75 percent] against a backdrop of still-high inflation and a strong labour market. It also expects continued increases to be appropriate, even though inflation has been falling for more than six months.

In the foreign exchange markets, the euro is expected to continue its appreciation against the dollar over the medium term. It is foreseen to rise from an average of 1.05 dollars in 2022 to 1.07 dollars in 2023 and 1.1 dollars in 2024. This is mainly due to the relative improvement in euro area fundamentals, mitigated by faster tightening by the Fed compared to the ECB in 2022.

Chart 7.7: USD/EUR exchange rate



Source : GPMN, february 2023.

Cereal production at around 55 MQx for the 2022/2023 agricultural season

The 2022/2023 crop year was characterised by a delay in rainfall, with a relatively dry period until the end of November. However, the first two ten-days of December recorded significant and almost generalized rainfall, which reduced the rainfall deficit and favoured the sowing of the soil. As at 10 March 2023, cumulative rainfall reached 201.5 mm, up 81.1 percent compared to the previous season but down 5.2 percent compared to the average for the last five years. For its part, the filling rate of dams has improved relatively since November to reach an average of 34.8 percent on 20 March. With regard to the state of vegetation, the available data for the first ten-days of March indicate that the vegetation cover[1] is 45.7 percent higher than in the previous season, and 8.3 percent higher than the average for the last five years. Under these conditions, and on the basis of a sown area of 3.65 million hectares announced by the Department of Agriculture on 7 February 2023, the cereal harvest would be around 55 MQx according to the first estimates of Bank Al-Maghrib (BAM). Taking into account the evolution of non-cereal crops which should be impacted by the restrictions on irrigation water, the agricultural added value would increase, according to BAM's projections, by 1.6 percent instead of the 7 percent retained in the December edition.

For the 2023-2024 season, the assumptions of an average cereal production of 75 MQx and a trend evolution of the other crops are maintained.

7.2 Macroeconomic projections

Deceleration in foreign trade in goods and services and narrowing of the current account deficit over the forecast horizon

Taking into account foreign trade data at the end of 2022, the current account deficit has been revised upwards to 3.9 percent of GDP, after 2.3 percent in 2021. It is expected to narrow to 2.8 percent of GDP in 2023 and 2.6 percent in 2024.

The revision for 2022 is essentially linked to a less significant increase than expected in phosphate and derivative exports and to an underestimation of imports, notably of capital goods and semi-finished products. Official reserve assets stood at 337.6 billion dirhams at the end of 2022, representing 5 months and 13 days of imports of goods and services.

[1] The vegetation cover situation is measured by the vegetation index provided by the Royal Centre for Remote Sensing (CRTS), whose history goes back only to 2008.

Over the forecast horizon, the growth rate of exports should decelerate to 3 percent in 2023 and then to 0.6 percent in 2024, reflecting essentially the drop in sales of phosphates and derivatives, in relation to the expected drop in their international prices. Conversely, assuming in particular the announced increase in the production capacities of the manufacturer Stellantis, shipments in the automotive sector should continue their momentum, albeit at a less important rate. In parallel, imports should decrease by 2.3 percent in 2023, mainly due to a drop in the energy bill. In 2024, they should post a slight increase of 0.8 percent, in relation to the rise in the purchases of finished consumer products and capital goods.

Travel receipts should, for their part, show a fall of 3 percent to 88.6 billion dirhams in 2023, in connection with the deterioration of the activity of the issuing countries, in particular the Euro zone, before rising 7.4 percent to 95.1 billion in 2024. The change in the transfers of Moroccan expatriates is still surrounded by strong uncertainties. They are supposed to stabilise at around 108.9 billion in 2023 and show a decline of 5.4 percent to 102.9 billion in 2024. As for FDI receipts, they would reach 3.1 percent of GDP in 2023 and 3.2 percent in 2024.

Taking into account the last Treasury issue on the international financial market and assuming the materialization of the remaining planned external financing, the official reserve assets would reach 358.8 billion at the end of 2023 and 367 billion in 2024, or the equivalent of 5 months and 21 days and then 5 months and 25 days of imports of goods and services.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates				Forecasts			Ecarts (march/Dec.)	
	2018	2019	2020	2021	2022	2023	2024	2023	2024
Exports of goods (FOB)	10,7	3,3	-7,5	25,2	29,4	3,0	0,6	0,4	0,3
Imports of goods (CAF)	9,9	2,0	-13,9	25,0	39,6	-2,3	0,8	0,7	-0,3
Travel receipts	1,2	7,8	-53,7	-5,9	166,1	-3,0	7,4	-3,4	1,8
Expatriate remittances	-1,5	0,1	4,8	37,5	16,5	-0,3	-5,4	3,8	-7,7
Current account balance (% of GDP)	**-4,9**	**-3,4**	**-1,2**	**-2,3**	**-3,9***	**-2,8**	**-2,6**	**-0,7**	**-0,6**
Official reserve assets, in months of imports of goods and services	**5,4**	**6,9**	**7,1**	**5,3**	**5,4**	**5,7**	**5,8**	**-0,1**	**-0,1**

Sources: Foreign Exchange Office and BAM forecasts

Monetary conditions would remain accommodating in the short term and credit growth to the non-financial sector would return to a moderate pace

Based on the expected change in the Bank's foreign exchange reserves and currency in circulation, the bank liquidity deficit is expected to reach 86.7 billion dirhams at the end of 2023 and 99.1 billion dirhams at the end of 2024. As for bank credit to the non-financial sector, it increased by 7.8 percent year-on-year at the end of 2022, reflecting in particular the strong increase in cash facilities. In terms of prospects and taking into account the expected evolution of economic activity and the expectations of the banking system, it should grow at 4 percent in 2023 and 4.6 percent in 2024. Under these conditions, and in line with the expected evolution of the other counterparts of the money supply, the growth of the M3 aggregate should reach 6.1 percent at the end of 2023 and 5.4 percent at the end of 2024.

For its part, and after a strong depreciation of 3.9 percent in 2022, the real effective exchange rate should appreciate by 1.6 percent in 2023, resulting from the appreciation of its nominal value and to a lesser extent from the inflation differential. This appreciation is forecast to increase in 2024, given a larger inflation differential compared to 2023.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts			Ecarts (march/Dec.)	
	2018	2019	2020	2021	2022	2023	2024	2023	2024
Bank lending to the nonfinancial sector	3,1	5,5	4,2	2,9	7,8	4,0	4,6	0,7	-0,9
M3	4,1	3,8	8,4	5,1	8,0	6,1	5,4	0,7	-0,1
Liquidity surplus or deficit, in billion dirhams	-62,4	-76,6	-90,2	-70,8	-80,9	-86,7	-99,1	1,0	1,4

Improved fiscal situation by 2024

After reaching 5 percent of GDP in 2022, the budget deficit is expected to narrow to 4.7 percent in 2023, with an upward revision of 0.1 percentage point compared to the December report. This forecast takes into consideration an upward adjustment of tax revenues, mainly taking into account results as at the end of 2022 and the new macroeconomic projections. On the expenditure side, the subsidy costs have been revised downwards, incorporating in particular the new assumptions on butane gas prices and exchange rates. Capital expenditure has been increased, assuming an execution rate higher than the Finance Act programming and would thus increase by 6.9 percent from one year to the next.

For the year 2024, the budget deficit is expected to narrow to 4.3 percent of GDP, instead of the 4 percent forecast in December, reflecting higher tax revenues, taking into account the new macroeconomic forecasts. On the expenditure side, the subsidy costs have been revised downwards, integrating the new assumptions relating to the subsidy of butane gas and food products, while capital expenditure has been adjusted upwards to 6.3 percent of GDP instead of 5.7 percent as forecast in December, under the assumption of a higher execution rate than that of the multiannual budgetary programming.

Deceleration of the growth rate of non-agricultural activities in 2023

After rebounding to 7.9 percent in 2021, economic growth is projected to decelerate to 1.2 percent in 2022, a slight upward revision of 0.1 percentage point compared to the December forecast, mainly due to more optimistic than expected results in the heading of taxes less subsidies on products.

In the medium term, economic growth is expected to continue to be driven by weather conditions. It is forecast to rise to 2.6 percent in 2023 and then to consolidate at 3.5 percent in 2024. This evolution would reflect an increase of 1.6 percent in the agricultural value added, assuming a cereal production estimated by Bank Al-Maghrib at around 55 MQx, followed by a rise of 6.9 percent in 2024, assuming a return to an average cereal production. For their part, the non-agricultural activities would have recorded a slowdown of their growth rate to 2.7 percent in 2023 followed by an acceleration to 3.2 percent in 2024. On the demand side, its domestic component should relatively consolidate, while the contribution to growth of net exports should remain negative, while falling, against an unfavourable external background.

Table 7.3: Economic growth

Change In %	Actual rate				Prévisions			Ecarts (march/Dec.)		
	2018	2019	2020	2021	2022	2023	2024	2022	2023	2024
National growth	**3,1**	**2,9**	**-7,2**	**7,9**	**1,2**	**2,6**	**3,5**	**0,1**	**-0,4**	**0,3**
Agricultural VA	5,6	-5,0	-8,1	17,8	-15,0	1,6	6,9	0,0	-5,4	5,1
Nonagricultural VA	2,8	4,0	-6,9	6,6	3,4	2,7	3,2	0,0	0,3	-0,3

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.

Inflation would remain high in the medium term

Despite the relative easing of external pressures, the internalisation of inflationary pressures and the fall in subsidy costs in 2024 would continue to weigh on the evolution of consumer prices in the short term and would keep inflation high in the medium term.

Thus, after a strong acceleration to 6.6 percent in 2022, inflation should average 5.5 percent in 2023, an upward revision of 1.6 percentage points compared to the forecasts communicated in December. It would be driven mainly by its underlying component, which would reach 6.2 percent, due to the surge in the prices of certain food products included in it, and to a lesser extent by the significant increase in the prices of volatile food products. The effect of these increases is supposed to dissipate gradually in the second half of the year in line with the measures taken by the Government. In 2024, inflation is projected at 3.9 percent, driven mainly by the increase in regulated tariffs, following the implementation of the subsidization reform, according to the data of the multiannual budgetary programming, while its underlying component would return to 2.3 percent. As for fuels and lubricants, their prices should fall over the forecast horizon, taking into account the evolution of international oil prices and the exchange rate as well as the recent fall observed.

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

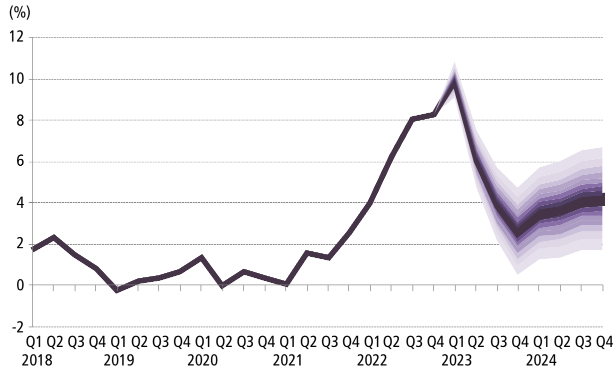


Table 7.4: Inflation and core inflation

	Actual rates				Forecasts				Gap (march/Dec.)	
	2018	2019	2020	2021	2022	2023	2024	Horizon of 8 quarters (Q1 2023-Q4 2024)	2023	2024
Inflation	**1,6**	**0,2**	**0,7**	**1,4**	**6,6**	**5,5**	**3,9**	**4,7**	**1,6**	**-0,3**
Core inflation	1,3	0,5	0,5	1,7	6,6	6,2	2,3	4,2	2,0	0,2

Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

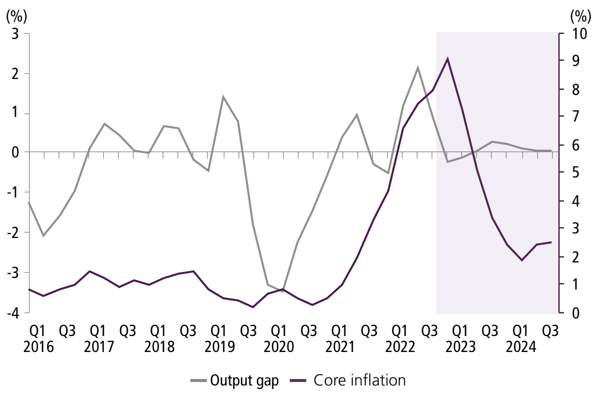
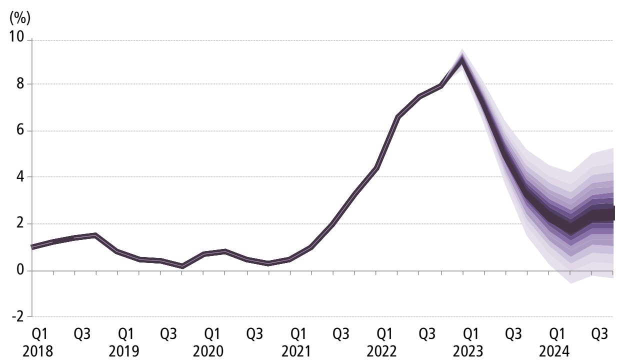


Chart 7.11: Projections of core inflation over the forecast horizon (Q4 2022 - Q4 2024)*



* 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 risks to the outlook remain very high, and if they materialise, could affect the central forecast, with the balance tilted to the downside for growth and upwards for inflation. The intensification of the war in Ukraine and geopolitical tensions as well as the tightening of the cost of the financing at the global level could keep the cost of commodities at high levels.

At the national level, the risks are mainly connected with weather-related disruptions that may affect both cereal and non-cereal agricultural production, as well as weakening foreign demand, in connection with a further deterioration of activity in key partner countries. In the medium term, the positive effects of efforts to boost investment should contribute to the acceleration of growth.

As for inflation, the risks to the outlook are maintained on the upside. Higher energy costs and persistent inflationary pressures from domestic factors could lead to a stronger-than-expected increase in consumer prices. However, a more rapid easing of external inflationary pressures could lead to a more rapid deceleration of inflation.

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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