PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 24, 2024.

1. The Board of Bank Al-Maghrib held its third quarterly meeting of 2024 on Tuesday, September 24.
2. During this meeting, the Board analyzed the domestic and global economic developments, as well as Bank Al-Maghrib's medium-term macroeconomic projections.
3. At the international level, the Board noted that the economic activity has been relatively resilient but is likely to decelerate over the forecast horizon in many advanced and emerging countries due in particular to the restrictive monetary conditions. As for inflation, it continues its downward trend, despite the persistent rise in prices of services in the main advanced economies.
4. At the national level, while agricultural production remains, to a large extent, dependent on weather conditions, available infra-annual data generally suggest that the recovery of non-agricultural activities continues and is likely to be supported in the medium term by the expected momentum of public and private investment.
5. At the same time, inflation has been evolving at moderate levels since the beginning of the year, mainly reflecting the fall in volatile food prices and core inflation slowdown. The latter, after reaching 5.6 percent in 2023, is hovering around 2 percent and should remain close to this level over the next eight quarters according to Bank Al-Maghrib's projections. Taking into account the announced changes to commodity subsidies, and assuming limited medium-term variation in the prices of volatile food products, headline inflation should decelerate from 6.1 percent in 2023 to 1.3 percent this year before accelerating to 2.5 percent in 2025.
6. The Board also noted the strengthening of inflation expectations anchoring as indicated by Bank Al-Maghrib's quarterly survey of financial sector experts. These expectations declined during the third quarter to 2.2 percent for the 8-quarter horizon and to 2.3 percent for the 12-quarter horizon.
7. The Board noted that the economic and social outlook over the Bank's macroeconomic projection horizon, remains surrounded by a high degree of uncertainty. At the international level, the stalemate of the war in Ukraine, the escalation of the conflict in the Middle East and the geopolitical tensions that are accentuating economic fragmentation, weigh on economic activity and prices, particularly of energy. Domestically, the successive years of drought and water stress

represent a major risk for agricultural production and economic growth in general. Similarly, the implementation of the guidelines of the 2025 draft Finance Law and ongoing social dialogue negotiations could have larger than expected impacts on demand and prices.

8. Considering all these data, the Board deemed that it is appropriate to maintain the current monetary policy stance. It, thus, decided to keep the key rate unchanged at 2.75 percent, while continuing to closely monitor economic and social developments.

9. On the commodity markets, oil prices are expected to remain virtually stable this year, before rising slightly against a backdrop of geopolitical uncertainties surrounding the demand recovery and OPEC+ production cuts. The price of Brent crude oil in particular should continue to hover around USD82 a barrel this year, rising to USD84.2 by 2025. As for Moroccan phosphate and its derivatives, according to the Commodities Research Unit projections, the price of DAP would remain at around USD590 per tonne, while the price of crude phosphate is likely to fall from USD265 per tonne in 2023 to USD229 in 2024 and then to USD217.5/t in 2025. As for food prices, after contracting by 13.8 percent in 2023, the FAO index should decrease by 3.5 percent in 2024, before rising by 3.2 percent in 2025.

10. Regarding the outlook for the global economy, growth in the United States is expected to stabilize at 2.6 percent this year but should slow to 1.6 percent in 2025. In the euro area, growth is set to fall from 1 percent in 2023 to 0.8 percent in 2024, before improving to 1.5 percent in 2025. In the main emerging countries, economic activity in India is likely to remain strong, with growth forecast at 7.3 percent this year and 6.8 percent in 2025, following 7.8 percent in 2023. In China, on the other hand, growth is gradually slowing and should fall from 5.2 percent to 5 percent and to 4.7 percent respectively.

11. In these conditions, inflation should continue its downward trend, falling from 4.8 percent in 2023 to 3.7 percent in 2024 and to 3.2 percent in 2025. In the United States, it is set to fall from 4.1 percent to 2.9 percent and then to 2.5 percent, while in the euro area, it is expected to decrease from 5.4 percent in 2023 to 2.5 percent this year, before stabilizing at this level in 2025.

12. In this context of falling inflation and concerns about the economic outlook, central bank's monetary policy easing trend continues in the major advanced economies. After marking a pause at its previous meeting, the ECB decided on September 12 to cut the interest rate on its deposit facility by 25 bps to 3.50 percent. At its 17- 18 September meeting, the Fed decided to lower the target range for the federal funds rate by 50 bps to [4.75%-5%] for the first time since March 2020. On the other hand, after a 25-bp cut on July 31, the Bank of England kept its key rate unchanged at 5 percent on September 18.

13. At the domestic level, after accelerating to 3.4 percent in 2023, Bank Al-Maghrib expects economic growth to slow to 2.8 percent this year, before rebounding to 4.4 percent in 2025. This forecast reflects a contraction of 6.9 percent in agricultural value added in 2024, followed by an increase of 8.6 percent in 2025, assuming an average cereal production of 55 million quintals. Driven mainly by the manufacturing and extractive industries, as well as by tourism-related activities, non-

agricultural growth should continue to improve, rising from 3.6 percent in 2023 to 3.9 percent in 2024 and 2025.

14. Regarding external accounts, after a decline in 2023, trade in goods is expected to rebound in 2024, a trend that should continue in the medium term. Indeed, exports of goods are set to increase by 4.8 percent in 2024 and by 9.2 percent in 2025, mainly reflecting higher sales in the automotive sector, which are projected to reach 187.4 billion dirhams in 2025, and in phosphates and derivatives, which are set to exceed 90 billion dirhams the same year. Similarly, following a 2.9 percent drop in 2023, imports are expected to rise by 5 percent in 2024 and 9 percent in 2025, driven mainly by purchases of capital goods. In particular, the energy bill is forecast to ease by 2.8 percent this year, before rising by 4.5 percent to 123.9 billion dirhams in 2025. In parallel, travel receipts should continue to perform well, rising by 7.1 percent in 2024 and 4.6 percent to 117.3 billion dirhams in 2025. Remittances are projected to grow at an annual rate of around 3 percent, reaching 121.8 billion dirhams in 2025. These developments should help contain the current account deficit to the equivalent of 1.4 percent of GDP in 2024 and 2.6 percent in 2025, after 0.6 percent in 2023. As for foreign direct investment, revenues are expected to rebound to the equivalent of 3.1 percent of GDP in 2024 then to 3.2 percent in 2025, after 2.4 percent in 2023. Overall, and considering mainly the projected external financing of the Treasury, Bank Al-Maghrib's official reserve assets should continue to strengthen, reaching 384.3 billion dirhams by the end of 2024 and 397.4 billion dirhams by the end of 2025, thus covering around five months and a half of imports of goods and services.

15. Regarding monetary conditions, bank’s liquidity needs are expected to continue to increase, up from 111.4 billion dirhams at end-2023 to 120.4 billion in 2024 and 146.6 billion in 2025, mainly due to the expansion of currency in circulation. Considering the expected growth in non-agricultural sector and taking into account the expectations of the banking system, the growth of bank credit to the non-financial sector is set to accelerate to 3.3 percent in 2024 and 4.7 percent in 2025, after 2.7 percent in 2023. As for the real effective exchange rate, it should appreciate slightly by 0.7 percent in 2024, reflecting an increase in nominal value, partially offset by lower domestic inflation than that of the main trading partners and competitors. In 2025, it is expected to remain stable.

16. As for public finance, budget execution for the first eight months of 2024 shows an 11.2 percent improvement in ordinary revenues, driven in particular by the significant performance of tax receipts. In parallel, overall expenditure rose by 8.9 percent, reflecting higher spending on goods and services and capital expenditure. Taking into account these developments, the projected economic growth, and the announced guidelines of the 2025 draft Finance Law, the fiscal deficit should, according to Bank Al-Maghrib forecasts, stabilize at around 4.4 percent of GDP in 2024, before returning to 3.9 percent of GDP in 2025.