BANK AL-MAGHRIB

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 21, 2016

1. The Board of Bank Al-Maghrib held its second quarterly meeting of the year on Tuesday, June 21. At this meeting, it examined and approved the Annual Report 2015 on the national economic, monetary and financial situation as well as on the Bank's activities. The Board also analyzed the recent economic developments and the macroeconomic forecasts for the next eight quarters on the basis of the work prepared by the Bank.

2. Taking into account that the inflation forecast is consistent with the price stability objective, the Board considered that the current level of 2.25 percent for the key rate remains appropriate.

3. Noting the structural improvement in bank liquidity, the Board decided to increase the required reserve ratio from 2 to 5 percent and to start paying interest on the required reserves of banks making more efforts in terms of lending.

4. The Board noted that inflation has accelerated since its meeting in March 2016, mainly as a result of a significant increase in volatile food prices. In light of these developments, the inflation forecast was revised up to 1.6 percent for 2016, while the projection for core inflation was maintained virtually unchanged at 0.6 percent. In 2017, inflation would decline to 1 percent, as the dissipation of shock effects on volatile food prices would more than offset the expected rise in core inflation and the prices of fuels and lubricants.

5. Internationally, the recovery in the major advanced economies remained generally slow in the first quarter, as year-on-year growth stabilized at 2 percent in the United States and 1.7 percent in the euro area. In the labor market, unemployment rate stagnated at 10.2 percent in April in the euro area and fell to 4.7 percent in May in the United States, but with a weak job creation. In emerging markets, activity slowed again in China and GDP contraction continued in Brazil while growth in India posted a strong acceleration, boosted by the momentum in consumption. In the medium term, growth forecasts were revised downward for the United States and slightly upward for the euro area. In China, the outlook seems relatively better compared to March, with the implementation of the fiscal stimulus package in the new plan 2016-2020.

6. In commodity markets, albeit declining year on year, Brent prices in May showed a year-to-date increase of 23.9 percent. Conversely, prices for phosphates and derivatives stabilized year on year at $115 per tonne for crude phosphates and fell by 25.7 percent for DAP and 25.3 percent for TSP. In terms of outlook, oil prices should continue to increase, while those of phosphate derivatives are expected to decline significantly.

7. Under these conditions, inflation remained broadly subdued in advanced countries. In the euro area in particular, prices fell year on year by 0.1 percent in May and would rise by merely 0.2 percent in 2016 before accelerating to 1.3 percent in 2017, based on ECB projections published following its board meeting of June 2nd. During this meeting, the ECB board decided to keep the policy rate at 0 percent and announced the start of monthly purchases under its corporate sector purchase program as from June 8 in addition to a new series of longer-term refinancing operations as from June 22. The U.S. Federal Reserve, at its meeting on June 14-15, kept the target range for federal funds unchanged between 0.25 and 0.5 percent.

8. Domestically, national accounts data for 2015 show the acceleration of growth to 4.5 percent, driven by a 12.8 percent expansion in the agricultural value added, while nonagricultural activities rose by 3.5 percent. On the demand side, household final consumption slowed down to 2.4 percent and investment dropped for the second year in a row, while the contribution of net exports to growth was again positive. For 2016, taking into account that agricultural production, excluding cereals, would be higher than expected in March, Bank Al-Maghrib has revised the contraction of the agricultural value added to 9 percent. As the projection for nonagricultural GDP growth is kept at 2.8 percent, GDP growth is expected at 1.2 percent. In 2017, assuming an average crop year, we expect growth to accelerate to 4 percent, with increases by 10 percent in agricultural value added and 3.2 percent in nonagricultural GDP.

9. In the labor market, the national economy lost 13,000 jobs in the first quarter, including in particular a decline in job opportunities in the industry, comprising handicrafts, and low job creation in the services and construction sectors. At the same time, the participation rate continued to trend down, posting a significant decline by 0.7 percentage point to 46.3 percent. Under these conditions, the unemployment rate rose by 0.1 point to 10 percent nationally. It moved from 14.3 to 14.6 percent in urban areas and from 4.7 to 4.5 percent in rural areas.

10. Regarding external accounts, despite a sharp fall in sales of phosphates and derivatives, exports were up 2.0 percent at end-May, mainly driven by the continued performance of the automotive industry. Taking into account the significant downward revision of the forecasts of prices for phosphate derivatives, exports would grow by a mere 1.4 percent in 2016 and then increase by 4.6 percent in 2017. At the same time, due to the substantial increases in purchases of capital goods and finished consumer goods, imports rose by 4.3 percent, faster than expected in March, causing an upward revision of their forecasts for 2016. Concerning other major items of the current account, travel receipts and expatriate remittances improved by 6.4 percent and 4.1 percent respectively at end-May, and are expected to continue growing faster than projected in March. Considering these developments and assuming oil prices to average $40.9 per barrel in 2016 and $48.1 in 2017 and GCC grants to reach 10 billion and 8 billion dirhams respectively, the current account deficit should ease to 1.2 percent of GDP in 2016 and 0.8 percent in 2017. Assuming continued FDI inflows at a level similar to the previous years, foreign exchange reserves would further improve to provide coverage of 7 months and 18 days of goods and services' imports at the end of 2016 and 8 months and 6 days at the end of 2017.

11. Due to the continued improvement of foreign exchange reserves, the need for liquidity in the banking system shrank from 18.2 billion at end-December 2015 to 2.4 billion at end-May. Meanwhile, as a result of reducing the key rate in the Board meeting of March 22, interest rates continued easing in the interbank market as well as in the private and public debt markets. In this context, bank lending to the nonfinancial sector improved somewhat by 0.7 percent in the first four months of the year. Its forecast was slightly revised upward to 2.7 percent for 2016 and kept unchanged at 4 percent for 2017. Monetary conditions in the first quarter were also marked by an increase in the real effective exchange rate, especially as the national currency appreciated against the US dollar and the currencies of the major competing countries.

12. Turing to public finances, after a fiscal deficit of 4.4 percent of GDP in 2015, budget execution at end-April resulted in a 5.6 billion dirhams increase in expenditure, caused primarily by a rise in investment spending and goods and services' expenses. At the same time, revenues expanded by 2.2 billion, particularly with higher direct taxes and lower monopoly revenues. As a result, fiscal deficit widened by 2 billion to 21.1 billion and was largely covered by domestic financing. In terms of outlook, assuming that the current fiscal policy stance would be maintained and that GCC grants would reach 10 billion dirhams in 2016 and 8 billion in 2017, budget deficit may narrow to 3.8 percent of GDP in 2016 and 3.3 percent in 2017.