PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 16, 2015

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday, June 16, 2015.

2. At this meeting, the Board reviewed and approved the Annual Report 2014 on the domestic economic, monetary and financial situation as well as on the Bank's activities.

3. The Board also examined recent economic, monetary and financial developments and inflation forecasts up to the third quarter of 2016.

4. Internationally, the Board noted the slow recovery in the euro area, as GDP grew by 1 percent in the first quarter after 0.9 percent a quarter earlier and the unemployment rate fell slightly to 11.1 percent in April. In the United States, despite the negative impact of transitory factors in the first quarter, year-on-year growth strengthened to 2.7 percent from 2.4 percent, while the jobless rate remained stable in May at 5.5 percent. In contrast, economic activity continued to slacken in the main emerging countries, with a slowdown in growth to 7 percent in China and 6.1 percent in India and a GDP contraction of 6.1 percent in Brazil. In terms of outlook, the IMF in April revised upward its growth projection for the euro area in 2015 from 1.2 to 1.5 percent and lowered that of the United States from 3.6 to 3.1 percent, and then to 2.5 percent in May under Article IV consultation. In commodity markets, the price of Brent oil fell in May by 40.6 percent year on year to an average of $65.2 a barrel, but was up 9.0 percent from April and 33.2 percent compared to January. Under these conditions, inflation in the euro area accelerated to 0.3 percent in May after a zero rate a month earlier, while in the United States it fell to -0.2 percent in April after -0.1 percent in March. In terms of monetary policy decisions, the ECB at its meeting of June 3 kept its key interest rates unchanged and said that its asset purchase program will run until the end of September 2016 and, in any case, until it sees a sustained adjustment in the path of inflation that is consistent with its price stability objective. Similarly, at its meeting of April 29 the Fed held rates unchanged, indicating that the duration of maintaining them in the current target range depends on progress made in achieving its objectives of maximum employment and 2 percent inflation. Overall, all of these developments do not suggest external inflationary pressures.

5. At the national level, data published on June 4 according to the new base year 2007, which now replaces 1998, indicate a growth rate of 2.4 percent in 2014, resulting from a decline of 2.5 percent in the agricultural value added and an increase of 3.1 percent in nonagricultural GDP. In 2015, growth is expected at about 5 percent, driven by a rise of nearly 15 percent in the agricultural value added, while nonagricultural activity would

accelerate somewhat to around 3.5 percent. In the labor market, first quarter data show the net creation of 27,000 jobs and a decline in the labor force participation rate by 0.7 point to 47 percent. The unemployment rate was down 0.3 point to 9.9 percent nationally and 14.3 percent in urban areas. Under these circumstances, nonagricultural output gap continued to be negative and would remain so in the medium term, suggesting the absence of demand-driven inflationary pressures.

6. External accounts preliminary data as at end-May show that the trade deficit narrowed by 25.3 percent, reflecting a drop of 9.6 percent in imports due mainly to a 33.3 percent contraction in energy purchases. Meanwhile, exports maintained momentum with an increase of 5.8 percent, particularly led by an improvement of 22.3 percent in shipments of phosphates and derivatives and 15.4 percent in the sales of automotive industry. Regarding other items of the current account, travel receipts decreased by 6.4 percent while transfers from Moroccans living abroad were up 5.5 percent. Based on these data and assuming an average Brent oil price at $63 a barrel and a 13 billion-dirham inflow of grants from GCC countries, the current account deficit should hover around 3 percent in 2015. These developments, combined with a rise of 22.8 percent in net FDI inflows, impacted foreign exchange reserves which, at end-May, reached 194 billion dirhams, the equivalent of 5 months and 25 days of goods and services' imports. They should further improve to cover around 6 months of imports by the end of the year.

7. As regards public finance, current revenues rose by 4.8 percent at end-April, largely driven by monopoly revenues which rose from 429 million to 4.2 billion while tax receipts increased by a mere 0.4 percent. At the same time, overall expenses were down 7.1 percent, mainly reflecting decreases of 59.6 percent in subsidy costs and 6.7 percent in capital expenditure. Overall, budget implementation during the first four months of the year resulted in a 49.6 percent decline in fiscal deficit. If this trend continues, the deficit target of 4.3 percent of GDP in 2015, set in the Finance Act, will be achieved.

8. On the monetary side, April data show slight slowdown in M3 aggregate to 6.8 percent from 7.1 percent on average in the first quarter, reflecting in particular a drop in the growth rate of bank lending from 3.8 to 2.5 percent. The moderate growth in lending is attributable, according to the results of the Bank Al-Maghrib Survey on Lending Conditions, to the weaker demand from businesses while individuals' demand increased, especially for real estate loans. In 2015, M3 growth is expected at 6 percent and bank lending would increase by about 4 percent. The money gap is therefore negative, suggesting the absence of money-driven inflationary pressures. Bank liquidity improved in April and May by 3.4 billion compared to the first quarter, largely due to stronger foreign exchange reserves. As a result, the Bank reduced the volume of its interventions from a weekly average of 42.5 billion to 39.1 billion. Concerning lending rates, the overall lending rate fell 22 basis points to 5.81 percent, owing to the consecutive cuts in the key rate in September and December 2014. This decline was widespread across the various loan categories, except for consumer loans.

9. In the assets' market, the Real Estate Price Index slightly edged down in the first quarter by 0.2 percent year on year, covering a 1.6 percent drop in commercial real estate and a virtual stagnation in residential property while urban land prices moved up 0.4 percent. In the stock market, following a 6.8 percent rise in the first quarter, the benchmark index went on a downward trend, posting as at June 10 a year-to-date decline of 0.3 percent.

10. Against this background, inflation reached 1.7 percent in April up from 1.5 percent in the first quarter, due mainly to an accelerated rise in volatile food prices from 2.4 to 3.3 percent. Core inflation, which reflects the underlying trend of prices, remained essentially unchanged at 1.4 percent, covering stable prices for tradables at 1.6 percent and slightly higher prices for nontradables at 1.3 percent. Industrial producer prices continued to trend downward, posting again a year-on-year decline of 5.1 percent in April from an average 5.9 percent drop in the first quarter.

11. Taking into consideration all these developments, the impact of the minimum wage increase in July as well as the expected trend in international oil prices, inflation would remain consistent with the price stability objective. It is expected at 1.5 percent in 2015 and 1.4 percent on average over the next six quarters.

12. In this context characterized by an inflation central forecast in line with the price stability objective but still surrounded with uncertainties related externally in particular to the medium-term trend in oil prices, the Board decided to keep the key rate unchanged at 2.5 percent while continuing to closely monitor all these developments.