

# RESEARCH REPORT

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## MOROCCAN CENTRAL BANK AN **ACCOMMODATIVE** POLICY TO SUPPORT A SLUGGISH ECONOMY

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KEY RATE		REQUIRED RESERVE		GROWTH 2020E		INFLATION 2020E	
	<i>Unchanged</i>		<i>Unchanged</i>		-110 bps		-60 bps
Q3-20	1.5%	Q3-20	0%	New	-6.3%	New	0.4%
Q2-20	1.5%	Q2-20	0%	Previous	-5.2%	Previous	1.0%

## EXECUTIVE SUMMARY

The national economy is now facing an unprecedented situation marked by a double shock of supply and demand. This is due to the lockdown measures adopted both in Morocco and in most of its trading partners. In response to this challenging context, Bank Al-Maghrib has started a new era of monetary policy since mid-March 2020. This one turns out to be more accommodating, thus derogating from the conventional guideline of this institution.

At the end of its 3<sup>rd</sup> monetary policy meeting in 2020, the central bank kept its key rate unchanged at 1.5%. Upon our analysis, we come out with 5 key points :

- The status quo regarding BAM's key rate was clearly anticipated by local institutions through our August 2020 survey [\[see AGR Key Rate survey\]](#). A decision which appears to be perfectly in line with the monetary policies of Central Banks at the international level ;
- The absence of inflationary pressures by 2021 gives BAM comfortable leeway to further ease its monetary policy within the coming months, in case the economic situation requires it ;
- The observed drop in the economy financing costs is a positive signal for the transmission of monetary decisions to the real economy. This is reflected through the good dynamics of loans to the economy, which grew by 5.1% in July 2020. Nevertheless, we are witnessing a deterioration in the cost of risk in the banking sector within an increasingly challenging economic context ;
- Unlike many countries, printing money is not a very credible scenario for Morocco. As a matter of fact, the resort to longer-term non-conventional monetary instruments, such as long-term repurchase agreements and guaranteed loans, is likely to alleviate the growing pressures on the Moroccan financial system liquidity ;
- For the first time since the start of this health crisis, we notice a consensus among the main local institutions regarding the Moroccan GDP forecasts. There is a consensus around a -6.1% in 2020 followed by a recovery slightly above +4.0% from 2021.

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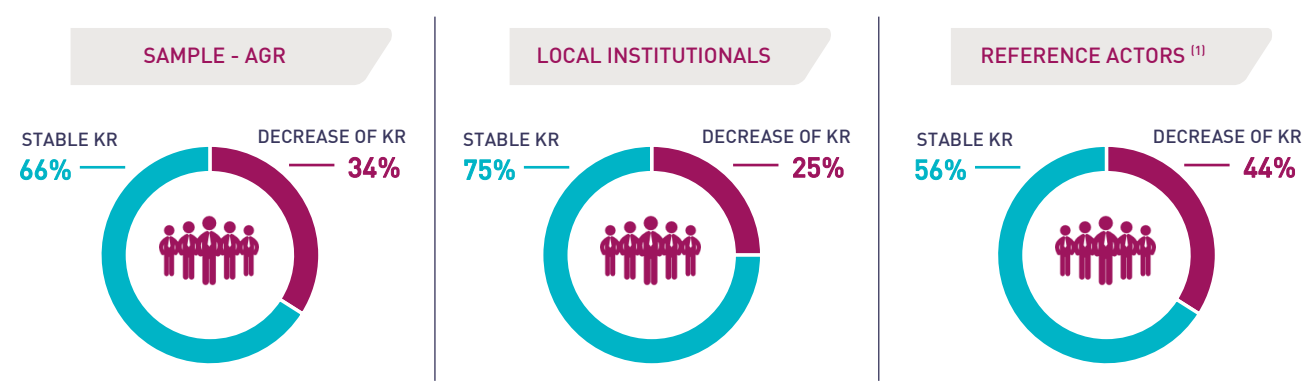
## AN EXPECTED STATUS QUO..., AS THE MAJOR CENTRAL BANKS

### *A decision widely anticipated through our recent survey*

At the end of its 3<sup>rd</sup> monetary policy meeting in 2020, Bank Al-Maghrib maintains its key rate unchanged at 1.5%. This decision comes after a historic key rate cut of 50 BPS last June. As a reminder, this key rate status quo was widely expected by the main financial investors in Morocco.

On the sidelines of our survey carried out in August 2020 with a representative sample of 34 financial investors, we revealed a clear consensus in favor of the current rate stability in H2-20. For some, BAM would mark a pause in order to accurately assess the economic impact of the health crisis in Q4-20. For others, the institution takes into account the conditions of savings' remuneration which are under pressure due to successive key rate cuts since the start of the pandemic.

### MOROCCO: FINANCIAL INVESTORS' EXPECTATIONS REGARDING THE KEY RATE IN H2-20

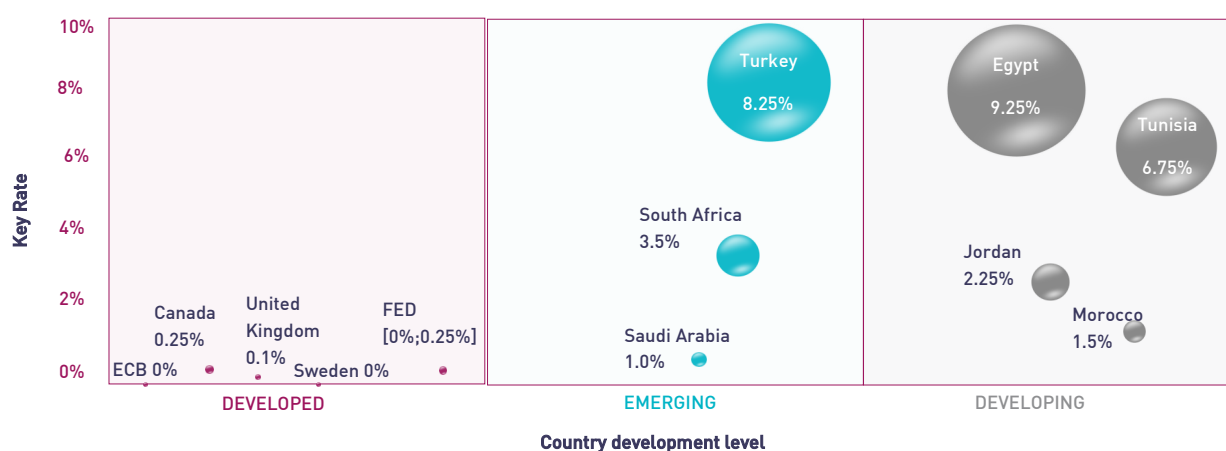


### *At the international level, no further key rate cuts since last June*

When analyzing monetary policy decisions of the main major international Central Banks during Q3-20, we notice a general consensus around the key rate status quo. Thus, Bank Al-Maghrib's decision appears to be consistent with its international counterparts. Nevertheless, it is important to emphasize that the key rate cut was part of the first lines of defense against the economic and social shock of the Covid-19 pandemic, in the different world economies.

Also, we note that the current key rate level varies according to the country profile. This rate is generally below 1.0% in developed countries, while it can exceed 9.0% in emerging and developing countries. With a key rate of 1.5%, Morocco is at the lower range of its category.

### INTERNATIONAL : CENTRAL BANKS LEAVING THEIR KR UNCHANGED DURING Q3-20



(1) Actors considered as leaders in the financial market

Sources : Minutes of Central Banks Monetary Policy meetings, AGR Computations and Estimates

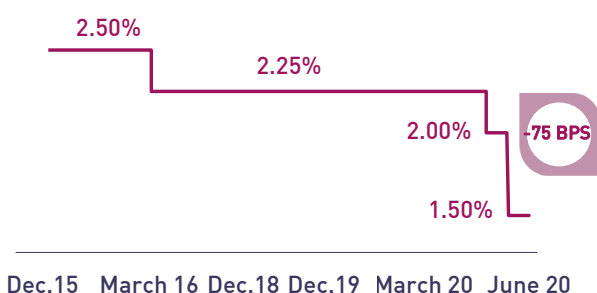
## A PROACTIVE MONETARY POLICY SINCE THE START OF THE HEALTH CRISIS

### *Unprecedented decisions aimed at supporting the recovery of the Moroccan economy ...*

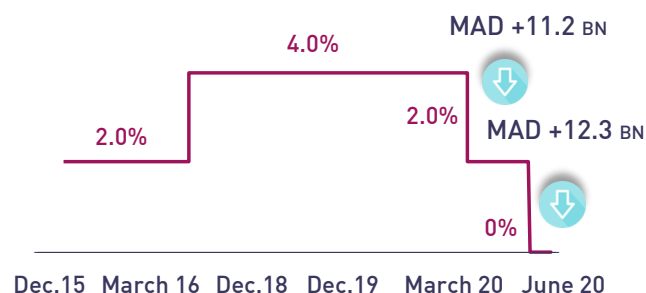
The Moroccan economy is severely affected by the devastating effects of the pandemic on several sectors such as Tourism, Aeronautics, Automotive, Services, .... Faced with this situation, BAM implemented a set of monetary measures aimed at supporting productivity. Nevertheless, the Central Bank chose to take time during this 3<sup>rd</sup> annual meeting, while the two previous meetings were rich in announcements :

- (1) A historic drop in the key rate to 1.5%. Indeed, after a decline of -25 BPS in March, BAM lowers its rate in June with an amplitude of -50 BPS. A first since 2003 ;
- (2) A removal of the reserve account by reducing its ratio to 0%, i.e. a liquidity injection of MAD 12.0 Bn. This measure granted banks more leeway in terms of loan distribution ;
- (3) An expansion of the collateral eligible for refinancing operations with BAM, making it possible to triple the borrowing capacity of banks, strengthen the non-conventional refinancing program for very small, small and medium-sized enterprises and ease prudential rules.

BAM : KEY RATE



BAM : RESERVE REQUIREMENT RATIO



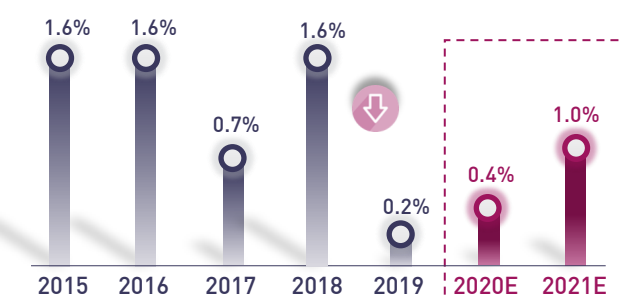
### *... in a context where price stability remains well controlled*

It is comforting to notice that the Central Bank's accommodative monetary policy is operating in an overall favorable inflationary environment. In fact, the price stability is well controlled in Morocco with an inflation level below 2.0% since 2008.

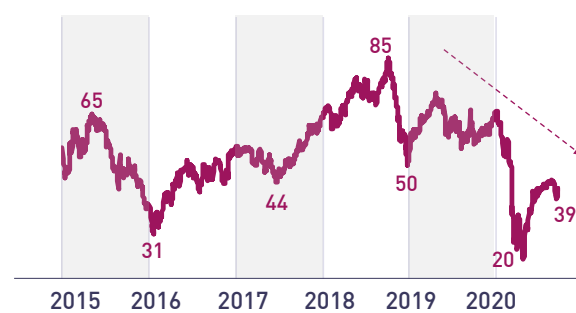
Under these conditions, Bank Al-Maghrib's position still seems comfortable to further ease its monetary policy if changes in the economic climate require it in the coming months. This view is supported by the absence of inflationary pressures.

- On one hand, we note a decline in the Brent price internationally with an average price of \$ 42 /bbl in 2020 against \$ 66 /bbl in 2019;
- On the other hand, the deterioration in the dynamics of domestic Demand under the weakening of worker remittances and investment.

MAROCCO : INFLATION EVOLUTION 2015-2021E



INTERNATIONAL : BRENT PRICE 2015-2020 (\$/BBL)



Sources : Bank Al-Maghrib, Bloomberg, AGR Computations

## BANK AL-MAGHRIB CONTINUES TO ENSURE A BALANCED MONEY MARKET

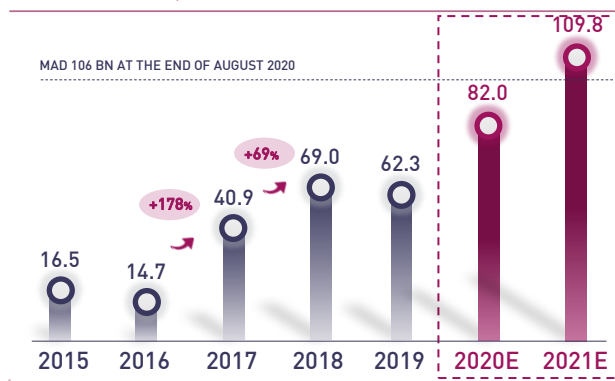
### Visible pressures on bank liquidity ...

Bearing in mind the crucial challenge of the recovery of the Moroccan economy in 2021, BAM will continue to perfectly play its role of last resort lender. Recall that the bank liquidity deficit reached a historic record of MAD 106.2 Bn at the end of August 2020, up +11.2% on a year-on-year basis, and would exceed MAD 109 Mn by 2021. This bank liquidity deterioration is explained by :

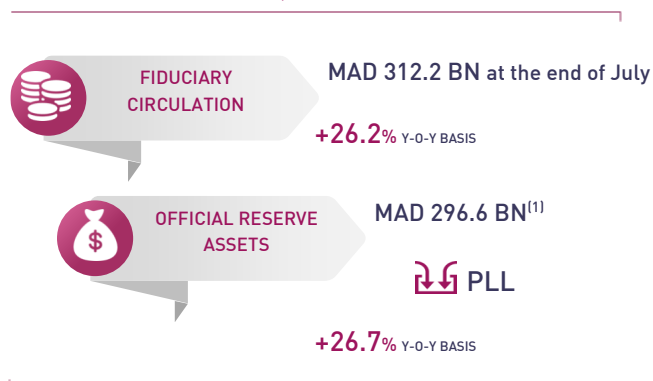
- (1) The expansion in cash circulation by +26.2% to more than MAD 312 Bn at the end of July 2020 attests to the increase in exchange volumes outside the banking circuit ;
- (2) The expected decline in foreign exchange reserves given the deterioration of external aggregates and the delay in the international treasury issuance planned under the Amending Finance Act 2020.

Nevertheless, increasing the refinancing capacity of banks through monetary policy instruments would meet the liquidity needs of the financial system, with the satisfaction rate for main operations reaching 100%. Also, we note significant efforts in terms of support for foreign exchange reserves through the activation of the \$ 3.0 Bn Precautionary and Liquidity Line (PLL) made available by the IMF last April and which would allow to cope with a possible deterioration in the balance of payments.

### MOROCCO : LIQUIDITY DEFICIT 2015-2021E



### MOROCCO: BANKING LIQUIDITY INDICATORS



### ... controlled through the use of new long-term instruments

Beyond traditional main operations, BAM increased the banks' reliance on longer-term monetary instruments. To this end, we note two main developments :

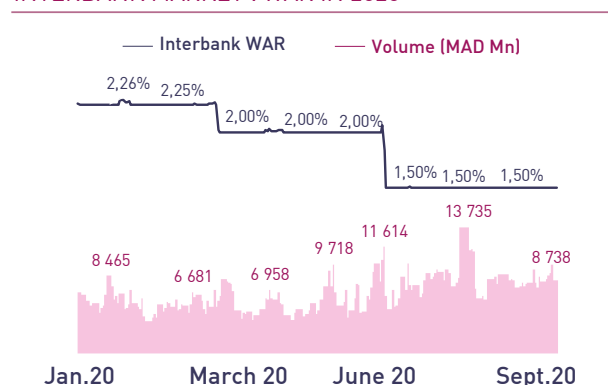
- (1) Almost half of the 7-day advances were reallocated to longer-term repurchase agreements. Thus, weekly injections fall by more than 75%, going from MAD 61.9 Bn pre-crisis to little less MAD 36.0 Bn post-crisis ;
- (2) Guaranteed loans, considered as non-conventional operations, increased tenfold during the same period. These loans come under the program to support the financing of very small, small and medium-sized enterprises (VSMEs) set up last April, in addition to the "Intilaka" support line.

Under these conditions, Bank AL-Maghrib's expansive strategy through the increase in its liquidity injections over 7 days and in the longer term has made it possible to contain the trend in interbank rates around the key rate.

### BAM : 2020 INTERVENTIONS (IN MAD BN)

	2019	PRE-CRISIS FROM 01/01/20 TO 03/19/20	POST-CRISIS FROM 03/20/20 TO 09/24/20	
7-day advances	73.8	61.9	35.3	↓
LT Repo	0.0	0.0	44.9	↑
Guaranteed loans	2.4	2.3	21.9	↑
Exchange swaps	4.3	3.7	3.7	↔

### INTERBANK MARKET : WAR IN 2020



(1) Figures are as of September 11<sup>th</sup> 2020

Sources : Bank AL-Maghrib, AGR Computations

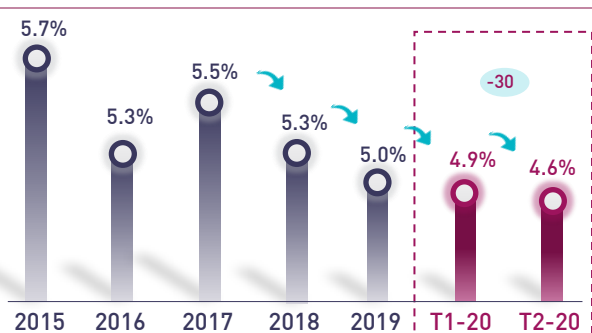
## A VISIBLE TRANSMISSION TOWARD ECONOMY FINANCING COSTS

### A noticeable drop in the financing costs of economic agents ...

The transmission of monetary decisions to the real economy remains one of BAM's top concerns. Indeed, the mitigation of the health crisis adverse effects lies in the ability of the banking system to finance the economy at a relatively lower cost:

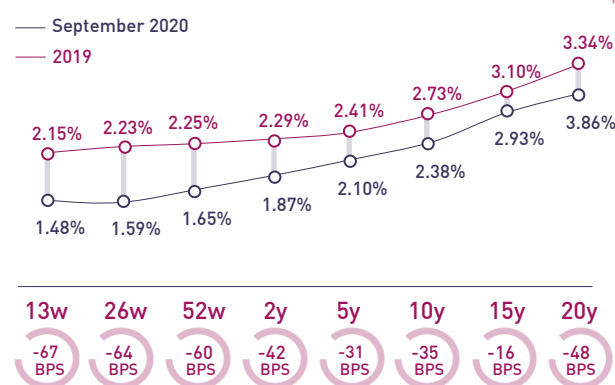
- (1) Regarding the cost of refinancing private companies and households, lending rates continue their downward trend which began in 2017. These declined by more than 30 BPS from 4.9% in Q1-20 to less than 4.6% during Q2-20 ;
- (2) As for Treasury refinancing, primary bond rates also experienced a downward trend in investor return requirements. The front end of the yield curve is more responsive to expectations of a decrease in the key rate. On the other hand, the transmission to the long end is done gradually and over a longer period.

MOROCCO : LENDING RATES<sup>(1)</sup> 2015-2020



(1) Annual average of quarterly weighted average lending rates.

MOROCCO : PRIMARY BOND CURVE



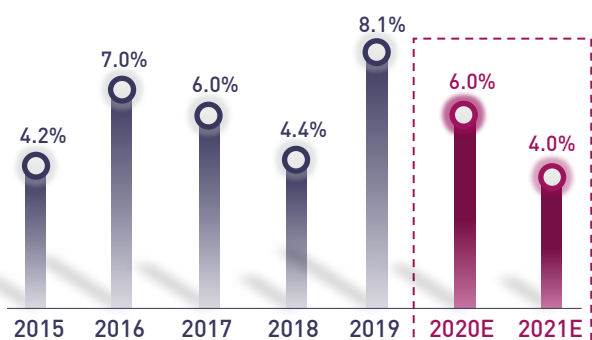
### ... supported by a positive dynamic of loans

Bank Al-Maghrib's accommodative strategy reflected positively on outstanding bank loans. In fact, the fall in the cost of refinancing, the injection of liquidity and the establishment of guaranteed loans under the DAMANE OXYGENE (MAD 17 Bn) and DAMANE RELANCE (MAD 22 Bn) programs revitalized granting loans.

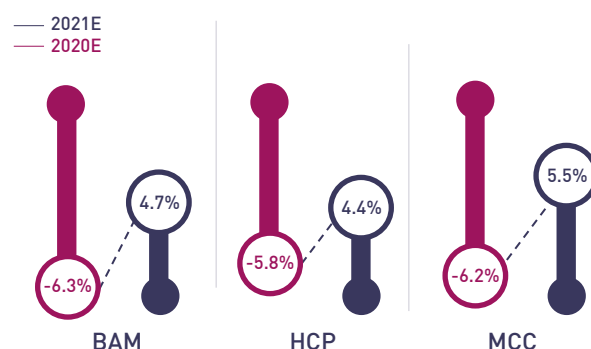
Thus, outstanding loans amounted to MAD 946.1 Bn at the end of July 2020, up 5.1% compared to the same period of the previous year. However, the strong loans increase in a difficult economic context is weighing on banks' cost of risk of which should, in our opinion, more than double in 2020.

Ultimately, the Moroccan economy is heading for its strongest underperformance in the past decade. Penalized by a double negative effect, "health crisis" and "drop in crop added value", Bank Al-Maghrib forecasts a recession of the Moroccan economy in 2020, i.e. a GDP drop of -6.3%. This new forecast remains in line with those of the main national institutions.

BANKS : LOANS TO THE ECONOMY



MOROCCO : GDP GROWTH FORECASTS



Sources : Bank Al-Maghrib, HCP, MCC, AWB Capital Market, AGR Computations

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