PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 22, 2016

1. The Board of Bank Al-Maghrib held its first quarterly meeting of the year on Tuesday, March 22, 2016. At this meeting, the Board reviewed recent economic, monetary and financial developments as well as inflation forecasts up to the fourth quarter of 2017.
2. Taking into account the central inflation projection, the weak nonagricultural growth, the continued reduction of the budget deficit and the strengthening of foreign exchange reserves, the Board decided to reduce the key rate by 25 basis points to 2.25 percent in order to support economic activity.
3. The Board noted the downward trend in inflation seen in recent months. After 1.6 percent for the full year 2015, year-on-year change in prices fell to 0.5 percent on average during the first two months of 2016. Inflation forecast for all of 2016 was revised down to 0.5 percent, with a deceleration in core inflation, impacted by the slowdown in domestic demand and low inflation in the euro area. In 2017, inflation is expected to rise to 1.4 percent, covering acceleration in core inflation and a rise in prices of fuels and lubricants. These forecasts do not include the removal of sugar subsidy, whose entry into effect was announced to be in January 2016 but has not been implemented yet.
4. Internationally, growth in the fourth quarter was weaker than expected in advanced economies, at 1.6 percent in the euro area and 1.9 percent in the United States. In the major emerging economies, it continued to slow down, reaching 6.8 percent in China, a record low since 2009. In the medium term, recovery would continue in advanced economies but weaker than expected in December. The rebalancing of the Chinese economy, alongside the difficulties facing other emerging countries, particularly Brazil and Russia, would still weigh on global growth. In their March forecasts, the ECB revised euro area's growth rate from 1.7 to 1.4 percent for 2016 and from 1.9 to 1.7 percent for 2017, while the Federal Reserve projects growth rates for the United States at 2.2 percent from 2.4 percent and at 2.1 percent from 2.2 percent, respectively. In the labor market, the unemployment rate continues to trend down in the euro area, although it remains elevated, standing at 10.3 percent in January, but stabilized month-on-month in the United States at 4.9 percent in February, with a strong job creation.
5. In commodity markets, prices remain relatively low. Brent prices in particular, despite a monthly increase of 5.4 percent in February, fell 42 percent on a yearly basis, averaging $33.8 per barrel.
6. In this context, the euro area still faces deflationary pressures, with a year-on-year drop in consumer prices at 0.2 percent in February, following rises of 0.3 percent in January and 0 percent on average in 2015. The ECB revised in March its inflation forecast, lowering it from 1 to 0.1 percent for 2016 and from 1.6 to 1.3 percent for 2017. To counter risks to its inflation target, it adopted a series of measures at its meeting of March 10, cutting its main rates, strengthening its asset purchase program and announcing the implementation of four long-term refinancing operations. Conversely, the FED kept, at its meeting of March 15-16,

the target range of the federal funds rates between 0.25 percent and 0.5 percent, while recalling that the future adjustments of this band will depend on economic trends relating to its objectives of full employment and price stability, including financial and international developments. Following these decisions, major sovereign bond yields went down and the main stock markets posted gains together with a reduced volatility. Bank lending's annual growth rate edged up from 0.7 percent in December to 0.8 percent in January in the euro area and slightly decelerated from 7.5 to 7.4 percent in February in the United States.

7. Nationally, most recent available data for national accounts, published by the High Commission for Planning (HCP) and relating to the third quarter, indicate a pick-up in year-on-year growth from 4.2 percent on average in the first half of 2015 to 4.6 percent. For the full year 2015, BAM projects GDP to have grown by 4.2 percent, reflecting a 14.6 percent increase in the agricultural value added as a result of a record cereal crop, while nonagricultural GDP growth would be limited to 3 percent. Looking ahead, BAM has lowered its growth forecast for 2016 to 1 percent, primarily after adjusting the assumption of cereal production from 70 million quintals to 38 million, based on climate data and the situation of vegetation at end-February. The agricultural value added would therefore contract by 13.8 percent, and nonagricultural GDP would post a limited growth of 2.9 percent. In 2017, under the assumption of an average crop year, growth would accelerate to 3.9 percent, reflecting rises by 10.8 percent in the agricultural value added and 3.1 percent in nonagricultural GDP.

8. Against this background, the labor market in 2015, based on HCP data, saw a limited job creation not exceeding 33 thousand jobs, covering a loss of 32 thousand jobs in agriculture – despite a record cereal output– and the creation of 32 thousand jobs in the services sector, 18 thousand jobs in the construction and 15 thousand jobs in the industry, including the handicrafts sector. The unemployment rate thus fell slightly 0.2 point to 9.7 percent, with nonetheless a drop by 0.6 point in the participation rate to 47.4 percent.

9. Regarding external accounts, the current account deficit in 2015 would have narrowed markedly to 2.3 percent of GDP, chiefly due to an 18.6 percent reduction in the trade balance deficit mainly as a result of the 28.1 percent drop in the energy bill. Transfers of Moroccans living abroad continued to trend up, rising by 3 percent, while travel receipts edged down by 1.3 percent. Provisional data at end-February 2016 show a 10.1 percent increase in the trade deficit. Despite the continued decrease in the energy bill, imports expanded by 4.3 percent, reflecting a significant rise in purchases of capital goods and finished consumer goods. At the same time, the growth rate of exports slowed down to 1.2 percent, as the 20.3 percent rise in the car industry shipments was partially offset by the 8.3 percent drop in sales of phosphates and derivatives. Travel receipts improved by 1.1 percent while transfers of Moroccans living abroad stabilized at the same level of the previous year. Taking account of these developments, and assuming oil prices to average \$38.4 per barrel in 2016 and \$44.6 in 2017 and GCC grants to reach 13 billion and 8 billion dirhams, respectively, the current account deficit is expected to ease further to 0.1 percent of GDP in 2016 and 0.3 percent in 2017. These improvements, coupled with continued significant FDI inflows, would further strengthen foreign exchange reserves. These would provide coverage of 7 months and 21 days of goods and services' imports at the end of 2016 and 8 months and 15 days at the end of 2017, compared to 6 months and 24 days in 2015.

10. Strengthened foreign exchange reserves were reflected in banking liquidity, which would turn into surplus starting from the second quarter of 2016, after a strong improvement in 2015. Lending rates declined further in the fourth quarter by 18 points to 5.49 percent on average, as rates on loans to businesses fell by 17 basis points for cash facilities and 59 points for equipment loans. Despite these accommodative conditions, bank credit to the nonfinancial sector continued to decelerate amid weak nonagricultural activities. Its growth rate fell to 0.4

percent in 2015, covering a 2.2 percent decline in loans to businesses and a 3.7 percent increase in loans to households. Considering all these elements and the expectations of the banking sector, the growth rate of bank lending is projected at around 2.5 percent in 2016 and 4 percent in 2017. The dirham's effective exchange rate, in the fourth quarter 2015, showed a quarterly increase of 0.83 percent in nominal terms and 0.67 percent in real terms.

11. On the fiscal side, the 2015 budget execution resulted in a deficit of 42.7 billion dirhams, essentially consistent with the objective set in the Finance Act. The decline of GCC grants was offset by a substantial decrease in subsidy expenses, which fell to 14 billion dirhams as against the expected 22.9 billion. Investment issuances reached 58.5 billion dirhams, up 7.8 percent year on year and 18.9 percent compared to Finance Act figures. Data for January 2016 indicate a budget surplus, as the increase in overall spending was offset by a slight expansion in ordinary revenues and a marked improvement in the positive balance of the Treasury's special accounts. In terms of outlook, the fiscal adjustment process, supported by the low oil prices and the expected revenues from GCC grants, should continue in the medium term despite the slow nonagricultural growth. Therefore, fiscal deficit would reach 3.7 percent of GDP in 2016 and 3.1 percent of GDP in 2017.

12. Furthermore, the Board examined and approved the Bank accounts, the management report, and the allocation of profits for fiscal 2015, after seeking the opinion of the Audit Committee.

13. The Board also reviewed and approved the currency program for 2016.