BANK AL-MAGHRIB

MONETARY POLICY REPORT

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SUMMARY

بنك المغرب

FOREWORD

According to the provisions of Article 6 of Law No. 40-17 on the Statute of Bank Al-Maghrib, promulgated by Dahir No. 1-19-82 of 17 Chaoual 1440 (June 21, 2019), "the Bank defines and conducts the monetary policy in full transparency and within the framework of the economic and financial policy of the Government. The Bank's primary objective is to maintain price stability."

This stability helps preserving citizens' purchasing power, encourages investment and boosts growth. Price stability does not mean zero inflation; rather, it refers to keeping it at a moderate and stable level over the medium term. To achieve such objectives, the Bank intervenes in the money market using the appropriate instruments, mainly the key policy rate and the reserve requirement.

Monetary policy decisions are transmitted to the economy, particularly through their impacts on interest rates across various markets, the expectations of economic units and on the asset prices, whose change affects overall demand for goods and services and, eventually, inflation. Since these impacts do not materialize until after a certain time period, forecasts play an important role in monetary policy formulating and decision-making. They are thus produced by the Bank for an eight-quarter horizon on the basis of an integrated analysis and forecasting framework articulated around a central monetary policy model, itseFA supplied and supplemented by several satellite models. The central forecasting model used is of the semi-structural New-Keynesian one, which relies both on the theoretical underpinnings underlying general-equilibrium models and on the adjustment to data characterizing the empirical models.

With a view to ensuring transparency of monetary policy decisions, the Bank, after each Board meeting, issues a press release, and the Governor holds a press conference where he reviews the decision and explains its foundations. In addition, the Bank prepares and publishes on its website the quarterly Monetary Policy Report, which outlines all the analyses underlying its decisions. This report, which starts with an overview summing up recent economic, monetary and financial developments as well as the macroeconomic projections, includes two parts. The first part, consisting of six chapters, describes the recent economic developments, namely with regard to: (i) international developments; (ii) external accounts; (iii) money, credit and asset markets; (iv) the stance of fiscal policy; (v) demand, supply and the labor market; and (vi) inflation. The second part is devoted to presenting the medium-term outlook for the national economy, the risks surrounding it and the main underlying hypotheses.

Members of the Board of Bank Al-Maghrib (Article 26 of the Bank's Statute)
The Governor, Chairman,

The Director General

Director of Treasury and External Finance, Representative of the Ministry in charge of Finance

Mrs. Mouna CHERKAOUI

Mr Mohammed DAIRI

Mrs Najat EL MEKKAOUI

Mr. Larabi JAÏDI

Mr Mustapha MOUSSAOUI

Mr. Fathallah OUALALOU

The Government Representative shall also attend the meetings of the Board, by virtue of Article 41.

بنك المغرب

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.

OVERVIEW

After a period of relative resilience, the global economy is beginning to show signs of a slowdown, against a backdrop of geopolitical tensions owed largely to the stalemate in the Ukraine war and the Israeli-Palestinian conflict, and to a further tightening of financial conditions.

After a 0.6 percent growth in the second quarter, data for the third quarter of 2023 reveal the stagnation of **economic activity** within the euro area. Germany experienced a contraction of 0.4%, while growth rates of France, Spain, and Italy decelerated to 0.6%, 1.8%, and 0.1%, respectively. In contrast, the United States recorded an uptick in growth to 3 percent from 2.4 percent in the previous quarter, driven by rises in household consumption, investment, exports, and public spending.

In **labor markets**, the unemployment rate in the United States dropped to 3.7 percent in November, down from 3.9 percent the previous month, with the creation of 199 thousand positions compared to 150 thousand previously. In the euro area, October data reveal a stabilization of the unemployment rate at 6.5%, though with significant variations among individual countries.

In **financial markets**, except for the FTSE 100 which experienced a monthly decrease of 0.5 percent, stock indices in major advanced economies displayed an overall positive trend in November, with increases of 4.2 percent for the Eurostoxx 50 and Dow Jones Industrials, and 5 percent for the Nikkei 225. These developments were accompanied by a decline in risk aversion on both American and European markets, with the VIX falling from 18.9 in October to 14 in November, and the VSTOXX from 20.2 to 15.2 over the same period. In emerging markets, the MSCI EM rose by an average of 3.6 percent between October and November, driven mainly by increases of 5.8 percent for Brazil, and 1.4 percent for China and India.

In November, **sovereign yields** in advanced economies reflected a downward trend. Month-on-month, the 10-year yield fell by 30 bps to stand at 4.5 percent in the US, by 23 bps to 2.6 percent in Germany, by 28 bps to 3.1 percent in France, by 29 bps to 3.7 percent in Spain, and by 45 bps to 4.3 percent in Italy. In emerging economies, this rate remained stable at 11.8 percent for Brazil, but dropped by 5 bps to 7.3 percent for India and 4 bps to 2.7 percent for China. In contrast, it rose by 80 bps to reach 26.8 percent for Türkiye.

In **currency markets**, between October and November, the euro appreciated by 2.4 percent against the dollar, 0.3 percent against the British pound, and 2.5 percent against the Japanese yen. Currencies of the main emerging economies showed contrasting trends against the dollar, with the Chinese renminbi appreciating by 1.2 percent, the Japanese yen appreciating by 1.2 percent, and the Brazilian real by 3.2 percent. The Turkish lira depreciated by 2.8 percent, while the Indian rupee remained virtually stable.

In **commodity markets**, Brent crude oil prices continued their decline, marking a further monthly decrease of 8.7 percent in November to reach an average $83.18 per barrel. Despite concerns about potential supply disruptions arising from the geopolitical tensions in the Middle East, uncertainties surrounding the global economic outlook and demand are exerting downward pressure on prices. Energy apart, prices recorded a month-on-month rise of 1.7 percent in November. This rise was driven by a 1.6 percent increase in agricultural products and a 2.7 percent rise in metals and ores. Prices of phosphate and derivatives evolved differently from month to month. In November, the price of DAP experienced a slight increase of 0.2 percent to $535.6 per ton, while the price of TSP fell by 1.2 percent to $462.6 per ton. Meanwhile, the price of raw phosphate remained stable at $347.5 per ton.

Against this backdrop, **inflationary pressures** continued to ease both in the major advanced and emerging economies. In the euro area, inflation slowed from 2.9 percent in October to 2.4 percent in November. This trend reflected a deceleration to 2.3 percent in Germany, 3.8 percent in France, 3.2 percent in Spain, and to 0.7 percent in Italy. Similarly, inflation in the United States decelerated from 3.2 percent to 3.1 percent, primarily due to lower energy prices. In other advanced economies, inflation dropped from 6.7 percent to 4.6 percent in the UK in October, while it edged up to 3.3 percent in Japan.

In terms of **monetary policy guidelines**, the FED decided at its December 12-13 meeting to maintain the target range for the federal funds rate at [5.25%-5.50%], in a context of moderating job creation and decelerating inflation which nevertheless remains at high levels. The ECB, during its meeting held on December 14, also kept its three key interest rates unchanged; pointing out that inflation would gradually decline over the course of 2024, before approaching the 2 percent target in 2025. It also decided to end reinvestments under its Pandemic Emergency Purchase Program (PEPP) by end 2024 following the conclusion of reinvestments under the Asset Purchase Program (APP) in July 2023.

At the **national level**, the context has been marked since September 8 by the consequences and fallout of the Al Haouz earthquake. Though its human toll was heavy, its economic impact appears to be limited. The reconstruction program, allocated 120 billion dirhams, alongside the multiple large-scale projects in progress or planned, is expected to inject fresh momentum into investments and overall economic activity.

Regarding **short-term economic trends**, the latest data for Q2 show a slight uptick in year-on-year growth, rising to 2.3 percent from 2.2 percent over the same quarter of 2022. This increase can be attributed to a significant turnaround in agricultural value added, which rose by 6.3 percent compared to a previous decline of 13.5 percent previously, and a slight deceleration in non-agricultural value added, with growth slowing to 2.1 percent from 4 percent. In terms of demand, growth was primarily driven by foreign trade, contributing 2.5 percentage points compared to 3.9 points previously, while domestic demand continued to be negative, although slightly better at -0.2 points.

In the **labor markets**, the situation worsened significantly between Q3 of 2022 and the same period in 2023, with 297,000 jobs lost, against 58,000 a year earlier. This pertains to a loss of 297,000 jobs in agriculture, 15,000 in services and 2,000 in construction, while industry generated 14,000 jobs. Considering a net inflow of 49 thousand jobseekers, the activity rate dropped from 44 percent to 43.2 percent, and the unemployment rate climbed at the national level from 11.4 percent to 13.5 percent, from 15 percent to 17 percent in urban areas, and from 5.2 percent to 7 percent in rural areas.

Regarding **foreign trade**, data for the year's first ten months reveal a 6.1 percent year-on-year shrinking of the trade deficit, the result of a drop of 3.9 percent in imports and of 2.4 in exports. Accordingly, the coverage ratio rose to 59.2 percent from 58.3 percent at end-October 2022. The drop in imports is largely owed to a 22 percent reduction in the energy bill and a 12.6 percent decrease in procurements of semi-finished products. Exports were driven mainly by a 43.4 percent decrease in sales of phosphate and derivatives, while automotive sales experienced a 30.5 percent increase. Travel revenues surged to MAD 88.5 billion, compared to MAD 73.3 billion at end-October 2022, while remittances from Moroccans living abroad continued to exhibit a strong performance, increasing by 6.1 percent. In terms of the major financial operations, FDI receipts fell by 22.3 percent, while Moroccan direct investments abroad showed a robust growth of 41.6 percent.

Under these conditions, Bank Al-Maghrib's official reserve assets reached 354.8 billion dirhams by end October 2023, representing the equivalent of 5 months and 15 days in imports of goods and services.

With regard to **monetary conditions**, an increase in banks' liquidity needs was observed, rising from a weekly average of MAD 73.5 billion in Q2 of 2023 to MAD 88.8 billion in Q3, and further to an average of MAD 97.1 billion in October and November. In response, Bank Al-Maghrib escalated its injections from 87.7 billion dirhams to 101.2 billion dirhams and 110.7 billion dirhams respectively. Monetary conditions were also marked by a 1.89 percent appreciation in the real effective exchange rate, and a quarterly increase in lending rates by 10 basis points to 5.36 percent in the third quarter of 2023, marking a cumulative 112 basis point increase since the onset of monetary tightening in September 2022. Bank credit to the non-financial sector increased by 2.7 percent in Q3 of 2023, following a 5 percent rise in the second quarter. This resulted from a 0.4 percent decrease in loans to private companies after a 3.6 percent increase, and a slowdown from 3.1 percent to 2.4 percent in loans to households.

On the **fiscal front**, by end November 2023, the situation of the Treasury's expenses and resources showed a deficit of 51.4 billion dirhams, worsening by 3.5 billion over the same period in 2022. Ordinary revenues improved by 2.2 percent, fuelled by a 4.3 percent increase in tax revenues and an 11.6 percent decline in non-tax revenues. In contrast, ordinary expenditures experienced a rise of 1.5 percent, primarily due to a 6 percent increase in spending on goods and services and a 12.1 percent rise in the interest burden on debts, coupled with a 29.8 percent decrease in compensation costs. Under these conditions, the ordinary balance posted a surplus of 12.2 billion, compared to 9.9 billion a year earlier. Capital expenditure increased by 13.6 percent to reach 85.3 billion, contributing to a total expenditure of 379.2 billion and representing a 4 percent increase. Bearing in mind the MAD 7.7 billion drop in the stock of pending transactions, the cash deficit widened to 59.1 billion from 49.6 billion a year earlier. This shortfall was covered from domestic resources of 28.7 billion and external financing of 30.5 billion. Consequently, outstanding direct public debt would have increased by 7.4 percent compared to its level at the end of December 2022.

On the **Casablanca Stock Exchange**, the MASI experienced a 2 percent drop in November, resulting in a year-to-date performance of 9.9 percent. This reflects a decline of 13.6 percent in the mining sector, 7.2 percent for the distribution sector and 1.5 percent for banks. Conversely, the real estate and insurance indices showed growth of 4.3 percent and 1.6 percent respectively. In terms of trading volumes, 10.2 billion shares were traded in November, while market capitalization stood at 604.1 billion, up 7.7 percent since the beginning of the year.

In the **real estate market**, the asset price index rose by 0.7 percent in the third quarter of 2023. This reflected price rises of 0.8 percent for residential property, 1.3 percent for commercial property and 0.3 percent for lands. The number of transactions dropped by 4.5 percent overall, reflecting declines of 4.7 percent for residential properties and 14.7 percent for commercial properties, while land sales rose by 2.8 percent.

Against this backdrop, **inflation** continued its downward trend in Q3 of 2023, decreasing to an average of 4.9 percent compared to 6.8 percent the previous quarter. This deceleration persisted through September to reach 4.9 percent, as well as in October, further dropping to 4.3 percent. Prices of volatile food products, which had averaged 15.4 percent in the third quarter, declined to 11.7 percent in October. Likewise, regulated tariffs recorded a slight deceleration from 0.9 percent to 0.8 percent. The decline in fuel and lubricant prices moderated significantly from 12.3 percent to 0.7 percent, while underlying inflation slowed to 4 percent from 4.7 percent in the third quarter. In terms of inflation expectations, forecasts for an 8-quarter horizon decreased to 3.3 percent in Q4 2023 from 3.9 percent in the previous report, and those for a 12-quarter horizon dropped from 3.5 percent to 3.2 percent.

In terms of outlook, despite relative resilience in some countries, global economic growth would continue to decelerate, falling from 3.1 percent this year to 2.4 percent in 2024, before improving to 2.8 percent in 2025. In the USA, the economy is expected to grow by 2.4 percent this year, but its pace will slow to 1.1 percent in 2024, as the fiscal impulse fades and the effect of restrictive monetary and financial conditions continues. However, growth is expected to improve to 1.7 percent by 2025. In the euro area, tighter monetary and financial conditions continue to weigh on activity, particularly in the manufacturing and service sectors. Growth is likely to be limited to 1 percent in 2023 and 0.9 percent in 2024, before improving to 1.9 percent in 2025, supported in particular by a recovery in consumption and investment. In the United Kingdom, where the economy is impacted by high interest rates and cost of living, growth is expected to remain at 0.5 percent in 2023 and 0.4 percent in 2024, before accelerating to 1.9 percent in 2025, with the planned monetary policy easing.

In the main emerging countries, the impact of public stimulus measures in China is becoming tangible. Real GDP is expected to grow by 5.2 percent this year, but to decelerate to less than 5 percent in the medium term, falling to 4.5 percent in 2024 and 4.8 percent in 2025. India's economy is expected to grow by 6.7 percent in 2023, mainly supported by significant public investments and stronger domestic demand. It is expected to moderate to 5.9 percent in 2024 before accelerating to 6.3 percent in 2025. In Russia, the economy is expected to expand by 3.3 percent this year, driven by increased public spending. However, growth is not expected to exceed 1.4 percent in 2024 before experiencing a contraction of 0.2 percent in 2025, primarily due to the dissipation of the fiscal stimulus effects and tighter monetary conditions.

In **commodity markets**, the persistent high volatility of energy prices is largely attributed to the deadlock in the Ukraine conflict and uncertainties surrounding the situation in the Middle East. Specifically concerning oil, price forecasts are revised upward to $83.1 a barrel in 2023 and $87.3 in 2024, with a slight decline to an average of $86.6 in 2025. For phosphate and derivatives, recent World Bank projections suggest an overall downward trend in prices, partly due to lower input costs, particularly for gas. DAP prices are expected to drop from 772 USD/t in 2022 to 540 USD/t in 2023, and TSP from 716 USD/t to 480 USD/t. This trend is set to continue in the coming years, with DAP prices falling to 450 USD/t and then to 400 USD/t, and TSP to 400 USD/t, then 350 USD/t. For **food products**, the FAO index should decrease by an average of 14.7 percent in 2023, followed by a 0.6 percent decline in 2024, before rising by 3.5 percent in 2025.

Given these conditions, **inflationary pressures** are expected to continue easing across the forecast horizon, with global inflation set to decline from 7.3 percent in 2022 to 4.8 percent in 2023, further decreasing to 3.6 percent in 2024, and 2.9 percent in 2025. In the United States, inflation is forecasted to slow down from its peak of 8 percent in 2022 to 4.1 percent in 2023, followed by further decline to 2.7 percent in 2024 and 2.2 percent in 2025, impacted by the reduction in international commodity prices and the expected deceleration of price increases in housing services. In the euro area, growth is expected to decelerate to 5.5 percent in 2023, 2.5 percent in 2024 and 1.7 percent in 2025, as the effects of the monetary tightening persist and pressure on international commodity prices dissipates.

At the **national level**, after the strong momentum of the last two years, imports are expected to decrease by 2.6 percent in 2023, driven by declines in the energy bill and purchases of semi-finished products. Concurrently, exports are expected to almost stabilize, reflecting a decline in the sales of phosphate and derivatives and an increase in automotive sector shipments. In the medium term, exports are expected to increase by 6.8 percent in 2024 and then by 7.3 percent in 2025, owed largely to the anticipated performance of automotive sector shipments, set to reach 168.8 billion dirhams in 2024 and 190 billion in 2025, against 145.2 billion in 2023. In contrast, sales of phosphate and derivatives are projected to decline from 115.5 billion dirhams in 2022 to 71.4 billion in 2023 and 68.8 billion in 2024, before increasing to 72.2 billion in 2025, under the dual effect of higher shipped quantities and an easing of the downturn in prices. Imports are expected to rise by 4.2 percent in 2024, mainly caused by an increase in the energy bill to MAD 132.6 billion and higher semi-finished product imports. In 2025, the growth rate is expected to accelerate to 8.2 percent, reflecting particularly higher imports of semi-finished products and consumer goods. Travel revenues are set to reach 106 billion in 2023, up 13.2 percent year-on-year, stabilize in 2024 and increase by 6.5 percent to 112.4 billion in 2025, boosted by the projected higher growth in the euro area, Morocco's main source market. Remittances from Moroccans living abroad subject to significant uncertainties, are anticipated to remain high, reaching 112.8 billion in 2023 and marking an annual increase of 1.9%, before reaching 115 billion in 2024 and 120 billion in 2025.

In light of this, the current account deficit is projected to decrease to 1.6 percent of GDP by year-end, down from 3.5 percent in 2022, and then to expand to 2.5 percent and 3.8 percent over the next two years. FDI receipts are expected to reach approximately MAD 33.2 billion by year-end, equivalent to 2.3 percent of GDP, and increase to 3 percent of GDP in 2024 and 2025.

Overall, assuming that the Treasury's projected external financing materializes, official reserve assets would close the year at 360.9 billion dirhams, stabilize in 2024 and improve to 372.1 billion by end 2025. This would represent the equivalent of 5 months and 16 days of goods and services imports in 2023 and nearly 5 months and 6 days over the following two years.

As to **monetary conditions**, after 3.9 percent depreciation in 2022, the real effective exchange rate is expected to appreciate by 0.8 percent in 2023 as a result of domestic inflation exceeding that of trading partners and competitors, while the nominal effective rate should remain stable. This appreciation should persist in the medium term, with rates of 1.1 percent in 2024 and 0.6 percent in 2025, in response to the appreciation of its value in nominal terms. The bank liquidity deficit is expected to continue widening, reaching MAD 92.6 billion at year end, MAD 121.3 billion in 2024 and MAD 137.7 billion in 2025, fuelled by the steady strong growth of banknotes and coins, up 10 percent in 2023 and 6.5 percent on average in 2024 and 2025. According to macroeconomic projections and banking system expectations, bank credit to the non-financial sector is expected to grow by 2.6 percent in 2023, accelerating to 4.6 percent in 2024 and 4.7 percent in 2025.

With regard to **public finances**, taking into account budget performance by end November 2023, the 2024-2026 three-year budget program, the 2024 Finance Act, and BAM's new macroeconomic projections, the budget deficit should stand at 4.8 percent of the GDP in 2023, revised downwards compared to September, before easing to 4.5 percent of GDP in 2024 and 3.9 percent in 2025.

In terms of **economic activity**, after a surge of 8 percent in 2021 and a subsequent deceleration to 1.3 percent in 2022, the national economy is projected to grow by 2.7 percent this year. This growth reflects increases of 2.5 percent in non-agricultural value added and 5 percent in agricultural value added, supported by a cereal harvest of 55.1 million quintals (MQx) in the 2022-2023 agricultural season. For 2024, growth is expected to accelerate to 3.2 percent, then to 3.4 percent in 2025. These projections are contingent upon a return to average cereal crop years of 70 MQx and increases of 5.9 percent and 2 percent respectively in agricultural value added, alongside growth rates of 2.7 percent in 2024 and 3.7 percent in 2025 in non-agricultural value added.

Given these circumstances, **inflation**, which surged to 6.6 percent in 2022 and is forecasted at an average rate of 6.1 percent this year, is expected to decelerate to 2.4 percent in 2024 and 2025. Its underlying component is set to follow a similar trajectory, declining from 6.6 percent in 2022 to 5.6 percent in 2023, before easing to 2.4 percent in 2024 and 2.3 percent in 2025.

The risks to the outlook remain high, with a downward bias for growth and an upward trend for inflation. Indeed, the persistent effects of the war in Ukraine and the risk of escalation in the Israeli-Palestinian conflict could exacerbate the global economic slowdown and disrupt energy supplies, leading to higher commodity prices.

At the national level, risks to activity arise primarily from the evolution of the agricultural campaign and the worsening water stress. However, optimism in a more robust economic pace in the medium to long term is bolstered by investment efforts and the large-scale projects initiated by the Kingdom. Regarding inflation, despite faster-than-expected international deceleration, risks to its outlook remain on the upside due to the potential impact of droughts and worsening water stress on food prices, sustaining inflation at elevated levels.

1. INTERNATIONAL DEVELOPMENTS

After a period of relative resilience, the global economy is showing signs of slowing down amid escalating geopolitical tensions, particularly due to the Israeli-Palestinian conflict and tightening financial conditions. Driven by strong demand and a favorable job market, the US economy remains robust and maintains low unemployment rates. In November, financial markets registered reduced risk aversion, leading to overall increases in major stock market indices in both advanced and emerging economies. However, Brent crude prices declined, largely affected by the uncertainties of the global economic outlook, resulting in an easing of inflationary pressures across major advanced and emerging economies.

1.1 Economic activity and employment

1.1.1 Economic activity

In Q3 of 2023, US growth accelerated to 3 percent year-on-year from 2.4 percent in the previous quarter, driven by increases in consumer spending, investment, exports, and government spending. Conversely, the euro area experienced a slowdown in activity as GDP stagnated after a 0.6 percent growth in the second quarter. By country, Germany registered a GDP contraction of 0.4 percent following 0.1 percent growth, while decelerations were recorded in France from 1.2 percent to 0.6 percent, in Spain from 2 percent to 1.8 percent, and in Italy from 0.3 percent to 0.1 percent.

The pace of economic activity remained equally weak in the UK, with growth stagnating at 0.6 percent in the third quarter, while it slowed down from 2.3 percent to 1.6 percent in Japan.

Table 1.1 : Year-on-year change in quarterly growth (in%)

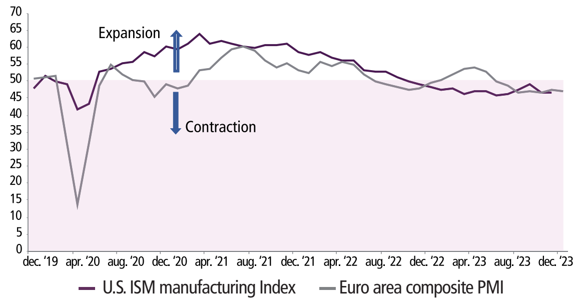
	2021		2022				2023		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Advanced countries									
United States	**4.7**	**5.4**	**3.6**	**1.9**	**1.7**	**0.7**	**1.7**	**2.4**	**3.0**
Euro area	**4.7**	**5.2**	**5.4**	**4.1**	**2.5**	**1.9**	**1.3**	**0.6**	**0.0**
France	3.3	4.5	4.3	3.8	1.3	0.8	1.0	1.2	0.6
Germany	2.4	1.6	4.0	1.6	1.2	0.8	-0.2	0.1	-0.4
Italy	6.7	8.0	6.4	5.1	2.6	1.6	2.1	0.3	0.1
Spain	5.1	7.0	6.8	7.2	5.4	3.8	4.1	2.0	1.8
United Kingdom	**9.5**	**9.7**	**11.4**	**3.9**	**2.1**	**0.7**	**0.5**	**0.6**	**0.6**
Japan	**2.1**	**1.3**	**0.5**	**1.2**	**1.5**	**0.6**	**2.5**	**2.3**	**1.6**
Emerging Countries									
China	**5.2**	**4.3**	**4.8**	**0.4**	**3.9**	**2.9**	**4.5**	**6.3**	**4.9**
India	**9.3**	**4.7**	**3.9**	**12.0**	**5.4**	**4.7**	**6.5**	**7.8**	**7.4**
Brazil	**4.2**	**1.5**	**1.5**	**3.5**	**4.3**	**2.7**	**4.2**	**3.5**	**2.0**
Türkiye	**8.0**	**9.7**	**7.8**	**7.6**	**4.1**	**3.3**	**3.9**	**3.8**	**5.9**
Russia	**5.0**	**5.8**	**3.0**	**-4.5**	**-3.5**	**-2.7**	**-1.8**	**4.9**	**5.6**

Source: Thomson Reuters Eikon and Eurostat.

In key emerging countries, growth in China slowed to 4.9 percent in the third quarter from 6.3 percent in the second, largely as a result of the negative repercussions of the protracted real estate crisis. India's growth declined from 7.8 percent to 7.4 percent, while Brazil's economy slowed to 2 percent from 3.5 percent in the previous quarter. Conversely, economic activity in Russia firmed up, posting a growth rate of 5.6 percent in the third quarter, compared to 4.9 percent one quarter earlier.

Trends of key activity indicators show a decline in the euro area's composite PMI, dropping to 47 in December from 47.6 the previous month, reflecting particularly decreases in both services and manufacturing sectors. In contrast, the US ISM manufacturing index stabilized at 46.7 between October and November.

Chart 1.1: Changes in key leading activity indicators in the United States and the Euro area



Source: Thomson Reuters Eikon.

1.1.2 Labor market

Unemployment rates in the US fell to 3.7 percent in November from 3.9 percent in October, with 199,000 jobs created against 150,000 a month earlier. In the euro area, unemployment rates stagnated at 6.5 percent in October, with Spain stabilizing at 12 percent, Germany at 3.1 percent and France at 7.3 percent, and Italy rising to 7.8 percent. The UK maintained its unemployment rate at 4.2 percent by end October.

Table 1.2: Change in unemployment rates (in %)

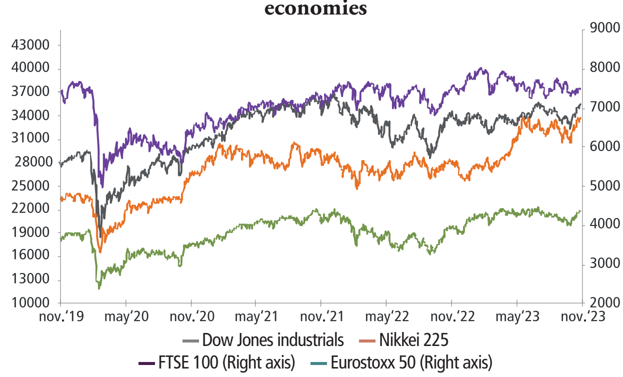
In %	2021	2022	2023		
			Sept.	Oct.	Nov.
United States	**5.4**	**3.7**	**3.8**	**3.9**	**3.7**
Euro area	**7.7**	**6.7**	**6.5**	**6.5**	**N.D**
France	7.9	7.3	7.3	7.3	N.D
Germany	3.7	3.1	3.1	3.1	N.D
Italy	9.6	8.1	7.6	7.8	N.D
Spain	14.8	12.9	12.0	12.0	N.D
United Kingdom	**4.5**	**3.7**	**4.2**	**4.2**	**N.D**

Source: Eurostat and BLS.

1.2 Monetary and financial conditions

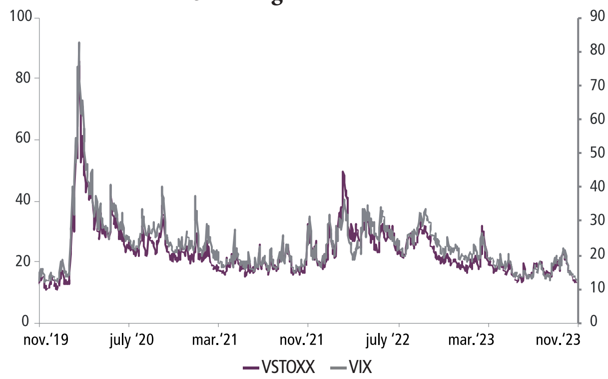
In November, except for the FTSE 100 which dropped by 0.5 percent, stock market indices in major advanced economies rose overall. Eurostoxx 50 and Dow Jones Industrials rose by 4.2 percent, and the Nikkei 225 by 5 percent. This coincided with a decline in risk aversion in both American and European markets, as reflected by the drop in VIX from 18.9 in October to 14 in November and VSTOXX from 20.2 to 15.2. In emerging markets, the MSCI EM increased by 3.6 percent during the same period, with rises in Brazil by 5.8 percent and by 1.4 percent in China and India.

Chart 1.2: Change in stock market indices of main advanced economies



Source : Thomson Reuters Eikon.

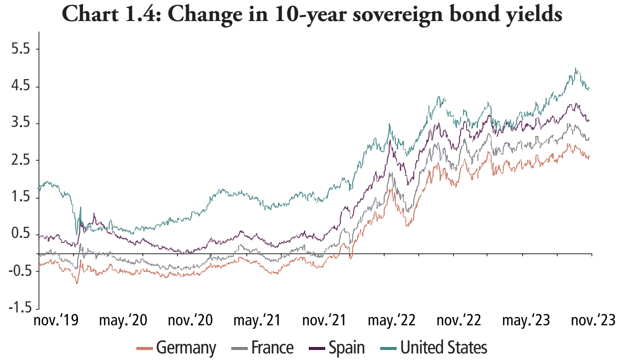
Chart 1.3: Change in VIX and VSTOXX



Source: Thomson Reuters Eikon.

In November, sovereign bond yields in advanced economies displayed a generally downward trend. Month-on-month, the 10-year yield dropped by 30 bps to 4.5 percent in the United States, by 23 bps to 2.6 percent in Germany, by 28 bps to 3.1 percent in France, by 29 bps to 3.7 percent in Spain, and by 45 bps to 4.3 percent in Italy. For emerging economies, this rate remained stable in Brazil at 11.8 percent, while India's fell by 5 bps to 7.3 percent, China's by 4 bps to 2.7 percent, and Türkiye's rose by 80 bps to 26.8 percent.

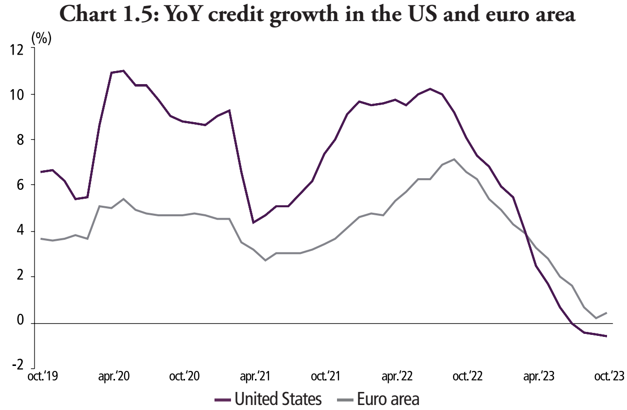
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters Eikon.

In money markets, 3-month dollar Libor fell by 2 bps to 5.6 percent from October to November, while the same maturity Euribor remained stable at 4 percent over the same period. The decline of bank credit slightly accelerated in the US from -0.5 percent in September to -0.6 percent in October, while growth in the euro area rose from 0.2 percent to 0.4 percent over the same period.

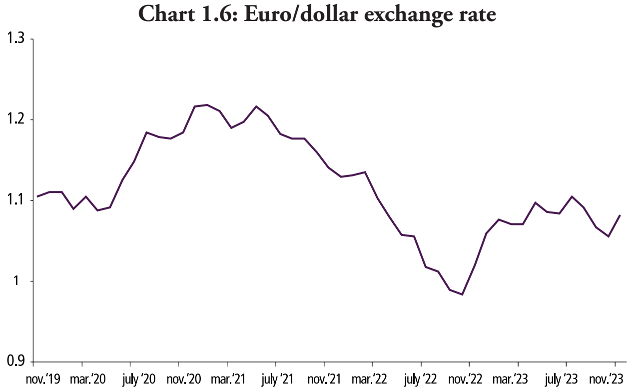
Chart 1.5: YoY credit growth in the US and euro area



Source : Thomson Reuters Eikon.

In currency markets, the euro displayed positive trends from October to November, strengthening by 2.4 percent against the dollar, 0.3 percent against the pound sterling, and 2.5 percent against the Japanese yen. In major emerging economies, currency performances varied against the dollar: the Chinese renminbi appreciated by 1.2 percent, the Brazilian real by 3.2 percent, the Turkish lira depreciated by 2.8 percent, while the Indian rupee remained quasi stable.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters Eikon.

In terms of monetary policy decisions, and after an extended tightening period, the trend in recent months has been towards a pause in advanced economies and towards an easing of restrictions in certain emerging countries that were first to initiate the tightening measures. For instance, at its December 12-13 meeting, the FED decided to maintain the target range for the federal funds rate at [5.25 %-5.50 %]. This decision was made against a backdrop of slowing job creation and decelerating inflation, although the latter persists at high levels.

The ECB decided at the conclusion of its meeting held on December 14 to maintain its three key interest rates unchanged, while indicating that inflation is expected to fall gradually throughout 2024 before approaching the 2 percent target in 2025. It indicated that the APP is shrinking steadily, with the Eurosystem no longer reinvesting repayments of principal from maturing securities. Regarding the PEPP, it plans to fully reinvest in the first half of 2024 repayments of principal from maturing securities acquired under this program, then in the latter half of the year to gradually reduce the portfolio by an average of 7.5 billion euros per month, before ceasing reinvestments by end 2024.

The Bank of England decided at its December 14 meeting to keep its key interest rate unchanged at 5.25 percent, indicating that the monetary policy is likely to remain restrictive for an extended period of time and that further tightening would be necessary in the event of signs of more persistent inflationary pressures.

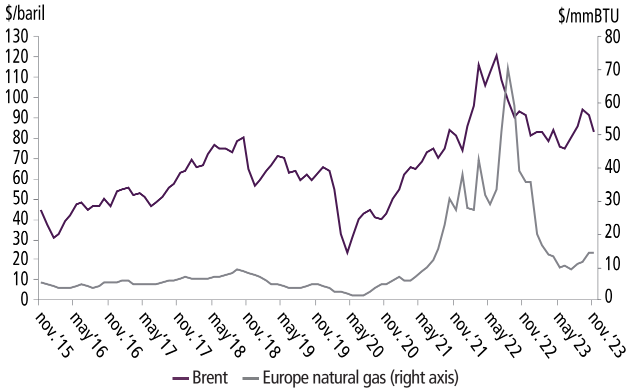
As for emerging countries, the Central Bank of Brazil reduced on December 13 its key rate by 50 basis points to 11.75 percent, while anticipating further cuts, contingent upon the evolution of inflationary dynamics. On December 15, the Central Bank of Russia increased its key rate by 100 bps to 16 percent, pointing out persistently high inflationary pressures. Meanwhile, the Reserve Bank of India maintained its key rate at 6.5 percent on December 8 to keep inflation within the target range of 2 to 6 percent without impeding growth.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

In the oil market, the Brent crude price continued to decline, dropping by a further 8.7 percent in November to $83.18 per barrel. Despite geopolitical tensions in the Middle East posing supply disruption risks, uncertainties surrounding the global economy and demand are exerting downward pressures on prices. Similarly, the price of natural gas on the European market experienced a slight monthly decrease of 0.6 percent in November, reaching $14.49 per mmBTU and posting a year-on-year net contraction of 59.5 percent.

Chart 1.7: Brent crude oil and natural gas prices - Europe

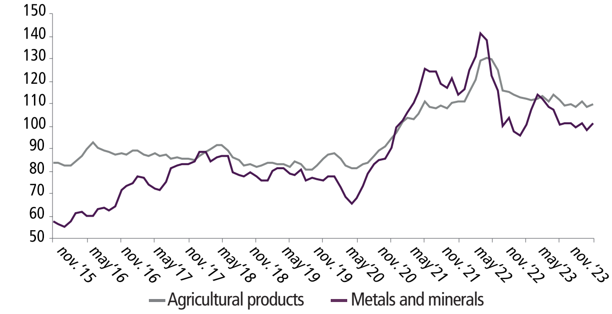


Source: World Bank.

1.3.2 Non-energy commodity prices

Excluding energy, the World Bank price index rose by 1.7 percent month-on-month in November, driven by a 1.6 percent rise in agricultural commodity prices, and 2.7 percent for metals and ores. Year-on-year, prices fell by 2.7 percent, reflecting a 2 percent decline in agricultural products.

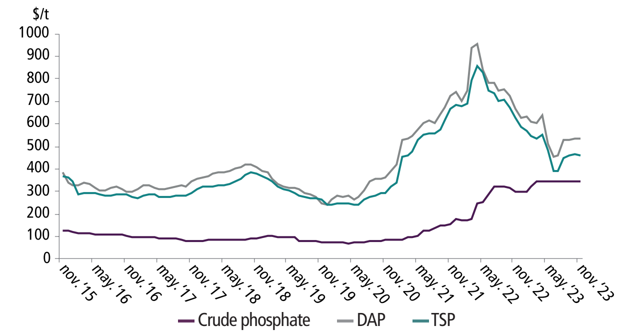
Chart 1.8: Change in non-energy commodity price indices (2010=100)



Source: World Bank.

Prices of phosphates and derivatives evolved differently month to month, with a slight 0.2 percent rise in DAP prices to $535.6/t in November and a 1.2 percent fall in TSP prices to $462.6/t, while raw phosphate prices remained stable at $347.5/t. Year-on-year, prices increased by 15.8 percent for raw phosphate, and dropped by 19.5 percent for DAP and 26 percent for TSP.

Chart 1.9: Changes in global prices of phosphates and derivatives



Source: World Bank.

1.3.3 Inflation

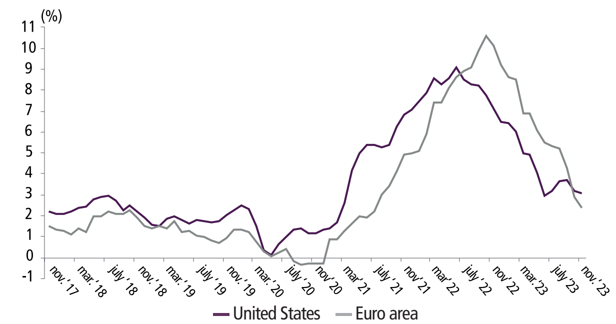
Inflationary pressures continued to ease both in major advanced economies and in emerging ones. Inflation in the euro area eased from 2.9 percent to 2.4 percent between October and November, reflecting notably a deceleration from 3 percent to 2.3 percent in Germany, from 4.5 percent to 3.8 percent in France, from 3.5 percent to 3.2 percent in Spain, and from 1.8 percent to 0.7 percent in Italy.

Likewise, inflation in the United States slowed from 3.2 percent in October to 3.1 percent in November, primarily due to lower energy prices. In other advanced economies, October data showed a decline in inflation from 6.7 percent to 4.6 percent in the UK, while inflation increased from 3 percent to 3.3 percent in Japan.

In major emerging economies, consumer prices in China fell by 0.5 percent in November, marking their sharpest decline in three years, and after a 0.2 percent drop in October. In Brazil, consumer prices increased by 4.7 percent in November, compared to 4.8 percent the previous month.

Conversely, inflation accelerated from 6.7 percent to 7.5 percent in November in Russia, and from 4.9 percent to 5.6 percent in India.

Chart 1.10: Inflation trends in the United States and Eurozone



Source: Thomson Reuters Eikon.

Table 1.3: Recent year-on-year change in inflation in major advanced countries (in %)

	2021	2022	2023 Sept.	2023 Oct.	2023 Nov.
United States	**4.7**	**8.0**	**3.7**	**3.2**	**3.1**
Eurozone	**2.6**	**8.4**	**4.3**	**2.9**	**2.4**
Germany	3.2	8.7	4.3	3.0	2.3
France	2.1	5.9	5.7	4.5	3.8
Spain	3.0	8.3	3.3	3.5	3.2
Italy	1.9	8.7	5.6	1.8	0.7
United Kingdom	**2.6**	**9.1**	**6.7**	**4.6**	**N.D**
Japan	**-0.2**	**2.5**	**3.0**	**3.3**	**N.D**

Sources: Thomson Reuters, Eurostat & FMI.

2. EXTERNAL ACCOUNTS

Foreign trade in goods continued its downward trend at end October 2023, with imports falling by 3.9 percent to MAD 591.5 billion, and exports by 2.4 percent to MAD 350.1 billion. As a result, the trade deficit narrowed by 6.1 percent to 241.4 billion, and the coverage rate stood at 59.2 percent, up from 58.3 percent at end-October 2022. Travel revenues amounted to 88.5 billion dirhams in the first ten months of 2023, compared with 73.3 billion a year earlier, while MRA remittances totaled 96.4 billion, up 6.1 percent. In terms of main financial operations, FDI revenues declined by 22.3 percent to stand at 25.7 billion, while Moroccan direct investments abroad grew by 41.6 percent to reach 21.7 billion. Against this backdrop, Bank Al-Maghrib's official reserve assets stood at 354.8 billion dirhams, equivalent to 5 months and 15 days of imports of goods and services.

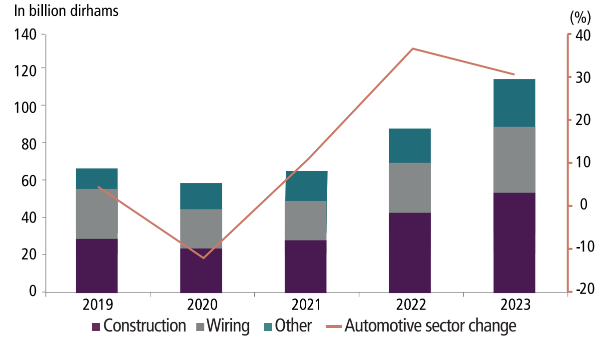
2.1 Trade balance

2.1.1 Exports

The drop in exports reflects differentiated trends across sectors. Exports of phosphates and derivatives contracted by 43.4 percent to 57.6 billion, largely in response to a 41.1 percent decrease in sales of «natural and chemical fertilizers» resulting from a 44.3 percent export price reduction. Shipments in the «agriculture and agri-food» sector slightly decreased to 68.5 billion, reflecting a 1.6 percent decline in agricultural exports and a 1.1 percent drop in food industry exports. Concurrently, sales in aeronautics remained nearly unchanged at 17.7 billion, with a 6.5 percent decrease in exports in the assembly segment and a 12.8 percent decline in «electrical wiring interconnection systems.»

Conversely, automotive shipments surged by 30.5 percent to 116.4 billion dirhams, driven by a 25.1 percent increase in the construction segment and 36.3 percent in the wiring one. Similarly, exports under «electronics and electricity» improved by 28.4 percent to 19.3 billion, with increases of 33.9 percent for «wires and cables» and 21.3 percent for «electronic components». Sales in the «textiles and leather» sector continued to experience the slowdown that began in May. Growth reached 5.5 percent, owed primarily to a 7.1 percent increase in exports of «ready-made garments».

Chart 2.1: Change in automotive sector exports by end-October



Source: Foreign Exchange Office.

Table 2.1 : Change in exports by sector (in billion dirhams)

Sectors/Segments	January - October		Change	
	2023	2022	In value	In %
Exports	**350,139**	**358,716**	**-8,577**	**-2.4**
Phosphates and derivatives	**57,626**	**101,790**	**-44,164**	**-43.4**
Agriculture and agri-food	**68,454**	**68,963**	**-509**	**-0.7**
Agriculture, forestry, and hunting	**29,571**	**30,057**	**-486**	**-1.6**
Food industry	36,427	36,828	-401	-1.1
Aeronautics	**17,651**	**17,735**	**-84**	**-0.5**
Assembly	11,257	12,037	-780	-6.5
EWIS*	6,330	5,613	717	12.8
Automotive	116,387	89,180	27,207	30.5
Construction	54,255	43,382	10,873	25.1
Wiring	36,166	26,525	9,641	36.3
Vehicle interiors and seats	7,938	6,023	1,915	31.8
Electronics and electricity	**19,336**	**15,057**	**4,279**	**28.4**
Wires and cables	7,829	5,850	1,979	33.8
Electronic components (transistors)	6,596	5,440	1,156	21.3
Devices for disconnecting or connecting electrical circuits	2,175	1,599	576	36.0
Textile and leather	**39,566**	**37,494**	**2,072**	**5.5**
Ready-made garments	25,506	23,822	1,684	7.1
Hosiery articles	7,647	7,201	446	6.2
Shoes	2,760	2,873	-113	-3.9
Other industries	**26,668**	**23,944**	**2,724**	**11.4**
Metallurgy and metalworking	9,180	7,387	1,793	24.3
Pharmaceutical industry	1,372	1,144	228	19.9
Plastics and rubber industry	1,863	1,899	-36	-1.9
Other mining extractions	**4,451**	**4,553**	**-102**	**-2.2**
Copper mining	1,269	1,345	-76	-5.7
Barium sulfate	1,036	935	101	10.8

* Electrical Wiring Interconnection Systems.

Source: Foreign Exchange Office.

2.1.2 Imports

The decline in imports affected all products except consumer and capital goods. The energy bill decreased by 22 percent to 100.6 billion, with a 26.1 percent reduction in «gas-oils and fuel-oils» procurements and a 32.8 percent decrease in «coal, cokes and similar solid fuels,» due to both lower prices and quantities imported. Similarly, imports of semi-finished and crude products declined by 12.6 percent and 23.9 percent respectively, driven mainly by reduced supplies of ammonia and crude sulfur. Imports of food products remained nearly unchanged at 73 billion dirhams, with a 26.8 percent decrease in wheat supplies and a sharp rise in imports of live animals from 467 million dirhams to 2.3 billion dirhams.

Imports of capital goods rose by 14.6 percent to reach 132.4 billion, propelled by increases of 39.7 percent for «devices for disconnection or connection of electrical circuits» and 24.3 percent for «wires and cables». Similarly, imports of consumer goods increased by 12.1 percent to 131.8 billion, notably with rises of 21.3 percent in imports of cars and 27.9 percent in parts and accessories.

Table 2.2 : Change in imports by product user group (in billion dirhams)

User group	January - October		Change	
	2023	2022	In value	In %
Imports	**591,514**	**615,798**	**-24,284**	**-3.9**
Energy products	**100,621**	**129,066**	**-28,445**	**-22.0**
Gas-oils and fuel -oils	47,183	63,830	-16,647	-26.1
Coal, cokes and similar solid fuels	14,339	21,345	-7,006	-32.8
Electricity	1,919	3,560	-1,641	-46.1
Semi-finished products	**123,799**	**141,600**	**-17,801**	**-12.6**
Ammonia	6,713	17,449	-10,736	-61.5
Chemical products	10,974	14,638	-3,664	-25.0
Papers and cartons	5,962	8,293	-2,331	-28.1
Raw materials	**29,144**	**38,276**	**-9,132**	**-23.9**
Raw and unrefined sulfur	6,579	17,268	-10,689	-61.9
Scrap metal, waste and other ores	5,530	2697	2833	-
Food products	**73,272**	**73,556**	**-284**	**-0.4**
Wheat	16,344	22,334	-5,990	-26.8
Live animals	2,323	467	1,856	-
Oil cakes	7,613	6,146	1,467	23.9
Raw or refined sugar	7,498	6,268	1,230	19.6
Consumer goods	**131,761**	**117,516**	**14,245**	**12.1**
Parts and components for passenger cars	25,999	20,322	5,677	27.9
Passenger cars	18,462	15,221	3,241	21.3
Miscellaneous plastic articles	7,428	6,201	1,227	19.8
Capital goods	**132,423**	**115,602**	**16,821**	**14.6**
Devices for the disconnection or connection of electrical circuits	11,966	8,567	3,399	39.7
Wires, cables and other insu-lated conductors insulated for electricity	11,429	9,196	2,233	24.3
Planes and other air or space crafts	2,241	36	2,205	-

Source: Foreign Exchange Office.

2.2 Other components of the current account

The surplus on the balance of services rose by 26.3 percent to 114 billion, fueled by a 19 percent surge in exports to 214.9 billion and an 11.8 percent rise in imports to 100.9 billion.

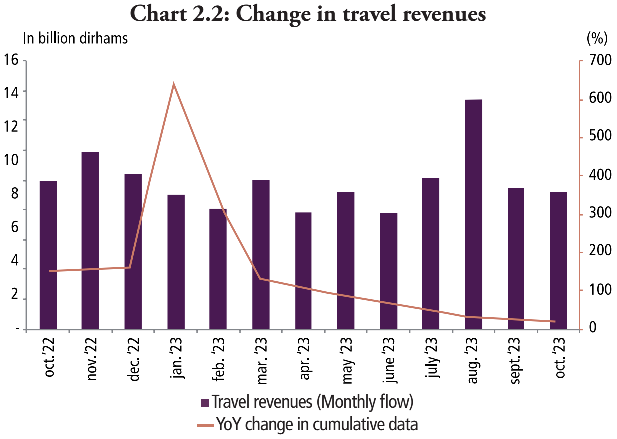
Table 2.3: Change in balance of services (in billion dirhams)

	January - October		Change	
	2023	2022	In value	In %
Imports	100,888	90,278	10,610	11.8
Exports	214,906	180,587	34,319	19.0
Balance	114,018	90,309	23,709	26.3

Source: Foreign Exchange Office.

Travel revenues recorded their fourth consecutive monthly decline in October. Year-on-year growth over the year's first ten months slowed to 20.7 percent, reaching a cumulative total of 88.5 billion dirhams. Expenditure also increased by 29.1 percent to reach MAD 20.4 billion

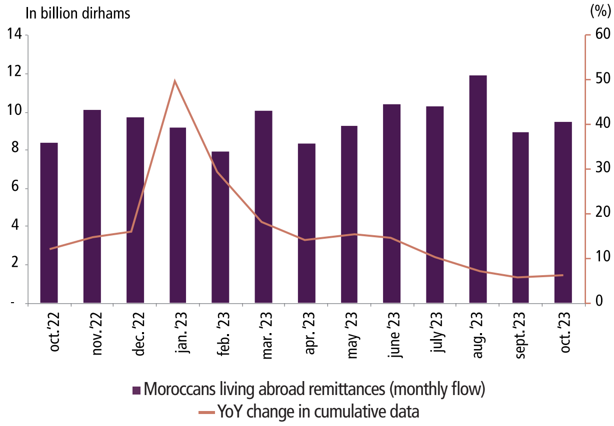
Chart 2.2: Change in travel revenues



Source: Foreign Exchange Office.

The monthly flow of remittances from Moroccans living abroad posted an increase of 13.3 percent year-on-year, following three consecutive declines. Their cumulative total over the first ten months reached 96.4 billion dirhams, improving by 6.1 percent compared to the same period in 2022.

Chart 2.3: Change in remittances



Source: Foreign Exchange Office.

2.3 Financial account

In terms of key financial transactions, net FDI flows decreased by 44.8% to 12.3 billion, driven by a 22.3% decline in receipts and a 23.7% increase in disposals. Moroccan direct investments abroad registered net flows rise by 2.8 billion to 8 billion, reflecting a 6.4 billion increase in investments.

At end-October 2023, outstanding official reserve assets stood at 354.8 billion dirhams, equivalent to 5 months and 15 days' imports of goods and services.

Table 2.4: Direct investments (in billion dirhams)

	January - October		Change	
	2023	2022	In value	In %
Foreign direct investments	**12,294**	**22,252**	**-9,958**	**-44.8**
Income	25,748	33,130	-7,382	-22.3
Expenditure	13,454	10,878	2,576	23.7
Moroccan direct investments abroad	**8,027**	**5,192**	**2,835**	**54.6**
Expenditure	21,651	15,287	6,364	41.6
Income	13,624	10,095	3,529	35.0

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSET MARKETS

During the third quarter of 2023, monetary conditions were marked by a rise in the real effective exchange rate and an increase in lending rates. Bank credit to the non-financial sector rose by 2.7 percent year-on-year, compared with 5 percent a quarter earlier, mainly due to the falling pace of loans to private companies. The latest available data for October post an annual growth in credit to the non-financial sector by 2.7 percent and in loans to financial companies by 19.8 percent. As for the other counterparts of money supply, net claims on Central Government increased by 6.9 percent in the third quarter after 11.7 percent and official reserve assets rose by 5.5 percent instead of 7.5 percent. Overall, money supply grew by 7.1 percent, after 7.8 percent in the previous quarter.

In the real estate market, the asset price index went up 0.7 percent in the third quarter of 2023, reflecting increases in prices by 0.8 percent for residential property, 1.3 percent for commercial property and 0.3 percent for urban land. The number of transactions dropped by 4.5 percent overall, 4.7 percent for residential property and 14.7 percent for commercial property, whereas those of land increased by 2.8 percent.

At the Casablanca Stock Exchange, the MASI increased in the third quarter of the year by 2.5 percent and the level of trading volume fell by 1 percent quarter-on-quarter to 8.9 billion. Against this background, market capitalisation rose by 8.6 percent since the beginning of the year to 609.6 billion.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the third quarter of 2023, banks' need for liquidity increased to a weekly average of 88.8 billion dirhams compared with 73.5 billion dirhams a quarter earlier, reflecting an expansion in flat money.

Under these conditions, Bank Al-Maghrib increased its injections from 87.7 billion to 101.2 billion, 35.2 billion of which in the form of 7-day advances, 42.3 billion in repurchase agreements, 23.7 billion in the form of guaranteed loans granted as part of programs supporting SMEs financing.

Against this background, the average residual duration of the Bank's interventions rose from 47.6 days to 48.3 days, and the interbank rate remained in line with the key rate, averaging 3 percent.

The latest available data show a further increase in the banking liquidity deficit to 97.1 billion on average in October and November 2023.

Regarding the Treasury bill market, rates eased in the third quarter, particularly medium- and long-term rates, both on primary and secondary markets. This reflects the decline in the Treasury's needs and the falling inflation.

Chart 3.1: Change in interbank rate (daily data)

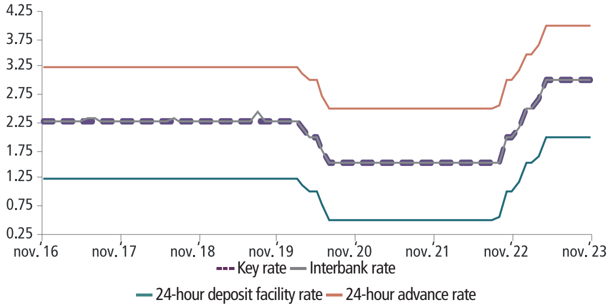
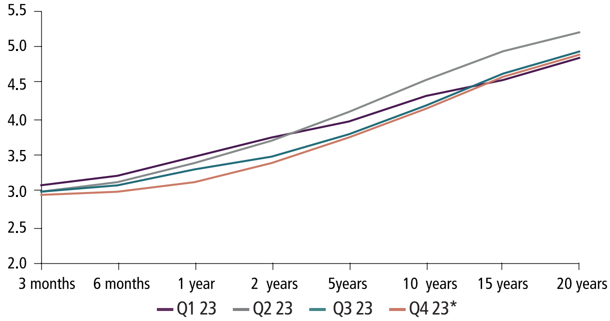


Table 3.1 : Treasury bill rates on the primary market (in %)

	2022		2023			
	Q3	Q4	Q1	Q2	Q3	Oct.
26 weeks	1.90	3.07	3.22	3.15	3.07	-
2 years	2.33	2.44	3.80	3.79	3.49	3.46
5 years	2.64	-	3.98	4.16	3.82	3.83
10 years	-	3.20	4.38	4.55	4.20	4.19
15 years	-	-	4.97	4.93	4.64	4.59

Chart 3.2 : Term structure of secondary market interest rates (in %)



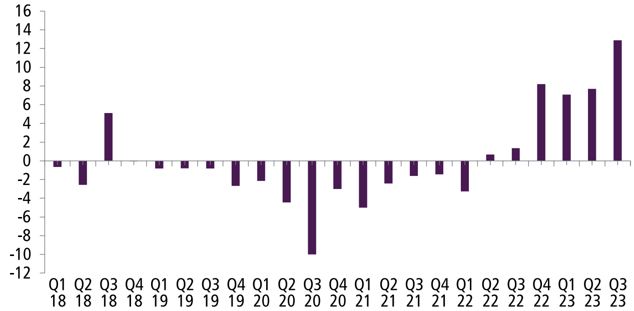
*Average observed in October and November 2023.

Similarly, on the private debt market, rates on issues of certificates of deposit fell slightly in the third quarter of 2023. In terms of deposit rates, 6-month deposits were marked by quarterly increases of 7 basis points to an average of 2.51 percent, while one-year deposit rates fell by 34 basis points to 2.63 percent. The minimum interest rate on passbook savings accounts was set for the second half of 2023 at 2.98 percent, posting an increase of 147 bp compared with the previous half-year.

Under these conditions, banks' funding cost[1] rose by 13 basis points quarter-on-quarter, for a total increase of 36 basis points since monetary policy tightening has started.

1 The cost of funding banks is calculated as a weighted average of their costs of funds.

Chart 3.3: Banks' funding Cost (quarterly change in basis points)



The latest available data for October show a monthly decline in 6-month deposit rates by 8 basis points to 2.44 percent and a 38-basis-point rise to 2.88 percent in 12-month deposit rates.

Regarding lending rates, the results of Bank Al-Maghrib's survey of banks for the third quarter of 2023 show a quarterly rise in the overall average rate of 10 points to 5.36 percent. By institutional sector, rates on business loans rose by 10 points to 5.32 percent, namely reflecting increases by 3 points to 5.31 percent for liquidity facilities and 28 points to 5.71 percent for property development. For loans to individuals, the rates applied rose by 10 points to 4.74 percent for housing and fell by 2 points to 7.25 percent for consumer loans.

Table 3.2 : Lending rates (%)

	2022				2023			
	Q1	Q2	Q3	Q4	Q2	Q3	Oct.	July
6 month	2.10	2.05	2.07	2.24	2.38	2.45	2.51	2.44
12 month	2.48	2.47	2.39	2.57	2.69	2.97	2.63	2.88

Table 3.3 : Deposit rates (%)

	2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Global	**4.28**	**4.29**	**4.24**	**4.50**	**5.03**	**5.26**	**5.36**
Personal loans	**5.23**	**5.14**	**5.33**	**5.72**	**5.63**	**5.93**	**5.94**
Real estate loans	4.21	4.19	4.19	4.32	4.36	4.64	4.74
Consumer loans	6.50	6.32	6.39	6.40	6.95	7.27	7.25
Loans to businesses	**4.00**	**4.03**	**4.04**	**4.30**	**4.98**	**5.22**	**5.32**
Cash advances	3.83	3.84	3.93	4.19	4.98	5.28	5.31
Equipment loans	4.31	4.60	4.14	4.38	4.81	4.72	5.09
Real estate loans	5.53	5.83	5.41	5.61	5.37	5.43	5.71

3.1.2 Exchange rate

During the third quarter of 2023, the euro slightly depreciated by 0.04 percent against the US dollar. Against this background, the dirham appreciated by 1.43 percent against the euro and by 1.40 percent against the US dollar. Compared with currencies of the main emerging countries, the national currency appreciated by 31.37 percent against the Turkish lira and 4.83 percent against the Chinese yuan. Overall, the effective exchange rate rose by 3.46 percent in nominal terms and by 1.89 percent in real terms.

Chart 3.4 : Exchange rate of the dirham

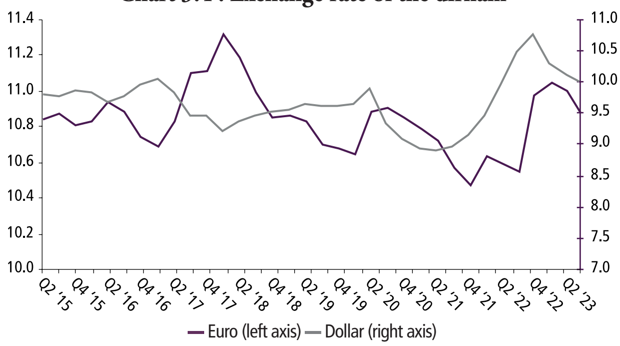
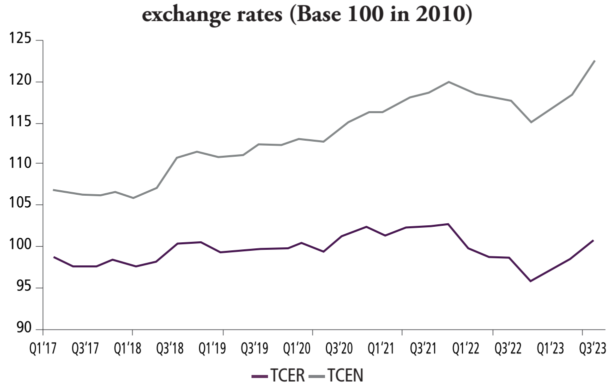


Chart 3.5 : Change in nominal and real effective exchange rates (Base 100 in 2010)



Sources: BAM and IMF calculations.

As for foreign currency transactions, the average volume of banks' spot transactions with customers recorded, during the third quarter of 2023, an annual decrease of 33.6 percent to 28.2 billion dirhams for sales and 30.7 percent to 26.2 billion for purchases. Forward transactions fell by 39.3 percent to 18.1 billion for purchases and by 60.2 percent to 2.7 billion for sales.

3.1.3 Monetary situation

M3 aggregate posted an annual increase of 7.1 percent in the third quarter of 2023, compared with 7.8 percent a quarter earlier. This development reflects a slowdown in the growth pace of sight deposits from 9 percent to 8.3 percent, mainly as a result of the deceleration in the growth rate of those of households from 8.3 percent to 7.5 percent.

Likewise, flat money growth slowed from 13.7 percent to 11.9 percent and growth of money market UCITS fell from 28.3 percent to 23.6 percent. In addition, the decline in term deposits increased from 4.4 percent to 5.7 percent, reflecting the easing of the drop in those of private companies from 8.8 percent to 1.7 percent.

Conversely, the decline of foreign currency deposits eased from 13.4 percent to 11.9 percent.

By key counterparts, the change in the money supply covers a deceleration in the growth pace of official reserve assets from 7.5 percent to 5.5 percent, and a slowdown in those of the net claims on the Central Government from 11.7 percent to 6.9 percent and bank credit from 5.6 percent to 4.8 percent.

Chart 3.6 : YoY contribution of major counterparts to money supply change

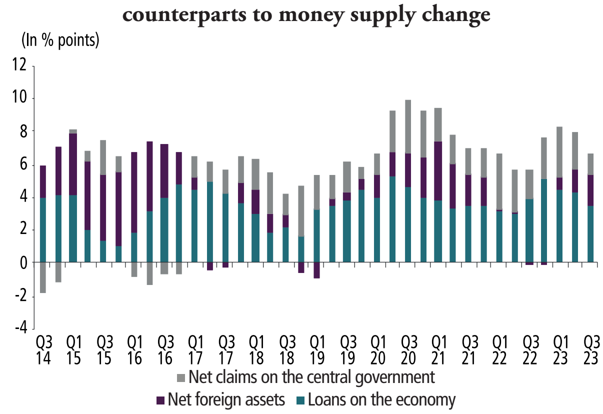


Chart 3.7: Bank credit (change in YoY)

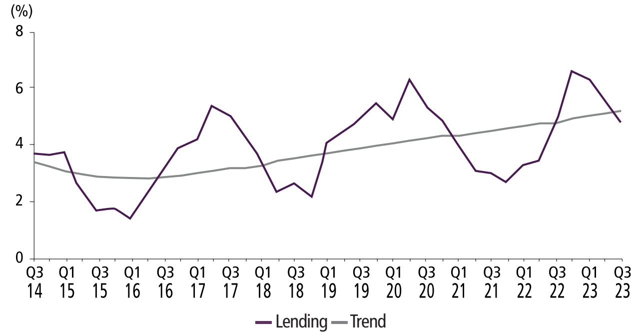
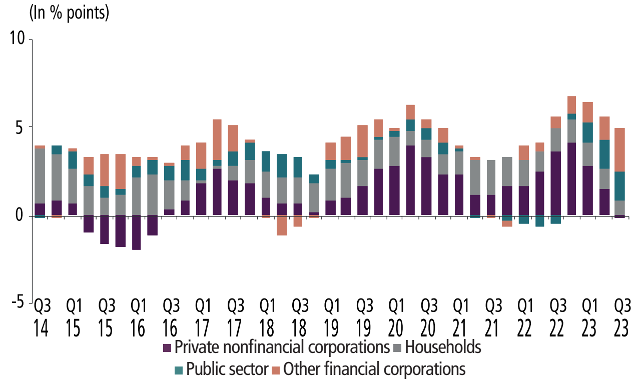


Chart 3.8: Institutional sectors' contribution to YoY change in credit



Source: BAM.

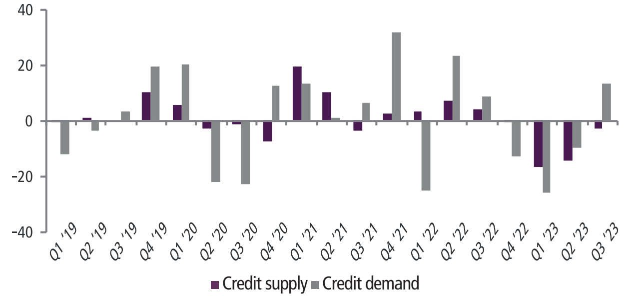
Credit to the non-financial sector particularly rose by 2.7 percent, after 5 percent in the second quarter of 2023, as a result of a drop in loans granted to private companies by 0.4 percent after a rise of 3.6 percent and a slowdown in the growth pace of loans to households from 3.1 percent to 2.4 percent.

The development in credit to private non-financial companies reflects, in particular, a fall in the growth of liquidity facilities by 9.4 percent. As regards loans to individuals, their growth fell from 2.8 percent to 2.5 percent, with a slowdown from 2.6 to 2.3 percent for housing credit and from 2.3 percent to 1 percent for consumer loans. Regarding loans to individual entrepreneurs, their growth pace fell from 6.1 percent to 2 percent, namely reflecting the deceleration in the growth of cash facilities from 10.8 percent to 6.8 percent and the fall in growth of real-estate loans by 6.6 percent after an increase by 8.9 percent. Similarly, the growth pace of loans to public companies decelerated to 32.4 percent from 35 percent a quarter earlier.

By branch of activity, data for the third quarter of 2023 show growth in outstanding loans to "extractive industries" by 60.2 percent, to "electricity, water and gas" by 19.1 percent, and to "chemical and para-chemical industries" by 4.9%. On the other hand, "metallurgical, mechanical, electrical and electronic industries" and "trade, repair of motor vehicles and household goods" fell by 12.7 percent and 4.2 percent, respectively.

Non-performing loans rose by 6.6 percent and their ratio to outstanding bank loans remained steady at 8.8 percent. They increased by 8.6% for private non-financial companies and 4.2 percent for households with ratios to outstandings of 12.6 percent and 10 percent, respectively.

Chart 3.9 : Change in credit supply and demand (Diffusion Index)



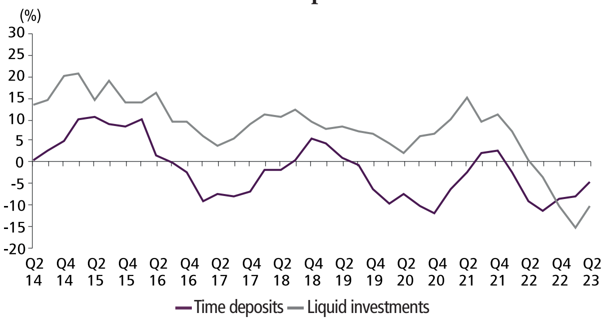
Source: BAM.

Loans granted by financial companies other than banks to the non-financial sector rose by 8.3 percent in the third quarter of 2023. This development reflects increases of 6.9 percent in loans granted by finance companies, 39.9 percent in loans distributed by offshore banks and 3.1 percent in loans granted by microcredit associations.

The latest available data for October show an annual growth in bank credit of 4.9 percent, reflecting increases of 2.7 percent in loans to the non-financial sector and by 19.8 percent in loans to financial companies.

Aggregate liquid investments increased by 0.5 percent following a decline of 10.1 percent a quarter earlier. This development reflects easings in declines in bond UCITS from 20 percent to 3.5 percent and in equity and diversified UCITS from 13.9 percent to 4.8 percent, as well as an increase in Treasury bills by 4.3 percent after a fall of 2.5 percent.

Chart 3.10 : Annual development of liquid investments and term deposits



3.2 Asset prices

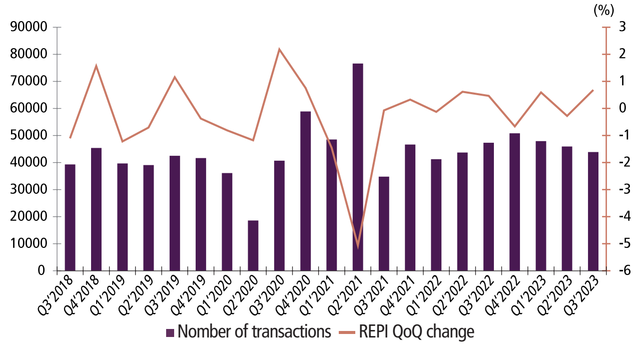
3.2.1 Real estate assets

In the third quarter of 2023, the property price index rose by 0.7 percent, reflecting price increases of 0.8 percent for residential property, 1.3 percent for commercial property and 0.3 percent for urban land. The number of transactions fell by 4.5 percent overall, with falls of 4.7 percent for residential property and 14.7 percent for commercial property, as well as an increase of 2.8 percent for land.

In the main cities, except for Casablanca, Marrakech, and Meknes where prices fell by 0.4 percent, 0.5 percent, and 0.8 percent respectively, prices rose at rates ranging from 0.1 percent in Fez to 2.5 percent in Tangiers.

Sales were down by 18 percent in Rabat, 13.1 percent in Casablanca, 10.5 percent in Agadir, 9.9 percent in Marrakech and 9.8 percent in Meknes. Conversely, they rose by 25.8 percent in Oujda, by 10.6 percent in Tangier, 3.5 percent in Kenitra, 2 percent in El Jadida and 1.9 percent in Fez.

Chart 3.11 : Change in the REPI and in the number of real estate transactions



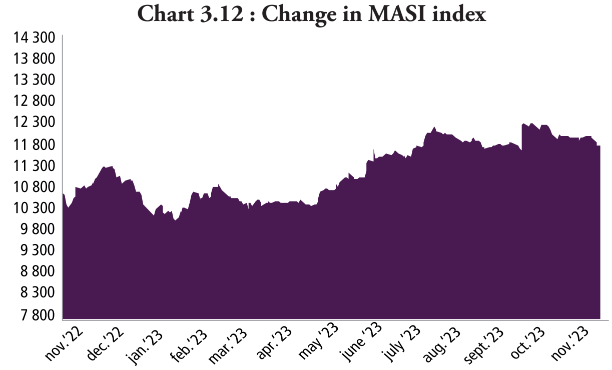
Sources: BAM and ANCFCC.

3.2.2 Financial assets

3.2.2.1 Shares

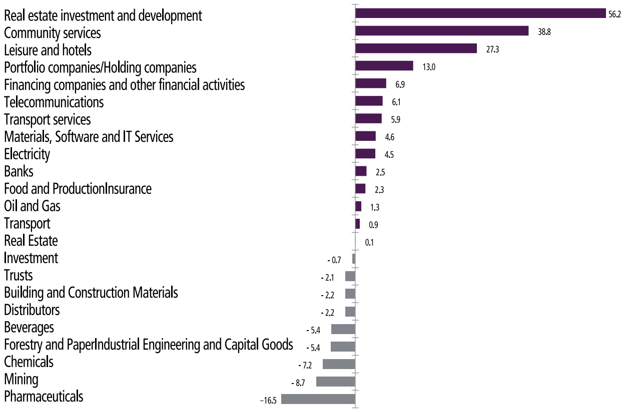
During the third quarter of 2023, the MASI rose by 2.5 percent. This reflects increases in the sectoral indices of the real estate by 56.2 percent, health by 38.8 and banks by 2.5 percent. Conversely, those of "buildings and construction materials" and mining sectors fell by 2.1 percent and 8.7 percent, respectively.

Chart 3.12 : Change in MASI index



Source: Casablanca Stock Exchange.

Chart 3.13: Change in sectoral indexes in the third quarter of 2023 (%)



Source: Casablanca Stock Exchange.

The trading volume amounted to 8.9 billion dirhams, down by 1 percent quarter-on-quarter. By segment, the turnover in the third quarter stood at 7.5 billion, after 8.8 billion on the central market and 1.3 billion compared with 95.8 million on the block market. Against this backdrop, market capitalisation has risen since the start of the year by 8.6 percent to 609.6 billion dirhams.

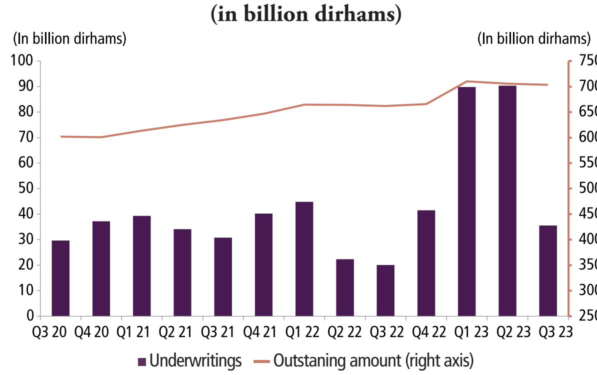
The latest available data show a monthly fall in the MASI by 2 percent in November, after a 1.3 percent rise in October, bringing its year-to-date performance to 9,9 percent. This reflects falls in the indices of the mining sector by 13.6 percent, of distributors by 7.2 percent and banks by 1,5 percent. On the other hand, the indices of the real estate and insurance sectors rose by 4.3 percent and 1.6 percent, respectively. Transactions volume rose from 3.8 billion dirhams in October to 10.2 billion dirhams in November, 7.2 billion of which on the block market, while market capitalisation increased to 604.1 billion, up 7.7 percent since the start of the year.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic market fell from 90.3 billion to 35.6 billion dirhams in the third quarter of 2023. The latter were 53 percent on long maturities and, 40 percent on short maturities and 7 percent on medium maturities. Considering repayments of 37.7 billion, outstanding Treasury bills totalled 703.4 billion, up 5.7 percent since the start of the year.

The latest available data show an increase in Treasury bill issuance to 19.7 billion in October 2023 compared with 11.9 billion in September. Long maturities accounted for 48 percent, medium maturities for 29 percent and short maturities for 23 percent. Taking into account repayments of 16.8 billion, outstanding Treasury bills totalled 706.3 billion, up 6.1 percent since the beginning of the year.

Chart 3.14 : Change in Treasury bond issues (in billion dirhams)



Source: BAM.

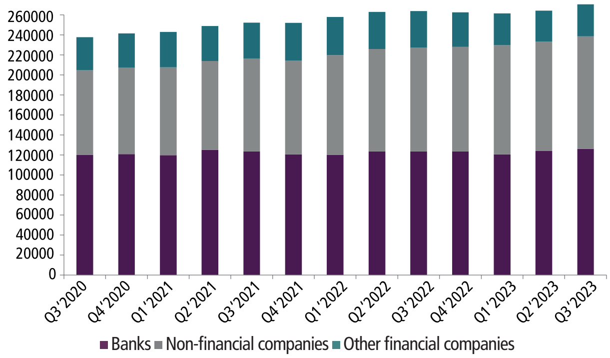
3.2.2.3 Private debt market

On the private debt market, issues declined by 7.6 percent to 20.5 billion dirhams in the third quarter of 2023. Banks sourced 11.8 billion compared with 16.6 billion the previous quarter and non-financial companies 6.2 billion instead of 4.6 billion.

By instrument, issues of negotiable debt securities decreased quarter-on-quarter, by 13.1 percent to 18.2 billion, 11.3 billion of which in the form of certificates of deposit, 1.9 billion in finance company bills and 5 billion in commercial paper. Bond issues rose from 1.3 billion to 2.3 billion, 52.2 percent of which was issued by non-financial companies.

The latest data available show that private debt issuance stood at 5.8 billion in October compared with 6.6 billion in September. Considering repayments, outstanding private debt amounted to 265.8 billion dirhams up by 1.2 percent since the beginning of the year.

Chart 3.15: Development of outstanding private debt per issuer (In billion dirhams)



Source: Maroclear and BAM calculations.

3.2.2.4 UCITS

During the third quarter of 2023, subscriptions to UCITS increased by 3 percent to 281.7 billion and redemptions by 5.3 percent to 259.7 billion, representing a net inflow of 22 billion. Performance indices grew quarterly by 3.6 percent for equity funds, 2.2 percent for diversified funds, 1.2 percent for medium- and long-term bond funds and 0.8 percent for short-term bond and money market funds.

The latest data for November1 show a 16 percent increase in the net assets of UCITS since the start of the year to 581 billion dirhams, including increases of more than double for short-term bond funds, 14.4 percent for equity UCITS, 9.9 percent for money market funds, 6.1 percent for medium- and long-term bond funds and 4.7 percent for diversified funds. On the other hand, UCITS net assets decreased by 8 percent for contractual funds.

1 Data up to 24 November 2023.

4. FISCAL POLICY TREND

Budget execution at end November 2023 posted a deficit of 51.4 billion dirhams, an increase of 3.5 billion dirhams compared with the same period in 2022. Current revenues improved by 2.2 percent to 306.1 billion dirhams, reflecting a 4.3 percent rise in tax receipts and an 11.6 percent decline in non-tax revenues. At the same time, ordinary expenditure rose by 1.5 percent to 293.8 billion, reflecting increases of 6 percent in goods and services and 12.1 percent in interest costs on debt, while subsidy costs fell by 29.8 percent. Under these conditions, the current balance showed a surplus of 12.2 billion, compared with 9.9 billion a year earlier. Executed at 93.6 percent, capital expenditure, for its part, rose by 13.6 percent to 85.3 billion, bringing total expenditure to 379.2 billion, an increase of 4 percent. In addition, the positive balance on special Treasury accounts amounted to 21.7 billion, up 4.5 billion, considering a surplus of 18.9 billion on the Special Fund for Managing the Effects of the Earthquake and 7 billion corresponding to the proceeds of the social solidarity contribution on profits and income, compared with 6.6 billion the previous year.

Taking into account a 7.7 billion reduction in the stock of pending transactions, the cash deficit widened to 59.1 billion, compared with 49.6 billion a year earlier. This requirement was covered by external financing of 30.5 billion and net domestic resources of 28.7 billion. Thus, outstanding direct public debt would have increased by 7.4 percent compared to its level at the end of December 2022. The Treasury's financing conditions have tightened compared with the same period in 2022.

4.1 Current receipts

At the end of the first eleven months of 2023, current revenue rose by 2.2 percent to 306.1 billion, reflecting a 4.3 percent improvement in tax receipts and an 11.6 percent decline in non-tax revenues.

Direct tax revenues, which were executed at 89.9 percent of what was forecast in the Finance Act, rose by 3.8 percent to 101.6 billion, mainly as a result of a 6.4 percent rebound in income tax receipts to 46.4 billion. This increase includes rises of 1.9 billion in income tax revenues on salaries, 730 million in personal income tax and 369 million on real estate profits. Corporate tax revenues rose by 0.4 percent to 51.9 billion, reflecting improvements of 782 million in corporate tax receipts from fixed-income investments and 304 million in revenues from tax audit, as well as decreases of 1.1 billion in the regularization supplement and 222 million in revenues from the first three instalments.

Indirect taxes generated 132.1 billion, up 2.9 percent, reflecting increases of 3.3 percent to 103.1 billion in VAT receipts and of 1.6 percent to 29 billion in DCT revenues. These include notably a 4.7 percent growth to 11.8 billion for DCT on tobacco and a 0.9 percent decline to 14.6 billion for that on energy products. The improvement in VAT reflects that of its domestic component with the collection of an amount of 34.3 billion, an increase of 22 percent, considering in particular a decrease of 1.6 billion to 11.9 billion in VAT credit refunds. However, the import VAT fell by 4 percent to 68.8 billion, notably due to measures taken in favor of the agricultural sector as well as to the decrease in imports.

Table 4.1 : Change in current revenues (in billions dirhams)*

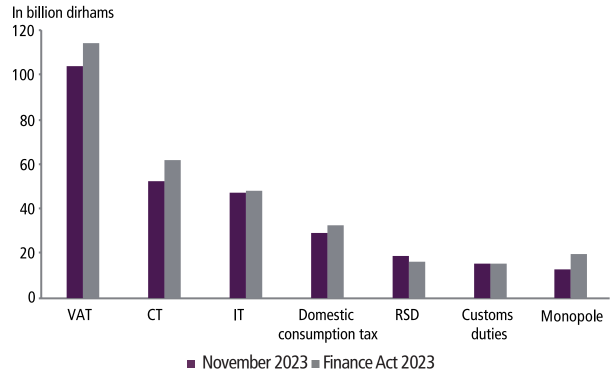
	Jan.-nov. 2022	Jan.-nov. 2023	Var. in %	LF 2023	Achievements against the FA (%)
Current revenues	**299.4**	**306.1**	**2.2**	**341.7**	**89.6**
Recettes fiscales	**255.5**	**266.5**	**4.3**	**289.3**	**92.1**
- Direct taxes	97.8	101.6	3.8	113.2	89.8
Including CT	51.8	51.9	0.4	60.9	85.3
I.T	43.6	46.4	6.4	47.9	96.8
- Indirect taxes	128.3	132.1	2.9	145.1	91.0
VAT	99.8	103.1	3.3	113.3	91.0
DCT	28.5	29.0	1.6	31.8	91.1
- Customs duties	12.8	14.7	15.1	15.0	98.2
- Registration and stamp duties	16.6	18.1	9.2	15.9	113.5
Nontax revenues	**40.6**	**35.9**	**-11.6**	**49.1**	**73.1**
- Monopoles and shareholdings	11.8	12.3	4.5	19.5	63.2
- Other receipts	28.9	23.6	-18.1	29.7	79.6
Specific financing mechanisms	21.0	12.4	-41.0	25.0	49.5
TSA revenues	**3.2**	**3.6**	**12.2**	**3.3**	**109.2**

*Considering 30 percent of the VAT transferred to local governments.

Sources: Ministry of Economy and Finance (Treasury and External Finances Department), VAT reprocessing by BAM

Revenues from customs duties as well as registration and stamp duties were up by 15.1 percent to 14.7 billion and by 9.2 percent to 18.1 billion, respectively.

Chart 4.1 : Performances of the major revenues compared to the Finance Act



Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Note :

- VAT : Value added tax
- CT : Corporate tax
- IT : Income tax
- DCT : Domestic consumption tax
- RSD : Registration and stamp duties
- CD : Customs duties

Non-tax revenues, for their part, were down by 11.6 percent to 35.9 billion dirhams, mainly due to receipts of 12.4 billion from specific financing mechanisms, down by 8.6 billion, and 12.3 billion from public establishments and enterprises, instead of 11.8 billion at end-November 2022. The latter chiefly derive from OCP in the amount of 7.4 billion, ANCFCC for 2.5 billion and Bank Al Maghrib for 848 million. Donations from the GCC countries stood at 695 million dirhams, compared with 380 million a year earlier.

4.2 Expenses

Total expenditure amounted to 379.2 billion at the end of November 2023, up 4 percent, reflecting increases of 1.5 percent to 293.8 billion in current expenditure and 13.6 percent to 85.3 billion for capital expenses. Expenditure on goods and services reached 205.2 billion, up 6 percent, reflecting increases of 3.3 percent to 137.8 billion in the wage bill and of12 percent to 67.4 billion in spending on other goods and services. These take into account in particular a 20.7 percent increase to 36.8 billion in transfers to public establishments and enterprises and a 72.5 percent rise to 8.8 billion in payments to the Treasury special accounts. The change in the wage bill incorporates, for the part paid by the Personnel Expenses Department increases of 1.2 percent in the structural component and 9 percent to 7.6 billion in back pay.

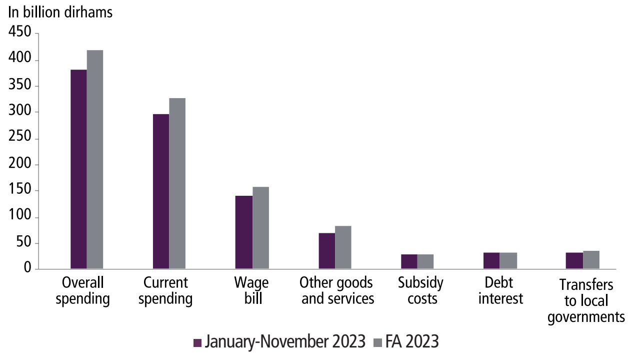
Table 4.2 : Execution of public spending (in billion dirhams)

	Jan.-nov. 2022	Jan.-nov. 2023	Var. in %	LF 2023	Achievements against the FA (%)
Overall spending	**364.5**	**379.2**	**4.0**	**416.6**	**91.0**
Current spending	**289.4**	**293.8**	**1.5**	**325.5**	**90.3**
Goods and services	193.6	205.2	6.0	234.9	87.3
Personal	133.4	137.8	3.3	155.8	88.4
Other goods and services	60.1	67.4	12.0	79.1	85.2
Debt interests	27.3	30.7	12.1	30.0	102.3
Subsidy	38.6	27.1	-29.8	26.6	101.8
Transfer to local governments	29.9	30.9	3.3	34.0	91.0
Investment	**75.1**	**85.3**	**13.6**	**91.1**	**93.6**

* including 30% of VAT transferred to local authorities.

Sources: MEF (DTFE), VAT reprocessing by BAM.

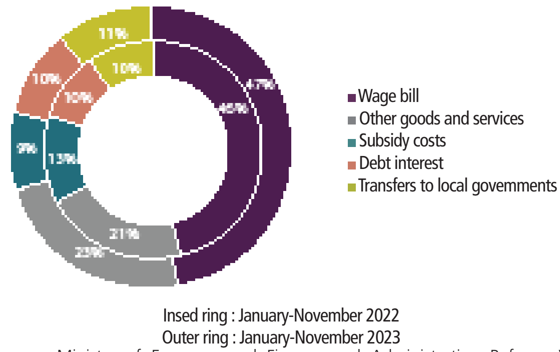
Chart 4.2: Execution of public spending compared to the finance act



Sources: Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Interest expense on debt rose by 12.1 percent to 30.7 billion, as a result of an increase of 89.3 percent to 7.4 billion in those on external debt, as a result of the rise in the debt outstanding amount and international interest rates and a fall of 0.7 percent to 23.3 billion in those on domestic debt.

Chart 4.3 : Structure of current spending

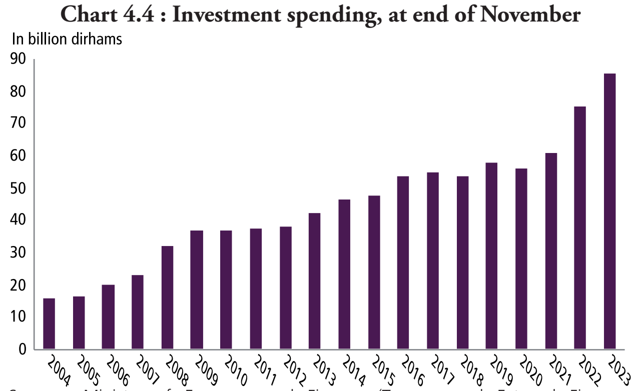


Sources : Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Subsidy costs fell by 29.8 percent to 27.1 billion dirhams, with an implementation rate of 101.8 percent. This easing is attributable in particular to the lowering of 5 billion to 15.3 billion in the subsidy cost for butane gas, mainly as a result of the fall in international prices. For the rest, 5.8 billion were allocated to subsidising sugar, 3.7 billion to national flour and 2 billion to transport sector professionals.

Capital expenditure, for its part, rose by 13.6 percent to 85.3 billion, taking into account the payment of 31.1 billion to the Treasury's Special Accounts, compared with 25 billion a year earlier. The execution rate of this expenditure was 93.6 percent of the forecasts made in the Finance Act.

Chart 4.4 : Investment spending, at end of November

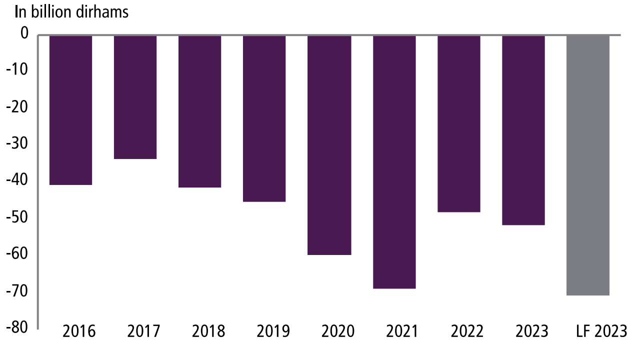


Sources: Ministry of Economy and Finance (Treasury and External Finances Department)

4.3 Deficit and Treasury Financing

Considering changes in revenue and expenditure as well as the balance of the Treasury's special accounts, the budget outturn at the end of November resulted in a deficit of 51.4 billion dirhams, against 47.9 billion at the end of November 2022. Considering the reduction in the stock of pending transactions by 7.7 billion, as against 1.7 billion, the cash deficit stands at 59.1 billion, an increase of 9.5 billion.

Chart 4.5 : Fiscal balance, at end of November



Source : MEF (DTFE).

The Treasury's borrowing requirement was covered by net domestic resources amounting to 28.7 billion and by net external flows of 30.5 billion dirhams. Gross external drawings totalled 39.9 billion, of which 25.8 billion raised on the international financial market and 7.6 billion from the World Bank.

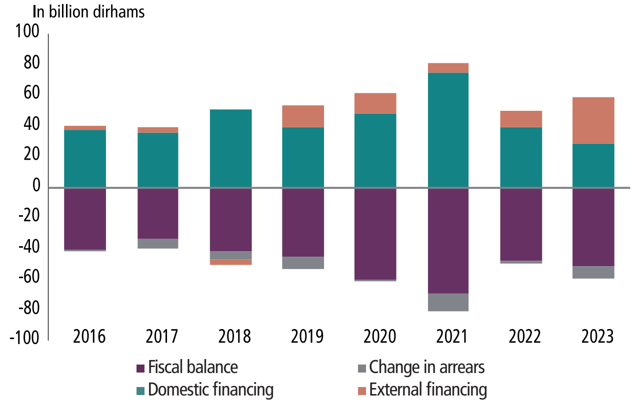
Table 4.3 : Deficit financing (in billion dirhams)

	Jan.-nov. 2022	Jan.-nov. 2023	LF 2023
Current balance	**9.9**	**12.2**	**16.3**
Balance of TSA	17.2	21.7	4.2
Primary balance	-20.6	-20.7	-40.7
Fiscal balance	**-47.9**	**-51.4**	**-70.7**
Change in arrears	-1.7	-7.7	
Financing requirements	**-49.6**	**-59.1**	**-70.7**
Domestic financing	39.3	28.7	13.1
External financing	10.3	30.5	52.5
Privatization	0.0	0.0	5.0

Sources: Ministry of Economy and Finance (Treasury and External Finances Department)

In terms of domestic financing, net recourse to the auction market amounted to 35.6 billion, as against 7.8 billion a year earlier. Net subscriptions were mainly for 15 year notes amounting to 29 billion, 2 year notes for 26.8 billion, 10 year notes for 17.9 billion and 52 week bills for 16.3 billion. At the same time, net redemptions of 5-year notes totalled 39.5 billion, those of 13-week notes amounted to 11.3 billion, and those of 26-week notes, to 4 billion.

Chart 4.6 : Fiscal balance and financing, at end of November*



Sources: Ministry of Economy and Finance (Treasury and External Finances Department)

With regard to the Treasury's financing conditions in the auction market, the data at the end of November show an increase in weighted average rates compared with the same period in 2022. For long maturities, the increases reached 218 basis points (bp) to 5.46 percent for 30-year bonds, 204 bp to 4.74 percent for 15-year notes and 164 bp to 4.33 percent for 10-year bonds. Similarly, for medium and short maturities, rates rose by 169 bp to 3.96 percent for 5-year bonds, by 162 bp to 3.66 percent for 2-year bills, by 149 bp to 3.33 percent for 52-week bills and by 137 bp to 3.12 percent for 26-week bills.

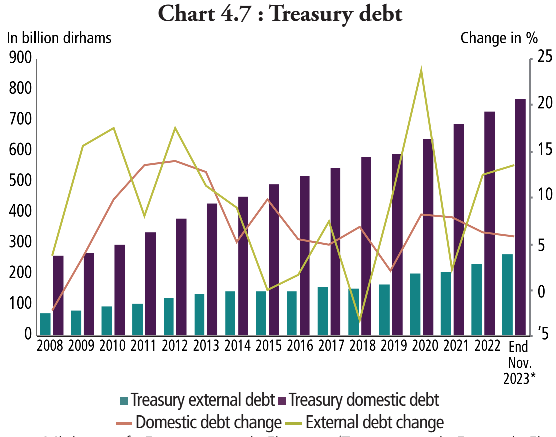
Table 4.4 : Treasury's indebtedness (in billions dirhams)

	2018	2019	2020	2021	2022	End Nov. 2023*
Treasury external debt	148.0	161.6	199.7	203.8	228.9	259.3
Change in %	-3.4	9.2	23.6	2.0	12.3	13.3
Treasury domestic debt	574.6	585.7	632.9	681.5	722.9	763.3
Change in %	6.6	1.9	8.1	7.7	6.1	5.6
Outstanding direct debt	722.6	747.3	832.6	885.3	951.8	1022.6
Change in %	4.4	3.4	11.4	6.3	7.5	7.4

Sources: Ministry of Economy and Finance (Treasury and External Finances Department)

In terms of direct public debt, the amount outstanding would have risen by 7.4 percent at the end of November 2023 compared with its level at end December 2022, with increases of 5.6 percent in its domestic component and 13.3 percent in its external component.

Chart 4.7 : Treasury debt



Sources: Ministry of Economy and Finance (Treasury and External Finances Department) and BAM estimates.

5. DEMAND, SUPPLY AND LABOR MARKET

In the second quarter of 2023, economic growth stood at 2.3 percent after 2.2 percent the same quarter a year earlier. This trend results from a 6.3 percent increase instead of a 13.5 percent drop in the agricultural value added and a slowdown of 4 percent to 2.1 percent in the non-agricultural value added. On the demand side, it is driven through foreign trade in goods and services which contributed by 2.5 percentage points, down from 3.9 points, while the domestic component remained negative by 0.2 points.

In the second half of the year, GDP would have improved by 2.6 percent on average, instead of 1.2 percent in the same period of 2022. Non-agricultural value added rose by 2.3 percent, driven in particular by the momentum of the non-market sectors, while that of the agricultural sector rose by 3.3 percent. Over the year as a whole, growth would have averaged 2.7 percent, after 1.3 percent in 2022.

On the labor market, the situation has significantly deteriorated between the third quarter of 2022 and the same period in 2023, with a loss of 297,000 jobs, almost all in rural areas, as against 58,000 a year earlier. With the exception of industry including crafts, which created 14,000 new jobs, the other sectors posted declines, amounting to 297,000 jobs in agriculture, 15,000 in services and 2,000 in construction and public works. Considering a net outflow of 49,000 jobseekers, the activity rate fell from 44 percent to 43.2 percent, and the national unemployment rate rose from 11.4 percent to 13.5 percent, its highest level since 2002, from 15 percent to 17 percent in urban areas and from 5.2 percent to 7 percent in rural areas.

5.1 Domestic demand

5.1.1 Consumption

The latest national accounts data for the second quarter of 2023 show a slight improvement in household consumption at a virtually unchanged pace compared with the same quarter of the previous year, at 0.4 percent. Its contribution to growth was positive by 0.2 percentage points.

In the second half of 2023, it would have improved by 1 percent, following a 0.8 percent decline a year earlier. This period is marked on the one hand by a slowdown of inflation, and on the other hand by the deceleration of the transfers from Moroccan expatriates and the worsening of unemployment. Similarly, although it showed a slight improvement quarter-on-quarter, the household confidence index remains below last year's level, at 46.5 points, down from 47.4 points.

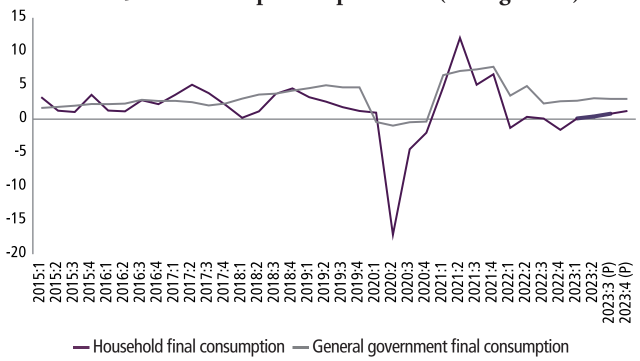
Over the year as a whole, household consumption would grow by 0.6 percent instead of contracting by 0.7 percent in 2022.

Regarding the General Government final consumption, it slowed from 4.9 percent to 3.1 percent, and its contribution to growth is expected to stand at 0.6 points.

In the second half of 2023, it has improved by 3 percent after 2.5 percent in the same period a year earlier, reflecting the increase in spending on Treasury goods and services.

On average over the year of 2023, it would have increased by 2.7 percent after 3.3 percent in 2022.

Chart 5.1 : Consumption expenditure (Change in %)



Sources : HCP and BAM forecasts.

5.1.2 Investment

In the second quarter of 2023, the decline in the pace of investment eased, dropping from -8.4 percent to -3.1 percent, and its contribution to growth remains negative at -1.1 points.

The outlook for the second semester suggests an increase in investment of 1.3 percent instead of a decrease of 5.4 percent a year earlier. This expected relative improvement is supported by several pieces of data, notably the increase in volume of equipment imports by 3.8 percent, cement sales by 3.6 percent, and the Treasury's investment flow by 65.2 percent, after respective contractions of 4.3 percent, 16 percent, and 19.8 percent.

Furthermore, according to the quarterly results of the business survey conducted by Bank Al-Maghrib for the third quarter of 2023, the business environment was described as «normal» by 74 percent of companies and «unfavourable» by 19 percent of them.

Over the year of 2023, the decline in investment would have eased to -0.8 percent after -6.5 percent in 2022.

5.2 Foreign demand

In the second quarter of 2023, net exports of goods and services in volume positively contributed to growth up to 2.5 points, compared to 3.9 points during the second quarter of 2022, with the growth rate decelerating from 27.7 percent to 6.5 percent for exports and from 12.2 percent to 1 percent for imports.

In the second half of this year, against a backdrop characterized by a sluggish foreign demand, exports posted a slowdown from 21.9 percent to 3.2 percent, namely reflecting the volume decline in automobile exports and the easing of the decline in phosphates and derivatives. At the same time, imports growth of decelerated from 10.6 percent to 0.8 percent.

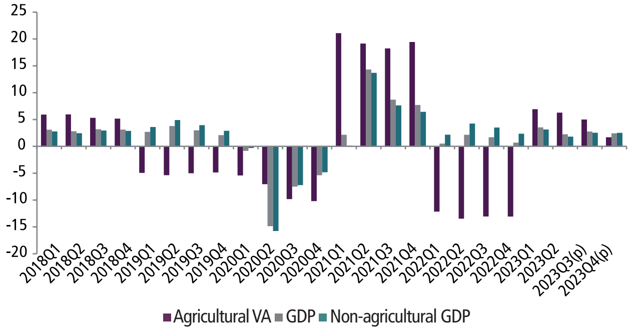
Over 2023 as a whole, foreign trade volumes contributed to growth by 2.1 points instead of 2.9 points. The pace of goods and services exports slowed from 20.4 percent to 8.2 percent, and that of imports from 9 percent to 2.8 percent.

5.3 Overall supply

In the second quarter of 2023, GDP increased by 2.3 percent after 2.2 percent a year earlier. This development includes an improvement of 6.3 percent, after a decline of 13.5 percent, in agricultural value added and a deceleration from 4 percent to 2.1 percent in the growth rate of non-agricultural value added.

In the second semester, growth accelerated to 2.6 percent on average after 1.2 percent in the same period of the previous year. Agricultural value added increased by 3.3 percent, compared to a contraction of 13.1 percent, notably due to a relative improvement in the cereal harvest to 55.1 million quintals. As for non-agricultural activities, their value added increased by 2.3 percent instead of 2.8 percent.

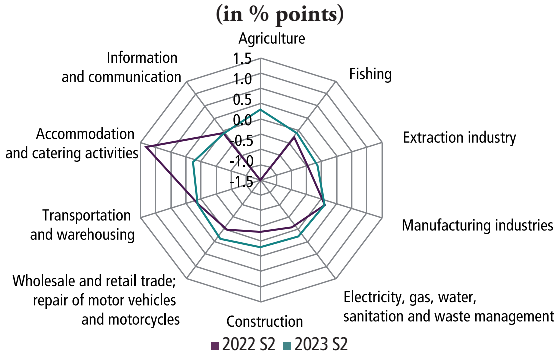
Chart 5.2: GDP per component (at previous year's prices, yoy change, 2014 base)



Sources : HCP and BAM forecasts.

For the secondary sector, value added increased by 0.9 percent on average after a decline of 2.4 percent. This change would reflect increases of 4 percent in the «Electricity, gas, water, sanitation, and waste» branch, 1 percent in manufacturing industries, and 0.7 percent in construction, as well as a decrease of 0.8 percent in mining.

Chart 5.3: Sectoral contribution to growth (in % points)



Sources : HCP and BAM forecasts.

At the level of the tertiary sector, activity slowed to 2.9 percent on average in the second semester compared to 5.5 percent in the same period of the previous year. It particulatrly improvedby 6 percent, after 60.4 percent, for the «Accommodation and Catering activities» branch, 3.5 percent, after 2.9 percent, for transportation services, and 1.3 percent, instead of a decline of 1.2 percent, for trade.

Overall, growth averaged 2.7 percent for the year as a whole, after 1.3 percent in 2022.

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the third quarter of 2022 and the same period in 2023, the job market situation on the labour market was marked by a 0.4 percent drop in the number of working individuals aged 15 years and over, to almost 12.1 million people. This trend includes a 2 percent increase in the cities and a regression of 4.5 percent in rural areas.

Given the change in the working age population, the activity rate decreased by 0.8 points to 43.2 percent nationally, by 2.3 points to 45.8 percent in rural areas and stagnated at 41.9 percent in urban areas.

At the same time, the national economy posted between the third quarter of 2022 and the same period 2023, a loss of 297,000 jobs, almost all of which in rural areas, following a loss of 58,000 in the same period a year earlier. At sectoral level, with the exception of industry including handicrafts, which created 14,000 jobs, the other sectors recorded losses, amounting to 297,000 jobs in agriculture 15,000 in services and 2,000 in construction. Under these conditions, the working population decreased by 2.8 percent to almost 10.5 million people.

5.4.2 Unemployment and underemployment

The number of unemployed persons rose by 17.9 percent year-on-year to 1.6 million people, and the unemployment rate rose by 2.1 percentage points to reach its highest level since 2002, at 13.5 percent. It rose by 2 points to 17 percent in urban areas and by 1.8 points to 7 percent in rural areas. For young people aged 15 to 24 in particular, this rate continued to rise at a rapid pace, with an increase of 6.5 points to 38.2 percent overall, and by 5.9 points to 49.7 percent in urban areas and to 23.3 percent in rural areas.

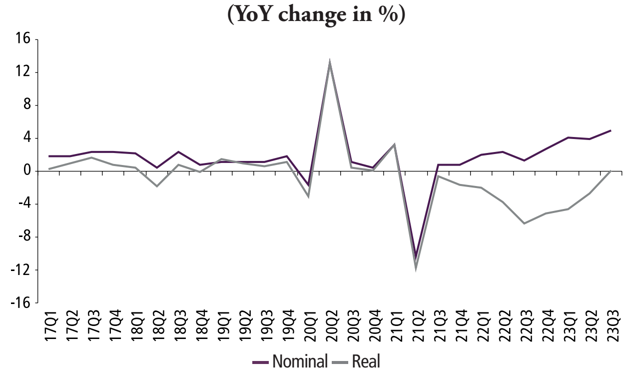
At the same time, the market situation was marked by a rise in underemployment with rates moving from 8.5 percent to 9.6 percent at the national level, and from 7.5 percent to 8.1 percent in cities and from 9.9 to 12 in rural areas.

5.4.3 Productivity and wages

In non-agricultural activities, apparent labor productivity as measured by the ratio of value added to employment, would have improved in the third quarter of 2023 by 2.3 percent, after 0.9 percent a year earlier. This trend reflects an increase of 2.3 percent, instead of 3.3 percent, and a stagnation, after an increase of 2.4 percent increase in workforce employed.

For its part, and according to the latest data available for the third quarter, the average salary calculated on the basis of data provided by the National Social Security Fund (CNSS)by dividing the total payroll by the number of employees, rose in nominal terms by 5 percent, compared with 1.2 percent a year earlier, and by 0.1 percent after a 6.3 percent decrease in real terms.

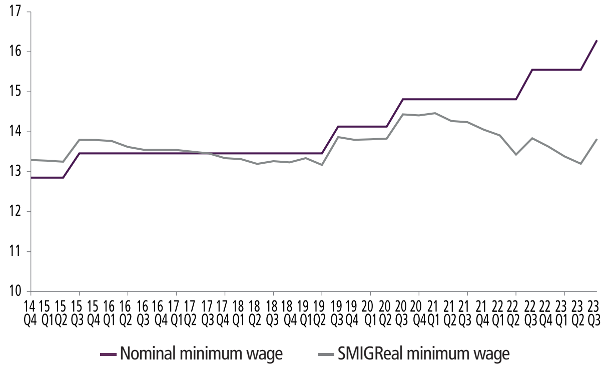
Chart 5.4: Private sector average wage index (YoY change in %)



Sources : CNSS and BAM calculations.

In application of the social agreement concluded on April 30th,2022, the hourly SMIG was revalued in nominal terms by 5 percent on the 1st of September 2023 to 16.29 dirhams. Considering a 4.9 percent rise in the consumer price index, it would have dropped year-on-year by 0.1 percent in real terms in the third quarter.

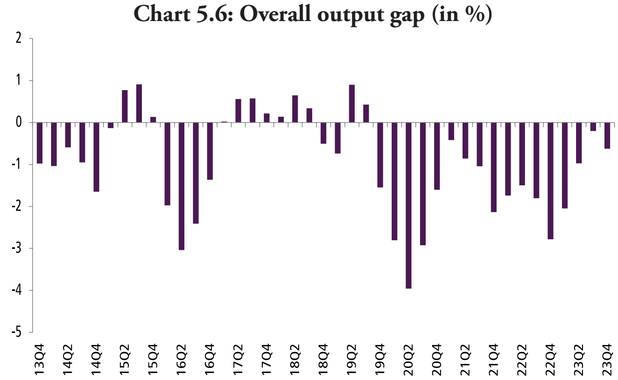
Chart 5.5: Hourly minimum wages in nominal and real terms (in DH)



Sources: Ministry of Economic Inclusion, Small Business, Employment and Skills, and BAM calculations.

Overall, the output gap is likely to remain negative in the second half of 2023.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		Q3 2022	Q3 2023
Participation rate (%)		**44.0**	**43.2**
Urban		41.9	41.9
Rural		48.1	45.8
Unemployment rate (%))		11.4	13.5
Youth aged 15 to 24		31.7	38.2
Urban		15.0	17.0
Youth aged 15 to 24		43.8	49.7
Rural		5.2	7.0
Job creations (in thousands)		**-58**	**-297**
Urban		136	-29
Rural		-194	-269
Sectors			
- Agriculture, forest and fishing		-237	-297
- Industry including handicraft		29	14
- Construction		-38	-2
- Services		189	-15
Non-agricultural apparent productivity (variation in %)		**0.9**	**2.3**
Average wage index (change in %)	**Nominal**	**1.2**	**5.0**
	Real	**-6.3**	**0.1**

Sources : HCP, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

Inflation continued its downward trend, falling from 6.8 percent in the second quarter to 4.9 percent in the third quarter. This trend sustained to October, with inflation standing at 4.3 percent, its lowest rate since February 2022, bringing its average for the first ten months of 2023 to 6.6 percent. The main factor behind the recent development stems from the slowdown in the rise of prices of volatile food products, from 15.4 percent in the third quarter to 11.7 percent in October. Similarly, core inflation ebbed to 4 percent from 4.7 percent, driven mainly by its non-food component, while regulated tariffs increased at an almost unchanged pace compared to that observed on average between July and September. On the other hand, the decline in fuel and lubricant prices sharply slowed from 12.3 percent in the third quarter to 0.7 percent in October, impacted by the change in petroleum product prices.

On the short term, inflationary pressures are likely to continue to ease. Thus, inflation is expected to fall to 3.8 percent in the fourth quarter and its average for 2023 to 6.1 percent. Its core component is expected to stand at 3.4 percent in the fourth quarter and 5.6 percent on average for the entire year of 2023.

6.1 Inflation trends

Inflation carries on its gradual decline, dropping from 4.9 percent in the third quarter to 4.3 percent in October, the lowest rate since February 2022. As a result, its average for the first ten months stood at 6.6 percent. Apart from fuels and lubricants, this development concerned all components, with more pronounced slowdowns in prices of volatile food products as well as core inflation.

6.1.1. Prices of goods excluded from core inflation

Prices of volatile food products posted a monthly decline of 1.4 percent in October, driven mainly by price declines of 14.8 percent for «citrus fruit», 3.4 percent for «poultry and rabbit» and 2.8 percent for «fresh fruits».

In terms of annual variation, prices in this product category decelerated, falling from 15.4 percent in the third quarter to 11.7 percent in October.

Overall, the contribution of the volatile-price food component to inflation amounted to 1.5 percentage points in October, as against 2 points a quarter earlier.

Table 6.1 : Change in inflation and its components

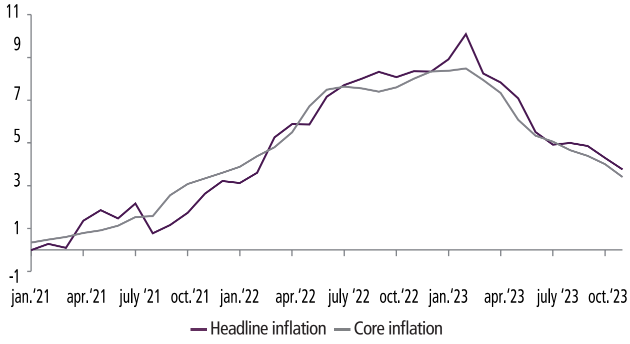
(In %)	Monthly variation			Year-on-year		
	Aug. 23	Sept. 23	Oct. 23	Aug. 23	Sept. 23	Oct. 23
Inflation	**0.3**	**0.8**	**-0.1**	**5.0**	**4.9**	**4.3**
Food products with volatile prices	1.5	2.7	-1.4	14.8	13.7	11.7
Price-regulated products	0.1	0.0	0.0	1.0	0.8	0.8
Fuels and lubricants	6.7	6.0	2.0	-8.9	-3.8	-0.7
Core inflation	**-0.2**	**0.4**	**0.3**	**4.7**	**4.4**	**4.0**
Food products	-0.6	0.6	0.5	7.8	7.7	7.3
Clothing and footwear	-0.1	0.3	0.2	3.0	2.9	2.8
Housing, water, gas, electricity, and other fuels	0.2	0.2	0.0	1.4	1.4	1.2
Furniture, household goods and routine maintenance	0.1	0.2	0.2	3.0	2.7	2.3
Healthcare[1]	0.0	0.0	0.2	3.6	3.7	3.9
Transport[2]	0.0	-0.5	-0.5	2.7	2.5	1.6
Communication	0.0	0.0	0.0	0.0	0.0	-0.1
Leisure and culture[1]	-0.1	-0.2	0.1	-0.1	-0.7	-0.8
Education	0.0	1.6	0.4	4.5	2.9	2.2
Restaurants and hotels	0.7	0.0	0.0	5.9	5.4	4.9
Miscellaneous goods and services[1]	0.1	0.2	0.0	2.5	2.1	2.0

1 Excluding products with regulated prices.

2 Excluding fuels and lubricants, and products with regulated prices.

Sources: HCP data and BAM calculations.

Chart 6.1: Inflation and core inflation, (%, YoY)

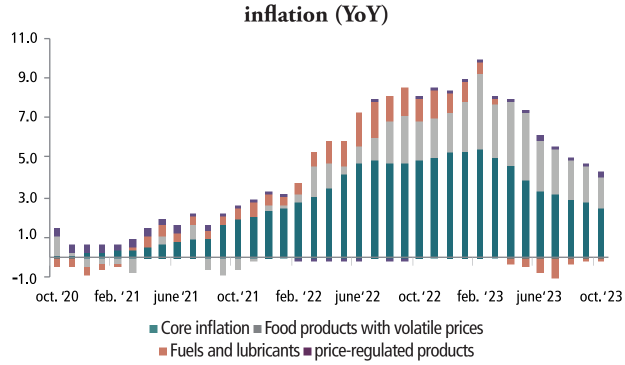


Sources : HCP and BAM calculations.

The increase rate of regulated tariffs slightly decelerated from 0.9 percent in the third quarter to 0.8 percent in October. This largely reflects a 0.5 percent decrease in «road passenger transport» fares instead of a 0.4 percent increase.

The prices of regulated products contributed to inflation by 0.2 percentage points in October, the same as the previous quarter.

Chart 6.2 : Price contributions of major components to inflation (YoY)

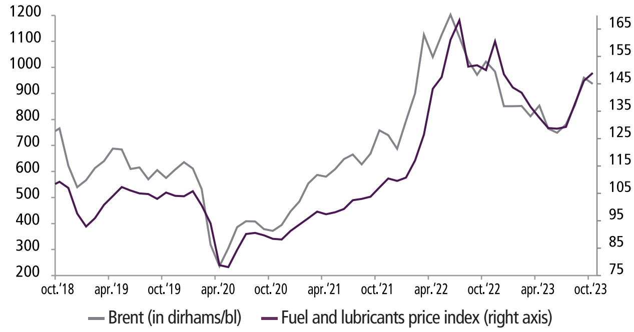


Sources : Données HCP and BAM calculations.

In contrast, the decline in fuel and lubricant prices decreased from 12.3 percent in the third quarter to 0.7 percent in October, linked with the rise in international prices of petroleum products. In particular, the price of Brent rose from an average of $86.8/bl between July and September to $91.1/bl in October, an increase of 5 percent. Their change also reflects the effect of the 3.1 percent depreciation of the national currency against the US dollar over the same period.

Overall, the contribution of fuel and lubricant prices to inflation was zero in October, compared with -0.5 points a quarter earlier.

Chart 6.3 : Brent prices and fuel and lubricant price index (base 100 in 2017)



Sources : World Bank, HCP and BAM calculations.

6.1.2. Core inflation

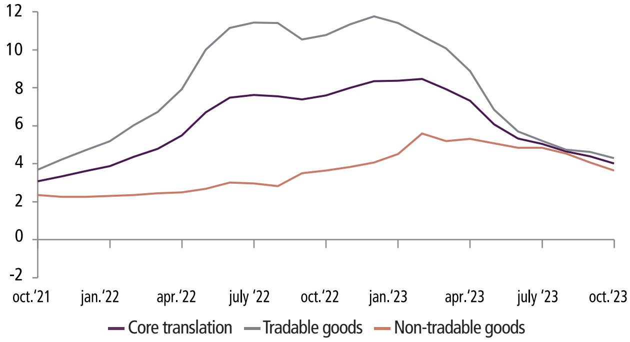
On a downward trajectory since the second quarter of 2023, core inflation has declined from 4.7 percent in the third quarter to 4 percent in October, its lowest rate since January 2022.

This deceleration is mainly due to a slowdown from 8 percent to 7.3 percent in its food component, especially with the decrease of the growth pace of «fresh meat» prices from 15.3 percent to 13.3 percent, «cereal products» from 1 percent to 0.2 percent, and «dairy products» from 7.9 percent to 6.4 percent.

Excluding food products, this slowdown affected all IPCX1 divisions, except for «Healthcare». Thus, the increase rate of prices fell from 3.9 percent to 2.2 percent for «education», and from 3 percent to 1.6 percent for «transport», and from 2.9 percent to 2.3 percent for «furnishings, household equipment and routine household maintenance».

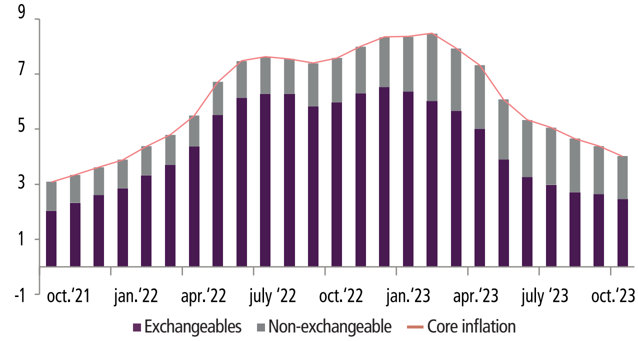
1 These are the eleven items making up the core inflation basket (Cf. Table 6.1).

Chart 6.4 : Change in price indices of tradable and non-tradable goods (%, YoY)



Sources : HCP data and BAM calculations.

Chart 6.5 : Contribution of tradables and non-tradables to core inflation (in percentage points)



Sources : HCP and BAM calculation.

The breakdown of the core inflation basket of goods into tradable and non-tradable products shows that the deceleration in its growth concerned both components.

Table 6.2 : Change in the price indexes of tradables and non-tradables

	Monthly variation			Year-on-year		
	Aug. 23	Sept. 23	Oct. 23	Aug. 23	Sept. 23	Oct. 23
Tradable goods	0.0	0.4	0.4	4.7	4.6	4.3
Non-tradable goods	-0.4	0.5	0.1	4.5	4.1	3.6
Underlying inflation	**-0.2**	**0.4**	**0.3**	**4.7**	**4.4**	**4.0**

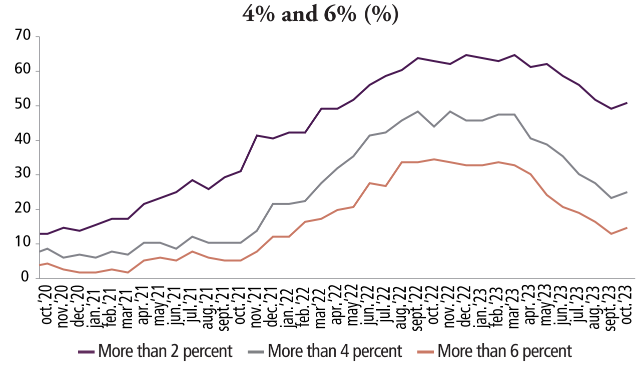
Sources : HCP data and BAM calculations.

Prices of tradable goods rose by 4.3 percent in October, compared with 4.9 percent in the third quarter, in a context marked by a relative easing of external pressures. Inflation fell to 2.9 percent from 5 percent the previous quarter in the eurozone, Morocco's main trading partner, and the FAO Index has continued to decline in October.

The growth pace of the prices of non-tradable goods and services eased from 4.4 percent on average between July and September to 3.6 percent in October, reflecting a more modest increase in the prices of «fresh meat» and «pre-elementary and primary education».

The spread of inflationary pressures was slightly down. In fact, the share of products whose prices rose by more than 2 percent fell from 52 percent in the third quarter to 51 percent in October. Similarly, the proportions of products whose prices increased by more than 4 percent and 6 percent respectively continued to decrease, from 27 percent to 25 percent and from 16 percent to 15 percent, respectively.

Chart 6.6 : Share of products whose YoY change exceed 2%, 4% and 6% (%)



Sources : HCP and BAM calculation.

6.2 Short-term outlook for inflation

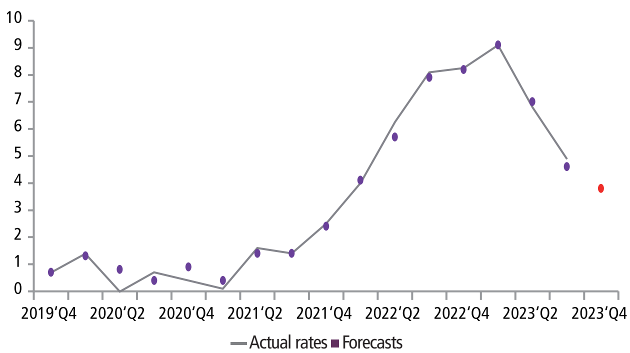
Inflation is expected to ebb to 3.8 percent in the last quarter of 2023, after 4.9 percent in the previous quarter. This deceleration is mainly due to the slowdown in its core component, which is likely to fall to 3.4 percent instead of 4.7 percent.

Similarly, considering wholesale market data, the increase rate of the prices of volatile food products would slow to 13.3 percent after 15.4 percent.

Regulated product prices, for their part, would increase in the absence of new related government decisions, at an almost unchanged pace from the third quarter, at 0.8 percent.

By contrast, and due to the change in international oil prices, those of fuels and lubricants are expected to decline by 2.9 percent in the fourth quarter, following a decrease of 12.3 percent on average between July and September.

Chart 6.7 : Short-term inflation forecasts and realizations (%)

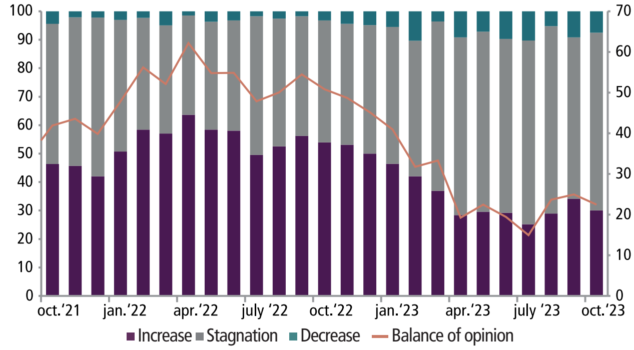


Source : HCP and BAM forecasts.

6.3 Inflation expectations

The results of Bank Al-Maghrib's business survey conducted among manufacturers in October 2023 show that 63 percent of respondents anticipate inflation to stagnate over the next three months, 30 percent expect it to increase, while 7 percent predict its decrease. Therefore, the opinion balance stands at 23 percent.

Chart 6.8 : Business owners' expectations of inflation over the next three months (%)

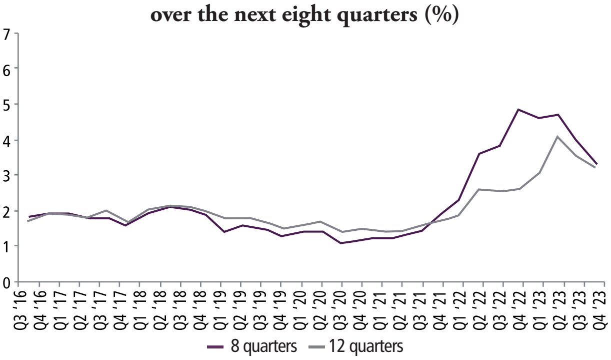


Source: BAM's monthly business survey.

Bank Al-Maghrib's survey of inflation expectations, conducted among financial sector experts for the fourth quarter of 2023, shows that they expect an average inflation of 3.3 percent over the next eight quarters, instead of 3.9 percent stated in the previous edition of the survey.

Over the next 12 quarters, their expectations stood at 3.2 percent instead of 3.5 percent.

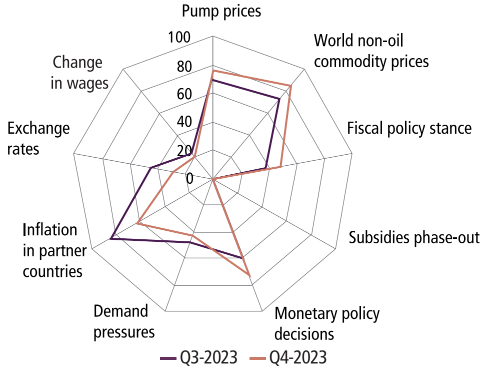
Chart 6.9 : Inflation expectations of financial sector experts over the next eight quarters (%)



Source : BAM's quarterly survey on inflation expectations.

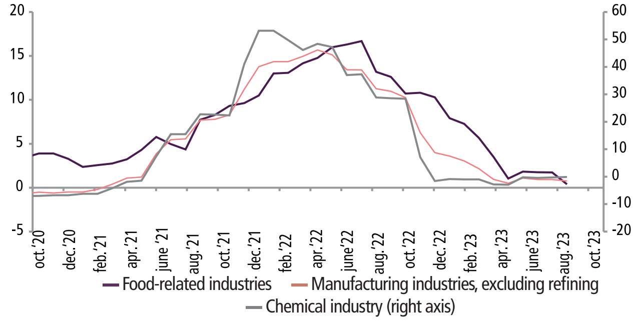
The respondents believe that inflation over the next eight quarters will depend on world commodity prices excluding oil prices, pump prices and monetary policy decisions.

Chart 6.10 : Determinants of the future change in inflation according to financial sector experts



Source : BAM's quarterly survey on inflation expectations.

Chart 6.11 : Change in the main industrial producer price indices, YoY



Source : HCP.

6.4 Producer prices

Producer prices in manufacturing industries, excluding oil refining, showed a monthly fall of 0.3 percent in October, driven mainly by an 0.9 percent decrease in prices for «food industries» and by 0.7 percent for the «manufacture of other non-metallic mineral products» branch. On the other hand, producer prices in the «Textile manufacturing» branch and the «clothing industry» recorded a monthly increase of 0.7 percent and 0.8 percent, respectively.

Compared with the same month of the previous year, the growth pace of producer prices in manufacturing industries, excluding refining, declined from 1 percent in the third quarter to 0.8 percent in October, bringing their average for the first ten months of the year to 1.8 percent.

7. MEDIUM TERM OUTLOOK

Summary

Despite the relative resilience of some countries, global economic growth is set to continue to decelerate, falling from 3.1 percent this year to 2.4 percent in 2024, before improving to 2.8 percent in 2025. In the United States, real GDP growth is expected to rise to 2.4 percent this year and 1.1 percent in 2024, before standing at 1.7 percent in 2025, and in the euro area, growth is expected to stand at 1 percent in 2023 and at 0.9 percent in 2024, before reaching 1.9 percent in 2025. In the UK, the sharp rise in interest rates and the cost of living are weighing on growth, which would be limited at 0.5 percent in 2023 and 0.4 percent in 2024, before accelerating to 1.9 percent in 2025, while in Japan, it is expected to reach 1.8 percent in 2023 in real terms, then drop to 1.1 percent in 2024 and to 0.6 percent in 2025.

In the major emerging countries, the Chinese economy is expected to grow by 5.2 percent this year but would decelerate to less than 5 percent in the medium term, notably penalized by difficulties in the real estate market and population aging. As for the Indian economy, it would evolve at a sustained pace due to the strength of public investments and a robust domestic demand. In Brazil, growth is expected to stand at 3.3 percent in 2023, driven notably by strong agricultural production, before declining to 1.3 percent in 2024 and then to 1.8 percent in 2025. In Russia, the economy would grow by 3.3 percent this year, driven by robust demand and increased public spending, then would be limited to 1.4 percent in 2024 before posting a contraction of 0.2 percent in 2025, due to the dissipation of the budgetary impulse effect and the tightening of monetary conditions.

In commodity markets, the strong volatility of energy prices is expected to continue, fuelled notably by the escalation of the war in Ukraine and the uncertainty surrounding the conflict in the Middle East. Particularly for oil, prices are revised upwards to 83.1 dollars per barrel of Brent in 2023, to 87.3 dollars in 2024, and to 86.6 dollars in 2025. As for coal, its price would remain high, supported by the reduction in natural gas supply, especially in Europe. Regarding natural gas in the European market, the World Bank's October 2023 projections forecast a significant decline in prices in both short and medium terms.

Regarding phosphate and its derivatives, after the peaks posted in 2022, their prices are expected to generally decline by 2025. As for food products, the FAO index is expected to decrease by an average of 14.7 percent in 2023, then by 0.6 percent in 2024, before increasing by 3.5 percent in 2025.

Under these conditions, inflationary pressures are likely to continue to ease over the medium term. In the United States, inflation is set to continue falling, reflecting in particular the downturn in international commodity prices and the expected deceleration in the rise in prices of housing services. Similarly, in the euro area, inflation is set to continue decelerating.

Against this backdrop, the ECB and the FED decided at their most recent meetings to maintain their monetary policy stance unchanged.

At the national level, in terms of foreign trade, after the strong momentum of the last two years, imports are expected to fall by 2.6 percent, driven by the expected easing of the energy bill, while exports are expected to remain quasi stable, with a decline in sales of phosphate and derivatives,

and a rise in shipments from the automotive sector. Travel receipts are expected to rise by 13.2 percent, while remittances from Moroccans living abroad would consolidate at a high level, close to the one recorded in 2022. The current account deficit would therefore close the year at 1.6 percent of GDP, after 3.5 percent in 2022. In addition, FDI receipts will return to the equivalent of 2.3 percent of GDP, compared with 3 percent in 2022.

In the medium term, the pace of trade in goods is set to accelerate, with export forecast to rise by 6.8 percent in 2024 and 7.3 percent in 2025, driven by the continuing dynamism of the automotive sector, and respective increases by 4.2 percent and 8.2 percent in imports. At the same time, travel receipts are expected to remain quasi stable at 106 billion dirhams in 2024, before reaching 112.4 billion in 2025, in line with the expected acceleration in growth in the euro area, Morocco's main source market. Similarly, remittances from Moroccans living abroad, whose evolution remains surrounded by considerable uncertainty, are expected to remain at high levels of 115 billion in 2024 and 120 billion in 2025. The current account deficit would thus amount to 2.5 percent and then 3.8 percent of GDP over the next two years. With regard to FDI receipts, projections point to an increase to the equivalent of 3 percent of GDP in the medium term.

Under the assumption, particularly, of the realization of the external financing planned by the Treasury, official reserve assets would end the year at 360.9 billion dirhams by the end of 2023, before stabilizing in 2024 and standing at 372.1 billion by the end of 2025. In terms of coverage of imports of goods and services, they would represent the equivalent of 5 months and 16 days in 2023, and the equivalent of 5 months and 2 days, then 5 months and 6 days of imports in the following two years respectively.

In terms of public finances, the budget deficit is expected to continue its reduction, particularly due to the consolidation of tax revenues and the mobilization of specific financing. Indeed, after reaching 5.2 percent of GDP in 2022, it is projected, according to BAM's projections, to be at 4.8 percent of GDP in 2023, revised downward by 0.3 percentage points compared to September's forecast, incorporating notably the budgetary achievements as of the end of November. Over the rest of the horizon, considering the elements of the 2024 Finance Law and the multi-year budget programming 2024-2026 as well as BAM's economic projections, the budget deficit would stand at 4.5 percent of GDP in 2024 and 3.9 percent in 2025.

In terms of monetary conditions, bank credit to the non-financial sector is expected to grow by 2.6 percent in 2023 and around 4.6 percent in 2024 and 2025. For its part, following its depreciation in 2022, the real effective exchange rate would appreciate in 2023 and continue to do so in the medium-term.

After a leap to 8 percent in 2021 and a deceleration to 1.3 percent in 2022, the national economy is expected to grow by 2.7 percent this year, a slight downward revision compared to the September forecast. This change includes, on the supply side, an increase of 2.5 percent in non-agricultural value added and a 5 percent rise in agricultural value added, including a cereal harvest of 55.1 MQx for the crop year 2022-2023. On the demand side, growth is expected to be driven primarily by net exports while domestic demand remains low.

On the medium term, growth is set to accelerate to 3.2 percent in 2024, before consolidating at 3.4 percent in 2025, reflecting further improvement in non-agricultural activities and a return to average grain harvests of 70 MQx. On the demand side, the domestic component would improve over the forecast horizon, while the contribution of net exports would be quasi negative.

Against this backdrop, after posting a rate of 6.6 percent in 2022, inflation would return to an average of 6.1 percent for the current year, with its underlying component decelerating from 6.6 percent to 5.6 percent. Over the forecast of the horizon, inflation is expected to continue to slow at a faster pace than forecast in September, reaching 2.4 percent in 2024 and 2025, and its underlying component at virtually the same level over this horizon.

7.1 Underlying assumptions

Further slowdown in the global economy

Despite the easing of inflationary pressures and the relative resilience of some economies, global economic growth is set to continue its deceleration, falling from 3.1 percent this year to 2.4 percent in 2024, before improving to 2.8 percent in 2025.

In the United States, the economy is expected to grow by 2.4 percent this year, but it is likely to slacken to 1.1 percent in 2024, as the fiscal impulse fades and the effect of restrictive monetary and financial conditions sustains. In 2025, growth would improve to 1.7 percent. In the euro area, the tight monetary and financial conditions continue to weigh on activity, particularly in the manufacturing and services sectors. Growth would be limited to 1 percent in 2023 and 0.9 percent in 2024, before improving to 1.9 percent in 2025, backed in particular by a recovery in consumption and investment. In the United Kingdom, the sharp rise in interest rates and the cost of living is bearing on growth, which would be limited to 0.5 percent in 2023 and 0.4 percent in 2024, before accelerating to 1.9 percent in 2025 with the planned loosening of the monetary policy. For its part, the Japanese economy is expected to grow by 1.8 percent in 2023, driven by a recovery in tourism and automotive exports, as well as an increase in domestic spending. Over the next two years, it is likely to suffer from weakening foreign demand and the impact of demographic problems on productivity, with a deceleration to 1.1 percent in 2024, then to 0.6 percent in 2025.

In the main emerging countries, China's economy is set to grow by 5.2 percent this year, boosted by public stimulus measures, but it would decelerate to less than 5 percent in the medium term, from 4.5 percent in 2024 to 4.8 percent in 2025. It should be noted that the IMF expects a gradual slowdown in the pace of activity to hover around 3.5 percent by 2028, as the ageing population and weakening productivity would continue to weigh on activity. For its part, the Indian economy is expected to post a 6.7 percent growth in 2023, driven mainly by vigorous public investments and strengthened domestic demand, but it would decrease to 5.9 percent in 2024 before accelerating to 6.3 percent in 2025. In Brazil, growth is expected to reach 3.3 percent in 2023, driven in particular by strong agricultural production, before declining to 1.3 percent in 2024 and standing at 1.8 percent in 2025, due to a restrictive monetary policy and less favourable terms of trade. In Russia, the economy is expected to grow by 3.3 percent this year, driven by rising public spending. However, it would be limited to 1.4 percent in 2024, before registering a further slight contraction of 0.2 percent in 2025, due in particular to the dissipation of the fiscal impulse effect and the tightening of the monetary conditions.

Chart 7.1 : Growth in the euro area

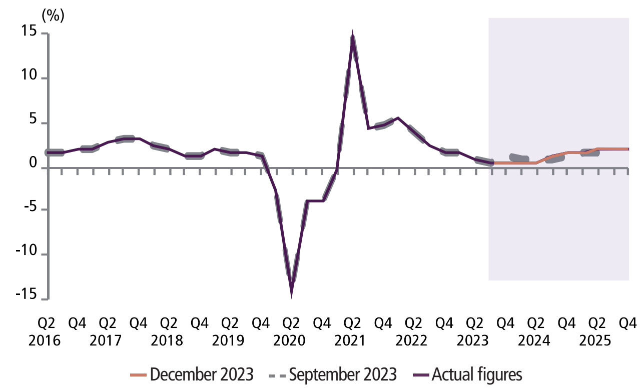
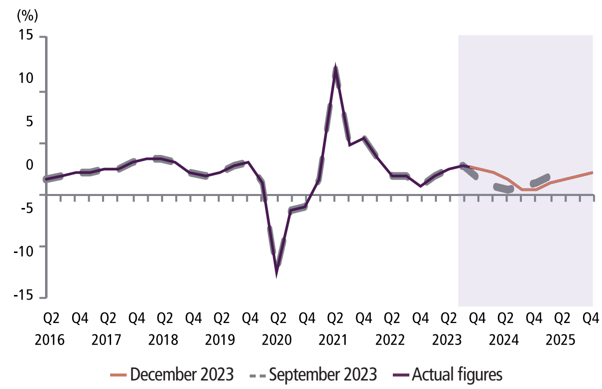


Chart 7.2 : Growth in the USA



Source : GPMN, November 2023.

Global trend of slowing inflation

Regarding raw materials, the sharp volatility of energy prices is set to continue, fuelled by uncertainty linked to the stalemate in the war in Ukraine and the conflict in the Middle East. For oil in particular, the price of Brent crude oil is set to fall from 98.9 dollars per barrel in 2022 to 83.1 dollars this year, then to 87.3 dollars in 2024, before dropping slightly to an average of 86.6 dollars in 2025. As for coal, after the decline observed in 2023, its price would stabilize to some extent, due to the reduced supplies of natural gas, particularly in Europe. It is expected to rise to 128.4 USD/t in 2023, then fall to 124.6 USD/t in 2024 and 122 USD/t in 2025. For natural gas on the European market, the World Bank's October 2023 projections assume a significant drop in prices to 13 USD/MMBtu in 2023, and near-stability around this level in 2024 and 2025.

As for phosphate and derivatives, the latest World Bank projections indicate that prices are set to fall overall, partly as a result of lower input prices, particularly gas prices. Thus, prices are set to fall from 772 USD/t in 2022 to 540 USD/t in 2023 for DAP, and from 716 USD/t to 480 USD/t for TSP. This trend would continue, with prices falling to 450 USD/t in 2024 and 400 USD/t in 2025 for DAP and to 400 USD/t then 350 USD/t respectively for TSP. The price of raw phosphate would rise to 340 USD/t in 2023, then decrease to 290 USD/t in 2024 and to 250 USD/t in 2025.

For their part, food prices (FAO Index) remained stagnant in November, month-on-month, and registered a 10.6 percent year-on-year decline, mainly reflecting lower cereal and meat prices. Thus, after the sharp rise of 14.3 percent in 2022, they are expected to drop by an average of 14.7 percent in 2023, then by 0.6 percent in 2024, before rising by 3.5 percent in 2025. Concerning U.S. durum wheat, its price stood at 283.6 USD/t in November, down 4.9 percent month-on-month and 32.9 percent year-on-year.

Under these conditions, inflationary pressures would continue to ease over the forecast horizon, and global inflation is likely to fall from 7.3 percent in 2022 to 4.8 percent in 2023, 3.6 percent in 2024 and 2.9 percent in 2025. In the United States, after peaking at 8 percent in 2022, inflation is expected to slow to 4.1 percent in 2023, 2.7 percent in 2024 then to 2.2 percent in 2025, driven in particular by the fall in international commodity prices and the expected deceleration in price rises for housing services. Similarly, in the euro area, it would decelerate to 5.5 percent in 2023. This downward trend is set to continue to 2.5 percent in 2024 and 1.7 percent in 2025, as the effects of monetary tightening persist and pressure on international commodity prices dissipates. In China, inflation is likely to continue to change at near-zero rates, and would stand at 0.4 percent in 2023, due in particular to the fall in food prices and the sluggish consumption recovery. It is expected to accelerate to 1 percent in 2024 then to 1.9 percent in 2025, reflecting a rise in domestic demand.

Chart 7.3 : Price of Brent

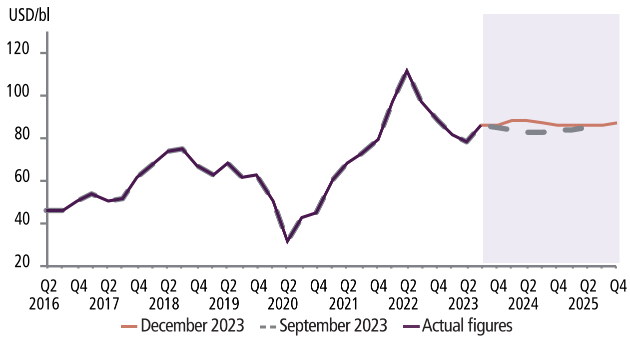


Chart 7.4 : FAO Food Price Index (2014-2016=100)

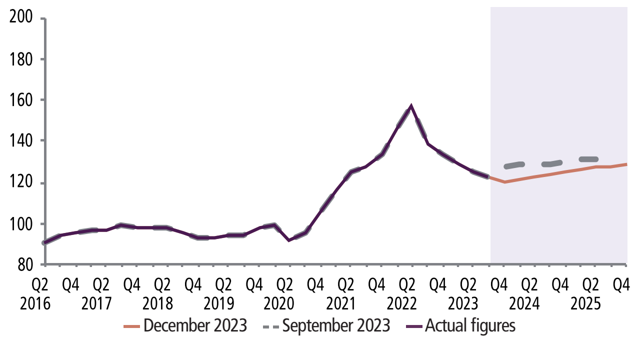


Chart 7.5 : Inflation in the euro area

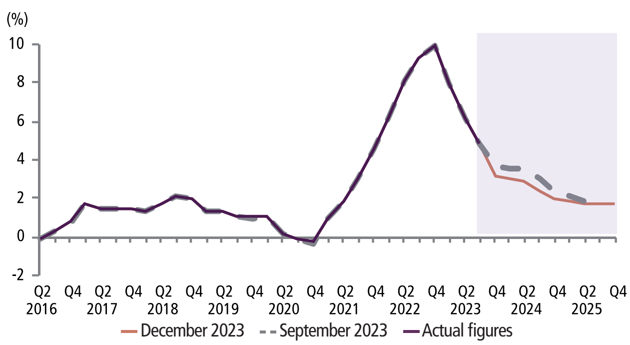
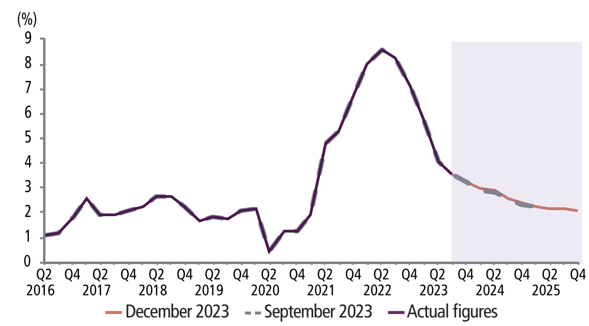


Chart 7.6 : Inflation in the United States



Source : GPMN, November 2023.

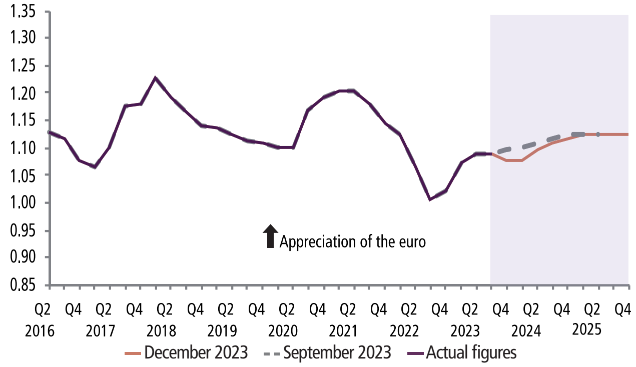
ECB and FED keeping key rates unchanged

At the end of its December 14 meeting, the ECB kept its three key interest rates unchanged, maintaining the rate on its main refinancing operations at 4.5 percent, while indicating that inflation is expected to decrease gradually over the course of 2024, before getting closer to the 2 percent target in 2025. At the same time, it underlined that key interest rates are at levels which, if maintained for a sufficiently extended period, will make a significant contribution to achieving its objective. The Asset Purchase Program (APP) portfolio is contracting at a measured and predictable pace, with the Eurosystem no longer reinvesting principal repayments from maturing securities. As for the Pandemic Emergency Purchasing Programme (PEPP), it intends to discontinue reinvestments by the end of 2024.

At the close of its December 12-13 meeting, the Fed once again decided to keep the target range for the federal funds rate unchanged at [5.25%-5.50%], against a backdrop of moderated job creation and decelerating inflation, which nevertheless remains high. At the same time, the Committee announced that it would continue to reduce holdings of Treasury securities and mortgage-backed securities. In addition, it indicated that it would continue to monitor the implications of new data on the economic outlook. It would be prepared to adjust its monetary policy stance in the event of any risk that might hinder the achievement of its objectives.

On foreign exchange markets, after its sharp appreciation in 2022, the dollar is expected to depreciate against the euro over the forecast horizon, impacted in particular by the narrowing of the interest-rate differential. The euro is expected to stand at 1.08 dollars this year, 1.10 in 2024 and 1.12 in 2025.

Chart 7.7 : USD/EUR exchange rate



Source : GPMN, November 2023.

A cereal production of 55.1 MQx for the 2022/2023 crop year and average harvests for 2023/2024 and 2024/2025

According to the Department of Agriculture, the final cereal harvest for the 2022/2023 season was 55.1 million quintals (MQx), up 62 percent compared to the previous season and down 15 percent with respect to the average of the last five years. For crops other than cereals, production contracted by 40 percent for citrus fruits, 45 percent for olives and 21 percent for dates. In the livestock sector, the Department of Agriculture reported an increase in production of 1.4 percent for white meat, 6.7 percent for honey and a 5 percent decrease for milk. Taking all these developments into account, and in the absence of any new data to compare with September's forecast exercise, the agricultural growth projection for 2023 remained unchanged at 5 percent.

For the 2023/2024 and 2024/2025 crop years, and assuming average cereal harvests of 70 MQx and the trend change in other crops, agricultural value added would grow by 5.9 percent in 2024, similar to the September forecast. In 2025, it would rise by 2 percent.

7.2 Macroeconomic projections

Medium-term recovery in foreign trade and consolidation of high levels of travel receipts and remittances from Moroccans residing abroad

Considering the new assumptions concerning the international environment, BAM's macroeconomic forecasts and actual figures to end October 2023, the current account deficit would ease from 3.5 percent of GDP in 2022 to 1.6 percent in 2023, before reaching 2.5 percent in 2024 and 3.8 percent in 2025.

In 2023, imports are expected to contract by 2.6 percent, with declines in the energy bill and purchases of semi-finished goods, as well as increases in purchases of capital and consumer goods. At the same time, exports would almost level off, with a decline in phosphate and derivatives sales and an increase in the automotive sector's shipments. Regarding travel receipts and taking into account their 20.7 percent increase to end-October 2023, they would reach 106 billion for the entire year, up 13.2 percent. Remittances from Moroccans residing abroad would remain at high levels at 112.8 billion dirhams, after 110.7 billion in 2022. Regarding FDI receipts and considering their relatively low level at the end of October, they are expected to amount to 33.2 billion at year-end, equivalent to 2.3 percent of GDP.

Assuming that the planned external financing is materialized, official reserve assets (ORA) would increase to 360.9 billion dirhams by the end of 2023, providing the equivalent of 5 months and 16 days of imports of goods and services.

In the medium term, exports are set to increase by 6.8 percent in 2024 and by 7.3 percent in 2025, essentially reflecting the continued expected performance of the automotive sector, assuming the implementation of the increase in production capacities announced by the main manufacturers based in Morocco. Phosphate and derivative exports, on the other hand, are likely to decrease in 2024, driven by the anticipated decline in prices, before posting an increase in 2025, due to the combined effect of a rise in shipped quantities and an easing in the decline of export prices. Imports, on the other hand, are expected to increase by 4.2 percent in 2024, mainly due to a heavier energy bill and a hike in the acquisition of semi-finished products. In 2025, their pace would accelerate to 8.2 percent, reflecting notably increases in the purchases of semi-finished products and consumer goods, while the energy bill is expected to rise by 2.6 percent.

At the same time, travel receipts would remain almost stable at 106 billion dirhams in 2024 before improving by 6.5 percent to 112.4 billion in 2025, boosted by the forecast acceleration growth in the euro area, Morocco's main export market. Similarly, remittances from Moroccans residing abroad, whose development is still shrouded in substantial uncertainty, are expected to remain at high levels, around 115 billion in 2024 and 120 billion in 2025. FDI receipts would grow at a level equivalent to 3 percent of GDP in the medium term.

Considering the Treasury's external drawings and scheduled repayments, ORA would stabilize at 360.9 billion by the end of 2024, before rising to 372.1 billion in 2025, equivalent to 5 months and 2 days and 5 months and 6 days of imports of goods and of services, respectively.

Table 7.1: Main components of the balance of payments

Change (in %), unless otherwise indicated otherwise	Actual figures					Forecast			Gaps (Dec./Sept.)	
	2018	2019	2020	2021	2022	2023	2024	2025	2023	2024
Exports of goods (FOB)	10.7	3.3	-7.5	25.2	30.1	-0.7	6.8	7.3	-1.0	1.0
Imports of goods (CIF)	9.9	2.0	-13.9	25.0	39.5	-2.6	4.2	8.2	-2.5	2.0
Travel receipts	1.2	7.8	-53.7	-5.1	170.8	13.2	-0.5	6.5	-10.2	4.4
Remittances	-1.5	0.1	4.8	40.1	16.0	1.9	1.9	4.4	-0.6	-1.7
Current account balance (% GDP)	**-4.9**	**-3.4**	**-1.2**	**-2.3**	**-3.5**	**-1.6**	**-2.5**	**-3.8**	**0.4**	**-0.4**
Official reserve assets in months of imports of goods and services	**5.4**	**6.9**	**7.1**	**5.3**	**5.4**	**5.5**	**5.1**	**5.2**	**0.0**	**-0.4**

Sources: Office des Changes data and BAM forecasts.

Further increase in banks' liquidity requirements and moderate growth in credit to the non-financial sector over the forecast horizon

The banking liquidity deficit would continue to widen, reaching 92.6 billion dirhams by the end of 2023 to 121.3 billion in 2024 and 137.7 billion in 2025, driven by the continued strong growth in fiat money by 10 percent in 2023 and 6.5 percent on average in 2024 and 2025. Regarding credit to the non-financial sector and considering its development at end-October as well as microeconomic projections and banking system expectations, it is likely to grow by 2.6 percent in 2023, before accelerating to 4.6 percent in 2024 and 4.7 percent in 2025. Under these conditions, and in line with the expected development of other money supply counterparts, the M3 aggregate would increase by 5.4 percent in 2023, 5.3 percent in 2024 and 6.1 percent in 2025.

For its part, after its depreciation in 2022, the real effective exchange rate (REER) would appreciate by 0.8 percent in 2023, as a result of domestic inflation outstripping that of trading partners and competitors, while the nominal effective rate would remain stable. This appreciation would continue by 1.1 percent and 0.6 percent, respectively, mainly due to the rise of its value in nominal terms.

Table 7.2: Money supply and bank lending

% change, unless otherwise indicated otherwise	Actual figures					Forecast			Gaps (Dec./Sept.)	
	2018	2019	2020	2021	2022	2023	2024	2025	2023	2024
Bank credit to the non-financial sector	3.1	5.5	4.2	2.9	7.9	2.6	4.6	4.7	-0.6	0.0
M3	4.1	3.8	8.4	5.1	8.0	5.4	5.3	6.1	-0.9	0.3
Liquidity requirement, in MMDH	-69.7	-64.6	-74.6	-64.4	-86.6	-92.6	-121.3	-137.7	4.6	-8.3

Easing of the fiscal deficit over the forecast horizon

After having reached 5.2 percent of GDP in 2022, the fiscal deficit is expected, according to BAM's forecasts, to stand at 4.8 percent of GDP in 2023, a downward revision from the September forecast, before easing to 4.5 percent of GDP in 2024 and to 3.9 percent in 2025. These projections take into account fiscal outcomes at end-November, the Ministry of Economy and Finance updates of the Finance Act 2023, the Finance Act 2024 and the three-year budget programming 2024-2026.

In 2023, fiscal resources are expected to improve by 1.9 percent, mainly covering a 1 percent increase in direct tax revenues, adjusted downward from September, considering, in particular, a limited growth in corporate income tax revenue, and a 1.8 percent increase in indirect tax revenues, with a 20.3 percent increase in domestic VAT revenues and a 0.7 percent increase in TIC (internal tax on consumption) revenues. Similarly, non-tax revenues are set to improve by 13.6 percent, with a surge of 53.4 percent in receipts from public establishments are enterprises (PEEs) and the mobilization of 25 billion dirhams from specific financing mechanisms. Donations from the GCC are expected to reach around 700 million dirhams, double the amount initially projected in the 2023 Finance Act. Concurrently, current expenses are expected to increase by 2.8 percent, reflecting an 8 percent increase in goods and services expenses and an 11.1 percent increase in interest costs on debt, while subsidy costs are expected to decrease by 29.5 percent to 29.7 billion due to the year-on-year decline in international gas prices. Investment expenditures in terms of issuance are expected to reach 103.7 billion, compared to the 91 billion initially provided for in the Finance Act, up 10.5 percent year-on-year.

In 2024, fiscal revenues are projected to increase by 5.7 percent, reflecting a 1.5 percent growth in direct tax collections, with an increase in income tax revenues and a decrease in corporate income tax revenues, as well as a strengthening of 9.7 percent in indirect tax revenues, mainly attributable to an increase in VAT revenues. As for non-tax revenues, they are expected to post a 9 percent increase to 60.3 billion, primarily driven by revenues from specific financing mechanisms, which are projected at 35 billion instead of 30 billion in the three-year budget programming for 2023-2025, while revenues from PEEs are expected to decrease by 3.4 percent compared to 2023. On the other hand, current expenses are set to increase by 4.4 percent, reflecting increases of 7.4 percent in goods and services expenses and 17.1 percent in interest costs on debt, while subsidy costs are expected to contract by 42.9 percent to 17 billion, considering the implementation of the subsidy phase-out. Meanwhile, investment expenditures are expected to decline by 3.3 percent to 100.3 billion, equivalent to 6.5 percent of GDP.

In 2025, tax revenues are expected increase by 5.8 year-on-year, reflecting the expected growth in all categories of taxes and duties. Indeed, direct tax revenues are expected to increase by 7.3 percent, while indirect tax revenues would gain 4.6 percent. Customs duties as well as registration and stamp duties revenues would increase by 12.4 percent and 1.5 percent respectively. Similarly, non-tax revenues are expected to improve by 2.6 percent compared to 2024, considering the collection of 35 billion from specific financing mechanisms. Revenues from PEEs are expected to decline by 3.7 percent to 18.8 billion. In contrast, current expenses would increase by 3.3 percent, primarily due to a 4.6 percent rise in goods and services expenses and a 9.6 percent upturn in debt interest charges, while subsidy costs would continue their downward trend, driven by the partial subsidy withdrawal,and stand at 11.5 billion. Meanwhile, investment expenditures would increase by 1.1 percent to 101.4 billion, equivalent to 6.3 percent of GDP.

Relative improvement in growth in 2023 and acceleration in the medium term

After the surge to 8 percent in 2021 and a deceleration to 1.3 percent in 2022, the growth of the national economy is expected to stand at 2.7 percent this year, revised downward by 0.2 percentage points compared to the September projections, mainly considering the less significant than expected outturn in the second quarter. This change encompasses, on the supply side, a 2.5 percent increase in non-agricultural value added, mainly driven by non-traded sectors, and a 5 percent increase in agricultural value added, particularly considering a cereal harvest of 55.1 million quintals for the 2022 2023 crop year. On the demand side, growth would be primarily driven by net exports, while domestic demand would remain weak.

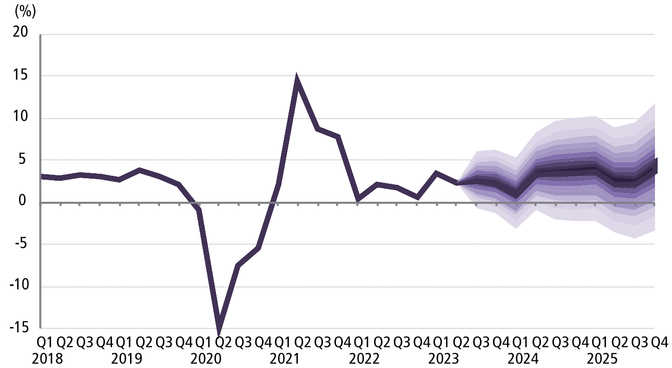
In the medium term, growth is expected to accelerate to 3.2 percent in 2024 and then consolidate at 3.4 percent in 2025, reflecting increases of 5.9 percent and 2 percent respectively in agricultural value added, assuming a return to average cereal crop years. As regards non-agricultural sectors, their value added would continue to improve, with increases of 2.7 percent in 2024 and 3.7 percent in 2025. On the demand side, this development would be primarily driven by its domestic component, which is expected to improve over the rest of the forecast period, while the contribution of net exports would be almost negligible. Indeed, the volume of goods and services exports is expected to return to pre-crisis levels, especially benefiting from the dynamics of the automotive sector. In parallel, imports would strengthen, reflecting the expected rebound in domestic demand.

Table 7.3: Economic growth

Variation in %	Actual figures					Forecast			Gaps (Dec./Sept.)	
	2018	2019	2020	2021	2022	2023	2024	2025	2023	2024
National growth	3.1	2.9	-7.2	8.0	1.3	2.7	3.2	3.4	-0.2	0.0
Agricultural VA	5.6	-5.0	-8.1	19.5	-12.9	5.0	5.9	2.0	0.0	0.0
Non-agricultural VA	2.8	4.0	-6.9	6.3	3.0	2.5	2.7	3.7	-0.1	-0.3

Sources: HCP data and BAM calculations and forecasts.

Chart 7.8: Growth outlook over the forecast horizon(Q3 2023 - Q4 2025), YoY*



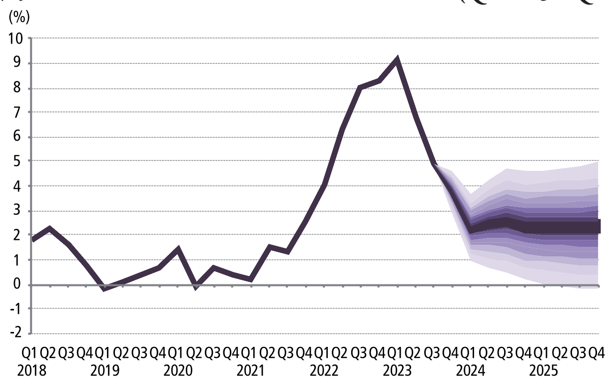
*Uncertainties surrounding the central forecast with confidence intervals ranging from 10 percent to 90 percent.

Inflation to return to moderate levels as of 2024

After posting a rate of 6.6 percent in 2022, inflation is expected to average 6.1 percent in the current year, up 0.1 percentage points compared to the September forecast. Its underlying component should decelerate from 6.6 percent to 5.6 percent, with the forecast remaining unchanged. Similarly, prices for fuels and lubricants are expected to fall by 2.4 percent, revised upwards by up 0.5 pp compared to the September forecast. On the other hand, prices for volatile food products are set to rise by 19.1 percent, after 11.1 percent in 2022, boosted by the increases recorded in recent months. Regulated tariffs are expected to rise by 0.8 percent in 2023, due in particular to the effect of the increase in the domestic consumption tax applied to tobacco prices.

In the medium term, inflation is expected to continue decelerating at a faster pace than forecast in September, to stand at 2.4 percent in 2024 and 2025. Similarly, its underlying component would slow sharply to 2.4 percent in 2024 and 2.3 percent in 2025. Prices of volatile food products are set to stabilize over the next two years. On the other hand, fuel, and lubricant prices would rise by 5.3 percent in 2024, then stabilize in 2025. Concerning regulated tariffs, they are expected to rise by 3.3 percent in 2024 and by 4.3 percent in 2025, considering the effect of the gradual withdrawal of subsidies.

Chart 7.9: Inflation forecast over the forecast horizon(Q4 2023 - Q4 2025)*



*Uncertainties surrounding the central forecast with confidence intervals ranging from 10 percent to 90 percent.

Table 7.4 : Inflation and core inflation

Variation in %	Actual figures					Forecast				Gaps (DEC./SEPT.)	
	2018	2019	2020	2021	2022	2023	2024	2025	8 quarters horizon (Q4-2023 to Q3-2025)	2023	2024
Inflation	1.6	0.2	0.7	1.4	6.6	6.1	2.4	2.4	2.6	0.1	-0.2
Underlying inflation	1.3	0.5	0.5	1.7	6.6	5.6	2.4	2.3	2.5	0.0	0.1

Sources: HCP data and BAM calculations and forecasts.

Chart 7.10 : Change in core inflation and output gap

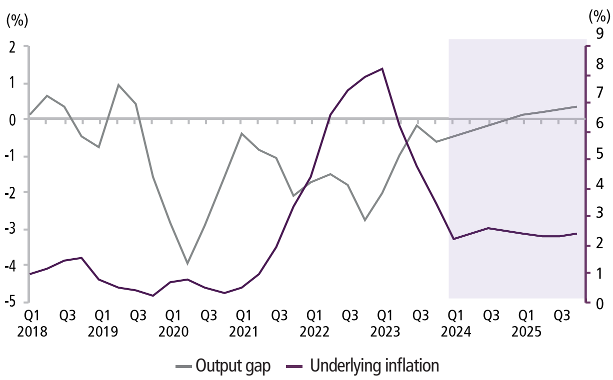
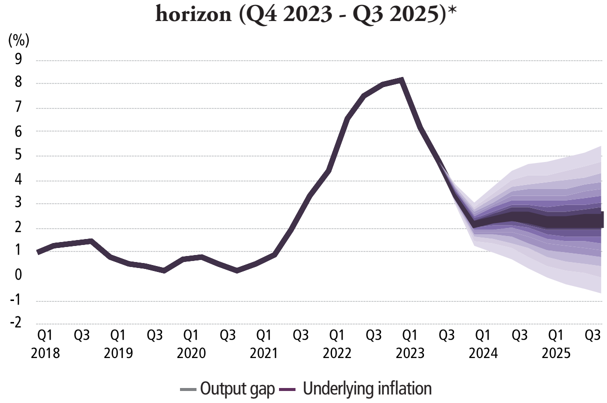


Chart 7.11 : Projections of core inflation over the forecast horizon (Q4 2023 - Q3 2025)*



* Uncertainties surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent

Sources: HCP data and BAM calculations and forecasts.

7.3 Balance of risks

Risks to the outlook remain high, with the balance of risks tilted to the downside for growth and to the upside for inflation. Indeed, the persistent repercussions of the war in Ukraine and the risk of a widening Israeli-Palestinian conflict could lead to a more pronounced slowdown in the economic activity and a disruption to energy supplies, driving up commodity prices.

At national level, the risks to business are mainly linked to the progress of the agricultural season and the worsening water stress. On the other hand, efforts to boost investment, as well as the large-scale projects launched by the Kingdom reinforce optimism as to a more pronounced pace of economic activity in the medium and long term. As for inflation, despite the faster than expected deceleration internationally, risks surrounding its outlook remain on the upside. Indeed, droughts and water stress worsening could lead to a more significant increase in food prices and consequently maintain inflation at a high level.

LIST OF ABBREVIATIONS

ANCFCC : Agence Nationale de la Conservation Foncière, du Cadastre et de la Cartographie
ANRT : Agence Nationale de la Règlementation des Télécommunications
AOR : Avoirs officiels de réserve
APC : Association Professionnelle des Cimentiers
AV 7 j : Avances à 7 jours
AV 24 H : Avances à 24 heures
BAD : Banque Africaine de Développement
BAM : Bank Al-Maghrib
BCE : Banque Centrale Européenne
BCP : Banque Centrale Populaire
BoE : Banque d'Angleterre
BLS : US Bureau of Labor Statistics
BTP : Bâtiment et Travaux Publics
CCG : Conseil de Coopération du Golfe
CIH : Crédit Immobilier et Hôtelier
CMR : Caisse Marocaine des Retraites
CNSS : Caisse Nationale de Sécurité Sociale
CUT : Coût Unitaire du Travail
CUTR : Coût Unitaire du Travail Relatif
CVE : Comité de Veille Economique
DAP : Phosphate Diammonique
DJ : Dow Jones
DTFE : Direction du Trésor et des Finances Extérieures
EIA : U.S. Energy Information Administration (Agence américaine d'information sur l'énergie)
ETI : Entreprises de Taille Intermédiaire
ESI : Economic Sentiment Indicator (Indicateur de climat économique)
EUROSTOXX : Principal indice boursier européen
EUR : EURO
FADES : Fonds Arabe pour le Développement Economique et Social
FAO : Food and Agriculture Organization (Organisation des Nations Unies pour l'alimentation et l'agriculture)
FBCF : Formation Brute de Capital Fixe
FED : Réserve fédérale des États-Unis
FD : Facilité de dépôt
FMI : Fonds Monétaire International
FTSE : Financial Times stock exchanges
GPMN : Global Projection Model Network
HCP : Haut-Commissariat au Plan

ICM : Indice de Confiance des Ménages
IDE : Investissements directs étrangers
IMME : Industries Mécaniques, Métallurgiques, Electriques et Electroniques
INAC : Institut National d'Analyse et de Conjoncture
IPAI : Indice des Prix des Actifs Immobiliers
IPC : Indice des Prix à la Consommation
IPCX : Indice de l'Inflation sous-jacente
IPCXE : Indice des prix des biens échangeables inclus dans l'IPCX
IPCXNE : Indice des prix des biens non échangeables inclus dans l'IPCX
IPM : Indice des Prix à l'importation
IPPI : Indice des prix à la production industrielle
IR : Impôt sur le Revenu
ISM : Indice américain du secteur manufacturier
ISMP : Indice des Salaires Moyen dans le secteur Privé
Libor-OIS : London Interbank Offered Rate-Overnight Indexed Swap
LPL : Ligne de Précaution et de Liquidité
MEFRA : Ministère de l'Economie et des Finances et de la Réforme de l'Administration
MASI : Morocco All Shares Index
MSCI EM : Morgan Stanley Capital International, Emerging Markets
MRE : Marocains résidant à l'étranger
OC : Office des changes
OCDE : Organisation de Coopération et de Développement Economique
OCP : Office Chérifien des Phosphates
OMPIC : Office Marocain de la Propriété Industrielle et Commerciale
ONEE : Office National d'Electricité et de l'Eau Potable
OPCVM : Organisme de placement collectif en valeurs mobilières
PIB : Produit Intérieur Brut
SMIG : Salaire minimum interprofessionnel garanti
TCER : Taux de change effectif réel
TCN : Titres de créances négociables
TIB : Taux Interbancaire
TGR : Trésorerie Générale du Royaume
TPME : Très petites, Petites et Moyennes Entreprises
TSP : Triple Super Phosphate
TUC : Taux d'Utilisation des Capacités de Production
TVA : Taxe sur la Valeur Ajoutée
UE : Union Européenne
USD : Dollar Américain
VA : Valeur ajoutée
WTI : West Texas Intermediate

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