PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 18, 2025

1. The Board of Bank Al-Maghrib held its first quarterly meeting of 2025 on Tuesday, March 18.
2. During this meeting, the Board analyzed domestic and global economic developments, Morocco's recent public policies, as well as the Bank's medium-term macroeconomic projections.
3. At the international level, the Board noted that despite the geopolitical tensions, and restrictive monetary conditions, the world economy remained relatively resilient in 2024, despite diverging trajectories across countries. Its outlook, which points to a further slowdown, continues to be surrounded by significant uncertainty mainly related to economic policy stances, and especially trade policies. These developments, coupled with the expected decline in energy prices and cooling of labor markets, are likely to result in further inflation slowdown, which is nevertheless projected to remain above the targets set by central banks of major advanced economies.
4. Domestically, the Board noted the significant dynamics in non-agricultural sectors, particularly driven by investment, mainly in infrastructure. The Board also took note of the Government's commitment to further consolidate macroeconomic balances while maintaining the momentum of reforms, as well as its recently adopted roadmap to boost employment, notably by stimulating investment by very small, small, and medium-sized enterprises (VSMEs). As for the agricultural sector, production continues to suffer from unfavorable weather conditions, although with notable improvement since the beginning of this month.
5. After two years of high levels, inflation slowed significantly in 2024, to an average of 0.9 percent. According to Bank Al-Maghrib's projections, it should accelerate, while remaining in a moderate level, to revolve around 2 percent over the next two years. Core inflation stood at 2.2 percent in 2024 and is projected to evolve around 2 percent over the medium term. This outlook remains surrounded by a high degree of uncertainty, mainly driven, at the international level, by persisting geo-economic tensions and their implications for global inflation; and, at the domestic level, by developments in the supply of agricultural products. Moreover, the Board noted that inflation expectations remain anchored, with financial sector experts anticipating, in the first quarter of 2025, average rates of 2.2 percent for the 8-quarter horizon, and 2.4 percent for the 12-quarter horizon.
6. Regarding the transmission of the Board's decisions, data collected in the fourth quarter of 2024 show a 35 basis point (bp) decline in bank lending rates to the non-financial sector, compared to the second quarter of the same year, while the key rate was lowered by 25 bps over the same period.
7. Considering that inflation is expected to evolve at levels in line with the price stability objective, and in order to strengthen its support to the economic activity and employment, the Board decided to reduce the key rate, for the second consecutive time and the third since last June, by 25 bps to 2.25 percent. The Board will continue to closely monitor economic developments, and will take its decisions, meeting by meeting, based on most up-to-date data.
8. In the same vein, Bank Al-Maghrib is rolling out a new program to support bank financing for very small enterprises (VSEs), with a special focus on refinancing participating banks at a

preferential rate, equal to the key rate minus 25 basis points. This scheme, along with the commitment shown by the banking sector, should improve access to financing for VSEs and increase their contribution to job creation in our country.

9. In international commodities markets, oil prices are expected to continue their downward trend over the medium term, owing to higher supply particularly from non-OPEC+ countries, and subdued global demand. The price of Brent crude oil, in particular, is expected to decline from USD 79.8 per barrel on average in 2024 to USD 69.1 per barrel in 2026. Similarly, according to *Commodities Research Unit*'s projections, prices of Moroccan raw phosphate should decrease from USD 215 per tonne in 2024 to USD 182 per tonne in 2026. Those of its derivatives are expected to rise, over the same period, from USD 586 to USD 591 per tonne for DAP, and from USD 436 to USD 468 per tonne for TSP. Regarding food products, the FAO index should increase by 3.1 percent in 2025 and by 0.9 percent in 2026, following a 2.1 decline in 2024.

10. Regarding the global economic outlook, the pace of activity is likely to slow to 3 percent in 2025 and 2.8 percent in 2026. In advanced economies, Growth is forecast to decelerate to 2 percent this year, then to 1.7 percent in 2026 in the United States, while it is expected to remain subdued in the euro area, standing at 1 percent in 2025, then at 1.3 percent next year. In major emerging countries, after virtually reaching the 5-percent target set by the authorities for 2024, the Chinese economy is expected to grow by 4.8 percent in 2025, followed by 4.3 percent in 2026, while in India, activity is set to remain vigorous at 7.2 percent and 6.7 percent growth, respectively.

11. Under these conditions, global inflation should decelerate further, from 3.7 percent in 2024 to 3.2 percent in 2025 and 2026. As regards major advanced economies, it is projected to stand at 2.4 percent in 2025 and 2.1 percent in 2026 in the euro area and should remain at around 3 percent in the United States for both years.

12. In this context, monetary policies of the central banks of major advanced economies remain oriented towards easing. At its meeting on March 6, the ECB decided to lower its three key interest rates by 25 bps for the fifth consecutive time, marking the sixth cut since June 2024. Meanwhile, after three consecutive rate cuts totaling 100 bps in 2024, the Fed decided at its January 28-29 meeting to mark a pause, maintaining the target range for the federal funds rate unchanged at [4.25-4.50 percent].

13. Domestically, non-agricultural growth has been estimated at 4.2 percent in 2024. It should remain close to this level in the medium term, primarily driven by the surge in infrastructure investment. However, agricultural value added remains dependent on weather conditions, having contracted by 4.7 percent in 2024. Based on a preliminary cereal harvest estimate by Bank Al-Maghrib of 35 million quintals and the expected improvement in non-cereal production, agricultural value added is expected to increase by 2.5 percent in 2025 before jumping to 6.1 percent in 2026, assuming a return to an average harvest of 50 million quintals. As a result, overall economic growth, estimated at 3.2 percent in 2024, is expected to accelerate gradually to 3.9 percent this year and 4.2 percent in 2026.

14. Labor market data for 2024 reveal ongoing challenges due to the contraction in agricultural production, with a further loss of 137,000 jobs in the sector. Conversely, non-agricultural employment showed signs of recovery, with 160,000 jobs created in services, 46,000 in industry and 13,000 in construction and public works. Considering a net inflow of 140,000 jobseekers, the participation rate fell slightly to 43.5 percent, while unemployment rate worsened to 13.3 percent nationwide, 6.8 percent in rural areas and 16.9 percent in urban areas.

15. Regarding external accounts, the 2024 trade momentum should continue over the medium term. Exports would be driven primarily by sales of phosphate and derivatives, which would rise by 15.2 percent this year and 8.6 percent in 2026 to MAD 108.6 billion, and by those of the automotive sector, which would reach MAD 195 billion in 2026. At the same time, imports would be influenced by the sustained sharp rise expected in the acquisition of capital goods, as well as the increase in consumer goods purchases, while the energy bill would further decline, reaching 104.6 billion in 2026. In addition, travel receipts are likely to continue to grow, standing at almost MAD 125 billion in 2026, while remittances would consolidate, reaching around MAD 123 billion in the same year. In view of these developments, the current account deficit would widen to 2.9 percent of GDP in 2025, before narrowing to 2 percent in 2026. Foreign direct investment receipts would continue to improve, approaching the equivalent of 3 percent of GDP in 2025 and 3.3 percent in 2026, after 2.8 percent in 2024. Overall, and taking into account the Treasury's planned external financing, official reserve assets would increase to MAD 391.8 billion by the end of 2025 and MAD 408 billion by the end of 2026, representing the equivalent of 5 months and 5 days and 5 months and 11 days of imports of goods and services, respectively.

16. Concerning monetary conditions, bank liquidity needs eased to an average of MAD 128.7 billion in January and February 2025, mainly due to the decline in currency in circulation, largely driven by the voluntary tax regularization operation for individuals. However, it should rise again to MAD 143 billion by end-2025, and 162 billion in 2026. Taking into account the expected trend in economic activity and banking system expectations, the growth of credit to the non-financial sector would significantly accelerate from 2.6 percent in 2024 to 5.9 percent in 2025 and 6 percent in 2026. The real effective exchange rate is expected to appreciate by 0.8 percent in 2025, before remaining virtually unchanged in 2026, as the nominal appreciation of the dirham would be offset by the inflation differential between Morocco and its main trading partners and competitors.

17. Regarding public finances, ordinary revenues improved by 15.3 percent in 2024, mainly driven by the solid performance of tax receipts. At the same time, overall expenditure rose by 6.5 percent, reflecting higher spending on goods and services and capital expenditure. In light of these developments, the provisions of the 2025 Finance Act and the three-year fiscal framework for 2025-2027, Bank Al-Maghrib forecasts that the fiscal deficit, excluding proceeds from the sale of State holdings, will gradually narrow, falling from 4.1 percent of GDP in 2024 to 3.9 percent in 2025 and 3.6 percent in 2026.