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 Mayntain 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, Maynly 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 Mayn underlying hypotheses.

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, le 20 June 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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 AlMaghrib forecasts that the national economy will grow by 2.4 percent this year, before improving to 3.3 percent in 2024.

12. 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.

13. In terms of monetary conditions, lending rates rose by 53 basis points quarter-onquarter 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.

14. 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.

15. 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.

OVERVIEW

Despite persistently high inflation levels and further tightening of financial conditions, the global economy continues to show signs of relative resilience in an international context marked by the fallouts of the war in Ukraine. The latest national accounts data point to an acceleration in economic growth over the first quarter of 2023 to 1.6 percent year-on-year in the USA, instead of 0.9 percent a quarter earlier, reflecting, in particular, stronger household consumption. In the Eurozone, on the other hand, growth fell from 1.8 percent to 1 percent, with diverging trends from one country to the next. In Germany, the economy contracted by 0.5 percent after growing by 0.8 percent, while in France and Spain, growth accelerated from 0.6 percent to 0.9 percent and from 2.9 percent to 3.8 percent respectively. In the UK, the pace of activity slowed from 0.6 percent to 0.2 percent, though forecasts were revised upwards.

In the major emerging economies, growth rebounded to 4.5 percent in China, from 2.9 percent a quarter earlier, driven primarily by the lifting of health restrictions and by the improved performance of both consumption and exports. For its part, the Russian economy continues to suffer from the repercussions of war and sanctions, contracting by 1.9 percent in the first quarter of 2023, after 2.7 percent a quarter earlier.

On the labor markets, the unemployment rate rose in the United States to 3.7 percent in May, after 3.4 percent a month earlier, with an increase in job creation to 339,000 from 294,000. In the Eurozone, the unemployment rate fell slightly to 6.5 percent in April, from 6.6 percent in March.

On the financial markets, the stock indices of the major advanced economies slid downwards in May compared with the previous month, with the Eurostoxx 50 down by 0.8 percent, the FTSE 100 by 1.4 percent and the Dow Jones Industrials by 1.2 percent. Conversely, the Nikkei 225 rose by 6.2 percent. These developments took place together with a slight decrease in volatility on US markets, with the VIX falling from 17.8 in April to 17.6 in May, and an increase on European markets, with the VSTOXX rising from 18.1 to 18.2 points. In emerging markets, the MSCI EM declined by 1.1 percent, mainly reflecting contractions by 5 percent in China and 8.9 percent in Türkiye.

Sovereign yields remained virtually unchanged between April and May for the main advanced economies, except for the USA, where the 10-year bonds rose by 13 basis points (bp) to 3.6 percent. In the emerging economies, this yield fell by 10 bp to 2.7 percent for China, by 94 bp to 11.5 percent for Brazil, by 19 bp to 7 percent for India and by 55 bp to 11.3 percent for Türkiye.

On the foreign exchange markets, between April and May, the euro fell 1 percent against the dollar and 1.2 percent against the sterling, while it strengthened 1.8 percent against the Japanese yen. Over the same period, the currencies of the main emerging economies showed diverging trends against the dollar, with the Chinese renminbi rising 1.5 percent, the Indian rupee 0.4 percent and the Turkish lira 2.2 percent, while the Brazilian real depreciated by 0.7 percent.

On the commodities markets, after its last rise in April, the price of Brent crude fell month-on-month by 10 percent to an average of 75.7 dollars a barrel in May and remained also down by 32.6 percent year-on-year. This development can be attributed to concerns about the outlook for demand and further monetary tightening. Excluding energy, prices fell 3.6 percent month-on-month, reflecting, notably, declines by 6.4 percent for metals and ores and 2.5 percent for agricultural products. Prices for phosphate and derivatives contracted in May by 19.9 percent to 510 dollars a ton for DAP and by 11.7 percent to 485.6 dollars a ton for TSP, while the price of rock phosphate remained stable at an average of 345 dollars a ton. Year-on-year, prices edged up 35.3 percent for rock phosphate, and down 39.5 percent for DAP and 41.3 percent for TSP.

Against this backdrop, inflationary pressures continued to ease gradually, particularly in advanced countries. Inflation decelerated between April and May from 7 percent to 6.1 percent in the Eurozone, reflecting drops from 7.6 percent to 6.3 percent in Germany, from 6.9 percent to 6 percent in France, from 3.8 percent to 2.9 percent in Spain and from 8.7 percent to 8.1 percent in Italy. Likewise, in the United States, it continued to drop for the eleventh consecutive month, standing at 4 percent in May from 4.9 percent a month earlier.

In terms of monetary policy stance, after ten successive hikes totaling 500 basis points, the FED decided at the end of its June 13-14 meeting to keep the target range for the federal funds rate unchanged at [5.00 percent-5.25 percent], indicating that it expects further hikes this year might be appropriate. Similarly, based on its forecast for inflation to be higher for a longer period, the ECB raised, on the 15th of the same month, its three key rates by 25 points and confirmed that it will end reinvestments under the Asset purchase program (APP) by July 2023.

At the domestic level, economic activity slowed sharply to 1.3 percent in 2022, following the 8 percent rebound in 2021. Non-agricultural value added decelerated from 6.3 percent to 3 percent, while agricultural output contracted by 12.9 percent after increasing 19.5 percent. On the demand side, the domestic component made a negative contribution to growth at 1.7 percentage points instead of a positive contribution at 9.5 points, while the external component was positive at 2.9 points compared to -1.5 points in 2021.

The overall situation on the labor market remains unfavorable. Between the first quarter of 2022 and the same period in 2023, a further 280,000 jobs were lost, following the 58,000 jobs lost a year earlier. Considering a net outflow of 196 thousand jobseekers, the activity rate fell from 44.5 percent to 43.1 percent, and the unemployment rate rose from 12.1 percent to 12.9 percent nationally, and from 16.3 percent to 17.1 percent in urban areas.

In terms of foreign trade, data for the first four months of the year showed a year-on-year widening of the trade deficit by 2.6 percent, with the coverage rate at 61.5 percent due to increases of 3.6 percent in exports and 3.2 percent in imports. The improvement in exports was mainly driven by 40.4 percent growth in automotive shipments and 11.6 percent in textiles and leather. Conversely, sales of phosphates and derivatives fell by 30.5 percent. The rise in imports mainly reflected increases of 19.1 percent in capital goods and 10.7 percent in consumer goods, while the energy bill fell by 1.7 percent. At the same time, travel receipts have more than doubled, and transfers from Moroccans living abroad continued their upward trend, posting an increase of 12.8 percent. As for the main financial operations, FDI receipts fell by 4.1 percent, while Moroccan direct investments abroad expanded by 57.2 percent.

Under these conditions, Bank Al-Maghrib's official reserve assets stood at 358.6 billion dirhams, equivalent to around 5 months and 25 days of imports of goods and services. In terms of monetary conditions, banks' liquidity requirements eased, falling from a weekly average of 87.8 billion in the fourth quarter of 2022, to 69.6 billion in the first quarter of 2023 and 66.9 billion on average in April and May. Against this background, Bank Al-Maghrib reduced the amount of its injections from 102.5 billion to 83.5 billion, then to 78.8 billion. Monetary conditions were also characterized by an appreciation in the real effective exchange rate and a quarterly increase in lending rates of 53 basis points to 5.03 percent in the first quarter of 2023. Bank loans to the non-financial sector rose by 6.2 percent in the first quarter of 2023, after 6.7 percent in the fourth quarter of 2022, due to the slowdown from 9.8 percent to 6.7 percent in the growth of loans to private companies.

On the fiscal front, the Treasury's income and expenses for the first five months of 2023 showed a deficit of 24.6 billion dirhams, up 10.7 billion dirhams compared with the same period in 2022. Current revenues improved by 4.2 percent, reflecting a 4.8 percent rise in tax receipts and a 1.4 percent decline in non-tax receipts. On the other hand, current expenditure rose 4.4 percent, mainly reflecting increases of 6.3 percent in expenditure on goods and services and of 17 percent in the debt burden, in conjunction with a 14.4 percent drop in subsidy costs. Under these conditions, the current balance showed a deficit of 2.6 billion, instead of 2.2 billion at end-May 2022. Capital spending rose by 16.4 percent, bringing total expenditure to 178 billion, up 6.8 percent. Considering the reduction in the stock of pending transactions by 2 billion, the cash deficit stood at 26.5 billion, compared with 23.6 billion a year earlier. This requirement and the negative net domestic cash flow of 534 million were covered by net external resources up to 27.1 billion, including 25.8 billion from the issuance of bonds on the international financial market. Accordingly, outstanding direct public debt is expected to have risen by 6.8 percent compared with its level at end-December 2022.

On the Casablanca stock exchange, the MASI index rose by 5 percent in May, compared with 1.3 percent in April, representing an annual performance of 3.1 percent. This monthly trend was driven by increases of 10.6 percent in the "Construction" sector, 5.2 percent in the banking sector and 3.8 percent in the agri-food sector, as against declines of 10 percent and 7.7 percent respectively in the "mining" and "hardware, software and IT services" sectors. Transaction volumes totaled 1.3 billion in April and 3.4 billion in May, and market capitalization stood at 572 billion at end-May, up 1.9 percent since the start beginning of the year.

On the real estate market, the real estate asset price index showed a slight rise in the first quarter of 2023 at 0.3 percent from the previous quarter, with price rises at 1.1 percent for commercial property and 0.9 percent for land, and a drop of 0.2 percent for residential property. The number of transactions fell by 14.8 percent overall, by 17.3 percent for residential property, 10.6 percent for land and 3.7 percent for commercial property.

Against this backdrop, inflation decelerated to 7.8 percent in April, following an average 9.1 percent in the first quarter of 2023. This was mainly due to a 7.3 percent drop in fuel and lubricant prices, following an average rebound of 19.2 percent in the first quarter of 2023, as well as a slowdown in core inflation to 7.3 percent in April, compared with an average of 8.2 percent. For their part, prices of volatile food products, although decelerating slightly, continued to stand at high rates in April, i.e., 24 percent after 24.9 percent. On the other hand, regulated tariffs accelerated to 0.9 percent from 0.6 percent on average.

In terms of outlook, the global economy is showing relative resilience, despite persistently high price levels and tighter monetary conditions. Growth is expected to stand at 2.7 percent in 2023, before slowing to 2.3 percent in 2024. In the USA, GDP is set to rise by around 1 percent in 2023 and 2024, while in the Eurozone, GDP growth is expected to stand at 1.4 percent this year and 0.8 percent in 2024. In the UK, despite the purchasing power crisis and strikes, GDP growth is expected to remain positive at 0.1 percent in 2023 and 0.4 percent in 2024.

In the main emerging countries, with the lifting of restrictions, the Chinese economy is expected to grow by 6.1 percent in 2023, before decelerating to 4.8 percent in 2024. The Indian economy is expected to grow by 5.4 percent in 2023 and 6.7 percent in 2024, driven by higher investment in infrastructure. In Brazil, growth is set to slow considerably to 1.1 percent this year and 0.8 percent in 2024, hindered by the return to normal of commodity prices and tighter monetary conditions. Despite the continuing conflict in Ukraine, growth in the Russian economy for 2023 was revised upwards to 0.1 percent, in line with the fiscal measures put in place. In 2024, growth is expected to be limited to 1.1 percent, penalized by the sanctions and the stalemate in the war.

On commodity markets, the price of Brent crude oil in particular is expected to hover around 79 dollars a barrel over the medium term, due to a weaker global outlook combined with the OPEC+ countries' continued strategy of cutting production. Concerning phosphates and derivatives, the World Bank's April 2023 projections point to lower prices over the forecast horizon as supply disruptions ease and input prices, particularly energy prices, fall. Rock phosphate prices should therefore drop from $266/t in 2022 to $260/t in 2023 and $240/t in 2024. Similarly, derivatives prices should fall from 772 dollars a ton to 580 dollars a ton in 2023 for DAP, and from 716 dollars a ton to 560 dollars a ton for TSP. In 2024, this downward trend is set to continue, with prices falling to 570 dollars a ton for DAP and 510 dollars a ton for TSP. Regarding foodstuffs, the FAO index is set to fall by 10.9 percent on average in 2023, before rising slightly to 0.5 percent in 2024.

In this context, inflationary pressures will gradually ease over the medium term, but their levels will remain high. In the USA, as energy and housing prices drop, inflation would slow down from 8 percent in 2022 to 4.4 percent in 2023 and 2.7 percent in 2024, while its core component would fall from 6.1 percent to 4.8 percent and then to 2.8 percent. In the Eurozone, inflation is set to decelerate from 8.4 percent to 6.1 percent in 2023 and 3.3 percent in 2024, mainly due to lower gas prices, while its core trend is expected to remain high, averaging 5.5 percent in 2023 before dropping to 3.2 percent in 2024, from 3.9 percent in 2022.

At the domestic level, exports are expected to drop by 2.8 percent in 2023, due mainly to lower sales of phosphates and derivatives, in line with the projected decline in fertilizer prices. Imports should fall by 2.2 percent, mainly due to a reduction in the energy bill and lower purchases of semi-products. At the same time, travel receipts should continue to grow, rising 14.9 percent to 107.6 billion, while transfers from Moroccans living abroad should reach 114.7 billion for the year as a whole, compared with 110.7 billion in 2022. Current account deficit should thus end the year at 2.4 percent of GDP in 2023, after 3.5 percent in 2022. FDI receipts would amount to 45.8 billion dirhams, equivalent to 3.2 percent of GDP, after 3 percent in 2022. In 2024, exports are expected to grow by 6 percent, mainly reflecting a rise in automotive sector shipments to 141.2 billion dirhams and, to a lesser extent, an improvement in sales of phosphates and derivatives to 90.3 billion. Imports are expected to rise by 2.9 percent, driven mainly by an increase in imports of finished consumer goods and capital goods, while the energy bill is expected to reach 125.4 billion dirhams. Travel receipts are expected to remain virtually stable in 2024, at 106.7 billion dirhams, while transfers from Moroccans living abroad, whose growth is still surrounded by considerable uncertainty, are expected to continue their upward trend, improving by 3.5 percent to 118.7 billion dirhams. Current account deficit should therefore deteriorate to 2.5 percent of GDP. FDI receipts would amount to the equivalent of 3.3 percent of GDP.

Assuming the materialization of the planned external borrowings, ORA will increase to 361.2 billion by the end of 2023, before returning to 357.9 billion in 2024, equivalent to virtually 5.5 months' imports of goods and services.

Regarding monetary conditions, following a 3.9 percent depreciation in 2022, the real effective exchange rate would rise by 0.8 percent in 2023 and 1.2 percent in 2024, due to both the appreciation of its value in nominal terms and a domestic inflation level higher on average than that of trading partners and competitors. Bank liquidity deficit is set to widen to 107.1 billion dirhams by the end of 2023, and to 118.3 billion dirhams by the end of 2024, driven by a sharp rise in currency in circulation. Bank lending to the non-financial sector, after rising by 7.9 percent in 2022, is expected to improve by around 3.7 percent in 2023 and 4.4 percent in 2024, in view of the expected growth in economic activity and banking sector projections.

In terms of public finances, fiscal deficit is expected to narrow from 5.2 percent of GDP in 2022 to 5 percent in 2023, an upward revision of 0.3 percentage points compared to the March projections. This is due to the inclusion of additional general budget appropriations of 10 billion dirhams and the higher tax revenue forecast, considering BAM's new macroeconomic projections and fiscal achievements to the end of April 2023. In 2024, the deficit would continue to narrow to 4.3 percent of GDP, reflecting in particular a reduction in the subsidy burden to 7.3 billion dirhams, compared with dirhams 21.7 billion in 2023 and 42.1 billion dirhams in 2022, and the mobilization of 30 billion dirhams in revenues from specific financing mechanisms, while tax receipts should post a limited increase.

In terms of economic activity, after a rebound of 8 percent in 2021 and a slowdown to 1.3 percent in 2022, economic growth should accelerate to 2.4 percent this year and 3.3 percent in 2024. This includes a 1.6 percent increase in agricultural value added, considering a cereal harvest estimated by the Department of Agriculture at 55.1 million quintals (MQx), then to 5.5 percent in 2024, assuming an average cereal output of 70 MQx. Non-agricultural activities are expected to slow to 2.5 percent in 2023, followed by an acceleration to 3.2 percent in 2024. On the demand side, net exports should continue to stimulate growth in 2023, while the domestic component would remain weak. In 2024, the contribution of net exports to growth would remain positive, albeit attenuating, while domestic demand would consolidate somewhat.

Following a sharp acceleration to 6.6 percent in 2022, inflation would continue to decelerate, albeit remaining at high levels. It would thus average 6.2 percent in 2023, due to the rise in prices of volatile food products, then would stand at 3.8 percent in 2024, including a rise in butane gas and sugar prices induced by the expected reduction in the subsidy costs, and an expected drop in prices of volatile food products thanks in particular to the support measures introduced by the government. Its core component is expected to slow to 6.1 percent on average in 2023, then to 2.9 percent in 2024.

The risks weighing on the outlook remain high, and could, in the event they materialize, affect the central projection, with the balance tilting downwards for growth and upwards for inflation. Indeed, the intensification of the war in Ukraine and geopolitical tensions could trigger a new energy crisis in Europe and keep commodity costs high. Tighter monetary policies in advanced countries and tighter financial conditions would also pose additional risks to the global economy.

Nationally, the risks are mainly associated with climate-related disruptions and deteriorating water stress, which pose a risk to the outlook for both cereal and non-cereal agricultural output. Over the medium term, the positive impact of efforts to boost investment should help accelerate growth.

As for inflation, the risks surrounding its outlook remain on the upside. Indeed, persistent inflationary pressures relating to domestic factors, as reflected by higher volatile food products prices notably, could lead to stronger-than-expected rise in consumer prices. However, a more rapid easing of external inflationary pressures could trigger a faster deceleration in inflation.

1. INTERNATIONAL DEVELOPMENTS

The global economy continues to show signs of a relative resilience in a challenging international context marked by the fallouts of the war in Ukraine, the persistence of high inflation and the ongoing tightening of financial conditions. It is driven Maynly by the rebound in economic activity in China following the abandonment of its zero COVID policy, and by the continuing favorable trend in labor markets in advanced countries, namely the United States. However, conditions in financial markets further tightened in May, in response to additional monetary policy tightening and growing concerns over the US debt ceiling. As for commodity markets, the price of Brent crude fell in May compared to April, Maynly as a result of market concerns over uncertainties surrounding the manufacturing activity in China and the prospect of additional monetary tightening. Against this backdrop, inflationary pressures receded sharply in the UK, the USA, and the euro are

1.1 Economic activity and employment

1.1.1 Economic activity

Data on the first quarter of 2023 show a slight acceleration in US growth to 1.6 percent year-on-year, following a 0.9 percent rise a quarter earlier, due particularly to the resilience of household consumption. In the euro area, on the other hand, the pace of activity slowed from 1.8 percent to 1 percent, with diverging trends among its Mayn member countries. In Germany, the GDP contracted by 0.5 percent, following a 0.8 percent rise, while increases were reported in France (from 0.6 percent to 0.9 percent), Spain (from 2.9 percent to 3.8 percent), and Italy (from 1.5 percent to 1.9 percent).

In the other advanced economies, growth decelerated from 0.6 percent to 0.2 percent in the UK, while it accelerated sharply in Japan from 0.4 percent to 1.8 percent, driven Maynly by the rising household consumption and the tourism sector recovery.

Table 1.1: YoY change in quarterly growth (%)

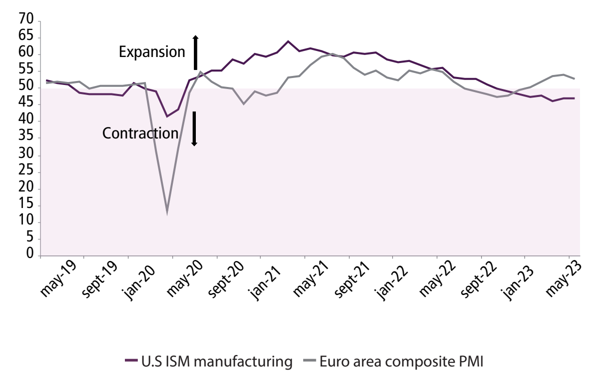
	2021				2022				2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Advanced countries									
United States	1,2	12,5	5,0	5,7	3,7	1,8	1,9	0,9	1,6
Euro area	-0,8	14,2	4,0	4,8	5,5	4,4	2,5	1,8	1,0
France	1,5	18,7	3,5	5,1	4,7	4,0	1,1	0,6	0,9
Germany	-2,2	10,2	1,9	1,2	3,8	1,7	1,4	0,8	-0,5
Italy	0,2	16,8	5,2	6,9	6,5	5,0	2,5	1,5	1,9
Spain	-4,4	17,9	4,2	6,6	6,5	7,7	4,8	2,9	3,8
United Kingdom	-7,7	24,4	8,5	8,9	10,6	3,8	2,0	0,6	0,2
Japan	-1,1	7,8	1,7	1,0	0,7	1,5	1,6	0,4	1,8
Emerging countries									
China	18,7	8,3	5,2	4,3	4,8	0,4	3,9	2,9	4,5
India	6,3	20,3	9,3	4,7	3,9	12,0	5,4	4,7	6,5
Brazil	1,7	12,4	4,4	2,1	2,4	3,7	3,6	1,9	4,0
Turkey	7,5	22,2	7,9	9,6	7,6	7,8	4,0	3,5	4,0
Russia	0,6	11,2	5,0	5,8	3,0	-4,5	-3,5	-2,7	-1,9

Source: Thomson Reuters and Eurostat.

Concerning the Mayn emerging countries, China posted a net rebound in growth in the first quarter of 2023, with a year-on-year rate of 4.5 percent against 2.9 percent a quarter earlier, as a result of lifting health restrictions, strengthening consumption, as well as a notable rise in net exports. Fueled by the momentum of consumption and services, economic growth in India rose significantly, from 4.7 percent to 6.5 percent. Likewise, growth rate accelerated in Türkiye from 3.5 percent in the fourth quarter of 2022 to 4 percent in the first quarter of 2023, and in Brazil from 1.9 percent to 4 percent. The Russian economy, for its part, continues to suffer from the fallouts of war and sanctions, contracting by 1.9 percent in the first quarter of 2023, after 2.7 percent a quarter earlier.

As for developments in leading indicators, after 6 months of recovery, the Eurozone Composite PMI Index fell in May to 52.8 from 54.1 in April. This was due to a steeper contraction of the manufacturing sector and a slight slowdown in activity in the service sector. Similarly, the US ISM Manufacturing Index dropped to 46.9 in May from 47.1 in April.

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 United States, the unemployment rate rose to 3.7 percent in May against 3.4 percent in April, with job creation up 339,000 from 294,000 a month earlier. In the euro area, the unemployment rate fell slightly in April to 6.5 percent, compared to 6.6 percent the previous month. In its Mayn member countries, unemployment reMayned stable at 7 percent and 2.9 percent respectively in France and Germany, while it continued to fall to 7.8 percent in Italy and 12.7 percent in Spain.

Based on the latest February figures, unemployment in the UK rose slightly to 3.9 percent against 3.8 percent the previous month.

Table 1.2: Change in unemployment rate (%)

(In %)	2021	2022	2023		2023
			March	April	May
United States	5,4	3,7	3,5	3,4	3,7
Euro area	7,7	6,7	6,6	6,5	N.D
France	7,9	7,3	7,0	7,0	N.D
Germany	3,7	3,1	2,9	2,9	N.D
Italy	9,6	8,1	7,9	7,8	N.D
Spain	14,8	12,9	12,8	12,7	N.D
United Kingdom	4,5	3,7	N.D	N.D	N.D

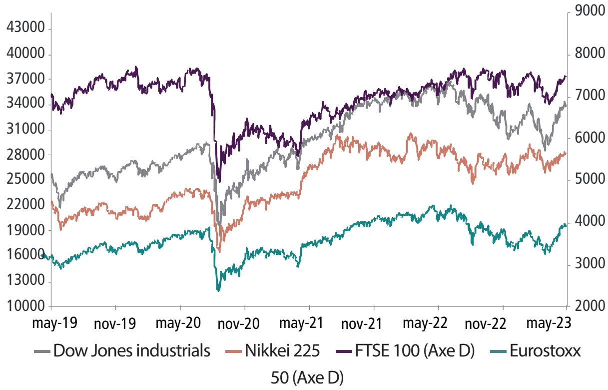
Source : Eurostat and BLS.

1.2 Monetary and financial conditions

Given the rise in key rates and the concerns about the US debt, stock market indices in the Mayn advanced economies trended downwards during the month of May compared to the preceding month, with drops of 0.8 percent for the Eurostoxx 50, 1.4 percent for the FTSE 100 and 1.2 percent for the Dow Jones Industrials. Conversely, the Nikkei 225 recorded a net rise by 6.2 percent. These changes went hand in hand with a slight decrease in the volatility in the US markets, as the VIX fell from 17.8 to 17.6 in May, and a rise in European markets, with the VSTOXX standing at 18.2 in May, from 18.1 a month earlier. In the emerging countries, the MSCI EM Index shrunk by 1.1 percent, largely reflecting a decline of 5 percent for China and of 8.9

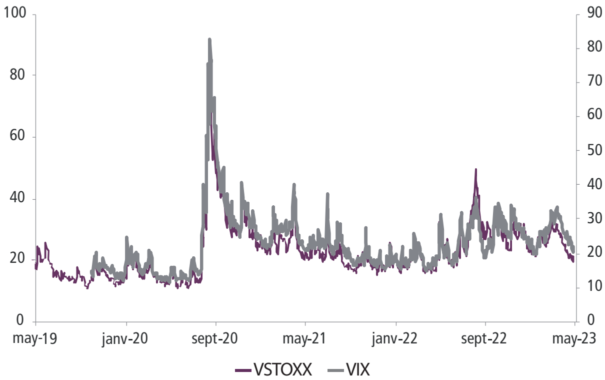
percent for Türkiye.

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



Source : Thomson Reuters Eikon.

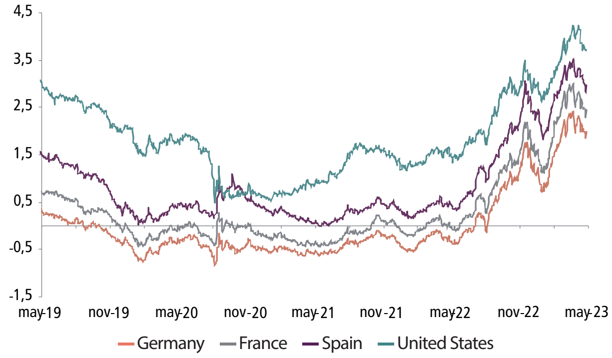
Chart 1.3: Change in the VIX and the VSTOXX



Source : Thomson Reuters Eikon.

As for bond markets, 10-year sovereign yields remained almost unchanged between April and May in the main advanced economies, with the exception of the USA, where they rose 13 basis points (bp) to 3.6 percent. For emerging economies, this rate fell 10 bp to 2.7 percent for China, 94 bp to 11.5 percent for Brazil, 19 bp to 7 percent for India, and 55 bp to 11.3 percent for Türkiye.

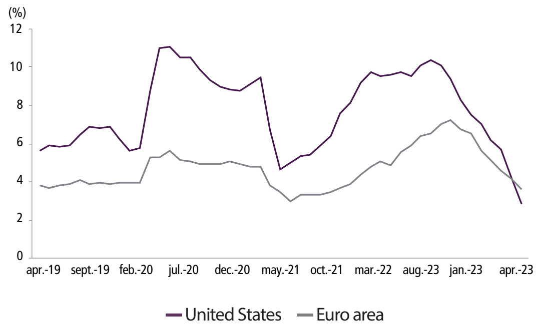
Chart 1.4: Change in 10-year sovereign bond yields



Source : Thomson Reuters Eikon.

Regarding money markets, 3-month Euribor and Libor for the same maturity rose 20 bp to 3.37 percent and 13 bp to 5.38 percent respectively between April and May. Bank credit decelerated month-on-month from 4 percent to 2.5 percent in April in the US, and from 3.9 percent to 3.3 percent over the same period in the euro area.

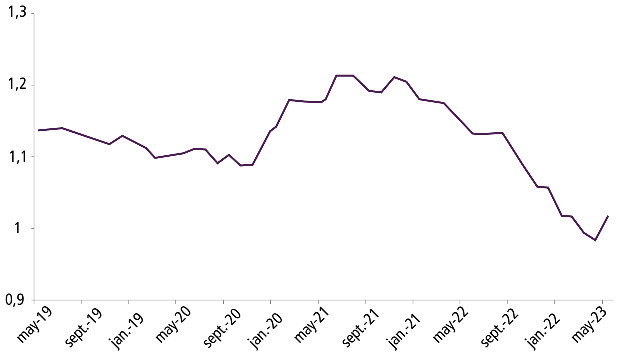
Chart 1.5: YoY credit growth in the US and euro area



Source : Thomson Reuters Eikon.

On foreign exchange markets, between April and May, the euro depreciated by 1 percent against the dollar and by 1.2 percent against the pound sterling. Conversely, it gained 1.8 percent against the Japanese yen. Over the same period, the currencies of the main emerging economies performed differently against the dollar, as the Chinese renminbi appreciated by 1.5 percent, the Indian rupee by 0.4 percent and the Turkish lira by 2.2 percent, while the Brazilian real depreciated by 0.7 percent.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters Eikon.

In terms of monetary policy decisions, at the end of its meeting on June 13 and 14, the Fed decided to keep the target range for the federal funds rate unchanged at [5.00 percent-5.25 percent] in order to assess the additional data and their implications on the monetary policy.

For its part, the ECB raised its key rates by 25 bp on June 15, bringing the interest rate on the main refinancing operations to 4 percent, on the marginal lending facility to 4.25 percent and on the deposit facility to 3.5 percent. It also pointed out that although inflation is slowing down, it is likely to remain too high for too long. As for the Asset Purchase Program (APP), it plans to end APP reinvestments as of July 2023. With regard to the Pandemic Emergency Purchasing Program (PEPP), it intends to reinvest principal repayments on maturing securities acquired under the program until at least end-2024.

On May 10, the Bank of England decided to raise its key rate by 25 bp to 4.5 percent, stating that any signs of persistent inflationary pressures would require a further monetary policy tightening.

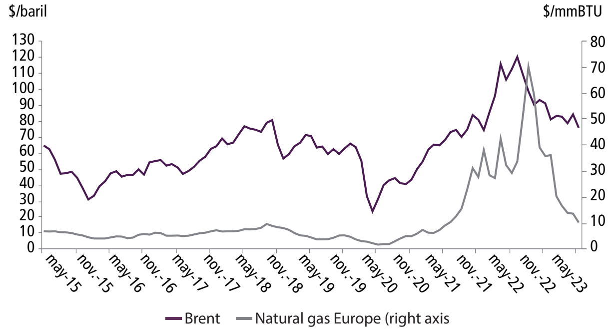
As for the emerging countries, there seems to be a tendency to keep the key rate unchanged. In June, the Reserve Bank of India kept its key rate unchanged at 6.5 percent. At the same time, on May 3, Brazil's central bank also kept its key rate unaltered at 13.75 percent, in order to ensure that inflation converges towards 3.25 percent by 2023, while pointing out that it will not hesitate to resume the tightening cycle if the disinflationary process does not go as planned. The Central Bank of Russia also kept its key rate unchanged at 7.5 percent at its June 9 meeting, stating that it would consider hikes if inflationary risks worsened.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

On the oil market, after its last rise in April, the price of Brent crude fell 10 percent month-on-month to $75.70 per barrel in May, and also remained down 32.6 percent year-on-year. This drop is due to financial markets' concerns about the global economy following the failure of another bank in the United States, uncertainty about the manufacturing activity in China and the prospect of further hikes in central banks' interest rates. Similarly, the price of natural gas on the European market continued to slide in May, down 25.2 percent month-on-month to $10.11 per MMBtu, and by 65.3 percent year-on-year.

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

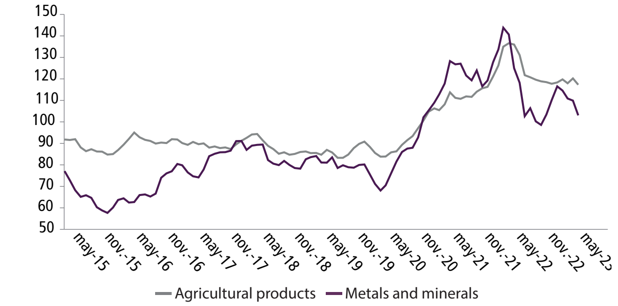


Source : Banque Mondiale.

1.3.2 Non-energy commodity prices

Non-energy commodity prices fell by 3.6 percent month-on-month in May, reflecting in particular a 6.4 percent drop in the prices of metals and ores and a 2.5 percent decline in agricultural products. Year-on-year, prices shrunk by 17 percent, reflecting decreases of 17.9 percent for metals and ores, and 14 percent for agricultural products, with in particular a contraction in prices of US wheat and several oil categories.

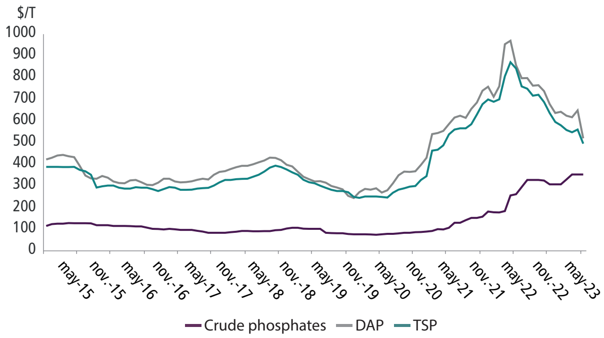
Chart 1.8: Change in non-energy commodity price indices (2010= 100)



Source : Banque Mondiale.

As for phosphates and derivatives, prices fell in February by 2.9 percent to $612.5/t for DAP and by 3.8 percent to $547.5/t for TSP. Conversely, the price of raw phosphate rose by 7.5 percent to $322.5/t. 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.

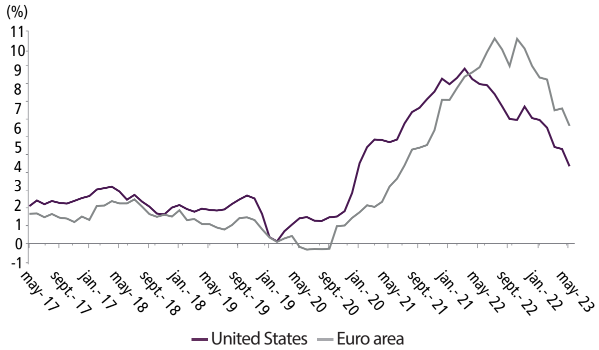
1.3.3 Inflation

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



Sources : Thomson Reuters Eikon.

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

	2021	2022	2023 March	2023 April	2023 May
United States	4,7	8,0	5,0	4,9	4,0
Euro area	2,6	8,4	6,9	7,0	6,1
Germany	3,2	8,7	7,8	7,6	6,3
France	2,1	5,9	6,7	6,9	6,0
Spain	3,0	8,3	3,1	3,8	2,9
Italy	1,9	8,7	8,1	8,7	8,1
United Kingdom	2,6	9,1	10,1	8,7	N.D
Japan	-0,2	2,5	3,3	3,5	N.D

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

At end-April 2023, foreign trade continued its upward trend, with a 3.6 percent increase in exports to 145.7 billion dirhams and a 3.2 percent rise in imports to 237 billion dirhams. As a result, the trade deficit widened by 2.6 percent to 91.3 billion dirhams, with a coverage rate of 61.5 percent. Travel receipts amounted to 32.1 billion dirhams at end-April 2023, against 15.2 billion dirhams a year earlier and 23 billion dirhams in 2019, while remittances from Moroccans living abroad totaled 35.4 billion dirhams, up 12.8 percent year-on-year. As for the main financial operations, FDI receipts fell by 4.1 percent to 9.7 billion, while Moroccan direct investments abroad expanded by 57.2 percent to 9 billion. Under these conditions, Bank Al-Maghrib's official reserve assets stood at 358.6 billion dirhams, the equivalent of 5 months and 25 days' imports of goods and services.

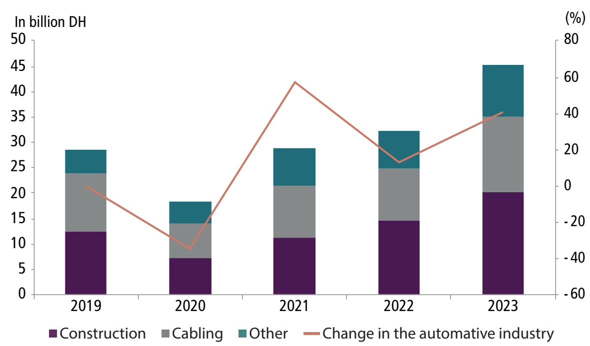
2.1 Trade balance

2.1.1 Exports

The improvement in exports was mainly driven by automotive sector shipments, which rose by 40.4 percent to 44.9 billion dirhams, reflecting increases of 40.4 percent for the construction segment and 43.4 percent for the wiring segment. Similarly, exports of "textiles and leather" continued their bullish momentum, up 11.6 percent to 16.2 billion, reflecting a 14.5 percent increase in sales of "ready-made garments". Exports in the "electronics and electricity" sector improved by 34 percent to 7.5 billion, including increases of 37.7 percent for "wires and cables" and 37.4 percent for "electronic components".

Conversely, sales of phosphates and derivatives dropped by 30.5 percent to 24.7 billion, mainly due to the 30.5 percent contraction in sales of "natural and chemical fertilizers". This decline resulted from a 21 percent slide in export prices and a 12 percent drop in shipped quantities. Similarly, sales in the "agriculture and agri-food" sector fell by 1.8 percent to 33.7 billion, reflecting a 5.4 percent decrease in agricultural products, while food industry exports rose by 1.4 percent. Aerospace exports fell by 8.5 percent to 6.7 billion, driven by a 16.7 percent decline in the assembly segment.

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	january - april		Change	
	2023	2022	In billion	In %
Exportations	145,7	140,6	5,1	3,6
Automobile	44,9	32,0	12,9	40,4
Construction	20,1	14,3	5,8	40,4
Cabling	14,6	10,2	4,4	43,4
Interiors	3,1	2,4	0,7	29,2
Electronics and Electricity	7,5	5,6	1,9	34,0
electronic components (transistors)	3,0	2,2	0,8	37,7
Wires, cables and other connectors for electricity	2,7	1,9	0,7	37,4
Devices for the disconnection or connection of electrical circuits.	0,8	0,6	0,2	32,3
Textile and Leather	16,2	14,5	1,7	11,6
Ready-made garments	10,6	9,3	1,3	14,5
Hosiery articles	3,0	2,8	0,2	6,4
Shoes	1,2	1,1	0,1	10,0
Other mining extractions	1,8	1,8	0,0	1,6
Copper ore	0,4	0,4	0,0	5,8
Barium Sulfate	0,5	0,5	-0,1	-11,0
Agriculture and Agri-Food	33,7	34,3	-0,6	-1,8
Food Industry	17,7	18,7	-1,0	-5,4
Agriculture, forestry, hunt	15,3	15,1	0,2	1,4
Aeronautics	6,7	7,3	-0,6	-8,5
Assembly	4,2	5,0	-0,8	-16,7
EWIS*	2,5	2,2	0,2	10,3
Phosphates and derivatives	24,7	35,5	-10,8	-30,5
Other industries	10,2	9,6	0,6	6,1
Metallurgy and metalworking	0,5	0,5	0,1	18,3
Plastic and rubber industry	3,3	3,3	0,0	0,6
Industry pharmaceutical	0,7	0,7	-0,1	-13,1

*Systèmes d'interconnexion de câblage électrique.

Source : Foreign Exchange Office.

2.1.2 Imports

The increase in imports covers diverging trends for the main products. Purchases of capital goods rose by 19.1 percent to 51 billion, with increases of 40.1 percent for "parts of aircraft and other aerial vehicles", 39.5 percent for "apparatus for switching electrical circuits" and 31.6 percent for "piston engines".

Similarly, imports of consumer goods rose by 10.7 to 50.3 billion, reflecting in particular increases of 18.5 percent in purchases of passenger cars and 36.7 percent in spare parts. Purchases of food products grew to 30.8 billion, compared to 28.8 billion at the end of April 2022, with a 33.6 percent increase in purchases of "raw or refined sugar".

Conversely, imports of semi-finished and raw products dropped by 10.4 percent and 10 percent respectively, mainly as a result of lower supplies of ammonia and raw sulfur. Similarly, the energy bill eased by 1.7 percent to 43.2 billion, including a 13 percent drop in purchases of "gas-oils and fuel-oils" and a 6.5 percent fall in those of gasoline.

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

Usage group	January - april		Change	
	CIF Imports	2022	In billion	In %
Importations CAF	237,0	229,6	7,4	3,2
Capital equipments	51,0	42,8	8,2	19,1
Parts of aircraft and other aerial vehicles	5,0	3,6	1,4	40,1
Apparatus for switching electrical circuits	4,5	3,2	1,3	39,5
Piston engines (Industrial equipment)	5,1	3,9	1,2	31,6
Finished consumer products:	50,3	45,4	4,9	10,7
Parts and components for passenger cars	10,1	7,4	2,7	36,7
Passenger cars	6,9	5,8	1,1	18,5
Miscellaneous articles of plastics	3,0	2,5	0,5	18,4
Food products	30,8	28,8	2,1	7,3
Wheat	2,8	2,1	0,7	33,6
Barley	3,3	2,7	0,6	23,7
Raw or refined sugar	0,7	0,2	0,5	-
Dattes	1,6	1,3	0,4	28,6
Energy products	43,2	43,9	-0,7	-1,7
Gas and fuel oils	18,9	21,8	-2,8	-13,0
Coals; cokes and solid fuels fuels	2,0	2,2	-0,1	-6,5
Petroleum gases and other	6,9	7,0	-0,1	-2,0
Finished consumer products	12,3	13,6	-1,4	-10,0
products Parts and pieces for passenger cars	3,0	5,8	-2,8	-48,0
Synthetic and artificial fibre fabrics and synthetic and artificial fibers	0,3	0,7	-0,4	-52,5
HaLA products	49,3	55,1	-5,7	-10,4
Ammoniac	3,7	7,5	-3,7	-50,2
Chemical products	4,6	6,2	-1,6	-26,1
Plastics	0,5	1,9	-1,3	-71,0

Source : Foreign Exchange Office.

2.2 Other components of the current account balance

The surplus on the balance of services improved by 93.9 percent to 41.7 billion, as a result of a 44 percent increase in exports to 77.5 billion, which is higher than the 10.9 percent rise in imports to 35.9 billion.

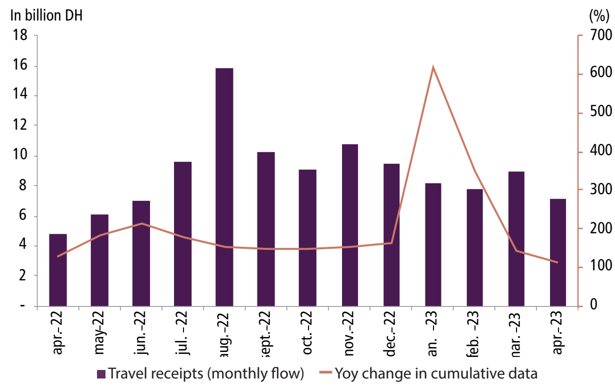
Table 2.3 : Change in the balance of services (in million dirhams)

	January - april		Change	
	2023	2022	In billion	In %
Importations	35,9	32,3	3,5	10,9
Exportations	77,5	53,8	23,7	44,0
Solde	41,7	21,5	20,2	93,9

Source : Foreign Exchange Office.

In particular, travel receipts reported a significant performance of 111.9 percent to reach 32.1 billion dirhams, compared to respective levels of 15.2 billion dirhams and 23 billion dirhams over the same period of 2022 and 2019. Expenditure on the same item also rose by 52.9 percent to 7.1 billion dirhams.

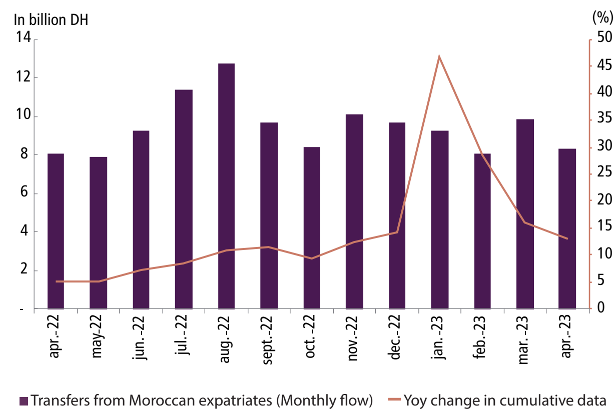
Chart 2.2: Change in travel receipts



Source : Foreign Exchange Office.

Remittances from Moroccans living abroad continued their upward trend, rising by 12.8 percent to 35.4 billion.

Chart 2.3: Change in transfers from Moroccan expatriates



Source : Foreign Exchange Office.

2.3 Financial account

In terms of the main financial operations, net FDI inflows fell by 13.1 percent to 5.6 billion, as a result of a 4.1 percent drop in receipts and an 11.2 percent increase in divestments. As for Moroccan direct investments abroad, their net outflows rose by 3 billion to 4.3 billion, reflecting a 3.3 billion increase in investments.

At end-April 2022, outstanding official reserve assets stood at 358.6 billion dirhams, equivalent to 5 months and 25 days' imports of goods and services.

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

	January - april		Change	
	2023	2022	In billions	In %
Foreign direct investments	5,6	6,4	-0,8	-13,1
Revenues	9,7	10,1	-0,4	-4,1
Expenses	4,2	3,8	0,4	11,2
Investments of Moroccans abroad	4,3	1,2	3,0	-
Expenses	9,0	5,7	3,3	57,2
Revenues	4,7	4,5	0,2	5,6

Source : Foreign Exchange Office.

3. MONEY, CREDIT AND ASSET MARKETS

Over the first quarter of 2023, monetary conditions were marked by a rise in the real effective exchange rate and in lending rates. Bank lending to the non-financial sector increased by 6.2 percent year-on-year, compared with 6.7 percent a quarter earlier, reflecting the slower pace of lending to private companies. As regards the other counterparts of the money supply, growth in net claims on the central government accelerated to 16.6 percent, while official reserve assets rose by 2.8 percent. Overall, money supply grew by 8.5 percent, after 6.6 percent a quarter earlier.

On the real estate market, the asset price index rose by 0.3 percent in the first quarter of 2023, covering price increases of 1.1 percent for commercial property and 0.9 percent for land, as well as a 0.2 percent drop for residential property. The number of transactions fell 14.8 percent overall, 17.3 percent for residential, 10.6 percent for land and 3.7 percent for commercial assets.

On the Casablanca Stock Exchange, the MASI index depreciated by 3.1 percent in the first quarter of the year, and trading volume fell quarter-on-quarter from 28.5 billion dirhams to 15.3 billion. Market capitalization fell by 3.4 percent on a quarterly basis to 542.1 billion dirhams.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

Over the first quarter of 2023, banks' liquidity needs eased to a weekly average of 69.6 billion dirhams, compared with 87.8 billion dirhams a quarter earlier. This reflects a rise in the banks' foreign exchange reserves, mainly due to Treasury issuance of bonds on the international financial market.

Against this backdrop, the Bank reduced the amount of its injections from 102.5 billion to 83.5 billion, of which 39.3 billion were under 7-day advances, 22.1 billion under repurchase agreements, 22 billion under secured loans granted as part of programs to support the financing of SMEs, and 31 million as foreign exchange swaps.

Accordingly, the average residual duration of the Bank's operations rose from 45.1 days to 50.4 days, and the interbank rate remained in line with the key rate, averaging 2.55 percent, a level that takes account of the effect of the Bank Board's decision last March to raise the key rate by 50 basis points.

The most recent available data indicate a further easing of the bank liquidity deficit to 66.9 billion on average in April and May 2023.

On the Treasury bills market, yields continued to rise overall in the first quarter, on both the primary and secondary markets. In April and May, the upward trend in yields continued on the primary market for medium and longer maturities, while short-term yields fell slightly. Similar trends were observed on the secondary market for all maturities except medium-term, where yields stood virtually unchanged.

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

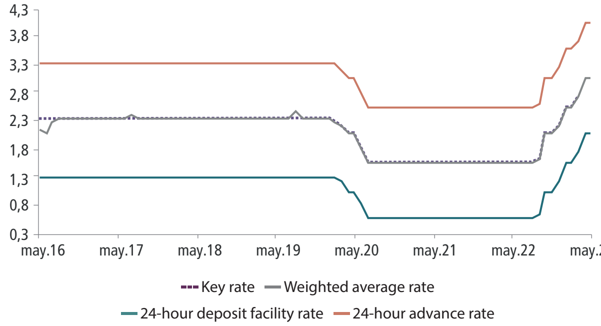
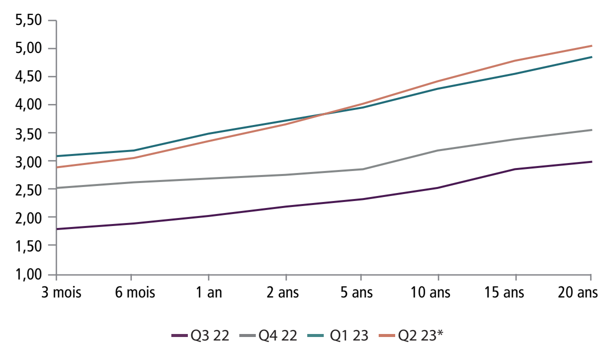


Table 3.1 : Change in Treasury bond yields in the primary market

	2022				2023	
	Q1	Q2	Q3	Q4	Q1	Q2*
26 weeks	1,49	1,66	1,90	3,07	3,22	3,17
2 years	1,83	1,91	2,33	2,44	3,80	3,91
5 years	2,08	2,27	2,64	-	3,98	4,22
10 years	2,43	-	-	3,20	4,38	4,65
15 years	2,70	-	-	-	4,97	5,03

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



*Average recorded over April and May.

Similarly, on the private debt market, interest rates on certificates of deposit continued to rise in the first quarter of 2023. Deposit rates rose by 14 basis points to average 2.38 percent for 6-month deposits, and by 12 basis points to 2.69 percent for 1-year deposits.

Under these conditions, banks' cost of funding1 rose by 7 basis points compared with the fourth quarter of 2022.

The latest available indicators on April indicate a monthly drop of the 6-month deposit rate by 6 bp to 2.43 percent and a rise for the 12-month deposit rate by 34 bp to 2.92 percent.

Chart 3.3: Banks' financing costs (change in basis points)

With regard to lending rates, the results of Bank Al-Maghrib's survey with banks for the first quarter of 2023 show a quarterly increase of 53 basis points in the overall average rate to 5.03 percent. By institutional sector, corporate lending rates rose by 68 basis points to 4.98 percent, reflecting increases of 79 basis points for cash facilities and 43 basis points for equipment loans. As to loans granted to individuals, consumer loans rose by 55 points and housing loans remained virtually unchanged.

Table 3.2: Deposit rates (in percent)

	2021			2022				2023	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	April
6 months	2,23	2,34	2,16	2,10	2,05	2,07	2,24	2,38	2,43
12 months	2,63	2,57	2,42	2,48	2,47	2,39	2,57	2,69	2,92

Table 3.3: Lending rates (in percent)

	2021	2022				2023
	Q4	Q1	Q2	Q3	Q4	Q1
Global	4,44	4,28	4,29	4,24	4,50	5,03
Personal loans	5,16	5,23	5,14	5,33	5,72	5,63
Real estate loans	4,24	4,21	4,19	4,19	4,32	4,36
Consumer loans	6,47	6,50	6,32	6,39	6,40	6,95
Loans to businesses	4,26	4,00	4,03	4,04	4,30	4,98
Cash advances	4,06	3,83	3,84	3,93	4,19	4,98
Equipment loans	4,58	4,31	4,60	4,14	4,38	4,81
Real estate loans	5,78	5,53	5,83	5,41	5,61	5,37

3.1.2 Exchange rates

During the first quarter of 2023, the euro rose by 5.15 percent versus the US dollar. Against this backdrop, the dirham depreciated by 0.66 percent against the euro and appreciated by 4.56 percent against the US dollar. Compared with the currencies of the main emerging economies, the national currency appreciated in particular by 6 percent against the Turkish lira and by 0.51 percent against the Chinese yuan. Overall, the effective exchange rate rose by 1.38 percent in nominal terms and 1.89 percent in real terms.

Chart 3.4: Dirham exchange rate

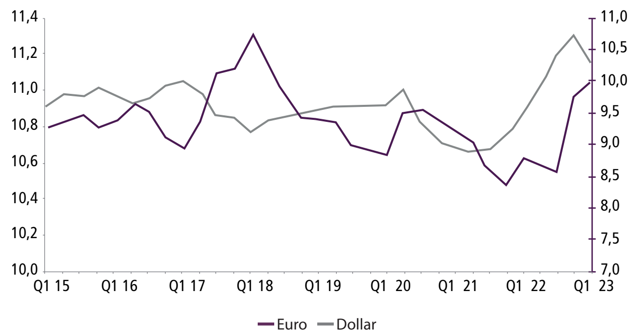
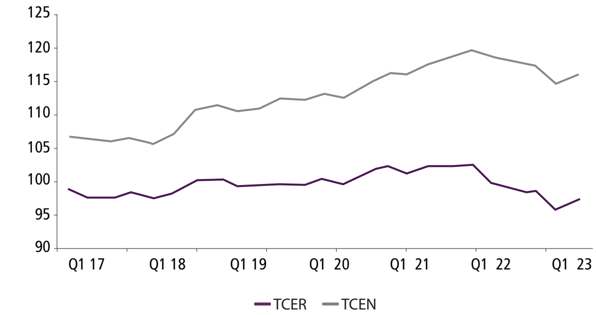


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Sources : BAM and IMF calculations.

With regard to foreign currency transactions, the average volume of spot transactions by banks with customers in the first quarter of 2023 showed a slight annual decline of 0.3 percent to 32.5 billion dirhams for sales, and a rise of 5.2 percent to 32.5 billion dirhams for purchases. Forward transactions fell by 11.2 percent to 18.4 billion dirhams for purchases, and by 46.6 percent to 3.7 billion dirhams for sales.

3.1.3 Monetary situation

M3 aggregate posted an annual increase of 8.5 percent in the first quarter of 2023, compared with 6.6 percent a quarter earlier. This reflects an accelerated growth of demand deposits with banks from 8.6 percent to 9.6 percent, in particular, as a result of the 9.4 percent improvement in household deposits following an 8.5 percent rise earlier. Similarly, currency in circulation rose from 9 percent to 11.5 percent, money-market funds from 18.1 percent to 25.3 percent, and foreign currency deposits from 3 percent to 7.5 percent. At the same time, the decline in time deposits eased from 8.3 percent to 8 percent, with household time deposits falling by 2.4 percent after 5.2 percent a quarter earlier.

By main counterparts, the change in money supply reflects an acceleration from 14.4 percent to 16.6 percent in the growth rate of net claims on the central government, and decelerations from 4.9 percent to 2.8 percent in official reserve assets and from 6.7 percent to 6.4 percent for bank loans.

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

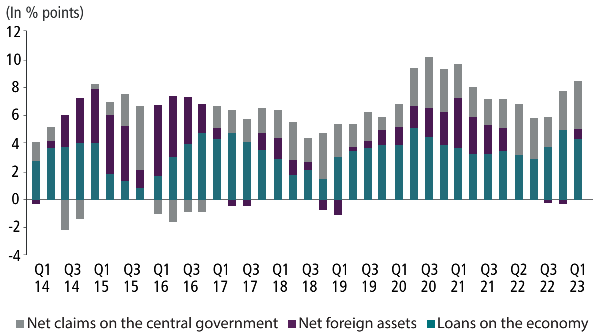
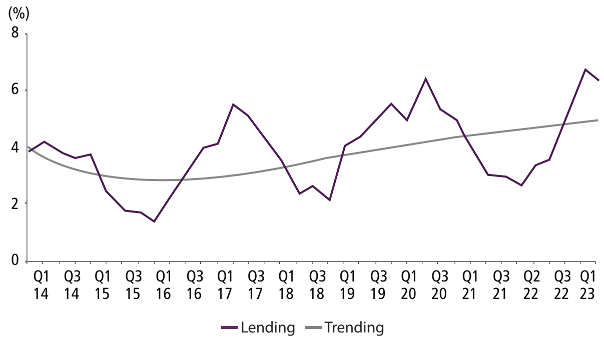


Chart 3.7: Bank credit (Year-on-year change)



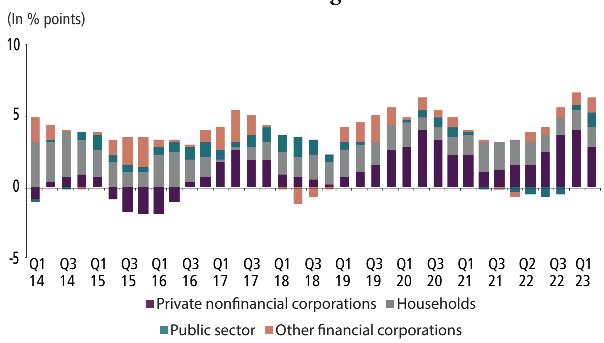
In particular, loans to the non-financial sector grew by 6.2 percent, from 6.7 percent in the fourth quarter of 2022, as a result of the slowdown from 9.8 percent to 6.7 percent in the growth of loans to private companies. In particular, this reflects a deceleration in the growth of cash facilities from 14.7 percent to 8 percent, and a steeper decline in loans for property development from 7.9 percent to 11.4 percent.

On the other hand, loans to State-owned enterprises (SOEs) rose by 25.9 percent, following a 6.7 percent increase in the previous quarter, with a 9.7 percent rise in equipment loans after a 5.7 percent decline. Loans to individual businessmen rose from 8.3 percent to 9 percent, reflecting in particular accelerated growth in cash facilities from 11.7 percent to 14.3 percent and in real estate loans from 17 percent to 18.3 percent.

Loans to individuals remained unchanged at 3 percent, with a slowdown from 3.2 percent to 2.9 percent for housing loans and from 3.8 percent to 3.2 percent for consumer loans.

By sector of activity, data for the first quarter of 2023 show a 39.5 percent increase in loans to the “extractive industries”, a 23.4 percent rise in loans to the “chemical and para-chemical industries” and a 2.8 percent increase in loans to the “miscellaneous manufacturing industries”. On the other hand, lending to the “hotels and restaurants” and “construction” sectors fell by 2.5 percent and 1.1 percent respectively.

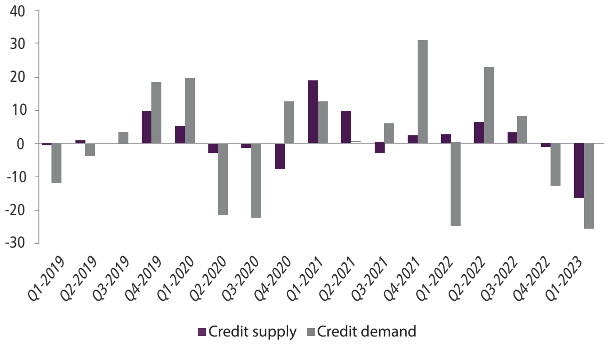
Chart 3.8: Contribution of institutional sectors to total outstanding loans



Source : BAM.

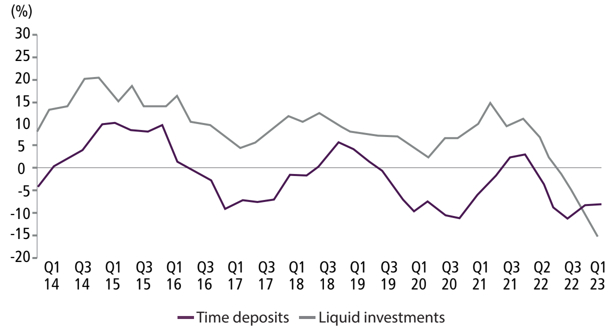
Non-performing loans rose by 5.2 percent and their ratio to outstanding bank loans stood at 8.7 percent. They rose by 9.1 percent for private non-financial companies and by 0.6 percent for households, with ratios to its outstanding amount at 12.2 percent and 9.7 percent respectively.

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



Source : BAM.

Chart 3.10: YoY change in liquid investments and time deposits



Loans granted to the non-financial sector by financial companies other than banks fell from 6.8 percent to 4.7 percent. This reflects a deceleration in the growth of loans given by finance companies to 3.6 percent, those distributed by off-shore banks to 13.1 percent, and loans granted by microcredit associations to 2 percent. The latest available data for April indicate an annual growth in bank loans of 5.6 percent, with a deceleration in the growth rate of loans to the non-financial sector by 5.3 percent and an acceleration in the growth rate of loans to financial companies by 7.5 percent. Liquid investment aggregates continued to decline, down 15.7 percent, reflecting the steeper drop in bond mutual funds (from 19.7 percent to 28.3 percent), negotiable Treasury bills (from 3.5 percent to 7.8 percent) and shares and diversified mutual funds (from 11.3 percent to 18.4 percent).

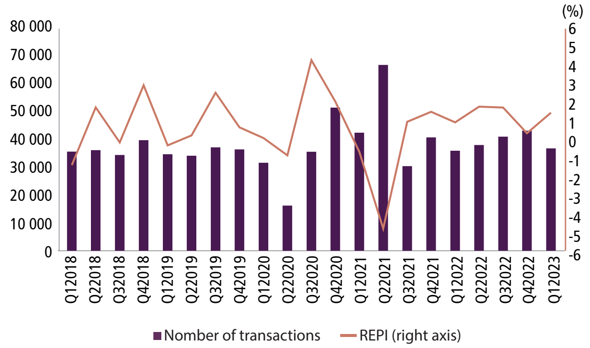
3.2 Asset prices

3.2.1 Real estate assets

In the first quarter of 2023, the real estate asset price index rose by 0.3 percent. This quarterly change reflects increases of 0.9 percent in land prices and 1.1 percent in commercial property prices, and a 0.2 percent drop in residential property prices. For its part, the number of transactions fell by 14.8 percent, including declines of 17.3 percent for residential property, 10.6 percent for land and 3.7 percent for commercial property.

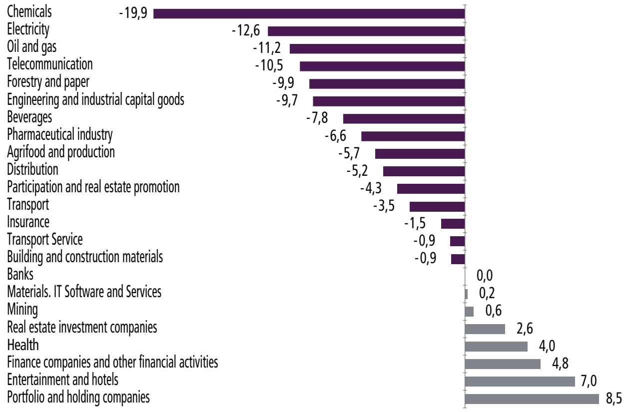
In the main cities, prices fell by 0.1 percent in Casablanca, 0.2 percent in Kénitra, 0.7 percent in Tangier and 1 percent in Oujda. Conversely, other cities posted increases ranging from 0.5 percent in Meknes to 5 percent in Rabat. In terms of sales, with the exception of Fez, where transactions rose by 1.6 percent, declines were recorded in the other cities, ranging from 1.4 percent in Rabat to 29.6 percent in Meknes.

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



Sources: BAM and ANCFCC.

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



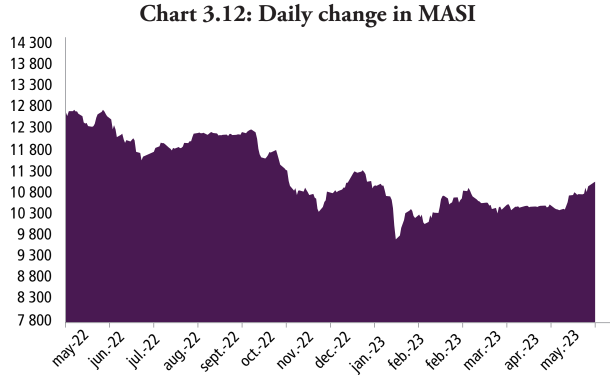
Source : Bourse de Casablanca.

3.2.2 Financial assets

3.2.2.1 Shares

Over the first quarter of 2023, the MASI index rose by 3.1 percent. This quarterly trend mainly reflects declines of 12.6 percent in the electricity sector index, 11.2 percent in the oil & gas sector index, and 5.7 percent in the agri-food sector index. Conversely, indices for "real estate investment companies" and "portfolio and holding companies" rose by 2.6 percent and 8.5 percent respectively.

Chart 3.12: Daily change in MASI



Source : Bourse of Casablanca.

Trading volume fell quarter-on-quarter from 28.5 billion dirhams to 15.3 billion dirhams. By segment, sales stood at 5.2 billion as against 9.2 billion on the central market, and 1.2 billion as against 16.9 billion on the block market. Against this backdrop, market capitalization recorded a quarterly decline of 3.4 percent to 542.1 billion dirhams.

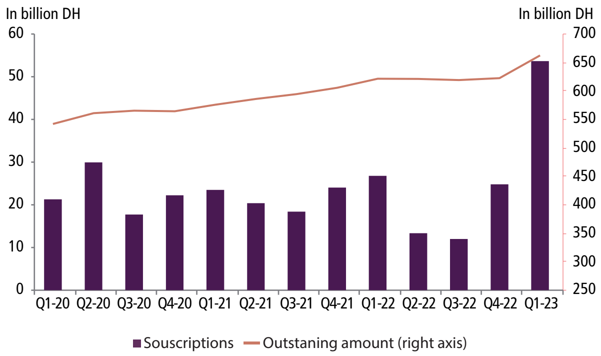
The latest available data indicate that MASI rose by 5 percent in May, compared with 1.3 percent in April, representing an annual performance of 3.1 percent. Trading volumes totaled 1.3 billion in April and 3.4 billion in May, while market capitalization stood at 572 billion at end-May, up 1.9 percent since the beginning of the year.

3.2.2.2 Sovereign debt market

Quarter-on-quarter, Treasury issuances on the domestic market more than doubled in the first quarter of 2023 to 89.8 billion dirhams. Short-term maturities accounted for 59 percent of issuances, while medium and longer maturities accounted for 32 percent and 10 percent respectively.

The latest available data show that Treasury bill issuances increased significantly to 25.5 billion dirhams in April 2023, compared with 7 billion dirhams in March. Medium-term maturities accounted for 74 percent of issuances, while the remainder were short maturities. Taking repayments into account, outstanding Treasury bills totaled 692.3 billion, up 4 percent since the beginning of the year.

Chart 3.14: Change in Treasury bonds

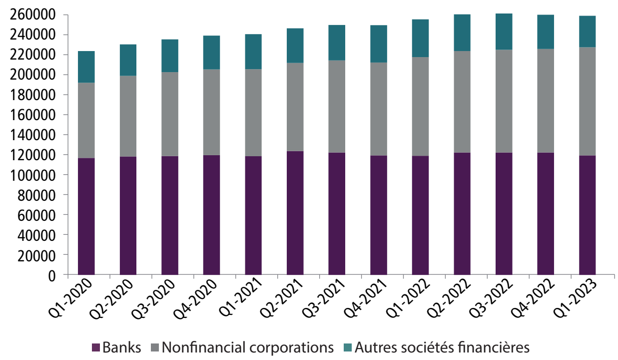


Source : BAM.

3.2.2.3 Private debt market

On the private debt market, issuances rose by 15.4 percent to 18.2 billion dirhams over the first quarter of 2023. Banks raised 12.1 billion and non-financial companies 6 billion. The latest available data show that private debt issuances amounted to 12.8 billion in April, compared with 5.9 billion in March. Taking into account repayments, outstanding private debt stood at 268.7 billion dirhams, up 2.3 percent since the beginning of the year.

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



Source : Maroclear and BAM calculations.

3.2.2.4 Mutual funds

Over the first quarter of 2023, subscriptions to mutual funds rose by 6.9 percent to 285.6 billion and redemptions by 0.4 percent to 282.6 billion, representing a net inflow of 3 billion dirhams. Performance trended downward for diversified, medium and long-term bond and equity mutual funds, with declines of 4.8 percent, 4.5 percent and 3.6 percent respectively, and upward for money market and short-term bond mutual funds, with increases of 0.7 percent and 0.4 percent respectively.

May-data show a 4.9 percent increase in mutual funds net assets since the start of the year to 525.4 billion dirhams, with increases of 50.9 percent for short-term bond funds, 26.3 percent for money market funds and 1 percent for equity funds. On the other hand, net assets fell by 19.1 percent for contractual funds, 7.1 percent for medium- and long-term bond funds and 4.6 percent for diversified funds.

4. FISCAL POLICY TREND

Budget execution for the first five months of 2023 showed a deficit of 24.6 billion dirhams, up 10.7 billion dirhams compared with the same period in 2022. This was mainly due to a 4.2 percent improvement in current revenues, reflecting a 4.8 percent rise in tax receipts and a 1.4 percent decline in non-tax receipts. On the other hand, current expenditure rose by 4.4 percent, mainly reflecting increases of 6.3 percent in spending on goods and services and of 17 percent in interest on debt, as well as a 14.4 percent drop in subsidy costs. Under these conditions, the current balance showed a deficit of 2.6 billion, compared with 2.2 billion a year ago. Capital spending rose by 16.4 percent, bringing total expenditure to 178 billion, up 6.8 percent. The positive balance of the Treasury's special accounts amounted to 16.2 billion, down 4.9 billion, including 6.7 billion as proceeds from the "Social Contribution of solidarity on profits and income", allocated to the "Support Fund for Social Protection and Cohesion", compared with 6.3 billion a year earlier.

Taking into account the 2 billion reduction in the stock of pending transactions, the cash deficit stood at 26.5 billion, as against 23.6 billion a year earlier. This requirement and the negative net domestic cash flow of 534 million were covered by net external resources of 27.1 billion. As a result, outstanding direct public debt is expected to have risen by 6.8 percent compared with its level at end-December 2022. The Treasury's financing conditions have tightened considerably compared with the same period in 2022.

4.1 Current revenues

Over the first five months of 2023, current revenues rose by 4.2 percent to 137.2 billion, reflecting a 4.8 percent increase in tax revenues to 123.1 billion and a 1.4 percent decline in non-tax revenues to 12.4 billion. The improvement in tax revenues mainly concerned domestic VAT, income tax, registration and stamp duties, as well as customs duties and ICT on tobacco.

Direct taxes amounted to 49 billion dirhams, up 3.4 percent, with a 0.9 percent drop in corporate tax to 24.2 billion dirhams and a 5.9 percent increase in income tax to 23.4 billion dirhams. The latter entails a 4.6 percent drop to 4.2 billion in income tax on salaries collected by the Personnel Expenses Department (DDP), and a 1.8 percent drop to 1.7 billion in income tax on real estate profits. The decrease in corporate tax was mainly due to the 1.1 billion additional regularizations and the 741 million increase in refunds, partly offset by the 585 million rise in income from tax audits and the 217 million increase in income from the first instalment.

Indirect tax revenues rose by 4.3 percent to 58.6 billion, mainly reflecting increases of 4.6 percent to 46.4 billion in VAT revenues and 3.4 percent to 12.2 billion in ICT revenues. The latter reflects increases of 7.3 percent to 4.8 billion in ICT on tobacco and 0.2 percent to 6.4 billion in ICT on energy products. The improvement in VAT revenues was due to a 17.5 percent rebound to 15.2 billion in domestic VAT, taking into account a 1.2 billion drop to 4.7 billion in VAT credit refunds, while import VAT revenues fell by 0.7 percent to 31.2 billion, due in particular to the support measures for the agricultural sector.

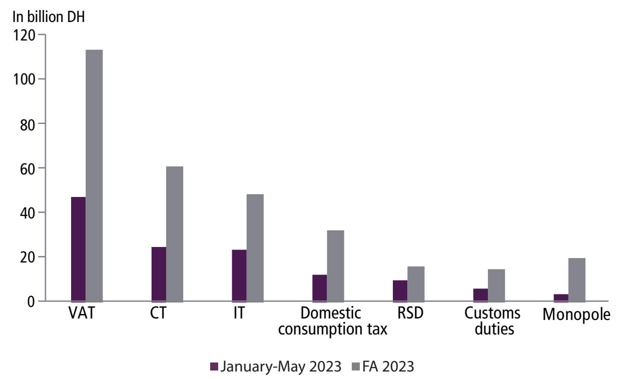
Table 4.1: Current revenues (in billions of dirhams)*

	Jan.-May 2022	Jan-May 2023	Var. In %	FA 2023	Achievements against the FA (%)
Current revenues	131,7	137,2	4,2	341,7	40,1
Tax revenues	117,5	123,1	4,8	289,3	42,6
- Direct taxes	47,4	49,0	3,4	113,2	43,3
Including CT	24,4	24,2	-0,9	60,9	39,7
I.T	22,1	23,4	5,9	47,9	48,8
- Indirect taxes	56,2	58,6	4,3	145,1	40,4
VAT*	44,4	46,4	4,6	113,3	40,9
DCT	11,8	12,2	3,4	31,8	38,4
- Customs duties	5,5	6,0	8,9	15,0	39,8
- Registration and stamp duties	8,5	9,5	12,9	15,9	59,8
Nontax revenues	12,5	12,4	-1,4	49,1	25,2
- Monopoles and shareholdings	3,7	3,0	-20,8	19,5	15,2
- Other receipts	8,8	9,4	6,9	29,7	31,7
Specific financing mechanisms	5,2	5,0	-4,8	25,0	19,8
TSA revenues	1,6	1,7	4,6	3,3	51,6

*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.

Revenues from customs duties and registration and stamp duties improved by 8.9 percent to 6 billion and 12.9 percent to 9.5 billion respectively.

Chart 4.1: Main revenue Charts compared with the Finance Act



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

Non-tax revenues contracted by 1.4 percent to 12.4 billion at end-May 2023, reflecting a 20.8 percent drop to 3 billion in revenues from State-owned enterprises (SOEs), including 2 billion from the ANCFCC and 526 million from Bank Al-Maghrib, and a 4.8 percent decline to 5 billion in revenues from specific financing mechanisms.

4.2 Spending

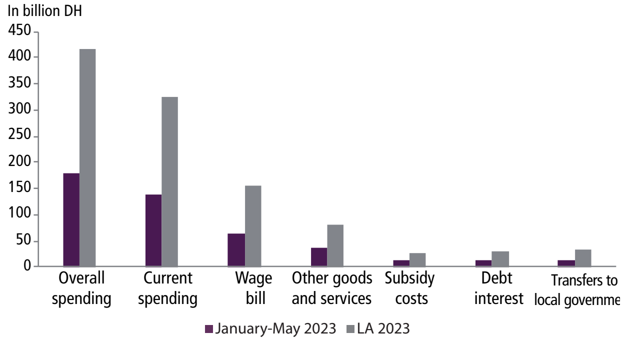
Overall spending rose by 6.8 percent to 178 billion dirhams, reflecting increases of 4.4 percent to 139.8 billion dirhams in current expenditure and 16.4 percent to 38.2 billion dirhams in capital expenditure. Spending on goods and services amounted to 99.2 billion dirhams, up 6.3 percent compared with end-May 2022, reflecting increases of 2.3 percent to 63.5 billion dirhams in the wage bill and 14.4 percent to 35.7 billion dirhams in spending on other goods and services. The latter heading includes increases of 25.3 percent to 20.3 billion in transfers to SOEs and 161.5 percent to 6.8 billion in payments to the Treasury's special accounts. The change in staff costs reflects, in particular, a 1.2 percent increase in the structural component and a 3.1 percent drop in recalls to 3.8 billion for the part served by the Staff Expenditure Department.

Table 4.2: Public expenditure (in billions of dirhams)*

	Jan.-May 2022	Jan.-May 2023	Var. In %	LA 2023	Achievements against the FA (%)
Overall spending	166,7	178,0	6,8	416,6	42,7
Current spending	133,9	139,8	4,4	325,5	43,0
Goods and services	93,3	99,2	6,3	234,9	42,2
Personal	62,1	63,5	2,3	155,8	40,8
Other goods and services	31,2	35,7	14,4	79,2	45,1
Debt interests	10,7	12,5	17,0	30,0	41,6
Subsidy	16,6	14,2	-14,4	26,6	53,6
Transfer to local governments	13,3	13,9	4,6	34,0	40,9
Investment	32,8	38,2	16,4	91,1	41,9

*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.

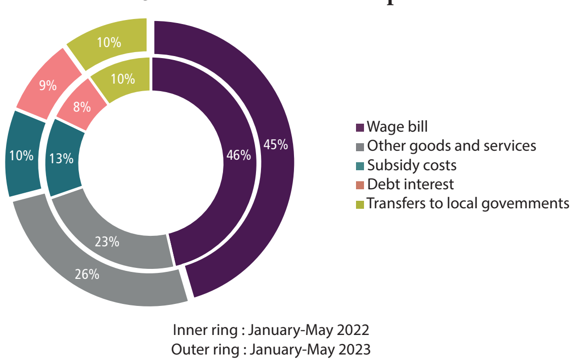
Chart 4.2: spending execution compared to the amending FA



Sources : Données MEF (DTFE) et retraitement TVA par BAM.

Debt Interest charges rose by 17 percent to 12.5 billion dirhams overall, foreign debt by 115.6 percent to 2.4 billion dirhams, and domestic debt by 5.5 percent to 10.1 billion dirhams.

Chart 4.3: Structure of current expenditure

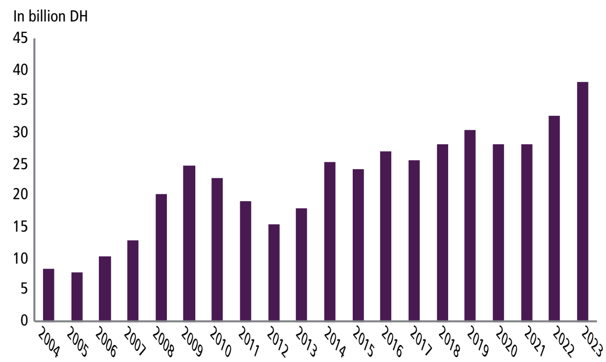


Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Subsidy costs fell by 14.4 percent to 14.2 billion dirhams, with a 53.6 percent implementation rate compared with the Finance Act programming. They include 8.5 billion for butane gas, down 1.3 billion on the same period a year earlier, 2.2 billion for sugar, 2.5 billion for flour and 920 million allocated to professionals in the transport sector. The change in butane gas costs was due to a 31.7 percent drop in the average price of butane gas to 600 dollars a ton, and a 5.2 percent depreciation of the dirham against the dollar.

Investment issuances amounted to 38.2 billion, up 16.4 percent compared with end-May 2022, including a payment of 15.5 billion to the Treasury's special accounts, instead of 14.3 billion. Overall, the execution of this expenditure was in line with the Finance Act projections.

Chart 4.4: Capital expenditure at end-May

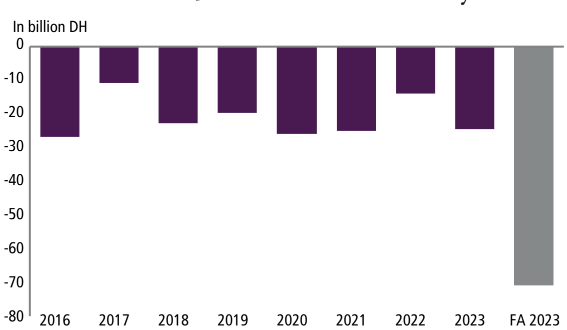


Source : Ministry of Economy and Finance and Administration Reform.

4.3 Treasury deficit and financing

Taking into account the change in issued income and expenses, as well as the balance of the Treasury's special accounts, the Treasury's position posted a deficit of 24.6 billion dirhams, compared with 13.9 billion dirhams at end-May 2022. In addition, as a result of the reduction in the stock of pending transactions by 2 billion, the cash deficit stood at 26.5 billion, up 2.9 billion compared with end-May 2022.

Chart 4.5: Fiscal balance at end-May



Source : Ministry of Economy and Finance and Administration Reform.

The Treasury's financing requirement and the negative net domestic cash flow of 534 million were covered by net external resources of 27.1 billion. Gross external borrowings amounted to 31.5 billion, including 25.8 billion from the bond issuance on the international financial market.

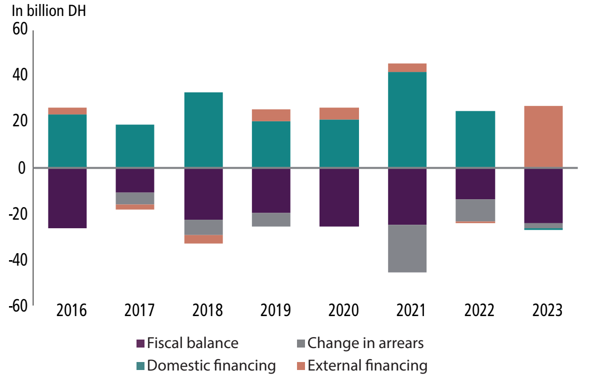
Table 4.3 : Deficit financing (in billions of dirhams)

	January-May 2022	January-May 2023	LA 2023
Current balance	-2,2	-2,6	16,3
Balance of TSA	21,1	16,2	4,2
Primary balance	-3,2	-12,1	-40,7
Fiscal balance	-13,9	-24,6	-70,7
Change in arrears	-9,7	-2,0	
Financing requirements	-23,6	-26,5	-70,7
Domestic financing	24,6	-0,5	13,1
External financing	-0,9	27,1	52,5
Privatization	0,0	0,0	5,0

Sources : Ministry of Economy and Finance and Administration Reform.

With regard to domestic financing, net recourse to the auction market amounted to 34.2 billion dirhams, compared with 12.7 billion dirhams in the previous year. Net subscriptions amounted to 36.2 billion dirhams for 2-year bills, 14.1 billion dirhams for 15-year bills, 10.8 billion dirhams for 10-year bills and 9.4 billion dirhams for 52-week bills. At the same time, net redemptions amounted to 23 billion for 5-year bills, 11.9 billion for 13-week bills and 10 billion for 32-day bills.

Chart 4.6 : Budget balance and financing at end-May *



* Privatization receipts, limited and discontinued over time, were included in domestic financing.
Source : Ministry of Economy and Finance and Administration Reform.

Concerning the Treasury's financing conditions on the auction market, data as at end-May show a strong rise in weighted average rates compared to the same period in 2022. For long-term maturities, rises stood in particular at 231 basis points to 5.59 percent for 30-year bills, at 230 bp to 5 percent for 15-year bills and at 204 bp to 4.47 percent for 10-year yields. Similarly, yields on medium and short-term maturities rose by 199 bp to 3.84 percent for 2-year bills, by 194 bp to 4.1 percent for 5-year bills and by 177 bp to 3.45 percent for 52-week bills.

Table 4.4: Treasury indebtedness (in billions of dirhams)

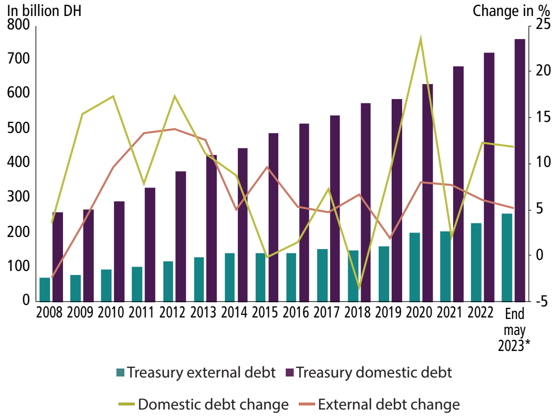
	2018	2019	2020	2021	2022	Fin May 2023*
Treasury external debt	148,0	161,6	199,7	203,7	228,9	255,9
Change in %	-3,4	9,2	23,6	2,0	12,3	11,8
Treasury domestic debt	574,6	585,7	632,9	681,5	722,9	760,5
Change in %	6,6	1,9	8,1	7,7	6,1	5,2
Outstanding direct debt	722,6	747,2	832,6	885,3	951,8	1016,4
Change in %	4,4	3,4	11,4	6,3	7,5	6,8

* 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.

Pour ce qui est de la dette publique directe, elle se serait

With regard to direct public debt, it is projected to have risen by 6.8 percent at end-May 2023 from its level at end-December 2022, posting growth by 5.2 percent in its internal component and 11.8 percent in its external component.

Chart 4.7: Treasury indebtedness



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

5. DEMAND, SUPPLY, AND LABOR MARKET

In 2022 economic activity slowed down significantly, with growth returning to 1.3 percent after an 8 percent rebound in 2021. In addition to accelerating inflation, the economy was affected by an unfavorable international economic situation combined with particularly severe drought conditions. As a result, non-agricultural value added experienced a deceleration in its growth rate from 6.3 percent to 3 percent, while agricultural value added contracted by 12.9 percent after an increase of 19.5 percent. On the demand side, the domestic component had a negative contribution of 1.7 percentage points to growth, while net exports made a positive contribution of 2.9 percentage points in volume terms.

Thanks to a cereal harvest of 55.1 million quintals in the first half of 2023, agricultural value added is expected to increase by an average of 1.9 percent. For non-agricultural activities, their growth rate is expected to improve to 2.6 percent. Under these conditions, growth is projected to reach 2.5 percent.

On the labor market, between the first quarter of 2022 and the same period in 2023, the situation was marked by a further loss of 280 thousand jobs, compared to 58 thousand in the previous year. Considering a net decrease of 196 thousand job seekers, the labor force participation rate declined from 44.5 percent to 43.1 percent, and the unemployment rate increased from 12.1 percent to 12.9 percent nationally and from 16.3 percent to 17.1 percent in urban areas.

5.1 Domestic demand

5.1.1 Consumption

Household consumption contracted by 0.7 percent in 2022, following a rebound by 6.9 percent in 2021, and its contribution to growth was consequently negative by 0.4 percentage points after a positive contribution of 4 points.

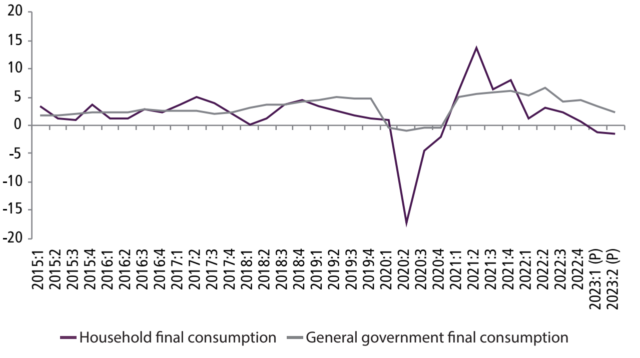
In the first half of 2023, this downward trend is expected to continue, as indicated by the significant deterioration of the household confidence index in the first quarter of the current year, reaching its lowest level since the introduction of the household survey by the HCP in 2008.

Meanwhile, remittances from Moroccan expatriates improved by 12.8 percent by the end of April, compared to 5.2 percent a year earlier, and consumer credit increased by 2.6 percent instead of 2.3 percent.

In 2022, government consumption increased by 3.3 percent after 7.2 percent in 2021, and its contribution to growth stood at 0.6 percentage points instead of 1.4 percentage points.

During the first half of 2023, it is expected to decelerate to around 2.9 percent, reflecting a slowdown in operating expenses from 9.4 percent to 6.3 percent by the end of May.

Chart 5.1: Consumer spending (%)



Sources: HCP data and BAM forecasts.

5.1.2 Investment

Investment declined by 6.5 percent in 2022, following a surge of 13.8 percent in 2021, and its contribution to growth was negative at -2 percentage points after a positive contribution of 4 points.

Infra-annual indicators as of the end of April indicate that investment is expected to improve by an average of 1.9 percent in the first half of 2023, reflecting increases in equipment imports by 19.1 percent and equipment loans by 5.3 percent.

Treasury investment increased by 16.4 percent by the end of May compared to 16.7 percent during the same period a year earlier. In addition, the quarterly results of Bank Al-Maghrib's business survey for the first quarter of 2023 show that the business climate was described as "normal" by 71 percent of companies and as "unfavorable" by 26 percent.

5.2 Foreign demand

The contribution to the growth of net exports in volume was positive in 2022 at around 2.9 percentage points, with increases of 20.4 percent in exports and 9 percent in imports, following respective increases of 7.9 percent and 10.4 percent.

In the first half of 2023, the volume of goods and services exports is projected to decelerate to around 13.8 percent, notably reflecting a decline of 30.5 percent by the end of April after a rebound of 95.2 percent in sales of phosphates and derivatives and an acceleration from 12.3 percent to 40.4 percent in the automotive sector.

At the same time, the growth rate of imports is expected to slow down to approximately 6.9 percent, mainly due to a decrease of 1.7 percent instead of a surge of 116.8 percent in imports of energy products, and a progression of 19.1 percent after 9.1 percent in imports of capital goods.

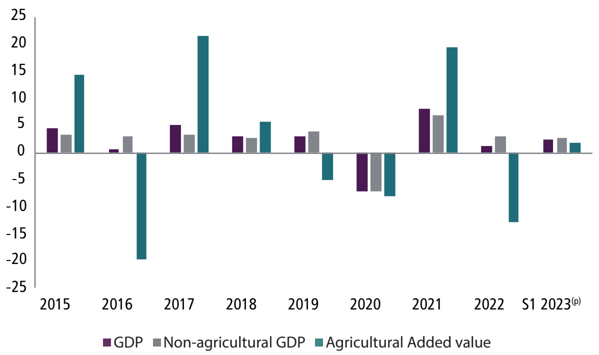
5.3 Overall supply

In 2022, the growth rate stood at 1.3 percent, resulting from a decline of 12.9 percent in agricultural value added, attributable to severe drought, and a 3 percent improvement in non-agricultural activities.

In the first half of 2023, GDP is expected to grow on average by 2.5 percent, with a 1.9 percent increase in agricultural value added, thanks to an increase in cereal harvest to 55.1 million quintals, according to estimates of the Department of Agriculture.

Non-agricultural activities are expected to record a 2.6 percent growth, reflecting the continued recovery of activity in the "accommodation and catering services" sector and improvement in non-market services.

Chart 5.2: GDP by component (at previous year's prices, % change, year-on-year, base 2014)



Sources: HCP data and BAM forecasts.

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the first quarter of 2022 and the same period in 2023, the labor market situation was marked by a decline of 1.6 percent in the number of individuals aged 15 and over in the workforce, reaching nearly 12 million people. This development includes a 4.6 percent decrease in rural areas and a 0.2 percent increase in urban areas.

Considering a 1.4 percent growth in the working-age population, the labor force participation rate decreased by 1.4 percentage points to 43.1 percent at the national level, by 2.3 percentage points to 47 percent in rural areas, and by 0.7 percentage points to 41.2 percent in urban areas.

At the same time, the national economy experienced a loss of 280 thousand jobs, following a loss of 58 thousand jobs the previous year, resulting in a 2.6 percent decrease in the employed labor force to 10.4 million people. Except for the construction sector, which created 28 thousand jobs, other sectors recorded declines, including a reduction of 247 thousand positions in agriculture and 56 thousand in services. In industry, including handicrafts, the decline was 10 thousand jobs, reflecting a loss of 38 thousand in handicraft activities and a creation of 28 thousand in industrial activities.

5.4.2 Unemployment and underemployment

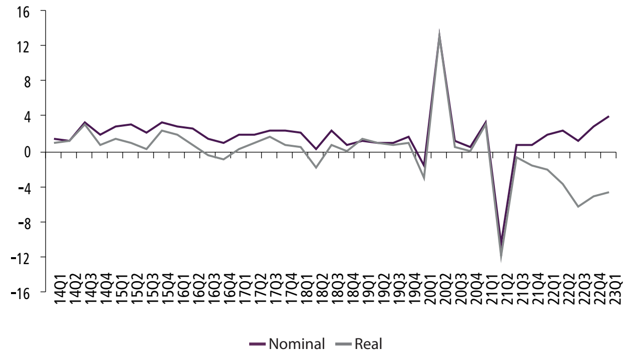
The unemployed population increased by 5.7 percent to nearly 1.5 million people, and the unemployment rate rose from 12.1 percent to 12.9 percent nationally, from 16.3 percent to 17.1 percent in urban areas, and from 5.1 percent to 5.7 percent in rural areas.

For young people aged 15 to 24, the unemployment rate continued to worsen, with an increase of 1.9 percentage points to 35.3 percent overall, 2.4 percentage points to 18.9 percent in rural areas, and 1.9 percentage points to 49.6 percent in urban areas. At the same time, the underemployment rate[1] increased from 9.2 percent to 10.3 percent nationally, from 8.3 percent to 9.1 percent in urban areas, and from 10.6 percent to 12.1 percent in rural areas.

5.4.3 Productivity and wages

In non-agricultural activities, the apparent labor productivity, measured by the ratio of value added to employment, is estimated to have improved by 3.1 percent in the first quarter of 2023, following a 0.6 percent increase in the previous year. This development reflects a 2.6 percent increase in value added, compared to 2.3 percent previously, and a decrease of 0.4 percent, compared to a 1.7 percent increase, in the number of employees. On the other hand, the average wage, calculated based on CNSS data as a ratio of the wage bill to the number of employees, recorded an increase of 4.1 percent in nominal terms in the first quarter of 2023, compared to 1.9 percent the previous year, and experienced a decrease of 4.6 percent in real terms after a drop of 2 percent.

Chart 5.3: Average wage index in the private sector (year-on-year change in %)

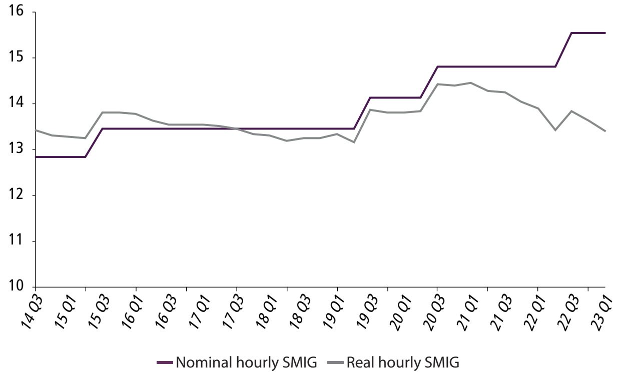


Sources: CNSS data and BAM calculations.

The hourly minimum wage (SMIG) stood at 15.55 dirhams in nominal terms in the first quarter of 2023, representing a 5 percent year-on-year increase. Taking into account a rebound of 9.1 percent in the consumer price index, it would have decreased by 3.8 percent in real terms.

[1] The underemployed population consists of individuals who have worked: i) fewer than 48 hours during the reference week but are willing to work additional hours and available to do so, or ii) more than the set threshold and are actively seeking another job or willing to change jobs due to a mismatch with their education or qualifications, or insufficient income provided.

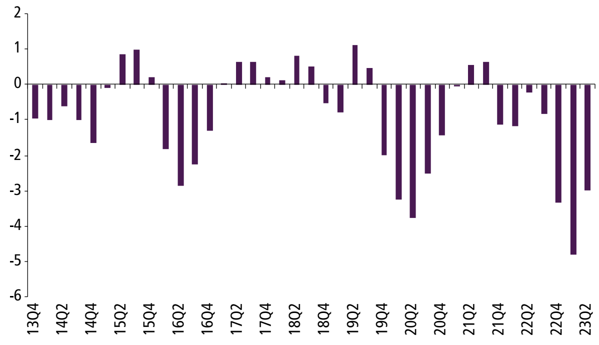
Chart 5.4: SMIG in nominal and real terms (in dirhams)



Sources: Department for Economic Inclusion, Small Business, Employment and Skills and BAM calculations.

Overall, the output gap is likely to remain negative in the first half of 2023.

Chart 5.5: Global output-gap (in percent)



Source: Bank Al-Maghrib estimates.

Tableau 5.1 : Principaux indicateurs du marché de travail

		Q1 2022	Q1 2023
Participation rate (%)		44,5	43,1
Urbain		41,9	41,2
Rural		49,3	47,0
Unemployment rate (%)		12,1	12,9
Youth aged between 15 and 24 years old		33,4	35,3
Urban		16,3	17,1
Jeunes âgés de 15 à 24 years		47,7	49,6
Rural		5,1	5,7
Job creation (in thousands)		-58	-280
Urban		90	-51
Rural		-148	-229
Sectors			
- Agriculture, forest and fishing		-183	-247
- Industry including handicraft		13	-10
- Construction		29	28
- Services		85	-56
Nonagricultural apparent productivity (change in %)		0,6	3,1
Average wage index (change in %)	nominal	1,9	4,1
	Real	-2,0	-4,6

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

After peaking at 10.1 percent in February, inflation eased to 8.2 percent in March, bringing its average to 9.1 percent for the first quarter of 2023 – a rate that is in line with the previous Monetary Policy Report projection. This trend continued in April, as inflation decreased to 7.8 percent. Apart from regulated prices, whose increase picked up to 0.9 percent in April compared to 0.6 percent in the first quarter of 2023, other components slowed down during said month. Fuel and lubricant prices declined by 7.3 percent in April, instead of an average increase of 19.2 percent in the first quarter of 2023. Although slightly decelerating, volatile food prices continued to rise at high rates in April, i.e., 24 percent. Meanwhile, core inflation fell to 7.3 percent in April, compared to an 8.2 percent average in the first quarter. This was mainly driven by a slowdown in its food component prices from 15.1 percent to 12.8 percent, and an increase of 3.8 percent in its non-food component prices in April, a rate almost unchanged compared to the first quarter.

In the short term, inflationary pressures are expected to continue to ease. Inflation would thus decrease to 7 percent in the second quarter and its core component to 6.4 percent.

6.1 Inflation trends

After a rebound to 9.1 percent in the first quarter of 2023, inflation decelerated to 7.8 percent in April, bringing its average for the first four months of the year to 8.8 percent. This trend reflects the decrease in fuel and lubricant prices and the slowdown in core inflation and volatile food prices, which more than offset the steeper increase in regulated prices.

6.1.1 Prices of goods excluded from core inflation

In addition to shocks negatively impacting the supply of certain fresh food products, increased demand during Ramadan led to a monthly increase of 8.5 percent in volatile food prices in April. By product, this rise resulted in a price increase of 6.4 percent for “fresh vegetables”, 15.8 percent for “fresh fruits”, and 14.1 percent for “fresh fish.” However, compared to a year earlier, the increase in volatile food prices showed a slight deceleration to 24 percent in April, compared to 24.9 percent in the first quarter. They continue to contribute positively to inflation, accounting for 3.2 percentage points in April, compared to an average of 3 points between January and March.

Table 6.1: Change in inflation and its components

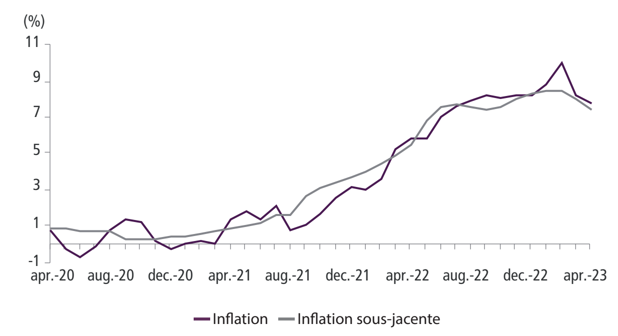
(In %)	Variation mensuelle			Glissement annuel		
	feb. 23	march 23	apr. 23	feb. 23	march 23	apr. 23
Inflation	1,7	0,1	1,4	10,1	8,2	7,8
- Volatile food prices	9,3	0,8	8,5	32,2	21,1	24,0
- Administered prices	0,0	0,1	0,0	0,6	0,8	0,9
- Fuels and lubricants	-1,3	-3,6	-2,9	21,1	8,1	-7,3
Core inflation	0,7	0,1	0,3	8,5	7,9	7,3
- Food products	1,6	0,0	0,5	15,7	14,3	12,8
- Clothing and footwear	0,0	0,4	1,1	5,1	4,9	4,4
- Housing, water, gas, electricity and other fuels[1]	0,2	0,0	0,0	2,2	2,0	2,0
- Furniture, household equipment and routine house maintenance	0,4	0,1	0,1	6,1	5,8	5,6
- Health[1]	0,3	0,1	0,6	2,6	2,5	2,5
- Transportation[2]	0,5	0,7	0,0	5,0	5,9	5,5
- Communication	0,0	0,0	0,0	0,5	0,5	0,4
- Entertainment and culture[1]	0,1	0,1	0,0	5,9	6,1	5,9
- Education	0,0	0,0	0,0	4,5	4,5	4,5
- Restaurants and hotels	0,8	0,1	0,4	6,1	6,2	6,7
- Miscellaneous goods and services[1]	0,3	0,1	0,5	2,6	2,5	2,6

[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)

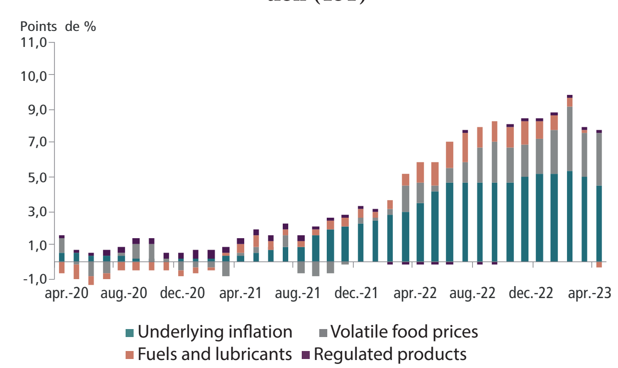


Sources: HCP and BAM calculations.

Regulated prices were marked by an accelerated increase from 0.6 percent in the first quarter of 2023 to 0.9 percent in April. This primarily reflects a 1.3 percent increase, following a 0.4 percent decrease in "passenger road transport" prices, linked with a base effect.

In terms of contribution to inflation, these prices accounted for 0.2 percentage points in April, compared to 0.1 percentage points in the previous quarter.

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

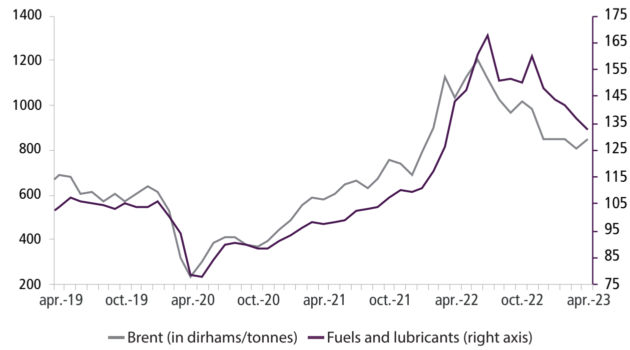


Sources : Données HCP et calculs BAM.

Fuel and lubricant prices dropped in April compared to a year earlier, reporting their first decline after eight quarters of high increases. Indeed, they declined by 7.3 percent following a 19.2 percent increase in the first quarter, reflecting the ongoing downward trend in international oil prices and the appreciation of the dirham exchange rate against the U.S. dollar.

Overall, the contribution of the prices of these product to inflation is negative at -0.3 percentage points, compared to a positive contribution of 0.6 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)



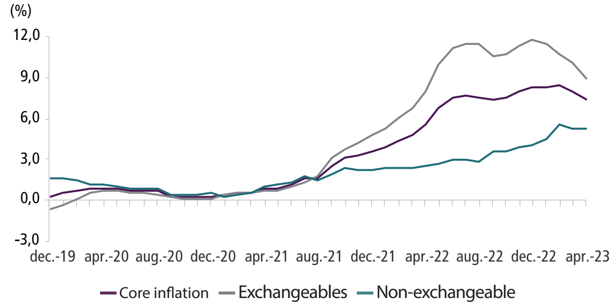
Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

Similar to headline inflation, its core component showed a reversal of the upward trend that began in late 2021. It declined from 8.5 percent in February to 7.9 percent in March, bringing its average for the first quarter of 2023 to 8.2 percent. This deceleration continued in April, during which it decreased to 7.3 percent, primarily driven by the slowdown in its food component from 15.1 percent to 12.8 percent, notably due to a decrease in the price increase rate of "oils" from 35.4 percent to 27.8 percent and of "cereal-based products" from 6 percent to 2.5 percent.

Excluding food products, prices increased by 3.8 percent in April, a rate almost unchanged from the first quarter. The price increase rate particularly slowed from 4.9 percent to 4.4 percent for "clothing items and footwear" and from 6.1 percent to 5.6 percent for "furniture, household items, and household maintenance." However, the price increase rate accelerated from 5.7 percent to 6.7 percent for "restaurants and hotels."

Chart 6.4: Change in the price indexes of tradables and nontradables (YoY)



Sources: HCP, and BAM calculations.

The breakdown of the core inflation indicator basket into tradable and non-tradable products indicates that the deceleration in inflation was exclusively related to the tradable component.

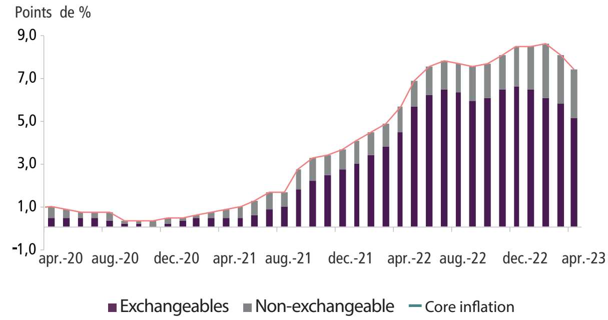
Tableau 6.2 : Evolution des indices des prix des biens échangeables et non échangeables

	Monthly change			YoY change		
	feb. 23	march 23	apr. 23	feb. 23	march 23	apr. 23
Tradables	0,5	0,2	0,2	10,7	10,1	8,9
Nontradables	1,1	-0,1	0,4	5,6	5,2	5,3
Core inflation	0,7	0,1	0,3	8,5	7,9	7,3

Sources: HCP, and BAM calculations.

For tradable goods, their growth rate slowed from 10.7 percent in the first quarter to 8.9 percent in April, in a context marked by a relative easing of external pressures. Indeed, conditions in global supply chains[1] are normalizing, inflation is slowing to 7 percent after 8 percent in the previous quarter in the euro area, Morocco's main trading partner; and international energy and food prices are falling back, with the FAO index showing a year-on-year decline of 19.7 percent in April after that of 11.5 percent one quarter earlier.

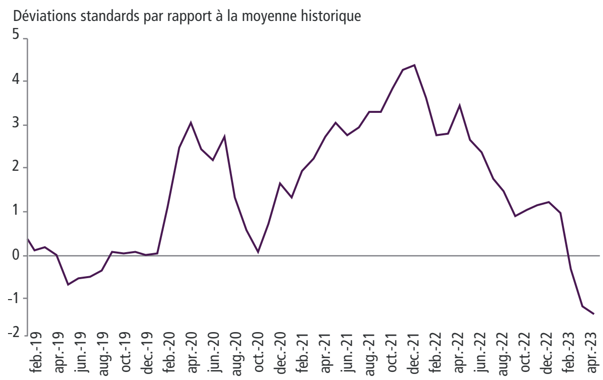
Chart 6.6: Contribution of tradables and nontradables to core inflation



Sources: HCP, and BAM calculations.

On the other hand, prices of non-tradable goods rose at a faster rate of 5.3 percent in April, compared to 5.1 percent in the previous quarter, mainly reflecting the increase in "fresh meat" prices, up 16.8 percent after 15.9 percent.

Chart 6.6 : Pressions sur les chaînes d'approvisionnement mondiales : Indice GSCPI(*)

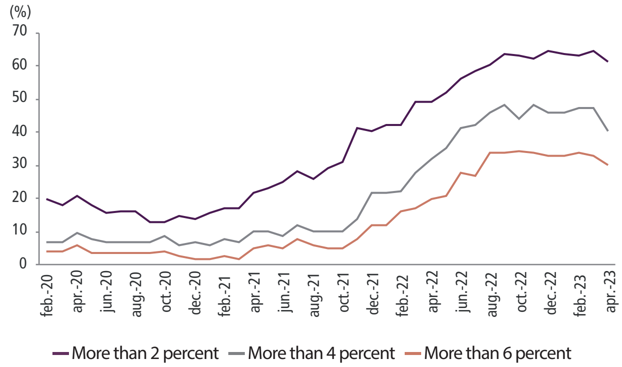


Source: New York Fed.
(*) This is an index that integrates data on transportation costs and delivery times to provide an assessment of global supply chain conditions.

The diffusion of inflationary pressures slightly eased in April. The share of products with price increases of more than 2 percent decreased to 61 percent in April, compared to an average of 64 percent in the first quarter. Similarly, the proportions of products experiencing price increases of more than 4 percent and 6 percent continued to decline.

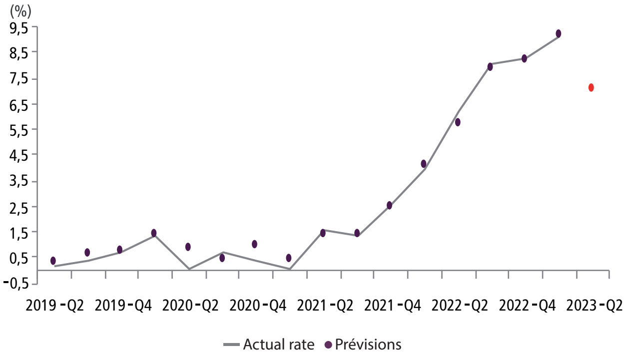
1 The Global Supply Chain Pressure Index (GSCP) is below its historical average, after rising for the past two years.

Chart 6.7: Proportion of products for which the year-on-year change exceeded 2%, 4% and 6%



Sources: HCP, and BAM calculations.

Chart 6.8: Inflation short-term forecasts and actual rates



Sources: HCP, and BAM calculations.

6.2 Short-term inflation outlook

In the short term, inflation is expected to decline to 7 percent in the second quarter of 2023, against 9.1 percent in the previous quarter. This slowdown is mainly driven by that of the core component, which is expected to return to 6.4 percent from 8.2 percent due to the easing of external pressures.

Similarly, fuel and lubricant prices are expected to decrease by 13.6 percent in the second quarter compared to a 19.2 percent increase in the previous quarter, reflecting the expected change in international oil prices.

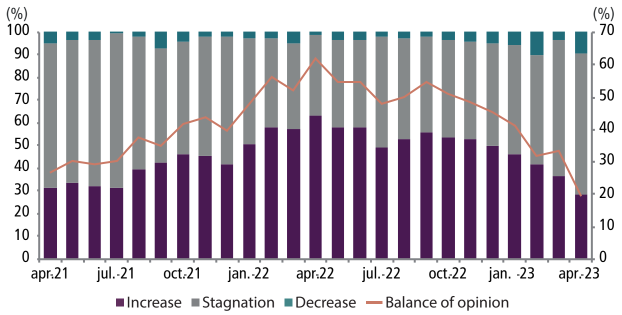
On the other hand, based on wholesale market data, volatile food prices are expected to remain at elevated levels. On a year-on-year comparison, they are projected to increase by 25.6 percent in the second quarter.

In the absence of new government decisions, regulated prices would increase by an average of 1 percent between April and June compared to 0.6 percent in the previous quarter.

6.3 Inflation expectations

The results of Bank Al-Maghrib's economic situation survey in the industry for April 2023 show that 62 percent of the surveyed manufacturers expect inflation to remain stable over the next three months, 28 percent anticipate an increase, while 9 percent expect a decrease. Therefore, the net opinion balance stands at 19 percent.

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

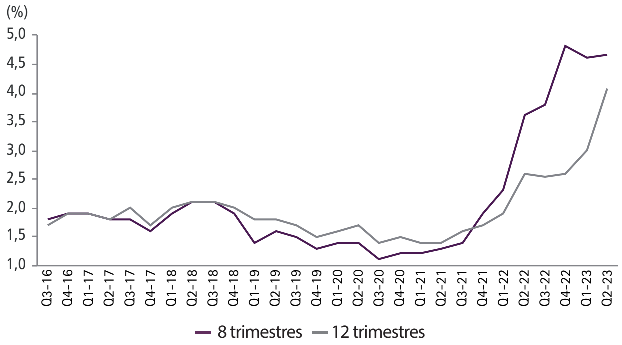


Source: BAM monthly business survey.

Moreover, the results of Bank Al-Maghrib's survey on inflation expectations for the second quarter of 2023 reveal a near stability in the inflation anticipated by the financial sector experts. They expect an average inflation rate of 4.7 percent over the next eight quarters.

In the longer term, specifically over the next 12 quarters, their expectation is set at 4.1 percent instead of 3 percent.

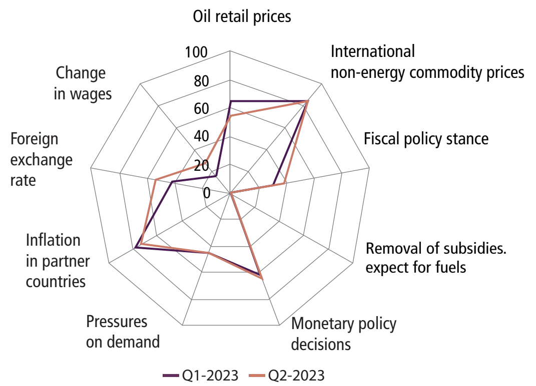
Chart 6.10 : Inflation expectations by financial sector experts over the next eight quarters



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

The respondents estimate that the change in inflation over the next eight quarters would be primarily determined by global prices of non-oil commodities, inflation in partner countries, and monetary policy decisions.

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



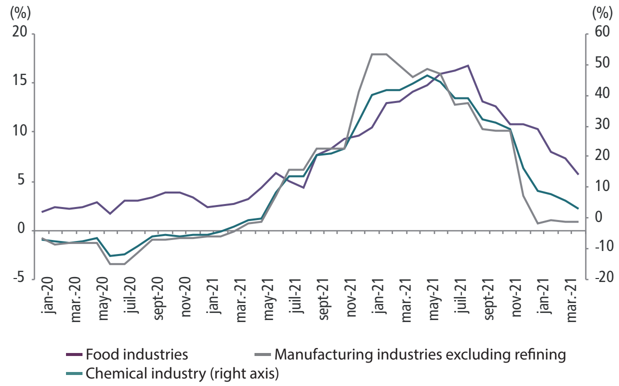
Source: BAM Quarterly Inflation Expectations Survey.

6.4 Producer prices

Regarding producer prices in manufacturing industries excluding petroleum refining, they experienced a monthly increase of 0.3 percent in April, primarily driven by price increases of 2.3 percent for the "manufacturing of other non-metallic mineral products" and 1.2 percent for the "clothing industry".

Compared to the same month of the previous year, the growth rate of producer prices excluding petroleum refining continues to go downward as of the third quarter of 2022, decreasing to 2.2 percent in April after an average of 3.5 percent between January and March.

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



Source : HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Despite persistent inflation at high levels and tightening financial conditions, the global economy shows relative resilience. Accordingly, global growth is expected to stand at 2.7 percent in 2023 and 2.3 percent in 2024. In the US, GDP is projected to increase by around 1 percent in 2023 and 2024. In the euro area, growth is expected to stand at 1.4 percent this year and 0.8 percent in 2024. Despite purchasing power issues and strikes, the UK's growth is expected to remain positive. Meanwhile, Japan's GDP is set to grow by 1.1 percent in 2023, driven by the lifting of pandemic-related restrictions in China and the impetus of tourism.

In the major emerging countries, with the removal of restrictions, the Chinese economy would grow by 6.1 percent in 2023 before decelerating to 4.8 percent in 2024. As for the Indian economy, it is expected to post favorable growth trends underpinned by increased investment in infrastructure. In Brazil, growth is set to slow considerably to 1.1 percent this year and 0.8 percent in 2024, suffering from the normalization of commodity prices and tighter monetary conditions. In Russia, despite the continuing conflict in Ukraine, growth in 2023 has been revised upwards to 0.1 percent, supported by the fiscal measures put in place, and to 1.1 percent in 2024, penalized by sanctions and the stalemate in the war.

On the commodities markets, the price of Brent would fluctuate around $79 a barrel in 2023 and 2024 due to a weaker global outlook combined with the continuation of OPEC+ production limitation strategy. After soaring in 2022, the price of coal would fall in 2023 and 2024 as demand in Europe slows. As for the price of natural gas on the European market, World Bank projections for April 2023 point to a short- to medium-term decline.

After reaching their peak in 2022, the prices of phosphate and its derivatives are expected to decline in 2023 and 2024 as supply disruptions ease and input prices decrease. On the other hand, food prices decreased by 2.6 percent between April and May 2023 and by 21.3 percent year-on-year. Over 2023, the FAO index would fall by 10.9 percent on average before rising slightly by 0.5 percent in 2024.

In these conditions, inflationary pressures would ease gradually in the medium term, but the levels will remain high. In the US, inflation is expected to continue its decline in the coming months, driven by the decrease in energy and housing prices, which are declining faster than its core component. Similarly, inflation in the euro area is expected to decelerate, primarily due to lower gas prices, while its core component will remain elevated.

In this context, the ECB decided at its latest meeting to raise its interest rate by 25 basis points (bps), while the FED kept the target range for the federal funds rate unchanged at [5 percent-5.25 percent].

At the national level, the year 2023 would be marked by a decline in foreign trade in goods, with a 2.8 percent drop in exports and a 2.2 percent fall in imports, as well as a continuation of the dynamic trend in travel receipts and remittances from Moroccans living abroad. The current account deficit would thus end the year at 2.4 percent of GDP, after 3.5 percent in 2022. In addition, FDI receipts would increase to the equivalent of 3.2 percent of GDP against 3 percent in 2022.

In 2024, exports would improve by 6 percent and imports by 2.9 percent. For their part, travel receipts would virtually stabilize, and the growth rate of remittances is expected to remain around 3.5 percent. The current account deficit would thus consolidate at 2.5 percent of GDP. FDI receipts would amount to the equivalent of 3.3 percent of GDP.

Under the assumption of the realization of planned external financing, official reserve assets would amount to 361.2 billion dirhams at the end of 2023 and 357.9 billion dirhams in 2024, equivalent to nearly 5 and a half months of imports of goods and services.

Regarding public finances, the budget deficit is expected to narrow from 5.2 percent of GDP in 2022 to 5 percent in 2023, revised upward by 0.3 percentage points compared to March projection. This result is due to the inclusion of additional loans opened under the general budget, amounting 10 billion dirhams, and the upward revision of the tax revenue forecast, considering BAM's new macroeconomic projections and the fiscal performance as of the end of April 2023. In 2024, the deficit is expected to further narrow to 4.3 percent of GDP, reflecting a reduction in the subsidy costs to 7.3 billion dirhams compared to 21.7 billion dirhams in 2023 and 42.1 billion dirhams in 2022, as well as revenue mobilization through specific financing mechanisms of 30 billion dirhams. The increase in tax revenues is expected to remain limited.

Regarding monetary conditions, bank credit to the non-financial sector is projected to grow by 3.7 percent in 2023 and 4.4 percent in 2024. As for the real effective exchange rate, it is expected to adjust upward in the medium term after a significant depreciation in 2022.

In terms of economic activity, following an 8 percent rebound in 2021 and a slowdown to 1.3 percent in 2022, the growth of the national economy is expected to accelerate to 2.4 percent this year and 3.3 percent in 2024. This change includes an average increase of 1.6 percent in agricultural value added in 2023, taking into account an estimated cereal harvest of 55.1 million quintals, according to the Department of Agriculture, and 5.5 percent in 2024, assuming a return to an average cereal production of 70 million quintals. Non-agricultural activities would witness a slowdown in their growth rate to 2.5 percent in 2023, followed by an acceleration to 3.2 percent in 2024. On the demand side, net exports would continue to drive growth in 2023, while the domestic component remains weak. In 2024, the contribution to growth from net exports would remain positive but less pronounced, while domestic demand would strengthen.

Under these conditions, after a sharp acceleration to 6.6 percent in 2022, inflation will continue to decelerate while remaining at high levels. It would average 6.2 percent in 2023, mainly due to higher prices for volatile food products, then 3.8 percent in 2024 because of higher butane gas and sugar prices due to the planned reduction in subsidies. Its core component is expected to slow to 6.1 percent on average in 2023, then to 2.9 percent in 2024.

7.1 Underlying assumptions

Despite the tightening of monetary conditions, the global economy is showing some resilience.

Despite persistent inflation and tightening financial conditions, the global economy exhibits relative resilience. Growth is projected to reach 2.7 percent in 2023, revised upward by 0.2 percentage points compared to March, before slowing to 2.3 percent in 2024.

In the US, due to the rapid tightening of monetary and financial conditions, GDP is expected to increase by around 1 percent in 2023 and 2024. In the euro area, growth prospects have improved despite the tightening of monetary conditions, the escalation of the conflict in Ukraine, and the decline in purchasing power that weigh on domestic demand. Growth is expected to reach 1.4 percent this year and 0.8 percent in 2024. In the UK, despite the purchasing power crisis and strikes, growth is expected to remain positive, reaching 0.1 percent in 2023 and 0.4 percent in 2024. As for the Japanese economy, it is expected to grow by 1.1 percent in 2023, driven by an improvement in tourism. It is projected to stand at 0.6 percent in 2024.

In major emerging economies, the reopening of the economy, the strong performance in the first quarter, and the recent developments in industrial production, imports, credit, and retail sales suggest moderate growth in China in the coming quarters. Thus, GDP would grow by 6.1 percent in 2023 and 4.8 percent in 2024. The Indian economy would show growth of 5.4 percent in 2023 and 6.7 percent in 2024, supported by increased investments in infrastructure. In Brazil, growth would significantly decelerate to 1.1 percent this year and 0.8 percent in 2024 after reaching 3 percent in 2022. State aids for households would support demand but the decline in commodity prices and tightening monetary conditions are expected to contribute to the deceleration of economic activity in 2024. In Russia, despite the ongoing conflict in Ukraine, growth in 2023 has been revised upward to 0.1 percent, supported by implemented budgetary measures. In 2024, growth would be limited to 1.1 percent, hampered by sanctions and as the war bogs down.

Chart 7.1: Growth in the euro area

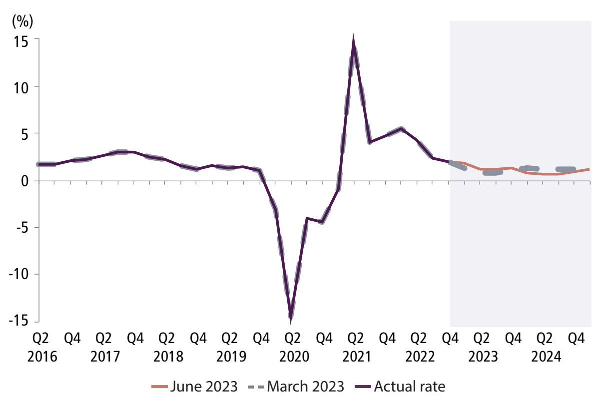
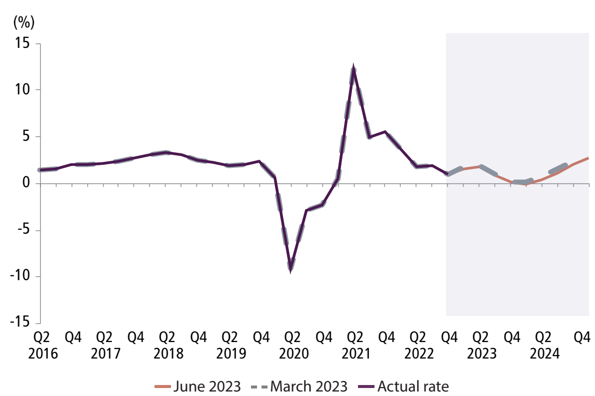


Chart 7.2: Growth in the USA



Source : GPMN, May 2023.

Substantial decline in energy prices over the forecast horizon and a gradual slowdown in inflation in the medium term.

In terms of commodities, the price of Brent crude oil would fluctuate around $79 per barrel in 2023 and 2024 due to weaker global prospects combined with the continued strategy of limiting production by OPEC+ member countries. As for coal, after reaching an average price of $288.6 per ton in 2022, the price is projected to decrease to $130.6 in 2023 and $118.8 in 2024. Regarding natural gas prices in the European market, the World Bank's projections from April 2023 indicate a significant decrease to $19 per million British thermal units (MMBtu) in 2023 and $17 per MMBtu in 2024, compared to $40.3 per MMBtu previously.

As for phosphate and its derivatives, after reaching peaks in 2022, the latest projections from the World Bank indicate that prices would decline as supply disruptions gradually ease and input prices, especially energy prices, fall. Prices are expected to decrease from $772 per ton in 2022 to $580 per ton in 2023 for DAP (diammonium phosphate) and from $716 per ton to $560 per ton for TSP (triple superphosphate). This downward trend is expected to continue in 2024, with prices decreasing to $570 per ton for DAP and $510 per ton for TSP. As for raw phosphate, its price is projected to decrease from $266 per ton in 2022 to $260 per ton in 2023 and continue to decline to $240 per ton in 2024.

On the other hand, food prices have recorded a decrease of 2.6 percent between April and May 2023 and a 21.3 percent year-on-year decrease. Considering the year 2023 as a whole, the FAO index is expected to decline by an average of 10.9 percent before slightly increasing by 0.5 percent in 2024. Specifically, the price of US durum wheat stood at $367.7 per ton in May, reflecting a year-on-year decrease of 29.6 percent.

Under these conditions, inflationary pressures are expected to continue their gradual easing over the forecast horizon, with global inflation projected to decline from 7.3 percent in 2022 to 4.7 percent in 2023 and further to 3.3 percent in 2024. In the US, inflation would continue falling over the coming months, with energy and housing prices declining faster than core inflation. Inflation would reach 4.4 percent in 2023 and slow to 2.7 percent in 2024, while core inflation would reach 4.8 percent in 2023 and 2.8 percent next year. Similarly, inflation in the euro area would decelerate to 6.1 percent in 2023 and 3.3 percent in 2024, mainly due to lower gas prices, while its core component would remain high, ending this year at an average of 5.5 percent, before returning to 3.2 percent in 2024.

Chart 7.3: Price of brent

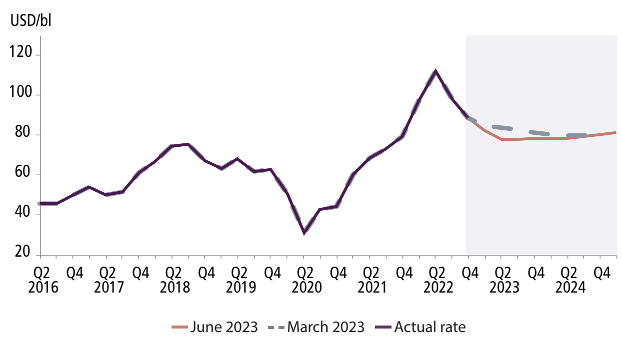


Chart 7.4: FAO food price index (2014-2016=100)

Chart 7.5: Inflation in the euro area

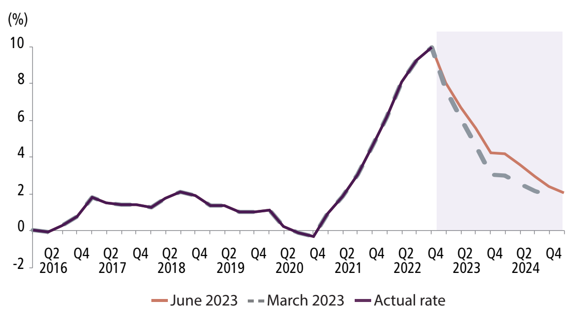


Chart 7.6: Inflation in the United states

Source : GPMN, May 2023.

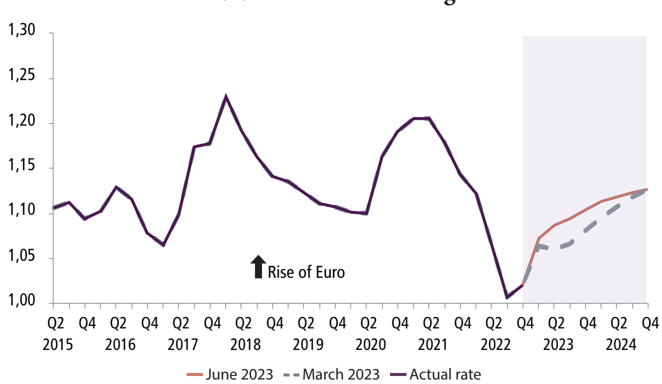
Easing the pace of monetary tightening

Faced with persistently high inflation levels, the major central banks have expressed their firm commitment to bringing inflation back to their medium-term targets. At its meeting on 15 June, the ECB decided to raise its key rates by 25bp, indicating that inflation is slowing but is likely to remain too high for too long. It also specifies that its future decisions will ensure that the key rates are set at sufficiently restrictive levels to ensure a return to the 2 percent inflation target in the medium term. As for the Asset Purchase Program (APP), it confirmed that it will end reinvestments under this program starting in July 2023.

For its part, the FED decided at the end of its meeting on 13-14 June to maintain the target range for the federal funds rate at [5 percent-5.25 percent] after 10 consecutive hikes, indicating that it anticipates that further increases this year would be appropriate. At the same time, it will continue to cut its holding of Treasury and mortgage-backed securities, according to the plan announced in May.

On the currency markets, after its sharp appreciation in 2022, the dollar would continue to depreciate against the euro in 2023 and 2024. The euro would stand at $1.09 in 2023 and $1.12 in 2024.

Chart 7.7: USD/EUR exchange rate



Source : GPMN, May 2023.

Cereal production of 55.1 million quintals for the agricultural season 2022/2023 and average harvest for 2023/2024

For the 2022/2023 crop year, the Department of Agriculture has estimated the cereal harvest at 55.1 million quintals (MQx), up 62 percent on the previous year and down 15 percent on the average for the last five years. Against this backdrop, the forecast for agricultural growth in 2023 remains unchanged from March forecast, i.e+1.6 percent.

For the 2023/2024 season, assuming an average cereal production of 70 MQx[1], instead of the 75 MQx considered in March projection , and a trend-based evolution of other crops, agricultural value added is expected to increase by 5.5 percent in 2024, compared to the 6.9 percent considered in the previous year.

7.2 Macroeconomic projections

Lower foreign trade in goods in 2023 and a smaller current account deficit over the forecast horizon

Taking into account the new assumptions concerning the international environment, as well as achievements to the end of April 2023, the current account deficit would narrow from 3.5 percent of GDP in 2022 to 2.4 percent in 2023 and 2.5 percent in 2024.

In 2023, exports would decline by 2.8 percent, driven mainly by lower sales of phosphate and derivatives, in line with the expected drop in fertilizer prices. Conversely, shipments in the automotive sector would continue to grow, albeit at a slower pace, thanks in particular to the announced increase in Stellantis' production capacity. At the same time, imports are expected to fall by 2.2 percent, mainly due to a reduction in the energy bill and a drop in purchases of semi-processed goods due mainly to the expected decline in ammonia supplies. Travel receipts would rise by 14.9 percent to 107.6 billion dirhams, while remittances from Moroccan expatriates would reach 114.7 billion dirhams, compared with 110.7 billion dirhams in 2022. FDI revenues are expected to reach 45.8 billion dirhams, equivalent to 3.2 percent of GDP in 2023.

Assuming that the planned external financing materializes, official reserve assets would increase to 361.2 billion dirhams by the end of 2023, equivalent to 5 months and 17 days of imports of goods and services.

In 2024, exports are expected to grow by 6 percent, mainly reflecting a rise in shipments from the automotive sector and, to a lesser extent, an improvement in sales of phosphates and derivatives. Imports are expected to rise by 2.9 percent, driven mainly by a rise in the importation of finished consumer goods and capital goods. The energy bill and wheat supplies are expected to decline year-on-year. At the same time, travel receipts are projected to remain virtually unchanged, while remittances, whose change is still subject to strong uncertainties, would continue to grow, improving by 3.5 percent to 118.7 billion. For their part, FDI receipts would increase to reach the equivalent of 3.3 percent of GDP in 2024.

Taking into account the Treasury's forecasted external borrowings and repayments, including 13 billion under the precautionary and liquidity line, official reserve assets would come to 357.9 billion by the end of 2024, representing coverage of 5 months and 16 days of imports of goods and services.

1 Taking into account the forecast cereal harvest for 2022/2023, average cereal production over the last ten crop years is 70 MQx.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates								Forecasts		Differentials (June/March)	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2023	2024
Exports of goods (FOB)	8,6	3,5	10,3	10,7	3,3	-7,5	25,2	30,1	-2,8	6,0	-5,9	5,4
Imports of goods (CIF)	-4,9	10,3	6,7	9,9	2,0	-13,9	25,0	39,5	-2,2	2,9	0,1	2,1
Travel receipts	-1,4	5,0	12,3	1,2	7,8	-53,7	-5,1	170,8	14,9	-0,9	17,9	-8,3
Expatriate remittances	4,8	4,0	5,3	-1,5	0,1	4,8	40,1	16,0	3,6	3,5	3,9	8,9
Current account balance (% of GDP)	-2,0	-3,8	-3,2	-4,9	-3,4	-1,2	-2,3	-3,5	-2,4	-2,5	0,4	0,0
Official reserve assets, in months of imports of goods and services	6,1	6,4	5,6	5,4	6,9	7,1	5,3	5,4	5,6	5,5	-0,1	-0,3

Sources: Foreign Exchange Office and BAM forecasts

Growth of credit to the non-financial sector would return to a moderate pace

The bank liquidity deficit would continue to widen, reaching 107.1 billion dirhams by the end of 2023 and 118.3 billion dirhams by the end of 2024, driven by significant growth in currency. Considering the expected trend in economic activity and banking system expectations, bank loans to the non-financial sector would grow by 3.7 percent in 2023 and 4.4 percent in 2024. Under these conditions, and in line with the expected evolution of other money supply counterparts, the M3 aggregate would grow by 5.9 percent in 2023 and 5.1 percent in 2024.

For its part, and following a depreciation of 3.9 percent in 2022, the real effective exchange rate (REER) would appreciate by 0.8 percent in 2023 and 1.2 percent in 2024 as a result of both the appreciation of its value in nominal terms and a level of domestic inflation higher on average than that of trading partners and competitors.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts			Differentials (June/March)	
	2018	2019	2020	2021	2022	2023	2024	2023	2024
Bank lending to the nonfinancial sector	3,1	5,5	4,2	2,9	7,9	3,7	4,4	-0,3	-0,2
M3	4,1	3,8	8,4	5,1	8,0	5,9	5,1	-0,2	-0,3
Liquidity surplus or deficit, in billion dirhams	-62,4	-76,6	-90,2	-70,8	-80,9	-107,1	-118,3	-20,4	-19,2

Gradual budgetary recovery expected over the forecast horizon

Compared with March projection, the budget deficit has been revised upwards by 0.3 percentage points to 5 percent of GDP in 2023, mainly due to higher spending on other goods and services and capital expenditure, reflecting the incorporation of additional general budget appropriations of 10 billion dirhams. On the other hand, subsidy costs were revised downwards, given new assumptions concerning butane gas prices and exchange rates. This result also incorporates an upward adjustment to tax revenues, mainly reflecting the implementation rate to the end of April 2023 and new macroeconomic projections.

In 2024, the budget deficit is expected to narrow year-on-year to 4.3 percent of GDP, the same ratio forecast in March. This forecast incorporates a reduction in the subsidy costs to 7.3 billion dirhams, down from 21.7 billion dirhams a year earlier, and lower capital expenditure than in 2023. On the revenue side, non-tax revenues are projected to improve by 16.3 percent, with receipts from specific financing mechanisms amounting to 30 billion, while tax revenues would increase slightly by 0.9 percent.

Slower growth in non-agricultural activities in 2023

After a rebound of 8 percent in 2021 and a slowdown to 1.3 percent in 2022, the growth of the national economy is expected to accelerate to 2.4 percent this year, revised downward by 0.2 percentage points compared to March projection and then to 3.3 percent in 2024. This change covers an average increase of 1.6 percent in agricultural value added in 2023, taking into account a cereal harvest of 55.1 million quintals (MQx) according to the estimation of the Department of Agriculture, and 5.5 percent in 2024, under the assumption of a return to an average cereal production of 70 MQx. On the other hand, non-agricultural activities are expected to experience a deceleration in their pace of growth to 2.5 percent in 2023, instead of 2.7 percent expected in March, followed by an acceleration to 3.2 percent in 2024.

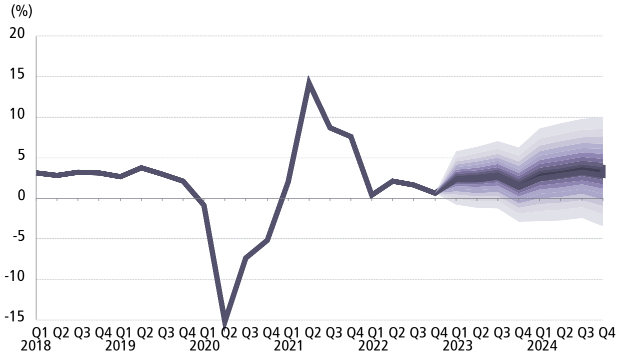
In terms of demand, growth in 2023 would be driven by net exports, while its domestic component would remain weak, mainly due to a decrease in final household consumption in the context of persistent high price levels. In 2024, the contribution to growth from net exports would remain positive, albeit attenuated, reflecting an increase in the volume of imports of goods and services and a continuation of export momentum. On the other hand, domestic demand would strengthen, including an improvement in household consumption and an acceleration in the pace of investment.

Table 7.3: Economic growth

Change In %	Actual rate				Prévisions			Ecarts (juin/march)	
	2018	2019	2020	2021	2022	2023	2024	2023	2024
National growth	3,1	2,9	-7,2	8,0	1,3	2,4	3,3	-0,2	-0,2
Agricultural VA	5,6	-5,0	-8,1	19,5	-12,9	1,6	5,5	0,0	-1,4
Nonagricultural VA	2,8	4,0	-6,9	6,3	3,0	2,5	3,2	-0,2	0,0

Sources: HCP data, and BAM forecasts

Graph 7.8: Year-on-year* growth forecasts



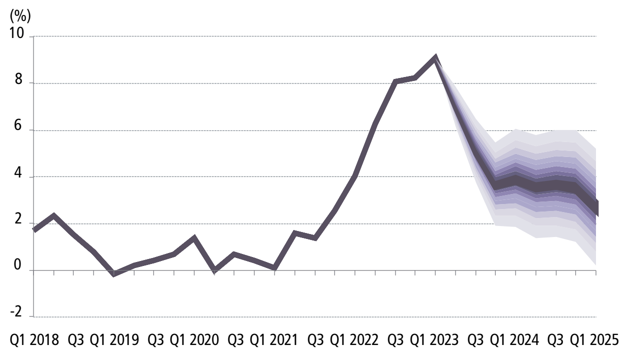
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Inflation would continue to decelerate while remaining at high levels

The internalization of inflationary pressures, the gradual easing of external pressures, the effects of drought and water stress, as well as the scheduled phase-out starting in 2024 would continue to influence the evolution of consumer prices and maintain inflation at a high level in the medium term, despite some deceleration.

Thus, after a significant acceleration to 6.6 percent in 2022, inflation would average 6.2 percent in 2023, mainly due to the increase in prices of volatile food products, which would peak at 18.8 percent. In 2024, it would stand at 3.8 percent, driven by the price increases of butane gas and sugar following the planned reduction of the subsidy costs, and an expected decrease in prices of volatile food products, thanks in particular to the support measures implemented by the government. The core inflation component would slow to an average of 6.1 percent in 2023 and 2.9 percent in 2024. Fuel and lubricant prices would decrease by 5.9 percent in 2023 and by 0.2 percent in 2024, considering the anticipated decline in international oil prices and the expected appreciation of the dirham against the dollar. Regulated tariffs are expected to rise by 1 percent in 2023, due in particular to the effect of increase in the consumption tax applied to tobacco prices in January 2003. However, they would rebound by 11.9 percent in 2024, considering the planned phase-out of subsidies for butane gas and sugar prices.

Chart 7.9: Inflation forecasts, year-on-year



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

Table 7.4: Inflation and core inflation

Variation In %	Actual rate					Forecasts			Differentials (June/March)	
	2018	2019	2020	2021	2022	2023	2024	Horizon of 8 quarters (Q2 2023-Q1 2025)	2023	2024
Inflation	1,6	0,2	0,7	1,4	6,6	6,2	3,8	4,2	0,7	-0,1
Core inflation	1,3	0,5	0,5	1,7	6,6	6,1	2,9	3,8	-0,1	0,6

Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

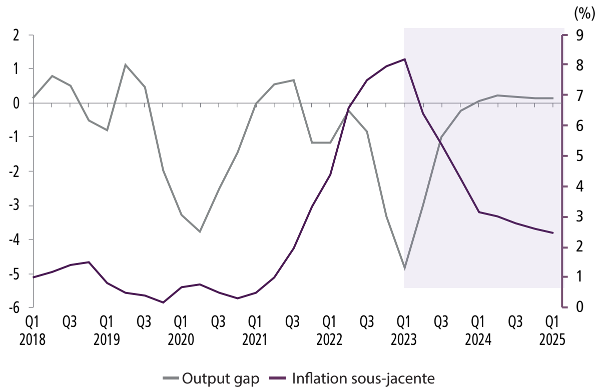
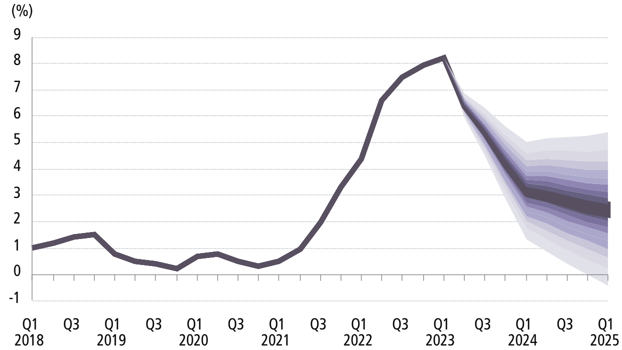


Chart 7.11: Core inflation forecasts, in year-on-year*



* 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 high and, if materialized, can affect the central projection, with a downside risk for growth and an upside risk for inflation. Indeed, the intensification of the war in Ukraine and other geopolitical tensions could trigger a new energy crisis in Europe and keep commodity prices at high levels. More stringent monetary policies in advanced economies and tighter financial conditions would also create additional risks to the global economy.

At the national level, the risks are particularly related to climate-related disruptions and worsening water stress that threaten the prospects of cereal and non-cereal agricultural production. In the medium term, the positive impacts of efforts to boost investment would contribute to accelerating growth.

The risks surrounding its outlook of inflation remain tilted to the upward. The persistence of inflationary pressures linked to domestic factors, notably the increase in prices of volatile food products, could lead to a stronger-than-expected rise in consumer prices. However, a faster easing of external inflationary pressures could result in a more rapid deceleration of inflation.

LISTE DES ABRÉVIATIONS ET SIGLES UTILISÉS

ANCFCC : Agence Nationale de la Conservation Foncière, du Cadastre et de la Cartographie
ANRT : Agence Nationale de la Règlementation des Télécommunications
AOR : Avoirs officiels de réserve
APC : Association Professionnelle des Cimentiers
AV 7 j : Avances à 7 jours
AV 24 H : Avances à 24 heures
BAD : Banque Africaine de Développement
BAM : Bank Al-Maghrib
BCE : Banque Centrale Européenne
BCP : Banque Centrale Populaire
BoE : Banque d'Angleterre
BLS : US Bureau of Labor Statistics
BTP : Bâtiment et Travaux Publics
CCG : Conseil de Coopération du Golfe
CIH : Crédit Immobilier et Hôtelier
CMR : Caisse Marocaine des Retraites
CNSS : Caisse Nationale de Sécurité Sociale
CUT : Coût Unitaire du Travail
CUTR : Coût Unitaire du Travail Relatif
CVE : Comité de Veille Economique
DAP : Phosphate Diammonique
DJ : Dow Jones
DTFE : Direction du Trésor et des Finances Extérieures
EIA : U.S. Energy Information Administration (Agence américaine d'information sur l'énergie)
ETI : Entreprises de Taille Intermédiaire
ESI : Economic Sentiment Indicator (Indicateur de climat économique)
EUROSTOXX : Principal indice boursier européen
EUR : EURO
FADES : Fonds Arabe pour le Développement Economique et Social
FAO : Food and Agriculture Organization (Organisation des Nations Unies pour l'alimentation et l'agriculture)
FBCF : Formation Brute de Capital Fixe
FED : Réserve fédérale des États-Unis
FD : Facilité de dépôt
FMI : Fonds Monétaire International
FTSE : Financial Times stock exchanges
GPMN : Global Projection Model Network
HCP : Haut-Commissariat au Plan

ICM	: Indice de Confiance des Ménages
IDE	: Investissements directs étrangers
IMME	: Industries Mécaniques, Métallurgiques, Electriques et Electroniques
INAC	: Institut National d'Analyse et de Conjoncture
IPAI	: Indice des Prix des Actifs Immobiliers
IPC	: Indice des Prix à la Consommation
IPCX	: Indice de l'Inflation sous-jacente
IPCXE	: Indice des prix des biens échangeables inclus dans l'IPCX
IPCXNE	: Indice des prix des biens non échangeables inclus dans l'IPCX
IPM	: Indice des Prix à l'importation
IPPI	: Indice des prix à la production industrielle
IR	: Impôt sur le Revenu
ISM	: Indice américain du secteur manufacturier
ISMP	: Indice des Salaires Moyen dans le secteur Privé
Libor-OIS	: London Interbank Offered Rate-Overnight Indexed Swap
LPL	: Ligne de Précaution et de Liquidité
MEFRA	: Ministère de l'Economie et des Finances et de la Réforme de l'Administration
MASI	: Morocco All Shares Index
MSCI EM	: Morgan Stanley Capital International, Emerging Markets
MRE	: Marocains résidant à l'étranger
OC	: Foreign Exchange Office
OCDE	: Organisation de Coopération et de Développement Economique
OCP	: Office Chérifien des Phosphates
OMPIC	: Office Marocain de la Propriété Industrielle et Commerciale
ONEE	: Office National d'Electricité et de l'Eau Potable
OPCVM	: Organisme de placement collectif en valeurs mobilières
PIB	: Produit Intérieur Brut
SMIG	: Salaire minimum interprofessionnel garanti
TCER	: Taux de change effectif réel
TCN	: Titres de créances négociables
TIB	: Taux Interbancaire
TGR	: Trésorerie Générale du Royaume
TPME	: Très petites, Petites et Moyennes Entreprises
TSP	: Triple Super Phosphate
TUC	: Taux d'Utilisation des Capacités de Production
TVA	: Taxe sur la Valeur Ajoutée
UE	: Union Européenne
USD	: Dollar Américain
VA	: Valeur ajoutée
WTI	: West Texas Intermediate

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