PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 18, 2018

1. The Board of Bank Al-Maghrib held its last quarterly meeting of the year on Tuesday, December 18.
2. At this meeting, it analyzed recent economic developments as well as the macroeconomic forecasts prepared by the Bank for the next eight quarters.
3. Based on these assessments, particularly those of medium-term inflation and growth prospects, the Board considered that the current level of the key rate at 2.25 percent remains appropriate and decided to keep it unchanged.
4. The Board noted that following a marked acceleration over the first half of the year, inflation edged downwards, from 2.5 percent in June to 1.1 percent in October, mainly driven by the drop in volatile food prices. It is expected to average 2 percent by year-end, after 0.7 percent in 2017, and to stand at 1 percent in 2019 and 1.2 percent in 2020. Core inflation, which measures the fundamental price trend, would continue to evolve at moderate levels, standing at 1.1 percent on average this year, at 1 percent in 2019 and at 1.6 percent in 2020.
5. Internationally, the global economy remains strong, but its growth rate is expected to decelerate in a context marked by the persistence of uncertainties, mainly related to trade, political and geopolitical tensions, as well as the ongoing monetary policy normalization in the major advanced countries. In the United States, growth would reach 2.9 percent in 2018, supported mainly by the expansionary fiscal measures, before slowing to 2.1 percent in 2019 and 1.8 percent in 2020. In the euro area, it would stand at 1.9 percent this year, 1.6 percent in 2019 and rebound slightly to 1.8 percent in 2020. In the labor markets, the momentum would continue in the United States, with an unemployment rate at around 4 percent, and in the euro area, the situation would further improve with unemployment continuing to fall to 8 percent in 2020. In the main emerging economies, the decelerating growth in China, due to the impact of the rebalancing of its economy, would continue but at a slower pace, in view of its expansionary fiscal and monetary policy stance. Growth would thus decelerate from 6.6 percent this year to 6.1 percent in 2020. In India, driven by domestic demand, growth would markedly increase this year to reach 7.7 percent, before slightly falling over the next two years, to stand at 7.5 percent in 2020. In Brazil and Russia, economic activity would continue to improve in 2019, before decelerating somewhat in 2020.
6. On the commodity market, after reaching their highest levels in four years last October, oil prices trended downwards, with a monthly decline of 19 percent in November for Brent prices. Over the year as a whole, the Brent would average $72.2/bl, up 32.8 percent compared to 2017. It would then decrease to $65.7/bl in 2019 and $63.9/bl in 2020. Prices for phosphates and derivatives continued to rise in November, with year-on-year increases of 15.6 percent to $92.5/mt for phosphate rock, 19.2 percent to $410.2/mt for DAP and 28.5 percent to $379/mt for TSP. Within the next two years, prices would move slightly below current levels.

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

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

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

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

11. With regard to external accounts, the good performance of exports continued over the first eleven months of the year, with an increase of 9.7 percent year on year, driven mainly by the momentum in the automotive and phosphate and derivatives sectors. At the same time, reflecting higher energy costs and purchases of capital goods, imports increased by 8.8 percent. Travel receipts remained almost stable, while remittances of Moroccan expatriates declined by 1.7 percent. Assuming an inflow of GCC grants, expected at 4.8 billion dirhams in 2018 and 2 billion in 2019, the current account deficit would rise to 4.4 percent of GDP by the end of this year, from 3.6 percent in 2017. It would gradually ease to 3.7 percent in 2019 and 3.2 percent in 2020, as exports are set to continue their growth, led by sales in the automotive sector, and imports set to decelerate sharply, with the expected decline in the energy bill. In terms of financial transactions, FDI inflows would reach the equivalent of 4.1 percent of GDP this year and 3.4 percent of GDP over the next two years. Taking into account the expected borrowing of the Treasury in international markets, the amount of net international reserves would, according to Bank Al-Maghrib's forecasts, move from 240.9 billion dirhams at end-2017 to 230.4 billion at the end of this year, 239 billion at end-2019 and 235.7 billion at end-2020. It will thus continue to represent the equivalent of slightly over 5 months of imports of goods and services.

12. With regard to monetary conditions, the real effective exchange rate should remain virtually stable over the year as a whole. It is expected to appreciate by 1.6 percent in 2019 before dropping by 0.8 percent in 2020. As to lending rates, they remained broadly unchanged in the third quarter at 5.35 percent, with a decline of 30 basis points quarter on quarter for rates on personal loans and a rise by 6 points in rates applied on loans to businesses. Bank lending to the nonfinancial sector

slowed down to 2.2 percent at end-October, with a sharp deceleration in loans to both private and public businesses. Its growth was revised downwards to 3.5 percent in 2018 and 3.3 percent in 2019, before speeding up to 4.3 percent in 2020.

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

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