PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 25, 2024

1. The Board of Bank Al-Maghrib held its second quarterly meeting of 2024 on Tuesday, June 25.
2. During this meeting, the Board first examined and approved the annual report on the country's economic, monetary, and financial situation, as well as the Bank's activities for the 2023 fiscal year. Subsequently, the Board analyzed the national and international economic developments, as well as the medium-term macroeconomic projections of Bank Al-Maghrib.
3. At the international level, the Board noted the relative resilience of the economic activity and the decline in inflationary pressures, which is set to continue, albeit at a slower pace than last March forecast. These prospects remain, however, surrounded by a high level of uncertainty, particularly in view of the ongoing geopolitical tensions and conflicts in Ukraine and in the Middle East.
4. At the domestic level, the annual national accounts released by the High Commission for Planning for 2023 show a faster pace of non-agricultural activity compared with quarterly data for the same year, and a marked improvement in household consumption. Taking into account the available high frequency indicators, this information augurs a relatively higher path of non-agricultural growth, likely to be underpinned by the expected momentum in both public and private investment over the medium term.
5. After reaching 6.6 percent in 2022 and 6.1 percent in 2023, domestic inflation returned to low levels in recent months, mainly driven by easing external pressures and lower prices of volatile food products. Considering these data and the resumption of the process of subsidies removal, inflation should end the current year with an average of 1.5 percent, before rising to 2.7 percent in 2025. Its underlying component, which reflects the fundamental price trend, averaged 2.1 percent over the first five months of the year and should remain close to this level until end-2025.
6. The Board also noted the firm anchoring of inflation expectations as reflected in Bank Al-Maghrib's quarterly survey of financial sector experts' data. Inflation expectations declined significantly in the second quarter, standing at 2.7 percent for the 8-quarter horizon and to 2.8 percent for the 12-quarter horizon.
7. As for the transmission of previous monetary policy decisions to financial conditions, bank lending rates remained roughly stable for the second consecutive quarter, with a cumulative increase of 116 bp between the start of the monetary tightening in September 2022 and the first quarter of 2024. The rise in rates affected corporate customers more than individuals and was less significant for VSMEs than for large companies.
8. In view of these considerations, the Board assessed that the calibrated tightening of monetary policy, the regular monitoring of the transmission of its decisions and the measures rolled out by the Government to support household purchasing power and some economic activities allowed for considerable progress in steering inflation back to levels consistent with the price stability objective and in maintaining the post-covid

recovery. Against this backdrop, and after keeping the key rate unchanged for four consecutive meetings, the Board decided to lower it by 25 basis points to 2.75 percent.

9. The Board will continue to closely monitor economic conditions and inflation both at the national and international level.
10. On the commodity markets, oil prices are set to rise slightly from an average of $82.2/barrel of Brent in 2023 to $84.7/barrel in 2024 and $86/barrel in 2025, supported by increasing global demand and prolonged OPEC+ production cutbacks. As for Moroccan phosphate and its derivatives, according to *Commodities Research Unit* projections, DAP price will decrease from $591/t in 2023 to $564/t in 2024, mainly reflecting lower input costs, but should hover in 2025 at levels close to those recorded in 2023. Crude phosphate prices are likely to continue falling, from $271/t in 2023 to $230/t in 2024, then to $212/t in 2025. As regard to food prices, after the 13.7 percent contraction observed in 2023, the FAO index should fall by 4.6 percent in 2024, before rising by 4.3 percent in 2025.
11. Under these conditions, inflation should continue to decelerate over the medium term, declining worldwide from 4.7 percent in 2023 to 3.5 percent in 2024, then to 3.1 percent in 2025. It is projected to slow respectively from 5.4 percent to 2.5 percent then 2.2 percent in the Euro area and from 4.1 percent to 3.3 percent then 2.7 percent in the USA.
12. In terms of monetary policy, central banks of the main advanced and emerging economies have adopted relatively divergent stances, with some starting an easing process while others keeping their key rates unchanged. Against a backdrop of decelerating inflation, the ECB decided, at its June 6 meeting, to lower its three key rates by 25bp, after maintaining them unchanged for 5 consecutive meetings. As for the FED, it held its target range unchanged for the seventh time in a row at [5.25 percent-5.50 percent] at its June 11 and 12 meeting, amid sustained favorable labor market conditions and modest progress towards the inflation target.
13. Regarding the outlook for the global economy, growth is set to decelerate, albeit less rapidly than last March forecast. In the United States, following a remarkable resilience in 2023, GDP is expected to rise by 2.1 percent this year, then by 1.4 percent in 2025, mainly reflecting a slowdown in consumer spending. In the Euro Area, growth is set to accelerate, although remaining sluggish this year, mainly due to difficulties in the German manufacturing sector and to fiscal consolidation. Growth is thus set to rise from 0.5 percent in 2023 to 0.9 percent in 2024, then to 1.8 percent in 2025. In main emerging markets, the Chinese economy is likely to continue suffering from difficulties in its real estate market, high levels of local government debt and the announced increase in US custom duties. Its growth should reach the 5 percent target this year, driven, in part, by stronger foreign demand, but would then decelerate to 4.8 percent in 2025. In contrast, the Indian economy should remain robust over the medium term, boosted by public investment, with GDP growing by 6.8 percent in 2024 and 6.6 percent in 2025.
14. Domestically, economic growth accelerated from 1.5 percent in 2022 to 3.4 percent in 2023, as a result of a 3.5 percent improvement, after 3.4 percent, in non-agricultural value added, as well as a slight recovery by 1.4 percent, after a contraction of 11.3 percent in agricultural value added. In the medium term, non-agricultural activities are expected to strengthen at rates of 3.8 percent in 2024 and 4.1 percent in 2025, thanks particularly to the various projects launched and scheduled, the continued momentum of tourism-related activities,

and the consolidation of household consumption in line with inflation slowdown and wage increases. However, agricultural production would remain dependent on climate conditions. Thus, considering a cereal crop estimated by the Department of Agriculture at 31.2 million quintals, agricultural value added would fall by 6.9 percent this year, before rebounding by 8.6 percent in 2025, assuming a return to an average cereal harvest of 55 million quintals. Overall, national economic growth would return to 2.8 percent in 2024, before accelerating to 4.5 percent in 2025.

15. On the external accounts side, after a virtual stagnation in 2023, exports of goods are set to improve by 4.4 percent in 2024 and 8.9 percent in 2025, mainly driven by sales in the automotive sector and phosphates and derivatives, which are expected to reach 185.1 billion and 88.5 billion dirhams respectively in 2025. At the same time, and after a 2.9 percent decline in 2023, imports would rise by 6.1 percent and then 9.7 percent, mainly due to an increase in purchases of capital and consumer goods, while the energy bill would ease this year, followed by a rise of almost 5 percent in 2025 to 125.1 billion dirhams. Travel revenues would continue to perform well, with annual increases of 5.8 percent to stand at 117.2 billion in 2025. Similarly, available data indicate a continuation of the upward trend in remittances, with improvements of 1.9 percent this year and 5.3 percent in 2025 to 123.7 billion dirhams. Under these conditions, and after an exceptional easing to 0.6 percent of GDP in 2023, the current account deficit would hover around 1.7 percent of GDP in 2024 and 2.7 percent in 2025. Furthermore, FDI receipts, after a relatively low level in 2023 equivalent to 2.4 percent of GDP, would strengthen to almost 3.1 percent of GDP in 2024 and 2025. Finally, considering the forecast of the Treasury's external financing, official reserve assets would continue to strengthen, reaching 382 billion dirhams by the end of 2024 and 395.6 billion dirhams by the end of 2025, representing a coverage of around 5.5 months of imports of goods and services.
16. Regarding monetary conditions, banks' liquidity needs would slightly ease, falling from 111.4 billion at end-2023 to 109.8 billion dirhams at end-2024, before growing to 133.6 billion at end-2025, mainly driven by the expected expansion of currency in circulation. Considering these changes, forecasts for non-agricultural growth and banking system expectations, growth in credit to the non-financial sector would accelerate from 2.7 percent in 2023 to 4.4 percent in 2024 and to 5.2 percent in 2025. As for the real effective exchange rate, given the inflation differential with our main trading partners and competitors, and its rise in nominal terms, it would continue to slightly appreciate to 0.5 percent in 2024 and to 0.2 percent in 2025, after 0.8 percent in 2023.
17. In terms of public finances, budget execution for the first five months of 2024 showed a 10.8 percent improvement in current revenues, driven by higher tax receipts. At the same time, overall expenditure rose by 1.2 percent, driven by goods and services, while subsidies and capital expenditure declined. In the light of these changes, the additional appropriations of 14 billion dirhams allocated to the general budget, of which almost half are earmarked for wage increases convened within the social dialogue, and the update of its macroeconomic projections, Bank Al-Maghrib expects the fiscal deficit to remain stable at 4.4 percent of GDP this year, and to fall to 4.1 percent by 2025.