BANK AL-MAGHRIB

MONETARY POLICY REPORT

No. 49 / 2018

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THE BANK BOARD
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FOREWORD

Pursuant to the provisions of Article 6 of Royal Decree No. 1-05-38 of 20 Shawwal 1426 A.H. (November 23, 2005) promulgating Law No. 76-03 on the Statutes of Bank Al-Maghrib, "with a view to ensuring price stability, the Bank adopts and implements monetary policy instruments".

In accordance with these provisions, Bank Al-Maghrib's objective in conducting monetary policy is to ensure price stability in order to preserve the purchasing power of citizens and provide the right conditions for investment and growth.

To achieve these objectives, Bank Al-Maghrib has put in place an analysis and forecasting system which rests on an integrated approach based on a monetary policy model and several satellite models that feed and complement it. Adapted to the current monetary policy framework and exchange rate regime and also to the transition to inflation targeting and gradual flexibility of the exchange rate regime, this new system makes it possible to predict the future course of macroeconomic aggregates, including inflation, and monetary conditions and to assess the impact of the materialization of risks to the central projection.

The assessments of the national economic situation and its medium-term prospects are outlined in the Monetary Policy Report (MPR), prepared by the Bank staff for the Board members. The MPR is published quarterly on the day of the Board meeting once the Board approves it.

In addition to the press release that explains the basis for the monetary policy decision and the overview that summarizes all the economic, monetary and financial developments and macroeconomic projections, the MPR has two parts. The first part, consisting of six chapters, analyzes the change in the main determinants of inflation, namely the international environment, external accounts, demand, supply and the labor market, fiscal policy, monetary conditions and asset prices, and recent trends in inflation. The second part is devoted to the presentation of medium-term prospects for the national economy.

Bank Al-Maghrib Board members:

The Governor, Chairman

The Director General

The Government Representative

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

Mr. Abdellatif BELMADANI

Mr. Mohammed BENAMOUR

Mrs. Miriem BENSALAH CHAQROUN

Mr. Bassim JAI-HOKIMI

Mr. Mustapha MOUSSAOUI

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 18, 2018

1. The Board of Bank Al-Maghrib held its last quarterly meeting of the year on Tuesday, December 18.

2. At this meeting, it analyzed recent economic developments as well as the macroeconomic forecasts prepared by the Bank for the next eight quarters.

3. Based on these assessments, particularly those of medium-term inflation and growth prospects, the Board considered that the current level of the key rate at 2.25 percent remains appropriate and decided to keep it unchanged.

4. The Board noted that following a marked acceleration over the first half of the year, inflation edged downwards, from 2.5 percent in June to 1.1 percent in October, mainly driven by the drop in volatile food prices. It is expected to average 2 percent by year-end, after 0.7 percent in 2017, and to stand at 1 percent in 2019 and 1.2 percent in 2020. Core inflation, which measures the fundamental price trend, would continue to evolve at moderate levels, standing at 1.1 percent on average this year, at 1 percent in 2019 and at 1.6 percent in 2020.

5. Internationally, the global economy remains strong, but its growth rate is expected to decelerate in a context marked by the persistence of uncertainties, mainly related to trade, political and geopolitical tensions, as well as the ongoing monetary policy normalization in the major advanced countries. In the United States, growth would reach 2.9 percent in 2018, supported mainly by the expansionary fiscal measures, before slowing to 2.1 percent in 2019 and 1.8 percent in 2020. In the euro area, it would stand at 1.9 percent this year, 1.6 percent in 2019 and rebound slightly to 1.8 percent in 2020. In the labor markets, the momentum would continue in the United States, with an unemployment rate at around 4 percent, and in the euro area, the situation would further improve with unemployment continuing to fall to 8 percent in 2020. In the main emerging economies, the decelerating growth in China, due to the impact of the rebalancing of its economy, would continue but at a slower pace, in view of its expansionary fiscal and monetary policy stance. Growth would thus decelerate from 6.6 percent this year to 6.1 percent in 2020. In India, driven by domestic demand, growth would markedly increase this year to reach 7.7 percent, before slightly falling over the next two years, to stand at 7.5 percent in 2020. In Brazil and Russia, economic activity would continue to improve in 2019, before decelerating somewhat in 2020.

6. On the commodity market, after reaching their highest levels in four years last October, oil prices trended downwards, with a monthly decline of 19 percent in November for Brent prices. Over the

year as a whole, the Brent would average $72.2/bl, up 32.8 percent compared to 2017. It would then decrease to $65.7/bl in 2019 and $63.9/bl in 2020. Prices for phosphates and derivatives continued to rise in November, with year-on-year increases of 15.6 percent to $92.5/mt for phosphate rock, 19.2 percent to $410.2/mt for DAP and 28.5 percent to $379/mt for TSP. Within the next two years, prices would move slightly below current levels.

7. Due to the increase in energy prices, inflation would finish the year up to 1.8 percent in the euro area and would hover below the ECB›s medium-term target, reaching 1.5 percent in 2019 and 1.4 percent in 2020. In the United States, it would stand at a level close to the FED target of 2 percent.

8. As regards monetary policy decisions, the ECB decided, during its meeting held on December 13, to keep its rates unchanged, while indicating that it still expects them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2 percent over the medium term. It also confirmed that its net purchases under the asset purchases program will end in December 2018. Similarly, during its November meeting, the FED decided to keep the target range of the federal funds rates unchanged at 2 to 2.25 percent and reiterated its expectation that further gradual increases in rates will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near its objective over the medium term.

9. Nationally, HCP data for the second quarter indicate an economic activity level well below expectations. Taking account of these results and the available infra-annual indicators, growth would stand, according to Bank Al-Maghrib's projections, at 3.3 percent in 2018, as against 4.1 percent in 2017. Agricultural value added would increase by 4.6 percent as against 15.4 percent, while non-agricultural activities growth would rise slightly from 2.7 percent to 3.1 percent. Over the medium-term, nonagricultural activities would grow by 3.4 percent in 2019 and 3.7 percent in 2020, while, assuming a return to an average cereal output of 80 million quintals, agricultural value added would drop by 0.8 percent in 2019 and then rise by 3.3 percent in 2020. Overall, economic growth is expected to slow to 3.1 percent in 2019 before rising to 3.6 percent in 2020.

10. In the labor market, the relative improvement in job gains continued, with the generation of 122 thousand additional jobs between the third quarter of 2018 and the same quarter of 2017, mainly in the services sector. Taking into account a net entry of 58 thousand jobseekers over the same period, the participation rate registered a new drop, from 45.5 percent to 45 percent. Against this background, the unemployment rate fell from 10.6 percent to 10 percent overall and from 14.9 percent to 14.3 percent in urban areas. For urban youth, aged 15 to 24 years, it fell from 45.2 percent to 44.7 percent.

11. With regard to external accounts, the good performance of exports continued over the first eleven months of the year, with an increase of 9.7 percent year on year, driven mainly by the momentum in the automotive and phosphate and derivatives sectors. At the same time, reflecting higher energy costs and purchases of capital goods, imports increased by 8.8 percent. Travel receipts remained

almost stable, while remittances of Moroccan expatriates declined by 1.7 percent. Assuming an inflow of GCC grants, expected at 4.8 billion dirhams in 2018 and 2 billion in 2019, the current account deficit would rise to 4.4 percent of GDP by the end of this year, from 3.6 percent in 2017. It would gradually ease to 3.7 percent in 2019 and 3.2 percent in 2020, as exports are set to continue their growth, led by sales in the automotive sector, and imports set to decelerate sharply, with the expected decline in the energy bill. In terms of financial transactions, FDI inflows would reach the equivalent of 4.1 percent of GDP this year and 3.4 percent of GDP over the next two years. Taking into account the expected borrowing of the Treasury in international markets, the amount of net international reserves would, according to Bank Al-Maghrib's forecasts, move from 240.9 billion dirhams at end-2017 to 230.4 billion at the end of this year, 239 billion at end-2019 and 235.7 billion at end-2020. It will thus continue to represent the equivalent of slightly over 5 months of imports of goods and services.

12. With regard to monetary conditions, the real effective exchange rate should remain virtually stable over the year as a whole. It is expected to appreciate by 1.6 percent in 2019 before dropping by 0.8 percent in 2020. As to lending rates, they remained broadly unchanged in the third quarter at 5.35 percent, with a decline of 30 basis points quarter on quarter for rates on personal loans and a rise by 6 points in rates applied on loans to businesses. Bank lending to the nonfinancial sector slowed down to 2.2 percent at end-October, with a sharp deceleration in loans to both private and public businesses. Its growth was revised downwards to 3.5 percent in 2018 and 3.3 percent in 2019, before speeding up to 4.3 percent in 2020.

13. In terms of public finance, budget execution as at end-October showed a fiscal deficit of 34.5 billion dirhams, up 4.1 billion compared to the same period in 2017. Current revenues rose 1.7 percent, covering an improvement in tax receipts and a decline in grants. At the same time, overall spending increased by 2.4 percent, mainly owing to an increase in subsidy costs and higher spending on other goods and services. Under these conditions and assuming the realization of the expected GCC grants, Bank Al-Maghrib's projection for 2018 fiscal deficit was maintained at 3.7 percent of GDP. It would continue to hover around this level over the medium-term, to stand at 3.8 percent in 2019 and 3.6 percent in 2020.

14. The Bank Board agreed on the following schedule for its meetings in 2019: March 19, June 18, September 24, and December 17.

OVERVIEW

Against a background of persisting trade tensions, Brexit concerns, tighter monetary policies, and growing pressures in emerging markets, the latest data show overall signs of decelerating global economy. Growth in the euro area fell from 2.2 percent in the second quarter to 1.6 percent in the third, due in particular to a sharp slowdown in Germany. On the other hand, it was consolidated to 3 percent in the United States, benefiting from the results of fiscal measures on consumption and investment, and rose again to 1.5 percent in the United Kingdom.

In the main emerging economies, trade tensions and high levels of indebtedness weigh on Chinese growth which slowed to 6.5 percent in the third quarter as against 6.7 percent a quarter earlier. In other countries, growth decelerated from 8 percent to 6.9 percent in India and rose from 0.9 percent to 1.3 percent in Brazil. In Russia, second quarter data indicate a strengthening of the economy from 1.3 percent to 1.9 percent.

The situation on the labor markets remained positive overall in advanced countries. The unemployment rate in November remained stable at 3.7 percent in the United States, with the creation of 155 thousand jobs and stabilized for the third month in a row at 8.1 percent in October in the euro area.

In the stock markets, the indexes of the main advanced economies trended downwards between October and November, with notably an underperformance of 1.5 percent for the Dow Jones and 1.8 percent for the EUROSTOXX50. As to emerging economies, the MSCI EM index increased by 0.3 percent, with in particular a rise by 4.7 percent for the India index, 1.7 percent for China and 7.6 percent for Turkey, after falling 47 percent in the first ten months of the year.

In the sovereign debt market, yields showed diverging trends in the advanced economies. 10-year bills fell in November to 3.1 percent for the United States, 0.4 percent for Germany and 3.4 percent for Italy. For the latter, the decline is due in particular to the announcement of the possibility of a reduction of its budget deficit target for the year 2019. Concerning the other countries in the euro zone, except for Greece for which it increased to 5 percent, T-bill rates with the same maturity stagnated at 0.8 percent for France and 1.6 percent for Spain.

In the currency markets, owing to the slowdown in growth in the euro area and the fiscal situation in Italy, the euro depreciated between October and November by 0.9 percent against the US dollar to 1.14 and lost 0.4 percent against the pound sterling and 0.5 percent against the Japanese yen. As to the currencies of the main emerging countries, the Brazilian real and the Chinese Yuan stagnated vis-à-vis the dollar, while the Turkish lira and the Indian rupee rose by 7.2 percent and 1.8 percent respectively. As to bank credit, its annual growth rate eased in October to 3.4 percent in the United States and 3.3 percent in the euro area.

In commodity markets, after peaking in early October, oil prices went down, mainly reflecting fears of an excess in supply. In particular, the Brent price averaged $ 65.2/bl in November, down 19 percent from October and up 4.2 percent year-on-year. Prices for non-energy products fell by 7.1 percent year-on-year for metals and ores and by 3.9 percent for agricultural products. As to phosphates and derivatives, prices were up 15.6 percent year-on-year for crude at $ 92.5/mt on average, 28.5 percent for TSP at $ 379 /mt, 19.2 percent for DAP at $ 410.2/mt and 9.1 percent for urea at $ 305.6 /mt.

Under these conditions, inflation, measured by the change in the consumer price index, decelerated in November to 1.9 percent in the euro area and 2.2 percent in the United States.

With regard to monetary policy decisions, the ECB decided at its meeting held on December 13 to keep its rates unchanged, indicating that it continues to expect them to remain at their current levels at least through the summer of 2019 and, in any event, as long as necessary to ensure the continued sustainable convergence of inflation to levels below, but close to, 2 percent in the medium term. It also confirmed that its net purchases under the asset purchase program will cease in December 2018. Similarly, the Fed kept the federal funds target range in November unchanged at 2 to 2.25 percent, while indicating that future gradual increases would be appropriate to accompany a sustained expansion of economic activity, good labor market conditions and an inflation close to the 2 percent target in the medium term.

At the national level, preliminary data on the external accounts at end-November 2018 indicate the continued momentum in exports, up 9.7 percent, within particular increases of 13.2 percent in sales of phosphates and derivatives to 45 billion dirhams, and 10.6 percent in sales of the automotive sector to 59.9 billion. At the same time, imports rose 8.8 percent, with the energy bill rising 18.4 percent to 74.9 billion, and capital goods purchases up 7.8 percent to 107.6 billion. For the other major components of the current account, travel receipts virtually stabilized at 67.1 billion dirhams and expatriate remittances fell by 1.7 percent to 59.7 billion. FDI net flow increased from 8.5 billion to 31.8 billion, mainly driven by the sale operation of Saham Insurance Company. Foreign exchange reserves thus stood at 223.3 billion dirhams at end-November, corresponding to 5 months of imports of goods and services.

On the monetary side, banks' liquidity requirements stood at 72.2 billion dirhams on average in October and November. The volume of injections from Bank Al-Maghrib thus reached 72.7 billion on average, allowing maintaining the weighted average rate on the interbank market close to the key rate. Monetary conditions were also characterized during the third quarter by a rise in the real effective exchange rate and a virtual stagnation of lending rates. The growth pace of credit to the non-financial sector continued to decelerate to 2.2 percent in October from 3.4 percent in the third quarter, while claims on the central government accelerated, reflecting large repayments of VAT arrears. Overall, the rise in the M3 aggregate stood at 4.6 percent from 4.1 percent in the third quarter.

On the public finance side, data as at end-October show a rise by 4.1 billion dirhams in the fiscal deficit to 34.5 billion. Overall spending increased by 2.4 percent, reflecting in particular the rise in subsidy costs and expenses under "other goods and services". At the same time, current receipts increased by 1.7 percent, reflecting improved tax revenues and a decline in non-tax revenues, due to lower GCC grants. Taking into account the rebuilding of the stock of outstanding payments at an amount of 743 million dirhams, against settlements amounting to 5.9 billion a year earlier, the cash deficit eased by 2.6 billion to 33.8 billion. This requirement and the negative external net inflow of 3.8 billion were covered by domestic resources of 37.6 billion. As a result, direct public debt is expected to have increased by 3.5 percent at end-October compared to its December-2017 level.

As to national accounts, data for the second quarter of 2018 indicate a sharp slowdown in growth to 2.4 percent compared to 4.5 percent in the same quarter a year earlier, with a deceleration from 18.1 percent to 3 percent in the growth of agricultural value added and from 3 percent to 2.4 percent in non-agricultural activities. On the demand side, the positive contribution of its domestic component to growth declined, due to the deceleration from 4.6 percent to 3.3 percent of the rise in household final consumption, from 1.6 percent to 1 percent in general government consumption and from 2.8 percent to 0.1 percent in the growth of investment. At the same time, the contribution of net exports turned positive, albeit down from 0.6 percentage point to 0.3 point.

In the labor market, the domestic economy created between the third quarter of 2018 and the same quarter of 2017, 122 thousand jobs, including 98 thousand in the services. Taking into account a net inflow of 58 thousand jobseekers, the unemployment rate fell from 10.6 percent to 10 percent nationally, from 14.9 percent to 14.3 percent in urban areas and from 4.6 percent to 3.9 percent in rural areas.

In the real estate market, prices declined in the third quarter by 0.3 percent quarter-on-quarter, covering drops in property for professional use and urban land and a slight increase for residential assets. In the same line, the number of transactions fell 1.1 percent, as a result of decreases in sales of land and property for professional use, while those relating to residential property posted a slight increase from one quarter to the next. At the stock market, the MASI's annual underperformance increased to 9.4 percent at end-November, from 8.5 percent at the end of the third quarter and the volume of transactions in the central market dropped to 1.4 billion dirhams, after an average of 2.6 billion in the first ten months of the year.

As to inflation, it eased to 1.6 percent in the third quarter, a deceleration in line with BAM's forecasts, albeit on a higher-than-expected scale. October data show a continuation of this trend, with inflation dropping to 1.1 percent, mainly due to a 3.7 percent decrease in volatile food prices, after rising 0.8 percent in the third quarter. Core inflation, which measures the fundamental trend of prices, stood at 1.2 percent in October, unchanged from the third quarter.

In terms of outlook, the global economic activity is expected to weaken in the medium term. In the euro area, the rise of uncertainty would affect the momentum in activity, with GDP growth falling from 2.5 percent in 2017 to 1.9 percent in 2018 and 1.6 percent in 2019 before slightly accelerating to 1.8 percent in 2020. In the United States, the continuation of the normalization of monetary policy and the dissipation of the positive effects of tax reforms would lead to a slowdown in growth from 2.9 percent to 2.1 percent in 2019 and then to 1.8 percent in 2020. The labor market situation should nevertheless remain favorable, with unemployment remaining low in the United States and continuing to fall in the euro area.

In emerging countries, the slowdown of activity in China is expected to extend for a longer period under the effect of the continued rebalancing policy of the economy, while in India, growth would remain sustained in view of a vigorous domestic demand.

In the commodity market, the recently-observed downward trend in oil prices is expected to continue, with the Brent price falling in particular to $ 65.7/bl in 2019 and $ 63.9/bl in 2020, after an average of $ 72.2/bl in 2018. In the case of foodstuff, after the increase registered in the previous year, their prices would decrease in 2018 before registering a gradual increase in the medium term. For phosphates and derivatives, prices would increase in 2018 to average $ 400/mt for DAP and $ 340/mt for TSP, while decreasing to $ 86/mt for crude phosphate. In the medium term, DAP and TSP prices would continue to rise, but at a slower pace.

Against this background, inflation would stand in the euro area at 1.8 percent in 2018, from 1.5 percent in 2017, and in the United States at 2.5 percent from 2.1 percent. In the medium term, it would remain in the euro area at levels below the ECB target and evolve in the United States at a level close to that of the Fed.

At the national level, the acceleration in the sales of the automotive sector and the ongoing good performance of those of phosphates and derivatives would continue to support the momentum of exports, which would increase to 9.6 percent in 2018, 6.6 percent in 2019 and 7.8 percent in 2020. At the same time, the higher energy bill would lead to an 8.5 percent increase in imports in 2018, although its expected decline would slow down their pace to 2.5 percent in 2019 and 3.5 percent in 2020. In terms of travel receipts and expatriate remittances, they are expected to slightly drop in 2018, before returning to an average growth of around 4 percent in the medium term. Under these conditions, and assuming GCC grant inflows of 4.8 billion dirhams in 2018 and 2 billion in 2019, the current account deficit would end the year at 4.4 percent of GDP, before easing to 3.7 percent in 2019 and 3.2 percent in 2020. FDI inflows would stand at around 4.1 percent of GDP in 2018 before stabilizing at almost 3.4 percent in the medium term. Taking into account also the expected Treasury borrowings from international markets, the NIR would end the year at 230.4 billion dirhams before reaching 239 billion in 2019 then falling to 235.7 in 2020. Their coverage in months of imports would stand at 5 months and 3 days at end-2018, 5 months and 2 days in 2019 and 5 months by 2020.

Taking into account these developments and the expected increase in the currency in circulation, liquidity needs would reach 69.7 billion dirhams at end-2018, as against 40.9 billion a year earlier, and would widen to 72.1 billion at the end of 2019 and 86.2 billion at end-2020. As to monetary conditions, they would tighten somewhat, while remaining generally favorable, with in particular a virtually stable real effective exchange rate in 2018, which would rise in 2019, and slightly fall in 2020. For its part, credit to the nonfinancial sector would remain moderate, with rates projected at 3.5 percent in 2018 and 3.3 percent in 2019, before rising to 4.3 percent in 2020.

At the level of public finance, fiscal deficit would stand at 3.7 percent of GDP in 2018 and at 3.8 percent in 2019, taking into account the FLP data in 2019. In 2020, it is expected to decrease to 3.6 percent, assuming the continuation of the revenue mobilization effort.

National economic growth is expected to slow down to 3.3 percent in 2018, covering a deceleration from 15.4 percent to 4.6 percent in the growth of agricultural value added and a further improvement in nonagricultural activities from 2.7 percent to 3.1 percent. Assuming a return to a normal crop year with cereal production of 80 million quintals, growth would slow to 3.1 percent in 2019 before accelerating to 3.6 percent in 2020. Non-agricultural value added would continue to increase to 3.5 percent in 2019 and 3.8 percent in 2020, while that of the agricultural sector would decrease by 0.8 percent before recovering by 3.3 percent, respectively.

As for inflation, it is expected to pick up from 0.7 percent in 2017 to 2 percent in 2018, driven by a sharp rise in prices of volatile food products and regulated tariffs, before dropping to 1 percent in 2019 and 1.2 percent in 2020. Its fundamental trend would, however, decelerate to 1.1 percent in 2018 and 1 percent in 2019, in line with the expected slowdown in domestic demand and the appreciation of the REER, before accelerating to 1.6 percent in 2020

The central scenario of the forecasts remains surrounded by several uncertainties which, in the event they are materialized, can impact the central projection both upwards and downwards. In particular, the forecasting of the NIR remains dependent in particular on the effective inflow of GCC grants and the Treasury borrowing operation from international markets. For its part, projections for the fiscal deficit would depend on the outcome of the social dialogue that was initiated several months ago, and which could at the same time affect the trajectories of inflation and growth. The latter are also essentially dependent on the future trend in oil prices and growth in the main partner countries, which itself is surrounded by a number of uncertainties relating in particular to the rise of protectionism, political and geopolitical tensions, the still uncertain Brexit terms and the increasing pressure on emerging financial markets. Finally, a significant deviation from the central assumption of agricultural production could affect growth and, to a lesser extent, other projected variables.

1.INTERNATIONAL DEVELOPMENTS

After a solid performance, the global economy is showing signs of deceleration, in particular with the rise of protectionism, the fiscal situation in Italy, Brexit uncertainties, the tightening of monetary policies and financial vulnerabilities in emerging economies. Third quarter data point to the continued vigor of economic activity in the United States, while in the euro area, growth continues to lose momentum. In the UK, despite the ongoing uncertainty over the outcome of the Brexit, growth continued to trend upwards over the last two quarters, while growth in Japan continued to trend in an irregular pattern. In the main emerging economies, it declined in China and India, but accelerated in Brazil and Russia. On the labor market, the situation remains generally favorable in the advanced countries. As to financial markets, they were impacted by the rising uncertainties, leading to a drop in major stock market indices of advanced countries. On the commodity market, prices edged downwards for both energy and non-energy products. Against this background, inflation rates trended downwards overall, with decelerations in the euro area and the United States.

1.1 Economic activity and employment

1.1.1 Economic activity

In the third quarter of 2018, the US economy remained strong with a GDP growth at 3 percent as against 2.9 percent a quarter earlier, reflecting notably improved consumer spending and investment. On the other hand, against a backdrop of uncertainty surrounding Brexit and the 2019 Italian budget, growth in the euro area again slowed down, from 2.2 percent to 1.6 percent. This trend reflects the sharp decline in growth in Germany from 2 percent to 1.2 percent, as a result of a negative contribution from foreign trade following the introduction of new car pollution standards. The slowdown also affected Italy and to a lesser extent France, whose growth fell respectively from 1.2 percent to 0.7 percent and from 1.7 percent to 1.4 percent. In turn, growth in Spain stabilized at 2.5 percent.

Conversely, despite concerns over the Brexit, the UK economy was once again strengthened, with GDP up 1.5 percent from 1.2 percent, reflecting the good performance of household consumption and foreign demand. In contrast, growth decelerated significantly in Japan, to 0.1 percent from 1.4 percent, mainly as a result of lower non-residential private investment and net exports. As for the main emerging countries, China's growth slowed further in the third quarter to 6.5 percent from 6.7 percent, reflecting the stagnation of investment following the measures taken to curb the rising indebtedness. Similarly, growth decelerated in India from 8 percent to 6.9 percent, mainly reflecting a slowdown in consumer spending.

Table 1.1: YoY change in quarterly growth

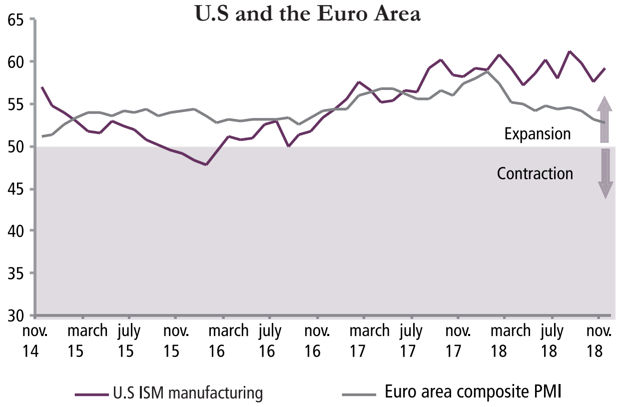
	2016		2017				2018		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Advanced economies									
United States	1.5	1.9	1.9	2.1	2.3	2.5	2.6	2.9	3.0
Euro area	1.8	2.1	2.1	2.5	2.8	2.7	2.4	2.2	1.6
France	0.9	1.2	1.4	2.3	2.7	2.8	2.2	1.7	1.4
Germany	2.1	1.9	2.1	2.2	2.7	2.8	2.1	2.0	1.2
Italy	1.2	1.3	1.6	1.7	1.8	1.6	1.4	1.2	0.7
Spain	3.1	2.7	2.9	3.1	2.9	3.1	2.8	2.5	2.5
United Kingdom	1.7	1.7	1.8	1.9	1.8	1.4	1.1	1.2	1.5
Japan	1.0	1.5	1.3	1.6	2.0	2.0	1.1	1.4	0.1
Emerging economies									
China	6.7	6.8	6.9	6.9	6.8	6.8	6.8	6.7	6.5
India	7.2	6.9	6.0	5.6	6.1	6.6	7.6	8.0	6.9
Brazil	-2.5	-2.3	0.1	0.6	1.4	2.2	1.2	0.9	1.3
Turkey	-0.8	4.2	5.3	5.3	11.5	7.3	7.2	5.3	1.6
Russia	-0.2	0.4	0.6	2.5	2.2	0.9	1.3	1.9	n.a

Source : Thomson Reuters Eikon.

Meanwhile, growth in Brazil rose to 1.3 percent from 0.9 percent, amid a rebound in investment and a recovery in public spending. In addition, second quarter growth data in Russia point to a strengthening to 1.9 percent from 1.3 percent in a context of rising oil prices.

At the same time, the high-frequency indicators indicate a slowdown in the Eurozone composite PMI index, falling to 52.7 points in November from 53.1 in October. Conversely, data from the US manufacturing PMI in November indicate an increase to 59.3 points as against 57.7 a month earlier.

Chart 1.1: Change in some high-frequency indicators in the U.S and the Euro Area



Source : Thomson Reuters.

1.1.2 Labor market

In the United States, the labor market strength continued in November, with a stable unemployment rate at 3.7 percent for the third month in a row, its lowest level for nearly half a century. Job creation fell to 155,000 in November from 237,000 a month earlier. Similarly, in the euro area, the unemployment rate remained stable for the third consecutive month at 8.1 percent in October, its lowest level since December 2008. By country, this rate fell slightly to 8.9 percent in France, 3.3 percent in Germany, and 14.8 percent in Spain, while it increased from 10.3 percent to 10.6 percent in Italy. In the United Kingdom, August-data show a stabilization of the unemployment rate at 4.0 percent.

Table 1.2: Change in unemployment rate (%)

	2016	2017	2018		
			sept.	oct.	nov.
United States	**4.9**	**4.4**	**3.7**	**3.7**	**3.7**
Euro area	**10.0**	**9.1**	**8.1**	**8.1**	**N.A**
France	10.1	9.4	9.0	8.9	N.A
Italy	4.1	3.8	3.4	3.3	N.A
Germany	11.7	11.2	10.3	10.6	N.A
Spain	19.6	17.2	14.9	14.8	N.A
United Kingdom	**4.8**	**4.4**	**N.A**	**N.A**	**N.A**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

In an unfavorable context, stock market indices of the main advanced economies dropped between October and November, with the EuroStoxx 50 falling by 1.8 percent, the Dow Jones by 1.5 percent and the NIKKEI 225 by 3.5 percent. These developments were accompanied by very slight changes in volatility indicators, upwards for the US market and downwards for the European market.

In the United Kingdom, the FTSE 100 dropped by 1.3 percent, despite the announcement of a provisional agreement over Brexit and its subsequent validation by the EU countries. This agreement has had no significant impact on the UK stock market pending its ratification by the UK Parliament, for an official entry into force as from March 2019, the effective exit date of the UK from the EU.

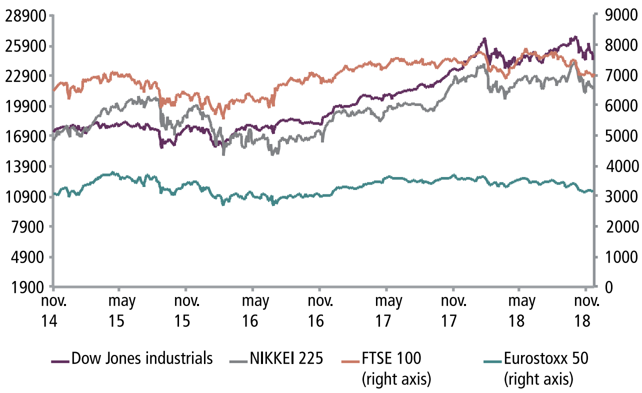
In the emerging economies, the MSCI EM index posted a slight increase of 0.3 percent, reflecting in particular increases of 4.7 percent for the India index, 7.6 percent for Turkey and 1.7 percent for the emerging markets.

Moreover, divergent developments were posted between October and November in the bond market of advanced countries. Taking advantage of their safe-haven status, US T-bills declined to 3.1 percent in November for those with a 10-year maturity. In the euro area, apart from Greece, where it rose to 5 percent, 10-year yields stagnated at 0.8 percent for France, 1.6 percent for Spain, and decreased to 0.4 percent for Germany and 1.9 percent for Portugal.

In Italy, in particular, this yield, which stands at 3.4 percent in November from 3.5 percent in October, remains relatively high compared to other major economies in the area. This decline can be attributed mainly to easing signs in the negotiations between Italy and the European Commission on the Italian fiscal deficit, as the government has raised the possibility of reducing the target of its 2019 deficit (Box 1.1).

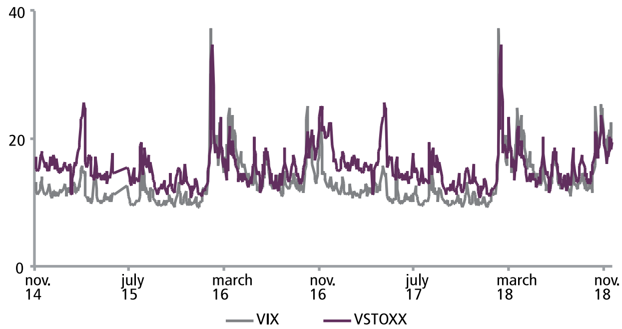
As concerns the major emerging economies, the 10-year sovereign yields declined between October and November from 9.8 percent to 9.2 percent for Brazil, from 3.6 percent to 3.5 percent for China, from 7.9 percent to 7.8 percent for India and from 18.3 percent to 16.4 percent for Turkey.

Chart 1.2: Change in major stock market indexes of advanced economies



Source : Thomson Reuters.

Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters.

BOX 1.1: Disagreement about the 2019 Italian Budget

Italy, like other euro area countries, presented in May 2018 to the European Commission (EC) its fiscal targets set in its stability[1] program. In turn, on July 13, the European Council issued budget recommendations approved unanimously, including by Italy. In October 2018, the country submitted to the European Commission (EC) for advice its draft budget plan, which, when examining it to ensure its compliance with the rules of economic governance inside the European Union, identified a "particularly serious" breach of the budget recommendations addressed to the country by the European Council.

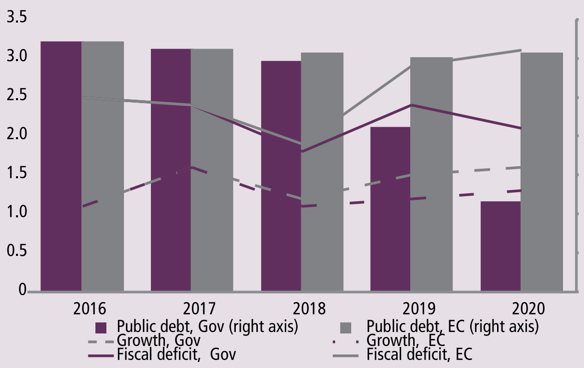
Indeed, the new Italian Government opted for a fiscal expansion in 2019, while the stability program framework requires it to reduce the deficit by 0.8 percentage point to 0.8 percent of GDP. The finalized version of the Italian 2019 budget, sent to the EC on November 13, kept the target of a fiscal deficit of 2.4 percent of GDP in 2019 with a neutral fiscal stance afterwards, setting deficits of 2.1 percent of GDP in

1 The stability program is presented each year to the EC by all euro area countries. It aims to draw up the three-year budget plan of each country. This plan gives rise to Council recommendations, which are taken into account in the finalization of the draft budget plan

2020 and 1.8 percent in 2021. The Government is betting on a revival of growth via demand, through in particular a sterilization of the increase in VAT in 2019, a reduction in taxes, a revision of the pension system and the introduction of a minimum wage for citizens, projecting a growth rate of 1.5 percent in 2019, 1.6 percent in 2020 and 1.4 percent in 2021.

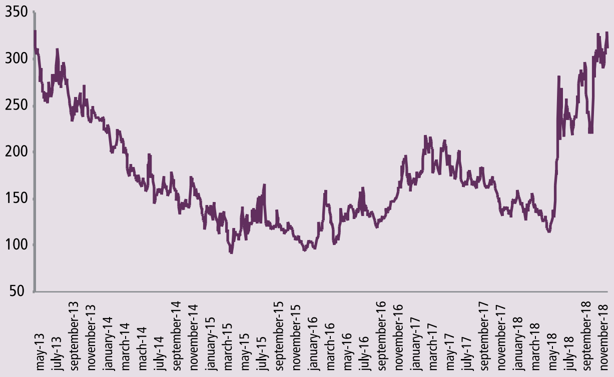
Yet the IMF, in its 2018 consultation conclusions, estimated uncertain the impact of this stimulus on growth over the next two years, highlighting that growth is exposed to the negative effects of a persistent rise in sovereign yields, and would average only 1 percent over the 2018-2020 period. Similarly, the Commission projected a growth rate of 1.2 percent in 2019 and 1.3 percent in 2020. Indeed, following the difficulties in forming a Government and the ensuing economic policy uncertainty, Italian bond yields have risen significantly and the 10-year bonds gap compared to the German Bund have risen to the highest levels ever observed since April 2013, reaching a peak of 329 basis points on November 20. Rating agencies have reacted quickly to reassess the Italian sovereign risk, stressing its linkage with the banking sector. As of last May, Moody's initiated a process of downgrading the rating of Italy, upon which it proceeded on October 19 to the degradation of this rating by one notch to Baa3, with a stable outlook. In turn, Fitch Ratings and S&P - on August 31 and October 26, respectively - decided to revise the outlook associated with Italy's confirmed BBB rating from stable to negative.

Chart B.1.1.1: Growth and public finance outlook according to the EC and the Italian Government



Source : Italian Economy Ministry & European Commission

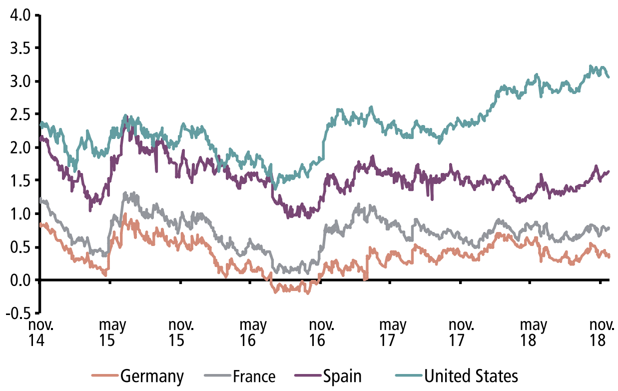
Chart B.1.1.2 : Spread between Italian and German 10-year bond yields



Source : Thomson Reuters.

As regards public debt, it stands at very high levels, with a maturity of 6.79 years at end-September 2018. Following the negative opinion issued by the EC on the draft budget plan, the Government decided to revise its privatization objective to 1 percent of GDP in 2019 in order to accelerate the reduction of public debt. The debt-to-GDP ratio would then stand at 129.2 percent in 2019, 127.3 percent in 2020 and 126 percent in 2021, contrarily to the IMF forecasts that indicate a stabilization of the debt-to-GDP ratio at around 130 percent over the next three years, and to those of the Commission at nearly 131 percent over the 2019-2020 period. In order to avoid an excessive deficit procedure, the Italian Government recently stated its intention to review once again the 2019 budget, which quickly led to a relative easing of tensions in the financial markets.

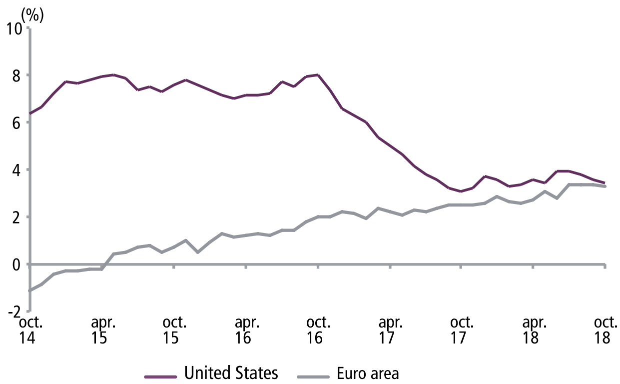
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters Eikon.

In the money markets, the 3-month Euribor remained unchanged at -0.3 percent, while Libor with the same-maturity rose slightly from 2.5 percent in October to 2.6 percent in November. Bank credit, meanwhile, decelerated on an annual basis from 3.6 percent in September to 3.5 percent in October in the United States and from 3.4 percent to 3.3 percent in the euro area.

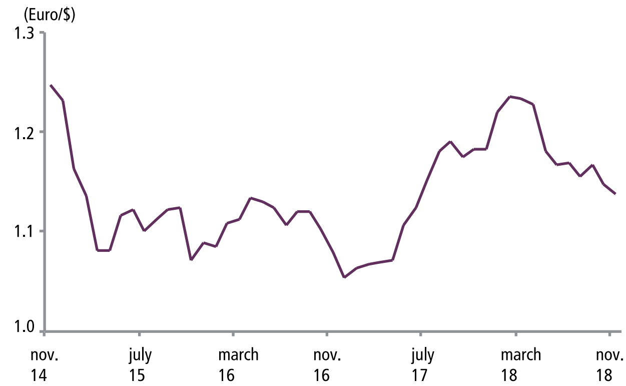
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters Eikon.

On the foreign exchange market, the euro was negatively impacted by the slowdown in economic growth in the euro area observed in the third quarter and by the uncertainty related to the Italian budget of 2019. It depreciated between October and November by 1 percent against the dollar to stand at $ 1.14, and lost 0.2 percent against the pound sterling and 0.5 percent against the Japanese yen. As for the currencies of the main emerging countries, they followed different trends vis-à-vis the dollar with, on the one hand, stagnation for the Brazilian real and the Chinese Yuan respectively at 3.8 and 6.9 Yuan, and on the other, an appreciation of 7.9 percent for the Turkish lira and 2.5 percent for the Indian rupee.

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters Eikon.

With regard to monetary policy decisions, the FED maintained unchanged at its meeting on November 7 and 8 the target range of the federal funds rate at 2 percent to 2.25 percent. It expects that future gradual increases in the federal funds target range would be consistent with a sustained expansion of economic activity, good labor market conditions and inflation close to the 2 percent medium-term objective.

Similarly, the ECB decided on December 13 to keep rates unchanged and indicated that it continues to expect them to remain at their current levels at least through the summer of 2019 and, in any event, as long as necessary to ensure the continued sustainable convergence of inflation to levels below, but close to, 2 percent over the medium-term. Concerning unconventional measures, it indicated that net purchases under the Asset Purchase Program (APP) will cease in December 2018. It also pointed out that at the same time it is deepening its prospective guidance on reinvestments. It therefore intends to continue reinvesting, in full, principal repayments of maturing securities acquired under the APP for an extended period of time after the date on which it will begin to raise rates and, in any event, as long as necessary to maintain favorable liquidity conditions and a high degree of monetary support.

In turn, the Bank of England decided at its meeting of November 1 to keep unchanged its key rate at 0.75 percent. It also decided to keep the stock of purchases of British government bonds at £ 435 billion and the purchases of "investment grade" bonds of British non-financial companies at £ 10 billion.

In emerging countries, the Reserve Bank of India decided on December 5 to leave its key rate unchanged at 6.5 percent, while noting that even if inflation forecasts were revised downwards and that some risks have been mitigated, particularly with respect to oil prices, several uncertainties still weigh on the inflation outlook. Similarly, the Brazilian Central Bank kept on December 12 its key interest rate at 6.5 percent and indicated that the latest data continue to point to a gradual recovery of the Brazilian economy, while reiterating that the current economic situation still requires a monetary stimulus policy, namely a low key rate. In turn, the Central Bank of Russia decided on December 14 to raise its key rate by 0.25 percentage point to 7.75 percent, while indicating that this decision is proactive and aims to limit inflationary risks that remain high, especially in the short term. Moreover, it considers that there is still uncertainty as to the response of prices and inflation expectations at the next rise in the VAT rate and that this increase in the policy rate will help to prevent inflation from remaining anchored at a level which is significantly higher than its objective.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

After reaching its highest level in four years in October, the Brent price fell by 19 percent from one month to the other at $ 65.2/bl in November, and its annual increase markedly eased, standing at 4.2 percent. This change mainly reflects fears of an abundant supply, especially after the significant increases in the production of Saudi Arabia and the United States and also the strong buildup of US stocks.

In turn, the price of natural gas on the European market continued to decline, posting a 6 percent drop from one month to the next and bringing its year-on-year increase to 23.5 percent.

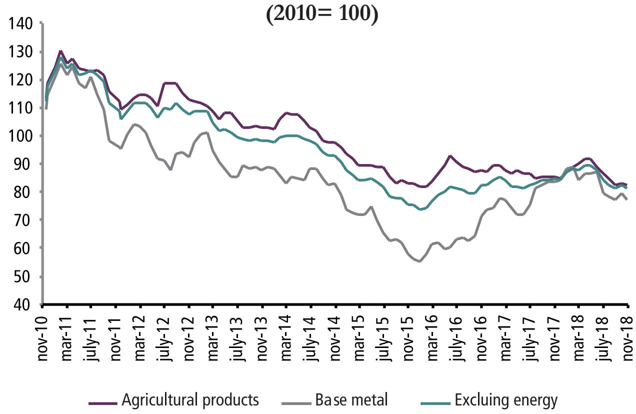
Chart 1.7 : Brent prices in dollars

Source : World Bank.

1.3.2 Non-energy commodity prices

As to non-energy commodity, metal and ore prices edged down 7.1 percent year-on-year, mainly due to trade tensions between China and the United States, which led to a fall in demand for metals (Box 1.2). Similarly, prices of agricultural products decreased by 3.9 percent, with wheat, in particular, falling by 4.6 percent compared to September, thus reducing its annual increase to 13.3 percent.

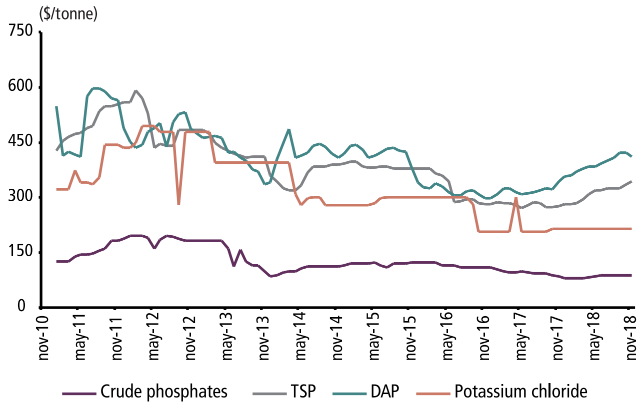
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

In the phosphate and fertilizers market, the price of crude phosphate rose on a monthly basis by 1.4 percent to $ 92.5/t in November, while urea rose 13.2 percent to $ 305.6 /t. On the other hand, the price of phosphate derivatives fell by 2.5 percent to $ 410.2/t for the DAP and by 1.6 percent to $ 379/t for the TSP. For its part, the price of potassium chloride continues its stagnation for over a year at $ 215.5/t. On an annual basis, data show price increases of 15.6 percent for crude phosphate, 19.2 percent for DAP, 28.5 percent for TSP and 9.1 percent for urea.

Chart 1.9: Change in the world prices of phosphate and derivatives



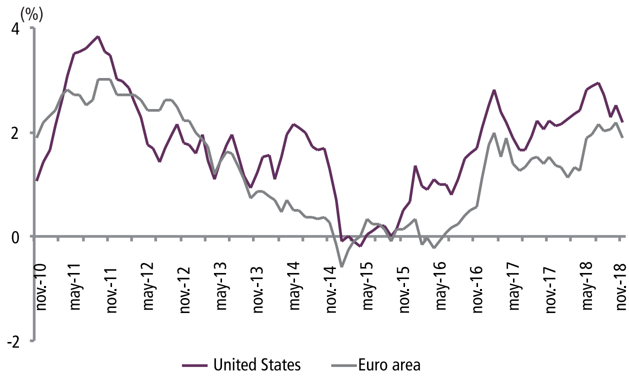
Source: World Bank.

1.3.3 Inflation

According to Eurostat, inflation in the euro area decelerated in November from 2.2 percent to 1.9 percent, reflecting, inter alia, declines from 2.3 percent to 1.7 percent in Spain, from 2.5 percent 2.2 percent in France, from 2.4 percent to 2.2 percent in Germany and from 1.7 percent to 1.6 percent in Italy. For the other major advanced economies, consumer price inflation slowed to 2.2 percent in the United States, while it accelerated in October to 1.4 percent in Japan and remained stable, over the same month, at 2.4 percent in the United Kingdom.

In emerging countries, inflation fell in November from 2.5 percent to 2.2 percent in China, from 4.6 percent to 4 percent in Brazil and from 3.4 percent to 2.3 percent in India. Conversely, it rose from 3.5 percent to 3.8 percent in Russia.

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



Sources : Eurostat and BLS.

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

	2016	2017	2018		
			sept.	oct.	nov.
United States	**1.3**	**2.1**	**2.3**	**2.5**	**2.2**
Euro area	**0.2**	**1.5**	**2.1**	**2.2**	**1.9**
Germany	0.4	1.7	2.2	2.4	2.2
France	0.3	1.2	2.5	2.5	2.2
Spain	-0.2	2.0	2.3	2.3	1.7
Italy	-0.1	1.3	1.5	1.7	1.6
United Kingdom	**0.7**	**2.7**	**2.4**	**2.4**	**N.A**
Japon	**-0.1**	**0.5**	**1.2**	**1.4**	**N.A**

Sources : Thomson Reuters, Eurostat and IMF.

Box 1.2 : The impact of trade tensions on commodity prices

In its October 2018 report on the outlook for commodity markets, the World Bank said that renegotiating trade agreements and rising trade tensions between some countries have had a significant impact on commodity markets. Indeed, the revision of tariffs on these products has led to an immediate rise in domestic prices, has penalized free trade and displaced commercial channels towards products not subject to tariffs and / or towards more open countries. The report notes that effects may vary depending on whether tariffs are applied: (i) to imports from a single country, citing, for example, Chinese imports of US soybeans; or (ii) to imports from many countries, such as US imports of steel and aluminum. This impact will be all the more important as the taxation will affect countries with a high weight in the global economy.

Accordingly, China's[1] implementation of a 25 percent tariffs on US soybean imports led to a substantial change in the prices and trade flows of this product. This decision led to a reorientation of Chinese demand towards Brazil, whose soybean prices have risen, parallel to a sharp drop in prices in the United States. Faced with this price rise, Brazil's customer countries, such as the European Union, have turned to the United States. Some estimates suggest that total US soybean exports could decline by about a quarter over the next three to five years and only half of the loss of US exports to China could be offset by an increase in exports to other countries.

For products from several countries, the application of tariffs can have global and lasting effects. After the US president announced in March 2018 the application of tariffs on imports of steel and aluminum, the prices of these metals rose sharply in the United States. The rise in steel prices in the US since the beginning of the year was thus 25 percentage points higher than that in the United Kingdom and the gap between the increase in the price of aluminum in the United States and the London Metal Exchange's benchmark is 11 percentage points. While this may help encourage US domestic production, the additional costs to consumers could reduce the purchasing power in the United States, and hence overall welfare. On the other hand, rising trade tensions can stir worries about global trade, investment and growth, and thus cloud the outlook for commodity demand. Tariffs can disrupt global supply chains and increase the demand for substitutes from other countries. An increase in tariffs up to the legally bound consolidated[2] rates could result in a drop in global trade flows of up to 9 percent, similar to that recorded during the global crisis of 2008. In addition, according to the latest data from the WTO, global trade growth is expected to slow further in the fourth quarter of 2018. The latest figure in the World Trade Outlook indicator published on November 26 indicates that it fell below 100, falling from 100.3 to 98.6, its lowest level since October 2016, which means that global trade growth is expected to be below its trend in the coming months.

1 China, the world›s largest soybean consumer, meets most of its needs through imports.

2 A bound tariff is a duty applied on certain products, which a WTO member has legally committed not to exceed. In the context of the WTO, members undertake to «consolidate» their rights (often during negotiations), and the bound rate represents the maximum level of customs duties that may be charged on a product imported from a member.

2. EXTERNAL ACCOUNTS

At end-November 2018, the trade deficit widened, compared to the same period of the previous year, by 13.3 billion dirhams to reach 186.4 billion dirhams. Imports increased by $ 35.4 billion or 8.8 percent, mainly reflecting higher energy costs and increased capital goods purchases. At the same time, exports continued their momentum with an increase of 22.1 billion or 9.7 percent, reflecting in particular the continued good sales performance of the automotive industry and phosphates and derivatives. As a result, the coverage rate rose from 56.7 percent to 57.2 percent year-on-year.

In addition, travel receipts virtually stabilized at their November-2017 level and expatriate remittances fell by 1.7 percent. Regarding the main financial transactions, net FDI inflows rose by 36.7 percent to 31.8 billion reflecting in part the realization of the sale transaction of SAHAM Company. Under these conditions and taking into account the other items in the balance of payments, Bank Al-Maghrib's net international reserves stood at 223.3 billion dirhams at end- November, equivalent to 5 months of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

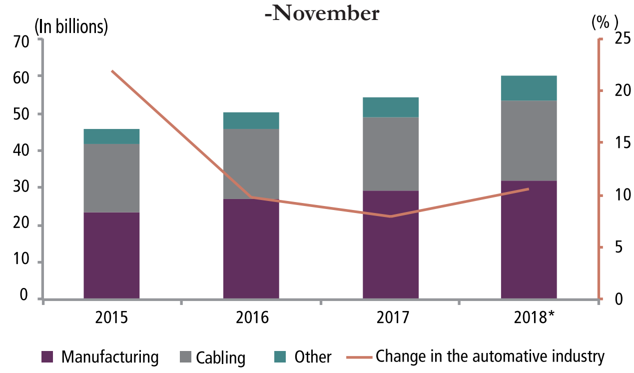
The improvement in exports affected all sectors. Sales of phosphates and derivatives increased by 13.2 percent to stand at 45.5 billion dirhams. Automotive exports rose 10.6 percent to 59.9 billion, mainly reflecting an increase by 8.9 percent for both "construction" and "cabling". Similarly, exports of the "agriculture and agri-food sector" increased by 6.3 percent to 52.1 billion, including a 13.5 percent increase for "agriculture, forestry, and hunting" and 1.9 percent for the agri-food industry. Sales of the textile and leather sector, for their part, increased 4 percent to 35.8 billion dirhams and those in the aeronautics sector improved by 13.1 percent to 12.6 billion.

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

Sectors/ Segments	jan-nov. 2018*	jan-nov. 2017	Change (in millions of Dh)	
			Value	In %
Exports	**249 045**	**226 964**	**22 081**	**9.7**
Phosphates and derivatives	**45 478**	**40 176**	**5 302**	**13.2**
Automotive	**59 911**	**54 190**	**5 721**	**10.6**
Construction	31 769	29 180	2 589	8.9
Cabling	21 377	19 628	1 749	8.9
Agriculture and Agri-business	**52 146**	**49 078**	**3 068**	**6.3**
Agriculture, forestry, and hunting	20 501	18 058	2 443	13.5
Agri-food industry	29 740	29 184	556	1.9
Textile and leather	**35 845**	**34 477**	**1 368**	**4.0**
Ready-made clothes	22 323	21 780	543	2.5
Underwear	7 380	7 060	320	4.5
Shoes	2 775	2 749	26	0.9
Aeronautics	**12 595**	**11 133**	**1 462**	**13.1**
Electronics	**8 943**	**8 298**	**645**	**7.8**
Electronic components	4 097	3 977	120	3.0
Pharmaceutical industry	**1 110**	**1 044**	**66**	**6.3**
Others	**33 017**	**28 568**	**4 449**	**15.6**

* Preliminary data
Source: Foreign Exchange Office.

Chart 2.1: Change in automotive industry's exports at end -November



* Preliminary data

Source: Foreign Exchange Office.

2.1.2 Imports

The 8.8 percent increase in imports mainly reflects a 18.4 percent increase in the energy bill to 74.9 billion, with increases of 19.3 percent for purchases of "gas oil and fuel" and 17.6 percent for those of "petroleum gas and other hydrocarbons". At the same time, purchases of capital goods increased by 7.8 percent to 107.6 billion, with in particular a 49.7 percent rise in "aviation parts ". In turn, imports of consumer goods rose by 7.1 percent to 98.6 billion, mainly reflecting a 20.6 percent increase in purchases of "parts and spare parts for passenger cars". Similarly, wheat imports increased by 12.4 percent to 8.1 billion dirhams.

In total, the trade deficit widened by 13.3 billion to 186.4 billion dirhams and the coverage ratio improved by 0.5 percentage point to 57.2 percent.

Table 2.2 : Change in imports
(in millions of dirhams)

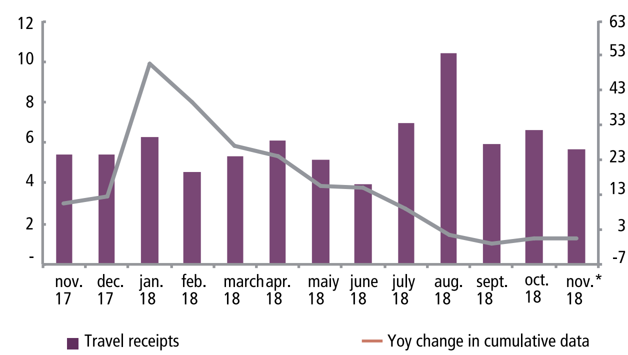
Products group	jan-nov. 2018*	jan-nov. 2017	Change	
			Value	In %
Imports (CIF)	**435 408**	**400 045**	**35 363**	**8.8**
Energy products	**74 889**	**63 277**	**11 612**	**18.4**
Gas oil and fuel	37 051	31 051	6 000	19.3
Petroleum gas and other hydrocarbons	14 636	12 445	2 191	17.6
Equipment goods	**107 599**	**99 794**	**7 805**	**7.8**
Aviation parts	7 236	4 834	2 402	49.7
Machinery and variues appliances	9 035	8 036	999	12.4
Produits finis de consommation	**98 615**	**92 120**	**6 495**	**7.1**
Parts and spare parts for passenger cars	16 013	13 274	2 739	20.6
Raw products	**22 250**	**18 830**	**3 420**	**18.2**
Raw Sulfur	7 161	4 495	2 666	59.3
Semi-finished products	**90 588**	**87 561**	**3 027**	**3.5**
Wires bars and copper sections	4 586	3 665	921	25.1
Papers and cardboards	5 965	5 431	534	9.8
Food products	**41 292**	**38 350**	**2 942**	**7.7**
wheat	8 067	7 175	892	12.4
Oil cake	4 508	3 960	548	13.8

* Preliminary data
Source: Foreign Exchange Office.

2.2 Other components of the current account

With regard to the balance of services, travel receipts virtually stabilized at 67.1 billion dirhams, while spending under the same heading rose 8.5 percent to 17.4 billion dirhams.

Chart 2.2: Change in travel receipts

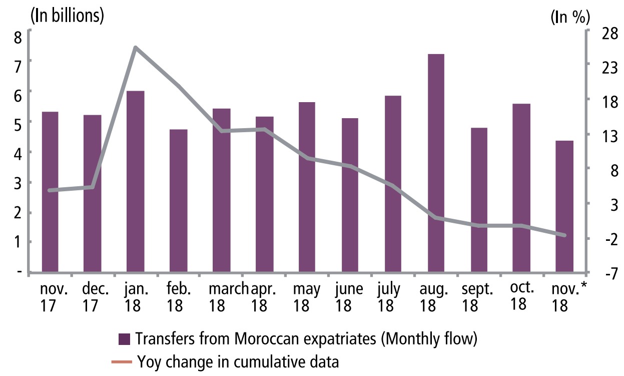


* Preliminary data

Source: Foreign Exchange Office.

As for remittances of Moroccan expatriates, they fell by 1.7 percent to 59.7 billion dirhams.

Chart 2.3: Change in transfers from Moroccan expatriates



* Preliminary data

Source: Foreign Exchange Office.

2.3 Financial account

Net FDI inflows increased by 8.5 billion dirhams to 31.8 billion, due to an increase of 11.5 billion in revenue, mainly related to the SAHAM operation, while sales rose by only 2.9 billion.

Under these conditions, and taking into account the other headings of the balance of payments, outstanding net international reserves stood at 223.3 billion at end-November 2018, corresponding to 5 months of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

Over the third quarter of 2018, monetary conditions were marked by a rise of the effective exchange rate and a virtual stagnation of lending rates. The deceleration of bank lending to the nonfinancial sector continued and particularly concerned loans granted to both private and public enterprises. As to other counterparts of the money supply, the growth rate of net claims on the central government slowed down, while net international reserves accelerated. Overall, money supply growth fell to 4.1 percent from 4.8 percent a quarter earlier. In turn, the real estate price index fell 0.3 percent from its level of the previous quarter. This trend includes decreases of 1.5 percent for urban land and 1 percent for assets for professional use, as well as an increase of 0.4 percent for residential property. At the same time, after a 2.4 percent increase in the second quarter, the number of transactions shrank by 1.1 percent, as a result of declines in sales of assets for professional use and urban land by 8.2 percent and 4.8 percent respectively. Residential property sales, on the other hand, increased by 0.8 percent. On the stock market, the MASI recorded a 4.6 percent drop in the third quarter and the volume of transactions was limited to 5.5 billion dirhams as against 11.9 billion and 13 billion respectively during the first two quarters of the year.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the third quarter of 2018, banks' liquidity needs increased to an average of 72.1 billion dirhams, due to the rise in currency in circulation and, to a lesser extent, the decline in foreign exchange reserves. Thus, Bank Al-Maghrib increased the amount of its injections to 72.3 billion, of which 69.5 billion in the form of 7-day advances and 2.8 billion as secured loan operations granted under the VSME funding support program.

During the months of October and November 2018, the liquidity deficit averaged 72.2 billion. At the same time, Bank Al-Maghrib's interventions amounted to 72.7 billion on average. In this context, the interbank rate remained close to the key rate and averaged 2.29 percent in the third quarter and 2.28 percent during the months of October and November.

In the Treasury bill market, yields overall saw slight increases for all maturities, both in the primary and secondary markets.

Chart 3.1: Change in the interbank rate (daily data)

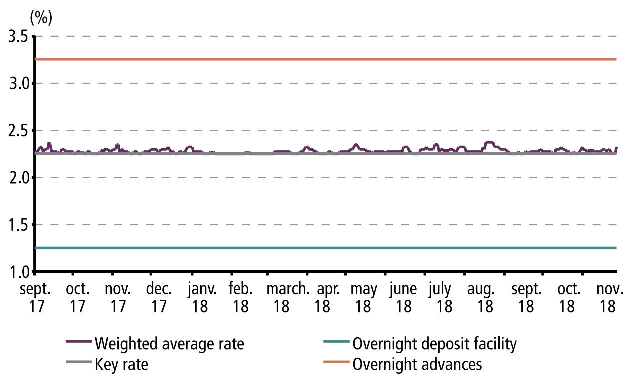
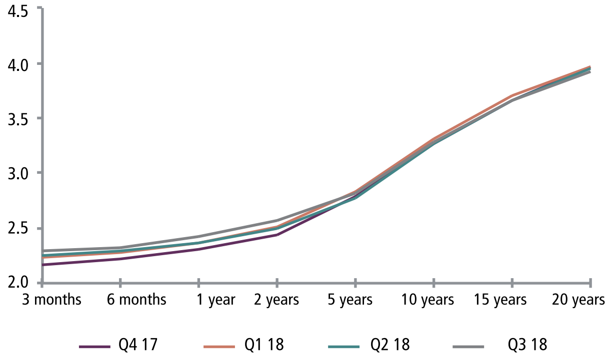


Table 3.1: Change in Treasury bond yields in the primary market

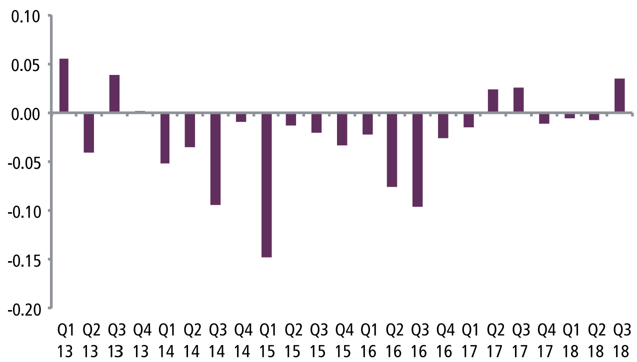
	2016	2017				2018				
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	oct.	nov.
52 weeks	2.30	2.32	2.26	2.36	2.29	2.35	2.31	2.42	2.45	2.44
2 years	2.44	2.52	2.41	2.49	2.44	2.53	2.49	2.58	2.60	2.59
5 years	2.69	2.83	2.78	2.83	2.77	2.80	2.77	2.82	2.86	2.87
10 years	3.08	3.27	3.27	3.32	3.28	3.28	3.24	3.28	3.31	3.33
15 years	-	3.87	3.87	3.87	3.71	3.68	3.68	3.70	-	3.74

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



In the other markets, the issuance rates of certificates of deposit generally posted slight increases in the third quarter. Concerning creditor rates, they remained almost unchanged from one quarter to the next, standing at 2.80 percent for 6-month deposits and 3.07 percent for 1-year deposits. Under these circumstances, Banks' financing cost1 slightly increased in the third quarter of 2018.

Chart 3.3: Change in cost of bank financing (in basis points)



With regard to lending rates, the results of Bank Al-Maghrib's survey with for the third quarter of 2018 indicate a virtual stability of the overall average rate at 5.35 percent. By institutional sector, the rates of loans to businesses have increased by 6 basis points, covering an increase in rates on cash facilities and a decrease in those applied to real-estate and equipment loans. By company size, rates fell by 5 basis points for large companies and rose by 15 points for VSMEs. Conversely, rates on personal loans fell by 30 basis points, with in particular decreases of 15 points in housing loans' rates and 25 points in consumer loans.

1 The financing cost is calculated as a weighted average of the costs of the banks› liabilities.

Table 3.2 : Change in lending rates

	2018		
	Q1	**Q2**	**Q3**
Global	**5.43**	**5.36**	**5.35**
Personal loans	**5.78**	**6.09**	**5.79**
Creditor accounts and cash advances	6.94	10.35	9.50
Real estate loans	4.94	5.00	4.85
Consumer loans	6.40	6.57	6.32
Loans to businesses	**5.28**	**5.12**	**5.18**
Creditor accounts and cash advances	5.23	5.02	5.15
Equipment loans	5.51	5.20	4.90
Real estate loans	5.41	5.98	5.85
Loans to individual businesses	6.23	7.08	6.80
Creditor accounts and cash advances	6.86	7.68	7.81
Equipment loans	6.81	6.41	6.64
Real estate loans	5.78	6.06	5.76
By size of businesses			
VSME	6.09	5.78	5.93
Large business (LB)	4.75	4.72	4.67

Source : BAM.

Table 3.3: Deposit rates

	2016			2017				2018		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
6 months	3.18	2.94	2.90	2.86	2.80	2.81	2.80	2.79	2.78	2.80
12 months	3.55	3.33	3.30	3.20	3.10	3.09	3.10	3.15	3.10	3.07

3.1.2 Exchange rate

In the third quarter of 2018, the euro depreciated by 2.4 percent against the US dollar. As a result, the national currency rose by 1.7 percent against the euro and depreciated by 0.8 percent against the US dollar. Compared to the currencies of the main emerging countries, the dirham appreciated by 28.1 percent against the Turkish lira, by 8.9 percent against the Brazilian real and by 5.9 percent against the Chinese Yuan. Accordingly, the effective exchange rate rose by 3.4 percent in nominal terms and by 2.1 percent in real terms.

Chart 3.4: Change in the exchange rate of the dirham

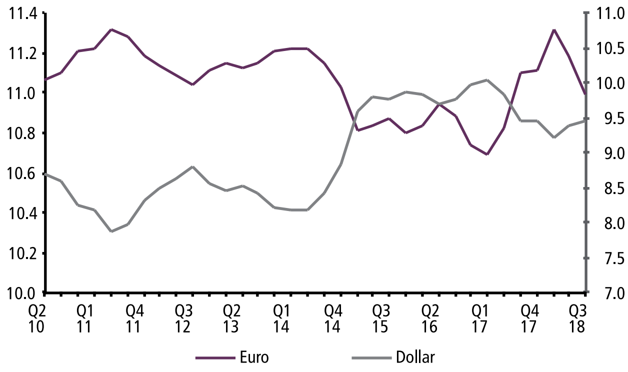
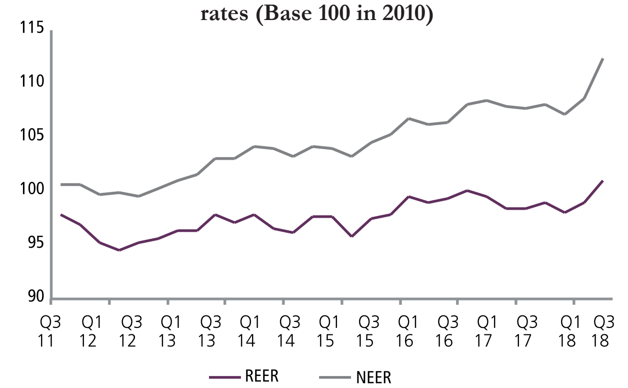


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



Source : BAM calculations and IMF.

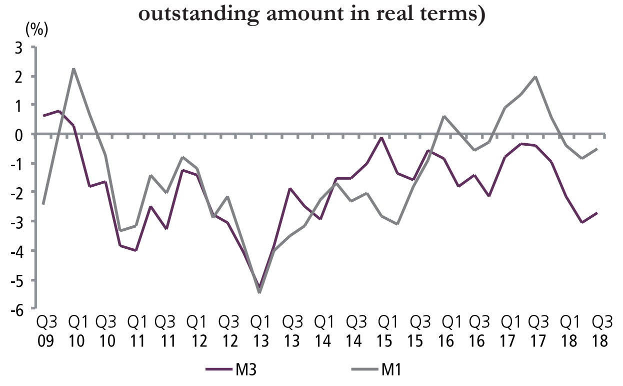
In terms of foreign currency transactions, the volume of banks' cash transactions with customers in the third quarter increased by 7 percent for sales to 21.9 billion dirhams and dropped by 7.7 percent to 20.5 billion for purchases. At the same time, forward transactions rose quarter-on-quarter from $ 2.2 billion to $ 6.4 billion for sales and from $ 9.7 billion to $ 13 billion for purchases. On the other hand, Bank Al-Maghrib did not carry out any purchase or sale operation of currencies with banks. Under these conditions, the net foreign exchange position of the banks amounted to 10.3 billion at end-September, from 2.2 billion at end-June 2018. In October, banks' foreign exchange transactions with customers grew by 5.2 percent for purchases at 35.3 billion, and 4.7 percent for sales at 29.7 billion. The net foreign exchange position of banks thus stood at 10.3 billion at end-October.

3.1.3 Monetary position

The growth rate of the M3 aggregate continued its deceleration, falling from 4.8 percent in the second quarter to 4.1 percent in the third quarter of 2018. This change reflects the slowdown from 7 to 5.6 percent in the growth rate of demand deposits, with decelerations from 7.1 percent to 5.9 percent in those of households, from 7.9 to 4.9 percent for private corporations and from 18.4 to 11.5 percent for the public sector. The analysis of the other components of the money supply also shows slowdowns from 5.2 percent to 4.6 percent of sight deposits and from 7.8 percent to 6.9 percent of currency in circulation. At the same time, time deposits increased 0.7 percent, after dropping 1.8 percent in the previous quarter, mainly due to the acceleration of financial units› time deposits from 22.9 percent to 51 percent, and to a lesser extent, the decline from 38.8 percent to 38.2 percent in time deposits of the public sector.

By main counterparts, M3 growth generally reflects a slowdown from 19.2 percent to 10.2 percent in net claims on the central government and a virtual stagnation of bank lending at 2.3 percent.

Chart 3.6: Money gap1 (in % of M3 and M1 equilibrium outstanding amount in real terms)



1:The money gap, calculated in real terms, is the difference between the recorded money stock and the equilibrium level. The latter, defined based on the quantity equation of money, corresponds to the growth of the potential economic activity in real terms, minus the average pace of decrease in the velocity of currency in circulation.

Source : BAM.

Chart 3.7: Contribution of the major counterparts to YoY change in money supply

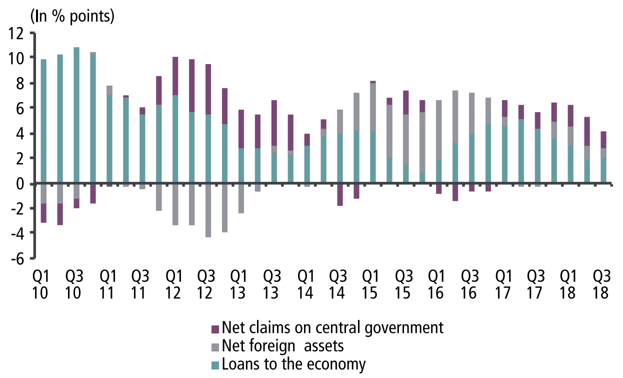
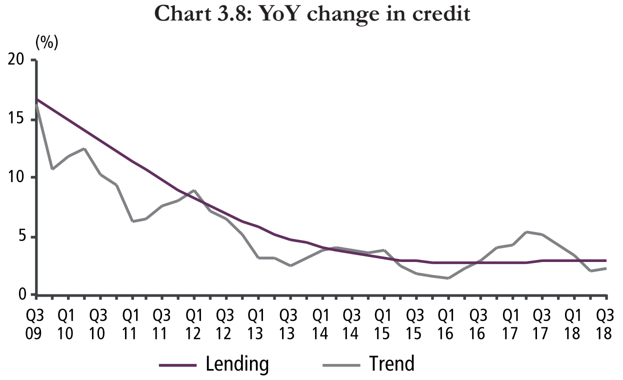


Chart 3.8: YoY change in credit

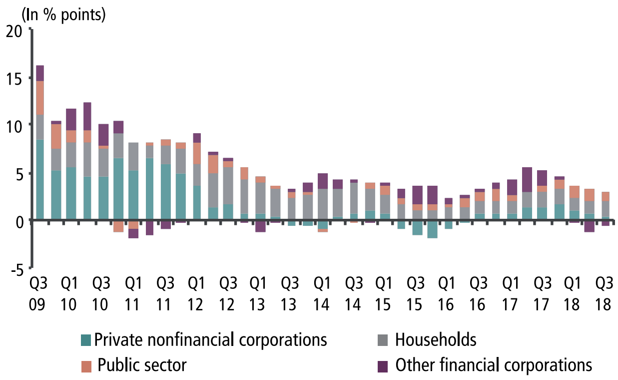


Regarding loans to the nonfinancial sector, its growth fell from 3.9 percent in the second quarter to 3.4 percent in the third quarter, mainly reflecting the slowdown in loans granted to both private and public companies. Loans to public companies fell from 21.5 percent to 14.5 percent, with a slowdown from 32.4 percent to 13.9 percent in equipment loans, while cash facilities rose by 20.3 percent after a decline of 17.7 percent. Concerning loans to private companies, they increased by 1.1 percent from 1.6 percent in the second quarter, reflecting a deceleration from 6.3 percent to 2.2 percent in the growth of equipment loans and from 1.6 percent to 0.1 percent in the growth of loans intended for real estate development. Conversely, the drop in cash facilities slowed down from 2.6 percent to 1.1 percent.

By industry, the latest available data show a deceleration from 1.5 percent to 0.2 percent in loans to the "trade, auto repairs and household goods" sector and a decrease by 7.4 percent of those granted to the "electricity, gas and water" sector, which is more pronounced than the 6.6 percent observed a quarter earlier. At the same time, credit growth accelerated from 2.6 percent to 5.7 percent in the third quarter for the "construction" sector, from 0.4 percent to 4.7 percent for the "transport and communication" sector and from 12.7 percent to 14.4 percent for "Food and tobacco industries".

As to household loans, they increased by 3.8 percent, from 3.5 percent in the second quarter, reflecting the 12.7 percent rise, as against a 2.2 percent decline in cash facilities given to individual entrepreneurs and a slight acceleration from 12.5 percent to 12.7 percent in the growth rate of their loans to real-estate development. Similarly, personal home loans increased by 4.1 percent, as against 3.8 percent in the previous quarter while consumer loans slowed down from 6 percent to 5.7 percent.

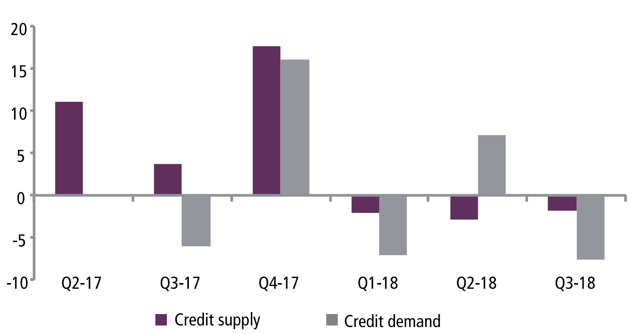
Chart 3.9: Institutional sectors' contribution to YoY change in credit



Non-performing loans rose 3.2 percent in the third quarter, virtually unchanged from the previous quarter. This trend reflects increases in non-performing loans by 2.5 percent for private non-financial businesses and 3.7 percent for households. Their ratio to bank lending remained unchanged at 7.7 percent overall, at 11.3 percent for companies and at 7.9 percent for households.

Results of the survey on credit conditions in the third quarter of 2018 indicate that after a slight tightening of lending criteria for businesses during the first half of the year and a slight easing for households, banks overall did not change the criteria for granting bank lending in the third quarter. In turn, compared to the previous quarter, the demand for bank lending is expected to drop, whether emanating from businesses or individuals.

Chart 3.10: Change in supply and demand (Diffusion Index)

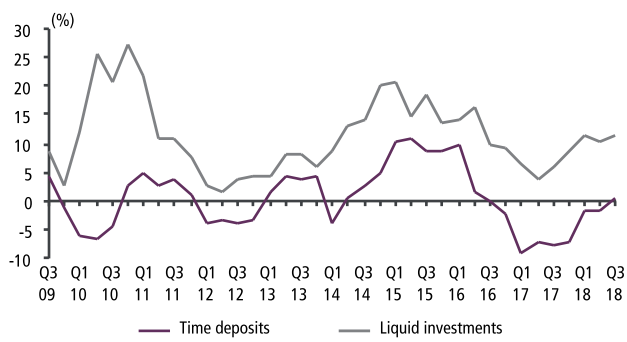


Loans granted by nonbank financial companies to the nonfinancial sector increased by 2.1 percent at end-September 2018 as against 2.3 percent a quarter earlier, mainly in view of the deceleration from 5 to 4 percent of the growth rate in loans distributed by finance companies. On the other hand, loans granted by offshore banks increased by 7.3 percent as against 0.7 percent at end-June.

The latest available data for October 2018 show a further slowdown in bank credit to 1.5 percent. In particular, loans to the non-financial sector increased by 2.2 percent from 3.4 percent in the third quarter, mainly due to a slowdown in loans to both public and private companies.

As regards liquid investment aggregates, they rose 11.5 percent as against 10.6 percent, owing to acceleration from 1.5 percent to 5.7 percent of treasury bills. Conversely, the growth rate of holdings decelerated from 25.7 percent to 9.2 percent for equity and diversified mutual funds securities and from 23 percent to 21.9 percent for bond mutual funds.

Chart 3.11: YoY change in liquid investments and time deposits



3.2 Asset prices

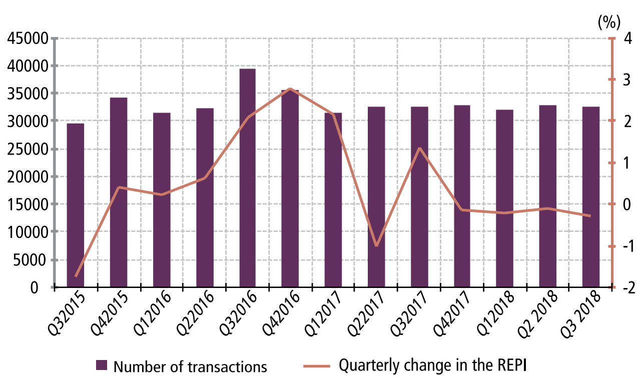
3.2.1 Real estate assets

In the third quarter of 2018, the Real-estate price index (REPI) declined 0.3 percent from the preceding quarter, masking declines by 1.5 percent for property prices and 1 percent for prices of property for professional use. as well as a 0.4 percent increase in residential prices.

The number of transactions fell by 1.1 percent, reflecting a decline in sales by 4.8 percent for urban land and by 8.2 percent for property for professional use. Conversely, residential property transactions rose by 0.8 percent.

In the major cities, prices posted diverging trends, with increases ranging from 0.1 percent in Meknes to 4.8 percent in Oujda and decreases from 0.2 percent in Casablanca and Tangier to 3.7 percent in Marrakech. In terms of transactions, the highest increases were reported in Oujda at 20 percent and Tangier at 19.3 percent. Conversely, Casablanca and Marrakech posted the most significant drops at 10.7 percent.

Chart 3.12: Change in the REPI and in the number of real estate transactions



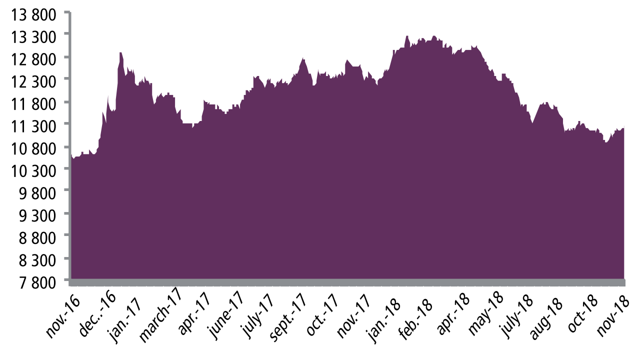
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

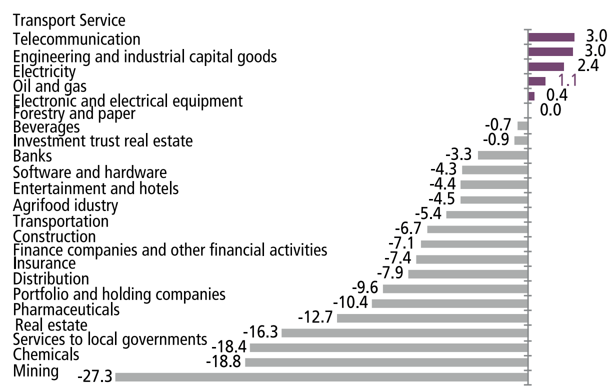
In the third quarter of the year, the MASI dropped once again by 4.6 percent quarter on quarter, increasing its annual underperformance to 8.5 percent. The quarterly decline in the benchmark index reflects, in particular, the fall in the sector-based indices of «mining» by 27.3 percent, «construction» by 7.1 percent and «banks» by 4.3 percent. Conversely, the «telecommunications» index posted a 3 percent increase from one quarter to the next.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.14: Contribution of sectoral indexes in the second quarter 2018 (in%)



Source : Casablanca Stock Exchange.

The trading volume fell to 5.5 billion dirhams, as against 11.9 billion and 13 billion respectively during the first two quarters of the year. This drop affected all market segments, including the central market, with an average monthly volume down from 3.3 billion to 1.5 billion. For their part, block market transactions stood at 754.7 million, as against 1.2 billion in the second quarter.

Under these conditions, market capitalization stood at 578.7 billion by the end of the third quarter, down 4.5 percent quarter-on-quarter and 7.7 percent since the beginning of the year. .

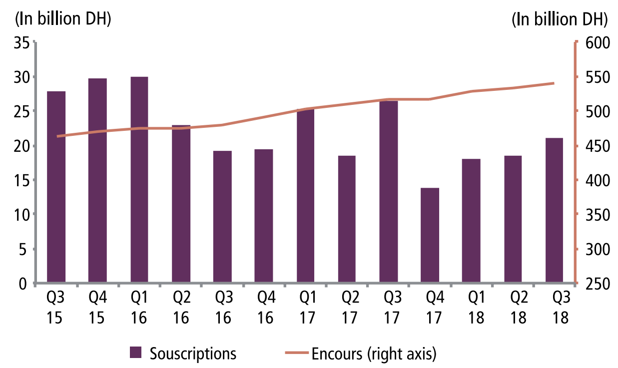
The most recent data shows a monthly rise of the MASI by 2.8 percent in November, following a 3.7 percent fall in October, bringing its underperformance since the beginning of the year to 9.4 percent. The trading volume stood at 1.5 billion dirhams as against an average of 3.3 billion during the first ten months of the year and market capitalization reached 572.5 billion, down 8.7 percent compared to December 2017.

3.2.2.2 Sovereign debt market

Domestic Treasury borrowing amounted to 27.2 billion dirhams in the third quarter, down 18.1 percent year-on-year. They were composed up to 69 percent of medium-term maturities and up to 18 percent and 13 percent respectively of long and short-term maturities. Yields on with these subscriptions were overall slightly on the rise for all maturities.

The latest available data indicate that Treasury issues reached 10.7 billion dirhams in November, and were composed up to 51 percent of medium-term maturities and up to 32 percent of short-term maturities. Taking into account a repayment amount of 9.1 billion, outstanding treasury bills reached 542.2 billion, up 4.9 percent from December 2017.

Chart 3.15: Change in outstanding Treasury bonds



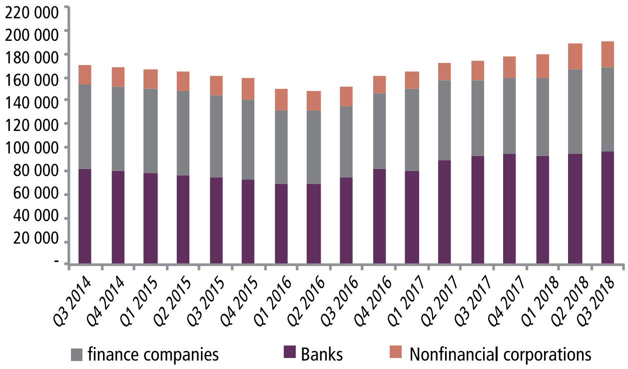
Source : BAM.

3.2.2.3 Private debt market

On the private debt market, after standing at 21.5 billion in the second quarter, issuances reached 13.5 billion dirhams in the third quarter, including a 10.8 billion dirham issued by banks. Subscriptions by nonfinancial companies fell from 7.8 billion to 1.1 billion dirhams, of which 728 million as commercial paper and 400 million as bonds.

In October, issuances stood at 4 billion as against 3.3 in September, and taking into account repayments, outstanding private debt stood at 190 billion, up 7 percent from December 2017.

Chart 3.16: Change in outstanding private debt per issuer (In billions of dirhams)



Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund shares/units

In the third quarter of 2018, subscriptions to mutual fund shares/units stood at 175.2 billion dirhams, registering a quarterly decline of 6.2 percent after 17.2 percent in the previous quarter. Thus, with the exception of “bond” mutual funds, whose subscriptions rose by 3.7 percent, the other categories recorded declines, the most important of which concerned “equity” and “diversified” mutual funds, with rates at 66 percent and 72.4 percent respectively. Taking into account a decline of 10.8 percent in repurchases at 175.5 billion, mutual funds recorded a net outflow of 276.1 million dirhams.

Under these conditions, and taking into account a 1.7 percent decrease in the overall performance index, mutual funds net assets almost stabilized at 423.6 billion dirhams, keeping its growth since the beginning of the year almost unchanged at 1.8 percent.

The latest available data, as at 23 November 2018, indicate an increase in mutual funds net assets of 3.8 percent compared to end-September at 439.7 billion dirhams, up 5.7 percent since the beginning of the year. This rise is mainly attributed to the significant increase in net subscriptions in “money market” and “medium and long-term bond” mutual funds.

4. FISCAL POLICY STANCE

Budget execution in the first ten months of 2018 revealed a deficit widening of 4.1 billion dirhams to 34.5 billion, due to the significant growth of expenses compared to revenues, as well as to a decrease of 1.9 billion in the positive balance of the special accounts of the Treasury. Regular resources increased by 1.7 percent, reflecting improved tax revenues and the decline in non-tax revenues due to lower GCC grants. At the same time, overall spending rose by 2.4 percent, mainly due to higher subsidy costs of other goods and services and of transfers to local governments, while investment spending dropped by 0.9 percent. The ordinary balance was positive at 9.2 billion, albeit down 2.6 billion from one year to the next.

On the other hand, financing requirement has been reduced by 2.6 billion compared to the same period in 2017, further to the inventory replenishment of expenses pending payment of 743 million, as against the settlement of 5.9 billion at end-October 2017. As a result, the direct public debt may have increased by 3.5 percent compared to its level at the end of December 2017. In addition, conditions of financing the Treasury on the auction market remain favorable as evidenced by the evolution of the weighted average rates of treasury bills on the primary market.

4.1 Current revenues

Budget execution in the first ten months of 2018 shows a 1.7 percent increase of current revenues to 206.9 billion, covering a 3.2 percent rise to 189.9 billion in tax revenues and a 13.7 percent drop of nontax ones to 14.6 billion. The favorable development of the tax revenue is mainly attributable to indirect taxes and customs duties.

Direct tax revenues recorded a slight increase by 0.8 percent to 74.6 billion, due to the improvement of income tax by 3.7 percent to 33.9 billion in IT revenues and the decline by 2.2 percent in CT revenues to 38.7 billion. This change includes a virtual stagnation at 3.3 billion of IT revenues from real estate profits and an increase of 3.4 percent to 7.1 billion from the salaries paid by the Personnel Expenses Division.

Similarly, indirect tax receipts improved by 5.1percent to 93.9 billion, mainly due to the 6.1percent increase of VAT receipts to 70.8 billion and to the 2.2 percent rise of DCT receipts to 23.1 billion. Proceeds of domestic VAT increased by 5.3 percent to 25.5 billion and takes into account payment of VAT credits amounting to 6.1 billion as against 5.7 billion a year earlier. Likewise, VAT receipts on imports increased by 6.5 percent to 45.3 billion.

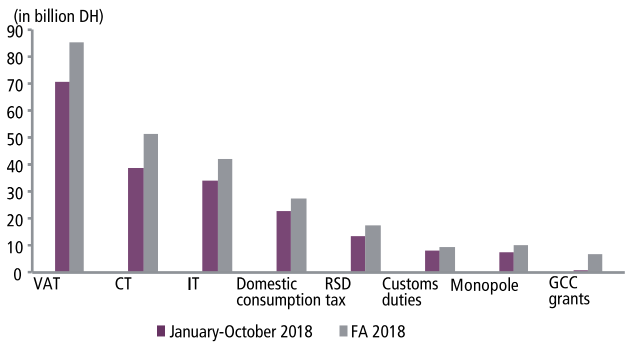
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan.-oct. 2017	Jan.-oct. 2018	Change in %	FA 2018	Achievements against the FA (%)
Current revenues	**203.4**	**206.9**	**1.7**	**262.4**	**78.8**
Tax revenues	**184.1**	**189.9**	**3.2**	**237.0**	**80.1**
- Direct taxes	74.1	74.6	0.8	97.1	76.9
Including CT	39.6	38.7	-2.2	51.2	75.6
I.T	32.7	33.9	3.7	41.7	81.3
- Indirect taxes	89.3	93.9	5.1	112.7	83.3
VAT*	66.8	70.8	6.1	85.5	82.9
DCT	22.6	23.1	2.2	27.3	84.5
- Customs duties	7.2	8.1	13.7	9.7	83.9
- Registration and stamp duties	13.6	13.3	-2.2	17.5	75.7
Nontax revenues*	**16.9**	**14.6**	**-13.7**	**22.1**	**65.8**
- Monopoles	6.8	7.3	6.9	9.8	73.9
- Other receipts	10.1	7.3	-27.6	12.3	59.3
Including GCC grants	4.6	0.8	-83.3	7.0	11.0
Recettes des CST	**2.4**	**2.4**	**-1.7**	**3.3**	**71.8**

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

On the other hand, Domestic consumer tax drained a total of 23.1 billion, up 2.2 percent, due in particular to the 5.3 percent increase of the DCT on tobacco o 8.7 billion and the slight increase of 0.3 percent to 13 billion on energy products. Likewise, customs duties yielded 8.1 billion, up 13.7 percent, while registration fees and stamp duties decreased by 2.2 percent to 13.3 billion.

Chart 4.1: Performances of the major revenues compared to the FA



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

Non-tax receipts amounted to 14.6 billion, down 13.7 percent, with a completion rate of only 65.8 percent compared to the 2018 FA, mainly as a result of lower receipts of grants from GCC countries to 767 million instead of 4.6 billion at end-October 2017. Nevertheless, monopole revenues increased by 6.9 percent to 7.3 billion mainly derived from the OCP and the ANCFCC at 2 billion each, Maroc Telecom at 1.5 billion, and BAM at 488 million.

4.2 Expenditure

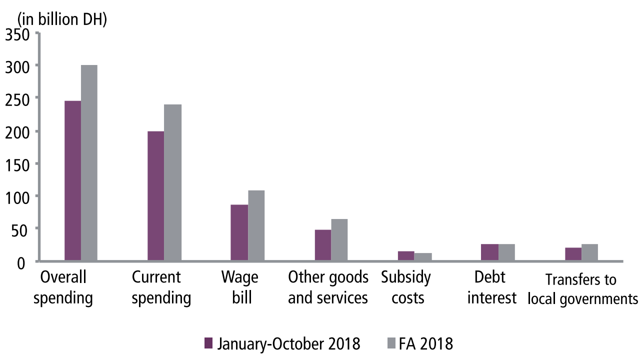
Overall spending at the end of October 2018 stood at 245.3 billion, up 2.4 percent, as a result of the 3.2 percent increase in current expenses to 197.7 billion and to the 0, 9 percent decrease of investment expenses to 47.7 billion. Expenditures on goods and services rose by 1.9 percent to 136.2 billion, reflecting the increases recorded in expenses related to other goods and services by 4.2 percent to 48.2 billion and to the wage bill by 0.7 percent to 88 billion, therefore recording a lower level of implementation compared to the Finance act programming. The change in staff costs expenditures stems in part from the rise by 0.5 percent in its structural component and by 40.3 percent in recalls. Regarding expenditures of other goods and services, they reflect rises of transfers to public institutions by 17.6 percent to 18.7 billion, and in transfers to the Moroccan Pension Fund by 19 percent to 12.5 billion, as against a decrease of 14.3 percent to 2.4 billion in payments to the special accounts of the Treasury.

Table 4.2: Change and execution of public spending (In billions of dirhams)*

	Jan.- oct. 2017	Jan.- oct. 2018	Change in %	FA 2018	Achievements against the FA (%)
Overall spending	**239.7**	**245.3**	**2.4**	**301.7**	**81.3**
Current spending	**191.6**	**197.7**	**3.2**	**241.5**	**81.9**
Goods and services	133.6	136.2	1.9	175.0	77.8
Personal	87.4	88.0	0.7	108.9	80.8
Other goods and services	46.3	48.2	4.2	66.1	72.9
Debt interests	25.0	25.1	0.3	27.1	92.7
Clearing	12.8	15.1	17.7	13.7	110.1
Transfer to local governments	20.0	21.3	6.1	25.6	82.9
Investment	**48.1**	**47.7**	**-0.9**	**60.3**	**79.1**

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

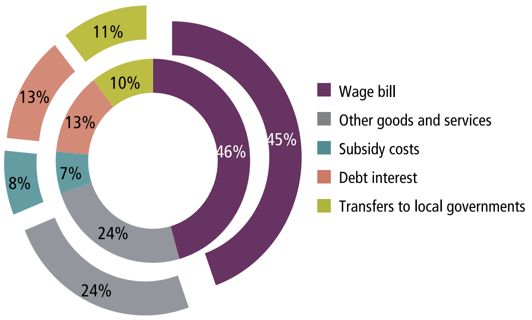
Chart 4.2: spending execution compared to the FA



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Debt interest charges increased slightly by 0.3 percent to 25.1 billion, covering a 1.1 percent rise to 22.2 billion in payment of interest on domestic debt and a 5.2 percent drop in payment of external debt to 3 billion.

Chart 4.3: Structure of current spending



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Subsidy costs increased by 17.7 percent to 15.1 billion, hence at an execution rate of 110.1 percent compared to the Finance act. According to data from the Subsidization fund, the butane subsidy cost for the first ten months of 2018 amounted to 9.8 billion, up 21 percent compared to the same period in 2017, while the sugar subsidy decreased by 0.5 percent to 2.9 billion.

At an implementation rate of 79.1 percent compared to the forecasts of the Finance Act, capital expenditures decreased by 0.9 percent to 47.7 billion, mainly covering a 2.6 percent increase to 31.1 billion in expenditures of ministries, and a 4.7 percent drop in common expenses to 16.3 billion.

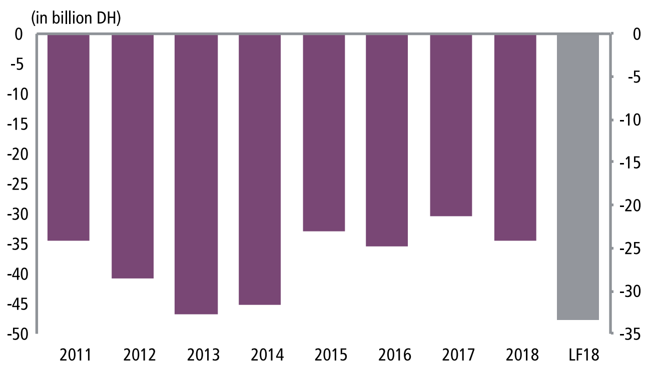
Chart 4.4: Investment spending, January to October total

Source : Ministry of Economy and Finance (TEFD).

4.3 Treasury deficit and financing

Given the evolution of revenues, expenditures and the balance of special accounts of the Treasury, public finances recorded a deficit of 34.5 billion, up 4.1 billion compared to the end of October 2017. The Treasury has rebuilt its stock of outstanding payments by 743 million, as against settlements of 5.9 billion a year earlier. The cash deficit thus amounts to 33.8 billion, down 2.6 billion compared to the same period in 2017.

Chart 4.5: Fiscal balance, January to August total



Source : Ministry of Economy and Finance (TEFD).

The 3.8 billion negative financing flow, as well as the financing requirement, were covered by domestic resources amounting to 37.6 billion dirhams against 37.5 billion at the end of October 2017.

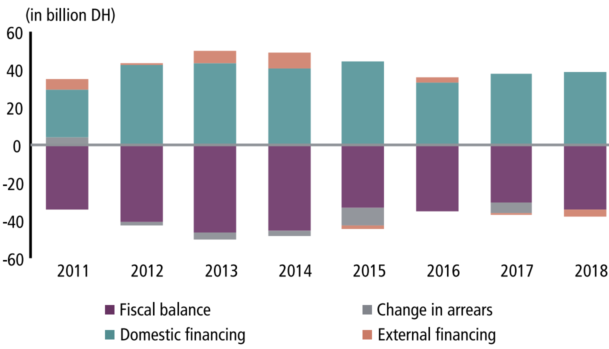
Table 4.3: Absolute gap FA (in billions of dirhams)

	Jan.-oct. 2017	Jan.-oct. 2018	FA 2018	Absolute gap FA/Jan.-oct. 2018
Current balance	**11.8**	**9.2**	**21.0**	**11.8**
Balance of TSA	5.8	4.0	6.0	2.0
Primary balance	-5.4	-9.4	-6.2	3.2
Fiscal balance	**-30.4**	**-34.5**	**-33.3**	**1.3**
Change in arrears	-5.9	0.7	0.0	
Financing requirements	**-36.4**	**-33.8**	**-33.3**	**0.5**
Domestic financing	37.5	37.6	13.5	-24.1
External financing	-1.1	-3.8	19.8	23.6

Source : Ministry of Economy and Finance (TEFD).

With regard to domestic financing, the use of the auction market concerned a net amount of 23.9 billion against 26.3 billion a year earlier. Net subscriptions mainly targeted 2-year bills for 13.8 billion, 5-year bills for 11.5 billion and 10-year bills for 9.6 billion. At the same time, the main net repayments concerned 52-week bills for 9.4 billion and 26-week bills for 1.2 billion.

Chart 4.6: Fiscal balance and financing , January to August total*



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

Treasury financing conditions on the auction market remained generally favorable for the first ten months of 2018 compared to the same period in 2017. The rates applied to the 26-week, 5-year and 15-year bills decreased by 3 bps, 1 bps and 17 bps respectively, while those applied to 13, 52 and 2-year bills rose by 4 bps, 6 bps and 7 bps, respectively. In addition, the issue rate of 10-year bills has almost stabilized at 3.27 percent.

Table 4.4: Treasury debt outlook (in billions of dirhams)

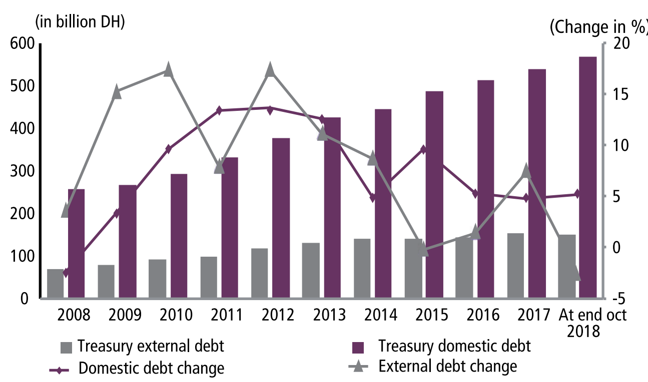
	2013	2014	2015	2016	2017	At end oct. 2018*
Treasury external debt	**129.8**	**141.1**	**140.8**	**142.8**	**153.2**	**149.4**
Change in %	11.1	8.7	-0.2	1.4	7.3	-2.5
Treasury domestic debt	**424.5**	**445.5**	**488.4**	**514.7**	**539.1**	**567.2**
Change in %	12.6	5.0	9.6	5.4	4.8	5.2
Outstanding direct debt	**554.3**	**586.6**	**629.2**	**657.5**	**692.3**	**716.6**
Change in %	12.3	5.8	7.3	4.5	5.3	3.5

Source : Ministry of Economy and Finance (TEFD).

Concerning debt at end-october 2017, estimates are based on the flows of domestic and external financing.

Regarding the direct public debt, the estimates based on the financing flows show an increase of 3.5 percent at the end of October 2018 compared to its level at end-December 2017. This evolution covers an of 5.2 percent increase in domestic debt and a 2.5 percent decline of external debt.

Chart 4.7: Treasury debt



Sources : Ministry of Economy and Finance (TEFD), and BAM estimates.

5. DEMAND, SUPPLY AND LABOR MARKET

National Accounts data for the second quarter of 2018 show a sharp slowdown in growth from 4.5 percent a year ago to 2.4 percent, as a result of the 3 percent increase of the agricultural value added, instead of 18.1 percent, and the 2.4 percent rise non-agricultural activities, after 3 percent. On the demand side, this trend mainly reflects the slowdown of domestic demand, and to a lesser extent, of external demand.

For the second half of the year, and in view of the latest available infra-annual data, the pace of activity would have decelerated compared to the same period of the previous year, with a rate falling from 4.2 percent to 3.7 percent. This trend probably reflects in particular a sharp slowdown in agricultural value added, while non-agricultural activities would have improved by 3.3 percent after 2.9 percent. With regard to demand components, the positive contribution of external demand may have decreased due to the moderated growth of exports of goods and services. As for domestic demand, the pace of investment would have slowed while that of final consumption of households would have accelerated further to the continued relative improvement of labor market and the recovery of nonagricultural activities.

In the labor market, the national economy created 122 thousand jobs between Q3-2017 and Q3-2018, including 98 thousand in the services sector. With a net inflow of 58 thousand job seekers, the unemployment rate fell from 10.6 percent to 10 percent at the national level, from 14.9 percent to 14.3 percent in the cities and from 4 percent to 6 percent to 3.9 percent in rural areas. AS for the cost of labor, data for the third quarter show an annual increase in the wage index of the private sector of 3.9 percent after 2.4 percent in nominal terms and an increase of 2.3 percent against 2.2 percent in real terms.

5.1 Domestic demand

5.1.1 Consumption

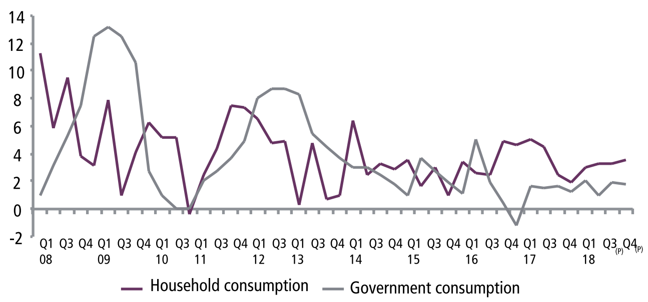
The national accounts for the second quarter of 2018 show a deceleration of final household consumption from 4.6 percent to 3.3 percent, therefore reducing its contribution to growth by 2.6 percentage points to 1.9 percentage point.

In the second half of 2018, consumption would have increased by around 3.4 percent after 2.2 percent in the same half of the previous year, in relation with the increase in revenues. This evolution may be related to the improvement in nonagricultural activities, the labor market situation and consumer credit. In addition, trade data show an acceleration of imports of finished consumer goods.

However, the results of the HCP business survey the indicate a deteriorated household confidence index which returned to 82.5 points in the third quarter instead of 85.5 points in the same quarter of the year before.

On the other hand, final consumption of public administration slowed in the second quarter from 1.6 percent to 1 percent. In the second half, it stood at 1.9 percent instead of 1.5 percent a year earlier. Indeed, staff costs increased by 0.7 percent at the end of October, after their 0.4 percent decrease, compared to the first ten months of the previous year, and expenditure on other goods and services grew by 4.2 percent instead of 2 percent a year earlier.

Chart 5.1: Expenses of domestic final consumption (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

Investment slowed from 2.8 percent to 0.1 percent in the second quarter, and its contribution to growth was close to zero, after it equaled 0.9 percentage point in the previous year.

In the second half, the investment continued to decelerate as indicated by the sub-annual data. Indeed, the Treasury's investment fell by 0.9 percent at the end of October instead of its 1.7 percent increase recorded in the same period a year earlier. Besides, equipment and real estate loans posted declines from 13.6 percent to 3.4 percent and from 4.1 percent to 2.1 percent, respectively. As for construction and public works activities, they continued their sluggishness, as evidenced by the trend in cement sales, which fell by 2.3 percent in the third quarter of 2018.

Business climate was described as "normal" by nearly two-thirds of the industrials surveyed in the quarterly business survey conducted by Bank Al-Maghrib in the industrial sector.

5.2 Foreign demand

In the second quarter of 2018, exports of goods and services in volume grew by 6.7 percent against 8.6 percent a year earlier, while imports slowed down from 5.3 percent to 4.9 percent. As a result, net exports' contribution to growth decreased slightly by 0.6 percentage point to 0.3 point.

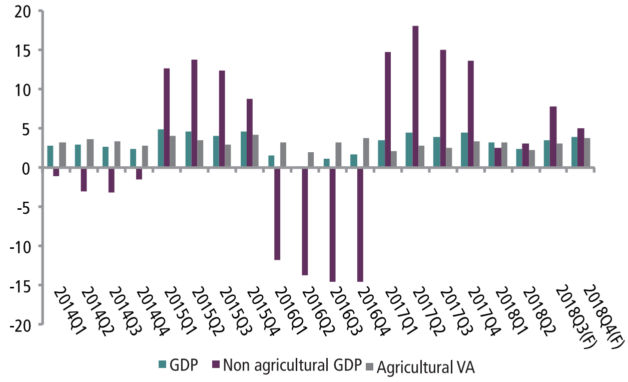
For the second half of the year, this orientation would have continued with a smaller contribution to growth compared to the same period of 2017. Indeed, the pace of export growth decelerated while remaining sustained, thanks to the good performance of sales of phosphates and derivatives and of the automobile sector. As regards imports, they slowed down mainly in relation to the deceleration of purchases of energy products and travel expenses.

5.3 Overall supply

In the second quarter of 2018, growth slowed significantly, falling from 4.5 percent to 2.4 percent. This trend reflects a deceleration from 18.1 percent to 3 percent in agricultural value added and from 3 percent to 2.4 percent in nonagricultural value added.

In the second half of the year, GDP rose by 3.7 percent, as against 4.2 percent a year earlier, mainly as a result of the slowdown in agricultural value added, from 14.3 percent to 6.4 percent. This slowdown is due to a base effect related to two successive good cereal harvests, after one year of drought. On the other hand, non-agricultural activities accelerated from 2.9 percent to 3.3 percent.

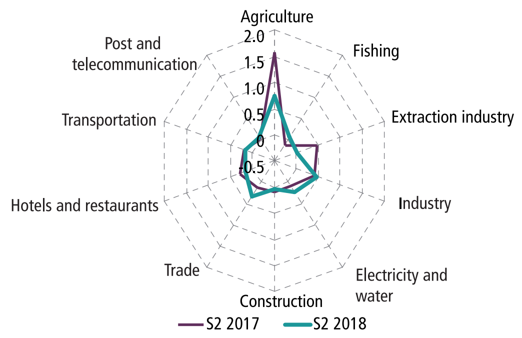
Chart 5.2: GDP per component (chained prices, change in %)



Sources: HCP data, and BAM forecasts.

Sector wise, the secondary sector recorded an increase by 8.8 percent, instead of 4 percent, of the value added of "electricity and water", by 2.9 percent after 2.7 percent in the "manufacturing industries", and a particularly positive trend of "the textile and leather industries" in the third quarter. On the other hand, mining activity decelerated sharply from 19.5 percent to 1.4 percent. For construction, it continued its sluggishness, with a limited increase in its value added, at 0.8 percent after 1.7 percent.

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



Sources: HCP data, and BAM forecasts.

In the tertiary activities, the value added speeded up its growth from 1.6 percent to 4.3 percent for "trade", from 0.5 percent to 2.6 percent for "posts and telecommunications" while it slowed down from 5.1 percent to 4 percent in "transport" and from 11.2 percent to 5.6 percent in the "hotels and restaurants" sector, reflecting in particular a limited increase in overnight stays compared to the same period in last year.

For the full year 2018, growth would decelerate to 3.3 percent, as against 4.1 percent in 2017, due to the sharp slowdown in agricultural value added, while non-agricultural activities would increase by 3.1 percent instead of 2.7 percent.

5.4 Labor market and output capacity

Between the third quarter and the same quarter of 2017, the labor market was marked by a 0.5 percent increase in the number of workers aged 15 and over to nearly 11.7 million people, with 1.3 percent increase in cities and 0.6 percent decline in rural areas. Taking into account a 1.7 percent rise in the working-age population, the participation rate continued to fall, down from 45.5 percent to 45 percent. By area of residence, this rate decreased by 0.4 point to reach 41.1 percent in urban areas and by 0.5 points to 51.9 percent in rural areas.

On the supply side, the national economy created 122 thousand jobs, including 118 thousand in urban areas. The employed labor force thus grew by 1.2 percent. Services remain the main providers of jobs with 98 thousand jobs, followed by industry, including crafts, with 19 thousand jobs, and agriculture with 9 thousand. The construction industry, on the other hand, reported a net loss of 4,000 jobs after 7,000 jobs created a year earlier.

Chart 5.4: Job creation by sector (in thousands)

Source : HCP.

5.4.1 Activity and employment

The unemployed labor force declined by 5.2 percent to 1.17 million people. Taking into account the evolution of the active population, the unemployment rate fell from 10.6 to 10 percent at the national level, from 14.9 percent to 14.3 percent in urban areas and from 4.6 percent to 3.9 percent in rural areas. For young people aged 15 to 24 in particular, the rate fell by 1.8 point to reach 27.5 percent overall and by 0.5 point to 44.7 percent in the cities.

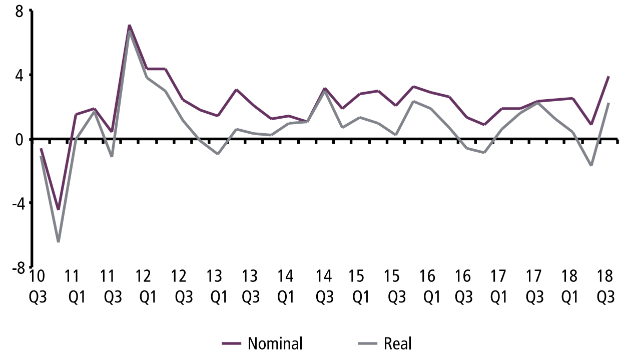
With regard to underemployment[1], its rate fell from 9.9 percent to 9.7 percent at the national level, from 8.3 percent to 8.2 percent in the cities and from 11.8 percent to 11.6 percent in rural areas.

5.4.2 Unemployment and underemployment

In the third quarter, the apparent productivity of labor in non-agricultural activities[2] slowed, year on year, from 1.9 percent to 1.5 percent. This reflects acceleration from 2.5 percent to 3.1 percent of value added and from 0.6 percent to 1.6 percent of employment volume.

In terms of salary costs, data for the second quarter of the year show a year-on-year increase in the average wage index, calculated on the basis of the data provided by the CNSS, by 3.6 percent, after 2.4 percent in nominal terms, and an increase of 2.3 percent against 2.2 percent in real terms.

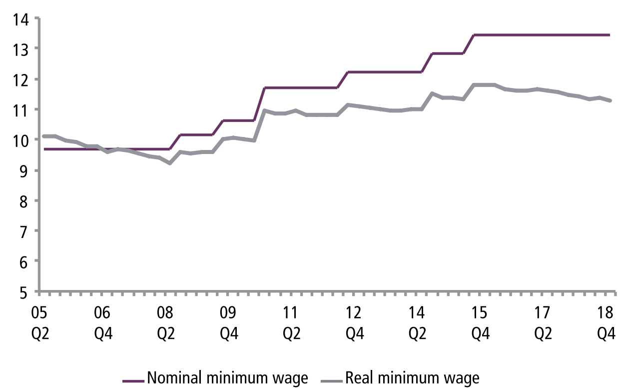
Chart 5.5: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

For the hourly SMIG, it remained unchanged in the third quarter at 13.46 dirhams in nominal terms. Taking into account a 1.6 percent increase in the Consumer Price Index, it recorded, in real terms, a 1.6 percent decline year-on-year and is expected to drop by 1.4 percent in the fourth quarter of 2018.

Chart 5.6: Hourly minimum wages in nominal and real terms (in DH/h)



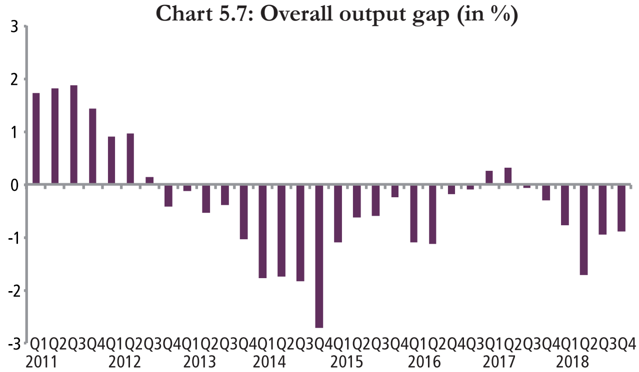
Sources: Ministry of Employment and Social Affairs, and BAM calculations.

Under these conditions, the output-gap should remain negative during the second half of 2018.

1 The underemployed population consists of persons who have worked: i) during the reference week less than 48 hours but are willing to work extra-hours and are available to do so or ii) more than the set threshold and who are at looking for another job or willing to change jobs due to mismatch with their training or qualification or the insufficient income perceived.

2 Apprehended by the ratio between non-agricultural value added and the employed labor force outside the agricultural sector.

Chart 5.7: Overall output gap (in %)



Source: BAM estimates.

Table 5.1 : Labor market main indicators

		Q3 2017	Q3 2018
Participation rate (%)		**45.5**	**45.0**
Urban		41.5	41.1
Rural		52.4	51.9
Unemployment rate (%)		**10.6**	**10.0**
Youth aged between 15 and 24 years old		29.3	27.5
Urban		14.9	14.3
Youth aged between 15 and 24 years old		45.2	44.7
Rural		4.6	3.9
Job creation (in thousands)		89.0	122.0
Urban		29.0	118.0
Rural		60.0	4.0
Sectors			
- Agriculture		47.0	9.0
- Industrie y compris l'artisanat		15.0	19.0
- BTP		7.0	-4.0
- Services		20.0	98.0
Nonagricultural apparent productivity (change in %)		**1.9**	**1.5**
Average wage index (change in %)	**Nominal**	**1.9**	**1.3**
	Real	**1.5**	**-1.3**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

The upward trend reversal of inflation forecasted in Q3-2018 has been confirmed at a greater-than-expected extent compared to the last Monetary Policy Report. Indeed, after continuing its acceleration started in the fourth quarter of 2017 to reach 2.6 percent in the second quarter, inflation fell to 1.6 percent in the third quarter and 1.1 percent in October. This is mainly due to a 3.7 percent drop in volatile food prices in October, following increases by 0.8 percent in the third quarter and 9.1 percent in the second quarter. For their part, prices of regulated products and fuel and lubricant remained overall unchanged from the third quarter, and rose by 2.7 percent and 8.1 percent respectively in October. Core inflation also stood at 1.2 percent, identical to that recorded a quarter before.

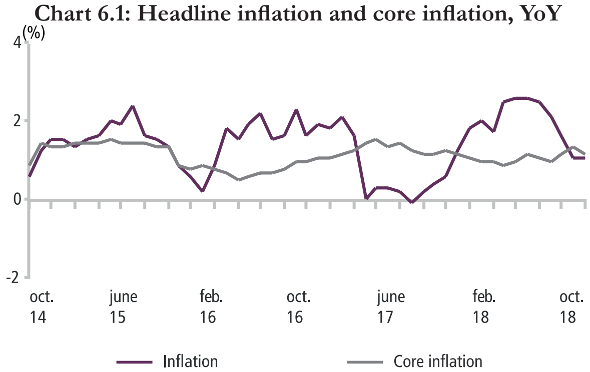
In the short term, inflation would continue its downtrend to 1.4 percent in the fourth quarter while its underlying component would stand at 1.2 percent.

6.1. Inflation trends

Inflation rose from 1.6 percent on average in the third quarter of 2018 to 1.1 percent in October. This deceleration is mainly due to the drop in prices of volatile food by 3.7 percent, after their 0.8 percent- increase. It is also linked, though at a lesser extent, to fuel and lubricant prices, which rose by 8.1 percent, after 9.5 percent. As for regulated products, their prices evolved at the same rate as in the third quarter.

On the other hand, core inflation remained stable over the same period at 1.2 percent.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP and BAM calculations.

Table 6.1: Change in inflation and its components

(In %)	MoM			YoY		
	aug. 18	sept. 18	oct. 18	aug. 18	sept. 18	oct. 18
Headline inflation	**-0.1**	**0.3**	**-0.1**	**1.7**	**1.1**	**1.1**
- Volatile food prices	-1.0	-0.8	-1.7	1.5	-3.5	-3.7
- Fuels and lubricants	0.0	0.3	1.5	9.3	7.4	8.1
- Administered prices	0.0	0	0.1	2.7	2.7	2.7
Core inflation	**0.0**	**0.1**	**0.0**	**1.2**	**1.4**	**1.2**
- Food products	0.2	0	-0.2	1.3	1	0.6
- Clothing and footwear	0.0	0.3	0.2	1.0	1.1	1.0
- Housing, water, gas, electricity and other fuels[1]	0.3	0.3	0.0	1.9	2.1	1.8
- Furnishings, household equipment and routine house maintenance	-0.1	0.1	0.1	1.2	1.3	1.4
- Health[1]	0.0	0.3	0.3	0.4	0.6	0.4
- Transportation[2]	0.0	0.5	0.1	0.1	0.5	0.3
- Communication	0.0	0.0	0.7	-0.3	-0.3	0.3
- Entertainment and culture[1]	-0.1	0.1	0.1	1.4	1.4	1.4
- Education	0.0	3.4	0.1	2.0	3.4	3.4
- Restaurants and hotels	-0.2	0.2	0.1	1.6	1.4	1.5
- Miscellaneous goods and services [1]	0.0	0.1	0.1	1.7	1.5	1.6

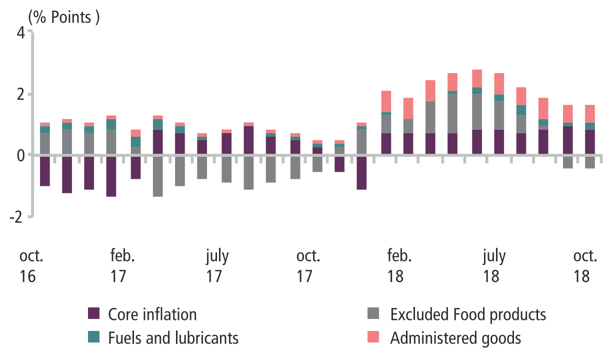
1 Excluding administered goods.
2 Excluding fuels and lubricants and regulated products.
Sources: HCP, and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

In October, prices of volatile food products continued their slow growth rate observed in the third quarter, following the improved supply of certain fresh products. As a result, the decline in the prices of fresh vegetables increased from 9.7 percent to 17.8 percent while fresh fruit saw their price decrease from 10 percent to 0.1 percent.

As a result, the contribution of volatile food prices to inflation was negative at -0.5 percentage points in October after it reached an average of 0.1 percentage points in the third quarter of 2018.

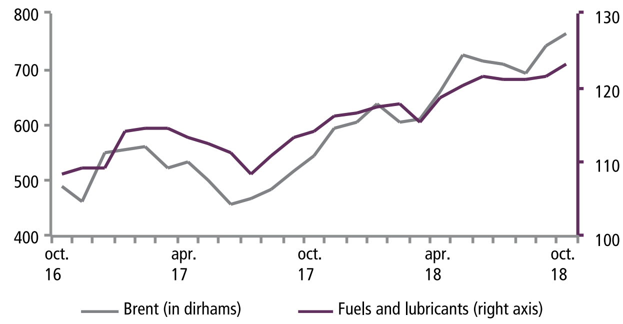
Chart 6.2: Contribution of the prices of major CPI items to inflation, YoY



Sources: HCP, and BAM calculations.

In the same vein, fuel and lubricant prices have evolved at a slower pace, which equaled 8.1 percent in October instead of 9.5 percent on average in the third quarter. Much of this deceleration is attributable to a base effect, as prices recorded a monthly rise of 1.5 percent in October 2018.

Chart 6.3: Change in international prices of Brent and the price index of fuels and lubricants



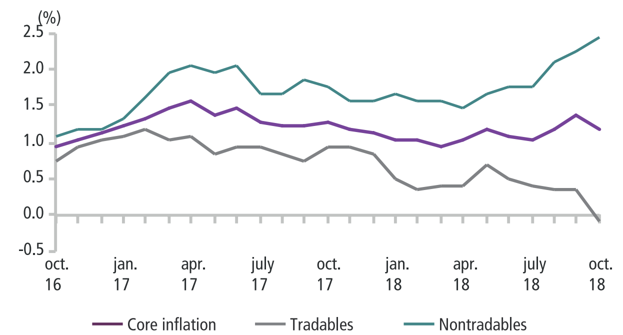
Sources: World Bank, HCP, and BAM calculations.

Regarding regulated products, the rate of their prices growth remained stable at 2.7 percent during the same period in the absence of new regulatory decisions.

6.1.2. Core inflation

Core inflation stood at 1.2 percent in October, thus keeping the same pace as in the third quarter of 2018. This change is consistent with the rise in nontradables' prices, which offset the lower inflation of tradable goods.

Chart 6.4: YoY change in the price indexes of tradables and nontradables



Sources: HCP, and BAM calculations.

In fact, prices of tradable goods were down 0.1 percent in October after rising 0.4 percent on average during the third quarter. This trend is linked to the further fall in the prices of «legumes" to 7.8 percent after 2.5 percent, the decline of the price of "milk" to 1.7 percent after 0.3 percent, as well as to the drop in prices of "oils" by 1.2 percent after its 0.7 percent increase the previous quarter.

Thus, the contribution of tradables' prices to core inflation was almost zero in October, as against 0.2 percentage point last quarter.

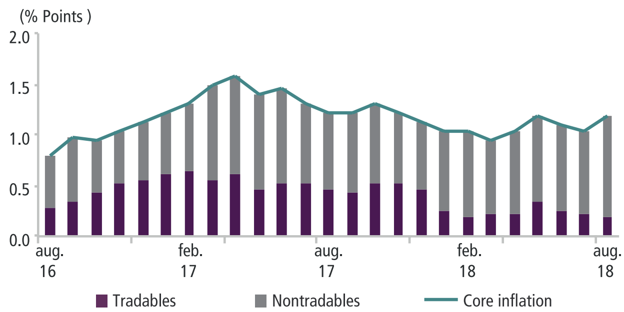
Table 6.2: Change in the price indexes of tradables and nontradables

(In %)	Monthly change			YoY change		
	june 18	july 18	aug. 18	june 18	july 18	aug. 18
Tradables	0.0	-0.1	-0.2	0.5	0.4	0.3
Nontradables	0.4	-0.1	0.4	1.7	1.7	2.1
Core inflation	0.3	0.0	0.0	1.1	1.0	1.2

Sources: HCP, and BAM calculations.

On the other hand, prices of nontradables' goods increased from 2.1 percent in the third quarter to 2.4 percent in October. This trend is mainly driven by the rise in education prices observed in September.

Chart 6.5: Contribution of tradables and nontradables to core inflation, in % points



Sources: HCP, and BAM calculations.

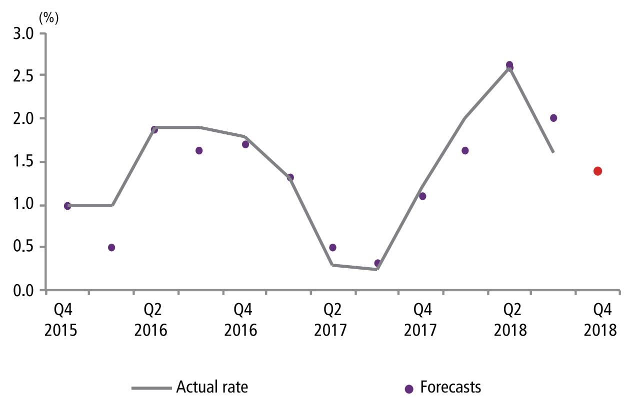
6.2. Short-term outlook for inflation

In the fourth quarter of 2018, inflation is expected to continue decelerating at 1.4 percent, mainly as a result of the sustained decline in the growth rate of volatile food prices. The latter are expected to fall by 0.6 percent after their 0.8 percent increase in the third quarter, essentially reflecting the base effect linked to the high level recorded during the same period of the previous year.

Likewise, the growth rate of fuel and lubricant prices would slow to 4.8 percent after 9.5 percent one quarter before. For their part, prices of regulated products are expected to remain unchanged in the absence of any new regulatory decisions.

Underlying inflation, which reflects the fundamental trend of inflation, is expected to hover around 1.2 percent in the next quarter.

Chart 6.6: Inflation short-term forecasts and actual rates

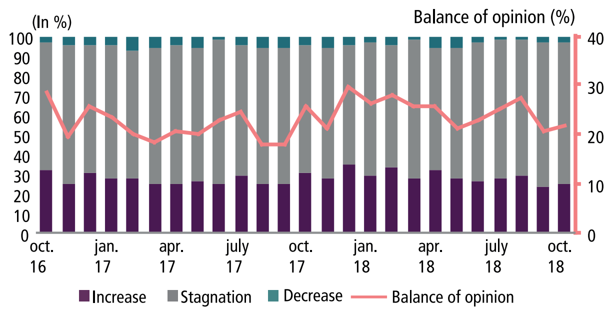


Source: BAM.

6.3. Inflation expectations

Results of the business survey in the industry, conducted by Bank Al-Maghrib in October 2018, indicate that 71 percent of industrialists expect that inflation would stagnate over the next three months, while 25 percent anticipate a rise in inflation and 4 percent forecast a decline. The balance of opinion therefore stands at 22 percent.

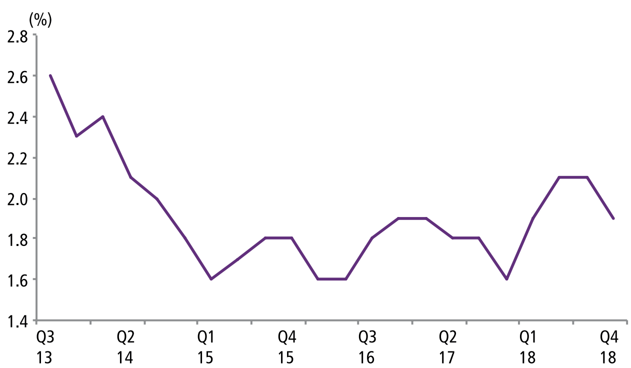
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

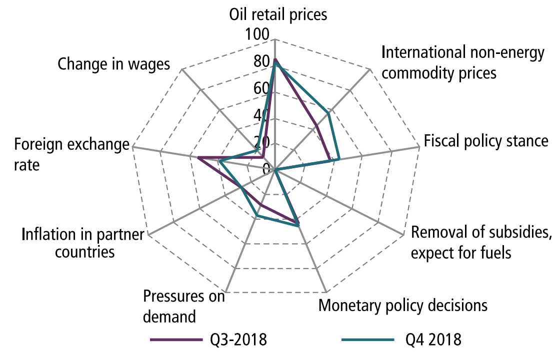
In addition, the results of the Bank Al-Maghrib inflation forecast survey for the fourth quarter of 2018 indicate that financial experts anticipate an inflation rate of 1.9percent over the next eight quarters. The latter consider that future trend of inflation is expected to be significantly impacted by the evolution of pump prices and world prices of nonoil commodities as well as the by orientation of monetary policy.

Chart 6.8: Inflation expectations by financial experts*



Source: BAM's quarterly survey on inflation expectations.
* From the second quarter of 2016, the ecpectation horizon increased from 6 to 8 quarters.

Chart 6.9: Determinants of the future trend in inflation as expected by financial experts

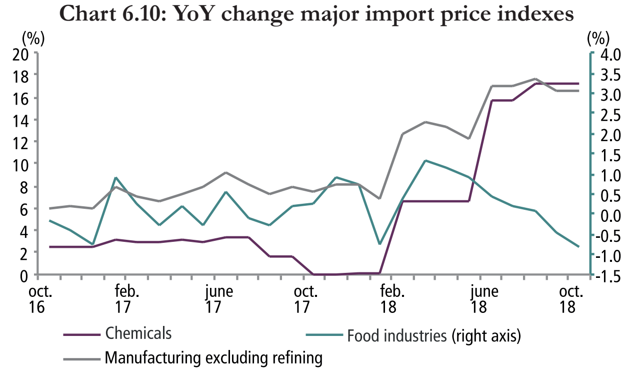


Source: BAM's Quarterly Survey on Inflation Expectations.

6.4. Import and producer prices

Producer prices in manufacturing industries, excluding refining, almost stagnated from 3.2 percent in the third month to 3.1 percent in October. In fact, they have been in an uptrend since the beginning of the year, reaching 1.5 percent in the first quarter and 2.4 percent in the second. This evolution includes the continued increase in producer prices of the chemical industry, since the beginning of the year, to 17.2 percent after 16.7 percent in the third quarter, and the pursued decline of producer prices in the food industries, at 0.8 percent after 0.1 percent.

Chart 6.10: YoY change major import price indexes



Sources: Foreign Exchange Office, and BAM calculations.

7. MEDIUM-TERM OUTLOOK

Summary

The global economy is broadly resilient, but is expected to decelerate in the medium term, against a backdrop of heightened commercial, geopolitical and financial risks.

In advanced economies, growth in the United States would decelerate in the medium term, mainly due to the dissipated effects of tax measures and to the further normalization of the Fed's monetary policy. In the euro area, activity is expected to slow, mainly under the effect of the political turmoil and of the uncertainty over the future of relations with the United Kingdom. In emerging economies, growth in China is projected to continue decelerating, as a result of its economy rebalancing policy, albeit at a limited pace due to the accommodative stance of monetary and fiscal policies. In India, growth would remain buoyant, driven by strong domestic demand, though moderate compared to 2018.

On the commodity markets, world oil prices are likely to fall in the medium term, mainly as a result of global activity deceleration. Food prices, on the contrary, are expected to increase gradually after a setback in 2018.

Under these conditions, inflation in the United States would reach, in the medium term, a level close to the objective set by the Fed, driven particularly by the stronger domestic demand. On the other hand, in the euro area, it would remain moderate.

Nationally, the current account deficit is expected to end the year at 4.4 percent of GDP, as against 3.6 percent in 2017, mainly due to the higher energy bill. In the medium term, it should return to 3.7 percent of GDP in 2019 and 3.2 percent in 2020, particularly reflecting lower energy imports and more rapid sales in the car manufacturing sector. FDIs are expected to end the year at 4.1 percent of GDP and stand at 3.4 percent of GDP over the remainder of the forecast horizon.

Assuming GCC donations of 4.8 billion dirhams in 2018 and 2.0 billion in 2019, net international reserves are forecasted to stand at 230.4 billion dirhams at the end of December and 239 billion in 2019 then return to 235.7 in 2020. Their coverage would be just over 5 months of imports over the forecast horizon.

Monetary conditions would remain globally appropriate, despite a slight tightening. In fact, after its stability forecasted in 2018, the real effective exchange rate (REER) is expected to rise in 2019 before depreciating slightly in 2020. For its part, growth of loans to the nonfinancial sector is expeected to remain moderate, at 3.5 percent in 2018 and 3.3 percent in 2019, before improving to 4.3 percent in 2020.

With regard to public finance, budget deficit would amount to 3.7 percent of GDP in 2018. In 2019, it is exoected to stand at 3.8 percent of GDP, taking into account the data provided in the s2019 Finance Act draft, before returning to 3.6 percent in 2020, mainly as a result of resource mobilization efforts.

Nationally, growth should slow from 4.1 percent in 2017 to 3.3 percent in 2018, covering a slower increase of agricultural value added from 15.4 percent to 4.6 percent and a relative improvement of non agricultural activities from 2.7 percent to 3.1 percent. On the demand side, this development includes a decline in the positive contribution of domestic demand and a negative contribution of net exports. In the medium term, growth would continue to be punctuated by climatic conditions. It is expected to slow to 3.1 percent in 2019 before recovering to 3.6 percent in 2020, following a return to normal agricultural seasons, while non-agricultural activities continue their slow recovery,

with forecasted rises in the value added at 3.5 percent and then at 3.8 percent . On the demand side, its domestic component is expected to improve significantly in 2020, after a deceleration in 2019, while net exports would maintain a negative contribution to growth over the two years.

In this context, inflation should accelerate from 0.7 percent in 2017 to 2 percent in 2018, reflecting a sharp rise in the prices of regulated products and volatile food products, before returning to 1 percent in 2019 and 1.2 percent in 2020. Its fundamental trend should, however, decelerate to 1.1 percent in 2018 and then to 1 percent in 2019, in line with the expected slowdown in domestic demand and the appreciation of the REER. In 2020, it is expected to accelerate to 1.6 percent, particularly due to the gradual decline in the negative cycle of domestic demand.

7.1 Underlying assumptions

Expected slowdown of the world economy, within persisting downside risks

The global economy remains broadly sound, but is expected to weaken its growth rate in the medium term. Increasing uncertainties are hovering over its prospects, mainly in connection with rising protectionism, political and geopolitical tensions, Brexit negotiations and tightening financial conditions for emerging economies, especially those with a vulnerable external position.

In the United States, after standing at 2.2 percent in 2017, growth would accelerate to 2.9 percent in 2018, benefiting from the tax measures put in place. With the dissipated effects of these measures and the continued normalization of the FED policy, growth would slow down to 2.1 percent in 2019 and 1.8 percent in 2020. Besides, the labor market would maintain its strength, with low unemployment rates. In the euro area, economy is projected to lose momentum, with growth declining from 2.5 percent in 2017 to 1.9 percent in 2018 and then to 1.7 percent on average between 2019 and 2020. At the same time, situation of the labor market should remain favorable, with the unemployment rate falling to around 8 percent by the end of the forecast horizon.

In the main emerging countries, the deceleration of growth in China, impacted by its economy rebalancing policy, should continue, though at a limited rate in favor of the accommodative stance of monetary and fiscal policies. In India, growth would remain buoyed particularly by strong domestic demand, albeit its moderation compared to 2018.

Chart 7.1: Growth in the euro area

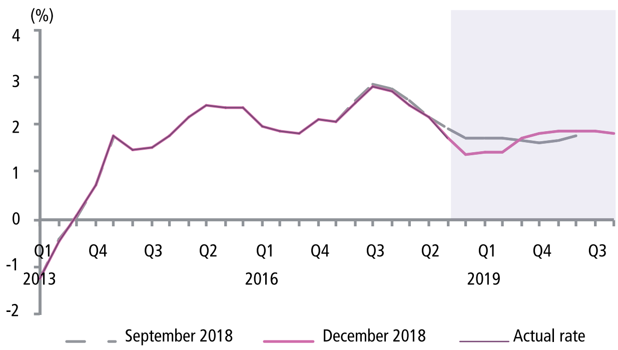
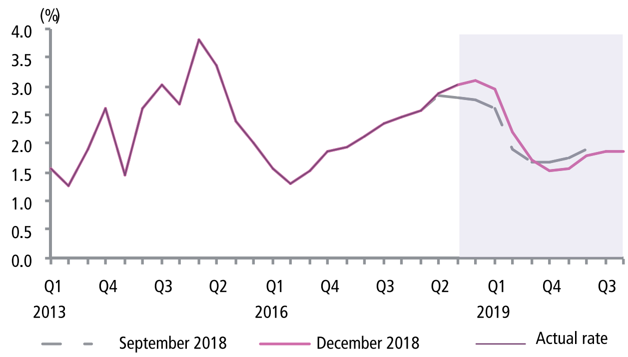


Chart 7.2: Growth in the USA



Source: GPMN[1] forecasts of November 2018.

Rising dollar against the euro in the short term

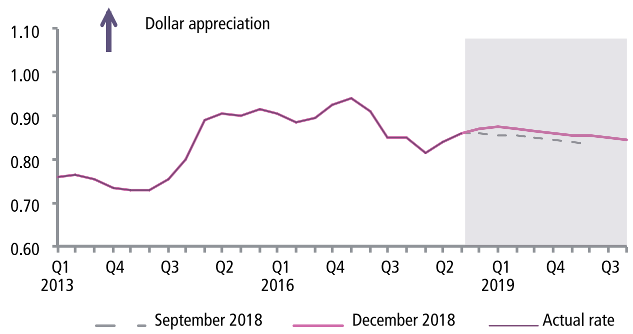
The euro should maintain its downward trend against the dollar in April 2018, impacted on the one hand by moderate growth prospects and political instability in the euro area, and on the other by continued rise of the

1 Global Projection Model Network.

Fed rates and the rising risk aversion in the face of escalating trade tensions. Hence, the euro would average $ 1.15 in 2019, after $ 1.18 in 2018, before strengthening slightly in 2020.

At the same time, central banks of the major advanced economies would continue to normalize their monetary policies, though at different speeds. More particularly, the ECB reiterated that rates will remain at their current levels until 2019 at least and confirmed that net purchases under the asset purchase program will cease in December 2018. On the other hand, the Fed would continue the gradual increase in its funds rates and reduction of its balance sheet....

Chart 7.3: EUR/ USD exchange rate



Source: GPMN forecasts of November 2018.

Short term decrease of energy products prices

Partly reflecting fears of global supply disruptions, energy commodity prices experienced significant volatility in 2018. In particular, after reaching its highest level since the beginning of October 2014, the price of Brent has registered a downtrend and is expected to end the year at an average of $72.2/bl. As the global activity has decelerated, the price of Brent is expected to fall to $65.7/bl in 2019 then to $63.9/bl in 2020. In addition, faced with strong demand, the prices of the DAP and TSP have increased significantly and would finish the year with levels close to those currently observed, increasing by 23.8 percent and 20 percent respectively compared to 2017. In the medium term, their pace of growth is expected to slow significantly, with new production capacity planned, particularly in Morocco and Saudi Arabia. World food prices, for their part, are expected to decline by 3.2 percent in 2018, following a rise of 8.1 percent in 2017, before gradually rising in the medium term.

Under these conditions, inflation in the euro area would increase from 1.5 percent in 2017 to 1.8 percent in 2018, driven in part by rising energy prices. It will return to 1.5 percent in 2019 and 1.4 percent in 2020, thus moving away from the ECB's target. In the United States, supported by the improved domestic demand and the higher energy prices, inflation should accelerate from 2.1 percent in 2017 to 2.5 percent in 2018. It would remain close to the medium term objective set by the FED and stand at 2.2 percent in 2019 and 2.4 percent in 2020.

Chart 7.4: Food commodity price index (yoy change)

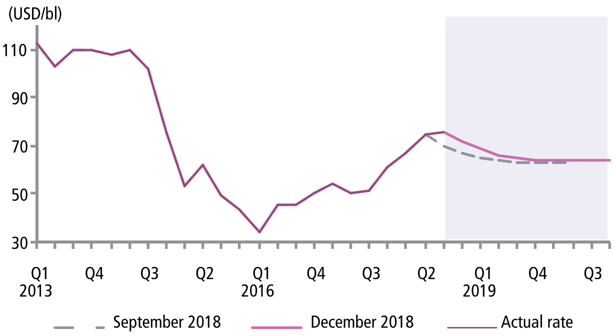


Chart 7.5: Crude oil price

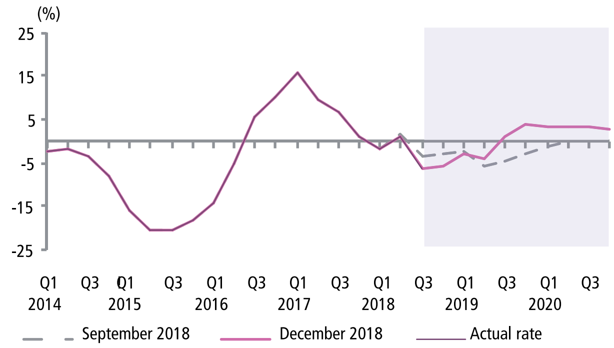


Chart 7.6: Inflation in the euro area

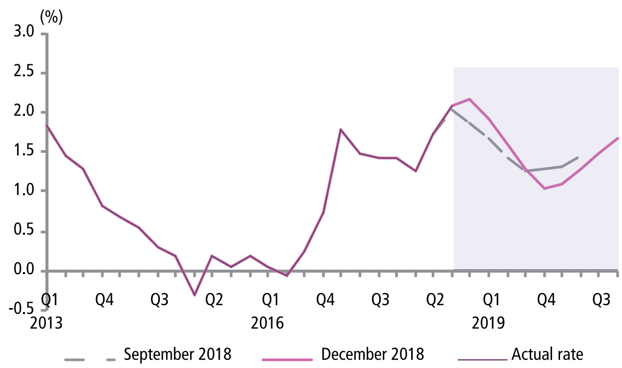
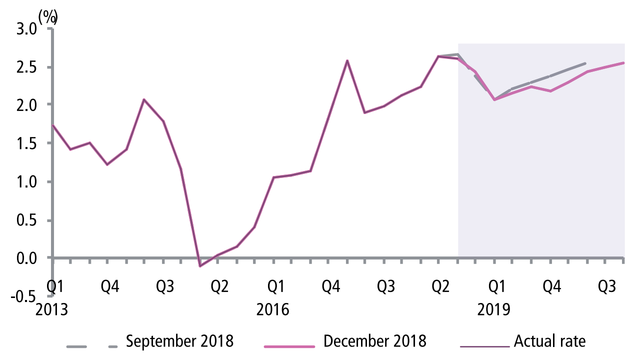


Chart 7.7: Inflation in the United states



Source: GPMN forecasts of November 2018.

Cereal production reaching 103 million quintals in 2018 and normal crops expected in 2019 and 2020.

At the national level, cereal production for the 2017-2018 crop year was 103 million quintals, as against 95.6 million quitanls in the previous season. For other crops, the latest available data indicate a 3.7 percent decrease in citrus fruit production and increases of 3.6 percent for sugar crops, 1.5 percent for early fruit and 50.3 percent for the olive trees. Regarding livestock, production rose by 13 percent for white meat and 7 percent for red meat.

In the medium term, and based on the performance recorded during the last ten years, assumption of a normal cereal season would lead to a production of 80 million quintals, instead of 70 .

Budget deficit persisting above 3percent of GDP in the medium term

Based on the update of the fiscal projections prepared in September, deficit forecast remains unchanged at 3.7 percent of GDP in 2018.

For the year 2019, the budget estimates have been adjusted to take into account the data from the 2019 PLF. Thus the budget deficit was revised upwards to 3.8 percent of GDP against 3.3 percent adopted in September, taking into account a programming of operating expenses larger than expected. Similarly, the subsidy fees are expected to increase as a result of the new oil and foreign exchange rate assumptions. These projections also incorporate BAM's new forecast of economic growth.

For 2020, the deficit is expected to be reduced to 3.6 percent of GDP, supported by continued revenue mobilization.

7.2 Macroeconomic projections

Current account deficit to widen in 2018 and ease in the medium term

The current account deficit is expected to end the year at 4.4 percent of GDP compared to 3.6 percent in 2017, mainly due to the higher energy bill. In the medium term, it should return to 3.7 percent of GDP in 2019 and 3.2 percent in 2020, reflecting in particular the fall in energy imports and the acceleration of the pace of growth in automotive sales.

In 2018, goods exports should continue their momentum with an increase of 9.6 percent, mainly due to a more rapid growth rate of automotive sales and, to a lesser extent, an increase in those of phosphates and derivatives. At the same time, imports would increase by 8.5 percent, after 6.7 percent in 2017, particularly due to higher energy costs and increased purchases of capital goods. With regard to travel receipts and remittances, they are expected to end the year with decreases of 1.3 percent and 1.8 percent respectively.

In the medium term, exports are expected to maintain a moderate pace, mainly in relation with the expected rise in automotive sales. Imports growth is expected to slow, with a drop in the energy bill. Travel receipts and remittances of MREs are expected to increase by around 4 percent over the forecast horizon.

Donations from GCC countries are projected to reach 4.8 billion dirhams in 2018 and 2 billion dirhams by 2019. FDI is expected to end the year at 4.1 percent of GDP and stand at 3.4 percent of GDP over the rest of the forecast horizon.

Under these conditions, NIR are expected to reach around 230.4 billion dirhams at the end of December before reaching 239 billion in 2019 and return to 235.7 in 2020. Their coverage in months of imports would be at 5 months and 3 days at the end of December, 5 months and 2 days in 2019 then at 5 months by 2020.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates						Forecasts			Gap (dec./sept.)	
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2018	2019
Exports of goods* (change in %)	5.7	0.3	8.3	8.6	3.5	10.3	9.6	6.6	7.8	1.4	-0.1
Imports of goods* (change in %)	8.2	-0.8	2.0	-4.9	10.3	6.7	8.5	2.5	3.5	1.2	-0.9
Travel receipts (change in %)	-1.8	-0.4	7.7	-1.4	5.0	12.3	-1.3	3.6	4.0	-1.8	-0.4
Expatriate remittances (change in %)	0.6	-1.5	-0.8	4.8	4.0	5.3	-1.8	4.0	4.4	-2.8	-0.1
Current account balance (% of GDP)	**-9.5**	**-7.7**	**-6.0**	**-2.1**	**-4.2**	**-3.6**	**-4.4**	**-3.7**	**-3.2**	**-0.4**	**0.0**
Net international reserves in months of goods and services' imports	**4.0**	**4.2**	**5.4**	**6.0**	**6.2**	**5.5**	**5.1**	**5.1**	**5.0**	**-0.2**	**-0.5**

* From Foreign trade perspective
Sources: Foreign Exchange Office and BAM forecasts.

Overall appropriate monetary conditions and continued moderate growth of loans to the nonfinancial sector

The real effective exchange rate is expected to stabilize in 2018, reflecting a near stagnation of its nominal level and a rise in domestic inflation at a rate close to that of partners and competitors. Its growth forecast has been adjusted upwards, mainly taking into account a larger-than-expected depreciation of the currencies of some emerging economies. The REER should appreciate in 2019, as the inflation differential in favor of Morocco only partially offset the expected appreciation of the dirham mainly against the euro and the currencies of some emerging countries. In 2020, and assuming in particular a higher rate of the euro, the REER would experience a slight depreciation.

Given the forecast of net international reserves and fiduciary money, the liquidity deficit is expected to increase to 69.7 billion dirhams at the end of 2018, 72.1 billion at the end of 2019 and 86.2 billion at the end of 2020. With regard to bank credit to the non-financial sector, it is expected to grow by 3.5 percent in 2018, 3.3 percent in 2019 and 4.3 percent in 2020. In these circumstances, and taking into account the evolution of the other counterparts of the money supply, the growth of the M3 aggregate should decelerate to 3.4 percent in 2018 before accelerating to 3.9 percent in 2019 and then to 3.6 percent in 2020.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts			Gap (dec./sept.)	
	2014	2015	2016	2017	2018	2019	2020	2018	2019
Bank lending to the nonfinancial sector (change in %)	3.8	0.3	3.9	3.8	3.5	3.3	4.3	-0.5	-1.2
M3 (change in %)	6.2	5.7	4.7	5.5	3.4	3.9	3.6	-0.3	-0.9
Liquidity surplus or deficit, in billion dirhams	-40.6	-16.5	-14.7	-40.9	-69.7	-72.1	-86.2	-12.8	-15.7

Continued slow recovery of nonagricultural activities

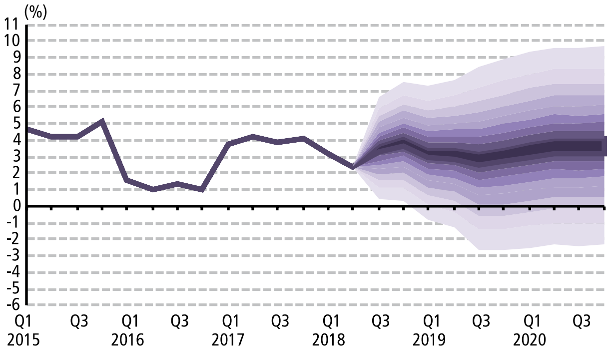
Taking advantage of a good crop year for the second year running, national growth should be 3.3 percent in 2018 after 4.1 percent in 2017. This evolution covers a slower increase of agricultural value added, from 15.4 percent to 4.6 percent and a continued improvement of non-agricultural activities, which would grow from 2.7 percent to 3.1 percent. These forecasts were adjusted downward compared to the September exercise. In fact, the achievements of the agricultural value added were smaller than expected. In addition, data for the first half of the year and high-frequency indicators point to a slower recovery in non-agricultural activities.

On the demand side, the slowdown in growth would translate into a decline in the positive contribution of its domestic component, mainly those of household consumption and investment. For its share, the contribution of net exports would be negative, the moderation in the rate of growth of exports, after a notable increase in 2017, more than offsetting the expected deceleration of imports.

Growth is expected to slow to 3.1 percent in 2019 before accelerating to 3.6 percent in 2020. Agricultural value added would fall by 0.8 percent in 2019 and increase by 3.3 percent in 2020, under the assumption of a return to normal agricultural seasons, while non-agricultural activities would continue to improve with higher value added, by 3.5 percent and 3.8 percent respectively. On the demand side, punctuated by changes in farm incomes, household consumption is expected to weaken slightly in 2019 before strengthening in 2020. Similarly, investment should improve gradually over the forecast horizon.

On the other hand, the growth rate of general government consumption would accelerate in 2019, as indicated by the projected increase in the 2019 operating budget, before decelerating slightly in 2020. At the same time, net exports would maintain a negative contribution to growth in the medium term. Exports growth pace would slow in 2019 before consolidating in 2020. For their part, imports should slow down in 2019, reflecting the expected weakening of domestic demand, before regaining momentum in 2020.

Chart 7.8: Growth outlook over the forecast horizon (Q3 2018 - Q4 2020), (YoY)*



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

Sources: HCP data, and BAM forecasts.

Table 7.3: Economic growth (%)

	Actual rates				Forecasts		Gap (Sept./June)	
	2014	2015	2016	2017	2018	2019	2018	2019
Croissance nationale	**2.7**	**4.5**	**1.1**	**4.1**	**3.5**	**3.1**	**-0.1**	**-0.1**
VA agricole	-2.2	11.9	-13.7	15.4	5.1	-1.6	-0.6	0.1
VA non agricole	2.7	1.8	2.2	2.7	3.3	3.7	0.1	0.2
Net tax on subsdies	9.7	18.1	8.8	2.8	3.8	3.9	-1.5	-1.1

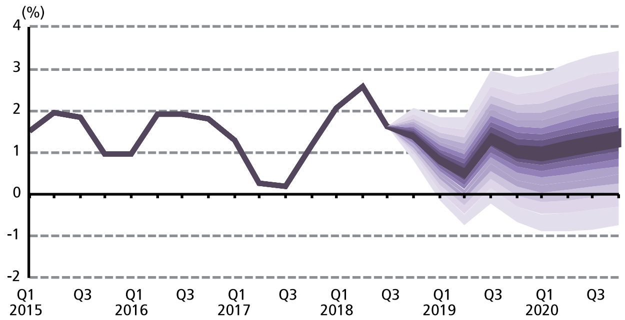
Sources: HCP data, and BAM forecasts.

Moderate levels of inflation in the medium term, after the speeding up forecasted in 2018

After 0.7 percent in 2017, inflation should accelerate to 2 percent in 2018, a rate almost unchanged compared to the September projections. This is the result of a sharp rise in the prices of some products excluded from the underlying component, which is expected to decelerate from 1.3 percent to 1.1 percent, particularly in line with the forecasted weakening of domestic demand. By component, the prices of regulated products would show a clear increase, reflecting the rise of DCT on brown tobacco and stamp duties.

Similarly, after their decline a year ago, volatile food prices are expected to rebound, reflecting a limited supply of some commodities in the first half of the year. For its part, the increase in fuel and lubricant prices is expected to continue, although decelerating compared to 2017, in line with the achievements over the first ten months of the year.

Chart 7.9: Inflation forecast over the horizon (Q4 2018 - Q4 2020)*



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

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

Table 7.4: Inflation

	Actual rates				Forecasts				Gap (dec./sept.)	
	2014	2015	2016	2017	2018	2019	2020	Horizons of 8 quarters	2018	2019
Inflation	**0.4**	**1.6**	**1.6**	**0.7**	**2.0**	**1.0**	**1.2**	**1.1**	**-0.1**	**-0.2**
Core inflation	1.2	1.4	0.8	1.3	1.1	1.0	1.6	1.2	0.1	-0.1

Sources: HCP data, and BAM forecasts and calculations.

In the medium term, inflation should moderate to 1.1 percent on average between 2019 and 2020, reflecting a dissipation in the rise in food prices and a decline in those of fuels and lubricants, taking into account expected changes in the oil prices and the exchange rate. Similarly, although decelerating, the prices of regulated products are forecasted to increase, essentially reflecting the impact of the measures programmed in the 2019 Finance act draft. As for underlying inflation, it should maintain a moderate level in 2019, in mainly with the expected slowdown in domestic demand and the appreciation of the REER. By 2020, it should accelerate gradually to 1.6 percent, reflecting in particular the gradual decline in the negative cycle of domestic demand.

Chart 7.10: Change in core inflation and output gap

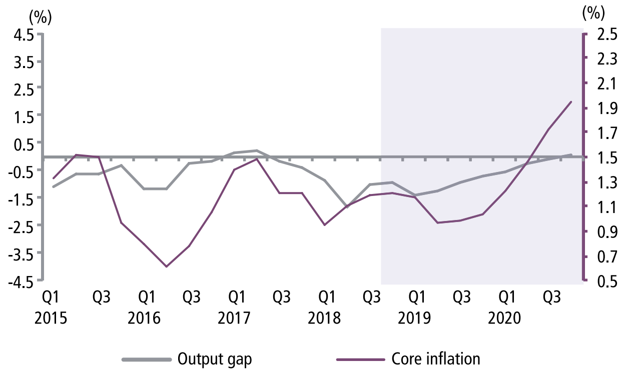
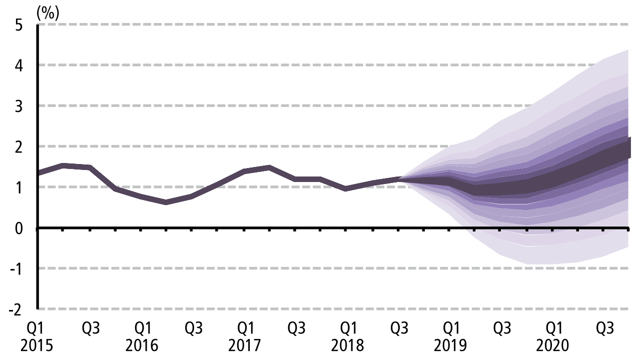


Chart 7.11: Projections of core inflation over the forecast horizon (Q3 2018 - Q3 2020)*



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

Sources: HCP, and BAM forecasts and calculations.

7.3 Balance of risks

This exercise occurs in a context of numerous risks which, in the event of their materialization, can affect the central projection both upwards and downwards.

More particularly, foreacsts regarding the NFR still depend on the concretization of the GCC grants and the Treasury outflows abroad. For its part, projections as to the budget deficit would depend on the outcome of the social dialogue begun several months ago, which could thus impact the trajectories of inflation and growth. The latter are also essentially dependent on the evolution of oil prices and activity in the main partner countries, which itself is surrounded by a number of uncertainties linked in particular to the rise of protectionism, political and geopolitical tensions, as well as to the outcome of the Brexit and the increasing pressure on emerging financial markets.

Finally, a large deviation from the central assumption of agricultural production could affect growth and, to a lesser extent, other projected variables.

LIST OF ABBREVIATIONS

ANCFCC	: National Land Registry Office
APC	: Cement manufacturers professional association
AMMC	: Autorité Marocaine des Marchés de Capitaux (Morroccan Capital Markets Authority)
BAM	: Bank Al-Maghrib
CFG	: Casablanca Finance Group
CNSS	: Caisse nationale de sécurité sociale (National Social Security Fund)
CPI	: Consumer Price Index
CPIX	: Core inflation indicator
CPIXNT	: Consumer price index of nontradables
CPIXT	: Consumer price index of tradables
CT	: Corporate tax
CUR	: Capacity utilization rate
DAP	: Diammonium Phosphate
DCT	: Domestic consumption tax
DH	: Dirham
ECB	: European Central Bank
ESI	: Economic Sentiment Indicator (Indicateur de climat économique)
FA	: Finance Act
FDI	: Foreign direct investments
FISIM	: Financial intermediation services indirectly measured
GCC	: Gulf Cooperation Council
GDP	: Gross domestic product
HCP	: High Commission for Planning
IMF	: International Monetary Fund
IPI	: Import price index
IPPI	: Industrial producer price index
IT	: Income tax
MASI	: Moroccan All Shares Index
MPR	: Monetary Policy Report
MSCI EM	: Morgan Stanley Capital International, Emerging Markets
NPL	: Nonperforming loans
OCP	: Office chérifien des phosphates (Moroccan Phosphates Office)
OECD	: Organization for Economic Cooperation and Development
ONEE	: Office national d'électricité (National Electricity Office)
OPEC	: Organization of the Petroleum Exporting Countries
PER	: Price Earning Ratio
PMI	: Purchasing Managers Index
REPI	: Real estate price index

SMIG : Salaire Minimum Interprofessionnel Garanti (minimum wage)
TEFD : Treasury and External Finance Department
TSA : Treasury special accounts
TSP : Triple superphosphate
QoQ : Quarter-on-quarter
YoY : Year-on-year
UCITS : Undertakings for collective investment in transferable securities
UPC : Unit production cost
VA : Value added
VAT : Value added tax

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