RESEARCH REPORT

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Monetary Policy

BANK AL-MAGHRIB : INFLATION AS A NEW PRIORITY FOR 2023

Attijari Global Research

Rapport destiné aux institutionnels

KEY RATE		RESERVE REQUIREMENTS		GROWTH 2022E		INFLATION 2022E	
	+50 BPS		*Unchanged*		+30 BPS		+30 BPS
Q4-22	2.5%	Q4-22	0%	New	+1.1%	New	6.6%
Q3-22	2.0%	Q3-22	0%	Previous	+0.8%	Previous	6.3%

BANK AL-MAGHRIB : INFLATION AS A NEW PRIORITY FOR 2023

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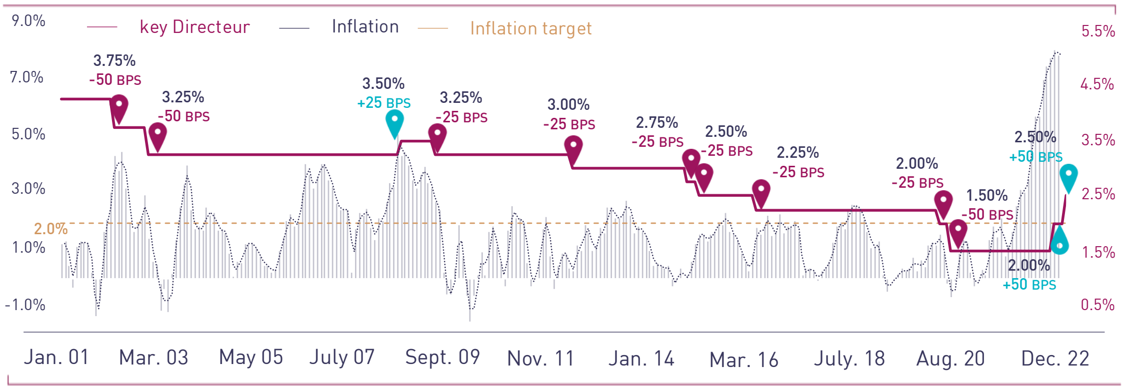
For its last monetary policy meeting in 2022, Bank Al-Maghrib decides to raise its Key Rate by +50 BPS to 2.5% for the 2nd consecutive time. The Central Bank thus confirms the shift in its monetary policy that began last September. Following the inflationary surge in Morocco which reached a 30-year high, i.e. above 8.0% in October, the institution is continuing its restrictive policy by prioritizing the support of price stability. Note that this increase of 50 BPS is in line with our survey carried out in December 2022 *(Cf. Key Rate Survey Q4-22).*

According to the latest BAM forecasts, economic activity has been revised slightly upwards in 2022E to 1.1% instead of 0.8% previously. In fact, the year 2022 was marked by a difficult international context, a weak crop of 34 MQx and an unprecedented acceleration of inflation. Under these conditions, BAM is revising its average inflation forecast upwards to 6.6% in 2022E against 6.3% previously.

MOROCCO : MONETARY POLICY DECISIONS VS. INFLATION 2001-2022



Analyzing the new BAM forecasts over the period 2023E-2024E and according to our own reading of monetary conditions in Morocco, we come out with two main findings:

(1) The "sustainable" character of inflation in Morocco now becomes the "main" scenario. The spread of external inflationary pressures combined with the decompensation of subsidized products scheduled from 2024E should fuel upward pressure on prices;

(2) Continued monetary tightening by Central Banks internationally in 2023E. Despite a sharp deceleration internationally, inflation still remains at high levels in the United States and the Euro Zone. Consequently, the Fed and the ECB should continue to raise their KR in 2023E.

EXPERT ADVICE

In an inflationary context that is longer than expected, Bank Al-Maghrib has set the fight against rising prices as a new priority. By further tightening the financing conditions of the economy, BAM should thus slowdown the dynamics of domestic Demand in Morocco via its Investment & Consumption components.

This new monetary orientation also faces two major challenges. On the one hand, the visible pressures on the remuneration of national savings following the orientation of domestic real rates in negative territory since Q2-22. On the other hand, the continued dirham depreciation against the dollar. The latter remains supported by the aggressive rate hike process by the Fed.

In this perspective, Bank Al-Maghrib should logically continue its monetary tightening cycle in 2023E, through at least an additional rise in the KR during the first half of 2023.

Sources: Bank Al-Maghrib, HCP, AGR Computations & Estimates

TOWARDS CONTINUED INTERNATIONAL MONETARY TIGHTENING IN 2023E

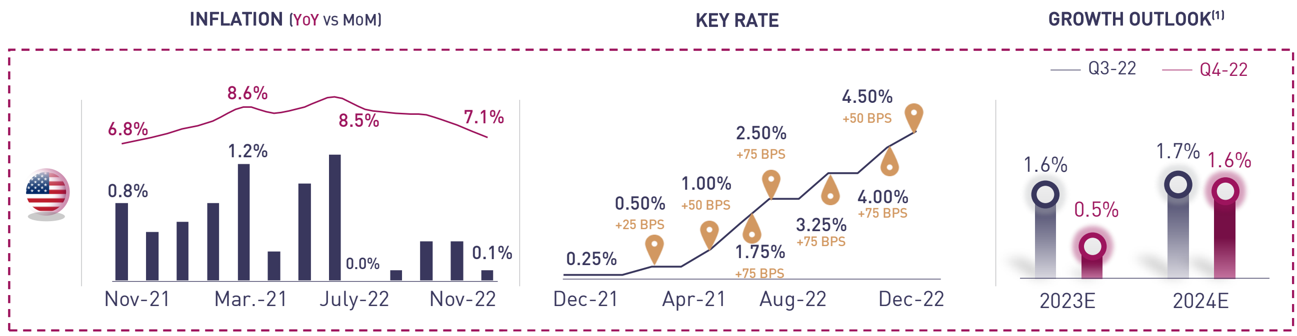
In a context of monetary tightening and easing of international energy prices leading to a slight decline in inflationary pressures in November, the major central banks (FED, BOE, ECB) slowed the pace of their monetary tightening. Despite the tangible risks of recession, these institutions are determined to pursue a restrictive monetary policy in 2023 in order to bring inflation back to around its target of 2% on the ST.

UNITED STATES: THE FED DETERMINED MORE THAN EVER TO DEFAULT THE INFLATIONARY SPIRAL

As expected, the Fed has slowed the pace of its monetary tightening and raised its KR in December by 50 BPS after an increase of 75 BPS successively during its last 4 monetary policy meetings. This is a 15-year high at 4.50%, a cumulative increase since March 2022 of 425 BPS. Originally, a higher-than-expected slowdown in inflation in November. Since its 40-year peak of 9.1% in June, inflation has steadily declined in the United States to reach 7.1% in November y-o-y.

However, the Fed is not ready to stop its KR hikes in 2023 until the deceleration in inflation is structural in order to converge towards its 2% target. Thus, the institution plans to increase its Rates by more than 75 BPS, i.e. a target of the "FedFunds" included in a range between [5%-5.25%] by the end of 2023. Under these conditions, the Fed is reviewing its growth forecasts down to 0.5% in 2023 against 1.6% initially. At the same time, the institution forecasts an increase in the unemployment rate to 4.6% in 2023 against 3.7% currently as well as inflation still above 3% over the studied period.

USA: INFLATION VS. KEY RATE DECISIONS AND GROWTH OUTLOOK

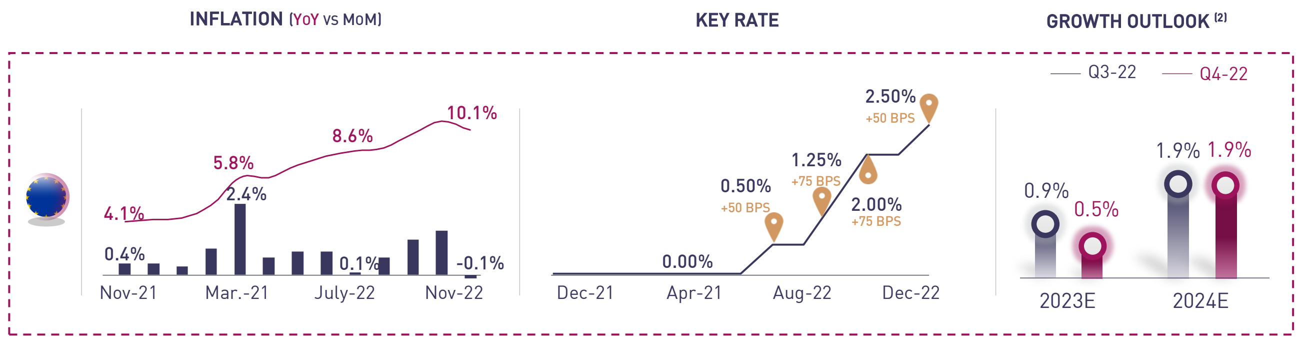


EUROZONE: ECB SHOULD CATCH UP WITH FED AND PROMISES MORE TO RAISE KR

While the old continent is on the verge of recession given the energy crisis persistence in Europe and geopolitical tensions, the ECB is continuing its monetary tightening, but at a less sustained pace. After raising its KR by 75 BPS twice during its last two monetary policy meetings, the ECB slowed the rate of increase to 50 BPS during its last meeting in December. Cumulatively, the ECB has raised its Key Rates by 250 BPS since July 2022, bringing them to 2.5% in December, i.e. a highest since 2008. Like the United States, inflation has decelerated to 10.1% in November against 10.6% a month earlier. This mainly results from the drop in oil price by -14%, falling from $94 in October to $84.

Nevertheless, the President of the ECB rules out a pivot point for inflation in the EU and expects a high inflation in 2023E exceeding the 6% threshold before returning to 3.4% in 2024E. Faced with the persistence of prices increase, the ECB intends to pursue its restrictive policy through a further increase of 50 BPS in February 2023. At the same time, the institution plans to significantly reduce the size of its inflated balance sheet, i.e. a reduction of €15 Bn per month from its APP program starting in March 2023.

EURO ZONE : INFLATION VS. KEY RATE DECISIONS AND GROWTH OUTLOOK



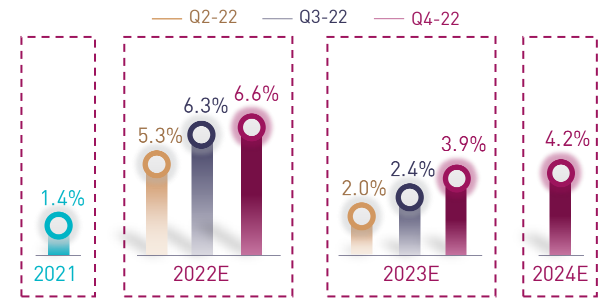
(1) Fed forecasts of USA growth, published in September and December 2022
(2) ECB forecasts of Euro Zone growth, published in September and December 2022

Sources: Official Central Bank Websites, AGR Computations & Estimates

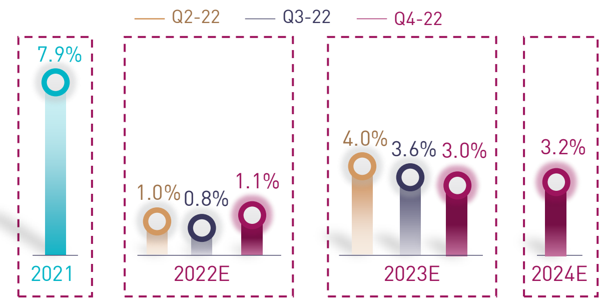
A PERSISTENT INFLATIONARY ENVIRONMENT..., GROWTH UNDER PRESSURE IN 2023E

While the latest national rainfall confirms BAM's forecasts for a normative crop of 75 MQx in 2023E, the continuation of a restrictive monetary policy combined with the persistence of inflationary pressures are prompting BAM to revise its growth projections downwards, like global economies. GDP growth would stand at 3.0% in 2023E against 3.6% initially. For its part, inflation is expected to slow to 3.9% in 2023E before rising again to 4.2% in 2024E.

MOROCCO : EVOLUTION OF INFLATION FORECASTS



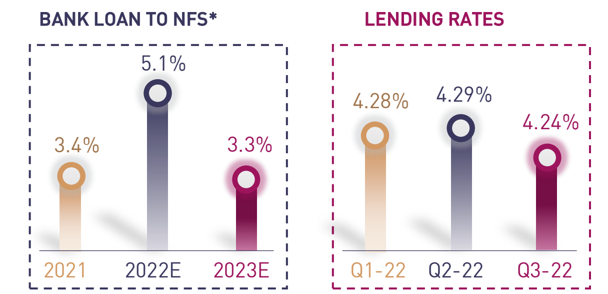
MOROCCO : EVOLUTION OF GROWTH FORECASTS



A YIELD CURVE WHICH ALREADY FACTORS IN CONTINUED MONETARY TIGHTENING IN 2023E

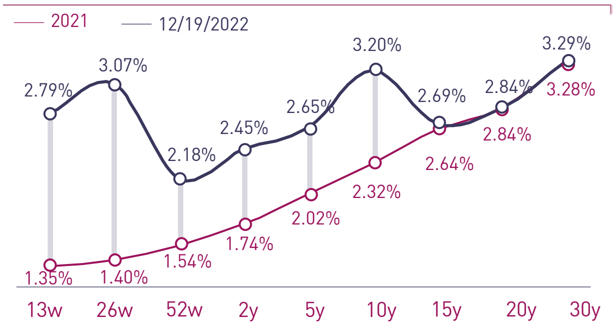
While the transmission of the KR rise in September is not yet fully visible on Lending Rates, it was clearly reflected in the Treasury refinancing cost from Q4-22. Bond yields already seem to price in the continued normalization of BAM's monetary policy. Also, we are witnessing an inversion of the primary curve with ST Rates higher than those of the MLT. As an indication, the 26-week rate exceeds the 3.0% threshold for the first time since 2015, i.e. a spread of more than +50 BPS with the current KR. In our opinion, this evolution reflects the increase in investors' return requirements given inflationary expectations and falling Demand for T-Bonds. To deal with this situation, the Treasury has implemented a new issuance strategy more suited to investors' expectations through the issue of new lines of T-Bonds (5 years reviewable, 32 days and 45 days).

MOROCCO : BANK LOAN VS. LENDING RATES



*Non financial sector

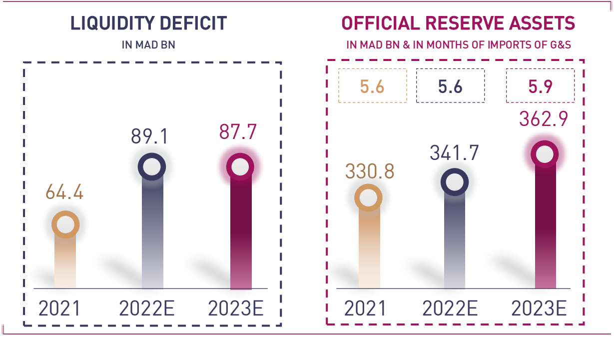
MOROCCO : PRIMARY BOND CURVE



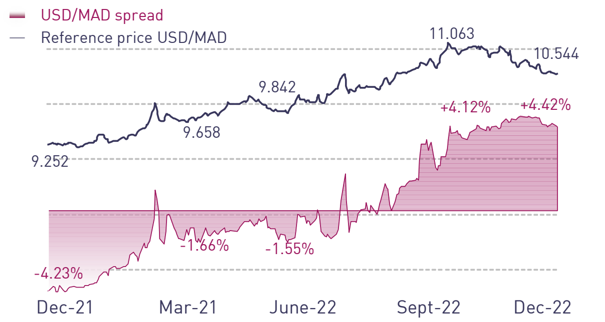
PRESSURES ON THE DIRHAM CONTINUE DURING Q4-22

The MAD evolution is closely monitored by the issuing institute. The continued MAD depreciation would amplify national inflationary pressures by considerably impacting household purchasing power. It should be noted that the USD/MAD parity reached a historic peak of 11.1 last September, before returning to around 10.5 in December, i.e. a dirham depreciation of -13.7% since the start of the year. For their part, liquidity spreads remain at the top of the MAD fluctuation band at nearly 5%.

LIQUIDITY DEFICIT VS. FOREIGN EXCHANGE RESERVES



USD/MAD EVOLUTION : FIXING VS. LIQUIDITY SPREAD



*Figures are as of 12/13/2022

Sources : Bank Al-Maghrib, MEF, IMF, AWB Trading Room, AGR Computations & Estimates

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