

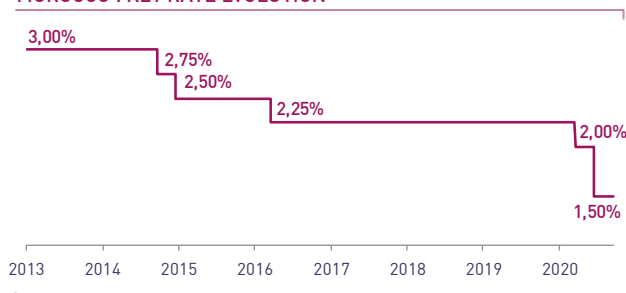
Bank Al-Maghrib: Unprecedented decisions..., monetary orthodoxy preserved

Bank Al-Maghrib has just announced a 50 BPS key rate cut from 2.0% to 1.5%. The institution also decided to reduce the required reserve ratio to 0%, thus releasing considerable liquidity of nearly MAD 12.9 Bn* in favour of banks.

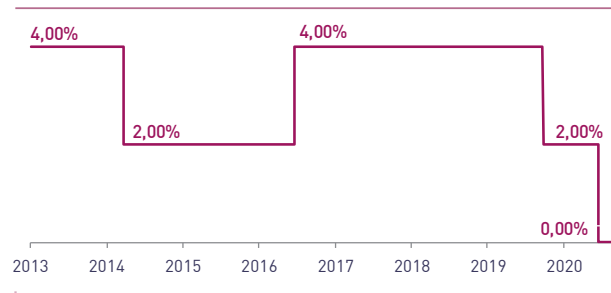
Unprecedented decisions of Bank Al-Maghrib...

These measures can enter the central bank's history books. For the first time, the institution has made in a single move a change of 50 BPS, following a previous drop of 25 BPS a quarter earlier. The key rate is thus at its lowest level during the last 15 years**. Similarly, we note for the first time a full release of the reserve account.

MOROCCO : KEY RATE EVOLUTION



MOROCCO : RRR EVOLUTION

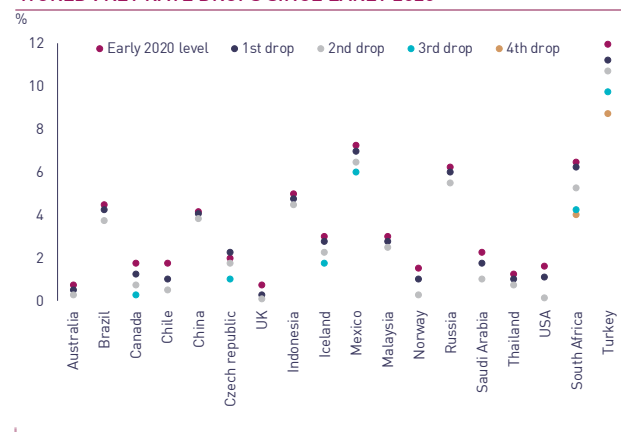


... which are part of a strong trend on an international level...

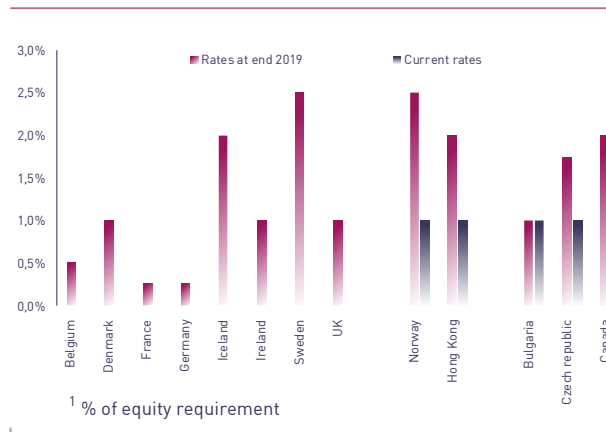
On an international level, monetary instruments have been widely used to reduce the collateral damage caused by the Covid-19 pandemic. To this end, the interest rate cut and the bank liquidity's improvement were the first two lines of defence of monetary policy against the health crisis :

- ◆ On the one hand, several institutions have made several cuts of the key rate to support the funding of the economy.
- ◆ On the other hand, central banks have improved bank liquidity through multiple channels, notably the extension of the guarantees eligible within the framework for liquidity provision : lowering the reserve requirement rate (RRR) or increasing access to liquidity through asset purchases operations.

WORLD : KEY RATE DROPS SINCE EARLY 2020



WORLD : COUNTER-CYCLICAL MEASURES' EASING¹



Monetary orthodoxy preserved

During his intervention, the Governor of Bank Al-Maghrib has excluded any recourse to unconventional means of financing. He confirms pursuing an accommodating policy which aims to support economic growth without considering other methods, in particular money printing, which could ultimately harm the fundamentals of the Moroccan economy.

Abdelaziz Lahlou
Chief Economist

Sources : BAM, IMF, FSB

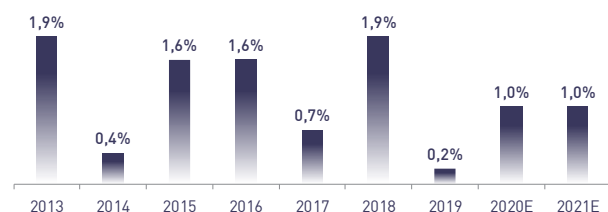
* Average reserve provided to BAM at the end of May 2020.

** Referring to the official BAM history available from the end of 2006.

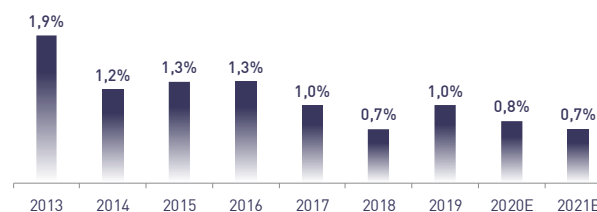
... taking into account moderate inflation in Morocco

The inflation's current level would not be a major issue for the central bank. Settled at 1.4% in Q1-2020, this indicator even fell to 0.9% in April due to the drop in fuel and lubricant prices. According to Bank Al-Maghrib forecasts, inflation would not exceed 1.0% by 2021. This levels provide reassurance on the achievement of the price stability objective. The main challenge of economic policy ahead is to sustain robust growth.

MOROCCO: INFLATION (%)



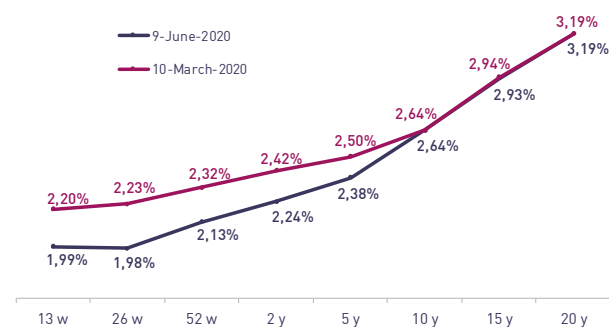
MOROCCO : CORE INFLATION (%)



A cut anticipated by financial markets...

This key rate cut was largely anticipated by the financial markets. This is evidenced by the more pronounced decline in the short part of the yield curve (-21 BPS, -25 BPS, -19 BPS respectively for the 13 w, 26 w and 52 w) between Q1-20 and Q2-20. Naturally, the medium and long term part of the yield curve is more resilient, in view of the growing financing needs of the Treasury over this horizon.

MOROCCO : PRIMARY YIELD CURVE



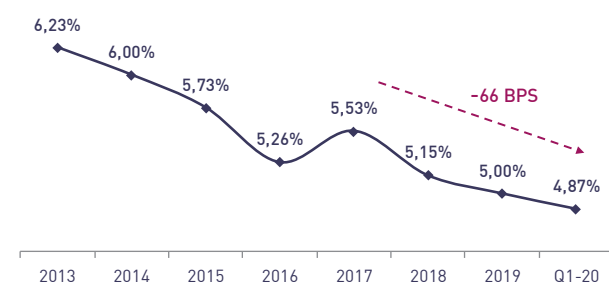
MOROCCO : VARIATIONS MARGINS OF PRIMARY YIELDS

	10 th March 2020	9 th June 2020	Var (BPS)
13 w	2.20%	1.99%	-21
26 w	2.23%	1.98%	-25
52 w	2.32%	2.13%	-19
2 y	2.42%	2.24%	-17
5 y	2.50%	2.38%	-12
10 y	2.64%	2.64%	0
15 y	2.94%	2.93%	-1
20 y	3.19%	3.19%	0

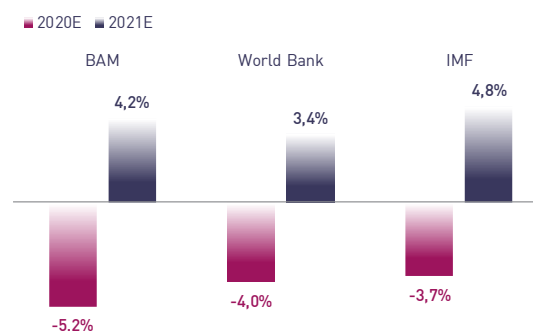
... and which would support the process of economic recovery

Access to loans financing remains a structural constraint for businesses in Morocco. As a result, the cash injection into the banking system and the reduction in the cost of refinancing are likely to strengthen the entire framework implemented by the banking system in order to ensure a rapid resumption of growth. Through these new measures, Bank Al-Maghrib strengthens its role as regulator, and supports its ability to grasp the economic operators' needs, synonymous with confidence and precursors of a sustainable recovery.

MOROCCO : AVERAGE BORROWING RATE (%)



MOROCCO : GROWTH FORECASTS



Sources : BAM, HCP, IMF, World Bank, Capital Markets ATW

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