PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 24, 2019

1. The Board of Bank Al-Maghrib held its third quarterly meeting of the year on Tuesday, September 24.

2. At this meeting, the Board analysed the recent economic development and the macroeconomic forecasts prepared by the Bank for the next eight quarters.

3. Based on these assessments, particularly those of medium-term prospects for inflation, growth, external accounts, monetary conditions, and public finance, the Board considered that the current level of the key rate at 2.25 percent remains appropriate and decided to keep it unchanged.

4. Besides, considering the persisting substantial liquidity requirements over the forecast horizon, the Board decided to reduce the monetary reserve rate from 4 percent to 2 percent, thus allowing a permanent liquidity injection of slightly over 11 billion dirhams.

5. The Board noted that after having reached 1.9 percent in 2018, inflation remains low this year, standing at 0.2 percent on average over the first eight months, mainly due to lower volatile food prices. Based on Bank Al-Maghrib's forecasts, inflation would remain low during the next months to stand at 0.4 percent for the year as a whole. In 2020, it would speed up to 1.2 percent, driven by its core component, which would, mainly due to the expected recovery of internal demand, reach 1.6 percent, as against 0.7 percent forecast for 2019.

6. At the international level, after a relatively good performance at the beginning of the year, economic activity in advanced countries started slowing down in the second quarter and its outlook deteriorated in a context of trade disputes, geopolitical tensions and Brexit-related uncertainties. In the United States, as the impact of fiscal stimulus measures fades out, growth would decline from 2.9 percent in 2018 to 2.2 percent in 2019 and 1.8 percent in 2020, while it would fall, in the euro area, from 1.9 percent to 1.2 percent before improving slightly to 1.4 percent. Regarding labor markets, conditions would remain favorable, with unemployment rates at around 4 percent in the United States and around 7.5 percent in the euro area. In the main emerging economies, growth would continue to decelerate in China and would stand slightly above 6 percent. In India, it would drop to 6.1 percent in 2019 before rebounding to 7.8 percent in 2020, owing to fiscal and monetary stimulus measures.

7. On the commodity markets, and due to concerns over global demand, oil prices in the last few months recorded a downward trend overall, punctuated by periods of high volatility. More particularly, the Brent price declined to $64.8/bl on average over the first eight months of the year, down by 9.4 percent year-on-year. It is expected to average $63.7/bl in 2019 and be slightly above $60/bl in 2020. Regarding phosphates, the price of phosphate rock reached in the first eight months of the year higher levels overall compared to the same period in 2018. According to the latest World Bank forecasts of last April, it is expected to reach $105/t on average in 2019, and evolve close to this level in 2020. As for phosphate fertilizers, the prices continued their downward trend, due to weaker global demand. For the year as a whole, they are expected to average $370/t for di-ammonium phosphate (DAP) and $340/t for triple superphosphate (TSP) and would increase slightly to $377/t and to $343/t respectively in 2020.

8. In this context, inflation is expected to drop in the euro area to 1.3 percent in 2019 and 1.2 percent in 2020, well below the ECB's objective. In the United States, it would decline by 0.5 point to 1.9 percent in 2019 and run closer to the FED's objective in 2020.

9. Concerning monetary policy decisions, central banks of the main advanced economies have interrupted the normalization of their monetary policies in order to start a new easing cycle. Hence, after the cut of last July, the first since 2008, the FED decided, during its meeting held on September 17 and 18, to lower, once again, the target range of the federal funds rate by 25 basis points to [1.75 percent-2 percent]. This decision was nonetheless characterized by wider divergence among members of the Committee compared to the last two meetings. On the other hand, during its meeting of September 12, the ECB unveiled a series of measures to strengthen the accommodative stance of its monetary policy. It thus reduced the interest rate on the deposit facility by 10 basis points to -0.50 percent and declared that it expects its key rates to remain at their present or lower levels until it sees that the inflation outlook robustly converges towards its goal. The ECB also decided to resume, as of November 1, its net asset purchases for a monthly amount of 20 billion euros and change the modalities of the new series of targeted longer-term refinancing operations to preserve favorable lending conditions.

10. At the national level, the latest HCP data related to the first quarter indicate a year-on-year slowdown of growth from 3.5 percent to 2.8 percent, due to the 3.2 percent lower agricultural value added, after its 4 percent increase, and to a faster growth of nonagricultural activities from 3.3 percent to 3.8 percent. Value added of the latter, according to Bank Al-Maghrib's forecasts, is expected to grow by 3.6 percent in 2019, as against 2.6 percent in 2018. Taking into account also the downward revision by the Agriculture Department of the cereal harvest estimate for the 2018/2019 crop year to 52 million quintals, agricultural value added would decline by 4.7 percent, bringing domestic economic growth to 2.7 percent in 2019, as against 3 percent one year earlier. For 2020, the Bank expects growth to improve to 3.8 percent, with nonagricultural growth stabilizing at 3.6 percent and agricultural value added rising by 6.3 percent, assuming a cereal production of 80 million quintals.

11. In the labor market, according to HCP data, net job creation between the second quarters of 2018 and 2019 was limited to 7 thousand jobs, due to a loss of 176 thousand in agriculture and the creation of 183 thousand jobs in nonagricultural activities, mainly in the services sector. Taking into account a 0.6 percent decrease in the labor force, the participation rate fell from 47 percent to 46 percent and unemployment rate dropped by 0.6 point to 8.5 percent.

12. For the external accounts, exports of goods rose by 3.3 percent at end-July, driven notably by an increase in sales of agricultural and agri-food products by 6.5 percent, of the automotive sector by 2 percent and of phosphate and derivatives by 3 percent. Conversely, imports grew by 3.7 percent, reflecting an 8.8 percent rise in purchases of capital goods, while the energy bill fell 2.1 percent. Travel receipts improved by 5.8 percent, whereas Moroccan expatriates' remittances declined by 1 percent. For 2019 as a whole, exports would increase by 3.9 percent, before improving markedly in 2020, assuming the implementation of the announced PSA plant production program. On the other hand, imports would slow down over the forecast horizon, with an expected drop in the energy bill and slower purchases of capital goods. At the same time, travel receipts would increase more rapidly in 2019 to stand at 76.3 billion dirhams, then grow at a relatively moderate pace in 2020 (to 78.8 billion), while Moroccan expatriates' remittances would increase slightly this year to 65.9 billion dirhams before gaining momentum next year (to 68.3 billion). Against this backdrop, and taking into account expected GCC grants of 2 billion in 2019 and 1.8 billion in 2020, the current account deficit would gradually ease from 5.5 percent of GDP in 2018 to 5.1 percent in 2019, then to 3.6 percent in 2020. As to FDI inflows, after an exceptional increase in 2018, proceeds would be close to 3.5 percent of GDP over the forecast horizon. Taking into account two planned Treasury borrowings from the international market, outstanding net international reserves would stand at 239 billion dirhams at

end-2019 and 234.3 billion at end-2020, thus continuing to cover just over 5 months of imports of goods and services.

13. With respect to monetary conditions, the real effective exchange rate posted a quarterly increase of 0.3 percent during the second quarter, reflecting a rise in nominal terms, and is expected to increase slightly over the forecast horizon. As to lending rates, BAM's survey, in its improved and enlarged new version, indicates that they continued their downward trend, dropping anew by 4 basis points overall to 4.98 percent in the second quarter, particularly to the benefit of individuals and VSMEs. As a particular result of the expansion of currency in circulation, bank liquidity needs widened to 95.5 billion dirhams on a weekly average in August and are expected to stand at 77.6 billion at end-2019 before rising to 96 billion at end-2020. Against this background, bank loans to the nonfinancial sector grew at end-July by 3.7 percent overall and 3.1 percent for private businesses. They are expected to end the year up 3.7 percent, before improving by 4.7 percent at end-2020.

14. With regard to public finance, fiscal deficit, excluding privatization receipts, worsened in the first eight months of the year by 5.8 billion to 34.9 billion dirhams. Overall expenditure rose 5.4 percent, mainly as a result of higher expenses in "other goods and services". At the same time, revenues improved by 3.4 percent, with rises by 2.2 percent for tax revenues and by 21.3 percent for nontax ones. Under these circumstances, and in view of the impact of the agreement reached as part of the social dialogue, fiscal deficit excluding privatization receipts would, based on Bank Al-Maghrib projections, hover around 4 percent of GDP this year, before easing to around 3.8 percent in 2020, assuming continued revenue mobilization efforts and control of expenditure.