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# BANK AL-MAGHRIB BOARD MEETING

Rabat, September 26, 2023

1. The Board of Bank Al-Maghrib held its third quarterly meeting of the year 2023 on Tuesday, September 26.
2. At the beginning of the meeting, the members of the Board paid tribute to the victims of Al Haouz earthquake, imploring the Almighty to surround them with His holy mercy. The Board members expressed their full support for any action the Bank might take to contribute alongside the Government to the implementation of the high instructions of His Majesty the King. It also expressed its appreciation of the national and international surge of solidarity in the wake of this disaster.
3. The Board also welcomed the decision to maintain the World Bank and the IMF Annual Meetings in Marrakech from 9 to 15 October 2023, a decision that reflects the international institutions' confidence in our country's resilience and its ability to cope with and manage large-scale shocks. It also welcomed the recent staff-level agreement with the IMF to provide long-term financing of SDR 1 billion (equivalent to USD 1.3 billion) to support the Kingdom's action on climate change.
4. The Board then discussed economic developments since its last June meeting. In this regard, it noted the marked deceleration in inflation, which fell from a year-on-year peak of 10.1 percent in February to 5 percent in August, supported by the measures implemented by the Government, the easing of external pressures and the tightening of monetary policy. According to Bank Al-Maghrib's forecast, this slowdown would continue, and inflation is expected to fall from 6.6 percent in 2022 to an average of 6.0 percent this year and to 2.6 percent in 2024. Its underlying component is expected to follow a similar trajectory, declining from 6.6 percent to 5.6 percent and to 2.3 percent respectively.
5. The Board also noted that inflation expectations both in the medium and long term fell significantly during the third quarter of 2023 and took note of the preliminary assessments which show that the transmission of its latest three decisions to raise the key rate to monetary conditions and to the real economy remains partial.
6. In view of the above data and given the high degree of uncertainty surrounding the international developments and the domestic context in the aftermath of the earthquake, the Board decided to keep the key rate unchanged, at 3 percent. At its forthcoming meetings, the Board's decisions will take into account the data on the economic and social impacts of the earthquake, as well as the measures taken by all stakeholders.
7. Internationally, energy prices registered a further rise, mainly due to mainly due to a less unfavorable outlook of the global economy and supply cuts by some OPEC+ countries. The Brent crude price, in particular, is expected to stand at $82.3 per barrel in 2023, declining by 16.8 percent year-on-year, and then to hover around this level in 2024. Excluding energy, prices remain on a downward trend, driven by declines in agricultural products and metals and ores. For phosphate and its derivatives, raw phosphate price remains at relatively high levels and would reach, according to the World Bank's projections of last April, $260/t in 2023 and $240 in 2024, after $266 in 2022. Derivatives prices would drop from $772/t in 2022 to an average of $580 in 2023 and to $570 in 2024 for DAP, and from $716 to $560 and $510 respectively for TSP.

8. Against this backdrop, inflation is expected to continue easing, albeit remaining at levels well above central bank targets, particularly in the advanced economies. In the USA, inflation is set to slow from 8 percent in 2022 to 4.1 percent in 2023 and to 2.6 percent in 2024, driven in particular, by a substantial fall in rental prices, while in the Euro area it would decelerate from 8.4 percent to 5.6 percent then to 3.1 percent respectively.

9. Regarding monetary policy decisions of the central banks of the main advanced economies, the FED kept, at its September 19-20 meeting, its target range for the federal funds rate unchanged at [5.25%-5.50%]. It stated its intention to continue monitoring the implications of its latest decisions on the economic outlook, and its readiness to adjust the stance of its monetary policy should risks emerge that could impede the achievement of its objectives. On September 14, citing inflation that had been too high for too long, the ECB raised its three key rates by 25 basis points for the tenth consecutive time, indicating that it would keep them at sufficiently restrictive levels for as long as necessary.

10. Despite tighter monetary conditions and persistently high inflation, the global economic outlook turned out to be overall less unfavorable than those expected in June. In the United States, growth is expected to reach 1.9 percent in 2023, a forecast that has been revised considerably upwards, before slowing down to 0.9 percent in 2024, whereas in the euro area, it would reach 1.2 percent this year and 0.9 percent in 2024. In the main emerging countries, growth in the Chinese economy would to be limited to 5.5 percent in 2023 and 5 percent in 2024, due to the ongoing crisis in the real estate market and the weakening domestic demand, while the Indian economy is expected to grow by 6.1 percent in 2023 and by 6.4 percent in 2024.

11. At the national level, after a 1.3 percent deceleration in 2022, growth is likely to steadily improve to 2.9 percent in 2023 and 3.2 percent in 2024, without considering the aftermaths of Al Haouz earthquake and the implications of the announced reconstruction and recovery measures. This development would be the result of an increase in the agricultural added value of 5 percent in 2023 and 5.9 percent in 2024 assuming an average cereal production of 70 million quintals. Growth in non-agricultural activities is expected to slow down to 2.6 percent in 2023, before accelerating to 3 percent in 2024.

12. Regarding external accounts, after the strong momentum reported in the last two years, the trade in goods is expected to almost stagnate in 2023, before a relative recovery in 2024. Exports are likely to remain almost stable this year, with a particularly substantial drop in the sales of phosphate and derivatives and a sustained rise in those of the automotive sector. They are then expected to strengthen by 5.8 percent in 2024, reflecting mainly the expected recovery of the phosphate and derivatives exports to 84.6 billion dirhams and the ongoing good performance of the automotive sector, whose sales would amount to 155 billion. At the same time, imports in 2023 are expected to remain at the same level as in 2022, with a decrease in the energy bill to 149.1 billion dirhams and a drop in the purchases of semi-finished products, as well as an increase in the purchases of consumer and capital goods. In 2024, they would increase by 2.2 percent, driven by the higher imports of semi-finished products and consumer goods. In addition, considering the major achievements of the summer period and the expected impact of the large-scale international events that our country will host in the upcoming months, travel receipts are expected to rise by 23.4 percent to 115.5 billion dirhams in 2023, before declining by 4.9 percent to 109.9 billion dirhams in 2024. Remittances are expected to rise by 2.5 percent in 2023 and by 3.6 percent in 2024 to 117.5 billion. Under these conditions, the current account deficit would be around 2 percent of GDP in 2023 and 2024, after 3.5 percent in 2022. Regarding FDI receipts, they are expected to remain at the equivalent of 3 percent of GDP. Overall, and taking into consideration the Treasury's current and projected external financing, official reserve assets would stand at 361.8 billion dirhams by the end of

2023 and at 363.8 billion dirhams by the end of 2024, covering about 5 months and half of imports of goods and services.

**13.** In terms of monetary conditions, lending rates rose by 23 basis points quarter-on-quarter to 5.26 percent in the second quarter of 2023, representing a cumulative increase of 102 basis points since the start of the monetary policy tightening cycle. The banks' liquidity needs are expected to further increase due to the rise in cash circulation, standing at 97.2 billion dirhams by the end of 2023 and at 113 billion by the end of 2024. Considering these developments and the outlook of the economic activity, the pace of bank lending to the non-financial sector is expected to decelerate from 7.9 percent in 2022 to 3.1 percent in 2023, before improving to 4.6 percent in 2024. As for the real effective exchange rate, it is expected to appreciate by 1.1 percent in 2023, as a result of both the appreciation of its value in nominal terms as well as a level of domestic inflation higher on average than that of trading partners and competitors, and by 1.0 percent in 2024, in line with its increase in nominal terms.

**14.** With regard to public finances, fiscal execution for the first eight months of 2023 shows a 4.9 percent improvement in ordinary revenues, driven particularly by higher tax receipts. At the same time, overall expenditures rose by 5.9 percent, reflecting an increase in capital expenditures, goods and services expenditures, and interest charges on debt. Considering these achievements and the expected evolution of the economic activity, the fiscal deficit would, according to Bank Al-Maghrib's forecasts, ease slightly from 5.2 percent of GDP in 2022 to 5.1 percent in 2023 and 4.9 percent in 2024.