BANK AL-MAGHRIB

MONETARY POLICY REPORT

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THE BANK BOARD
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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 Mayntain 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, Maynly 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 Mayn 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, 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.

OVERVIEW

The global economy continues to show relative resilience, despite increasing uncertainties, notably related to heightened geopolitical tensions and tighter monetary conditions. Data for the second quarter of 2024 thus reveal a slight acceleration in **growth** to 3.1 percent year-on-year, after 2.9 percent the previous quarter, in the United States, and to 0.6 percent from 0.5 percent in the euro area. In particular, the pace of activity strengthened from 2.6 percent to 2.9 percent in Spain and from 0.6 percent to 0.9 percent in Italy, while it decelerated from 1.5 percent to 1 percent in France, with the German economy stagnating after contracting in the previous quarter. In the UK, GDP improved by 0.9 percent instead of 0.3 percent, while the Japanese economy contracted by a further 0.8 percent.

In the main emerging countries, growth slowed in China to 4.7 percent in the second quarter, after 5.3 percent in the previous quarter. Similarly, it decelerated from 7.8 percent to 6.7 percent in India, from 5.4 percent to 4 percent in Russia and from 5.3 percent to 2.5 percent in Türkiye, while it accelerated from 2.5 percent to 3.3 percent in Brazil.

In labor markets, the US unemployment rate remained virtually stable in August, further to a significant rise in July to 4.3 percent. In the Euro area, July data demonstrate that the unemployment rate fell by 0.1 points to 6.4 percent in July, with stabilizations at 3.4 percent in Germany, 7.5 percent in France and 11.5 percent in Spain, and a decline to 6.5 percent in Italy. In the UK, the latest data for July show a slight fall in unemployment to 4.1 percent.

In **the financial markets**, despite a temporary rise in volatility and historic underperformance in early August, the stock indices of the major advanced economies have been on an upward trend overall since the start of the year, with gains to end August of 6.2 percent for the Eurostoxx 50, 9 percent for the Dow Jones Industrials, 8.4 percent for the FTSE 100 and 11.1 percent for the Nikkei 225. These developments were accompanied by an increase in risk aversion on US financial markets, with the VIX index rising from 12.5 in December 2023 to 15 in August, and the VSTOXX index from 14 to 18. In the emerging economies, the MSCI EM index rose by 9 percent over the first eight months of the year, reflecting gains in the Chinese (+2.9 percent), Indian (+22 percent) and Turkish (+16.7 percent) indexes.

Sovereign yields in the major advanced economies fell at the end of the first eight months of 2024. The 10-year yield fell by 14.3 basis points (bps) to 3.9 percent in the USA, by 4.7 bps to 3.1 percent in Spain and by 2.9 bps to 3.6 percent in Italy. Conversely, this rate rose by 9.6 bp to 2.2 percent for Germany and by 33.3 bp to 2.9 percent for France. In the major emerging economies, it fell by 48.1 bp to 2.2 percent in China and by 35 bp to 6.9 percent in India. In contrast, it rose by 163.5 bp to 12 percent in Brazil and by 342.1 bp to 26.7 percent in Türkiye.

In the **foreign exchange markets**, the euro appreciated by 1 percent against the dollar and by 2.6 percent against the Japanese yen at the end of the first eight months of the year, while depreciating by 0.8 percent against sterling. The currencies of the major emerging economies also appreciated against the dollar over the same period, with gains of 13.5 percent for the Brazilian real, 15.8 percent for the Turkish lira and 1 percent for the Indian rupee. The Chinese renminbi was stable against the US currency.

On **commodity markets**, after two successive monthly rises, the price of Brent fell by 5.2 percent in August, averaging USD 80.86 a barrel, against a backdrop of moderate growth in global demand and the gradual phasing-out of voluntary production cuts from October 2024. It should be noted that on September 5, OPEC+ finally decided to extend these cuts until at least December 2024. Excluding energy, prices were up by 1.3 percent year-on-year, reflecting price increases of 3.9 percent for metals and ores minerals and 2.1 percent for agricultural products. As for phosphates and derivatives, prices recorded a monthly increase of 1.2 percent to USD 546/t for DAP and 0.3 percent to USD 507.2/t for TSP and remained stable at USD 152.5/t for raw phosphate. Year-on-year prices were down 56 percent for raw phosphate, but up 12.6 percent for TSP and 3.3 percent for DAP.

Against this backdrop, and after seven months of hovering around 2.5 percent, **inflation** fell in the euro area from 2.6 percent in July to 2.2 percent in August, particularly due to a slowdown in the annual rate of consumer price inflation from 2.6 percent to 2 percent in Germany, from 2.7 percent to 2.2 percent in France, from 2.9 percent to 2.4 percent in Spain and from 1.6 percent to 1.3 percent in Italy. At the same time, inflation slowed markedly from 2.9 percent to 2.5 percent in the United States and stabilized at 2.2 percent in the United Kingdom. On the other hand, it accelerated in Japan, rising from 2.7 percent to 3 percent between July and August.

In terms of **monetary policy stance**, at its meeting on 17 and 18 September, **the FED** decided to cut the target range for the federal funds rate by 50 basis points (bp) to [4.75 percent-5 percent] for the first time since March 2020, against a backdrop of rising unemployment and inflation that is closer to the 2 percent target but still somewhat high. As for the ECB, following an initial 25 basis point cut in its key rates in June and their maintenance unchanged in July, it decided at its meeting held on 12 September to cut the interest rate on the deposit facility by 25 basis points to 3.50 percent. As a result, and in line with its operational framework, the rates on the main refinancing operations and the marginal lending facility were lowered to 3.65 percent and 3.90 percent respectively.

Domestically, national accounts data for the first quarter show that economic growth slowed to 2.5 percent, after 3.9 percent in the same quarter a year earlier, due to a 5 percent fall, compared with a 2.1 percent rise, in agricultural value added and a 3.2 percent increase, after 3.9 percent, in that of non-agricultural activities. On the demand side, the domestic component made a positive contribution of 3.7 percentage points to growth, while foreign trade in goods and services in volume terms made a negative contribution of around 1.1 percentage points.

On **the labor market**, a loss of 82 thousand jobs was recorded between the second quarter of 2023 and the same period in 2024, exclusively in rural areas. Agriculture and construction and public works recorded declines of 152 thousand and 35 thousand jobs respectively, while the other sectors recorded increases of 58 thousand in 'industry including crafts' and 49 thousand in services. The activity rate fell again, from 44.8 percent to 44.2 percent, and the unemployment rate rose from 12.4 percent to 13.1 percent.

In terms of the **external accounts**, data for the first seven months of 2024 show a widening of the trade deficit by 1.1 percent, as a result of increases of 5.5 percent in exports and 3.7 percent in imports. The coverage rate thus improved by one point to 60.8 percent. Export growth was driven mainly by shipments in the automotive and aeronautical sectors, which increased in value by 8.5 percent and 20.3 percent respectively, as well as by a 14.1 percent rise in sales of phosphates and derivatives. Conversely, sales in the 'agriculture and agri-food' and 'textiles and leather' sectors fell by 0.9 percent and 2.1 percent respectively. The trend in imports mainly reflects increases of 9.1 percent in purchases of capital goods, 8.6 percent in supplies of semi-finished products and 3.6 percent in purchases of consumer goods, while the energy bill fell by 4.1 percent. At the same time, travel receipts rose by 3.5 percent, while travel expenditure increased by 16.9 percent. Remittances continued to grow, rising by 3.3 percent. Regarding the main financial operations, FDI receipts expanded by 9.5 percent, while Moroccan direct investment expenditure abroad fell by 35.5 percent. Under these conditions, official reserve assets stood at 365.9

billion dirhams at the end of July, representing the equivalent of 5 months and 14 days of imports of goods and services.

In terms of **monetary conditions**, banks' liquidity requirements increased slightly to a weekly average of 113.8 billion dirhams in the second quarter and to an average of 129.4 billion dirhams in July and August. In these conditions, Bank Al-Maghrib increased the amount of its injections to 128.2 billion and 143.3 billion respectively. Monetary conditions were also characterized in the second quarter of 2024 by a 0.71 percent appreciation in the real effective exchange rate and a virtual stability from one quarter to another in lending rates at 5.43 percent. Bank lending to the non-financial sector rose by 2 percent compared with 2.6 percent in the previous quarter, reflecting the slowdown in loans to companies. The latest available data for July show growth of 2.8 percent, reflecting the improvement in loans to private companies.

In terms of public finance, the budget execution for the first eight months of 2024 showed a deficit, excluding proceeds from the sale of State holdings, of 41.9 billion dirhams, a slight increase of 283 million dirhams compared with the same period in 2023. Ordinary revenues improved by 11.2 percent to 251.6 billion dirhams, reflecting increases of 11.8 percent in tax revenues and 6.3 percent in non-tax revenues. At the same time, ordinary expenditure rose by 8.4 percent to 237 billion due to increases of 10.3 percent in goods and services costs, including a 5.5 percent rise in the wage bill, and 6.6 percent in interests on debt, while compensation expenditure fell by 8.2 percent. Under these circumstances, the ordinary balance showed a surplus of 14.6 billion instead of 7.7 billion at the end of August 2023. Capital expenditure rose by 10.7 percent to 65.4 billion, thus bringing total expenditure to 302.5 billion, increasing by 8.9 percent. The positive balance on the Treasury's special accounts fell by 9.3 percent to 8.9 billion. Given the 4.9 billion reduction in the stock of pending transactions, cash deficit narrowed to 46.9 billion, compared with 51.8 billion a year earlier. In addition to the receipt of 1.7 billion in proceeds from the sale of State holdings, this requirement was covered by domestic resources of a net amount of 40.3 billion and by a net external flow of 4.9 billion. As a result, outstanding direct public debt would have risen by 5.5 percent at the end of August 2024 compared with its level at the end of December 2023.

On the **Casablanca** Stock Exchange, the MASI rose by 2.2 percent quarter-on-quarter in the second quarter of 2024, mainly reflecting increases of 45.5 percent in the 'real-estate investment and development' sector index, 36.5 percent in the 'mining' sector index and 3.7 percent in the 'buildings and construction materials' sector index. Trading volume rose quarter-on-quarter from 13.1 billion dirham to 28.3 billion dirhams, mainly as a result of the increase in trading on the block market from 270.6 million dirhams to 8.5 billion dirhams and on the central equity market, where turnover rose from 11.3 billion dirhams to 16.5 billion, as well as the capital increase carried out by Managem on 17 April for almost 3 billion dirhams. Against this backdrop, market capitalization increased by 10.6 percent since the start of the year, to 692.4 billion dirhams.

On the **real estate market**, the asset price index remained virtually stable in the second quarter of 2024, with an increase of 0.5 percent for lands, a stagnation in residential property prices and a 0.3 percent fall in those of assets for professional use. The number of transactions fell by 8.2 percent, with decreases of 6.7 percent for residential property, 10.2 percent for lands and 15.9 percent for commercial property.

Against this backdrop, after averaging 0.8 percent in the second quarter of 2024, **inflation** rose to an average of 1.5 percent in July and August. This relative acceleration largely reflects the easing of the year-on-year fall in the prices of volatile food products, as well as the rise in the prices of products subject to regulated tariffs. For its part, underlying inflation continues to evolve at a moderate level, standing at 2 percent after 2.1 percent on average in the second quarter. As for the financial sector experts' expectations in relation to inflation for the third quarter of 2024, they stand at 2.2 percent, compared with 2.7 percent one quarter earlier, over an eight-quarter horizon, and at 2.3 percent, after 2.8 percent, over the next 12 quarters.

In terms of outlook, the global economy is expected to slow, albeit at a slower pace than initially forecast in June, falling from 3.3 percent in 2023 to 3.2 percent in 2024 and to 2.9 percent in 2025. In the advanced economies, following a rate of 2.5 percent in 2023, growth is expected to reach 2.6 percent this year in the United States, driven by consumer spendings and investments, before slowing to 1.6 percent in 2025. In the euro area, growth is expected to remain weak, falling from 1 percent to 0.8 percent in 2024, held back mainly by the sluggishness of the German economy and difficulties in the manufacturing sector, before accelerating to 1.5 percent in 2025. In the UK, GDP is expected to grow by 1.1 percent in 2024, after 0.1 percent in 2023, on the back of rapid growth in real wages, and then by 1.4 percent in 2025.

In the main emerging countries, after reaching 5.2 percent in 2023, growth in the Chinese economy is expected to slow to 5 percent in 2024 and to 4.7 percent in 2025, suffering namely from persistent difficulties in the real estate market and high levels of local authority debt. By contrast, the Indian economy is expected to grow by 7.3 percent in 2024, after 7.8 percent in 2023, on the back of buoyant public investment, and by 6.8 percent in 2025. In Brazil, GDP growth would slow from 2.9 percent to 1.9 percent in 2024 and stabilize at this level by 2025. In Russia, activity is expected to remain robust, given the strength of military spending and the rise in public wages, before slowing to 1 percent in 2025 as a result of the slowdown in domestic demand.

On the **commodities markets,** the price of Brent is expected to remain stable at an average of 82.5 USD a barrel this year, before rising slightly to 84.2 USD in 2025, against a backdrop of uncertainty as to whether demand will recover in line with OPEC+ production cuts. As for Moroccan **phosphate and derivatives**, prices would remain virtually stable in 2024 at 589 USD/t for DAP and 450 USD/t for TSP, before rising in 2025 to 596 USD/t for DAP and 472 USD/t for TSP. As for Moroccan raw phosphate, its price is set to rise from 265 USD/t in 2023 to 229 USD/t in 2024, then to 217.5 USD/t in 2025. With regard to **food prices**, after the 13.8 percent contraction observed in 2023, the FAO index would continue to fall in 2024, with a decline of 3.5 percent, before posting a rise of 3.2 percent in 2025.

Under these conditions, **global inflation** would continue to decelerate over the medium term, reaching 3.7 percent in 2024 and 3.2 percent in 2025. In the euro area, inflation is forecast to fall from 5.4 percent in 2023 to 2.5 percent this year, and to remain at this level in 2025. Similarly, in the United States, it is set to continue its downward trend, falling from 4.1 percent in 2023 to 2.9 percent in 2024 and to 2.5 percent in 2025.

Domestically, exports are expected to rise by 4.8 percent in 2024, driven mainly by increases of 11.7 percent in automotive sector sales and 6.1 percent in exports of phosphates and derivatives, reflecting an expected improvement in the quantities shipped. Imports are expected to grow by 5 percent, mainly as a result of higher purchases of capital goods and semi-finished products, while the energy bill is expected to decrease by 2.8 percent to 118.6 billion dirhams. At the same time, travel receipts would increase by 7.1 percent to 112.2 billion dirhams and remittances would rise by 2.5 percent to 118.2 billion dirhams. The current account deficit would thus end the year at 1.4 percent of GDP, after 0.6 percent in 2023. FDI receipts are expected to rise to 46.5 billion dirhams, equivalent to 3.1 percent of GDP in 2024, after 2.4 percent of GDP in 2023. In 2025, exports are expected to grow by 9.2 percent, mainly as a result of increases of almost 13 percent in the value of shipments in the automotive sector to 187.4 billion dirhams and in phosphates and derivatives to 91.8 billion dirhams. At the same time, imports are expected to rise by 9 percent, reflecting in particular the strong growth forecast for purchases of capital goods. Similarly, the energy bill is expected to rise by 4.5 percent to 123.9 billion dirhams. Travel receipts and remittances would continue to improve, reaching 117.3 billion and 121.8 billion dirhams respectively. The current account deficit is thus expected to stand at 2.6 percent of GDP. FDI are expected to reach the equivalent of 3.2 percent of GDP.

Assuming the achievement of the Treasury's planned external financing, official reserve assets would increase to 384.3 billion dirhams by the end of 2024 and to 397.4 billion by the end of 2025. This would bring their coverage to 5 months and 10 days and 5 and a half months of imports of goods and services respectively.

With regard to **monetary conditions**, driven essentially by the expansion of banknotes and coins, the bank liquidity requirement would increase to 120.4 billion dirhams by the end of 2024 and 146.6 billion in 2025. As for bank credit to the non-financial sector, taking into account actual figures, economic activity projections and banking system expectations, it would accelerate to 3.3 percent in 2024 and to 4.7 percent in 2025.

In terms of **public finances,** the budget deficit would stabilize at around 4.4 percent of GDP in 2024, the same level as in 2023, before falling to 3.9 percent of GDP in 2025, an improvement of 0.2 points of GDP compared with June's forecast. In addition to the adjustments made during the June forecasting exercise in relation to the impact of social dialogue, the incorporation of new loans and the performance of tax revenues, these projections take into account the budget execution to end-August 2024, BAM's new macroeconomic forecasts, the 2025 Finance Act draft guidance note and the Finance Minister's presentation to the Parliament in July.

In terms of **economic activity**, after accelerating to 3.4 percent in 2023, growth in the national economy is expected to slow to 2.8 percent this year, before rebounding to 4.4 percent in 2025. This forecast includes a 6.9 percent contraction in agricultural value added in 2024, taking into account a cereals harvest estimated by the Ministry of Agriculture at 31.2 million quintals (MQx), followed by an 8.6 percent increase in 2025, assuming average cereals production of 55 MQx and average growth in other crops. The pace of non-agricultural activity is expected to consolidate at 3.6 percent in 2024 and improve to 3.9 percent in 2025.

Under these conditions, **inflation** would slow to 1.3 percent in 2024 from 6.1 percent in 2023, mainly due to a faster than expected fall in volatile food prices, before accelerating to 2.5 percent. Its underlying component is expected to decelerate to 2.1 percent in 2024 and 2025, from 5.6 percent in 2023.

The uncertainties surrounding the outlook for the global economy remain high, particularly with the elections scheduled for 2024 in many countries, namely the United States, the real estate crisis in China and the sluggishness of the German economy. These uncertainties point to risks of weaker growth. Moreover, the continuing conflict in Ukraine and the risk of escalation in the Middle East could further weaken the global economic activity and disrupt supply chains, particularly energy ones, leading to a rise in commodity prices and a consequent acceleration in inflation.

Domestically, the main risks to economic activity are linked to the recurrence of droughts and the worsening of water stress in the medium term. On the other hand, the Kingdom's efforts to stimulate investment and the large-scale launched or planned projects reinforce optimism about a faster pace of growth in the medium and long term. As for inflation, risks continue to rise. In addition to external pressures, recurrent droughts and worsening water stress could lead to a significant increase in food prices, exacerbating inflationary pressures.

1. INTERNATIONAL DEVELOPMENTS

Despite rising uncertainties, the latest data show that economic activity is relatively resilient, while inflation is on a downward trend, albeit unevenly. Against this backdrop, a growing number of advanced and emerging economies have begun or continued to ease their monetary policy stance.

Year-on-year, growth slightly accelerated in the second quarter in the United States, the euro area and the United Kingdom, while it slowed in China and India, For its part, inflation fell back in August to its lowest level since July 2021 in the euro area, and a similar trend was recorded in the United States and the United Kingdom. On the labor markets, after rising sharply in July, the unemployment rate slightly fell in the United States in August. Similarly, in the euro area, July data showed a slight monthly fall to 6.4 percent. As for the financial markets, despite an episode of high volatility at the beginning of August, the data show that the main stock markets performed positively at the end of the first eight months of the year. As for sovereign yields, long-term rates fell overall for both the main advanced and emerging economies. As for commodities, the price of Brent crude oil fell in August, both on a month-on-month and year-on-year basis, and agricultural commodity prices declined slightly over the same month, but remain up year-on-year.

1.1 Economic activity and employment

1.1.1 Economic activity

Data for the second quarter of 2024 show a slight acceleration of growth to 3.1 percent year-on-year in the United States, after 2.9 percent in the first quarter, and to 0.6 percent after 0.5 percent in the euro area. The activity pace strengthened from 2.6 percent to 2.9 percent in Spain and from 0.6 percent to 0.9 percent in Italy, while it slowed from 1.5 percent to 1 percent in France. The German economy stagnated after contracting in the previous quarter. As for the other advanced economies, activity also accelerated in the United Kingdom, with GDP growth of 0.9 percent in the second quarter compared with 0.3 percent in the previous quarter, while the Japanese economy contracted by a further 0.8 percent.

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

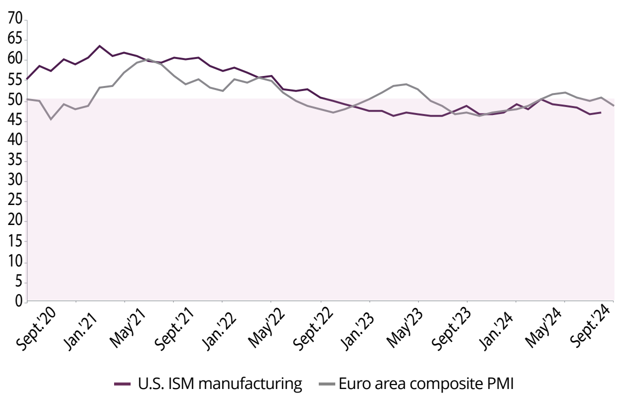
	2022			2023				2024	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Advanced economies									
United States	1.9	1.7	0.7	1.7	2.4	2.9	3.1	2.9	3.1
Euro area	3.9	2.6	1.7	1.3	0.5	0.0	0.2	0.5	0.6
France	3.7	1.4	0.8	1.0	1.3	0.9	1.3	1.5	1.0
Germany	0.8	1.4	0.2	0.2	0.1	-0.3	-0.2	-0.1	0.0
Italy	5.3	2.8	1.9	2.2	0.6	0.6	0.7	0.6	0.9
Spain	7.2	5.4	3.8	4.0	2.0	1.9	2.2	2.6	2.9
United Kingdom	3.9	2.1	0.6	0.3	0.2	0.2	-0.2	0.3	0.9
Japan	1.5	1.6	0.7	2.5	2.0	1.3	0.9	-1.0	-0.8
Emerging economies									
China	0.4	3.9	2.9	4.5	6.3	4.9	5.2	5.3	4.7
India	12.8	5.5	4.3	6.2	8.2	8.1	8.6	7.8	6.7
Brazil	3.5	4.3	2.7	4.2	3.5	2.0	2.0	2.5	3.3
Türkiye	7.6	4.1	3.3	4.5	4.6	6.5	4.6	5.3	2.5
Russia	-3.5	-2.8	-1.8	-1.6	5.1	5.7	4.9	5.4	4.0

Source: Thomson Reuters Eikon and Eurostat.

In the main emerging countries, growth slowed in China to stand at 4.7 percent in the second quarter, after 5.3 percent in the previous quarter. Similarly, it decelerated from 7.8 percent to 6.7 percent in India, from 5.4 percent to 4 percent in Russia and from 5.3 percent to 2.5 percent in Türkiye, while it accelerated from 2.5 percent to 3.3 percent in Brazil.

As for the leading activity indicators of economic activity, the euro area's composite PMI fell from 51 in August to 48.9 in September. In contrast, the US ISM manufacturing index recovered in August to 47.2 from 46.8 the previous month, although it remained in contraction territory.

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



Source: Thomson Reuters Eikon.

1.1.2 Labor market

Labor markets data show a slight fall in the US unemployment rate to 4.2 percent in August, after the rise to 4.3 percent recorded in July, with a significant increase in job creation to 142 thousand, compared with only 89 thousand a month earlier.

Similarly, in the euro area, the unemployment rate fell to 6.4 percent in July, stabilizing at 3.4 percent in Germany, 7.5 percent in France and 11.5 percent in Spain, and declining to 6.5 percent in Italy. In the United Kingdom, the latest figures for July show a slight fall in unemployment to 4.1 percent.

Table 1.2: Change in unemployment rates (in %)

(in %)	2022	2023	2024		
			June	July	August
United States	3.6	3.6	4.1	4.3	4.2
Euro area	6.8	6.6	6.5	6.4	N.D
France	7.3	7.3	7.5	7.5	N.D
Germany	3.2	3.1	3.4	3.4	N.D
Italy	8.1	7.7	6.9	6.5	N.D
Spain	13.0	12.2	11.5	11.5	N.D
United Kingdom	3.9	4.0	4.2	4.1	N.D

Source: Eurostat and BLS.

1.2 Monetary and financial conditions

1.2.1 Monetary policy decisions

During its meeting on 17 and 18 September, and for the first time since March 2020, the Fed decided to reduce the target range for the federal funds rate by 50 basis points (bp) to [4.75 percent-5 percent], in a context marked by a sustained pace of economic activity, an increase in the unemployment rate, and inflation moving closer to the 2 percent target but remaining somewhat high. At the same time, the Fed will continue to reduce holdings of Treasury securities and mortgage-backed securities.

For its part, at the end of its meeting in September 12th, and after an initial cut of 25 basis points in its key rates in June, the ECB decided to reduce the interest rate on the deposit facility, through which it steers the monetary policy stance, by 25 basis points to 3.50 percent, marking a further step in the moderation of the restrictive nature of monetary policy. As a result, and in line with its operational framework, the rates on the main refinancing operations and the marginal lending facility were lowered to 3.65 percent and 3.90 percent respectively. The ECB also indicated that its Asset Purchase Programme (APP) is contracting at a measured and predictable pace, with the Eurosystem no longer reinvesting principal repayments on maturing securities. As for the Emergency Pandemic Purchasing Programme

(EPPP), the Eurosystem is no longer reinvesting all principal repayments on maturing securities, is reducing the portfolio of this programme by an average of €7.5 billion per month, and plans to end reinvestments at the end of 2024.

At its meeting on September 18, the Bank of England decided to maintain its key rate unchanged at 5 percent, after cutting it by 25 basis points in August, in order to eliminate persistent inflationary pressures. It also decided to reduce its stock of UK government bonds by a further £100 billion over the next 12 months, at the same rate as last year. In addition, its Committee reiterated that the monetary policy will have to remain restrictive for long enough until the risks to inflation's sustainable return to the 2 percent target over the medium term would be further dissipated.

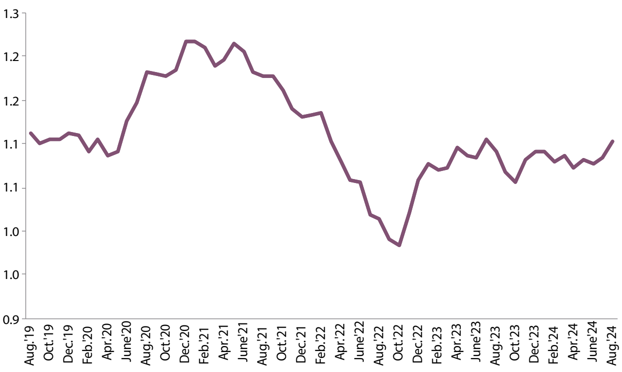
At the same time, after raising its key rate by 25 basis points to 0.25 percent in July, the Bank of Japan decided to maintain it unchanged at its meeting held in September 20. It also announced, in July, that it would reduce its purchase of Japanese government bonds by around 400 billion yen per quarter until March 2026.

In the major emerging economies, the central banks of India and Türkiye kept their key rates unchanged at their latest meetings. In contrast, China's central bank announced a cut in its key interest rates in July 22. Conversely, the central banks of Russia and Brazil decided in September to raise their key rates, to 19 percent and to 10.75 percent respectively, against a backdrop of inflationary pressures.

1.2.2 Financial markets

In the foreign exchange markets, at the end of the first eight months of 2024, the euro appreciated by 1 percent against the dollar and by 2.6 percent against the Japanese yen. On the other hand, it depreciated by 0.8 percent against sterling. The currencies of the major emerging economies also appreciated against the dollar over the same period, with gains of 13.5 percent for the Brazilian real, 15.8 percent for the Turkish lira and, to a lesser extent, 1 percent for the Indian rupee. As for the Chinese renminbi, it was stable against the US dollar.

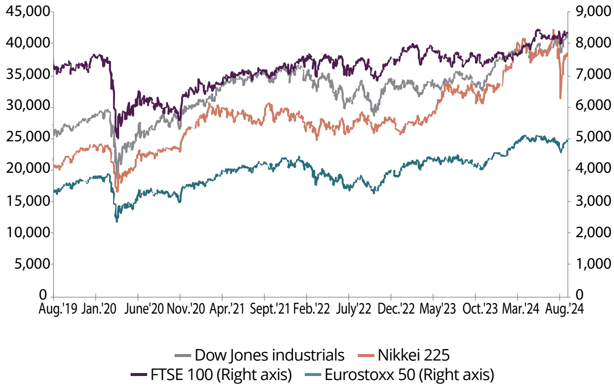
Chart 1.2: Change in Euro/dollar exchange rate



Source: Thomson Reuters Eikon.

In the stock markets of the major advanced economies, despite a short-lived spike in volatility and historic underperformance at the beginning of August, linked mainly to the publication of worse-than-expected employment data in the United States and amplified by the appreciation of the Japanese yen against the dollar, the trend has been upwards since the start of the year. At the end of August, the Eurostoxx 50 had gained 6.2 percent, the Dow Jones Industrials 9 percent, the FTSE 100 8.4 percent and the Nikkei 225 11.1 percent.

Chart 1.3: Change in the main stock market indexes of advanced economies

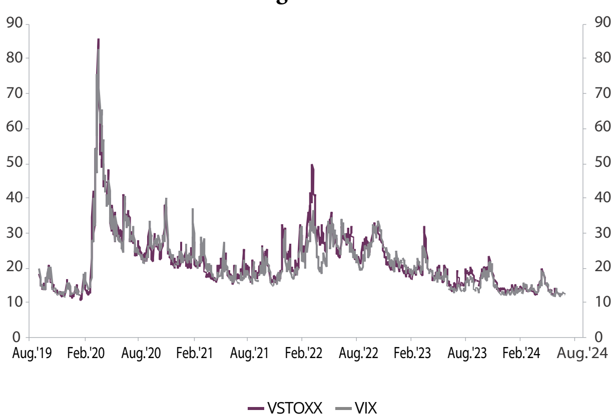


Source: Thomson Reuters Eikon.

These developments were accompanied by an increase in risk aversion on the US financial markets, with the VIX index rising from 12.5 in December 2023 to 15 last August. Similarly, the VSTOXX European market volatility index rose to 18 (against 14 in December).

In the emerging economies, the MSCI EM rose by 9 percent in the first eight months of the year, driven namely by gains in the Chinese (+2.9 percent), Indian (+22 percent) and Turkish (+16.7 percent) indexes.

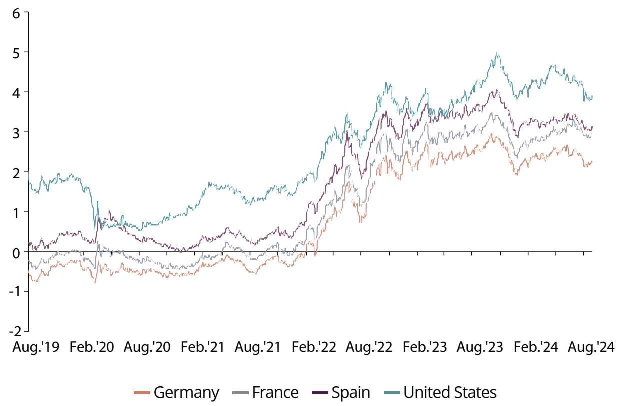
Chart 1.4: Change in VIX and VSTOXX



Source: Thomson Reuters Eikon.

On the sovereign bond markets, yields for the main advanced economies were down at the end of the first eight months of the year. The 10-year yield fell by 14.3 bp to 3.9 percent in the United States, by 4.7 bp to 3.1 percent in Spain and by 2.9 bp to 3.6 percent in Italy. Conversely, this rate rose by 9.6 bp to 2.2 percent in Germany and by 33.3 bp to 2.9 percent in France. In the main emerging economies, this rate fell by 48.1 bp to 2.2 percent for China and by 35 bp to 6.9 percent for India. On the other hand, it rose by 163.5 bp to 12 percent for Brazil and by 342.1 bp to 26.7 percent for Türkiye.

Chart 1.5: Change in 10-year sovereign bond yields

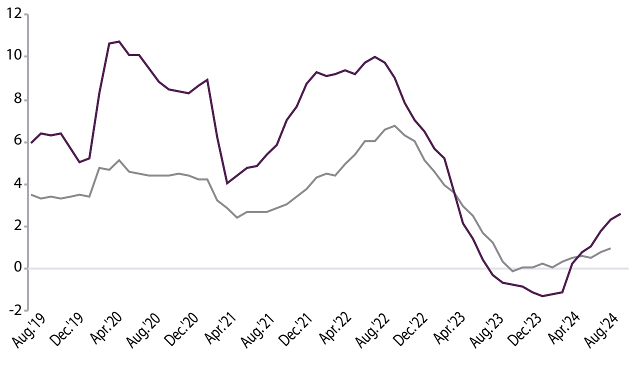


Source: Thomson Reuters Eikon.

On the money markets, 3-month dollar Libor and Euribor for the same maturity stood at 5.4 percent and 3.6 percent respectively in August, down from 26 and 39 bp respectively compared with December 2023.

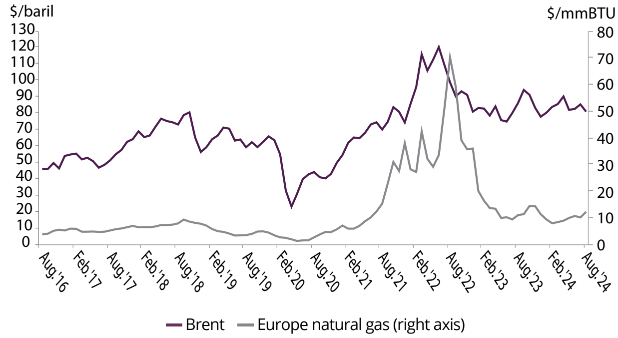
Bank lending in the United States accelerated again in August, growing by 2.9 percent year-on-year. In the euro area, it rose by 1.3 percent in July.

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



Source: Thomson Reuters Eikon.

Chart 1.7: World prices of brent and natural gas-Europe



Source: World Bank.

1.3 Commodity prices and inflation

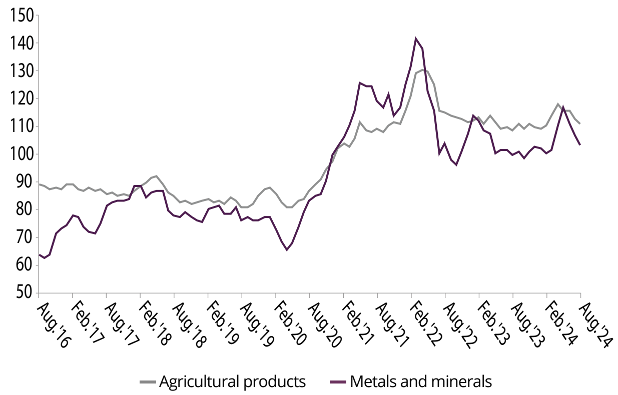
1.3.1 Energy commodity prices

In the commodities market, after two successive monthly rises, the price of Brent crude fell by 5.2 percent in August and by 6.2 percent year-on-year, averaging USD 80.86/bbl against a backdrop of moderate growth in global demand and the announcement in June by OPEC+ of the phase-out of voluntary production cuts from October 2024. On September 5th, OPEC+ finally decided to extend these cuts until at least December 2024. Conversely, European natural gas prices rose by 19.6 percent between July and August, and by 10.6 percent year-on-year to USD 12.37/mmBTU. This trend can be explained in particular by the temporary halt to production at the Ichthys LNG terminal in Australia and damage to a storage facility in Ukraine as a result of the conflict with Russia. In addition, maintenance work on Norwegian gas fields has added to the pressure on prices.

1.3.2 Non-energy commodity prices

Excluding energy, prices fell by 1.9 percent over August, reflecting in particular 3.1 percent fall in the price of metals and ores. Compared with the same month last year, these prices rose by 1.3 percent overall, with a 3.9 percent increase in metals and ores price and 2.1 percent for agricultural products.

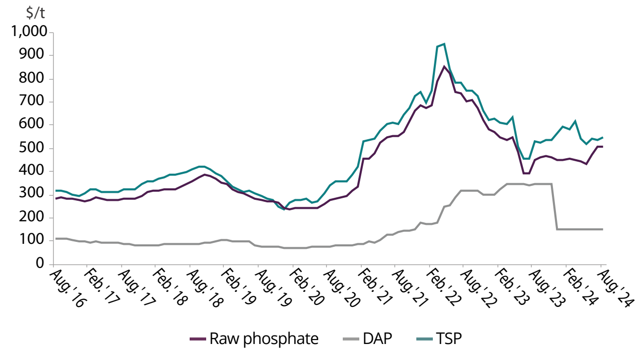
Chart 1.8: Change in non-energy commodity price indexes (2010=100)



Source: World Bank.

The prices of phosphate and its derivatives recorded a monthly increase of 1.2 percent to USD 546/t for DAP and 0.3 percent to USD 507.2/t for TSP and remained stable at USD 152.5/t for raw phosphate. Year-on-year, prices were down by 56 percent for raw phosphate, and up by 12.6 percent for TSP and by 3.3 percent for DAP.

Chart 1.9: Change in global prices of phosphates and derivatives



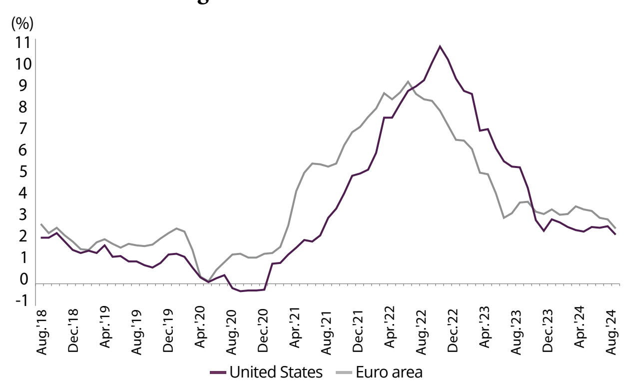
Source: World Bank.

1.3.3 Inflation

After seven months of hovering around 2.5 percent, inflation in the euro area fell sharply to 2.2 percent in August, after 2.6 percent in July, reflecting in particular a slowdown from 2.6 percent to 2 percent in Germany, from 2.7 percent to 2.2 percent in France, from 2.9 percent to 2.4 percent in Spain and from 1.6 percent to 1.3 percent in Italy. At the same time, inflation declined significantly in August to 2.5 percent from 2.9 percent in July in the United States and stabilized at 2.2 in United Kingdom. On the other hand, it accelerated in Japan, from 2.7 percent to 3 percent between July and August.

As for the main emerging economies, inflation rebounded slightly in August, rising from 0.5 percent to 0.6 percent in China and from 3.6 percent to 3.7 percent in India. On the other hand, it fell from 4.5 percent to 4.2 percent in Brazil, and stabilized at 9.1 percent in Russia over the same period.

Chart 1.10: Change in inflation in the US and the euro area



Source: Thomson Reuters Eikon.

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

	2022	2023	2024		
			June	July	August
United States	8.0	4.1	3.0	2.9	2.5
Euro area	8.4	5.5	2.5	2.6	2.2
Germany	8.6	6.1	2.5	2.6	2.0
France	5.9	5.7	2.5	2.7	2.2
Spain	8.3	3.4	3.6	2.9	2.4
Italy	8.7	6.0	0.9	1.6	1.3
United Kingdom	9.0	7.4	2.0	2.2	2.2
Japan	2.5	3.3	2.9	2.7	3.0

Sources: Thomson Reuters, Eurostat & FMI.

Box 1.1: US presidential elections: a major event for the world economy

Given the economic, political and military weight of the United States, the US presidential elections scheduled for November are considered a major event for the global economy. The points of contention between Donald Trump, the Republican candidate and former president, and Kamala Harris, the Democratic candidate and outgoing vice-president, illustrate profoundly divergent visions for the future of the United States, with major implications for domestic and international policies.

Key economic issues in the campaign include tax reform, international trade, climate change and immigration.

- Tax reform: The Democratic candidate is proposing to reform the tax code by raising taxes on the wealthiest individuals and large corporations, as well as strengthening law enforcement to prevent tax fraud[1]. Donald Trump, for his part, supports extending the tax cuts introduced during his mandate, which included reductions for businesses and individuals, and is even proposing an additional reduction[2].

1 "Unpacking Kamala Harris' economic agenda", Qatar National Bank, Economics report, 18 August 2024,

2 In 2017, Donald Trump enacted the "Tax Cuts and Jobs Act", a major tax reform aimed at reducing taxes for businesses and individuals. In particular, this reform reduced the corporate income tax (CIT) rate from 35 percent to 21 percent, while individual tax rates were reduced at different income levels. The candidate would advocate a further reduction in corporation tax from 21 percent to 15 percent.

- International trade: The Democratic candidate favors multilateral negotiations and trade agreements, seeking to strengthen alliances with international partners. The Republican candidate, on the other hand, supports a more protectionist trade policy with high tariffs, particularly on Chinese products[3], to compensate for the aforementioned drop in tax revenues. He favors bilateral agreements and the renegotiation of existing trade agreements to promote American interests. The only common ground between the two candidates lies in their opposition to China, even if there is no consensus on the strategy to be followed to curb the industrial and technological ambitions of the Asian giant.

- Immigration: The Republican candidate focuses on border security and reducing illegal immigration. He is proposing strict immigration policies, including mass deportation measures and severe restrictions on visas and legal immigration[4]. For her part, Mrs. Harris advocates a more inclusive approach, with reforms aimed at regularizing undocumented immigrants, improving the visa system, and strengthening protections for asylum seekers. The policy to be applied will have an impact on the labor market, as a restrictive approach could exacerbate labor shortages in some sectors, raising wages and exerting inflationary pressure.

- Climate change: The former President often played down the importance of climate action, with increased support for fossil fuels such as coal and oil. His administration has withdrawn the US from the Paris Agreement and opposed stricter environmental regulations. Kamala Harris, on the other hand, is focusing on ambitious green initiatives, including the transition to renewable energy, as well as massive investment in green infrastructure to combat climate change[5].

3 Donald Trump wants to introduce a 60 percent tariff on all imports from China and a 10 percent tariff on imports from the rest of the world.

4 What is the "Trump 2,0" economic agenda?', Qatar National Bank, Economics report, 11 August 2024,

5 'US presidential elections: Kamala Harris's long environmental battle', Euractiv, 26 July 2024.

In short, whatever the outcome of the presidential elections next November, the composition of the House of Representatives and the Senate remains crucial. Democrats victory could lead to a divided Congress, while Republicans' victory could lead to a united Congress[6].

- Republicans victory with a united Congress: pro-growth regulatory, energy and tax policies could result in higher inflation, forcing the Fed to halt its planned downward cycle. Bond yields would rise, the dollar would appreciate against the euro and equities would gain ground, particularly banking and defense stocks.

- Democrats victory with a divided Congress: this would mean greater political continuity and continued monetary easing by the Fed, as well as a more neutral impact on the dollar. Defensive equities would become more attractive and yields on US Treasury would fall.

6 'US presidential elections: Kamala Harris's long environmental battle', Euractiv, 26 July 2024.

2. EXTERNAL ACCOUNTS

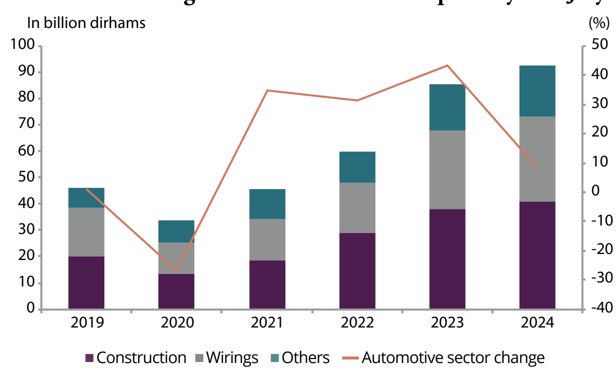
Foreign trade data for the first seven months of 2024 post an acceleration in the growth of trade in goods, a further favourable trend in travel receipts and remittances, as well as a good performance by FDI receipts compared with the previous year. Thus, exports of goods rose by 5.5 percent and imports by 3.7 percent. As a result, the trade deficit widened by 1.1 percent to 169 billion and the coverage rate stood at 60.8 percent, compared with 59.8 percent by the end of July 2023. At the same time, travel receipts improved by 3.5 percent and remittances rose by 3.3 percent to 68.1 billion. In terms of the main financial transactions, FDI receipts rose by 9.5 percent to 22.2 billion, while Moroccan direct investment abroad continued its downward trend, contracting by 35.5 percent to 10.5 billion. Under these conditions, official reserve assets stood at 365.9 billion dirhams at the end of July 2024, representing the equivalent of 5 months and 14 days of imports of goods and services.

2.1 Trade balance

2.1.1 Exports

The increase in exports was mainly driven by sales in the automotive sector, which rose by 8.5 percent to 92.8 billion dirhams. This development included increases by 7.3 percent to 40.8 billion dirhams for “construction” and 8.3 percent to 32.3 billion for the “wiring” segment. Similarly, as a result of an increase in the quantities shipped, sales of phosphates and derivatives rose by 14.1 percent to 46.2 billion, including increases of 49.4 percent to 4.9 billion for shipments of raw phosphate, 10.3 percent to 7.7 billion for phosphoric acid and 11.2 percent to 33.5 billion for natural and chemical fertilizers. At the same time, aeronautical exports continued to perform well, rising by 20.3 percent to 15.3 billion. By contrast, sales in the “electronics and electricity” sector contracted by 2.6 percent to 10.2 billion, with a fall of 11.3 percent in electronic components. Similarly, exports in the “textiles and leather” sector fell by 2.1 percent to 27.9 billion, reflecting declines of 11.3 percent in the “footwear” sector and 1 percent in the “ready-made garments” sector. At the same time, exports of agricultural and agri-food products fell by 0.9 percent to 51.1 billion, reflecting declines of 1.5 percent in food industry sales and 1.1 percent in agricultural product sales.

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



Source: Foreign Exchange Office.

Table 2.1: Exports by sector (in million dirhams)

Sectors/Segments	January - July		Change	
	2024	2023	In value	In %
Exports	262,447	248,732	13,715	5.5
Automotive	**92,750**	**85,514**	**7,236**	**8.5**
Construction	40,838	38,065	2,773	7.3
Cabling	32,259	29,774	2,485	8.3
Vehicle and seat interiors	5,415	4,577	838	18.3
Phosphates and derivatives	**46,168**	**40,455**	**5,713**	**14.1**
Natural and chemical fertilizers	33,504	30,142	3,362	11.2
Phosphates	4,926	3,297	1,629	49.4
Phosphoric acid	7,738	7,017	721	10.3
Aeronautics	**15,340**	**12,751**	**2,589**	**20.3**
Assembly	10,047	7,591	2,456	32.4
Electrical Wiring Interconnection System	5,219	5,108	111	2.2
Other mining extractions	**3,107**	**3,040**	**67**	**2.2**
Zinc ore	238	303	-65	-21.5
Fluorite fluorspar	217	162	55	34.0
Barium sulfate	681	644	37	5.7
Electronics and electricity	**10,182**	**10,458**	**-276**	**-2.6**
Electronic components	4,147	4,674	-527	-11.3
Devices for disconnecting or connecting electrical circuits and resistors	1,137	942	195	20.7
Electrical appliances for telephony or wire telegraphy	**1,145**	**1,175**	**-30**	**-2.6**
Food industry	24,405	24,772	-367	-1.5
Agriculture, forestry, and hunting	25,113	25,383	-270	-1.1
Tobacco industry	739	601	138	23.0
Textile and leather	**27,941**	**28,540**	**-599**	**-2.1**
Ready-made garments	18,504	18,686	-182	-1.0
technical textile	312	337	-25	-7.4
Footwear	1,754	1,977	-223	-11.3
Other industries	**15,828**	**16,362**	**-534**	**-3.3**
Metallurgy and metalworking	4,375	4,816	-441	-9.2
Pharmaceutical industry	881	970	-89	-9.2
Plastics and rubber industry	909	880	29	3.3

Source: Foreign Exchange Office.

2.1.2 Imports

Imports rose across all product groups, with the exception of raw materials and energy products. Purchases of capital goods rose by 9.1 percent to 101.1 billion, driven mainly by a 49.7 percent increase in purchases of commercial vehicles and a 17.2 percent rise in purchases of "devices for the disconnection or connection of electrical circuits and resistors". Similarly, purchases of semi-finished products rose by 8.6 percent to 94.6 billion, mainly due to imports of "semi-finished iron or non-alloy steel products", which almost tripled to 3 billion. Imports of consumer goods rose by 3.6 percent to 96.1 billion dirhams, with increases of 7.6 percent in purchases of "parts and components for passenger cars" and 19.5 percent in "medicines and other pharmaceutical products". At the same time, supplies of food products rose by 1.4 percent to 53.7 billion dirhams, driven mainly by increases of almost 60 percent in purchases of barley and 'live animals', while purchases of wheat fell by 5.9 percent to 11.4 billion dirhams. The energy bill fell by 4.1 percent to 66.8 billion dirhams, mainly as a result of a 30.9 percent drop in purchases of "coal, coke and similar solid fuels" and a 19.3 percent drop in purchases of "petroleum gas and other hydrocarbons", due to a 19.2 percent and 22.3 percent fall in their import prices respectively. Similarly, acquisitions of crude products fell by 8.5 percent to 18.8 billion.

Table 2.2: Imports by product usage group (in million dirhams)

Usage group	January - July		Change	
	2024	2023	In value	In %
Imports	431,453	415,886	15,567	3.7
Capital goods	**101,082**	**92,651**	**8,431**	**9.1**
Utility cars	6,320	4,221	2,099	49.7
Devices for the disconnection or connection of electrical circuits	9,552	8,153	1,399	17.2
Piston engines	9,730	9,115	615	6.7
Semi-finished products	**94,610**	**87,098**	**7,512**	**8.6**
"Semi-finished products made of iron or non-alloy steel"	3,011	1,161	1,850	-
Chemical products	9,150	7,934	1,216	15.3
Paper and cardboard	5,040	4,268	772	18.1
Finished consumer products	**96,079**	**92,699**	**3,380**	**3.6**
Parts for passenger cars	19,219	17,857	1,362	7.6
Medicines and other pharmaceutical products	6,337	5,303	1,034	19.5
Synthetic and artificial fiber fabrics and yarns	8,295	7,545	750	9.9
Food products	**53,680**	**52,962**	**718**	**1.4**
Press cakes	4,195	5,662	-1,467	-25.9
Live animals	2,625	1,620	1,005	62.0
Wheat	11,447	12,168	-722	-5.9
Barley	2,158	1,346	812	60.3
Raw products	**18,761**	**20,499**	**-1,738**	**-8.5**
Raw or refined soybean oil	3,257	4,467	-1,210	-27.1
Scrap metal, waste and other minerals	2,278	2,765	-487	-17.6
Energy products	**66,815**	**69,636**	**-2,821**	**-4.1**
Gas-oils and fuel -oils	12,060	14,938	-2,878	-19.3
Coal, cokes and similar solid fuels	7,602	10,998	-3,396	-30.9
Gas oils and fuel oils	34,350	31,393	2,957	9.4

Source: Foreign Exchange Office.

2.2 Other components of the current account balance

The surplus on trade in services fell by 4.1 percent to 71.7 billion, the result of an 11.1 percent rise in imports to 78.8 billion, outstripping the 3.3 percent increase in exports to 150.5 billion.

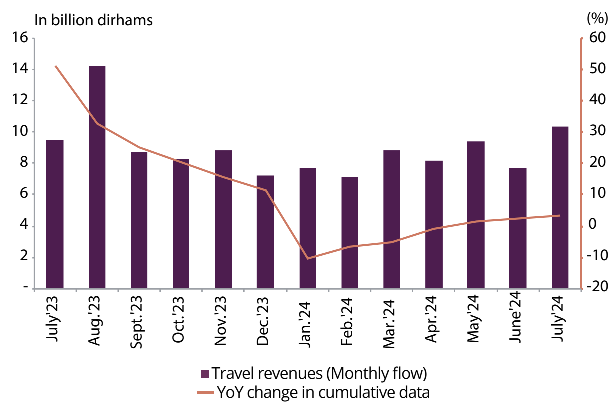
Table 2.3: Balance of services (in million dirhams)

	January - July		Change	
	2024	2023	In value	In %
Imports	78,767	70,891	7,876	11.1
Exports	150,476	145,633	4,843	3.3
Balance	71,709	74,742	-3,033	-4.1

Source: Foreign Exchange Office.

In particular and driven in large part by the good performance of tourism activity during the summer period, travel receipts reached 59.4 billion over the first 7 months of the year, up 3.5 compared with the same period in 2023. Expenditure for the same period rose by 16.9 percent to 16.9 billion.

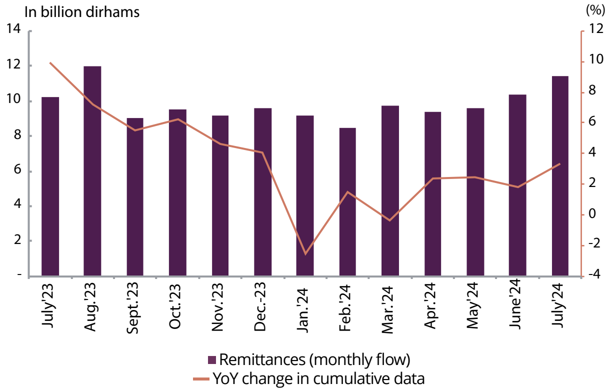
Chart 2.2: Monthly change in travel revenues



Source: Foreign Exchange Office.

Remittances continued to grow, rising by 3.3 percent to 68.1 billion.

Chart 2.3: Monthly change in remittances



Source: Foreign Exchange Office.

2.3 Financial account

In terms of the main financial transactions, net flow of FDIs stood at 13.1 billion compared with 8.9 billion in the same period a year earlier. This was driven by a 9.5 percent rise in receipts to 22.2 billion, while expenditure on the same item fell by 19.6 percent to 9.2 billion.

As for Moroccan direct investment abroad, its net flow fell by 6.4 billion, in line with a 5.8 billion decrease in such investment.

At the end of July 2024, the outstanding official reserve assets stood at 365.9 billion dirhams, representing the equivalent of 5 months and 14 days of imports of goods and services.

Table 2.4: Direct investments (in million dirhams)

	January - July		Change	
	2024	2023	In value	In %
Foreign direct investments	13,068	8,901	4,167	46.8
Revenues	22,236	20,311	1,925	9.5
Expenditure	9,168	11,410	-2,242	-19.6
Moroccan direct investments abroad	741	7,097	-6,356	-89.6
Expenditure	10,519	16,305	-5,786	-35.5
Revenues	9,778	9,208	570	6.2

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSET MARKET

In the second quarter of 2024, monetary conditions were characterized by virtually stable lending rates and an appreciation of the real effective exchange rate. Bank credit to the non-financial sector rose by 2 percent year-on-year, compared with 2.6 percent a quarter earlier, reflecting in particular the slowdown in lending to companies. Data for July show growth of 2.8 percent, reflecting the improvement in lending to private companies. With regard to the other counterparts of the money supply, net claims on central government rose by 2.7 percent after a fall of 5.4 percent and official reserve assets rose by 3.5 percent after a rise of 5 percent. Overall, money supply increased by 4.4 percent after 3.7 percent one quarter earlier.

In the real estate market, the asset price index remained virtually unchanged in the second quarter of 2024, with increases of 0.5 percent for lands, stagnation in residential properties prices and a 0.3 percent fall in properties for professional use prices. The number of transactions fell by 8.2 percent, with decreases of 6.7 percent for residential property, 10.2 percent for lands and 15.9 percent for properties for professional use.

At Casablanca Stock Exchange, MASI rose by 2.2 percent quarter-on-quarter in the second quarter of 2024, while trading volume increased from 13.1 billion dirhams to 28.3 billion dirhams. Against this backdrop, market capitalization has risen by 10.6 percent since the beginning of the year to 692.4 billion dirhams.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

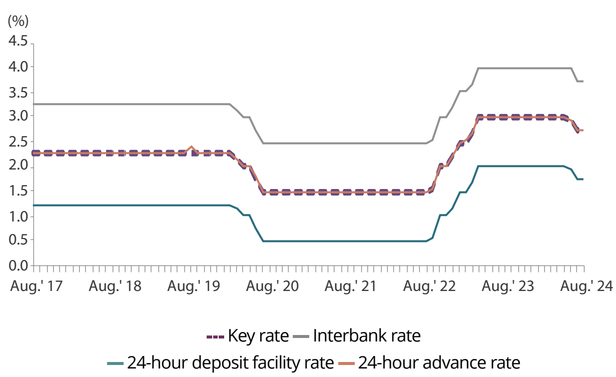
Banks' liquidity requirements slightly increased, driven by the rise in banknotes and coins, from a weekly average of 111.6 billion dirhams in the first quarter of 2024 to 113.8 billion dirhams in the second quarter.

In these conditions, Bank Al-Maghrib increased its injections to 128.2 billion dirhams, after 123.9 billion, of which 44.6 billion in the form of 7-day advances, 51.4 billion through repurchase agreements and 32.2 billion through guaranteed loans granted as part of programmes to support the financing of VSMEs.

In this context, the average residual duration of the Bank's operations rose from 63.2 days to 64.2 days and the interbank rate remained in line with the key rate.

The latest available data indicate a further increase in bank liquidity requirements to an average of 129.4 billion dirhams in July and August 2024.

Chart 3.1: Interbank rate (daily data)

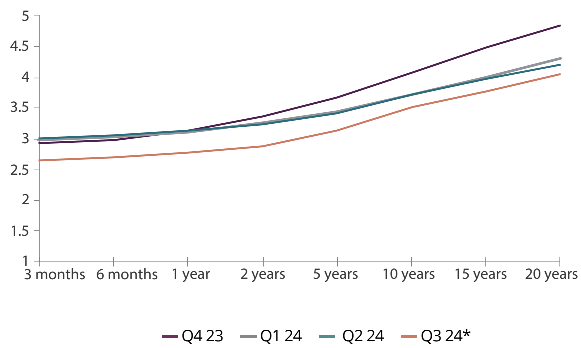


Regarding the Treasury bill market, rates remained virtually stable in the second quarter on both the primary and secondary markets, before moving downwards following the decision of the Bank's Board on 25 June to cut the key rate by 25 basis points (bp) to 2.75 percent.

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

	2023			2024		
	Q2	Q3	Q4	Q1	Q2	Q3
26 weeks	3.15	3.07	2.98	2.86	2.85	2.70
2 years	3.79	3.49	3.38	3.25	3.24	2.88
5 years	4.16	3.82	3.72	3.42	3.43	3.17
10 years	4.55	4.20	4.14	3.79	3.75	3.54
15 years	4.93	4.64	4.51	4.05	4.03	3.81

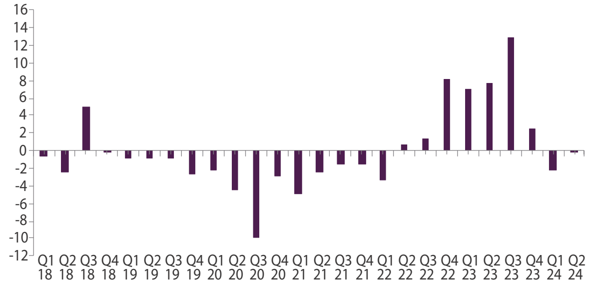
Chart 3.2: Term structure of secondary market interest rates (in %)



*average observed in July and August 2024.

Rates on certificates of deposit remained virtually unchanged in the second quarter of 2024. As for deposit rates, they increased quarterly by 2 bp to 2.56 percent on average for 6-month deposits and by 20 bp to 3.06 percent for one-year deposits. Under these conditions, banks' cost of funding[1] remained virtually stable from one quarter to another.

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



The latest available data for July 2024 show monthly declines in deposit rates of 10 bp to 2.67 percent for 6-month deposits and 46 bp to 2.74 percent for 12-month deposits. For the second half of 2024, the minimum rate of return on savings accounts was set at 2.48 percent, down 25 bp on the previous half-year.

Table 3.2: Lending rates (in %)

	2023				2024		
	Q1	Q2	Q3	Q4	Q1	Q2	July
6 month	2.38	2.45	2.51	2.47	2.54	2.56	2.67
12 month	2.69	2.97	2.63	2.86	2.86	3.06	2.74

With regard to lending rates, the results of Bank Al-Maghrib's survey of banks for the second quarter of 2024 show that the overall average rate was virtually unchanged at 5.43 percent. By institutional sector, business lending rates rose by 11 bp to 5.37 percent, with increases of 8 bp to 5.38 percent for cash facilities, 50 bp to 5.69 percent for property development loans and a 12 bp decline to 4.99 percent for equipment loans. Rates on loans to individuals fell by 20 bp to 5.89 percent, with decreases of 19 bp to 7.03 percent for consumer loans and 2 bp to 4.79 percent for housing loans.

1 The banks' cost of funding is calculated as a weighted average of the costs of their resources.

Table 3.3: Deposit rates (in %)

	2023				2024	
	Q1	Q2	Q3	Q4	Q1	Q2
Overall rate	5.03	5.26	5.36	5.36	5.03	5.43
Personal loans	5.63	5.93	5.94	5.94	6.09	5.89
Real estate loans	4.36	4.64	4.74	4.83	4.81	4.79
Consumer loans	6.95	7.27	7.25	7 .18	7.22	7.03
Loans to businesses	4.98	5.22	5.32	5.30	5.26	5.37
Cash advances	4.98	5.28	5.31	5.35	5.30	5.38
Equipment loans	4.81	4.72	5.09	4.90	5.11	4.99
Real estate loans	5.37	5.43	5.71	5.49	5.19	5.69

3.1.2 Exchange rate

During the second quarter of 2024, the euro depreciated by 0.82 percent against the US dollar. In this context, the value of the dirham appreciated by 0.95 percent against the euro and by 0.15 percent against the US dollar. Similarly, compared with the currencies of the main emerging countries, the dirham appreciated by 5.40 percent against the Brazilian real, by 4.72 percent against the Turkish lira, by 0.89 percent against the Chinese yuan and by 0.58 percent against the pound sterling. As a result, the effective exchange rate appreciated by 1.50 percent in nominal terms and 0.71 percent in real terms, taking into account the evolution of the inflation differential with Morocco's main trading partners and competitors.

Chart 3.4: Exchange rate of the dirham

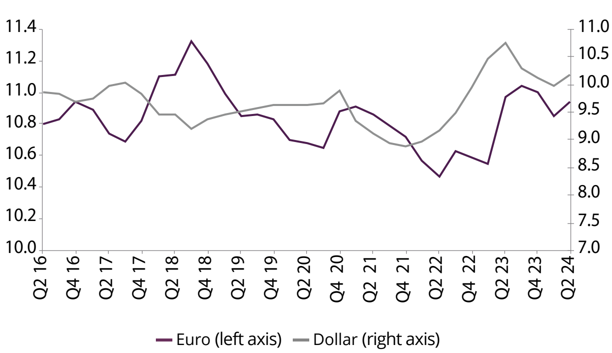
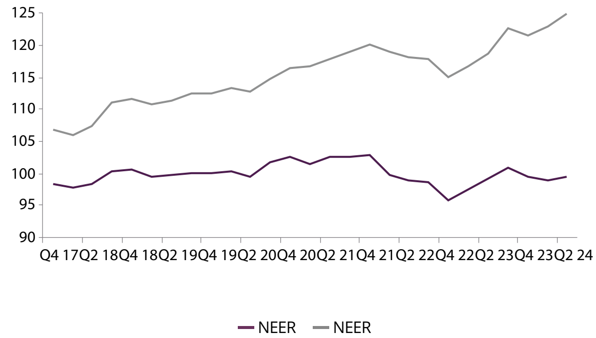


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



In terms of transactions, the average monthly volume of foreign currency exchanges against dirhams on the interbank market fell by 19.4 percent year-on-year in the second quarter to 48.5 billion dirhams. Cash transactions between banks and their customers fell by 0.9 percent to 34 billion dirhams for purchases, and by 1.6 percent to 34.1 billion dirhams in the case of sales. Forward transaction, purchases rose by 2.1 percent to a monthly average of 17.1 billion, while sales fell by 19 percent to 2.4 billion.

3.1.3 Monetary situation

The M3 aggregate grew by 4.4 percent year-on-year in the second quarter of 2024, after 3.7 percent one quarter earlier. This trend reflects the 10 percent increase in foreign currency deposits after a 0.5 percent decline, as well as the fall attenuation in time deposits from 7.2 percent to 5.3 percent, mainly due to the 22.5 percent increase in those of public enterprises after a 29.1 percent decline. In the same vein, the pace of growth in sight deposits accelerated from 7.1 percent to 7.4 percent, reflecting the rise in household deposits from 5.8 percent to 6.7 percent.

Cash in circulation recorded annual growth of 9 percent, after 10.2 percent in the first quarter. The decline in outstanding money market UCITS shares edged down from 15.7 percent to 16.2 percent.

By main counterparts, the acceleration in the money supply reflects the 2.7 percent rise in net claims on central government after a 5.4 percent fall, while the rates of increase in bank credit and official reserve assets fell from 6 percent to 4.6 percent and from 5 percent to 3.5 percent respectively.

Chart 3.6: Contribution of the major counterparts to YoY change in money supply

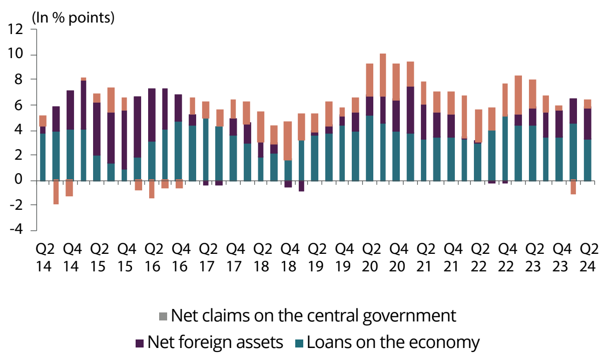
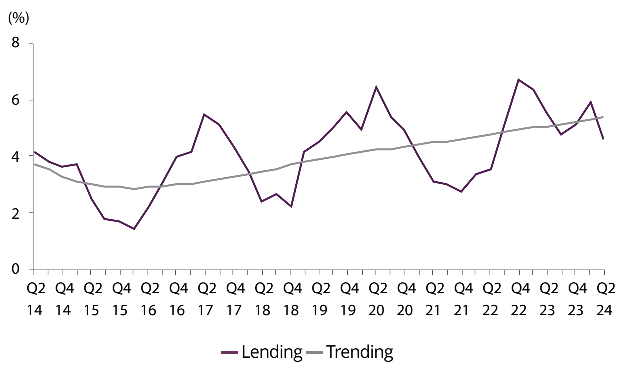


Chart 3.7: Bank credit (change in YoY)



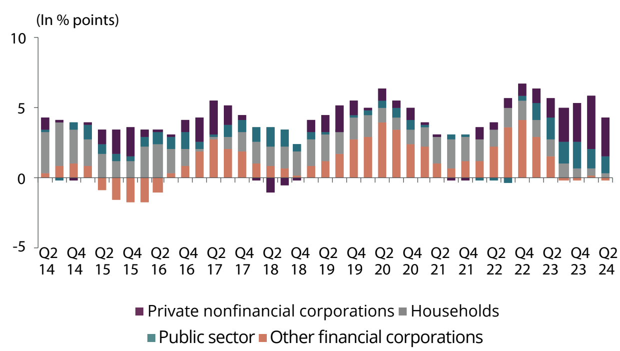
In particular, credit to the non-financial sector rose by 2 percent after 2.6 percent one quarter earlier, the result of a 0.4 percent fall in loans to private companies after a rise of the same magnitude, and slower growth in loans to public companies from 22.7 percent to 17.6 percent and to households from 1.2 percent to 0.8 percent.

The change in credit to private companies reflects namely a 6 percent fall in cash facilities, while loans for equipment and real estate development rose by 5.5 percent and 3.8 percent respectively. As for loans to public companies, cash facilities improved by 57.1 percent and equipment loans fell by 1.1 percent. Lending to individual entrepreneurs declined by 8.1 percent and loans to individuals increased by 1.9 percent, with rises of 1.3 percent in housing loans and 0.5 percent in consumer loans.

By branch of activity, data for the second quarter of 2024 show a 0.2 percent fall in lending to companies in the 'Extractive industries' sector, after a 50.3 percent rise, and a slowdown in the rate of growth of lending to the 'Electricity, gas and water' branch, from 26.9 percent to 13.7 percent.

Conversely, declines in lending to 'Food and tobacco industries' and to companies in the 'Trade, repair of motor vehicles and household goods' eased from 5 percent to 2.5 percent and from 6.3 percent to 5.6 percent respectively.

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



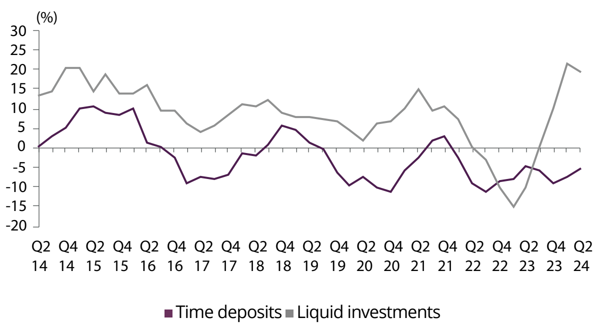
Non-performing loans rose by 4.2 percent quarter-on-quarter and their ratio to outstanding bank loans remained unchanged at 8.7 percent. They rose by 2.8 percent for private non-financial companies and by 5.9 percent for households, with ratios virtually unchanged at 12.9 percent and 10.3 percent respectively.

The latest figures for July show annual growth in bank credit of 4.6 percent, reflecting increases of 2.8 percent in credit to the non-financial sector and 15 percent in loans to other financial companies.

Loans granted by financial companies other than banks to the non-financial sector rose by 2.7 percent in the second quarter of 2024. This includes a 5.7 percent increase in loans granted by finance companies, a virtual stability in loans granted by microcredit associations and a 12.6 percent fall in loans granted by offshore banks.

Aggregate liquid investments rose by 19.2 percent after 21.3 percent in the previous quarter, with a slowdown in the growth of bond UCITS from 34.5 percent to 28.1 percent and Treasury bills from 15.5 percent to 13.5 percent, and an acceleration in the growth of equity and diversified UCITS from 21.6 percent to 23 percent.

Chart 3.9: Annual change in liquid investments and time deposits



3.2 Asset prices

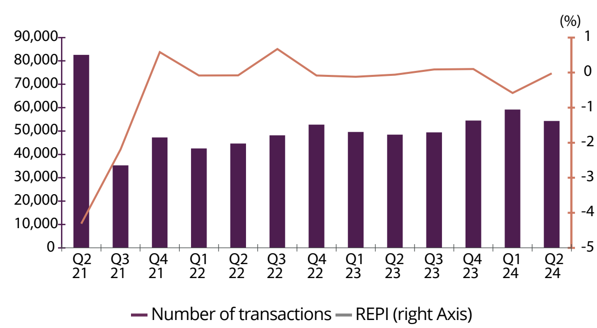
3.2.1 Real estate assets

In the second quarter of 2024, the property price index remained stable. This included a 0.5 percent rise in land prices, stagnation in residential property prices and a 0.3 percent fall in business property prices. At the same time, the number of transactions fell by 8.2 percent, with decreases of 6.7 percent for residential property, 10.2 percent for land and 15.9 percent for commercial property.

In the main cities, prices remained virtually unchanged in Fez and Rabat, and rose in four cities, ranging from 0.1 percent in Oujda to 1.4 percent in Agadir. On the other hand, decreases ranging from 0.4 percent in Meknes to 1 percent in Tangier were recorded in the four remaining cities: Meknes, Marrakech, El Jadida and Tangier.

Except for Oujda, where sales rose by 18.8 percent, all the other main cities recorded falls, with rates ranging from 2.9 percent in El Jadida to 22.7 percent in Meknes.

Chart 3.10: Change in the REPI and in the number of real estate transactions



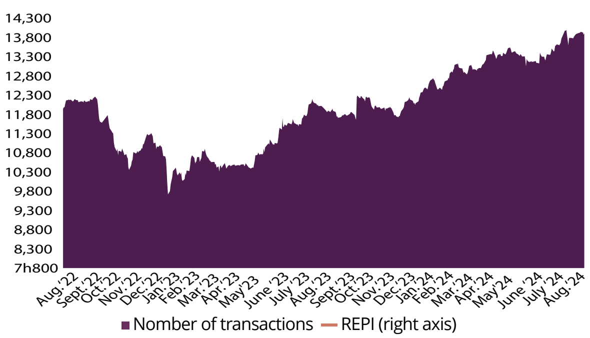
Source: BAM and ANCFCC.

3.2.2 Financial assets

3.2.2.1 Shares

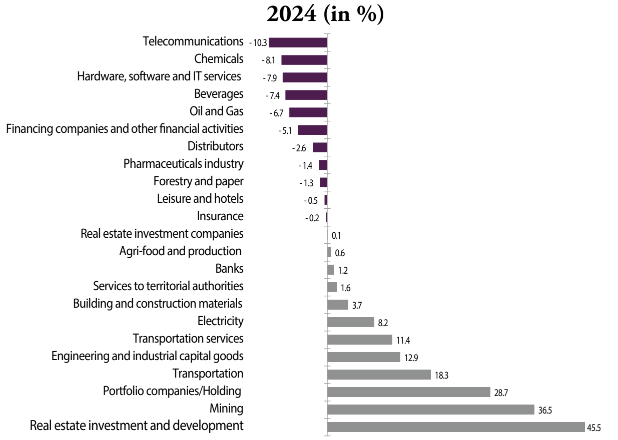
During the second quarter of 2024, MASI rose by 2.2 percent. This change mainly reflects increases of 45.5 percent in the 'real estate investment and development' sector index, 36.5 percent in the 'mining' sector index and 3.7 percent in the 'buildings and construction materials' sector index. Conversely, those for the 'oil and gas' and telecommunications sectors fell by 6.7 percent and 10.3 percent respectively.

Chart 3.11: Change in MASI index



Sources: Casablanca Stock Exchange.

Chart 3.12: Change in sector indexes in the third quarter of 2024 (in %)



Sources: Casablanca Stock Exchange.

Trading volume amounted to 28.3 billion dirhams compared with 13.1 billion dirhams in the previous quarter, mainly as a result of the increase in trading on the block market from 270.6 million dirhams to 8.5 billion dirhams and on the central equities market from 11.3 billion dirhams to 16.5 billion dirhams, as well as the capital increase carried out by Managem, on April 17, for an amount of nearly 3 billion dirhams. Against this backdrop, stock market capitalization has risen by 10.6 percent since the start of the year, to 692.4 billion dirhams.

The latest monthly data available show that MASI rose by 5.1 percent in July and fell slightly by 0.4 percent in August, giving a year-to-date performance of 15.2 percent. This monthly decline reflects falls of 2.5 percent in the 'agri-food' sector index, 2 percent in 'buildings and construction materials' sector index and 0.7 percent in the banking sector index. By contrast, the telecoms and "Hardware, software and IT services" indices rose by 2.8 percent and 7.8 percent respectively.

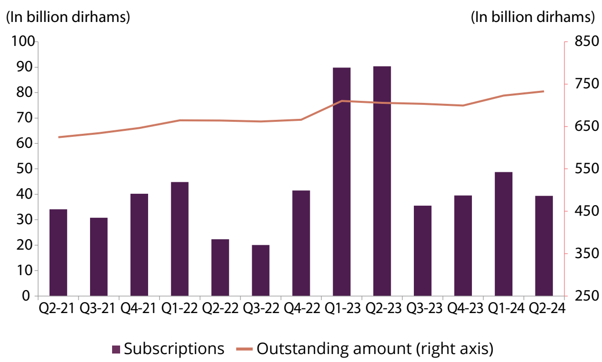
Trading volume fell from 5.6 billion dirhams in July, including almost 1 billion dirhams in connection with AKDITAL capital increase, to 3.7 billion dirhams in August, including 3.3 billion dirhams on the equity market. In this context, stock market capitalization reached 723 billion, an increase of 15.5 percent since December 2023.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic market amounted to 39.4 billion dirhams in the second quarter of 2024, compared with 48.7 billion dirhams in the previous quarter. Medium maturities accounted for 54 percent of issuance, long ones for 39 percent and short ones for 7 percent. Taking into account repayments of 29.4 billion, outstanding Treasury bills totaled 732.9 billion, up 4.8 percent quarter-on-quarter.

The latest available data show a fall in Treasury bill issuance in August to 8.5 billion dirhams compared with 38.5 billion dirhams in July. Medium maturities accounted for 61 percent of issuance, long ones for 30 percent and short ones for 8 percent. Taking into account repayments of 2.8 billion dirhams, the outstanding amount of Treasury bills stood at 750.5 billion at the end of August, an increase of 7.3 percent since December 2023.

Chart 3.13: Change in Treasury bill issues (In billion of dirhams)



Source: BAM.

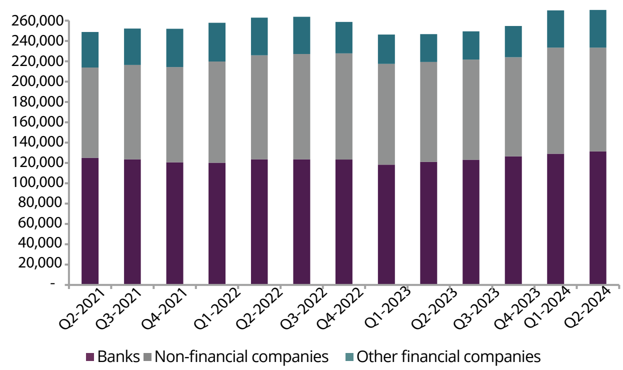
3.2.2.3 Private debt market

On the private debt market, issuance increased by 5.4 percent to 25.2 billion dirhams in the second quarter of 2024. Banks raised 19.6 billion dirhams compared with 12.6 billion dirhams the previous quarter, while non-financial companies raised 1.9 billion dirhams compared with 8.1 billion dirhams.

By instrument, issues of negotiable debt securities fell by 17.5 percent to 18.5 billion, including 14.8 billion in certificates of deposit, 3.2 billion in finance company bonds and 470 million in commercial papers. Bond issues amounted to 6.7 billion, 79 percent of which was issued by finance companies.

The latest available data show an increase in private debt issuance to 14.4 billion in July 2024, after 9.8 billion in June. Taking into account redemptions, the outstanding amount of these securities reached 271.7 billion dirhams, up 6.2 percent since the beginning of the year.

Chart 3.14: Change in outstanding private debt per issuer (In million of dirhams)



Source: Maroclear and BAM calculations.

3.2.2.4 UCITS

Regarding the activity of collective savings management, the net inflow of UCITS reached 14.9 billion dirhams, resulting from increases of 7.3 percent in subscriptions to 300.2 billion dirhams and 3.9 percent in redemptions to 285.4 billion dirhams. Performance indices rose quarter-on-quarter for all funds, with rates ranging from 0.9 percent for money market funds to 2.5 percent for diversified funds.

The latest figures for August show a 12.3 percent increase in the net assets of UCITS since the start of the year to 628.7 billion dirhams, including rises in assets under management ranging from 4.3

4. FISCAL POLICY TREND

Budget execution for the first eight months of 2024 posted a deficit, excluding proceeds from the sale of State holdings, of 41.9 billion dirhams, a slight increase of 283 million dirhams compared with the same period in 2023. Ordinary revenue rose by 11.2 percent to 251.6 billion, reflecting increases of 11.8 percent in tax receipts and 6.3 percent in non-tax receipts. At the same time, ordinary expenditure rose by 8.4 percent to 237 billion, reflecting increases of 10.3 percent in the cost of goods and services and 6.6 percent in interest on debt, while compensation expenditure fell by 8.2 percent. Under these conditions, the ordinary balance posted a surplus of 14.6 billion instead of 7.7 billion at the end of August 2023. Capital expenditure rose by 10.7 percent to 65.4 billion, taking total expenditure to 302.5 billion, an increase of 8.9 percent. The positive balance on the Treasury's special accounts fell by 9.3 percent to 8.9 billion.

Given the 4.9 billion reductions in the stock of pending transactions, the cash deficit narrowed to 46.9 billion, compared with 51.8 billion a year earlier. In addition to receipts of 1.7 billion from the sale of State holdings, this requirement was covered by net domestic resources of 40.3 billion and by net external flows of 4.9 billion. As a result, outstanding direct public debt is reported to have risen by 5.5 percent at the end of August 2024 compared with its level at the end of December 2023. The Treasury's financing conditions have improved compared with the same period in 2023.

4.1 Current receipts

Budget execution to the end of August 2024 posted an 11.2 percent increase in ordinary revenue to 251.6 billion, with tax receipts up 11.8 percent to 220.5 billion, driven mainly by corporate income tax and personal income tax, and non-tax receipts up 6.3 percent to 27.9 billion.

Revenues from direct taxes rose by 12 percent to 86 billion dirhams, reflecting increases of 11.4 percent to 43.7 billion in income tax revenues and 12.3 percent to 39.6 billion dirhams in income tax receipts. This trend includes increases of 1.5 billion dirhams in revenue generated by income tax on salaries, 0.5 billion dirhams in income tax on property profits and 0.7 billion dirhams in income tax withheld at source on fixed-income investment products and profits from the sale of transferable securities. The increase in corporate tax was mainly due to a 2.3 billion increase in income from the adjustment supplement, a 1.2 billion increase in income from the first two instalments and a 1.1 billion increase in corporate tax withheld at source on remuneration paid to third parties, on income from fixed-income investments and on gross income received by non-resident legal entities.

Revenues from indirect taxes rose by 12.3 percent to 108 billion, reflecting a 12.5 percent increase in VAT receipts to 85.3 billion and an 11.3 percent increase in DCT receipts to 22.7 billion. In particular, the rise in DCT on energy products reflects an increase of 12.2 percent to 11.9 billion. The improvement in VAT was due to a 17.3 percent increase in domestic VAT receipts to 30.6 billion dirhams and a 10 percent increase in import VAT receipts to 54.7 billion.

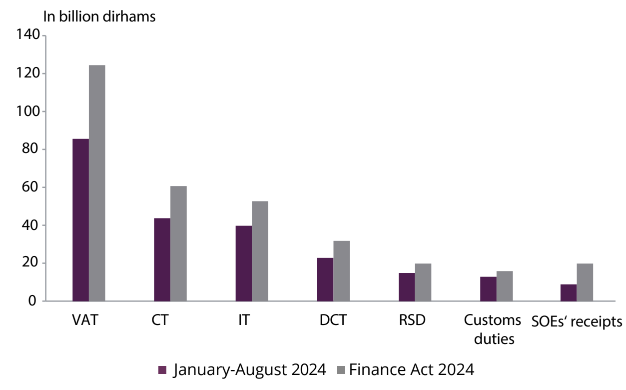
Table 4.1: Current revenues (in billion dirhams)*

	Jan.-Aug. 2023	Jan.-Aug. 2024	Change in %	FA 2024	Actual rates the FA (%)
Current revenues	226.3	251.6	11.2	371.7	67.7
Tax revenues	197.2	220.5	11.8	308.0	71.6
- Direct taxes	76.8	86.0	12.0	116.9	73.6
Including CT	39.3	43.7	11.4	59.9	73.0
I.T	35.3	39.6	12.3	52.7	75.2
- Indirect taxes	96.2	108.0	12.3	156.1	69.2
VAT	75.8	85.3	12.5	124.2	68.7
DCT	20.4	22.7	11.3	31.9	71.0
- Customs duties	10.4	12.1	16.4	15.7	76.9
- Registration and stamp duties	13.9	14.4	3.5	19.3	74.6
Nontax revenues	26.2	27.9	6.3	60.3	46.3
- SOEs' receipts	9.8	8.3	-15.3	19.5	42.7
- Other receipts	16.4	19.6	19.2	40.8	48.0
Specific financing mechanisms	9.0	11.0	0.0	35.0	31.4
TSA revenues	2.8	3.3	16.8	3.5	94.7

*Considering 30 percent of the VAT transferred to local governments.
Sources: Ministry of Economy and Finance (Treasury and External Finances Department), VAT restatement by BAM

Revenues from customs duties rose by 16.4 percent to 12.1 billion, and from registration and stamp duties by 3.5 percent to 14.4 billion.

Chart 4.1 : Main revenue results compared with 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
- SOEs: State-owned enterprises

As for non-tax revenues, their evolution reflects receipts of 19.6 billion under the heading of other revenues, compared with 16.4 billion at the end of August 2023, including 11 billion in receipts from innovative financing mechanisms. Income from state-owned enterprises (SOEs) totalled 8.3 billion, compared with 9.8 billion, paid mainly by OCP for 3 billion, compared with 6 billion a year earlier, by Bank Al-Maghrib for 2.6 billion, compared with 690 million, and by the Agency for Land Conservation (ANCFCC) for 2 billion, compared with 2.5 billion at the end of August 2023.

4.2 Expenses

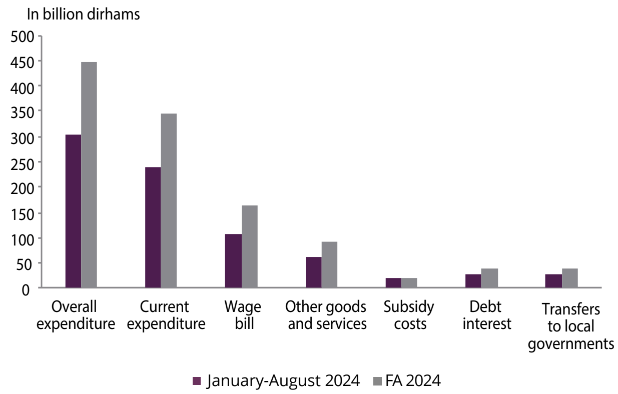
Overall expenditure rose by 8.9 percent to 302.5 billion at the end of August 2024, with increases of 8.4 percent to 237 billion in ordinary expenditure and 10.7 percent to 65.4 billion in capital expenditure. Expenditure on goods and services amounted to 166.6 billion, up 10.3 percent, as a result of a 5.5 percent increase in the wage bill to 106.5 billion and a 19.9 percent increase in expenditure on other goods and services to 60 billion. These include transfers amounting to 29.1 billion to SOEs and 9.7 billion to special Treasury accounts, up by 3.1 billion and 2.4 billion, respectively. As for the wage bill, the portion served by the Personnel Expenditure Directorate rose by 5.7 percent to 90.1 billion, reflecting increases of 4.9 percent in the structural component and 15.8 percent in back pay.

Table 4.2: Public expenditure execution (in billion dirhams)*

	Jan.-Aug. 2023	Jan.-Aug. 2024	Change in %	FA 2024	Actual rates the FA (%)
Overall expenditure	277.7	302.5	8.9	444.7	68.0
Current expenditure	218.6	237.0	8.4	344.3	68.8
Goods and services	151.1	166.6	10.3	252.8	65.9
Wage bill	101.0	106.5	5.5	161.6	65.9
Other goods and services	50.1	60.0	19.9	91.2	65.8
Debt interests	25.1	26.8	6.6	37.2	72.0
Subsidy cost	19.7	18.1	-8.2	17.0	106.5
Transfer to local governments	22.7	25.6	12.5	37.2	68.7
Investment	59.1	65.4	10.7	100.4	65.2

* including 30% of VAT transferred to local authorities.
Sources: MEF (DTFE), VAT restatement by BAM.

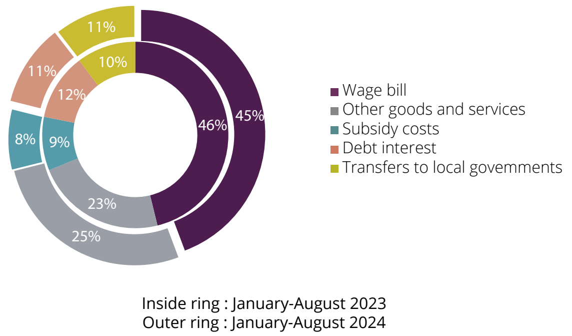
Chart 4.2: Expenditure execution compared to the FA



Sources: Ministry of Economy and Finance (DTFE) data, VAT restatement by BAM.

Interest charges on debt rose by 6.6 percent to 26.8 billion, including a 43.6 percent rebound to 6.8 billion for foreign debt and a 2.1 percent fall to 19.9 billion for domestic debt.

Chart 4.3: Structure of current expenditure



Sources: Ministry of Economy and Finance (DTFE) data, VAT restatement by BAM.

Subsidy costs fell by 8.2 percent to 18.1 billion, representing an outturn rate of 106.5 percent compared with the Finance Act. This change reflects decreases of one billion to 10.4 billion in the charge for butane gas and of half to 1.6 billion in the charge for national soft wheat flour, while the sugar subsidy increased by 0.5 billion to 4.4 billion. Support granted to road transport professionals amounted to 1.6 billion, compared with 1.1 billion dirhams a year earlier. It should be noted that the butane gas subsidy has been partially withdrawn as of 20 May 2024, with a reduction in subsidies of 2.5 dirhams for the 3-kg bottle and 10 dirhams for the 12-kg bottle.

Capital expenditure rose by 10.7 percent to 65.4 billion, equivalent to an outturn rate of 65.2 percent compared with the forecasts in the Finance Act. This includes an increase of 19.4 percent to 38 billion in expenditure by the Ministries.

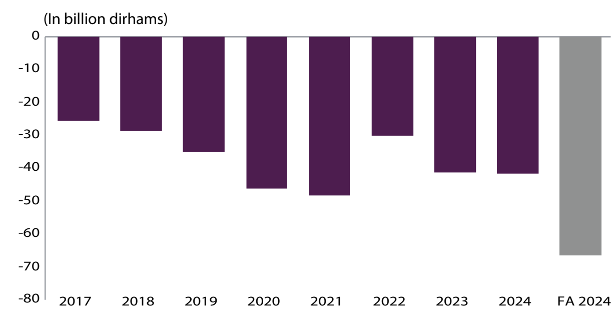
Chart 4.4: Capital expenditure at end-August

Sources: Ministry of Economy and Finance (DTFE).

4.3 Deficit and Treasury Financing

Taking into account changes in revenue and expenditure, as well as the balance of the Treasury's special accounts, the Treasury's expenditure and resources posted a slight increase in the budget deficit, rising from 41.7 billion to 41.9 billion. In addition, the Treasury reduced its stock of pending transactions from 10.2 billion to 4.9 billion, bringing the cash deficit down to 46.9 billion from 51.8 billion at the end of August 2023.

Chart 4.5: Fiscal balance, at end of August



Source: MEF (DTFE).

In addition to receipts of 1.7 billion[1] from the sale of State holdings, the Treasury's financing requirement was covered by net domestic resources of 40.3 billion and by positive net external flows of 4.9 billion dirhams. The latter includes gross drawings of 22.7 billion, compared with 38.9 billion a year earlier, of which 12.9 billion from the World Bank and 3.3 billion from the IMF.

Table 4.3: Deficit financing (in billion dirhams)

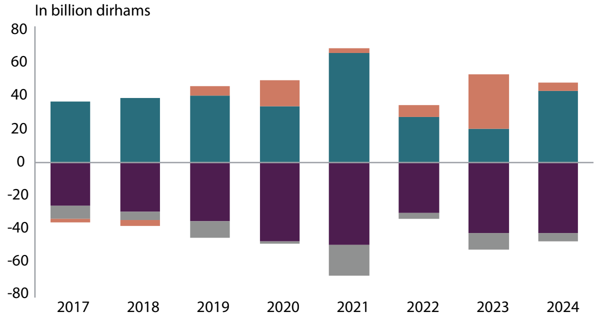
	Jan.-Aug. 2023	Jan.-Aug. 2024	FA 2024
Current balance	7.7	14.6	27.5
Balance of TSA	9.8	8.9	6.0
Primary balance	-16.5	-15.1	-29.7
Fiscal balance	-41.7	-41.9	-67.0
Change in pending operations	-10.2	-4.9	0.0
Financing requirements	-51.8	-46.9	-67.0
Domestic financing	19.7	40.3	10.8
External financing	32.1	4.9	51.1
Privatization	0.0	1.7	5.0

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

In terms of domestic financing, recourse to the auction market enabled a net amount of 51.1 billion to be raised, compared with 37.6 billion the previous year. Net subscriptions included 30-year bonds worth 23.6 billion, 15-year bonds worth 14.9 billion, 10-year notes worth 11.2 billion, 20-year bonds worth 8.3 billion, 2-year notes worth 5.4 billion and 13-week bonds worth 2.4 billion. At the same time, net redemptions amounted to 14.7 billion for 52-week bills and 921 million for 26-week bills.

1 This amount represents the proceeds from the sale of the State's shares in the Mamounia hotel to OCP.

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



Sources: Ministry of Economy and Finance (DTEF).
* Privatization receipts, limited and discontinued over time, were included in demestic financing.

As regards the Treasury's financing conditions on the auction market, the data at the end of August show a fall in weighted average rates compared with the same period in 2023. For medium and short maturities, the declines were 67 bp to 3.34 percent for 5-year notes, 60 bp to 3.15 percent for 2-year notes, 52 bp to 2.88 percent for 52-week bills, 37 bp to 2.79 percent for 26-week bills and 21 bp to 2.80 percent for 13-week bills. Similarly, for long maturities, rates fell by 86 bp to 4.24 percent for 20-year bonds, by 85 bp to 3.98 percent for 15-year notes, by 70 bp to 3.71 percent for 10-year notes and by 60 bp to 4.90 percent for 30-year bonds.

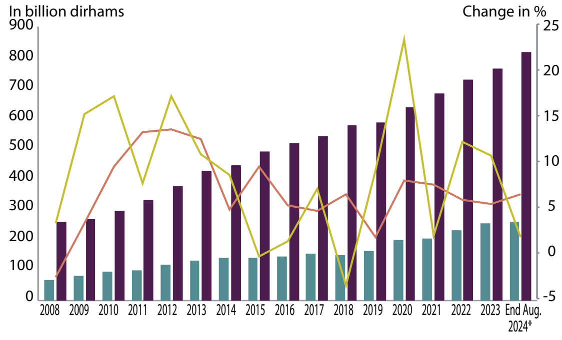
Table 4.4: Treasury's indebtedness (in billion dirhams)

	2019	2020	2021	2022	2023	End Aug. 2024*
Treasury external debt	161.6	199.7	203.8	228.9	253.6	258.5
Change in %	9.2	23.6	2.0	12.3	10.8	1.9
Treasury domestic debt	585.7	632.9	681.5	722.9	763.0	813.9
Change in %	1.9	8.1	7.7	6.1	5.6	6.7
Outstanding direct debt	747.3	832.6	885.3	951.8	1016.7	1072.3
Change in %	3.4	11.4	6.3	7.5	6.8	5.5

Sources: Ministry of Economy and Finance (DTEF).
* For the debt at the end of August 2024, it is estimated based on net financing flows generating debt.

Under these conditions, direct public debt would have risen by 5.5 percent at the end of August 2024 compared with its level at the end of December 2023, with increases of 6.7 percent in its domestic component and 1.9 percent in its external component.

Chart 4.7: Treasury indebtedness



Sources: Ministry of Economy and Finance (DTEF).
* BAM estimates.

5. DEMAND, SUPPLY AND LABOR MARKET

In the first quarter of 2024, economic growth slowed to 2.5 percent, compared to 3.9 percent in the same quarter of 2023. This was due to a 5 percent decline in agricultural value added, instead of a 2.1 percent rise, and a 3.2 percent increase in non-agricultural value added after 3.9 percent. On the demand front, its domestic component contributed positively to growth by 3.7 percentage points, while foreign trade in goods and services in volume terms made a negative contribution of around 1.1 points.

In the second and third quarters of 2024, and due to unfavorable weather conditions, agricultural value added would have contracted by an average of 6.7 percent, whereas the pace of non-agricultural activities would have accelerated to 3.4 percent. Thus, growth would have stood at 2.7 percent.

In the labor market, the national economy has lost 82 thousand jobs between the second quarter of 2023 and the same period of 2024, exclusively in rural areas. Agriculture and "construction and public works" respectively posted decreases of 152 thousand and 35 thousand jobs, while other sectors recorded increases, with 58 thousand in "industry including handicrafts" and 49 thousand in services. Considering a net inflow of 8 thousand workers, the labor force participation rate fell again from 44.8 percent to 44.2 percent, and the unemployment rate rose from 12.4 percent to 13.1 percent at the national level, from 16.3 percent to 16.7 percent in urban areas and from 5.7 percent to 6.7 percent in rural areas.

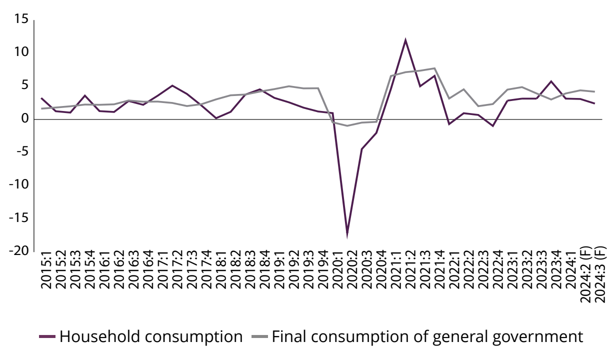
5.1 Domestic demand

5.1.1 Consumption

Actual figures for the first quarter of 2024 show that the pace of household consumption accelerated from 0.9 percent to 3 percent, with a positive contribution to growth rising from 0.6 percentage points to 1.9 percentage points.

Against a backdrop of a further slowdown in inflation and of the wage increases agreed upon as part of the sectoral and social dialogues, household consumption is estimated to have risen by an average of 2.8 percent during the second and third quarters of 2024, compared with 4.4 percent over the same period a year earlier. This development mainly reflects a contraction in agricultural incomes, as well as a deceleration in remittance flow and consumer credit.

Chart 5.1: Consumer expenditure (Change in %)



Sources: HCP Data and BAM forecasts.

5.1.2 Investment

In the first quarter of 2023, investment grew by 4.6 percent, after a 5 percent decline in the same quarter of the previous year, bringing its contribution to growth to 1 percentage point after a negative one of 1.2 points.

Available indicators suggest that its pace would have accelerated to an average of 5.4 percent over the second and third quarters of the current year, compared with a 3.8 percent fall over the same period a year earlier. This reflects increases, to end of July, of 19.5 percent in capital goods imports, in volume terms, up from 7.6 percent, of 13.1 percent in cement sales, after 0.8 percent, and of 12.4 percent in equipment loans, instead of 6.6 percent.

In addition, the quarterly results of Bank Al-Maghrib's business survey for the second quarter of 2024 show that the business climate was described as "normal" by 67 percent of companies, compared with 68 percent a quarter earlier, and as "unfavorable" by 19 percent, after 24 percent.

5.2 Foreign demand

In the first quarter of 2024, net exports of goods and services in volume terms made a negative contribution to growth of around 1.1 percentage points, after a positive contribution of 3.6 percentage points in the first quarter of 2023. Exports grew by 7.3 percent, instead of 18.6 percent, and imports by 9.5 percent after 7.8 percent.

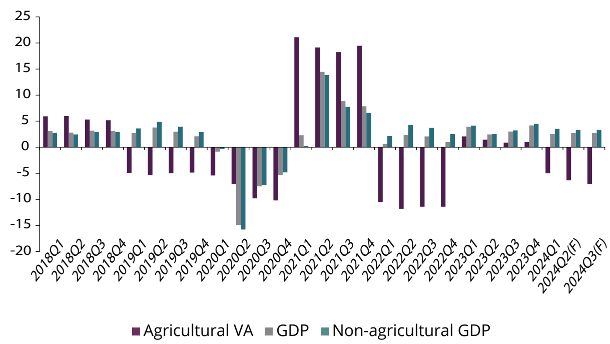
In terms of outlook, exports would have improved by an average of 8.9 percent during the second and third quarters, compared with 6.3 percent a year earlier. This reflects in particular the good performance of the phosphates and derivatives sales and the automotive and aerospace sectors' shipments. Similarly, imports would have increased by 10 percent, instead of 4.4 percent.

5.3 Overall supply

Economic growth in the first quarter of 2024 stood at 2.5 percent, compared with 3.9 percent in the same quarter a year earlier. This deceleration reflects a 5 percent fall in agricultural value added, compared with a 2.1 percent growth, and a 3.2 percent rise in non-agricultural value added, after a 3.9 percent increase.

Over the second and third quarters of 2024, GDP would have grown by an average of 2.7 percent, unchanged from the same period in 2023. Agricultural value added would have contracted by 6.7 percent, after a rise of 1.2 percent, due in particular to a 43 percent fall in the cereals harvest to 31.2 million quintals (MQx). On the other hand, non-agricultural value added is expected to have improved by 3.4 percent instead of 2.8 percent.

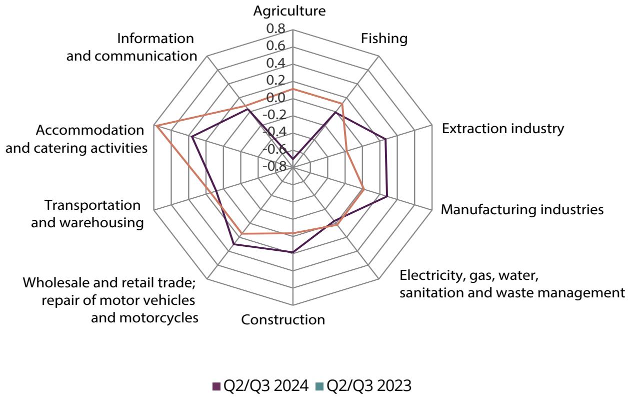
Chart 5.2: GDP per component (Chained prices, YoY change in percent, base year 2014)



Sources: HCP data and BAM forecasts.

As for the secondary sector, activity would have increased by an average of 2.9 percent, after a decrease of 0.6 percent a year earlier. This trend reflects increases of 14 percent in mining, compared with a decline of 6.4 percent, and of 2 percent in manufacturing industries after 0.1 percent. By contrast, the "electricity and water" sector is forecast to fall by 1.3 percentage points, instead of an increase of 1.2 percent.

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



Sources: HCP data and BAM forecasts.

In the tertiary sector, value added is estimated to have risen by an average of 3.6 percent in the second and third quarters, compared with 4.3 percent in the same period of the previous year.

In particular, "Accommodation and catering" activities would have continued to improve, with an increase of 8.5 percent. Similarly, the branches of "public administration and defense, compulsory social security" and "education, human health and social work activities" would have posted an increase in their value added, in line with the wage increases agreed upon as part of the social dialogue.

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the second quarter of 2023 and the same period of 2024, the situation in the labor market was marked by a quasi-stability in the number of active population aged 15 and over, at almost 12.5 million. This reflects a decrease of 2.2 percent in rural areas and an increase of 1.4 percent in urban areas.

Considering a 1.4 percent increase in the working-age population, the participation rate fell by 0.6 percentage points to 44.2 percent nationally, by 1.2 percentage points to 48 percent in rural areas and by 0.3 percentage points to 42.3 percent in urban areas.

At the same time, the national economy has lost 82 thousand jobs, after a loss of 86 thousand a year earlier, and the employed active population fell by 0.7 percent to almost 10.9 million. Agriculture and "construction and public works" posted respective declines of 152 thousand and 35 thousand jobs, while "industry including handicrafts" and services recorded an increase of 58 thousand and 49 thousand jobs, respectively.

5.4.2 Unemployment and underemployment

Unemployed population grew by 5.8 percent to 1.6 million, and the unemployment rate rose from 12.4 percent to 13.1 percent nationally, from 16.3 percent to 16.7 percent in urban areas and from 5.7 percent to 6.7 percent in rural areas. For young people aged 15 to 24 years in particular, the rate increased by 2.5 percentage points to 36.1 percent overall, by 2.7 points to 48.8 percent in urban areas and by 1.8 points to 20.2 percent in rural areas.

At the same time, the situation was marked by an increase in underemployment[1]. Its rate rose from 9 percent to 9.6 percent nationally and from 9.9 percent to 11.6 percent in rural areas, while it slightly fell in urban areas by 0.1 percentage point to 8.3 percent.

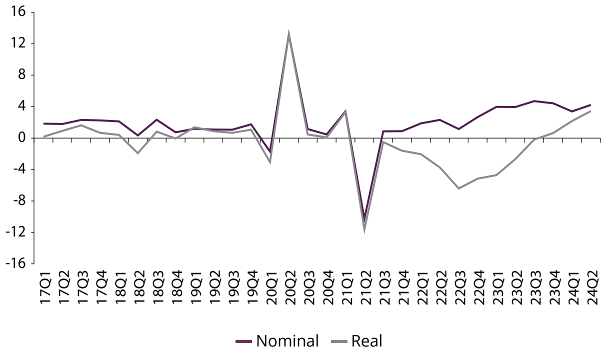
5.4.3 Productivity and wages

In non-agricultural activities, apparent labor productivity, as measured by the ratio of value added to employment, is estimated to have improved by 2.4 percent in the second quarter of 2024, after 0.2 percent a year earlier. This would have resulted from a rise of 3.4 percent in value added, instead of 2.5 percent, and of 0.9 percent in the number of employed people, after 2.4 percent.

1 The underemployed population is made up of people who have worked: i) less than 48 hours during the reference week, but who are willing and available to work overtime, or ii) more than the set threshold and who are looking for another job or willing to change jobs due to a mismatch with their training or qualifications, or the inadequacy of the income provided.

The average wage, calculated on the basis of CNSS data by dividing the wage bill by the number of employees, rose by 4.2 percent in nominal terms in the second quarter of 2024, compared with 3.9 percent a year earlier, and by 3.4 percent in real terms after a fall of 2.7 percent.

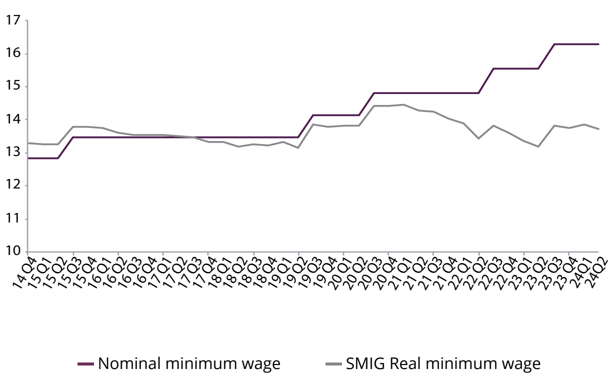
Chart 5.4: Private sector average wage index (YoY change in %)



Sources: CNSS data et BAM calculations.

The hourly minimum wage stood at 16.29 dirhams in nominal terms, in the second quarter of 2024, up 4.8 percent year-on-year. Considering a 0.8% increase in the consumer price index, it would have risen by 4 percent in real terms.

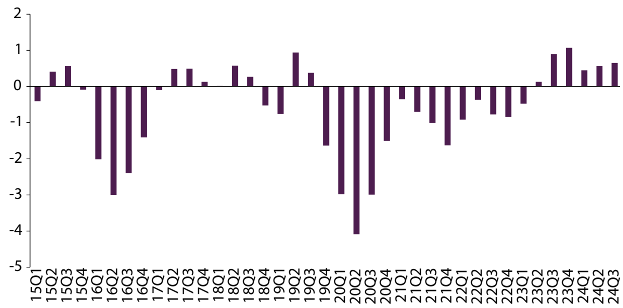
Chart 5.5: Hourly minimum wages in nominal and real terms (in dirhams)



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

Overall, the output gap is expected to remain positive in the second and third quarters of 2024.

Chart 5.6: Overall output gap (in %)



Source: BAM estimates.

Table 5.1: Labor market main indicators

		Q2 2023	Q2 2024
Participation rate (%)		44.8	44.2
Urban		42.6	42.3
Rural		49.2	48.0
Unemployment rate (%))		12.4	13.1
Youth aged 15 to 24		33.6	36.1
Urban		16.3	16.7
Youth aged 15 to 24		46.1	48.8
Rural		5.7	6.7
Créations d'emplois (en milliers)		-86	-82
Urban		121	60
Rural		-206	-141
Sectors			
- Agriculture, forest and fishing		-266	-152
- Industry including handicraft		46	58
- Construction and public works		30	-35
- Services		103	49
Non-agricultural apparent productivity (change in %)		0.2	2.4
Average wage index (change in %)	Nominal	3.9	4.2
	Real	-2.7	3.4

Sources : HCP, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

As forecast in last June's Monetary Policy Report, inflation slowed to 0.8 percent in the second quarter of 2024 from 1.2 percent a quarter earlier. It then averaged 1.5 percent in July and August, bringing its first eight-months of the year average down to 1.1 percent. The acceleration between the second quarter and the last two months largely reflects the easing of the annual decline in the prices of food products with volatile prices, as well as the rise in the prices of products with regulated tariffs. For its part, core inflation continues to evolve at a moderate level, standing at 2 percent after 2.1 percent on average in the second quarter.

In the third quarter, inflation is expected to average 1.4 percent, with the underlying component holding steady at 2.1 percent.

6.1 Inflation trends

After averaging 0.8 percent in the second quarter, inflation rose to an average of 1.5 percent in July and August. This relative acceleration can be attributed mainly to the easing of the year-on-year fall in the prices of volatile food products, as well as to the acceleration in the rise in regulated tariffs. Core inflation continued to slow, dropping from 2.1 percent in the second quarter to an average of 2 percent in July and August.

Table 6.1: Change in inflation and its components

(In %)	Monthly change			YoY change		
	June 24	July 24	Aug. 24	June 24	July 24	Aug. 24
Inflation	0.4	-0.2	0.8	1.8	1.3	1.7
- Food products with volatile prices	0.4	-2.2	5.1	0.5	-2.2	1.2
- Price-regulated products	1.1	0.0	0.0	2.0	2.0	1.9
- Fuels and lubricants	-2.0	1.3	-1.8	5.2	6.0	-2.4
Core inflation	0.2	0.1	0.2	2.1	1.9	2.3
Food products	0.5	0.1	0.3	2.9	2.5	3.4
-Clothing and footwear	0.1	-0.1	0.0	2.1	1.8	1.9
-Housing, water, gas, electricity, and other fuels	-0.1	0.2	0.0	1.2	1.4	1.2
-Furniture, household goods and routine maintenance	0.0	0.0	0.1	0.7	0.6	0.6
-Healthcare[1]	-0.3	0.1	-0.3	1.0	0.5	0.2
-Transport[2]	-0.2	0.2	0.9	1.4	1.4	2.3
-Communication	0.1	0.0	0.0	-0.1	-0.1	-0.1
-Leisure and culture[1]	-0.1	0.0	0.0	-0.2	-0.2	0.0
-Education	0.0	0.0	0.0	2.1	2.1	2.1
-Restaurants and hotels	0.5	0.7	1.1	3.2	3.1	3.5
-Miscellaneous goods and services[1]	0.2	0.1	0.1	2.2	2.2	2.2

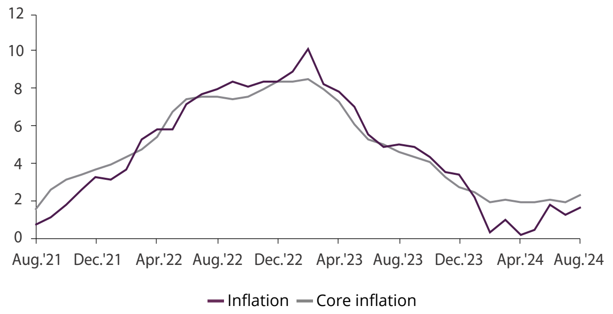
1 Excluding products with regulated prices.
2 Excluding fuels and lubricants, and products with regulated prices.
Sources: HCP data and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

Prices of volatile food products fell by an average of 0.5 percent year-on-year in July and August, following a 5.1 percent drop in the second quarter. This easing was driven mainly by a 13.8 percent rise in 'poultry and rabbit' prices, instead of a 2.3 percent fall, as well as by the acceleration in price increases from 8.9 percent to 19.4 percent for 'fresh fruit' and from 6.4 percent to 15 percent for 'fresh fish'.

Overall, this component contributed -0.1 percentage point to inflation, compared with -0.7 percentage points on average in the second quarter.

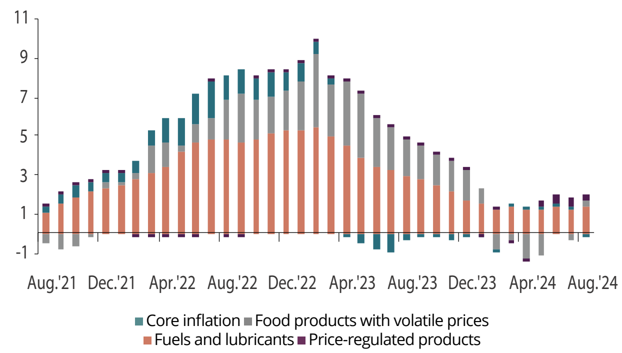
Chart 6.1: Inflation and core inflation (%, YoY)



Sources: HCP and BAM calculations.

Regulated tariffs rose by an average of 1.9 percent in July and August, after 0.9 percent in the second quarter, reflecting the impact of the butane gas price increase introduced on 20 May. As a result, they contributed 0.4 percentage points to average inflation in July and August, instead of 0.2 percentage points.

Chart 6.2: Price contributions of major components to inflation (in percentage points)

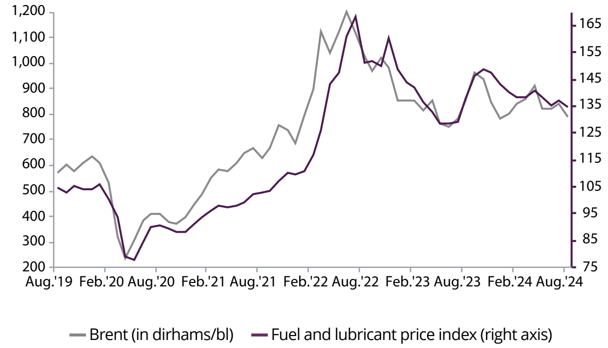


Sources: Données HCP and BAM calculations.

Prices of fuels and lubricants fell by a cumulative monthly 0.6 percent in July and August, against a backdrop of falling international prices for petroleum products. In particular, the price of Brent crude declined from USD 84.9/bl in the second quarter to an average of USD 83.1/bl in July and August.

Year-on-year, the rate of increase of fuel and lubricant prices fell from 6.2 percent in the second quarter to an average of 1.7 percent in July and August, contributing an average of 0.1 percentage point to inflation, compared with 0.2 points one quarter earlier.

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



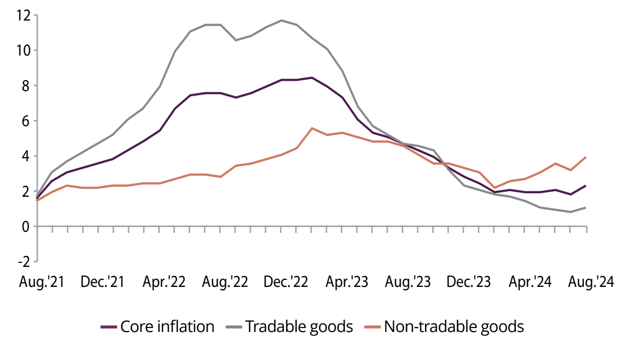
Sources: World Bank, HCP and BAM calculations.

6.1.2. Core inflation

Core inflation continues to slow gradually, falling from 2.1 percent in the second quarter to an average of 2 percent in July and August. This deceleration is linked exclusively to the fall in the non-food component from 1.6 percent to 1.5 percent, with the rate of price increases falling from 1 percent to 0.6 percent for 'furniture, household goods and routine household maintenance' and from 2 percent to 1.8 percent for 'clothing and footwear'.

By contrast, the rate of increase in food prices picked up to an average of 2.9 percent in July and August, compared with 2.6 percent in the second quarter, driven in particular by the rise in 'fresh meat' prices, up from 8.9 percent to 11.4 percent.

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



Source: HCP data and BAM calculations.

The breakdown of the core inflation basket into tradable and non-tradable products indicates that the slowdown was exclusively in the tradable component.

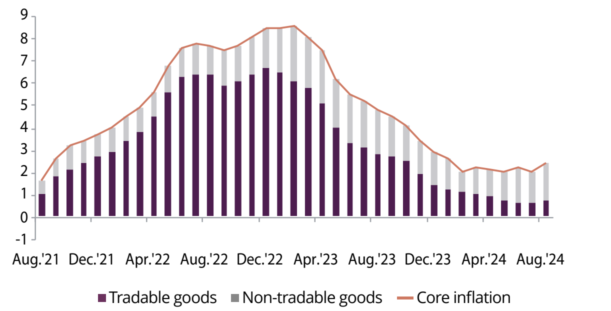
Table 6.2: Change in the price indexes of tradable and non-tradable goods

	Monthly variation			Year-on-year		
	June 24	July 24	Aug. 24	June 24	July 24	Aug. 24
Tradable goods	-0.1	0.0	0.2	1.0	0.9	1.1
Non-tradable goods	0.7	0.2	0.3	3.6	3.2	3.9
Core inflation	0.2	0.1	0.2	2.1	1.9	2.3

Sources: HCP data and BAM calculations.

Prices in the latter category rose by an average of 0.9 percent in July and August, after 1.2 percent in the previous quarter, due in particular to a slowdown in the rise in prices of 'oils', 'dairy products' and 'other appliances, articles and products for personal care'.

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

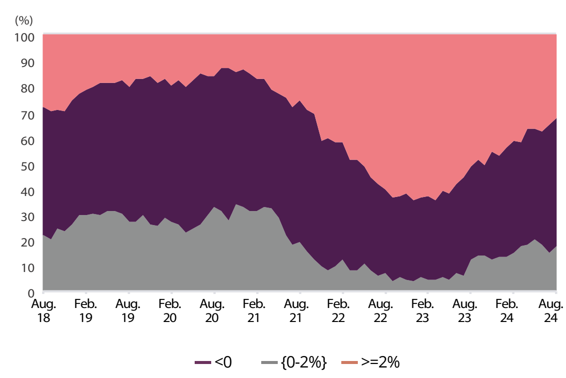


Sources: HCP and BAM calculation.

In contrast, prices of non-tradable goods and services rose by an average of 3.6 percent in July and August, compared with 3.1 percent in the second quarter, largely due to the acceleration in the rise in 'fresh meat' prices.

The slowdown in prices in the Consumer Price Index basket is gradually becoming more widespread, with the proportion of products whose prices rose by more than 2 percent falling from 37 percent in the second quarter to 34 percent on average in July and August.

Chart 6.6: Distribution of price changes for the various sections of the CPI (in %)



Sources: HCP and BAM calculation.

6.2 Short-term outlook for inflation

In the third quarter, inflation should reach 1.4 percent after 0.8 percent in the second quarter of 2024.

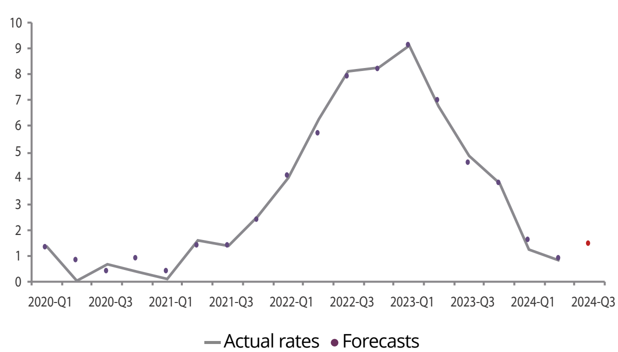
On the one hand, this acceleration should be linked to the expected easing of the fall in prices of volatile food products. Data for July, available wholesale market prices, and the seasonal profile of prices in this product category suggest a year-on-year decline of 0.1 percent, compared with 5.1 percent a quarter earlier.

On the other hand, it is explained by the 2 percent increase in regulated tariffs, due to the effect of the increase in butane gas prices in May 2024 as part of the gradual decompensation of this product.

By contrast, prices of fuels and lubricants are expected to fall by 0.8 percent in the third quarter, after rising by an average of 6.2 percent in the second quarter, reflecting trends in the international price of petroleum products.

Core inflation is expected to be around 2.1 percent, virtually unchanged from the previous quarter.

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

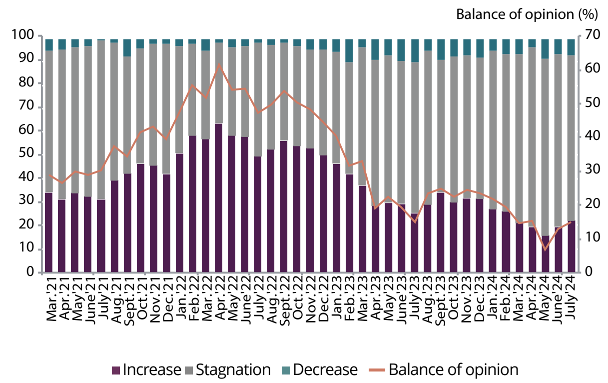


Source: HCP and BAM forecasts.

6.3 Inflation expectations

The results of Bank Al-Maghrib's business survey of industrialists for July 2024 show that 71 percent of respondents expect inflation to stagnate over the next three months, 22 percent forecast it to rise, while 7 percent anticipate it to fall. The balance of opinion thus stands at 15 percent.

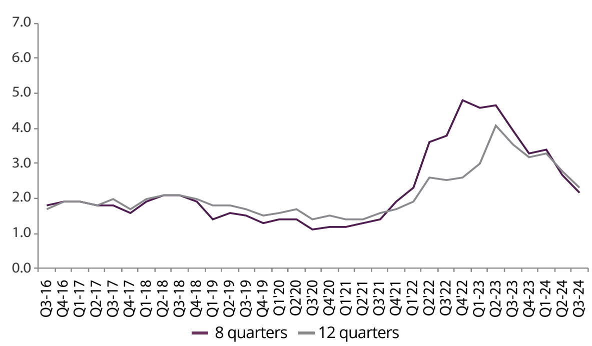
Chart 6.8: Business owners' expectations of inflation over the next three months (%)



Source: BAM's monthly business survey.

In addition, the results of the inflation expectations survey conducted by Bank Al-Maghrib among financial sector experts for the third quarter of 2024 reveal that they expect inflation to continue to fall. Indeed, they expect average inflation to return to 2.2 percent, from 2.7 percent one quarter earlier, over the next eight quarters, and to 2.3 percent, after 2.8 percent, over the next 12 quarters.

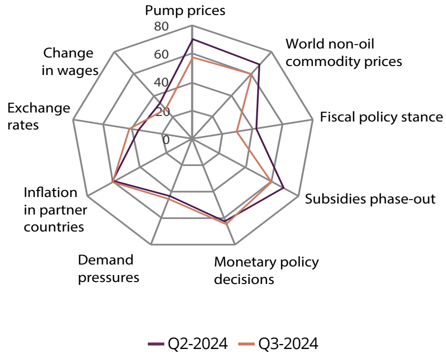
Chart 6.9: Inflation expectations of financial sector experts over the next eight quarters (%)



Source: BAM's quarterly survey on inflation expectations.

Respondents believe that inflation trends over the next eight quarters will depend primarily on monetary policy decisions, world commodity prices excluding oil, inflation in partner countries and further subsidy phaseout.

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



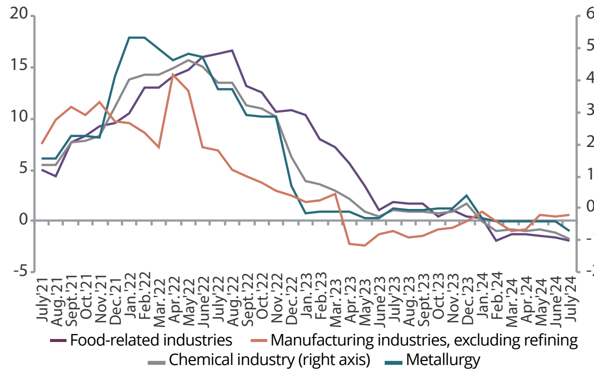
Source: BAM's quarterly survey on inflation expectations.

6.4 Producer prices

Producer prices in manufacturing industries excluding oil refining rose by 0.2 percent in July. This increase was mainly driven by a 0.5 percent surge in producer prices for the 'food industries' and a 0.8 percent rise for the 'textile manufacturing' branch. Conversely, producer prices fell by 0.4 percent in the 'manufacturing of other non-metallic mineral products'.

On a year-on-year basis, producer prices excluding refining fell for the sixth consecutive month, with a further decline of -1.8 percent in July after -1.1 percent in June.

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



Source: HCP.

7. MEDIUM TERM OUTLOOK

Summary

Amid high uncertainty, primarily driven by persisting geopolitical tensions, global growth is expected to decelerate—albeit at a slower pace than initially forecast in June—from 3.3 percent in 2023 to 3.2 percent in 2024, before leveling off at 2.9 percent in 2025. In advanced economies, U.S. growth is projected to reach 2.6 percent this year—driven by consumer and capital expenditure—before slowing to 1.6 percent in 2025. In the euro area, it is expected to remain subdued, at 0.8 percent in 2024 before accelerating to 1.5 percent in 2025. In the United Kingdom, GDP is expected to grow by 1.1 percent in 2024, then 1.4 percent in 2025; while in Japan, the pace of economic activity is expected to slow to 0.2 percent in 2024 before picking up to 1.2 percent in 2025.

Turning to the leading emerging markets, after reaching 5.2 percent growth in 2023, the Chinese economic growth is expected to slow to 5 percent in 2024 and 4.7 percent in 2025, primarily due to ongoing challenges in the property market and high local government debt. In contrast, the Indian economy is expected to remain robust in the medium term, supported by strong public investment. In Brazil, growth is projected to be modest, at 1.9 percent in 2024 and 1.8 percent in 2025. In Russia, growth is forecast to be 4 percent in 2024, slowing to 1 percent in 2025.

In commodity markets, the price of Brent crude is expected to remain stable at an average of USD 82.5 per barrel this year, before edging up to USD 84.2 per barrel in 2025. Coal prices are anticipated to continue their downward trend in 2024, reflecting declining demand as gas prices continue to fall, before recovering in 2025. As for natural gas, the World Bank's April projections for the European market point to a price contraction in 2024, followed by a slight appreciation in 2025.

As to the prices of Moroccan phosphate and derivatives, CRU expects crude oil prices to decline in 2024 and 2025, while DAP and TSP prices are projected to remain virtually stable in 2024, before rebounding in 2025. As for foodstuffs, the FAO index is expected to fall by 3.5 percent in 2024, before rising by 3.2 percent in 2025, following the 13.8 percent decline recorded in 2023.

Overall, inflationary pressures are expected to continue easing over the forecast period. In the United States, inflation is projected to slow further, reflecting the downward trend in its underlying component. A similar trend is anticipated in the euro area.

Against this backdrop, the Fed decided at the conclusion of its September 17-18 meeting, for the first time since March 2020, to cut the target range for the federal funds rate by 50 basis points, bringing it to [4.75-5 percent]. Similarly, at its September 12 meeting, following an initial 25-basis-point cut in June, the ECB reduced the interest rate on its deposit facility by 25 basis points to 3.50 percent. The Bank of England opted to leave its key rate unchanged at 5 percent on September 18, after a 25-basis-point cut in August. For its part, the Bank of Japan raised its key rate by 25 basis points to 0.25 percent in July, and maintained it unchanged following its September 20 meeting.

At the national level, foreign trade in goods is expected to pick up in 2024, with both exports and imports rising by nearly 5 percent. Travel receipts and remittances are also expected to maintain

strong performance. The current account deficit is projected to end the year at 1.4 percent of GDP, after 0.6 percent in 2023. Furthermore, FDI receipts are expected to increase to the equivalent of 3.1 percent of GDP, compared with 2.4 percent in 2023.

In 2025, trade growth is forecast to accelerate further. Exports are expected to grow by 9.2 percent, boosted by the forecasted momentum within the automotive and phosphate sectors. Imports, for their part, are expected to increase by 9 percent, mainly due to increased purchases of capital goods. Meanwhile, travel receipts are expected to rise by 4.6 percent to MAD 117.3 billion, while remittances should gain 3.1 percent to MAD 121.8 billion. The current account deficit is thus expected to stand at 2.6 percent of GDP. On the financial account, FDI receipts would amount to the equivalent of 3.2 percent of GDP, and assuming that the planned external financing comes to fruition, official reserve assets would stand at MAD 384.3 billion at the end of 2024, then at MAD 397.4 billion at the end of 2025. This would cover, respectively, 5 months and 10 days and 5 and a half months of imports of goods and services.

After the slowdown recorded in 2023, the growth rate of bank credit to the non-financial sector is likely to accelerate to 3.3 percent in 2024 and 4.7 percent in 2025. The real effective exchange rate should continue to appreciate in 2024, before levelling off in 2025.

On the fiscal front, the budget deficit is expected to settle at around 4.4 percent of GDP in 2024, unchanged from 2023, before dropping back to 3.9 percent of GDP in 2025, improving by 0.2 points of GDP compared to the June forecast. For 2024, in addition to the budget achievements as at end August 2024 and BAM's new macroeconomic projections, this result notably incorporates the additional credits opened under the general budget of 14 billion dirhams, including 6.5 billion devoted to the increase in public salaries decided as part of the social dialogue.

Following an acceleration to 3.4 percent in 2023, economic growth is expected to slow to 2.8 percent in 2024, before bouncing back to 4.4 percent in 2025. On the supply side, this trend covers a 6.9 percent contraction in agricultural value added in 2024, considering a cereal harvest of 31.2 MQx according to the Department of Agriculture's estimate, before jumping by 8.6 percent in 2025, assuming a return to an average cereal harvest of 55 MQx. As for non-agricultural activities, their rate of growth should gradually improve, reaching 3.6 percent in 2024 and 3.9 percent in 2025. On the demand side, the domestic component should continue to consolidate, while the contribution of net exports should remain low.

Against this backdrop, following rates of 6.6 percent in 2022 and 6.1 percent in 2023, inflation is set to show a marked deceleration, down to 1.3 percent in 2024, before settling at 2.5 percent in 2025. Its underlying component would slow from 5.6 percent in 2023 to 2.1 percent in 2024, reflecting in particular the decline in imported inflation, and would hover around this level in 2025.

7.1 Underlying assumptions

Slight deceleration in global economic activity in 2024 and 2025

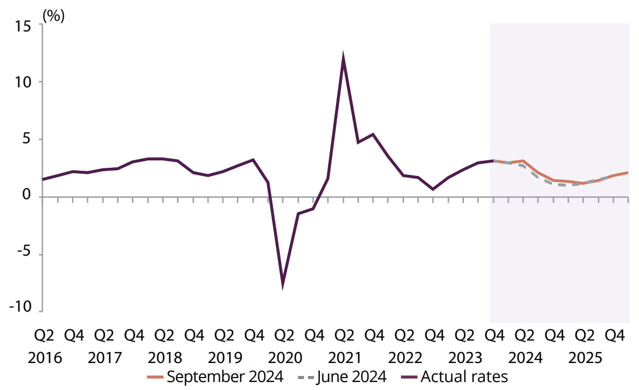
After reaching 3.3 percent in 2023, global economic growth is expected to slow slightly over the forecast horizon, albeit to a lower degree than forecast in June, from 3.3 percent in 2023 to 3.2 percent in 2024 and 2.9 percent in 2025.

This year, in the United States, growth is expected to hit 2.6 percent, driven by consumer and capital expenditure. However, it is expected to slow to 1.6 percent in 2025, due to a braking household consumption, a deteriorating fiscal situation coupled with external imbalances. In the euro area, growth is likely to be below 1 percent in 2024, hindered by the sluggishness of the German economy, but it should pick up to 1.5 percent in 2025. In the UK, after weak GDP growth in 2023, growth is expected to settle at 1.1 percent in 2024, an upward revision of 0.3 pp compared to June, then 1.4 percent in 2025, driven by stronger consumption. As for Japan, the pace of economic activity is expected to slow to 0.2 percent in 2024, before bouncing back to 1.2 percent in 2025, driven by stronger domestic demand.

In major emerging economies, China should achieve its 5 percent growth target this year, particularly due to improved foreign demand, but a slowdown is expected over the next few years. The Chinese economy is set to slow to 4.7 percent in 2025, held back mainly by the crisis in the property sector. In India, GDP growth is likely to remain robust over the medium term as public investment continues. After reaching 7.8 percent in 2023, it is set to stand at 7.3 percent in 2024 and 6.8 percent in 2025. In Brazil, the economy is expected to post a limited grow of 1.9 percent this year and 1.8 percent in 2025, given the deterioration in public finances and the resurgence of inflationary pressures. In Russia, the economy is expected to grow solidly in 2024, on the back of strong military spending and rising public wages, with growth expected to reach 4 percent in 2024 before slowing to 1 percent in 2025, due to the projected moderation in domestic demand.

Chart 7.1: Growth in the euro area

Chart 7.2: Growth in the USA



Source : GPMN, August 2024.

Contrasting trends in commodity prices over the forecast horizon and an overall slowdown in inflation

In terms of commodities, the price of Brent crude is expected to average USD 82.4 per barrel in 2024, before rising to USD 84.2 per barrel in 2025, due to OPEC+ production cuts and rising geopolitical tensions. Coal prices are expected to maintain the downward trend begun in 2023, averaging USD 112 per tonne in 2024, reflecting reduced demand as gas prices continue to fall and renewable energy production increases. It should, however, recover to USD 118 per tonne in 2025. Similarly, the price of natural gas on the European market would continue to fall in 2024 to USD 10 per MMBtu, before appreciating slightly to USD 11 in 2025, according to the World Bank's April 2024 projections.

The lower-than-expected supply of phosphate derivatives from China, combined with increased seasonal demand, led to a sharp rise in prices at the start of the third quarter of 2024, a trend expected to continue into 2025. Under these conditions, CRU forecasts prices for derivatives of Moroccan origin will remain virtually stable in 2024 at USD 589 per tonne for DAP and USD 450 per tonne for TSP, before rising in 2025 to USD 596 per tonne for DAP and USD 472 per tonne for TSP. As for Moroccan raw phosphate, CRU forecasts a drop in price to USD 229 per tonne in 2024, then to USD 217.5 per tonne in 2025.

As for foodstuffs, following a 13.8 percent contraction in 2023, the FAO index is set to continue its slide, with a 3.5 percent decline forecast for 2024, followed by a 3.2 percent increase in 2025. In particular, the price of US durum wheat is set to contract by 14.8 percent in 2024, then by 1.7 percent in 2025, according to World Bank projections for April 2024.

Under these circumstances, global inflation is set to continue its slowdown over the medium term, reaching 3.7 percent in 2024 and 3.2 percent in 2025. In the euro area, inflation is expected to fall from 5.4 percent in 2023 to 2.5 percent this year, and to stabilize at this level in 2025. Similarly, in the United States, it would continue its downward trend, dropping from 4.1 percent in 2023 to 2.9 percent in 2024. Conversely, inflation in China is expected to average 0.4 percent this year, before accelerating to 1.7 percent in 2025 as demand continues to recover.

Chart 7.3: Price of Brent

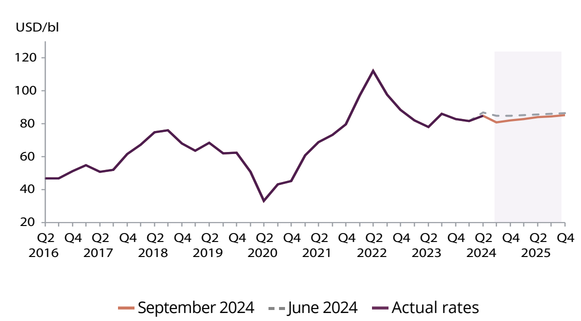


Chart 7.4: FAO Food Price Index (2017=100)

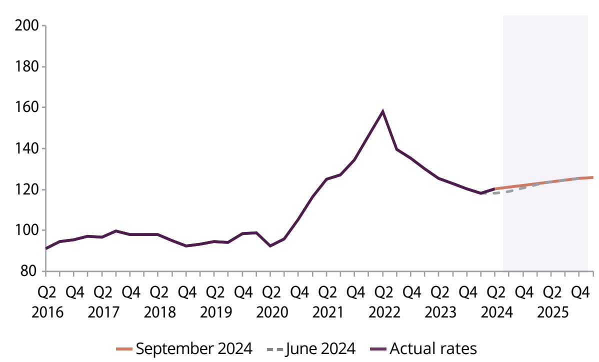


Chart 7.5: Inflation in the euro area

Source : GPMN, August 2024.

Chart 7.6: Inflation in the United States

Fed and ECB cut key rates

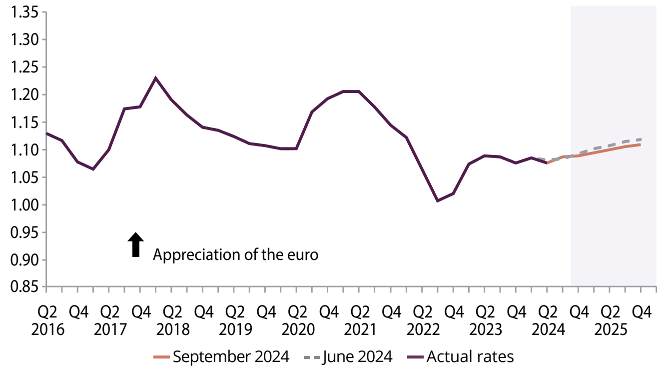
At the end of its September 17-18 meeting, and for the first time since March 2020, the Fed decided to cut the federal funds rate target range by 50 basis points to [4.75 percent-5 percent], against a backdrop of sustained economic activity, rising unemployment rate, and inflation coming closer to the 2 percent target but remaining somewhat elevated. At the same time, the Fed will continue to reduce holdings of Treasury securities and mortgage-backed securities.

For its part, at the close of its September 12 meeting, and following an initial 25-point cut in its key rates last June, the ECB decided to reduce the interest rate on the deposit facility, through which it steers monetary policy, by 25 basis points to 3.50 percent, marking a further step in moderating the restrictive nature of monetary policy. Consequently, and in line with its operational framework, the rates on the main refinancing operations and the marginal lending facility were lowered to 3.65 percent and 3.90 percent respectively. The ECB has also indicated that its Asset Purchase Program (APP) is declining at a measured and predictable pace, with the Eurosystem no longer reinvesting principal repayments on maturing securities. As for the Pandemic Emergency Purchase Program (PEPP), the Eurosystem is no longer reinvesting all principal repayments on maturing securities, is reducing the portfolio of this program by an average of 7.5 billion euros per month and plans to end reinvestments at end-2024.

At its meeting on September 18, the Bank of England (BoE) decided to keep its key interest rate unchanged at 5 percent, after cutting it by 25 basis points in August. The BoE also decided to reduce its stock of UK government bonds by a further GBP 100 billion pounds over the next 12 months, maintaining the pace as last year. In addition, its Committee reiterated that monetary policy will have to remain sufficiently restrictive for sufficiently long, until the risks to a sustainable return of inflation to the 2 percent medium-term target have further dissipated. Meanwhile, after raising its key rate by 25 basis points to 0.25 percent in July, the Bank of Japan decided to maintain it unchanged following its meeting on September 20. It also announced in July that it would reduce its purchases of Japanese government bonds by around 400 billion yen per quarter until March 2026.

On the international foreign exchange market, considering forecasts of the interest rate differential up to 2025, the euro should continue to appreciate against the dollar, rising by 0.3 percent to USD 1.08 on average in 2024, then by 1.7 percent to USD 1.1 in 2025.

Chart 7.7: USD/EUR exchange rate



Source : GPMN, August 2024.

Cereal production of 31.2 MQx for crop year 2023/2024 and average harvest for 2024/2025

The cereal harvest for the 2023/2024 crop year is estimated by the Department of Agriculture at 31.2 million quintals (MQx), down 43.3 percent on the previous year and 44.5 percent on the average for the last five years. Excluding cereals, improved weather conditions from February onwards are likely to have favored the development of fruit and vegetable crops. Given these conditions, agricultural value added is expected to decline by 6.9 percent in 2024, unchanged from the projections communicated in June.

For the 2024/2025 crop year, assuming average cereal production of 55 MQx[1] and a trend for other crops, agricultural value added should increase by 8.6 percent in 2025, unchanged from the June forecast.

7.2 Macroeconomic projections

Medium-term recovery in foreign trade and consolidation of high levels of travel receipts and remittances

Considering the new assumptions relating to the international environment, the updated macroeconomic forecasts and the actual figures of the end of July 2024, the current account deficit should end the year at 1.4 percent of GDP, after 0.6 percent in 2023, before rising to 2.6 percent in 2025.

In 2024, exports are expected to rise by 4.8 percent, driven mainly by an 11.7 percent increase in sales in the automotive sector, and to a lesser extent by a 6.1 percent rise in exports of phosphates and derivatives, as a result of an expected increase in the quantities shipped. Imports are expected to rise by 5 percent, mainly as a result of higher purchases of capital goods and semi-finished products. The energy bill, on the other hand, is expected to fall by 2.8 percent to 118.6 billion dirhams. At the same time, travel receipts should increase by 7.1 percent to 112.2 billion dirhams and remittances should rise by 2.5 percent to 118.2 billion dirhams. FDI revenues are expected to rise to 46.5 billion dirhams, equivalent to 3.1 percent of GDP, after 2.4 percent in 2023.

Assuming that the Treasury's planned external financing materializes, official reserve assets should increase to 384.3 billion dirhams by the end of 2024, equivalent to 5 months and 10 days of imports of goods and services.

In 2025, the rate of growth in exports is expected to accelerate to 9.2 percent, mainly as a result of increases of almost 13 percent in both automotive sector shipments and those of phosphates and derivatives. At the same time, imports are set to rise by 9 percent, reflecting in particular the strong momentum expected in capital goods purchases. Similarly, the energy bill is expected to rise by 4.5 percent to 123.9 billion dirhams. At the same time, travel receipts and remittances should show improvements of 4.6 percent and 3.1 percent respectively, while FDI receipts should rise to the equivalent of 3.2 percent of GDP.

Taking into account scheduled drawings and repayments of the Treasury's external debt, official reserve assets should reach 397.4 billion by the end of 2025, representing the equivalent of five and a half months of imports of goods and services.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates						Forecast		Gap (Sept/June)	
	2018	2019	2020	2021	2022	2023	2024	2025	2024	2025
Exports of goods (FOB)	10.7	3.3	-7.5	25.2	30.1	0.4	4.8	9.2	0.4	0.1
Imports of goods (CIF)	9.9	2.0	-13.9	25.0	39.5	-2.9	5.0	9.0	-1.0	-0.7
Travel receipts	1.2	7.8	-53.7	-5.1	171.5	11.5	7.1	4.6	1.3	-1.3
Remittances	-1.5	0.1	4.8	40.1	16.0	4.1	2.5	3.1	0.6	-2.2
Current account balance (% GDP)	-4.9	-3.4	-1.2	-2.3	-3.6	-0.6	-1.4	-2.6	0.4	0.1
Official reserve assets in months of imports of goods and services	5.4	6.9	7.1	5.3	5.4	5.5	5.3	5.5	0.1	0.0

Sources: Office des Changes data and BAM forecasts.

Accelerating growth in credit to the non-financial sector over the forecast horizon

The bank liquidity deficit should widen to 120.4 billion dirhams by the end of 2024 and to 146.6 billion dirhams in 2025, mainly due to the increase in currency in circulation. Following an increase of 10.7 percent in 2023, currency in circulation should grow by 8.6 percent in 2024 and 8.4 percent in 2025. As for bank credit to the non-financial sector, considering actual figures, economic activity projections and banking system expectations, it should accelerate to 3.3 percent in 2024 and 4.7 percent in 2025. Under these conditions, and in line with the expected evolution of other money supply counterparts, the M3 aggregate should increase by 4.2 percent in 2024 and 4.3 percent in 2025.

For its part, the real effective exchange rate should continue to appreciate over the medium term, reaching 0.7 percent in 2024, in line with the appreciation of its value in nominal terms, and a domestic inflation level below that of trading partners and competitors, before stabilizing in 2025.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates					Forecast		Gap (Sept/June)	
	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	3.3	4.7	-1.1	-0.6
M3	3.8	8.4	5.1	8.0	3.9	4.2	4.3	-0.7	-0.8
Liquidity requirement, in million MAD	-64.6	-74.6	-64.4	-86.6	-111.4	-120.4	-146.6	-10.6	-13.0

The budget deficit is expected to stabilize in 2024 before declining in 2025

After reaching 4.4 percent of GDP in 2023, the budget deficit should stabilize at the same level in 2024, before returning to 3.9 percent of GDP in 2025, revised downwards by 0.2 points of GDP. In addition to the adjustments made during the June forecasting exercise to take account of the impact of social dialogue, the integration of new credits and the performance of tax revenues, these projections consider budget execution to the end of August 2024, Bank Al Maghrib's new macroeconomic forecasts, the guidance note for the 2025 Finance Bill, and the Finance Minister's presentation to Parliament in July on the three-year budget program (PBT) 2025-2027.

By 2024, tax receipts would rise by 9.6 percent, reflecting improvements of 15.2 percent in indirect taxes and 5 percent in direct taxes. Non-tax revenues, meanwhile, are expected to rebound by 24.2 percent, driven mainly by receipts from innovative financing mechanisms and income from SOEs. On the other hand, ordinary expenditure should rise by 10.8 percent compared to 2023, with an 11.8 percent increase in spending on goods and services. The wage bill is expected to rise by 10.8 percent, considering the additional 6.5 billion allocated to social dialogue, and spending on other goods and services by 13.6 percent. For their part, subsidy costs is expected to fall by 14.5 percent and capital expenditure by 2.7 percent, to 107.8 billion, unchanged from the June forecast, which includes 7.5 billion in additional appropriations.

In 2025, tax receipts are expected to improve by 5.5 percent, with increases of 8.3 percent in direct taxes and 3.9 percent in indirect taxes. Non-tax revenues are expected to decline by 1.6 percent, with a 3.7 percent drop in receipts from SOEs, while revenues from innovative financing mechanisms will remain unchanged at 35 billion. At the same time, ordinary expenditure is expected to rise by 5.1 percent, driven mainly by a 9 percent increase in expenditure on goods and services and a 7.8 percent rise in interest on debt, and considering the upward revision of subsidy costs from 5 to 16.5 billion, as indicated in the guidance letter for the preparation of the 2025 Finance Act. The wage bill would increase by 10.4 percent, and expenditure on other goods and services by 6.3 percent.

Continued improvement in non-agricultural activities, but overall growth still dependent on weather conditions

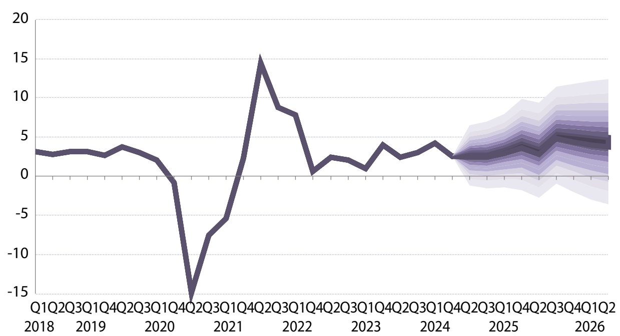
After accelerating to 3.4 percent in 2023, economic growth is expected to slow to 2.8 percent this year, remaining unchanged from the June forecast. On the supply side, this means a 6.9 percent drop in agricultural value added, taking into account a cereal harvest estimated by the Department of Agriculture at 31.2 MQx, before rising to 8.6 percent in 2025, assuming a return to an average cereal harvest. As for non-agricultural activities, their rate of growth should gradually improve, reaching 3.6 percent in 2024 and 3.9 percent in 2025. On the demand side, this trend would reflect a consolidation of the domestic component, driven in particular by a sustained investment dynamic, given the positive spin-offs expected from the various construction projects underway or planned, and by the continued consolidation of household consumption supported by the marked slowdown in inflation. On the other hand, the contribution of net exports is likely to remain weak over the remainder of the horizon.

Table 7.3: Economic growth

Change in %	Actual rates					Forecast		Gap (Sept/June)	
	2019	2020	2021	2022	2023	2024	2025	2024	2025
National growth	2.9	-7.2	8.2	1.5	3.4	2.8	4.4	0	-0.1
Agricultural VA	-5.0	-8.1	19.5	-11.3	1.4	-6.9	8.6	0	0
Non-agricultural VA	4.0	-6.9	6.4	3.4	3.5	3.6	3.9	-0.2	-0.2

Sources: HCP data and BAM calculations and forecasts.

Chart 7.8: Growth outlook over the forecast horizon(Q2 2024- Q2 2026), YoY*

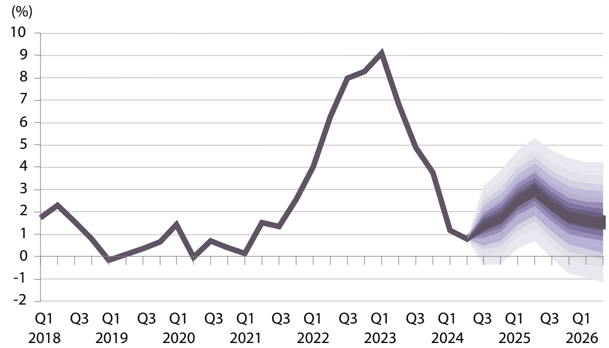


*Uncertainties surrounding the central forecast with confidence intervals ranging from 10 percent to 90 percent.

Fast slowdonw in inflation in 2024, before an acceleration in 2025

Following the high rates posted in 2022 and 2023, at 6.6 percent and 6.1 percent, respectively, inflation is expected to decelerate to 1.3 percent in 2024, a downward revision of 0.2 percentage points (pp) compared to the June forecast, due mainly to a faster-than-expected decline in prices of volatile food products. By 2025, it should accelerate to 2.5 percent. Its underlying component would slow from 5.6 percent in 2023 to 2.1 percent in 2024 and remain around this level in 2025. Similarly, prices of volatile food products are expected to fall by 1.1 percent in 2024, after rising by 18.8 percent in 2023, mainly due to the declines observed in the first half of the year. Regulated tariffs are expected to rise by 1.3 percent in 2024 and 4 percent in 2025, mainly due to the subsidy phase-out of butane gas.

Chart 7.9: Inflation forecast over the forecast horizon(Q3 2024 - Q2 2026)*



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

Table 7.4: Inflation and core inflation

	Actual rates					Forecast			Gap (Sept/June)	
	2019	2020	2021	2022	2023	2024	2025	Q3-2024 / Q2-2026	2024	2025
Inflation	0.2	0.7	1.4	6.6	6.1	1.3	2.5	2.0	-0.2	-0.2
Core inflation	0.5	0.5	1.7	6.6	5.6	2.1	2.1	2.1	-0.2	-0.2

Sources: HCP data and BAM calculations and forecasts.

Chart 7.10: Change in core inflation and output gap

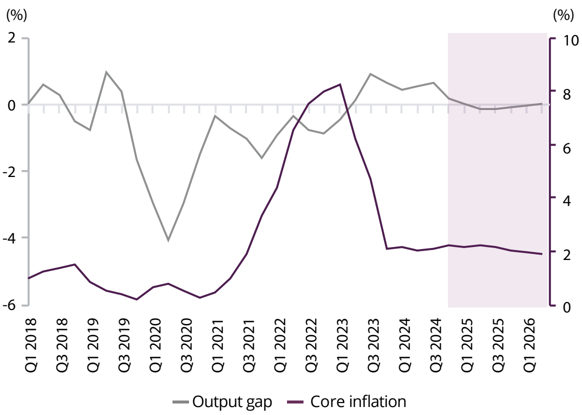
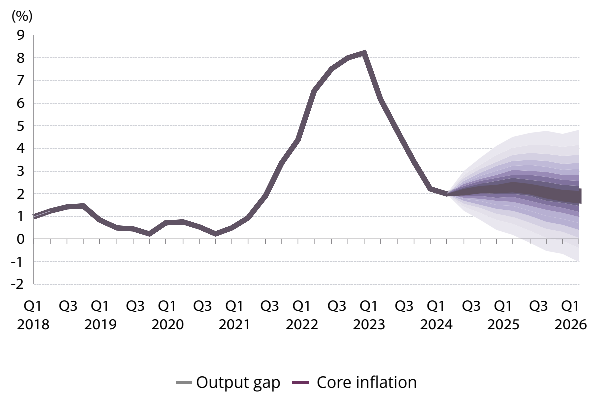


Chart 7.11: Projections of core inflation over the forecast horizon (Q3 2023 - Q2 2026)*



* 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

Uncertainties surrounding the outlook for the global economy remain high, particularly with elections scheduled for 2024 in many countries, notably the USA, the real estate crisis in China and the sluggish German economy. These uncertainties point to risks of weaker growth. Furthermore, the continuing conflict in Ukraine and the risk of escalation in the Middle East could further weaken global economic activity and disrupt supply chains, notably energy, leading to higher commodity prices and consequently accelerating inflation.

At national level, the main risks to economic activity are linked to the recurrence of droughts and worsening water stress in the medium term. On the other hand, the Kingdom's efforts to stimulate investment, and the large-scale projects launched or planned, bolster optimism about a faster pace of growth in the medium and long term. As for inflation, the risks remain on the upside. In addition to external pressures, recurrent droughts and worsening water stress could lead to a significant increase in food prices, exacerbating inflationary pressures.

LIST OF ABBREVIATIONS

ADB	: African Development Bank
AFESD	: Arab Fund for Economic and Social Development
ANCFCC	: National Land Registry Office
ANRF	: National Financial Intelligence Authority
APC	: Professional Association of Cement Manufacturers
BAM	: Bank Al-Maghrib
BCP	: Popular Central Bank
BLS	: US Bureau of Labor Statistics
BoE	: Bank of England
BPW	: Buildings and Public Works
CCG	: Gulf Cooperation Council
CIH	: Real Estate and Hotel Credit
CMR	: Moroccan Pension Fund
CNSS	: National Social Security Fund (Caisse Nationale de Sécurité Sociale)
CPI	: Price Consumer Index
CPIX	: Core Inflation Index
CPIXNT	: Consumer price index of nontradables
CPIXT	: Consumer price index of tradables
DAP	: Diammonium phosphate
DF	: Deposit facility
DFI	: Direct Foreign Investment
DJ	: Dow Jones
DTFE	: Treasury and External Finance Department (Direction du Trésor et des Finances Extérieures)
ECB	: European Central Bank
EIA	: U.S. Energy Information Administration
EMC	: Economic Monitoring Committee
ESI	: Economic Sentiment Indicator
EU	: European Union
EUR	: EURO
EUROSTOXX	: Main European Stock Index

FAO	: Food and Agriculture Organization
FED	: US Federal Reserve
FTSE	: Financial Times stock exchanges
GDP	: Gross Domestic Product
GFCF	: Gross fixed capital formation
GPMN	: Global Projection Model Network
HCI	: Household Confidence Index
HCP	: High Commission for Planning
IBR	: Interbank rate
IMF	: International Monetary Fund
INAC	: National Institution for Analysis and Economic Situation (Institut National d'Analyse et de Conjoncture)
IPI	: Import Price Index
IPPI	: Industrial Producer Price Index
ISE	: Intermediate-sized companies
ISM	: United States' ISM manufacturing index
IT	: Income tax
Libor-OIS	: London Interbank Offered Rate-Overnight Indexed Swap
MASI	: Morocco All Shares Index
MEFRA	: Ministry of Economy, Finance and Reform of the Administration
MLA	: Moroccans living abroad
MMEE	: Mechanics, metallurgy, electricity and electronics
MSCI EM	: Morgan Stanley Capital International, Emerging Markets
NDS	: Negotiable debt securities
OC	: Foreign Exchange Office
OCDE	: Organization for Economic Cooperation and Development
OCP	: Office Chérifien des Phosphates (Moroccan state-owned phosphate company)
OMPIC	: Moroccan Industrial and Commercial Property Office
ONEE	: National office of Electricity and Drinking Water
ORA	: Official Reserve Assets
PLL	: Precautionary and Liquidity Line
Private Sector AWI	: Private Sector Average Wage Index
REER	: Real effective exchange rate

REPI	: Real Estate Price Index
RULC	: Relative Unit Labor Cost
SMIG	: Hourly minimum wage
TCU	: Capacity utilization rate
TGR	: Kingdom's General Treasury
TSP	: Triple Super Phosphate
UCITS	: Undertakings for Collective Investment in Transferable Securities
ULC	: Unit Labor Cost
USD	: US Dollar
VA	: Added value
VAT	: Value-added tax
VSMEs	: Very Small, Small, Medium Enterprises
WTI	: West Texas Intermediate

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