RESEARCH REPORT

FIXED INCOME

Q1

Q2

Q3

Q4

| MOROCCO | QUARTERLY

Monetary Policy 2025

BANK AL-MAGHRIB : « INFLATION-GROWTH » TRADE-OFF ANNOUCED TO BE MORE DELICATE ON THE MT

Attijari Global Research

KEY RATE		MANDATORY RESERVE		2025E GROWTH		2025E INFLATION	
	-25 BPS		*Unchanged*		*Unchanged*		*-40 BPS*
Q1-25	2.25%	Q1-25	0%	New	+3.9%	New	2.0%
Q4-24	2.50%	Q4-24	0%	Previous	+3.9%	Previous	2.4%

BANK AL-MAGHRIB: STRENGTHENING OF THE ACCOMMODATIVE STANCE DESPITE THE IMPORTED INFLATIONARY RISK

As anticipated by the AGR scenario of a key rate cut in 2025 *[See. Key Rate - December 2024]*, Bank Al-Maghrib has decided to reduce its KR at its 1st monetary policy meeting of 2025 for the 3rd time since June 2024 to 2.25%. BAM is accelerating its accommodative stance, thus confirming its commitment to support economic growth in an increasingly unstable global context marked by geopolitical tensions, the beginnings of a trade war, the risks of inflation return, and slowing growth.

This decision is out of step with the consensus among market participants for a status quo *[See. Key Rate Expectations - March 2025]*, but remains in line with the international monetary trend. Recall that half of the 35 major Central Banks lowered their KR in Q1-25, like the ECB[1], the BOC[2], the BOE[3] and the Riksbank[4].

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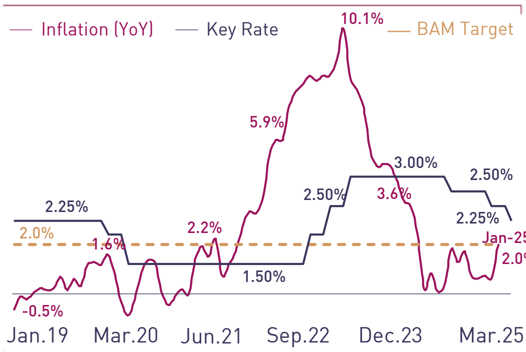
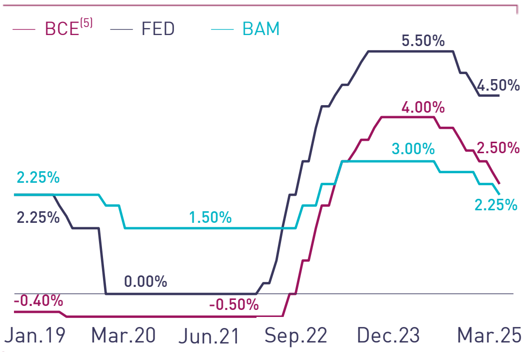
MOROCCO : INFLATION VS. KR



KR : BCE VS. FED VS. BAM



In light of the new inflation forecasts, we anticipate a continued KR decline in 2025, towards an equilibrium rate of 2%. This scenario could be adjusted if international inflation risks materialize. In more details:

- *At the local level, inflation is expected to remain broadly under control in 2025 at 2%.* On the one hand, the latest national rainfall and the scheduled cancellation of Aid Al-Adha are slightly reducing the adverse effects of the current water crisis on food prices. On the other hand, the start of gas decompensation and social dialogue within the FA-25 framework should have a limited effect on inflation. This remains impacted by the fall in international energy prices with a Brent price below $ 70/bbl as well as deflationary budgetary measures to support household purchasing power;
- *A resurgence of global inflationary pressures has been clearly identified since the election of President Trump.* This risk is beginning to intensify as US tariff policy takes concrete form and partner countries implement countermeasures.

AVIS D'EXPERT

Bank Al-Maghrib is not deviating from the global accommodative monetary trend and is continuing its support for the economy within the new era of investment in Morocco. This represents a historic effort of more than MAD 1,700 Bn over the next five years in a context of controlling inflation on the MT. This is expected to fall below the threshold of 2.0% to 1.8% in 2026, giving BAM a real leeway to lower its KR in the future. Recall that the FED and the ECB remain committed to the process of lowering rates in 2025, although at a slower pace than initially planned, i.e., at least 50 additional BPS by the end of the year.

This reduction should have a positive effect on the public deficit projected at 3.5% of GDP in 2025E against 3.9% in 2024. ***According to our estimates, each KR reduction of -25 BPS would generate a budgetary saving in annual interest expenses of the Treasury of around MAD 300 Mn.***

Central Banks of (1) Europe (2) Canada (3) England and (4) Sweden
(5) ECB Deposit facility Rate

Sources : BAM, HCP, Central Banks Official Websites, AGR Computation & Estimates

A DIVERGENCE IN MONETARY POLICIES IS EMERGING INTERNATIONALLY

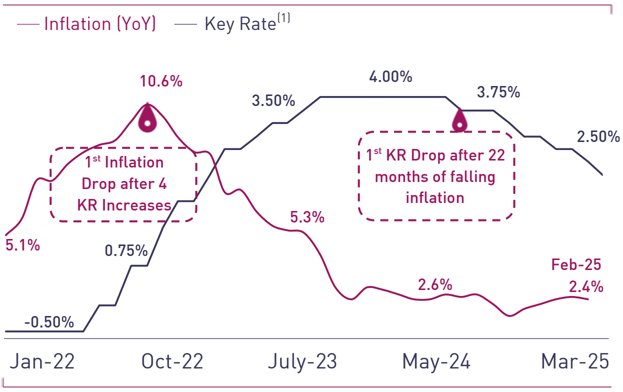
WHILE THE ECB CONTINUED TO CUT ITS RATE IN 2025, THE FED DECIDED FOR A MONETARY PAUSE

The ECB remains committed to its monetary easing policy and has decided to lower its main Key Rate by -25 BPS to 2.5% in March 2025, its 6th consecutive cut since June 2024. The cumulative decline in less than a year is -150 BPS, after reaching its highest level since the creation of the Eurozone in 1999 at 4.0% in September 2023, following around ten rate increases between September 2022 and September 2023. Maintaining the ECB's accommodative stance despite an international context marked by intense geopolitical and trade pressures reveals the institution's firm commitment to support European growth and sluggish household purchasing power, as well as to revitalize credit dynamics in the EZ.

Indeed, inflation in the EZ has continued to decline for more than two years now, albeit at a more moderate pace. The inflation rate was 2.4% in February 2025 according to Eurostat, after 2.5% in January 2025 and 2% in October 2024. It peaked in October 2022 at 10.6% amid escalating tensions in Ukraine and disruptions to global supply chains.

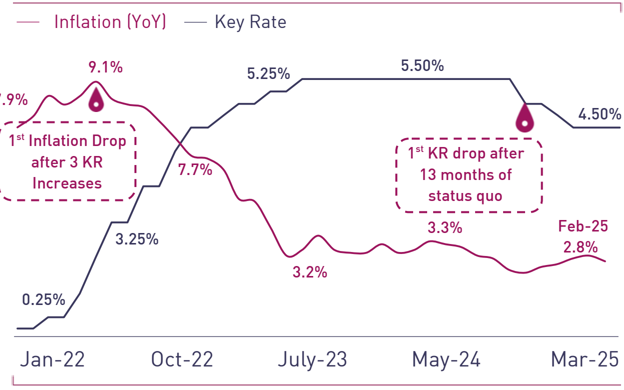
After having started since September 2024 the reduction of its KR by 1 pt cumulatively in 2024, bringing it back to a range between [4.25% - 4.50%], and this after having reached [5.25% - 5.50%] in July 2023, its highest level in 20 years, the Fed maintains stable its monetary policy in 2025. Initially, a solid job market and a resilient economy. Despite a US inflation rate of 2.7% in Q4-24, its trajectory has resumed a mixed trend during the first two months of 2025. After an increase to 3.0% in January 2025, it stands at 2.8% in February 2025, below the forecast of 2.9%.

EZ : INFLATION VS. KR EVOLUTION 22-25



(1) ECB overnight deposit rate.

USA : INFLATION VS. KR EVOLUTION 22-25



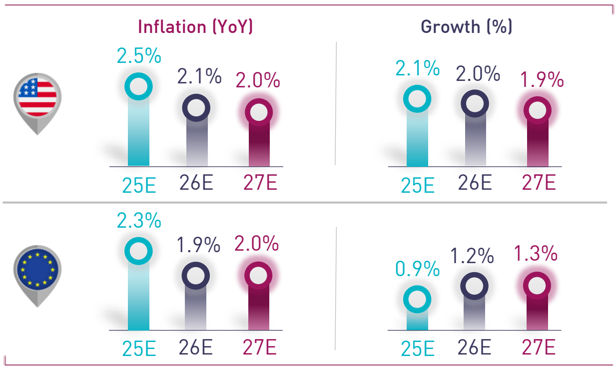
OPPOSING MONETARY VISIONS BETWEEN THE TWO SIDES OF THE ATLANTIC IN 2025

Regarding the upcoming KR decisions, uncertainties remain very high and will depend more on the inflation trajectory, the labor market, wage dynamics, and, to a lesser extent, the growth outlook.

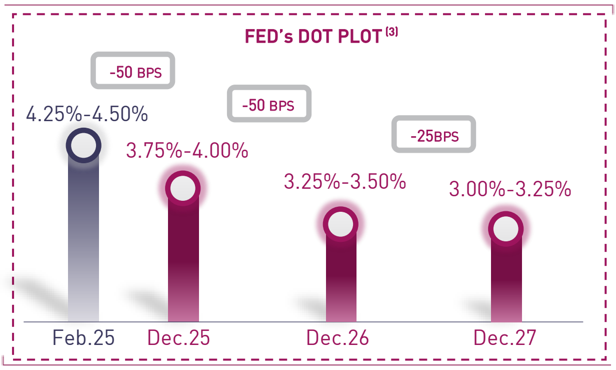
While the ECB affirms its intention to continue its KR cuts towards a neutral rate[2] of 2% by June 2025, justified by the crucial recovery in growth, revised downward once again to 0.9% in 2025E, and the support for credit dynamics, this monetary policy nevertheless takes place in a very turbulent global economic environment. Indeed, economic tensions between the United States and the European Union surrounding protectionist measures and reciprocal tariffs imposed by the United States are expected to slow growth and increase inflationary risks. Furthermore, by increasing its military and infrastructure spending, Germany, Europe's leading power, is also contributing to the fiscal imbalance, which is increasing the risk of inflationary pressure.

For its part, the Fed has decided to suspend its rate-cutting cycle following persistent inflation in the United States and the risks surrounding it, alongside the escalating trade war between the United States and its partners. The Fed has been discouraged in its monetary easing process and has halved the number of rate cuts planned for 2025, suggesting two cumulative rate cuts of -50 BPS in 2025 instead of four initially, and is not expected to reach its neutral rate of 3.5% until 2026.

USA VS. EZ : GROWTH & INFLATION FORECASTS



FED FUNDS FORECASTS 2025E-2027E



(3) FOMC Participants' Assessment of Appropriate Monetary Policy – February 2025

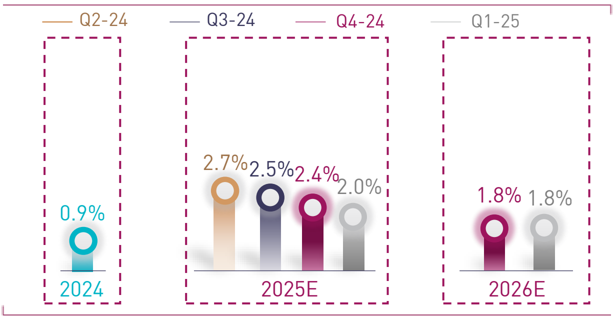
(2) Neutral rate: Equilibrium rate where the ECB considers that it is neither accommodating nor restrictive

Sources : Central Banks Official Websites, AGR Computation & Estimates

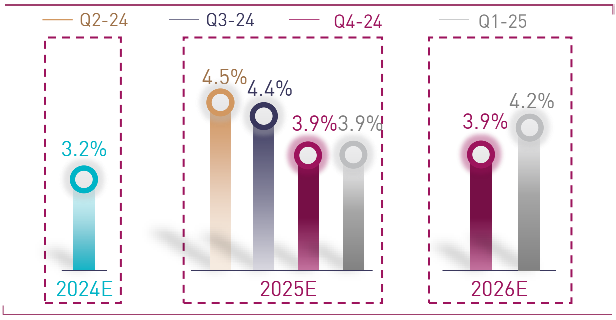
INFLATION FORECAST REVISED DOWN TO 2.0% IN 2025 DESPITE IMPORTED RISKS

Despite the rise in inflationary risks internationally, Morocco still seems to be spared with a limited impact on MT inflation forecasts. These have been revised downwards for the 4th consecutive time in 2025 to 2.0% against 2.4% previously, despite a slight upward shift in January 2025. Inflation would continue its downward path towards 1.8% in 2026E, a level in line with Bank Al-Maghrib's price stability target. In 2025E, growth would stand at 3.9% after 3.2% in 2024E, assuming a slight improvement in the crop to 35 MQx against a very low level of 31 MQx a year earlier.

MOROCCO : INFLATION FORECASTS EVOLUTION



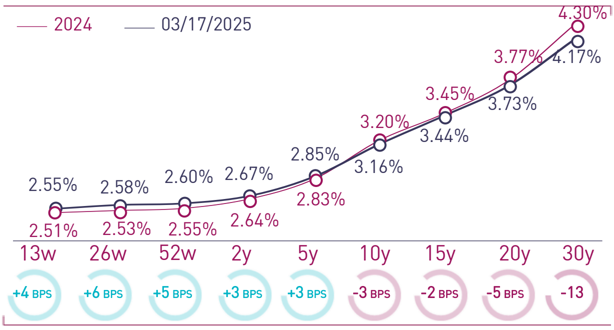
MOROCCO : GROWTH FORECASTS EVOLUTION



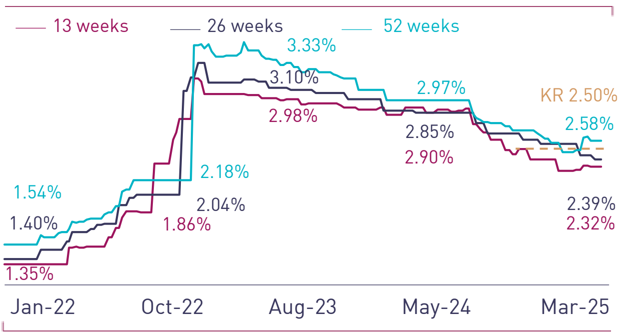
SLIGHT UPWARD TENSIONS ON RATES WHICH SHOULD DISSIPATE IN THE ST

Since the beginning of 2025, we have observed a slight upward trend in the short-term and medium-term compartments in a context where inflation in Morocco settled at 2.0% in January 2025 compared to an annual average of 0.9% in 2024. This situation implies an increase in investors' return requirements. These assessments have fluctuated in a range of [3.0-6.0 BPS] for maturities from 13 weeks to 5 years. The Treasury's intensive use of the auction market during this 1st quarter through a cumulative fundraising to date of more than MAD 42 Bn (up +4.3% compared to the same period of last year) has fueled slight upward pressure on rates, in the absence of new international issuances since 2023. This drop in the KR should thus contribute to easing ST bond rates.

MOROCCO: SECONDARY YIELD CURVE



MOROCCO : ST PRIMARY RATES EVOLUTION

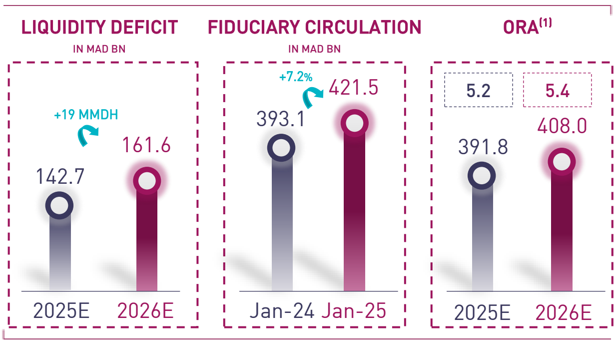


A SIGNIFICANT ACCELERATION EXPECTED IN THE GROWTH RATE OF BANK LOANS ON THE MT

The tax regularization for 2024 has temporarily eased pressures on the bank liquidity deficit through a reduction in cash circulation during the first two months of 2025. However, this deficit is expected to widen to more than MAD 140 Bn and MAD 160 Bn in 2025 and 2026, respectively. It should be recalled that the regularization operation led to the declaration of nearly MAD 125 Bn in assets and a liquidity inflow to the Treasury of more than MAD 6.0 Bn. For their part, foreign exchange reserves remain at record levels in 2025 at MAD 392 Bn and are expected to approach MAD 410 Bn in 2026.

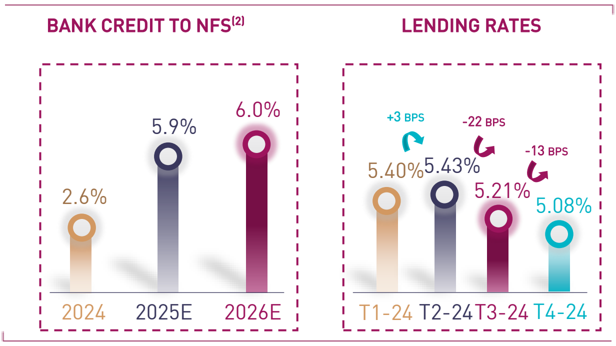
Lending rates continue to incorporate the cumulative KR decline of -50 BPS in 2024. The latter fell from -35 BPS in 2024 to 5.08%. Under these conditions, bank loans[2] should show a significant acceleration to +5.9% and +6.0% in 2025E and 2026E respectively against +2.6% in 2024.

MOROCCO : MONETARY AGGREGATES 2025E-2026E



(1) Official Reserve Assets in MAD BN and in months of imports of G&S

MOROCCO : BANK CREDIT VS. LENDING RATES



(2)Non financial Sector

Sources : BAM, MEF, AWB Capital Market, AGR Computation & Estimates

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