MONETARY POLICY REPORT

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FOREWORD

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

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

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

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

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

Bank Al-Maghrib Board members:

The Governor, Chairman

The Director General

The Government Representative

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

Mr. Abdellatif BELMADANI

Mr. Mohammed BENAMOUR

Ms. Miriem BENSALAH CHAQROUN

Mr. Bassim JAI-HOKIMI

Mr. Mustapha MOUSSAOUI

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 20, 2016

1. The Board of Bank Al-Maghrib held its last quarterly meeting of the year on Tuesday, December 20.

2. Considering that inflation forecast is consistent with the objective of price stability and in view of the medium-term economic outlook, the Board judged that the current level of 2.25 percent for the key rate continues to ensure appropriate monetary conditions, and decided to keep it unchanged.

3. The Board noted that inflation fell down from 1.9 percent on average in the third quarter to 1.6 percent in October, mainly due to the slowdown in volatile food prices. It would average 1.6 percent by year end and would remain subdued in the medium term. Indeed, it is projected to edge down to 1 percent in 2017, as a result of the expected dissipation of shocks on volatile food prices, and then increase to 1.5 percent in 2018. Core inflation would trend up, from 0.8 percent in 2016 to 1.5 percent in 2017 and 1.7 percent in 2018, mostly because of the expected improvement in domestic demand.

4. Internationally, the global economic recovery continues, driven by improved activity in the major advanced economies. However, it is still sluggish and surrounded with strong uncertainties arising mainly from the conditions of the United Kingdom's exit from the European Union and the future trend of the United States trade and fiscal policies. In the euro area, growth would reach 1.6 percent in 2016, then increase to 1.8 percent in 2017 and slow down to 1.6 percent in 2018, impacted by the Brexit. In the United States, it would slow to 1.6 percent in 2016, dragged down by a higher dollar and weak investment, before rising to 2.2 percent in 2017 and then to 2.5 percent in 2018. In the labor market, conditions continued to improve in the United States, as the unemployment rate fell significantly to 4.6 percent in November and is expected to average 4.9 percent at end-2016 and to stabilize at this level in the medium term. In the euro area, unemployment continues to decline, albeit at a slow pace, and is projected at 10 percent in 2016 and to drop to 9.7 percent in 2017. In the major emerging markets, China's GDP expanded by 6.7 percent in the third quarter, amid economic rebalancing, and would continue to slow down, standing at 6.1 percent in 2018. At the same time, the contraction of activity continued to ease in Brazil and Russia which would return to growth as of 2017.

5. In commodity markets, following the Vienna agreement announced on November 30 to lower production, oil prices rose markedly and stabilized later on at $54 a barrel. They are expected to end the year 2016 at an average of $43.1 a barrel and increase to $51.6 a barrel in 2017 and $53.5 a barrel in 2018. Prices of phosphates and derivatives trended downward in the first 11 months of the year, declining by 15 percent for crude phosphates at $104 per thousand tonnes, by 19 percent for DAP at $323 per thousand tonnes and by 29 percent for TSP at $270 per thousand tonnes. In the medium term, they are expected to hover around these levels, amid output surplus and low food prices.

6. Under these conditions, inflation in advanced economies remains at low to moderate rates, but is expected to rise significantly in the medium term owing in particular to the dissipated effects of the decline in energy prices. It should hence increase in the euro area from 0.2 percent in 2016 to 1.5 percent in 2017 and 2018. In the United States, it is expected at 1.2 percent in 2016, 2.4 percent in 2017 and 2.3 percent in 2018.

7. In this context, the European Central Bank decided, at its Board meeting of December 8, to keep the policy rate unchanged at 0 percent, while reiterating that it expects its key interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases. It also announced that this program will continue until the end of December 2017, or beyond, if necessary, and that it will decrease the monthly pace of purchases from 80 to €60 billion starting from April 2017. On the other hand, the Federal Reserve decided at its meeting of December 14 to raise the target range for the federal funds rate by 0.25 percentage point to 0.5-0.75 percent and reiterated that its Federal Open Market Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate.

8. Nationally, national accounts data for the second quarter show a limited growth at 0.5 percent, covering a 10.9 percent contraction in the agricultural added value and a slowdown in nonagricultural GDP to 2.1 percent. On the demand side, this deceleration reflects steeper negative contribution of net exports and a slowdown of private consumption. Labor market in the third quarter registered a new loss of 73 thousand jobs, particularly in agriculture and industry, including crafts, and a sharp decline in the participation rate to 46.7 percent. Therefore, unemployment rate fell to 9.6 percent from 10.1 percent a year earlier. In light of these developments, Bank Al-Maghrib revised its growth outlook for 2016 down to 1.2 percent, with a 9.6 percent decline in the agricultural added value and a 2.6 percent deceleration in the nonagricultural GDP. In the medium term and assuming an average crop year in the next two years, growth is expected to accelerate to 4.2 percent in 2017 and 3.7 percent in 2018. Nonagricultural GDP would accelerate to 3.4 percent and 3.7 percent in 2017 and 2018, respectively, driven by stronger revenues, particularly from the agricultural sector, and accommodative monetary conditions.

9. Regarding external accounts, the trade balance widened by 25.3 billion dirhams at end-November, bringing the coverage ratio to 55 percent. This change is the result of a slowdown in exports, due mainly to lower sales of phosphates and derivatives, as well as an acceleration in imports, as the drop in the energy bill was less significant than the rise in capital goods purchases. For the other major components of the current account, expatriate remittances rose by 4.2 percent and travel receipts by 4.1 percent. In view of these developments and assuming an annual 8 billion dirhams inflow of grants from GCC partner countries in 2016 and 2017, the current account deficit would be slightly higher than expected in September. It would average 2.8 percent of GDP in 2016 and ease to 2.1 percent in 2017 and 2.5 percent in 2018. Assuming a continued FDI inflow at a level comparable to previous years, foreign exchange reserves would continue to expand, albeit at a less important pace than expected in September, to cover 6 months and 21 days of imports of goods and services at end-2016, 7 months at end-2017 and 7 months and 12 days at end-2018.

10. Monetary conditions in the third quarter were marked by a new drop in lending rates by 17 basis points to 5.08 percent, bringing the overall drop of these rates to 95 basis points over the last 8 quarters. Under these circumstances, loans to the nonfinancial sector continued to improve gradually, with acceleration in loans to

businesses. In light of these developments, their growth rate was adjusted upward to 3.5 percent for 2016. In the medium term, its pace would further improve to reach 4 percent in 2017 and 4.5 percent in 2018, boosted by the expected rebound in nonagricultural growth and accommodative monetary conditions. The effective exchange rate registered an appreciation in real terms, which would gradually fade away in 2017 and 2018, mainly in conjunction with the expected acceleration of inflation in partner and competitor countries.

11. Concerning public finance, budget execution over the first eleven months of the year resulted in a rise by 4.9 percent in overall spending, covering in particular higher expenses on investment and goods and services and an easing by 14.3 percent in subsidy costs. At the same time, non-privatization current revenues improved by 5.4 percent, reflecting a rise in tax revenues and grants from GCC partner countries which reached 4.5 billion dirhams. Overall, fiscal deficit slightly narrowed to 38.8 billion dirhams and would stand at around 3.5 percent of GDP for the whole of 2016. In the medium term, fiscal adjustment would continue, assuming further revenue mobilization and better control of current spending. The deficit would thus ease to 3.1 percent of GDP in 2017, as planned in the Finance Bill, and then decrease to 2.8 percent in 2018.

12. At the same meeting, the Board reviewed and adopted the Bank budget for the year 2017.

13. The Board also discussed and adopted the foreign reserves' management strategy for 2017.

14. Having reviewed the Audit Committee report, the Board approved the internal audit program for 2017.

15. Finally, the Board agreed on the following schedule for its meetings in 2017:

March 21
June 20
September 26
December 19

OVERVIEW

In the third quarter of the year, economic activity improved overall in advanced countries. In particular, growth accelerated to 1.6 percent in the United States and stagnated at 1.7 percent in the euro area. In major emerging countries, growth stabilized at 6.7 percent in China for the second consecutive quarter and slowed slightly in India to 7.1 percent, while the contraction in GDP eased to 2.9 percent in Brazil and to 0.4 percent in Russia. In the labor market, the unemployment rate declined significantly in the United States in November to 4.6 percent, the lowest level since 2007. In the euro area, this rate fell to 9.8 percent in October, down 0.1 point from one month to the next.

In financial markets, the main indexes of advanced economies recorded divergent trends between October and November. The EUROSTOXX50 and FTSE 100 decreased by 0.6 percent and 2.9 percent, respectively, while the Dow Jones and NIKKEI 225 registered respective increases of 2.6 percent and 3.2 percent. In emerging economies, the MSCI EM fell by 4.8 percent, reflecting in particular declines in the indexes of Turkey, India and China. In the sovereign debt markets, yields of 10-year bonds were up in the major advanced countries, with increases of 0.4 percentage point in France, 0.2 percentage point in Germany and 0.3 percentage point in the United States. In the key emerging economies, with the exception of India, where they dropped by 0.2 percentage point, these yields also rose by 0.6 percentage point in Brazil, 0.1 percentage point in China and 0.9 percentage point in Turkey. In the foreign exchange markets, the euro depreciated by 1.9 percent against the dollar and by 2.6 percent versus the pound sterling, while it appreciated by 1.8 percent vis-à-vis the Japanese yen. As to the currencies of the main emerging countries, the Chinese yuan, Brazilian real, Indian rupee and Turkish lira depreciated by 1.5 percent, 4.4 percent, 1.2 percent and 6.1 percent against the dollar, respectively. The annual growth of bank lending decelerated between October and November in the United States to 7.4 percent and accelerated slightly to 2 percent in the euro area.

In the commodity markets, the Brent price rebounded on November 30 by 7.6 percent to $50.1 per barrel, following the agreement of OPEC members to reduce oil production. For the month as a whole, it averaged $46.9 per barrel, down 8.7 percent from October, but up 8.7 percent from the monthly average of the first nine months of the year. Regarding non-energy commodities, the Dow Jones-UBS index posted a significant year-on-year increase of 13 percent. For phosphates and derivatives in particular, crude prices dropped from $110 to $104 per tonne between October and November, while prices for DAP and TSP fell by 3 percent and 1.1 percent, respectively.

Against this backdrop, inflation stood in November at 0.6 percent in the euro area and 1.7 percent in the United States.

In terms of monetary policy decisions, the ECB decided on December 8 to maintain its key rate at 0 percent, while reiterating that all its rates will remain at their present or lower levels for an extended period of time, and well past the horizon of the net asset purchases. Regarding non-standard measures, it announced that it would continue its monthly asset purchases at the current pace of 80 billion euros until the end of March 2017. From April 2017, this amount will be reduced to 60 billion euros until the end of December 2017, or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its inflation aim. The ECB also pointed out that if, on the meantime, the outlook becomes less favorable or if financial conditions become inconsistent with further progress towards a sustained adjustment of the path of inflation, its Governing Council intends to increase the program in terms of size and/or duration. The FED decided, at its meeting on December 14, to raise the target range for federal funds rates by 0.25 percentage point to [0.50 percent - 0.75 percent], indicating that the stance of monetary policy remains accommodative. As for the pace of monetary policy normalization, it reiterated that it expects economic conditions to evolve in a manner that will warrant only gradual increases in the federal funds rate.

Nationally, exports slowed to 1.4 percent in the first eleven months of the year, mainly due to lower prices for phosphates and derivatives, while the automotive sector exports continued to rise by 13.9 percent. At the same time, imports grew by 8.3 percent, driven by a substantial increase in capital goods purchases and, to a lesser extent, passenger car imports, while the energy bill shrank by 19.9 percent. The trade balance worsened by 25.3 billion, bringing the import coverage ratio from 58.7 percent to 55 percent. For the other main components of the current account, transfers from Moroccan expatriates and travel receipts increased by 4.2 percent and 4.1 percent, respectively. Taking also into account the change in financial transactions, particularly an amount of 30.2 billion dirhams of FDI flows, foreign exchange reserves rose by 13.1 percent to 249.8 billion at the end of November, equaling 7 months and 5 days of imports of goods and services.

In terms of bank liquidity, needs rose to 22 billion dirhams, mainly due to the increase in the required reserve, following BAM's Board decision in June to raise its ratio from 2 percent to 4 percent, and the seasonal increase in currency circulation. Foreign exchange reserves had an expansive effect. Bank-Al Maghrib increased the volume of its injections to 22.9 billion, of which 17.4 billion as 7-day advances and 4.4 billion as secured lending operations, granted under the program to support the financing of the VSME. Under these conditions, the weighted average rate was aligned with the key rate and Treasury bill rates were adjusted upward on both the primary and secondary markets. Reflecting the accommodative stance of monetary policy, lending rates continued their downward trend, with a further decline of 17 basis points in the third quarter to 5.08 percent. In terms of bank lending, the growth of credit to the nonfinancial sector continued to improve, reflecting an acceleration in loans to businesses from 1.1 percent to 2.3 percent and an increase of 2.8 percent in loans to individual entrepreneurs, after a decline of 1.2 percent. Taking also into account a slight deceleration in net claims on the central government, the money supply growth accelerated from 5.1 percent to 5.5 percent.

Regarding public finance, the budget deficit stood at 34 billion at end-October 2016, widening by 1.1 billion compared to the same period of 2015. Overall expenditure increased by 5.1 percent or 11.5 billion, reflecting in particular respective rises of 12.4 percent and 5.9 percent in capital expenditure and spending on goods and services, while subsidy costs lessened by 16.6 percent to 9.8 billion. At the same time, current revenues, excluding privatization, progressed by 5.5 percent or 10.2 billion, mainly due to an increase of 4.8 percent in tax revenues and CCG donations, which amounted to 3.3 billion from 1.7 billion a year ago. Taking also into account a positive balance of 5.8 billion in the Treasury's special accounts, the cash deficit stood at 33.4 billion, easing by 9.8 billion compared to the same period of 2015. This need was covered by domestic market for a net amount of 30.4 billion and external net flows of 2.4 billion. Direct public debt would have grown by 3.4 percent at the end of October compared to end-December 2015, with increases in the outstanding domestic debt and external one.

As to national accounts, after having reached 1.7 percent in the first quarter, growth was limited to 0.5 percent in the second quarter of 2016, the lowest rate since 2008. This slowdown is attributed to a 10.9 percent decline in the agricultural value added and a slowdown to 2.1 percent in nonagricultural GDP, with a significant deceleration in the value added of the processing industries from 2.9 percent to 1.9 percent. On the demand side, the decline in growth reflects a worsening of the negative contribution of net exports as well as a slowdown of household consumption from 2.7 percent to 2.2 percent and investment from 5.0 percent to 3.9 percent.

In the labor market, the national economy lost again 73,000 jobs in the third quarter. This fall covers losses of 66,000 jobs in the agricultural sector, 44,000 in industry, including crafts, 15,000 in services, first decline since the second quarter 2010, and a creation of 52,000 jobs in the construction sector. Taking into account a significant drop of 1.2 percentage point in the participation rate, the unemployment rate fell from 10.1 percent to 9.6 percent.

In the asset market, real estate prices registered a quarter-on-quarter increase of 0.6 percent in the third quarter from 0.2 percent in the previous quarter and transactions progressed by 14 percent, as against 2.6 percent. Momentum in sales affected all categories of real estate assets, with particularly an 18.8 percent increase in apartment sales. At the stock market, MASI continued its upward trend since the beginning of the year, rising 6.3 percent between October and November and thus bringing its performance since the beginning of the year to 19.6 percent. The monthly volume of transactions on the central market remained relatively low, reaching 3.5 billion dirhams on average between October and November, as against 7.9 billion in the third quarter.

In terms of price developments, inflation was relatively high at 1.9 percent on average in the second and third quarters of 2016, owing to successive supply shocks on some food items. In October, it fell to 1.6 percent, mainly due to slower growth in several volatile food prices. On the other hand, core inflation accelerated from 0.8 percent in the third quarter to 1 percent in October, reflecting higher prices of tradables, particularly dry legumes, while the growth of nontradable prices remained almost stable at 1.1 percent.

In terms of outlook, the recovery of global economy should continue, albeit at a slow pace, driven by improved activity in the major advanced countries, prompted by easing monetary conditions and relatively low commodity prices. In particular, growth in the euro area is projected at 1.6 percent in 2016, before rising to 1.8 percent in 2017 and moving down to 1.6 percent in 2018 due to Brexit-related uncertainties. In the United States, growth would slow to 1.6 percent in 2016, owing to the appreciation of the dollar and the weakening of investment, while it should recover in 2017 to 2.2 percent and consolidate to 2.5 percent in 2018.

In the labor market, the IMF expects, in its October projections, a continued improvement in conditions in the United States, as the unemployment rate would drop to 4.9 percent in 2016 and 4.8 percent in 2017. In the euro area, IMF forecasts indicate a significant drop of 0.9 percentage point to 10 percent in 2016 and then to 9.7 percent in 2017. In particular, in Morocco's key partner countries, this rate should fall back to 19.4 percent in Spain and 9.8 percent in France in 2016 and to 18 percent and 9.6 percent in 2017, respectively.

In the commodity market, and given the slow recovery in global economic activity, prices should remain relatively low in the medium term. BAM's forecasts predict a price of $43.1/barrel in 2016, $51.6/barrel in 2017 and $53.5/

barrel in 2018. Phosphate prices should continue to evolve at low levels, as relevant forecasts were slightly adjusted downward for both rock phosphate and derivatives, particularly due to a surplus in production capacity and decline in international food prices.

In this context, inflation in the euro area should stand at 0.2 percent in 2016 and increase significantly to 1.5 percent in 2017 and 1.6 percent in 2018. In the United States, inflation should stand at 1.2 percent in 2016, before accelerating to 2.4 percent in 2017 and dropping to 2.3 percent in 2018.

Nationally, exports should end the year with an increase of only 1.9 percent, impacted in particular by the fall in phosphate prices. They should accelerate to 5.5 percent in 2017 and stand at 4.8 percent in 2018, supported by the growth in automotive sales, albeit at a slower pace, and by the upturn in phosphate sales in 2017, following the dissipation of the effect of the fall in prices in 2016. Meanwhile, imports should increase by 5.7 percent in 2016, a higher rate than expected in September, particularly due to the upward revision of purchases of capital goods. In the medium term, they are expected to grow by 4.5 percent in 2017 and by 5.9 percent in 2018, in connection with the recovery in growth and gradual increase in oil prices.

Taking into account these factors and assuming donations from GCC countries of 8 billion in 2016 and over the next two years, the current account deficit forecast was adjusted to 2.8 percent of GDP in 2016, 2.1 percent in 2017 and 2.5 percent in 2018. Under these conditions, and assuming a continued inflow of FDI, international reserves should continue to strengthen, albeit at a slower pace than expected in September. They should cover 6 months and 21 days of imports of goods and services in 2016, 7 months in 2017 and 7 months and 12 days in 2018.

Given the downward revision of foreign exchange reserves and recent developments in other liquidity factors, the bank liquidity position should post a deficit at 18.8 billion at end-2016 and gradually ease to 1.7 billion by the fourth quarter of 2018. Taking into account a slight improvement at end-October, forecasts for loans to the nonfinancial sector were adjusted upwards in 2016 to 3.5 percent. Its medium-term pace should increase further to 4 percent in 2017 and 4.5 percent in 2018, mainly due to the expected acceleration in nonagricultural growth.

Concerning public finance, fiscal adjustment should continue in the medium term. Taking into account the budget execution for the first ten months of the year, the budget deficit forecast for 2016 was adjusted to 3.5 percent from 3.8 percent expected in September. In 2017, this deficit should ease to 3.1 percent of GDP, in line with the finance bill 2017. For 2018, assuming continued revenue mobilization efforts and a better controlled current expenditure, the budget deficit should fall back to 2.8 percent of GDP.

Against this backdrop, and taking account of the national accounts data for the first two quarters of the year and the recent trends of certain infra-annual indicators, the growth forecast was revised downwards in 2016 to 1.2 percent. The agricultural value added should decline by 9.6 percent and nonagricultural GDP is expected to slow to 2.6 percent. In the medium term, growth should accelerate to 4.2 percent in 2017 and 3.7 percent in 2018, supported by accommodative monetary conditions and higher incomes, particularly agricultural ones. Thus, assuming an average crop year over the next two years, the agricultural value added should increase by

10.5 percent in 2017 and 3.5 percent in 2018. Similarly, the growth of nonagricultural activities should improve gradually, as nonagricultural GDP should rise by 3.4 percent in 2017 and by 3.7 percent in 2018. On the demand side, household consumption should accelerate, investment would consolidate and the contribution of net exports to growth is expected to improve.

In this context, inflation should remain moderate at around 1.6 percent in 2016, unchanged from September, while it was revised downwards to 1 percent in 2017, in connection with the expected dissipation of the effects of shocks on volatile food prices. In 2018, the annual growth of the consumer price index is forecast at 1.5 percent. After a rate of 0.8 percent in 2016, core inflation should trend upward to 1.5 percent in 2017 and 1.7 percent in 2018, under the effect of the expected dissipation of the appreciation of the nominal effective exchange rate on prices of tradables, improvement in domestic demand and rise in international energy prices.

Forecasts are still surrounded by several uncertainties, with a risk of balance tilted to the downside for growth and at equilibrium for inflation. The foreign demand addressed to Morocco could be affected by higher uncertainties linked to the Brexit, elections in certain countries of the euro area and possible change in the United States trade policy. Moreover, a faster rise in oil prices, following the agreement of the OPEC countries to reduce production, could slow the economic recovery in Morocco's trade partners and negatively impact household consumption.

Similarly, higher-than-expected increases in energy prices could cause the central inflation forecast to trend upwards. On the other hand, the persistent disinflationary pressures in the euro area, attributed to recovery-related uncertainties, could lead to a drop in core inflation in Morocco.

1.INTERNATIONAL DEVELOPMENTS

Data for the third quarter of 2016 show that growth improved in the United States, United Kingdom and Japan, while it stagnated in the euro area. In key emerging countries, growth stabilized in China and slowed down in India. Third quarter data indicate that GDP contraction in Brazil and Russia eased. On the labor market, the unemployment rate fell to 4.6 percent in November in the United States and to 9.8 percent in October in the euro area. Meanwhile, financial markets were marked in November by contrasting trends in the main stock market indexes and a virtually general increase in the sovereign yields of advanced and emerging countries. In commodity markets, prices, which remain relatively low, rose overall year on year for agricultural commodities, base metals and, to a lesser extent, energy products. Against this backdrop, inflation rate remained low in most advanced countries, particularly in the euro area. All these developments suggest the absence of external inflationary pressures.

1.1 Economic activity and employment

1.1.1 Economic activity

The most recent data on the economic situation of advanced countries show divergent trends across countries. Growth in the United States grew to 1.6 percent, year on year, in the third quarter, from 1.3 percent a quarter earlier, mainly due to a significant rebuilding of inventories, accelerated exports and higher government expenditure, which more than offset the slowdown in private consumption.

In the euro area, growth stagnated from one quarter to the next at 1.7 percent, year on year, covering a decline from 1.2 percent to 1.1 percent in France and from 3.4 percent to 3.2 percent in Spain, an increase from 0.8 percent to 1.0 percent in Italy and a stabilization at 1.7 percent in Germany.

In the United Kingdom, growth in the third quarter rose to 2.3 percent from 2.1 percent a quarter earlier, supported by rising household consumption and buoyant investment and exports driven by the depreciation of the pound sterling. Finally, in Japan, growth improved slightly from 0.9 percent to 1.0 percent.

In emerging and developing countries, growth in China remained stable at 6.7 percent in the third quarter of 2016, and slowed down in India to 7.1 percent from 7.3 percent in the previous quarter.

In Brazil and Russia, recession continued, but with slow contraction in GDP in the third quarter of 2016 to -2.9 percent in Brazil and -0.4 percent in Russia.

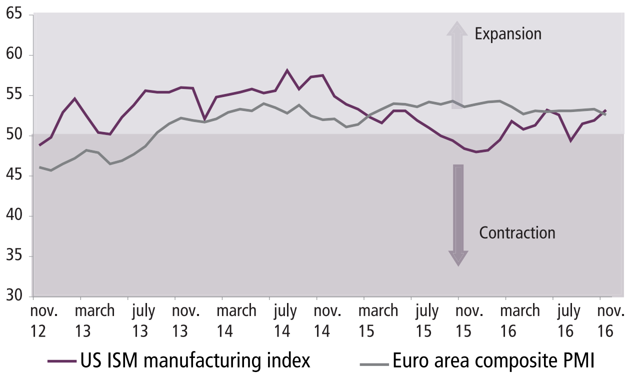
Table 1.1: YoY change in quarterly growth

	2014	2015				2016		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Advanced economies								
United States	**2.5**	**3.3**	**3.0**	**2.2**	**1.9**	**1.6**	**1.3**	**1.6**
Euro area	**1.3**	**1.8**	**2.0**	**1.9**	**2.0**	**1.7**	**1.7**	**1.7**
France	0.6	1.3	1.1	1.1	1.3	1.4	1.2	1.1
Germany	1.6	1.1	1.8	1.7	1.3	1.8	1.7	1.7
Italy	0.1	0.4	0.6	0.6	0.9	1.0	0.8	1.0
Spain	2.2	2.7	3.1	3.4	3.6	3.4	3.4	3.2
United Kingdom	**3.5**	**2.9**	**2.4**	**1.9**	**1.7**	**1.9**	**2.1**	**2.3**
Japan	**-0.3**	**0.0**	**1.7**	**2.1**	**1.2**	**0.3**	**0.9**	**1.0**
Emerging economies								
China	**7.2**	**7.0**	**7.0**	**6.9**	**6.8**	**6.7**	**6.7**	**6.7**
India	**6.7**	**6.2**	**7.2**	**7.3**	**6.9**	**7.4**	**7.3**	**7.1**
Brazil	**-0.3**	**-1.8**	**-3.0**	**-4.5**	**-5.8**	**-5.4**	**-3.6**	**-2.9**
Turkey	**3.0**	**2.4**	**4.0**	**4.7**	**4.7**	**4.3**	**3.1**	**N.A**
Russia	**0.3**	**-2.8**	**-4.5**	**-3.7**	**-3.8**	**-1.2**	**-0.6**	**-0.4**

Source : Thomson Reuters Eikon.

With regard to high-frequency indicators in November 2016, the euro area composite PMI stood at 54.1 points from 53.3 points in October, the highest level in 11 months. In the same vein, the ISM manufacturing index of the United States rose to 53.2 points in November from 51.9 points in the previous month.

Chart 1.1: Change in some high-frequency indicators in the United States and the euro area



Source : Thomson Reuters Eikon.

1.1.2 Labor market

In the United States, the unemployment rate dropped significantly in November to 4.6 percent, its lowest level since August 2007, with the creation of 178,000 jobs compared to 142,000 jobs in October. In the euro area, it decreased from 9.9 percent in September to 9.8 percent in October, the lowest rate since July 2009. By country, this rate decreased, month on another, from 9.9 percent to 9.7 percent in France, from 19.3 percent to 19.2 percent in Spain, from 4.2 percent to 4.1 percent in Germany, and from 11.7 percent to 11.6 percent in Italy. In the United Kingdom, the August figures show that the unemployment rate dropped to 4.7 percent from 4.8 percent a month earlier.

Table 1.2: Change in unemployment rate (%)

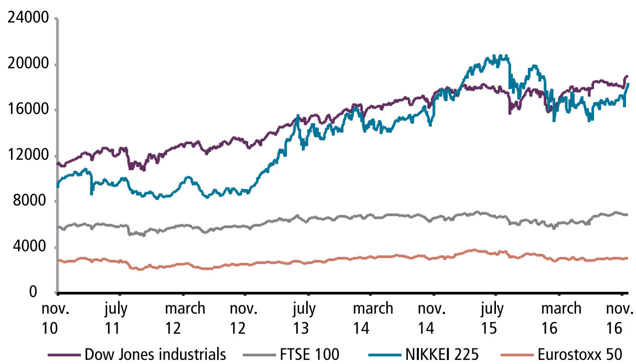
	2014	2015	Sept. 2016	Oct. 2016	Nov 2016
United States	**6.2**	**5.3**	**5.0**	**4.9**	**4.6**
Euro area	**11.6**	**10.9**	**9.9**	**9.8**	**N.A**
France	10.3	10.4	9.9	9.7	N.A
Italy	12.7	11.9	11.7	11.6	N.A
Germany	5.0	4.6	4.2	4.1	N.A
Spain	24.5	22.1	19.3	19.2	N.A
United Kingdom	**6.1**	**5.3**	**N.A**	**N.A**	**N.A**

Source : Eurostat and BLS.

1.2 Monetary and financial conditions

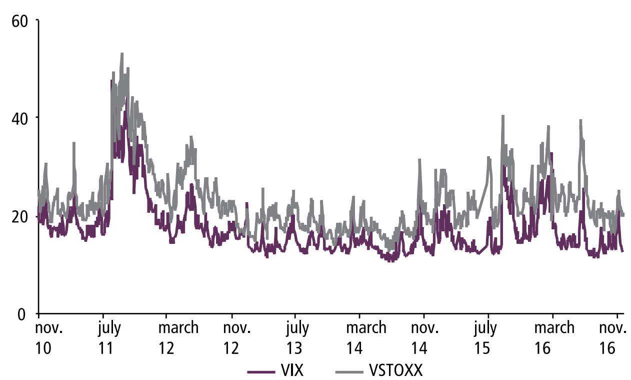
In stock markets, major indexes of advanced economies recorded between October and November divergent trends across countries. While the EUROSTOXX50 and FTSE 100 decreased by 0.6 percent and 2.9 percent, respectively, the Dow Jones and NIKKEI 225 registered increases of 2.6 percent and 3.2 percent respectively. In terms of volatility, the VSTOXX rose to 21.9 basis points in November from 19.2 in October and the VIX stood at 15.4 basis points from 14.6. In emerging economies, the MSCI EM fell by 4.8 percent, reflecting decreases of 9.5 percent in the Turkish index, 7.2 percent in the index of India and 4.6 percent in that of China.

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



Source : Thomson Reuters Eikon.

Chart 1.3: Change in VIX and VSTOXX

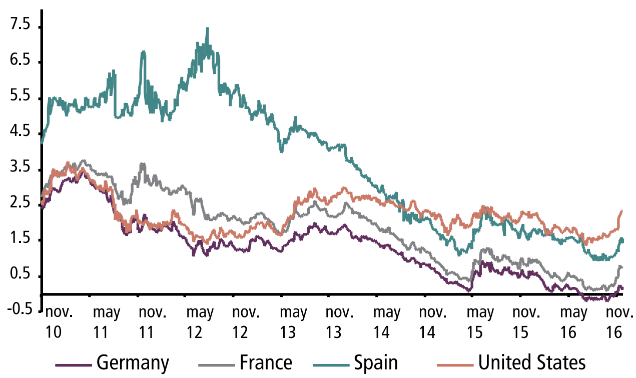


Source : Thomson Reuters Eikon.

In bond markets, 10-year yields in advanced economies showed a virtually general increase between October and November. They rose from 1.1 percent to 1.4 percent in Spain, from 1.5 percent to 1.9 percent in Italy, from 0.3 percent to 0.7 percent in France and from 0 percent to 0.2 percent in Germany. On the other hand, they decreased from 8.4 percent to 7.4 percent in Greece. The U.S. yields increased from 1.8 percent to 2.1 percent.

In key emerging economies, with the exception of India where they declined from 6.8 percent to 6.6 percent, 10-year yields moved up from 11.2 percent to 11.8 percent in Brazil, from 2.7 percent to 2.8 percent in China and from 9.6 percent to 10.5 percent in Turkey.

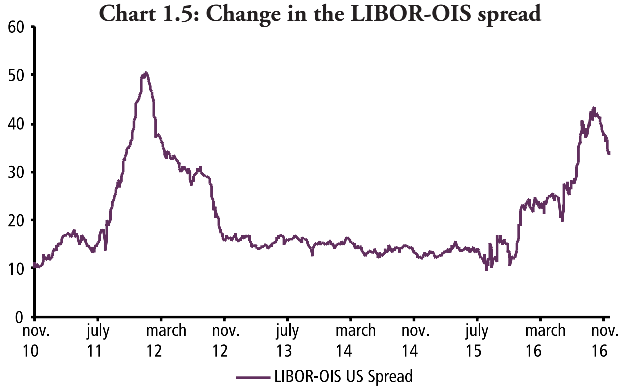
Chart 1.4: Change in the yield of ten-year government bonds



Source: Thomson Reuters Eikon.

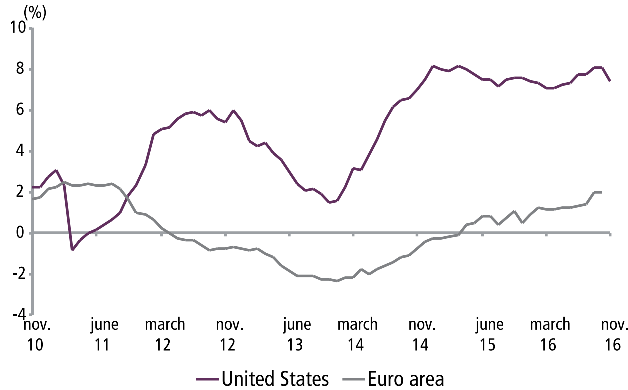
On money markets, the 3-month Euribor stagnated at -0.31 percent, while the 3-month Libor rose slightly from 0.88 percent to 0.90 percent. The dollar Libor-OIS spread remained virtually unchanged at around 36 basis points. The annual bank lending growth dropped between October and November in the United States from 8 percent to 7.4 percent, while it slightly increased from 1.9 percent in September to 2 percent In October in the euro area.

Chart 1.5: Change in the LIBOR-OIS spread



Source: Thomson Reuters Eikon.

Chart 1.6: YoY change in credit in the United States and the euro area



Source : Thomson Reuters Eikon.

In foreign exchange markets, the euro depreciated between October and November by 1.9 percent against the dollar to 1.08 dollar and by 2.6 percent versus the pound sterling. However, it appreciated by 1.8 percent against the Japanese yen. As to the currencies of key emerging countries against the dollar, the Brazilian real, Indian rupee, Turkish lira and Chinese yuan depreciated by 4.4 percent, 1.2 percent, 6.1 percent and 1.5 percent, respectively.

Chart 1.7: Euro/dollar exchange rate

Source : Thomson Reuters Eikon

In this context, with the exception of the Fed, the central banks of the main advanced countries kept their key rates unchanged. Thus, the ECB decided on December 8 to maintain its key rate at 0 percent, while reiterating that all its rates will remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases. Regarding non-standard measures, it decided to continue its monthly asset purchases amounting to 80 billion euros until the end of March 2017. From April 2017, the monthly amount of purchases will be reduced to 60 billion euros until the end of December 2017, or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also pointed out that if, in the meantime, the outlook becomes less favorable or if financial conditions become inconsistent with further progress towards a sustained adjustment of the path of inflation, the ECB intends to increase the program in terms of size and/or duration.

The FED decided at its meeting of December 14 to raise the target range for the federal funds rate by a quarter of a percentage point to [0.50 percent - 0.75 percent]. The FED indicated that the stance of monetary policy remains accommodative, thereby supporting some improvement in labor market conditions and a return to 2 percent inflation. It recalled once again that the timing and size of future adjustments to this range would depend on its assessment of the realized and expected economic conditions relative to its two objectives of maximum employment and 2 percent inflation. It also reiterated that its Committee expects that economic conditions would evolve in a manner that would warrant only gradual increases in the federal funds rate. This rate is likely to remain, for some time, below levels that are expected to prevail in the long run.

Finally, the Bank of England decided on December 15 to keep its policy rate unchanged at 0.25 percent and to continue its bond purchase program. It also indicated that its monetary policy can respond to economic outlook changes in order to ensure a sustained return of inflation to the 2 percent target.

In emerging countries, the Central Bank of Russia decided on December 16 to maintain its key rate at 10 percent, indicating that the momentum of inflation and economic activity is broadly in line with its forecasts and that inflationary risks decreased slightly. It also pointed out that it could reduce this rate in the first half of 2017.

Similarly, the Central Bank of India decided on December 7 to keep its key rate unchanged at 6.25 percent. The Central Bank of Brazil decided on November 30 to reduce its key rate by 25 basis points to 13.75 percent, the second consecutive cut after that of October. Meanwhile, it noted that the data available since the last meeting show that economic activity should be weaker than expected in the short term and that economic recovery may be slower and more gradual than anticipated.

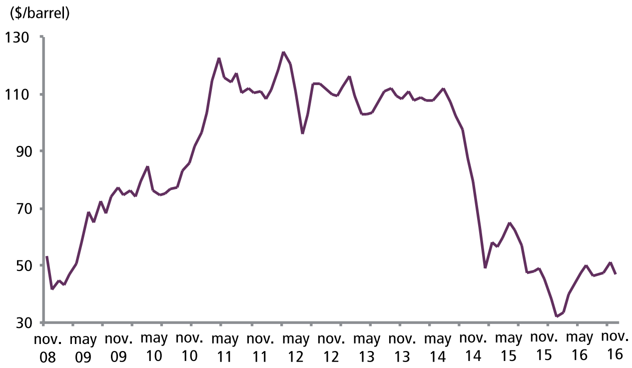
1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

In November, the average Brent price fell sharply by 8.7 percent, standing at $46.9 per barrel from $51.4

in October. This change is mainly due to the persistent oversupply in the market and the uncertainties surrounding the November 30 meeting of OPEC members (Box 1.1). On that date, the Brent price appreciated by 7.6 percent to $50.1 per barrel after the members agreed to reduce oil production. Year on year, the Brent price rose in November, up 4.1 percent on average.

Chart 1.8: World price of Brent oil in dollar

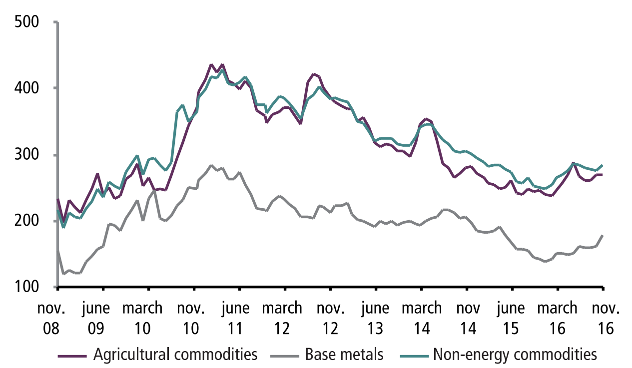


Source : Thomson Reuters Eikon.

1.3.2 Non-energy commodity prices

Non-energy commodity prices rose significantly, year on year, as the relevant Dow Jones-UBS index moved up 13 percent. This trend reflects an increase of nearly 23.6 percent in base metals prices and a 10.4 percent increase in the agricultural commodity price index.

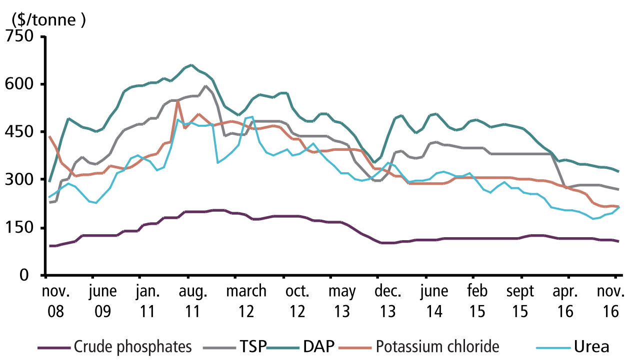
Chart 1.9: Change in the DJ-UBS non-energy commodity price indexes (100=2006)



Source : Thomson Reuters Eikon.

For phosphates and derivatives in particular, crude prices fell by 5.5 percent from $110 to $104 per tonne between October and November. Similarly, prices for DAP, TSP and Potassium Chloride decreased by 3 percent, 1.1 percent and 0.5 percent, respectively. However, the Urea price increased by 9.3 percent. Year on year, prices were down 28.9 percent for the TSP, 27.4 percent for Potassium Chloride, 22.4 percent for DAP, 17.9 percent for Urea and 15.4 percent for crude phosphate. Durum wheat prices declined slightly by 0.9 percent, month on month, and remained down 14.9 percent, year on year.

Chart 1.10: Change in the world prices of phosphate and derivatives



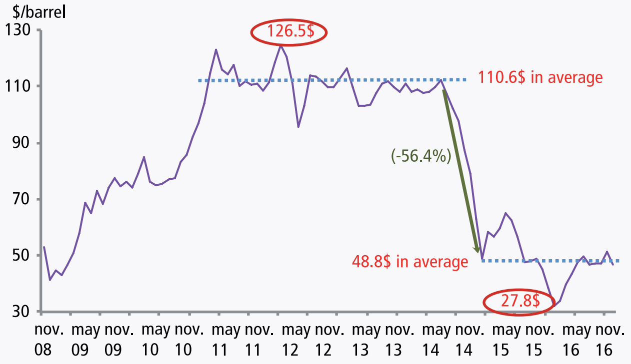
Source: World Bank.

Box 1.1: Change in oil prices

The oil market has been marked over the last five years by significant price reversals. Thus, between January 2011 and June 2014, Brent prices remained high, around an average of $110.6/barrel with a peak of $126.5 on March 8, 2012. Increases in Brent prices during this period were mainly attributed to heightened geopolitical tensions in the Middle East and Africa as well as the persistently high global demand, despite the slowdown in energy consumption in China.

As of the second half of 2014, the Brent price trended downward, reaching its lowest level since 2003, i.e $27.8/barrel on January 20, 2016. This fall is particularly attributable to the abundant supply accentuated by the production of shale oil, mainly in the United States. The largest production came partly from non-OPEC countries, but also from some OPEC countries such as Iraq, Libya and Saudi Arabia. Demand was lower than expected in Europe and Asia, particularly China. This trend dropped further following the decision taken by OPEC countries on November 27, 2014 to keep production unchanged. It should be also recalled that the fall in prices below $50/barrel caused heavy losses to the shale oil industry in the United States, whose break-even point is around $60-70 per barrel, which resulted in lower investment in this sector.

Chart B.1.1.1 Change in Brent price



Source : Datastream.

On September 28, 2016, following pressure from countries hard hit by falling prices, OPEC members reached an agreement in principle in Algiers in order to reduce their production with a view to raising prices. As a result, oil prices increased, surpassing $50/barrel for a dozen days before falling again and ending October at $47.6/barrel. Indeed, despite the agreement reached in Algiers, uncertainties regarding its implementation continued to weigh on the oil market, mainly following disagreements between Iran, Iraq and Saudi Arabia. The persistently low prices during this period were also attributable to the persistence of an oversupply in the market and uncertainties surrounding growth prospects in advanced and emerging economies.

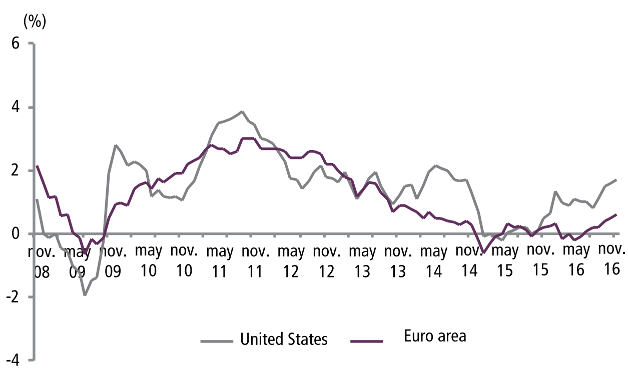
At the November 30 meeting in Vienna, OPEC member countries were able to agree on a reduction in oil production from 33.6 million barrels per day to 32.5 million barrels per day, as of January 1, 2017. The organization also sought contribution from non-OPEC countries for a reduction of 600,000 barrels per day. Immediately following this meeting, Brent price appreciated by 7.6 percent to $50.1/barrel.

Looking ahead, the latest World Bank forecasts for October expect a price of $55.2/barrel in 2017 and $55.9 in 2018. However, the agreement concluded recently on the reduction of production could result in significantly higher prices, if the commitments are met.

1.3.3 Inflation in the world

In the United States, inflation continued to accelerate since July to 1.7 percent in November from 1.6 percent a month earlier. Similarly, it rose in the United Kingdom by 0.9 percent to 1.2 percent in November. In the euro area, Eurostat initial estimate for November shows a slight acceleration in the inflation rate from 0.5 percent to 0.6 percent, with an increase from 0.5 percent to 0.7 percent in France and from -0.1 percent to 0.1 percent in Italy and stagnation at 0.7 percent in Germany and Spain. In Japan, the latest available data remain those of October and show a significant increase in the inflation rate from -0.5 percent to 0.1 percent.

Chart 1.11: Inflation trend in the United States and the euro area



Source : Eurostat.

In key emerging countries, inflation rose in November from 2.1 percent to 2.3 percent in China, while in October it declined from 8.5 percent to 7.9 percent in Brazil and from 6.4 percent to 6.1 percent in Russia.

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

	2014	2015	2015/2016		
			Sept.	Oct.	Nov.
United States	**1.6**	**0.1**	**1.5**	**1.6**	**1.7**
Euro area	**0.4**	**0.2**	**0.4**	**0.5**	**0.6**
Germany	0.8	0.2	0.5	0.7	0.7
France	0.6	0.1	0.5	0.5	**0.7**
Spain	-0.2	-0.4	0.2	0.7	0.7
Italy	0.2	0.2	0.1	-0.1	0.1
United Kingdom	**1.5**	**0.1**	**1.0**	**0.9**	**1.2**
Japan	**2.7**	**0.7**	**-0.5**	**0.1**	**N.A**

Source : Thomson Reuters Eikon.

2. EXTERNAL ACCOUNTS

In the first ten months of the year, export growth slowed to 1.6 percent, impacted by lower sales of phosphates and derivatives, under the price effect, while automotive industry exports continued their momentum showing an increase of 18.8 percent. However, imports progressed by 7.6 percent, driven by a significant increase in purchases of capital goods and, to a lesser extent, passenger cars. Indeed, the trade balance widened by 20.7 billion, bringing the coverage import ratio from 58.5 percent to 55.2 percent. For the other main components of the current account, remittances from Moroccan expatriates and travel receipts grew by 4.1 percent and 3.9 percent, respectively. Taking also into account FDI flows of 27.9 billion and other financial transactions, foreign exchange reserves increased by 11.5 percent to 250.5 billion at end-October, equaling 7 months of imports of goods and services.

2.1 Trade balance trends

2.1. 1 Change in exports

At the end of October 2016, exports grew by 1.6 percent to 184.6 billion dirhams, mainly reflecting increases of 18.8 percent in automotive industry sales to 24.2 billion dirhams and 6.1 percent in agriculture and agri-food exports to 38.7 billion. Textile shipments also grew by 5.5 percent, driven mainly by a 7.6 percent increase in sales of ready-made garments.

On the other hand, sales of phosphates and derivatives declined by 13.2 percent to 32.7 billion dirhams, with declines for crude phosphate of 27.4 percent in value and 10.2 percent in quantities. Sales of phosphate derivatives decreased by 9.3 percent, despite a 28.5 percent increase in shipped volumes.

Table 2.1: Change in exports

Sectors/Segments	Jan.-Oct.		Change	
	2016*	2015	Value	%
Exports (FOB)	**184 583**	**181 685**	**2 898**	**1.6**
Automotive industry	45 222	40 520	4 702	11.6
Agriculture and agribusiness	38 691	36 458	2 233	6.1
Phosphates and derivatives	32 725	37 722	-4 997	-13.2
Textile and leather	29 564	28 035	1 529	5.5
Aeronautics	7 731	6 876	855	12.4
Electronics	7 404	6 671	733	11.0
Pharmaceutics	906	849	57	6.7
Others	22 340	24 554	-2 214	-9.0

* Provisional figures.

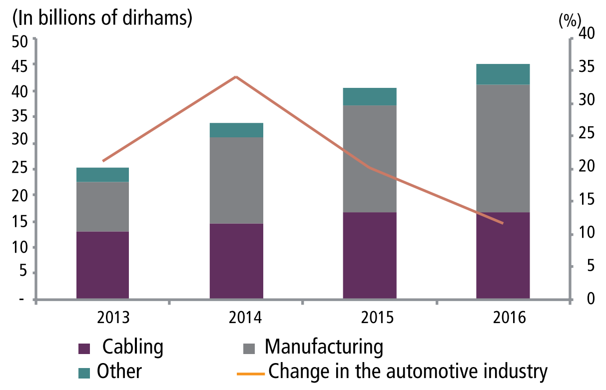
Source: Foreign Exchange Office.

Table 2.2: YoY change in the exports of phosphates and derivatives (%)

	October 2016/October 2015		
	Value	Quantity	Price
Crude phosphates	-27.4	-10.2	-19.2
Natural and chemical fertilizers	8.3	47.2	-26.4
Phosphoric acid	-30.2	-10.8	-21.8

Source: Foreign Exchange Office.

Chart 2.1: Change in automotive industry's exports in January-October 2016



Source: Foreign Exchange Office.

2.1.2 Change in imports

At the end of October 2016, foreign trade data show a significant increase in imports of 7.6 percent, or 23.6 billion dirhams, to 334.1 billion dirhams, mainly reflecting an increase of 24.2 percent in purchases of capital goods, with mainly increases of 2.9 billion for boiler purchases and 2.4 billion for components and spare parts for industrial vehicles. Similarly, consumer goods purchases increased by 16 percent, mainly due to a 35.5 percent increase in passenger car purchases, and food imports increased by 20.7 percent, with particularly an increase of 37.9 percent in wheat supplies to 10.2 billion.

However, the energy bill fell by 21.7 percent or 12.2 billion, particularly owing to the break in crude oil purchases and an 18.3 percent drop in petroleum gas imports.

Table 2.3: Change in imports

Product group	Jan.-Oct.		Change	
	2016*	2015	Value	%
Imports (CIF)	**334 133**	**310 500**	**23 633**	**7.6**
Capital goods	95 556	76 956	18 600	24.2
Finished consumer goods	67 448	58 164	9 284	16.0
Food products	36 274	30 054	6 220	20.7
Semi-finished products	75 826	71 213	4 613	6.5
Raw materials	14 929	17 756	-2 827	-15.9
Energy products	44 055	56 268	-12 213	-21.7

* Provisional figures.

Source: Foreign Exchange Office.

Table 2.4: Change in major imports (YoY, %)

	October 2016/October 2015		
	Value	Quantity	Price
Wheat	37.9	83.1	-24.7
Gas oils and fuel oils	-1.8	32.0	-25.6
Petroleum gas and other fuels	-18.3	5.7	-22.6
Crude and unrefined sulfur	-35.5	5.9	-39.1

Source: Foreign Exchange Office.

In short, the trade deficit stood at 149.6 billion dirhams, worsening by 16.1 percent or 20.7 billion compared to the same period of the previous year. The coverage import ratio moved down from 58.5 percent to 55.2 percent.

2.2 Other components of the current account

In terms of services, travel receipts rose by 3.9 percent to 55.4 billion, at a pace slightly lower than related expenditure, which grew 4.3 percent to 12.2 billion. Revenues from Moroccan expatriates also moved up 4.1 percent. Transport expenditure increased by 4.8 percent, while related revenues decreased by 7.4 percent.

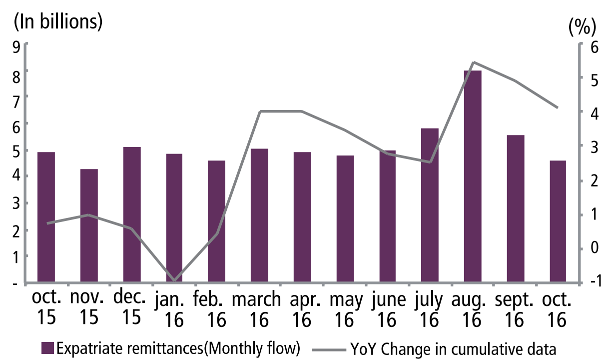
Under these conditions, the balance of services resulted in a surplus of 57.4 billion dirhams, virtually stagnating compared to its level during the same period of 2015.

Table 2.5: Change in the trade of services (YoY, %)

(In millions of dirhams)	January-October		Change	
	2016	2015	Value	%
Imports	**69 441**	**63 363**	**6 078**	**9.6**
Transport services	25 833	24 651	1 182	4.8
Travel	12 189	11 690	499	4.3
Exports	**126 806**	**120 920**	**5 886**	**4.9**
Transport services	20 734	22 412	-1 678	-7.5
Travel	55 375	53 307	2 068	3.9
Balance	**57 365**	**57 557**	**-192**	**-0.3**

Source: Foreign Exchange Office.

Chart 2.2: Change in expatriate remittances (YoY, year-to-date, in %)



Source: Foreign Exchange Office.

2.3 Financial account

Regarding the key capital account transactions, revenues from foreign direct investment (FDI) amounted to 27.9 billion dirhams, down 12.1 percent and FDI expenses progressed by 48.4 percent to 8.8 billion dirhams. In total, the net flow stood at 19.1 billion, down 26 percent.

The flow of direct investment of residents abroad amounted to 5.7 billion dirhams at end-October 2016, from 6 billion dirhams a year earlier. Taking also into account other financial transactions, the outstanding international reserves progressed by 11.5 percent, year on year, at end-October to 250.5 billion dirhams, equaling 7 months of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

In the third quarter of 2016, monetary conditions were marked by an appreciation of the real effective exchange rate and a further decline in lending rates. Growth of credit to the nonfinancial sector continued to improve slightly in the third quarter, reflecting faster loans to businesses and higher loans to individual entrepreneurs. Concerning other counterparts of the money supply, net international reserves continued to rise at a slightly slower pace and net claims on the central government declined less sharply than in the previous quarter. Overall, the money supply growth accelerated from 5.1 percent to 5.5 percent in the third quarter of 2016. The monetary gap remained negative, indicating no monetary inflationary pressures in the medium term.

In the real-estate market, prices rose by 0.6 percent quarter on quarter, while sales moved up significantly by 14 percent, from 2.6 percent a quarter earlier. In the stock market, MASI maintained its upward trend, posting a performance of 6.3 percent between October and November, as opposed to 5.6 percent in the third quarter, bringing its performance since the beginning of the year to 19.6 percent. The trading volume on the central market remained low, reaching 4.9 billion dirhams in October and November, from 5.5 billion in the third quarter. Overall, recent developments do not suggest inflationary pressures from asset markets.

3.1 Monetary conditions

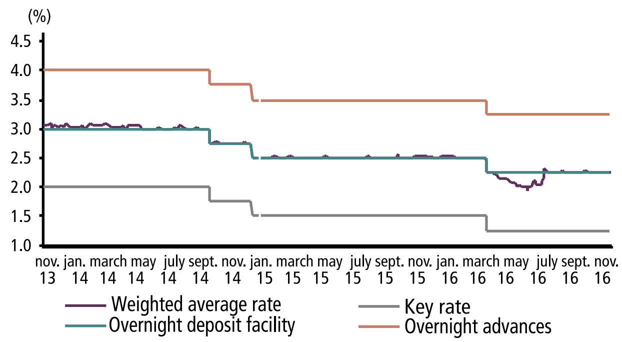
3.1.1 Bank liquidity and interest rates

In the third quarter of 2016, banks' liquidity needs increased, averaging 22 billion dirhams. This increase reflects, in addition to the bank's decision to raise the required reserve ratio from 2 percent to 4 percent, an increase in currency in circulation. Thus, Bank Al-Maghrib raised the volume of its injections to 22.9 billion, of which 17.4 billion as 7-day advances and 4.4 billion as secured loans granted under the program to support the financing of VSME.

End-November data indicate that the liquidity need improved significantly to 14.6 billion dirhams.

Under these conditions, the interbank rate stood in the third quarter at 2.23 percent, aligning with the key rate. Treasury bill rates were adjusted upwards in both the primary and secondary markets. In October and November, rates did not change significantly from those observed in the third quarter.

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



Source : BAM.

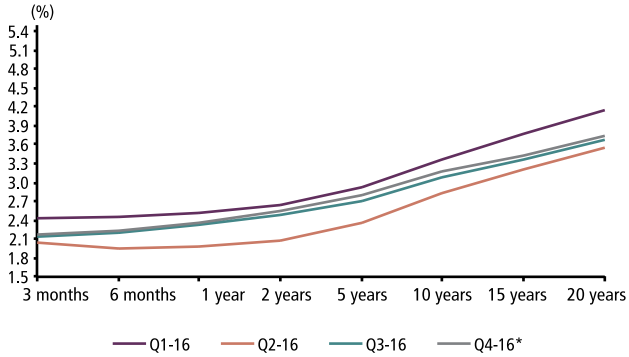
Table 3.1: Change in Treasury bond yields in the primary market (%)

	2014	2015				2016			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
52 weeks	2.83	2.53	2.67	2.6	2.6	2.57	1.93	2.33	2.29
2 years	3.02	2.59	2.86	2.74	2.8	2 .63	2.05	2.48	2.44
5 years	3.33	2.98	3.24	3.17	3.14	2.92	2.3	2.71	2.66
10 years	3.75	3.3	3.66	3.39	3.61	3.48	2.87	3.22	3.08
15 years	4.3	3.89	4.07	4.06	4.05	3.77	3.22	-	-

* October and November 2016.

Source : BAM.

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

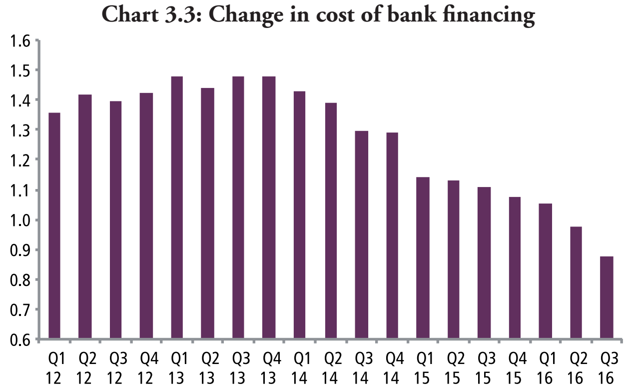


* October and November 2016.

Source : BAM.

In other markets, the rates of certificates of deposit issued stagnated overall in the third quarter and the weighted average rate of 6 and 12-month deposits decreased by 19 basis points to 3.16 percent, due to respective declines of 23 basis points and 21 points in 6-month deposits and one-year deposits. Against this backdrop, banks' cost of financing[1] dropped again in the third quarter.

Chart 3.3: Change in cost of bank financing



Source : BAM.

This trend affected the lending rate, which declined by 17 basis points to 5.08 percent. This further decrease reflected decreases of 18 basis points for rates on cash advances to 4.98 percent, and 10 basis points for rates on real estate loans to 5.34 percent. For other loan categories, rates broadly stabilized at their level of the second quarter.

1 The cost of financing is the weighted average of the costs of banks' resources.

Table 3.2: Lending rates

	2014		2015				2016		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Overall interest rate	6.03	6.03	5.81	5.93	5.67	5.49	5.55	5.25	5.08
Cash advances	5.97	6.08	5.77	5.95	5.65	5.48	5.44	5.16	4.98
Equipment loans	6.01	5.42	5.11	5.04	5.35	4.76	5.54	4.98	4.95
Real estate loans	5.94	6.05	5.98	5.92	5.68	5.76	5.59	5.44	5.34
Consumer loans	7.37	7.17	7.27	7.18	7.08	7.12	6.91	6.63	6.64

Source : BAM

Table 3.3: Deposit rates (time deposits)

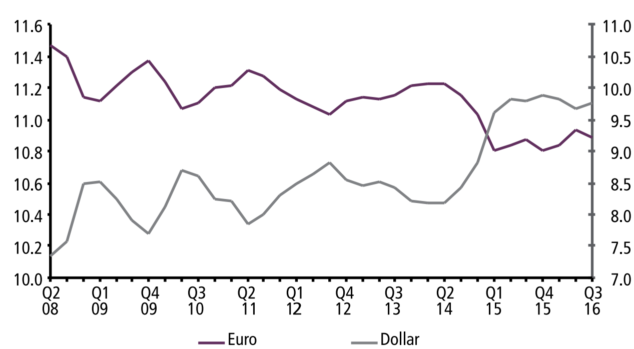
	2014		2015				2015		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
6 months	3.69	3.71	3.64	3.6	3.56	3.46	3.31	3.18	2.94
12 months	3.86	3.94	3.85	3.83	3.74	3.78	3.67	3.55	3.33
Weighed average	3.8	3.85	3.76	3.71	3.66	3.66	3.54	3.36	3.16

Source : BAM

3.1.2 Exchange rate

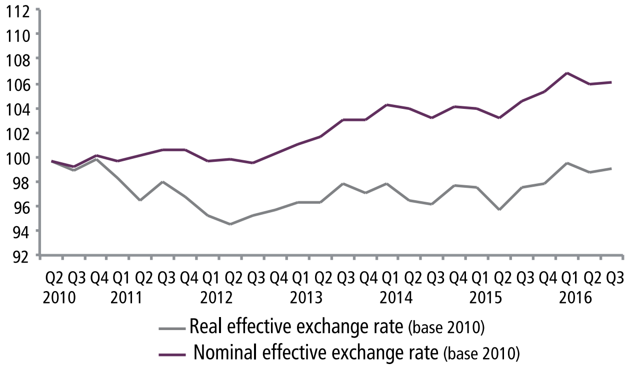
In the third quarter of 2016, the euro depreciated by 1.14 percent against the US dollar, averaging $1.12. Thus, the national currency appreciated, quarter on quarter, by 0.47 percent against the euro and depreciated by 0.74 percent versus the US dollar. Compared with the currencies of some emerging countries, the dirham appreciated by 1.3 percent vis-à-vis the Turkish lira and 1.4 percent against the Chinese yuan. As a result, the nominal effective exchange rate appreciated by 0.14 percent. This trend, together with an inflation in Morocco broadly higher than that of partner and competing countries, resulted in a 0.40 percent appreciation of the real effective exchange rate.

Chart 3.4: Change in the exchange rate of the dirham



Source : BAM.

Chart 3.5: Change in nominal and real effective exchange rates (2000=100)



Sources : BAM and IMF calculations.

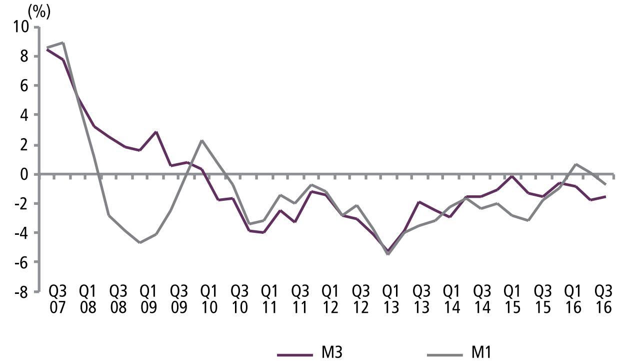
In the foreign exchange market, banks' transactions with customers resulted in decreases of 10.7 percent in forward purchases and 19.4 percent in forward sales in the third quarter, standing at 5.3 billion and 2.4 billion, respectively. Bank Al-Maghrib's foreign exchange operations with banks averaged 367 million dirhams, as against 1.6 billion in the previous quarter.

Under these conditions, the banks' net foreign exchange position stood at 2.3 billion dirhams from 1.3 billion on average in the second quarter.

3.1.3 Monetary position

The money supply growth accelerated to 5.5 percent in the third quarter of 2016, from 5.1 percent in the previous quarter. This change reflects an improved growth of bank credit from 2.2 percent to 3.2 percent, as well as slow fall from 9.7 percent to 5.5 percent in net claims on the central government. However, growth of net international reserves decelerated from 25 percent to 19.2 percent.

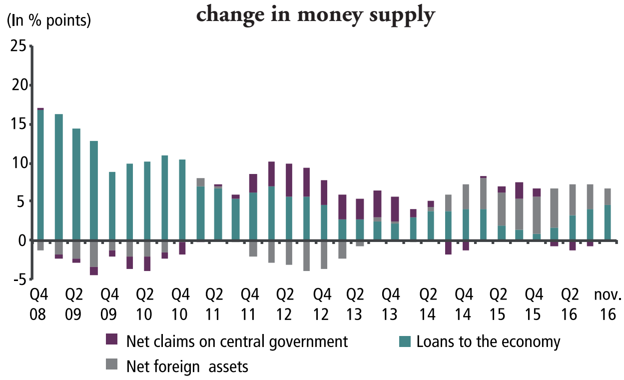
Chart 3.6: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



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

Source : BAM.

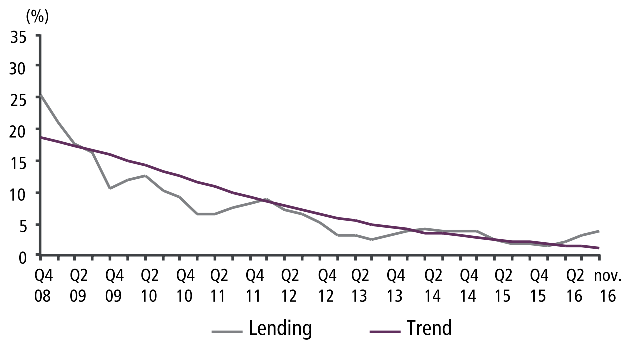
Chart 3.7: Contribution of the major counterparts to YoY change in money supply



Source : BAM.

Analysis by M3 components shows particularly a 1.6 percent increase in money market fund shares/units, after a decline of 2.4 percent. Demand deposits of households continued to accelerate from 7.7 percent to 8.6 percent, while their time deposits slowed down from 6.1 percent to 5.7 percent. The growth of demand deposits of private nonfinancial corporations moved down from 5.6 percent to 3.2 percent and their time deposits fell by 4 percent, after an increase of 7.6 percent in the second quarter. For other components, the growth of currency in circulation slowed down from 6.9 percent to 5.5 percent, while that of sight deposits remained virtually stable at 5.9 percent.

Chart 3.8: YoY change in credit



Source : BAM.

Concerning bank lending, loans to the nonfinancial sector continued to improve from 2.6 percent to 3.4 percent in the third quarter, reflecting an acceleration from 1.1 percent to 2.3 percent in loans to businesses and an increase of 2.8 percent in loans to individual entrepreneurs, after a decline of 1.2 percent in the second quarter.

These developments were recorded in a context marked by improved supply conditions for companies, according to the BAM's lending conditions survey. Demand would have declined for both businesses and households.

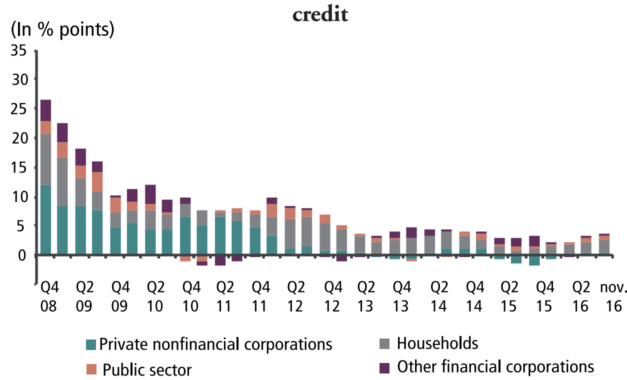
The improvement in corporate loans primarily reflects a slow fall from 2.7 percent to 0.3 percent in cash advances and from 3.3 percent to 2.3 percent in loans to real-estate development. At the same time, growth of equipment loans accelerated from 1.5 percent to 2.8 percent, due to a 1.1 percent increase in loans to private nonfinancial corporations, as opposed to a decline of 0.6 percent in the second quarter.

Loans granted to individual entrepreneurs grew by 2.8 percent, after a decrease of 1.2 percent in the previous quarter, thus halting the downward trend observed since the fourth quarter of 2014. This improvement is the result of an acceleration from 26.8 percent to 46.2 percent in equipment loans and a slow decline from 17.2 percent to 12.5 percent in real estate loans.

By industry, the change in loans to businesses is attributed to a 12 percent increase in loans to extractive industries, as against a decline of 8.1 percent, a growth of 1.2 percent in credit to manufacturing industries, after virtually zero growth. Similarly, growth of loans to the agriculture and fishing sector accelerated from 0.8 percent to 4.7 percent. However, credit allocated to the transport and communication sector grew by 1.7 percent, as opposed to 9.4 percent, and loans to the electricity, gas and water sector recorded a growth of 0.6 percent, as against 3.3 percent.

Regarding loans to individuals, growth remained at 4.9 percent for home loans and 5.8 percent for consumer loans.

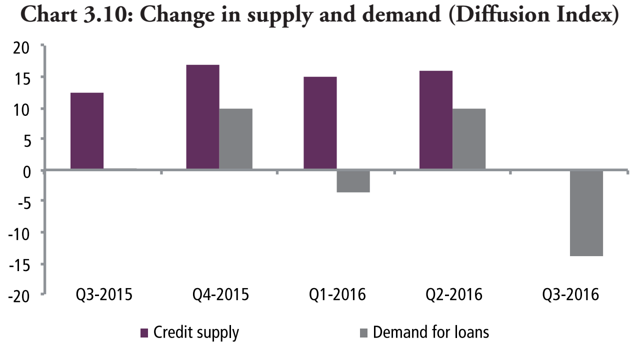
Chart 3.9: Institutional sectors' contribution to YoY change in credit



Source : BAM.

Growth of nonperforming loans slowed to 9 percent from 11 percent, with a deceleration from 26.4 percent to 21 percent for nonfinancial companies and a 7.7 percent decline for households, almost similar to that seen in the second quarter. The ratio of nonperforming loans to bank credit is thus stable at 7.8 percent.

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

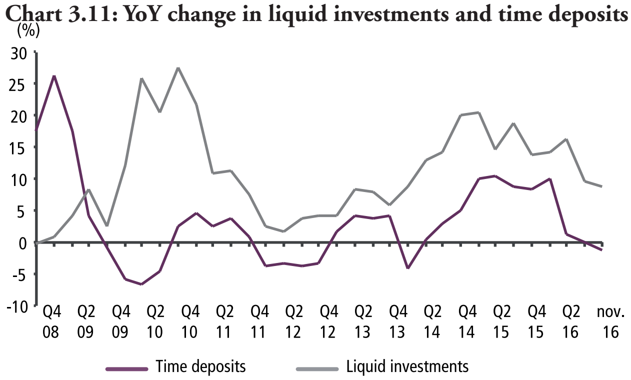


The latest available data for October 2016 indicate a further improvement in bank credit, rising by 3.8 percent from 3.2 percent in the third quarter. Credit to the nonfinancial sector accelerated to 3.8 percent, reflecting an improved growth in business loans from 2.3 percent to 2.8 percent and household loans from 4.7 percent to 5.1 percent.

Loans to the nonfinancial sector by other financial corporations, not included in the monetary position, increased by 7.4 percent in the third quarter, as against 4.3 percent, reflecting faster growth of credit accorded by offshore banks and to a lesser extent that of loans granted by finance companies. Thus, loans granted by offshore banks expanded by 46.6 percent from 13.7 percent in the second quarter, in connection with the acceleration from 24.2 percent to 47.7 percent in cash advances and a rise of 50.4 percent in equipment loans, after a decline of 7.9 percent. Similarly, loans granted by financing companies grew by 3.5 percent from 2.9 percent, particularly due to an improvement from 4.7 percent to 6.3 percent in the leasing growth.

The growth of liquid investment aggregates moved down from 16.2 percent to 9.5 percent in the third quarter, reflecting deceleration from 14.6 percent to 8.5 percent in the growth of Treasury bills and from 21.9 percent to 12.7 percent in that of bond UCITS. Equity and diversified UCITS rose by 6.1 percent, as against 3.9 percent in the second quarter.

Chart 3.11: YoY change in liquid investments and time deposits



Source : BAM.

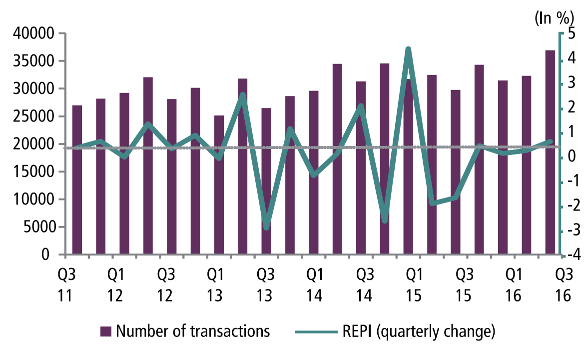
3.2 Asset prices

3.2.1 Real estate assets

After successive increases of 0.1 percent and 0.2 percent in the first two quarters of the year, the real estate price index rose by 0.6 percent in the third quarter of 2016. This change reflects respective increases of 1.3 percent and 0.4 percent in apartment prices and commercial property prices, while urban land prices fell by 0.3 percent, quarter on quarter.

At the same time, transactions showed a significant quarterly increase of 14.2 percent, bringing the increase in cumulative sales since the beginning of the year to 7.2 percent, compared to the same period of the previous year. The momentum in transactions observed in the third quarter of 2016 concerned all asset categories, with mainly increases of 18.8 percent in apartment sales and 8.1 percent in professional property sales.

Chart 3.12: Change in the Real Estate Price Index and number of real estate transactions



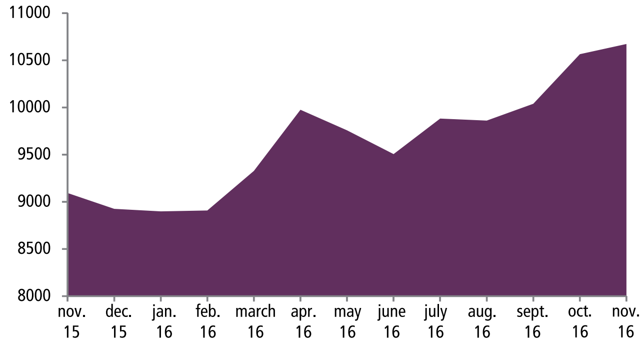
Source : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

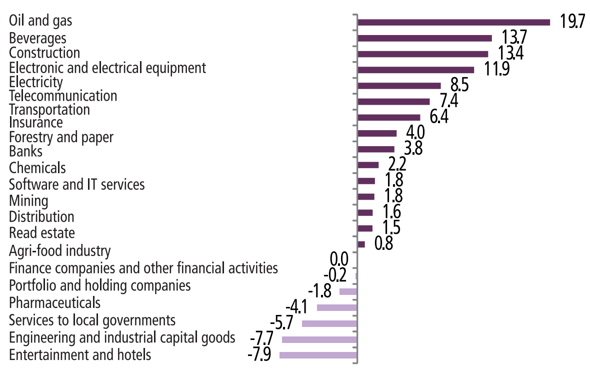
The upward trend of the benchmark index observed since the beginning of the year continued in the third quarter. Indeed, MASI grew 5.6 percent, bringing its annual performance to 12.5 percent at end-September. The quarterly increase in the benchmark index is mainly attributable to respective appreciations of 13.4 percent, 7.4 percent and 2.2 percent in the sectoral indexes of "construction and building materials", "telecommunications" and "banks".

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.14: Change in the sectoral indexes in the third quarter 2016, (in %)



Source : Casablanca Stock Exchange.

The volume of transactions on the central market fell from 9.5 billion dirhams in the second quarter 2016 to 5.5 billion in the third quarter 2016, while it stood at 2.5 billion on the block market. In total and taking into account the capital increase as part of the merger acquisition of Holcim by Lafarge for an amount of 9.1 billion dirhams, the aggregate volume amounted to 23.8 billion, from 12.1 billion in the second quarter of 2016.

Under these conditions, market capitalization progressed by 6.4 percent to 507.5 billion dirhams and the liquidity ratio[2] fell back to 6.8 percent from 7.1 percent in the previous quarter.

2 The liquidity ratio is the ratio of the volume of transactions on the central market to the stock market capitalization.

Recent data indicate an increase in MASI of 6.3 percent over the first two months of the fourth quarter, bringing its annual performance to 19.6 percent since the beginning of the year. On the other hand, trade averaged 3.5 billion dirhams in October and November, as against 7.9 in the third quarter 2016, although there was a marked improvement in the central market.

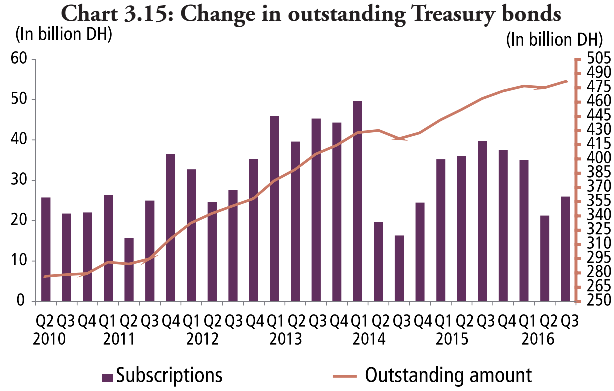
3.2.2.2 Sovereign debt market

After three consecutive declines, Treasury issues on the domestic market increased in the third quarter of 2016 to 26 billion dirhams. These issuances were performed equally on short- and medium-term maturities. After easing in the first two quarters of the year, primary weighted average rates of Treasury bills were adjusted upward in the third quarter 2016, showing increases ranging from 32 to 43 basis points.

Taking into account a repayment amount of 19.4 billion, outstanding Treasury bills rose by 1.4 percent compared to the second quarter 2016 to reach 480.2 billion dirhams.

The recent data available in October and November indicate that Treasury issues stood at 12.5 billion dirhams on monthly average, from 8.7 billion in the third quarter 2016. The new issues were performed at virtually stagnant rates compared to the third quarter.

Chart 3.15: Change in outstanding Treasury bonds



Source : BAM.

3.2.2.3 Private debt market

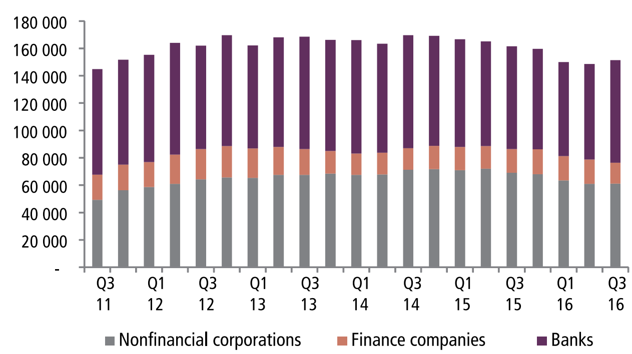
On the private debt market, issues were limited to 8.6 billion dirhams, as against 14.8 billion in the second quarter 2016. Almost all of them were performed on the market of negotiable debt securities. Taking into account the amount of repayments, outstanding debt securities totaled 151.3 billion, up 1.9 percent from the second quarter.

Regarding nonfinancial enterprises, issues did not exceed 665 million dirhams, of which 515.1 million issued on the commercial paper market. These emissions were performed at broadly lower rates for various maturities. At the end of September, outstanding securities issued by nonfinancial corporations stood at 61.1 billion dirhams, registering a quarterly increase of 0.2 percent.

Concerning banks, issues focused exclusively on certificates of deposit of short-term maturities and almost stabilized at their level of the previous quarter at 7.8 billion dirhams. Taking into account repayments, outstanding private debt securities issued by banks amounted to 75 billion dirhams, up 7.6 percent compared to the second quarter 2016.

For finance companies, issues amounted to 97.5 million dirhams, as against 2.6 billion dirhams in the second quarter. At end-September, outstanding bills of finance companies stood at 17.8 billion dirhams, from 15.2 billion in the previous quarter.

Chart 3.16: Change in outstanding private debt by issuer (in million DH)

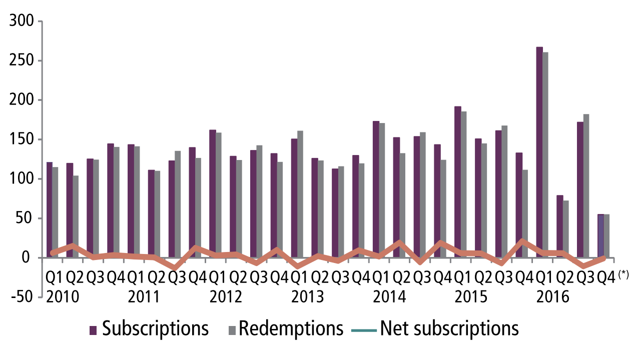


Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund shares/units

In the third quarter of 2016, subscriptions to mutual fund shares/units amounted to 171.6 billion dirhams and redemptions stood at 182.1 billion, representing a net outflow of 10.6 billion. Taking into account a quarterly appreciation of 0.7 percent in the performance index, the net assets of UCITS stood at 352.8 billion at end-September, representing a quarterly decrease of 2.8 percent. This change reflects a decline in net assets of all fund categories, with the exception of equity mutual fund shares/units, which grew by 3.2 percent. Data available for the fourth quarter[3] indicate a net outflow of 556 million dirhams and a performance of 1.5 percent compared to end-September, thus bringing the net assets of UCITS funds to 355.8 billion dirhams, up 0.9 percent compared to the same period.

Chart 3.17: Change in subscriptions and redemptions of mutual fund shares/units (in billion DH)



* Data as at November 11, 2016.

Source : AMMC.

3 Data as at November 11, 2016.

4. FISCAL POLICY STANCE

After a slight decrease at end-September 2016, the budget deficit widened by 1.1 billion at end-October to 34 billion. However, the financing need eased largely compared to the first ten months of 2015, when the Treasury cleared the backlog of payments amounting to 10.2 billion, while it constituted 635 million of it since the beginning of 2016.

Compared with the Finance Act, performances of tax revenues are broadly in line with the forecasts, with the exception of proceeds from domestic VAT and corporate tax receipts, which should nevertheless pick up with the December installments. Similarly, donations from the GCC were collected at 25.2 percent compared to the programming of the Finance Act. At the same time, capital expenditures were executed at a high rate, or 90.4 percent, while the wage bill evolved below expectations.

Year on year, current revenues, excluding privatization, rose by 5.5 percent, due to improved tax and nontax receipts. Overall expenses increased by 5.1 percent, mainly owing to higher investment and spending on other goods and services, while subsidy costs declined.

The direct public debt would have risen 3.4 percent compared to its level of December 2015. The Treasury's financing conditions on the auctions market remain favorable, as evidenced by the fall in average rates at issuance during the first ten months of 2016, compared to the average rates of the same period of 2015.

4.1 Current revenues

The budgetary execution of the first ten months of 2016 broadly confirmed an uptrend in tax revenues with the exception of proceeds from domestic VAT, while the increase in nontax receipts accelerated. As a result, current revenues, excluding privatization, progressed by 5.5 percent, reflecting increases of 4.8 percent in tax revenues to 174.1 billion dirhams and 12.2 percent in nontax receipts to 20.1 billion. The positive change in tax proceeds is particularly attributed to receipts from direct taxes, import VAT and customs duties and, to a lesser extent, domestic consumption tax (DCT) and registration and stamp fees.

Income from direct taxes increased by 6.4 percent, generating 68.6 billion. The corporate tax recorded an increase of 6.5 percent to 34.8 billion, reflecting improved profits made in 2015 by some major contributors, mainly OCP, ANRT, BCP, CIH, Marsa Maroc and cement companies. Similarly,revenue from income tax, which provided 32 billion, up 6.1 percent. These developments include increases of 4 percent in revenues from income tax on salaries paid by Morocco's General Treasury and 21.8 percent in income tax on real estate profits.

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

	Jan-oct. 2015	Jan-oct. 2016	Change in %	FA 2016	Achievements with respect to the FA 2016 (%)
Current revenues	**186,3**	**196,5**	**5,5**	**245,9**	**79,9**
Tax revenues	**166,0**	**174,1**	**4,8**	**215,5**	**80,8**
- Direct taxes	64,5	68,6	6,4	85,5	80,2
Including CT	32,7	34,8	6,5	44,3	78,7
I.T	30,1	32,0	6,1	38,6	82,7
- Indirect taxes	82,4	84,3	2,3	104,8	80,5
VAT*	61,7	62,6	1,4	79,3	78,9
DCT	20,7	21,8	5,1	25,5	85,4
- Customs duties	6,4	7,6	20,1	7,9	96,7
- Registration and stamp duties	12,8	13,5	5,6	17,3	78,0
Nontax revenues**	**17,9**	**20,1**	**12,2**	**27,2**	**74,1**
- Monopoles	6,5	7,2	11,2	8,3	86,9
- Other receipts	11,4	12,9	12,8	18,8	68,4
Including GCC grants	1,7	3,3	93,6	13,0	25,2
TSA receipts	**2,3**	**2,3**	**0,6**	**3,3**	**70,6**

*Taking into account 30 percent of the VAT transferred to local governments.

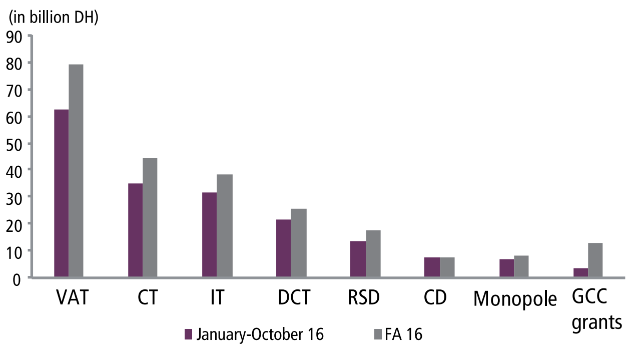
**Excluding privatization revenues.

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

Indirect taxes moved up 2.3 percent to 84.3 billion, despite a 5.4 percent decline to 22.7 billion in domestic VAT revenue, due to faster repayments of VAT claims, which stood at 6.7 billion from 4.4 billion in the same period of 2015. However, receipts from import VAT grew by 5.8 percent to 39.9 billion, covering a 10.4 percent decrease in VAT on energy products, owing to lower international oil prices, and a 9.2 percent increase in revenues from VAT on other products.

There were also positive developments in DCT. Related receipts totaled 21.8 billion, up 5.1 percent, due to the higher revenue for all categories. Indeed, tobacco DCT registered an increase of 10.4 percent to 7.8 billion, driven partly by the rise in tobacco taxation, while DCT on energy products was up 1.9 percent to 12.7 billion. Customs duties, registration and stamp fees grew by 20.1 percent and 5.6 percent, respectively, compared to the same period of 2015.

Chart 4.1: Achievements in major public receipts against the Finance Act



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

Note :
- VAT : Value added tax
- IT: Income tax
- RSD : Registration and stamp duties
- CT : Corporate tax
- DCT: Domestic consumption tax
- CD: Customs duties

Nontax receipts, excluding privatization, improved by 12.2 percent, reflecting an increase in donations from GCC countries to 3.3 billion, from 1.7 billion one year earlier, well below the 13 billion budgeted in the Finance Act 2016. Monopoly and operating revenues increased for the second consecutive month, following payments made by major institutions and public companies. Indeed, at the end of October 2016, OCP, Maroc Telecom, the National Land Registry and Mapping Agency and Marsa Maroc paid 2 billion, 1.4 billion, 1.3 billion and 750 million, respectively.

4.2 Public expenditure

At the end of October 2016, overall expenditure amounted to 236.3 billion, up 5.1 percent compared to the end of October 2015. This change reflects increases of 12.4 percent in investments to 48 billion, while current expenses progressed by 3.4 percent to 188.3 billion. Spending on goods and services increased by 5.9 percent to 134.9 billion, reflecting an increase of 2.1 percent to 87.4 billion in personnel costs and 13.7 percent to 47.5 billion in spending on other goods and services, i.e. an execution rate of 77.8 percent compared to the finance law. The increase in the latter includes rises of 27.3 percent to 15.4 billion in transfers to various public institutions, 70.8 percent to 4.1 billion in payments to the Treasury special accounts and 4 percent to 10.5 billion in transfers to the Moroccan Pension Fund (Caisse Marocaine des Retraites).

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

	Jan. Oct. 2015	Jan. Oct. 2016	Change 16/15 In %	FA 2016	Achievements with respect to the FA (%)
Overall spending	**224.9**	**236.3**	**5.1**	**288.6**	**81.9**
Current spending	**182.1**	**188.3**	**3.4**	**235.4**	**80.0**
Goods and services	127.4	134.9	5.9	167.8	80.4
Staff	85.6	87.4	2.1	106.8	81.9
Other goods and services	41.7	47.5	13.7	61.0	77.8
Debt interest	24.5	24.9	1.5	28.3	87.9
Subsidy costs	11.7	9.8	-16.6	15.6	63.0
Transfers to LG	18.5	18.8	1.4	23.8	78.9
Investment	**42.8**	**48.0**	**12.4**	**53.1**	**90.4**

*Taking into account 30 percent of the VAT transferred to local governments.

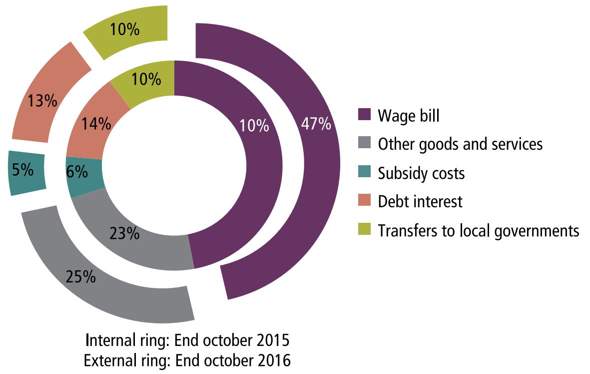
Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing and BAM calculations.

Chart 4.2: Execution of spending compared to the Finance Act

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

In addition, debt interest charges, executed at 87.9 percent compared to the Finance Act, rose by 1.5 percent to 24.9 billion, covering an increase of 2.5 percent to 21.7 billion in interest on domestic debt and a decrease of 5.3 percent to 3.1 billion in interest on external debt.

Chart 4.3: Structure of current spending

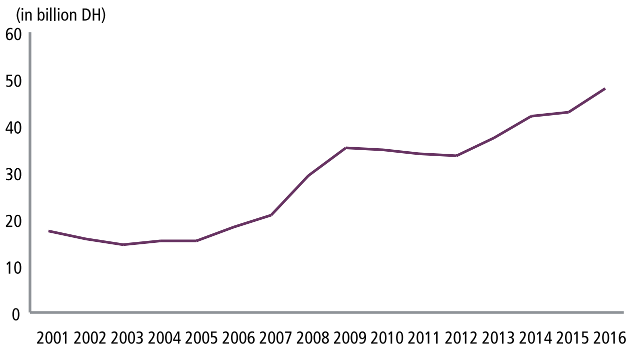


Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing and BAM calculations.

Subsidy costs showed a decrease of 16.6 percent to 9.8 billion at the end of October 2016, i.e. an execution rate of 63 percent compared to the Finance Act. Regarding butane gas subsidies, the decline was due to a 19.7 percent drop in gas prices on the international market, which fell from an average price of $379/T from January to October 2015 to $304.2/T for the same period in 2016.

In addition, according to data from the Moroccan Subsidy Fund, sugar subsidies moved up 8.8 percent to 2.4 billion at end-August 2016, due to the additional subsidy on imported sugar[1], due to the rise in international prices. Thus, raw sugar prices rose from $292.6/T on average between January and August 2015 to $371.1/T for the same period in 2016, while the average between September and October 2016 was $481.5/T. The average exchange rate of the dirham against the dollar did not change significantly, moving up from 9.7 between January and October 2015 to 9.8 in the same period in 2016.

Chart 4.4: Cumulative investment spending from January to October from 2010 to 2016



Source : Ministry of Economy and Finance (TEFD).

The Treasury investment spending, up 12.4 percent, reached 48 billion, or an execution rate of 90.4 percent compared to the forecasts of the Finance Act. The increase is attributable to common expenses, which rose 41 percent to 18 billion, while spending of ministries decreased by 1.5 percent to 27.6 billion. Moreover, analysis shows that the monthly flow of October 2016 is down 19 percent compared to the flow of October 2015. However, there are often significant jumps in the flow of December, which bodes well for an investment expenditure for the execution of 2016 much higher than the forecast of the Finance Act.

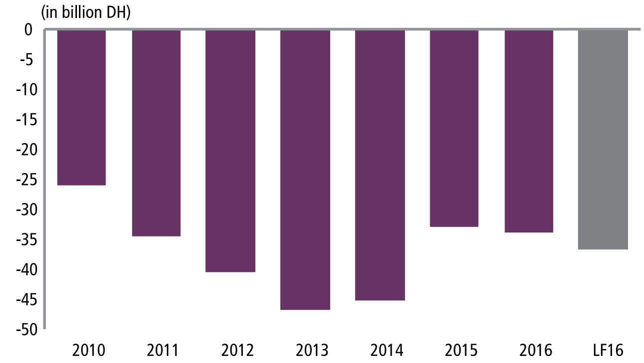
4.3 Deficit and Treasury financing

Taking into account changes in revenue, expenditure and the positive balance of special accounts, which improved by 2.3 percent to 5.8 billion, the Treasury

1 Adjustments for imported sugar moved from a receipt of 140 million dirhams between January and October 2015 to a cost of 55 million incurred by the subsidy fund in 2016.

position at end-October 2016 resulted in a budget deficit of 34 billion, excluding privatization, widening by 1.1 billion compared to the same period of 2015. The Treasury has arrears of payment of 635 million dirhams, bringing its stock to nearly 5.8 billion[2], as against settlement of arrears of 10.2 billion at end-October 2015. As a result, the cash deficit shows a marked improvement of 9.8 billion to 33.4 billion compared to the same period of 2015.

Chart 4.5: Cumulative fiscal balance from January to October from 2010 to 2016 and FA 2016



Source : Ministry of Economy and Finance (TEFD).

In addition to the positive net external financing of 2.4 billion, as against a negative net flow in 2015, the need for liquidity was covered by the domestic market, with a net amount of 30.4 billion, down 14.1 billion dirhams, and by a privatization receipt of 570 million, resulting from the sale by the State of its shares in SOMED, a Morocco-United Arab Emirates development company.

The gross foreign drawings at end-October 2016, totaling 9.1 billion dirhams, came from the World Bank, amounting to 4.7 billion, African Development Bank, totaling 3.2 billion, Japan, amounting to 728 million and Arab Fund for Economic and Social Development (AFESD), totaling 420 million.

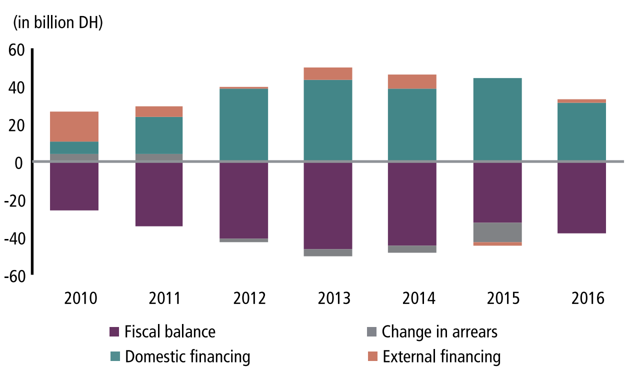
Table 4.3: Deficit financing (In billions of dirhams)

	Jan. oct. 2015	Jan. oct 2016	FA 2016	Absolute gap in value FA/ jan.-oct.16
Current balance	**4.2**	**8.2**	**10.5**	**2.3**
Balance of TSA	5.7	5.8	6.0	0.2
Primary balance	-8.4	-9.1	-8.3	0.8
Fiscal balance	**-32.9**	**-34.0**	**-36.6**	**-2.6**
Change in arrears	-10.2	0.6	0.0	
Financing requirements	**-43.1**	**-33.4**	**-36.6**	**-3.3**
Domestic financing	44.5	30.4	14.4	-16.0
External financing	-1.4	2.4	22.2	19.8
Privatisation	0	0.57	0	-

Source : Ministry of Economy and Finance (TEFD), and BAM calculations.

Regarding the domestic financing, the Treasury again benefited from the domestic resources, coming mainly from the deposits of the Treasury, up 5 billion to 57.7 billion, which helped to limit borrowing to a net amount of 16.2 billion, of which 12.2 billion raised on the auction market, as against 38.6 billion in the same period of 2015. Net subscriptions to the auction market for the first ten months of 2016 were dominated by of 26-week bills, amounting to 6.2 billion, and long-term maturities for 25.2 billion. At the same time, the net repayments concerned 52-week and 2-year bills, totaling 21.1 billion. In addition, as part of the active management of its debt, the Treasury carried out transactions of exchange of bills, totaling 20.4 billion dirhams during the first ten months of 2016.

Chart 4.6: Cumulative fiscal balance and financing from January to October from 2010 to 2016*

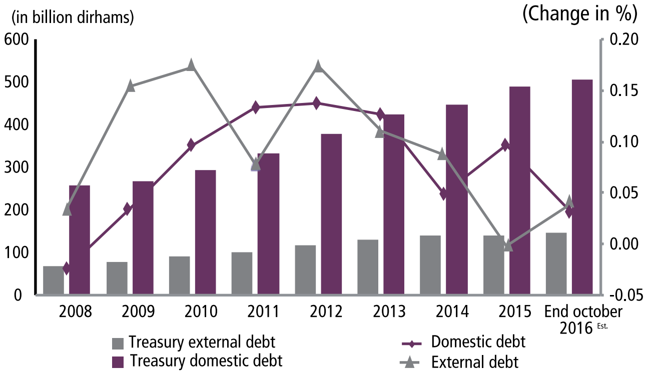


* Privatization receipts, limited and discontinued over time, were included in domestic financing.
Source : Ministry of Economy and Finance (TEFD).

2 Estimate from Bank Al-Maghrib on the basis of monthly flows.

From one year to the next, the Treasury financing conditions in the auction market remained positive. For the first ten months of 2016 compared to the same period in 2015, weighted average rates of issues recorded an average decrease of 39 basis points to 2.99 percent. Yields on 15-year and 5-year Treasury bills dropped, respectively, by 46 bps to 3.55 percent and by 45 bps to 2.68 percent. Rates of short-term maturities declined, while rates on 13-week, 26-week and 52-week bills fell back on average to 2.11 percent, 2.18 percent and 2.24 percent, respectively, down 40 bps for 13-week bills and 35 bps for each of the other two maturities.

Chart 4.7: Treasury debt



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

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

	2011	2012	2013	2014	2015	At end oct. 2016 Est.*
Treasury external debt	**99.6**	**116.9**	**129.8**	**141.1**	**140.8**	**146.2**
Change in %	7.8	17.4	11.1	8.7	-0.2	3.8
In % of GDP	12.1	13.8	14.5	15.3	14.3	14.5
Treasury domestic debt	**331.3**	**376.8**	**424.5**	**445.5**	**488.4**	**504.6**
Change in %	13.4	13.7	12.6	5.0	9.6	3.3
In % of GDP	40.4	44.4	47.3	48.2	49.7	50.0
Outstanding direct debt	**430.9**	**493.7**	**554.3**	**586.6**	**629.2**	**650.8**
Change in %	12.0	14.6	12.3	5.8	7.3	3.4
In % of GDP	52.5	58.2	61.7	63.5	64.1	64.4
Nominal GDP growth (%)	**4.5**	**3.4**	**5.9**	**2.9**	**6.3**	**2.8**

Sources

- For GDP, data from 2011 to 2016 are estimates of the HCP, and those of 2016 are BAM forecasts.

For Debt at end October 2016, estimates are based on the flows of domestic and external financing.

Concerning the direct public debt, estimates based mainly on financing flows show a growth of 3.4 percent at end-October 2016, compared to end-December 2015. This change covers an increase of 3.8 percent in its external component and 3.3 percent in its domestic one.

5. DEMAND, SUPPLY AND LABOR MARKET

In the second quarter of 2016, growth was limited to 0.5 percent, the lowest rate since 2008. This abrupt slowdown reflects a worsening in the negative contribution of net exports as well as a deceleration in the share of domestic demand. In the second half of the year, growth should stand at 1.2 percent, reflecting a relative acceleration in household final consumption and investment. Meanwhile, the contribution of net foreign demand is expected to remain negative.

On the supply side, the agricultural value added should continue to decline at a rate of 9.7 percent in the third quarter and 8.9 percent in the fourth quarter, due to a sharp contraction in cereal production, whose impact was mitigated by the good performance of other crops. Nonagricultural GDP growth should be around 2.6 percent and 2.4 percent, respectively.

In the labor market, conditions were marked, in the third quarter, with a further net loss of 73,000 jobs and a sharp drop of 1.2 percentage point in the participation rate, which resulted in a decline from 10.1 percent to 9.6 percent in the unemployment rate. With regard to labor costs, the latest available data for the second quarter show an increase in the private sector wage index by 3.6 percent in nominal terms and 1.6 percent in real terms.

Under these conditions, the overall output gap would have continued to operate below its potential.

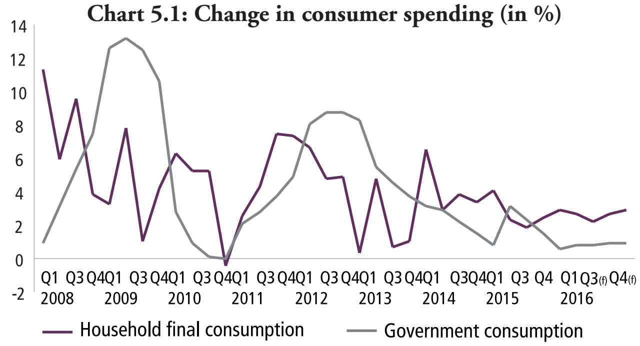
5.1 Domestic demand

5.1.1 Consumption

With a rate of 2.2 percent in the second quarter of 2016, the growth of household final consumption continues to slow down since the fourth quarter of 2015. Its contribution to growth fell from 1.7 percentage point in the fourth quarter of 2015 to 1.3 percentage point. However, this trend should not continue in the second half of the year. Indeed, on the basis of available indicators, household final consumption should accelerate slightly to 2.8 percent. It would be particularly supported by a fast growth in remittances from Moroccan expatriates, up 6.6 percent in the third quarter, as against 2.7 percent a year earlier, and a further increase in bank lending, in particular consumption loans. It would be also driven by spillover effects linked to a slight acceleration in nonagricultural incomes, with particularly a relative improvement in tourism activities.

The growth of government final consumption would have decelerated to 0.8 percent in the second quarter from 2.3 percent a year earlier. It should continue the same trend in the second half of the year, as evidenced by the slowdown in personnel costs and spending on other goods and services, which increased respectively by 0.1 percent and 4.1 percent, year on year, in the third quarter, as against 1.7 percent and 5.6 percent in the same period of the previous year. Albeit low, the contribution of government final consumption to growth would remain positive.

Chart 5.1: Change in consumer spending (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

Investment grew by 3.9 percent in the second quarter from 0.4 percent a year earlier. Its contribution to growth was 1.2 percentage point, as against 0.1 point in the same quarter of the previous year.

Recent trends of available indicators suggest faster investment in the second half of the year. Indeed, equipment imports increased by 33.8 percent and equipment loans accelerated steadily since the fourth quarter of 2015. The decline in lending rates on these loans is expected to stimulate further investment over the next quarters. In the same vein, real estate loans improved slightly in the third quarter, reflecting a recovery of loans granted to real estate developers. At the same time, the real estate market saw an increase in sales and prices of residential property, urban land and commercial property.

Moreover, the findings of Bank Al-Maghrib's monthly business survey in the industry indicate that the business climate improved in the third quarter, with higher sales on the domestic and foreign markets. In addition, manufacturers expect an increase in the fourth quarter in investment spending across all industries.

5.2 External demand

The contribution of net exports of goods and services to growth remained negative for the second consecutive quarter, at 2.2 percentage points in the second quarter. Imports were up 8.7 percent, as against a 1.5 percent decline a year earlier. At the same time, exports increased only by 4.6 percent, as against 5.1 percent in the same quarter of the previous year.

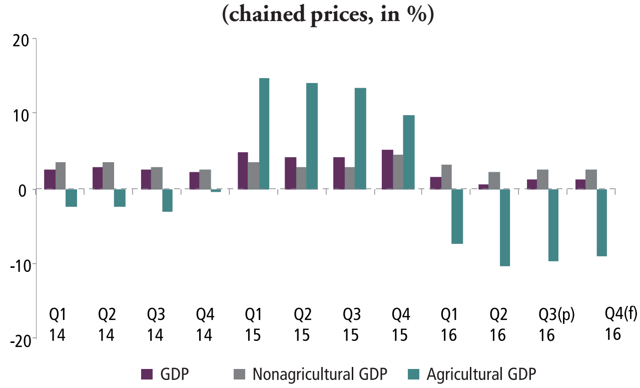
This trend of external demand should continue into the third quarter of 2016, in light of the momentum in imports, particularly of capital goods, as well as the underperformance of exports of phosphates and derivatives. As a result, the contribution of net external demand to growth would remain negative over the rest of the year.

Overall, after a growth of 0.5 percent in the second quarter, GDP growth would have averaged around 1.2 percent in the second half of the year.

5.3 Aggregate supply

In the third quarter, GDP growth would have accelerated slightly to 1.3 percent. By component, the agricultural value added would have declined again by 9.7 percent, as against 10.9 percent in the second quarter, due to the contraction in cereal production, whose impact was mitigated by the good performance of other crops, prompted by the rainfall in last February and March. The value added of nonagricultural activities would have improved from 1.4 percent to 2 percent between the second and third quarters. Taking into account an estimated increase of 6.9 percent in taxes on products net of subsidies, nonagricultural GDP growth would have stood at 2.6 percent, as against 2.1 percent in the second quarter and 2.9 percent a year earlier.

Chart 5.2: YoY GDP growth (chained prices, in %)



Sources: HCP, and BAM forecasts.

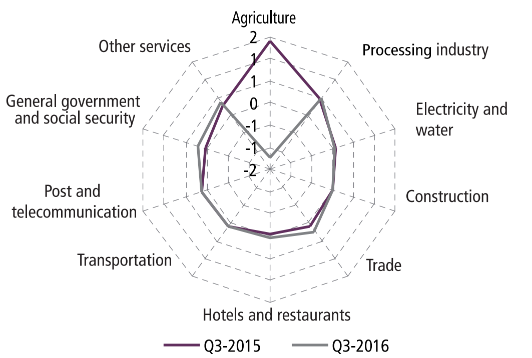
In the secondary sector, the value added of processing industries would have increased by 2.8 percent in the third quarter from 1.9 percent in the previous quarter, thanks to the good performance of Morocco's world trades, mainly automotive industry and aeronautics.

Activity in the electricity sector would have recovered by 2.8 percent, after a decline of 1.8 percent, reflecting an improvement of 5.4 percent in local electricity production after a decrease of 1.1 percent.

The construction value added would have decelerated from 0.9 percent to 0.4 percent between the second and third quarters, reflecting in particular a steeper decrease from 2.2 percent to 3.9 percent in cement sales.

Conversely, the mining activity would have dropped again by 3 percent, as against 1.2 percent in the second quarter, reflecting a 2.9 percent decline in phosphate production as against 1.8 percent.

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



Sources: HCP, and BAM forecasts.

In tertiary activities, the post and telecommunication sector would have grown by 4.2 percent from 4 percent in the second quarter. Similarly, commercial activities would have continued to grow at a rate of 2.6 percent, as against 3.1 percent in the previous quarter and 1.2 percent a year earlier. Conversely, after a 2 percent decline in the second quarter, the value added of the hotel and restaurant sector would have recovered by 1.8 percent, reflecting an improvement in the sector's main indicators.

In the fourth quarter, economic growth is predicted to maintain its level of the third quarter, owing to lower agricultural value added and a slight deceleration to 2.6 percent in nonagricultural activities. Taking account of taxes net of subsidies, nonagricultural GDP growth should fall to 2.4 percent.

For the full year of 2016, economic growth should stand at 1.2 percent from 4.5 percent in 2015, reflecting a contraction of 9.6 percent in the agricultural value added after a 12.8 percent increase, while growth of the nonagricultural value added should remain at 1.9 percent.

5.4 Labor market and output capacity

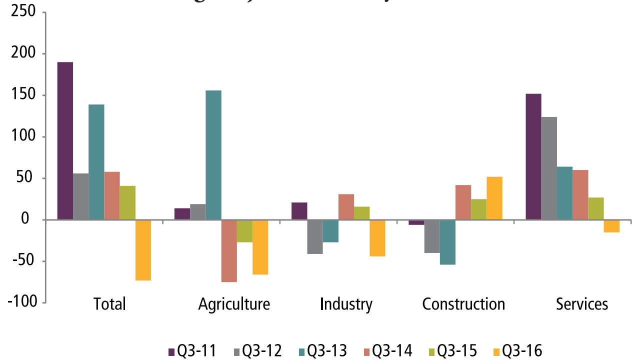
5.4.1 Participation rate and employment

Labor market conditions were marked in the third quarter of 2016 by a year-on-year decline of 1.1 percent in the labor force aged 15 and over to 11.85 million, down 1 percent in urban areas and 1.3 percent in rural ones. The participation rate continued to drop at a high rate of 1.2 percentage point, the highest decline since the fourth quarter of 2007, standing at 46.7 percent. By place of residence, it fell from 41.6 percent to 40.4 percent in cities and from 58.0 percent to 56.8 percent in rural areas.

At the same time, the Moroccan economy suffered a further loss of 73,000 jobs, resulting from a contraction of 70,000 jobs in rural areas and 3,000 positions in urban ones. Against this backdrop, the employed labor force declined by 0.7 percent and the employment rate moved down from 43.1 percent to 42.2 percent. By place of residence, this rate decreased from 35.3 percent to 34.6 percent in urban areas and from 55.5 percent to 54.4 percent in rural areas.

By sector, services, the main job-providing sector, lost 15,000 jobs for the first time since the second quarter of 2010. The agricultural sector also lost 66,000 jobs and industry, including crafts, registered a loss of 44,000 jobs, mainly in the sector of "textile hosiery and clothing". Conversely, employment in the construction branch showed signs of momentum with the creation of 52,000 jobs.

Chart 5.4: Change in job creation by sector (in thousands)

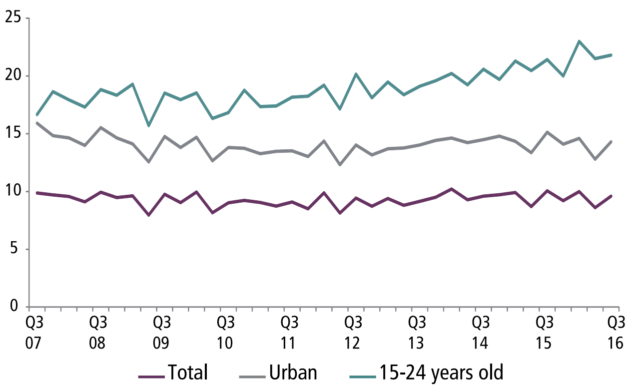


Source : HCP.

5.4.2 Unemployment and underemployment

The unemployed labor force showed a significant contraction of 5.3 percent in the third quarter to 1.14 million persons. Taking into account the decline in the labor force, the unemployment rate fell by 0.5 percentage point to 9.6 percent nationally, with a marked decline of 0.8 point to 14.3 percent in urban areas and stagnation at 4.3 percent in rural areas. However, the decline in unemployment did not affect young people aged 15 to 24, the rate of whom rose from 21.4 percent to 21.8 percent overall and from 39.3 percent to 40.8 percent in urban areas.

Chart 5.5: Change in unemployment rate (in %)



Source : HCP.

Regarding underemployment[1] , an indicator measuring the degree of underutilization of output capacity, the rate continued its upward trend to 11.5 percent from 11.3 percent a year earlier. This change includes an increase of 0.3 percentage point to 10.5 percent in urban areas and 0.2 point to 12.5 percent in rural areas.

Chart 5.6: Change in underemployment rate and unemployment rate (in %)

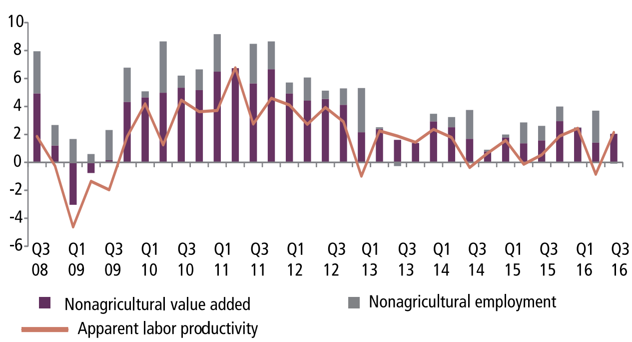
Source : HCP.

This trend affected all sectors, but at varying degrees. Indeed, the underemployment rate in agriculture increased significantly by 0.9 percentage point to 12.1 percent. In other sectors, it was up from 8.8 percent to 9 percent in industry, including handicrafts, from 17.7 percent to 18 in construction and from 10.6 percent to 10.8 percent in services.

5.4.3 Productivity and wages

The apparent labor productivity[2] in nonagricultural activities grew fast from 0.5 percent to 2.1 percent, under the combined effect of an increase from 1.6 percent to 2 percent in nonagricultural growth and a decrease of 0.1 percent in nonagricultural employment after a 1 percent increase a year earlier.

Chart 5.7: Apparent labor productivity and nonagricultural value added and employment (YoY change in %)



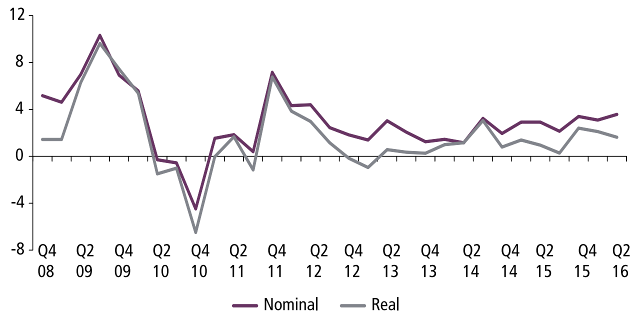
Sources: HCP, and BAM calculations.

1 The underemployed population includes persons who have worked either : i) during the reference week less than 48 hours but are willing and available to make additional hours; or ii) more than the threshold and are looking for another job or willing to change because it is inadequate with their education or qualifications or its income is insufficient.

2 Measured by the ratio of nonagricultural value added to employed labor force in the nonagricultural sector.

Latest data on labor costs for the second quarter point to an increase in the average wage index, calculated on the basis of CNSS data, from 2.9 percent to 3.6 percent in nominal terms and from 1 percent to 1.6 percent in real terms.

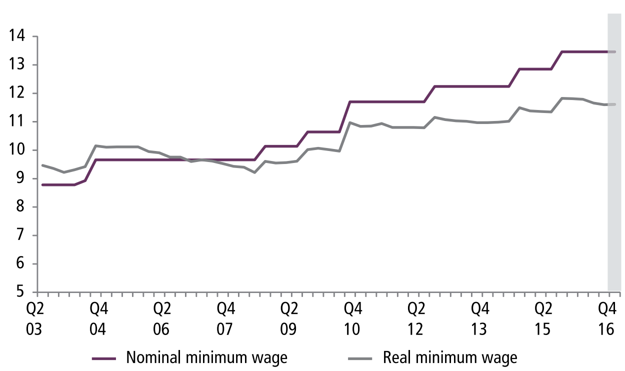
Chart 5.8: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

Meanwhile, taking into account its increase of 4.7 percent in July 2015 to 13.46 dirhams/hours, the minimum wage decreased, in real terms, year on year, by 1.9 percent in the third quarter of 2016 and is expected to fall by 1.7 percent in the next quarter.

Chart 5.9: Hourly minimum wages in nominal and real terms (in DH/h)



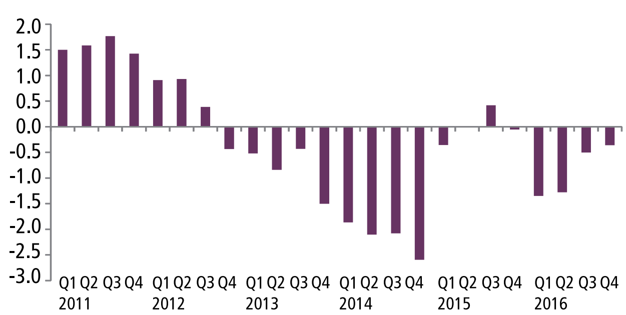
Sources: Ministry of Employment and Social Affairs, and BAM calculations.

Table 5.1 : Labor market main indicators

		Q3- 2015	Q3-2016
Participation rate (%)		**46.7**	**47.9**
Urban		40.4	41.6
Rural		56.8	58.0
Unemployment rate (%)		**9.6**	**10.1**
Youth aged between 15 and 24 years old		21.8	21.4
Urban		14.3	15.1
Youth aged between 15 and 24 years old		40.8	39.3
Rural		4.3	4.3
Job creation (in thousands)		**-73**	**41**
Urban		-3	24
Rural		-70	17
Sectors			
- Agriculture		-66	-27
-Industry including handicrafts		-44	16
- Construction		52	25
- Services		-15	27
Nonagricultural apparent productivity (change in %)		**2.1**	**0.5**
Average wage index (change in %)	**Nominal**	**3.6**	**2.9**
	Rael	**1.6**	**1.0**

Sources: HPC, CNSS, and BAM calculations

Chart 5.10: Change in nonagricultural output gap (in %)



Source: BAM estimates based on HCP data.

6. RECENT INFLATION TRENDS

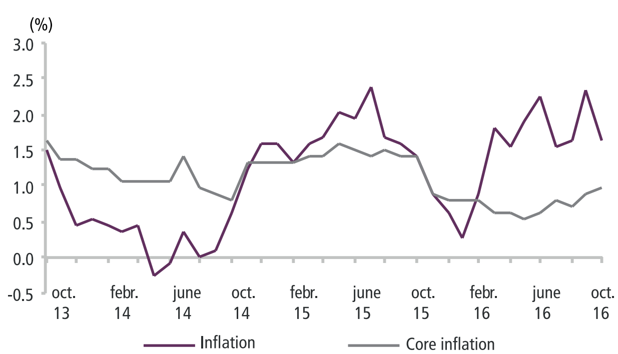
The occurrence of successive supply shocks of some food products in the second and third quarters of 2016 resulted in a continued relatively high inflation. Inflation stood at 1.9 percent during this period, before falling to 1.6 percent in October. Indeed, after rising 11.7 percent in the second quarter and 9.5 percent in the third quarter, the growth of volatile food prices decelerated to 5.3 percent in October. Prices for regulated products did not change significantly since the beginning of the year, while fuel and lubricant prices rose by 8.1 percent, after a decline of 2.2 percent in the third quarter, partly reflecting the relative recovery in international oil prices. Core inflation accelerated from 0.8 percent to 1 percent, mainly due to higher food prices, such as dry legumes.

In the short term, inflation should slow to 1.7 percent in the fourth quarter, largely due to the slower growth in volatile food prices, which should more than offset the effects of the expected increase in core inflation, and in fuel and lubricant prices.

6.1. Inflation trends

Inflation declined from 1.9 percent on average in the second and third quarters of the year to 1.6 percent in October, mainly due to the slower growth in several volatile food prices. Fuel and lubricants prices rose by 8.1 percent, after respective drops of 6.5 percent and 2.2 percent in the second and third quarters, reflecting the recovery in international oil prices and, to a lesser extent, the depreciation of the dirham against the US dollar. Prices for regulated products did not change significantly from February levels. Excluding these products, core inflation accelerated gradually from 0.5 percent in May to 1 percent in October, mainly reflecting changes in certain food prices.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations.

Table 6.1: Change in inflation and its components

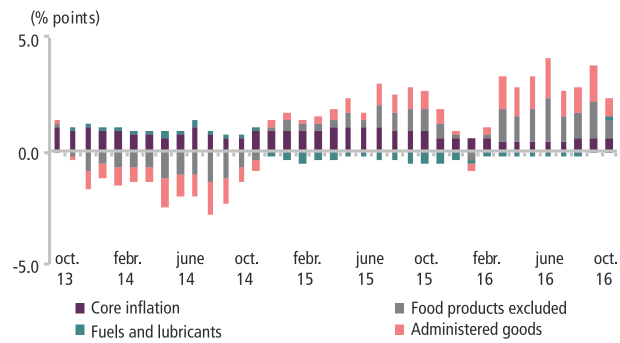
(En %)	MoM (%)			YoY (%)		
	Aug. 16	**Sept. 16**	**Oct. 16**	**Aug. 16**	**Sept. 16**	**Oct. 16**
Headline inflation	**0.0**	**0.7**	**-0.3**	**1.6**	**2.3**	**1.6**
- Volatile food products	0.6	3.1	-2.8	8.5	11.5	5.3
- Fuels and lubricants	-3.7	2.9	1.2	-4.8	5.0	8.1
- Administered goods	-0.1	0.1	-0.1	0.5	0.6	0.5
Core inflation	**-0.2**	**-0.1**	**0.1**	**0.7**	**0.9**	**1.0**
- Food products	0.0	0.2	0.2	0.6	0.7	0.8
- Clothing and footwear	-0.1	0.1	0.3	0.6	0.7	1.0
- Housing, water, gas, electricity and other fuels*	0.0	0.1	0.0	0.9	0.8	0.8
- Furnishings, household equipment and routine house maintenance	0.0	0.1	0.1	0.6	0.6	0.6
- Health*	0.2	0.0	0.0	1.5	1.0	0.9
- Transportation*	-0.1	0.0	-0.1	0.2	0.2	-0.1
- Communication	0.0	0.0	-0.2	-0.2	-0.2	-0.3
- Entertainment and culture	0.2	0.0	0.1	1.9	1.8	1.9
- Education	0.0	2.6	0.2	2.1	2.8	2.8
- Restaurants and hotels	0.3	0.2	0.1	2.6	2.8	2.7
- Miscellaneous goods and services	0.0	0.0	0.1	0.2	0.3	0.4

* Excluding administered goods.
Sources: HCP, and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

The gradual return of several volatile food prices hit by significant supply shocks since the beginning of the year to their average levels led to a marked deceleration in inflation. The increase in these prices slowed from 9.5 percent in the third quarter to 5.3 percent in October, bringing their contribution to inflation from 1.3 to 0.7 percentage point. This deceleration particularly affected "poultry and rabbit" prices, which fell by 3.7 percent, after a 13 percent increase, while fresh fish prices returned in October to the level of the previous year, after an increase of 5.8 percent. The growth of fresh vegetable prices slowed from 8 percent to 1.3 percent.

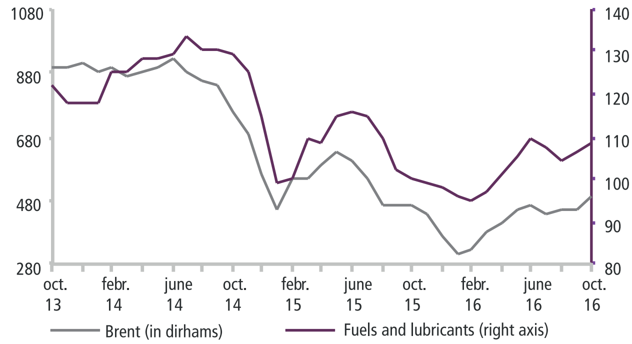
Chart 6.2: Contribution of the prices of major CPI items to inflation, YoY



Sources: HCP, and BAM calculations.

Similarly, the increase in prices for regulated products slowed slightly from 0.6 percent in the third quarter to 0.5 percent in October, mainly owing to lower prices for passenger road transport and certain medical services. However, fuel and lubricant prices posted their first increases from one year to another since November 2014.

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

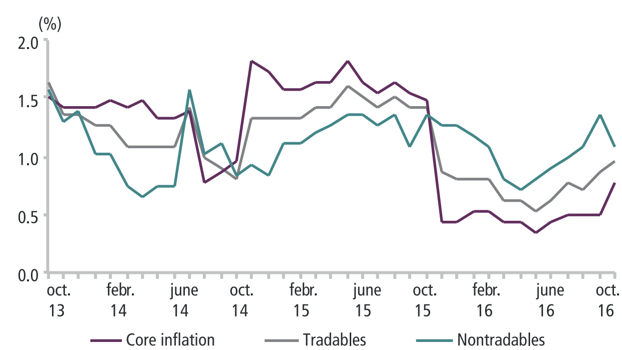


Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

Core inflation accelerated from 0.8 percent in the third quarter to 1 percent in October. This change reflects higher growth in prices of tradables and a drop in prices of nontradables. Inflation of tradables grew from 0.5 percent in the third quarter to 0.8 percent in October, mainly owing to higher prices for dry legumes. The contribution of tradables to core inflation stood at 0.4 percentage point from 0.3 percentage point. Inflation of nontradable goods fell from 1.2 percent to 1.1 percent, reflecting in particular a 0.5 percent drop in fresh meat prices, as against a 0.2 percent increase in the third quarter. The contribution of nontradables to core inflation moved down from 0.5 to 0.4 percentage point.

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



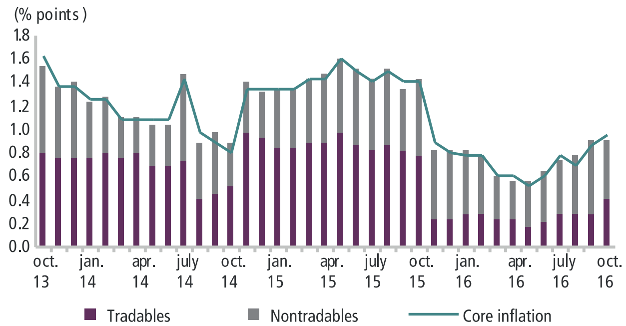
Sources: HCP, and BAM calculations.

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

(In %)	Monthly change (%)			YoY change (%)		
	Aug. 16	Sept. 16	Oct. 16	Aug. 16	Sept. 16	Oct. 16
Tradables	0.0	0.0	0.3	0.5	0.5	0.8
Nontradables	0.1	0.5	-0.1	1.1	1.3	1.1
Core inflation	-0.2	-0.1	0.1	0.7	0.9	1.0

Sources : HCP et calculs BAM.

Chart 6.5: Contribution of tradables and nontradables to core inflation

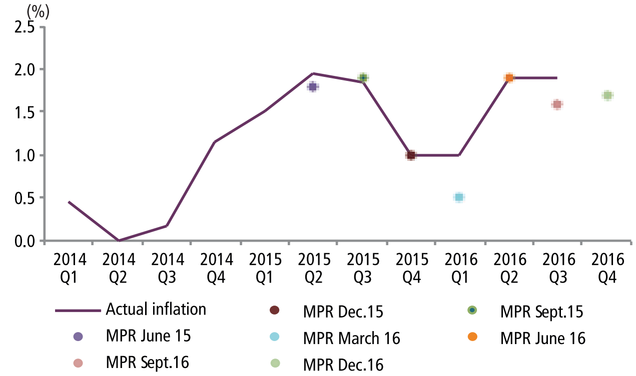


Source: BAM.

6.2. Short-term outlook for inflation

After standing at 1.9 percent in the second and third quarters, inflation should slow to 1.7 percent in the last quarter of the year. This change is mainly due to a projected deceleration in the inflation of volatile food prices, which should more than offset the rise in core inflation and fuel and lubricant prices. The contribution of foodstuffs to inflation should be therefore limited to 0.8 percentage point from 1.3 point a quarter earlier. However, the expected increase in international oil prices should lead to a further increase in fuel and lubricant prices. Core inflation is projected to increase to 1.1 percent from 0.8 percent in the previous quarter, as certain food prices, including dry legumes, would remain high and education fees would grow rapidly.

Chart 6.6: Short-term forecasts and actual inflation

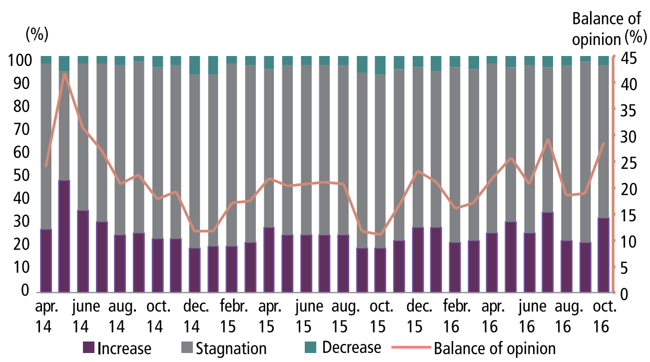


Sources : BAM.

6.3. Inflation expectations

The results of Bank Al-Maghrib's business survey in the industry for October indicate that 65 percent of manufacturers expect inflation to stagnate over the next three months, while 32 percent expect it to increase and 3 percent anticipate it to decelerate.

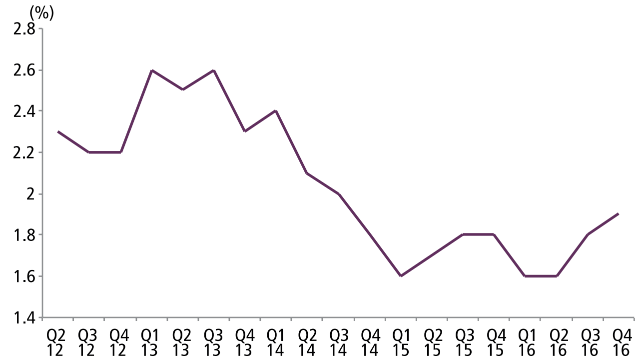
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

Moreover, the results of Bank Al-Maghrib's inflation expectations survey for the fourth quarter of 2016 indicate that the financial sector experts anticipate an average inflation rate of 1.9 percent between the fourth quarter of 2016 and the third quarter of 2018.

Chart 6.8: Inflation expectations by financial experts*

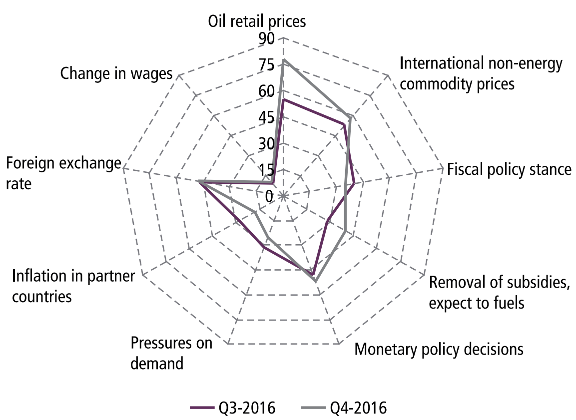


Source: BAM's quarterly survey on inflation expectations.

* From the second quarter of 2016, the anticipation horizon was increased from 6 to 8 quarters.

They agree in this regard that changes in retail oil prices, monetary policy decisions and international commodity prices are major determinants of future inflation trends during this period.

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

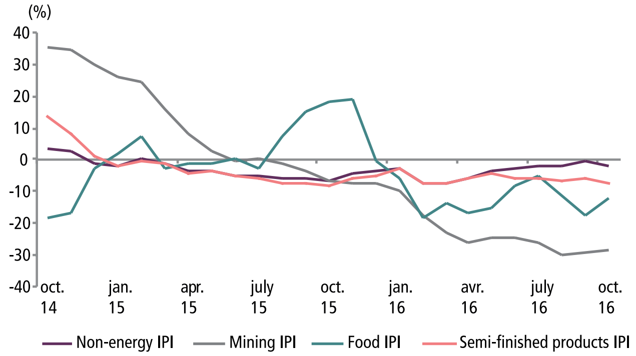


Source: BAM's quarterly survey on inflation expectations.

6.4. Import and producer prices

Year on year, non-energy import prices continued a downward trend since December 2014, showing a decrease of 1.6 percent in October, as against 0.8 percent in September and 1.9 percent in August.

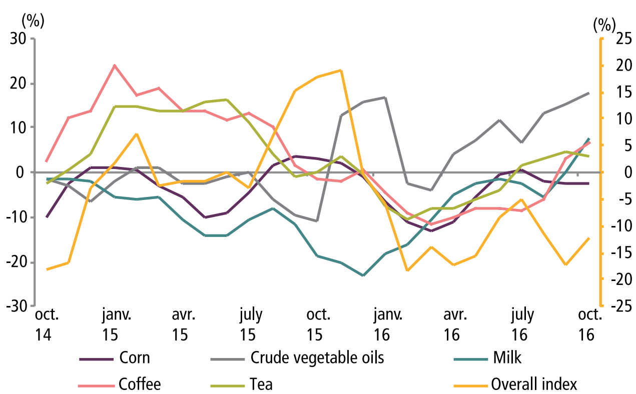
Chart 6.10: Change in the main import price indexes (year-on-year)



Sources: Foreign Exchange Office, and BAM calculations.

This decline affected foodstuffs, semi-finished products and mining products. Indeed, food import prices registered a slow fall from 17.3 percent in September to 12.4 percent in October, particularly due to a 32.4 percent decrease in wheat import prices, as against 38.3 percent a month earlier. Meanwhile, import prices of semi-finished products declined by 7.7 percent, as opposed to 6.3 percent in the previous month. The decline in mining import prices narrowed from 29.3 percent to 28.1 percent, mainly due to a decline of 41.1 percent in crude sulfur prices as against 44.5 percent in September.

Chart 6.11: Change in the major components of the food import price index (*)



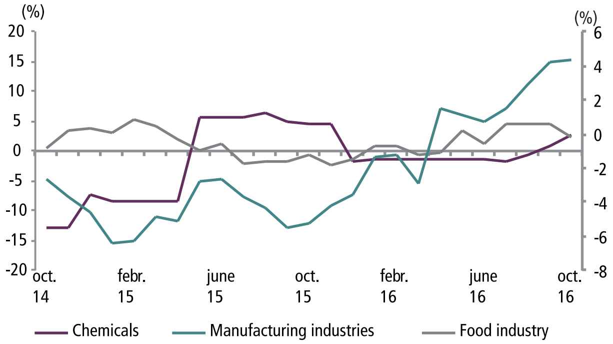
(*) Excluding wheat and sugar prices

Sources: Foreign Exchange Office, and BAM calculations.

The manufacturing producer prices excluding oil refining recorded a monthly increase of 0.2 percent in October, while they moved down 0.1 percent in

September, mainly due to a 1.6 percent increase in "chemical industry" producer prices and, to a lesser extent, rises of 0.5 percent in "clothing industry" and 0.3 percent in "textile manufacturing" industry. These increases more than offset the declines of 0.8 percent in "the manufacturing of other non-metallic mineral products" and 0.2 percent in the "food industries".

Chart 6.12: YoY change in industrial producer price indexes



Sources : HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Global economic activity should recover in the medium term, albeit at a slow pace, benefiting from accommodative monetary policies in advanced economies and relatively low commodity prices. Growth is expected to strengthen in the euro area and accelerate in the United States, while emerging countries such as Russia and Brazil should gradually emerge from the crisis. On the other hand, growth in China should continue its slowdown, reflecting the rebalancing of the economy. Thus, after suffering in 2016 from the negative cycle of investment and the appreciation of the dollar, the US growth should recover in the medium term. In the euro area, growth should benefit from quantitative easing measures, low interest rates and fiscal stimulus. Its growth should accelerate slightly in 2017, before slowing down in 2018, taking into account the effects of the planned exit of the United Kingdom from the European Union. In commodity markets, world prices should remain low overall, but with a slight upward revision of oil prices, particularly following the agreement of the oil producing countries on a reduction in their production. Under these conditions, inflation in the euro area should increase substantially in 2017 and stabilize in 2018 at a level close to the ECB target.

Against this backdrop, although slowing compared to 2015 and due to lower shipments of phosphates and derivatives, exports of goods should maintain a sustained growth in 2017 and 2018, thanks to the improved foreign demand, recovery of sales of phosphates and derivatives, and continued export momentum in the automotive industry. Imports of goods are expected to increase significantly in 2016, driven mainly by the sharp increase in capital goods purchases. In the medium term, the increase in imports should continue, albeit at a lower average rate compared to 2016, due to the recovery in demand and gradual increase in oil prices.

Taking also into account an assumption of annual donations from GCC countries of 8 billion dirhams between 2016 and 2018, the current account deficit should be higher than expected in September at 2.8 percent of GDP in 2016, before falling to 2.1 percent in 2017 and 2.5 percent of GDP in 2018. Furthermore, given the continuation of large inflows of FDI, net foreign reserves should continue to strengthen gradually, covering 6 months and 21 days of imports of goods and services in 2016, 7 months in 2017 and 7 months and 12 days in 2018.

Coupled with a change in other liquidity factors, the trend of net foreign reserves should result in a deficit in bank liquidity at the end of 2016. However, this deficit should gradually diminish over the forecast horizon. As for the medium-term trend of bank credit, its forecast in 2016 was revised upwards, taking account of recent developments. Forecasts for loans to the nonfinancial sector should improve gradually from 3.5 percent at the end of 2016 to 4 percent by the end of 2017 and to 4.5 percent at the end of 2018.

Regarding public finances, budgetary adjustment should continue in the medium term. The budget deficit is projected at 3.5 percent of GDP in 2016, in line with the objective of the Precautionary and Liquidity Line (PLL), as against 4.4 percent of GDP in 2015, down from the September forecast, given the budget execution for the first ten months of the year. In 2017, the deficit should ease further to 3.1 percent of GDP, taking into account both the BAM macroeconomic projections and the Finance Bill of 2017. Indeed, this bill programmed higher current revenues compared to the 2016 Finance Act as well as a decrease in current expenses, in particular a controlled spending on the payroll and a reduction in subsidy costs as well as debt interest charges. As regards the financial year 2018, assuming a continuous momentum in revenue mobilization and better control of current expenditure, forecasts point to a deficit of 2.8 percent of GDP.

Concerning national accounts, after a rate of 4.5 percent in 2015, growth should decline sharply to 1.2 percent in 2016, down from 1.4 percent expected in September. This trend should result from a 9.6 percent drop in the agricultural value added and a 2.6 percent increase in nonagricultural GDP. On the demand side, developments reflect a decline in net exports, in connection with the significant expansion of capital goods imports, and an improvement in domestic demand driven by the uptrend in investment. In the medium term, growth should pick up to 4.2 percent in 2017 and 3.7 percent in 2018, with respective increases of 10.5 percent and 3.5 percent in the agricultural value added and 3.4 percent and 3.7 percent in nonagricultural GDP. At the same time, domestic demand should improve gradually, supported by an accommodative monetary policy and return to an average crop year. Net exports are expected to improve markedly, after deterioration in 2016, benefiting from the dissipation of the appreciation of the real effective exchange rate and relative improvement in foreign demand.

Against this backdrop, and taking into account the expected dissipation of the appreciation of the real effective exchange rate, improvement in domestic demand and gradual increase in international energy prices, inflation should remain moderate in the medium term. Indeed, after its expected deceleration in 2016, core inflation should return to a moderate level of 1.5 percent in 2017 and 1.7 percent in 2018. Overall, after stabilizing at 1.6 percent in 2016, a projection unchanged from September, inflation should remain moderate at 1.3 percent over the forecast horizon, albeit under slight deceleration, due to the expected dissipation of the effects of price increases in volatile food prices in 2016.

7.1 Underlying assumptions

Slow recovery in global economic activity driven by that of the United States and euro area

Global economic activity should recover, albeit at a slow pace, prompted by the easing of monetary conditions in advanced countries and the relatively low commodity prices. It should reflect in particular a faster growth in the United States, consolidation in the euro area and exit from crisis in certain emerging countries, mainly Brazil and Russia. However, growth in China should continue to decelerate, reflecting the rebalancing of the economy. In the United States, despite the expected slowdown in growth to 1.6 percent in 2016, hampered by the appreciation of the dollar and weakening of investment, economic activity should recover in 2017, with growth of 2.2 percent before consolidating by 2.5 percent in 2018, taking into account the expectations of a more expansionary fiscal policy. This increase seems to be confirmed in the latest data on growth and employment, which show improvement. Growth in the euro area should be supported in the medium term by easing monetary conditions and fiscal stimulus. After a slowdown expected in 2016 at 1.6 percent, growth should move up moderately to 1.8 percent in 2017, before falling to 1.6 percent in 2018, taking into account the effect of Brexit.
Under these conditions, foreign demand for Morocco should continue to grow at a moderate pace.

Chart 7.1: Growth in the euro area

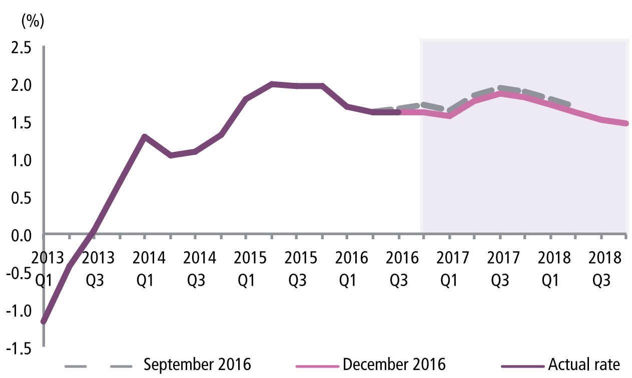
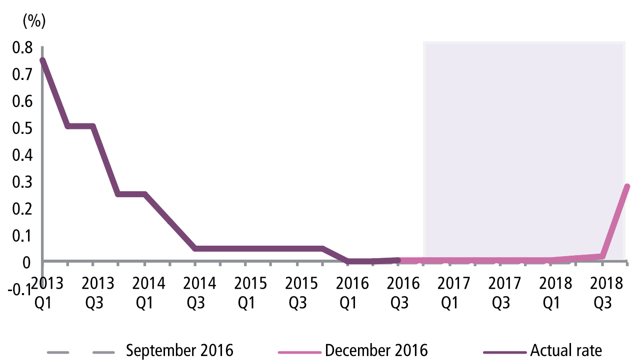


Chart 7.2: ECB key rate



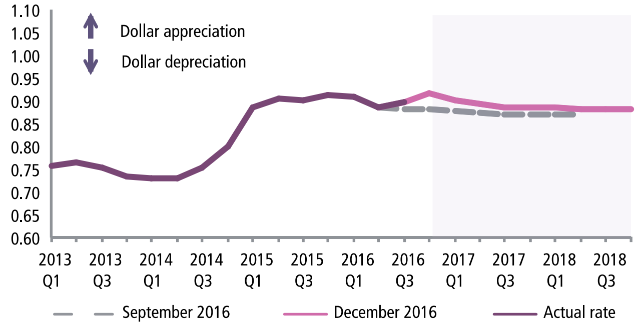
Source: GPM[1] forecasts of december 2016, ECB.

Keeping the dollar appreciated and normalizing the monetary policy of the FED

In terms of monetary conditions, the baseline scenario assumes no change in the monetary policy stance of the Fed and ECB compared to the September forecast. Indeed, as expected in September, the Fed increased on December 14 the target range for the federal funds rates to 0.5 percent - 0.75 percent and should continue a gradual normalization of monetary policy. As for the ECB, in addition to maintaining its key rate at 0 percent until the fourth quarter of 2018, it should continue its asset purchase program until the end of December 2017 and could extend it beyond, if necessary, with a monthly amount, which should decline from 80 billion euros to 60 billion euros from April 2017. Under these conditions, the Euro/Dollar parity should be stable over the forecast horizon.

1Global Projection Model (GPM) is a global economic model developed by the IMF and the Center for Economic Research and its Application for a network of central banks and international institutions.

Chart 7.3: USD/EUR exchange rate



Source: GPM forecasts of december 2016.

Relatively low commodity prices with an upward revision of energy prices

In the context of a slow recovery in global economic activity and slower growth in China, commodity prices should continue to evolve at a low pace with an upward revision of forecasts for energy prices, mainly in connection with the implementation of the agreement of the oil-producing countries to reduce their production. The average oil price is projected at $43.1/bl in 2016 from $42.4/bl assumed in September, and then gradually increasing to $51.6/bl in 2017 from $45.4/bl previously expected, before moving up to $53.5/bl in 2018. Prices for food commodities are expected to remain low over the forecast horizon, with a slight downward revision taking into account the declines observed in the third quarter of 2016. As for phosphates, the World Bank predicts in October that low prices would continue and be down from July forecast, particularly in connection with the surplus in production capacity and low international food prices.

Under these conditions, inflation in the euro area[2] should remain low in 2016 at 0.2 percent and then increase substantially to 1.5 percent in 2017 and stabilize by 2018 at a level close to the target of the ECB.

Chart 7.4: Food commodity price index

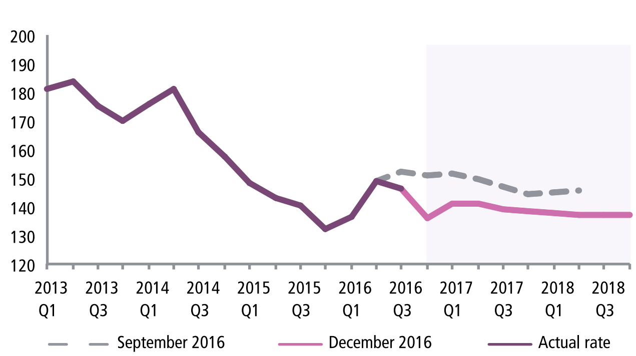
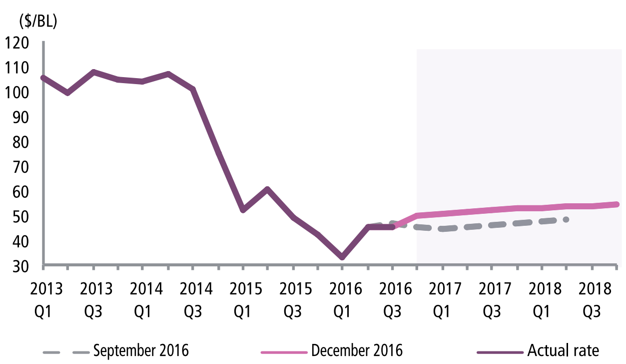


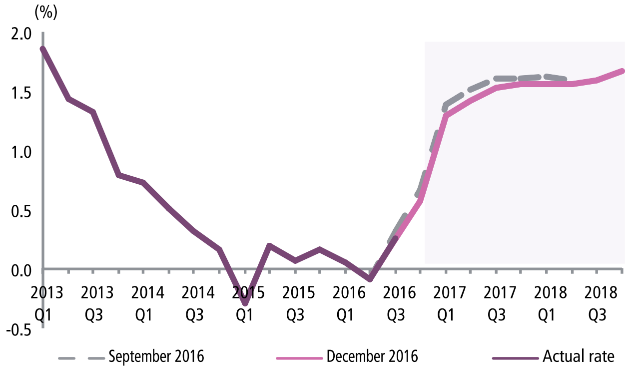
Chart 7.5: Crude oil price (IMF)



Source: GPM forecasts of decmber 2016.

2 December 2016 forecast of the GPM network. The ECB expects in December a headline inflation rate of 0.2 percent for 2016, 1.3 percent for 2017 and 1.5 percent for 2018. Its non-energy and food component should rise from 0.9 percent to 1.1 percent and 1.4 percent, respectively.

Chart 7.6: Inflation in the euro area



Source: GPM forecasts of december 2016.

Budget deficit to continue to ease

The overall stance of fiscal policy did not change from the September forecasting exercise. It remains mainly focused on reducing the budget deficit in particular through the control of current expenditure and improvement of tax revenues. However, forecasts underwent some changes following new elements introduced to the 2017 Budget Bill. For fiscal year 2016, projections for budget deficit were revised downward by 0.3 percentage point of GDP to 3.5 percent of GDP as a result of both revenue and expenditure revisions. Tax revenues were revised down slightly to reflect the rate at which certain taxes were realized at the end of October 2016. As for donations from the GCC countries, the assumption of 8 billion dirhams for the whole year was maintained. Current expenditure was revised, covering a downward adjustment in staff costs and subsidy costs, following new data from the Finance Bill 2017.

In 2017, the budget deficit was slightly adjusted downwards to 3.1 percent of GDP, following the introduction of several elements of the Finance Bill 2017 and taking into account the adjustments made to BAM's macroeconomic projections. Indeed, current revenue was revised upwards to cover an increase in VAT receipts and a decrease in nontax revenues, particularly due to the reduction in the heading "other nontax receipts". At the same time, operating expenses and debt interest charges were adjusted downwards. Similarly, the subsidy costs were reduced in connection with the revision of assumptions regarding the butane gas price and the exchange rate.

In 2018, under the assumption of continued revenue mobilization dynamics and a better control of current expenditure, the deficit is projected at 2.8 percent of GDP. Continued fiscal consolidation is in line with the target of reducing the deficit to almost 2 percent of GDP and stabilizing the Treasury's direct debt at around 60 percent of GDP by 2020.

Cereal production at 33.5 million quintals and uptrend in other crops in the 2015-2016 crop year

Cereal production for the 2015-2016 crop year is estimated by the Ministry of Agriculture and Fisheries at 33.5 million quintals, down 71 percent from the previous year and 59 percent from the average of the last 5 years. This change reflects a high rainfall deficit, the largest recorded over the past 30 years, with uneven distribution over time and pace. Other crops are expected to be perform well, particularly those of fruit cultivation and vegetable crops, boosted by rainfalls in February and March 2016.

In the crop years 2016-2017 and 2017-2018, the baseline scenario assumes an average crop year, with a cereal production of 70 million quintals and a continued upward trend in other crops. In 2017 in particular, the crop year starts, according to the Ministry of Agriculture, in favorable conditions with a national average rainfall as at December 5, 2016, up 107 percent compared to the same period a year ago and 22 percent compared to a normal year. However, given that at this stage of the year the situation may change significantly, an average crop year was assumed.

7.2 Macroeconomic projections

The current account deficit to worsen in 2016 and ease gradually in the medium term

In 2016, the current account deficit was revised upwards to 2.8 percent of GDP, from 1.9 percent expected in September, taking into account performances over the first ten months of the year. Imports of capital goods should rise more than expected in September and the decline in phosphate exports should be larger, mainly due to steeper price declines.

In the medium term, the current account deficit should recover but would remain higher than expected in September to reach 2.1 percent of GDP in 2017 and 2.5 percent of GDP in 2018. The increase in imports should continue, in connection with the recovery in growth and gradual rise in oil prices. The increase in capital goods purchases should also continue but at a slower pace than in 2016 and the energy bill is expected to move up after declines in 2015 and 2016. At the same time, the pace of exports should accelerate, particularly owing to the recovery in sales of phosphates and derivatives following the dissipation of the effect of low prices in 2016 and the continued momentum in the automotive industry. This current account path assumes an annual inflow of grants from the GCC countries of 8 billion between 2016 and 2018.

Taking also into account FDI inflows of 3.4 percent of GDP in 2016 and 3.7 percent and 3.5 percent in 2017 and 2018, respectively, forecasts of net international reserves were revised downward to 6 months and 21 days of imports of goods and services in 2016. They should strengthen gradually to cover 7 months and 12 days by December 2018.

Table 7.1: Forecasts of the balance of payments components

	Actual rate				Forecasts			Gap (December/ September)	
	2012	2013	2014	2015	2016	2017	2018	2016	2017
Exports of goods* (change in %)	5.8	-0.1	8.8	8.6	1.9	5.5	4.8	-0.4	2.3
Imports of goods* (change in %)	8.2	-0.5	0.8	-4.1	5.7	4.5	5.9	3.0	3.5
Travel receipts (change in %)	-1.8	-0.4	3.0	3.7	5.4	3.6	3.8	1.7	1.6
Expatriate remittances (change in %)	0.6	-1.5	3.7	2.6	4.0	5.0	4.5	-0.6	0.3
Current account balance (% of GDP)	**-9.5**	**-7.9**	**-5.7**	**-2.2**	**-2.8**	**-2.1**	**-2.5**	**-0.9**	**-0.9**
Net international reserves in months of goods and services' imports	**4.1**	**4.4**	**5.3**	**6.7**	**6.7**	**7.0**	**7.4**	**-0.5**	**-0.7**

* From foreign trade perspective

Sources: Foreign Exchange Office data and BAM forecasts.

Broadly accommodating monetary conditions and slight improvement in bank lending

Monetary conditions are broadly accommodative over the forecast horizon. Thus, the real interest rate should decline significantly in 2016 following the decline in the key interest rate in March 2016 and the continued moderate rate of inflation. The real effective exchange rate should appreciate in 2016, as a result of the appreciation of the dirham against certain currencies of partner and competing countries, especially the Chinese yuan, the pound sterling and the Turkish lira. This appreciation should wane in 2017 and 2018, in conjunction with a lower appreciation of the nominal effective exchange rate and the faster inflation in partner and competing countries.

Taking into account the downward revision of forecasts for foreign exchange reserves and the expected change in other liquidity factors, the bank liquidity situation should post a deficit of 18.8 billion dirham at end-2016 and ease gradually to stand only at 1.7 billion at end-2018. Data at the end of October 2016 indicate a further improvement in loans to the nonfinancial sector, with an acceleration of loans to businesses, mainly equipment loans. Taking into account this improvement and the expected trend of nonagricultural activity as of 2017, the growth of bank credit to the nonfinancial sector should reach 3.5 percent at end-2016 and accelerate thereafter to around 4 percent in 2017 and 4.5 percent in 2018.

Table 7.2: Forecasts of growth in money supply and bank lending

	Actual rate				Forecasts			Gap (December/ September)	
	2012	2013	2014	2015	2016	2017	2018	2016	2017
Bank lending to the nonfinancial sector (change in %)	5.8	1.7	3.8	0.5	3.5	4.0	4.5	0.5	0.0
M3 (change in %)	4.5	3.1	6.2	5.7	4.7	5.2	5.4	-0.3	-0.4
Liquidity surplus or deficit, in billion dirhams	-64.5	-68.4	-40.6	-16.5	18.8	-7,1	-1.7	-5.5	-9.5

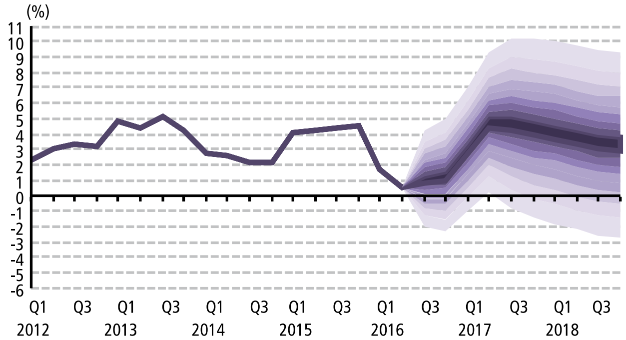
Source : BAM.

Growth to expand in 2017 and 2018 after the expected slowdown in 2016

After standing at 4.5 percent in 2015, national growth should decelerate markedly in 2016. It should stand at 1.2 percent from 1.4 percent expected in September. This trend should result from a 9.6 percent drop in the agricultural value added and a slowdown in nonagricultural growth from 3.5 percent to 2.6 percent. On the demand side, this deceleration reflects a decline in net exports, after a positive contribution in 2015. The expected rebound in imports of goods and services, in connection with the expansion of capital goods purchases, should more than offset the continued sustained pace of exports of goods and services. However, the contribution of domestic demand should progress, due to higher investment, as indicated particularly by the considerable increase in imports of capital goods and the continued improvement in equipment loans seen at the end of October 2016. Household consumption should remain sluggish, suffering from the deterioration in labor market conditions, weaker nonagricultural activities and low agricultural incomes. Its growth is expected to be slightly higher than in 2015, due to the rapid growth of remittances from Moroccan expatriates and imports of finished consumer goods as well as the continued sustained growth in consumer loans. Growth in government consumption should decline, owing to the continued low pace of growth in operating expenditures.

In the medium term, growth should strengthen to 4.2 percent in 2017 and 3.7 percent in 2018. This trend should reflect respective increases of 10.5 percent and 3.5 percent in the agricultural value added as well as 3.4 percent and 3.7 percent in nonagricultural GDP. At the same time, the gradual improvement in domestic demand should be supported by the accommodative monetary policy and return to an average crop year. In particular, household final consumption should strengthen, benefiting from improved farm incomes and sustained growth in transfers from Moroccan expatriates, despite a slight negative effect from the increase in the employers' pension contributions as part of the reform of the pension system of the Moroccan Pension Fund (Caisse Marocaine des Retraites). Similarly, the general government consumption should improve, in a context of controlled staff spending. Investment should keep momentum, thanks to the expected good performance of public investment and launch of major projects. Moreover, net exports should improve significantly after their expected deterioration in 2016. They are expected to benefit from the dissipation of the appreciation of the real effective exchange rate and the relative improvement in foreign demand. The growth trend of imports, closely linked to developments in other demand components, should reflect improved domestic demand and expected return to a relatively sustained level of imports of capital goods in 2018, in connection with the construction of the Peugeot factory.

Chart 7.7: Growth outllok over the forecast horizon (Q3 2016- Q4 2018), (YoY)*



*This chart shows the uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Sources: HCP data, and BAM forecasts.

Table 7.3: Growth of GDP and its components (%)

	Actual rate				Forecasts			Gap (December/ September)	
	2012	2013	2014	2015	2016	2017	2018	2016	2017
National growth	**3.0**	**4.5**	**2.6**	**4.5**	**1.2**	**4.2**	**3.7**	**-0.2**	**0.2**
Agricultural VA	-9.1	17.2	-2.2	12.8	-9.6	10.5	3.5	-0.6	0.5
Nonagricultural GDP	4.7	2.9	3.2	3.5	2.6	3.4	3.7	-0.2	0.2

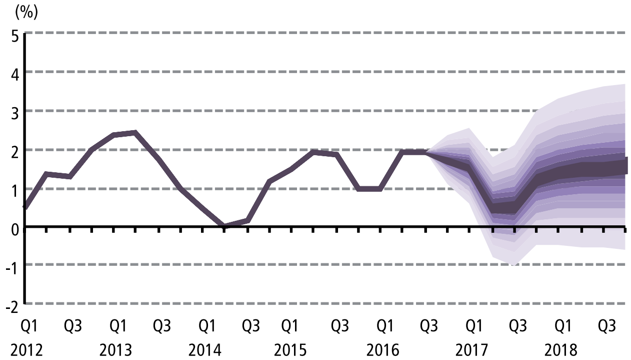
Sources: HCP data, and BAM forecasts.

Overall, economic activity should evolve overall below its potential in 2016, thus indicating the absence of inflationary pressures. In the medium term, this negative cycle should gradually disappear, due in particular to the improvement in domestic demand, boosted by the easing of monetary conditions and the return to an average crop year, as well as the relative improvement in foreign demand.

Core inflation should be low in 2016 and grow moderately in the medium term

In the absence of inflationary pressures from domestic demand and given the appreciation of the real effective exchange rate, inflation should be low in 2016 at 0.8 percent, from 1.3 percent in 2015. Overall, inflation is expected to stagnate at a moderate level of 1.6 percent, driven mainly by rising volatile food prices. The latter, which recorded repeated increases in the second and third quarters as a result of supply shocks, should rise by 7.5 percent from 4.3 percent a year earlier.

Chart 7.8: Inflation forecast over the horizon (Q4 2016- Q4 2018)*



* This chart shows the uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Sources: HCP data, and BAM forecasts and calculations.

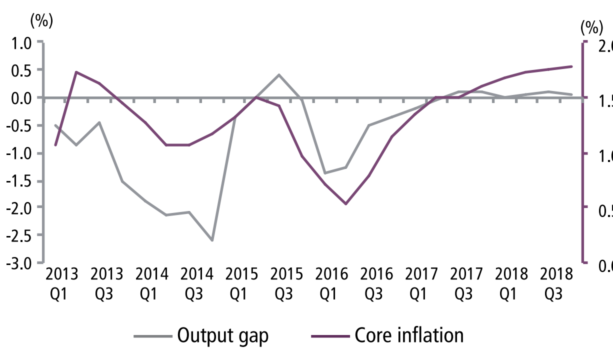
Table 7.4: Forecasts of inflation and and core inflation

	Actual rate		Forecasts				Gap (December/ September)	
	2015	Average Jan.-Oct. 2016	2016	2017	2018	8 quarters horizon	2016	2017
Inflation	**1.6**	**1.6**	**1.6**	**1.0**	**1.5**	**1.3**	**0.0**	**-0.2**
Core inflation	1.3	0.7	0.8	1.5	1.7	1.5	-0.1	-0.1

Sources: HCP data, and BAM forecasts and calculations.

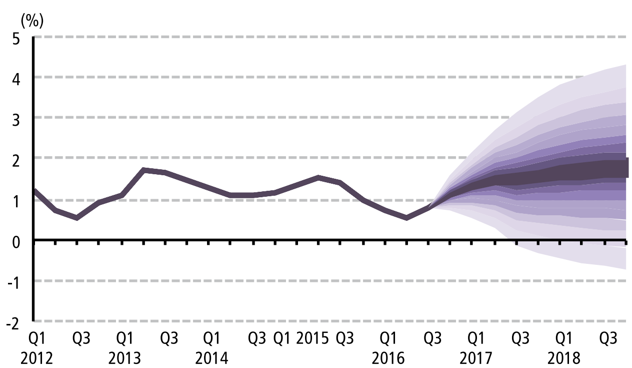
In the medium term, the anticipated dissipation of the appreciation of the REER, improved domestic demand and higher international energy prices should result in a relative increase in core inflation to 1.5 percent in 2017 and 1.7 percent in 2018. Headline inflation should decelerate to 1 percent in 2017, in connection with the anticipated dissipation of the upward effects of shocks on volatile food prices, before accelerating to 1.5 percent in 2018. Over the forecast horizon, i.e. between the fourth quarter of 2016 and the third quarter of 2018, it should remain moderate at 1.3 percent on average.

Chart 7.9: Change in core inflation and output gap



Sources: HCP, and BAM forecasts and calculations.

Chart 7.10: Projections of core inflation over the forecast horizon (Q4 2016- Q4 2018)*



* This chart shows the uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

7.3 Balance of risks

Several risks surround the forecast central scenario, which, if they materialize, may affect the central projection. The balance of risks is trending downward for growth and at equilibrium for inflation.

In terms of growth, there are several risks surrounding the recovery of global economic activity and, consequently, foreign demand for Morocco. These include geopolitical tensions and increased political uncertainty, mainly related to the outcome of elections in certain euro area countries, notably France and Germany, and a possible change in the United States trade policy. Moreover, postponing the implementation of Article 50 in order to make the Brexit effective could delay negotiations with the European Union and increase uncertainties in the short term. Moreover, faster increases in oil prices, following the agreement of the oil-producing countries on a decline in production, could act as a brake on the recovery of economic activity in Morocco's trading partners, in particular the euro area.

However, if cereal production exceeds 70 million, growth will accelerate further in 2017 compared to the central forecast. Moreover, the expected effects of the ECB's asset buy-back program could increase compared to the central forecast scenario and thus further stimulate foreign demand for Morocco.

Regarding inflation, a further upward trend in international oil prices or a reversal of the downward trend in world food prices could lead to upward revisions of the central forecast. On the other hand, a continued low inflation in the euro area should exert disinflationary pressures.

LIST OF ABBREVIATIONS

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

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

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