BANK AL-MAGHRIB

MONETARY POLICY REPORT

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FOREWORD

According to the provisions of Article 6 of Law No. 40-17 on the Statute of Bank Al-Maghrib, promulgated by Dahir No. 1-19-82 of 17 Chaoual 1440 (June 21, 2019), "the Bank defines and conducts the monetary policy in full transparency and within the framework of the economic and financial policy of the Government. The Bank's primary objective is to maintain price stability."

This stability helps preserving citizens' purchasing power, encourages investment and boosts growth. Price stability does not mean zero inflation; rather, it refers to keeping it at a moderate and stable level over the medium term. To achieve such objectives, the Bank intervenes in the money market using the appropriate instruments, mainly the key policy rate and the reserve requirement.

Monetary policy decisions are transmitted to the economy, particularly through their impacts on interest rates across various markets, the expectations of economic units and on the asset prices, whose change affects overall demand for goods and services and, eventually, inflation. Since these impacts do not materialize until after a certain time period, forecasts play an important role in monetary policy formulating and decision-making. They are thus produced by the Bank for an eight-quarter horizon on the basis of an integrated analysis and forecasting framework articulated around a central monetary policy model, itseFA supplied and supplemented by several satellite models. The central forecasting model used is of the semi-structural New-Keynesian one, which relies both on the theoretical underpinnings underlying general-equilibrium models and on the adjustment to data characterizing the empirical models.

With a view to ensuring transparency of monetary policy decisions, the Bank, after each Board meeting, issues a press release, and the Governor holds a press conference where he reviews the decision and explains its foundations. In addition, the Bank prepares and publishes on its website the quarterly Monetary Policy Report, which outlines all the analyses underlying its decisions. This report, which starts with an overview summing up recent economic, monetary and financial developments as well as the macroeconomic projections, includes two parts. The first part, consisting of six chapters, describes the recent economic developments, namely with regard to: (i) international developments; (ii) external accounts; (iii) money, credit and asset markets; (iv) the stance of fiscal policy; (v) demand, supply and the labor market; and (vi) inflation. The second part is devoted to presenting the medium-term outlook for the national economy, the risks surrounding it and the main underlying hypotheses.

Members of the Board of Bank Al-Maghrib (Article 26 of the Bank's Statute)
The Governor, Chairman,

The Director General

Director of Treasury and External Finance, Representative of the Ministry in charge of Finance

Mrs. Mouna CHERKAOUI

Mr Mohammed DAIRI

Mrs Najat EL MEKKAOUI

Mr. Larabi JAÏDI

Mr Mustapha MOUSSAOUI

Mr. Fathallah OUALALOU

The Government Representative shall also attend the meetings of the Board, by virtue of Article 41.

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 17, 2024

1. The Board of Bank Al-Maghrib held its fourth quarterly meeting for the year 2024 on Tuesday, December 17.
2. During this meeting, the Board analyzed domestic and global economic developments, as well as the Bank's medium-term macroeconomic projections.
3. At the international level, the Board noted that the global economy remains overall resilient, but the outlook is surrounded by significant uncertainty, stemming mainly from geopolitical conflicts and tensions, as well as from the measures announced by the new U.S. administration and the consequences of their implementation. Regarding inflation, after the sharp deceleration recorded over the past two years, it continues to converge toward central bank targets, particularly in major advanced economies, though at an uneven pace.
4. At the national level, the Board first reviewed the new data available since its last meeting, particularly focusing on the data in the 2025 Finance Law and the 2025-2027 three-year fiscal plan, which show the government's determination to continue consolidating macroeconomic balances.
5. The Board then discussed the Bank's medium-term projections, which point to an improvement in the pace of non-agricultural activities, thanks in particular to the various large-scale projects launched or planned. On the other hand, agricultural production remains dependent on highly uncertain weather conditions.
6. In parallel, after the deceleration starting in the second quarter of 2023, inflation continues to evolve at low levels and is expected to end the year with an average of 1 percent, compared to 6.1 percent in 2023. It should remain moderate in the medium term, hovering around 2.4 percent in 2025 and 1.8 percent in 2026, according to Bank Al-Maghrib's projections. Similarly, its core component, which reflects the fundamental trend in prices, should continue to decelerate, decreasing from 5.6 percent in 2023 to 2.1 percent this year, then to 2 percent in 2025 and 1.8 percent in 2026. The Board also noted that inflation expectations remain well anchored. Indeed, the latest data from Bank Al-Maghrib's quarterly survey of financial sector experts indicate that they expect an average rate of 2.3 percent for the 8-quarter horizon and 2.4 percent for the 12-quarter horizon.
7. Regarding the transmission of its decisions, following the reduction of the key rate last June, lending rates registered a quarterly decline of 22 bps, including a 25 bps decrease for businesses and near-stability for individuals.
8. Given that inflation evolves at levels in line with the price stability objective and considering the high uncertainty surrounding the medium-term outlook particularly at the international level, the Board decided to reduce the key rate by 25 basis points to 2.50 percent. It will continue to closely monitor economic developments and will take its decisions, meeting by meeting, based on most up-to-date data available.
9. On the commodity markets, oil prices' downward trend should continue, particularly supported by non-OPEC+ supply and moderated global demand. The Brent crude price is expected to decline from

an average of $79.8 per barrel this year to $74.5 in 2025, then to $69.1 in 2026. With regard to Moroccan phosphate and its derivatives and according to Commodities Research Unit projections, the price of DAP should remain virtually stable in 2024 at $586 per tonne, before gradually rising to $613 by 2026, while the price of raw phosphate will decrease from $223 per tonne in 2024 to $187 in 2026. As for food products, after an average decline of 2.1 percent this year, the FAO index is expected to increase by 4.5 percent in 2025 and 1.2 percent in 2026.

10. Regarding the global economic outlook, it suggests a deceleration, primarily driven by the U.S. economy, which growth is expected to decline from 2.7 percent this year to an average of 1.7 percent in 2025 and 2026. In the euro area, growth should be limited to 0.8 percent, before improving to 1.3 percent over the next two years. In major emerging countries, the slowdown is set to continue in China, with real GDP growth forecast to decline from 5.2 percent in 2023 to 4.3 percent in 2026, while the Indian economy is expected to maintain its momentum with a growth rate close to 7 percent.

11. Under these conditions, inflation should continue its downward trend, albeit unevenly, declining at the international level from 4.8 percent in 2023 to 3.7 percent in 2024, and then to 3.2 percent in 2025 and 2026. In advanced economies, it would gradually decrease, reaching 2.6 percent in the United States and 2 percent in the euro area by 2025, but would accelerate in 2026 to 2.9 percent and 2.2 percent, respectively.

12. In this context, central banks' monetary policy easing trend continues in major advanced economies. Thus, the ECB, considering that the disinflation process in the euro area is on track, decided on December 12 to lower its key rates by 25 basis points (bps), marking the third consecutive reduction and the fourth since June. Similarly, the Fed, at its meeting of November 6-7, decided to cut the target range for the federal funds rate by 25 bps to [4.5-4.75 percent], the second consecutive cut following the 50 bps reduction in September.

13. At the national level, Bank Al-Maghrib's projections indicate that non-agricultural growth will remain virtually stable at around 3.5 percent in 2024, before improving to 3.6 percent in 2025 and 3.9 percent in 2026. Meanwhile, adversely affected by the unfavorable weather conditions that prevailed during the previous crop year, agricultural value-added is expected to decline by 4.6 percent this year, before progressing by 5.7 percent in 2025 and 3.6 percent in 2026, assuming cereal harvests of 50 million quintals, equivalent to the average of the past five years. Overall, national economic growth should be limited to 2.6 percent this year, after 3.4 percent in 2023, but would accelerate to 3.9 percent over the next two years.

14. Regarding foreign trade, after a quasi-stagnation in 2023, exports of goods are expected to gradually accelerate from 5.5 percent this year to 8.9 percent in 2026. This mainly reflects the continued momentum of sales in the automotive sector, which are expected to reach MAD 200 billion in 2026, and the rebound in sales of phosphate and derivatives expected to be around 100 billion MAD the same year. Likewise, after a 2.9 percent decline, imports are set to rise by 4.6 percent in 2024, 7.9 percent in 2025, and 6 percent in 2026, mainly due to the expected increase in capital goods purchases associated with the implementation of numerous infrastructure projects. Meanwhile, with the fall in international oil prices, the energy bill should contract by 6.9 percent this year, stabilize in 2025 and decline by 4.1 percent in 2026, to nearly MAD 110 billion. Concurrently, travel receipts are expected to maintain their good performance, closing the year up by 9.1 percent and should continue to improve, to reach MAD 128 billion in 2026. Remittances are expected to increase by 4.3 percent at

the end of this year, before rising at an annual rate between 3 percent and 3.5 percent to reach MAD 128 billion in 2026. Given these developments, the current account deficit should remain contained at the equivalent of 1 percent of GDP in 2024, and below 2 percent of GDP over the next two years. Regarding the financial account, foreign direct investment receipts are expected to improve from the equivalent of 2.7 percent of GDP in 2024 to 3.3 percent in 2026. Overall, and considering the Treasury's projected external financing, Bank Al-Maghrib's official reserve assets are set to strengthen gradually, reaching MAD 400.2 billion by the end of 2026, covering almost 5 months and 8 days of imports of goods and services.

15. As for monetary conditions, bank liquidity need is expected to further increase to MAD 192.3 billion in 2026, mainly driven by the growth of currency in circulation. Given the expected evolution of economic activity and the banking system's expectations, credit to the non-financial sector is set to accelerate gradually, rising from 3.8 percent in 2024 to 5.5 percent in 2026. As for the effective exchange rate, it should continue its slight appreciation in real terms, with a rate of 0.5 percent in 2024 and 0.3 percent in 2025, primarily owing to the appreciation of its nominal value, before decreasing by 0.6 percent in 2026.

16. With regard to public finances, budget execution for the first ten months of 2024 shows a 13.6 percent improvement in recurrent receipts, mainly driven by a notable performance in tax revenues. In parallel, total expenditure rose by 7.4 percent, primarily reflecting higher spending on goods and services and capital expenditure. In light of these developments, data from the 2025 Finance law and the three-year fiscal plan 20252027, as well as Bank Al-Maghrib's updated macroeconomic projections, the fiscal deficit, excluding proceeds from the sale of State holdings, should reach 4.5 percent of GDP in 2024, before gradually narrowing to 4.2 percent of GDP in 2025, and to 3.9 percent in 2026.

17. Finally, the Board approved the Bank's budget for the year 2025, validated the strategy of foreign exchange reserves management and the internal audit program, and set the dates of its ordinary meetings for the same year on March 18, June 24, September 23 and December 16.

OVERVIEW

Despite monetary tightening, the global economy continues to demonstrate relative resilience, but its outlook is downward, particularly in the USA and China. Data for the third quarter of 2024 show a deceleration in **growth** to 2.7 percent year-on-year in the USA, after 3 percent in the previous quarter, and an acceleration to 0.9 percent after 0.5 percent in the Eurozone. In particular, the pace of activity strengthened from 3.2 percent to 3.4 percent in Spain and from 0.9 percent to 1.2 percent in France, while it slowed from 0.7 percent to 0.4 percent in Italy. The German economy contracted by a further 0.3 percent, following a 0.2 percent contraction. As for the other advanced economies, activity accelerated in the UK and Japan, with real GDP growth of 1 percent in the third quarter, compared with 0.7 percent the previous quarter, and 0.5 percent, following a contraction of 0.9 percent.

In the main emerging countries, growth slowed in the third quarter to 4.6 percent after 4.7 percent in the previous quarter in China, to 5.4 percent after 6.7 percent in India, and accelerated from 3.3 percent to 4 percent in Brazil. In Russia, second-quarter data showed a deceleration from 5.4 percent to 4.1 percent.

On the **labor markets**, the unemployment rate in the United States rose to 4.2 percent in November. In the Eurozone, the rate was stable at 6.3 percent in October. It was virtually unchanged at 3.4 percent in Germany, 7.6 percent in France and 11.2 percent in Spain, and fell to 5.8 percent in Italy. In the UK, data for September showed an increase to 4.3 percent.

On the **financial markets**, the stock indices of the major advanced economies posted monthly declines of 3.1 percent for the Eurostoxx 50, 1.3 percent for the FTSE 100 and 0.7 percent for the Nikkei 225, while the Dow Jones Industrials rose by 3 percent. These developments were accompanied by a decline in risk aversion, with the VIX and VSTOXX falling from 20 to 16 and 19.3 to 18.2 respectively between October and November. Year-to-date performance is positive, with gains of 6.3 percent for the Eurostoxx 50, 7.1 percent for the FTSE 100, 16.6 percent for the Nikkei 225 and 18.4 percent for the Dow Jones Industrials. Among emerging economies, the MSCI EM posted a monthly decline of 4.2 percent, reflecting declines in the China (-5.8%) and India (-4.9%) sub-indices, but year-to-date performance remains positive at 19.2 percent and 16.5 percent respectively.

Sovereign yields rose overall in November, month-on-month. The 10-year yield rose by 26 basis points (bp) for the United States to 4.4 percent (+31 bp since the start of the year), from 7 bp to 2.3 percent for Germany (+12 bp), from 9 bp to 3 percent for France (+37 bp), from 9 bp to 3.1 percent for Spain (-11 bp), and from 7 bp to 3.5 percent for Italy (-20 bp). For the main emerging economies, this rate fell by 5 bp to 2.1 percent for China (-43 bp), remained stable at 6.8 percent for India (-37 bp) and 12.9 percent for Brazil (+227 bp), and rose by 38 bp to 23.1 percent for Turkey (+340 bp).

On the **currency markets**, the euro depreciated by 2.5 percent against the dollar in November, while remaining virtually unchanged against sterling and the Japanese yen. Thus, since the beginning of the year, the euro has depreciated by 2.6 percent against the dollar and 3.3 percent against sterling, while appreciating by 3.9 percent against the Japanese yen. The currencies of the main emerging economies appreciated against the dollar in November, with monthly gains of 3.2 percent for the Brazilian real, 1.7 percent for the Chinese renminbi, 0.4 percent for the Indian rupee and 0.6 percent for the Turkish lira. Since the start of the year, the Brazilian real has appreciated by 18.5 percent against the US dollar, the Indian rupee by 1.3 percent, the Chinese renminbi by 1 percent and the Turkish lira by 18.4 percent.

As for **raw materials**, after two successive monthly falls followed by a slight rise in October, the price of Brent crude oil fell by a further 1.7 percent in November, averaging USD 74.4/bbl, down 10.6 percent year-on-year. Excluding energy, prices remained virtually flat in November, reflecting both a 1.8 percent rise in agricultural product prices. Compared with the same month in 2023, these prices were up by 4.1 percent overall, with increases of 5.4 percent for agricultural products and 5.9 percent for metals and ores. In November, prices of phosphates and derivatives rose slightly by 0.2 percent to 574.5 USD/t for DAP, contracted by 2.5 percent to 491 USD/t for TSP, and stagnated at 152.5 USD/t for raw phosphate. Year-on-year, prices were down 56.1 percent for raw phosphate, and up 7.3 percent for DAP and 6.1 percent for TSP.

Against this backdrop, **inflation** accelerated to 2.3 percent in November in the Eurozone, reflecting increases from 1.8 percent to 2.4 percent in Spain, from 1.6 percent to 1.7 percent in France and from 1 percent to 1.6 percent in Italy, while it stagnated at 2.4 percent in Germany. Similarly, it rose from 2.6 percent to 2.7 percent in the United States. October data show a firming from 1.7 percent to 2.3 percent in the UK, while the rate of price change decelerated from 2.5 percent to 2.2 percent in Japan.

In terms of **monetary policy orientation**, the FED decided at its November 6-7 meeting to cut its target range for the federal funds rate by 25bp to [4.5%-4.75%], the second consecutive cut following the 50bp cut in September, against a backdrop of activity continuing to grow at a sustained pace, a rising but still low unemployment rate, and inflation edging closer to the 2 percent target but remaining slightly high. For its part, following its December 12 meeting, the ECB decided to cut its three key interest rates by 25 bp, the fourth cut since June, indicating that the disinflation process in the eurozone is well on track. The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility were cut to 3 percent, 3.15 percent and 3.40 percent respectively.

At **domestic** level, national accounts data for the second quarter show that economic growth stood at 2.4 percent, after 2.5 percent in the same quarter a year earlier. This was the result of a 4.5 percent decline in agricultural value added, compared with a 1.5 percent rise, and a 3.2 percent increase, after 2.5 percent, in non-agricultural value added. On the demand side, the domestic component made a positive contribution of 5.2 percentage points to growth, while foreign trade in goods and services made a negative contribution of 2.9 percentage points.

On the **labor market**, 213,000 jobs were created between the third quarter of 2023 and the same period in 2024. With the exception of agriculture, which saw a further loss of 124,000 jobs, the other sectors recorded increases of 258,000 in services, 57,000 in construction and 23,000 in industry, including handicrafts. The activity rate increased from 43.2 percent to 43.6 percent, while the unemployment rate rose from 13.5 percent to 13.6 percent.

On the external accounts front, data for the first ten months of 2024 showed a 5.2 percent widening of the trade deficit, as a result of a 6.2 percent increase in exports and a 5.8 percent rise in imports. The coverage rate was 59.9 percent, after 59.7 percent. Export growth was chiefly driven by sales in the automotive, phosphates and derivatives, and aeronautics sectors, while sales in the "textiles and leather" sector remained virtually flat. As for imports, they were mainly driven by increases in purchases of capital goods, semi-finished products and finished consumer goods, as well as a reduction in the energy bill. By the same token, travel receipts rose by 9.3 percent, while travel expenditure grew by 20 percent. Transfers from Moroccans living abroad continued to grow, rising by 3.9 percent. In terms of the main financial operations, FDI receipts rose by 23.7 percent, while direct investment expenditure by Moroccans abroad fell by 7.8 percent. Under these conditions, official reserve assets stood at 360.7 billion dirhams at the end of October, equivalent of 5 months and 5 days' imports of goods and services.

In terms of **monetary conditions**, banks' liquidity requirements picked up to a weekly average of 131.6 billion dirhams in the third quarter, and 138.8 billion dirhams in October and November. Under these conditions, Bank Al-Maghrib increased its injections to 145.4 billion and 150.3 billion respectively. Monetary conditions were also characterized in the third quarter of 2024 by a quarter-on-quarter drop of 22 basis points in the average overall lending rate to 5.21 percent and a 0.9 percent appreciation in the real effective exchange rate. Bank lending rose by 3.6 percent overall in October, and by 2.4 percent for the non-financial sector. The latter reflects an increase of 1.7 percent for businesses and 2.3 percent for individuals.

In terms of **public finances**, the budget outturn for the first ten months of 2024 showed a deficit, excluding proceeds from the sale of State holdings, of 49 billion dirhams, an increase of 11.6 billion compared with the same period of 2023. Ordinary revenues improved by 13.6 percent to 320.4 billion, reflecting increases of 12.5 percent in tax revenues and 21.6 percent in non-tax revenues. At the same time, ordinary expenditure rose by 6.8 percent to 288.1 billion, reflecting increases of 8.8 percent in the cost of goods and services and 4.8 percent in interest on debt, while compensation costs fell by 13.2 percent. Under these conditions, the ordinary balance showed a surplus of 32.2 billion instead of 12 billion at the end of October 2023. Capital expenditure rose by 9.9 percent to 79.4 billion, bringing total expenditure to 367.5 billion, an increase of 7.4 percent. The balance of the Treasury's special accounts was negative at 1.8 billion, after a positive balance of 22.8 billion in the same period of 2023. Taking into account the 5-billion-dirham reduction in the stock of pending transactions, the cash deficit increased to 54 billion dirhams from 47.7 billion dirhams a year earlier. In addition to 1.7 billion dirhams in proceeds from the sale of State holdings, this requirement was covered by net domestic resources of 46.8 billion dirhams and a positive net external flow of 5.5 billion dirhams. As a result, outstanding direct public debt would have risen by 5.8 percent at end-October 2024 compared with its level at end-December 2023.

Prices on the Casablanca **Stock Exchange** remained on an uptrend overall, with quarter-on-quarter appreciation of the MASI of 8.1 percent in the third quarter of 2024, mainly reflecting gains of 51.3 percent in the "transport services" sector index, 26.1 percent in the "property investment and development" sector index and 3.3 percent in the banking sector index. Trading volume stood at 14.8 billion dirhams, compared with 28.3 billion dirhams in the previous quarter, mainly as a result of lower trading volumes on the block market, down from 8.5 billion dirhams to 234.4 million dirhams, and on the central equities market, where turnover fell from 16.5 billion dirhams to 12.7 billion dirhams. Against this backdrop, market capitalization rose by 18.5 percent to 741.9 billion dirhams since the beginning of the year.

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

Against this backdrop, after averaging 0.8 percent in the second quarter of 2024, **inflation** rose to 1.3 percent in the third quarter and decelerated to 0.7 percent in October. This slowdown mainly reflects the further decline in volatile food prices from -1.1 percent to -3.5 percent, and in fuels and lubricants from -2.8 percent to -15.2 percent. Underlying inflation accelerated slightly, but remained moderate at 2.2 percent in October, compared with an average of 2.1 percent between July and September. Financial sector experts' inflation expectations for the fourth quarter of 2024 stood at 2.3 percent, up from 2.2 percent one quarter earlier, over an eight-quarter horizon, and at 2.4 percent, up from 2.3 percent, over the next 12 quarters.

In terms of outlook, global economic growth is set to slow from 3.2 percent this year to 2.9 percent in 2025 and 2.8 percent in 2026. In the USA, growth is expected to reach 2.7 percent in 2024, thanks to robust private consumption, before slowing to 1.6 percent in 2025 and 1.7 percent in 2026, as uncertainties linked to the future administration's trade and budgetary policies weigh on this outlook. In the Eurozone, growth is likely to be limited to 0.8 percent in 2024, held back mainly by persistent difficulties in the manufacturing sector and weak domestic demand. growth is expected to accelerate to 1.3 percent in 2025 and 2026, supported by the weakening euro, which should boost exports, and the recovery in private consumption. In the United Kingdom, the economy is set to grow by 0.9 percent this year, stimulated in particular by a robust public and private consumption, before rising to 1.4 percent in 2025 and 1.2 percent in 2026, under the effect of an expansionary fiscal policy.

In the main emerging countries, China's economic growth is expected to slow to 4.8 percent in 2024, 4.7 percent in 2025 and 4.3 percent in 2026, with the medium-term outlook suffering from the country's structural challenges, such as persistent difficulties in the real estate sector, public indebtedness, and demographic problems, combined with the expected impact of trade tensions with the USA. In India, although decelerating, activity is expected to remain vigorous, with growth of 6.9 percent in 2024, 7 percent in 2025 and 6.6 percent in 2026, driven by dynamic public investment in infrastructure. In Russia, growth is set to remain robust, reaching 3.9 percent in 2024, driven by strong domestic demand. However, it should slow to 1 percent in 2025 and 0.2 percent in 2026, due to the dissipation of the effect of the fiscal stimulus and the tightening of monetary conditions.

On the **commodities markets**, the price of **Brent** crude is set to continue its downward trend, reaching 79.8 dollars this year, 74.5 dollars in 2025 and 69.1 dollars in 2026, thanks in particular to abundant supply in non-OPEC+ countries, notably the United States, and a moderation in global demand, especially from China. For Moroccan phosphate and derivatives, prices are expected to remain virtually flat this year at USD 586/t for DAP and 443 USD/t for TSP. They should then rise, reaching 599 USD/t in 2025 and 613 USD/t in 2026 for DAP, and 469 USD/t then 486 USD/t for TSP. As for **Moroccan raw phosphate**, prices are set to fall from 265 USD/t in 2023 to 223 USD/t in 2024, 196 USD/t in 2025 and 187 USD/t in 2026. In the case of **foodstuffs**, following a 13.8 percent contraction in 2023, the FAO index is expected to fall by 2.1 percent in 2024, before rising by 4.5 percent in 2025 and 1.2 percent in 2026.

Against this background, **global inflation** should continue to decelerate, reaching 3.7 percent this year and 3.2 percent in 2025, then remaining at this level in 2026. In the Eurozone, after a rate of 2.3 percent, inflation should return to 2 percent in 2025 and 2.2 percent in 2026. Similarly, in the USA, inflation is set to continue its downward trend, falling from 4.1 percent in 2023 to 2.9 percent in 2024 and 2.6 percent in 2025, before accelerating to 2.9 percent in 2026.

At domestic level, exports are expected to rise by 5.5 percent in 2024, driven mainly by an 8.3 percent increase in automotive sector sales and an 8.5 percent rise in sales of phosphates and derivatives. **Imports** are expected to rise by 4.6 percent, mainly as a result of higher purchases of capital goods and semi-finished products, while the energy bill is expected to ease by 6.9 percent. In the medium term, the trade dynamic is set to continue, with exports rising by 7.5 percent in 2025 and 8.9 percent in 2026, driven mainly by increases of 8.4 percent and 15.5 percent respectively in sales in the automotive sector, to 200.9 billion dirhams by the end of 2026, reflecting forecast shipments of almost 650,000 cars in the medium term. Similarly, sales of phosphates and derivatives are set to rise by 12.2 percent in 2025 and 6.3 percent in 2026, to 99.3 billion dirhams. Imports, meanwhile, are set to rise by 7.9 percent in 2025 and 6 percent in 2026, driven in particular by a 15.6 percent and 14.2 percent increase in capital goods purchases respectively. Purchases of finished consumer goods should also rise by 7.2 percent and then 3.4 percent, and those of semi-finished products by almost 6 percent in the medium term. The energy bill, for its part, is expected to stabilize in 2025 before dropping by 4.1 percent to 108.9 billion dirhams in 2026. **Travel receipts** should reach 114.2 billion dirhams in 2024, an improvement of 9.1 percent year-on-year, before rising by 6.6 percent in 2025 and 4.9 percent in 2026 to 127.7 billion. At the same time, remittances from **Moroccans living abroad** are expected to rise to 120.2 billion in 2024, an annual increase of 4.3 percent, and then by almost 3 percent in the medium term, reaching 127.8 billion in 2026.

Under these conditions, the current account deficit should end the year at 1 percent of GDP, after 0.6 percent in 2023, and rise to 1.8 percent in 2025, before returning to 1.5 percent in 2026. FDI receipts should amount to the equivalent of 2.7 percent of GDP in 2024, after 2.4 percent in 2023, then 3 percent in 2025 and 3.3 percent in 2026.

Under the assumption that the planned external financing takes place, **official reserve assets would** increase to 375.6 billion dirhams by the end of 2024, 387.8 billion dirhams by the end of 2025 and 400.2 billion dirhams by the end of 2026, respectively covering 5 months and 8 days, 5 months and 3 days and 5 months and 8 days of imports of goods and services.

In terms of **monetary conditions**, driven primarily by the expansion of banknote and coin balances, bank liquidity requirements would continue to rise, reaching 137.3 billion dirhams by the end of 2024, to 164.6 billion in 2025 and 192.3 billion in 2026. As for bank credit to the non-financial sector, taking into account actual figures, the outlook for economic activity and the banking system's expectations, its pace would accelerate to 3.8 percent in 2024, 4.2 percent in 2025 and 5.5 percent in 2026.

On the **public finance** front, based on budgetary achievements to end-October 2024, the three-year budget program 2025-2027, the Finance Act 2025 and Bank Al-Maghrib's new macroeconomic projections from December, the budget deficit, excluding proceeds from the sale of State holdings, should stand at 4.5 percent of GDP in 2024, before gradually narrowing, according to Bank Al-Maghrib's forecasts, to 4.2 percent of GDP in 2025, then to 3.9 percent in 2026.

As for the pace of **economic activity,** after accelerating to 3.4 percent in 2023, growth in the domestic economy is expected to slow to 2.6 percent this year, the result of a 4.6 percent contraction after a 1.4 percent rise in agricultural value added, taking into account a cereal harvest of 31.2 million quintals (MQx) for the 2023/2024 campaign, and a slight slowdown in the rate of growth of non-agricultural GDP, from 3.6 percent to 3.5 percent. Growth should accelerate to 3.9 percent in 2025 and 2026, reflecting a 5.7 percent and 3.6 percent rise in agricultural value added respectively, assuming a return to average cereal crop years of 50 MQx. Non-agricultural activities would improve to 3.6 percent in 2025 and 3.9 percent in 2026.

Under these conditions, **inflation** is expected to slow down to around 1 percent in 2024 from 6.1 percent in 2023, mainly reflecting a faster than expected fall in prices of volatile food products, as well as a sharper than expected decline in prices of fuels and lubricants, in line with trends in international oil prices. It is set to accelerate to 2.4 percent in 2025, before falling back to 1.8 percent in 2026. Its underlying component is expected to slow to 2.1 percent in 2024, 2 percent in 2025 and 1.8 percent in 2026.

Uncertainties surrounding the outlook for the global economy remain high, linked to the policies envisaged by the new US administration, the impact of which remains dependent on their timing, scale and the reactions they would provoke. Added to this are the real estate crisis in China and the sluggishness of the German economy, both of which point to risks of weaker growth. In addition, the continuing conflict in Ukraine could further weaken global economic activity and disrupt supply chains, particularly energy.

At domestic level, the main risks to economic activity relate to the recurrence of droughts and worsening water stress in the medium term. On the other hand, the Kingdom's efforts to stimulate investment reinforce 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 higher-than-expected food prices, exacerbating inflationary pressures.

1. INTERNATIONAL DEVELOPMENTS

Data for the third quarter of the year demonstrate a relative resilience in economic activity, albeit with a declining outlook, particularly in the USA and China. On labor markets, despite easing pressures, the situation remains favorable, with unemployment rates remaining at historically low levels in both the US and the Euro area.

With regard to inflation, after a general downtrend since the start of the year, November data show an acceleration in the pace of inflation in the main advanced countries, particularly in the US and the euro area. In terms of financial markets, November was marked by the good performance of the US stock market index, buoyed in particular by the outcome of the presidential elections, whereas the other main stock markets, in both advanced and emerging markets, recorded monthly losses. As for sovereign yields, long-term rates rose overall in November for the main advanced countries, and showed disparate trends for emerging countries, with a fall in China.

As for commodities, Brent crude oil prices fell in November, both on a monthly and annual basis. Conversely, agricultural commodity prices rose over the same month, both month-on-month and year-on-year.

1.1 Economic activity and employment

1.1.1 Economic activity

In the third quarter of 2024, year-on-year growth decelerated to 2.7 percent in the United States, after 3 percent in the second quarter, and accelerated from 0.5 percent to 0.9 percent in the euro area. By member country, the pace of activity strengthened from 3.2 percent to 3.4 percent in Spain and from 0.9 percent to 1.2 percent in France, while it slowed from 0.7 percent to 0.4 percent in Italy, with the German economy recording a further contraction of 0.3 percent. In the other advanced economies, activity also accelerated in the UK and Japan, with third-quarter GDP increases of 1 percent, compared with 0.7 percent the previous quarter, and 0.5 percent respectively, following a contraction of 0.9 percent.

Among the main emerging countries, growth slowed slightly in China to 4.6 percent in the third quarter, after 4.7 percent in the previous quarter. In India, although decelerating, the pace of activity remained vigorous, with growth of 5.4 percent compared with 6.7 percent a quarter earlier. Elsewhere, GDP rose from 3.3 percent in Q2 to 4 percent in Q3 in Brazil, while it slowed from 2.4 percent to 2.1 percent over the same period in Turkey. In Russia, second-quarter data showed a deceleration from 5.4 percent to 4.1 percent.

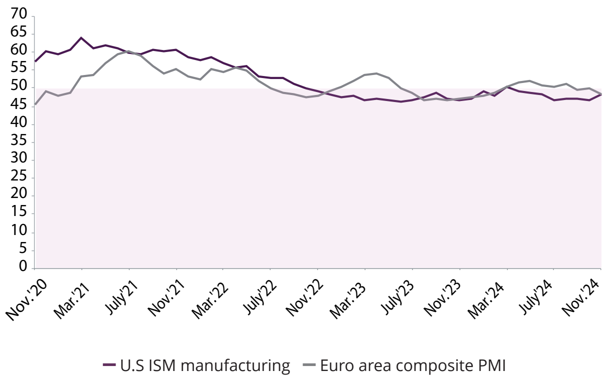
Table 1.1: YoY change in quarterly growth (%)

	2022		2023				2024		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Advanced countries									
United States	2.3	1.3	2.3	2.8	3.2	3.2	2.9	3.0	2.7
Euro area	2.8	1.9	1.4	0.5	0.0	0.1	0.4	0.5	0.9
France	1.4	0.9	1.0	1.3	0.9	1.3	1.4	0.9	1.2
Germany	1.4	0.2	0.2	0.1	-0.3	-0.2	-0.1	-0.2	-0.3
Italy	3.6	2.4	2.3	0.5	0.1	0.3	0.3	0.7	0.4
Spain	6.1	4.6	3.9	2.4	2.2	2.3	2.6	3.2	3.4
United Kingdom	2.7	1.5	0.9	0.5	0.3	-0.3	0.3	0.7	1.0
Japan	1.3	0.5	2.3	1.7	1.1	0.9	-0.9	-0.9	0.5
Emerging countries									
China	3.9	2.9	4.5	6.3	4.9	5.2	5.3	4.7	4.6
India	5.5	4.3	6.2	8.2	8.1	8.6	7.8	6.7	5.4
Brazil	4.3	2.7	4.2	3.5	2.0	2.0	2.5	3.3	4.0
Turkey	4.1	3.3	4.5	4.6	6.5	4.6	5.3	2.4	2.1
Russia	-2.8	-1.8	-1.6	5.1	5.7	4.9	5.4	4.1	N.D

Source: Thomson Reuters and Eurostat.

In terms of leading economic indicators, the Euro area's composite PMI index fell from 50 in October to 48.3 in November. Conversely, the US ISM manufacturing index rose from 46.5 to 48.4 over the same period.

Chart 1.1: Change in some leading indicators in the U.S and the Euro Area



Source: Thomson Reuters Eikon.

1.1.2 Labor Market

On the labor markets, November data showed a sharp rise in job creation in the US, to 227,000 from 36,000 a month earlier, and an increase in the unemployment rate to 4.2 percent. In the Euro area, the unemployment rate was stable in October at 6.3 percent. It remained virtually unchanged at 3.4 percent in Germany, 7.6 percent in France and 11.2 percent in Spain, and fell to 5.8 percent in Italy. In the UK, data for September show an increase to 4.3 percent.

Table 1.2: Change in unemployment rate (%)

(In %)	2022	2023	2024		
			Sep.	Oct.	Nov.
United States	3.6	3.6	4.1	4.1	4.2
Euro area	6.8	6.6	6.3	6.3	N.D
France	7.3	7.3	7.5	7.6	N.D
Germany	3.2	3.1	3.4	3.4	N.D
Italy	8.1	7.7	6.0	5.8	N.D
Spain	13.0	12.2	11.2	11.2	N.D
United Kingdom	3.9	4.0	4.3	N.D	N.D

Source: Eurostat and BLS.

1.2 Monetary and financial conditions

1.2.1 Monetary policy decisions

At the end of its meeting, held on November 6 and 7, the Fed decided to cut the target range for the federal funds rate by 25 basis points to [4.5 percent -4.75 percent], the second consecutive cut after the 50 bp cut in September, in a context characterized by activity continuing to grow at a brisk pace, a rising but still low unemployment rate, and inflation edging closer to the 2 percent target but remaining somewhat high. The Fed has also indicated that it will continue to reduce its holdings of Treasury securities and mortgage-backed securities.

In addition, the ECB decided, at its meeting held on December 12, to cut all three key interest rates by 25 basis points, the third cut in a row and the fourth since June, indicating that the disinflation process is on track and that most measures of underlying inflation point to a lasting stabilization around the 2 percent target in the medium term. The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility were thus reduced to 3 percent, 3.15 percent and 3.40 percent respectively. It also reported that its Asset Purchase Program (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 Program (EPPP), the Eurosystem is no longer reinvesting all principal repayments on securities, reducing the program's portfolio by an average of 7.5 billion euros per month, and plans to end reinvestments at the end of 2024.

At its meeting on November 6, the Bank of England decided to cut its key rate by 25 basis points to

4.75 percent, the second reduction since August, pointing out that the disinflation process is continuing, even if domestic inflationary pressures are easing more slowly. It also reiterated that monetary policy would remain restrictive for long enough until the risks to inflation's sustainable return to the 2 percent target in the medium term have further dissipated.

At the same time, the Bank of Japan decided to keep its key rate unchanged at 0.25 percent following its meeting on October 30 and 31, underlining the high level of uncertainty surrounding the outlook for the Japanese economy following the parliamentary elections in which the ruling coalition lost its majority.

Among the major emerging economies, China's central bank cut its main policy rate to 3.1 percent at its meeting on October 21, the second reduction this year, before keeping it unchanged on November 20. At the end of September, it also cut the reserve requirement rate by 50 bp as part of a vast stimulus plan to boost the country's economy. On the other hand, the central banks of Russia and Brazil decided to raise their key rates in November, against a backdrop of rising inflationary pressures. As for the central banks of India and Turkey, they kept their key rates unchanged at their latest meetings.

1.2.2 Financial markets

On the foreign exchange markets, the euro depreciated by 2.5 percent against the dollar in November, while remaining virtually unchanged against sterling and the Japanese yen. Thus, since the start of the year, the euro has depreciated by 2.6 percent against the dollar and 3.3 percent against sterling, while appreciating by 3.9 percent against the Japanese yen.

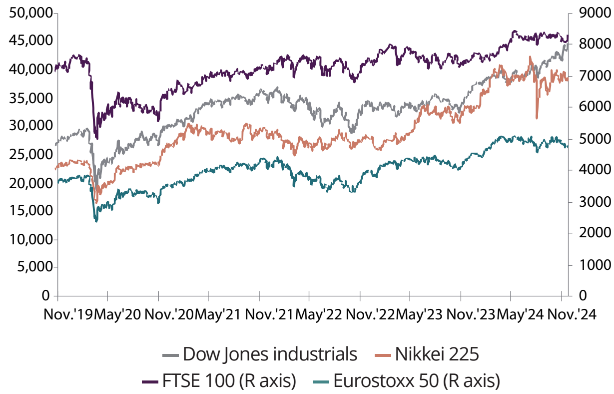
The currencies of the main emerging economies appreciated against the dollar in November, with monthly gains of 3.2 percent for the Brazilian real, 1.7 percent for the Chinese renminbi, 0.4 percent for the Indian rupee and 0.6 percent for the Turkish lira. Since January, appreciations against the US currency have been 18.5 percent for the Brazilian real, 1.3 percent for the Indian rupee, 1 percent for the Chinese renminbi and 18.4 percent for the Turkish lira.

Chart 1.2: Change in Euro/dollar exchange rate

Source: Thomson Reuters Eikon.

On the stock markets of the major advanced economies, prices recorded monthly declines in November of 3.1 percent for the Eurostoxx 50, 1.3 percent for the FTSE 100 and 0.7 percent for the Nikkei 225, while the Dow Jones Industrials rose by 3 percent. Year-to-date performance is positive, with gains of 6.3 percent for the Eurostoxx, 7.1 percent for the FTSE 100, 16.6 percent for the Nikkei 225 and 18.4 percent for the Dow Jones Industrials.

Chart 1.3: Change in major stock market indices of advanced economiess

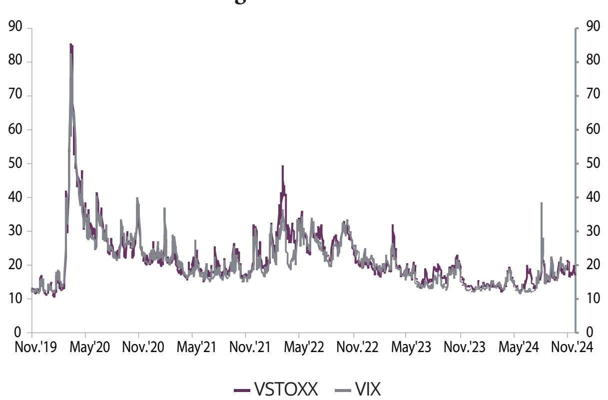


Source: Thomson Reuters Eikon.

These developments were accompanied by a fall in risk aversion on the financial markets in November, with the VIX index dropping from 20 in October to 16, and the VSTOXX falling from 19.3 to 18.2. Compared with December 2023, however, both indices are up, with the VIX and VSTOXX at 12.7 and 13.4 respectively.

In emerging economies, the MSCI EM fell by 4.2 percent, reflecting declines in the China (-5.8 percent) and India (-4.9 percent) sub-indices. Between January and November, it rose by 11.4 percent, driven in particular by the Chinese (+19.2 percent) and Indian (+16.5 percent) indices.

Chart 1.4: Change in the VIX and the VSTOXX

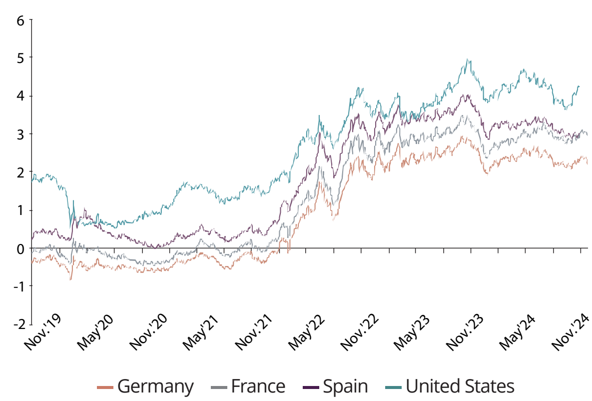


Source: Thomson Reuters Eikon.

On the sovereign bond markets, yields for the main advanced economies rose overall in November month-on-month. The 10-year yield rose by 26 bp to 4.4 percent for the USA (+31 bp since the start of the year), by 7 bp to 2.3 percent for Germany (+12 bp), by 9 bp to 3 percent for France (+37 bp), by 9 bp to 3.1 percent for Spain (-11 bp), and by 7 bp to 3.5 percent for Italy (-20 bp).

Among the major emerging economies, the rate fell by 5 bp to 2.1 percent for China (-43 bp versus January), remained stable at 6.8 percent for India (-37 bp) and 12.9 percent for Brazil (+227 bp), and rose by 38 bp to 23.1 percent for Turkey (+340 bp).

Chart 1.5: Change in 10-year sovereign bond yields

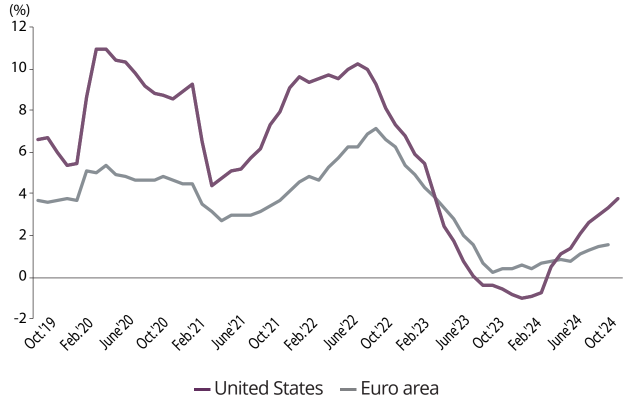


Source: Thomson Reuters Eikon.

On the money markets, 3-month dollar Libor remained stable in November at 4.8 percent, while Euribor for the same maturity was down 16 bp compared to October to stand at 3 percent. Between January and November, these two rates fell by 73 bp and 93 bp respectively, against a backdrop of easing monetary policy by the FED and the ECB.

As for bank credit, growth accelerated again in October in the USA and the euro area, at an annual rate of 3.7 percent and 1.6 percent respectively.

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



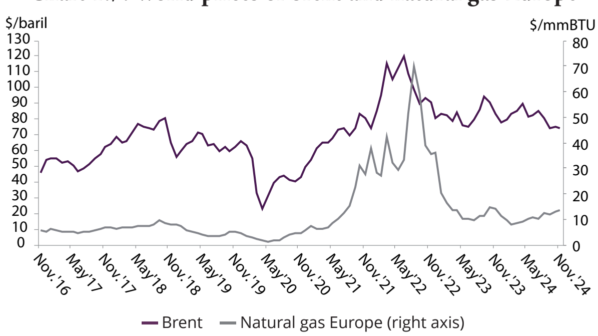
Source: Thomson Reuters Eikon.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

On the commodities market, after two successive monthly falls followed by a slight rise in October, the price of Brent crude oil fell by a further 1.7 percent in November, averaging $74.4/bbl, down 10.6 percent year-on-year. By contrast, European natural gas prices rose by 7.8 percent month-on-month in November to $13.93/mmbtu, but remained down 3.9 percent year-on-year.

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

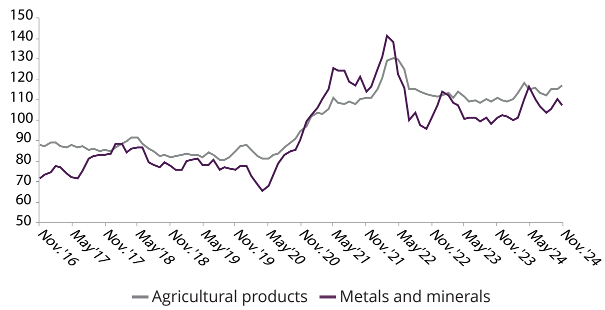


Source: World Bank.

1.3.2 Non-energy commodity prices

Excluding energy, prices remained virtually unchanged in November, reflecting both a 1.8 percent rise in agricultural product prices and a 3.1 percent fall in metal and ore prices. Compared with the same month last year, these prices were up by 4.1 percent overall, with increases of 5.4 percent for agricultural products and 5.9 percent for metals and ores.

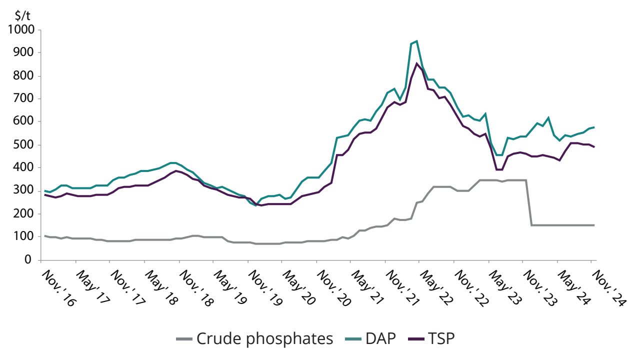
Chart 1.8: Change in non-energy commodity price indices (2010=100)



Source: World Bank.

For phosphate and derivatives, prices recorded a slight monthly rise in November of 0.2 percent to $574.5/t for DAP, a contraction of 2.5 percent to $491/t for TSP and stagnated at $152.5/t for raw phosphate. Year-on-year, prices were down 56.1 percent for raw phosphate, and up 7.3 percent for DAP and 6.1 percent for TSP.

Chart 1.9: Change in world prices of phosphate and fertilizers



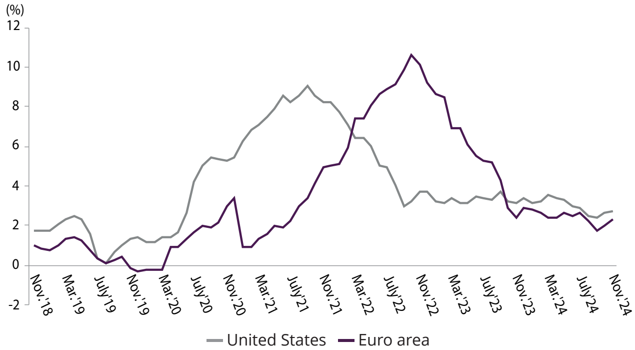
Source: World Bank.

1.3.3 Inflation

Inflation accelerated to 2.3 percent in the euro area in November, reflecting increases from 1.8 percent to 2.4 percent in Spain, from 1.6 percent to 1.7 percent in France and from 1 percent to 1.6 percent in Italy, while it stagnated at 2.4 percent in Germany. Similarly, inflation in the United States edged up from 2.6 percent in October to 2.7 percent in November. Elsewhere, October data showed a firming from 1.7 percent to 2.3 percent in the UK, while in Japan, the pace of consumer price growth decelerated from 2.5 percent to 2.2 percent.

As for the major emerging economies, November data show that inflation in China continued to decelerate for the third consecutive month, falling from 0.3 percent in October to 0.2 percent. The slowdown in inflation was also observed in India, where it fell from 6.2 percent to 5.5 percent in November. By contrast, inflation accelerated over the same period from 8.5 percent to 8.9 percent in Russia and from 4.8 percent to 4.9 percent in Brazil.

Chart 1.10: Inflation in the United States and the euro area



Source: Thomson Reuters Eikon.

Table 1.3: Recent year-on-year change in inflation in main advanced countries in %

	2022	2023	2024		
			Sept.	Oct.	Nov.
United States	8.0	4.1	2.4	2.6	2.7
Euro area	8.4	5.5	1.7	2.0	2.3
Germany	8.6	6.1	1.8	2.4	2.4
France	5.9	5.7	1.4	1.6	1.7
Spain	8.3	3.4	1.7	1.8	2.4
Italy	8.7	6.0	0.7	1.0	1.6
United Kingdom	9.0	7.4	1.7	2.3	-
Japan	2.5	3.3	2.5	2.2	-

Sources: Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

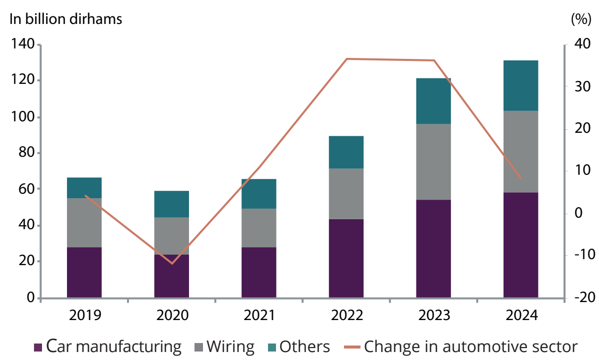
Foreign trade data for the first ten months of 2024 post an acceleration in the growth of trade in goods, continued vigour in travel receipts and remittances from Moroccans living abroad, and a good performance in FDI receipts compared with the previous year. Exports of goods rose by 6.2 percent, compared with against 5.8 percent for imports. As a result, the trade deficit widened by 5.2 percent to 249.8 billion dirhams, and the coverage rate improved to 59.9 percent from 59.7 percent at end-October 2023. At the same time, travel receipts continued to strengthen, rising by 9.3 percent to 96.9 billion dirhams, while transfers from Moroccans living abroad rose by 3.9 percent to 100.3 billion. As for the main financial operations, FDI receipts rose by 23.7 percent to 33.3 billion, while Moroccan direct investment abroad continued its downward trend, contracting by 7.8 percent to 19.9 billion. Under these conditions, outstanding official reserve assets stood at 360.7 billion dirhams at the end of October 2024, representing the equivalent of 5 months and 5 days' imports of goods and services.

2.1 Trade balance

2.1.1 Exports

The improvement in exports mainly reflects that of sales in the automotive sector, which amounted to 131.4 billion dirhams, up 8 percent on the same period in 2023. This trend includes increases by 6.9 percent to 58.1 billion in the "construction" segment and 7.9 percent to 45.4 billion in the "wiring" segment. Similarly, thanks to an increase in quantities shipped, sales of phosphates and derivatives rose by 12.5 percent to 68.3 billion, with increases of 36.8 percent to 7.7 billion for raw phosphate, 10.2 percent to 11.3 billion for phosphoric acid, and 10 percent to 49.4 billion for natural and chemical fertilizers. Shipments of agricultural and agri-food products improved by 2.9 percent to 69.8 billion, reflecting in particular a 5.4 percent rise in sales of agricultural products to 30.8 billion. Exports from the "electronics and electricity" sector rose by 2.4 percent to 15.2 billion, with increases of 21.1 percent for "devices for cutting or connecting circuits", and 4.6 percent for the "wires and cables" segment. By contrast, exports in the "textiles and leather" sector were virtually unchanged at 39.3 billion, with a 0.7 percent rise in "ready-made garments" and a 7.4 percent fall in "footwear".

Chart 2.1: Automotive sector exports to end October



Source: Foreign Exchange Office.

Table 2.1: Change in exports
(in millions of dirhams)

Sectors/Segments	January - October		Change	
	2024	2023	In value	In %
Exportations	373,545	351,663	21,882	6.2
Automobile	**131,352**	**121,593**	**9,759**	**8.0**
Construction	58,061	54,300	3,761	6.9
Cabling	45,399	42,073	3,326	7.9
Vehicle and seat interiors	7,706	6,375	1,331	20.9
Phosphates and derivatives	**68,339**	**60,734**	**7,605**	**12.5**
Natural and chemical fertilizers	49,369	44,873	4,496	10.0
Phosphates	7,651	5,593	2,058	36.8
Phosphoric acid	11,318	10,267	1,051	10.2
Aeronautics	**21,864**	**18,640**	**3,224**	**17.3**
Assembly	14,261	11,242	3,019	26.9
EWIS*	7,512	7,325	187	2.6
Agriculture and Food	**69,762**	**67,790**	**1,972**	**2.9**
Agriculture, forestry, hunting	30,759	29,190	1,569	5.4
Food industry	36,452	36,146	306	0.8
Fishing aquaculture	1,446	1,596	-150	-9.4
Electronics and Electricity	**15,205**	**14,848**	**357**	**2.4**
Devices for cutting or connecting electrical circuits and resistors	1,667	1,377	290	21.1
Wires and cables	4,614	4,410	204	4.6
Electronic components	6,483	6,603	-120	-1.8
Other mining	**4,623**	**4,450**	**173**	**3.9**
Fluorine spath fluor	322	234	88	37.6
Marbles; granite; gypsum and other stones	352	299	53	17.7
Lead ore	697	673	24	3.6
Textiles and Leather	**39,265**	**39,475**	**-210**	**-0.5**
Footwear	2,506	2,707	-201	-7.4
Technical textile	454	489	-35	-7.2
Ready-made garments	25,687	25,507	180	0.7
Other industries	**23,137**	**24,133**	**-996**	**-4.1**
Metallurgy and metalworking	6,394	7,022	-628	-8.9
Plastics and rubber industry	1,274	1,350	-76	-5.6
Pharmaceutical industry	1,218	1,290	-72	-5.6

*Electrical wiring interconnection systems.

Source: Foreign Exchange Office.

2.1.2 Imports

With the exception of raw materials and energy products, the increase in imports concerned all groupings. Acquisitions of capital goods rose by 11.6 percent to 145.5 billion, driven mainly by a 38.1 percent increase in purchases of “commercial vehicles” and a 15.8 percent rise in purchases of “appliances for cutting or connecting electrical circuits”. At the same time, purchases of semi-finished products rose by 9.1 percent to 134.8 billion, mainly due to imports of “chemical products”, which rose by 23.1 percent to 13.5 billion, and “semi-finished iron and non-alloy steel products”, which doubled to 4.1 billion.

Imports of consumer goods rose by 8.6 percent to 144.9 billion dirhams, reflecting increases of nearly 8.8 percent in purchases of passenger cars and their parts, and 18.1 percent in “medicines and other pharmaceutical products”. Similarly, supplies of food products rose by 3 percent to 75.5 billion, mainly due to a 76.1 percent rebound in purchases of live animals to 4.1 billion, while supplies of wheat fell by 8.4 percent to 15 billion.

Conversely, the energy bill fell by 5.5 percent to 95.1 billion dirhams, reflecting a 25 percent drop in imports of “coal, cokes and similar solid fuels” and a 14.3 percent fall in “petroleum gas and other hydrocarbons”, due to reductions in their import prices of 18.5 percent and 15.9 percent respectively. On the other hand, purchases of “gas-oils and fuel-oils" recorded an increase in sales by 1.4 percent, driven by an 11.7 percent increase in quantities imported. At the same time, purchases of crude products fell by 1.4 percent to 26.9 billion euros, mainly due to a decline in purchases of soybean and sunflower oils.

Table 2.2: Change in imports by user groups (in millions of dirhams)

Usage group	January - October		Change	
	2024	2023	In value	In %
Imports	623,379	589,153	34,226	5.8
Capital goods	**145,514**	**130,415**	**15,099**	**11.6**
Commercial vehicles	8,884	6,432	2,452	38.1
Electric circuit breakers and connectors	13,769	11,892	1,877	15.8
Machines for working rubber or plastics	2,289	851	1,438	-
Semi-finished products	**134,816**	**123,613**	**11,203**	**9.1**
Chemicals	13,530	10,992	2,538	23.1
Semi-finished products made of iron or non-alloy steel	4,145	2,120	2,025	95.5
Plastic materials and various plastic articles	17,850	16,662	1,188	7.1
Finished consumer products	**144,872**	**133,444**	**11,428**	**8.6**
Passenger car parts	28,288	25,998	2,290	8.8
Medicines and other pharmaceutical products	8,861	7,504	1,357	18.1
Passenger cars	19,985	18,386	1,599	8.7
Food products	**75,468**	**73,279**	**2,189**	**3.0**
Live animals	4,084	2,319	1,765	76.1
Fresh or dried fruits, frozen or in brine	3,547	2,732	815	29.8
Wheat	14,974	16,344	-1,371	-8.4
Oilcakes	5,930	7,613	-1,683	-22.1
Produits bruts	**26 942**	**27 333**	**-391**	**-1.4**
Crude or refined soybean oil	4,500	5,610	-1,110	-19.8
Raw or refined sunflower oil	762	1,075	-313	-29.1
Raw and unrefined sulfurs	7,193	6,594	599	9.1
Produits énergétiques	**95,071**	**100,576**	**-5,505**	**-5.5**
Petroleum gas and other hydrocarbons	10,761	14,339	-3,578	-25.0
Coals, cokes and similar solid fuels	17,257	20,125	-2,868	-14.3
Gas oils and fuel oils	47,867	47,202	665	1.4

Source: Foreign Exchange Office.

2.2 Other components of the current account balance

The surplus on the services balance fell by 1.2 percent to 111.3 billion dirhams, as a result of a 16.6 percent increase in imports, outstripping the 7.3 percent rise in exports.

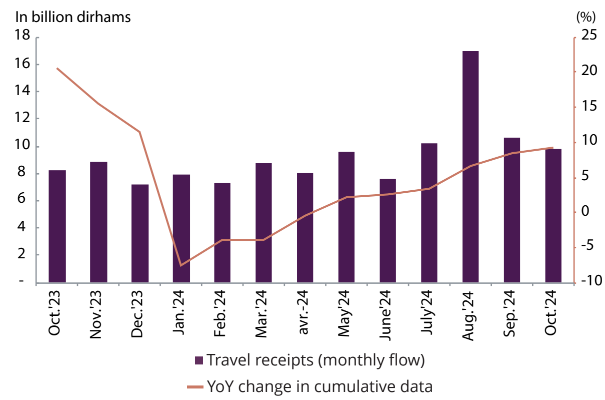
Table 2.3: Change in the balance of services (in million dirhams)

	January - October		Change	
	2024	2023	In value	In %
Imports	119,164	102,160	17,004	16.6
Exports	230,425	214,801	15,624	7.3
Balance	111,261	112,641	-1,380	-1.2

Source: Foreign Exchange Office.

In particular, travel revenues posted a high monthly flow of almost 9.8 billion, up 18.9 percent in October 2023. At the end of October 2024, they totalled 96.9 billion, an improvement of 9.3 percent on the same period a year earlier, while expenditure on the same item rose by 20 percent to 24.7 billion.

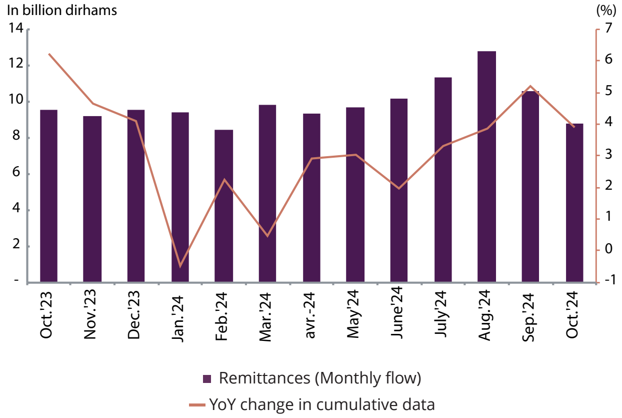
Chart 2.2: Monthly change in travel receipts



Source: Foreign Exchange Office.

Remittances from Moroccan expatriates pursued their dynamic growth, up 3.9 percent to 100.3 billion dirhams.

Chart 2.3: Monthly change in remittances



Source: Foreign Exchange Office.

2.3 Financial account

In terms of the main financial transactions, net FDI inflows stood at 19.5 billion versus 12.1 billion at end-October 2023, the result of a 23.7 percent rise in revenues to 33.3 billion, while outflows under the same heading fell by 7.1 percent to 13.8 billion. As for Moroccan direct investment abroad, net flows fell by 10.6 percent, reflecting a 7.8 percent decrease in expenditure.

At the end of October 2024, outstanding official reserve assets had risen to 360.7 billion dirhams, equivalent to 5 months and 5 days' imports of goods and services.

Table 2.4: Direct investments
(in million dirhams)

	January - October		Change	
	2024	2023	In value	In %
Foreign direct investments	19,496	12,068	7,428	61.6
Revenues	33,318	26,945	6,373	23.7
Expenses	13,822	14,877	-1,055	-7.1
Direct investments of Moroccans abroad	7,240	8,096	-856	-10.6
Expenses	19,934	21,632	-1,698	-7.8
Revenues	12,694	13,536	-842	-6.2

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSET MARKETS

In the third quarter of 2024, monetary conditions were characterized by a 22-basis point decline in the overall average lending rate and a 0.9 percent rise in the real effective exchange rate. Bank lending to the non-financial sector rose by 3.3 percent year-on-year, after a 1.2 percent one quarter earlier, mainly reflecting the improved pace of growth in loans to private companies. With regard to the other counterparts of the money supply, net claims on the Central Government increased by 8.4 percent, after 6.1 percent, and official reserve assets rose by 3.6 percent instead of 5.8 percent. Overall, money supply grew by 6.7 percent, after 4.6 percent in the second quarter.

On the real estate market, the asset price index remained virtually unchanged in the second quarter of 2024. This stagnation reflects a 0.5 percent increase in land prices, stagnation in residential property prices, and a 0.3 percent fall in commercial property prices. The number of transactions fell by 8.2 percent, with decreases of 6.7 percent in residential property, 10.2 percent in urban land and 15.9 percent in business assets.

On the Casablanca Stock Exchange, the MASI index rose quarter-on-quarter by 8.1 percent in the third quarter of 2024, and trading volume fell quarter-on-quarter from 28.3 billion dirhams to 14.8 billion. Against this backdrop, market capitalization rose by 18.5 percent year-to-date to 741.9 billion dirhams.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

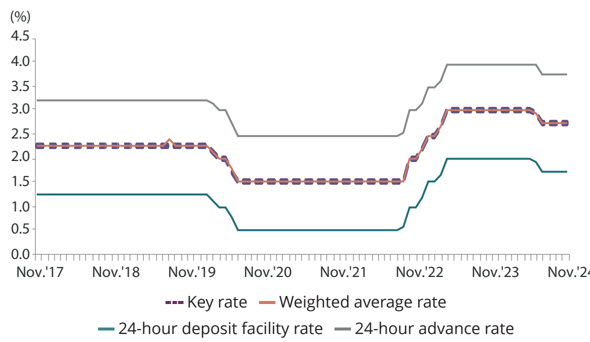
Bank liquidity requirements increased to a weekly average of 131.6 billion dirhams in the third quarter of 2024, compared with 113.8 billion dirhams a quarter earlier, mainly as a result of the rise in banknotes and coins.

Under these conditions, Bank Al-Maghrib increased its injections to 145.4 billion dirhams, after 128.2 billion, of which 61.2 billion in the form of 7-day advances, 50.2 billion through repurchase agreements and 34.1 billion through guaranteed loans granted as part of programs to support the financing of SMEs.

Against this backdrop, the average residual duration of the Bank's interventions fell from 64.2 days to 47.9 days, and the interbank rate remained in line with the key rate at 2.75 percent.

The latest available data indicate a further increase in bank liquidity requirements to an average of 138.8 billion in October and November 2024.

Chart 3.1: Interbank rate (daily data)



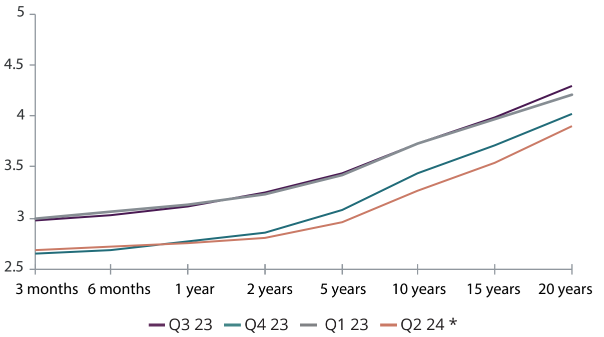
On the Treasury bills market, rates fell further in the third quarter on both the primary and secondary markets. During October, yields continued to fall on the primary market, while on the secondary market they remained virtually stable for short maturities and fell slightly for medium and long maturities.

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

	2023			2024			
	Q2	Q3	Q4	Q1	Q2	Q3	Oct.
26 weeks	3.15	3.07	2.98	2.86	2.85	2.66	2.58
2 years	3.79	3.49	3.38	3.25	3.24	2.82	2.76
5 years	4.16	3.82	3.72	3.42	3.43	3.07	2.97
10 years	4.55	4.20	4.14	3.79	3.75	3.42	3.26
15 years	4.93	4.64	4.51	4.05	4.03	3.69	3.55

*Average observed in July and August 2024.

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



*Average observed in July and August 2024.

Certificate of deposit issue rates fell back slightly over the third quarter. As for deposit rates, those applied to 6-month deposits saw a quarterly average rise of 21 basis points (bp) to 2.77 percent, while those for one-year deposits fell by 47 bp to 2.60 percent. For the second half of 2024, the minimum rate of interest on savings accounts was set at 2.48 percent, down 25 bp on the previous half-year. Under these conditions, banks[1] financing cost fell by 5 points quarter-on-quarter.

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

The latest available data for the month of October show a decline in deposit rates, compared with the third quarter, by 9 bp to 2.68 percent for 6-month deposits and an increase of 29 bp to 2.89 percent for 12-month deposits.

Chart 3.3: Banks' financing costs (change in basis points)

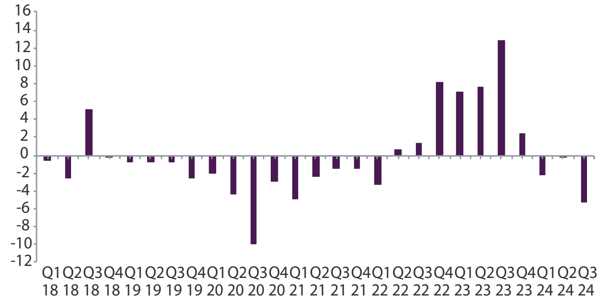


Table 3.2: Deposit rates (%)

	2023		2024			
	Q3	Q4	Q1	Q2	Q3	October
6 months	2.51	2.47	2.54	2.56	2.77	2.68
12 months	2.63	2.86	2.86	3.06	2.60	2.89

With regard to lending rates, the results of Bank Al-Maghrib's survey for the third quarter of 2024 show a 22bp fall in the overall average rate to 5.21 percent. By institutional sector, corporate lending rates fell by 25 bp to 5.12 percent, with a 32 bp drop to 5.06 percent for cash facilities, virtual stability at 5.68 percent for property development loans, and a 25 bp rise to 5.24 percent for equipment loans. By company size, rates for large companies fell by 20 bp to 5.14 percent, while those for SMEs rose by 6 bp to 5.74 percent. Rates on loans to individuals were virtually unchanged at 5.91 percent, with a 3 bp decrease to 4.76 percent for housing loans and a 3 bp increase to 7.06 percent for consumer loans.

Table 3.3: Lending rates (%)

	2023			2024		
	Q2	Q3	Q4	Q1	Q2	Q3
Global	5.26	5.36	5.36	5.40	5.43	5.21
Personal loans	5.93	5.94	5.94	6.09	5.89	5.91
Real estate loans	4.64	4.74	4.83	4.81	4.79	4.76
Consumer loans	7.27	7.25	7 .18	7.22	7.03	7.06
Loans to businesses	5.22	5.32	5.30	5.26	5.37	5.12
Cash advances	5.28	5.31	5.35	5.30	5.38	5.06
Equipment loans	4.72	5.09	4.90	5.11	4.99	5.24
Real estate loans	5.43	5.71	5.49	5.19	5.69	5.68

3.1.2 Foreign exchange market

In the third quarter of 2024, the euro appreciated by 2 percent against the US dollar. In this context, the value of the dirham appreciated by 0.31 percent against the euro and by 2.30 percent against the US dollar. Similarly, compared with the currencies of the main emerging countries, the dirham appreciated by 9.03 percent against the Brazilian real, 5.95 percent against the Turkish lira and 1.21 percent against the Chinese yuan. As a result, and taking into account the inflation differential with Morocco's trading partners and competitors, the effective exchange rate appreciated by 1.11 percent in nominal terms and 0.90 percent in real terms.

Chart 3.4: Dirham exchange rate

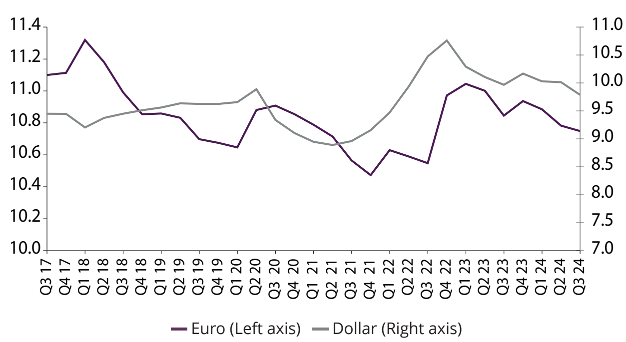
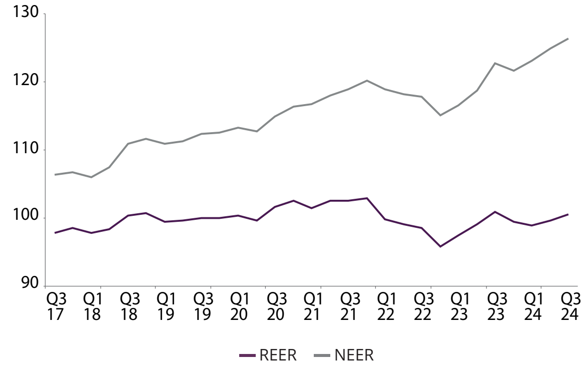


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



In terms of transaction volumes, the average monthly amount of foreign currency exchanged against dirhams on the interbank market fell by 32.4 percent year-on-year in the third quarter, to 42.5 billion dirhams. Spot transactions by banks with their customers recorded annual increases of 12.3 percent to 35.6 billion dirhams for sales, and 16.3 percent to 36.8 billion dirhams for purchases. In forward transactions, purchases rose by 11.7 percent to 17.7 billion, while sales fell by 13.2 percent to 2.2 billion.

3.1.3 Monetary situation[2]

The M3 aggregate grew by 6.7 percent during the third quarter of 2024, after 4.6 percent a quarter earlier. This reflects the acceleration in the rate of growth of sight deposits with banks from 7.5 percent to 10.2 percent, linked in particular to the increase by 8.3 percent after 7.3 percent. Similarly, term deposits rose by 1.5 percent, following a decline of 4.6 percent, reflecting the increase the increase in those of private companies by 24.7 percent after a decline of 26.3 percent.

In the same vein, growth in currency in circulation rose from 8.4 percent to 10.1 percent, money-market mutual fund shares and bonds eased their decline from 17.1 percent to 16.4 percent, and foreign currency deposits increased by 8 percent after rising by 6.7 percent.

2 Quarterly data represent outstandings at the end of the period.

By main counterparts, the acceleration in the money supply is the result of a 4.9 percent improvement in bank credit after 3.2 percent one quarter earlier, a rise in net claims on the Central Government by 8.4 percent after 6.1 percent, and a deceleration in the rate of growth of official reserve assets from 5.8 percent to 3.6 percent.

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

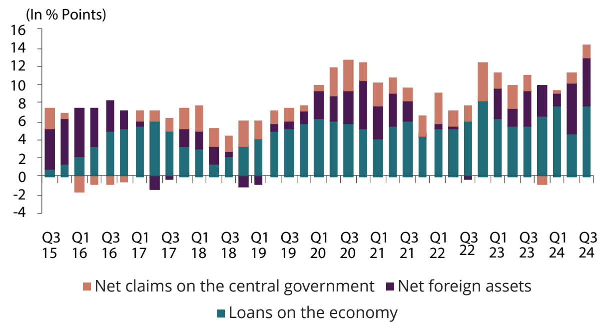
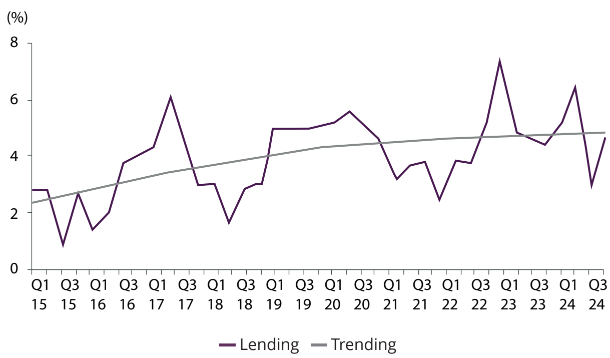


Chart 3.7: Bank credit (Year-on-year change)



The pace of credit growth to the non-financial sector accelerated quarter-on-quarter, from 1.2 percent to 3.3 percent, as a result of a 2 percent rise in loans to private companies after a 0.7 percent fall, a 14.9 percent increase in loans to public companies after a 5.5 percent rise, and virtually unchanged growth in loans to households at 1.1 percent.

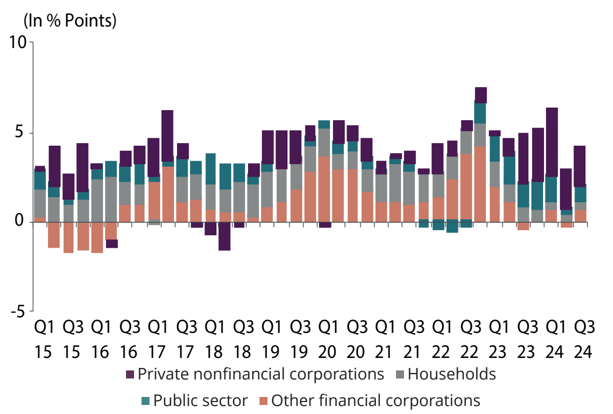
The trend in credit to private companies reflects in particular a 1.6 percent rise in cash facilities, compared with a 7.1 percent decline in the previous quarter, and an accelerations from 1.1 percent to 5.9 percent for property development loans and from 8.4 percent to 9.4 percent for equipment loans.

As for loans to public-sector companies, the improvement in their rate from 5.5 percent to 14.9 percent essentially reflects the rise in cash facilities 35.2 percent to 57 percent, while equipment loans fell by 8.3 percent after 7.3 percent.

Household credit growth was virtually unchanged at 1.9 percent, with an acceleration from 0.6 percent to 1.2 percent for consumer loans and stagnation at 1.3 percent for housing loans, and an accentuated fall in loans to individual entrepreneurs from 6.2 percent to 7.2 percent.

By industry, the third-quarter data show improvements in lending to companies in the “Construction” and “Mining and quarrying” sectors by 22.4 percent and 20.7 percent respectively. Conversely, lending to the “Trade, repair of motor vehicles and household goods” and “Miscellaneous manufacturing industries” branches fell by 5.9 percent and 7.6 percent respectively.

Chart 3.8: Contribution of institutional sectors to total outstanding loans



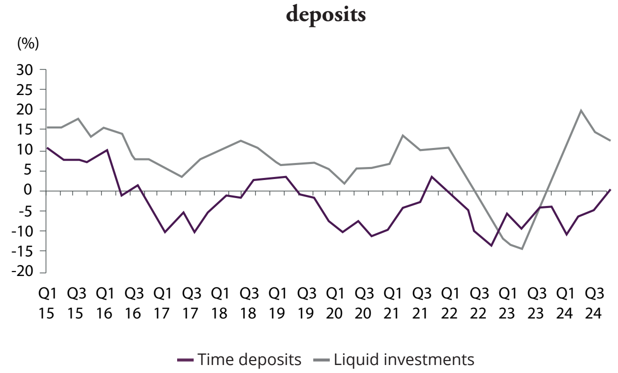
Overdue receivables rose by 3.4 percent and their ratio to outstanding bank credit stood at 8.6 percent. They rose by 1 percent for private non-financial companies and by 6.9 percent for households, with ratios of 12.6 percent and 10.7 percent respectively.

Lending to the non-financial sector by financial companies other than banks rose by 0.6 percent in the third quarter. This was the result of a 6.9 percent increase in loans granted by finance companies, a 3.9 percent rise in loans granted by microcredit associations, and a 41.9 percent fall in loans granted by offshore banks.

The latest available data for October show annual bank credit growth of 3.6 percent, reflecting increases of 2.4 percent in loans to the non-financial sector and 11.3 percent in loans to financial companies.

Aggregate liquid investments rose by 13 percent, after 14.7 percent in the previous quarter, with a slowdown in the rate of increase in Treasury bills from 7.4 percent to 5.6 percent, and in bond mutual fund shares/units from 27.4 percent to 23.9 percent. On the other hand, shares in equity and diversified UCITS increased by 25 percent after 18.9 percent.

Chart 3.9: YoY change in liquid investments and time deposits



3.2 Asset prices

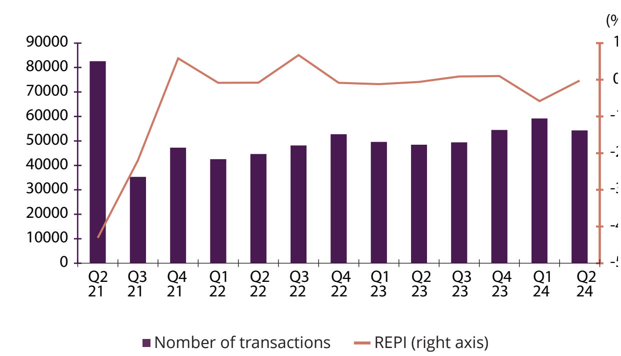
3.2.1 Real estate assets

In the second quarter of 2024, the real estate asset price index remained flat. This includes a 0.5 percent rise in urban land prices, stagnation in residential property prices and a 0.3 percent fall in commercial property prices. At the same time, the number of transactions fell by 8.2 percent, with decreases of 6.7 percent in residential property, 10.2 percent in urban land and a 15.9 percent in commercial property.

In the main cities, prices remained virtually unchanged in Fez and Rabat, and rose in four cities, with rates 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 Tangiers were observed in the remaining four cities.

With the exception of Oujda, which saw an 18.8 percent increase in sales, all the other main cities posted declines, 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



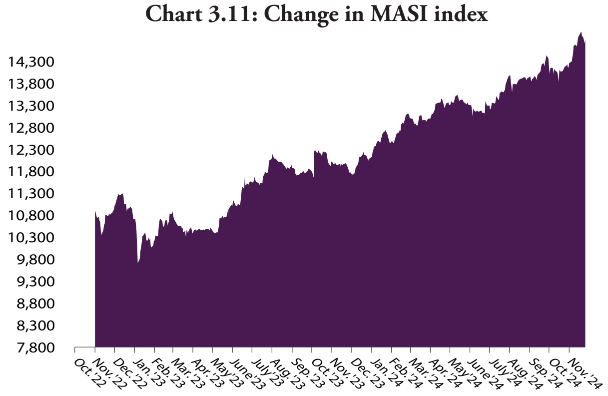
Sources: BAM and ANCFCC.

3.2.2 Financial assets

3.2.2.1 Shares

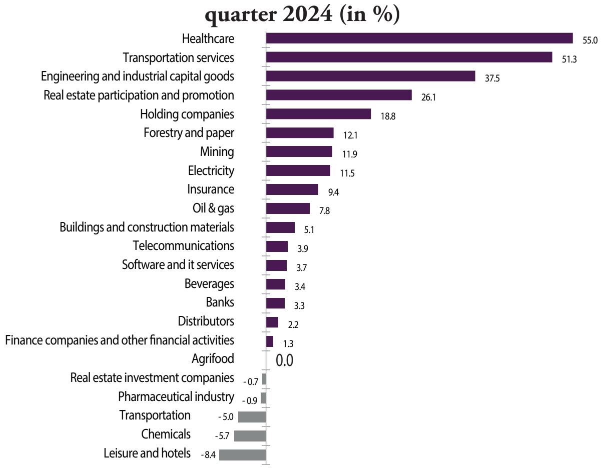
In the third quarter of 2024, the MASI index appreciated by 8.1 percent. This trend mainly reflects the 51.3 percent rise in the “transport services” sector index, the 26.1 percent increase in the “property investment and development” sector index and the 3.3 percent increase in the banking sector index. Conversely, those for the “chemicals” and “leisure and hotels” sectors by 5.7 percent and 8.4 percent respectively.

Chart 3.11: Change in MASI index



Source: Bourse of Casablanca.

Chart 3.12: Contribution of sectoral indexes in the third quarter 2024 (in %)



Source: Bourse of Casablanca.

Trading volume stood at 14.8 billion dirhams, compared with 28.3 billion dirhams in the previous quarter, reflecting the 8.5 billion dirhams drop in trading on the block market to 234.4 million dirhams, and to a lesser extent, the 16.5 billion dirhams drop in trading on the central equities market to 12.7 billion dirhams. Against this backdrop, market capitalization increased by 18.5 percent to 741.9 billion dirhams since the beginning of the year.

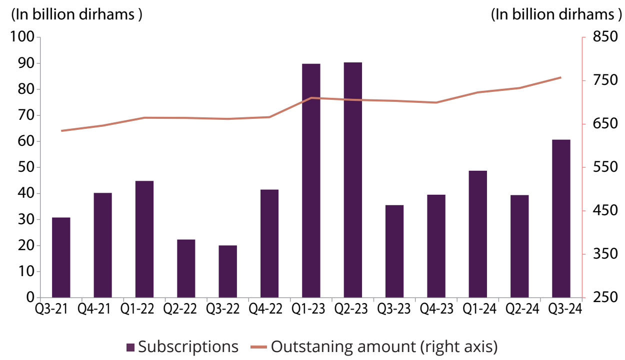
The latest available data show a monthly decline in the MASI index by 1.4 percent in October and an increase of 4.7 percent in November, for a year-to-date performance of 22.7 percent. This monthly increase reflects rises of 18 percent in the “transport services” sector index, 8.5 percent in the “buildings and construction materials” sector index and 5.8 percent in the banking sector index. By contrast, the electricity and telecommunications sectors fell by 10.2 percent and 3.2 percent respectively. Transaction volumes reached 9.1 billion dirhams in November, compared with 6.4 billion in October. Against this backdrop, market capitalization reached 756.5 billion, up 20.8 percent since December 2023.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic market amounted to 60.6 billion dirhams in the third quarter of 2024, compared with 39.4 billion dirhams in the previous quarter. Long maturities accounted for 61 percent of issuance, medium maturities for 30 percent and short maturities for 9 percent. Including repayments of 36.1 billion, outstanding Treasury bills totalled 757.4 billion, up 8.3 percent quarter-on-quarter.

The latest available data show a fall in Treasury bill issues in October to 9 billion dirhams, compared with 13.6 billion dirhams in September. Medium maturities accounted for 49 percent of issuance, long maturities for 47 percent and 4 percent for short maturities. Taking into account repayments of 9.1 billion, outstanding treasury bills totalled 757.3 billion at the end of October, up 8.3 percent since December 2023.

Chart 3.13: Treasury bill issues (in billions of dirhams)



Source: BAM.

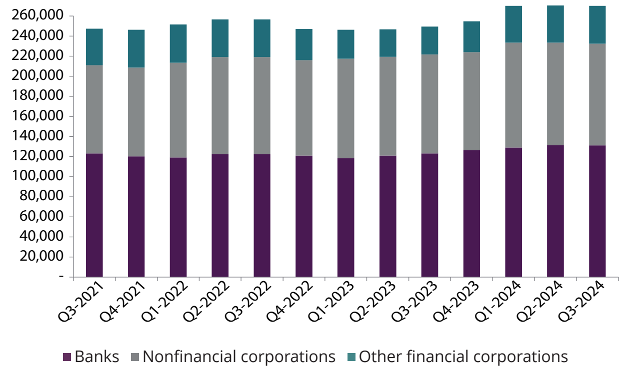
3.2.2.3 Private debt market

In the private debt market, issuance fell in the third quarter of 2024 by 7.4 percent to 23.3 billion dirhams. Banks raised 13 billion dirhams, compared with 19.6 billion dirhams the previous quarter, while non-financial companies raised 7.1 billion dirhams, compared with 1.9 billion dirhams the previous quarter.

By instrument, issues of negotiable debt securities rose by 5.4 percent to 19.5 billion, of which 11.5 billion in certificates of deposit, 3.2 billion in finance company bonds and 4.8 billion in treasury bills. Non-financial companies accounted for 61.1 percent of bond issues, which totalled 3.9 billion.

The latest available data show an increase in private debt issuance to 8.4 billion in October 2024, after 4.4 billion in September. Including redemptions, outstanding private debt reached 276.4 billion dirhams, up 8 percent since the beginning of the year.

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



Source: Maroclear and BAM calculations.

3.2.2.4 UCITS

Over the third quarter of 2024, subscriptions to mutual fund shares fell by 5.4 percent to 284 billion and redemptions by 6.3 percent to 267.2 billion, representing a net inflow of 16.7 billion dirhams. Performance indices rose quarter-on-quarter for all funds, with rates ranging from 0.8 percent for money-market funds to 11 percent for equity funds.

Data for November[3] show an 18.5 percent increase in UCITS net assets since the beginning of the year, to 663.3 billion dirhams, including rises in outstandings ranging from 6.6 percent for short-term bond funds to 63.4 percent for contractual UCITS.

3 Data as of November 8, 2024.

4. FISCAL POLICY STANCE

For the first ten months of 2024, budget execution resulted in a deficit of MAD 49 billion –excluding the proceeds from the sale of government equity– widening by MAD 11.6 billion compared with the same period of 2023. Current revenues improved by 13.6 percent to 320.4 billion, driven by a 12.5 percent increase in tax revenues and a 21.6 percent increase in non-tax revenues. In parallel, current expenditure rose by 6.8 percent to 288.1 billion, reflecting increases of 8.8 percent in the cost of goods and services and 4.8 percent in interest expenditure on debt, while subsidy costs fell by 13.2 percent. Under these conditions, the current balance showed a surplus of 32.2 billion, after 12 billion at endOctober 2023. For its part, capital expenditure rose by 9.9 percent to 79.4 billion, bringing overall expenditure to 367.5 billion, an increase of 7.4 percent. As for the balance of the special Treasury accounts, it stood at a negative at 1.8 billion, after a positive balance of 22.8 billion in the same period in 2023.

Considering the MAD 5 billion decrease in the stock of pending transaction, the cash deficit widened to MAD 54 billion, after MAD 47.7 billion a year earlier. In addition to the collection of MAD 1.7 billion in proceeds from the sale of government equity, this requirement was covered by net domestic resources of MAD 46.8 billion and by a net positive external flow of MAD 5.5 billion. As a result, direct public debt outstanding is estimated to have risen by 5.8 percent at end-October 2024, compared with its level at end-December 2023. The Treasury's financing conditions improved compared to the same period in 2023.

4.1 Current receipts

Budget execution as of end-October 2024 revealed an increase of 13.6 percent to 320.4 billion in current revenues, with tax revenues growing by 12.5 percent to 275 billion –mainly driven by the performance of all taxes – and of 21.6 percent to 41.4 billion in non-tax revenues.

Revenues from direct taxes improved by 13.5 percent to MAD 108.9 billion, reflecting increases of 12.8 percent to MAD 57.1 billion in corporate income tax and 13.8 percent to MAD 48.3 billion in personal income tax. This change encompasses increases of MAD 2 billion in revenues generated by income tax on salaries, 0.7 billion in income tax withheld at source on fixed-income investment returns and profits from the sale of securities, and MAD 0.5 billion in income tax on property profits. As for the increase in corporate income tax, it was mainly driven by a MAD 3 billion increase in revenue from the first three instalments, a MAD 2.3 billion increase in revenue from tax arrears, and a MAD 0.9 billion increase in corporate income tax withheld at source from fixed-income investment returns and remunerations paid to third parties.

Revenues from indirect taxes amounted to MAD 133.5 billion, up by 12.3 percent, reflecting a 12.4 percent increase to 104.3 billion in VAT receipts, and an 11.8 percent increase to MAD 29.1 billion in Internal Consumption Tax (TIC) receipts. In particular, the change in the latter reflects a 12.6 percent increase to MAD 15 billion in TIC on energy products. The improvement in VAT revenues stems from a 12.1 percent rise to 69.7 billion in import VAT revenues and a 13.2 percent rise to 34.7 billion in domestic VAT revenues.

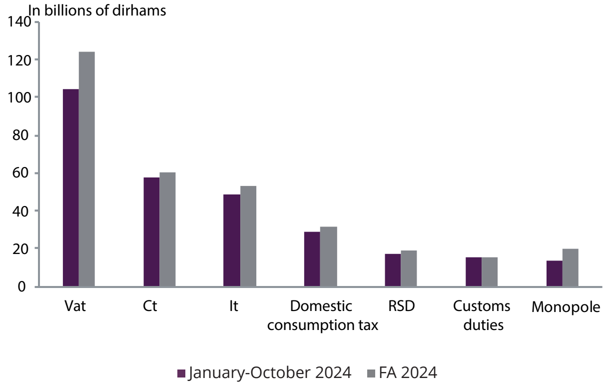
Table 4.1: Current revenues (in billions of dirhams)*

	Jan.-Oct. 2023	Jan.-Oct. 2024	Change in %	FA 2024	Actual rates against the FA (%)
Current revenues	281.9	320.4	13.6	371.7	86.2
Tax revenues	244.5	275.0	12.5	308.0	89.3
- Direct taxes	95.9	108.9	13.5	116.9	93.1
Including CT	50.6	57.1	12.8	59.9	95.4
I.T	42.5	48.3	13.8	52.7	91.6
- Indirect taxes	118.9	133.5	12.3	156.1	85.5
VAT*	92.8	104.3	12.4	124.2	84.0
DCT	26.1	29.1	11.8	31.9	91.3
- Customs duties	13.2	15.2	15.1	15.7	96.4
- Registration and stamp duties	16.5	17.5	6.0	19.3	90.9
Nontax revenues	34.0	41.4	21.6	60.3	68.7
- Monopoles and shareholdings	12.1	13.6	12.6	19.5	69.7
- Other receipts	22.0	27.8	26.5	40.8	68.2
Specific financing mechanisms	11.9	17.4	46.2	35.0	49.7
TSA revenues	3.4	3.9	17.2	3.5	113.8

* Taking into account 30 percent of the VAT transferred to local governments.
Sources: Ministry of Economy and Finance (DTFE) data, VAT restatement by BAM.

As for customs duties revenues, they rose by 15.1 percent to 15.2 billion, while registration and stamp duties revenues grew by 6 percent to 17.5 billion.

Chart 4.1: Main revenue results compared with the Finance Act



Sources: Ministry of Economy and Finance (TEFD), 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

The change in non-tax revenues reflects the collection of MAD 27.8 billion under the category of "other revenues", compared to 22 billion at end-October 2023, including 17.4 billion from innovative financing mechanisms. Revenues from public institutions and enterprises (EEP) amounted to 13.6 billion, up from 12.1 billion, primarily contributed by OCP at 5.8 billion (down from 7.4 billion) at end-October 2023, by ANCFCC at 3.3 billion (up from 2.5 billion), and by Bank Al-Maghrib at 2.8 billion, (after 791 million).

4.2 Expenditure

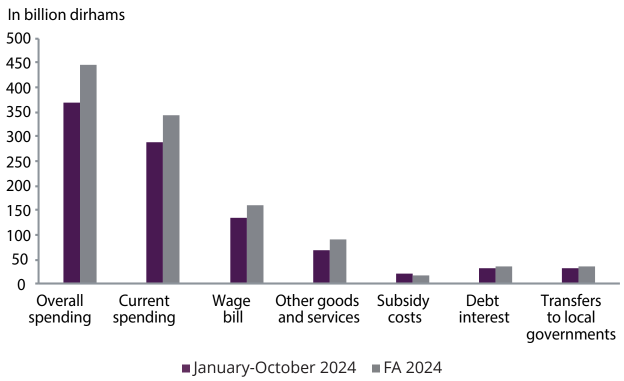
Overall expenditure rose by 7.4 percent to 367.5 billion as of end-October 2024, with increases of 6.8 percent to 288.1 billion for current expenditure and 9.9 percent to 79.4 billion for capital expenditure. As for spending on goods and services, it stood at 204.5 billion, up 8.8 percent, driven by a 7.6 percent growth to 135.2 billion in the wage bill and an 11.4 percent increase to 69.2 billion in expenditure on other goods and services. The latter incorporates transfers of 33.3 billion to the EEP and 10.8 billion to the special Treasury accounts, up by 0.8 billion and 2 billion respectively. In terms of payroll, the portion provided by the Staff Expenditure Department rose by 7.4 percent to 114.1 billion, reflecting increases of 5.9 percent in the structural component and 29.6 percent in back pays.

Table 4.2: Public expenditure execution (in billions of dirhams)*

	Jan.-Oct. 2023	Jan.-Oct. 2024	Change in %	LA 2024	Actual rates against the FA (%)
Overall spending	342.2	367.5	7.4	444.7	82.6
Current spending	269.9	288.1	6.8	344.3	83.7
Goods and services	187.8	204.5	8.8	252.8	80.9
Personal	125.7	135.2	7.6	161.6	83.7
Other goods and services	62.1	69.2	11.4	91.2	75.9
Debt interests	29.6	31.0	4.8	37.2	83.2
Subsidy	24.7	21.4	-13.2	17.0	126.2
Transfer to local governments	27.8	31.3	12.4	37.2	84.0
Investment	72.2	79.4	9.9	100.4	79.1

* Taking into account 30 percent of the VAT transferred to local governments.
Sources: Ministry of Economy and Finance (DTFE) data, VAT restatement by BAM.

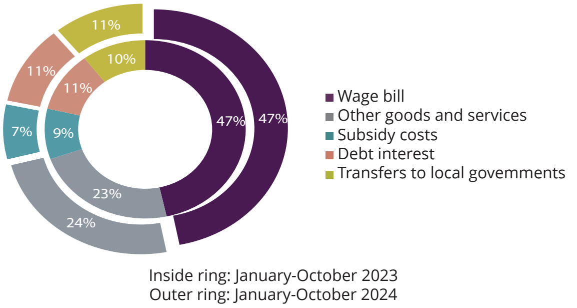
Chart 4.2: Spending execution compared to the FA



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

Interest expense on debt rose by 4.8 percent to 31 billion, including a 32.1 percent increase to 8.9 billion for foreign debt and a 3.4 percent decline to 22 billion for domestic debt.

Chart 4.3: Structure of current expenditure

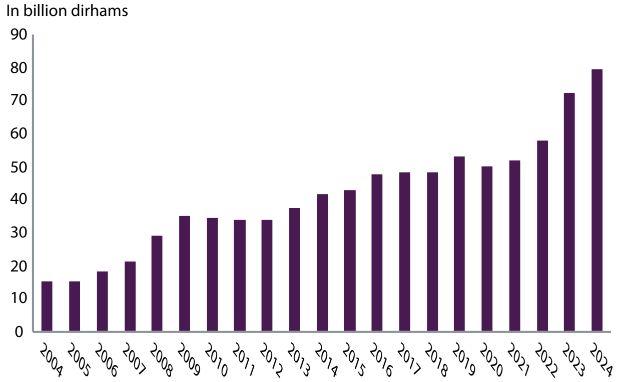


Sources: Ministry of Economy and Finance (DTFE) data, VAT restatement by BAM.

Subsidy costs declined by 13.2 percent to 21.4 billion, representing a budget execution rate of 126.2 percent. This change reflects decreases of 1.6 billion to 12.4 billion in the subsidy for butane gas, and of 1.6 billion to 1.9 billion in the subsidy for national soft wheat flour, while the sugar subsidy increased by 0.3 billion to 5.3 billion.The financial aid allocated to professionals in the road transport sector amounted to MAD 1.7 billion, after MAD 2 billion a year earlier. It is worth noting that the partial subsidy withdrawal of butane gas took effect on May 20, 2024, resulting in a reduction of 2.5 dirhams in the subsidy for the 3-kg cylinder and 10 dirhams for the 12-kg cylinder.

Capital expenditure, for its part, grew by 9.9 percent to 79.4 billion, representing an execution rate of 79.1 percent compared with the forecasts presented in the Finance Act. This includes a 9.2 percent increase to 45.2 billion in spending by the ministries.

Chart 4.4: Capital expenditure at end-October

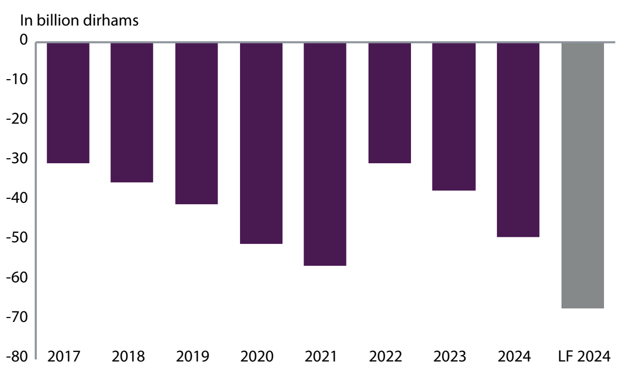


Source: Ministry of Economy and Finance (DTFE).

4.3 Treasury deficit and financing

Given the changes in revenue and expenditure, as well as in the balance of the special Treasury accounts, the Treasury's expenditures and resources position resulted in a widening of the budget deficit from 37.5 billion to 49 billion year-on-year. In addition, the Treasury reduced its stock of pending transactions by 5 billion, compared with 10.2 billion, thereby reducing the cash deficit to 54 billion, from 47.7 billion at end-October 2023.

Chart 4.5: Fiscal balance at end-October



Source: Ministry of Economy and Finance (DTFE).

In addition to MAD 1.7 billion[1] collected from the sale of government equity, the Treasury's financing requirement was covered by net domestic resources of MAD 46.8 billion and by a net positive external flow of MAD 5.5 billion. The latter includes gross drawings of 24.9 billion, compared with 39.3 billion a year earlier, with 13.5 billion drawn from the World Bank and 3.3 billion drawn from the IMF.

Table 4.3: Deficit financing (in billions of dirhams)

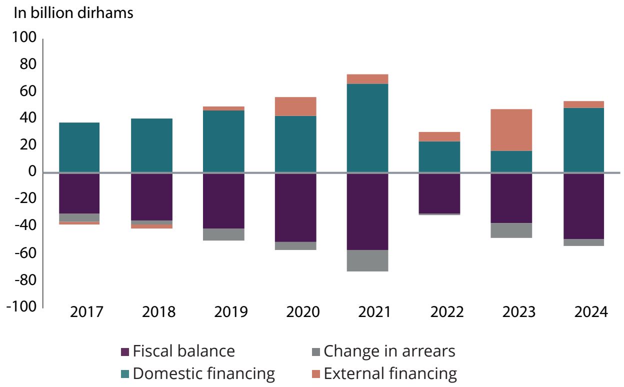
	Jan.-Oct. 2023	Jan.-Oct. 2024	FA 2024
Current balance	12.0	32.2	27.5
Balance of TSA	22.8	-1.8	6.0
Primary balance	-7.9	-18.1	-29.7
Fiscal balance	-37.5	-49.0	-67.0
Change in arrears	-10.2	-5.0	0.0
Financing requirements	-47.7	-54.0	-67.0
Domestic financing	16.7	46.8	10.8
External financing	31.0	5.5	51.1
Privatization	0.0	1.7	5.0

Sources: Ministry of Economy and Finance (DTFE).

As regards domestic financing, recourse to the auction market enabled the raising of a net amount of 57.9 billion, compared with 40.6 billion a year earlier. Net subscriptions concerned, in particular, 30-year bonds for 27.4 billion, 15-year bonds for 18.1 billion, 10-year bonds for 12.3 billion, 20-year bonds for 11.5 billion, 2-year bonds for 5.6 billion and 13-week bonds for 843 million. Concurrently, net redemptions amounted to 15.9 billion on 52-week bonds, 1.5 billion on 26-week bonds and 446 million on 5-year bonds.

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

Chart 4.6: Budget balance and financing at end-October*



* Privatization receipts, limited and discontinued over time, were included in domestic financing.
Source: Ministry of Economy and Finance (DTFE).

Regarding the Treasury's financing conditions on the auction market, data as of end-October indicate a decrease in weighted average rates compared with the same period in 2023. For medium and short-term maturities, decreases reached 74 bp to 3.25 percent for 5-year bonds, 61 bp to 3.08 percent for 2-year bonds, 52 bp to 2.84 percent for 52-week bonds, 39 bp to 2.76 percent for 26-week bonds and 27 bp to 2.72 percent for 13-week bonds. Similarly, for long-term maturities, rates declined by 87 bp for 20-year and 15-year bonds to 4.18 percent and 3.9 percent respectively, by 72 bp to 3.63 percent for 10-year bonds and by 70 bp to 4.77 percent for 30-year bonds.

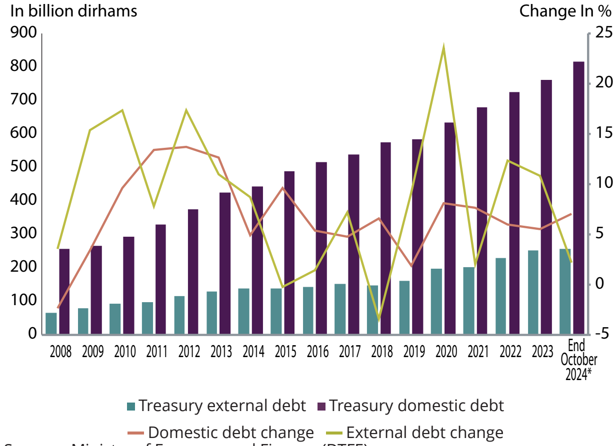
Table 4.4: Treasury indebtedness (in billions of dirhams)

	2019	2020	2021	2022	2023	End october 2024*
Treasury external debt	161.6	199.7	203.8	228.9	253.6	259.1
Change in %	9.2	23.6	2.0	12.3	10.8	2.2
Treasury domestic debt	585.7	632.9	681.5	722.9	763.0	816.7
Change in %	1.9	8.1	7.7	6.1	5.6	7.0
Outstanding direct debt	747.3	832.6	885.3	951.8	1016.7	1075.9
Change in %	3.4	11.4	6.3	7.5	6.8	5.8

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

Under these conditions, direct public debt is estimated to have risen by 5.8 percent at end-October 2024, compared with its level at end-December 2023, with increases of 7 percent in its domestic component and 2.2 percent in its foreign component.

Chart 4.7: Treasury indebtedness



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

5. DEMAND, SUPPLY AND LABOR MARKET

During the second quarter of 2024, economic growth stood at 2.4 percent down from 2.5 percent in the same quarter a year earlier. This change reflects a 4.5 percent decline, following a 1.5 percent increase, in agricultural value added, and an acceleration from 2.5 percent to 3.2 percent in the growth rate of non-agricultural value added. On the demand side, growth was driven by its domestic component, the contribution of which reached 5.2 percentage points, while the contribution of foreign trade in goods and services was negative at 2.9 percentage points.

Over the second half of the year, growth is expected to decelerate to an average of 2.8 percent, following 3.6 percent during the same period in 2023. Non-agricultural value added is projected to improve by 3.5 percent, following 3.7 percent, primarily driven by the momentum in activities related to tourism and nonmarket sectors; while agricultural value added is expected to post a 4.4 percent decrease, instead of a 0.9 percent increase a year earlier. Over the whole year, growth is projected to slow to 2.6 percent, following 3.4 percent in 2023.

On the labor market, national economy created –between the third quarter of 2023 and the same period of 2024– 213,000 jobs. Except for agriculture, which posted a further loss of 124,000 jobs, the remaining sectors recorded job creations amounting to 258,000 jobs in services, 57,000 jobs in construction, and 23,000 in industry including crafts. Considering a net entry of 271,000 labor force participants, labor force participation rate grew by 0.4 point to 43.6 percent and unemployment rate increased by 0.1 point to 13.6 percent at national level, due to a 0.4 percent increase to 7.4 percent in rural areas and to a stabilization at 17 percent in urban areas.

5.1 Domestic demand

5.1.1 Consumption

In the second quarter of 2024, household consumption improved by 3.1 percent, following 0.6 percent a year earlier. Its contribution to growth increased by 0.4 point to 1.7 percentage point.

The outlook for the second half of 2024 suggests a continuation of this progression at a rate higher than its long-term trend, namely 3 percent. This growth is expected to be supported by moderating inflation, remittances and rising non-agricultural income.

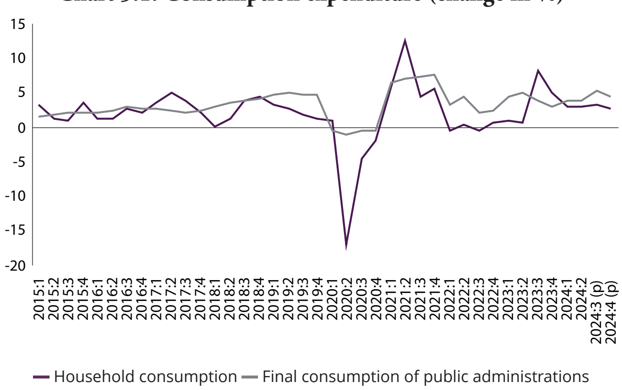
For the year 2024 as a whole, household consumption is expected to increase by 3 percent, after 3.7 percent in 2023.

As regards general government final consumption, its pace is estimated to have decelerated from 4.9 percent to 3.8 percent in the second quarter, and its contribution to growth stood at 0.7 point.

In the second half of 2024, it is projected to accelerate to 4.8 percent, following 3.5 percent in the same period a year earlier, reflecting a rise in transfers to local governments and personnel expenses.

Overall, it is expected to average 4.3 percent in 2024, following 4.1 percent in 2023.

Chart 5.1: Consumption expenditure (change in %)



Sources: HCP data and BAM forecasts.

5.1.2 Investment

In the second quarter of 2024, Investment recorded an 8.9 percent rebound, following a 4.2 percent contraction, and its contribution to growth stood at +2.7 percentage points, instead of a negative contribution of 1.4 percentage points.

Over the second half of 2024, investment is expected to maintain this momentum, with a 5.5 percent growth. This improvement is chiefly supported by the 22.4 percent rise in imports of capital goods, the 18.9 percent increase in cement sales, as well as the rise in the capacity utilization rate to 77.1 percent.

Furthermore, according to the quarterly results of Bank Al-Maghrib's business outlook survey for the for the third quarter of 2024, 72 percent of companies described the business climate as "normal", while 19 percent rated it as "unfavorable".

For the year 2024 as a whole, the pace of investment is estimated to have accelerated from 6.1 percent to 1.5 percent in 2023.

5.2 Foreign demand

In the second quarter of 2024, net exports of goods and services in volume terms made a negative contribution to growth of 2.9 points, following a positive contribution of 2.5 points a year earlier. The growth rate accelerated from 0.2 percent to 12.9 percent for imports and from 5.5 percent to 7.8 percent for exports.

In the second half of this year, export growth is projected to rise from 6.3 percent to 8.7 percent, driven by a relative improvement in foreign demand, particularly for phosphates and derivatives. Concurrently, import growth is expected to ease from 10.5 percent to 10.2 percent.

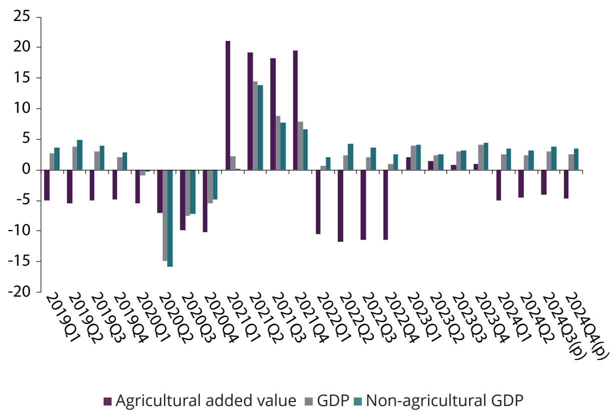
For the year 2024 as a whole, foreign trade, in volume terms, is expected to once again make a negative contribution to growth of 2.1 point, following 0.2 point. The growth rate of exports in goods and services is projected to slow from 8.8 percent to 8.1 percent, while that of imports is expected to accelerate from 7.4 percent to 10.7 percent.

5.3 Overall supply

In the second quarter of 2024, GDP grew by 2.4 percent, after 2.5 percent a year earlier. This change reflects a 4.5 percent contraction, following a 1.5 percent rise, in agricultural value added, and a 3.2 percent improvement in non-agricultural value added, following of 2.5 percent.

In the second quarter, growth is projected to decelerate to 2.8 percent on average, following 3.6 percent a year earlier. Agricultural value added is expected to post a 4.4 percent decrease, instead of a 0.9 percent increase, while non-agricultural value added is projected to grow by 3.5 percent, following 3.7 percent.

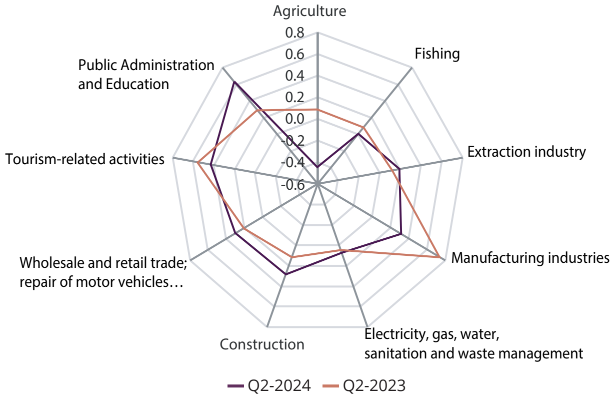
Chart 5.2: GDP by component (at previous year's prices, change in %, year-on-year, base 2014)



Sources: HCP data and BAM forecasts.

For the secondary sector, value added is projected to increase by 3.6 percent on average in the second quarter, mainly reflecting a 2.3 percent rise in the processing industry and a 5 percent increase in construction.

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



Sources: HCP data and BAM forecasts.

In the tertiary sector, activity is projected to improve by an average of 3.5 percent, compared to 3.4 percent during the same period a year earlier. Specifically, value added is expected to grow by 2.9 percent, up from 1.8 percent, in trade, and by 7.5 percent, down from 10.4 percent, in the accommodation and catering sector. Similarly, the "General government and defense, compulsory social security" and "Education, human health, and social action activities" sectors are expected to improve, driven by the wage increases agreed upon as part of the social dialogue.

Overall, growth is expected to average 2.6 percent for the year as a whole, following 3.4 percent in 2023.

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the third quarter of 2023 and the same period in 2024, the labor market situation was marked by a 2.2 percent rise in the number of labor force participants aged 15 and over to 12.3 million people. This development covers a 3.5 percent increase in urban areas and a stagnation in rural areas.

Considering the change in the working-age population, the participation rate rose by 0.4 points to 43.6 percent nationwide and by 0.6 points to 42.5 percent in urban areas, while it contracted by 0.1 points to 45.7 percent in rural areas.

Concurrently, the national economy created 213,000 jobs between the third quarter of 2023 and the same period in 2024, exclusively in urban areas, following a loss of 297,000 jobs a year earlier. Under these conditions, the employed population grew by 2 percent to almost 10.7 million, and the employment rate by 0.2 points to 37.6 percent. Excluding agriculture, which posted a further decline of 124,000 jobs, the other sectors posted job creation of 258,000 in services, 57,000 in construction and 23,000 in industry, including crafts.

5.4.2 Unemployment and underemployment

The unemployed population increased by 3.6 percent year-on-year to almost 1.7 million. Considering the change in the labor force, the unemployment rate rose from 13.5 percent to 13.6 percent overall, and from 7 percent to 7.4 percent in rural areas, while it stagnated at 17 percent in urban areas. For young people aged 15 to 24, in particular, the rate continued to rise, up by 1.3 points to 39.5 percent nationwide, by 1.4 points to 24.7 percent in rural areas and by 0.6 points to 50.3 percent in urban areas.

Concurrently, the labor market situation was marked by an increase in underemployment[1], from 9.6 percent to 10 percent.

5.4.3 Productivity and wages

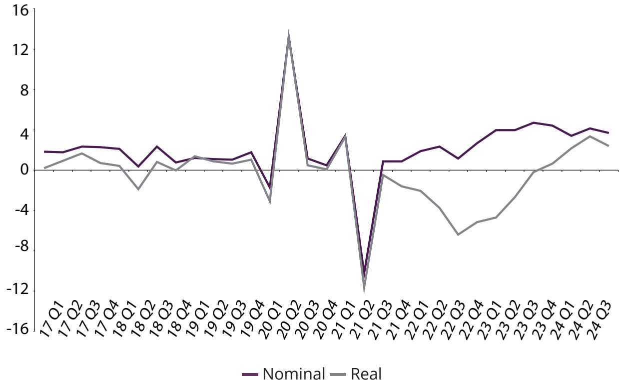
In non-agricultural activities, apparent labor productivity, as measured by the ratio of value added to employment, is estimated to have declined by 0.5 percent in the third quarter of 2024, following

1 The underemployed population consists of persons who worked: i) fewer than 48 hours during the reference week but are willing and available to work additional hours, or ii) more than the established threshold and are seeking another job or willing to change jobs due to an inadequacy with their training or qualifications, or insufficient income.

a 3.1 percent increase a year earlier. This change mainly reflects a 3.8 percent increase in value added, following 3.1 percent, and a 4.4 percent rise in the number of people employed.

The average wage, calculated based on CNSS data as the ratio of the wage bill to the number of people employed, rose, in nominal terms, by 3.7 percent in the third quarter, after 4.7 percent a year earlier, while it increased, in real terms, by 2.4 percent following a 0.2 percent fall.

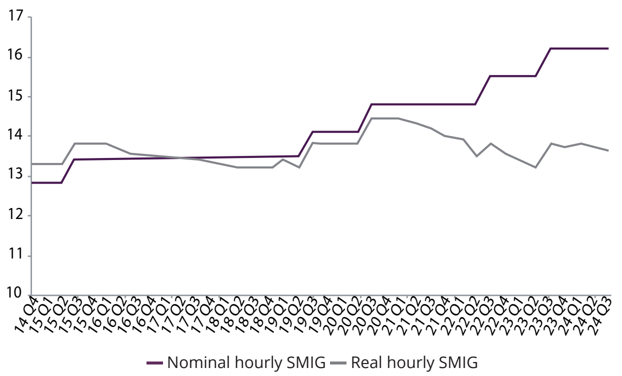
Chart 5.4: Private sector average wage index (YoY change in %)



Sources: CNSS data and BAM calculations.

As regards the hourly minimum wage, it stood at MAD 16.29 in the third quarter of 2024, the same level recorded over the same period last year. Considering a 1.3 percent rise in the consumer price index, it declined by 1.3 percent in real terms.

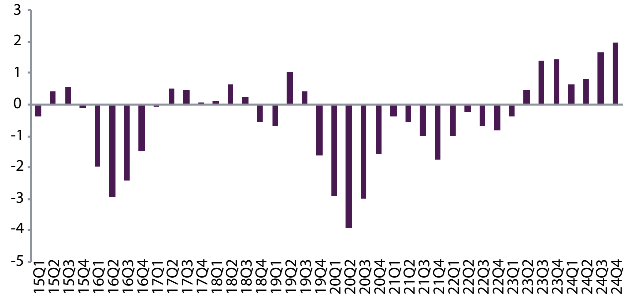
Chart 5.5: hourly minimum wages in nominal and real terms (in MAD)



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

Overall, the output gap is expected to remain positive over the second quarter 2024.

Chart 5.6: overall output gap (in %)



Source: BAM estimates.

Table 5.1: main labor market indicators

		Q3 2023	Q3 2024
Participation rate (%)		43.2	43.6
Urban		41.9	42.5
Rural		45.8	45.7
Unemployment rate (%)		13.5	13.6
Youth aged 15 to 24 years old		38.2	39.5
Urban		17.0	17.0
Youth aged 15 to 24 years old		49.7	50.3
Rural		7.0	7.4
Job creation (in thousands)		-297	213
Urban		-29	231
Rural		-269	-17
Sectors			
- Agriculture, forest and fishing		-297	-124
- Industry including handicraft		14	23
- Construction		-2	57
- Services		-15	258
Nonagricultural apparent productivity (change in %)		3.1	-0.5
Average wage index (change in %)	Nominal	4.7	3.7
	Real	-0.2	2.4

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

As forecast in last September's Monetary Policy Report, inflation accelerated from 0.8 percent in the second quarter to 1.3 percent in the third quarter. It then slowed to 0.7 percent in October, bringing its average for the first 10 months of the year to 1.1 percent. This deceleration largely reflects the sharper decline in the prices of volatile food products, from 1.1 percent to 3.5 percent, and in those of fuels and lubricants from 2.8 percent to 15.2 percent. However, core inflation posted a slight acceleration, while remaining at a moderate level, standing at 2.2 percent in October, following 2.1 percent on average in the third quarter.

In the fourth quarter of 2024, inflation is expected to decline to 0.8 percent, with its average for the entire year standing at 1 percent. Its core component, for its part, is expected to increase to 2.3 percent, ending the year with an average rate of 2.2 percent.

6.1 Inflation trends

After averaging 1.3 percent during the third quarter, inflation decreased to 0.7 percent in October, and its average for the first 10 months of the year stood at 1.1 percent. This deceleration concerned the prices of volatile food products, as well as those of fuels and lubricants. As for core inflation, it posted a slight acceleration, from 2.1 percent to 2.2 percent.

6.1.1. Prices of goods excluded from core inflation

In October, prices of volatile food products recorded a monthly decline of 2.7 percent, primarily driven by price decreases of 8.6 percent for "poultry and rabbit", 5.8 percent for "fresh fruit" and 1.1% for "eggs", which more than offset the 2.2 percent rise in "fresh vegetables".

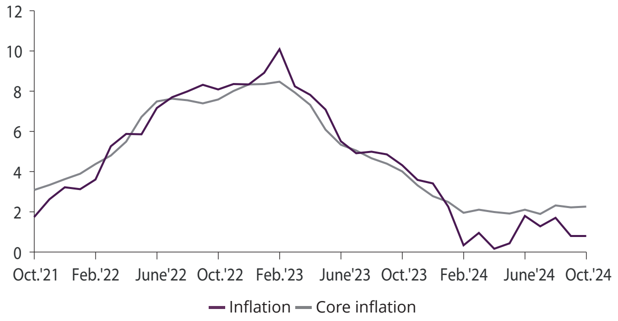
Year-on-year, the prices of these products posted a further decline, decreasing by 3.5 percent in October, following an average of 1.1 percent between July and September. As a result, they continue make a negative contribution to inflation, at 0.5 percentage points, compared to 0.2 percentage points.

Table 6.1: Inflation and its components

(In %)	Monthly change			YoY change		
	Aug. 24	sept. 24	oct. 24	Aug. 24	sept. 24	oct. 24
Inflation	0.8	0.0	-0.3	1.7	0.8	0.7
- Volatile food prices	5.1	-0.8	-2.7	1.2	-2.2	-3.5
- Regulated products	0.0	0.0	0.0	1.9	1.9	1.9
- Fuels and lubricants	-1.8	-3.2	-3.1	-2.4	-10.8	-15.2
Core inflation	0.2	0.4	0.3	2.3	2.2	2.2
Food products	0.3	0.3	0.5	3.4	3.0	3.0
- Clothing and footwear	0.0	0.3	0.2	1.9	2.0	2.0
- Housing, water, gas, electricity and other fuels[1]	0.0	0.0	0.0	1.2	1.0	1.0
- Furniture, household equipment and routine house maintenance	0.1	0.0	0.1	0.6	0.4	0.4
- Health[1]	-0.3	-0.5	0.8	0.2	-0.3	0.3
- Transportation[2]	0.9	0.1	0.4	2.3	2.9	3.8
- Communication	0.0	-0.1	0.0	-0.1	-0.2	-0.2
- Entertainment and culture[1]	0.0	-0.3	0.0	0.0	-0.1	-0.3
- Education	0.0	2.2	0.1	2.1	2.6	2.3
- Restaurants and hotels	1.1	0.0	0.2	3.5	3.5	3.6
- Miscellaneous goods and services[1]	0.1	0.2	0.2	2.2	2.2	2.4

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

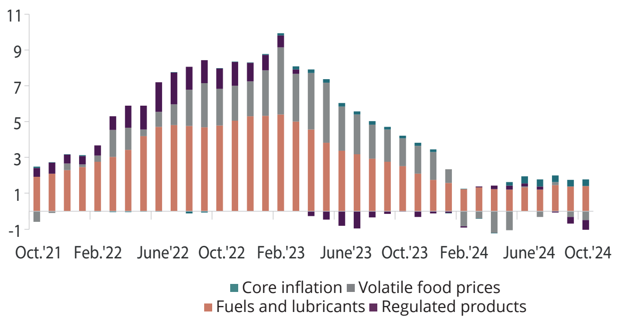
Chart 6.1: Inflation and core inflation, (YoY, %)



Sources: HCP and BAM calculations.

As for regulated tariffs, they continue to reflect the effect of the increase in butane gas prices implemented last May, therefore posting an annual rise of 1.9% in October, a rate unchanged from that recorded in the third quarter. Their contribution to inflation stood at 0.4 percentage points, on a par with the previous quarter.

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

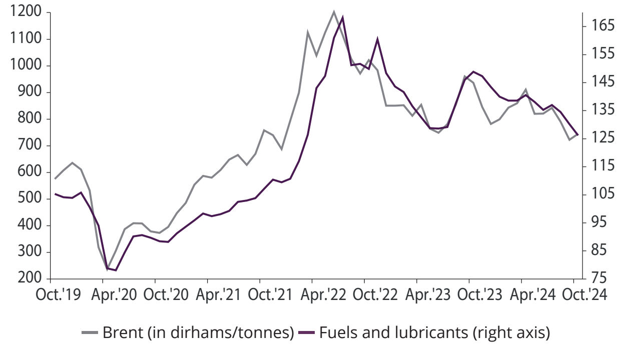


Sources: HCP and BAM calculations.

Fuels and lubricant prices further declined, down from 2.8 percent in the third quarter to 15.2 percent in October, against a backdrop marked by decreasing international oil product prices. In particular, the price of Brent crude fell from USD 80.2/bbl on average in the second quarter to USD 75.7/bbl on average in October, a decline of 5.6 percent.

In terms of contribution to inflation, the price of these products accounted for -0.5 percentage point in October, instead of 0.1 in the previous quarter.

Chart 6.3: Brent crude prices and price index of fuels and lubricants (base 100 in 2017)



Sources: World Bank, HCP, and BAM calculations.

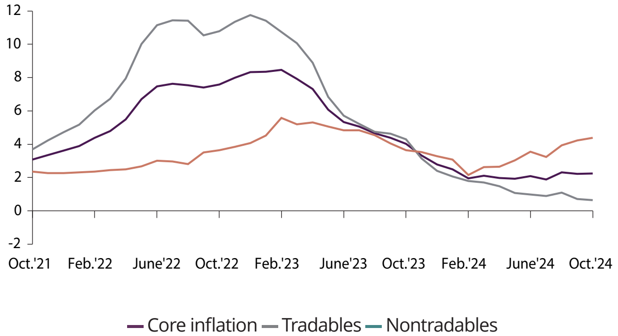
6.1.2. Core inflation

After remaining at a moderate level of around 2.1 percent over the first 3 quarters of the year, core inflation posted a slight acceleration to 2.2 percent in October. This change mainly reflects the accentuation of the growth rate of its non-food component from 1.6 percent to 1.7 percent, with, in particular, price increases of 3.8 percent, up from 2.2 percent, for “transport[1]”, 2.4 percent, up from 2.1 percent, for “miscellaneous goods and services”, and 3.6 percent, up from 3.4 percent, for “restaurants and hotels”.

The increase in the growth rate of prices also affected, albeit to a lesser extent, the food component of core inflation, which was mainly driven by the increases in prices of “fresh meats” from 12.4 to 15.6 percent.

1 Excluding regulated products

Chart 6.4: Change in the price indexes of tradables and nontradables (YoY)



Sources: HCP, and BAM calculations.

The breakdown of the products included in the core inflation basket into tradable and non-tradable products shows that the acceleration in the underlying price trend in October solely reflects that of its non-tradable component.

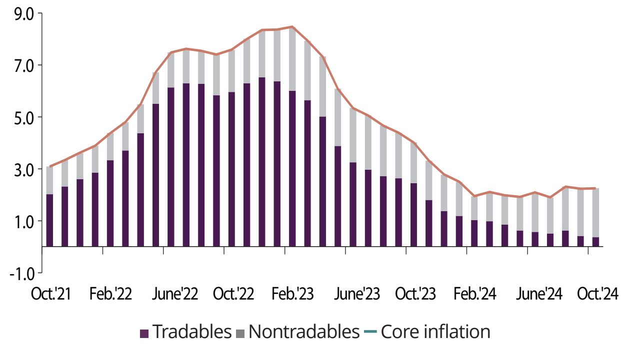
Table 6.2: Change in the price indexes of tradables and nontradables

	Monthly change			YoY change		
	Aug. 24	sept. 24	oct. 24	Aug. 24	sept. 24	oct. 24
Tradables	0.2	0.0	0.3	1.1	0.7	0.6
Nontradables	0.3	0.7	0.3	3.9	4.2	4.4
Core inflation	0.2	0.4	0.3	2.3	2.2	2.2

Sources: HCP, and BAM calculations.

Indeed, prices of the non-tradable component grew by 4.4 percent in October, compared to an average of 3.8 percent in the third quarter, mainly reflecting a 15.6 percent rise, after 12.4 percent, in the prices of "fresh meats". Excluding the latter, growth in prices for the remaining non-tradable goods is estimated to have remained stable at 1.9 percent in the third quarter and October.

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



Sources: HCP, and BAM calculations.

In contrast, the increase in prices of tradable goods and services eased to 0.6 percent in October, down from 0.9 percent, in the third quarter, in line with the further decline of inflation in the euro area Morocco's main trading partner, from an average of 2.2 percent in the third quarter of 2024 to 2 percent in October, as well as with a 1.1 percent appreciation of the dirham's effective exchange rate[2] between October and the third quarter.

6.2 Short-term outlook for inflation

Over the fourth quarter of 2024, inflation is forecast to ease to 0.8 percent after 1.3 percent in the previous quarter, bringing its yearly average to 1 percent. This slight slowdown is likely to be exclusively linked to the expected further decline in the prices of fuels and lubricants from 2.8 percent to 12.4 percent, reflecting the change in international oil products prices.

However, considering the actual outcome for the month of October, available data regarding wholesale market prices, as well as their seasonal profile, prices for volatile food products are expected

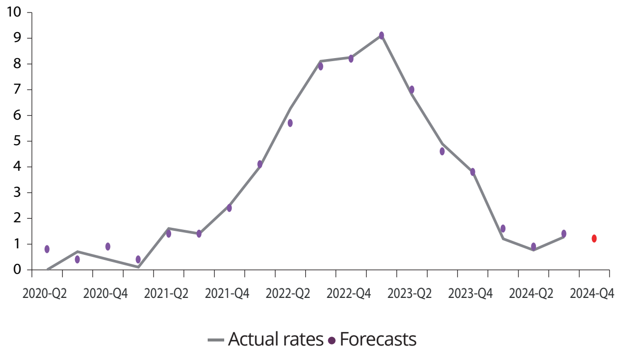
2 This is the exchange rate calculated by the IMF.

to post a year-on-year decline of 0.6 percent in the fourth quarter, following 1.1 percent on average in the third quarter.

Furthermore, the core inflation indicator is projected to accelerate to 2.3 percent after 2.1 percent a quarter earlier.

For their part, in the absence of any relevant government decisions, regulated tariffs are projected to grow at virtually the same pace as in the third quarter, namely, at 2 percent.

Chart 6.6: Inflation short-term forecasts and actual rates

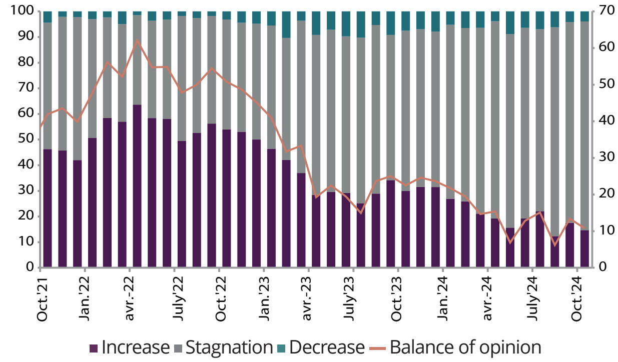


Sources: HCP data, and BAM calculations.

6.3 Inflation expectations

The results of Bank Al-Maghrib's Business Outlook Survey among manufacturers for October 2024 show that 81 percent of respondents expect inflation to remain stable over the next three months, 15 percent expect an increase, while 4 percent anticipate a decrease. The opinion balance thus stands at 11 percent.

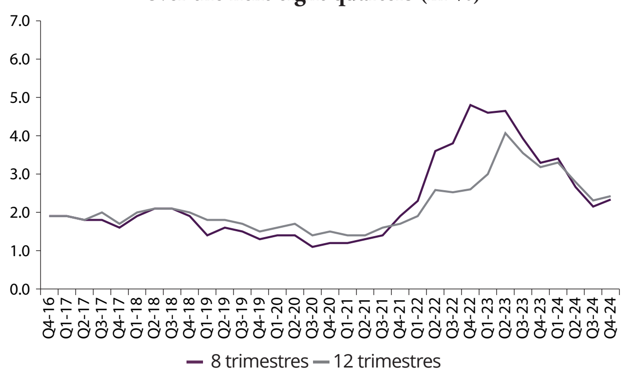
Chart 6.7: Business leaders' expectations for inflation over the next three month (in %)



Source: BAM monthly business survey.

Furthermore, the results of Bank Al-Maghrib's survey on inflation expectations, conducted among financial sector experts for the fourth quarter of 2024, show that their expectations remain virtually unchanged. Indeed, they expect inflation to average 2.3 percent over the next eight quarters, compared to 2.2 percent a quarter earlier. Similarly, they expect it to stand at 2.4 percent over the next 12 quarters, up from 2.3 percent.

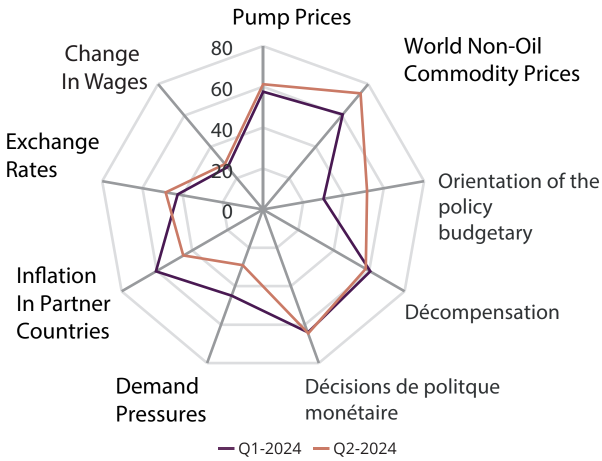
Chart 6.8: Inflation expectations by financial sector experts over the next eight quarters (in %)



Source: BAM's Quarterly Inflation Expectations Survey.

Respondents estimate that the changes in inflation over the next eight quarters will primarily depend on global non-oil commodity prices, monetary policy decisions, pump prices, and the continuation of the subsidy withdrawal.

Chart 6.9: Determinants of the future evolution of inflation according to financial sector experts



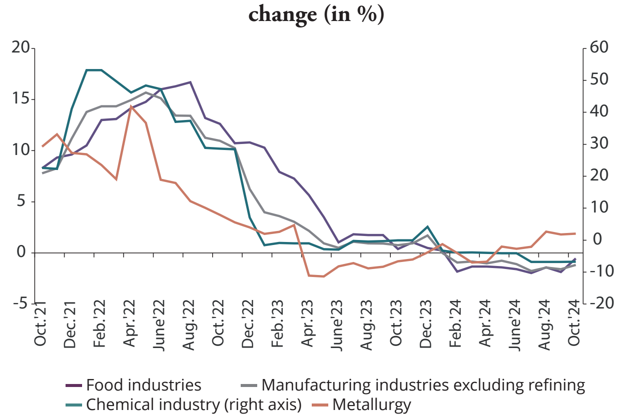
Source: BAM Quarterly Inflation Expectations Survey.

6.4 Producer prices

Producer prices in manufacturing industries, excluding oil refining, posted a monthly increase of 0.2 percent in October. This increase was mainly driven by a 0.4 percent rise in producer prices in "food industries" and in the "clothing industry", as well as a 0.1 percent rise in the "textile manufacturing" sector.

In annual comparison, the decrease in producer prices excluding oil refining eased from 1.6 percent in September to 1.2 percent in October, then to an average of 1.1 percent over the first 10 months of the year.

Chart 6.10: Main industrial producer price indices, YoY change (in %)



Source: HCP.

7. MEDIUM-TERM OUTLOOK

Summary

The world economy has demonstrated relative resilience, but its outlook remains uncertain and generally tending towards deceleration. Growth is set to fall from 3.2 percent this year to 2.9 percent in 2025 and 2.8 percent in 2026. In the advanced economies, growth would end the year at 2.7 percent in the United States, buoyed by robust private consumption, before returning to 1.6 percent in 2025 and 1.7 percent in 2026. In the euro area, it would remain weak at 0.8 percent in 2024, before accelerating to 1.3 percent in 2025 and 2026. In the UK, GDP is forecast to grow by 0.9 percent in real terms this year, 1.4 percent in 2025 and 1.2 percent in 2026, while in Japan the economy is expected to contract by 0.3 percent, before expanding by 1 percent and 0.6 percent respectively.

As for the main emerging economies, growth is set to slow in China to 4.8 percent this year, 4.7 percent in 2025 and 4.3 percent in 2026, suffering in particular from structural difficulties and the expected impact of the new US administration's trade policy. On the other hand, the Indian economy is expected to remain vigorous in the medium term, with growth rates close to 7 percent, benefiting from the momentum of public investment in infrastructure. In Brazil, growth is expected to reach 3.3 percent this year, driven namely by robust domestic demand and an expansionary fiscal policy, before declining to 2.1 percent in 2025 and to 0.9 percent in 2026. In Russia, the economy would expand by 3.9 percent in 2024, driven by strong domestic demand, before slowing to 1 percent in 2025 and 0.6 percent in 2026, as the effect of the fiscal stimulus wears off and monetary conditions tighten.

On the commodities markets, the price of Brent crude is expected to continue its downward trend over the forecast horizon, falling to $79.8 this year, $74.5 in 2025 and $69.1 in 2026. Coal prices will continue to fall in 2024, before recovering in 2025 and 2026. As for natural gas, the World Bank's October projections for the European market point to a contraction in prices in 2024 before a slight increase in 2025 and 2026.

As for Moroccan phosphate and derivatives, CRU1 expects crude oil prices to fall over the forecast horizon, while DAP and TSP prices are expected to remain virtually stable this year, before rising to reach USD 613/t and USD 486/t respectively in 2026. For foodstuffs, following the 13.8 percent decline recorded in 2023, the FAO index is set to fall by 2.1 percent in 2024, followed by rises of 4.5 percent in 2025 and 1.2 percent in 2026.

Overall, inflationary pressures are expected to continue to ease over the forecast horizon, particularly in the United States and the euro area, although there are upside risks in the medium term due to the policies envisaged by the new US administration. Against this backdrop, the Fed decided at its meeting on 6 and 7 November to cut the target range for the federal funds rate by 25 basis points to [4.5 percent-4.75 percent]. Similarly, the ECB decided, on December 12, to cut the interest rate on its deposit facility by 25 basis points to 3 percent. The Bank of England cut its key rate by 25 basis points to 4.75 percent on 7 November.

1 Commodities Research Unit

At the national level, 2024 was marked by a recovery in foreign trade in goods, with a 5.5 percent increase in exports and a 4.6 percent rise in imports, and a continued good performance by travel receipts and remittances. The current account deficit would end the year at 1 percent of GDP, after 0.6 percent in 2023. In addition, FDI receipts would increase to the equivalent of 2.7 percent of GDP, compared with 2.4 percent in 2023.

In the medium term, trade would continue to improve. Thus, buoyed by the expected dynamism of the automotive and phosphates sectors, exports would improve by 7.5 percent in 2025 and 8.9 percent in 2026. Imports, on the other hand, are expected to grow by 7.9 percent and 6 percent in 2025 and 2026 respectively, driven in particular by increased purchases of capital goods. At the same time, travel receipts would increase by 6.6 percent in 2025 and 4.9 percent in 2026 to 127.7 billion. Remittances are expected to increase by almost 3 percent annually, reaching 127.8 billion by 2026. These trends would cause the current account deficit to widen to 1.8 percent of GDP in 2025, before falling back to 1.5 percent in 2026. FDI receipts would be equivalent to 3 percent of GDP in 2025 and 3.3 percent in 2026.

Assuming the materialization of the planned external financing, official reserve assets would increase to 375.6 billion dirhams by the end of 2024, 387.8 billion dirhams by the end of 2025 and 400.2 billion dirhams by the end of 2026, representing cover for 5 months and 8 days, 5 months and 3 days and 5 months and 8 days of imports of goods and services respectively.

With regard to monetary conditions, after the slowdown recorded in 2023, growth in bank credit to the non-financial sector would accelerate to 3.8 percent in 2024, 4.2 percent in 2025 and 5.5 percent in 2026. The real effective exchange rate would continue to rise in 2024 and 2025, before depreciating in 2026.

In terms of public finances, the budget deficit, excluding the proceeds from the sale of State holdings, would stand at 4.5 percent of GDP in 2024 and 4.2 percent of GDP in 2025, before falling back to 3.9 percent of GDP in 2026. These forecasts take into account the data in the 2025 Finance Act and the three-year budget programme (PBT) for 2025-2027.

After accelerating to 3.4 percent in 2023, economic growth is expected to slow to 2.6 percent this year, reflecting a 4.6 percent fall in agricultural value added and a 3.5 percent increase in non-agricultural value added. In the medium term, growth is set to consolidate at 3.9 percent in 2025 and 2026, reflecting the continued improvement in the pace of non-agricultural activities and a return to average cereal crop years of 50 MQx. On the demand side, this development would be driven mainly by the domestic component, while the negative contribution to growth from net exports, in volume terms, would diminish.

Against this backdrop, following the rates of 6.6 percent in 2022 and 6.1 percent in 2023, inflation is set to slow sharply, returning to 1 percent in 2024 before settling at 2.4 percent in 2025 and 1.8 percent in 2026. Its underlying component would slow from 5.6 percent in 2023 to 2.1 percent in 2024, 2 percent in 2025 and 1.8 percent in 2026.

7.1 Underlying assumptions

Deceleration in global economic activity over the forecast horizon

The global economy has shown relative resilience, but its outlook remains uncertain and is broadly decelerating. Growth is expected to fall from 3.2 percent this year to 2.9 percent in 2025 and 2.8 percent in 2026.

In the United States, growth would reach 2.7 percent in 2024 thanks to robust private consumption, before settling to 1.6 percent in 2025 and 1.7 percent in 2026, with the uncertainties linked to the next administration's trade and budgetary policies weighing on this outlook. In the euro area, growth would be limited to 0.8 percent in 2024, held back mainly by persistent difficulties in the manufacturing sector and weak domestic demand. It would accelerate to 1.3 percent in 2025 and remain at this rate in 2026, supported by the weakening of the euro, which would boost exports, and the recovery in private consumption. In the United Kingdom, growth is expected to improve to 0.9 percent this year, boosted in particular by buoyant public and private consumption, before rising to 1.4 percent in 2025 and 1.2 percent in 2026, under the effect of an expansionary fiscal policy. As for Japan, the economy is set to contract by 0.3 percent in 2024, mainly due to a fall in exports, before growing by 1 percent in 2025 and then slowing again to 0.6 percent in 2026, reflecting structural difficulties, notably low productivity, an ageing population and a high level of debt.

Among the major emerging economies, despite monetary and fiscal measures to stimulate the economy, growth in China is expected to slow to 4.8 percent this year, mainly due to weak domestic demand. The medium-term outlook remains hampered by the country's structural challenges, such as persistent difficulties in the property sector, indebtedness and demographic problems, combined with the expected impact of trade tensions with the United States, with growth of 4.7 percent in 2025 and 4.3 percent in 2026. In India, economic activity is expected to remain vigorous, albeit at a slower pace, with growth of 6.9 percent in 2024, 7 percent in 2025 and 6.6 percent in 2026, driven by strong public investment in infrastructure.

In Brazil, the economy is expected to grow by 3.3 percent this year, supported by robust domestic demand and an expansionary fiscal policy, before falling back to 2.1 percent in 2025 and 0.9 percent in 2026 as the fiscal stimulus fades and high interest rates weigh on the economy. In Russia, growth is expected to remain robust, reaching 3.9 percent in 2024, driven by strong domestic demand. However, growth is expected to slow to 1 percent in 2025 and 0.2 percent in 2026, mainly due to the fading of the fiscal stimulus and the tightening of monetary conditions.

Chart 7.1: Growth in the euro area

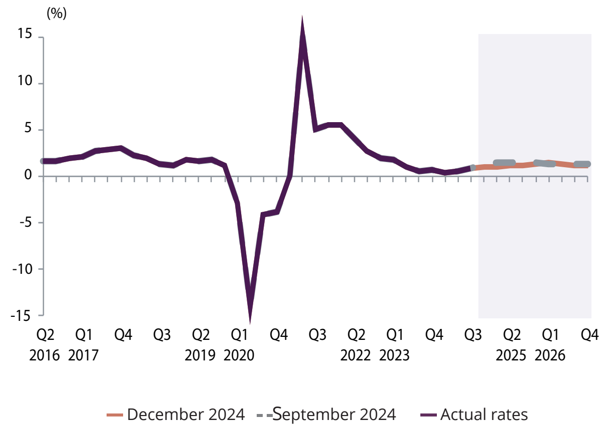
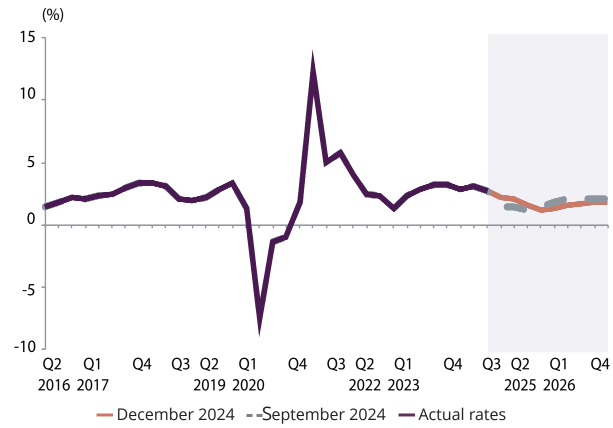


Chart 7.2: Growth in the USA



Source: GPMN, November 2024.

Oil prices on a downward trend and global inflation slowing against a backdrop of uncertainty

On the commodities market, the price of Brent crude is expected to continue its downward trend, falling to 79.8 dollars this year, 74.5 dollars in 2025 and 69.1 dollars in 2026, thanks in particular to abundant supply in non-OPEC+ countries, especially the United States. Coal prices are expected to continue the decline that began in 2023, with an average price of 112.7 dollars per tonne in 2024, due to reduced demand and increased renewable energy production. It would then recover to 120.2 dollars /t in 2025 and 121.7 dollars/t in 2026. Similarly, according to the World Bank's projections of October 2024, the price of natural gas on the European market Would fall this year to 10.8 dollars/mmbtu, before settling at an average of 11 dollars between 2025 and 2026.

With regard to phosphates and derivatives, the fall in phosphate derivatives prices in 2023, attributable in particular to lower input prices, would continue in 2024, before picking up again in 2025. Rock prices, on the other hand, are expected to continue their downward trend. Under these conditions, according to CRU, prices for derivatives of Moroccan origin would remain virtually stable this year at 586 dollars/t for DAP and 443 dollars/t for TSP. Prices would then rise, reaching 599 dollars/t in 2025 and 613 dollars/t in 2026 for DAP, and 469 dollars/t and then 486 dollars/t for TSP. As for Moroccan raw phosphate, the price is set to fall from 265 dollars/t in 2023 to 223 dollars /t in 2024, 196 dollars/t in 2025 and 187 dollars/t in 2026.

As for food prices, following the 13.8 percent contraction in 2023, the FAO index is expected to fall by 2.1 percent in 2024, before rising by 4.5 percent in 2025 and 1.2 percent in 2026. According to the World Bank's projections of October 2024, the price of US durum wheat in particular is set to contract by 20.7 percent this year and by 1.9 percent in 2025, before rising by 1.1 percent in 2026.

Under these conditions, global inflation would continue its downward trend, falling to 3.7 percent this year and 3.2 percent in 2025, before remaining at this level in 2026 as a result of the trade tensions expected to arise from the policies of the new US administration. In the euro area, growth is expected to fall to 2.3 percent this year and 2 percent in 2025, mainly as a result of lower energy prices, before accelerating slightly to 2.2 percent in 2026 as a result of the expected depreciation of the euro and disruptions to global supply chains. Similarly, in the US, growth is expected to moderate from 4.1 percent in 2023 to 2.9 percent in 2024 and 2.6 percent in 2025, before accelerating to 2.9 percent in 2026, as the combination of higher tariffs, expansionary fiscal policy and labour market disruptions would exert inflationary pressure on the US economy. In China, inflation is expected to remain low at 0.4 percent in 2024 before accelerating to 1 percent in 2025 and 1.8 percent in 2026, reflecting in particular the expected rise in food prices.

Chart 7.3: Price of brent

Chart 7.4: FAO food price index (2014-2016=100)

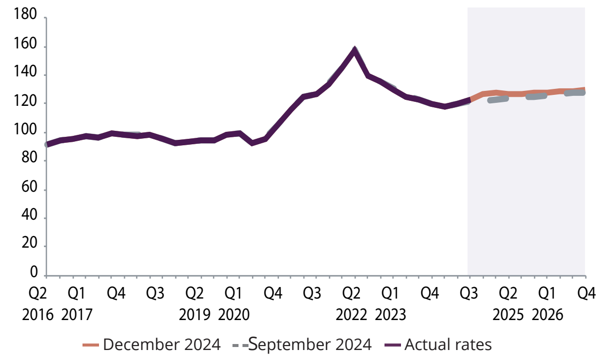


Chart 7.5: Inflation in the euro area

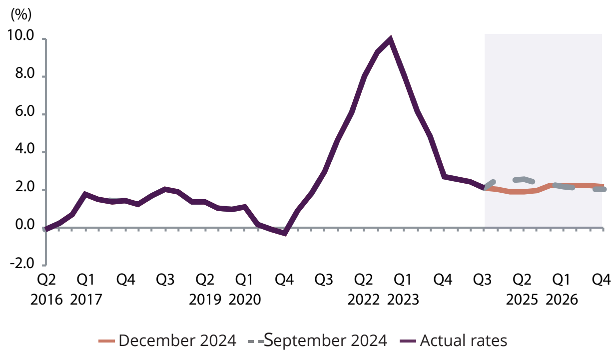
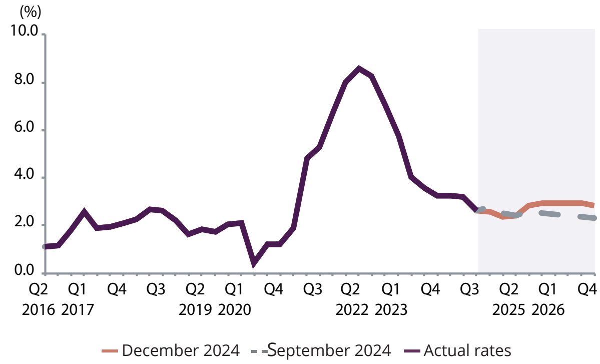


Chart 7.6: Inflation in the United states



Source: GPMN, November 2024.

Further monetary easing by the Fed and the ECB

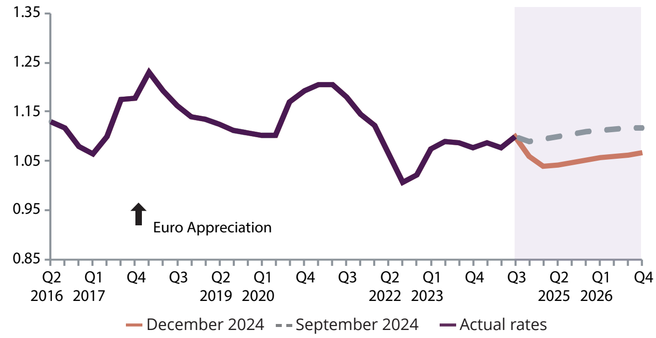
At its meeting on 6 and 7 November, the Fed decided to cut the target range for the federal funds rate by 25 basis points to [4.5 percent-4.75 percent], against a backdrop of sustained growth, rising unemployment and inflation that is closer to the 2 percent target but still somewhat high. At the same time, the Fed will continue to reduce holdings of Treasury securities and mortgage-backed securities.

As for the ECB, at the end of its meeting on 12 December, it decided to cut its three key interest rates by 25 basis points, the fourth cut since June, on the grounds that the disinflation process in the euro area is well under way. The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility have thus been cut to 3 percent, 3.15 percent and 3.40 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, reducing the portfolio of this programme by an average of 7.5 billion euros a month, and plans to end reinvestments at the end of 2024.

At its meeting on November 7, the Bank of England decided to cut its key rate by 25 basis points to 4.75 percent, pointing out that the disinflationary trend is continuing, thanks to the moderation of previous external shocks, although domestic inflationary pressures are easing more slowly.

On the international exchange market, the euro is expected to remain stable against the greenback this year at an average of 1.08 dollar, before depreciating by 3.3 percent to 1.04 dollar in 2025 and then increasing by 1.6 percent to 1.06 dollar in 2026. These fluctuations reflect the uncertainties surrounding monetary policy and global economic conditions.

Chart 7.7: USD/EUR exchange rate



Source: GPMN, November 2024..

Cereal production of 31.2 MQx for the 2023/2024 crop year and average harvest assumption of 50 MQx for 2024/2025 and 2025/2026

According to the Department of Agriculture, the harvest of the three main cereals for the 2023/2024 season was 31.2 million quintals (MQx), down 43.3 percent on the previous season and 44.5 percent on average for the last five years. Production of other crops contracted by 24.5 percent in the case of sugar and 3.4 percent in the case of oilseeds. On the other hand, it improved by more than 50 percentage points for arboriculture and 5 percentage points for market gardening. The livestock sector continues to suffer from the succession of drought years. Under these conditions, the decline in agricultural value added forecast for 2024 would ease to 4.6 percent instead of the 6.9 percent forecast for September.

For the 2024/2025 and 2025/2026 campaigns, and assuming average cereal harvests of 50 MQx2 1and the trend development of other crops, agricultural value added would increase by 5.7 percent in 2025, instead of the 8.6 percent assumed in September forecast, and by 3.6 percent in 2026.

7.2 Macroeconomic projections

Continued dynamism of foreign trade in goods, travel receipts and transfers from Moroccans living abroad in the medium term.

Taking into account the new assumptions relating to the international environment, the update of macroeconomic forecasts as well as the achievements at the end of October 2024, the current account deficit would end the year at 1 percent of GDP, after 0.6 percent in 2023, and would stand at 1.8 percent in 2025 before returning to 1.5 percent in 2026.

1 This assumption is based on the average of the last five harvests observed.

In 2024, exports are expected to grow by 5.5 percent, driven mainly by increases of 8.3 percent in sales of the automotive sector and 8.5 percent in sales of phosphates and derivatives, as a result of the expected rise in quantities shipped. Imports are expected to rise by 4.6 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 6.9 percent. At the same time, travel receipts would increase by 9.1 percent to 114.2 billion dirhams and transfers from Moroccans living abroad would rise by 4.3 percent to 120.2 billion dirhams. FDI receipts are expected to rise to 40.7 billion dirhams, equivalent to 2.7 percent of GDP, after 2.4 percent in 2023.

Assuming the materialization of the Treasury's planned external financing, official reserve assets would increase to 375.6 billion dirhams by the end of 2024, equivalent to 5 months and 8 days of imports of goods and services.

In the medium term, exports are expected to grow by 7.5 percent in 2025 and 8.9 percent in 2026, driven mainly by increases of 8.4 percent and 15.5 percent respectively in sales in the automotive sector to 200.9 billion by the end of 2026, reflecting the shipment of nearly 650000 cars in the medium term. Similarly, sales of phosphates and derivatives are expected to grow by 12.2 percent in 2025 and by 6.3 percent in 2026 to 99.3 billion dirhams. Imports are expected to increase by 7.9 percent in 2025 and 6 percent in 2026, reflecting in particular the 15.6 percent and 14.2 percent growth in purchases of capital goods respectively. Purchases of finished consumer goods are also expected to rise by 7.2 percent and then 3.4 percent, and those of semi-finished goods by almost 6 percent in the medium term. The energy bill is expected to stabilize in 2025 before falling by 4.1 percent in 2026 to 108.9 billion dirhams. Travel receipts are expected to rise by 6.6 percent in 2025 and 4.9 percent in 2026 to 127.7 billion dirhams. Remittances are expected to increase by almost 3 percent in the medium term, reaching 127.8 billion in 2026. In terms of FDI receipts, projections are for a level equivalent to 3 percent of GDP in 2025 and 3.3 percent in 2026.

Taking into account the Treasury's planned external drawdowns of 46.6 billion per year and repayments of 18.5 billion in 2025 and 17 billion in 2026, AOR would reach 387.8 billion in 2025 and 400.2 billion at the end of 2026, representing the equivalent of 5 months and 3 days and 5 months and 8 days of imports of goods and services respectively.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates						Forecasts			Differentials (dec./sept.)	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2024	2025
Exports of goods (FOB)	10.7	3.3	-7.5	25.2	30.1	0.4	5.5	7.5	8.9	0.7	-1.7
Imports of goods (CIF)	9.9	2.0	-13.9	25.0	39.5	-2.9	4.6	7.9	6.0	-0.5	-1.3
Travel receipts	1.2	7.8	-53.7	-5.1	171.5	11.5	9.1	6.6	4.9	1.9	2.0
Remittances	-1.5	0.1	4.8	40.1	16.0	4.1	4.3	3.0	3.3	1.8	-0.1
Current account balance (% of GDP)	-4.9	-3.4	-1.2	-2.3	-3.6	-0.6	-1.0	-1.8	-1.5	0.4	0.6
Official reserve assets in months of imports of goods and services	5.4	6.9	7.1	5.3	5.4	5.4	5.3	5.1	5.3	-0.1	-0.4

Sources: Foreign Exchange Office and BAM forecasts

Acceleration of credit growth to the non-financial sector over the forecast horizon

The bank liquidity deficit would widen to 137.3 billion dirhams at the end of 2024, to 164.6 billion in 2025 and to 192.3 billion in 2026, essentially as a result of the increase in banknote circulation. After an increase of 10.7 percent in 2023, it would rise by 8.8 percent in 2024, 8.3 percent in 2025 and 7.8 percent in 2026. As for bank credit to the non-financial sector, considering actual figures, economic activity projections and banking system expectations, it would accelerate to 3.8 percent in 2024, 4.2 percent in 2025 and 5.5 percent in 2026. Under these conditions, and in line with the forecast development of the other money supply counterparts, the M3 aggregate would increase by 6.6 percent in 2024, 3.9 percent in 2025 and 3.8 percent in 2026.

Regarding the real effective exchange rate, it would continue to increase, with rises of 0.5 percent in 2024 and 0.3 percent in 2025, mainly due to the rise of its value in nominal terms. In 2026, a depreciation of 0.6 percent is expected, mainly as a result of a lower level of domestic inflation than in trading partner and competitor countries.

Table 7.2: Money supply and bank lending

Change (in %), unless otherwise indicated	Actual rates					Forecasts			Differentials (dec./sept.)	
	2019	2020	2021	2022	2023	2024	2025	2026	2024	2025
Bank lending to the nonfinancial sector	5.5	4.2	2.9	7.9	2.7	3.8	4.2	5.5	0.5	-0.6
M3	3.8	8.4	5.1	8.0	3.9	6.6	3.9	3.8	2.4	-0.4
Liquidity surplus or deficit, in billion dirhams	-64.6	-74.6	-64.4	-86.6	-111.4	-137.3	-164.6	-192.3	-16.9	-18.0

The budget deficit is expected to undergo an adjustment in the medium term

After standing at 4.4 percent of GDP in 2023, the budget deficit, excluding proceeds from the sale of State holdings, is expected to rise to 4.5 percent of GDP in 2024, before falling back to 4.2 percent of GDP in 2025, revised upwards by 0.3 points of GDP compared with September forecast, and then to 3.9 percent of GDP in 2026. These projections are based on data from the 2025 Finance Law, the three-year budget programme (PBT) for 2025-2027, budget execution to the end of October 2024 and BAM's December macroeconomic forecasts.

In 2024, tax revenues are expected to be 9.3 percent higher than in 2023, reflecting improvements of 14.8 percent in indirect taxes and 4.7 percent in direct taxes. Non-tax revenues, meanwhile, are expected to rebound by 19.9 percent, driven mainly by receipts from innovative financing mechanisms and income from public enterprises and establishments (EEP). Ordinary expenditure is expected to rise by 7.1 percent, with an 8.4 percent increase in spending on goods and services. The wage bill is expected to rise by 8.2 percent, and spending on other goods and services by 8.6 percent. Compensation expenditure is expected to fall by 15.3 percent and investment expenditure by 1.3 percent to 109.3 billion.

In 2025, tax revenue would improve by 12.4 percent overall, 12.8 percent for direct taxes and 11.7 percent for indirect taxes. Non-tax revenues are expected to fall by 0.9 percent, with an increase of 0.2 percent in revenues from public enterprises and stability in revenues from innovative financing mechanisms at 35 billion. At the same time, ordinary expenditure would rise by 14.7 percent, driven mainly by a 17 percent increase in spending on goods and services and a 26.5 percent rise in interest on debt. The wage bill is set to rise by 9.8 percent and expenditure on other goods and services by 30.6 percent. Capital expenditure is expected to fall by 3.4 percent, representing a ratio to GDP of 6.5 percent, and compensation expenditure by 32.4 percent.

In 2026, tax revenues are expected to strengthen by 4.7 percent, reflecting a 4.1 percent increase in direct taxes, with improvements of 4.6 percent in corporate income tax and 3.4 percent in income tax, as well as a 5.3 percent rise in indirect tax receipts. Non-tax revenues are expected to fall by 1.2 percent, with a 4.4 percent decline in revenues from public investment funds and receipts from innovative financing mechanisms remaining unchanged at 35 billion. Ordinary expenditure is expected to rise by 3.9 percent, mainly due to a 5.3 percent increase in spending on goods and services. The wage bill is expected to rise by 6.1 percent and expenditure on other goods and services by 4.1 percent. Debt interest costs are expected to rise by 0.6 percent, while compensation costs will continue their downward trend as a result of partial decompensation, reaching 14.1 billion. Capital expenditure is expected to stabilize at 105.3 billion, equivalent to 6.2 percent of GDP.

Consolidation of economic growth over the medium term

After accelerating to 3.4 percent in 2023, economic growth is expected to decelerate to 2.6 percent this year, a downward revision of 0.2 percentage points (pp) compared to the September projections, due to achievements in the first half of the year. This would be the result of a 4.6 percent contraction after a 1.4 percent rise in agricultural value added, and a slight slowdown in non-agricultural GDP from 3.6 percent to 3.5 percent. On the demand side, the domestic component is expected to consolidate, thanks in particular to a sustained investment drive and further consolidation in household consumption. On the other hand, net exports in volume terms are likely to make a negative contribution, due to a stronger rebound in imports of goods and services than in exports.

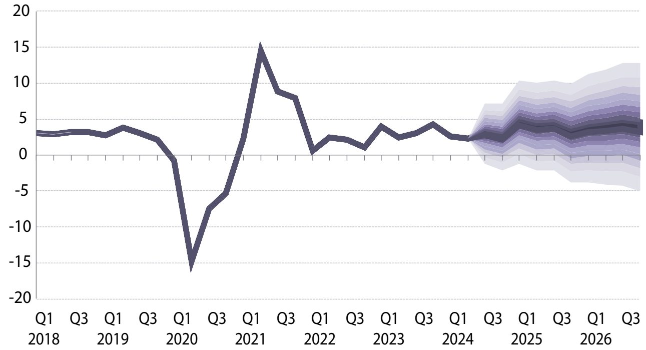
In the medium term, growth would accelerate to 3.9 percent in 2025 and 2026, reflecting an increase of 5.7 percent and 3.6 percent respectively in agricultural value added, assuming a return to average cereal crop years of 50 million quintals. Non-agricultural activities are expected to grow at a rate of 3.6 percent in 2025 and 3.9 percent in 2026. On the demand side, this development would be driven by the continued improvement in its domestic component, supported in particular by the positive spin-offs expected from the various construction projects underway, while the negative contribution of net exports would diminish.

Table 7.3: Economic growth

Change in %	Actual rates					Forecasts			Differentials (dec./sept.)	
	2019	2020	2021	2022	2023	2024	2025	2026	2024	2025
National growth	2.9	-7.2	8.2	1.5	3.4	2.6	3.9	3.9	-0.2	-0.5
Agricultural VA	-5.0	-8.1	19.5	-11.3	1.4	-4.6	5.7	3.6	2.3	-2.9
Nonagricultural VA	3.8	-7.1	6.9	3.2	3.6	3.5	3.6	3.9	-0.4	-0.3

Sources: HCP data, and BAM forecasts

Chart 7.8: Growth outlook over the forecast horizon (Q3 2024 - Q4 2026), (YoY)*



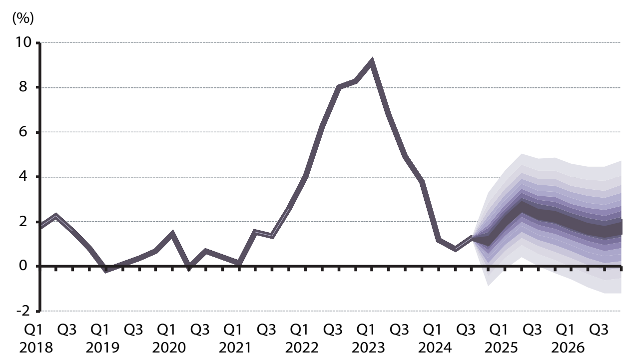
* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Rapid slowdown in inflation in 2024 and moderate level in the medium term

After the high rates recorded in 2022 and 2023, at 6.6 percent and 6.1 percent respectively, inflation is expected to slow to 1 percent in 2024, a downward revision of 0.3 percentage points compared with the September forecast. This adjustment is mainly the result of a sharper than expected fall in the prices of volatile food products, mainly in line with the recent declines observed, as well as a sharper than expected fall in the prices of fuels and lubricants, in line with the trend in international oil prices. Core inflation would slow to 2.1 percent in 2024, compared with 5.6 percent in 2023, while regulated tariffs would rise slightly.

Over the remainder of the forecast horizon, inflation would accelerate to 2.4 percent in 2025 before falling back to 1.8 percent in 2026. Its underlying component is expected to decelerate slightly to 2 percent in 2025 and then to 1.8 percent in 2026. For the other components, the prices of regulated products are expected to rise in 2025 and 2026, mainly as a result of the gradual decompensation of butane gas. Conversely, the prices of fuels and lubricants are expected to fall, in line with the outlook for the international price of Brent crude. As for food products with volatile prices, a slight increase is expected in 2025.

Chart 7.9: Inflation forecast over the horizon (Q4 2024 - Q4 2026)*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Table 7.4: Inflation and core inflation

	Actual rates					Forecasts				Differentials (dec./sept.)	
	2019	2020	2021	2022	2023	2024	2025	2026	T4-2024 – T3-2026	2024	2025
Inflation	0.2	0.7	1.4	6.6	6.1	1.0	2.4	1.8	2.0	-0.3	-0.1
Core inflation	0.5	0.5	1.7	6.6	5.6	2.1	2.0	1.8	1.9	0.0	-0.1

Sources: HCP data, data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

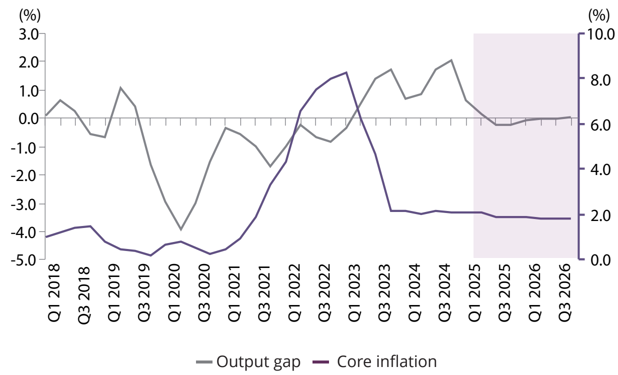
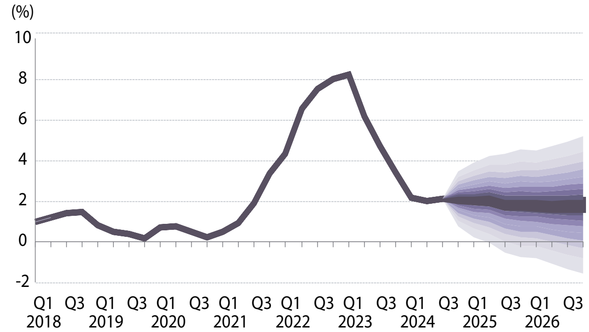


Chart 7.11: Core inflation forecasts, in year-on-year*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.
Sources: HCP data, and BAM forecasts and calculations.

7.3 Balance of risks

Uncertainty surrounding the outlook for the global economy remains high, fueled by the policies envisaged by the new US administration, the impact of which remains difficult to anticipate due to uncertainties over their timing, scale and the reactions they would provoke. Added to this are the property crisis in China and the sluggishness of the German economy, which point to risks of weaker growth. In addition, the continuing conflict in Ukraine could further weaken global economic activity and disrupt supply chains, particularly energy.

At the national level, 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 reinforce 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

LIST OF CHARTS