PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 19, 2024

1. The Board of Bank Al-Maghrib held its first meeting of 2024 on Tuesday, March 19.
2. During this meeting, the Board analyzed domestic and global economic developments, as well as the Bank's medium-term macroeconomic projections. It particularly noted the overall resilience of the global economy in 2023, despite the monetary policy tightening and geopolitical tensions, as well as the easing of inflationary pressures at a faster-than-expected pace.
3. At the national level, after an estimated deceleration in 2023, non-agricultural growth is expected to gradually improve, supported by public investment, while agricultural production continues to suffer from the recurring droughts and exacerbating water stress.
4. Regarding domestic inflation, after a peak of 10.1 percent in February 2023, it fell back to 3.4 percent in December, ending 2023 with an average of 6.1 percent, after 6.6 percent in 2022. It is expected to slow further to 2.2 percent this year and 2.4 percent in 2025. Its underlying component followed a similar path, decreasing from 6.6 percent in 2022 to 5.6 percent in 2023, and is forecast to hover around 2.3 percent this year and in 2025.
5. The Board also noted that, after two successive quarters of decline, medium-term inflation expectations, as reported by Bank Al-Maghrib's quarterly survey of financial sector experts, showed a quasi-stability in the first quarter of 2024. In terms of monetary policy transmission, lending rates stabilized in the last quarter of 2023 with the total increase since the start of monetary tightening remaining at 112 basis points, compared with 150 basis points for the key rate. This rise affected enterprises more than individuals and was less significant for VSMEs than for large ones.
6. The Board also noted the significant uncertainties surrounding the economic outlook and inflation trends linked, at the international level, to geopolitical tensions and elections in many countries and, at the domestic level, to weather conditions and water stress.
7. In view of all these data, the Board considered that the current key rate at 3 percent remains appropriate to strengthen the anchoring of inflation expectations and support its return to levels in line with the price stability objective. Therefore, the Board decided to keep the key rate unchanged, while continuing to closely monitor economic conditions and inflation.
8. On the commodity markets, the development of energy prices remains surrounded by considerable uncertainty, fuelled by geopolitical tensions and disruptions in maritime shipping in the Red Sea. The price of Brent crude is set to decline from 82.2 dollars a barrel in 2023 to an average of 81.2 dollars this year, due to the slowdown in global demand and increased supply in non-OPEC countries, before rising to 84.5 dollars in 2025. Regarding food prices, following the sharp decline recorded in 2023, the FAO index is expected to further decrease by 3.7 percent in 2024, before rising by 4.4 percent in 2025. As for Moroccan phosphate and its derivatives, the price of DAP is expected to fall from 589 dollars per tonne in 2023 to 543 dollars in 2024, before rising to 575

dollars in 2025. The price of raw phosphate is expected to revert from 271 dollars per tonne to 197 dollars, and then to 162 dollars respectively.

9. Against this backdrop, inflation is set to continue decelerating in main advanced economies. In the United States, it is forecast to fall from 4.1 percent in 2023 to 2.9 percent in 2024, then to 2.6 percent in 2025, reflecting the decrease of its underlying component and energy prices. In the Eurozone, it is expected to slow from 5.4 percent in 2023 to 2.3 percent in 2024 and 1.9 percent in 2025, driven by the sustained effect of monetary tightening.

10. Concerning the decisions of the main advanced economies' central banks, on March 7, the ECB kept its key rates unchanged for the fourth time in a row and intends to bring an end to reinvestments under its PEPP program at the end of 2024. Similarly, following its meeting on January 30 and 31, the FED held its target range for the federal funds rate unchanged at [5.25 to 5.50 percent] for the fourth consecutive time, and stated its intention to continue reducing its holdings of Treasury and mortgage-backed securities.

11. The global economic outlook remains surrounded by substantial uncertainties. In the United States, economic growth is set to decline from 2.5 percent in 2023 to 1.8 percent in 2024, then to 1.3 percent in 2025; whereas in the Eurozone, it is expected to remain sluggish, at 0.9 percent in 2024, before accelerating to 1.9 percent in 2025. In the main emerging markets, the pace of activity in China is forecast to slow from 5.2 percent in 2023 to 4.5 percent this year, and to stand at 4.7 percent in 2025, suffering from the persistent difficulties in the real estate sector, the deterioration in consumer confidence and the weak foreign demand. In India, growth is likely to remain robust, standing at 6.2 percent in 2024 and 2025, after 7.2 percent in 2023, supported mainly by strong public investment.

12. Domestically, the start of the crop year was marked by adverse weather conditions, with low and unevenly distributed rainfall, both across the territory and over time, which impacted the area sown to cereals. The latter was around 2.5 million hectares, compared with nearly 3.7 million hectares a year earlier. According to Bank Al-Maghrib projections, cereal production is likely to total around 25 million quintals, against 55.1 million quintals a year earlier. Against this backdrop, agricultural value added is expected to contract by 6.4 percent in 2024 before rebounding by 12.8 percent in 2025, under the assumption of a return to an average cereal harvest of 55 million quintals. Non-agricultural activities would improve from 2.6 percent in 2023 to 3 percent in 2024 and then to 3.5 percent in 2025, reflecting, particularly, the expected momentum of investment linked to the various ongoing and planned projects. Overall, economic growth is estimated to have been close to 3 percent in 2023 and is likely to be limited to 2.1 percent in 2024, before accelerating to 4.3 percent in 2025.

13. Regarding external accounts, the trade deficit narrowed by 7.3 percent in 2023, due to a 2.9 percent decline in imports and virtually stable exports. Meanwhile, remittances grew by 4 percent to 115.2 billion dirhams and travel receipts rose by 11.7 percent to 104.6 billion dirhams, bringing the current account deficit down to 0.6 percent of GDP compared with 3.5 percent a year earlier. The current account deficit is expected to widen to 2.3 percent of GDP in 2024 and 2.8 percent in 2025, mainly as a result of a rise in imports of around 7.5 percent a year. These are likely primarily driven by purchases of food products and capital goods. The energy bill is expected to contract by 5 percent in 2024, before rising by 4.7 percent in 2025 to 121.4 billion dirhams. As for exports, they are expected to grow by 4.1 percent in 2024 and by 8.5 percent in 2025, particularly driven by the continuation of the automotive sector's good performance, with increases of 9.6 percent in 2024 then by 13.3 percent to 176.1 billion dirhams in 2025, and by the recovery in sales of phosphates and derivatives, which are expected to come in at 85 billion dirhams in 2025. Benefiting from the expected momentum in tourism, travel receipts are forecast to continue to improve at a rate of around 7.5 percent a year, reaching 120.8 billion dirhams in 2025. Similarly, remittances are expected to remain high at 116.5 billion dirhams in 2024 and 122.4 billion dirhams in 2025. After a significant

decrease to the equivalent of 2.2 percent of GDP in 2023, FDI receipts are likely to average around 3.1 percent of GDP over the next two years. Overall, and considering the expected external financing of the Treasury, official reserve assets are projected to stabilize at 359.8 billion dirhams at the end of 2024 before increasing to 373.5 billion in 2025, equivalent to 5 months and 5 days of imports of goods and services.

14. As to monetary conditions, banks' liquidity needs, mainly driven by the expected increase in currency in circulation, are likely to continue to grow, rising from 111.4 billion dirhams at the end of 2023 to 121.1 billion dirhams at the end of 2024, then 143.2 billion dirhams at the end of 2025. As for bank credit to the non-financial sector, after a marked slowdown in 2023, linked mainly to the decrease in energy and food prices and the decrease of the loans granted under the guarantee lines set up during the pandemic crisis, it is forecast to increase by 4.4 percent in 2024 and 4.7 percent in 2025. The real effective exchange rate is set to appreciate by 1.3 percent in 2024, after 0.8 percent in 2023, as domestic inflation – which is below that of trading partners and competitors – is expected to mitigate the impact of the projected rise of the nominal effective exchange rate, before stabilizing virtually in 2025.

15. Regarding public finances, the budget execution closed 2023 with a noticeable reduction in the deficit to 4.4 percent of GDP. Despite substantial needs – linked, in particular, to the generalisation of the social protection, the increase in the wage bill and the high level of investment by the Treasury – the deficit is likely to decline to 4 percent of GDP in 2025 according to Bank Al-Maghrib's projections, after a virtual stability in 2024. This change would mainly reflect the increase in tax revenues, the strong mobilisation of resources from specific financing mechanisms, as well as the decline in subsidies.