BANK AL-MAGHRIB

MONETARY POLICY
REPORT

N° 70 / 2024

DOCUMENT PREPARED FOR
THE BANK BOARD
MARCH 19, 2024

Legal deposit : 2024/0033

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SUMMARY

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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, 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 AlMaghrib 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.

OVERVIEW

In 2023, global growth showed remarkable resilience, backed mainly by robust consumption, particularly in the United States and some emerging countries. However, this overall performance hides major differences between countries.

The latest sub-annual data available for the fourth quarter of 2023 show that year-on-year growth accelerated in the United States to 3.1 percent, after 2.9 percent one quarter earlier. In the euro area, GDP stagnated at 0.1 percent. By country, it rose by 0.7 percent in France, 0.6 percent in Italy and 2 percent in Spain, while in Germany it fell by a further 0.2 percent. In Japan, the pace of economic activity slowed to 1.3 percent in the fourth quarter, while in the UK, GDP contracted by 0.2 percent following a 0.2 percent increase in the previous quarter.

In the main emerging countries, despite a standstill in the property sector crisis, growth in China accelerated to 5.2 percent year-on-year in the fourth quarter, after 4.9 percent a quarter earlier, supported mainly by public spending. The pace of economic activity also firmed up in India over the same period, rising from 8.1 percent to 8.4 percent, and in Brazil, with a slight acceleration to 2.1 percent. In Türkiye, on the other hand, growth slowed from 6.1 percent to 4 percent. In Russia, third-quarter data show that economic activity strengthened to 5.6 percent from 4.9 percent.

On the labour markets, the situation remains favourable in the United States, with 275,000 jobs created in February 2024, compared with 229,000 in January, and a slight rise in the unemployment rate to 3.9 percent. In the euro area, this rate fell slightly to 6.4 percent in January, with a decline in France and Spain and stagnation in Germany and Italy.

On the financial markets, the good performance recorded in 2023 by the stock markets of the major advanced economies continued in the first two months of 2024. At end-February, the Dow Jones Industrials, the Euro STOXX 50, and Nikkei 225 made gains of 4.7 percent, 5.5 percent, and 14.2 percent, respectively. These developments went along with rising risk aversion on the US markets, with the VIX index rising to 14. In Europe, the VSTOXX volatility index remained stable at 14.1. In emerging markets, the MSCI EM index rose by 1.8 percent in the first two months of 2024, particularly in the light of the performance of the Indian index (+7.3 percent).

After a slight increase in 2023, sovereign yields in the advanced economies rose sharply in the first two months of 2024. The 10-year yield rose by 20 basis points (bps) to 4.2 percent in the United States, by 23 bps to 2.3 percent in Germany, by 21 bps to 2.8 percent in France, by 16 bps to 3.3 percent in Spain and by 25 bps to 3.9 percent in Italy. In the main emerging economies, over the first two months of the year, the rate fell by 14 bps to 7.1 percent in India and by 22 bps to 2.4 percent in China. In contrast, Brazil recorded a 42-bp increase to 10.8 percent, and Turkey a 115-bp rise to 24.4 percent.

On the exchange market, after appreciating by 1.3 percent against the dollar at the end of 2023, the euro depreciated by 1.2 percent over the first two months of the year. Against other currencies, the euro fell by 0.9 percent against the British pound, while it gained 2.8 percent against the yen. The currencies of the main emerging economies appreciated overall against the dollar in the first two months of 2024, with 0.7 percent for the Chinese renminbi, 1.4 percent for the Brazilian real, and 5.9 percent for the Turkish lira. By contrast, the Indian rupee depreciated by 0.3 percent against the dollar.

On the commodities markets, after falling by an average of 17.2 percent over 2023, the price of Brent crude rose by an average of 5.3 percent to $82/bl over the first two months of 2024, supported by geopolitical tensions and their implications for supply and by the reduction in US oil stocks. Year-on-year, the price of Brent crude was down by 1.1 percent. Non-energy prices fell by 1 percent month-on-month, driven in particular by a 1.3 percent drop in the price of metals and ores. Prices for phosphate and derivatives rose by 4.7 percent to $590/t for DAP and remained stable at $152.5/t for raw phosphate. Year-on-year, prices were down 51 percent for raw phosphate, 5.1 percent for DAP and 19 percent for TSP.

Against this backdrop, inflationary pressures continued to ease in the major advanced and emerging economies. Inflation decelerated from 8 percent to 4.1 percent in 2023 in the United States, from 8.4 percent to 5.5 percent in the euro area, from 9 percent to 7.4 percent in the United Kingdom and from 2 percent to 0.2 percent in China. Data for the first two months of 2024 show that the downward trend in inflation was sustained in the euro area, with a year-on-year slowdown from 2.8 percent to 2.6 percent in February, reflecting in particular a deceleration to 2.7 percent in Germany, 3.1 percent in France and 2.9 percent in Spain, as well as stagnation at 0.9 percent in Italy. On the other hand, inflation accelerated slightly in the United States, rising from 3.1 percent in January to 3.2 percent in February, reflecting a smaller decline in energy prices from one month to the next. Meanwhile, inflation steadied at 4 percent in the United Kingdom in January and fell back to 2.1 percent in Japan in the same month.

In terms of monetary policy stance, at the end of its meeting on 30 and 31 January, the Fed decided to maintain the federal funds rate target range unchanged at [5.25 percent-5.50 percent] against a backdrop of recovering economic activity and moderating inflation. At the same time, it announced that it would continue to reduce holdings of Treasury securities and mortgage-backed securities. At its meeting on 7 March, the ECB also kept its three key interest rates unchanged and revised its inflation forecast downwards, particularly for 2024, mainly due to a weaker contribution from energy prices. It also decided to put an end to reinvestments under its PEPP programme at the end of 2024, those under the APP having ended since July 2023.

At the national level, the latest national accounts data for the third quarter of 2023 shows a year-on-year acceleration in growth to 2.8 percent, after 1.7 percent a year earlier, due to a 5.7 percent improvement in agricultural value added and a deceleration to 2.7 percent in the growth rate of non-agricultural activities. The analysis of the demand components reveals a positive contribution of 4.4 pps from domestic demand and a negative contribution of -1.6 pps from external demand.

In the labour market, the situation deteriorated significantly in 2023, with a loss of 157,000 jobs compared to 24,000 in 2022. Agriculture alone was down by 202,000 jobs, while the other sectors posted increases of 19,000 in construction and public works, 15,000 in services and 7,000 in industry, including crafts. Taking into account a net outflow of 20,000 jobseekers, the activity rate fell from 44.3 percent to 43.6 percent and the unemployment rate rose from 11.8 percent to 13 percent. For young people aged 15 to 24 years in particular, this rate continued to climb at a faster pace, with an increase of 3.1 points to 35.8 percent overall, 1.6 points to 48.3 percent in towns and 4.1 points to 20.6 percent in rural areas.

Concerning external accounts, 2023 was marked by a fall in trade in goods, with a 2.9 percent drop in imports and a near-stability in exports. As a result, the trade deficit contracted by 7.3 percent and the coverage rate rose from 58.1 percent in 2022 to 60 percent. The fall in imports was mainly driven by a 20.4 percent decrease in the energy bill, to 122 billion, and a 10.5 percent drop in imports of semi-finished products and a 28 percent drop in those of raw materials. At the same time, purchases of capital goods rose by 14.4 percent to 161.7 billion, those of consumer goods by 11.3 percent to 158 billion and those of food products by 3.3 percent to 89.6 billion. As for exports, those of phosphates and derivatives contracted by 34.1 percent to 76.1 billion, while those of the "agriculture and agri-food" sector almost stabilised at 83.1 billion dirhams. On the other hand, sales in the automotive sector posted a remarkable increase of 27.4 percent to 141.8 billion dirhams, putting it once again at the top of the list of exporting sectors. Sales in the "textiles and leather" sector also rose by 5 percent to 46.2 billion, while the good performance of the "electronics and electricity" shipments was consolidated with a rebound of 28.4 percent to 23.9 billion dirhams. At the same time, travel receipts reached a record level of 104.6 billion dirhams, up 11.7 percent year-on-year, and transfers from Moroccan expatriates continued to perform well, albeit at a slower pace, rising by 4 percent to 115.2 billion dirhams. As regards the main financial operations, FDI receipts fell by 17.8 percent to 32.5 billion, or 2.2 percent of GDP, and expenditure on Moroccan direct investments abroad improved by 6.1 billion to 25.6 billion dirhams. At the end of 2023, the outstanding official reserve assets stood at 359.4 billion dirhams, representing the equivalent of 5 months and 12 days of imports of goods and services.

As regards monetary conditions, banks' liquidity needs increased to 100.9 billion in the fourth quarter and to 110.5 billion on average over the first two months of 2024. Under these conditions, Bank Al-Maghrib increased its injections to 114.9 billion and 122.6 billion, respectively. Monetary conditions were also characterised by a 1.41 percent depreciation in the real effective exchange rate and a quarter-on-quarter stability in lending rates at 5.36 percent in the fourth quarter of 2023, thus accumulating an increase of 112 bps since the start of monetary tightening in September 2022. Bank lending to the non-financial sector remained stable at 2.7 percent in the fourth quarter, with acceleration in the growth of loans to public companies and a deceleration in those granted to households. The latest data for January 2024 show a fall in credit growth to the non-financial sector to 1.9 percent, after 2.7 percent in December 2023. This trend reflects in particular the accentuation of the decrease in lending to private companies to 0.9 percent after 0.1 percent and a slowdown in the growth of lending to public companies from 27 percent to 23.2 percent and to households from 2 percent to 1.5 percent.

Concerning public finances, budget execution for 2023 shows an ongoing downward trend in the budget deficit, excluding proceeds from the sale of State holdings. The latter stood at 64.4 billion dirhams, or 4.4 percent of GDP, compared with 71.6 billion a year earlier, or 5.4 percent of GDP, taking into account an improvement of 8.6 billion in the positive balance of the Treasury Special Accounts, to 17 billion. Current revenues rose by 6.6 percent, reflecting a 5.4 percent increase in tax revenues and a 13.5 percent increase in non-tax ones, including in particular the receipt of 25.4 billion in resources from specific financing mechanisms. Overall expenditure rose by 5.6 percent, mainly as a result of increases of 6.5 percent in expenditure on goods and services and 18.1 percent in capital expenditure, while subsidization costs fell by 28.4 percent to 29.9 billion. At the end of February 2024, the budget deficit had narrowed to 9.6 billion dirhams, compared with 10.6 billion a year earlier, as a result of a 16.1 percent improvement in current revenues, a 4.2 percent increase in overall expenditure and a drop in the positive balance of the Treasury Special Accounts from 3.8 billion to 9.8 billion dirhams.

On the Casablanca stock exchange, the MASI rose by 1.9 percent in the fourth quarter, mainly as a result of increases in the sectoral indices of "buildings and construction materials", electricity and banks. Trading volume rose from 8.9 billion dirhams to 31.9 billion quarter-on-quarter, due to rises on both the central and block markets. Against this backdrop, the benchmark index closed 2023 up 12.8 percent and market capitalisation rose by 11.6 percent to 626.1 billion dirhams. This momentum continued in the first two months of the year, with the MASI up 7.8 percent and market capitalisation up 7.6 percent.

On the real-estate asset market, prices rose by 0.1 percent in the fourth quarter, with increases of 0.1 percent for residential property and 0.3 percent for urban land, and a 2.5 percent fall in prices for commercial property. The number of transactions rose by 2 percent overall, by 13.2 percent for urban land and by 8.6 percent for commercial property, while the number of transactions in residential property fell by 1.4 percent.

Against this backdrop, inflation continued to decelerate in January, falling to 2.3 percent, its lowest level since October 2021. All the components were affected by this slowdown, with the exception of the prices of fuels and lubricants, whose decrease eased from -4.1 percent in the fourth quarter to -2.5 percent in January. The growth rate in the prices of volatile food products fell from 11.9 percent to 5.8 percent in January, and underlying inflation eased to 2.5 percent, down from 3.4 percent, driven mainly by the food component. Similarly, regulated tariffs stabilised in January, compared with their level a year earlier, after rising by 0.8 percent in the last quarter of 2023. As for the inflation expectations of financial sector experts, those over an 8-quarter horizon have virtually levelled off at 3.4 percent in the first quarter of 2024 in the previous edition. Similarly, over the next 12 quarters, inflation expectations indicate 3.3 percent instead of 3.2 percent.

In terms of outlook, against a backdrop of high uncertainty, linked in particular to the holding of elections in many countries (76 countries concerned), global growth is set to slow from 3.2 percent in 2023 to 2.5 percent in 2024, before rising to 2.7 percent in 2025. In the United States, after the considerable resilience shown in 2023, growth is expected to slow to 1.8 percent in 2024 and to 1.3 percent in 2025. In the euro area, growth is likely to remain weak at 0.9 percent in 2024, before accelerating to 1.9 percent in 2025. In the United Kingdom, high interest rates and weak investment continue to weigh on growth, which should be limited to 0.3 percent in 2024 after 0.1 percent in 2023, before accelerating to 1.9 percent in 2025. In Japan, growth is set to drop from 1.9 percent in 2023 to 0.7 percent this year and then to 0.9 percent in 2025.

In the main emerging countries, after a GDP growth of 5.2 percent in 2023, the Chinese economy is expected to grow by less than 5 percent in the short and medium term, dragged down in particular by difficulties in the property market and lower consumer confidence. The Indian economy, meanwhile, is likely to grow at a sustained pace, benefiting from strong public investment. In Brazil, growth is set to decrease to 1.5 percent in 2024 from 3.1 percent in 2023, due to a restrictive monetary policy and less favourable terms of trade. In Russia, public spending is expected to continue to support economic activity, although its growth rate is set to slow from 3.6 percent in 2023 to 1.9 percent in 2024. In 2025, the economy should contract by 0.3 percent, mainly due to the dissipation of the effect of the fiscal stimulus and tighter monetary conditions.

On the commodities markets, the uncertainty surrounding energy prices is likely to persist, fuelled by geopolitical tensions and shipping disruptions in the Red Sea. For oil in particular, the price of Brent crude is set to fall from $82.2 a barrel in 2023 to an average of $81.2 this year, before settling at $84.5 in 2025. As for Moroccan phosphates and derivatives, the prices of DAP and TSP exported by Morocco are expected to fall overall in 2024, before rebounding in 2025. They are expected to drop from $589/t in 2023 to $543/t in 2024 for DAP, and from $449/t to $435/t for TSP. In 2025, they would reverse trend, with prices rising to $575/t for DAP and $466/t for TSP, in line with the increase in input prices. The price of raw phosphate exported by Morocco is expected to fall from $271/t in 2023 to $197/t in 2024, then to $162/t in 2025. As for foodstuffs, the FAO index is expected to go down by an average of 3.7 percent in 2024, before rising by 4.4 percent in 2025, after contracting by 13.8 percent in 2023.

In these conditions, inflationary pressures should continue to ease over the forecast horizon, with global inflation falling from 4.7 percent in 2023 to 3.4 percent in 2024 and 3 percent in 2025. In the US, inflation should continue to slow from 4.1 percent in 2023 to 2.9 percent in 2024 and 2.6 percent in 2025, helped by the fall in its underlying component and in energy prices. Similarly, in the euro area, inflation is set to slow from 5.4 percent in 2023 to 2.3 percent in 2024 and 1.9 percent in 2025, as the effect of monetary tightening persists.

At the national level, the pace of trade in goods is set to accelerate. Exports should rise by 4.1 percent in 2024 and 8.5 percent in 2025, driven mainly by the continued good performance of the automotive sector, with increases of 9.6 percent and then 13.3 percent to 176.1 billion in 2025 and, to a lesser extent, by the recovery in sales of phosphates and derivatives, as a result of the expected easing of the fall in prices and an increase in the quantities shipped. The latter should rise by 3.1 percent in 2024 and 8.3 percent in 2025, to 85 billion dirhams. Imports are expected to rise by 7.3 percent in 2024, mainly as a result of higher purchases of food products, including a 36.6 percent jump forecast for wheat, and capital goods. In 2025, the growth rate of imports is expected to accelerate to 7.8 percent, mainly reflecting strong growth in the purchase of capital goods, in line with the momentum foreseen in investment. Energy bill is projected to fall by 5 percent to 115.9 billion in 2024, before rising by 4.7 percent to 121.4 billion in 2025. At the same time, travel receipts are expected to show a sustained rise of around 7.6 percent in 2024 and 7.3 percent in 2025 to 120.8 billion dirhams, in line with the continuing dynamism of the tourism sector. The outlook for remittances from Moroccan expatriates remains uncertain, with Bank Al Maghrib's central scenario expecting them to remain at high levels, or 116.5 billion dirhams in 2024 and 122.4 billion in 2025. After a low level estimated at 0.6 percent of GDP in 2023, instead of the 1.6 percent forecast in December, the current account deficit is likely to widen to 2.3 percent of GDP in 2024 and 2.8 percent in 2025. Projections for FDI receipts indicate levels of around 3 percent of GDP in 2024 and 3.2 percent in 2025.

Assuming, in particular, that the Treasury's planned external financing materialises, official reserve assets will stabilise at around 359.8 billion dirhams in 2024 before rising to 373.5 billion in 2025, representing the equivalent of almost 5 months of imports of goods and services.

With regard to monetary conditions, the bank liquidity deficit should continue to widen, reaching 121.1 billion dirhams at the end of 2024 and 143.2 billion in 2025, driven by the increase in fiat money. As for bank lending to the non-financial sector, its growth rate is expected to accelerate to 4.4 percent in 2024 and 4.7 percent in 2025, taking into account achievements, macroeconomic projections, and banking system expectations. The real effective exchange rate should appreciate slightly in 2024, in line with the appreciation of its nominal value and domestic inflation that is lower than that in partner and competitor countries and should remain virtually stable in 2025.

In terms of public finances, according to Bank Al Maghrib's projections, the budget deficit should stand at 4.4 percent of GDP in 2023 and 2024. In 2025, it should ease to 4 percent of GDP, mainly as a result of an upward revision of non-tax revenues and a decrease in the subsidizations costs.

As for economic activity, after slowing sharply to 1.3 percent in 2022, growth should accelerate to close to 3 percent in 2023, reflecting increases of 5.5 percent in agricultural value added and 2.6 percent in non-agricultural activities. In the medium term, growth is expected to slow to 2.1 percent in 2024, before rebounding to 4.3 percent in 2025. This trend reflects a 6.4 percent contraction in agricultural value added in 2024, taking into account cereal production for the 2023-2024 crop year, estimated by Bank Al-Maghrib on the basis of weather data as of 10 March, at around 25 million quintals (MQx), before rebounding to 12.8 percent in 2025, assuming a return to an average cereal harvest11 of 55 MQx. As for non-agricultural activities, their growth rate should gradually improve, reaching 3 percent in 2024 and 3.5 percent in 2025.

Under these conditions, after the high rates of 6.6 percent in 2022 and 6.1 percent in 2023, inflation should return to moderate levels, standing at 2.2 percent in 2024 and 2.4 percent in 2025. Similarly, its underlying component should slow from 5.6 percent in 2023 to 2.3 percent in 2024 and should continue to hover around this level in 2025.

Uncertainties surrounding the international outlook remain high, especially as 2024 will be an election year in many countries, with the balance of risks tilted to the downside for growth and to the upside for inflation. The persistence of the war in Ukraine and the risk of escalation of the conflict in the Middle East could lead to a more pronounced slowdown in global economic activity and a disruption in energy supplies, resulting in higher commodity prices.

At national level, the risks to economic activity are mainly linked to the recurrence of droughts and the worsening of water stress in the medium term. On the other hand, efforts to boost investment and the large-scale projects launched by the Kingdom reinforce optimism about a more sustained pace of economic activity in the medium and long term. As for inflation, the risks to its outlook remain on the upside. The succession of periods of drought and the worsening water stress could lead to higher food prices, thus maintaining inflation at high levels.

1 Because of the recurrence of drought years, it is the average of the harvests of the last five years, instead of the last ten years, which is taken into account.

1. INTERNATIONAL DEVELOPMENTS

Data on the international economic situation point to a soft landing for the global economy, reflecting a faster-than-expected disinflation, with the impact of monetary tightening on growth being relatively limited. Activity in 2023 was supported by robust consumer spending, particularly in the US, but also in certain major emerging economies, as well as public spending, supported. Labor markets in the advanced economies have also shown notable resilience, with unemployment rates at low levels. These trends continued during the first two months of this year. In financial markets, data for February 2024 show good performances in the main stock markets, in both advanced and emerging economies. On the sovereign bond markets, long-term yields rose overall in February for advanced economies, while they fell for the main emerging countries during the same month, except for Brazil and Turkey. As for commodities, after several successive falls, the price of Brent crude increased in the first two months of the year, mainly due to rising geopolitical risks.

1.1 Economic activity and employment

1.1.1 Economic activity

In 2023, global growth displayed remarkable resilience, underpinned mainly by robust consumption, particularly in the United States, but also in some emerging countries. However, this overall performance masks disparities across countries, with the euro area recording modest growth and narrowly avoiding a recession, dragged down by low consumer confidence and monetary tightening.

Data for the fourth quarter of 2023 show an acceleration in US growth to 3.1 percent year-on-year, after 2.9 percent a quarter earlier. In the euro area, growth rose only slightly to 0.1 percent after stagnating in the previous quarter. By country, real GDP rose by 0.7 percent in France (after 0.6 percent in the third quarter), by 0.5 percent in Italy (after 0.1 percent) and by 2 percent in Spain (after 1.9 percent), while in Germany it contracted by a further 0.2 percent. As for the other advanced economies, the pace of economic activity slowed down in Japan, from 1.6 percent in the third quarter to 1.3 percent in the fourth; while in the United Kingdom, GDP contracted by 0.2 percent after growing by 0.2 percent in the previous quarter.

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

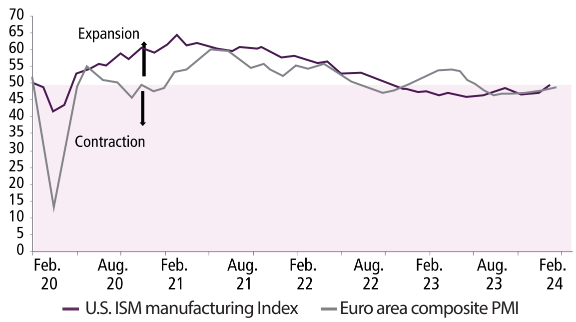
	2021	2022				2023			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Advanced countries									
United States	5.4	3.6	1.9	1.7	0.7	1.7	2.4	2.9	3.1
Euro area	5.2	5.4	4.1	2.5	1.9	1.3	0.6	0.0	0.1
France	4.5	4.3	3.8	1.4	0.8	0.9	1.2	0.6	0.7
Germany	1.6	4.0	1.6	1.2	0.8	-0.1	0.1	-0.3	-0.2
Italy	8.1	6.6	5.4	2.8	2.0	2.3	0.6	0.5	0.6
Spain	7.0	6.8	7.2	5.4	3.8	4.1	2.0	1.9	2.0
United Kingdom	9.7	11.4	3.9	2.1	0.6	0.3	0.3	0.2	-0.2
Japan	1.4	0.4	1.2	1.5	0.7	2.5	2.3	1.6	1.3
Emerging Countries									
China	4.3	4.8	0.4	3.9	2.9	4.5	6.3	4.9	5.2
India	5.5	4.5	12.8	5.5	4.3	6.2	8.2	8.1	8.4
Brazil	1.5	1.5	3.5	4.3	2.7	4.2	3.5	2.0	2.1
Türkiye	9.7	7.8	7.6	4.1	3.3	4.0	3.9	6.1	4.0
Russia	5.8	3.0	-4.5	-3.5	-2.7	-1.8	4.9	5.6	n.d

Source: Thomson Reuters Eikon and Eurostat.

As regards the main emerging countries, although the ongoing deterioration of the property crisis in China, growth accelerated to 5.2 percent year-on-year in the fourth quarter after 4.9 percent a quarter earlier, thanks to sustained public spending. The pace of activity also accelerated in India over the same period, rising from 8.1 percent to 8.4 percent, while it slowed down from 6.1 percent to 4 percent in Turkey. In Brazil, the economy grew by 2.1 percent, a slight acceleration on the previous quarter. In Russia, data for the third quarter show that economic activity gained momentum, standing at 5.6 percent after 4.9 percent.

As regards advanced activity indicators, the composite PMI index for the euro area rose to 48.9 in February, after 47.9 in the previous month. Conversely, the United States' ISM manufacturing index fell from 49.1 in January to 47.8 in February.

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

Despite restrictive monetary and financial conditions, 2023 was marked by robust labor markets in the advanced economies, with unemployment rates standing at their lowest in many countries.

This trend looks set to continue in 2024, with February's data showing a still favourable situation in the United States, with the creation of 275,000 new jobs, up from 229,000 in January, and a slight rise in the unemployment rate to 3.9 percent. In the euro area, the unemployment rate fell slightly to 6.4 percent in January, with a stabilisation at 3.1 percent in Germany and at 7.2 percent in Italy, and a decrease to 7.5 percent in France and to 11.6 percent in Spain. In the United Kingdom, the latest data for January show a slight rise to 3.9 percent.

Table 1.2: Change in unemployment rates (in %)

In %	2021	2022	2023	2024	
			Dec.	Jan.	Feb.
United States	5.4	3.6	3.7	3.7	3.9
Euro area	7.7	6.8	6.5	6.4	N.D
France	7.9	7.3	7.6	7.5	N.D
Germany	3.7	3.1	3.1	3.1	N.D
Italy	9.5	8.1	7.2	7.2	N.D
Spain	14.8	12.9	11.7	11.6	N.D
United Kingdom	4.6	3.9	3.8	3.9	N.D

Source: Eurostat and BLS.

1.2 Monetary and financial conditions

1.2.1 Monetary policy decisions

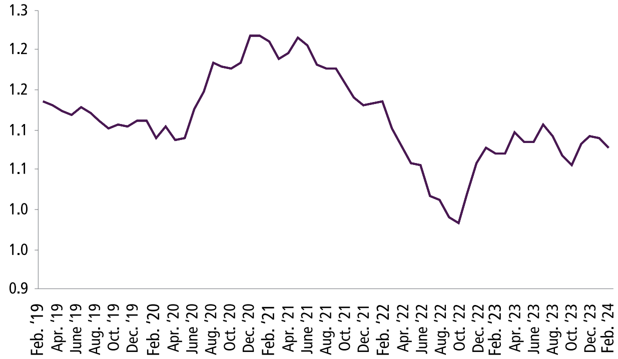
In terms of monetary policy decisions, at the end of its January 30-31 meeting, the FED decided to keep the target range for the federal funds rate unchanged at [5.25-5.50 percent] amid recovering economic activity and moderate inflation. The ECB also decided at its meeting on March 7 to leave its three key interest rates unchanged, and revised its inflation forecasts downwards, particularly for 2024, mainly due to a lower contribution from energy prices. It also indicated that its Asset Purchase Programme (APP) is contracting at a measured and predictable pace, with the Euro system no longer reinvesting principal repayments on maturing securities. As for the Pandemic Emergency Purchase Program (PEPP), the reinvestment of repayments of maturing securities will be continued, with a reduction of the portfolio under this programme by an average of 7.5 billion euros per month in the second half of the year, before it is terminated at year-end. For its part, the Bank of England decided on February 1 to maintain its key rate at 5.25 percent, indicating that its monetary policy will probably have to be restrictive for a prolonged period to curb inflationary pressures.

In the emerging economies, the monetary policy stance remained unchanged in most countries. China's central bank kept its key interest rates unchanged in January, while it announced, on January 24, a reduction of the reserve requirement ratio. Similarly, the Reserve Bank of India and the Central Bank of Mexico decided at their respective meetings on February 8 to maintain their main key rates at 6.5 percent and 11.25 percent, respectively. The Central Bank of Russia also decided at its meeting on February 16 to keep its main key interest rate at 16 percent, while the Central Bank of Türkiye kept it at 45 percent following its meeting on February 22.

1.2.2 Financial markets

On the exchange markets, after appreciating by 1.3 percent against the dollar at end-2023, the euro depreciated by 1.2 percent over the first two months of the year. Compared to the other currencies, the euro fell by 0.9 percent against the British pound but gained 2.8 percent against the Japanese yen. As for the currencies of the main emerging economies, they appreciated against the dollar over the first two months of 2024, with the Chinese renminbi gaining 0.7 percent, the Brazilian real 1.4 percent and the Turkish lira 5.9 percent. In contrast, the Indian rupee depreciated by 0.3 percent against the dollar.

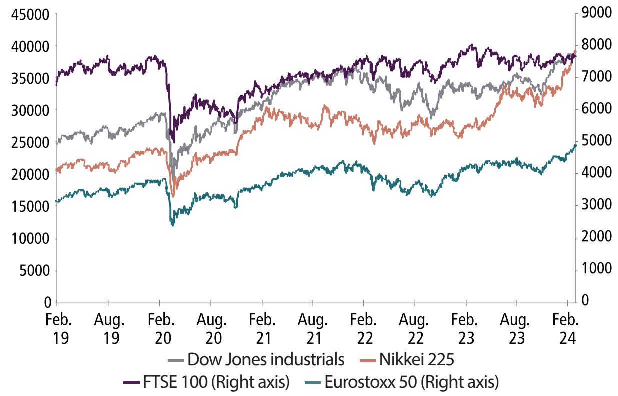
Chart 1.2: Euro/dollar exchange rate



Source : Thomson Reuters Eikon.

On the stock markets of the major advanced economies, the good performance recorded in 2023 continued in the first two months of 2024. At end-February, the Dow Jones Industrials gained 4.7, while the Euro Stoxx 50 increased by 5.5 percent and the Nikkei 225 by 14.2 percent.

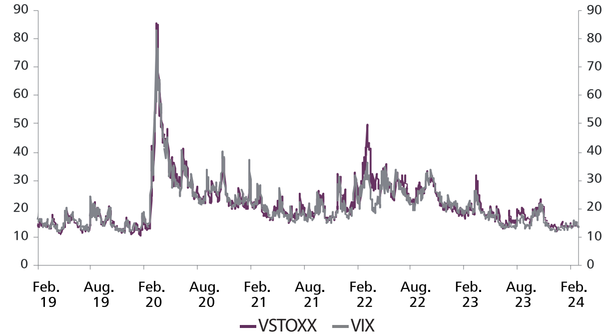
Chart 1.3: Change in stock market indices of main advanced economies



Source : Thomson Reuters Eikon.

These developments have been accompanied by an increase in risk aversion on the US financial markets, with the VIX index rising to 14 at end-February. In Europe, the VSTOXX volatility index remained constant at 14.1 in January and February. In the emerging countries, the MSCI EM rose by 1.8 percent over the first two months of 2024, particularly in light of gains posted by the Indian (+7.3 percent) and Turkish (+9.4 percent) indices.

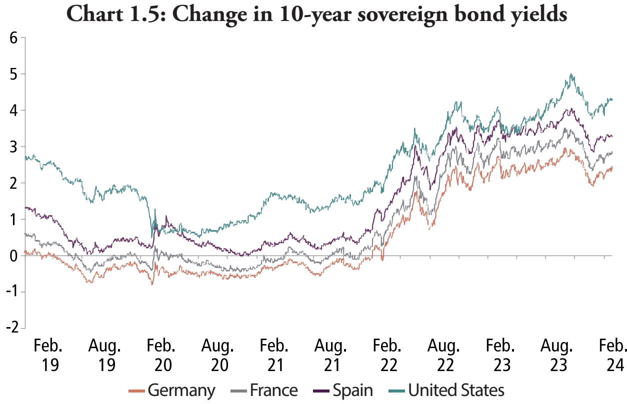
Chart 1.4: Change in VIX and VSTOXX



Source: Thomson Reuters Eikon.

Concerning sovereign bond markets, after a slight increase in 2023, yields in the advanced economies grew in the first two months of the year 2024. The 10-year yield rose by 20 basis points (bps) to 4.2 percent for the United States, by 23 bps to 2.3 percent for Germany, by 21 bps to 2.8 percent for France, by 16 bps to 3.3 percent for Spain and by 25 bps to 3.9 percent for Italy. In the main emerging economies, in the first two months of the year, this rate fell by 14 bps to 7.1 percent in India and by 22 bps to 2.4 percent in China. In contrast, Brazil posted an increase of 42 bps to 10.8 percent and Turkey experienced a rise of 115 bps to 24.4 percent.

Chart 1.5: Change in 10-year sovereign bond yields



Source: Thomson Reuters Eikon.

On the money markets, the 3-month dollar Libor fell over the first two months of 2024 to 5.6 percent, as did the Euribor for the same maturity, down slightly to 3.9 percent. As for bank credit, the downward trend in the United States slowed, with a0.9 decrease percent in January after 1 percent a month earlier; while in the euro area, credit growth fell from 0.5 percent to 0.4 percent over the same period.

Chart 1.6: YoY credit growth in the US and euro area

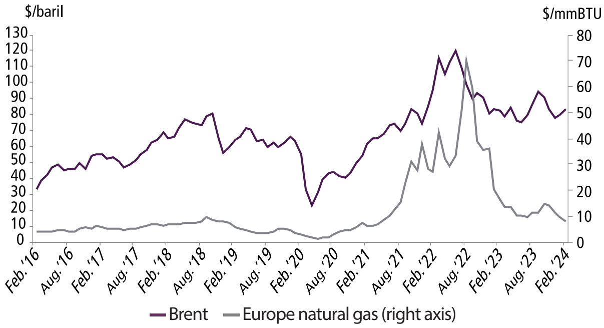
Source : Thomson Reuters Eikon.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

On the oil market, following an average decrease of 17.2 percent over 2023, the price of Brent crude increased in the first two months of 2024, by 5.3 percent to $82/barrel, supported by geopolitical tensions in the Middle East and decreasing US oil stocks. Year-on-year, it dropped by 1.1 percent. Natural gas prices on the European market contracted by a substantial 67.5 percent in 2023, after more than doubling in 2022. This trend continued in the first two months of the year, with the price falling by 23.1 percent to an average of $8.85/MMBtu, marking a year-on-year contraction of 51.8 percent.

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

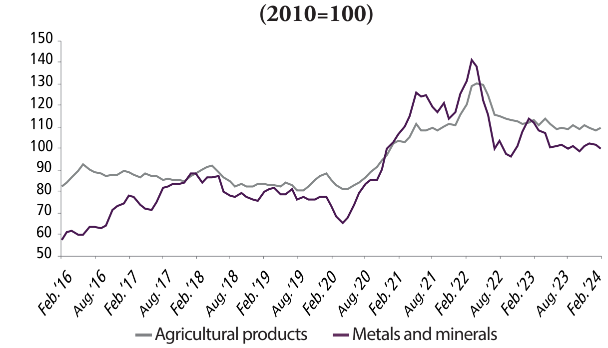


Source: World Bank.

1.3.2 Non-energy commodity prices

Excluding energy, the World Bank's price index went slightly down by 1 percent over the first two months of the year, mainly due to a 1.3 percent fall in agricultural commodity prices. Year-on-year, prices were down 7.1 percent, mainly reflecting a decrease of 10.6 percent in the price of metals and ores.

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

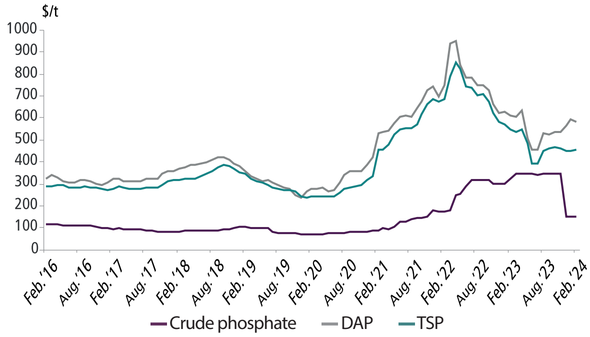


Source: World Bank.

Prices for phosphates and derivatives rose by 4.7 percent on average over the first two months of the year to $590/t for DAP and by 1.1 percent to $452.5/t for TSP, while prices for raw phosphate remained stable at $152.5/t.

Year-on-year, prices were down 51 percent for raw phosphate, 5.1 percent for DAP and 19 percent for TSP.

Chart 1.9: Changes in global prices of phosphates and derivatives



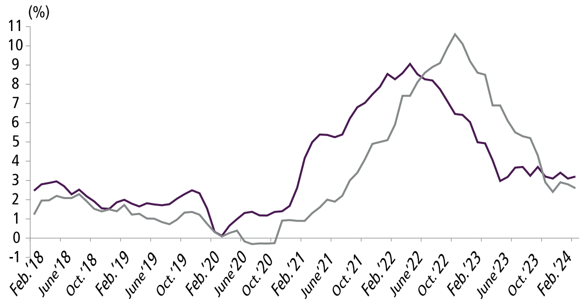
Source: World Bank.

1.3.3 Inflation

After the exceptional rise recorded in 2022, global inflation posted a faster-than-expected drop, due to the easing of pressures on supply and the broad-based monetary tightening. Inflation decelerated from 8 percent to 4.1 percent in 2023 in the United States, from 8.4 percent to 5.5 percent in the eurozone, from 9 percent to 7.4 percent in the United Kingdom and from 2 percent to 0.2 percent in China. In February 2024, the downward trend in inflation continued in the eurozone, with a monthly slowdown from 2.8 percent to 2.6 percent, reflecting in particular a deceleration in the rate of price change from 3.1 percent to 2.7 percent in Germany, from 3.4 percent to 3.1 percent in France and from 3.5 percent to 2.9 percent in Spain, as well as stagnation at 0.9 percent in Italy. On the other hand, inflation accelerated slightly in the United States, moving up from 3.1 percent to 3.2 percent, reflecting a slight fall in energy prices in February. In addition, the latest data available, from January, show inflation stagnating at 4 percent in the UK and slowing down from 2.6 percent to 2.1 percent in Japan.

As for the main emerging countries, after four months of successive falls in the general price levels, China recorded an increase of 0.7 percent in February, in line with the rise in spending during the New Year holidays. At the same time, inflation stagnated at 5.1 percent in February in India and at 4.5 percent in Brazil, while it accelerated from 7.4 percent to 7.7 percent in Russia.

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 %)

	2022	2023	2024	
			Jan.	Feb.
United States	8.0	4.1	3.1	3.2
Eurozone	8.4	5.5	2.8	2.6
Germany	8.6	6.1	3.1	2.7
France	5.9	5.7	3.4	3.1
Spain	8.3	3.4	3.5	2.9
Italy	8.7	6.0	0.9	0.9
United Kingdom	9.0	7.4	4.0	N.D
Japan	2.5	3.3	2.1	N.D

Sources: Thomson Reuters, Eurostat & FMI.

2. EXTERNAL ACCOUNTS

The year 2023 was marked by a fall in trade in goods, after the strong momentum registered in the last two years, and by continued growth in travel receipts and transfers from Moroccan expatriates. The trade deficit narrowed by 7.3 percent to 286.4 billion dirhams, as a result of a 2.9 percent fall in imports to 715.7 billion dirhams and virtually stable exports at 429.3 billion. As a result, the coverage rate rose from 58.1 percent in 2022 to 60 percent. Travel receipts increased by 11.7 percent to 104.6 billion dirhams, while transfers from Moroccan expatriates improved by 4 percent to 115.2 billion. As for the main financial operations, FDI receipts fell by 17.8 percent to 32.5 billion dirhams, while expenditure on Moroccan direct investments abroad rose by 31.2 percent to 25.6 billion. Against this backdrop, outstanding official reserve assets stood at 359.4 billion dirhams at the end of 2023, representing the equivalent of 5 months and 12 days of imports of goods and services.

In January 2024, the trade deficit narrowed by 4.1 billion year-on-year, reflecting a 7.2 percent increase in exports and a 2.8 percent fall in imports. At the same time, travel receipts decreased by 10.5 percent to 7.7 billion and transfers from Moroccan expatriates dropped by 2.6 percent to 9.2 billion. Concerning direct investments, FDI receipts improved by 640 million to 3.7 billion. In total, Bank Al-Maghrib's official reserve assets reached 356.6 billion dirhams at end-January 2024, representing the equivalent of 5 months and 11 days of imports of goods and services.

2.1 Trade balance

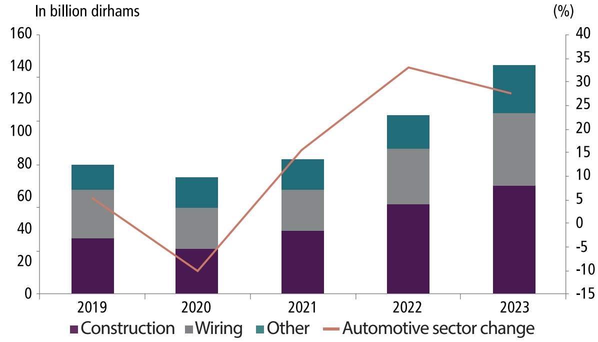
2.1.1 Exports

The virtual stability of exports masks diverging trends by sector. Shipments of phosphates and derivatives fell by 34.1 percent to 76.1 billion, as a result of the drop in sales of "natural and chemical fertilizers" by 30.7 percent, "phosphoric acid" by 43.5 percent and raw phosphate by 38 percent, mainly due to lower export prices. Exports of the "agriculture and agri-food" sector remained virtually stable at 83.1 billion dirhams. This trend reflects stagnation in exports of agricultural products at 37 billion, and a 1.8 percent fall in exports by the food industry, to 43 billion.

Conversely, sales in the automotive sector ended the year with a remarkable performance, reaching 141.8 billion, making it once again the leading exporting sector, with a share of 33 percent. By segment, construction exports rose by 22.6 percent and wiring exports by 32.5 percent. Sales in the "textiles and leather" sector rose by 5 percent to 46.2 billion, driven by increases of 6.9 percent and 5.4 percent respectively in "ready-made garments" and "hosiery articles".

At the same time, the good performance of shipments of "electronics and electricity" continued, with an improvement of 28.4 percent to 23.9 billion, while the growth rate in exports from the aeronautical sector slowed to 2.4 percent, after the strong increases recorded over the last two years.

Chart 2.1: Change in automotive sector exports



Source: Foreign Exchange Office.

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

Sectors/Segments	Year		Change	
	2023	2022	In value	In %
Exports	429,310	428,612	698	0.2
Phosphates and derivatives	76,141	115,484	-39,343	-34.1
Natural and chemical fertilizers	54,937	79,266	-24,330	-30.7
Phosphoric acid	12,908	22,827	-9,919	-43.5
Phosphates	8,297	13,390	-5,094	-38.0
Agriculture and agri-food	83,142	83,227	-85	-0.1
Food industry	43,049	43,821	-772	-1.8
Agriculture, forestry, and hunting	37,210	36,958	252	0.8
Automotive	141,763	111,281	30,482	27.4
Construction	67,629	55,149	12,480	22.6
Wiring	46,136	34,810	11,326	32.5
Powertrain	11,383	9,086	2,297	25.3
Electronics and electricity	23,869	18,588	5,281	28.4
Wires and cables	9,475	7,198	2,278	31.6
Electronic components (transistors)	8,444	6,703	1,741	26.0
Devices for disconnecting or connecting electrical circuits	2,736	2,026	711	35.1
Textile and leather	46,179	43,977	2,202	5.0
Ready-made garments	29,525	27,611	1,914	6.9
Hosiery articles	8,936	8,475	462	5.4
Shoes	3,316	3,536	-220	-6.2
Aeronautics	21,858	21,355	503	2.4
Assembly	13,957	14,541	-584	-4.0
EWIS*	7,809	6,713	1,096	16.3
Other industries	30,911	29,064	1,847	6.4
Metallurgy and metalworking	8,922	9,021	-99	-1.1
Pharmaceutical industry	1,586	1,440	146	10.1
Plastics and rubber industry	2,275	2,274	1	0.0
Other mining extractions	5,446	5,636	-189	-3.4
Barium sulfate	1,130	1,177	-47	-4.0

* Electrical Wiring Interconnection Systems.

Source: Foreign Exchange Office.

2.1.2 Imports

The contraction in imports was mainly driven by a 20.4 percent decrease in the energy bill to 122 billion, reflecting in particular falls of 23.9 percent in purchases of "gas oils and fuel oils", 31.8 percent in purchases of "coal, coke and similar solid fuels" and 9 percent in purchases of "petroleum gas and other hydrocarbons". Imports of semi-finished and unprocessed products decreased by 10.5 percent and 28 percent respectively, mainly as a result of lower supplies of ammonia and raw sulphur.

At the same time, purchases of capital goods rose by 14.4 percent to 161.7 billion, reflecting in particular increases of 37.6 percent in purchases of "devices for the disconnection or connection of electrical circuits" and 21.1 percent in purchases of "wires and cables". Similarly, purchases of consumer goods ended the year up 11.3 percent to 158 billion, with increases of 15.4 percent for imports of passenger cars and 27.7 percent for their parts. Purchases of food products rose by 3.3 percent to 89.6 billion dirhams, mainly as a result of increases of nearly 2 billion in supplies of live animals and raw and refined sugar, and a 6.5 billion dirhams decrease in purchases of wheat to 19.4 billion dirhams.

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

User group	year		Change	
	2023	2022	In value	In %
Imports	715,701	737,441	-21,740	-2.9
Energy products	121,959	153,187	-31,229	-20.4
Gas-oils and fuel -oils	58,129	76,369	-18,240	-23.9
Coal, cokes and similar solid fuels	16,504	24,213	-7,709	-31.8
Petroleum gas and other hydrocarbons	23,929	26,302	-2,373	-9.0
Semi-finished products	151,899	169,685	-17,786	-10.5
Ammonia	8,837	21,397	-12,560	-58.7
Chemical products	13,703	16,873	-3,171	-18.8
Raw materials	31,883	44,257	-12,375	-28.0
Raw and unrefined sulfur	7,992	18,768	-10,777	-57.4
Raw or refined soybean oil	6,108	8,120	-2,012	-24.8
Raw or refined sunflower oil	1,217	506	711	-
Capital goods	161,687	141,303	20,384	14.4
Devices for the disconnection or connection of electrical circuits	14,421	10,481	3,940	37.6
Wires, cables and other insu-lated conductors insulated for electricity	13,514	11,159	2,355	21.1
Planes and other air or space crafts	2,732	659	2,073	-
Consumer goods	158,042	142,006	16,035	11.3
Parts and components for passenger cars	30,835	24,138	6,697	27.7
Passenger cars	22,189	19,223	2,966	15.4
Miscellaneous plastic articles	8,906	7,624	1,282	16.8
Food products	89,610	86,734	2,876	3.3
Wheat	19,357	25,898	-6,542	-25.3
Live animals	2,857	561	2,296	-
Raw or refined sugar	10,098	7,924	2,174	27.4

Source: Foreign Exchange Office.

2.2 Other components of the current account

The surplus on the services balance improved by 16.3 percent to 134.7 billion, as a result of an increase in exports by 15.8 percent to 260.7 billion and in imports by 15.2 percent to 126 billion.

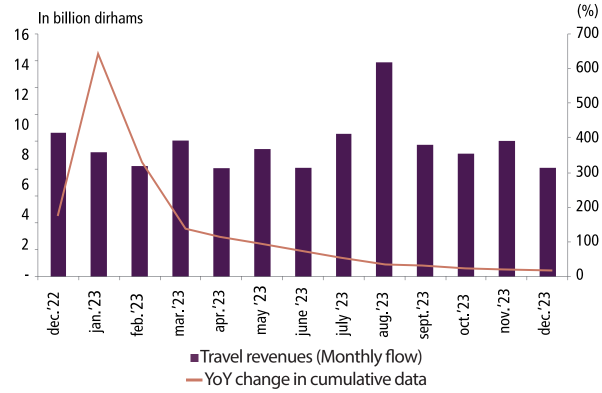
Table 2.3: Change in balance of services (in billion dirhams)

	Year		Change	
	2023	2022	In value	In %
Imports	125,971	109,339	16,632	15.2
Exports	260,666	225,142	35,524	15.8
Balance	134,695	115,803	18,892	16.3

Source: Foreign Exchange Office.

Travel receipts reached a record level of 104.6 billion dirhams, up 11.7 percent year-on-year. Similarly, travel expenditure rose by 23.4 percent to 23.8 billion.

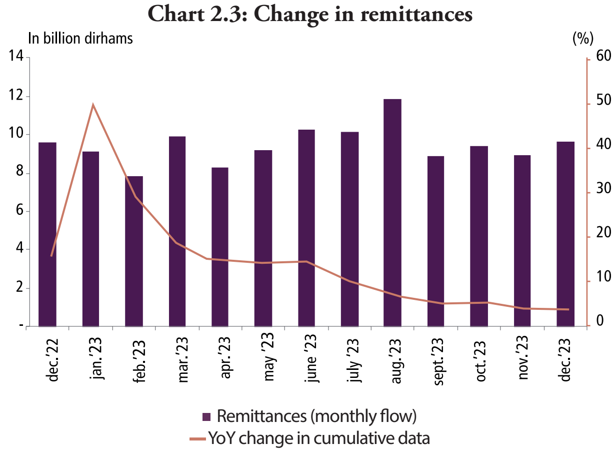
Chart 2.2: Change in travel revenues



Source: Foreign Exchange Office.

Remittances rose by 4 percent to 115.2 billion dirhams.

Chart 2.3: Change in remittances



Source: Foreign Exchange Office.

2.3 Financial account

As regards the main financial operations, net flow of FDIs fell by more than half to 10.2 billion, as a result of a decrease by 17.8 percent in receipts to 32.5 billion and an increase by 25.6 percent in expenditure to 22.3 billion. As for Moroccan direct investments abroad, their net flow increased by 34.8 percent to 8.4 billion, due to a 6.1 billion improvement in investments, which more than offset the 3.9 billion increases in divestures.

At the end of 2023, outstanding official reserve assets stood at 359.4 billion dirhams, representing the equivalent of 5 months and 12 days of imports of goods and services.

Table 2.4: Direct investments (in billion dirhams)

	Year		Change	
	2023	2022	In value	In %
Foreign direct investments	10,152	21,758	-11,606	-53.3
Income	32,501	39,555	-7,054	-17.8
Expenditure	22,349	17,797	4,552	25.6
Moroccan direct investments abroad	8,425	6,250	2,175	34.8
Expenditure	25,601	19,508	6,093	31.2
Income	17,176	13,258	3,918	29.6

Source: Foreign Exchange Office.

Data for January 2024 show a year-on-year drop in the trade deficit of 4.1 billion, following a 7.2 percent increase in exports and a 2.8 percent fall in imports. The coverage rate thus improved from 55.7 percent at end -January 2023 to 61.4 percent.

The rise in exports concerned all the main sectors, except for "agriculture and agri-food", where sales fell by 1.2 percent to 8.4 billion. Shipments of phosphates and derivatives rose by 17.5 percent to 6.2 billion, driven by increases of 20.4 percent in sales of "natural and chemical fertilizers" and 26.5 percent in "phosphoric acid". Similarly, exports from the automotive sector rose by 8.3 percent to 10.8 billion, reflecting increases of 9 percent in the construction segment and 5.9 percent in the wiring segment. Exports from the aeronautics and textiles and leather sectors rose by 23 percent to 1.9 billion and by 2.8 percent to 3.6 billion, respectively.

The fall in imports was driven mainly by purchases of energy products and capital goods. The energy bill dropped by 12 percent to 9.7 billion dirhams, reflecting a 44.9 percent decrease in purchases of "coal, cokes and similar solid fuels" and a 26.6 percent drop in purchases of "petroleum gas and other hydrocarbons". Imports of capital goods fell by 8.7 percent to 13.1 billion, mainly due to the absence of purchases of "aircraft and other air or space vehicles", following imports worth 1.2 billion in January 2023. Conversely, imports of semi-finished products and foodstuffs rose by 7.9 percent and 6.1 percent, respectively.

Simultaneously, travel receipts fell by 10.5 percent to 7.7 billion and remittances declined by 2.6 percent to 9.2 billion. With regard to the main financial operations, FDI receipts amounted to 3.7 billion dirhams, compared with 3 billion in January 2023, and expenditure on Moroccan direct investments abroad increased by 20.6 percent to 1.4 billion. At end-January 2024, the outstanding official reserve assets reached 356.6 billion dirhams, representing the equivalent of 5 months and 11 days of imports of goods and services.

Table 2.5 : Change of main components of balance of payments (in billions of dirhams)

Sectors/Groups of use	January		Change	
	2024	2023	In value	In %
Exportations de biens	35,661	33,262	2,399	7.2
Automobile	10,841	10,014	827	8.3
Textile and leader	3,584	3,486	98	2.8
Agriculture and Agri-food	8,438	8,539	-101	-1.2
Phosphates and derivatives	6,200	5,276	924	17.5
Imports of good	58,104	59,761	-1,657	-2.8
Energy products	9,678	10,997	-1,319	-12.0
Capital goods	13,058	14,309	-1,251	-8.7
Food products	7,962	7,503	459	6.1
Finished condumer products	11,782	12,077	-295	-2.4
Travel receipts	7,713	8,618	-905	-10.5
Transfers from Moroccan expatriates	9,203	9,445	-242	-2.6
Foreign direct investments receipts	3,659	3,018	641	21.2
Investment expenses of Moroccan expatriates	1,378	1,143	235	20.6

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSET MARKETS

In the fourth quarter of 2023, monetary conditions were characterised by stable lending rates and a depreciation of the real effective exchange rate. The growth rate of bank credit to the non-financial sector remained stable at 2.7 percent in the fourth quarter, with acceleration in loans to public companies and a deceleration in loans to households. The latest data for January 2024 point to annual increases of 1.9 percent in loans to the non-financial sector and 29.5 percent in loans to other financial companies. As regards the other counterparts of the money supply, net claims on the central government increased by 2 percent compared with 6.9 percent and official reserve assets rose by 4.6 percent after 5.5 percent. Overall, money supply rose by 5.2 percent compared with 7.1 percent one quarter earlier.

On the real estate market, the asset price index rose by 0.1 percent in the fourth quarter of 2023, covering price increases of 0.1 percent for residential property and 0.3 percent for urban land, as well as a 2.5 percent fall in commercial property prices. The number of transactions rose by 2 percent overall, by 13.2 percent for urban land and by 8.6 percent for commercial property. By contrast, the number of transactions in residential property fell by 1.4 percent.

At the level of the Casablanca Stock Exchange, the MASI index rose by 1.9 percent in the fourth quarter and the volume of transactions increased from 8.9 billion to 31.9 billion quarter-on-quarter. Against this backdrop, market capitalisation rose by 11.6 percent over the year as a whole, to 626.1 billion dirhams.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the fourth quarter of 2023, banks' liquidity requirements increased to a weekly average of 100.9 billion dirhams, compared with 88.8 billion a quarter earlier, mainly as a result of the expansion in currency in circulation.

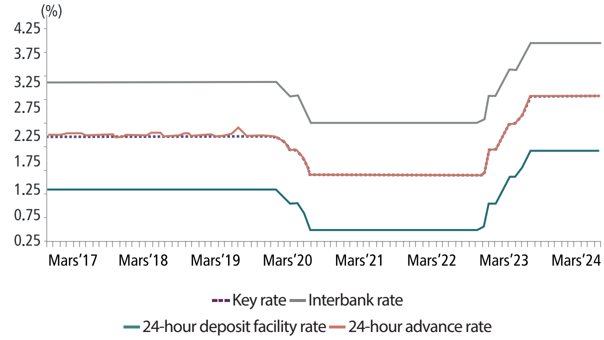
Under these conditions, Bank Al-Maghrib increased its injections to 114.9 billion dirhams from 101.2 billion, including 46.2 billion in the form of 7-day advances, 41.3 billion through repurchase agreements and 27.4 billion through guaranteed loans granted as part of programmes to support the financing of SMEs.

Against this background, the average residual duration of the Bank's interventions rose from 48.3 days to 51.2 days, and the interbank rate remained in line with the key rate.

For 2023 as a whole, the liquidity deficit widened to a weekly average of 83.2 billion, compared with 80.9 billion a year earlier.

The latest available data indicate a further widening of the bank liquidity deficit to 110.5 billion on average in January and February 2024.

Chart 3.1: Change in interbank rate (daily data)

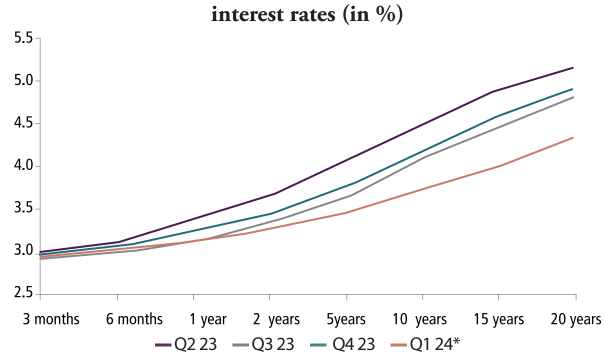


On the Treasury bill market, rates eased during the fourth quarter on both the primary and secondary markets. In January and February, this trend continued on both markets, particularly for medium and long maturities, especially as inflation continued to fall.

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

	2022	2023				2024
	Q4	Q1	Q2	Q3	Q4	Jan.
26 weeks	3.07	3.22	3.15	3.07	2.98	2.87
2 years	2.44	3.80	3.79	3.49	3.38	3.22
5 years	-	3.98	4.16	3.82	3.72	3.40
10 years	3.20	4.38	4.55	4.20	4.14	3.86
15 years	-	4.97	4.93	4.64	4.51	4.08

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

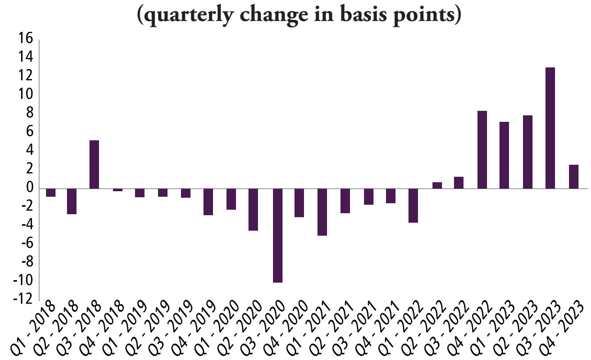


*Average observed in January and February 2024.

On the private debt market, rates on issuances of certificates of deposit fell slightly in the fourth quarter of 2023. As regards deposit rates, those applied to 6-month deposits declined by 4 basis points quarter-on-quarter to 2.47 percent on average, while rates on one-year deposits rose by 23 basis points to 2.86 percent. The minimum rate on savings books has been set for the second half of 2023 at 2.98 percent, up 147 bps compared with the first half of 2023.

Under these conditions, bank's funding cost[1] increased very slightly by 3 basis points from one quarter to the next, totalling a rise of 38 basis points since the start of the monetary policy tightening.

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



The latest available data for January 2024 show that 6-month deposit rates remained virtually unchanged month-on-month at 2.59 percent and that 12-month deposit rates fell by 24 basis points to 2.81 percent.

The minimum rate of interest on savings books accounts for the first six months of 2024 was set at 2.73 percent, down 25 basis points on the previous six months.

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

Table 3.2 : Lending rates (%)

	2022	2023				2024
	Q4	Q1	Q2	Q3	Q4	Jan.
6 month	2.24	2.38	2.45	2.51	2.47	2.59
12 month	2.57	2.69	2.97	2.63	2.86	2.81

As regards lending rates, the results of Bank Al-Maghrib's survey of banks for the fourth quarter of 2023 show that the overall average rate remained stable at 5.36 percent. By institutional sector, rates on business lending fell by 2 bps to 5.30 percent, with decreases of 17 bps to 4.90 percent for equipment loans and 22 bps to 5.49 percent for real-estate development loans, and an increase of 4 bps to 5.35 percent for cash facilities. Rates on loans to individuals remained stable at 5.94 percent, with an increase of 9 bps to 4.83 percent for housing loans and a fall of 7 bps to 7.18 percent for consumer loans.

Table 3.3 : Deposit rates (%)

	2022		2023			
	Q3	Q4	Q1	Q2	Q3	Q4
Global	4.24	4.50	5.03	5.26	5.36	5.36
Personal loans	5.33	5.72	5.63	5.93	5.94	5.94
Real estate loans	4.19	4.32	4.36	4.64	4.74	4.83
Consumer loans	6.39	6.40	6.95	7.27	7.25	7 .18
Loans to businesses	4.04	4.30	4.98	5.22	5.32	5.30
Cash advances	3.93	4.19	4.98	5.28	5.31	5.35
Equipment loans	4.14	4.38	4.81	4.72	5.07	4.90
Real estate loans	5.41	5.61	5.37	5.43	5.71	5.49

3.1.2 Exchange rate

During the fourth quarter of 2024, the euro depreciated by 1.15 percent against the US dollar. Against this backdrop, the value of the dirham fell by 0.83 percent against the euro and by 1.99 percent against the US dollar. Compared with the currencies of the main emerging countries, the national currency appreciated in particular by 4.36 percent against the Turkish lira and depreciated by 2.26 percent against the Chinese yuan. Overall, the effective exchange rate fell by 0.91 percent in nominal terms and 1.41 percent in real terms.

Chart 3.4 : Exchange rate of the dirham

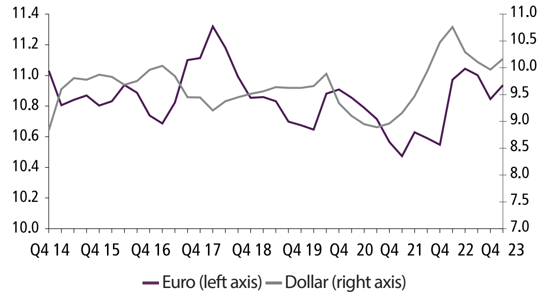
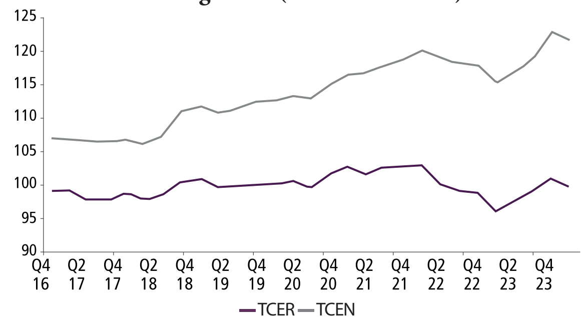


Chart 3.5 : Change in nominal and real effective exchange rates (Base 100 in 2010)



Sources: BAM and IMF calculations.

With regard to foreign currency transactions, the average volume of spot transactions by banks with customers recorded annual declines of 24.9 percent to 31.7 billion dirhams for sales and 25.5 percent to 30.5 billion for purchases during the fourth quarter of 2023. Forward transactions fell by 28.9 percent to 21.5 billion for purchases and by 61 percent to 4.6 billion for sales.

3.1.3 Monetary situation

The M3 aggregate grew by 5.2 percent in the fourth quarter of 2023 compared with 7.1 percent one quarter earlier. This development reflects a slowdown in the growth rate of sight deposits to 7.7 percent from 8.3 percent, mainly due to the deceleration in the growth rate of household deposits to 6.4 percent after 7.5

percent. Similarly, the fall in time deposits continued to sharpen, moving from 5.7 percent to 8.9 percent, which reflects a drop in those of public companies to 28.2 percent after an increase of 40.7 percent.

In the same vein, growth in currency in circulation slowed from 11.9 percent to 11.4 percent and the outstanding money market fund shares/units fell by 2 percent after a rise by 23.6 percent. Foreign currency deposits experienced a further decline to 15.5 percent from 11.9 percent.

Over the year as a whole, the growth rate of M3 aggregate slowed to 3.9 percent from 8 percent at the end of 2022, reflecting in particular a marked slowdown in the rate of sight deposits with banks to 6.9 percent from 8.8 percent and a further drop in time deposits from 4.9 percent to 11.3 percent.

By main counterparts, the slowdown in the growth of the money supply in the fourth quarter reflects decelerations in the growth rates of net claims on the central government from 6.9 percent to 2 percent and of the official reserve assets from 5.5 percent to 4.6 percent, while the rise in bank credit accelerated from 4.8 percent to 5.1 percent.

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

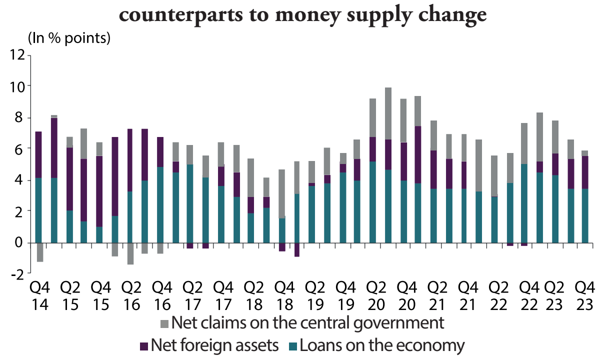


Chart 3.7: Bank credit (change in YoY)

In particular, the pace of credit growth to the non-financial sector remained stable at 2.7 percent in the fourth quarter, due to an acceleration in the growth of loans granted to public companies from 29.9 percent to 31.7 percent and a deceleration in those granted to households from 2.4 percent to 2 percent. The fall in loans to private companies maintained the same rate of 0.4 percent recorded in the previous quarter.

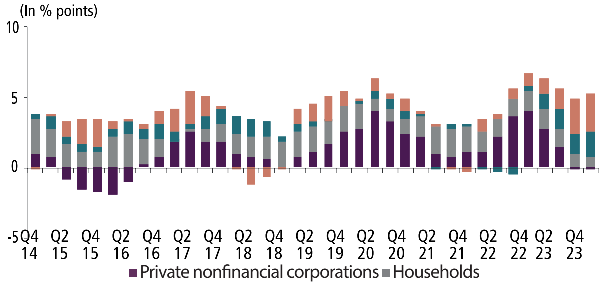
The development in loans to private non-financial corporations reflects a 10.1 percent fall in cash facilities, in connection with the drop in import prices and the amortisation of loans benefiting from guarantee lines put in place during the pandemic crisis. Liquidity loans to public companies grew by 68.5 percent.

As regards loans to individuals, their growth dropped from 2.5 percent to 2.1 percent, with a slowdown from 2.3 percent to 1.9 percent for housing loans and from 1 percent to 0.3 percent for consumer loans. Lending to individual entrepreneurs fell from 2 percent to 1 percent.

By branch of activity, the data for the fourth quarter of 2023 show an improvement in loans to "Extractive industries" companies by 78.7 percent and the "Electricity, gas and water" sector by 24.8 percent.

On the other hand, loans to companies operating in the "trade, repair of motor vehicles and domestic articles" and "Metallurgical, mechanical, electrical and electronic industries" fell by 7.3 percent and 11.1 percent, respectively.

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



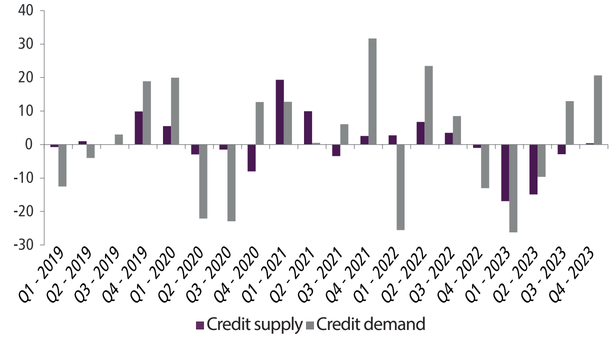
Source: BAM.

Non-performing loans rose by 5.6 percent and their ratio to outstanding bank loans fell to 8.6 percent. They rose by 6.5 percent for private non-financial companies and by 4.2 percent for households, with ratios of 12.6 percent and 10 percent, respectively.

Year-on-year, growth in bank credit to the non-financial sector slowed sharply from 7.9 percent at the end of 2022 to 2.7 percent, reflecting a virtual stagnation in credit to private companies after an increase of 10.4 percent and a slowdown in the growth rate of loans to households from 3.6 percent to 2 percent. On the other hand, loans to public companies rose by 27 percent at the end of 2023, after 21.8 percent.

The latest figures for January 2024 show an annual growth in bank credit by 5.5 percent, reflecting 29.5 percent growth in loans to other companies and 1.9 percent in loans to the non-financial sector.

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

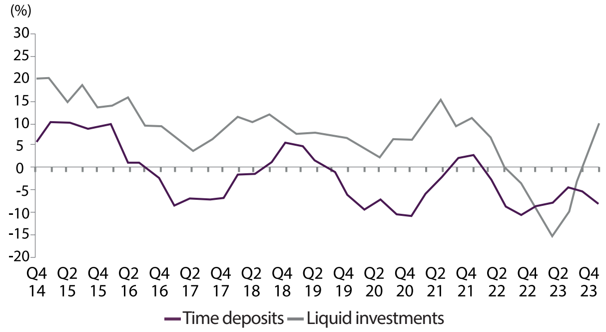


Source: BAM.

Loans granted by financial companies other than banks to the non-financial sector rose by 4.5 percent in the fourth quarter of 2023. This change reflects in particular increases of 5.7 percent in loans granted by finance companies, a 4.1 percent rise in loans distributed by offshore banks and by 1 percent in loans granted by microcredit associations.

Aggregate liquid investments rose by 10.1 percent, following a 0.5 percent increase in the previous quarter. This change reflects increases of 16.8 percent in bond fund units after a fall of 3.5 percent, and of 7.8 percent in Treasury bills after a rise of 4.3 percent, as well as an increase of 6.3 percent in equity and diversified mutual fund units after a drop of 4.8 percent.

Chart 3.10 : Annual development of liquid investments and term deposits



3.2 Asset prices

3.2.1 Real estate assets

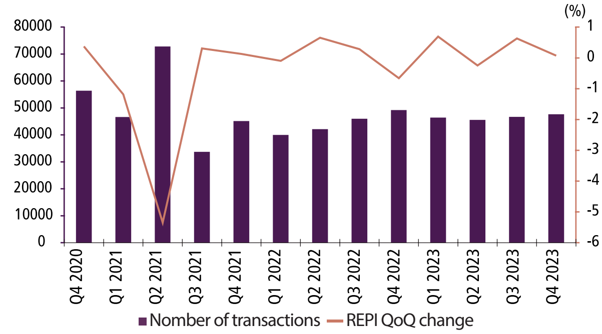
In the fourth quarter of 2023, the property price index rose by 0.1 percent, with increases of 0.3 percent for urban land and 0.1 percent for residential property and a fall of 2.5 percent for commercial property. Transactions rose by 2 percent overall, by 13.2 percent for urban land and by 8.6 percent for commercial property, while those for residential property decreased by 1.4 percent.

In the main cities, with the exception of Oujda, Rabat, Fes and Meknes, where decreases ranging between 0.4 percent and 2.7 percent were recorded, prices rose in the other cities, with rates ranging from 0.1 percent in Casablanca to 1.4 percent in Marrakech.

Sales rose in four cities (Marrakech, Rabat, Tangier and Casablanca), at rates ranging from 4.8 percent to 15.3 percent. In the other cities, sales fell by rates ranging between 1.7 percent in Agadir and 11.8 percent in Oujda.

Over the year as a whole, the real-estate asset price index rose by 0.6 percent, following a fall of 0.7 percent in 2022. This increase reflects rises of 0.1 percent for residential property, 1.5 percent for urban land and 1.8 percent for commercial property. The number of transactions rose by 5.1 percent, after falling by 10.6 percent. Sales rose by 6.3 percent for residential property, 5.8 percent for commercial property and 0.3 percent for urban land.

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



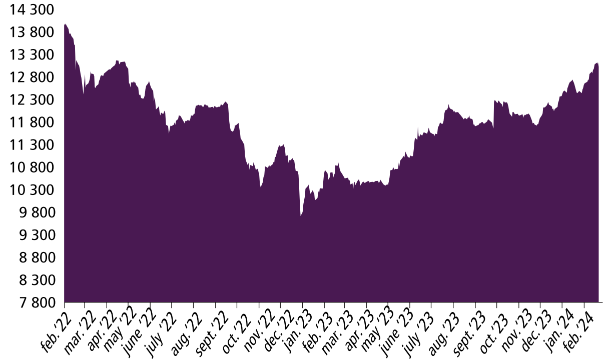
Sources: BAM and ANCFCC.

3.2.2 Financial assets

3.2.2.1 Shares

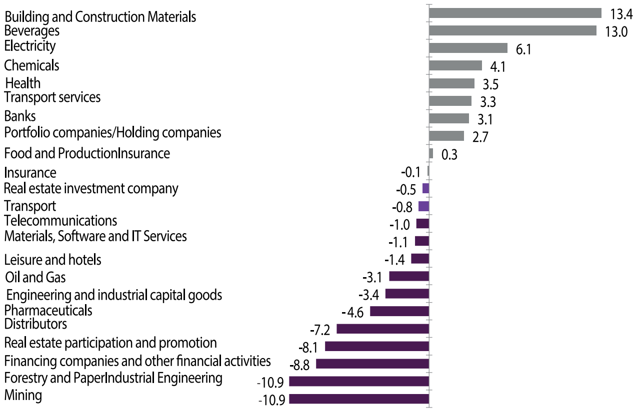
In the fourth quarter of 2023, the MASI rose by 1.9 percent. This change mainly reflects rises of 13.4 percent in the sector indices of “buildings and construction materials”, 6.1 percent in electricity and 3.1 percent in banks. Conversely, those for the mining and distributors sectors fell by 10.9 percent and 7.2 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 volume of trade rose sharply from 8.9 billion dirhams to 31.9 billion quarter-on-quarter. This trend was mainly due to dynamic trading on both the central and block markets, where the turnover in the fourth quarter reached 12 billion and 17.6 billion, compared with 7.5 billion and 1.3 billion, respectively. Against this backdrop, market capitalisation has risen by 11.6 percent since the start of the year, to 626.1 billion dirhams.

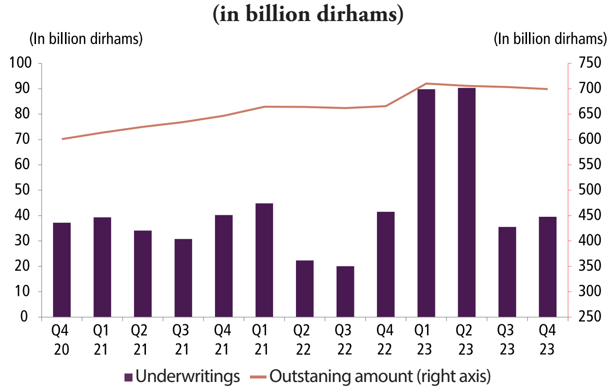
The latest available data show a monthly rise of 4.5 percent in the MASI in February, following 3.1 percent in January, bringing its year-to-date performance to 7.8 percent. This change reflects increases in the banking sector index by 4.6 percent, "real-estate investment Trusts" by 4.3 percent and "buildings and construction materials" by 2.4 percent. On the other hand, the indices for "hardware, software and IT services" and "chemicals" sectors fell by 4.9 percent and 1.5 percent, respectively. The volume of transactions dropped from 5.3 billion dirhams in January to 4.7 billion in February, including 4.4 billion on the central market. Against this backdrop, market capitalisation rose to 673.7 billion, up 7.6 percent since December 2023.

3.2.2.2 Sovereign debt market

Treasury issuances on the domestic market reached 39.5 billion in the fourth quarter of 2023 against 35.6 billion in the previous quarter. Out of this total, 63 percent were long maturities, 23 percent medium maturities and 13 percent short ones. Taking into account repayments for 43.6 billion, outstanding Treasury bills totalled 699.4 billion, up 5 percent on the fourth quarter 2022.

The latest available data show that issuances of Treasury bills reached 19.7 billion in January 2024 compared with 15.5 billion in December 2023, 66 percent of which were long maturities, 31 percent medium maturities and 4 percent short ones. Taking into account repayments for 6.6 billion, outstanding Treasury bills totalled 712.5 billion, up 1.9 percent since December 2023.

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



Source: BAM.

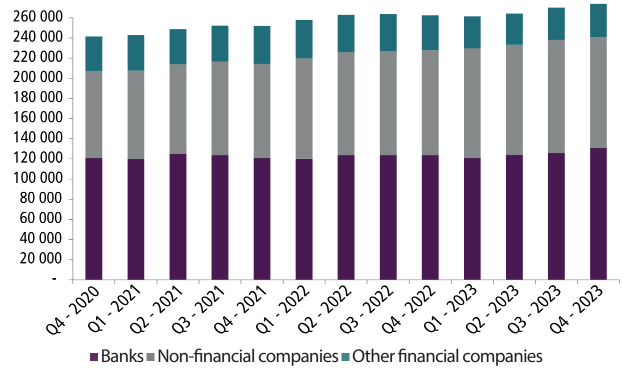
3.2.2.3 Private debt market

On the private debt market, issuances rose by 18.1 percent to 24.2 billion dirhams in the fourth quarter of 2023. Banks raised 13.6 billion compared with 11.8 billion in the previous quarter, while non-financial companies raised 5.3 billion instead of 6.2 billion.

By type of instrument, issuances of negotiable debt securities fell quarter-on-quarter by 19.7 percent to 14.6 billion, including 9.8 billion in certificates of deposit, 4.4 billion in finance company bonds and 307 million in Treasury bills. For their part, bond issuances increased from 2.3 billion to 9.6 billion, 52.6 percent of which were issued by non-financial companies.

The latest available data show that private debt issuances amounted to 9.4 billion in January 2024, compared with 11.8 billion in December 2023. Taking into account repayments, the outstanding debt amount of these securities has reached 280.5 billion dirhams, up 2.3 percent since December 2023.

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 fourth quarter of 2023, subscriptions to mutual fund shares increased by 20.1 percent to 338.3 billion and redemptions by 33.5 percent to 346.6, representing a net outflow of 8.4 billion dirhams. Performance indices rose quarter-on-quarter for all funds, with rates ranging from 0.9 percent for money market funds to 2.7 percent for medium- and long-term bond mutual funds.

The latest data for February[1] show a 5.9 percent increase in the net assets of mutual funds since the beginning of the year, to 593.1 billion dirhams, including increases of 8.4 percent in the outstanding amount of medium- and long-term bond mutual funds, 8.1 percent for money market funds, 6.5 percent for equity funds, 6 percent for contractual funds and 4.9 percent for diversified funds. By contrast, the net assets of short-term bond mutual funds fell by 3.7 percent.

1 Data as 16 February 2024.

4. FISCAL POLICY TREND

Budget execution at the end of 2023 was characterised by continued budget consolidation. The budget deficit, excluding proceeds from the sale of State holdings, reached 64.4 billion dirhams compared with 71.6 billion a year earlier, due in particular to an improvement of 8.6 billion in the positive balance of the Treasury's special accounts, which stood at 17 billion. Ordinary revenues rose by 6.6 percent, reflecting a 5.4 percent increase in tax revenues and a 13.5 percent rise in non-tax ones. The latter include in particular the collection of 25.4 billion in resources from specific financing mechanisms. On the other hand, overall expenditure rose by 5.6 percent, mainly as a result of increases of 6.5 percent in expenditure on goods and services and 18.1 percent in investment expenditure, while subsidization costs fell by 28.4 percent.

At end-February 2024, the budget deficit lessened to 9.6 billion from 10.6 billion dirhams a year earlier. Ordinary revenues rose by 16.1 percent, reflecting increases of 10.4 percent in tax revenues and 136.2 percent in non-tax revenues. At the same time, ordinary expenditure rose by 4.6 percent, mainly as a result of increases in expenditure on goods and services and transfers to local authorities. As a result, the ordinary balance showed a deficit of 2.6 billion compared with 7.9 billion a year earlier, while the balance of the Treasury's special accounts fell by 3.8 billion.

The Treasury reduced its stock of pending transactions by 7.6 billion, bringing the cash deficit to 17.2 billion, down 508 million compared with end-February 2023. These needs were covered by net domestic resources of 13.5 billion and by net external flows of 3.7 billion dirhams. Thus, according to BAM's estimates, the outstanding direct public debt would have increased by 1.4 percent compared with its level at end-December 2023. The Treasury's financing conditions have improved compared with the same period in 2023.

4.1 Current receipts

Budget execution as at end-February 2024 showed a 16.1 percent improvement in ordinary revenues to 57 billion, reflecting a 10.4 percent increase in tax revenues, driven mainly by domestic VAT, and a 136.2 percent rise in non-tax revenues.

Revenues from direct taxes rose by 6.7 percent to 14.4 billion, reflecting increases of 15 percent to 3.2 billion in corporate tax revenues, mainly in connection with corporate tax withheld for amounts paid to third parties and for fixed income investment products, and of 2.7 percent to 10.5 billion in income tax revenues. Changes in the latter figure take into account the 234 million increase in revenues from tax administration activities.

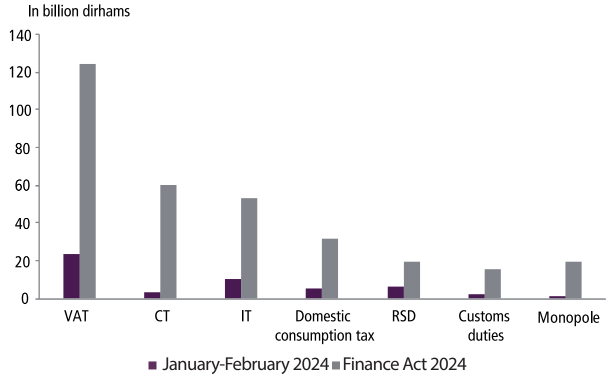
Indirect taxes rose by 14.1 percent to 28.3 billion, reflecting a 16.5 percent increase in VAT receipts to 23.3 billion and a 4.3 percent rise in domestic consumer taxes (DCT) receipts to 5.1 billion. The change in the latter includes in particular an increase in DCT on energy products by 15 percent to 2.7 billion, and a fall of 10.2 percent in DCT on tobacco to 1.9 billion. The improvement in VAT was driven by its domestic component, which rebounded by 35.5 percent to 11.2 billion, taking into account VAT credit repayments for 681 million instead of 1 billion at end-February 2023.

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

	Jan.-Feb. 2023	Jan.-Feb. 2024	Var. in %	LF 2024	Achievements against the FA (%)
Current revenues	49.1	57.0	16.1	371.7	15.3
Recettes fiscales	46.1	50.9	10.4	308.0	16.5
- Direct taxes	13.5	14.4	6.7	116.9	12.3
Including CT	2.8	3.2	15.0	59.9	5.3
I.T	10.3	10.5	2.7	52.7	20.0
- Indirect taxes	24.8	28.3	14.1	156.1	18.2
VAT	20.0	23.3	16.5	124.2	18.7
DCT	4.9	5.1	4.3	31.9	15.9
- Customs duties	2.4	2.2	-7.8	15.7	13.9
- Registration and stamp duties	5.3	5.9	11.1	19.3	30.6
Nontax revenues	2.2	5.1	136.2	60.3	8.4
- Monopoles and shareholdings	1.3	0.4	-66.6	19.5	2.1
- Other receipts	0.9	4.7	417.6	40.8	11.4
Specific financing mechanisms	0.0	0.0	-	35.0	0.0
TSA revenues	0.9	1.0	16.6	3.5	30.1

Revenues from customs duties dropped by 7.8 percent to 2.2 billion, mainly due to lower imports, while revenues from registration and stamp duties gained 11.1 percent to 5.9 billion.

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 rose by 2.9 billion to 5.1 billion, reflecting receipts of 4.7 billion under other revenues and 417 million in proceeds from public establishments and enterprises, from 1.3 billion a year earlier, including 120 million from Bank Al-Maghrib.

4.2 Expenditure

Overall expenditure stood at 76.4 billion at end-February 2024, up 4.2 percent, driven by increases of 4.6 percent to 59.6 billion in current expenditure and a 2.7 percent increase to 16.8 billion in capital investment. Expenditure on goods and services amounted to 42.5 billion, up 4.8 percent, due to increases of 3.8 percent to 26.5 billion in the wage bill and of 6.6 percent to 16 billion in other goods and services. These include in particular transfers of 6.9 billion to public establishments and enterprises and 1.6 billion to special Treasury accounts. The change in the wage bill includes, for the part served by the Directorate of Personnel Expenses, an increase of 3.8 percent in its structural component and a fall of 3.1 percent to 814 million dirhams in backpays.

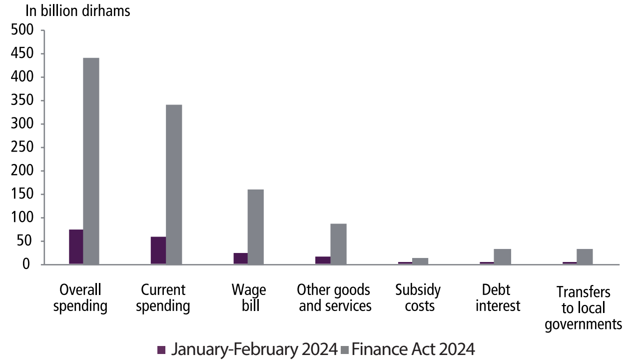
Table 4.2 : Execution of public spending
(in billion dirhams)

	Jan.-Feb. 2023	Jan.-Feb. 2024	Var. in %	LF 2024	Achievements against the FA (%)
Overall spending	73.4	76.4	4.2	444.7	17.2
Current spending	57.0	59.6	4.6	344.3	17.3
Goods and services	40.6	42.5	4.8	252.8	16.8
Personal	25.6	26.5	3.8	161.6	16.4
Other goods and services	15.0	16.0	6.6	91.2	17.5
Debt interests	4.7	4.8	0.5	37.2	12.8
Subsidy	5.7	5.3	-6.3	17.0	31.3
Transfer to local governments	6.0	7.0	16.5	37.2	18.7
Investment	16.4	16.8	2.7	100.4	16.7

* including 30% of VAT transferred to local authorities.

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

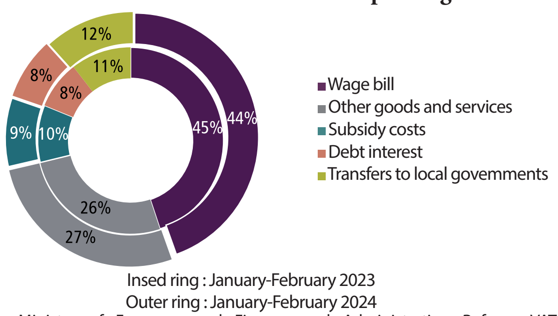
Chart 4.2: Execution of public spending compared to the finance act



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

Debt interest charges rose by 0.5 percent to 4.8 billion dirhams, as a result of a 48.6 percent increase to 1.3 billion dirhams in interest on foreign debt and a 10.2 percent decrease to 3.5 billion dirhams in interest on domestic debt.

Chart 4.3 : Structure of current spending

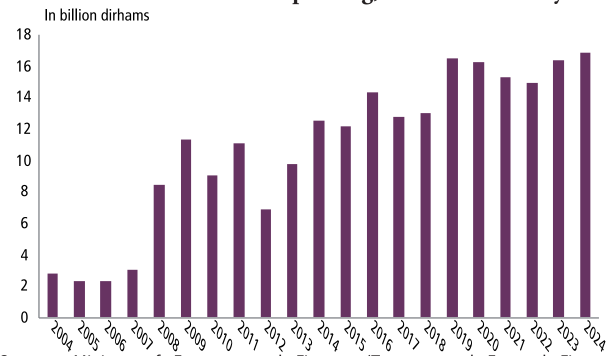


Sources: Ministry of Economy and Finance and Administration Reform, VAT reprocessing by BAM.

Subsidy costs fell by 6.3 percent to 5.3 billion dirhams, representing an execution rate of 31.3 percent compared with the Finance Act (FA). This decline is due in particular to the fall in the subsidies of butane gas and national soft wheat flour, respectively, from 305 million to 3 billion and from 522 million to 546 million, respectively. At the same time, sugar subsidy increased by 369 million to 1.3 billion and subsidy for transport professionals from 100 million to 500 million dirhams.

Investment spending rose by 2.7 percent to 16.8 billion dirhams, with an execution rate of 16.7 percent compared with the FA forecasts, mainly as a result of the 12 percent increase in expenditure by Ministries and a fall of 2.7 percent in miscellaneous sources.

Chart 4.4 : Investment spending, at end of February

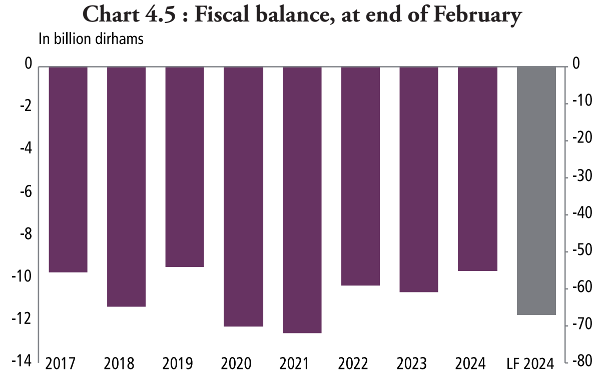


Sources: Ministry of Economy and Finance (Treasury and External Finances Department)

4.3 Deficit and Treasury Financing

Taking into account the changes in revenues and expenditure as well as the balance of the Treasury's special accounts, the Treasury's position shows a budget deficit of 9.6 billion dirhams, compared with 10.6 billion at end-February 2023. In addition, the Treasury reduced its stock of pending transactions by 7.6 billion, compared with 7 billion a year earlier, thus reducing the cash deficit by 508 million to 17.2 billion.

Chart 4.5 : Fiscal balance, at end of February



Source : MEF (DTFE).

The Treasury's financing requirement was covered by net domestic resources worth 13.5 billion and by net external flows of 3.7 billion. The latter includes gross drawings of 5.2 billion, including 3.2 billion dirhams from the World Bank, compared with 2.2 billion dirhams at end-February 2023, and amortisations of 1.5 billion dirhams, compared with 1.4 billion.

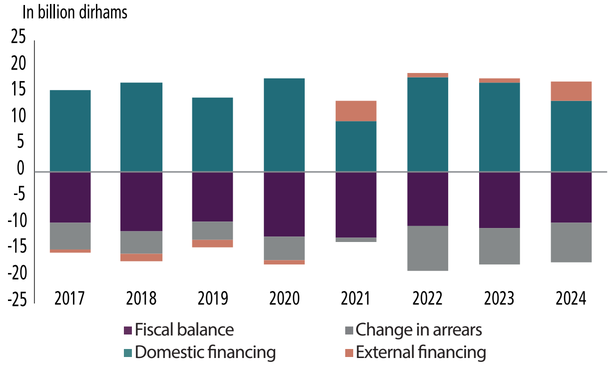
Table 4.3 : Deficit financing (in billion dirhams)

	Jan.-Feb. 2023	Jan.-Feb. 2024	LF 2024
Current balance	-7.9	-2.6	27.5
Balance of TSA	13.6	9.8	6.0
Primary balance	-5.9	-4.9	-29.7
Fiscal balance	-10.6	-9.6	-67.0
Change in arrears	-7.0	-7.6	
Financing requirements	-17.7	-17.2	-67.0
Domestic financing	17.0	13.5	10.8
External financing	0.7	3.7	51.1

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

As regards domestic financing, recourse to the auction market concerned 20 billion compared with 50.8 billion a year earlier. Net subscriptions concerned in particular 10-year bills for 8 billion, 20-year bonds for 6.9 billion, 15-year bonds for 6.4 billion and 5-year bills for 2.8 billion. At the same time, net redemptions of 52-week and 26-week bills amounted to 5.2 billion and 1.2 billion, respectively.

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



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

The change in the Treasury's financing conditions on the auction market resulted in a decrease in the weighted average rates at end-February 2024 compared with the same period in 2023. The decreases reached 30 basis points (bps) to 2.88 percent for 13-week bills, 35 bps to 2.87 percent for 26-week bills, 46 bps to 3.03 percent for 52-week bills, 51 bps to 3.26 percent for 2-year bills and 58 bps to 3.4 percent for 5-year bills. Similarly, for long maturities, the average rate for 10-year bills fell by 57 bps to 3.81 percent and for 20-year bonds by 31 bps to 4.44 percent.

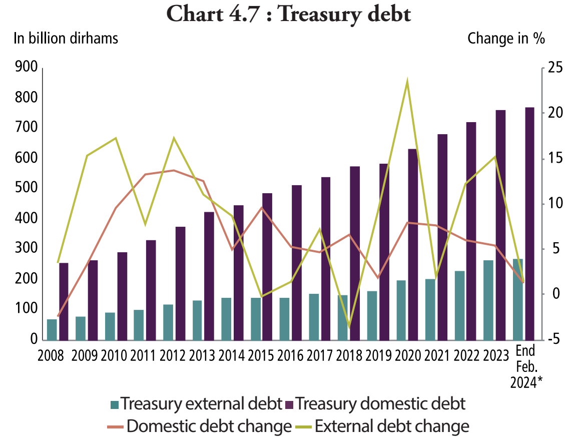
Table 4.4 : Treasury's indebtedness (in billions dirhams)

	2019	2020	2021	2022	2023	End Feb. 2024*
Treasury external debt	161.6	199.7	203.8	228.9	263.8	267.5
Change in %	9.2	23.6	2.0	12.3	15.3	1.4
Treasury domestic debt	585.7	632.9	681.5	722.9	762.5	773.1
Change in %	1.9	8.1	7.7	6.1	5.5	1.4
Outstanding direct debt	747.3	832.6	885.3	951.8	1026.3	1040.6
Change in %	3.4	11.4	6.3	7.5	7.8	1.4

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

The amount outstanding of direct public debt would have risen by 1.4 percent at end-February 2024, compared with its level at end-December 2023, with increases of 1.4 percent each in its domestic and foreign components.

Chart 4.7 : Treasury debt



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

Box 4.1: Budget execution for 2023

The budget execution for 2023 shows a deficit, excluding proceeds from the sale of State holdings, of 64.4 billion instead of 71.6 billion a year earlier. As a ratio to the GDP1*, this deficit would be 4.4 percent compared with 5.4 percent. Ordinary revenues rose by 6.6 percent to 355.6 billion, reflecting increases of 5.4 percent in tax revenues to 296.3 billion and 13.5 percent in non-tax revenues to 55.2 billion, including 25.4 billion in proceeds from specific financing mechanisms. At the same time, ordinary expenditure rose by 2 percent to 326.3 billion, due to increases of 6.5 percent in expenditure on goods and services and 9.5 percent in interest charges on the debt, while subsidization costs fell by 28.4 percent. The ordinary balance thus showed a surplus of 29.3 billion, instead of 13.8 billion a year earlier. On the other hand, capital investment increased by 18.1 percent to 110.8 billion, thus bringing total expenditure to 437.1 billion, up 5.6 percent. As for the balance of the Treasury's special accounts, it stood at 17 billion, compared with 8.4 billion at the end of 2022. The resources of the Treasury's special accounts include 19.6 billion dirhams in revenues from the Special Fund for the management of the effects of the earthquake and 15.8 billion dirhams from the Social Protection and Social Cohesion Support Fund, instead of 9.3 billion dirhams in 2022.

Chart B.4.1.1: 2022 and 2023 Budget Implementations, in billion dirhams

	2022	2023	Gaps		Implementation/2023 FA
			%	In Value	
Current receipts	333.7	355.6	6.6	21.9	104.1
Tax receipts*	281.2	296.3	5.4	15.2	102.4
- Direct taxes	111.7	116.8	4.6	5.2	103.2
Of which: Corporate tax Income tax	60.8	62.3	2.4	1.5	102.3
IR	48.0	50.7	5.8	2.8	105.8
- Indirect taxes	137.6	143.1	4.0	5.5	98.6
VAT	106.0	110.3	4.0	4.3	97.3
International consumption tax	31.6	32.8	3.7	1.2	103.0
- Customs duties	13.9	16.4	18.3	2.5	109.4
Registration and stamp duties	18.0	20.0	11.1	2.0	125.5
Non-tax receipts	48.6	55.2	13.5	6.6	104.9
- Monopoles	13.1	14.0	6.4	0.8	71.9
Other receipts	35.5	41.2	16.1	5.7	138.9
Including receipts from specific mechanisms	25.0	25.4	1.5	0.4	101.7
Receipts of some TSA	3.9	4.1	4.1	0.2	123.3
Overall expenditure	413.7	437.1	5.6	23.4	104.9
Ordinary expenditure	319.9	326.3	2.0	6.4	100.3
Goods and services	217.8	232.1	6.5	14.2	98.8
Wage bill	147.8	151.8	2.7	4.0	97.4
Other goods and Services	70.1	80.3	14.6	10.2	101.5
Public debt	28.5	31.2	9.5	2.7	104.2
Subsidies	41.8	29.9	-28.4	-11.8	112.7
Transfers to TA	31.8	33.1	4.0	1.3	97.3
Ordinary balance	13.8	29.3		15.5	
Investment	93.8	110.8	18.1	17.0	121.5
Balance of TSA	8.4	17.0	102.0	8.6	
Fiscal balance	-71.6	-64.4	-9.9	7.1	
In points of GDP	5.4	4.4			
Primary balance	-43.1	-33.2			
Change in pending operations	-2.0	-9.3			
Financing balance	-73.5	-73.7	0.3	-0.2	
Domestic financing	67.4	37.2			
External financing	6.1	35.0			
Proceeds from the sale of State's holdings	0.0	1.6			

*Taking into consideration the 30 percent VAT transferred to local authorities.
Sources: Ministry of Economy and Finance (DTFE), VAT restatement by Bank AL-Maghrib

In terms of tax revenues, direct tax receipts rose by 4.6 percent to 116.8 billion, mainly as a result of the 2.4 percent increase in the corporate tax to 62.3 billion and the 5.8 percent rise in income tax to 50.7 billion. These figures mask in particular the improvement in revenues from income tax on salaries and income tax on private individuals. Indirect taxes, realized at 98.6 percent, generated revenues worth 143.1 billion, up 4 percent, driven by a 4 percent increase in VAT receipts to 110.3 billion and a 3.7 percent rise in DCT receipts to 32.8 billion. The change in the latter reflects a 7.7 percent increase to 13.7 billion in DCT receipts from tobacco and a virtually unchanged figure of 16.2 billion for DCT revenues from energy products. The improvement in VAT revenues reflects a 24 percent rebound in domestic VAT receipts to 34.5 billion and a 3.1 percent fall in import VAT receipts to 75.8 billion. As for revenues from customs and registration and stamp duties, they increased by 18.3 percent, to 16.4 billion, and by 11.1 percent, to 20 billion, respectively.

As to non-tax revenues, their change was marked mainly by the collection of 25.4 billion from specific financing mechanisms and 14 billion from public establishments and enterprises, compared with 13.1 billion a year earlier and the 19.5 billion planned in the Finance Act. These revenues come from the OCP for an amount of 7.4 billion, the ANCFCC for 4 billion and Bank Al-Maghrib for 937 million. Donations from GCC countries amounted to 784 million dirhams, compared with 380 million dirhams a year earlier.

Expenditure on goods and services rose by 6.5 percent to 232.1 billion dirhams, with increases of 2.7 percent to 151.8 billion dirhams in the wage bill and 14.6 percent to 80.3 billion in expenditure on other goods and services. Debt interest charges rose by 9.5 percent to 31.2 billion, with a 66.6 percent rebound to 8.3 billion in interest on foreign debt and a 2.5 percent fall to 22.9 billion in interest on domestic debt. Subsidization costs fell by 28.4 percent to 29.9 billion, of which 16.7 billion was allocated to butane gas, 6.6 billion to sugar, 3.9 billion to domestic flour and soft wheat import refunds, and 2.5 billion to transport subsidies.

Taking into account the reduction in the stock of pending operations by 9.3 billion, the cash deficit stood at 73.7 billion, with a slight increase of 234 million from one year to the next. In addition to the 1.6 billion in proceeds from the sale of State holdings, this requirement was covered by domestic resources for a net amount of 37.2 billion and by net external resources of 35 billion. Recourse to the auction market amounted to 33.6 billion, compared with 19.1 billion a year earlier.

* Based on BAM's GDP forecast.

5. DEMAND, SUPPLY AND LABOR MARKET

In the third quarter of 2023, economic growth accelerated to 2.8 percent, after 1.7 percent a year earlier, as a result of a 5.7 percent improvement in agricultural value added and a deceleration to 2.7 percent in the growth rate of non-agricultural activities. Analysis of the components of demand reveals a positive contribution of 4.4 percentage points from domestic demand and a negative contribution of -1.6 percentage points from external demand. In the fourth quarter, economic activity is estimated to have expanded by 2.6 percent.

Overall, GDP would have grown by 3 percent approximately in 2023 instead of 1.3 percent in 2022. This change reflects an increase of 5.5 percent, against a decline of 12.9 percent, in agricultural value added and of 2.6 percent, after 3 percent, in non-agricultural activities. In the first quarter of 2024, growth should slow to 2 percent, reflecting a 5.6 percent fall in agricultural value added, taking into account a cereals harvest of around 25 million quintals according to Bank Al-Maghrib's estimates and a 3 percent rise in non-agricultural value added.

On the labor market, the situation deteriorated significantly in 2023, with a loss of 157 thousand jobs after 24 thousand in 2022. The losses were exclusively registered in agriculture, with a decrease of 202 thousand jobs, while the other sectors posted increases of 19 thousand in construction, 15 thousand in services and 7 thousand in industry, including handicrafts. Taking into account a net outflow of 20 thousand job seekers, the activity rate fell from 44.3 percent to 43.6 percent and the unemployment rate rose from 11.8 percent to 13 percent. For young people aged 15 to 24 in particular, this rate continued to rise at a faster rate, with an increase of 3.1 points to 35.8 percent overall, 1.6 points to 48.3 percent in towns and 4.1 points to 20.6 percent in rural areas.

5.1 Domestic demand

5.1.1 Consumption

National accounts data for the third quarter of 2023 show a slight improvement in household consumption of 0.4 percent, compared with 0.1 percent in the same quarter of the previous year. Its contribution to growth was thus positive, with 0.2 percentage points.

In the fourth quarter, it picked up to 0.9 percent, after falling by 1.6 percent a year earlier, amid slowing inflation, the start-up of aid to households affected by Al Haouz earthquake and the maintenance of transfers from Moroccan expatriates at a high level. On the other hand, the situation on the labor market deteriorated, with a significant increase in the unemployment rate, and household morale deteriorated once again.

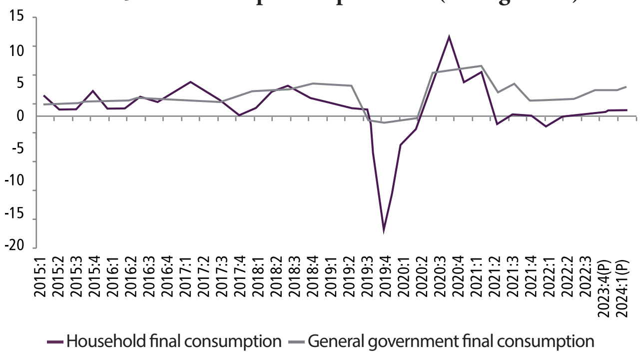
Over 2023 as a whole, household consumption is forecast to have risen by 0.4 percent, following a contraction of 0.7 percent in 2022.

In the first quarter of 2024, it is expected to rise by 0.9 percent, mainly as a result of the increase in public transfers following the granting of direct social aid to vulnerable households.

As regards final consumption of the general government, its growth rate accelerated to 3.8 percent in the third quarter of 2023, after 2.3 percent in the same quarter a year earlier, and its contribution to growth thus rose from 0.4 percentage points to 0.7 percentage points.

In the last quarter of 2023, it is forecast to have improved by 3.9 percent compared with 2.6 percent in the same quarter of the previous year, reflecting an increase in transfers to local authorities and in personnel costs, bringing its growth over 2023 as a whole to 3.4 percent. In the first quarter of 2024, it is expected to grow by 4.4 percent.

Chart 5.1 : Consumption expenditure (Change in %)



Sources : HCP and BAM forecasts.

5.1.2 Investment

In the third quarter of 2023, investment strengthened by 11.6 percent following a decline of 6.6 percent a year earlier, and its contribution to growth reached 3.4 percentage points, compared with a negative contribution of 2 points.

In the fourth quarter, it grew by 5 percent, after falling by 4.1 percent a year earlier. This change is corroborated by the available data, including in particular the rebound in imports of capital goods and the improvement in cement sales.

In addition, the quarterly results of Bank Al-Maghrib's business survey for the fourth quarter of 2023 indicate that the business climate was described as "normal" by 73 percent of companies and "unfavourable" by 20 percent of them.

Over the year 2023 as a whole, investment is expected to have risen by 2.7 percent, following a 6.5 percent fall in 2022, and its pace is forecast to continue to improve in the first quarter of this year.

5.2 Foreign demand

In the third quarter of 2023, net exports of goods and services in volume terms made a negative contribution of 1.6 points to growth instead of a positive contribution of 3.1 points in the same quarter of 2022, with the growth rate decelerating from 23.7 percent to 8.1 percent for exports in volume terms and from 11.7 percent to 9.3 percent for imports in volume terms.

In the fourth quarter, the growth rate of exports is estimated to have slowed from 20.1 percent to 10.8 percent, due in particular to the deceleration from 16.7 percent to 8.3 percent in car shipments. At the same time, imports are estimated to have risen from 9.4 percent to 9 percent, mainly reflecting the continued easing of the energy bill.

Over the year 2023 as a whole, foreign trade in goods and services, in volume terms, would again have made a positive contribution of 1.1 percentage points to growth, after 2.9 points in 2022. The growth rate of exports of goods and services in volume terms would have slowed from 20.4 percent to 11.3 percent, and that of imports from 9 percent to 7 percent.

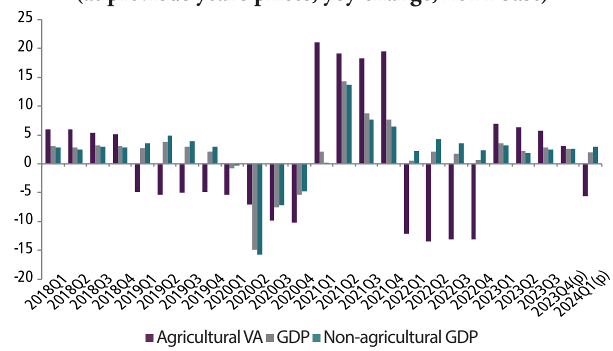
In the first quarter of 2024, exports in volume terms are expected to grow by 9.5 percent after 19.8 percent, and imports by 13.5 percent instead of 8.8 percent.

5.3 Overall supply

In the third quarter of 2023, GDP growth accelerated to 2.8 percent, after 1.7 percent in the same quarter the previous year, reflecting increases of 5.7 percent, compared with a fall of 13.1 percent, in agricultural value added and of 2.7 percent, after 3.3 percent, in non-agricultural value added.

For the last quarter of 2023, economic activity would have recorded an improvement of 2.6 percent, after 0.7 percent a year earlier, reflecting an increase of 3.1 percent, compared with a decline of 13.1 percent, in agricultural value added and an increase of 2.5 percent, instead of 2.2 percent, in non-agricultural activities.

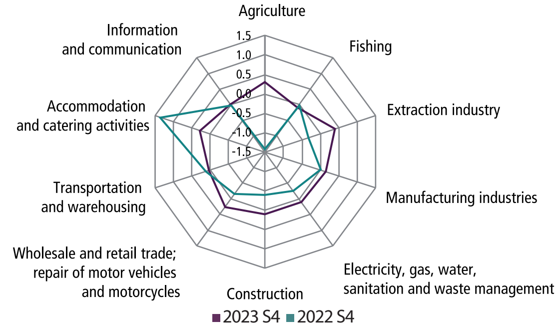
Chart 5.2: GDP per component (at previous year's prices, yoy change, 2014 base)



Sources : HCP and BAM forecasts.

In the secondary sector, value added rose by 3 percent, compared with a fall of 3.6 percent. This change reflects, in particular, revival of activity in the extraction industries, with growth of 17 percent, instead of a contraction of 15.7 percent, amid reviving demand and falling fertiliser prices. It reflects to a lesser extent an increase of 1 percent, instead of stagnation, for the processing industries.

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



Sources : HCP and BAM forecasts.

In the tertiary sectors, value added rose by 2.5 percent, compared with 5.1 percent a year earlier. In particular, it posted improvements of 8 percent, after 63.2 percent, for the "Accommodation and catering activities" branch and 2.2 percent, compared with a fall of 1.3 percent, in trade.

Over 2023 as a whole, GDP growth would have accelerated to around 3 percent, after 1.3 percent in 2022, owing to an increase of 5.5 percent, following a 12.9 percent decline, in agricultural value added, and of 2.6 percent, instead of 3 percent, in non-agricultural activities.

In the first quarter of 2024, economic growth should slow to 2 percent from 3.5 percent a year earlier. Agricultural value added would go down by 5.6 percent, taking into account a cereal harvest estimated by BAM at around 25 million quintals. Activity in the non-agricultural sectors is expected to grow by 3 percent, reflecting in particular the continued dynamism observed in the "construction", "electricity and water", and "Extractive Industries".

5.4 Labor market and output capacity

5.4.1 Activity and employment

In 2023, the labor force fell by 0.2 percent to 12.2 million people, with a decline of 3.4 percent in rural areas and an increase of 1.8 percent in cities. Taking into account a 1.4 percent increase in the working-age population, the activity rate fell by 0.7 points to 43.6 percent at national level, by 1.8 points to 47.3 percent in rural areas and by 0.1 points to 41.8 percent in urban areas.

At the same time, the national economy lost 157 thousand jobs, after 24 thousand the previous year, and the employed labor force fell by 1.5 percent to almost 10.6 million.

With the exception of agriculture, which posted a loss of 202 thousand jobs, the other sectors saw increases in their volume of employment, of 7 thousand in industry, including handicrafts, of 19 thousand in construction and 15 thousand in services. The latter mainly reflect the creation of 31 thousand jobs in "social services provided to local authorities" and 21 thousand in accommodation and catering activities, while trade recorded a decrease of 74 thousand jobs.

5.4.2 Unemployment and underemployment

After declining by 4.4 percent in 2022, the unemployed population rebounded by 9.6 percent, or 138 thousand people, in 2023, to 1.58 million people. Viewing also the change in the labor force, the unemployment rate rose significantly, from 11.8 percent to 13 percent at national level, from 15.8 percent to 16.8 percent in urban areas and from 5.2 percent to 6.3 percent in rural areas.

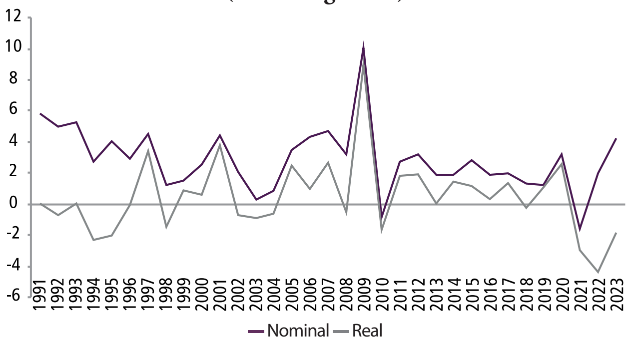
For young people aged 15 to 24 in particular, this rate rose by 3.1 points to 35.8 percent overall, by 1.6 points to 48.3 percent for urban dwellers and by 4.1 points to 20.6 percent for rural dwellers. At the same time, the underemployment rate[1] rose from 9 percent to 9.8 percent nationally, from 8.1 percent to 8.7 percent in urban areas and from 10.4 percent to 11.6 percent in rural areas.

5.4.3 Productivity and wages

In non-agricultural activities, the apparent labor productivity, as measured by the ratio of value added to employment, would have improved by 2.1 percent in 2023, after 0.4 percent a year earlier. This change is the result of increases of 2.6 percent, instead of 3 percent, in value added and 0.5 percent, after 2.6 percent, in the number of people employed.

For its part, the average wage, calculated on the basis of CNSS data as a ratio of the wage bill to the number of employed people, increased by 4.3 percent in nominal terms in 2023, after 2 percent in 2022, a change that can be explained in particular by the rise in the minimum wage. In real terms, the decline eased from 4.4 percent to 1.8 percent.

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



Sources : CNSS and BAM calculations.

1 The underemployed population consists of persons who worked: i) during the reference week less than 48 hours but are willing and available to work overtime or ii) more than the threshold and are looking for another job or willing to change job because of mismatch with their training or qualification or because of insufficient income.

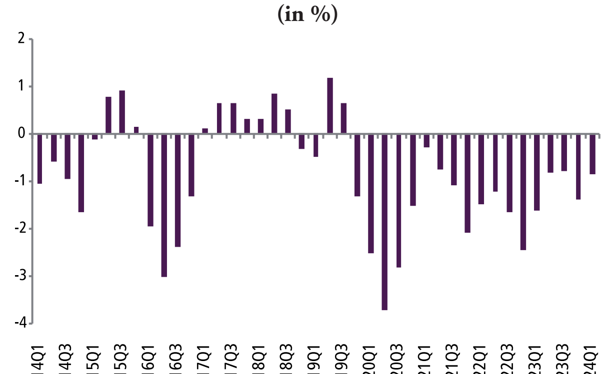
For the hourly SMIG, it reached 15.8 dirhams in nominal terms in 2023, up 4.9 percent year-on-year. Taking into account a 6.1 percent rise in the consumer price index, it fell by 1.2 percent in real terms.

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.

Under these conditions, the output gap should remain negative in the last quarter of 2023 and the first quarter of 2024.

Chart 5.6: Output-gap global (in %)



Sources: BAM

Table 5.1 : Labor market main indicators

		2022	2023
Participation rate (%)		44.3	43.6
Urban		49.1	47.3
Rural		41.9	41.8
Unemployment rate (%))		11.8	13.0
Youth aged 15 to 24		32.7	35.8
Urban		15.8	16.8
Youth aged 15 to 24		46.7	48.3
Rural		5.2	6.3
Job creations (in thousands)		-24	-157
Urban		150	41
Rural		-174	-198
Sectors			
- Agriculture, forest and fishing		-215	-202
- Industry including handicraft		28	7
- Construction		-1	19
- Services		164	15
Non-agricultural apparent productivity (variation in %)		0.4	2.1
Average wage index (change in %)	Nominal	2.0	4.3
	Real	-4.4	-1.8

Sources : HCP, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

In line with the forecast published in last December's Monetary Policy Report, inflation fell from 4.9 percent in the third quarter to 3.8 percent in the last quarter of 2023, bringing its average for the whole year down to 6.1 percent. The deceleration continued in January, driven by the continued easing of external inflationary pressures. Inflation, thus, stood at 2.3 percent, its lowest level since October 2021. With the exception of fuel and lubricant prices whose decline eased from -4.1 percent in the fourth quarter of 2023 to -2.5 percent in January 2024, in relation to the change in petroleum product prices, the slowdown affected all the other components. The growth rate of volatile food prices dropped from 11.9 percent to 5.8 percent in January, and core inflation eased back to 2.5 percent from 3.4 percent, due mainly to its food component. Similarly, regulated tariffs stagnated in January, compared with their level a year earlier, after rising by 0.8 percent in the final quarter of 2023.

In the first quarter of 2024, inflation is expected to only average 1.6 percent, while its core component should return to 2.2 percent.

6.1 Inflation trends

Continuing its downward track, inflation fell from an average of 3.8 percent in the fourth quarter of 2023 to 2.3 percent in January 2024, its lowest level since October 2021. This deceleration concerned its three main components, namely core inflation, volatile food prices and regulated tariffs. On the other hand, fuel and lubricant prices eased, year-on-year, from -4.1 percent to -2.5 percent.

6.1.1. Prices of products excluded from core inflation

In January, volatile food prices fell by 3.5 percent month-on-month, dragged down mainly by decreases of 12.4 percent for "fresh vegetables", 3.6 percent for "citrus fruits" and 0.4 percent for "poultry and rabbit".

Year-on-year, the growth rate of these products' prices slowed down to 5.8 percent in January, compared with 11.9 percent in the fourth quarter of 2023, and their contribution to inflation was limited to 0.8 percentage points, compared with 1.5 percentage points in the last quarter of 2023.

Table 6.1 : Change in inflation and its components

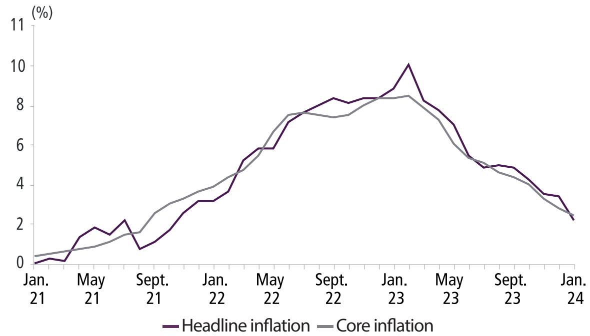
(In %)	Monthly Change			Year-on-year		
	nov. 23	dec. 23	jan. 24	nov. 23	dec. 23	jan. 24
Inflation	-0,3	-0,1	-0,6	3,6	3,4	2,3
Food products with volatile prices	-1,0	-0,6	-3,5	12,0	12,0	5,8
Price-regulated products	0,0	0,0	-0,4	0,8	0,8	0,0
Fuels and lubricants	-1,1	-2,6	-2,4	-8,2	-3,3	-2,5
Core inflation	0,0	0,2	0,1	3,3	2,8	2,5
Food products	0,0	0,3	0,2	5,7	4,4	3,7
Clothing and footwear	0,3	0,3	0,3	2,7	2,6	2,8
Housing, water, gas, electricity, and other fuels	0,2	0,2	0,0	1,2	1,2	1,2
Furniture, household goods and routine maintenance	0,1	0,1	-0,1	2,1	2,0	1,7
Healthcare[1]	-0,3	0,2	0,7	2,5	2,9	3,1
Transport[2]	0,3	0,3	0,5	1,6	1,5	2,1
Communication	0,0	-0,1	0,0	-0,1	-0,2	-0,2
Leisure and culture[1]	-0,3	-0,4	0,0	-0,9	-1,2	-1,1
Education	0,0	0,0	0,0	2,1	2,1	2,1
Restaurants and hotels	0,1	-0,1	0,5	4,8	4,2	4,3
Miscellaneous goods and services[1]	0,1	0,2	0,2	2,0	2,0	1,9

1 Excluding price-regulated products.

2 Excluding fuels and lubricants, and price-regulated products.

Sources: HCP data and BAM calculations.

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

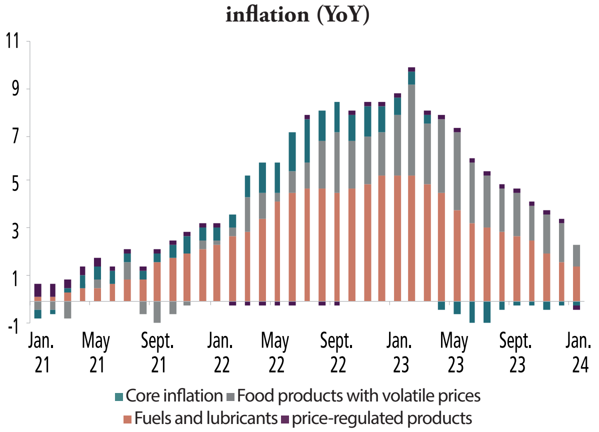


Sources : HCP and BAM calculations.

Regulated tariffs decreased by 0.4 percent in January, mainly reflecting the 4.9 percent drop in prices of "pharmaceutical products", in line with the exemption of medicines from VAT, enacted in the 2024 Finance Act. The effect of this measure more than offset the effect of the 2.2 percent increase in tobacco prices, following the third successive rise in the related domestic consumption tax (DCT) provided for in the 2022 Finance Act.

Year-on-year, regulated tariffs stagnated, compared with an average increase of 0.8 percent in the fourth quarter of 2023, and their contribution to inflation was insignificant, instead of a contribution of 0.2 percentage points in the previous quarter.

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

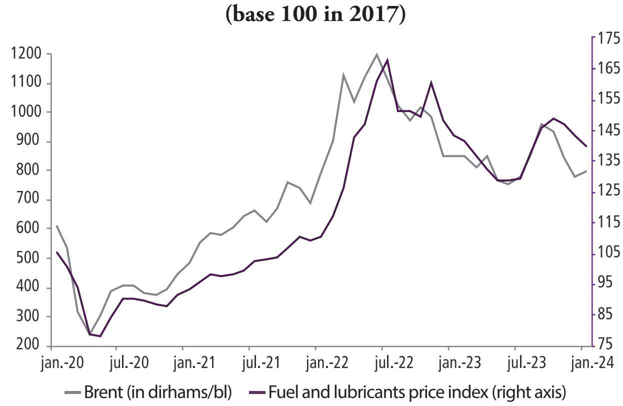


Sources : Données HCP and BAM calculations.

Fuel and lubricant prices fell by a further 2.4 percent month-on-month in January, driven by trends in the international prices of oil products. However, the year-on-year decline continued to ease to -2.5 percent from -4.1 percent a quarter earlier.

Overall contribution of fuel and lubricant prices to inflation reached -0.1 percentage points, compared with -0.2 percentage points one quarter earlier.

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



Sources : World Bank, HCP and BAM calculations.

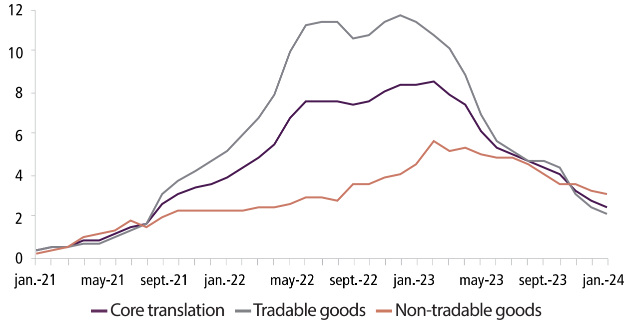
6.1.2. Core inflation

Core inflation continues to slow gradually from an average of 3.4 percent in the fourth quarter to 2.5 percent in January. This deceleration is mainly linked to the slowdown from 5.8 percent to 3.7 percent in its food component, with in particular a fall in the growth rate of "fresh meat" prices from 12.4 percent to 9.3 percent, "oils" from 8.8 percent to 5.6 percent, and milk from 6.2 percent to 0.9 percent.

Although to a lesser extent, the decrease in the growth rate of prices also affected the non-food component of core inflation, with prices for "furniture, household items and routine household maintenance" slowing down from 2.1 percent to 1.7 percent, for "restaurants and hotels" from 4.6 percent to 4.3 percent and for "miscellaneous goods and services1[1]" from 2.1 percent à 1.9 percent.

1 Excluding regulated ones.

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



Sources : HCP data and BAM calculations.

The breakdown of the core inflation indicator basket into tradable and non-tradable goods shows that its deceleration affected both components, although it was mainly driven by the tradable component.

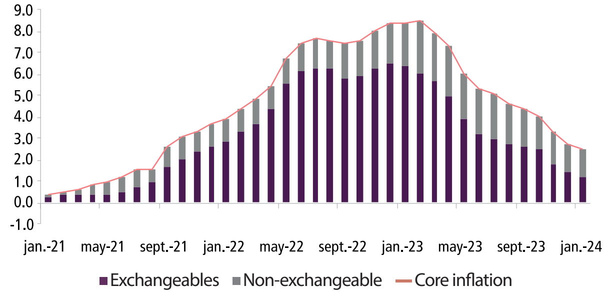
Table 6.2 : Change in the price indexes of tradables and non-tradables

	Monthly change			Year-on-year		
	nov. 23	dec. 23	jan. 24	nov. 23	dec. 23	jan. 24
Tradable goods	0.0	0.2	0.0	3.2	2.4	2.1
Non-tradable goods	0.1	0.1	0.3	3.5	3.3	3.1
Core inflation	0.0	0.2	0.1	3.3	2.8	2.5

Sources : HCP data and BAM calculations.

Prices of tradable goods rose by 2.1 percent in January instead of 3.2 percent in the fourth quarter, amid continued easing of external pressures, mainly with inflation in the euro area virtually stabilising at a moderate level and the FAO index of basic foodstuffs continuing to decline.

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

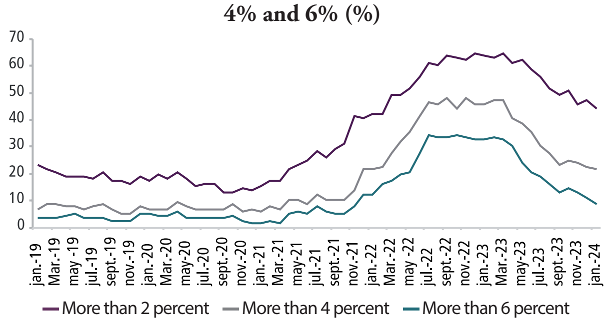


Sources : HCP and BAM calculation.

The growth rate of prices of non-tradable goods and services eased to 3.1 percent in January, instead of 3.5 percent on average between October and December 2023.

The share of products whose prices rose by more than 2 percent dropped from 48 percent on average in the fourth quarter to 44 percent in January. Similarly, the proportions of products whose prices rose by more than 4 percent and 6 percent continued to fall.

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



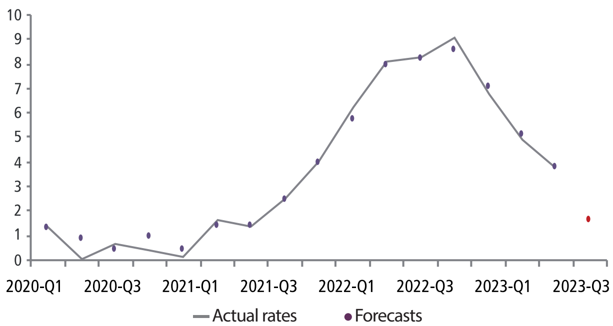
Sources : HCP and BAM calculation.

6.2 Short-term outlook for inflation

Inflation is set to continue on its downward track in the first quarter, falling to 1.6 percent from 3.8 percent in the last quarter of 2023. With the exception of fuels and lubricants, this slowdown concerns the three other analytical components of inflation, although it is mainly driven by food products with volatile prices. Thus, taking into account data from wholesale markets, the growth rate of volatile food prices should fall to 1.5 percent year-on-year, from 11.9 percent a quarter earlier.

By contrast, fuel and lubricant prices should rise by 2.1 percent in the first quarter, compared with an average fall of 4.1 percent in the fourth quarter, driven by trends in the international prices of oil products.

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



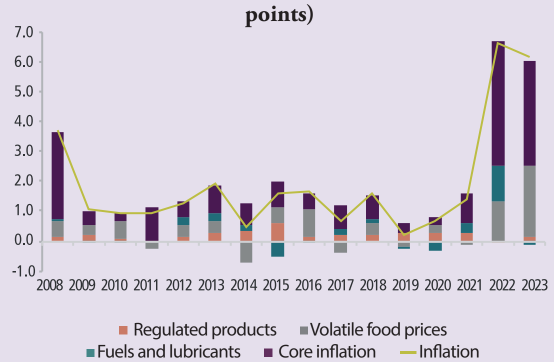
Source : HCP and BAM forecasts.

Box 6.1.1: Change in inflation in 2024

In line with global trends, inflation in Morocco decelerated to an average of 6.1 percent in 2023 after 6.6 percent in 2022. This slowdown should be linked to (i) the relative easing of external pressures, driven by lower inflation in the main trading partners and the decline in energy and food prices, and (ii) the tightening of monetary policy and temporary measures taken to this end by the Government. By component, this deceleration was due to a 4.1 percent fall in fuel and lubricant prices, instead of a 42.3 percent hike, which would have been induced by the drop in international oil prices and the appreciation of the dirham against the US dollar. It is also attributable to the slowdown in core inflation from 6.6 percent to 5.6 percent, driven mainly by the fall in the growth rate of the prices of its food component.

However, volatile food prices rebounded by an average of 18.8 percent in 2023, after rising by 11.1 percent a year earlier. This change reflects the negative impact of weather conditions on the supply of these products and the rise in production costs. Regulated tariffs rose by 0.8 percent, compared with a fall of 0.1 percent a year earlier, driven mainly by the increase in tobacco prices.

Chart B.6.1.1: Contribution to inflation (in percentage points)

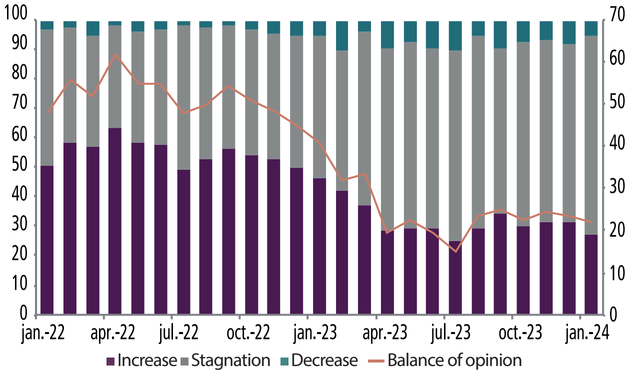


Sources: HCP data and BAM forecasts.

6.3 Inflation expectations

The results of Bank Al-Maghrib's business survey for January 2024 indicate that 68 percent of respondents expect inflation to stagnate over the next three months, 27 percent predict its rise, and 5 percent anticipate it to fall. The balance of opinion thus stands at 22 percent.

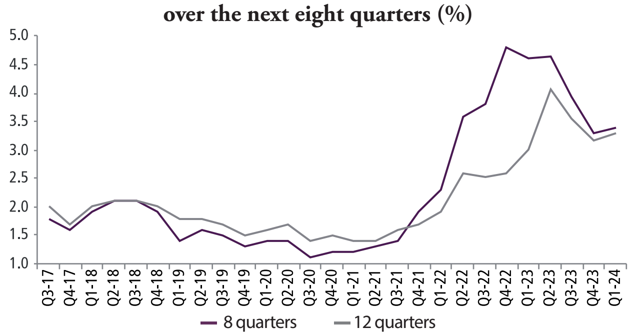
Chart 6.8 : Business owners' expectations of inflation over the next three months (%)



Source: BAM's monthly business survey.

Bank Al-Maghrib's survey of inflation expectations, conducted among financial sector experts for the first quarter of 2024, shows a virtual stability of their expectations. They foresee an average inflation of 3.4 percent over the next eight quarters, compared with 3.3 percent in the December 2023 edition of the survey. Over the next 12 quarters, their expectations stand at 3.3 percent instead of 3.2 percent.

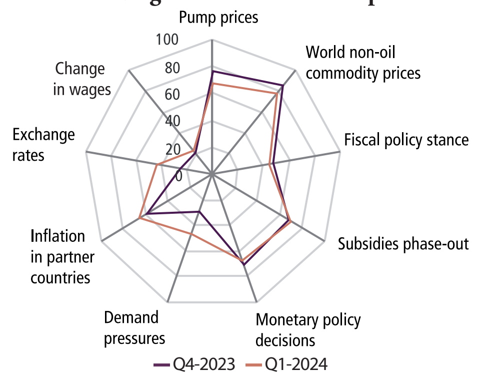
Chart 6.9 : Inflation expectations of financial sector experts over the next eight quarters (%)



Source : BAM's quarterly survey on inflation expectations.

Respondents believe that the change in inflation over the next eight quarters will depend essentially on world non-oil commodity prices, the phase-out of subsidized products and pump prices.

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

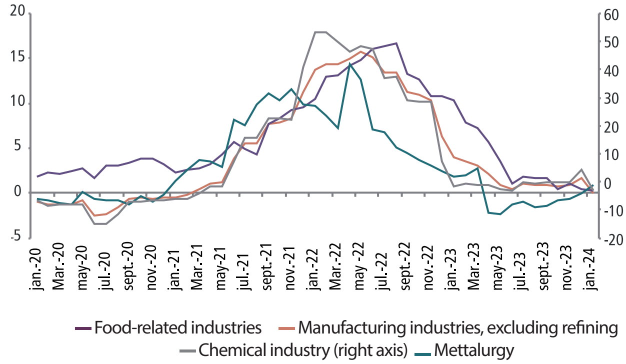


Source : BAM's quarterly survey on inflation expectations.

6.4 Producer prices

Producer prices in the manufacturing industries excluding oil refining fell by 1.3 percent month-on-month in January. This mainly reflected the 6.8 percent drop in "chemical industry" prices. Similarly, producer prices dropped by 1.3 percent in the "manufacture of rubber and plastic products" branch and by 0.3 percent in the "clothing industry". Compared with the same month of the previous year, non-refining producer prices stagnated in January, after having risen by an average of 1.2 percent in the last quarter of 2023.

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



Source : HCP.

7. MEDIUM TERM OUTLOOK

Summary

Against a backdrop of high levels of uncertainty, linked in particular to the holding of elections in many countries, global growth should slow from 3.2 percent in 2023 to 2.5 percent in 2024, before rising to 2.7 percent in 2025. In the United States, after the notable resilience shown in 2023, growth should slow to 1.8 percent in 2024 and 1.3 percent in 2025. In the euro area, growth is expected to remain weak, standing at 0.9 percent in 2024, before rising to 1.9 percent in 2025. In the United Kingdom, high interest rates and weak investment continue to weigh on growth, which should be limited to 0.3 percent in 2024 after 0.1 percent in 2023, before accelerating to 1.9 percent in 2025. In Japan, growth should fall from 1.9 percent in 2023 to 0.7 percent this year and then to 0.9 percent in 2025.

In the main emerging countries, after GDP growth of 5.2 percent in 2023, the Chinese economy is expected to slow to less than 5 percent in the short and medium term, penalised in particular by the difficulties in the property market and the deterioration in consumer confidence. The Indian economy is expected to grow at a sustained pace, benefiting from strong public investments. In Brazil, growth should fall to 1.5 percent in 2024 from 3.1 percent in 2023, due to a restrictive monetary policy and less favourable terms of trade. In Russia, public spending is expected to continue to support economic activity, although the growth rate of the latter is set to slow from 3.6 percent in 2023 to 1.9 percent in 2024. In 2025, the economy should contract by 0.3 percent, mainly due to the dissipation of the effect of the fiscal stimulus and the tightening of monetary conditions.

On the commodities markets, the uncertainty surrounding energy prices should persist, fuelled by geopolitical tensions and disruptions to shipping in the Red Sea. For oil in particular, the price of Brent crude should fall from 82.2 dollars a barrel in 2023 to an average of 81.2 dollars this year, before settling at 84.5 dollars in 2025. Coal prices are expected to continue their downward trend in 2024, driven by a reduction in demand as gas prices continue to fall, before rebounding slightly in 2025. As for natural gas on the European market, the World Bank's projections of October 2023 point to a significant fall in the price in the short and medium term.

Concerning the prices of Moroccan phosphate and derivatives, DAP and TSP are expected to fall overall in 2024, before rebounding in 2025. As for foodstuffs, the FAO index should drop by an average of 3.7 percent in 2024, before rising by 4.4 percent in 2025, after contracting by 13.8 percent in 2023.

Under these conditions, inflationary pressures should continue to ease. In the United States, inflation should continue to fall, reflecting in particular declines in its underlying component and in energy prices. A similar trend is expected in the euro area as well.

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

At national level, the year 2023 was marked by a fall in trade in goods, due to a 2.9 percent decline in imports and virtual stability in exports. Travel receipts remained high, standing at 104.6 billion dirhams, and transfers from Moroccan expatriates continued their uptrend, reaching 115 billion compared with 110.7 billion a year earlier. The current account deficit thus ended the year at 0.6 percent of GDP, after 3.5 percent in 2022. FDI receipts were limited to 32.5 billion, compared with 39.6 billion in 2022, equivalent to 2.2 percent of GDP. Under these conditions, official reserve assets stood at 359.4 billion dirhams at the end of 2023, equivalent to 5 months and 12 days of imports of goods and services.

Over the forecast horizon, the pace of trade in goods is expected to accelerate, with exports improving by 4.1 percent in 2024 and 8.5 percent in 2025, driven by the continued momentum in the automotive sector, and growth rates of 7.3 percent and 7.8 percent, respectively, in imports. At the same time, travel receipts should post sustained growth of around 7.6 percent in 2024 and 7.3 percent in 2025, in line with the continuing dynamism of the tourism sector. The outlook for transfers from Moroccan expatriates remains largely uncertain, with Bank Al-Maghrib's central scenario assuming that they will remain at high levels, at 116.5 billion dirhams in 2024 and 122.4 billion in 2025. The current account deficit should therefore reach about 2.3 percent of GDP in 2024 and 2.8 percent in 2025. With regard to FDI receipts, projections forecast levels of around 3 percent of GDP in 2024 and 3.2 percent in 2025.

Assuming, in particular, that the Treasury's planned external financing materialises, official reserve assets are expected to stabilise at around 359.8 billion dirhams in 2024 before rising to 373.5 billion dirhams in 2025, representing the equivalent of almost 5 months' imports of goods and services.

With regard to monetary conditions, the growth rate of bank credit to the non-financial sector should accelerate to 4.4 percent in 2024 and 4.7 percent in 2025. The real effective exchange rate should appreciate slightly in 2024 and remain virtually stable in 2025.

As regards public finances, according to Bank Al-Maghrib's projections, the budget deficit should narrow to 4.4 percent of GDP in 2023 and 2024, and then to 4 percent in 2025.

As for economic growth, after slowing sharply to 1.3 percent in 2022, it should be close to 3 percent in 2023, reflecting increases of 5.5 percent in the agricultural value added and 2.6 percent in non-agricultural activities. In the medium term, growth is projected to slow to 2.1 percent in 2024, before rebounding to 4.3 percent in 2025. On the supply side, this trend includes a 6.4 percent contraction in agricultural value added in 2024, taking into account low cereal production of around 25 MQx for the 2023-2024 crop year, according to BANK AL-MAGHRIB estimates, before rising to 12.8 percent in 2025, assuming a return to an average cereal harvest. As for non-agricultural activities, their growth rate should gradually improve, to 3 percent in 2024 and 3.5 percent in 2025. On the demand side, the domestic component should consolidate, while the contribution of net exports should average zero over the rest of the horizon.

Against this backdrop, after the high rates of 6.6 percent in 2022 and 6.1 percent in 2023, inflation should return to moderate levels, standing at 2.2 percent in 2024 and 2.4 percent in 2025. Similarly, its underlying component should slow to 2.3 percent in 2024 and 2025.

7.1 Underlying assumptions

A moderation in the global economy in 2024

Despite monetary tightening and geopolitical tensions, the global economy showed considerable resilience in 2023, with growth reaching 3.2 percent. In 2024, against a backdrop of high levels of uncertainty, linked in particular to the holding of elections in many countries, the growth rate should moderate to 2.5 percent before rising to 2.7 percent in 2025.

In the United States, after the notable resilience shown in 2023, growth should slow to 1.8 percent in 2024 and 1.3 percent in 2025. In the euro area, growth is expected to remain weak, standing at 0.9 percent before rising to 1.9 percent in 2025, backed by improved purchasing power and a rebound in domestic demand, linked to the expected easing of financial conditions. In the United Kingdom, high interest rates and weak investment continue to weigh on growth, which is expected to stand at around 0.3 percent in 2024 after 0.1 percent in 2023, before accelerating to 1.9 percent in 2025, particularly given the planned easing of monetary policy. In Japan, growth should fall from 1.9 percent in 2023 to 0.7 percent this year and then to 0.9 percent in 2025, suffering from structural problems linked in particular to the ageing of the population, as well as weak external demand, particularly from China and Europe.

In the main emerging countries, due to persistent problems in the property sector, deteriorating consumer confidence and weak foreign demand, growth in China is expected to slow from 5.2 percent in 2023 to 4.5 percent this year, before reaching 4.7 percent in 2025. It should be noted that the IMF is forecasting a gradual deceleration in the pace of activity to around 3.5 percent by 2028, with the ageing population and weakening productivity continuing to weigh on activity. In India, growth is expected to remain robust at 6.2 percent in 2024 and 2025, after 7.2 percent in 2023, supported mainly by strong public investment. In Brazil, the pace of activity should slow to 1.5 percent in 2024 after 3.1 percent in 2023, due to a restrictive monetary policy and less favourable terms of trade, before improving to 1.8 percent in 2025. In Russia, strong public spending should continue to support economic activity, although the growth rate should fall from 3.6 percent in 2023 to 1.9 percent in 2024. In 2025, the economy should contract by 0.3 percent, due in particular to the dissipation of the effect of the fiscal stimulus and the tightening of monetary conditions.

Chart 7.1 : Growth in the euro area

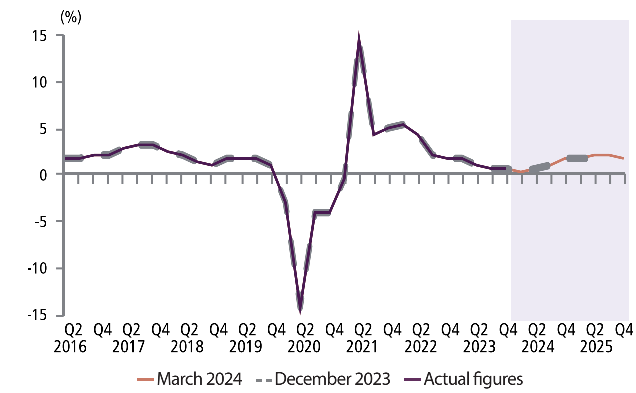
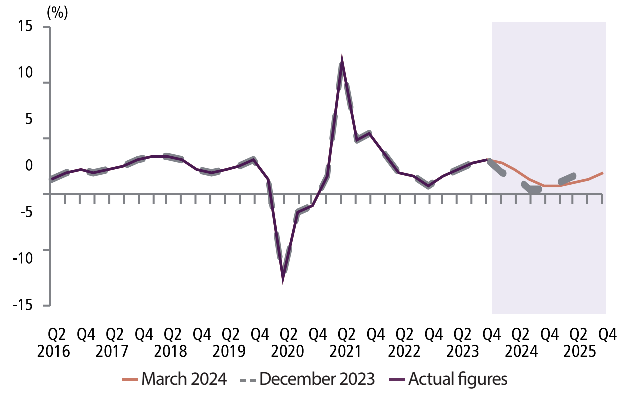


Chart 7.2 : Growth in the USA



Source : GPMN, February 2024.

Global trend towards slower inflation

Concerning commodities, the uncertainty surrounding energy prices is likely to persist, fuelled by geopolitical tensions and disruptions to shipping in the Red Sea. For oil in particular, Brent crude prices should fall from 82.2 dollars a barrel in 2023 to an average of 81.2 dollars this year, due to weaker global demand and increased supply from non-OPEC countries, before rising to 84.5 dollars in 2025. In the case of coal, the drop seen in 2023 should continue in 2024. The price is expected to reach $110.2/t amid lower demand. It should recover slightly to $116.8/t in 2025. As for natural gas on the European market, after a significant fall in the price to around $13/mmbtu in 2023, the World Bank's projections of October 2023 point to virtual stability around this level in the medium term.

After declining in 2023 in line with input prices (particularly natural gas), prices for Moroccan phosphate and derivatives11 should continue to fall in 2024. They should drop from $589/t in 2023 to $543/t in 2024 for DAP, and from $449/t to $435/t for TSP. In 2025, this trend would reverse, with prices rising to $575/t for DAP and $466/t for TSP, in line with the increase in input prices. The price of Moroccan phosphate rock should drop from $271/t in 2023 to $197/t in 2024, and then to $162/t in 2025.

Food prices (FAO index) fell by an average of 10.4 percent year-on-year over the first 2 months of the year, mainly reflecting lower prices for cereals and dairy products. After the sharp contraction of 13.8 percent in 2023, the FAO index should drop by an average of 3.7 percent in 2024, before rising by 4.4 percent in 2025. US durum wheat prices averaged $281.2/t in January and February, down 27.4 percent year-on-year. It is set to continue falling, by 2.9 percent in 2024 and 4.5 percent in 2025.

Against this background, inflationary pressures should continue to ease over the forecast horizon, with global inflation falling from 4.7 percent in 2023 to 3.4 percent in 2024 and 3 percent in 2025. In the US, inflation should continue to slow down, from 4.1 percent in 2023 to 2.9 percent in 2024 and 2.6 percent in 2025, backed by the decrease in its underlying component and in energy prices. Similarly, growth in the euro area should slow from 5.4

1 Source : CRU.

percent in 2023 to 2.3 percent in 2024 and 1.9 percent in 2025, as the impact of monetary tightening persists. In China, inflation is expected to remain close to zero, moving from 0.2 percent in 2023 to 0.3 percent in 2024, largely as a result of the contraction in food and energy prices, before accelerating to 1.8 percent in 2025 on the back of the expected rise in domestic demand.

Chart 7.3 : Price of Brent

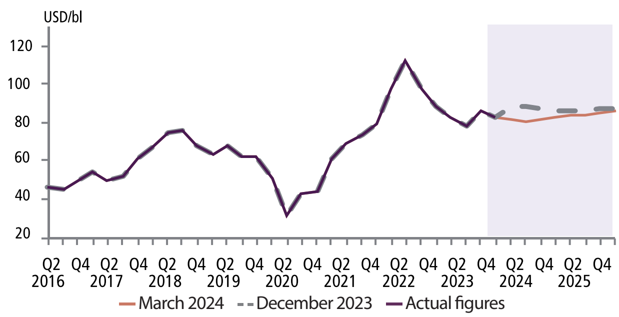


Chart 7.4 : FAO Food Price Index (2014-2016=100)

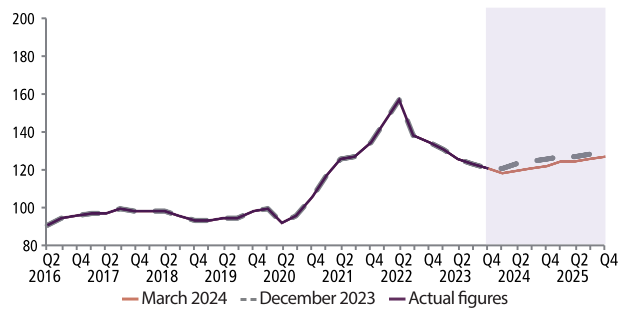


Chart 7.5 : Inflation in the euro area

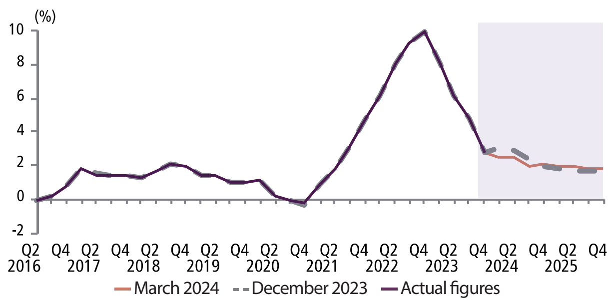
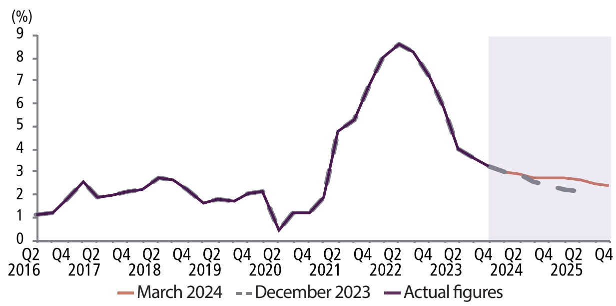


Chart 7.6 : Inflation in the United States



Source : GPMN, February 2024.

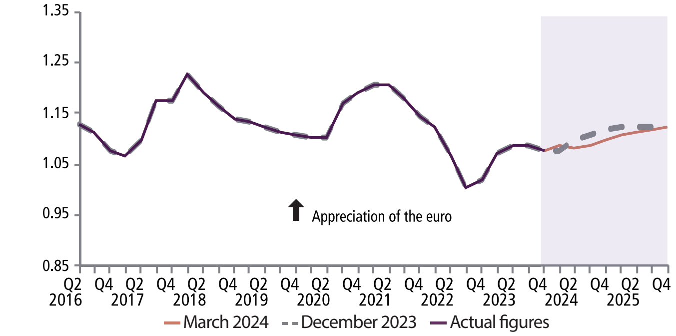
ECB and FED keep key rates unchanged

At the end of its meeting on 7 March, the ECB kept its three key interest rates unchanged for the fourth time. It revised its inflation projections downwards, particularly for 2024, mainly due to a weaker contribution from energy prices. It also decided to end reinvestments under its pandemic emergency purchasing programme (PEPP) at the end of 2024, with those under the Asset Purchase Programme (APP) ending in July 2023.

At its meeting on 30 and 31 January, the FED also kept the target range for the federal funds rate unchanged at [5.25 -5.50 percent], against a backdrop of recovering economic activity and moderating inflation. At the same time, the Committee announced that it will continue to reduce holdings of Treasury bonds and mortgage-backed securities. In addition, it indicated that it would continue to monitor the implications of the new data on the economic outlook. It would be prepared to adjust its monetary policy stance in the event of any risks likely to impede the achievement of its objectives.

On the currency markets, the euro is likely to appreciate against the US dollar over the forecast horizon, impacted in particular by the expected change in the interest rate differential. The euro is forecast to rise by 0.7 percent to an average of $1.09 this year, and by 2.4 percent to $1.12 in 2025.

Chart 7.7 : USD/EUR exchange rate



Source : GPMN, February 2024.

Cereal production of around 25 MQx for the 2023/2024 crop year and an average harvest for 2024/2025

The 2023/2024 crop year was marked by unfavourable weather conditions. Rainfall was low and unevenly distributed over space and time. Cumulative rainfall reached 170.5 mm on the 10th March 2024, down 15.6 percent on the previous season and 12.3 percent on the average for the last five years. The filling rate of dams remains extremely low, standing at 26.6 percent as on the 15 March, compared with 34.8 percent a year earlier, 32.8 percent in 2022 and 79.4 percent in 2015. Similarly, the analysis of the state of the vegetation, as assessed by the vegetation index, shows that the vegetation cover situation on the 10th March 2024 was 19.1 percent lower compared to the previous season and 12.3 percent lower compared to the last five years' average. Under these conditions and on the basis of a sown area of around 2.5 million hectares, compared with almost 3.7 million a year earlier, according to the Department of Agriculture, the cereal harvest should be around 25 MQx, according to BANK AL-MAGHRIB's initial estimates.

Taking into account developments in non-cereal crops, which are likely to be affected by the current water situation, BANK AL-MAGHRIB forecasts that agricultural value added will fall by 6.4 percent in 2024, instead of the 5.9 percent increase forecast in December, which was based on the assumption of a cereal production of 70 million quintals. For the 2024/2025 crop year, and assuming an average cereal production of 55 MQx[1] and an average trend[1] in the other crops, the agricultural added value would increase by 12.8 percent against 2 percent forecast in the previous report.

1 Because of the recurrence of drought years, the average harvest over the last five years is used instead of the last ten years.

7.2 Macroeconomic projections

Recovery in foreign trade in the medium term and consolidation of high levels of travel receipts and transfers from Moroccan expatriates.

Considering foreign trade data to the end of 2023, the current account deficit has been revised downwards to 0.6 percent of GDP, compared with 1.6 percent forecast in December. It should be around 2.3 percent of GDP in 2024 and 2.8 percent in 2025.

The revision for 2023 is essentially linked to a larger-than-expected rise in exports of non-travel services and a slight underestimation of transfers from Moroccan expatriates. Official reserve assets stood at 359.4 billion dirhams at the end of 2023, covering 5 months and 12 days of imports of goods and services.

Over the forecast horizon, exports are projected to improve by 4.1 percent in 2024 and 8.5 percent in 2025, driven mainly by shipments from the automotive sector and, to a lesser extent, by exports of phosphate and derivatives. Imports are projected to rise by 7.3 percent in 2024, driven mainly by increases in purchases of food products and capital goods. In 2025, the growth rate of imports should accelerate to 7.8 percent, mainly reflecting the strong growth forecast in purchases of capital goods, in line with the investment momentum. Travel receipts should increase by 7.6 percent in 2024 and then by 7.3 percent to reach 120.8 billion dirhams in 2025. The outlook for transfers from Moroccan expatriates remains largely uncertain, with Bank Al-Maghrib's central scenario forecasting an improvement of 1.2 percent in 2024 to 116.5 billion dirhams and 5.1 percent in 2025 to 122.4 billion on the back of faster growth in the euro zone, the main source market. With regard to FDI receipts, levels of around 3 percent of GDP are forecast in 2024 and 3.2 percent in 2025.

Considering the Treasury's external drawing assumptions and scheduled repayments, official reserve assets should stabilise at 359.8 billion dirhams at the end of 2024 before rising to 373.5 billion in 2025, providing the equivalent of almost 5 months' imports of goods and services.

Table 7.1: Main components of the balance of payments

Change (in %), unless otherwise indicated otherwise	Actual figures						Forecast		Gaps (mar./dec.)		
	2018	2019	2020	2021	2022	2023	2024	2025	2023	2024	2025
Exports of goods (FOB)	10.7	3.3	-7.5	25.2	30.1	0.2	4.1	8.5	0.9	-2.7	1.1
Imports of goods (CIF)	9.9	2.0	-13.9	25.0	39.5	-2.9	7.3	7.8	-0.3	3.1	-0.5
Travel receipts	1.2	7.8	-53.7	-5.1	170.8	11.7	7.6	7.3	-1.5	8.1	0.8
Remittances	-1.5	0.1	4.8	40.1	16.0	4.0	1.2	5.1	2.1	-0.7	0.7
Current account balance (% GDP)	-4.9	-3.4	-1.2	-2.3	-3.5	-0.6*	-2.3	-2.8	1.1	0.2	1.1
Official reserve assets in months of imports of goods and services	5.4	6.9	7.1	5.3	5.4	5.4	5.0	5.2	-0.1	-0.1	0.0

* Estimation
Sources: Office des Changes data and BAM forecasts.

Continued widening of banks' liquidity needs and acceleration of lending to the non-financial sector over the forecast horizon

The bank liquidity deficit should continue to widen, reaching 121.1 billion dirhams at the end of 2024 and 143.2 billion in 2025, due to the continued strong growth in currency in circulation with rates of 6.8 percent in 2024 and 7.8 percent in 2025. As for bank credit to the non-financial sector, taking into account actual figures, economic activity projections and banking system expectations, it should accelerate to 4.4 percent in 2024 and 4.7 percent in 2025. Against this backdrop, and in line with the forecast change in the other counterparts of the money supply, the M3 aggregate should increase by 4 percent in 2024 and 5.1 percent in 2025.

For its part, the real effective exchange rate should continue to appreciate in 2024, with a rate of 1.3 percent, after 0.8 percent in 2023, in line with the increase of its nominal value, before becoming virtually stable in 2025.

Table 7.2: Money supply and bank lending

% change, unless otherwise indicated otherwise	Actual figures					Forecast		Gaps (mar./dec.)	
	2019	2020	2021	2022	2023	2024	2025	2024	2025
Bank credit to the non-financial sector	5.5	4.2	2.9	7.9	2.7	4.4	4.7	-0.2	0.0
M3	3.8	8.4	5.1	8.0	3.9	4.0	5.1	-1.3	-1.0
Liquidity requirement, in MMDH	-64.6	-74.6	-64.4	-86.6	-111.4	-121.1	-143.2	0.2	-5.5

Mitigation of the budget deficit over the forecast horizon

According to Bank Al Maghrib's projections, the budget deficit should narrow to 4.4 percent of GDP in 2023 and 2024, then to 4 percent in 2025. These forecasts essentially take into account Bank Al Maghrib's new macroeconomic projections and the programming of the 2024 Finance Act and the multi-year programme for 2025.

In 2024, tax revenues are expected to grow by 2.2 percent, with a 7 percent increase in indirect tax revenues, attributable mainly to the forecast rebound in VAT revenues, and a 1.8 percent decline in direct tax revenues. Non-tax revenues are projected to grow by 20.6 percent year-on-year, driven mainly by a 37.6 percent increase to 35 billion dirhams in revenues from specific financing mechanisms and a 39.3 percent rise in revenues from public establishments and enterprises. Ordinary expenditure is projected to rise by 5.1 percent compared with 2023, reflecting a 9 percent increase in goods and services, linked to a 6.5 percent rise in the wage bill and a 13.6 percent increase in the "other goods and services", as well as a 17.3 percent rise in debt interest charges. Subsidization costs are expected to fall by 43.4 percent to 17 billion. Capital expenditure is expected to drop by 4.9 percent to 105.3 billion, equivalent to 7 percent of GDP.

In 2025, tax revenues are expected to increase by 6.7 percent year-on-year, reflecting rises of 8.3 percent in direct taxes, with improvements of 8.8 percent in corporate tax and 8 percent in income tax, and of 5.6 percent in indirect taxes, reflecting the performance of VAT and domestic consumption tax. Although revised upwards compared with December's issue, in line with the trend in "other revenues", non-tax revenues are forecast to fall by 1.6 percent year-on-year, mainly as a result of the 3.7 percent decline in revenues from public establishments and enterprises. They also include receipts of 35 billion from specific financing mechanisms. At the same time, ordinary expenditure should rise by 3.5 percent, mainly due to increases of 4.6 percent in goods and services and 10.7 percent in debt interest charges, while subsidization expenditure should, according to the three-year budget programme (2024-2026), fall by 32.2 percent to 11.5 billion in connection with the phasing out of subsidization. Treasury investments are expected to rise by 1.1 percent to 106.4 billion, giving a GDP ratio of 6.6 percent.

Relative improvement in growth in 2023 and continued improvement in non-agricultural activities in the medium term

After slowing sharply to 1.3 percent in 2022, economic growth should be close to 3 percent in 2023, reflecting increases of 5.5 percent in agricultural value added and 2.6 percent in non-agricultural activities.

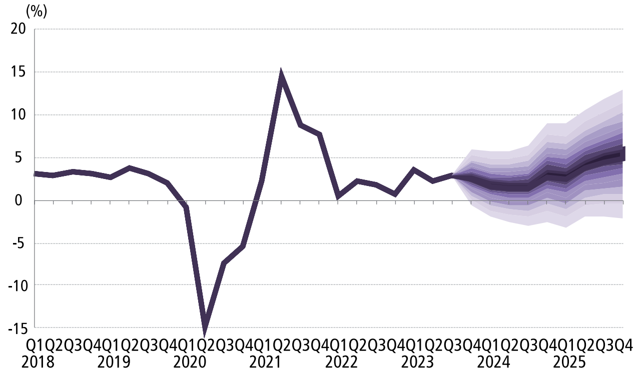
In the medium term, growth is expected to slow to 2.1 percent in 2024, a clear downward revision of 1.1 percentage points compared with the December forecast, before rebounding to 4.3 percent in 2025. On the supply side, this change means that agricultural value added will contract by 6.4 percent in 2024, instead of the 5.9 percent increase forecast in December, taking into account a low cereal production of 25 MQx for the 2023-2024 crop year, according to Bank Al-Maghrib's estimates, before rebounding by 12.8 percent in 2025, assuming a return to an average cereal harvest. As for non-agricultural activities, their growth rate should gradually improve, reaching 3 percent in 2024 and 3.5 percent in 2025. On the demand side, this change should reflect a consolidation of the domestic component, thanks in particular to a relative improvement in household consumption after a slow pace in 2023, and to a sustained momentum in investment, given the positive spin-offs expected from the various projects underway. On the other hand, the contribution of net exports should be cancelled out on average over the rest of the period.

Table 7.3: Economic growth

Variation in %	Actual figures				Forecast			Gaps (mar./dec.)		
	2019	2020	2021	2022	2023	2024	2025	2023	2024	2025
National growth	2.9	-7.2	8.0	1.3	2.8	2.1	4.3	0.1	-1.1	0.9
Agricultural VA	-5.0	-8.1	19.5	-12.9	5.5	-6.4	12.8	0.5	-12.3	10.8
Non-agricultural VA	4.0	-6.9	6.3	3.0	2.6	3.0	3.5	0.1	0.3	-0.2

Sources: HCP data and BAM calculations and forecasts.

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

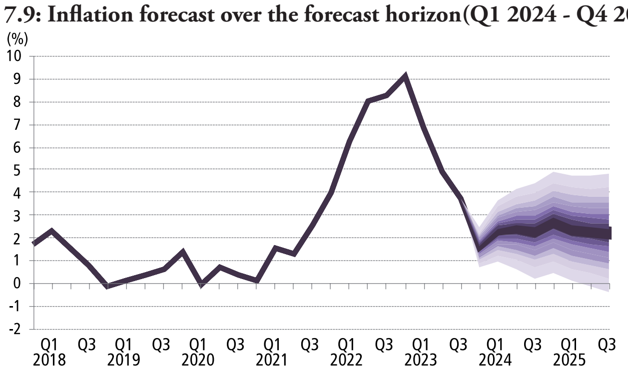


*Uncertainties surrounding the central forecast with confidence intervals ranging from 10 percent to 90 percent.

Inflation set to return to moderate levels in the medium term

After the high rates, of 6.6 percent and 6.1 percent, recorded in 2022 and 2023, respectively, inflation is expected to return to moderate levels, standing at 2.2 percent in 2024, revised down by 0.2 percentage points compared to the December forecasts, and then at 2.4 percent in 2025. Its underlying component should slow from 5.6 percent in 2023 to 2.3 percent in 2024, and should remain around this level in 2025. Similarly, volatile food prices are set to slow sharply, from 18.8 percent in 2023 to 1.8 percent in 2024. Regulated tariffs are expected to rise by 2.5 percent in 2024 and 4.3 percent in 2025, taking into account the subsidization phasing-out process due to begin in April. Prices for fuels and lubricants are expected to rise slightly over the forecast period, following the 4.1 percent fall observed in 2023.

Chart 7.9: Inflation forecast over the forecast horizon(Q1 2024 - Q4 2025)*



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

Table 7.4 : Inflation and core inflation

	Actual figures					Forecast			Gaps (mar./dec.)	
	2019	2020	2021	2022	2023	2024	2025	(Q1-2024 to Q4-2025)	2024	2025
Inflation	0.2	0.7	1.4	6.6	6.1	2.2	2.4	2.3	-0.2	0.0
Underlying inflation	0.5	0.5	1.7	6.6	5.6	2.3	2.3	2.3	-0.1	0.0

Sources: HCP data and BAM calculations and forecasts.

Chart 7.10 : Change in core inflation and output gap

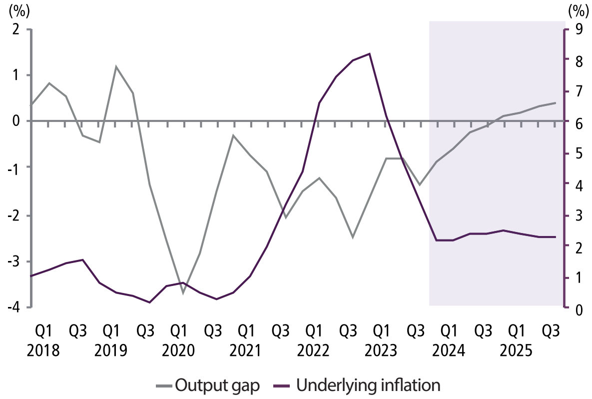
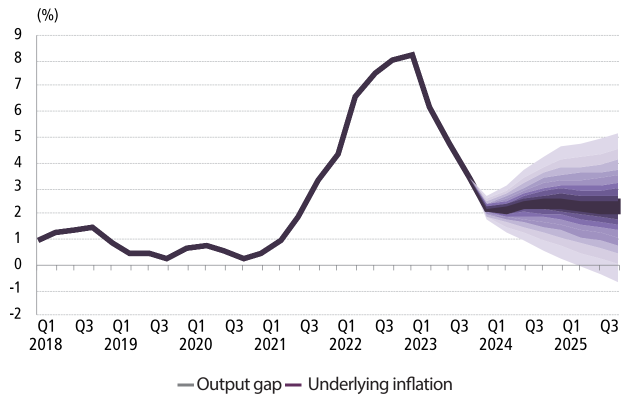


Chart 7.11 : Projections of core inflation over the forecast horizon (Q1 2024 - Q4 2025)*



* 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

The uncertainties surrounding the international outlook remain high, especially as 2024 will be an election year in many countries, with the balance of risks tilted to the downside for growth and to the upside for inflation. The continuing repercussions of the war in Ukraine and the risk of escalation in the Middle East could lead to a more pronounced slowdown in global economic activity and a disruption in energy supplies, resulting in higher commodity prices.

At national level, the risks to economic activity are mainly linked to the recurrence of droughts and the worsening of water stress in the medium term. On the other hand, efforts aiming to boost investment and the large-scale projects launched by the Kingdom reinforce optimism about a more pronounced pace of economic activity in the medium and long term. As for inflation, the risks to its outlook remain on the upside. The succession of periods of drought and the worsening of water stress could lead to higher food prices and, consequently, to inflation remaining 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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