**PRESS RELEASE**

**BANK AL-MAGHRIB BOARD MEETING**

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Rabat, June 20, 2023

1. The Board of Bank Al-Maghrib held its second quarterly session on Tuesday June 20, 2023.
2. During this meeting, the Board first examined and approved the annual report on the country's economic, monetary and financial situation and on the Bank's activities for the year 2022.
3. The Board then analyzed the evolution and prospects of the world economy, which continue to be subject to considerable uncertainty, particularly in view of the implications of the conflict in Ukraine. The Board noted in particular that inflation in the main advanced economies is gradually declining, driven by lower energy and food prices, but remains well above central banks' objectives.
4. At the national level, the Board reviewed recent economic developments and examined the Bank's medium-term macroeconomic projections. In this respect, it noted that after a rate of 6.6 percent in 2022, inflation continued to accelerate, reaching a peak of 10.1 percent in February 2023. Since then, inflation has decelerated, yet remains at high levels due to the rise in fresh food prices, returning to 8.2 percent in March, to 7.8 percent in April and to 7.1 percent in May. Taking these data into account, inflation would average 6.2 percent this year and 3.8 percent in 2024. Its underlying component would follow a similar trajectory, falling from 6.6 percent in 2022 to 6.1 percent this year and to 2.9 percent in 2024.
5. In view of these evolutions and considering the time it takes for its decisions to be transmitted to the real economy, the Board has decided, after three successive increases of the key rate by a total of 150 basis points, to mark a pause in the monetary policy tightening cycle, thus maintaining the key rate unchanged at 3 percent. At its next meetings, the Board's decisions will take into account, in particular, an in-depth and up-to-date assessment of the cumulative effects of its rate increases, as well as the impact of the various measures established by the Government to support some economic activities and household purchasing power.
6. On international commodity markets, prices continued to fall back to levels below those recorded before the start of the conflict in Ukraine. In particular, the price of Brent crude averaged USD 75.7 per barrel in May, recording an annual decline by 32.6 percent, and would hover around USD 79 till the end of 2024, under the combined effect of demand moderation and the OPEC+'s supply control policy. Food prices would fall by 10.9 percent this year and remain almost stable in 2024. For phosphate and its derivatives, the downward trend would continue as supply

disruptions ease and inputs cost decreases. According to the World Bank's projections issued last April, rock phosphate prices would fall from $266/t in 2022 to $260/t in 2023 and to $240/t in 2024, while DAP prices would drop from $772/t to $580/t and then to $570/t respectively.

7. Under these conditions, inflation continues to ease, albeit at a slower pace than previously projected. In the USA, driven by its core component, inflation would drop from 8 percent in 2022 to 4.4 percent in 2023, then to 2.7 percent in 2024, while in the Euro area it would fall to 6.1 percent in 2023, then to 3.3 percent in 2024, after reaching 8.4 percent in 2022.
8. In relation to the decisions made by the central banks of the major advanced economies, the FED, after ten consecutive increases by a total of 500 basis points, decided at its meeting held on June 13 and 14 to maintain the target range for the federal funds rate unchanged at [5.00 -5.25 percent], outlining that it anticipates that further increases this year would be appropriate. Similarly, while projecting inflation to be too high for a very long period, the ECB raised its three key rates by 25 basis points on the 15th of the same month and confirmed that it will end reinvestments under the asset purchase program (APP) starting July 2023.
9. Despite the ongoing monetary tightening, the deceleration in global economic activity would be slightly slower than expected in March. In the United States, growth is set to fall from 2.1 percent in 2022 to an average of 1 percent in 2023 and in 2024, while in the Eurozone, after a rate of 3.5 percent, it is expected to decline to 1.4 percent this year and 0.8 percent in 2024. Similarly, and despite the crisis in purchasing power and strikes, the UK is likely to avoid recession, but the pace of activity would remain weak, with real GDP growth of 0.1 percent this year and 0.4 percent in 2024. In the main emerging countries, following the lifting of health restrictions, the Chinese economy is expected to grow by 6.1 percent in 2023 and 4.8 percent in 2024, while in India, growth is projected at 5.4 percent, then accelerating to 6.7 percent thanks to an ambitious infrastructure investment program.
10. At the national level, two consecutive years of drought combined with a broadly adverse external environment continue to weigh on economic activity. Given the Department of Agriculture's estimate of cereal production at 55.1 million quintals, growth in agricultural value added would be limited to 1.6 percent in 2023, after contracting by 12.9 percent a year earlier. In 2024, assuming a cereal harvest of 70 million quintals, it is forecast to grow by 5.5 percent. For non-agricultural sectors, growth in value added is set to slow from 3 percent in 2022 to 2.5 percent in 2023, before accelerating to 3.2 percent in 2024. All in all, after rebounding to 8 percent in 2021 and decelerating to 1.3 percent in 2022, Bank Al-Maghrib forecasts that the national economy will grow by 2.4 percent this year, before improving to 3.3 percent in 2024.
11. On the external accounts, after the momentum recorded in 2022, trade in goods is set to decline this year. Exports are expected to drop by 2.8 percent, mainly reflecting lower sales of phosphate and derivatives, before rising by 6 percent in 2024, boosted by the increase of shipments from the automotive sector. At the same time, imports are expected to fall by 2.2 percent, notably as a result of the easing of the energy bill, and to rise by 2.9 percent in 2024, mainly due to the anticipated increase in purchases of finished consumer goods and capital goods. In addition,

with tourism expected to continue its recovery, travel revenues would rise by 14.9 percent to 107.6 billion dirhams in 2023 and remain approximately stable in 2024. As for remittances, their outlook remains highly uncertain, but the most recent data point to a positive dynamic in the medium term, with annual increases of around 3.5 percent to reach 114.7 billion dirhams in 2023 and 118.7 billion in 2024. Under these conditions, the current account deficit would be around 2.5 percent of GDP in 2023 and in 2024, after 3.5 percent in 2022. In terms of FDI, revenues would amount to 3.3 percent of GDP over the projection horizon. All in all, and taking into account the Treasury's forecast external financing, official reserve assets would stand at 361.2 billion dirhams at the end of 2023 and at 357.9 billion dirhams at the end of 2024, covering around 5.5 months of imports of goods and services.

12. In terms of monetary conditions, lending rates rose by 53 basis points quarter-on-quarter to 5.03 percent in the first quarter of 2023, with an increase of 68 basis points in loans to companies and a decrease of 9 basis points in personal loans. In turn, after easing off at the start of the year, banks' liquidity requirements are expected to increase to 107.1 billion dirhams by the end of 2023, and to 118.3 billion dirhams by the end of 2024, driven by a strong expansion in the currency in circulation. Considering these trends and those of economic activity, bank credit to the non-financial sector is expected to grow by 3.7 percent in 2023 and 4.4 percent in 2024. The real effective exchange rate is expected to rise by 0.8 percent in 2023 and 1.2 percent in 2024, as a result of the national currency's appreciation in nominal terms and a domestic inflation rate higher on average than that of our trading partners and competitors.

13. On the public finance front, budget execution for the first five months of 2023 posted a 4.2 percent improvement in ordinary revenues, driven by higher tax receipts. At the same time, overall expenditure rose by 6.8 percent, reflecting in particular higher investment expenses and interest charges on foreign debt. Taking into account the additional effort made to support household purchasing power, Bank Al-Maghrib forecasts that the budget deficit will reach 5 percent of GDP in 2023, before falling back to 4.3 percent of GDP in 2024, due in particular to the planned reduction in the subsidy costs and the expected increase in non-tax revenues.