MONETARY POLICY REPORT

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FOREWORD

By virtue of Article 6 of Law No. 40-17 on the Statutes of Bank Al-Maghrib, promulgated by the Royal Decree No. 1-19-82 , dated 21 June 2019 (17 Chaoual 1440 A.H.), "The Bank shall define and conduct monetary policy with full transparency and within the economic and financial policy of the Government. The main objective of the Bank is to maintain price stability. The Bank shall define the objective of price stability and conduct monetary policy. "

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

بنك المغرب

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 17, 2019

1. The Board of Bank Al-Maghrib held its last quarterly meeting for the year 2019 on Tuesday, December 17.

2. At this meeting, it analysed 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 prospects for inflation, growth, external accounts, monetary conditions, and public finance, the Board considered that the current level of the key rate at 2.25 percent remains appropriate and decided to keep it unchanged. It also approved the specific measures to be implemented by the Bank under the Entrepreneurship Support Programme.

4. The Board noted that inflation, which stood at 1.9 percent in 2018, decelerated sharply in the first ten months of 2019, mainly due to the decreasing food prices. Its rate is expected to end the year averaging 0.3 percent, then pick up to 1.1 percent 2020 and 1.4 percent in 2021. Core inflation, which measures the underlying price trend, would slow down to 0.6 percent this year, and increase to 1.3 percent in 2020, then to 1.9 percent in 2021, due to the expected improvement in domestic demand, combined with the projected dissipation of the real effective exchange rate appreciation.

5. Internationally, the persisting trade conflicts and the political and geopolitical tensions continue to weigh on the world economy. Hence, the latter would record its lowest growth level since 2009, and then improve slightly as of 2020. In the main advanced countries, growth in the United States is expected to slow to 2.3 percent in 2019, then 1.7 in 2020, before rebounding to 2.3 percent in 2021, boosted by accommodative monetary conditions. In the euro area, it is expected to moderate to 1.2 percent in 2019 and gradually recover to around 1.4 percent in 2020 and 1.8 percent in 2021, taking advantage of the expected recovery in external demand and of the favourable financing conditions. On the labour market, unemployment would remain low in the United States and decline in the euro area. In the main emerging economies, and due to the weaker domestic demand and to trade tensions, growth is expected to decline sharply in China to stand at 6.1 percent in 2019, and remain close to this level for the next two years. Similarly, in India, particularly impacted by the difficulties of the nonbanking financial sector and by corporate regulatory uncertainties, economic activity is expected to slow down to 5.3 percent this year before accelerating to above 7 percent, benefiting from the fiscal and monetary measures put in place.

6. On the commodity markets, the change in oil prices is mainly driven by concerns over the weakening of global demand. More particularly, the Brent price would end the year with a 10.4 percent drop to reach $63.7/bl on average and is expected to be slightly above $60 over the next two years. Regarding phosphates and

derivatives, the price of crude phosphate rose by 2.9 percent to $89.4/t on average in the first eleven months of the year. Derivatives' prices, on the other hand, fell to $312.6/t for DAP and $299.3/t for TSP, thus declining by 20.6 percent and 13.2 percent respectively. For the next two years, slight increases would be recorded, as a result of the moderate recovery expected on the demand-side and with the reduced supply, particularly from China.

7. In this context, inflationary pressures have generally weakened. Hence, inflation in the euro area is forecasted to slow down from 1.8 percent in 2018 to 1.2 percent in 2019 and to remain, on annual average, below the ECB's objective for the next two years. In the United States, inflation would decline this year, dropping from 2.4 percent to 1.8 percent, before running closer to the Fed›s medium-term objective.

8. Concerning the latest monetary policy decisions of the main advanced economies, the FED decided, during its meeting held on December 10 and 11, to keep the target range of the federal funds' rate unchanged at [1.5 percent -1.75 percent]. On the other hand, the ECB, during its meeting held on December 12, kept its key rates unchanged. It also declared that it plans to carry on with its assets' purchase program resumed earlier last month as long as necessary, and recalled that it will continue to reinvest, in full, the principal repayments from maturing securities purchased as part of this program for an extended period, past the date when it starts raising its rates.

9. At the national level, data for the second quarter of 2019 indicate a slight year-on-year slowdown of economic growth to 2.5 percent, due to a lower agricultural value added and to a moderate, albeit improving, growth of nonagricultural sectors. For 2019 as a whole, growth would stand, according to Bank Al-Maghrib's forecasts, at 2.6 percent, after 3 percent in 2018, with value added declining by 4 percent for agricultural activities, after its rise at the same rate last year, and increasing by 3.3 percent, after 2.6 percent, for nonagricultural ones. In the medium term, the latter would continue to strengthen, recording growth rates of 3.5 percent in 2020 and 3.7 percent in 2021. For the agricultural sector, assuming an annual cereal production of 80 million quintals and the continuous trending performance of other productions, value added would increase by 6.2 percent in 2020 and by 3 percent in 2021. Overall, Bank Al-Maghrib expects growth to accelerate to 3.8 percent in 2020 and 3.7 percent in 2021.

10. In the labour market, the national economy posted a net gain of 143 thousand jobs between the third quarters of 2018 and 2019 as against 201 thousand jobs a year earlier. This performance is to be attributed to the 347 thousand additional jobs created in nonagricultural activities, mainly in the tertiary sector, which more than offset the 204 thousand jobs lost in agriculture. Taking into account a net entry into the market of 168 thousand employed persons, the participation rate almost stabilized at 44.9 percent and the unemployment rate moved up from 9.3 percent to 9.4 percent.

11. For external accounts, data as at end-October show a slower pace of goods' exports to 3.1 percent, mainly due to the declining sales of the automotive sector and of phosphate and derivatives. Concurrently, imports' growth fell back to 3.1 percent, particularly with a 6.6 percent decrease in the energy bill. Concerning the other main current transactions, travel receipts rose 6.1 percent, while Moroccan expatriates' remittances

dropped slightly by 0.6 percent. Taking into account these developments, and assuming entry of GCC grants of 2 billion in 2019, the current account deficit would ease to 4.6 percent of GDP, after 5.5 percent in 2018. In the medium term, it would continue easing and fall to 3.7 percent of GDP in 2020 and 2.9 percent in 2021. Exports would gain momentum, driven mainly by the sales in the automotive sector, further to the announced PSA production plan, while imports would accelerate, with a less steep decline in the energy bill in 2020, and its rise in 2021. Travel receipts' increase is expected to consolidate and Moroccan expatriates' remittances would recover gradually. As for financial operations, FDI inflows would continue to hover around 3.4 percent of GDP. Under these conditions, and assuming a new Treasury borrowing from the international market, after that of last November, and the entry of 1.8 billion dirhams under CCG grants in 2020, net international reserves would stand at 240.7 billion by the end of 2019 and gradually rise to 242.7 billion in 2020, then to 248.2 billion at end-2021. Thus, NIRs would continue to cover 5 months of imports of goods and services.

12. As concerns monetary conditions, the real effective exchange rate should rise 1.2 percent this year and remain virtually stable in the medium term, due to the expected moderate nominal appreciation of the dirham. On the other hand, and after several consecutive decreases, lending rates increased by 11 basis points in the third quarter of 2019, mainly reflecting the higher rates on real estate loans. In this context, banking loans granted to the nonfinancial sector continued improving, driven by loans to private companies. They are expected to end the year up 4 percent and continue rising at 4.7 percent in 2020 and 5 percent in 2021.

13. With regard to public finance, budget implementation at end-November resulted in a 44 billion dirhams deficit, excluding privatization receipts, thus worsening by 2.9 billion compared to the same period in 2018. Overall expenditure rose 4.7 percent, mainly owing to higher expenses in goods and services and investment. On the other hand, current receipts, excluding privatization, grew 4.3 percent, owing notably to an increase by 2.5 percent in tax revenues and by 28.2 percent in non-tax ones, and particularly to the 1.2 billion dirhams collected under CCG grants. Under these circumstances, and in view of special financing operations, budget deficit, excluding privatization, would stand at 4.1 percent of GDP in 2019 after 3.7 percent in 2018. In the medium term, taking account of the 2020 finance act, and assuming that mobilization and expenditure control efforts would continue, fiscal consolidation is forecasted to resume and fiscal deficit, excluding privatization receipts, would be close to 3.8 percent of GDP in 2020 and 3.5 percent in 2021.

14. Finally, the Bank Board agreed on the following schedule for its 2020 meetings, March 17, June 16, September 22, and December 15.

OVERVIEW

In a context marked by trade disputes and persistent strong political uncertainty, the global economy weakened in the third quarter of this year. Growth fell quarter on quarter in the United States from 2.3 percent to 2.1 percent, mainly reflecting a deceleration in public spending and a drop in non-residential investment. In the euro area, it remained stable at 1.2 percent, notably recovering stagnation at 1.4 percent in France and 2 percent in Spain, as well as a consolidation at 0.5 percent in Germany, due in particular to higher private and public spending and improved investment in construction. In the United Kingdom, it recorded a further slowdown from 1.3 percent to 1 percent, notably due to the decline in industrial output and the slowdown in services.

In the main emerging economies, the growth pace decelerated in China to 6 percent in the third quarter from 6.2 percent a quarter earlier, mainly on the back of the trade conflict with the United States and the decline in global demand. For the other main emerging economies, growth weakened for the fifth consecutive quarter in India, with GDP at 4.3 percent from 4.9 percent, mainly due to the fall in exports and the slowdown in investment. Conversely, growth picked up in Brazil from 1.1 percent to 1.2 percent, boosted by higher production in the industrial and service sectors. Similarly, it accelerated in Russia, from 0.9 percent to 1.7 percent, owing to the good performance of the agricultural, industrial and wholesale trade sectors.

The situation of labor markets in advanced economies remains favorable. The unemployment rate fell slightly in November to 3.5 percent in the United States with the creation of 266 thousand jobs. In the euro area, October data indicates a decrease to 7.5 percent in October.

On the financial markets, stock market indices of both the main advanced and emerging economies rose between October and November, driven in particular by renewed optimism about the outcome of trade negotiations between the United States and China. The Dow Jones gained 3.7 percent, the EuroStoxx 50 rose by 3.9 percent, the NIKEEI 225 by 4.6 percent and the FTSE 100 by 1.5 percent. As to sovereign yields, they trended upwards for the advanced countries. The 10-year bond yield rose to -0.3 percent for Germany, -0.1 percent for France, 0.4 percent for Spain, 1.2 percent for Italy and 1.8 percent for the United States. For emerging economies, the rate stagnated at 6.2 percent for Brazil, increased to 3.3 percent for China and decreased to 6.5 percent for India and 12.2 percent for Turkey. On the foreign exchange markets, the euro remained unchanged against the US dollar at 1.11 dollars, while it depreciated by 1.8 percent against the pound sterling. As for the currencies of the main emerging countries, their developments were marked in particular by a rise against the dollar of 1 percent for the Turkish lira and 1.1 percent for the Chinese Yuan. As to bank credit, its annual growth stabilized, between September and October, at 6.6 percent in the United States and rose slightly in the euro area to 3.7 percent.

On the commodity markets, worries about global demand continued to put downward pressure on oil prices as geopolitical tensions and trade negotiations between the United States and China induce market volatility. Brent crude oil, in particular, averaged $ 63.9 a barrel in the first eleven months of the year, down 11.8 percent from the same period a year earlier. Excluding energy, prices went down with a decline of 5.6 percent for metals and ores and 4.6 percent for agricultural products. For phosphates and derivatives, prices rose 2.9 percent to stand at 89.4 USD/t on average for raw phosphate, while they decreased by 20.6 percent to 312.6 USD / t for the DAP and 13.2 percent to 299.3 USD / t for the TSP.

Against this background, inflation would, according to a first estimate, rise from 0.7 percent in October to 1 percent in November in the euro area and from 1.8 percent to 2.1 percent in the United States.

As to monetary policy decisions of the central banks of the main advanced countries, the FED decided at its meeting on 10 and 11 of this month to keep the target range of the federal funds rate unchanged at [1.5 percent -1 75 percent]. For its part, the ECB kept its key interest rates unchanged at its meeting held on the 12th of this month. It also indicated that it plans to continue its asset purchase program which resumed at the beginning of the preceding month, as long as necessary, and pointed out that it will continue to reinvest all of the principal repayments of securities maturing and acquired under this program for an extended period past the date on which it begins to raise its rates.

At the national level, provisional external accounts data at end-October 2019 indicate a widening of the trade deficit, compared to the same period of 2018, by 5.2 billion dirhams to 174 billion dirhams. Imports rose 3.1 percent, mainly driven by a 9.4 percent increase in acquisitions of capital goods and 5 percent in semi-finished products and 3.3 percent in purchases of finished consumer products, while the energy bill fell 6.6 percent to 63.6 billion. Exports increased 3.1 percent, reflecting sales increases of 5.3 percent for agricultural and agri-food products, 3.3 percent for the automotive sector and 0.9 percent for phosphates and derivatives. At the same time, travel receipts increased by 6.1 percent to 66.3 billion while remittances by Moroccan expatriates fell by 0.6 percent to 55.1 billion dirhams.

Net inflow of FDI fell by 16 billion dirhams to 15.4 billion while direct investment outflows by Moroccans increased by 2.7 billion to 8.2 billion. Outstanding net international reserves stood at 231.5 billion at the end of October 2019, the equivalent of 4 months and 28 days of imports of goods and services.

On the monetary side, banks' liquidity needs increased in the third quarter to 86.7 billion dirhams as a weekly average, driven by the increase in the currency in circulation. Bank Al-Maghrib therefore raised the volume of its injections to 87.4 billion. Regarding lending rates, third-quarter data show a slight increase of 11 basis points in the overall average rate to 5.09 percent. Monetary conditions were also marked by a quarterly appreciation of the effective exchange rate by 1.1 percent in nominal terms and 0.4 percent in real terms. Under these conditions, the growth rate of credit to the non-financial sector stabilized at 3.7 percent, masking an improvement in the rise of loans to private companies to 3.6 percent, a deceleration of loans to households and a further drop in loans to state-owned enterprises.

Concerning public finance, budget execution at the end of the first ten months of 2019 shows a deficit, excluding privatization, widening by 4.7 billion to 40 billion dirhams compared to the same period of 2018. This is the result of a 5.4 percent increase in overall expenditure, largely due to the 7.1 percent increase in operating expenditure and 7.9 percent in capital expenditure. At the same time, ordinary revenues, excluding privatization receipts, improved by 3.8 percent, reflecting increases of 2.6 percent in tax revenue, with nonetheless a 2.5 percent drop in corporate tax, and of 16.6 percent of non-tax revenues. Regarding grants from the GCC countries, they reached 1.1 billion dirhams at the end of October as against 0.8 billion on the same date a year earlier. Taking into account the disbursement of pending payments of 9.1 billion, the cash deficit stood at 49.1 billion, worsening by 11.5 billion. This need was financed by domestic resources up to 41.3 billion, by privatization receipts of 4.4 billion and by net foreign borrowings of 3.4 billion. Under these conditions, outstanding direct public debt is set to increase to 2.7 percent compared to its level at end-December 2018. Regarding the cost of the Treasury financing on the auction market, the weighted average rates were overall down during the first ten months of the year, compared to the same period of 2018.

National accounts data for the second quarter of 2019 indicate a slight slowdown in economic growth to 2.5 percent as against 2.6 percent a year earlier. This change is the result of a 2.8 percent decline, instead of a 4.5 percent increase, in agricultural value added and acceleration from 2.1 percent to 3.3 percent in non-agricultural activities. On the demand side, this was driven by its domestic component with a contribution of 3.4 percentage points, while net exports participated negatively up to 0.9 point.

In the labor market, the economy saw a net creation of 143,000 jobs between the third quarters of 2018 and 2019 after 201,000 jobs a year earlier. This change is the result of a significant increase in non-agricultural activities, concentrated in the tertiary sector, which more than offset the loss of 204 thousand jobs in agriculture. Taking into account the net entry of 168,000 new job seekers, the participation rate fell from 45 percent to 44.9 percent and the unemployment rate rose from 9.3 percent to 9.4 percent.

In the assets market, property prices increased by 0.9 percent in the third quarter of 2019. This change concerned all asset categories with rates of 0.9 percent for the residential sector, from 0.6 percent for urban land and 1.7 percent for property for professional use. Likewise, the number of transactions increased by 6 percent after a decline of 5.2 percent in the second quarter. Regarding the stock market, the MASI index appreciated by 2.9 percent in November, bringing its performance since the beginning of the year to 4 percent. The volume of trading reached, for its part, 5.2 billion dirhams as against an average of 5.3 billion during the first ten months of the year, and market capitalization stood at 608.9 billion, up 4.6 percent compared to December 2018.

Inflation picked up to 0.7 percent in October from 0.5 percent in the third quarter, bringing its average for the first ten months of 2019 to 0.3 percent. This acceleration is due exclusively to the 2.9 percent, instead of 0.2 percent, increase in volatile food prices which more than offset the drop in core inflation to 0.3 percent after 0.6 percent. The prices of fuels and lubricants fell 3.6 percent compared to 3.3 percent a quarter earlier and the prices of regulated products moved at an unchanged rate, ie 1.6 percent.

Concerning the outlook, the persistence of uncertainties surrounding trade and political and geopolitical tensions are weighing on global economic growth, which this year would record its weakest pace since 2009. Over the medium term, this should improve gradually, driven in particular by still accommodative monetary conditions.

In the euro area, growth should slow from 1.9 percent in 2018 to 1.2 percent this year before rebounding to 1.4 percent in 2020 then to 1.8 percent in 2021, due in particular to more favorable conditions for granting of credit and the expected recovery of external demand. In the United States, it would end the year decelerating to 2.3 percent, after standing at 2.9 percent in 2018, and should slow down again to 1.7 percent in 2020 before rebounding to 2.3 percent in 2021, thanks in particular to the easing of monetary policy. For their part, conditions on the labor markets should remain favorable, the jobless rate is expected to continue to fall in the euro area and to rise slightly in the United States.

In the main emerging economies, growth is expected to slow down significantly in China to slightly above 6 percent, while in India, it would weaken this year before accelerating over the medium term, thanks to the fiscal and monetary stimulus measures implemented.

On the commodity markets, the Brent price would end the year with an average of $63.7/bl before dropping again to $ 62/bl in 2020 and bouncing back to $63.8/bl in 2021. For phosphate and derivatives, the price of raw phosphate would end the year 2019 on an average of 89 dollars per ton and would stand at 92 dollars in 2020 and 95 dollars in 2021 while the price of DAP would be in sharp decline to $314/t, before rebounding to $324/t in 2020 and $335/t in 2021.

Under these circumstances, inflationary pressures have generally moderated. In the euro area, inflation should slow down from 1.8 percent in 2018 to 1.2 percent in 2019 and then to 1.1 percent in 2020, before accelerating to 1.4 percent in 2021. In the United States, it would decelerate from 2.4 percent to 1.8 percent in 2019, then accelerate to 2.3 percent in 2020 and to 2.5 percent in 2021, supported by the accommodative stance of the Fed's monetary policy.

At the domestic level, the increase in exports of goods would end the year on a deceleration at 3.8 percent and would accelerate to 9.5 percent in 2020 and consolidate to 8.6 percent in 2021. This change is mainly attributable to the expected net rise in 2020 in automotive sales, with the announced increase in the production capacity of the PSA factory. For its part, the increase in imports would stand at 2.4 percent in 2019 and accelerate to 4.1 percent in 2020 before increasing to 5.1 percent in 2021. At the same time, travel receipts would improve by 4.8 percent in 2019 while expatriate remittances would virtually stabilize. They are expected to rise respectively by 3.2 percent and 1.7 percent in 2020 and then by 3.8 percent and 2.2 percent in 2021. Under these conditions, and after a widening to 5.5 percent of GDP in 2018, the current account deficit would end the year at 4.6 percent and would further decrease to 3.7 percent in 2020 and 2.9 percent in 2021. Regarding FDI, after exceptional receipts in 2018 largely due to the sale of SAHAM company, they would stabilize at a level equivalent to almost 3.4 percent of GDP over the forecast horizon. Under the assumptions, unchanged compared to the September forecast, inflows of GCC donations of 2 billion this year and 1.8 billion in 2020, and an international borrowing operation by the Treasury in 2020, the NIR would increase to 240.7 billion in 2019, to 242.7 billion at the end of 2020 and to 248.2 billion at the end of 2021, the equivalent of 5 months of imports of goods and services.

Taking account of this development and the lowering of the monetary reserve ratio from 4 percent to 2 percent, the liquidity deficit should decrease from 69 billion dirhams at the end of 2018 to 64.9 billion at the end of 2019, before increasing to 82 billion at the end of 2020 and to 96.8 billion at the end of 2021. As for monetary conditions, the real effective exchange rate would end 2019 up 1.2 percent and should remain broadly stable over the medium term. Under these conditions, and particularly with regard to forecasts for non-agricultural growth, the growth in bank credit to the non-financial sector should hover around 4 percent in 2019, before accelerating to 4.7 percent in 2020 and 5 percent in 2021.

Concerning public finance, the fiscal deficit excluding privatization should stand at 4.1 percent of GDP, before gradually decreasing to 3.8 percent in 2020, and 3.5 percent in 2021. The projections include in particular the momentum that emerged from the budgetary execution at the end of October 2019, the data from the 2020 FAB and the assumption of the continuation of fiscal adjustment in 2021.

Under these conditions, growth would slow down again to 2.6 percent in 2019 after 3 percent in 2018, due to an expected decrease of 4 percent in agricultural value added. For their part, non-agricultural activities should continue their relative strengthening, with an increase in their value added by 3.3 percent after 2.6 percent. In the medium term, Bank Al-Maghrib forecasts expect growth to accelerate to 3.8 percent in 2020 and 3.7 percent in 2021, reflecting an improvement of 6.2 percent then 3 percent in agricultural value added, assuming a return to a normal crop year, and a continued strengthening of non-agricultural activities, with increases in their added value by 3.5 percent in 2020 and 3.7 percent in 2021.

As to inflation, after standing at 1.9 percent in 2018, it should drop sharply to 0.3 percent in 2019 before gradually recovering to 1.1 percent in 2020, then to 1.4 percent in 2021. Its underlying component would weaken to 0.6 percent this year and rise to 1.3 percent in 2020, then to 1.9 percent in 2021, owing to the expected improvement in domestic demand and the projected dissipation of the appreciation of the real effective exchange rate.

The central forecast scenario remains surrounded by many downside risks for growth and balanced risks for inflation. Concerning growth, exogenous uncertainties relate mainly to a deterioration in foreign demand. Indeed, despite growing optimism about the UK›s smooth exit from the European Union and the conclusion of a Sino-American trade agreement, uncertainties surrounding their terms and the stagnation of negotiations are eroding market confidence and hurting global economic activity. At the national level, a deviation from the central assumption of agricultural output, partly dependent on weather conditions, would affect growth forecasts. Regarding inflation forecasts and taking account of the uncertainties on the oil market, higher prices than those projected in the central scenario would translate into higher inflation rates, through their direct impact on domestic fuel prices and indirect effect on production costs. External downward inflationary pressures may result from lower food commodity prices as well as a possible further appreciation of the real effective exchange rate.

1.INTERNATIONAL DEVELOPMENTS

In a context marked by trade disputes and the persistence of strong political uncertainties, the global economy weakened during the third quarter. Excluding Japan, where it accelerated, growth slowed down in the United States and the United Kingdom and stagnated in the euro area. In the main emerging countries, the slowdown continued in China and India, while in Brazil and Russia growth strengthened. On the labour market, the situation remains generally favourable in advanced economies, although changes in unemployment rates remain differentiated across countries. On the financial markets, optimism regarding the prospects of the trade conflict between the United States and China has led to a renewed appetite for risk and an increase in the stock market indices of the main advanced and emerging countries as well as in sovereign bond yields. Under these conditions, the central banks of several advanced and emerging economies maintained the stance of their monetary policies. On the commodity markets, the prices of energy products continued to decline year-on-year while those of non-energy products rose. Regarding inflation, it accelerated both in the euro area and in the United States.

1.1 Economic activity and employment

1.1.1 Economic activity

In the United States, growth fell from 2.3 percent in the second quarter to 2.1 percent in the third, mainly reflecting a deceleration in public spending and a drop in non-residential investment. In the euro area, it remained stable at 1.2 percent, with growth in France and Spain stabilizing at 1.4 percent and 2 percent respectively, and strengthening from 0.3 percent to 0.5 percent in Germany, due in particular to the increase in private and public spending. Along the same lines, growth accelerated in Italy to 0.3 percent from 0.1 percent, thanks to the good performance of domestic demand.

In the United Kingdom, growth marked a further slowdown in the third quarter from 1.3 percent to 1 percent, notably due to the decline in industrial output and the slowdown in the service sector. Conversely, growth picked up in Japan from 0.8 percent to 1.9 percent, driven by the improvement in net exports.

Table 1.1: YoY change of quarterly growth

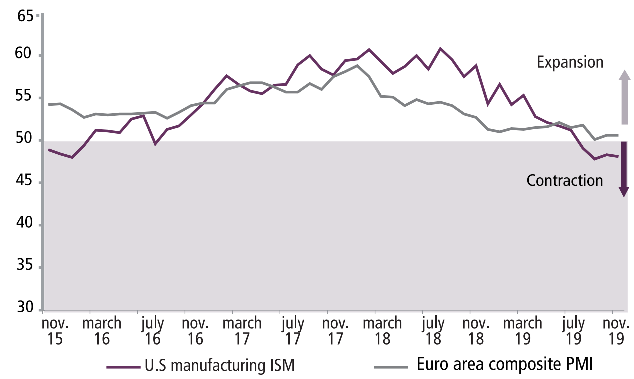
	2017			2018				2019		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Advanced economies										
United States	**2.2**	**2.4**	**2.8**	**2.9**	**3.2**	**3.1**	**2.5**	**2.7**	**2.3**	**2.1**
Euro area	**2.6**	**3.0**	**3.0**	**2.6**	**2.2**	**1.6**	**1.2**	**1.4**	**1.2**	**1.2**
France	2.4	2.8	3.0	2.4	1.9	1.5	1.2	1.3	1.4	1.4
Germany	2.3	3.0	3.4	2.3	2.1	1.1	0.6	1.0	0.3	0.5
Italy	1.9	1.7	1.9	1.4	0.9	0.4	-0.1	0.0	0.1	0.3
Spain	3.2	2.8	3.0	2.8	2.3	2.2	2.1	2.2	2.0	2.0
United Kingdom	**1.9**	**1.8**	**1.6**	**1.1**	**1.3**	**1.6**	**1.5**	**2.1**	**1.3**	**1.0**
Japan	**2.0**	**2.4**	**2.5**	**0.9**	**1.0**	**-0.3**	**-0.3**	**0.8**	**0.8**	**1.9**
Emerging economies										
China	**6.8**	**6.7**	**6.7**	**6.8**	**6.7**	**6.5**	**6.4**	**6.4**	**6.2**	**6.0**
India	**5.9**	**6.6**	**7.3**	**7.9**	**7.7**	**6.9**	**6.3**	**5.7**	**4.9**	**4.3**
Brazil	**0.9**	**1.6**	**2.4**	**1.5**	**1.1**	**1.5**	**1.2**	**0.6**	**1.1**	**1.2**
Turkey	**5.3**	**11.6**	**7.3**	**7.4**	**5.6**	**2.3**	**-2.8**	**-2.3**	**-1.6**	**0.9**
Russia	**2.5**	**2.3**	**0.3**	**1.9**	**2.2**	**2.2**	**2.7**	**0.5**	**0.9**	**1.7**

Source : Thomson Reuters.

In the main emerging countries, the pace of growth decelerated in China to 6 percent in the third quarter after 6.2 percent a quarter earlier, largely due to the trade conflict with the United States and the decline in global demand. In India, the economy slowed down for the fifth consecutive quarter, with GDP growth at 4.3 percent after 4.9 percent, mainly owing to the decline in exports and the slowdown in investment. Conversely, growth picked up in Brazil from 1.1 percent to 1.2 percent, driven by higher production in the industrial and service sectors. Likewise, it accelerated in Russia, from 0.9 percent to 1.7 percent, buoyed by the good performance of the agricultural, industrial and wholesale trade sectors.

Concerning the outlook, the euro area composite PMI index stagnated at 50.6 points in November. Conversely, the US ISM manufacturing index edged down to 48.1 points in November from 48.3 points in October, remaining however in negative territory.

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



Source : Thomson Reuters.

1.1.2 Job market

In the United States, the unemployment rate fell slightly in November to 3.5 percent, its lowest level in nearly 50 years, with the number of jobs created rising to 266,000 jobs as against 156,000 jobs a month earlier. In the euro area, it decreased to 7.5 percent in October, the lowest rate recorded since July 2008. In the main countries of the euro area, the situation remains generally favorable with notably a drop to 8.5 percent and 9.7 percent respectively in France and Italy, and stagnation at 3.1 percent and 14.2 percent in Germany and Spain.
In the United Kingdom, data available for the month of August show a stability of the rate at 3.8 percent.

Table 1.2: Change in unemployment rate (%)

	2017	2018	2019		
			sept.	oct.	nov.
United States	**4.4**	**3.9**	**3.5**	**3.6**	**3.5**
Euro area	**9.1**	**8.2**	**7.6**	**7.5**	**n.a.**
France	9.4	9.1	8.6	8.5	n.a.
Germany	3.8	3.4	3.1	3.1	n.a.
Italy	11.2	10.6	9.9	9.7	n.a.
Spain	17.2	15.3	14.2	14.2	n.a.
United Kingdom	**4.4**	**4.0**	**n.a.**	**n.a.**	**n.a.**

Sources : Eurostat and BLS.

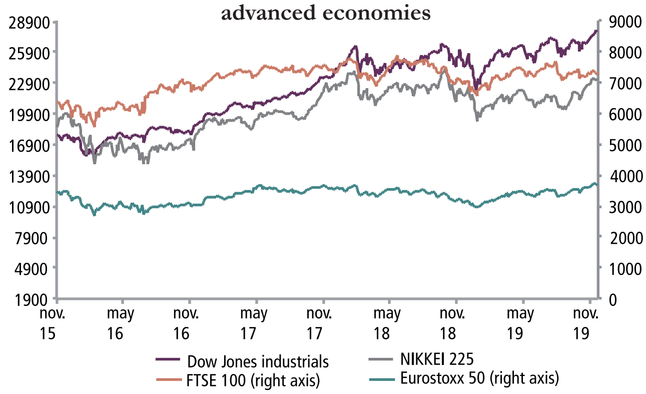
1.2 Monetary and financial conditions

Between October and November, the stock markets of the main advanced and emerging economies registered a positive dynamic driven in particular by a renewed optimism on the outcome of trade negotiations between the United States and China and by the publication of a number of indicators that reflect a weaker-than-expected deterioration in the economic situation in the main advanced countries. Accordingly, the Dow Jones rose by 3.7 percent, the EuroStoxx 50 by 3.9 percent, the NIKEEI 225 by 4.6 percent and the FTSE 100 by 1.5 percent. At the same time, volatility eased in both the US and European markets. Likewise, in emerging economies, the MSCI EM increased by 3.7 percent with in particular increases of 4 percent for China, 3.1 percent for India and 4.7 percent for Turkey.

In the bond markets, the sovereign yields of the main advanced countries rose between October and November, reflecting a renewed appetite for risk, particularly triggered by the optimism as to the conclusion of an agreement between the United States and the China. Accordingly, the 10-year bond rates increased to -0.3 percent for Germany, -0.1 percent for France, 0.4 percent for Spain and 1.2 percent for Italy. The rate also increased for US T-bills from 1.7 percent to 1.8 percent month-on-month.

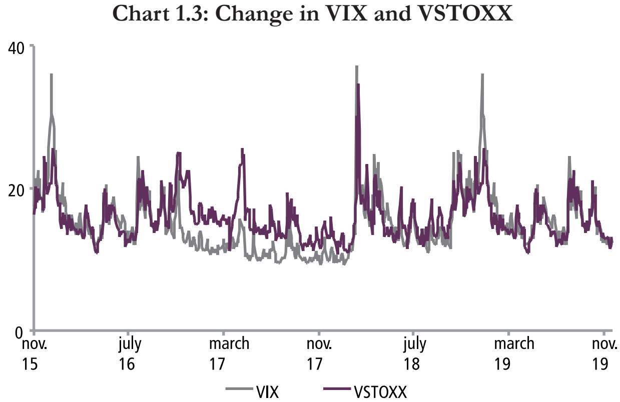
In the main emerging economies, the 10-year sovereign yield stabilized at 6.2 percent for Brazil, rose from 3.2 percent to 3.3 percent for China and fell from 6.7 percent to 6.5 percent for India and from 13.8 percent to 12.2 percent for Turkey.

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



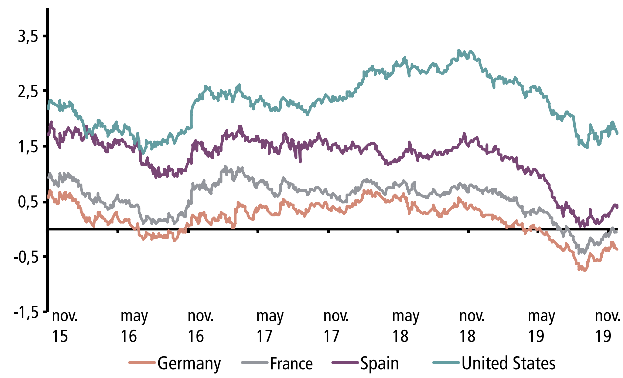
Source : Thomson Reuters.

Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters.

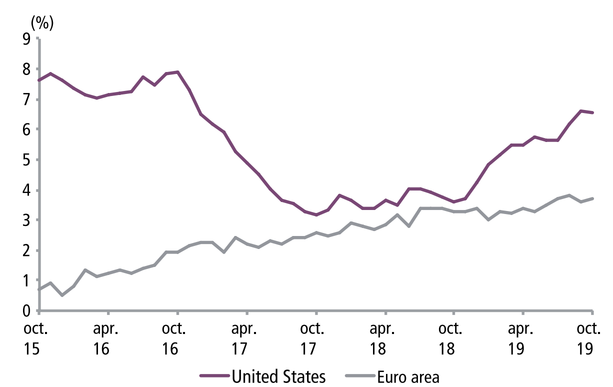
Chart 1.4: Change in 10-year sovereign bond yields



Source: Thomson Reuters.

In the money markets, the 3-month Euribor rate remained unchanged at -0.4 percent, while the Libor rate with the same maturity fell slightly from 2 percent in October to 1.9 percent in November. Regarding the growth rate of bank credit, it stabilized between September and October at 6.6 percent in the United States and increased slightly in the euro area from 3.6 percent to 3.7 percent.

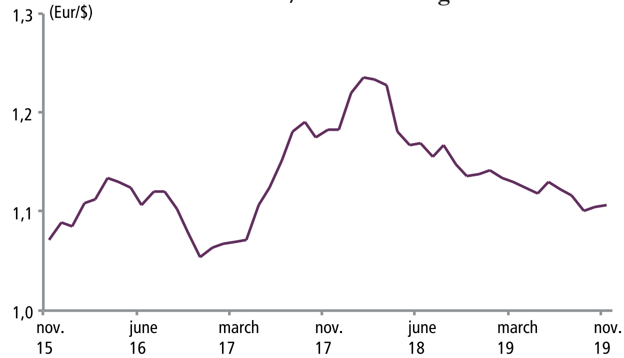
Chart 1.5: YoY change in credit in the United States and the euro area



Source : Thomson Reuters.

On the foreign exchange markets, the euro remained unchanged between October and November at 1.11 dollars, depreciated by 1.8 percent against the pound sterling, and appreciated by 0.6 percent as against the Japanese yen. As to the currencies of the main emerging countries, the Turkish lira and the Chinese yuan appreciated by 1 percent and 1.1 percent respectively against the dollar, the Indian rupee depreciated by 0.7 percent and the Brazilian real remained unchanged at 4.1 real per. dollar

Chart 1.6: Euro/dollar exchange rate



Source : Thomson Reuters.

Concerning monetary policy decisions, the Fed decided, at its December 10-11 meeting, to keep the target range for the federal funds rate at 1.5 percent -1.75 percent. It considers that the current trend of monetary policy is appropriate to support a sustained expansion of economic activity, solid labor market conditions and inflation close to the symmetrical target of 2 percent. It also indicated that it will continue to monitor the implications of incoming information for the economic outlook, including developments in the global economy and the still contained inflationary pressures, as it assesses the appropriate path of the target range for the federal funds rate.

In turn, the ECB decided on December 12 to keep its key interest rates unchanged and indicated that they will remain at their current levels or at lower levels until it has seen that the inflation prospects are durably converging towards a level sufficiently close to, but less than, 2 percent over its forecast horizon, and that this convergence is coherently reflected the dynamics of underlying inflation. Regarding non-conventional measures, it said that the net purchases made under its asset purchase program (APP) resumed, starting November 1, at a monthly rate of 20 billion euros. It plans to use it as long as necessary to strengthen the accommodative effects of its key interest rates and to end it shortly before it begins to raise rates. It also intends to pursue the reinvestments in full of the reimbursements in respect of the principal of maturing securities acquired within the framework of the APP for an extended period after the date on which it will start raising its rates and, in any case, as long as necessary to maintain favorable liquidity conditions and a high degree of monetary stimulus.

Similarly, the Monetary Policy Committee of the Bank of England maintained its key rate at 0.75 percent on November 7. It also decided to keep the stock of UK non-financial investment grade corporate bond purchases at £ 10 billion and the stock of purchases of UK government bond purchases at £ 435 billion.

In the main emerging countries, the Reserve Bank of India maintained its key rate unchanged on December 5 at 5.15 percent, while justifying its decision by the persistent risk that inflation will remain high until March 2020. For its part, the Central Bank of Russia decided on December 13 to reduce its key rate by 25 basis points to 6.25 percent, stating that the slowdown in inflation exceeds its forecasts and that the growth rate of the Russian economy increased in the third quarter, but its stability remains to be assessed. Similarly, the Central Bank of Brazil decided on December 11 to reduce its key rate by 50 basis points to 4.5 percent, a historic low, noting that data on economic activity since the second quarter indicate an acceleration of the recovery process compared to the first quarter of 2019, and that this recovery will continue gradually.

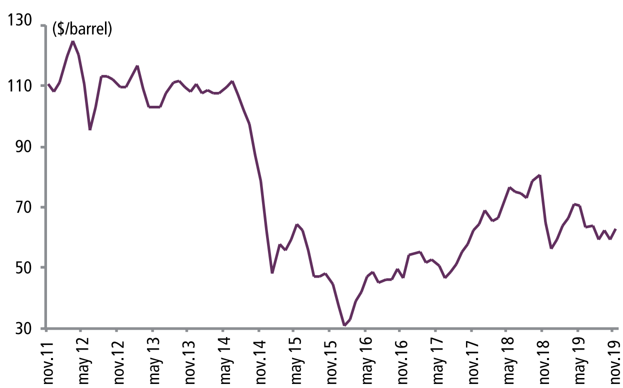
1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

Oil prices rebounded in November, with a 5.7 percent rise in Brent crude from one month to the next at $ 62.7 a barrel. Year-on-year, the price drops by 3.7 percent. It should be noted that as of December 6, OPEC + countries have agreed to further reduce, effective January 1, 2020, their overall production by 0.5 million barrels per day (mbd). The adjustment is thus brought to 1.7mbd and could increase to more than 2.1mbd with the continuation of voluntary reduction efforts by several member countries, mainly Saudi Arabia.

Following the same trend, the price of natural gas on the European market reached 5.15 dollars per MBTU11, up 1.8 percent month-on-month and down 37.7 percent year-on-year.

Chart 1.7 : World Brent prices

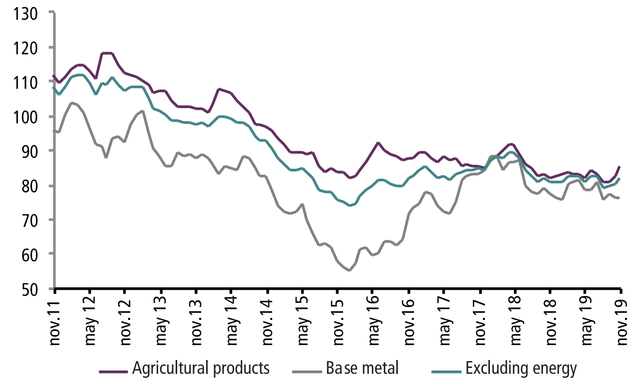


Source : World Bank.

1.3.2 Non-energy commodity prices

Excluding energy, after 15 consecutive months of decline, prices rose in November by 1.5 percent year-on-year, driven by the prices of agricultural products. The latter recorded a year-on-year rise of 4.2 percent while metals and ores declined 1.7 percent. Durum wheat prices rose 1.8 percent month-on-month but fell 0.2 percent year-on-year.

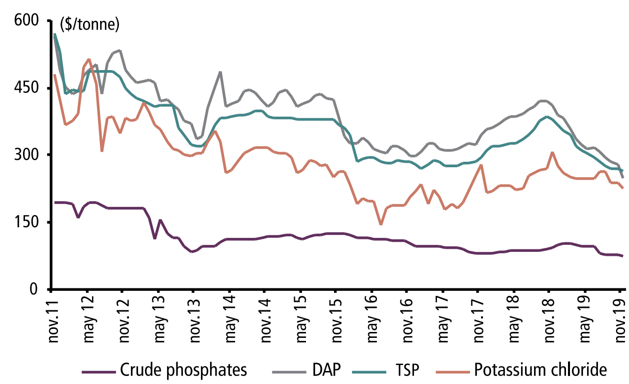
Chart 1.8: Change in non-energy commodity price indexes (2010= 100)



Source : World Bank.

In the phosphates and fertilizers market, prices fell between October and November by 4.5 percent to $ 74 /t for raw phosphate, by 10.6 percent to $ 248 /t for DAP, by 2.2 percent at $ 264 /t for TSP and by 5.3 percent to $ 224.5 /t for urea. For its part, the price of potassium chloride continued to stagnate at $ 265.5 /t. Year-on-year, prices fell 20 percent for raw phosphate, 39.5 percent for DAP, 30.3 percent for TSP and 26.5 percent for urea while they increased 23.2 percent for potassium chloride.

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



Source: World Bank.

1 MBTU : Million British Thermal Unit

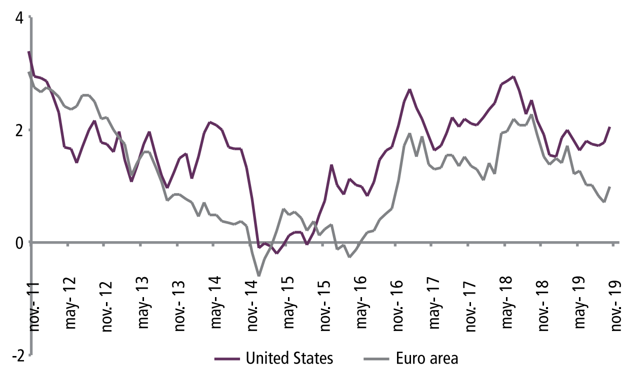
1.3.3 Inflation

According to a first estimate by Eurostat, inflation in the euro area rose from 0.7 percent in October to 1 percent in November, reflecting in particular accelerations from 0.9 percent to 1.2 percent respectively for France and Germany, from 0.2 percent to 0.5 percent in Spain and from 0.2 percent to 0.4 percent in Italy. Similarly, in the United States, it accelerated from 1.8 percent to 2.1 percent in November, reaching its highest level of the year.

In other advanced economies, the latest data are from October and indicate a slowdown in inflation at 1.5 percent in the United Kingdom and a stagnation at 0.2 percent in Japan.

In the main emerging countries, the inflation rate increased from 3.8 percent in October to 4.5 percent in November in China, mainly owing to the significant increase in meat prices, especially pork. It moved up from 4.6 percent to 5.5 percent in India, largely due to the increase in vegetable prices and from 2.5 percent to 3.3 percent in Brazil, in connection with the increase in food prices. Conversely, it fell in Russia, standing at 3.5 percent in November compared to 3.8 percent a month earlier.

Chart 1.10: Inflation in the United States and the euro area (%)



Sources: Eurostat and Thomson Reuters

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

	2017	2018	2019		
			sept.	oct.	nov.
United States	**2.1**	**2.4**	**1.7**	**1.8**	**2.1**
Euro area	**1.5**	**1.8**	**0.8**	**0.7**	**1.0**
Germany	1.7	1.9	0.9	0.9	1.2
France	1.2	2.1	1.1	0.9	1.2
Spain	2.0	1.7	0.2	0.2	0.5
Italy	1.3	1.2	0.2	0.2	0.4
United Kingdom	**2.7**	**2.5**	**1.7**	**1.5**	**n.d**
Japan	**0.5**	**1.0**	**0.2**	**0.2**	**n.d**

Sources : Thomson Reuters, Eurostat and IMF.

2. EXTERNAL ACCOUNTS

Provisional foreign trade data at end-October 2019 indicate a widening of the trade deficit, compared to the same period of 2018, by 5.2 billion dirhams to stand at 174 billion dirhams. This change resulted from an increase of 12.2 billion in imports, greater than that of 7 billion in exports. The coverage rate thus stabilized at 57.5 percent.

For their part, travel receipts reached 66.3 billion, up 6.1 percent, and transfers of Moroccan expatriates fell by 0.6 percent to 55.1 billion dirhams. Regarding the main financial operations, the flow of FDI dropped by 16 billion dirhams to stand at 15.4 billion, while direct investment by Moroccans abroad rose by 2.7 billion to reach 8.2 billion. Bank Al-Maghrib's net international reserves stood at 231.5 billion dirhams at the end of October, representing the equivalent of 4 months and 28 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

The 3.1 percent growth in exports mainly reflects the 5.3 percent rise to 50 billion dirhams in sales of the "agricultural and agri-food" sector, including increases of 11.9 percent for agricultural products and 0.7 percent for those in the food industry. Exports of the automotive sector improved by 3.3 percent to 63 billion, covering increases of 7.4 percent for the "wiring" segment and 10.3 percent for that of the "interior of vehicles and seats", as well as a 3.4 percent decline for automobile construction. Shipments of phosphates and derivatives increased by 0.9 percent to 42.7 billion dirhams in conjunction with 9.3 percent increases in sales of phosphoric acid and 0.3 percent of those of natural and chemical fertilizers. These developments reflect increases in shipped quantities of 10.5 percent and 9.4 percent, while their export prices fell by 1.1 percent and 8.3 percent respectively. For their part, exports of crude phosphate decreased by 10.3 percent in value and 15.4 percent in volume. Sales in the aeronautics and "pharmaceutical industry" sectors rose 7.5 percent to 13 billion and 2 percent to 1 billion dirhams respectively, while those of the "textile and leather" sector and "electronics" showed respective decreases of 1.5 percent to 31.7 billion and 6.5 percent to 7 billion dirhams.

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

Sectors/Segments	jan.-oct. 2019	jan.-oct. 2018	Change	
			In value	In %
Exports	**235 220**	**228 251**	**6 969**	**3.1**
Phosphates and derivatives	**42 668**	**42 296**	**372**	**0.9**
Phosphates	6 134	6 840	-706	-10.3
Natural and chemical fertilizers	24 682	24 608	74	0.3
Phosphoric acid	11 852	10 848	1 004	9.3
Automobile	**63 017**	**60 988**	**2 029**	**3.3**
Construction	27 693	28 658	-965	-3.4
Wiring	26 733	24 898	1 835	7.4
Car seats and interiors	4 012	3 638	374	10.3
Agriculture and Agribusiness	**49 991**	**47 473**	**2 518**	**5.3**
Agriculture, forestry, and hunting	20 407	18 234	2 173	11.9
Agri-food industry	27 501	27 311	190	0.7
Textile and leather	**31 709**	**32 204**	**-495**	**-1.5**
Ready-made clothes	20 158	20 356	-198	-1.0
Hosiery items	6 375	6 594	-219	-3.3
Shoes	2 387	2 557	-170	-6.6
Aeronautics	**13 008**	**12 106**	**902**	**7.5**
Assembly	7 047	6 756	291	4.3
EWIS	5 895	5 292	603	11.4
Electronics	**6 961**	**7 443**	**-482**	**-6.5**
Electronic components	3 831	3 725	106	2.8
Speciality electronics	3 130	3 718	-588	-15.8
Pharmaceutical industry	**1 013**	**993**	**20**	**2.0**
Other mining extraction activities	**3 477**	**3 747**	**-270**	**-7.2**
Others	**23 376**	**21 001**	**2 375**	**11.3**

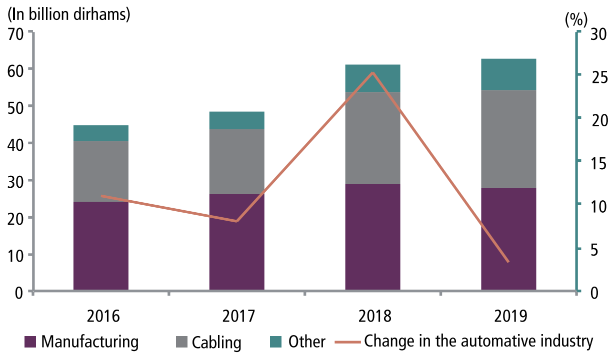
Source: Foreign Exchange Office.

Table 2.2: Change in phosphates and derivatives exports (YoY, %)

	Jan.-Oct. 2019/ Jan.-Oct. 2018		
	Value	Quantity	Price
Phosphate rock	-10.3	-15.4	6.0
Natural and chemical fertilizers	0.3	9.4	-8.3
Phosphoric acid	9.3	10.5	-1.1

Source: Foreign Exchange Office.

Chart 2.1: Change in automotive industry's exports



Source: Foreign Exchange Office.

2.1.2 Imports

The rise in imports concerned all product groups with the exception of the energy bill and raw products. In particular, purchases of capital goods increased 9.4 percent to 106 billion dirhams, mainly driven by the 5.2 billion increase in acquisitions of "planes and other air and space vehicles". Imports of semi-finished products and finished consumer products increased respectively by 5 percent to 87.1 billion and 3.3 percent to 93.5 billion, with 5.8 percent increases in acquisitions of "parts and spare parts for passenger cars" and 11.9 percent of those for" miscellaneous plastic products". Similarly, purchases of food products increased by 5.3 percent to 40 billion dirhams. Conversely, the energy bill continued its downward trend, registering a 6.6 percent decline to 63.6 billion, mainly owing to a sharp decrease in electricity imports to 144 million dirhams, instead of 2.2 billion a year earlier, and to a drop by 5.9 percent in imports of "diesel and fuel oils" to 31.9 billion dirhams. At the same time, purchases of raw products fell 8.1 percent to 18.8 billion.

Overall, the trade deficit widened by 5.2 billion to 174 billion dirhams and the coverage rate stabilized at 57.5 percent.

Table 2.3 : Change in imports (in millions of dirhams)

Groups of use	Jan.-Oct. 2019	Jan.-Oct. 2018	Change In value	Change In %
FOB imports	**409 223**	**397 073**	**12 150**	**3.1**
Energy products	**63 646**	**68 144**	**-4 498**	**-6.6**
Electric energy	144	2 220	-2 076	-93.5
Gasoil and fuel oil	31 884	33 887	-2 003	-5.9
Equipment goods	**105 958**	**96 872**	**9 086**	**9.4**
Planes and other air or space vehicles	7 832	2 655	5 177	-
Machines and various devices	10 137	8 386	1 751	20.9
Utility cars	5 748	4 314	1 434	33.2
Finished consumables	**93 506**	**90 523**	**2 983**	**3.3**
Parts and spare parts of passenger vehicles	15 298	14 454	844	5.8
Miscellaneous plastic articles	4 889	4 371	518	11.9
Hosiery items	4 738	4 262	476	11.2
Semi-finished products	**87 081**	**82 937**	**4 144**	**5.0**
Semi-finished products of iron or steel	3 406	1 878	1 528	81.4
Non-alloy iron wires, bars and profiles	3 572	2 844	728	25.6
Food products	**39 976**	**37 961**	**2 015**	**5.3**
Wheat	8 080	6 958	1 122	16.1
Corn	4 404	4 010	394	9.8
Raw products	**18 809**	**20 473**	**-1 664**	**-8.1**
Oil meal	2 947	3 250	-303	-9.3
Crude or refined soybean oil	103	378	-275	-72.8

Source: Foreign Exchange Office.

Table 2.4 : Change in major import energy products (YoY, in %)

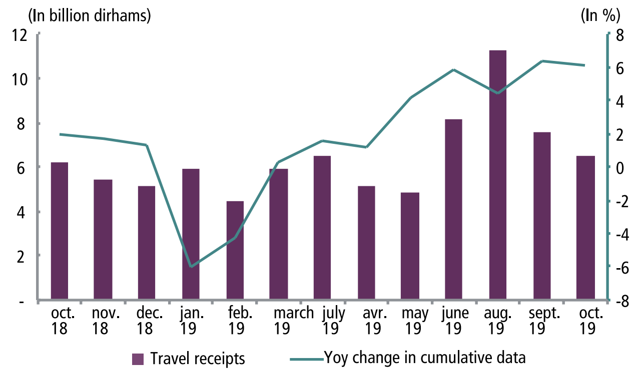
	Jan.-Oct. 2019/Jan.-Oct. 2018		
	Value	Quantity	Price
Gas oils and fuel oils	-5.9	-2.6	-3.4
Petroleum gaz and other fuel	-10.8	3.1	-13.4
Coal, coke, and similar solid fuels	10.3	17.8	-6.4

Source: Foreign Exchange Office.

2.2 Other components of the current account

Regarding the balance of services, its surplus strengthened by 12.6 percent to 74.2 billion dirhams, due to a 5 percent increase in exports to 154.2 billion and a 1.2 percent decrease in imports to 80 billion. In particular, travel receipts reached 66.3 billion, up 6.1 percent, and spending under the same item increased by 10.9 percent to 17.8 billion.

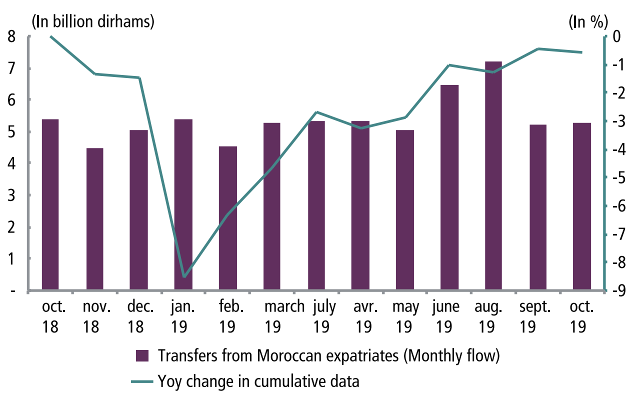
Chart 2.2: Change in travel receipts



Source: Foreign Exchange Office.

As to expatriate remittances, they registered a drop by 0.6 percent to 55.1 billion dirhams.

Chart 2.3: Change in transfers from Moroccan expatriates



Source: Foreign Exchange Office.

Table 2.5: Change in the balance of services (in millions of dirhams)

	jan.-oct. 2019*	jan.-oct. 2018	Change	
			In value	In %
Imports	**79 963**	**80 954**	**-991**	**-1.2**
Travel	17 818	16 070	1 748	10.9
Exports	**154 151**	**146 815**	**7 336**	**5.0**
Travel	66 292	62 463	3 829	6.1
Balance	**74 188**	**65 861**	**8 327**	**12.6**

2.3 Financial account

As to the main financial transactions, FDI inflows fell by 16 billion dirhams to 15.4 billion, the result of a decline of 15.1 billion in receipts, combined with an increase of 873 million in divestments. At the same time, investment outflows by Moroccans improved by 2.7 billion to 8.2 billion, mainly due to a 2.6 billion increase in investment.

Under these circumstances, the stock of net international reserves stood by end-October at 231.5 billion dirhams, representing the equivalent of 4 months and 28 days of imports of goods and services.

Table 2.6: Change in Direct investments (in million dirhams)

	jan.-oct.	jan.-oct.	Change	
	2019	2018	In value	In %
Foreign direct investments	**15 421**	**31 384**	**-15 963**	**-50.9**
Revenues	26 711	41 801	-15 090	-36.1
Expenses	11 290	10 417	873	8.4
Investments of Moroccans abroad	**8 231**	**5 499**	**2 732**	**49.7**
Expenses	9 554	6 983	2 571	36.8
Revenues	1 323	1 484	-161	-10.8

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSETS MARKET

During the third quarter of 2019, monetary conditions were marked by an appreciation of the effective exchange rate and a slight increase in lending rates after several quarters of consecutive declines. As for credit to the non-financial sector, its growth stabilized at 3.7 percent, covering an improvement in the growth of loans to private companies, a deceleration in loans to households and a further drop in loans to sate-owned enterprises. As for the other counterparts of the money supply, the growth in net claims on the central government and in net international reserves accelerated to 13.2 percent and 3 percent respectively. Overall, the growth of the money supply edged up from 4.2 percent to 4.4 percent.

On the real estate market, asset prices recorded a quarterly increase of 0.9 percent in the third quarter of 2019. This change concerned all categories of assets with rates at 0.9 percent for the residential sector, 0.6 percent for urban land and 1.7 percent for property for professional use. Concerning the number of transactions, it increased by 6 percent, reflecting rises of 3.7 percent for the residential sector, 18.6 percent for urban land and 0.7 percent for property for professional use. On the Casablanca stock exchange, the MASI appreciated by 2.4 percent and the volume of trading stood at 13.5 billion from 24.2 billion a quarter earlier.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the third quarter of 2019, banks' liquidity needs increased to 86.7 billion dirhams as a weekly average, driven by the rise in currency in circulation. Thus, Bank Al-Maghrib raised the amount of its injections to 87.4 billion, including 84.4 billion as 7-day advances, 2.3 billion as secure loan operations granted under the support program for the financing of the VSME. The latest available data indicate that this deficit narrowed to an average of 75.6 billion in October and November mainly due to the lowering of the monetary reserve ratio from 4 percent to 2 percent.

In this context, the interbank rate remained close to the key rate. On the treasury bill market, after remaining almost unchanged over the preceding quarter, interest rates went downward in October on both the primary and secondary markets.

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

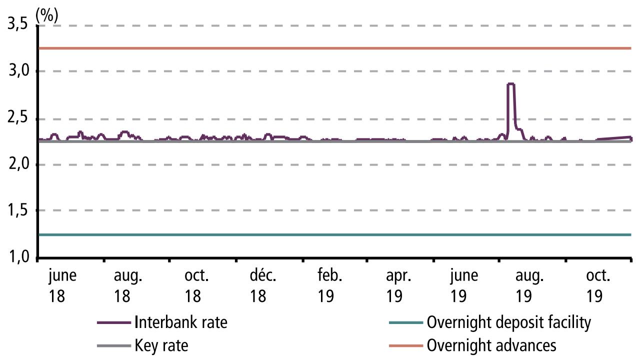
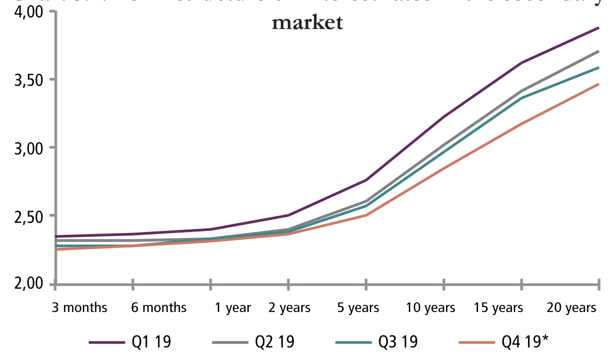


Table 3.1: Change in Treasury bond yields in the primary market

	2017		2018				2019			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	oct.
52 weeks	2.36	2.29	2.35	2.31	2.42	2.45	2.37	2.31	2.31	2.28
2 years	2.49	2.44	2.53	2.50	2.58	2.60	2.51	2.39	2.38	3.35
5 years	2.83	2.77	2.81	2.76	2.82	2.86	2.77	2.60	2.58	2.51
10 years	3.32	3.28	3.28	3.24	3.28	3.34	3.19	3.02	2.97	2.89
15 years	3.87	3.71	3.68	3.68	3.70	-	3.64	3.42	3.38	3.20

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

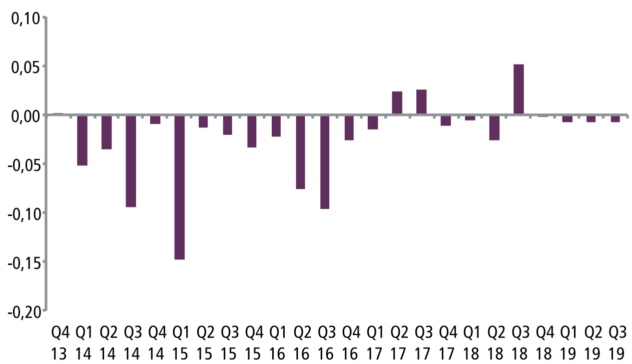


* Observed average in october and november.

In the other markets, the issuance rates of certificates of deposit fell during the third quarter of 2019. Conversely, deposit rates rose by 7 basis points to 2.75 percent for 6-month deposits and almost stabilized at 3.01 percent for 1-year deposits. Under these conditions, the cost of financing1 for banks remained virtually stable in the third quarter of 2019.

Chart 3.3: Change in cost of bank financing

(in percentage points)



Regarding lending rates, the results of Bank Al-Maghrib's survey with banks for the third quarter of 2019 show an increase of 11 basis points in the overall average rate to 5.09 percent. By institutional sector, the increase stood at 12 points for loans to private companies overall, 9 points for large companies and 12 points for VSMEs. Concerning loans to Individuals, their rates rose by 35 basis points, covering an increase of 33 points for housing loans and almost unchanged rates for consumer loans.

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

Table 3.2 : Change in lending rates

	2018		2019		
	Q3	Q4	Q1	Q2	Q3
Overall	**5.10**	**5.09**	**5.02**	**4.98**	**5.09**
Personal loans	**5.9**	**5.83**	**5.78**	**5.34**	**5.69**
Real estate loans	4.88	4.89	4.70	4.18	4.51
Consumer loans	6.61	6.84	6.74	6.71	6.72
Loans to businesses	**4.85**	**4.90**	**4.78**	**4.85**	**4.92**
Cash loans	4.70	4.81	4.72	4.70	4.74
Equipment loans	4.86	4.86	4.48	5.07	5.20
Real estate loans	5.71	5.91	5.59	5.46	6.07
Individual entrepreneurs	**6.46**	**6.39**	**6.28**	**6.64**	**6.87**

Table 3.3: Deposit rates

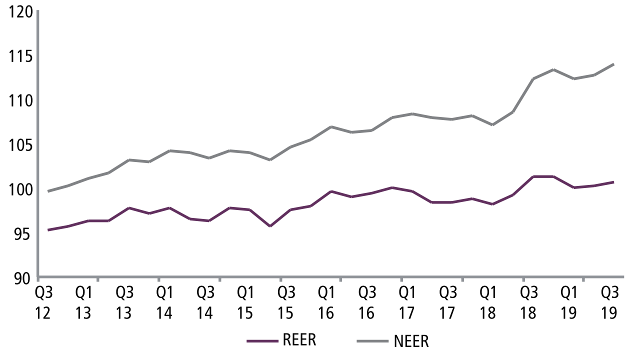
	2017		2018				2019		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
6 months	2.81	2.80	2.79	2.78	2.80	2.71	2.78	2.68	2.75
12 months	3.09	3.10	3.15	3.10	3.07	3.04	3.06	3.00	3.01

3.1.2 Exchange rate

During the third quarter of 2019, the euro depreciated by 1.1 percent as against the US dollar. Under these conditions, the national currency appreciated by 1.25 percent against the euro and remained almost stable against the US dollar. Compared to the currencies of the main emerging countries, the dirham appreciated by 1.5 percent against the Brazilian real and by 2.8 percent against the Chinese yuan and depreciated by 3.5 percent vis-a-vis the Turkish lira. As a result, the effective exchange rate rose 1.1 percent in nominal terms and 0.4 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)



Sources : BAM and IMF calculations.

As to currency transactions, the average volume of cash transactions by banks with customers decreased by 4 percent for sales to 23.1 billion dirhams and by 10.2 percent to 22.2 billion for purchases. At the same time, forward purchases fell 26.9 percent to 9.7 billion while forward sales increased 2.8 percent to 1.7 billion. During this period, Bank Al-Maghrib did not carry out any purchase or sale operation of currency with banks. Under these conditions, the net foreign exchange position of banks was positive at 5 billion dirhams at end-September 2019, as against a negative balance of 6.3 billion at end-June 2019.

3.1.3 Monetary situation

The growth rate of M3 aggregate accelerated from 4.2 percent in the second quarter to 4.4 percent in the third quarter of 2019. The analysis of the change of its components shows an improvement in sight deposits from 3.4 percent to 3.8 percent, with accelerations in particular from 3.6 percent to 3.9 percent for those of households and from 1.8 percent to 2 percent for those of private non-financial businesses. Similarly, savings accounts and foreign currency deposits rose respectively from 3.6 percent to 3.8 percent and from 3.1 percent to 8.4 percent. On the other hand, time deposits fell by 0.4 percent, as against an increase of 1.3 percent, mainly impacted by the steeper drop from 0.4 percent to 5.2 percent of those of private non-financial companies.

Concerning currency in circulation, its growth slowed down from 7.9 percent to 7.2 percent.

By main counterpart, the change in the money supply reflects respective accelerations from 2.4 percent to 3 percent of net international reserves, from 4.5 percent to 5.1 percent of bank credit and from 9.8 percent to 13.2 percent of net claims on the central government.

Chart 3.6: Money gap[1](in % of M3 and M1 equilibrium outstanding amount in real terms)

1 The money gap, calculated in real terms, is the difference between the actual level of the 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

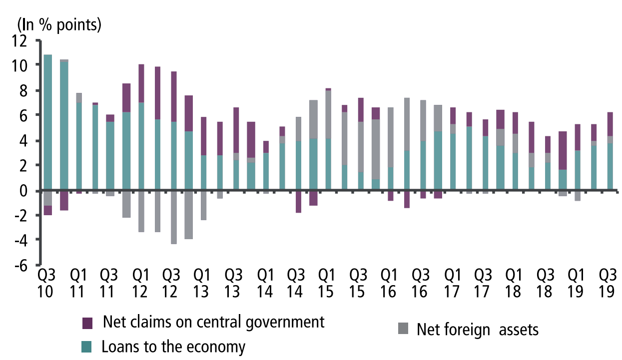
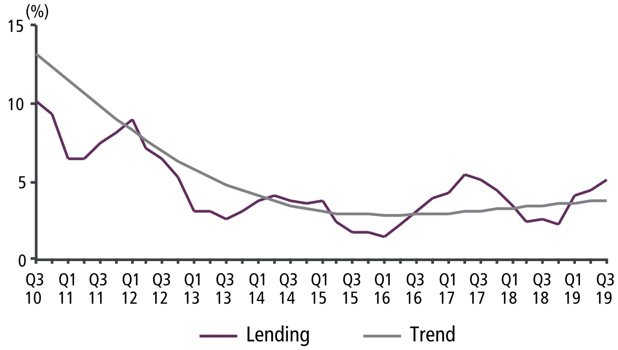


Chart 3.8: YoY change in credit



Loans to the non-financial sector remained stable at 3.7 percent for the second consecutive quarter. This change covers an improvement in the growth rate of loans to private companies, a deceleration in loans to households and a further drop in loans to public companies.

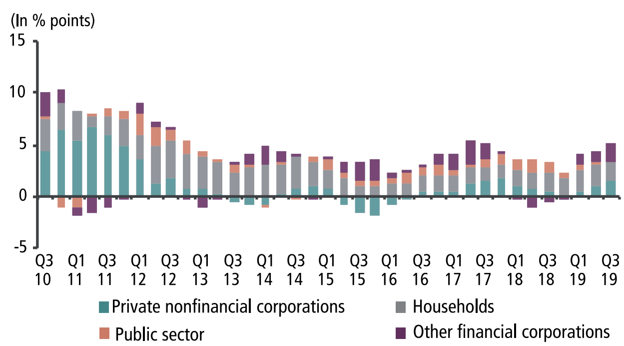
Accordingly, loans to private companies rose 3.6 percent from 2.2 percent a quarter earlier, reflecting a 2.6 percent increase in equipment loans after a 1 percent drop, an increase in cash facilities by 6.8 percent as against 5.9 percent and a 2.1 percent increase in loans intended for real-estate development after 0.6 percent. On the other hand, loans to state-owned enterprises fell by 5.4 percent following a drop by 1.1 percent, with a marked fall in equipment loans from 1.1 percent to 5.1 percent and a decrease by 7.7 percent after a 6 percent increase in cash facilities.

Regarding loans to individual entrepreneurs, they rose by 3 percent after 5.8 percent. This change reflects decelerations from 12.4 percent to 8.4 percent in the growth rate of equipment loans and from 14.8 percent to 10.4 percent in the growth of cash facilities. At the same time, the decline in real-estate loans further increased from 9.3 percent to 14 percent.

By industry, quarterly data for September 2019 shows accelerations from 8.1 percent to 11 percent for loans intended for "trade, automobile repairs and household goods", from 2.9 percent to 3.1 percent for the "transport and communications" branch and from 3.9 percent to 5 percent for "metallurgical, mechanical, electrical and electronic industries". Similarly, loans to the "food and tobacco industries" increased 7.4 percent, after decreasing 2.8 percent in June. On the other hand, Loans to companies in the "electricity, gas and water" and "building and public works" branches showed respective declines of 14.2 percent and 1.4 percent, more pronounced than those of 13 percent and 0.5 percent a quarter earlier.

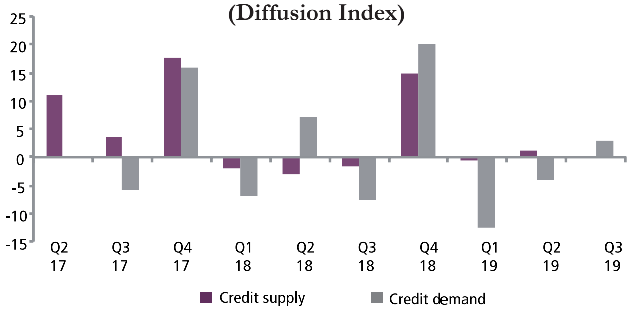
With regard to loans to individuals, their slowed from 6.1 percent to 5.1 percent, reflecting decelerations from 5.9 percent to 4.4 percent for housing loans and from 5 percent to 4.6 percent for consumer loans.

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



As to non-performing loans, they increased by 4.5 percent and their ratio to bank credit remained almost unchanged at 7.6 percent. This change reflects increases of 11.4 percent in those of households and 0.8 percent in those of private non-financial businesses.

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

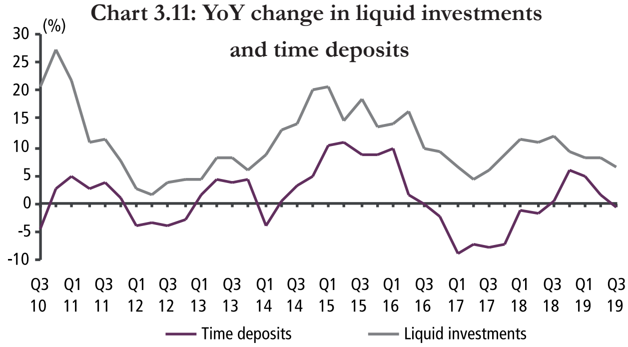


Regarding loans granted by financial companies other than banks to the non-financial sector, they rose by 6.5 percent at the end of September. This change reflects increases of 6.2 percent for loans granted by finance companies and of 4.9 percent of those by microcredit associations, while loans distributed by offshore banks fell 13.7 percent.

The latest available data of October 2019 show an acceleration in bank credit to 6.1 percent. In particular, loans to the non-financial sector increased by 4.8 percent, reflecting an improvement in loans to private enterprises and households and a further decline in loans to state-owned enterprises.

Regarding liquid investment aggregates, their growth slowed down from 8.1 percent to 6.7 percent in the third quarter of 2019. This change reflects a deceleration in the growth rate of Treasury bills from 7.6 percent to 4.8 percent and of bond UCITS from 11.9 percent to 8.3 percent. On the other hand, equity and diversified UCITS recorded an increase of 1.8 percent, after a decrease of 11.5 percent a quarter earlier.

Chart 3.11: YoY change in liquid investments and time deposits



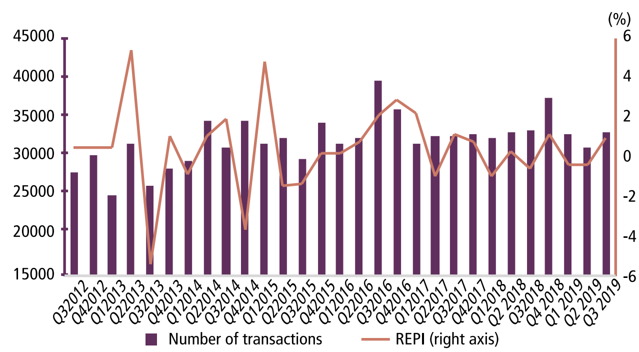
3.2 Asset prices

3.2.1 Real estate assets

In the third quarter of 2019, the real estate asset price index increased on a quarterly basis by 0.9 percent. This change reflects the increase in prices for all categories of goods, with rates at 0.9 percent for residential assets, 0.6 percent for urban land and 1.7 percent for property for professional use. Similarly, and after a 5.2 percent drop in the previous quarter, the number of transactions rose by 6 percent, reflecting increases by 3.7 percent for the residential sector, 18.6 percent for urban land and 0.7 percent for property for professional use.

In the main cities, prices recorded quarterly increases of 2.5 percent in Oujda, 1.8 percent in Meknes and 0.9 percent in Tangier, while the decreases varied from 0.2 percent in Kenitra to 2.5 percent in El Jadida. As to the number of transactions, it increased in most large cities, except Rabat, Kenitra and Casablanca where it decreased by 9.3 percent, 7.6 percent and 6.7 percent respectively.

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



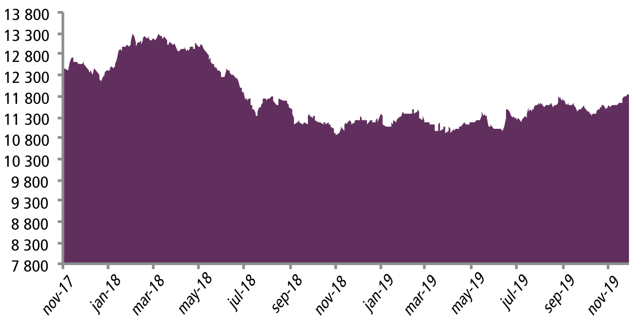
Sources : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

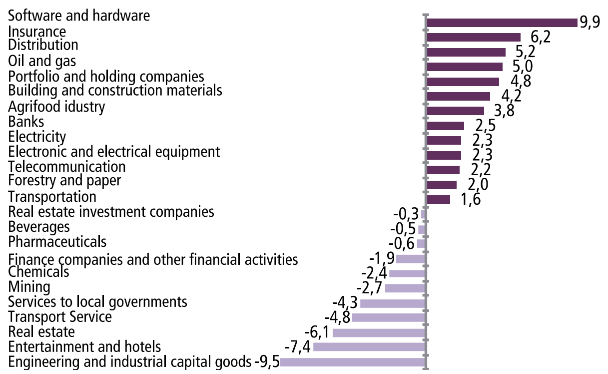
The MASI index appreciated 2.4 percent in September, bringing the performance since the beginning of the year to 1.7 percent. This change mainly reflects the increases in the sectoral indices of "Software and IT services" by 9.9 percent, of "insurance" by 6.2 percent and of "distributors" by 5.2 percent. Conversely, indices of «engineering and industrial capital goods» decreased by 9.5 percent, «leisure and hotels» by 7.4 percent and «real estate» by 6.1 percent.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.14: Change in the sectoral indexes in the second quarter of 2019 (in%)



Source : Casablanca Stock Exchange.

The volume of transactions stood at 13.5 billion dirhams in the third quarter, after 24.2 billion a quarter earlier. The turnover fell from 9.6 billion to 5.5 billion on the central market and from 9.2 billion to 1.5 billion on the block market. As for capital increases, they reached 2.2 billion, as against 5 billion dirhams in the previous quarter.

Against this background, market capitalization increased from one quarter to the next by 1.9 percent to reach 594.4 billion dirhams.

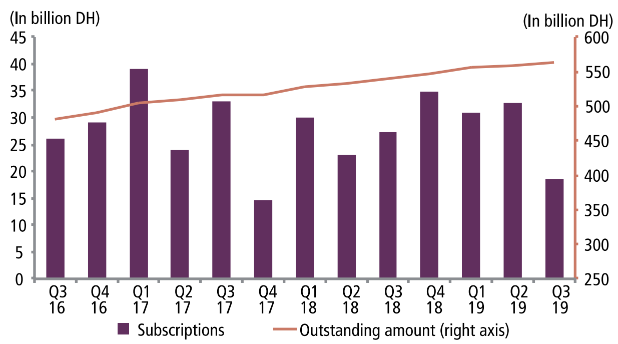
The most recent monthly data indicates a MASI rise of 2.9 percent in November, bringing the year-to-date performance to 4 percent. The volume of trading reached, for its part, 5.2 billion dirhams as against an average of 5.3 billion during the first ten months of the year and market capitalization reached 608.9 billion, up 4.6 percent compared to December 2018.

3.2.2.2 Sovereign debt market

Treasury issues on the domestic market stood at 18.5 billion dirhams in the third quarter, down 43.3 percent on a quarterly basis. They were composed up to 50 percent of medium-term maturities and up to 34 percent of long-term maturities.

In October, the Treasury borrowings stood at 9.9 billion dirhams, of which 51 percent had medium-term maturities and 32 percent long maturities. Taking account of the repayments, amounting to one billion dirhams, outstanding treasury bills stood at 564.3 billion, up 3.3 percent since the start of the year.

Chart 3.15: Change in outstanding Treasury bonds



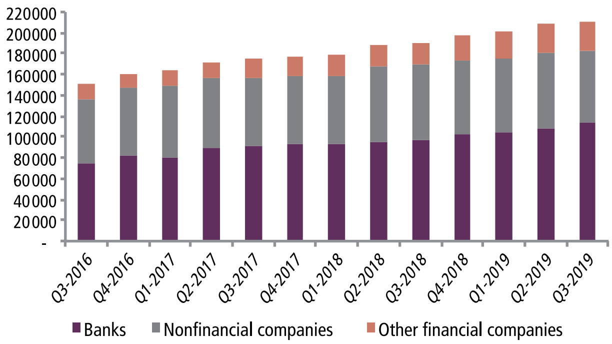
Source : BAM.

3.2.2.3 Private debt market

On the private debt market, issues fell 27 percent to 16.2 billion dirhams in the third quarter of 2019. Borrowings by banks reached 11.9 billion after 16.1 billion and those of non-financial companies fell from 3.5 billion to 1.9 billion.

In October, issues amounted to 8.5 billion, bringing the realized amount since the beginning of the year to 60.8 billion, as against 51.9 billion during the same period of the previous year. Taking into account the repayments, the outstanding of private debt rose by 9.3 percent, since the beginning of the year, to reach 216.1 billion dirhams.

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 securities

During the third quarter of the year, subscriptions to UCITS securities increased by 17 percent to 218 billion and redemptions rose by 14 percent to 219.8 billion, representing a net outflow of 1.9 billion dirhams which concerned "short-term bonds" and "contractual" funds. In terms of performance, they trended upwards for all funds and varied between 1.7 percent for «money market» funds and 7.3 percent for «equity» funds.

Under these conditions, the net assets of UCITS increased 0.6 percent to 453.9 billion. This development covers in particular increases by 5.5 percent for «equity» funds, 3.6 percent for «money market» funds and 2.2 percent for «medium and long-term bond» funds as well as a decrease by 9.3 percent for "short-term bond" funds.

Data as at November 15 indicate a 4.4 percent increase in net assets of mutual funds since the start of the year to 453.9 billion dirhams. This rise covers increases of 10.9 percent to 35.1 billion for "equity" funds and 10.4 percent to 269.5 billion for "medium and long-term bond" funds and declines for "" short term bond" funds and « money market» funds by 6.9 percent and 6.6 percent respectively.

This development results from a net inflow of 5.3 billion and a positive performance of all categories of mutual funds.

4. FISCAL POLICY STANCE

At the end of the first ten months of 2019, budget execution deficit, excluding privatization, rose from MAD 4.7 billion to MAD 40 billion. This trend reflects a 5.4 percent increase in overall expenditure, mainly due to the 7.1 percent rise in operating expenditure and 7.9 percent increase in investment expenditure, while subsidy costs fell 18.6 percent. By contrast, ordinary revenues, excluding privatisation, improved by 3.8 percent, reflecting a 2.6 percent rise in tax revenues and a 16.6 percent increase in non-tax ones, mainly driven by monopoly revenues, which rose by 22.9 percent. The ordinary balance showed a surplus of 7.5 billion, compared with 9.3 billion a year earlier. The surplus on the Treasury's special accounts stood at 4.1 billion, compared with 3.3 billion a year earlier.

The Treasury reduced its stock of expenditure pending payment by 9.1 billion at end - October 2019, bringing the cash deficit, excluding privatisation, to 49.1 billion, up 11.5 billion. This requirement was financed by domestic resources, privatisation receipts, net foreign loans at 41.3 billion, 4.4 billion and 3.4 billion, respectively. As a result, outstanding direct public debt would have increased by 2.7 percent compared to its level at end-December 2018. As regards the Treasury's cost of financing on the auction market, weighted average rates were generally down during the first ten months of the year compared with the same period of 2018.

4.1 Current receipts

Revenue generation in the first ten months of 2019 showed a 3.8 percent improved current revenues, excluding privatisation, compared to the same period in 2018. This evolution reflects a 2.6 percent increase in tax revenues to MAD 194.8 billion, up 79.2 percent, and a 16.6 percent increase in non-tax revenues to 17.7 billion.

Direct tax revenues increased by 3.2 percent to 77 billion, mainly after the collection of 2 billion as part of the social solidarity contribution on profits[1], the 4.4 percent higher income tax, to MAD35.4 billion and the 2.5 percent decline in corporate tax to MAD 37.7 billion. The change of revenues from income tax includes a 14.2 percent drop to 2.8 billion in the income tax on real estate profits and a 2 percent increase to 7.3 billion for tax on salaries paid by the Personnel Expenditure Department.

Indirect taxes increased by 2.5 percent to 96.2 billion, reflecting a 1.2 percent increase in VAT receipts to 71.7 billion and a 6.3 percent increase in ICT receipts to 24.5 billion. The change in VAT revenues includes a 3.1 percent increase in import VAT receipts to 46.7 billion and a 2 percent decrease in domestic VAT receipts to 25 billion, in connection with the increase in refunds, which reached 8.9 billion, instead of 6.1 billion at the end of October 2018.

1 The social solidarity contribution on profits was introduced by the 2019 Finance Act, applicable to companies subject to corporation tax and payable in respect of the years 2019 and 2020.

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

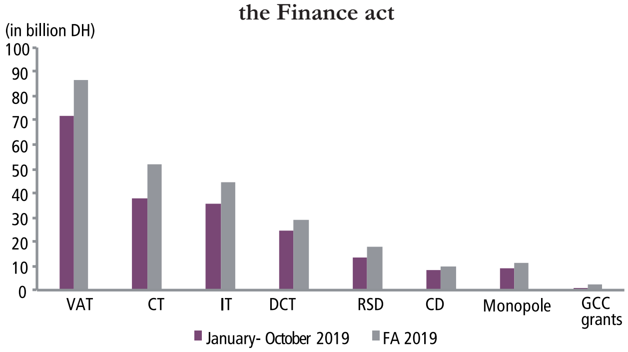
	Jan. oct. 2018	Jan. oct. 2019	Change in %	FA 2019	Achievements against the FA (%)
Current revenues	**207.5**	**215.3**	**3.8**	**268.0**	**80.3**
Tax revenues	**189.9**	**194.8**	**2.6**	**246.0**	**79.2**
- Direct taxes	74.6	77.0	3.2	102.7	75.0
Including CT	38.7	37.7	-2.5	52.0	72.6
I.T	33.9	35.4	4.4	44.6	79.4
- Indirect taxes	93.9	96.2	2.5	115.8	83.1
VAT*	70.8	71.7	1.2	86.7	82.7
DCT	23.1	24.5	6.3	29.1	84.2
- Customs duties	8.1	8.05	-1.0	9.4	85.5
- Registration and stamp duties	13.3	13.6	2.2	18.0	75.2
Nontax revenues	**15.2**	**17.7**	**16.6**	**18.7**	**94.3**
- Monopoles	7.3	8.9	22.9	11.5	77.9
- Other receipts	7.9	8.8	10.8	7.3	120.1
Including GCC grants	0.8	1.1	43.1	2.0	54.8
TSA revenues	**2.4**	**2.8**	**17.6**	**3.3**	**84.5**

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

Evolution of ICT revenues is driven by higher revenues from ICT manufactured tobacco, from 8.2 percent to 9.4 billion, energy from 4.6 percent to 13.6 billion and other ICT revenues from 10.3 percent to 1.6 billion.

As regards customs duties, they drained 8.1 billion dirhams, down by 1percent, while registration and stamp duties provided 13.6 billion dirhams, up by 2.2 percent.

Chart 4.1: Achievements of the main revenues compared to the Finance act



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.
Note :
-VAT : Value added tax - CT : Corporate tax
- IT : Income tax - DCT : Domestic consumption tax
- RSD : Registration and stamp duties - CD : Customs duties

For their part, nontax revenues, excluding privatisation, increased by 16.6 percent to 17.7 billion, i.e. an execution rate of 94.3 percent. This evolution is attributable in particular to the MAD 1.1 bill granted from GCC countries, compared to MAD 766 million at the end of October 2018, and to the MAD 2.2 billion revenue from debt relief, instead of MAD 594 million, as well as to the increase by 22.9 percent to MAD 8.9 billion in revenue from monopolies and participations. The latter were paid in particular by OCP for 2.7 billion, ANCFCC for 2 billion, Maroc Telecom for 1.5 billion and Bank Al-Maghrib for 782 million.

4.2 Expenditure

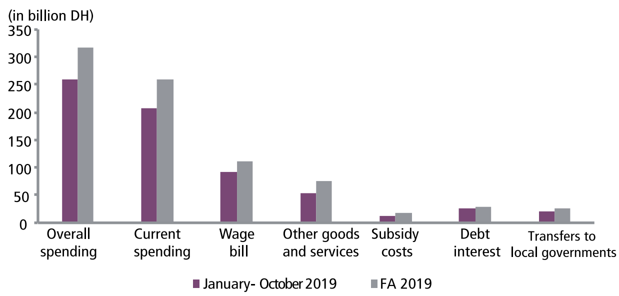
Overall expenditure increased by 5.4 percent to 259.4 billion, reflecting increases of 4.8 percent to 207.8 billion in ordinary expenditure and 7.9 percent to 51.7 billion in investment. Expenditure on goods and services increased by 7.1 percent to 146.4 billion, reflecting increases of 5.2 percent to 92.6 billion in personnel expenditure and 10.5 percent to 53.8 billion in expenditure on other goods and services. Growth of the latter includes rises by 10.4 percent to 13.8 billion in transfers to the Moroccan Pension Fund, by 5.9 percent to 19.8 billion in payments to public institutions and enterprises and by 29.2 percent to 3.1 billion in payments to special Treasury accounts. As for the wage bill, it takes into account its 3.3 percent higher structural component and the 21.8 percent rise in the reminders for the part served by the Personnel Expenditure Department.

Table 4.2: Evolution and execution of public expenditure (in billion dirhams)*

	Jan.-oct. 2018	Jan.-oct. 2019	Change in %	FA 2019	Achievements against the FA (%)
Overall spending	**246.1**	**259.4**	**5.4**	**317.4**	**81.7**
Current spending	**198.2**	**207.8**	**4.8**	**259.8**	**80.0**
Goods and services	136.7	146.4	7.1	186.7	78.4
Personal	88.0	92.6	5.2	112.2	82.6
Other goods and services	48.7	53.8	10.5	74.6	72.2
Debt interests	25.1	27.5	9.5	28.7	95.9
Subsidy	15.1	12.3	-18.6	18.4	67.0
Transfer to local governments	21.3	21.5	1.2	26.0	82.7
Investment	**47.9**	**51.7**	**7.9**	**57.6**	**89.7**

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

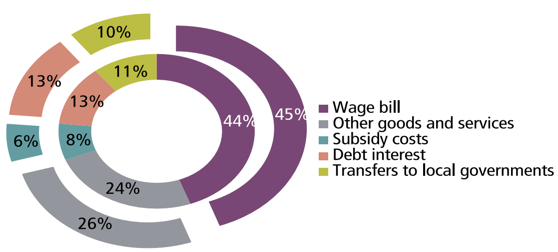
Chart 4.2: Expenditure execution in relation to the Finance act



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

In addition, the debt interest charge, which was implemented at 95.9 percent of the Finance act, was up by 9.5 percent to 27.5 billion, due to the 10.7 percent increase in interest on domestic debt to 24.5 billion, while interests on external debt stagnated at nearly 3 billion.

Chart 4.3: Structure of current spending



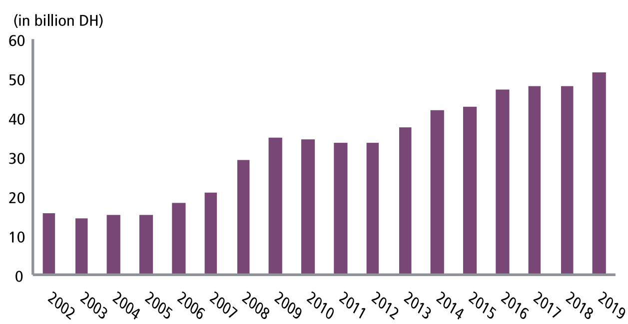
Internal ring : January- October 2018
External ring : January- October 2019

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

Clearing costs fell by 18.6 percent to EUR 12.3 billion, i.e. an execution rate of 67 percent. Data from the Compensation Fund (CC) indicate a fall in the burden relating to butane gas from 20.7 percent to 7.8 billion at the end of October 2019 and a slight increase of 0.1 percent to 2.9 billion in the burden allocated to sugar. According to the CC, the average price of butane gas on the international market fell by 23.7 percent to USD 413.3 per tonne on average during the first ten months of the year, while the price of sugar rose slightly by 0.6 percent to USD 291.9 per tonne.

Capital expenditure increased by 7.9 percent to 51.7 billion, an implementation rate of 89.7 percent. This trend is related to the 1.6 percent increase in ministry expenditure to 31.9 billion and the 15.5 percent increase in common charges to 18.8 billion.

Chart 4.4: Investment spending, at end-august

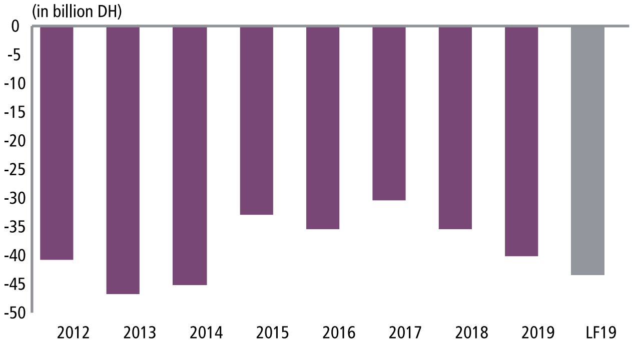


Source : Ministry of Economy and Finance (TEFD).

4.3 Deficit and Treasury Financing

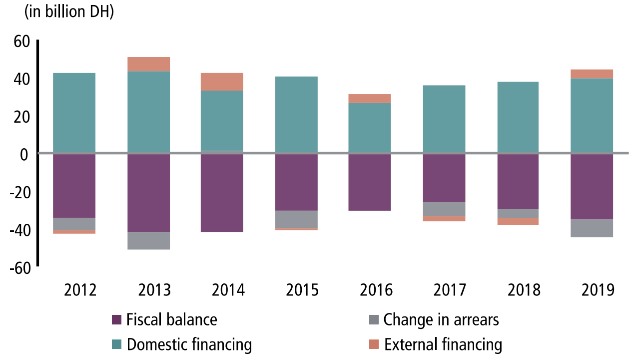
In view of the changes in revenue, expenditure and the balance of the Treasury's special accounts at the end of October 2019, the budget deficit, excluding privatisation, widened from 4.7 billion to 40 billion. The Treasury reduced its stock of expenditure pending payment by 9.1 billion instead of 2.2 billion at end-October 2018, bringing the cash deficit, excluding privatisation, to 49.1 billion, compared with 37.5 billion one year earlier.

Chart 4.5: Budget balance at end-October



Source : Ministry of Economy and Finance (TEFD).

Chart 4.6: Budget balance and financing at end-October



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

This requirement was financed by domestic resources for a net amount of 41.3 billion, by privatization proceeds of 4.4 billion and net foreign claims of 3.4 billion, with gross external drawing of 10.5 billion, of which the World Bank provided 8.2 billion and the AfDB 2.3 billion.

Table 4.3: Deficit financing (in billion dirhams)

	Jan.-oct. 2018	Jan.-oct. 2019	FA 2019
Current balance	**9.3**	**7.5**	**8.2**
Balance of TSA	3.3	4.1	6.0
Primary balance	-10.2	-12.5	-14.7
Fiscal balance	**-35.3**	**-40.0**	**-43.4**
Change in arrears	-2.2	-9.1	0.0
Financing requirements	**-37.5**	**-49.1**	**-43.4**
Domestic financing	41.2	41.3	19.9
External financing	-3.6	3.4	18.5
Privatization	0.0	4.4	5.0

Source : Ministry of Economy and Finance (TEFD).

On the domestic financing side, the Treasury raised 18.1 billion in the auction market, as against 23.9 billion a year earlier. Net subscriptions in the first 10 months of 2019 were dominated by long maturities, with 10-year bills amounting to 12.7 billion, 15-year bills to 9.2 billion, 20-year bills to 5.2 billion and 30-year bills amounting to 1.6 billion. Net redemptions reached 7.2 billion in 2-year bills and 5.7 billion in 52-week bills.

Treasury financing conditions on the auction market remained favourable for the first ten months of 2019, as evidenced by the fall in weighted average rates (WARs) compared with the same period in 2018. The declines reached 25 basis points (bps) for 20-year and 10-year maturities, 23 bps for 15-year maturities, 17 bps for 5-year bills and 13 bps for 2-year bills. On the other hand, the MPRs for 13-week and 26-week bonds increased slightly by 1 bp and 4 bp respectively.

Table 4.4: Evolution of the Treasury's debt (in billion dirhams)

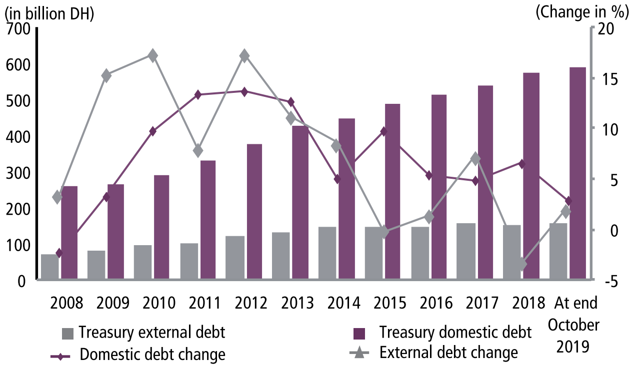
	2014	2015	2016	2017	2018	At end oct. 2019
Treasury external debt	**141.1**	**140.8**	**142.8**	**153.2**	**148.1**	**151.4**
Change in %	8.7	-0.2	1.4	7.3	-3.4	2.3
Treasury domestic debt	**445.5**	**488.4**	**514.7**	**539.1**	**574.6**	**591.1**
Change in %	5.0	9.6	5.4	4.8	6.6	2.9
Outstanding direct debt	**586.6**	**629.2**	**657.5**	**692.3**	**722.7**	**742.5**
Change in %	5.8	7.3	4.5	5.3	4.4	2.7

Source : Ministry of Economy and Finance (TEFD).

Concerning debt at end-october 2019, estimates are based on the flows of debt-generating net finance flows.

Overall, the estimates based on financing flows show a 2.7 percent increase in direct public debt, compared with its level at end-December 2018. This reflects increases by 2.9 percent in the domestic component and by 2.3 percent in the external component.

Chart 4.7: Treasury debt



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

5. DEMAND, SUPPLY AND LABOR MARKET

In the second quarter of 2019, domestic growth slowed slightly to 2.5percent, as against 2.6 percent a year earlier. This trend has resulted from the 2.8 percent decline, after a 4.5 percent increase, of agricultural value added, and an accelerated growth pace of non-agricultural activities, from 2.1 percent to 3.3 percent. On the demand side, its domestic component contributed by 3.4 percentage points, while net exports made a negative contribution of 0.9 percentage points.

For the second half of the year, and in view of the latest available yearly data, non-agricultural activities would have accelerated to 3.1 percent after 2.5 percent, while agricultural value added would have fallen, with a rate of 5 percent against an increase of 3.6 percent a year earlier, as a result of the lower cereal harvest. Overall, the pace of economic activity is estimated to have decelerated from 2.9 percent to 2.5 percent. As regards demand projections, household consumption is expected to grow at an almost unchanged rate, namely 3.7 percent, while general government consumption is expected to slow from 4.2 percent to 3.4 percent and investment from 6.5 percent to 3.1 percent. Net foreign demand is expected to contribute negatively to growth.

On the labor market, economy recorded a net creation of 143 thousand jobs between the third quarters of 2018 and 2019, after 201 thousand a year earlier. By sector, nonagricultural activities recorded a strong increase, mainly in the tertiary sector, while agriculture posted a significant loss. Taking into account a net inflow of 168 thousand job seekers, unemployment rate rose from 9.3 percent to 9.4 percent at the national level and from 13.1 percent to 12.7 percent in the cities. Regarding the labour cost, the latest available data for the second quarter of 2019 show an annual increase in the private sector wage index of 1.8 percent in nominal terms, after 0.6 percent a year earlier, and 1.6 percent in real terms against a decline of 2 percent.

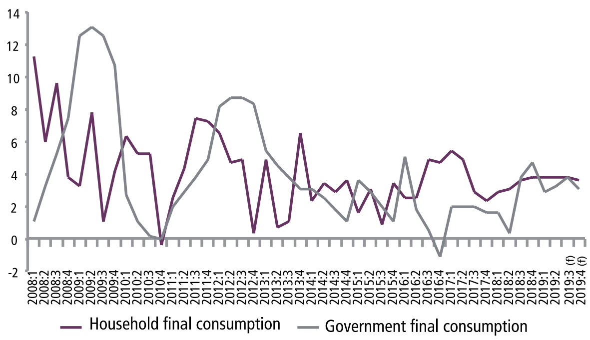
5.1 Domestic demand

5.1.1 Consumption

In the second quarter of 2019, national accounts data indicate a more rapid household consumption, which moved up from 3.1 percent to 3.7 percent compared to the same period in 2018. Its contribution to growth rose from 1.8 percentage points to 2.1 points.

In the second half of the current year, and taking into account wage increases, the growth rate of household consumption would have averaged 3.7 percent.

Chart 5.1: Change in consumption expenses (%)



Sources: HCP, and BAM forecasts.

Final consumption of general government increased by 3.3 percent in the second quarter instead of 0.4 percent, thus contributing to growth by 0.6 percentage points, as against 0.1 in the same period a year earlier.

Over the last two quarters, this component is estimated to have slowed from 4.2 percent, on average over the second half of the previous year, to 3.4 percent, mainly due to the deceleration in transfers to local and regional authorities and in the subsidy cost.

5.1.2 Investment

In the second quarter, the rate of increase in investment stood at 1.8 percent compared with 2.2 percent.

Recent trends in economic indicators point to a slowdown in the second half of the year to 3.1 percent after 6.5 percent a year earlier. Indeed, home and investment loans slowed from 4.1 percent to 3.4 percent and from 4.1 percent to 3.2 percent, respectively, at the end of September. In the same vein, the rate of growth of capital goods imports increased to 8.9 percent at the end of September against 10.4 percent a year earlier. In addition, the number of transactions recorded a 1.7 percent decline in the first nine months of the year.

5.2 Foreign demand

In the second quarter, net exports of goods and services made a negative contribution to growth, by 0.9 percentage points, following a zero contribution in the same period a year earlier. The pace of exports of goods and services fell from 8.3 percent to 3.6 percent and that of imports from 6.4 percent to 4.7 percent.

In terms of prospects, the slowdown in sales of phosphates and derivatives and in the automotive sector suggest that the pace of exports will slow down in the second half of the year. At the same time, imports are likely to have slowed down, notably due to the decline in imports of energy products. In this context, external demand is expected to have continued to make a negative contribution to growth.

5.3 Overall supply

In the second quarter of 2019, growth decelerated slightly from 2.6 percent to 2.5 percent. This change reflects a 2.8 percent decline, instead of a 4.5 percent increase, in agricultural value added and a 3.3 percent rise, after 2.1 percent, in non-agricultural activities.

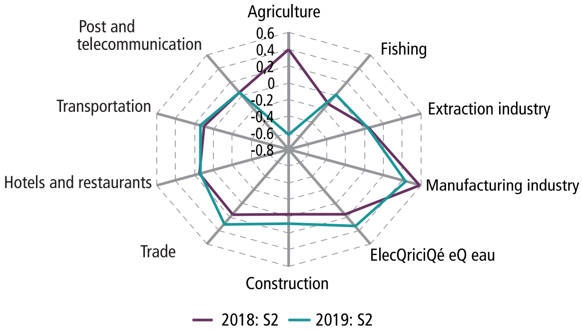
In the second half of the year, real GDP growth would have decelerated to 2.5 percent instead of 2.9 percent a year earlier, mainly due to the 5 percent decline in agricultural value added, after its 3.6 percent increase. The pace of nonagricultural activities, on the other hand, accelerated from 2.5 percent to 3.1 percent.

Chart 5.2: GDP by component (at prices of the previous year, year-on-year change, in %)

Sources: HCP data, and BAM forecasts.

Sectors wise, the secondary sector would have experienced an improvement in the added value of the "electricity and water" branch of 11.7 percent instead of an increase of 6.2 percent one year earlier, thanks to the reinforcement of electricity production from renewable sources and the entry into service of the thermal power station of Safi (SAFIEC). Similarly, added value of the construction sector would have posted an increase of 1.5 percent after its 0.4 percent fall. On the other hand, the activity would have decelerated from 3.7 percent to 2.5 percent for processing industries and from 2.3 percent to 1.3 percent for mining industries.

Chart 5.3: Contributions of industries to growth (in percentage points)



Sources: HCP data, and BAM forecasts.

In tertiary activities, the increase in value added would have gone from 2.1 percent to 3.4 percent for the "trade" sector, from 2.6 percent to 3.2 percent for transport services, and would have slowed down from 2.3 percent to 1.9 percent for "post and telecommunications" and from 5.8 percent to 4.5 percent for "hotels and restaurants".

For the year 2019 as a whole, growth would have decelerated to 2.6 percent after 3 percent in 2018, with a decrease of 4 percent, after a 4 percent increase in agricultural value added, and an acceleration from 2.6 percent to 3.3 percent for non-agricultural activities.

5.4 Labour market and production capacities 1

5.4.1 Activity and employment

Between the third quarter of 2019 and the same quarter of 2018, the labour market recorded a 1.4 percent increase in the number of working people aged 15 and over to nearly 11.9 million people. This change has resulted from a 3.8 percent rise in urban areas and a 2 percent decline in rural ones. Under these conditions, the activity rate continued its downward trend at the national level, albeit at a slower pace, and fell from 45 percent to 44.9 percent, while it increased in the cities from 41.1 percent to 41.7 percent.

At the same time, job creation amounted to 143 thousand jobs compared to 201 thousand a year earlier. The employed working population thus increased by 1.3 percent to 10.7 million people. This evolution is the result of an important creation of 347 thousand in nonagricultural activities which more than offset the 204 thousand jobs lost in agriculture. By sector of activity, services generated 336 thousand jobs, including 135 thousand jobs in the branch "trade and repair of automobiles and motorcycles". On the other hand, the construction sector recorded the creation of 37 thousand jobs, while industry, including handicrafts, lost 26 thousand jobs.

5.4.2 Unemploymentand underemployment

The unemployed labour force grew by 2.4 percent to almost 1.1 million people and the unemployment rate rose from 9.3 percent to 9.4 percent at the national level and from 13.1 percent to 12.7 percent in the cities. For young people aged 15 to 24 in particular, the rate worsened by 0.5 points to 26.7 percent overall, but fell by 2 points to 39.9 percent in the cities.

In parallel with the decrease in unemployment, the underemployment rate[2] fell from 9.6 percent to 9.1 percent at the national level, from 8 percent to 7.8 percent in urban areas and from 11.7 percent to 10.8 percent in rural areas.

5.4.3 Productivity and wages

In nonagricultural activities, apparent labour productivity is estimated to have decreased by 1.7 percent in the third quarter of 2019, after its 0.3 percent drop a year

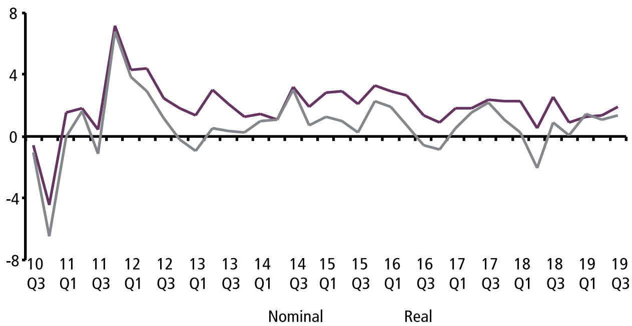
1 On 9 October 2019, the HCP issued a press release on the revision of the National Employment Survey (NES) data, published as of the second quarter of 2018. This release comes further to the first communiqué issued on 7 August, in which the HCP reveals its decision to temporarily suspend publication of employment indicators at the regional level, the reasons given being linked to the failure of the private company that the HCP hired to overhaul the ENE data collection method.

2 The underemployed population consists of persons who worked: (i) during the reference week less than 48 hours but are willing and available to work additional hours, or (ii) more than the set threshold and who are looking for another job or willing to change jobs because of the inadequacy of their training or qualification or of the income provided.

earlier, reflecting an acceleration from 2.6 percent to 3.1 percent in value added and from 2.9 percent to 4.9 percent in the number of persons employed.

On the other hand, average wages, calculated on the basis of CNSS data, rose by 1.9 percent in nominal terms in the third quarter of 2019, as against 2.5 percent in the same period a year earlier, and by 1.4 percent in real terms, after 0.9 percent.

Chart 5.4: Index of average wages in the private sector (year-over-year change, %)

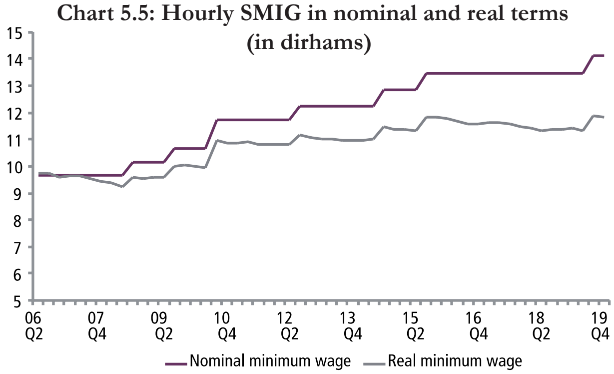


Source : HCP.

As regards the hourly minimum wage, and following its revaluation by 5 percent in July 2019 to MAD14.13 it increased in real terms by 4.5 percent in the third quarter and is expected to rise by 4.3 percent in the fourth quarter.

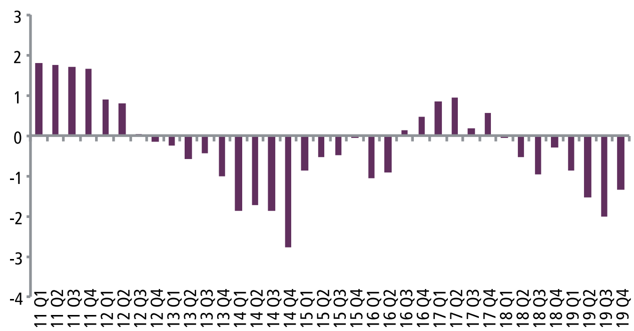
Under these conditions, the output gap is expected to remain negative in the third and fourth quarters of 2019.

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



Sources: CNSS, and BAM calculations.

Chart 5.6: Overall output gap (%)



Source: BAM estimates.

Table 5.1: Key Labour Market Indicators

	Q3 2018	Q3 2019
Participation rate (%)	**45.0**	**44.9**
Urban	41.1	41.7
Rural	51.9	50.8
Unemployment rate (%)	**9.3**	**9.4**
Youth aged between 15 and 24 years old	26.2	26.7
Urban	13.1	12.7
Youth aged between 15 and 24 years old	41.9	39.9
Rural	3.9	4.5
Job creation (in thousands)	201	143
Urban	197	261
Rural	4	-118
Sectors		
- Agriculture	4	-204
- Industry including handicraft	56	-26
- Construction	-20	37
- Services	151	336
Nonagricultural apparent productivity (change in %)	**-0.3**	**-1.7**
	Q2 2019	**Q2 2018**
Average wage index (change in %) Nominal	**0.6**	**1.8**
Average wage index (change in %) Real	**-2.0**	**1.6**

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

In line with the forecasts published in the last Monetary Policy Report, inflation accelerated in the third quarter of 2019, though remaining low at 0.5 percent after 0.2 percent one quarter earlier. This development continued in October, when inflation reached 0.7 percent, driven by the rise in volatile food prices from 0.2 percent in the third quarter to 2.9 percent, which more than offset the 0.6 percent to 0.3 percent slowdown in core inflation. Meanwhile, prices of fuels and lubricants fell by 3.6 percent in October after an average fall of 3.3 percent between July and September. Also, tariffs for regulated products increased at the same rate as in the previous quarter, i.e. by 1.6 percent.

In the short term, inflation is expected to rise again to 0.7 percent in the fourth quarter, bringing its 2019 annual average to 0.3 percent. On the other hand, its underlying component is expected to hover around 0.3 percent.

6.1 Inflation trends

The upward trend in inflation observed since the second quarter of 2019 has continued, confirming the forecasts published last September. Inflation reached 0.7 percent in October after 0.5 percent in the third quarter, bringing its average for the first ten months of 2019 to 0.3 percent. This acceleration is exclusively due to the 2.9 percent rise in October, instead of 0.2 percent between July and September, in volatile food prices, which more than offset the underlying inflation decrease from 0.6percent to 0.3 percent. The further decline in the prices of fuels and lubricants to 3.6 percent, as against 3.3 percent in the previous quarter, following the drop in international oil prices, had only a limited effect on inflation. On the other hand, tariffs of regulated products evolved at an unchanged rate, i.e. 1.6 percent.

6.1.1 Prices of products excluded from underlying inflation

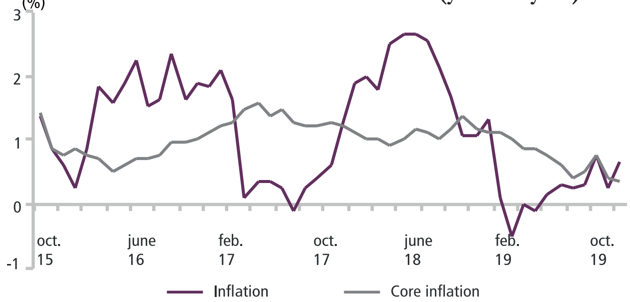
After their fall in the first half of the year, volatile food prices rose by 0.2 percent in the third quarter before increasing by 2.9 percent in October. This evolution reflects a 19 percent rise in the price of fresh vegetables (up from 13.2 percent) and a 3.5 percent increase, after a 2.5 percent fall, in the price of fresh fruit, as well as a moderation in the fall in egg prices from 6.7 percent to 1.2 percent. In contrast, prices of fresh fish fell by 0.8 percent, after they grew by 0.9 percent in the previous quarter.

Table 6.1: Change in inflation and its components

(In %)	MoM			YoY		
	aug. 19	sept. 19	oct. 19	aug. 19	sept. 19	oct. 19
Headline inflation	**0.3**	**-0.2**	**0.3**	**0.8**	**0.3**	**0.7**
- Volatile food prices	1.3	-2.9	1.7	1.7	-0.5	2.9
- Fuels and lubricants	-0.3	-1.4	2.5	-2.9	-4.5	-3.6
- Administered prices	0.1	0.0	0.1	1.6	1.6	1.6
Core inflation	**0.3**	**-0.3**	**-0.1**	**0.8**	**0.4**	**0.3**
- Food products	0.6	-0.3	-0.2	-0.6	-1.0	-1.0
- Clothing and footwear	0.2	0.4	0.4	1.0	1.1	1.4
- Housing, water, gas, electricity and other fuels[1]	0.3	0.1	0.1	1.8	1.6	1.7
- Furnishings, household equipment and routine house maintenance	0.3	0.2	-0.4	1.2	1.3	0.7
- Health[1]	0.4	0.0	0.5	4.2	4.0	4.2
- Transportation[2]	0.6	0.2	-0.4	1.1	0.8	0.4
- Communication	0.0	0.0	0.0	0.8	0.8	0.2
- Entertainment and culture[1]	0.1	0.2	0.0	1.9	2.1	2.1
- Education	0.0	2.0	0.3	3.4	2.1	2.3
- Restaurants and hotels	0.3	0.1	0.3	1.2	1.1	1.4
- Miscellaneous goods and services [1]	0.1	0.1	0.2	0.7	0.7	0.8

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

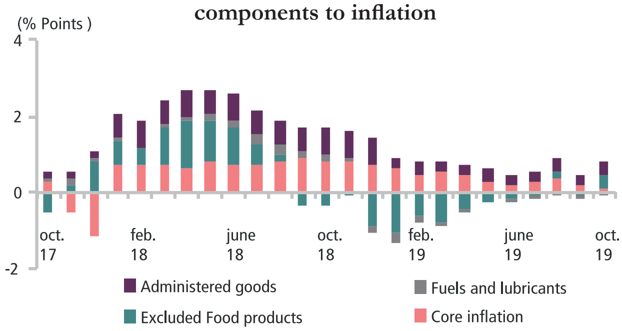
Chart 6.1: Inflation and core inflation (year-on-year)



Sources: HCP and BAM calculations.

All in all, the contribution of the food component at volatile prices to inflation was 0.4 percentage point in October, compared with 0.1 percentage point in the third quarter and -0.5 percentage point in the first six months of 2019.

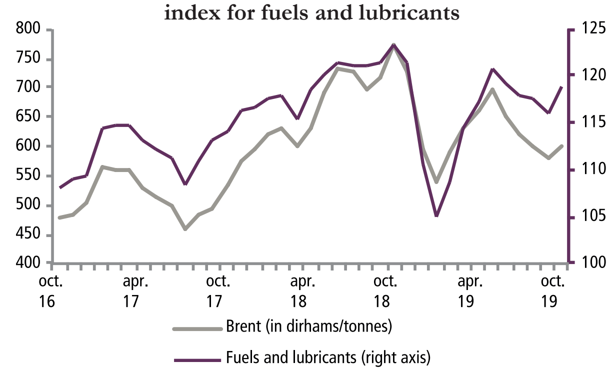
Chart 6.2: Year-on-year contributions of the main components to inflation



Sources: World Bank, HCP, and BAM calculations.

As regards fuels and lubricants, prices fell by 3.6 percent in October after an average of 3.3 percent in the third quarter in line with the trend in international oil prices. The price of Brent crude oil fell back to $59.4/bl in October after $61.9/bl a quarter earlier.

Chart 6.3: Trends in international Brent prices and the price index for fuels and lubricants



Sources: World Bank, HCP, and BAM calculations.

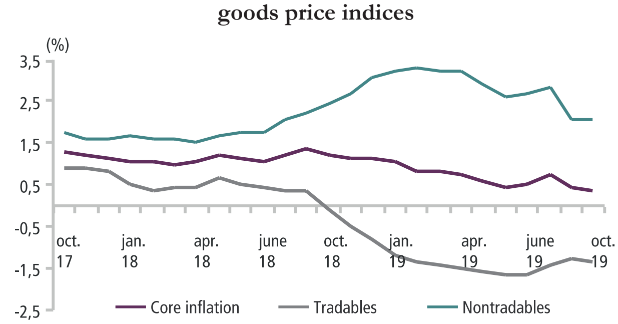
Tariffs of regulated products grew at an unchanged rate of 1.6 percent during this period, thus maintaining their contribution to inflation at 0.4 percentage points since the beginning of the year instead of 0.7 points on average a year earlier.

6.1.2. Core inflation

Core inflation slowed down again, falling from 0.6 percent in the third quarter to 0.3 percent in October, the lowest level since October 2010. Its deceleration was due in particular to a further decline in the price of its food component to 1 percent in October, after 0.9 percent in the previous quarter, and to the deceleration of education prices from 2.9 percent to 2.3 percent in October.

By breaking down the basket of the core inflation indicator into tradable and non-tradable goods, it emerges that this deceleration was the result of the deceleration in non-tradable inflation, which more than offset the moderate fall in the prices of tradable goods.

Chart 6.4: Year-on-year change in tradable and non-tradable goods price indices



Sources: HCP, and BAM calculations.

Indeed, the growth rate of non-tradable goods' prices fell to 2 percent in October from an average of 2.5 percent in the third quarter, particularly in connection with the deceleration from 4.4 percent to 3.1 percent in the rate of increase in fresh meat prices. Their contribution to underlying inflation stood at 1.1 percentage points in October compared with 1.4 points in the previous quarter.

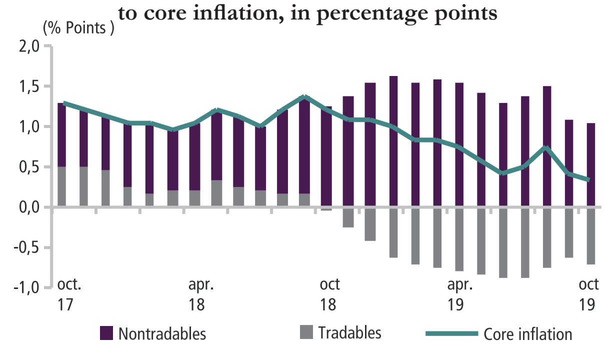
Table 6.2: Changes in price indices for tradable and non-tradable goods

(In %)	Monthly change			YoY change		
	aug. 19	sept. 19	oct. 19	aug. 19	sept. 19	oct. 19
Tradables	0.1	0.2	-0.1	-1.4	-1.3	-1.3
Nontradables	0.6	0.1	0.0	2.8	2.0	2.0
Core inflation	**0.3**	**-0.3**	**-0.1**	**0.8**	**0.4**	**0.3**

Sources: HCP, and BAM calculations.

Prices of tradable goods fell again to 1.3 percent, after 1.5 percent between July and September, but maintained their contribution to underlying inflation at -0.6 percentage points.

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



Sources: HCP, and BAM calculations.

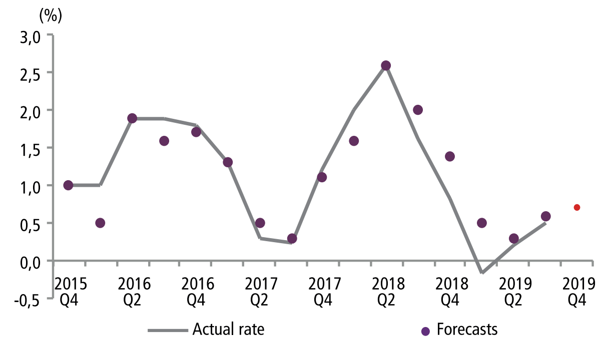
6.2 Short-term outlook for inflation

In the fourth quarter of 2019, inflation is expected to stand at 0.7 percent, after 0.5 percent in the previous quarter, driven by the projected rise in the rate of increase in volatile food prices. The latter are expected to rise by 1.5 percent, instead of 0.2 percent in the previous quarter.

Similarly, the fall in the prices of fuels and lubricants is expected to be limited at 0.9 percent after 3.3 percent in the previous quarter, while the prices of regulated products should evolve at almost the same pace as in the third quarter.

Core inflation, which reflects the underlying trend in inflation, is expected to hover around 0.3 percent in the next quarter.

Chart 6.6: Short-term forecasts and actual inflation performance

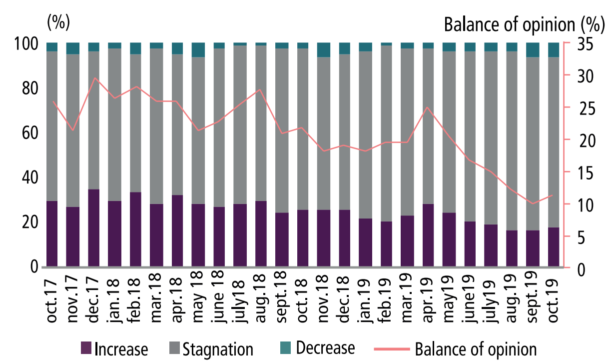


Source: BAM.

6.3 Inflation expectations

The results of Bank Al-Maghrib's business survey in the industry for the month of October 2019 reveal a slight increase in the proportion of industrials forecasting an increase in inflation over the next three months to 18 percent. On the other hand, industrials expecting an inflation stagnation represent a high rate, namely 75 percent, as against 7 percent who expect a decrease.

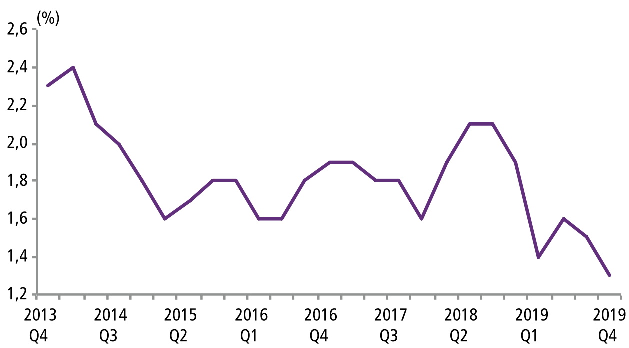
Chart 6.7: Expectations of inflation over the next three months by business owners



Source: BAM's monthly business survey.

In addition, results of Bank Al-Maghrib's inflation expectations survey for Q4-2019 indicate that financial experts expect inflation of 1.3 percent over the next eight quarters instead of 1.5 percent in the previous quarter.

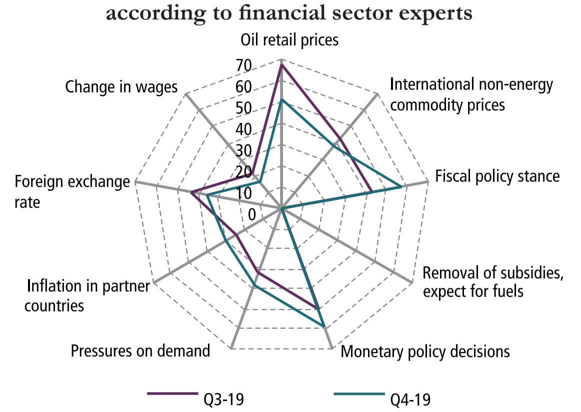
Chart 6.8: Inflation expectations by financial sector experts*



Source: BAM's quarterly survey on inflation expectations by financial experts.
* As of the 2nd quarter 2016, the anticipation horizon has been raised to 8 quarters instead of 6 quarters.

The latter consider that the future trend of inflation should be mainly determined by monetary policy decisions, the fiscal policy trend and the change of pump prices.

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



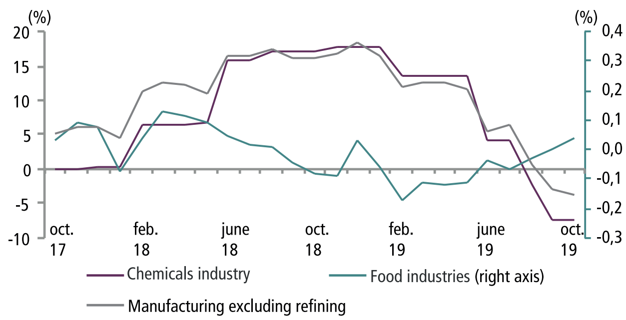
Source: BAM's Quarterly Survey on Inflation Expectations.

6.4 Producer prices

After increasing by 2.1 percent on average in the first two quarters of 2019, manufacturing producer prices fell by 0.4percent in the third quarter and by 1.5 percent in October, both year on year. Their average increase over the first ten months was thus reduced to 1 percent, compared with 2.5 percent in the same period of the previous year.

The more pronounced fall in October was due exclusively to a steeper fall in producer prices in the chemicals industry, from 1.8 percent to 7.4 percent, which more than offset the 0.4 percent rise in producer prices in the food industry, as against the 0.4 percent fall in the previous quarter.

Chart 6.10: Changes in the main industrial producer price indices, year-on-year



Source: HCP.

7. MEDIUM-TERM OUTLOOK

Synthesis

This year, the world economy is expected to record the slowest pace since 2009. Continuing trade uncertainties and political and geopolitical tensions are weighing on business investment and manufacturing and leading to a decline in trade. Over the medium term, global growth is expected to improve gradually, supported in particular by continued accommodative monetary conditions.

In the United States, growth pace has moderated this year, as the effects of fiscal stimulus measures and the negative spill overs from trade tensions faded away. It is also expected to continue decelerating in 2020 before strengthening in 2021, particularly supported by the easing of monetary policy. In the euro area, as domestic downside risks have increased, including difficulties in the manufacturing sector in Germany, the region's economic fundamentals have weakened. Growth is expected to end the year at a marked deceleration before gradually recovering over the medium term, benefiting from favourable credit conditions and the expected recovery in external demand. Labour market conditions are expected to remain favourable, with a further decline in unemployment in the euro area and its slight increase in the United States. In the major emerging markets, growth in China is expected to slow markedly to just above 6 percent, while growth in India is expected to weaken this year before picking up in the medium term, owing to the fiscal and monetary support measures implemented.

In the commodities market, concerns about global growth have particularly weighed on prices. The price of Brent is expected to end the year down sharply and should remain slightly above USD 60 per barrel in the medium term. In addition, after a significant decrease expected this year, phosphate fertilizer prices are expected to rise in the medium term, while the price of raw phosphate should continue to rise.

Under these conditions, inflationary pressures have generally moderated. Inflation would slowly converge towards the ECB's target in the euro area and would gradually return to rates close to those of the Fed in the United States.

At the national level, after widening to 5.5 percent of GDP in 2018, the current account deficit is expected to end the year at 4.6 percent. It is expected to narrow further to 3.7 percent in 2020 and 2.9 percent in 2021, mainly reflecting the expected improvement in car manufacturing sales. On the other, FDI inflows, which recorded an exceptional level in 2018 following a sales transaction in the insurance sector, are expected to reach around 3.4 percent of GDP over the forecast horizon.

Based on the assumptions, which remain unchanged from the September exercise, that MAD2 million would inflow in 2019 as part of GCC grants and MAD1.8 billion in 2020, and that the Treasury would borrow MAD11.7 billion from the international market in 2020, the outstanding amount of NIRs would increase to MAD240.7 billion in 2019, MAD242.7 billion in 2020 and MAD248.2 billion in 2021, i.e. the equivalent of 5 months of imports of goods and services.

Monetary conditions remain appropriate overall, despite a slight tightening linked to the higher lending rates and REER. After several consecutive falls, the average lending rate rose by 11 basis points to 5.09 percent in the third quarter of 2019, driven by the rise in real estate lending rates. Besides, the real effective exchange rate is expected to end the year 2019 at a high level and to remain relatively stable in 2020 and 2021. In addition, credit growth to the non-financial sector is expected to stand at 4 percent in 2019, before accelerating to 4.7 percent in 2020 and 5 percent in 2021.

As regards public finances, the budget deficit, excluding privatisation, is expected to reach 4.1 percent of GDP in 2019, before narrowing to 3.8 percent in 2020, unchanged from the September forecast. These projections particularly take into account achievements at end-October 2019 and the forecasts of the 2020 Finance Act draft. In 2021, the deficit should continue to narrow to 3.5 percent of GDP.

After the 3 percent recorded in 2018, growth is expected to decelerate again to 2.6 percent in 2019, a slightly down compared with the September projections. This deceleration results from a projected 4 percent decline in agricultural value added, while nonagricultural VA would continue to improve at a rate of 3.3 percent, as against 2.6 percent one year earlier. In the medium term, it is expected to accelerate to 3.8 percent in 2020 and 3.7 percent in 2021, as a result of a 6.2 percent and 3 percent improvement in agricultural value added, respectively, assuming a return to normal agricultural seasons, and a projected strengthening of non-agricultural value added growth to 3.5 percent and then to 3.7 percent.

Against this background of low domestic and external inflationary pressures, inflation is expected to slow markedly from 1.9 percent in 2018 to 0.3 percent in 2019, reflecting in particular lower volatile food prices and a weakening of underlying inflation, itself linked to the decline in food prices included. Over the medium term, it is expected to recover to 1.1 percent in 2020 and 1.4 percent in 2021, reflecting in particular an acceleration of its underlying component as a result of the expected improvement in domestic demand and the expected dissipation of the real effective exchange rate appreciation.

7.1 Underlying assumptions

Sharp slowdown in global growth in 2019 and uncertain outlook

This year, global economy is expected to be the weakest since 2009. Continuing trade uncertainties and political and geopolitical tensions are weighing on business investment and manufacturing and leading to a decline in trade. Over the medium term, global growth is expected to improve gradually, supported in particular by continued accommodative monetary conditions.

In the United States, growth is expected to end 2019 down to 2.3 percent, after 2.9 percent in 2018, further to the dissipation of the effects of the fiscal stimulus measures adopted in 2018 dissipate and to the negative impact of trade-related uncertainties on investment. It is expected to decelerate further to 1.7 percent in 2020 before returning to 2.3 percent in 2021, supported in particular by the easing of the FED's monetary policy. In the euro area, taking into account the higher internal downside risks, including the challenges facing the manufacturing sector in Germany, the region's economic fundamentals have weakened. Growth is expected to slow markedly from 1.9 percent in 2018 to 1.2 percent this year before recovering to 1.4 percent in 2020 and 1.8 percent in 2021, supported in particular by favourable credit conditions and the expected recovery in external demand. Some domestic factors, including the terms of future trade agreements with the United Kingdom, could, however, slow the recovery in investment and economic activity in the region. Paradoxically, labour market conditions are expected to remain favourable, with a further decline in unemployment in the euro area and a slight increase in the United States.

In the main emerging countries, growth is expected to decelerate in 2019 and to recover overall in the medium term. In China in particular, it is expected to slow markedly to just above 6 percent, impacted by weakening domestic demand and trade tensions. In India, growth is expected to decelerate this year, reflecting a slowdown in both domestic and external demand. Over the medium term, growth is expected to accelerate to above 7 percent, driven by the fiscal and monetary support measures put in place. In Brazil, following the deceleration expected this year, growth is expected to improve over the remainder of the forecast horizon, with the planned implementation of fiscal reforms.

Chart 7.1: Growth in the euro area

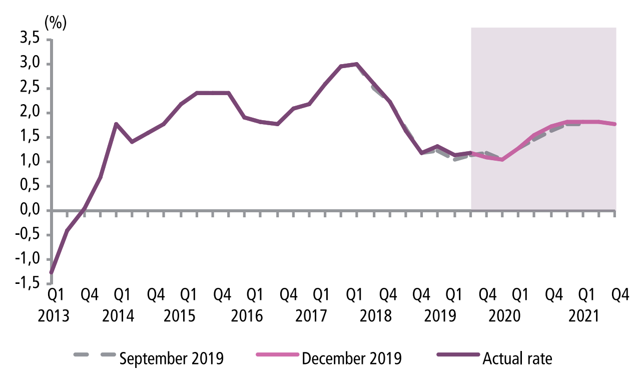
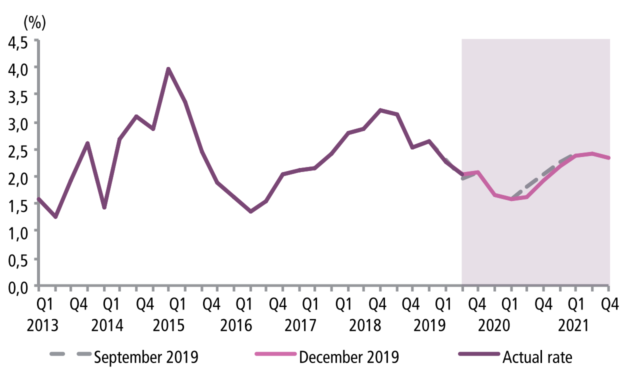


Chart 7.2: Growth in the United States



Source: GPMN[1] of november 2019.

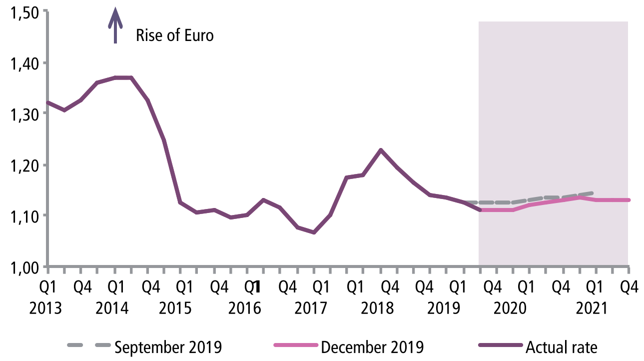
1 Global Projection Model Network.

Easing of monetary policies and depreciation of the euro against the dollar

Against a background of heightened political and geopolitical tensions and uncertainties surrounding world trade, the euro would depreciate from USD 1.18 in 2018 to USD 1.12 in 2019 and hover around that level in the medium term.

At the same time, in response to signs of weakening activity and increasing downside risks to the outlook, many central banks have eased monetary policies. Notably, the ECB decided at its Board meeting on the 12th of this month to keep its key interest rates unchanged and reiterated that it expects them to remain at or below their present levels until inflation robustly converges to a level sufficiently close to its target and that such convergence has been consistently reflected in underlying inflation dynamics. On the other hand, the FED decided at its meeting on 10-11 this month to keep the target range for the federal funds rate unchanged at [1.5 percent; 1.75 percent].

Chart 7.3: USD/ EUR exchange rate



Source: GPMN of november 2019.

Brent price slightly above $60/bl

In the oil market, prices continue to be driven by concerns about slowing global demand and production disruptions. Volatile market perceptions of the progress of the Sino-US trade negotiations have also led to sharp swings in the prices of energy products. For Brent in particular, its price ended the year at an average of $63.7/bl, down 10.4percent, and is expected to fall again to $62/bl in 2020 before returning to $63.8/bl in 2021.

Prices of phosphate derivatives were generally on the decline, reflecting both weak demand, particularly from China following the zero growth policy of fertilizer use, a higher supply from Morocco and Saudi Arabia and a reduced input costs. As a result, their outlook was significantly adjusted downwards by the World Bank in October. Hence, the price of DAP would particularly end 2019 at an average of USD 314/t, down sharply by 20.2 percent, before recording increases in the medium term, given the expected moderate recovery in demand and the reduction in supply, mainly from China. On the other hand, the food price index would end 2019 with a slight increase of 1.2 percent, after falling by 3.5 percent in 2018. In the medium term, it should continue to rise, albeit at moderate rates.

Under these conditions, inflationary pressures have moderated overall. In the United States, inflation is expected to decelerate to 1.8 percent, after 2.4 percent in 2018, then accelerate to 2.3 percent in 2020 and 2.5 percent in 2021, supported by the accommodative stance of the Fed's monetary policy. In the euro area, it would rise from 1.8 percent in 2018 to 1.2 percent in 2019 and then to 1.1 percent in 2020, before accelerating to 1.4 percent in 2021.

Chart 7.4: Brent price

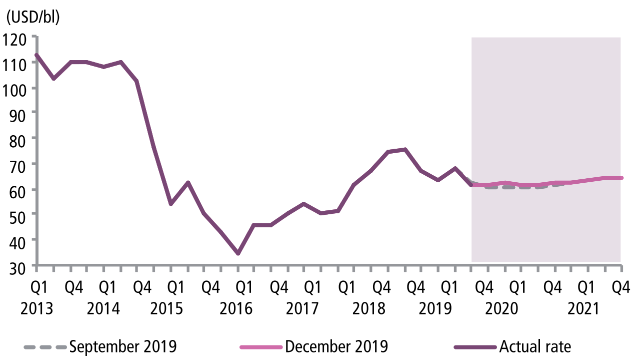


Chart 7.5: FAO Food Price Index (2002-2004=100)

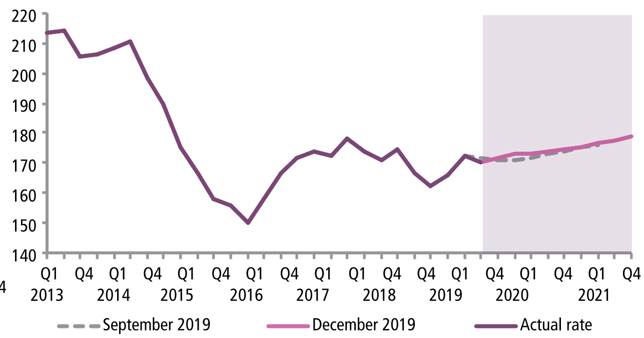


Chart 7.6: Euro area inflation

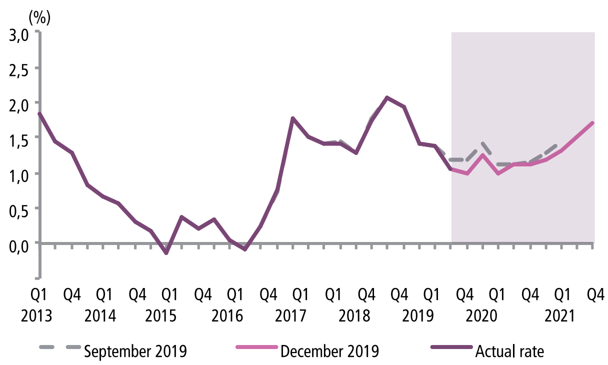
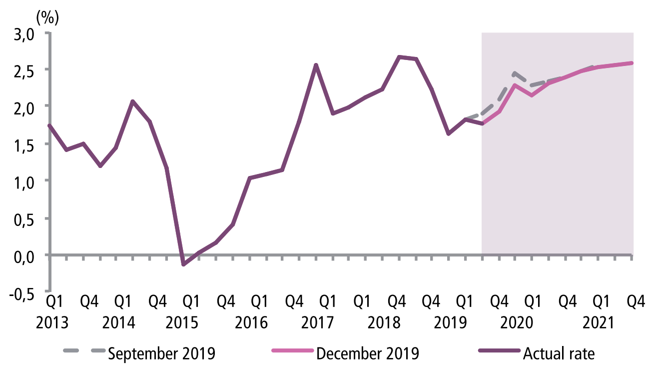


Chart 7.7: Inflation in the United States



Source: GPMN of november 2019.

52 million quintals of cereal production in 2019 and average harvests expected in 2020 and 2021

At the national level, the cereal harvest for the 2018-2019 season was estimated by the Ministry of Agriculture at 52 MQx, down 49 percent from the previous season and 37 percent lower than the average of the last five years. On the contrary, production of other crops is said to have performed well overall, with an increase of 15 percent for citrus fruits, 22 percent for olives and nearly 3 percent for vegetable crops.

In the medium term, the assumptions of an average cereal production of 80 MQx and the continued trend performance of other crops have been adopted for the 2019-2020 and 2020-2021 seasons.

7.2 Macroeconomic projections

Easing of the current account deficit over the forecast horizon

After having widened to 5.5 percent of GDP in 2018, the current account deficit is expected to end the year at 4.6 percent. In 2020, it is projected to narrow further to 3.7 percent and to 2.9 percent in 2021, mainly reflecting the expected improvement in car manufacturing sales and a lower energy bill in 2020.

In 2019, import growth is projected to decelerate to 2.4 percent after 9.9 percent in 2018, mainly as a result of a lower energy bill and slower growth in acquisitions of equipment goods. Exports are expected to grow by 3.8 percent, after 10.7 percent in 2018, mainly due to lower sales of phosphates and derivatives. At the same time, travel receipts are expected to improve by 4.8 percent after 1.3 percent in 2018, and MRE transfers should remain virtually stable after a 1.5 percent decline.

In 2020, exports should record a more rapid growth to 9.5 percent, mainly driven by higher sales of car manufacturing, due to the expected increase in production at the PSA plant to 100 thousand cars. Imports pace should accelerate to 4.1 percent, in connection with a slower decrease in the energy bill. For their part, travel receipts and transfers from BRMs should improve by 3.2 percent and 1.7 percent respectively.

In 2021, imports would increase by 5.1 percent. The growth pace of exports would consolidate at 8.6 percent, particularly with the continued dynamism of the automobile industry. Travel receipts and transfers from expatriates are expected to increase by 3.8 percent and 2.2 percent, respectively.

As regards FDI, which recorded exceptional revenues in 2018, mainly further to the sale of SAHAM, they are forecasted to stabilise at a nearly 3.4 percent of GDP over the forecast horizon.

Under the assumptions, unchanged compared to the September exercise, that GCC grant inflows would reach MAD2 billion in 2019 and MAD1.8 billion in 2020 and that the Treasury would borrow of MAD11.7 billion from the international market in 2020, the outstanding amount of NIRs would increase to MAD240.7 billion in 2019, MAD242.7 billion in 2020 and MAD248.2 billion in 2021, i.e. the equivalent of 5 months of imports of goods and services.

Table 7.1: Main components of the balance of payments

Change in %, unless otherwise indicated	Actual rates				Forecasts			Gap (dec./sept.)	
	2015	2016	2017	2018	2019	2020	2021	2019	2020
Exports of goods (FOB)	8.6	3.5	10.3	10.7	3.8	9.5	8.6	-0.1	1.1
Imports of goods (CAF)	-4.9	10.3	6.7	9.9	2.4	4.1	5.1	-1.1	1.5
Travel receipts	-1.4	5.0	12.3	1.3	4.8	3.2	3.8	0.3	0.0
Expatriate remittances	4.8	4.0	5.3	-1.5	0.1	1.7	2.2	-1.4	-1.9
Current account balance (% of GDP)	**-2.1**	**-4.1**	**-3.4**	**-5.5**	**-4.6**	**-3.7**	**-2.9**	**0.5**	**-0.1**
Net international reserves in months of goods and services' imports	**6.0**	**6.3**	**5.6**	**5.2**	**5.2**	**5.0**	**5.0**	**0.0**	**-0.1**

Sources: Foreign Exchange Office and BAM forecasts.

Further gradual improvement in the pace of bank lending to the nonfinancial sector

The real effective exchange rate (REER) is expected to end 2019 in an upward trend, as the inflation gap favouring Morocco would only partially offset the expected strengthening of the dirham against the euro and the Chinese yuan in particular. This appreciation should ease in 2020, as a result of the moderated appreciation of the dirham against the euro, which would reverse slightly in 2021.

Following, in particular, the decision to lower the monetary reserve rate from 4 percent to 2 percent, the liquidity deficit should ease from MAD69 billion at the end of 2018 to MAD64.9 billion at the end of 2019. Also taking into account the expected developments of net international reserves and fiduciary money, it should increase to MAD82 billion and MAD96.8 billion at the end of 2020 and 2021 respectively. Bank credit to the non-financial sector is expected to improve gradually, with growth of around 4 percent in 2019, 4.7 percent in 2020 and 5 percent in 2021. Under these circumstances, and taking into account developments in the other counterparts of the money supply, M3 growth is expected to be 4.5 percent in 2019, 4.4 percent in 2020 and 4.7 percent in 2021.

Table 7.2: Money supply and bank lending

Change in %, unless otherwise indicated	Actual rates				Forecasts			Gap (dec./ sept.)	
	2015	2016	2017	2018	2019	2020	2021	2019	2020
Bank lending to the nonfinancial sector	0.3	3.9	3.8	3.1	4.0	4.7	5.0	0.3	0.0
M3	5.7	4.7	5.5	4.1	4.5	4.4	4.7	0.0	0.4
Liquidity surplus or deficit, in billion dirhams	-16.5	-14.7	-40.9	-69.0	-64.9	-82.0	-96.8	12.7	14.0

Extension of the fiscal consolidation process

The budget deficit is expected to reach 4.1 percent of GDP in 2019, unchanged from the previous year, taking into account, among other things, achievements to the end of October 2019.

In 2020, the budget deficit is expected to narrow to 3.8 percent of GDP, unchanged from the September forecast. However, revisions have been made on the basis of the elements of the PLF 2020, taking into account a higher expenditure planning compared to what was planned and a forecast of MAD12 billion under innovative financing mechanisms. The investment has been adjusted slightly upwards, while the butane gas compensation burden should be stabilized by the international insurance mechanism.

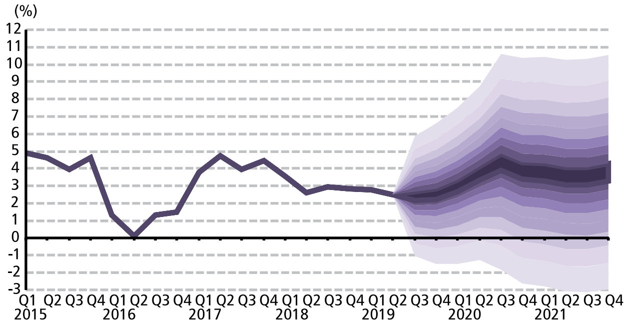
In 2021, the budget deficit would be reduced to 3.5 percent of GDP, covering a maintenance of the performance of tax revenues, a hypothesis of recourse to innovative financing of investments, as well as a deceleration of the rate of progression of operating expenses.

Continued improvement of non-agricultural activities

Growth is expected to decelerate again in 2019 to 2.6 percent after 3 percent in 2018 and 4.2 percent in 2017. This deceleration is the result of an expected 4percent decline in agricultural value added, which is a reduction compared to the September projections, taking into account the better-than-expected Q2-2019 achievements and the new data announced by the Ministry of Agriculture. Non-agricultural value added is expected to continue to improve from 2.6 percent in 2018 to 3.3 percent. This forecast has been revised downwards by 0.3 percentage points taking into account high-frequency indicators. On the demand side, this would reflect a decline in the positive contribution of domestic demand, reflecting a slowdown in the rate of investment growth, with the negative contribution of net exports expected to ease, however, due to a marked moderation in the rate of imports of goods and services.

In the medium term, growth is expected to accelerate to 3.8 percent in 2020 and to consolidate at 3.7 percent in 2021, reflecting an improvement of 6.2 percent and 3 percent respectively in agricultural value added, assuming a return to normal agricultural seasons. For its part, growth in non-agricultural value added should continue to improve to 3.5 percent in 2020 and 3.7 percent in 2021. On the demand side, growth would continue to be driven by domestic demand, which would maintain its strength, particularly in the wake of moderate inflation and wage increases. Net exports are expected to maintain a negative contribution to growth, albeit decreasing from one year to the next, particularly in connection with the expected gradual recovery of foreign demand.

Chart 7.8: Projected growth over the forecast horizon (Q3 2019-Q4 2021), year-on-year*



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

Table 7.3: Economic growth (%)

	Actual rates				Forecasts			Gap (dec./ sept.)	
	2015	2016	2017	2018	2019	2020	2021	2019	2020
National GROWTH	**4.5**	**1.1**	**4.2**	**3.0**	**2.6**	**3.8**	**3.7**	**-0.1**	**0.0**
Agricultural VA	11.9	-13.7	15.2	4.0	-4.0	6.2	3.0	0.7	-0.1
Nonagricultural VA	1.8	2.1	2.9	2.6	3.3	3.5	3.7	-0.3	-0.1
Net tax on subsidies	18.1	8.8	3.1	4.6	2.7	3.0	3.1	0.0	0.0

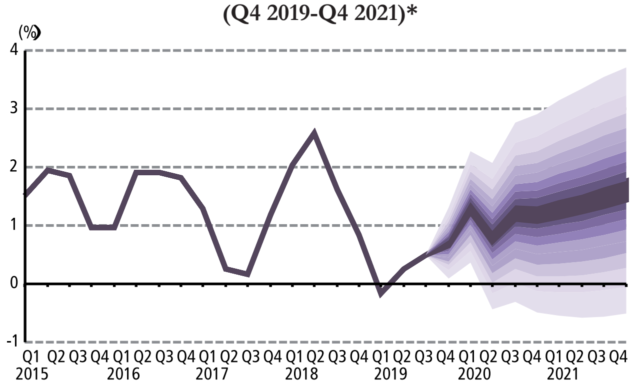
Sources: HCP data, and BAM forecasts.

Moderate levels of inflation over the forecast horizon, after a sharp deceleration expected in 2019

Against a background of low inflationary pressures from both domestic and external sources, inflation is expected to slow markedly from 1.9 percent in 2018 to 0.3 percent in 2019, a rate slightly revised downwards compared with the September projections, taking into account the below-expectations recorded between August and October. By component, these developments would reflect a decline in volatile food prices and a weakening of underlying inflation. The latter averaged a low level of 0.7 percent in the first ten months of the year, mainly related to a sharp decline in oil prices, and is expected to end the year at 0.6 percent on average, after 1.1 percent a year earlier. In addition, the increase in prices of regulated products is expected to slow down. Finally, and after the increase in 2018, the prices of fuels and lubricants should fall in line with the decline in international oil prices.

In the medium term, inflation is expected to rise, assuming that the temporary shocks in 2019 gradually dissipate. Inflation would accelerate to 1.1 percent in 2020 and then to 1.4 percent in 2021. The core component of inflation is projected to rise gradually to 1.3 percent in 2020 and 1.9 percent in 2021, reflecting the expected improvement in domestic demand and the expected dissipation of the real effective exchange rate appreciation. For its part, the rise in the prices of regulated products is expected to slow further in 2020, in the absence of new measures in the 2020 FDP, before returning to their trend rate in 2021. The prices of fuels and lubricants are expected to rise on average over the forecast horizon, in line with the outlook for the price of Brent crude oil internationally.

Chart 7.9: Inflation forecasts over the forecast horizon (Q4 2019-Q4 2021)*



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

Table 7.4: Inflation

	Actual rates				Forecasts				Gap (dec./ sept.)	
	2015	2016	2017	2018	2019	2020	2021	8 quarters Horizon (Q4 2019-Q3 2021)	2019	2020
Inflation	**1.6**	**1.6**	**0.7**	**1.9**	**0.3**	**1.1**	**1.4**	**1.2**	**-0.1**	**-0.1**
Core inflation	1.4	0.8	1.3	1.1	0.6	1.3	1.9	1.4	-0.1	-0.3

Sources: HCP data, and BAM forecasts and calculations.

Chart 7.10: Evolution of core inflation and output gap

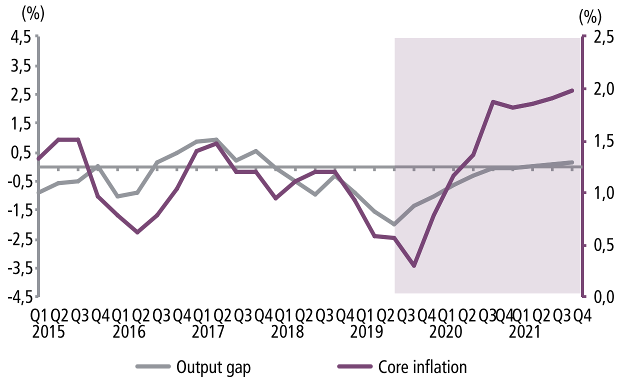
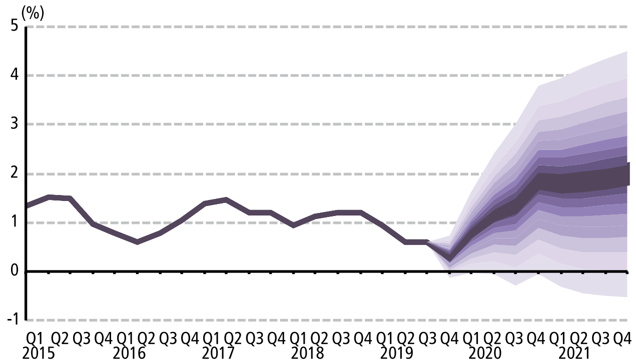


Chart 7.11: Forecasts of core inflation over the forecast horizon (Q4 2019 - Q4 2021)



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

Sources: HCP, and BAM forecasts and calculations.

7.3 Balance of risks

In an overall uncertain macroeconomic environment, the outlook for the domestic economy remains subject to many risks that could, if they materialize, affect the central path of the forecast. The balance of risks appears to be tilted downward for growth and balanced for inflation.

The uncertainties surrounding the central path of the growth forecast relate, on the external side, to a deteriorated foreign demand. Indeed, despite growing optimism about an agreed Brexit and the conclusion of a Sino-US trade agreement, uncertainties surrounding the terms of the agreement and the stalled negotiations are eroding market confidence and affecting global economic activity. At the national level, a deviation from the central hypothesis of weather-dependent agricultural production would affect growth forecasts.

With regard to inflation forecasts, and taking into account the major uncertainties on the oil market, higher prices than those assumed in the central scenario could result in higher inflation rates, through their direct effects on domestic fuel prices and indirect effects on production costs. Lower inflationary pressures from external sources may stem from lower levels of food commodity prices as well as from a possible further appreciation of the real effective exchange rate.

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

LIST OF CHARTS

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