



## PRESS RELEASE

### BANK AL-MAGHRIB BOARD MEETING

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Rabat, September 23, 2014

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, September 23, 2014.
2. During this meeting, the Board examined recent economic, monetary and financial developments and inflation forecasts up to the fourth quarter of 2015.
3. The Board noted that global economic conditions in the second quarter 2014 were marked by stronger growth in the United States from 1.9 to 2.5 percent as well as in the United Kingdom from 3 to 3.2 percent, and a slowdown in the euro area from 1.0 to 0.7 percent. In emerging economies, growth accelerated in China and India while Brazil's GDP posted its second consecutive quarterly contraction. In terms of outlook, the IMF in July lowered its global growth forecast for 2014 from 3.7 to 3.4 percent and maintained it at 4 percent for 2015. In the labor market, the unemployment rate fell slightly in the United States, from 6.2 percent in July to 6.1 percent in August, and stabilized at 11.5 percent in the euro area. Commodity prices broadly trended downward; particularly, the price of Brent fell at a monthly rate of 4.4 percent in August to \$102.7 a barrel on average. In this context, inflation declined in most advanced economies, mainly in the euro area which faces a serious risk of deflation. Against this background, the European Central Bank in September decreased the interest rate on the main refinancing operations by 10 basis points to 0.05 percent and that on the deposit facility from -0.10 to -0.20 percent. It also announced that it would conduct a series of targeted longer-term refinancing operations to support credit market and growth. The U.S. Federal Reserve further reduced in September its asset purchase program by \$10 billion and reiterated its commitment to keep its policy rate near zero for a considerable period of time after the end of the program. In total, all these developments suggest muted external inflationary pressures in the medium term.
4. Domestically, economic growth decelerated to 1.7 percent in the first quarter 2014, with an increase of 2.2 percent in nonagricultural GDP and a decrease of 1.6 percent in the agricultural value added. Considering recent change in available sub-annual indicators, economic activity would expand by about 2.5 percent for the full year 2014, reflecting an increase of almost 3 percent in nonagricultural GDP and a decrease of nearly 2.5 percent in the agricultural value added. Labor market data for the second quarter indicate that unemployment reached 9.3 percent, up 0.5 point from the same period of 2013. Nonagricultural output gap would be negative and is expected to remain so in the coming quarters, suggesting the absence of demand-led inflationary pressures.

5. Concerning external accounts, the trade deficit in goods narrowed by 3.1 percent to end of August, as exports jumped by 7.1 percent owing mostly to strong growth in automotive sector shipments and less rapid decline in sales of phosphates and derivatives. Despite the 32.2 percent increase in wheat purchases, imports edged up by a mere 1.8 percent because of respective declines by 1.4 percent and 5.6 percent in energy and capital goods purchases. With regard to other current account items, travel receipts improved by 3.0 percent to 40 billion dirhams, and transfers of Moroccan expatriates stabilized at 39.5 billion. Taking account of these developments and revenues from grants, the current account deficit would shrink from 7.6 percent of GDP in 2013 to 6.7 percent in 2014. On the capital account side, net foreign direct investment inflows fell by 9.4 percent. Altogether, the stock of net international reserves stood at 175.6 billion dirhams to end of August, equivalent to 4 months and 29 days of goods and services' imports. It would remain at this level by the end of 2014.
6. As regards public finance, fiscal deficit -excluding privatization proceeds- reached 42.5 billion dirhams to end of August 2014, as against 42.2 billion in the same period of last year. Current receipts showed an increase of 3.8 percent, driven mainly by a rise of 3.4 percent in tax revenues and 6.4 billion in grants. Investment expenditure grew by 17.3 percent while ordinary expenses rose slightly by 0.6 percent to 159.9 billion dirhams. The change in the latter conceals a decrease of 19.7 percent in subsidy costs and a hike of 17.8 percent in expenses of other goods and services and of 0.9 percent in the wage bill. Given these developments, the objective of a budget deficit at 4.9 percent of GDP in 2014 would be achieved.
7. Latest available monetary data show a slowdown in bank lending, from 4.2 percent on average in the second quarter to 3.9 percent in July, and an increase in the M3 aggregate of no more than 3.5 percent, as against 4.2 percent. The money gap is thus negative, indicating the absence of money-driven inflationary pressures. On the interbank market, the weighted average rate stabilized at 3.01 percent on average in July and August, whereas the average lending rate remained almost unchanged at 5.98 percent during the second quarter. The effective exchange rate of the dirham in the second quarter depreciated at a quarterly rate of 0.37 percent in nominal terms and 1.57 percent in real terms.
8. On the property market, the real estate price index further declined at a quarterly rate of 1.3 percent in the second quarter, after losing 0.2 percent a quarter earlier. By category, land and commercial property prices fell respectively by 3 percent and 3.3 percent, while residential property prices were down 0.1 percent compared to 0.4 percent in the previous quarter.
9. Under these conditions, after rising 0.4 percent year on year in July, the consumer price index held steady in August, reflecting a deeper decline in volatile food prices from 7.1 to 9.9 percent, which more than offset price increases by 12.8 percent in "water supply and sanitation" and by 6.5 percent in electricity. Over the first eight months of the year, inflation reached 0.3 percent and its underlying component was at 1.2 percent on average. The latter fell from 1.4 percent in July to 1 percent in August, owing to the slower price rise in tradables from 1.4 to 0.8 percent and in nontradables from 1.6 to 1 percent. Industrial producer prices continued to trend downward, with a further annual decline of 2.1 percent in July after that of 1.9 percent on average in the second quarter.
10. In light of these developments and taking into account the review of the water and electricity pricing system starting from August, inflation is expected at 0.7 percent in 2014,

1.6 percent on average over the next six quarters, and 1.9 percent at the end of the forecast horizon, with an even balance of risks.

11. In this context, where nonagricultural growth continues to be weak, international reserves are improving and the central inflation forecast is consistent with the price stability objective, the Board decided to lower the key rate from 3 to 2.75 percent, while continuing to closely monitor all these developments.