PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, December 17, 2019

1. The Board of Bank Al-Maghrib held its last quarterly meeting for the year 2019 on Tuesday, December 17.
2. At this meeting, it analysed 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 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. It also approved the specific measures to be implemented by the Bank under the Entrepreneurship Support Programme.
4. The Board noted that inflation, which stood at 1.9 percent in 2018, decelerated sharply in the first ten months of 2019, mainly due to the decreasing food prices. Its rate is expected to end the year averaging 0.3 percent, then pick up to 1.1 percent 2020 and 1.4 percent in 2021. Core inflation, which measures the underlying price trend, would slow down to 0.6 percent this year, and increase to 1.3 percent in 2020, then to 1.9 percent in 2021, due to the expected improvement in domestic demand, combined with the projected dissipation of the real effective exchange rate appreciation.
5. Internationally, the persisting trade conflicts and the political and geopolitical tensions continue to weigh on the world economy. Hence, the latter would record its lowest growth level since 2009, and then improve slightly as of 2020. In the main advanced countries, growth in the United States is expected to slow to 2.3 percent in 2019, then 1.7 in 2020, before rebounding to 2.3 percent in 2021, boosted by accommodative monetary conditions. In the euro area, it is expected to moderate to 1.2 percent in 2019 and gradually recover to around 1.4 percent in 2020 and 1.8 percent in 2021, taking advantage of the expected recovery in external demand and of the favourable financing conditions. On the labour market, unemployment would remain low in the United States and decline in the euro area. In the main emerging economies, and due to the weaker domestic demand and to trade tensions, growth is expected to decline sharply in China to stand at 6.1 percent in 2019, and remain close to this level for the next two years. Similarly, in India, particularly impacted by the difficulties of the nonbanking financial sector and by corporate regulatory uncertainties, economic activity is expected to slow down to 5.3 percent this year before accelerating to above 7 percent, benefiting from the fiscal and monetary measures put in place.
6. On the commodity markets, the change in oil prices is mainly driven by concerns over the weakening of global demand. More particularly, the Brent price would end the year with a 10.4 percent drop to reach $63.7/bl on average and is expected to be slightly above $60 over the next two years. Regarding phosphates and derivatives, the price of crude phosphate rose by 2.9 percent to $89.4/t on average in the first eleven months of the year. Derivatives' prices, on the other hand, fell to $312.6/t for DAP and $299.3/t for TSP, thus declining by 20.6 percent and 13.2 percent respectively. For the next two years, slight increases would be recorded, as a result of the moderate recovery expected on the demand-side and with the reduced supply, particularly from China.

7. In this context, inflationary pressures have generally weakened. Hence, inflation in the euro area is forecasted to slow down from 1.8 percent in 2018 to 1.2 percent in 2019 and to remain, on annual average, below the ECB's objective for the next two years. In the United States, inflation would decline this year, dropping from 2.4 percent to 1.8 percent, before running closer to the Fed's medium-term objective.
8. Concerning the latest monetary policy decisions of the main advanced economies, the FED decided, during its meeting held on December 10 and 11, to keep the target range of the federal funds' rate unchanged at [1.5 percent -1.75 percent]. On the other hand, the ECB, during its meeting held on December 12, kept its key rates unchanged. It also declared that it plans to carry on with its assets' purchase program resumed earlier last month as long as necessary, and recalled that it will continue to reinvest, in full, the principal repayments from maturing securities purchased as part of this program for an extended period, past the date when it starts raising its rates.
9. At the national level, data for the second quarter of 2019 indicate a slight year-on-year slowdown of economic growth to 2.5 percent, due to a lower agricultural value added and to a moderate, albeit improving, growth of nonagricultural sectors. For 2019 as a whole, growth would stand, according to Bank Al-Maghrib's forecasts, at 2.6 percent, after 3 percent in 2018, with value added declining by 4 percent for agricultural activities, after its rise at the same rate last year, and increasing by 3.3 percent, after 2.6 percent, for nonagricultural ones. In the medium term, the latter would continue to strengthen, recording growth rates of 3.5 percent in 2020 and 3.7 percent in 2021. For the agricultural sector, assuming an annual cereal production of 80 million quintals and the continuous trending performance of other productions, value added would increase by 6.2 percent in 2020 and by 3 percent in 2021. Overall, Bank Al-Maghrib expects growth to accelerate to 3.8 percent in 2020 and 3.7 percent in 2021.
10. In the labour market, the national economy posted a net gain of 143 thousand jobs between the third quarters of 2018 and 2019 as against 201 thousand jobs a year earlier. This performance is to be attributed to the 347 thousand additional jobs created in nonagricultural activities, mainly in the tertiary sector, which more than offset the 204 thousand jobs lost in agriculture. Taking into account a net entry into the market of 168 thousand employed persons, the participation rate almost stabilized at 44.9 percent and the unemployment rate moved up from 9.3 percent to 9.4 percent.
11. For external accounts, data as at end-October show a slower pace of goods' exports to 3.1 percent, mainly due to the declining sales of the automotive sector and of phosphate and derivatives. Concurrently, imports' growth fell back to 3.1 percent, particularly with a 6.6 percent decrease in the energy bill. Concerning the other main current transactions, travel receipts rose 6.1 percent, while Moroccan expatriates' remittances dropped slightly by 0.6 percent. Taking into account these developments, and assuming entry of GCC grants of 2 billion in 2019, the current account deficit would ease to 4.6 percent of GDP, after 5.5 percent in 2018. In the medium term, it would continue easing and fall to 3.7 percent of GDP in 2020 and 2.9 percent in 2021. Exports would gain momentum, driven mainly by the sales in the automotive sector, further to the announced PSA production plan, while imports would accelerate, with a less steep decline in the energy bill in 2020, and its rise in 2021. Travel receipts' increase is expected to consolidate and Moroccan expatriates' remittances would recover gradually. As for financial operations, FDI inflows would continue to hover around 3.4 percent of GDP. Under these conditions, and assuming a new Treasury borrowing from the international market, after that of last November, and the entry of 1.8 billion dirhams under CCG grants in 2020, net international reserves would stand at 240.7 billion by the end of 2019 and gradually rise to 242.7 billion in 2020, then to 248.2 billion at end-2021. Thus, NIRs would continue to cover 5 months of imports of goods and services.

12. As concerns monetary conditions, the real effective exchange rate should rise 1.2 percent this year and remain virtually stable in the medium term, due to the expected moderate nominal appreciation of the dirham. On the other hand, and after several consecutive decreases, lending rates increased by 11 basis points in the third quarter of 2019, mainly reflecting the higher rates on real estate loans. In this context, banking loans granted to the nonfinancial sector continued improving, driven by loans to private companies. They are expected to end the year up 4 percent and continue rising at 4.7 percent in 2020 and 5 percent in 2021.

13. With regard to public finance, budget implementation at end-November resulted in a 44 billion dirhams deficit, excluding privatization receipts, thus worsening by 2.9 billion compared to the same period in 2018. Overall expenditure rose 4.7 percent, mainly owing to higher expenses in goods and services and investment. On the other hand, current receipts, excluding privatization, grew 4.3 percent, owing notably to an increase by 2.5 percent in tax revenues and by 28.2 percent in non-tax ones, and particularly to the 1.2 billion dirhams collected under CCG grants. Under these circumstances, and in view of special financing operations, budget deficit, excluding privatization, would stand at 4.1 percent of GDP in 2019 after 3.7 percent in 2018. In the medium term, taking account of the 2020 finance act, and assuming that mobilization and expenditure control efforts would continue, fiscal consolidation is forecasted to resume and fiscal deficit, excluding privatization receipts, would be close to 3.8 percent of GDP in 2020 and 3.5 percent in 2021.

14. Finally, the Bank Board agreed on the following schedule for its 2020 meetings:
March 17, June 16, September 22, and December 15.