BANK AL-MAGHRIB

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 19, 2023

1. The Board of Bank Al-Maghrib held its last quarterly meeting of 2023 on Tuesday, December 19.

2. During this meeting, the Board analyzed domestic and global economic developments, as well as the Bank's medium-term macroeconomic projections. It noted, at the international level, a marked easing of inflationary pressures as a result of unprecedented monetary tightening and lower energy prices, but also a deceleration in economic growth, which continues to suffer from geopolitical tensions and rising uncertainties. At the national level, Al Haouz earthquake took a heavy toll on human lives, but its impact on economic activity is expected to be limited, according to various evaluations carried out, including the one conducted by Bank Al-Maghrib. On the other hand, the completion of many large-scale projects planned or currently underway gives reason to hope for a new momentum in investment and economic activity in the medium and long term.

3. Regarding domestic inflation in particular, the Board noted a significant slowdown which is expected to continue in the medium term. Indeed, since the peak of 10.1 percent reached last February, inflation has gradually decelerated to reach 4.3 percent in October, and should end the year with an average of 6.1 percent, compared with 6.6 percent in 2022. Considering the expected dissipation of external inflationary pressures, the direct effects of the tax measures set out in the 2024 Finance Law and the gradual lift of subsidies provided for in the 2024-2026 medium-term fiscal plan, and assuming quasi stable volatile food prices, inflation is expected to fall sharply to around 2.4 percent in 2024 and 2025. Its underlying component would follow a similar trend, decreasing from 6.6 percent in 2022 to 5.6 percent in 2023, then to 2.4 percent in 2024 and to 2.3 percent in 2025.

4. The Board also noted that medium-term inflation expectations as reflected in BAM’s quarterly survey had continued to decline in the fourth quarter of 2023, and that the cumulative transmission of the last three key rate hikes to monetary conditions and the real economy continues.

5. In view of the data above, the Board considered that the current level of the key rate at 3 percent remains appropriate and favors the return of inflation to levels in line with the price stability objective. The Board has therefore decided to hold it unchanged, while continuing to closely monitor economic conditions and inflationary pressures, both domestically and globally.

6. On the commodity markets, oil prices remain highly volatile, reflecting supply risks and OPEC+ decisions. After reaching $98.9/barrel in 2022, the price of Brent crude oil is set to fall to an average of $83.1 this year, then to stand at $87.3 in 2024 and at $86.6 in 2025. Excluding energy, prices are expected to continue their downward trend, mainly reflecting declines in the prices of agricultural products, metals and ores. As for phosphate and its derivatives, the World Bank’s forecasts of last October point to a decline, partly linked to the fall in input prices, particularly those of natural gas. Consequently, prices are expected to gradually decrease from $772/t in 2022 to $400 in 2025 for DAP, while raw phosphate price would rise by 27.8 percent in 2023 to $340/t, then gradually decline to $250 in 2025.

7. Against this backdrop, inflationary pressures would continue to ease over the medium term. In the USA, driven particularly by the downturn of commodity prices and the deceleration of the increase in housing services prices, inflation is set to slow down from 8 percent in 2022 to 4.1 percent in 2023, then to 2.7 percent in 2024 and to 2.2 percent in 2025. In the euro area, inflation would also gradually decrease from 8.4 percent in 2022 to 5.5 percent in 2023, to 2.5 percent in 2024 and then to 1.7 percent in 2025.

8. Regarding monetary policy decisions of central banks of main advanced economies, the FED decided, at its December 12 and 13 meeting, to keep for the third consecutive time its target range for the federal funds rate unchanged at [5.25%-5.50%], against the backdrop of moderating job creation and easing inflation, which nevertheless remains at high levels. As for the ECB, it also kept, for the second time in a row, its three key rates unchanged at its meeting held on December 14, indicating that inflation is expected to gradually fall over 2024, before approaching the 2 percent target in 2025. It also decided to end reinvestments under its PEPP program at end 2024, as those under its APP ended in July 2023.

9. The global economic outlook remains overall unfavorable. Indeed, in the major advanced economies, growth is expected to stand this year at 2.4 percent in the USA but is projected to decelerate as the effect of the fiscal stimulus fades and the restrictive monetary and financial conditions spread, falling back to 1.1 percent in 2024 before slightly improving to 1.7 percent in 2025. In the euro area, growth is expected to be limited to 1 percent in 2023 and to 0.9 percent in 2024, before accelerating to 1.9 percent in 2025, supported in particular by a recovery in consumption and investment under the effect of the expected monetary easing. In the main emerging countries, the Chinese economy is expected to grow by 5.2 percent in 2023 and at a rate of less than 5 percent in the medium term, while in India, GDP is set to expand this year by 6.7 percent in volume, by 5.9 percent in 2024 and by 6.3 percent in 2025, driven by public investment and domestic demand.

10. At the domestic level, factoring in a cereal production of 55.1 million quintals during the previous crop year, agricultural value added should improve by 5 percent in 2023. It would subsequently increase by 5.9 percent in 2024 and 2 percent in 2025, assuming an average cereal production of 70 million quintals and the ongoing trend performance of other crops. As for non-agricultural activities, the growth rate in value added would stand at 2.5 percent this year, and 2.7 percent in 2024, before accelerating to 3.7 percent in 2025, driven by the expected upturn in industrial and construction sectors. All in all, after 1.3 percent in 2022, national economic growth is set to come in at 2.7 percent this year, before gradually improving to 3.2 percent in 2024 and to 3.4 percent in 2025.

11. Regarding external accounts, after the strong momentum of the last two years, trade in goods is projected to slightly decrease in 2023, before resuming its upward trend. Indeed, after a 2.6 percent contraction expected this year, imports should grow by 4.2 percent in 2024 and 8.2 percent in 2025, mainly due to increases in purchases of semi-finished products and the energy bill, which would reach 179 billion dirhams and 136 billion dirhams respectively in 2025. At the same time, exports are expected to show a quasi-stagnation in 2023, notably reflecting a steady rise in shipments in the automotive sector and a significant decline in sales of phosphate and derivatives. They would then increase at a rate of around 7 percent annually, driven mainly by automotive sector sales, which are expected to reach 190 billion dirhams in 2025, while phosphate and derivatives sales would recover slightly to 72.2 billion dirhams during the same year.

Travel receipts are expected to continue improving, with a 13.2 percent growth in 2023 to 106 billion dirhams, a virtual stability in 2024 and a 6.5 percent increase in 2025 to 112.4 billion, in response to the expected acceleration in economic activity in the euro area, which represents Morocco's main tourism market. As for remittances, they would stand at 112.8 billion dirhams in 2023, compared with 110.7 billion in 2022, before reaching 120 billion in 2025. Under such circumstances, the current account deficit is forecast to narrow to 1.6 percent of GDP this year, before widening to 2.5 percent in 2024 and 3.8 percent in 2025. Regarding FDI, their revenues are expected to decline in 2023 to approach the equivalent of 2.3 percent of GDP, before regaining their trend level of 3 percent over the next two years. In total, taking into account the Treasury's current and projected external financing, Bank Al-Maghrib's official reserve assets are set to stand at 360.9 billion dirhams at the end of 2023 and 2024, before reaching 372.1 billion at the end of 2025, thus representing the equivalent of 5 months and 16 days of imports of goods and services in 2023, and almost 5 months and 6 days during the following two years.

12. As to monetary conditions, lending rates recorded an additional quarterly rise by 10 basis points to 5.36 percent in the third quarter of 2023, thus accumulating a 112 basis points increase since the start of the monetary policy tightening. Banks' liquidity needs should continue widening to reach 92.6 billion dirhams by the end of 2023, and 137.7 billion dirhams by 2025, driven by the growth in currency in circulation. Given these developments, as well as the outlook for economic activity and the banking system's expectations, credit to the non-financial sector is set to decelerate significantly, from 7.9 percent in 2022 to 2.6 percent in 2023, before accelerating to 4.6 percent in 2024 and 4.7 percent in 2025. After a decrease by 3.9 percent in 2022, the real effective exchange rate would gain 0.8 percent in 2023, and further appreciate by 1.1 percent in 2024 and 0.6 percent in 2025, mainly due to the increase in its nominal value.

13. Regarding public finances, fiscal execution at end-November 2023 shows a 2.2 percent improvement in ordinary revenues, driven by higher tax revenues. At the same time, overall expenditure increased by 4 percent, reflecting in particular the rise in expenditure on goods and services and investment. Considering these achievements, the data in the 2024 Finance Law and the 2024-2026 medium-term fiscal plan, the fiscal deficit is expected to stand at 4.8 percent of GDP in 2023, 4.5 percent in 2024 and 3.9 percent in 2025, according to BAM's macroeconomic projections.

14. Finally, the Board adopted Bank Al-Maghrib's strategic plan for the 2024-2028 period, approved the Bank's budget for the year 2024, validated the foreign exchange reserves management strategy and the internal audit program, and set the dates of its ordinary meetings for the same year on March 19, June 25, September 24, and December 17.