BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 40 / 2016

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THE BANK BOARD
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بنك المغرب

FOREWORD

Pursuant to the provisions of Article 6 of Royal Decree No. 1-05-38 of 20 Shawwal 1426 A.H. (November 23, 2005) promulgating Law No. 76-03 on the Statutes of Bank Al-Maghrib, "with a view to ensuring price stability, the Bank adopts and implements monetary policy instruments".

In accordance with these provisions, Bank Al-Maghrib's objective in conducting monetary policy is to ensure price stability in order to preserve the purchasing power of citizens and provide the right conditions for investment and growth.

To achieve these objectives, Bank Al-Maghrib has put in place an analysis and forecasting system which rests on an integrated approach based on a monetary policy model and several satellite models that feed and complement it. Adapted to the current monetary policy framework and exchange rate regime and also to the transition to inflation targeting and gradual flexibility of the exchange rate regime, this new system makes it possible to predict the future course of macroeconomic aggregates, including inflation, and monetary conditions and to assess the impact of the materialization of risks to the central projection.

The assessments of the national economic situation and its medium-term prospects are outlined in the Monetary Policy Report (MPR), prepared by the Bank staff for the Board members. The MPR is published quarterly on the day of the Board meeting once the Board approves it.

In addition to the press release that explains the basis for the monetary policy decision and the overview that summarizes all the economic, monetary and financial developments and macroeconomic projections, the MPR has two parts. The first part, consisting of six chapters, analyzes the change in the main determinants of inflation, namely the international environment, external accounts, demand, supply and the labor market, fiscal policy, monetary conditions and asset prices, and recent trends in inflation. The second part is devoted to the presentation of medium-term prospects for the national economy.

Bank Al-Maghrib Board members:

The Governor, Chairman

The Director General

The Government Representative

The Director of Treasury and External Finance, Representative of the Ministry in charge of Finance

Mr. Abdellatif BELMADANI

Mr. Mohammed BENAMOUR

Ms. Miriem BENSALAH CHAQROUN

Mr. Bassim JAI-HOKIMI

Mr. Mustapha MOUSSAOUI

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 27, 2016

1. On Tuesday, September 27, the Bank Board held its third quarterly meeting of the year, during which it discussed economic developments as well as the Bank's macroeconomic projections for the next eight quarters.

2. Considering that inflation forecast is consistent with the objective of price stability and in view of recent monetary and economic developments and their medium-term expectations, the Bank Board judged that the current level of 2.25 percent for the key rate remains appropriate and decided to keep it unchanged.

3. The Board noted that inflation, measured by the change in the consumer price index, was down from 1.9 percent in the second quarter to 1.6 percent on average in July and August, with a 0.2 percentage point increase in its core component to 0.7 percent. Based on the Bank's forecasts, inflation would average 1.6 percent in 2016 and ease to 1.2 percent in 2017, mainly due to the dissipation of temporary shocks on volatile food prices which would more than offset the expected increase in core inflation.

4. Internationally, second quarter data indicate continued slowdown in the euro area and the United States. In the medium term, the economy would be particularly impacted by uncertainties surrounding Brexit terms and some forthcoming elections. Growth forecast for the year 2016 was revised up from 1.6 to 1.7 percent in the euro area and from 1.8 to 1.5 percent in the United States, and that of 2017 was lowered from 1.9 to 1.8 percent and from 2.4 to 2.3 percent, respectively. Labor market conditions continued improving in the euro area, albeit at a slow pace, as unemployment rate is expected to remain around 10 percent in 2016 and 2017. In the United States, this rate stabilized at 4.9 percent in August and would remain at this level in the medium term. In the major emerging markets, second quarter data indicate further contraction of activity in Brazil, slight deceleration in India and stabilization in China, whose growth is expected to slow to 6.7 percent in 2016 and 6.3 percent in 2017, particularly as a result of the economic rebalancing policy and credit risks.

5. In commodity markets, the oil price in the first eight months of the year remained, on average, well below the level seen in the same period of 2015. In the medium term, it is expected to remain low, as its forecast was slightly revised up to $42.4 per barrel for 2016 and down to $45.4 per barrel for 2017. Prices of phosphates and derivatives also posted year-on-year declines, and their forecasts were again revised downward.

6. Under these conditions, inflation remained subdued in major advanced economies. For the full year 2016, it is expected to reach 0.2 percent in the euro area and 1.2 percent in the United States, and to speed up gradually to 1.6 percent and 2.3 percent, respectively, in 2018.

7. In terms of monetary policy decisions, the Federal Reserve decided, in September, to maintain the target range for

the federal funds rate unchanged. It considered that the case for an increase in the range has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives regarding inflation and employment. The European Central Bank decided, at its September meeting, to keep the policy rate unchanged and confirmed that the monthly asset purchases of €80 billion are intended to run until the end of March 2017, or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its inflation objective. Moreover, the Bank of England, after lowering its key interest rate during its last meeting, decided in September to keep it at 0.25 percent, and to continue implementing the measures announced in August, with the aim of further supporting growth and ensuring a sustainable return of inflation to the target.

8. Nationally, growth slowed down to 1.7 percent in the first quarter, with a sharp contraction in the agricultural added value and a deceleration in nonagricultural GDP. On the demand side, household consumption slowed down and net exports contribution to growth was negative, while investment showed a significant rebound. For the full year 2016, Bank Al-Maghrib has revised up growth forecasts from 1.2 to 1.4 percent. Agricultural value added is projected to contract by 9 percent and nonagricultural growth would reach 2.9 percent. In 2017, the latter is expected to accelerate to 3.2 percent and agricultural added value would rebound by 10 percent, assuming a normal crop year, thus leading to an overall growth of 4 percent.

9. In the labor market, the domestic economy lost 26,000 jobs in the second quarter compared to the same period of 2015, covering a contraction of 175,000 jobs in agriculture and increases of 70,000 jobs in the services sector, 41,000 in construction and 38,000 in industry, including handicrafts. Therefore, and taking into account as well a 0.8 point drop in the participation rate, unemployment edged down slightly by 0.1 point to 8.6 percent.

10. Regarding external accounts, the trade deficit widened by 13 percent over the first eight months of the year, reflecting a significant increase in imports, particularly capital goods which rose by 22.5 percent. Meanwhile, despite the decline in sales of phosphates and derivatives, exports grew by 1.7 percent, driven mostly by higher sales of the automotive sector and food industries. Travel receipts and expatriate remittances rose by 4.5 percent 4.8 percent, respectively. Under these circumstances and assuming an annual 8 billion dirhams inflow of grants in 2016 and 2017, current account deficit would reach 1.9 percent of GDP by the end of 2016 and would further ease to 1.2 percent of GDP in 2017. Taking also into account the expected decline in net FDI, foreign exchange reserves would continue to increase, albeit at a slower rate than anticipated in June, to stand at around 7 months and 6 days of goods and services' imports at end-2016 and 7 months and 20 days at end-2017.

11. Turning to monetary conditions, raising the required reserve ratio from 2 to 4 percent in June caused the alignment of the interbank rate with the key rate and the adjustment of rates in different markets. The overall average lending rate decreased by 31 basis points in the second quarter, following the lowering of the key rate by 25 basis points in March. In this context, outstanding bank credit to the nonfinancial sector continued improving, growing by 3.2 percent as at end-July, due mainly to a relative recovery of lending to businesses. Taking into account these developments and the slight revision of nonagricultural growth, its forecast was slightly adjusted upward by 0.3 point to 3 percent for 2016 and was kept unchanged at 4 percent for 2017. The

dirham's nominal exchange rate depreciated at a quarterly rate of 0.61 percent in the second quarter, mostly because of the decline in the value of the national currency against the euro. Considering that inflation in Morocco was generally lower than in partner and competitor countries, the real effective exchange rate fell 0.78 percent. For the full year 2016, it is expected to rise by 1.4 percent and to decline slightly by 0.4 percent in 2017.

12. Concerning public finance, fiscal adjustment is under way. Budget execution in the first eight months of the year resulted in a 5.2 percent expansion in overall expenses, due largely to an increase in investment and goods and services' expenditure whereas subsidy costs shrank by 22.1 percent to 7.5 billion, representing an execution rate of 48.5 percent compared to the Finance Act planning. Revenues improved by 5.8 percent, particularly reflecting higher proceeds from direct taxes, import VAT and domestic consumption taxes. Altogether, fiscal deficit almost stabilized at 30.5 billion and was financed mainly from the domestic market. It is expected to reach 3.8 percent of GDP by the end of 2016 and 3.2 percent of GDP in 2017.

OVERVIEW

In the second quarter of 2016, year-on-year growth slowed down from 1.7 to 1.6 percent in the euro area, due to a deceleration in domestic demand, and from 1.6 to 1.2 percent in the United States, mainly in connection with lower investment, particularly residential investment. However, it expanded from 0.1 to 0.8 percent in Japan and from 2 to 2.2 percent in the United Kingdom, particularly reflecting the rebound in industrial production. In major emerging markets, economic growth in China stabilized at 6.7 percent and slowed from 7.4 to 7.3 percent in India, while the GDP of Brazil contracted by 3.8 percent. In the labor market, the unemployment rate stabilized month on month at 10.1 percent in July in the euro area and at 4.9 percent in August in the United States.

In financial markets, after significant declines in June following the results of the Brexit referendum, the major stock indexes of advanced economies were tilted to the upside between July and August, posting performances of 2.4 percent for EUROSTOXX50, 2.5 percent for FTSE 100, 2.3 percent for NIKKEI 225 and 1 percent for Dow Jones. In emerging economies, the MSCI rose by 4.9 percent, reflecting in particular increases of 5.9 percent in the index of China and 2.4 percent in that of India. In other markets, yields of 10-year bonds stagnated in Germany and France and grew in the United States and Turkey, but declined in other major emerging countries, mainly China, India and Brazil. In the currency market, the euro appreciated against currencies of major advanced countries, except the Japanese Yen, particularly with increases of 1.4 percent against the US dollar and 1.7 percent versus the pound sterling. Currencies of major emerging countries appreciated overall against the US dollar, with rates of 2.3 percent for the Brazilian real, 0.5 percent for the Chinese yuan and 0.4 percent for the Turkish Lira. The annual growth of bank lending recorded in the United States a slight decline from 7.6 percent in July to 7.5 percent in August, while it moved up from 1.2 percent in June to 1.3 percent in July in the euro area.

In the commodity markets, the Brent price posted a slight month-on-month increase of 1 percent in August to $47.1 per barrel, but its average over the first 8 months was down 26.3 percent compared to the same period of 2015. Regarding non-energy prices, Dow Jones was up 7.9 percent, mainly reflecting higher prices of agricultural products. Phosphate prices fell, year on year, by 3.5 percent for crude phosphate, 26.7 percent for DAP and 25.5 percent for TSP.

Under these conditions, inflation remained low in most developed countries. It fell from 1 percent in June to 0.8 percent in July in the United States. In the euro area, the Eurostat estimate for August revealed that it stagnated at 0.2 percent.

Regarding monetary policy decisions, the Bank of England kept its policy rate unchanged at 0.25 percent in September, after cutting it by 25 basis points at its previous meeting and decided to continue to implement the measures announced in August, with a view to further supporting growth and ensuring a sustainable return of inflation to its target. It highlighted that the impact of these measures was higher than expected on asset prices. The Fed maintained the target range for the federal funds rate unchanged at 0.25-0.5 percent. The ECB indicated, following its meeting of September, that it would keep its key rate and asset-purchasing program unchanged, until it observes a sustainable adjustment of inflation towards its target.

Nationally, end-August 2016 data show that the trade deficit widened by 13.9 billion dirhams, bringing the import coverage ratio from 57.6 percent to 55 percent. This trend is attributable to the increase of 16.3 billion dirhams or 6.5 percent in imports, owing to a 22.5 percent rise in purchases of capital goods. However, energy costs fell by 25.1 percent to 34.7 billion dirhams. Meanwhile, despite a 12.5 percent drop in sales of phosphates and derivatives, exports rose by 2.4 billion or 1.7 percent of exports, primarily due to a 24.7 percent growth in car manufacturing shipments. For other components of the current account, transfers from Moroccan expatriates and travel receipts progressed by 4.8 percent and 4.5 percent, respectively. Taking also into account the change in financial transactions, mainly the decline of 36.6 percent in FDI net flows, foreign exchange reserves increased by 18.2 percent, year on year, to 248.7 billion at end-August, equaling 7 months and 14 days of imports of goods and services.

In terms of bank liquidity, after standing at 6.7 billion in the second quarter, banks' needs reached 21 billion dirhams on weekly average in July and August, in connection with the Bank Board's decision to raise the required reserve ratio from 2 percent to 4 percent and with the seasonal increase in currency in circulation. Bank-Al Maghrib increased the volume of its injections to 21.8 billion, of which 16.4 billion as 7-day advances and 4.5 billion as secured lending transactions, granted under the program to support the financing of VSME. Against this backdrop and after a decline in the second quarter following the decision taken by the Bank Board in March to lower the key rate, rates were adjusted upward in the various markets in July and August. In addition, monetary conditions were marked in the second quarter by a depreciation of the dirham's effective exchange rate and a slightly faster growth of credit to the nonfinancial sector, mainly reflecting an improvement in business loans. However, the M3 growth remained stable at 5.1 percent, owing to a slower growth of net international reserves and a deeper decline in net claims on the central government.

Regarding public finance, the budget deficit stood at 30.5 billion at end-August 2016, down 0.8 percent compared to the same period of 2015. Overall expenditure rose by 5.2 percent, reflecting in particular increases of 15.6 percent in investment and 4.8 percent in spending on goods and services, while subsidy costs lessened by 22.1 percent. Meanwhile, current receipts progressed by 5.8 percent, mainly reflecting a 6.3 percent increase in tax revenue, while GCC donations reached 2.7 billion, from 1.3 billion at end-August 2015. Taking into account also a positive balance of 5.6 billion in the Treasury's special accounts, the cash deficit stood at 30.5 billion, easing by 8.9 billion compared to the same period of 2015. This need was covered by the domestic market for a net amount of 28.1 billion and external net flows of 2.4 billion. Thus, the direct public debt would have increased by 2.2 percent compared to its level at the end of 2015, with increases in the outstanding domestic debt and external one.

Regarding national accounts, data for the first quarter of 2016 indicate a 1.7 percent increase in GDP, as against 5.1 percent in the fourth quarter of 2015. This deceleration is attributed to a 9 percent decline in the agricultural value added, after a 9.6 percent increase, and a deceleration in nonagricultural GDP from 4.5 percent to 3.1 percent, particularly a slower growth in the value added of the manufacturing industry from 5.3 percent to 2.9 percent and that of construction from 3 percent to 2.3 percent. On the demand side, the contribution of net exports was negative at -1.6 percentage point, after a positive contribution in the last seven quarters, while the growth of household consumption slowed from 2.9 percent to 2.7 percent. However, investment rebounded by 5.0 percent, after a slight fall of 0.7 percent a quarter earlier.

In the labor market, the national economy suffered a loss of 26,000 jobs in the second quarter 2016, reflecting a decrease of 175,000 jobs in the agricultural sector. In contrast, in nonagricultural sectors, services created 70,000 jobs, construction 41,000 positions and industry, including handicrafts, 38,000 jobs. Taking into account a significant decline of 0.8 percentage point in the participation rate to 47.2 percent, the unemployment rate fell slightly from 8.7 percent to 8.6 percent nationally.

On the asset market, the real estate price index almost stagnated in the second quarter, as the monthly increase of 2.7 percent in urban land prices was offset by decreases of 1.1 percent for residential properties and 0.6 percent for commercial property. Meanwhile, transactions grew 1 percent, mainly reflecting increases of 3.7 percent in residential property transactions, while sales of urban land and professional property fell by 1.9 percent and 14.4 percent, respectively. At the stock market, after a 4 percent increase in July, the MASI fell slightly in August by 0.2 percent and its performance since the beginning of the year stood at 10.5 percent. The volume of transactions amounted to 1.3 billion dirhams at the end of August, after reaching 21.2 billion dirhams in July in connection with certain specific transactions, mainly the listing of Marsa Maroc and Lafarge Holcim's capital increase.

Inflation, as measured by the year-on-year change in the consumer price index, stood at 1.6 percent in July and August, as opposed to 1.9 percent on average in the second quarter, reflecting the slow increase in food volatile prices and to a lesser extent the dissipation of the impact of previous increases in prices of certain regulated goods. Core inflation, albeit remaining relatively moderate, rose from 0.5 percent in the second quarter to 0.8 percent in July and 0.7 percent in August, due to the price increase in some basic foodstuffs.

In terms of outlook, the recovery of global growth should continue but at a slower pace than initially expected. In the euro area, the quantitative easing measures should continue to support economic activity in 2016, as the growth forecast was revised from 1.6 percent to 1.7 percent. In 2017, uncertainty around Brexit rules should slightly impact growth whose projections were revised from 1.9 percent to 1.8 percent. In the United States, the monetary policy normalization and the appreciation of the dollar should weigh on economic activity in the medium term. Growth is expected to stand at 1.5 percent in 2016, from 1.8 percent predicted in June and 2.3 percent in 2017, as against 2.4 percent. In China, the growth outlook remains unchanged at 6.7 percent in 2016 and 6.3 percent in 2017.

In the labor market, the latest IMF forecasts of April indicate a continued improvement of conditions in the United States, with the unemployment rate falling to 4.9 percent in 2016 and 4.8 percent in 2017. In the euro area, although remaining high, the unemployment rate would continue to decline to 10.3 percent in 2016 and 9.9 percent in 2017. In particular, in Morocco's main partner countries, this rate would stand at 10.1 percent in 2016 in France, 19.7 percent in Spain and 11.4 percent in Italy.

In commodity markets, energy prices should continue to grow at relatively low levels, as the Brent price would stand at $42.4 per barrel in 2016 from $40.9 per barrel expected in June and $45.4 per barrel in 2017, as against $48.1 per barrel. Regarding phosphates and derivatives, price forecasts were lowered for 2016 by $2/mt for rock phosphate, $5/mt for DAP and $10/mt for TSP.

In this context and due to improvement of the short-term growth, inflation in the euro area was revised to 0.2 percent in 2016 from 0.1 percent expected in June. It should then gradually converge to the 2 percent target, reaching 1.5 percent in 2017 and 1.6 percent in 2018. In the United States, inflation would stand at 1.2 percent in 2016 and should approach 2 percent in 2017.

Nationally, given the slight improvement of foreign demand expected in the short term and less appreciation of the exchange rate, projections for exports of goods were revised up in 2016. However, they should grow in 2017 at a slower-than-expected pace in June, mainly owing to a slower recovery in foreign demand. Meanwhile, imports of goods should register in 2016 a growth faster than expected in June, driven mainly by higher purchases of capital goods. They should slow down to 1.0 percent in 2017, with particularly a decrease in energy costs following the downward revision of oil prices. Against this backdrop, assuming that annual donations from the GCC countries would amount to 8 billion in 2016 and 2017, from 10 and 8 billion respectively expected in June, the forecast for the current account deficit was adjusted downward to 1.9 percent of GDP in 2016 and 1.2 percent in 2017. Under these conditions, the forecast for international reserves stood at 7 months and 6 days of imports of goods and services in 2016 and 7 months and 20 days in 2017.

Taking into account the increase in the monetary reserve ratio from 2 percent to 4 percent, and revision of the forecast for foreign exchange reserves, the bank liquidity position should post a deficit at-end 2016, before becoming a surplus at the end of 2017. The medium-term trend in bank credit should not change significantly from June projections. Forecasts for loans to the nonfinancial sector were slightly revised upward to 3 percent in 2016 to take account of recent data and a slight upward revision of nonagricultural growth, and were kept unchanged at 4 percent in 2017. The money supply growth is expected at 5 percent in 2016 and 5.6 percent in 2017.

Concerning public finance, the fiscal adjustment should continue in the medium term. The budget deficit forecast was kept unchanged at 3.8 percent of GDP, albeit with an upward revision in tax revenues, offset by a downward correction of GCC donations to 8 billion and an increase in the employer contribution, caused by the implementation of the pension reform. In 2017, the budget deficit was slightly revised down by 0.1 point to 3.2 percent of GDP, due to an adjustment of payroll and subsidy costs.

According to BAM's projections, the national growth in 2016 should stand at 1.4 percent from 1.2 percent forecast in June, following an increase of 0.1 percentage point to 2.9 percent in the nonagricultural GDP growth, while the expected decline in the agricultural value added is kept unchanged at 9 percent. These changes are attributed to the HCP's significant revision of the quarterly profile of national accounts in 2015 and the larger-than- expected increase in investment in the first quarter 2016. In 2017, growth is projected at 4 percent, unchanged from June, taking advantage of an expected return to a normal crop year, an accommodative monetary policy and a relative improvement in activity in the euro area compared to 2016.

In this context, inflation should stand at 1.6 percent in 2016, which is an unchanged prediction from that reported in June, albeit with an upward revision of core inflation, particularly in connection with the rising international prices of some basic foodstuffs and improving domestic demand, offset by the faster-than-expected dissipation of the effects of the increase in volatile food prices. In 2017, the inflation forecast was revised upward by 0.2 percentage point to 1.2 percent, due to the expected improvement in domestic demand and the upward revision of prices of basic foodstuffs.

Projections are still surrounded by several risks with a balance of risks tilted to the downside for growth and to the upside for inflation. Uncertainties include the exit of the United Kingdom from the European Union, which could cause foreign demand addressed to Morocco to decline. In addition, the reversal of the medium-term trend of global energy prices and the volatility of agricultural production pose a risk to national growth in 2017.

Concerning inflation, a greater-than-expected rate of increase in prices of basic foodstuffs could impact it to rise. Similarly, a higher-than-expected oil prices and an increase in wages as part of the social dialogue are likely to lead to higher inflation rates in the medium term compared to those assumed under the central forecast scenario.

1.INTERNATIONAL DEVELOPMENTS

The national accounts data for the second quarter 2016 show that growth slowed in the euro area and the United States, while it improved in the United Kingdom and Japan, year on year. In major emerging economies, it stabilized in China, while it decelerated in India. In the labor market, August data indicate a stagnation in the unemployment rate at 4.9 percent in the United States, while it stabilized in July at 10.1 percent in the euro area. Financial markets in August were characterized by a rise in major stock indexes and divergent trends in the sovereign yields of advanced and emerging economies. Commodity prices remained relatively low in August, with a decline in the energy index and increases in the agricultural commodity index and base metals price index, year on year. Against this backdrop, inflation remained very low in most developed countries, particularly in the euro area. Overall, these developments suggest the absence of external inflationary pressures.

1.1 Economic activity and employment

1.1.1 Economic activity

Year-on-year growth declined slightly in the euro area in the second quarter 2016 to 1.6 percent from 1.7 percent in the previous quarter, in connection with the slowdown in domestic demand. By country, with the exception of France where it stagnated at 1.4 percent, growth moved down from 1.8 percent to 1.7 percent in Germany, from 3.4 percent to 3.2 percent in Spain and from 1 percent to 0.8 percent in Italy. In contrast, in the United Kingdom, it strengthened from 2 percent to 2.2 percent, mainly due to the rebound in industrial production.

In the United States, growth decelerated sharply from 1.6 percent to 1.2 percent, reflecting mainly lower investment, including residential one. Conversely, it improved in Japan from 0.1 percent to 0.8 percent.

In emerging and developing countries, growth in China remained stable at 6.7 percent in the second quarter 2016, while it slowed in India from 7.4 percent to 7.3 percent. In Brazil and Russia, recession continued, albeit with slower contraction of GDP to -3.8 percent in the second quarter in Brazil and -3.7 percent in the third quarter 2015 in Russia, as against -5.4 percent and -3.8 percent a quarter earlier, respectively.

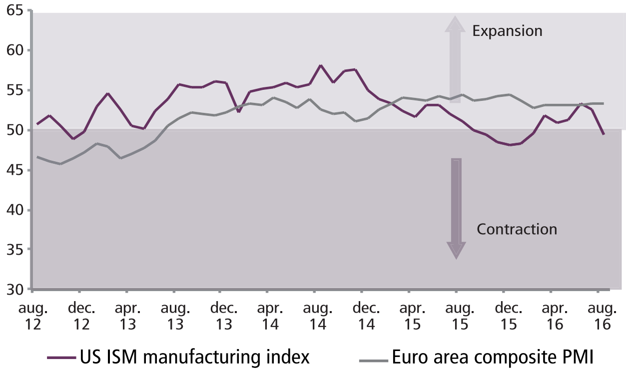
Table 1.1: YoY change in quarterly growth

	2014		2015				2016	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Advanced economies								
United States	**2.9**	**2.5**	**3.3**	**3.0**	**2.2**	**1.9**	**1.6**	**1.2**
Euro area	**0.8**	**1.0**	**1.3**	**1.6**	**1.6**	**1.7**	**1.7**	**1.6**
France	0.7	0.7	1.3	1.1	1.1	1.3	1.4	1.4
Germany	1.2	1.6	1.1	1.8	1.7	1.3	1.8	1.7
Italy	-0.4	-0.4	0.1	0.5	0.8	1.1	1.0	0.8
Spain	1.7	2.1	2.7	3.2	3.4	3.5	3.4	3.2
United Kingdom	**3.1**	**3.5**	**2.9**	**2.4**	**2.0**	**1.8**	**2.0**	**2.2**
Japan	**-1.5**	**-0.9**	**-0.9**	**0.7**	**1.8**	**0.8**	**0.1**	**0.8**
Emerging economies								
China	**7.1**	**7.2**	**7.0**	**7.0**	**6.9**	**6.8**	**6.7**	**6.7**
India	**8.1**	**6.7**	**6.2**	**7.2**	**7.3**	**6.9**	**7.4**	**7.3**
Brazil	**-1.1**	**-0.7**	**-2.0**	**-3.0**	**-4.5**	**-5.9**	**-5.4**	**-3.8**
Turkey	**2.3**	**3.0**	**2.5**	**4.0**	**4.7**	**4.7**	**4.4**	**N.A**
Russia	**0.3**	**-0.8**	**-2.1**	**-3.8**	**-3.7**	**N.A**	**N.A**	**N.A**

Source : Thomson Reuters Eikon.

High frequency indicators for August 2016 indicate a slight improvement in economic activity in the euro area, as the composite PMI stood at 53.3 points, from 53.2 in July. In the United States, the ISM manufacturing index declined to 49.4 points in August from 52.6 points in the previous month.

Chart 1.1: Change in some high-frequency indicators in the United States and the euro area



Source : Thomson Reuters Eikon.

1.1.2 Labor market

August data show a stabilization in the unemployment rate from one month to the next at 4.9 percent in the United States, with the creation of 151,000 jobs, as against 275,000 in July. In the euro area, the unemployment rate stabilized in July at 10.1 percent compared to June. By country, it rose from 10.1 percent to 10.3 percent in France and decreased from 4.3 percent to 4.2 percent in Germany, from 11.6 percent to 11.4 percent in Italy and from 19.9 percent to 19.6 percent in Spain. In the United Kingdom, May figures show an unemployment rate of 5 percent from 4.9 percent in the previous month.

Table 1.2: Change in unemployment rate (%)

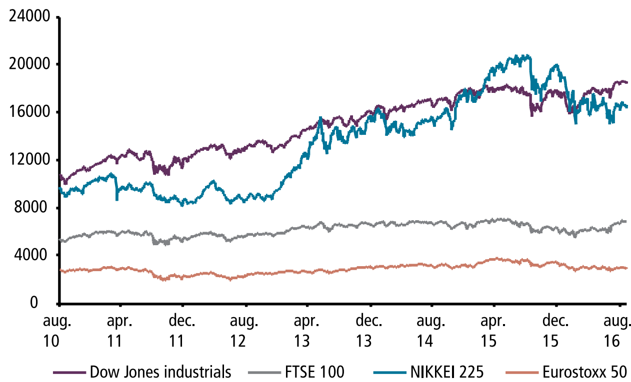
	2014	2015	june 2016	july 2016	aug. 2016
United States	6.2	5.3	4.9	4.9	4.9
Euro area	11.6	10.9	10.1	10.1	N.A
France	10.3	10.4	10.1	10.3	N.A
Italy	12.7	11.9	11.6	11.4	N.A
Germany	5.0	4.6	4.3	4.2	N.A
Spain	24.5	22.1	19.9	19.6	N.A
United Kingdom	6.1	5.3	N.A	N.A	N.A

Source : Eurostat et BLS

1.2 Monetary and financial conditions

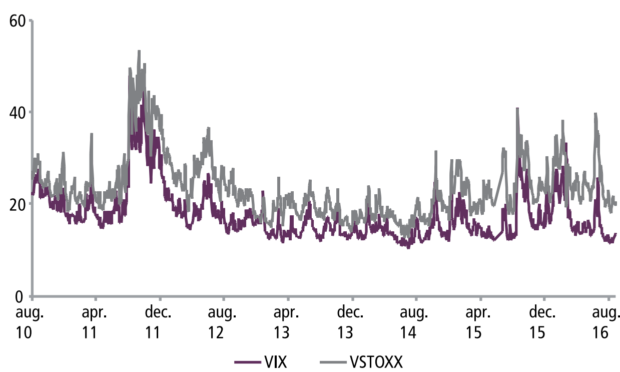
In stock markets, major indexes of advanced and emerging economies were up between July and August. Indeed, the EUROSTOXX50, FTSE 100, NIKKEI 225 and Dow Jones rose 2.4 percent, 2.5 percent, 2.3 percent and 1 percent, respectively. In terms of volatility, the VSTOXX fell from 22.4 to 20.1 basis points and the VIX from 13.2 to 12.3 basis points. In emerging economies, the MSCI EM was up 4.9 percent, covering increases of 5.9 percent in the index of China and 2.4 percent in that of India, and a stagnation in the index of Turkey.

Chart 1.2: Change in major stock market indexes of advanced economies



Source : Thomson Reuters Eikon.

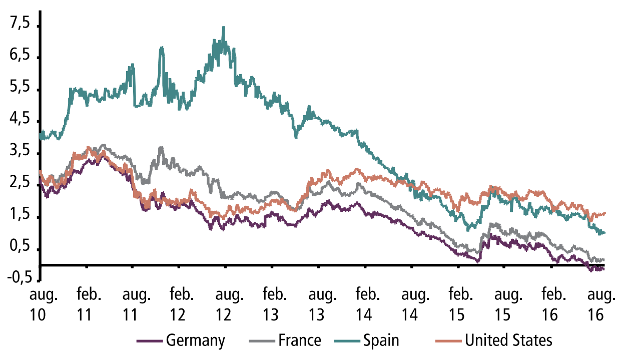
Chart 1.3: Change in VIX and VSTOXX



Source : Thomson Reuters Eikon.

In bond markets, 10-year yields in advanced economies trended differently across countries between July and August. It increased from 8 percent to 8.2 percent in Greece and decreased from 1.2 percent to 1 percent in Spain, from 1.2 percent to 1.1 percent in Italy and from 3.1 percent to 2.9 percent in Portugal. These yields stagnated at -0.1 percent in Germany and 0.2 percent in France. The U.S. yields increased slightly from 1.5 percent to 1.6 percent. In key emerging economies, with the exception of Turkey, where they rose from 9.3 percent to 9.5 percent, 10-year yields fell from 12 percent to 11.9 percent in Brazil, from 7.3 percent to 7.1 percent in India and from 2.8 percent to 2.7 percent in China.

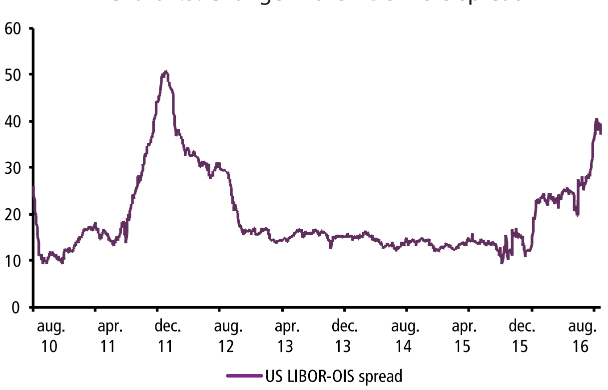
Chart 1.4: Change in the yield of ten-year government bonds



Source: Thomson Reuters Eikon.

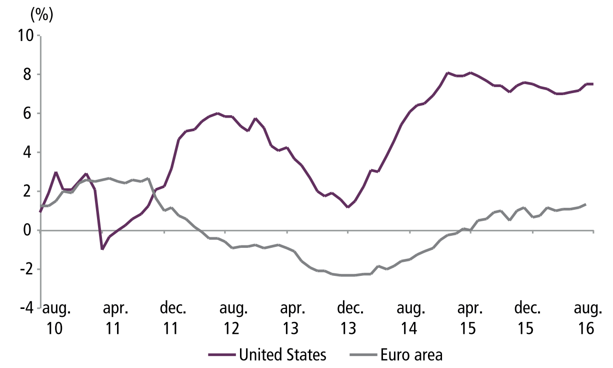
On money markets, the 3-month Euribor stood at -0.30 percent in August from -0.29 percent in the previous month, while the 3-month Libor rose from 0.70 percent to 0.81 percent. Meanwhile, the dollar Libor-OIS spread rose from 29.7 to 38.5 basis points. The annual bank lending growth in the United States dropped slightly from 7.6 percent in July to 7.5 percent in August, while it rose from 1.2 percent in June to 1.3 percent in July in the euro area.

Chart 1.5: Change in the LIBOR-OIS spread



Source: Thomson Reuters Eikon.

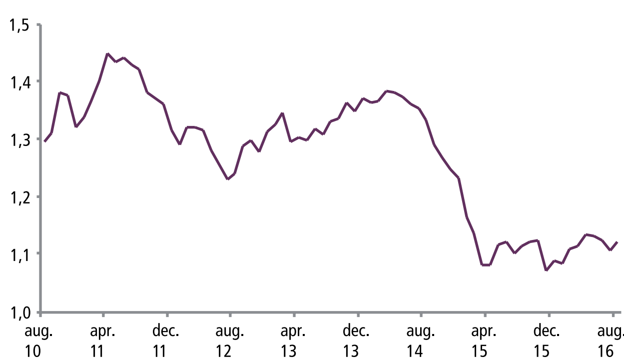
Chart 1.6: YoY change in credit in the United States and the euro area



Source : Thomson Reuters Eikon.

In foreign exchange markets, the euro appreciated between July and August by 1.4 percent against the dollar to stand at 1.12 dollar, and by 1.7 percent versus the pound sterling. However, it depreciated by 1.6 percent vis-à-vis the Japanese yen. In terms of the dollar trends against the currencies of key emerging countries, the Brazilian real and Chinese yuan appreciated by 2.3 percent and 0.5 percent, respectively, while the Turkish lira and the Indian rupee appreciated by 0.4 percent each.

Chart 1.7: Euro/dollar exchange rate



Source : Thomson Reuters Eikon

In this context, central banks of major advanced economies kept their key rates unchanged. The Bank of England decided on September 15 to maintain its key rate unchanged at 0.25 percent and continued with its program of sterling non-financial investment-grade corporate bond purchases, totaling up to 10 billion pounds and the program of 60 billion pounds of UK government bond purchases to take the total stock of these purchases to £435 billion. It also said that if the November outlook is judged to be broadly consistent with August projections, a majority of members of its committee expects to support a further cut in the key rate at one of its forthcoming meetings during the course of this year.

The ECB decided on September 8 to maintain its key rate unchanged at 0 percent, while reiterating that all its rates will remain at current or lower levels for an extended period of time as well past the horizon of the net asset purchases. Regarding non-standard monetary policy measures, the ECB confirmed that monthly asset purchases of 80 billion euros were intended to run until the end of March 2017 or beyond, if necessary, and in any case until it sees a sustainable adjustment in the path of inflation consistent with its inflation aim. Similarly, the Fed decided on September 21 to maintain its target range at 0.25 percent to 0.5 percent. It judges that the case for an increase in the federal funds rate has strengthened but decided to wait for further evidence of continued progress towards its inflation and employment objectives. The Fed also reiterated that the timing and size of future adjustments to the target range would depend on its assessment of realized and expected economic conditions relative to its two objectives of maximum employment and 2 percent inflation.

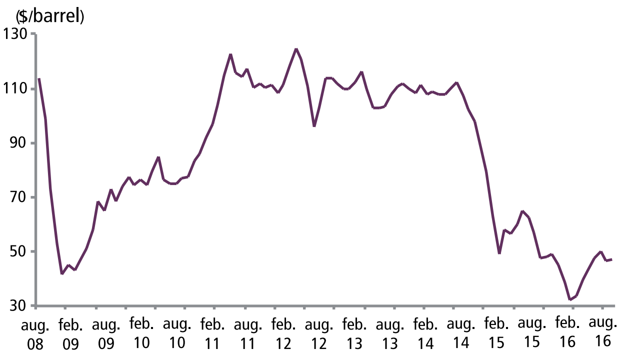
In emerging markets, the Central Bank of Russia decided on September 16 to lower its key rate from 10.5 percent to 10 percent, given the slower inflation, in line with forecasts, lower inflation expectations and volatile economic activity. The Central Bank of Brazil maintained on August 31 its policy rate at 14.25 percent, just like the Central Bank of India, who kept on August 9 its key rate unchanged at 6.5 percent, indicating that this is an appropriate decision given the current configuration of risks.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

In August, the average Brent price was up 1 percent, averaging $47.1 per barrel from $46.6 in July. This increase is particularly due to the publication of weekly data from the U.S. Department of Energy reporting a drop in inventories in the United States, and a possible initiative within OPEC to reduce the supply of excess oil in the market. Year on year, the Brent price was down 1 percent.

Chart 1.8: World price of Brent oil in dollar

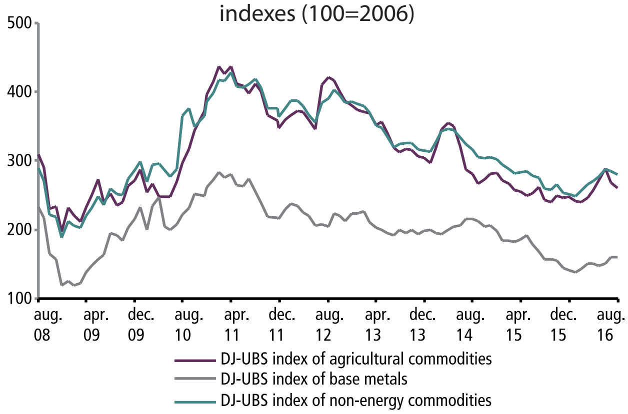


Source : Thomson Reuters Eikon.

1.3.2 Non-energy commodity prices

Non-energy prices were up, year on year, as the relevant Dow Jones-UBS rose by 7.9 percent. This change reflects respective increases of 7.4 percent and 2.4 percent in agricultural commodity prices and base metals price index.

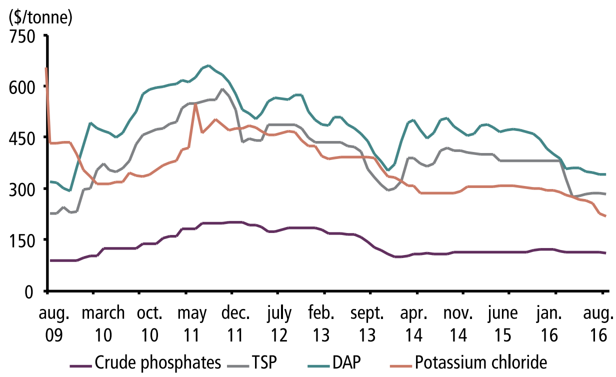
Chart 1.9: Change in the DJ-UBS non-energy commodity price indexes (100=2006)



Source : Thomson Reuters Eikon.

Regarding phosphate and derivatives in particular, crude and Potassium Chloride prices recorded between July and August a decline of 3.5 percent each. Similarly, DAP and TSP prices fell by 0.3 percent and 0.7 percent, respectively. However, urea prices were up 2.8 percent from one month to another. Year on year, prices dropped 33.3 percent for urea, 27.4 percent for Potassium Chloride, 26.7 percent for DAP, 25.5 percent for TSP and 3.5 percent for crude phosphate. Durum wheat prices registered a monthly fall of 1.2 percent and dropped sharply by 16.7 percent, year on year.

Chart 1.10: Change in the world prices of phosphate and derivatives

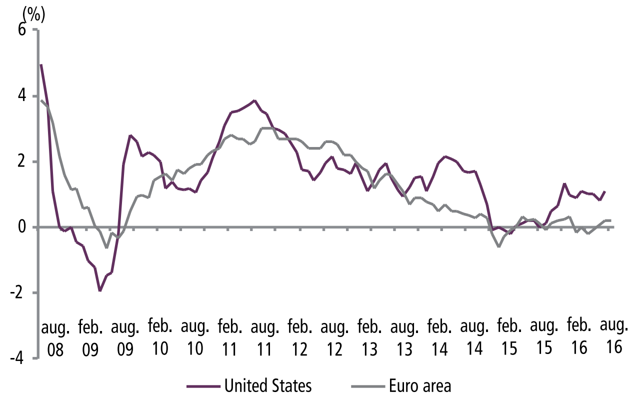


Source: World Bank.

1.3.3 Inflation in the world

In August, inflation was up from 0.8 percent to 1.1 percent in the United States and remained unchanged at 0.6 percent in the United Kingdom. In Japan, the latest data remain those of July and show that consumer prices show a slight further decline from 0.3 percent to 0.5 percent. In the euro area, the Eurostat estimate for August indicates a stagnation of the inflation rate at 0.2 percent, with a decrease from 0.4 percent to 0.3 percent in Germany, increases from -0.2 percent to 0 percent in Italy and from -0.6 percent to -0.1 percent in Spain, and stagnation at 0.4 percent in France.

Chart 1.11: Inflation trend in the United States and the euro area



Source : Eurostat.

In key emerging countries, inflation in August was up from 8.7 percent to 9 percent in Brazil, while it declined from 1.8 percent to 1.3 percent in China and from 7.2 percent to 6.9 percent in Russia.

Table 1.3 : Recent year-on-year change in inflation in main advanced countries

	2014	2015	2015/2016		
			june	july	aug.
United States	1.6	0.1	1.0	0.8	1.1
Euro area	0.4	0.2	0.1	0.2	0.2
Germany	0.8	0.2	0.2	0.4	0.3
France	0.6	0.1	0.3	0.4	0.4
Spain	-0.2	-0.4	-0.8	-0.6	-0.1
Italy	0.2	0.2	-0.2	-0.2	0.0
United Kingdom	1.5	0.1	0.5	0.6	0.6
Japan	2.7	0.7	-0.3	-0.5	N.A

Source : Thomson Reuters Eikon.

2. EXTERNAL ACCOUNTS

At the end of July 2016, despite a 7.6 percent drop in sales of phosphates and derivatives, exports were up 2.9 percent, mainly reflecting an increase of 29.4 percent in sales of the automotive industry. Imports rose 4.9 percent, largely reflecting an increase of 21.8 percent in purchases of capital goods, while the energy bill fell by 29.9 percent. Under these conditions, the trade balance widened by 7.3 billion, thus bringing the coverage import rate from 56.9 percent to 55.8 percent. For the other components of the current account, remittances from Moroccan expatriates and travel receipts recorded respective increases of 2.5 percent and 3.1 percent. Against this backdrop and despite a decline of 34.9 percent in net FDI flows, foreign exchange reserves strengthened by 21.8 percent to 243.2 billion at end-July, equaling 7 months and 11 days of imports of goods and services.

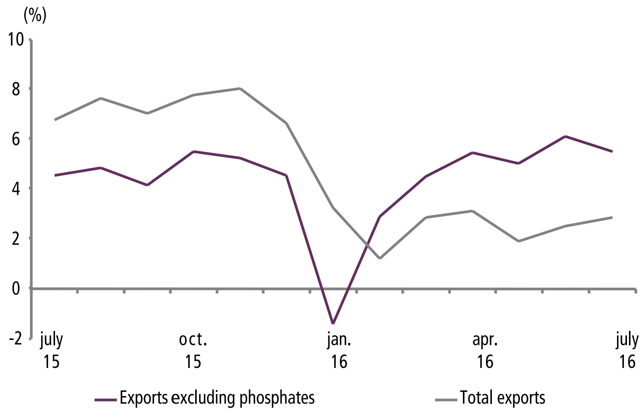
2.1 Trade balance

2.1. 1 Change in the exports

In late July 2016, foreign trade indicators show an increase of 2.9 percent in exports to 130.9 billion dirhams, mainly reflecting a rise of 29.4 percent in sales of the automotive industry to 17.2 billion dirhams. Similarly, exports of agricultural and agri-food sector progressed by 7.7 percent to 28.4 billion, driven primarily by a 9.1 percent increase in sales of the food industry. Shipments of the textile and leather sector moved up 5 percent to 21 billion, primarily owing to an increase of 8.8 percent in ready-made garments.

In contrast, sales of phosphates and derivatives were down 7.6 percent to 23.4 billion dirhams, with declines of 19.7 percent for crude phosphate in value and 4.4 percent in quantity. Sales of phosphate derivatives decreased by 4.4 percent, despite a 31.4 percent increase in shipped volumes.

Chart 2.1: YoY cumulative growth in the exports



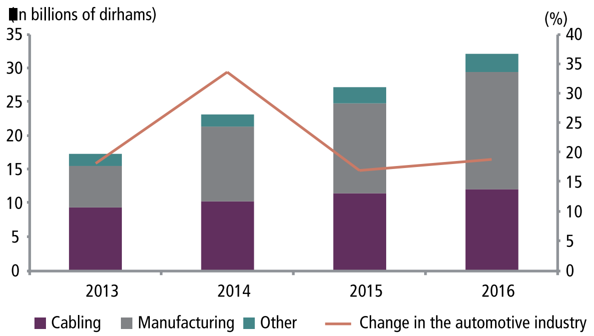
Source: Foreign Exchange Office.

Table 2.1: YoY change in the exports of phosphates and derivatives (%)

	july 2016/july 2015		
	Value	Quantity	Price
Crude phosphates	-19.7	-4.4	-16.0
Natural and chemical fertilizers	8.3	46.7	-26.2
Phosphoric acid	-20.3	-2.2	-18.5

Source: Foreign Exchange Office.

Chart 2.2: Change in automotive industry's exports in Jan.-July 2016



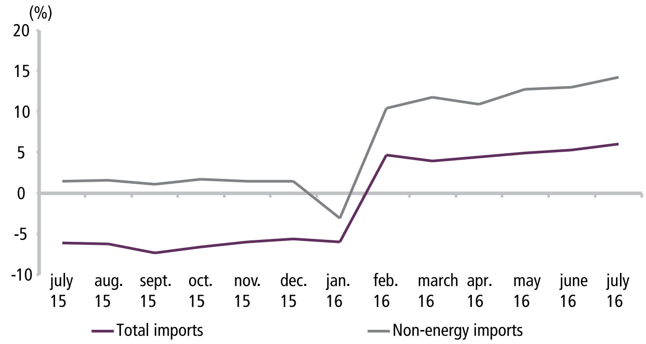
Source: Foreign Exchange Office.

2.1.2 Change in the imports

Imports rose by 4.9 percent to 234.6 billion dirhams, primarily reflecting an increase of 21.8 percent or 11.9 billion dirhams in purchases of capital goods, with particularly increases of 1.9 billion for imports of vehicles and equipment for railroads, 1.7 billion for components and spare parts for industrial vehicles and 1.6 billion for boilers, turbines and related parts. Similarly, consumer goods purchases moved up 15.3 percent, mainly due to a 45 percent increase in passenger car imports.

Similarly, purchases of semi-finished goods rose by 7.2 percent, mainly driven by the significant increase in purchases of piping accessories. Food imports grew by 15.5 percent to 26.2 billion, with particularly an increase of 21.2 percent in wheat supplies. Conversely, energy costs decreased by 29.9 percent, primarily due to the break in the imports of crude oil and fall of 32.9 percent in petroleum gas imports.

Chart 2.3: YoY cumulative growth in the imports



Source: Foreign Exchange Office.

Table 2.2: Change in major imports (YoY, %)

	july 2016/july 2015		
	Value	**Quantity**	**Price**
Diesel and fuel oil	21.2	55.3	-22.0
Petroleum gas	-6.6	41.0	-33.8
Crude oil	-24.8	4.3	-27.9
Crude sulfur	-24.8	12.8	-33.3

Source: Foreign Exchange Office.

In short, the deficit trade widened by 7.3 billion dirhams compared to the same period of 2015, amounting to 103.7 billion, representing a decline from 56.9 percent to 55.8 percent in the coverage import ratio.

2.2 Other components of the current account

egarding services, although decelerating, travel receipts increased by 3.1 percent. Meanwhile, related expenses maintained their rate of change at 5.3 percent. Transport expenditure edged up 0.4 percent, while transport revenues were down 7.4 percent.

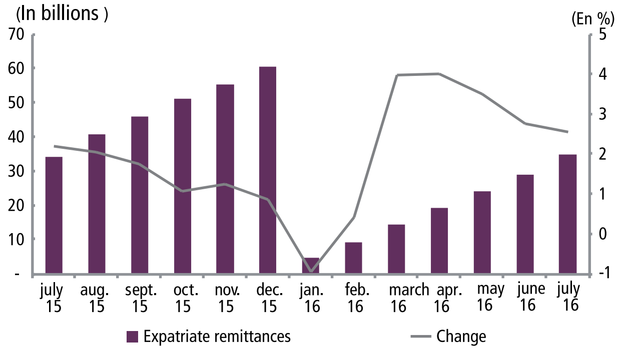
Under these conditions, trade in services resulted in a surplus of 34.4 billion dirhams, down 3.1 percent compared to the same period in 2015.

Table 2.3: Change in the trade of services

(In millions of dirhams)	January-july		Change	
	2016	2015	Value	%
Imports	**48 260**	**43 989**	**4 271**	**9.7**
Transport services	17 534	17 456	78	0.4
Travel	7 905	7 506	399	5.3
Exports	**82 650**	**79 477**	**3173**	**4.0**
Transport services	14 447	15 603	-1156	-7.4
Travel	32 790	31 804	986	3.1
Balance	**34 390**	**35 488**	**-1098**	**-3.1**

Source: Foreign Exchange Office.

Chart 2.4: Change in expatriate remittances
(YoY, year-to-date, in %)



Source: Foreign Exchange Office.

2.3 Financial account

In terms of key capital account transactions, receipts from foreign direct investment (FDI) fell 17.4 percent to 19.7 billion dirhams and FDI expenses increased from 4.9 billion to 7.4 billion dirhams. Outward foreign direct investment totaled 1.7 billion dirhams at the end of July 2016, as against 3.7 billion dirhams a year earlier. Against this backdrop, the outstanding international reserves progressed by 21.8 percent, year on year, at the end of July to 243.2 billion dirhams, equaling seven months and 11 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

In the second quarter of 2016, monetary conditions were marked by a depreciation of the real effective exchange rate and an overall decline in interest rates in various markets, following the Bank Board's decision taken in March to lower the key rate. Growth of credit to the nonfinancial sector picked up slightly, mainly reflecting improved loans to businesses. Taking also into account the slower growth of net international reserves and deeper decline in net claims on the central government, the money supply growth stabilized at 5.1 percent. Therefore, the monetary gap remained negative, indicating the absence of monetary inflationary pressures.

In the real-estate market, prices almost stabilized and sales grew by 1 percent from one quarter to another, after falling 8.2 percent in the first quarter. In the stock market, MASI recorded an average increase of 1.9 percent between July and August, bringing its performance to 10.5 percent in the first eight months of the year. After amounting to 21.2 billion in July mainly due to the effect of specific operations, the trading volume moved down to 1.3 billion in August. Overall, recent developments do not suggest inflationary pressures from assets markets.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

In the second quarter 2016, banks' liquidity needs fell to 6.7 billion on weekly average, from 12.6 billion dirhams in the first quarter, reflecting the continued expansion of foreign exchange reserves.

In July and August, these needs stood at 21 billion dirhams, in connection with the decision taken by the Bank's Board to raise the required reserve ratio from 2 percent to 4 percent and with the seasonal increase in currency in circulation.

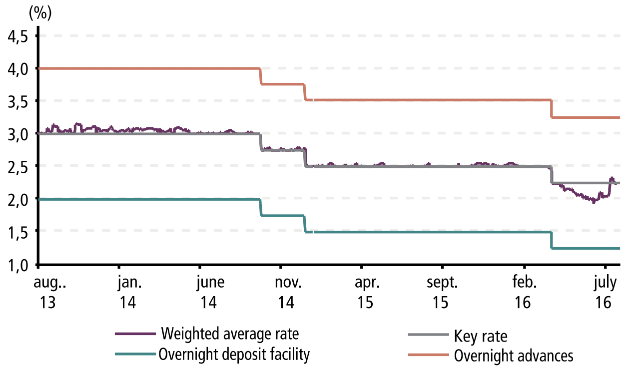
Thus, Bank Al-Maghrib increased the volume of its injections to 21.8 billion, of which 16.4 billion as 7-day advances and 4.5 billion as secured lending transactions, granted under the program to support the financing of VSME.

Under these conditions and after an easing in the second quarter following the decision taken by the Bank Board in March to lower the key rate, interest rates were adjusted upward in various markets between July and August.

On the interbank market, the weighted average rate progressed from 2.09 percent in the second quarter to 2.22 percent on average in July and August, aligning more with the key rate.

Treasury bill rates were tilted to the upside in July and August in both the primary market and the secondary one.

Chart 3.1: Change in the interbank rate (daily data)

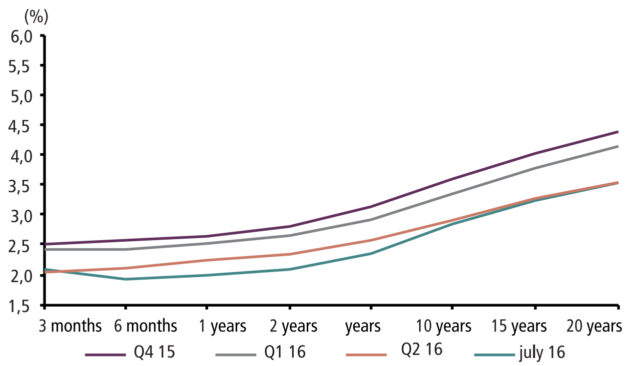


Source : BAM.

Table 3.1: Change in Treasury bond yields in the primary market

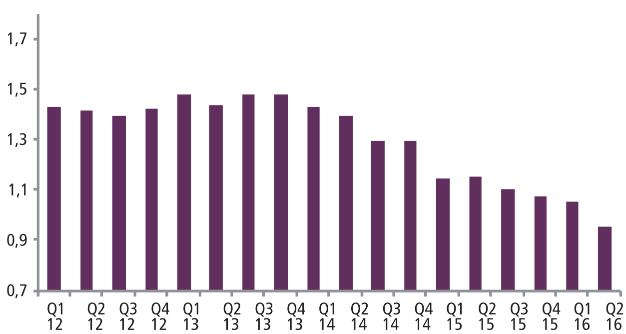
	2014		2015				2016		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	July
52 weeks	3.14	2.83	2.53	2.67	2.60	2.60	2.57	1.93	2.24
2 years	-	3.02	2.59	2.86	2.74	2.80	2 .63	2.05	2.36
5 years	3.80	3.33	2.98	3.24	3.17	3.14	2.92	2.30	2.60
10 years	-	3.75	3.30	3.66	3.39	3.61	3.48	2.87	-
15 years	-	4.30	3.89	4.07	4.06	4.05	3.77	3.60	-

Chart 3.2: Term structure of interest rates in the secondary market



In other markets, the latest data indicate that the rate of certificates of deposit issued continued to decline and the weighted average rate of 6 and 12-month deposits fell by 18 basis points to 3.36 percent. The 6-month deposits were down 13 basis points and the one-year deposits fell by 12 points. Under these conditions, the banks' cost of financing1 dropped again in the second quarter.

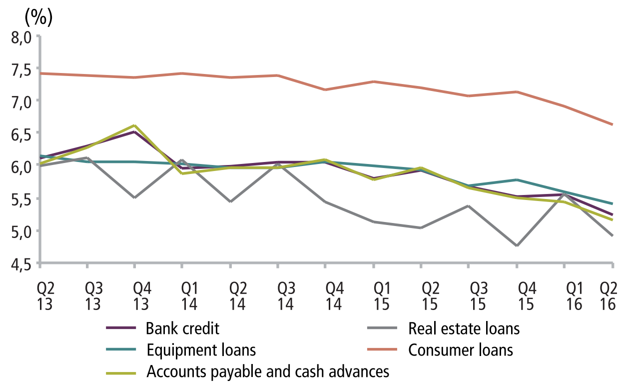
Chart 3.3: Change in cost of bank financing



1 The cost of financing is the weighted average of the costs of banks' resources.

This decline affected lending rates, with a further decline of 31 basis points in the overall weighted average rate to 5.24 percent. By loan category, rates on equipment loans were down 63 basis points to 4.91 percent and those matching consumer loans and cash advances declined by 28 points to 6.63 percent and 5.16 percent, respectively. Similarly, rates on housing loans fell by 18 points to 5.41 percent.

Chart 3.4: Change in lending rates



Source : BAM.

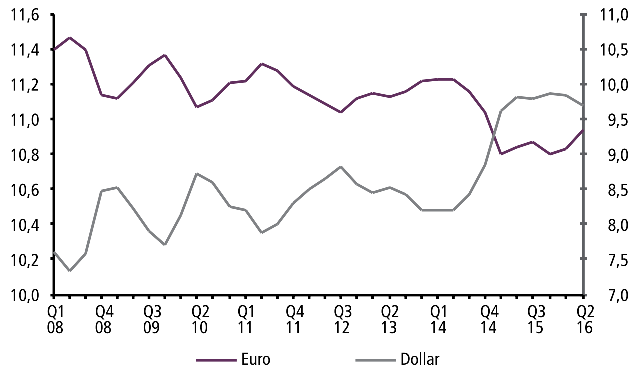
Table 3.2: Deposit rates (time deposits)

	2014		2015				2016	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
6 months	3.69	3.71	3.64	3.60	3.56	3.46	3.31	3.18
12 months	3.86	3.94	3.85	3.83	3.74	3.78	3.67	3.55
Weighed average	3.80	3.85	3.76	3.71	3.66	3.66	3.54	3.36

3.1.2 Exchange rate

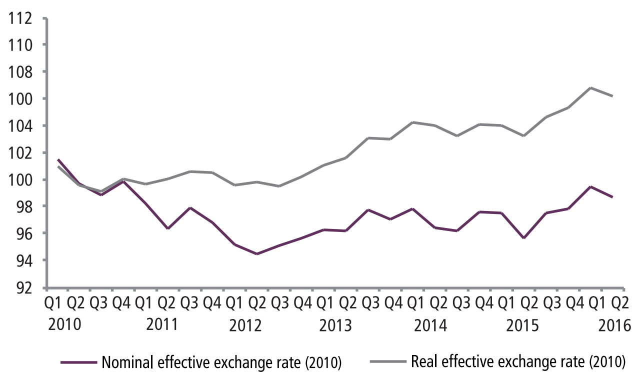
In the second quarter 2016, the euro appreciated 2.5 percent against the US dollar, reaching $1.13 on average. Thus, the national currency depreciated by 0.97 percent vis-à-vis the euro and appreciated by 1.55 percent against the US dollar. Compared with the currencies of some emerging countries, the dirham appreciated by 0.2 percent against the Turkish lira and 1.4 percent versus the Chinese yuan. In total, the nominal effective exchange rate depreciated by 0.61 percent. Furthermore, taking into account an inflation rate in Morocco broadly lower than that of partner countries and competitors, the real effective exchange rate depreciated by 0.78 percent.

Chart 3.5: Change in the exchange rate of the dirham



Source : BAM.

Chart 3.6: Change in effective exchange rates (2000=100)



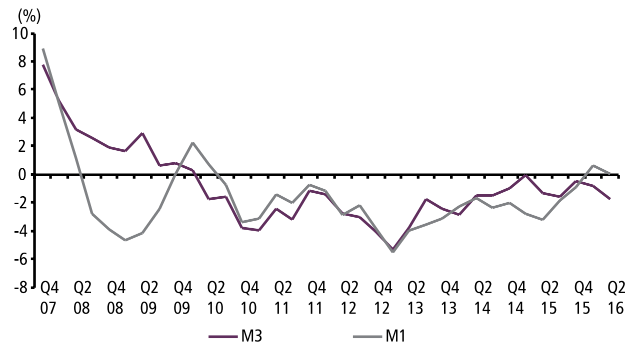
Sources : BAM and IMF calculations.

The net foreign exchange position of banks stood in the second quarter at 1.3 billion dirhams, from 3.2 billion on average in the first quarter. Bank customers' forward purchases grew by 3.4 percent to 5.9 billion, while sales decreased by 9.8 percent to 3 billion dirhams. Foreign exchange sales by Bank Al-Maghrib to banks averaged 1.6 billion dirhams, as against 188 million in the previous quarter.

3.1.3 Monetary position

The money supply growth remained almost stable at 5.1 percent in the second quarter of 2016. The improvement from 1.5 percent to 2.2 percent in bank credit was offset by the deceleration from 27.4 percent to 25 percent in net international reserves and deeper decline from 5.5 percent to 9.7 percent in net claims on the central government. The latest available data of July indicated that the money supply growth stood at 5 percent.

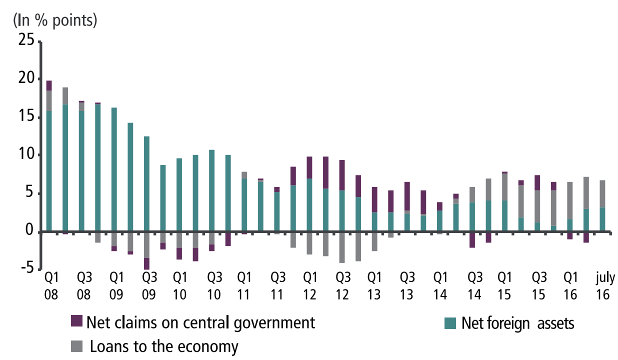
Chart 3.7: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



1: The monetary gap, calculated in real terms, is the difference between the recorded money stock and the equilibrium level. The latter, defined based on the quantity equation of money, corresponds to the growth of the potential economic activity in real terms, minus the average pace of decrease in the velocity of currency in circulation.

Source : BAM.

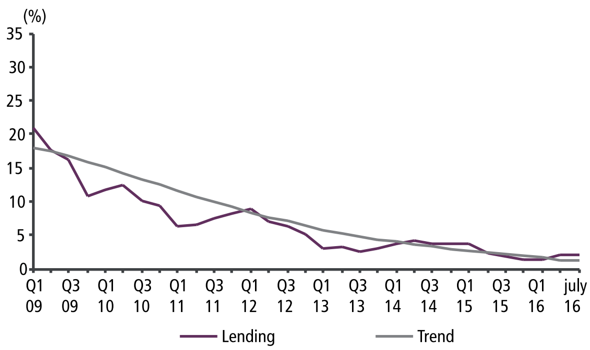
Chart 3.8: Contribution of the major counterparts to YoY change in money supply



Source : BAM.

Analysis by components of M3 shows a slowdown of monetary assets of nonfinancial corporations, with a slower growth from 7.6 percent to 5.6 percent in their demand deposits and from 22.4 percent to 7.6 percent in their time deposits. Demand deposits of households continued to accelerate from 7.1 percent to 7.7 percent, while the growth of their time deposits decreased from 7.3 percent to 6.1 percent. For other components, currency in circulation grew by 6.9 percent, as against 7.1 percent a quarter earlier and securities of money market fund shares/units were down 2.4 percent, under a slowdown as against a decline of 11.9 percent in the first three months of the year.

Chart 3.9: YoY change in credit



Source : BAM.

Concerning particularly the main source of money supply, bank loans to the nonfinancial sector continued to improve with a growth rate from 1.2 percent to 2.6 percent in the second quarter, mainly reflecting an increase of 1.1 percent in business loans after a decline of 1 percent.

The BAM's lending conditions survey for the second quarter 2016 indicates further relaxation of lending conditions for VSME, large enterprises and individuals. After a decline recorded by banks in the previous quarter, demand would have risen for all loan categories and all customer categories, except demand from the real estate development sector, which would have been down.

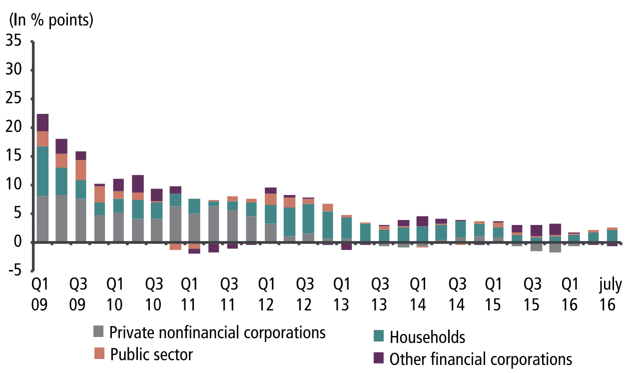
The improvement in corporate loans primarily reflects the slow fall from 4.4 percent to 2.7 percent in cash advances and from 10.6 percent to 3.3 percent in loans to real estate development. At the same time, growth of equipment loans accelerated from 0.9 percent to 1.5 percent, due to a 2.6 percent increase in those of public nonfinancial companies, as against a 0.6 percent decrease in the first quarter.

Loans to individual entrepreneurs decreased by 1.2 percent, a rate less pronounced than 6 percent in the previous quarter. Indeed, the deeper decline from 13.8 percent to 17.2 percent in loans to real estate development was more than offset by faster growth rates from 3.3 percent to 20.9 percent in cash advances and from 9.7 percent to 26.8 percent in equipment loans.

By industry, change in corporate loans reflects a slow decrease from 4.7 percent to 0.9 percent in the "construction" branch and from 2 percent to a virtual stagnation in loans to manufacturing industries as well as a faster growth of loans to the "trade" sector.

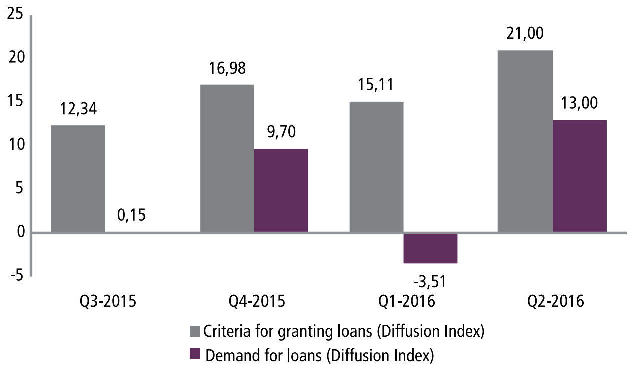
In terms of loans to individuals, growth decelerated from 6 percent to 5.4 percent for consumer loans and virtually stabilized at 4.9 percent for housing loans.

Chart 3.10: Institutional sectors' contribution to YoY change in credit



Nonperforming loans grew by 11 percent, almost up compared to the first quarter 2016. This increase covers a rise of 26.4 percent for nonfinancial companies and a decline of 7.8 percent for households. The ratio of nonperforming loans to bank credit rose to 7.8 percent in the second quarter 2016.

Chart 3.11: Change in supply and demand (Diffusion Index)

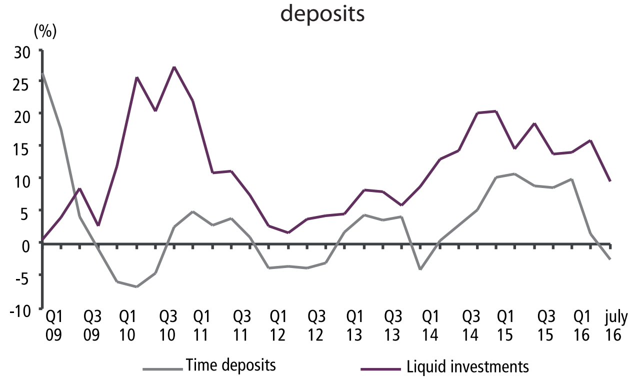


The latest available data for July 2016 indicate a 2.2 percent increase in bank lending, a rate similar to that observed in the second quarter 2016. Loans to the nonfinancial sector accelerated to 3.2 percent, reflecting improved growth of corporate loans to 1.8 percent and loans to households to 4.6 percent.

Loans to the nonfinancial sector by other financial companies, not included in the monetary position, were up 4.2 percent at end-June, from 0.5 percent at end-March, reflecting faster growth from 1.3 percent to 2.9 percent in loans accorded by finance companies. Change in the latter was attributed to a 4.7 percent increase in leasing, as opposed to 3.7 percent a quarter earlier and slow fall from 17.2 percent to 4.4 percent in factoring credits. Similarly, loans granted by offshore banks strengthened by 13.7 percent, after a decline of 10 percent at end-March 2016, mainly owing to an improvement of 24.2 percent in cash loans, as against a decline of 9.8 percent.

The liquidity rate of the economy, measured by the sum of the M3 aggregate and liquid investments as a percentage of GDP, stood at 170.4 percent in the second quarter, from 166.2 percent in the previous quarter, due to an accelerated growth from 14.2 percent to 16 percent in liquid investments. Particularly, the increase in bond UCITS accelerated from 20 percent to 21.9 percent and the outstanding equity and diversified UCITS increased by 3.9 percent after falling 5.5 percent.

Chart 3.12: YoY change in liquid investments and time deposits



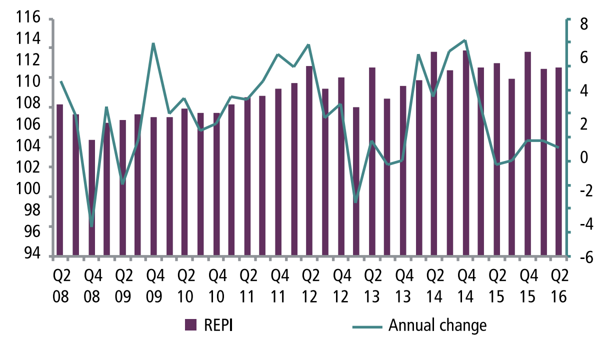
Source : BAM.

3.2 Asset prices

3.2.1 Real estate assets

The real estate price index (REPI) almost stabilized in the second quarter 2016. This change covers a quarterly price growth of 2.7 percent for the urban land and decreases of 1.2 percent for apartments, 1.1 percent for houses, 0.2 percent for commercial property and 3.9 percent for professional property.

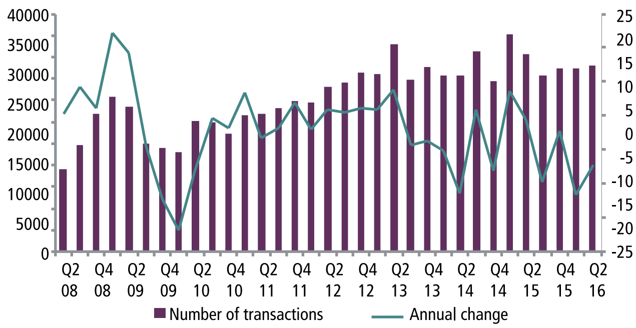
Chart 3.13: Change in the Real Estate Price Index (REPI)



Source : BAM and the National Land Registry and Mapping Agency

Transactions moved up by 1 percent, after falling 8.2 percent a quarter earlier. This increase is mainly attributable to the 4.2 percent increase in sales of apartments and 2.6 percent in those of villas, while urban land transactions decreased by 1.9 percent and commercial property and professional property transactions fell by 14.1 percent and 16.7 percent, respectively.

Chart 3.14: Change in number of real estate transactions



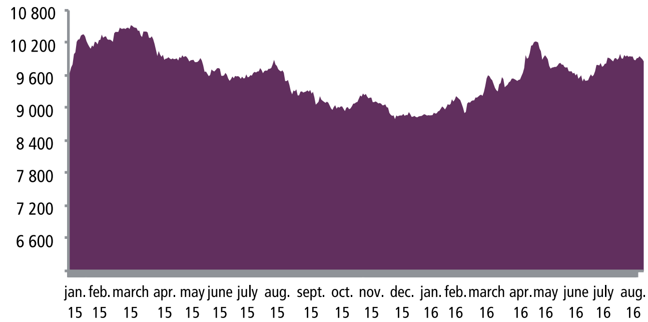
Source : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

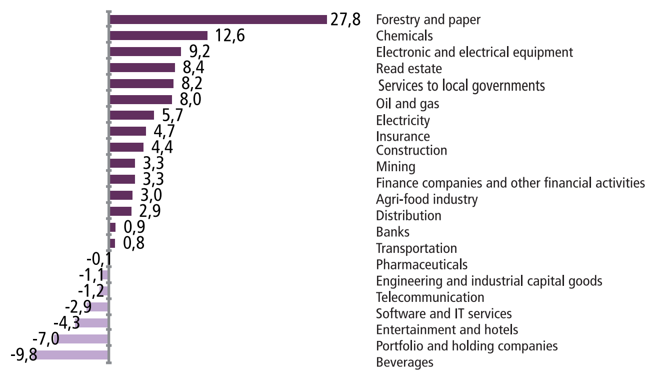
After growing 4.5 percent in the first quarter 2016, MASI rose by 1.9 percent in the second quarter, bringing its performance to 6.5 percent over the first six months of the year. The increase in MASI in the second quarter 2016 was primarily attributed to respective rises of 8.4 percent, 4.4 percent and 0.9 percent in the sectoral indexes of "real estate", "construction and building materials" and "banks". However, the shares of the "beverages" and "telecommunications" sectors fell by 9.8 percent and 1.2 percent, respectively.

Chart 3.15: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.16: Contribution of sectoral indexes to MASI growth in the Q4-2015, (in %)



Source : Casablanca Stock Exchange.

After a 7.6 billion surplus in the first quarter 2016, the trading volume reached 12.1 billion dirhams in the second quarter, mainly due to an increase in trade in the central market, which stood at 9.5 billion.

Taking into account a 1.4 percent increase in market capitalization to 477.2 billion dirhams, the liquidity ratio2 progressed from 5.6 percent to 6.2 percent.

Recent data indicate a slight monthly decrease of 0.2 percent in the benchmark index in August, after a 4 percent rise in July, thus bringing its performance since the beginning of the year to 10.5 percent. After amounting to 21.2 billion dirhams, in connection with the listing of Marsa Maroc with an amount of 1.9

2 The liquidity ratio is the ratio of the volume of transactions to the stock market capitalization.

billion and Lafarge Holcim's capital increase, totaling 9.1 billion, the trading volume declined to 1.3 billion in August.

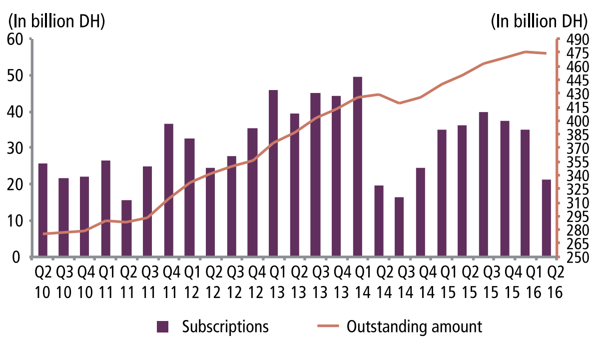
3.2.2.2 Treasury bonds

In the second quarter 2016, Treasury issues on the domestic market were limited to 21.3 billion dirhams, as against 35 billion a quarter earlier. 43 percent and 34 percent of issuances had a long-term maturity and medium-term one, respectively. They were performed with lower rates compared to those registered in the first quarter 2016.

Taking into account the amount of repayment of 22.8 billion, outstanding treasury bills reached 473.7 billion dirhams in the second quarter 2016.

The latest available data in July indicate issues amounting to 7.3 billion, as against a monthly average of 9.4 billion recorded over the first six months of the year. New issues were performed with slightly higher rates compared to the second quarter.

Chart 3.17: Change in outstanding Treasury bonds



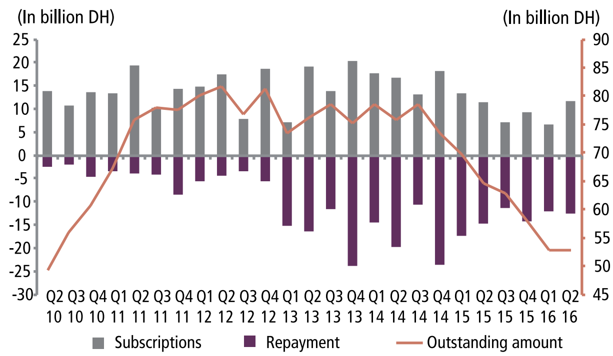
Source : BAM.

3.2.2.3 Negotiable debt securities

Regarding certificates of deposit, issuances amounted to 7.7 billion dirhams in the second quarter 2016 from 5.4 billion a quarter earlier, and matched lower rates compared to the first quarter 2016. Meanwhile, bills issued by finance companies reached 2.6 billion dirhams from 250 million in the first quarter and issuances of commercial paper stood at 1.5 billion dirhams from 1.2 billion in the first quarter.

Taking into account repayments of 12.5 billion dirhams, the outstanding amount of negotiable debt securities stood at 52.7 billion dirhams, down 9 percent from the end of 2015.

Chart 3.18: Change in outstanding amount of negotiable debt securities

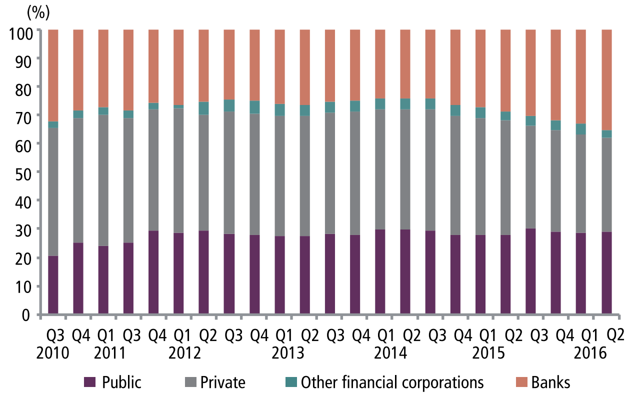


Source : BAM.

In the bond market, securities issued in the second quarter 2016 amounted to 3 billion dirhams, thus bringing emissions since the beginning of the year to 3.2 billion, as against 7.2 billion over the same period of the previous year.

Taking into account repayments, the outstanding amount of bond issues amounted to 95.8 billion, down 5.8 percent compared to end-December 2015.

Chart 3.19: Change in the structure of outstanding bonds by issuer

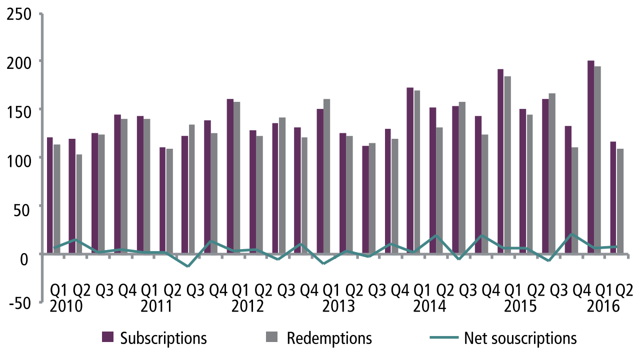


Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund shares/units

In the second quarter 2016, subscriptions to mutual fund shares/units totaled 116.6 billion dirhams and redemptions stood at 109.8 billion, representing a net inflow of 6.8 billion dirhams. Considering a quarterly appreciation of 1.7 percent in the performance indicator, the net assets of UCITS funds in the second quarter stood at 363 billion dirhams, up 8.2 percent compared to end-March. This increase reflects appreciations of the net assets of all fund categories, with the exception of short-term bond UCITS, which were down 10.1 percent.

Chart 3.20: Change in subscriptions and redemptions of mutual fund shares/units



Source : AMMC.

4. FISCAL POLICY STANCE

After a worsening of 4.8 billion in the budget deficit in the first half 2016, end-August data show a deficit of 30.5 billion, easing by 0.8 percent compared to end-August 2015.

The performances were broadly in line with the finance act for tax revenues, except the delay in the collection of the domestic VAT receipts, due to significant repayments. The execution of capital expenditure continued at a high rate, or 75.2 percent of the finance act at end-August 2016. However, only 20.5 percent of donations from the GCC were collected.

Thus, current revenues rose 5.8 percent, year on year, reflecting an improvement in both tax and nontax receipts. Overall expenditures moved up 5.2 percent, following higher investment and spending on goods and services, while subsidy costs eased in connection with a decline in international gas prices. The balance of special accounts was positive at 5.6 billion, up 1.2 billion from the same period in 2015.

The direct public debt would have risen 2.2 percent since the beginning of the year. The increase would have involved both domestic and external components. As to financing costs, the Treasury continues to benefit from favorable conditions when compared annually, with lower rates at issuance during the first eight months of 2016 compared to the same period of 2015.

4.1 Current revenues

The budget execution in the first eight months of 2016 was marked by a positive trend in current revenues. They posted a year-on-year rise of 5.8 percent, reflecting an increase of 6.3 percent in tax revenues to 139.2 billion dirhams, representing an implementation rate of 64.6 percent, compared to the Finance Act, and 1.3 percent in nontax receipts to 15.5 billion. With the exception of domestic VAT revenue, proceeds from various taxes and duties registered an increase, which was particularly pronounced for import VAT and direct taxes.

Indeed, direct taxes generated an amount of 54.2 billion, up 8.1 percent. The corporate tax progressed by 8.2 percent to 26.4 billion, reflecting improved profits in 2015 by some major contributors, mainly OCP, ANRT, BCP, CIH, Marsa Maroc and cement companies. Similarly, revenue from income tax increased by 7.7 percent to 26.5 billion. The trend in income tax receipts is due to the change in the collection method of taxes on agricultural incomes[1], as well as improvement of 4.6 percent in income tax on salaries paid by Morocco's General Treasury and 23.2 percent in income tax on real estate profits.

Table 4.1: Change in current revenues* (in billions of dirhams)

	Jan-aug. 2015	Jan-aug. 2016	Change in %	FA 2016	Achievements with respect to the FA 2016 (%)
Current revenues	**148.0**	**156.6**	**5.8**	**245.9**	**63.7**
Tax revenues	**130.9**	**139.2**	**6.3**	**215.5**	**64.6**
- Direct taxes	50.1	54.2	8.1	85.5	63.4
Including CT	24.4	26.4	8.2	44.3	59.6
I.T	24.6	26.5	7.7	38.6	68.6
- Indirect taxes	65.1	67.6	3.8	104.8	64.5
VAT	49.2	49.9	1.6	79.3	63.0
DCT	16.0	17.7	10.5	25.5	69.3
- Customs duties	5.1	6.2	22.2	7.9	79.1
- Registration and stamp duties	10.5	11.2	6.0	17.3	64.6
Nontax revenues	**15.3**	**15.5**	**1.3**	**27.2**	**57.1**
- Monopoles	6.0	5.4	-9.1	8.3	65.0
- Other receipts	9.4	10.1	7.9	18.8	53.7
Including GCC grants	1.3	2.7	106.5	13.0	20.5
TSA receipts	**1.7**	**1.8**	**4.7**	**3.3**	**55.5**

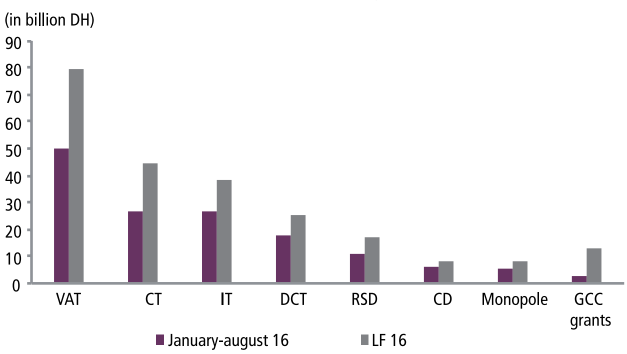
*Taking into account 30 percent of the VAT transferred to local governments.
Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

1 Taxpayers with professional or agricultural income, as determined by the regime of realized net income or simplified net income, are now obliged to proceed with the online declaration and electronic payment in lieu of collection following a publication of the list of taxpayers by the tax administration.

Indirect taxes moved up 3.8 percent to 67.6 billion, despite a 9.5 percent decline to 17.3 billion in domestic VAT revenue. This revenue was impacted by faster repayments, which stood at 5.8 billion from 3.6 billion in the same period of 2015.

Revenue from import VAT rose by 8.6 percent to 32.7 billion, covering a 10 percent decrease in energy VAT, due to lower international energy prices, and an 11.5 percent increase in VAT on others products. Meanwhile, proceeds from domestic consumption tax (DCT) rose by 10.5 percent to 17.7 billion, mainly in connection with a 9.1 percent increase in energy products and 12.8 percent in taxes on tobacco, owing to higher tobacco taxation. Customs duties and registration and stamp fees posted respective gains of 22.2 percent and 6 percent.

Chart 4.1: Achievements in major public receipts



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Nontax receipts improved by 1.3 percent, covering an increase in donations from GCC countries, which reached 2.7 billion, from 1.3 billion a year earlier, and a decline of 9.1 percent in monopoly receipts collected from Maroc Telecom, amounting to 1.4 billion, OCP and the National Land Registry and Mapping Agency, totaling 1 billion each and Marsa Maroc, amounting to 750 million.

4.2 Public expenditure

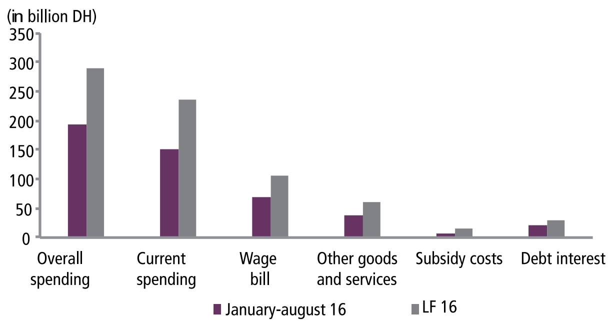
Overall expenditure rose by 5.2 percent to 192.6 billion compared to August 2015, mainly due to a 15.6 percent increase in investment to 40 billion, while current expenses progressed by only 2.8 percent to 152.7 billion, slowed by a decrease in subsidy costs. Spending on goods and services grew 4.8 percent to 108.5 billion, mainly reflecting increases of 9.8 percent in spending on other goods and services to 38.6 billion and, to a lesser extent, 2.2 percent in payroll to 69.9 billion. The rise in the latter covers increases of 0.8 percent in the structural payroll and 32.8 percent in reminders. Change in other goods and services reflects increases of 66.7 percent to 3.5 billion in payments to special accounts and 20.2 percent to 12.5 billion in transfers to various public institutions, while transfers to the Moroccan Pension Fund (Caisse Marocaine des Retreates) were stable at 8 billion.

Table 4.2: Change and execution of public spending(In billions of dirhams)

	Jan. aug. 2015	Jan. aug. 2016	Change 16/15 In %	FA 2016	Achieve-ments with respect to the FA (%)
Overall spending	**183.1**	**192.6**	**5.2**	**288.6**	**66.8**
Current spending	**148.5**	**152.7**	**2.8**	**235.4**	**64.8**
Goods and services	103.6	108.5	4.8	167.8	64.7
Staff	68.4	69.9	2.2	106.8	65.4
Other goods and services	35.2	38.6	9.8	61.0	63.3
Debt interest	20.5	21.7	5.6	28.3	76.6
Subsidy costs	9.7	7.5	-22.1	15.6	48.5
Transfers to LA	14.7	15.0	1.6	23.8	63.0
Investment	**34.6**	**40.0**	**15.6**	**53.1**	**75.2**

*Taking into account 30 percent of the VAT transferred to local governments.
Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

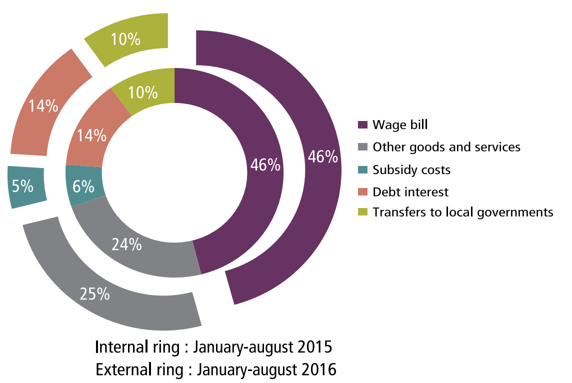
Chart 4.2: Execution of spending compared to the Finance Act



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing and BAM calculations.

Debt interest charges were up 5.6 percent to 21.7 billion, covering an increase of 7 percent to 19.3 billion in interest on domestic debt and a decrease of 4.5 percent to 2.4 billion in interest on external debt.

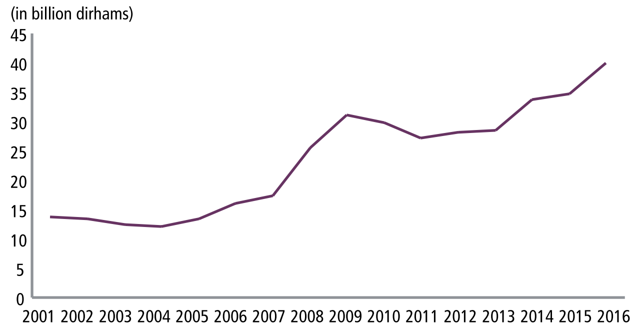
Chart 4.3: Structure of current spending



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Subsidy costs stood at 7.5 billion, easing by 22.1 percent compared to end-August 2015. This decrease is partly due to a drop of 25.2 percent in gas prices on the international market, which fell back from an average price of $376.9/T from January to August 2015 to $282/T over the same period of 2016. The exchange rate of the dirham against the dollar did not change significantly from 9.7 MAD/USD on average to 9.8 MAD/USD over the same period of 2016, representing a 0.4 percent appreciation of the dollar.

Chart 4.4: Investment spending at January-august



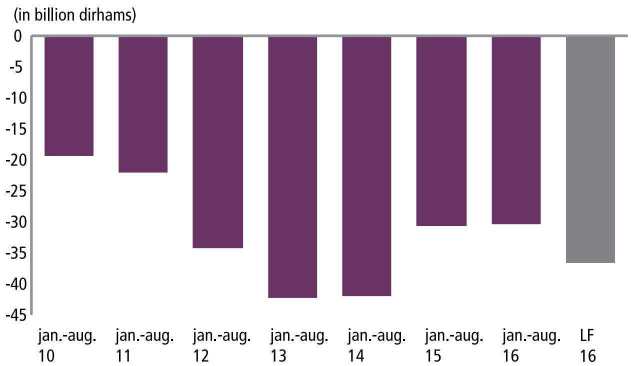
Source : Ministry of Economy and Finance (TEFD).

Executed at 75.2 percent compared to the Finance Act, the Treasury investment spending continued its upward trend, posting an increase of 15.6 percent to 40 billion, following rises of 44 percent in common expenses to 16.2 billion and 2.9 percent in spending of ministries to 22.8 billion. Monthly flows of August moved up 51.4 percent, compared to the flow of August 2015 and close to the average from February to June 2016. This trend bodes well for an end-year execution higher than to forecast of the finance act.

4.3 Deficit and Treasury financing

Taking into account changes in revenue, expenditure and balance of the Treasury special accounts, the Treasury position resulted in a budget deficit of 30.5 billion from 30.7 billion at end-August 2015. In the absence of a change in arrears, financing needs, just like the budget deficit, improved by 8.9 billion compared to the same period in 2015.

Chart 4.5: Fiscal balance at end-aug from 2010 to 2016 and FA 2016



Source : Ministry of Economy and Finance (TEFD).

This need for liquidity was covered by the domestic market for a net amount of 28.1 billion, down 11.9 billion dirhams and by net external flows of 2.4 billion, as against negative net flows of 611 million a year earlier. Gross foreign drawings in the first eight months of 2016 have come mainly from the World Bank, amounting to 4.7 billion, African Development Bank (ADB), totaling 3.1 billion, Japan, amounting to 726 million and Arab Fund for Economic and Social Development (AFESD), totaling 420 million.

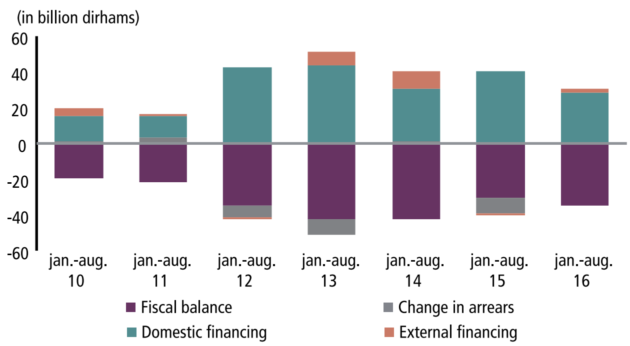
Table 4.3: Deficit financing (in billions of dirhams)

	Jan. aug. 2015	Jan. aug. 2016	FA 2016	Gap in value FA/ jan.-aug.16
Current balance	**-0.5**	**3.9**	**10.5**	**6.6**
Balance of TSA	4.3	5.6	6.0	0.4
Primary balance	-10.2	-8.8	-8.3	8.8
Fiscal balance	**-30.7**	**-30.5**	**-36.6**	**-6.1**
Change in arrears	-8.7	0.0	-	-
Financing requirements	**-39.4**	**-30.5**	**-36.6**	**-6.1**
Domestic financing	40.0	28.1	14.4	-13.7
External financing	-0.6	2.4	22.2	19.8

Source : Ministry of Economy and Finance (TEFD).

Regarding domestic financing, the Treasury benefited from the domestic market, coming mainly from deposits of the Treasury, up from 3.7 billion to 56.3 billion, which helped to limit borrowing to a net amount of 11.3 billion from 32.2 billion a year earlier. For the first eight months of 2016, net subscriptions to the auction market were dominated by maturities of 5 years and 15 years and over. However, August was characterized by the use of short-term maturities, primarily 26-week bills. In addition, the Treasury continued to lengthen the average maturity of its debt as part of active management by replacing the debt of maturities of less than or equal to 2 years, with that of maturities more than or equal to 5 years. It conducted transactions of redemptions and exchange of bills, totaling 20.4 billion dirhams in the first eight months of 2016.

Chart 4.6: Fiscal balance and financing



Source : Ministry of Economy and Finance (TEFD).

The Treasury financing conditions in the auction market remained positive in the first eight months of 2016 compared to the same period of 2015. Indeed, the weighted average rate of issues recorded an average decline of 38 basis points (bps) to 2.98 percent. Yields on 5-year and 15-year bills decreased by 46 bps to 2.66 percent and by 45 bps to 3.55 percent, respectively. Similarly, short-term maturities dropped, mainly yields on 13-week and 52-week bills, falling back on average between January and August to 2.1 percent and 2.22 percent, down 41 and 37 bps, respectively.

Table 4.4: Treasury debt outlook (in billions of dirhams)

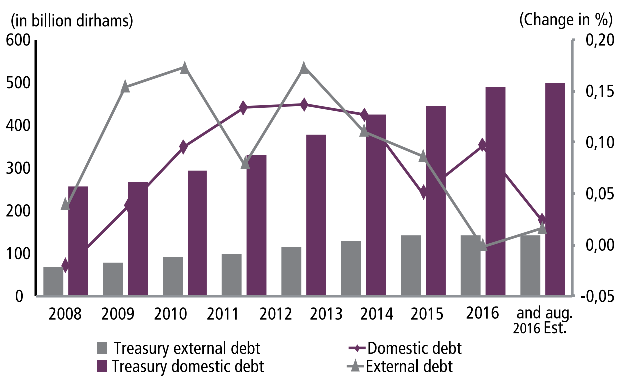
	2011	2012	2013	2014	2015	At end aug 2016 Est.*
Treasury external debt	**99.6**	**116.9**	**129.8**	**141.1**	**140.8**	**143.8**
Change in %	7.8	17.4	11.1	8.7	-0.2	2.1
In % of GDP	12.1	13.8	14.5	15.3	14.3	14.2
Treasury domestic debt	**331.3**	**376.8**	**424.5**	**445.5**	**488.4**	**494.5**
Change in %	13.4	13.7	12.6	5.0	9.6	1.2
In % of GDP	40.4	44.4	47.3	48.2	49.7	48.9
Outstanding direct debt	**430.9**	**493.7**	**554.3**	**586.6**	**629.2**	**638.3**
Change in %	12.0	14.6	12.3	5.8	7.3	1.4
In % of GDP	52.5	58.2	61.7	63.5	64.1	63.1
Croissance du PIB nominal (%)	**4.5**	**3.4**	**5.9**	**2.9**	**6.3**	**3.0**

Source : For GDP, data from 2011 to 2016 are estimates of the HCP, and those of 2016 are BAM forecasts.

From Debt at end Aug. 2016, estimates are based on the flows of domestic and external financing.

Concerning the direct public debt, estimates based on financing flows show a growth of 2.2 percent at the end of August 2016, compared to end-December 2015. This change covers an increase of 1.7 percent in its external component and 2.3 percent in its domestic one.

Chart 4.7: Treasury debt



Sources : Ministry of Economy and Finance (TEFD), and BAM estimates and calculations.

5. DEMAND, SUPPLY AND LABOR MARKET

National accounts data for the first quarter 2016 show a growth of 1.7 percent driven by a positive contribution of 3.3 percentage points in domestic demand and a negative contribution of 1.6 percentage point in net exports. In light of recent developments and revisions of quarterly national accounts, growth would be about 1.3 percent in the second quarter of 2016 and should not exceed 1.4 percent in the third quarter.

On a sector basis, as a result of the 71 percent contraction in cereal production to 33.5 million quintals, the impact of which was mitigated by the good performance of other crops favored by rainfalls in February and March, the decline in the agricultural value added would be limited to 8.9 percent in the second half and 9.2 percent in the third quarter. The growth of nonagricultural GDP should be around 2.7 percent and 2.9 percent, respectively.

In the second quarter, the labor market lost 26,000 net jobs and the participation rate decreased by 0.8 percentage point to 47.2 percent, causing the unemployment rate to slightly fall from 8.7 to 8.6 percent. Regarding labor costs, the latest data available for the first quarter indicate an increase in the private sector wage index by 4.4 percent in nominal terms and 3.5 percent in real terms.

Altogether, the economy continued to operate below its potential in the third quarter 2016.

5.1 Domestic demand

5.1.1 Consumption

National accounts for the first quarter of 2016 show that household final consumption grew by 2.7 percent, from 2.3 percent a year earlier. Its contribution to growth rose to 1.6 percentage point, as against 1.4 point.

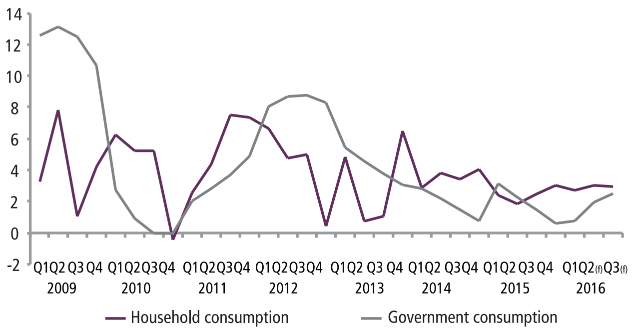
In the second quarter, it would have increased by approximately 3 percent from 1.8 percent in the same quarter of the previous year, supported by the improvement in gainful employment that increased by 103,000 paid jobs across all sectors as against a loss of 7,000 jobs a quarter earlier and the creation of 125,000 jobs in the second quarter of 2015. Similarly, the results of the economic conditions survey among households conducted by the HCP indicate that household confidence index rose to 75.7 points instead of 71.6 points a quarter earlier, but remains below the level of the second quarter of the previous year. However, consumer loans grew less rapidly by 4.9 percent, down from 5.7 percent a year earlier.

In the third quarter, household consumption is expected to maintain almost the same pace of growth as in the second quarter, particularly because of the continued improvement in household income.

Government final consumption in the first quarter of 2016 slowed down from 3.2 to 0.8 percent, on a year-on-year basis.

In the second quarter, due to a 3.8 percent increase in operating expenses and a 29.5 percent decrease in subsidy costs, government final consumption would have grown by about 2 percent, a rate higher than in the previous quarter. Therefore, its contribution to growth would remain positive, but limited to a mere 0.3 percentage point. This trend is expected to continue in the third quarter.

Chart 5.1: Change in consumer spending (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

In the first quarter 2016, HCP revised data indicate that investment rose 5 percent after a decline of 5.4 percent a year earlier and 0.7 percent in the previous quarter, thus contributing 1.4 percentage point to growth.

In view of recent developments in available indicators, investment would have accelerated significantly in the second quarter compared to the same quarter of the previous year, but slowed down relative to the first quarter of 2016. Indeed, equipment loans improved and capital goods' imports rose 21.7 percent.

In particular, Treasury investment spending as at-end July rose 13 percent to 36.2 billion dirhams instead of 2 percent to 32 billion a year earlier.

In the residential property sector, the growth in real estate loans decelerated to 1.7 percent as at-end July, mainly reflecting the continued decline of loans to property developers. Concurrently, the volume of transactions decreased 2.1 percent in the second quarter year on year, while prices were down 0.9 percent, due mainly to a decline in the prices for residential property and urban land.

5.2 External demand

In the first quarter, the contribution of net exports of goods and services to growth was negative at 1.6 percentage point, for the first time since the first quarter 2014. Exports of goods and services accelerated 6.3 percent. Meanwhile, imports of goods and services rose 8.7 percent after four consecutive quarters of decline.

This trend in external demand is expected to continue in the second quarter 2016, as exports are expected to keep momentum and imports would increase. Consequently, the contribution net external demand to growth would remain negative. In these circumstances, after 1.7 percent in the first quarter, GDP growth would be about 1.3 percent in the second quarter and should not exceed 1.4 percent in the third quarter 2016.

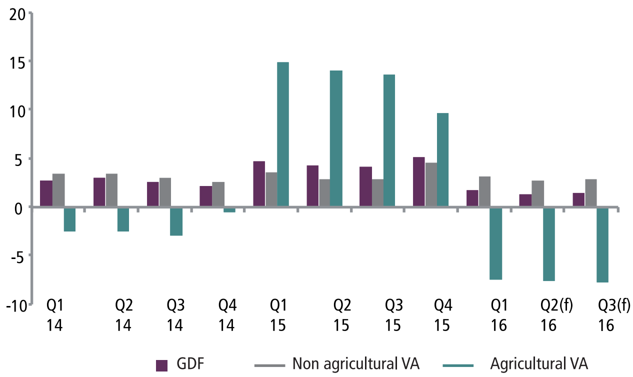
5.3 Aggregate supply

Economic growth in the second quarter 2016 would have slowed down from 1.7 percent in the first quarter to 1.3 percent.

By component, agricultural value added would have declined further to 8.9 percent, after 9 percent in the first quarter, as a result of the 71 percent contraction in cereal production, the impact of which was offset by the good performance of other crops, favored by rainfalls in February and March.

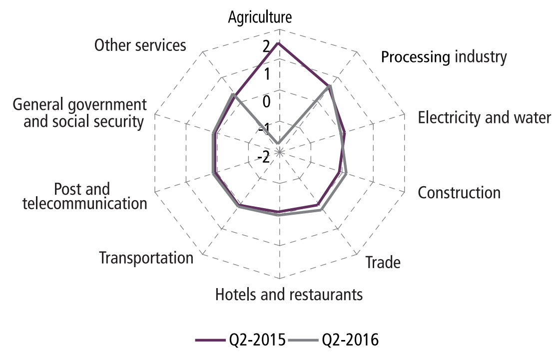
The growth in the nonagricultural value added would have slowed down from 2.5 percent in the first quarter to 2.1 percent. Taking into account an estimated increase of 6 percent in taxes on products less subsidies on products, nonagricultural GDP growth would have stood at 2.7 percent as against 3.1 percent in the first quarter and 2.9 percent in second quarter 2015.

Chart 5.2: YoY annual change in GDP (chained prices, in %)



Sources: HCP, and BAM forecasts.

Chart 5.3: Sectoral contribution to growth (in % points)



Sources: HCP, and BAM forecasts

In secondary activities, the value added of processing industries would have increased by 3 percent in the second quarter after 2.9 percent the previous quarter, benefiting from the good performance of Morocco's world trades, particularly agribusiness, automotive industry and aeronautics. The value added of the construction sector would have risen by 1.6 percent after 2.3 percent in the first quarter. Cement sales were down 2.2 percent instead of 5.9 percent increase, but increased as at end-June by 1.7 percent.

The growth in the electricity sector also slowed down to 1 percent, from 2 percent in the previous quarter, reflecting notably the decline in demand and the dissipated effect of the entry into operation of phases 4 and 5 of Taqa Morocco (formerly JLEC) in the second half of 2014.

By contrast, mining activity would have decreased by 1.5 percent, as against an increase of 7 percent in the first quarter, because of the 1.8 percent decline in phosphate production after a strong increase of 10.2 percent.

In commercial activities, the post and telecommunication sector would have grown by 4.1 percent after 5 percent in the first quarter and 3.2 percent in the same period a year earlier. In a context marked by a further fall in prices, the volume of outgoing mobile voice traffic improved by 13 percent and the average monthly invoice per Internet customer rose by 4.3 percent. Similarly, commercial activities would have maintained the momentum seen in the first quarter, showing an increase of 2.2 percent as against 0.9 percent a year earlier. Conversely, after expanding by 1.2 percent in the first quarter, the value added of the tourism sector fell 1 percent as against 6.2 percent a year earlier, suffering mostly from recent terrorist acts in some tourist-generating countries.

In the third quarter, economic growth is projected at 1.4 percent, as a result of a further decline of 9.2 percent in the agricultural added value and the acceleration to 2.4 percent in the nonagricultural one, owing to the continued momentum in industrial activity, construction and post and telecommunications and the recovery in the mining sector. The growth of nonagricultural GDP is projected at 2.9 percent.

5.4 Labor market and output capacity

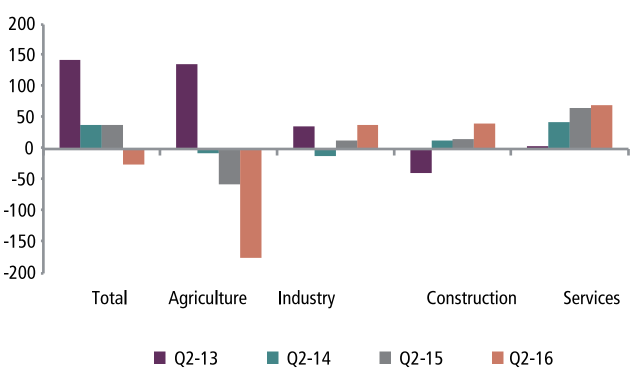
5.4.1 Activity and employment

The second quarter 2016 was marked by a 0.4 percent decrease in labor force aged 15 and over to 11.9 million, reflecting a 0.8 percent decline in rural areas and stagnation in cities. The participation rate continued to decline at a rapid pace, falling from 48 to 47.2 percent nationally, from 42.2 to 41.4 percent in urban areas and from 57.2 to 56.3 percent in rural areas.

At the same time, the Moroccan economy lost 26,000 jobs, with the loss of 64,000 jobs in rural areas and the creation of 38,000 jobs in urban areas. Under these conditions, the employed labor force shrunk 0.2 percent and the employment rate fell from 43.9 to 43.1 percent. By place of residence, the employment rate fell by 0.5 point to 36.1 percent in urban areas and by one point to 54.3 percent in rural areas.

By sector, the services sector was the first job provider, creating 70,000 jobs, followed by construction with 41,000 jobs and industry, including crafts, with 38,000 jobs. Conversely, employment in agriculture, forestry and fishing continued the decline that began in the second quarter 2015, with a greater loss of 175,000 jobs.

Chart 5.4: Trend in job creation by sector (in thousands)

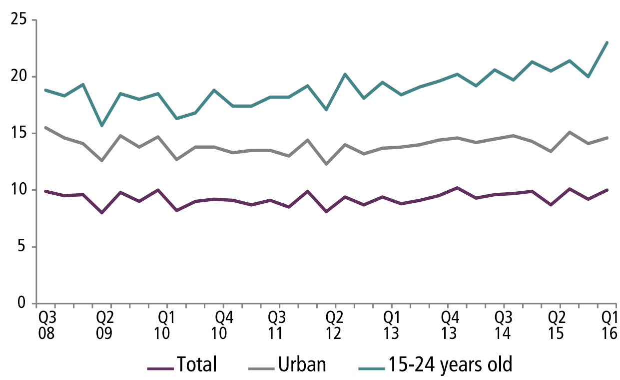


Source : HCP.

5.4.2 Unemployment and underemployment

The unemployed labor force showed a decrease of 1.7 percent in the second quarter to 1.02 million. Taking into account the decrease in the labor force, the unemployment rate declined slightly from 8.7 to 8.6 percent nationally, masking a decline of 0.6 percentage point to 12.8 percent in urban areas and an increase of 0.4 point to 3.7 percent in rural areas. The rise in unemployment affected exclusively young people aged 15 to 24, the rate of whom worsened from 20.5 to 21.5 percent nationally, from 38.6 to 38.8 percent in cities and from 8.5 to 10.3 percent in rural areas.

Chart 5.5: Trend in unemployment rate (in %)

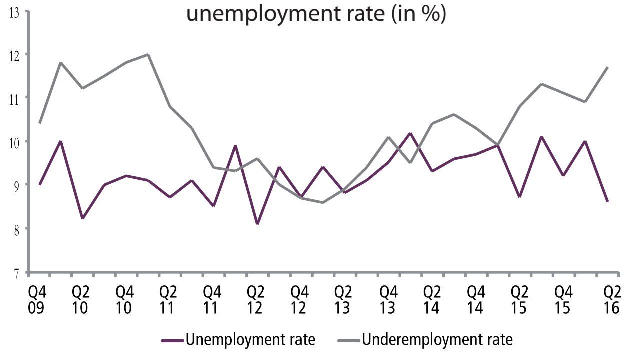


Source : HCP.

The underemployment rate[1] continued its upward trend to stand at 11.7 percent as against 10.8 percent a year earlier. This change includes an increase of 0.8 percentage point to 10.5 percent in urban areas and of 0.5 point to 12.5 percent in rural areas.

1 The underemployed population includes persons who have worked either: i) during the reference week less than 48 hours but are willing and available to make additional hours; or ii) more than the threshold and are looking for another job or willing to change job because it is inadequate with their education or qualifications or its income is insufficient.

Chart 5.6: Change in underemployment rate and unemployment rate (in %)



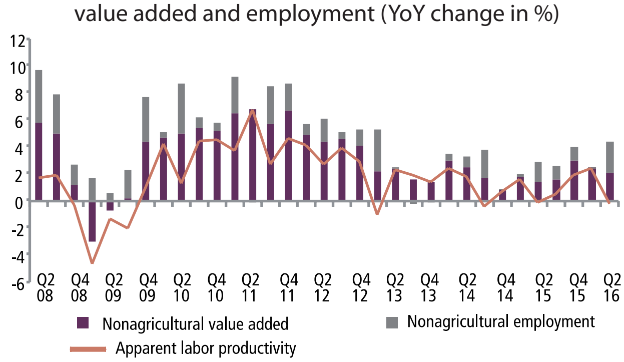
Source : HCP.

This increase affected all sectors but at varying degrees. Indeed, the underemployment rate in the construction sector recorded the largest increase, up 1.6 point to 17.1 percent. In other sectors, the rate rose from 11.3 to 12 percent in agriculture, 9.7 to 10.7 percent in services and 8.7 to 9.2 percent in industry including crafts.

5.4.3 Productivity and wages

The apparent labor productivity in nonagricultural activities2 was down 0.2 percent in the second quarter after decreasing by 0.1 percent a year earlier, as a result of the acceleration of nonagricultural growth from 1.4 to 2.1 percent and of nonagricultural employment from 1.5 to 2.3 percent.

Chart 5.7: Apparent labor productivity and nonagricultural value added and employment (YoY change in %)

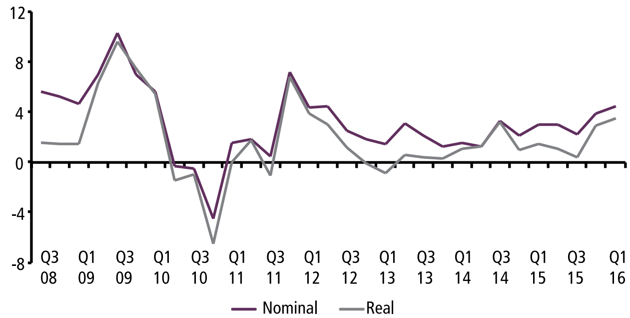


Sources: HCP, and BAM calculations.

2 Measured by the ratio of nonagricultural value added to employed labor force in nonagricultural sectors.

Latest data on labor costs for the first quarter 2016 point to an increase in the average wage index, calculated on the basis of the CNSS data, from 2.9 to 4.4 percent in nominal terms and from 1.4 to 3 5 percent in real terms.

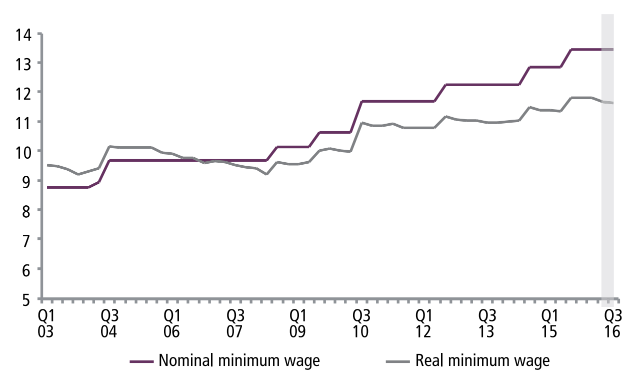
Chart 5.8: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

Regarding the minimum wage in particular, due to its appreciation by 4.7 percent in July 2015 to 13.46 dirhams/hour, it increased in real terms year on year by 2.8 percent the second quarter 2016 but is expected to decline 1.6 percent in the third quarter.

Chart 5.9: Hourly minimum wages in nominal and real terms (in DH/h)



Sources: Ministry of Employment and Social Affairs, and BAM calculations.

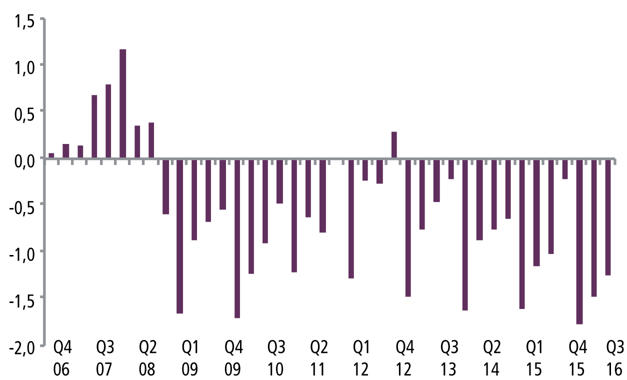
Table 5.1 : Labor market main indicators

		Q2- 2015	Q2-2016
Participation rate (%)		**48.0**	**47.2**
Urban		42.2	41.4
Rural		57.2	56.3
Unemployment rate (%)		**8.7**	**8.6**
Youth aged between 15 and 24 years old		20.5	21.5
Urban		13.4	12.8
Youth aged between 15 and 24 years old		38.6	38.8
Rural		3.3	3.7
Job creation (in thousands)		**38**	**-26**
Urban		72	38
Rural		-34	-64
Sectors			
- Agriculture		-58	-175
-Industry including handicrafts		14	38
- Construction		16	41
- Services		66	70
Nonagricultural apparent productivity (change in %)		**-0.1**	**-0.2**
Average wage index (change in %)	**Nominal**	**2.9**	**4.4**
	Rael	**1.4**	**3.5**

Sources: HPC; CNSS and BAM calculations

In total, Bank Al-Maghrib forecasts suggest that the output gap is expected to remain negative in the second and third quarters of 2016.

Chart 5.10: Trend in nonagricultural output gap (change in %)



Source: BAM estimates based on HCP data.

6. RECENT INFLATION TRENDS

In line with the analysis and forecasts published in the last Monetary Policy Report, inflation, as measured by the change in the Consumer Price Index, registered a marked acceleration in the second quarter 2016, fueled mainly by the increase in volatile food prices. It rose from 1 percent in the first quarter to 1.9 percent in the second quarter, and then fell to 1.6 percent in July and August 2016, in connection with the less rapid increase in volatile food prices and, to a lesser extent, the dissipated effect of previous increases in the prices of certain regulated products.

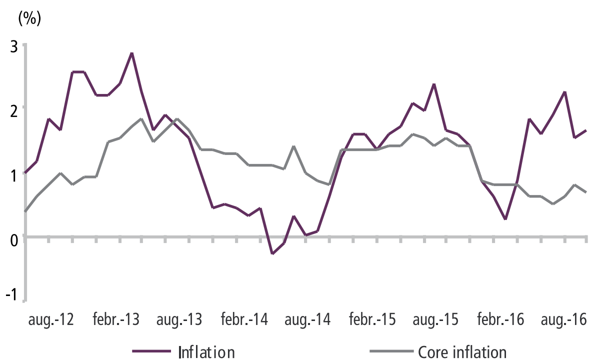
Due to the slight recovery in international prices, prices for fuel and lubricants declined less rapidly, from 6.5 percent in the second quarter to 6.1 percent and 4.8 percent in July and August. Though it remained relatively subdued, core inflation increased slightly from 0.5 to 0.8 percent in July, and then fell to 0.7 percent in August in connection with the change in the prices for certain food products.

In the short term, inflation is expected to slow to 1.6 percent in the third quarter, mainly because of the continued slowdown in the growth rate of volatile food prices, which should more than offset the increase in core inflation.

6.1. Inflation trends

In recent months, inflation showed strong variations caused mainly by volatile food prices. It increased from 1 percent in the first quarter to 1.9 percent in the second quarter before returning to 1.6 percent in July and August. The increase in volatile food prices fell from 11.7 percent in the second quarter 2016, the fastest rate since the end of 2010, to 8.5 percent in July and August. The decline in prices of fuels and lubricants eased from 6.5 to 6.1 percent and 4.8 percent, while the price increase of regulated products was limited to 0.6 percent and 0.5 percent in July and August, down from 1 percent in the second quarter. Excluding these products, core inflation remains at a relatively low level despite the slight increase in July.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations.

Table 6.1: Change in inflation and its components

(In %)	MoM (%)			YoY (%)		
	june 16	july 16	aug. 16	june 16	july 16	aug. 16
Headline inflation	**0.4**	**-0.2**	**0.0**	**2.3**	**1.6**	**1.6**
- Volatile food products	1.9	-1.6	0.6	14.4	8.5	8.5
- Fuels and lubricants	4.2	-1.7	-3.7	-4.9	-6.1	-4.8
- Administered goods	0.0	0.0	-0.1	0.7	0.6	0.5
Core inflation	**0.3**	**0.3**	**-0.2**	**0.6**	**0.8**	**0.7**
- Food products	0.2	0.3	0.0	0.2	0.4	0.6
- Clothing and footwear	0.1	0.1	-0.1	1.3	1.0	0.6
- Housing, water, gas, electricity and other fuels*	0.2	0.1	0.0	1.0	1.1	0.9
- Furnishings, household equipment and routine house maintenance	0.0	0.1	0.0	0.6	0.6	0.6
- Health*	0.1	0.0	0.2	1.1	1.3	1.5
- Transportation*	-0.1	-0.1	-0.1	0.6	0.5	0.2
- Communication	0.0	0.0	0.0	-0.2	-0.2	-0.2
- Entertainment and culture	0.2	0.0	0.2	1.7	1.7	1.9
- Education	0.0	0.0	0.0	2.1	2.1	2.1
- Restaurants and hotels	0.1	0.2	0.3	2.4	2.6	2.6
- Miscellaneous goods and services	0.1	0.1	0.0	0.1	0.2	0.2

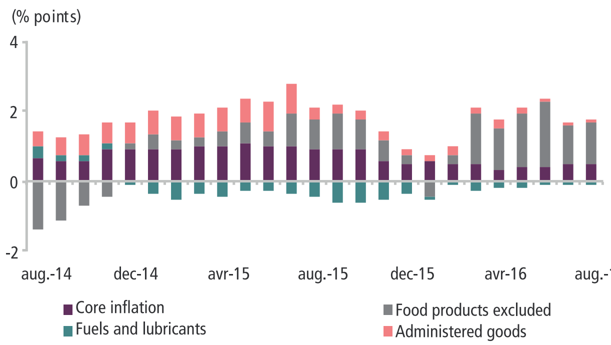
* Excluding administered goods.

Sources: HCP, and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

Due to successive shocks on several products, the rate of increase in volatile food prices has accelerated sharply since the beginning of the year, from 3.2 percent in the first quarter to 11.7 percent in the second quarter, which raises their contribution to inflation from 0.4 to 1.5 percentage point. The inflation of these products, although it remains somewhat elevated, slightly eased in July and August to 8.5 percent. The deceleration particularly concerned the prices of fresh vegetables, whose growth rate fell from 15.3 percent in the second quarter to 9.4 percent in July and 8.2 percent in August, and citrus whose prices fell on average to the level seen in the previous year after rising 32.1 percent in the second quarter.

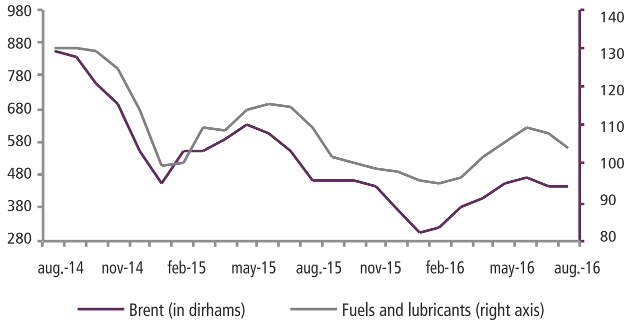
Chart 6.2: Contribution of the prices of major CPI items to inflation, YoY



Sources: HCP, and BAM calculations.

Prices of regulated products rose by a mere 0.6 percent in July and 0.5 percent in August, down from 1 percent in the second quarter 2016, primarily due to the dissipated effect of raising tobacco prices in June 2015. This trend was slightly offset by the rise in the prices of medical services starting from May 2016. The decline in the prices of fuels and lubricants eased from 6.5 percent to 6.1 percent and 4.8 percent in July and August, reflecting the differing effects of the relative upturn in international oil prices and the appreciation of the national currency against the U.S. dollar.

Chart 6.3: Change in international prices of Brent and the price index of fuels and lubricants

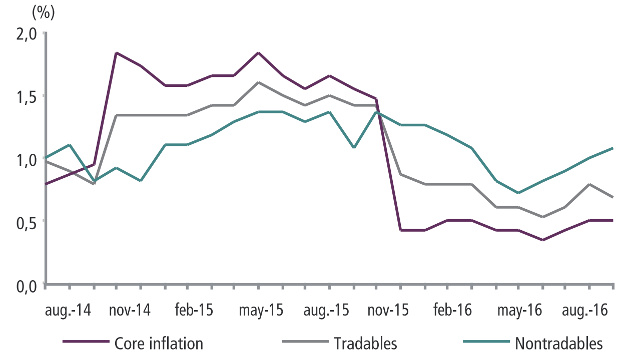


Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

Core inflation accelerated from 0.5 percent in the second quarter to 0.8 percent in July and 0.7 percent in August, reflecting accelerated pace of increase in the prices of both tradables and nontradables. Indeed, inflation of tradables slightly increased from 0.4 percent in the second quarter to 0.5 percent in July and August, due mainly to the accelerated increase in the prices of legumes and cereal-based products. This category of goods contributed 0.3 percentage point to core inflation, instead of 0.2 earlier. Meanwhile, the inflation of nontradables increased by 0.8 percent in the second quarter to 1 percent in July and 1.1 percent in August, reflecting in particular the increase in prices for fresh meat by 0.2 percent after declining by 0.2 percent in July and 0.6 percent in the previous quarter. The contribution of nontradables to core inflation rose from 0.4 percentage point in the second quarter to 0.5 in July and August.

Chart 6.4: YoY change in the price indexes of tradables and nontradables included in the CPIX



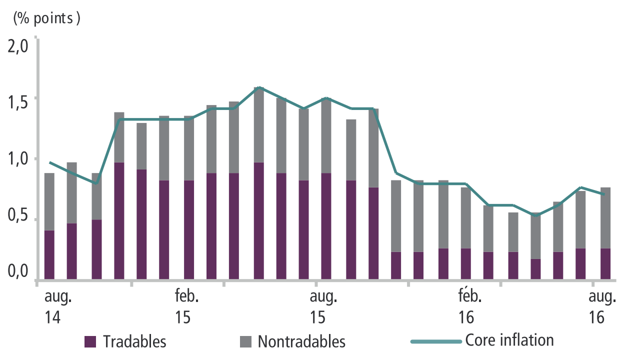
Sources: HCP, and BAM calculations

Table 6.2: Change in the price indexes of tradables and nontradables included in the CPIX

(In %)	Monthly change (%)			YoY change (%)		
	june 16	july 16	aug. 16	june 16	july 16	aug. 16
Tradables	0.0	0.1	0.0	0.4	0.5	0.5
Nontradables	0.3	0.3	0.1	0.9	1.0	1.1
core inflation	0.3	0.3	-0.2	0.6	0.8	0.7

Sources : HCP et calculs BAM.

Chart 6.5: Contribution of tradables and nontradables to core inflation

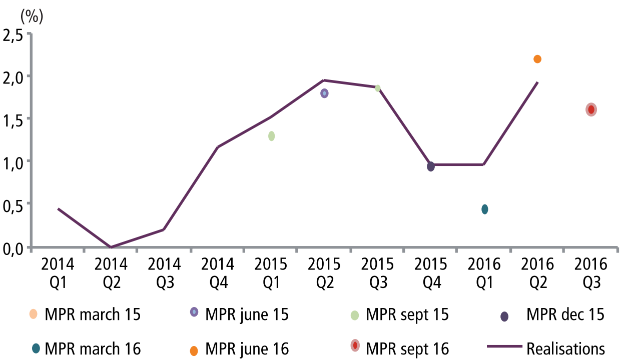


Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

After rising 1 percent in the first quarter to 1.9 percent in the second quarter, inflation should slow to 1.6 percent in the third quarter 2016. This development is primarily related to an expected deceleration in the inflation of volatile food prices, itself caused by the dissipated effects of supply shocks that have affected some fresh food products in recent months. The contribution of this product category to inflation should be limited to 0.9 percentage point instead of 1.5 point a quarter earlier. The decline in inflation should also result from a less rapid increase in the prices of regulated products. However, the expected increase in international oil prices should lead to a further ease in the rate of decrease of prices for fuels and lubricants. Core inflation is projected to rise by 1 percent as against 0.5 percent the previous quarter, in connection with the upward revision in the forecasts of certain food prices.

Chart 6.6: Short-term forecasts and actual inflation

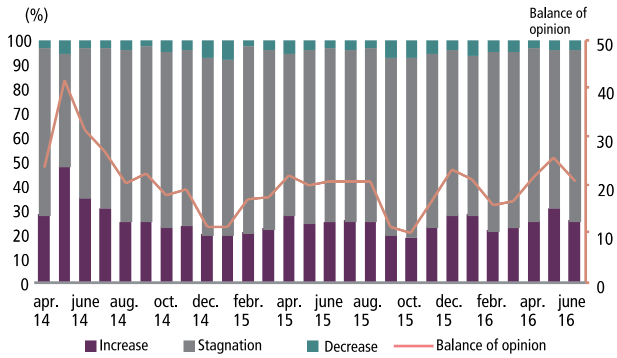


Sources : BAM.

6.3. Inflation expectations

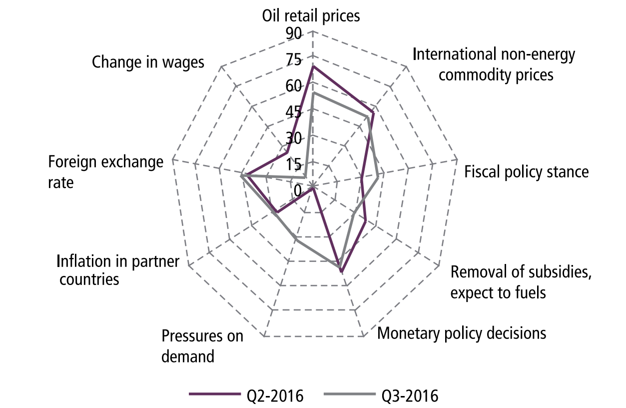
The results of Bank Al-Maghrib's business survey in the industry, for June 2016, show that 71 percent of manufacturers expect inflation to stagnate over the next three months, while 25 percent expect it to increase and 4 percent expect it to decelerate.

Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

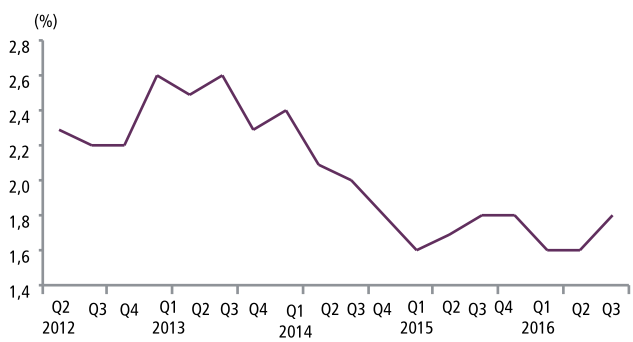
Chart 6.9: Determinants of the future trend in inflation as expected by financial experts



Source: BAM's quarterly survey on inflation expectations.

Furthermore, the results of Bank Al-Maghrib's inflation expectations survey for the third quarter 2016 indicate that the financial industry experts expect an average inflation rate of 1.8 percent between Q3-2016 and Q2-2018.

Chart 6.8: Six-month inflation expectations by financial experts



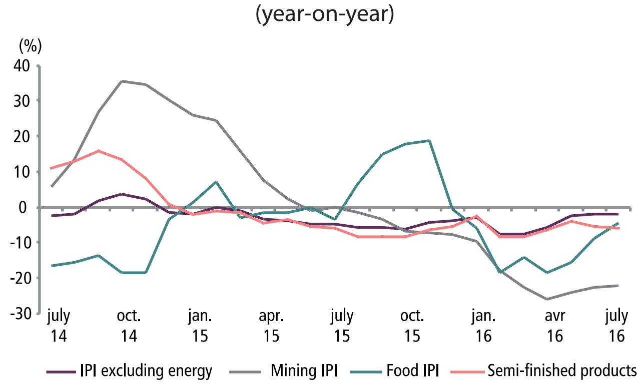
Source: BAM's quarterly survey on inflation expectations.

They agree that monetary policy decisions and changes in retail oil prices and international commodity prices are major determinants of future inflation developments.

6.4. Import and producer prices

Year on year, non-energy import prices continued the downtrend that began in December 2014, down 1.9 percent in July after 2.1 percent in June and 2.6 percent in May.

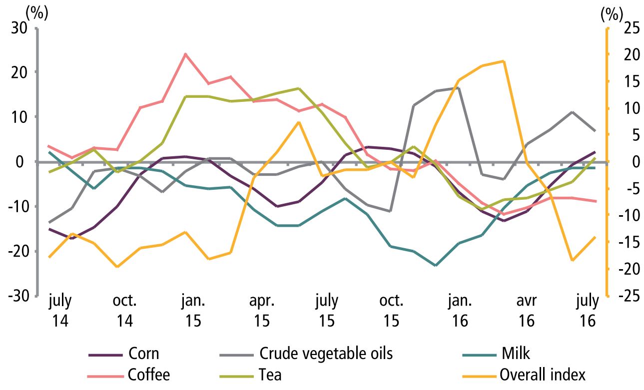
Chart 6.10: Change in the main import prices indexes (year-on-year)



Sources: Foreign Exchange Office, and BAM calculations.

The decline affected semi-finished products, foodstuffs and mining products. Indeed, the decline in the import prices of semi-finished products worsened from 5.5 to 5.9 percent. The decrease in the import prices of mining products eased from 22.6 to 22.1 percent and of foodstuffs from 8.5 to 4.2 percent, mainly due to lower wheat import prices by 16 percent after 21.3 percent a month earlier.

Chart 6.11: Change in the major components of the food import price index (*)

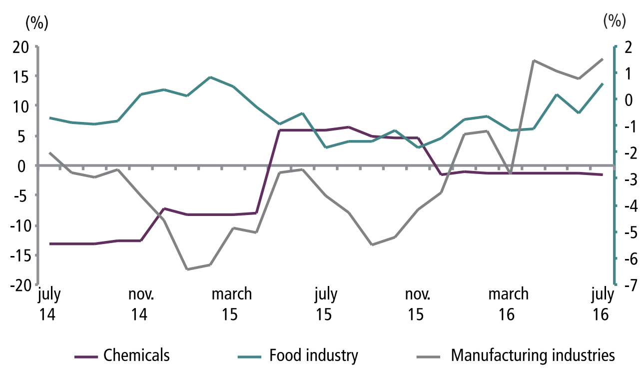


(*) Excluding wheat and sugar prices

Sources: Foreign Exchange Office, and BAM calculations.

The decline affected semi-finished products, foodstuffs and mining products. Indeed, the decline in the import prices of semi-finished products worsened from 5.5 to 5.9 percent. The decrease in the import prices of mining products eased from 22.6 to 22.1 percent and of foodstuffs from 8.5 to 4.2 percent, mainly due to lower wheat import prices by 16 percent after 21.3 percent a month earlier.

Chart 6.12: YoY change in industrial producer price indexes



Sources : HCP.

Year on year, industrial producer prices were up 1.5 percent in July, as against 0.8 percent in June and 1 percent in May.

7. MEDIUM-TERM OUTLOOK

Summary

Global growth in the medium-term should be slightly weaker than projected in June, mainly reflecting the rising uncertainty surrounding the Brexit post-arrangements and its impact on financial markets and investment. The impact of Brexit on the euro area will become clear only in the medium term. The growth outlook for the euro area was therefore revised downward for 2017 and upward for 2016, supported by accommodative monetary policies. As a result of this revision and the growing uncertainty around the process of monetary policy normalization in the United States, the dollar should continue its depreciation relative to the euro. On commodity markets, world prices which were revised upward should nevertheless remain low, inducing low inflation rates in the euro area in 2016, which should however converge gradually toward the ECB target by the end of the forecast horizon.

With an expected improvement in growth in the euro area in the short-term and modest appreciation in the exchange rate, the forecast for exports of goods was revised upward for 2016. In contrast, it was revised downward for 2017, assuming a slower recovery in foreign demand. Imports of goods in 2016 should pick up at a pace higher than expected in June, driven mainly by significant purchases of capital goods. For 2017, they were revised downward, mainly in line with the downward adjustment in the forecast for international crude oil prices.

Against this backdrop and the downward revised assumption about inflows of donations from the GCC countries in 2016 from 10 billion to 8 billion, the current account deficit is expected to widen to 1.9 percent of GDP instead of 1.2 percent under the June forecast, before narrowing to 1.2 percent of GDP in 2017. Under these conditions, net foreign reserves over the medium term should be lower than projected in June. They should cover 7 months and 6 days of imports of goods and services in 2016 and 7 months and 20 days in 2017.

Following the increase in the required reserve and downward revision of foreign exchange reserves, the situation of bank liquidity should be in deficit by end-2016 before moving into surplus by end-2017. The medium-term trend in bank lending should not differ significantly from the June forecast. The forecast for credit to the nonfinancial sector was slightly revised upward to 3 percent, consistent with the upward revision of the non-agricultural value added, and was kept unchanged at 4 percent for 2017. The money supply is expected to grow by 5 percent in 2016 and 5.6 percent in 2017.

Regarding public finances, the fiscal adjustment should continue in the medium term. The budget deficit forecast was kept unchanged at 3.8 percent of GDP, albeit with an upward revision in tax revenues, mainly offset by an adjustment in inflows of donations from the GCC countries and higher employers' pension contributions as a result of the reform of the pension regime of the Caisse Marocaine des Retraites (Moroccan Pension Fund). In 2017, the budget deficit was slightly revised down by 0.1 points to 3.2 percent of GDP, in line with the downward revision in payroll and subsidy costs.

Prospects for growth in 2016 were revised upward to 1.4 percent instead of 1.2 percent in the June forecast, subsequent to the adjustment by 0.1 percentage point in non-agricultural GDP growth to 2.9 percent, while the expected decline in agricultural value added was kept unchanged at 9 percent. The updated estimates take into account the HPC revision of the quarterly profile of national statements for 2015 and the more-than-expected increase in investment in the first quarter of 2016. They also account for the recent developments in high frequency indicators, which are expected to be in favor of domestic demand, particularly with sustained momentum in imports of capital goods and passenger cars. The growth forecast for 2017 was kept unchanged at 4 percent, supported by a return to a normal crop year, an accommodative monetary policy and an improvement in activity in the euro area relative to 2016.

In this context, inflation is projected to stand at 1.6 percent in 2016, in line with the rate projected in June, albeit with an upward revision of core inflation, mainly reflecting the rise in international prices of some basic food products and improvement in domestic demand, offset by the faster-than-expected dissipation of the effects of the hike in volatile food prices. In 2017, the level of inflation was revised upward by 0.2 percentage point to 1.2 percent, in response to the improvement in domestic demand and the upward revision of prices of basic food products.

7.1 Underlying assumptions

7.1.1 Global economic recovery remains sluggish amid rising uncertainties

The recovery in global growth should be slightly slower, with Brexit risk now materializing and the rising uncertainty around its impact on the future of European trade and foreign exchange markets in the United States and Japan following outflows of capitals from the United Kingdom to these countries. This revision also comes amid a context of heightened conventional risks, namely the FED normalization process, uncertainty around energy prices and the emerging new risks (terrorism, the attempted coup in Turkey, elections in some EU countries). In 2016, growth in the euro area is forecast to stand at 1.7 percent, slightly higher than the 1.6 percent projected in June, boosted by the short-term effects of quantitative easing. The good economic situation in Germany and Spain was offset by the turmoil in France (labor strikes) and Italy (constitutional referendum). Growth in 2017 is expected to stand at 1.8 percent instead of 1.9 percent, held back by the uncertainty around the trade agreements between the European Union and the United Kingdom. The latest investment data in the United States suggest a subdued economic recovery in the short-term, while consumption should hold steady. In the medium term, the uncertainty surrounding the impact of Brexit, the FED normalization process and the appreciation of the dollar should continue to affect growth in the United States. It should therefore stand at 1.5 percent in 2016 instead of the previously projected 1.8 percent, and at 2.3 percent instead of 2.4 percent in 2017.

Under these conditions, foreign demand for Morocco should continue to grow at a moderate pace.

Chart 7.1: Growth in the euro area

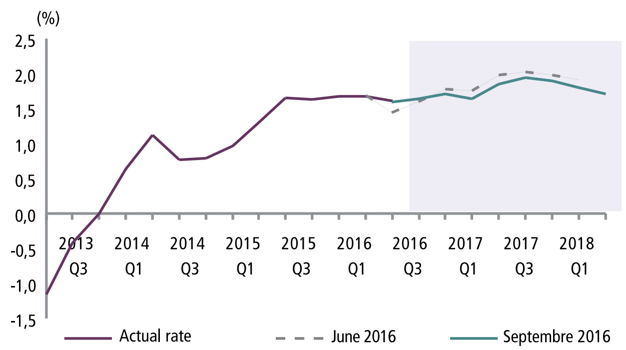
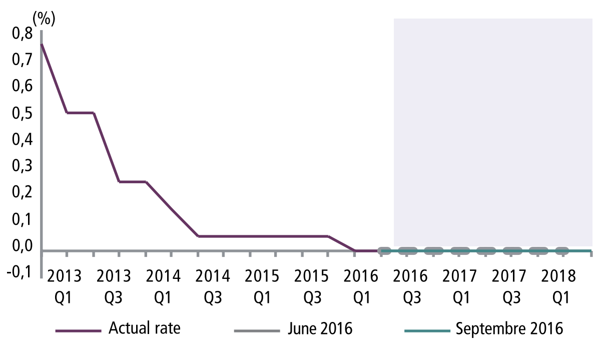


Chart 7.2: ECB policy rate



Source: GPM forecasts[1] of August 2016, ECB, and BAM calculations.

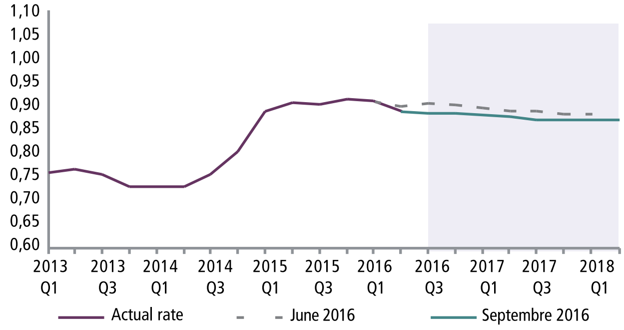
7.1.2 Slight depreciation of the dollar versus the euro

On monetary conditions, the forecast baseline scenario assumes no change in the monetary policies of the FED and the ECB, compared with the June forecast. The target rate range for federal funds should remain stable until December 2016, while the ECB, which maintains its key rate at 0 percent, should continue its quantitative

1The Global Projection Model (GPM) is a global economic model developed by the IMF and the Center for Economic Research and its Application in favor of a network of central banks and international institutions.

easing program with its impact already felt on European banks. Moreover, the rising uncertainty about the FED normalization process and the limited impact of Brexit on the euro area in the short term should reflect further depreciation of the dollar against the euro.

Chart 7.3: USD/EUR exchange rate



Source: GPM forecasts of August 2016, and BAM calculations.

7.1.3 Upward revision in energy and food prices in 2016

In a context of slow global recovery, commodity prices should remain relatively low with a slight upward revision in the short-term forecast for energy commodity prices. The average price of crude oil should thus stand at $ 42.4/ barrel in 2016 instead of the $ 40.9/ barrel projected in June, reflecting negative supply shocks namely from forest fires in Canada and terrorist attacks in Nigeria. In 2017, it is expected to fall slightly to $45.4/barrel instead of $ 48.1/barrel in initial forecast. This revision reflects a weaker global demand on the horizon. International food prices should stand at higher levels on the horizon, driven by higher prices of vegetable oils and sugar. Under these conditions, inflation in the euro area[2] is expected to stand at 0.2 percent in 2016 instead of the 0.1 percent projected in June, reflecting an improvement in growth in the short term. It should then gradually converge to its target of 1.5 percent in 2017.

Regarding phosphate rock and DAP, the World Bank's July forecast for their respective prices remained almost unchanged compared to the June forecast at $ 118/mt and $ 355/mt respectively in 2016 and $ 117/mt and $ 364/ mt in 2017, while the forecast for the TSP price was slightly lowered by 3.2 percent and 2.8 percent respectively in 2016 and 2017 to stand at $ 300/mt and $ 306/mt. The further decline over the forecast horizon mainly reflects the surplus in production capacity and low international food prices.

2 The ECB projects in September an overall inflation rate of 0.2 percent for 2016 and 1.2 percent for 2017 and 0.9 percent and 1.3 percent respectively for non-energy and non-food product inflation.

Chart 7.4: Food commodity price index

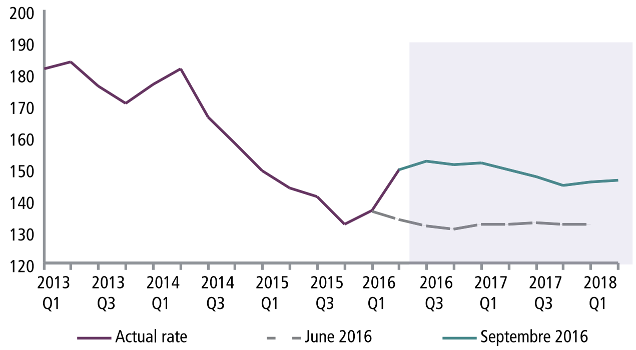
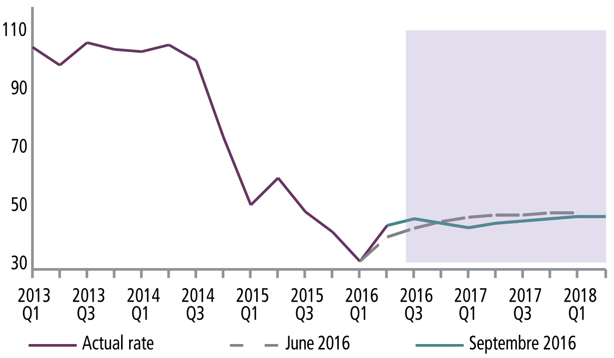
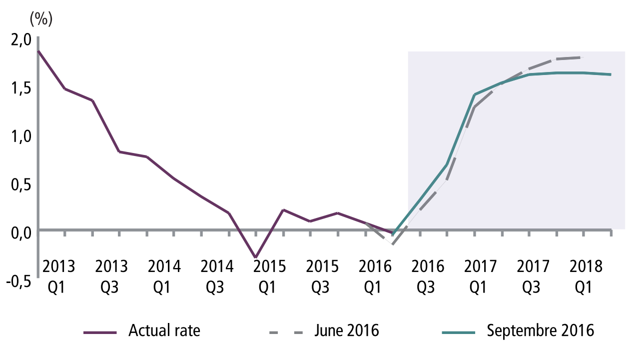


Chart 7.5: International crude oil price (IMF)



Source: GPM forecasts of August 2016, and BAM calculations.

Chart 7.6: Inflation in the euro area



Source: GPM forecasts of August 2016, and BAM calculations.

7.1.4 Budget deficit to continue to ease

The fiscal policy stance did not significantly change compared with the June forecast. The budget deficit forecast for 2016 was maintained at 3.8 percent of GDP, albeit with revisions both in revenues and in expenditure. The upward revision in current revenues reflects an increase in tax revenues, primarily from income tax and import VAT revenues and higher non-tax receipts which more than offset the downward revision in the expected amount of donations from the GCC countries to 8 billion dirhams instead of 10 billion in the June forecast. Meanwhile, spending on other goods and services was revised upward taking into account the impact of pension reform, and particularly the increase in the employers' contributions by 1 percentage point. In addition, the subsidy cost was revised slightly upward consistent with the revised assumption on international gas prices and the exchange rate for the last two quarters of 2016.

For 2017, the budget deficit was slightly revised downward from 3.3 percent to 3.2 percent of GDP on the assumption that the current fiscal policy stance should be maintained, mainly on account of controlled current expenditure and resource mobilization. Revenues were kept unchanged, with the amount of GCC donations maintained at 8 billion dirhams. However, the payroll was revised downward taking into account the extension in retirement age by 6 months per year instead of the one year previously projected. Similarly, the subsidy cost was revised downward consistent with the downward revision in the forecast for global oil prices as well as the assumption of stronger appreciation of the dirham against the dollar.

7.1.5 Cereal production at 33.5 million quintals and good performance of other crops in the crop year 2015-2016

According to the Ministry of Agriculture and Fisheries, cereal production in the agricultural year 2015-2016 should be around 33.5 million quintals, in line with the assumption of the June forecast, down 71 percent from the previous year and 59 percent from the average of the last five years. These estimates reflect a low rainfall volume, the lowest recorded in the last 30 years, and its uneven distribution over time and space. Other crops are expected to be well-performing, especially those of fruit cultivation, oil crops, vegetable crops and livestock sector, boosted by rainfalls in February and March.

In 2017, the baseline scenario assumes a return to an average crop with a cereal production of 70 million quintals.

7.2 Macroeconomic projections

A more-than-expected increase in imports, particularly capital goods' imports

Taking into account the expected improvement in foreign demand and lower appreciation of the exchange rate in the short term, the forecast for exports of goods was revised upward by 0.9 percentage point to 2.3 percent for 2016, and downward by 0.7 points to 3.2 percent for 2017, in line with adjusted growth rate in the euro area. The growth of imports of goods was revised upward to 2.7 percent in 2016, from 2.2 percent in the June forecast, following the significant increase in capital goods since May. In 2017, they should decelerate to 1.0 percent.

Travel receipts should grow by 3.7 percent in 2016 and 2 percent in 2017, reflecting a downward revision by 0.9 percentage points and 0.6 percentage points respectively compared with the June forecast. These adjustments take into account the revisions made by the foreign exchange office's data for 2015, the recent developments as well as the slower-than-expected recovery in the euro area for 2017. Similarly, the increase in transfers by Moroccans living abroad was kept almost unchanged for 2016 at 4.6 percent and should continue to grow in 2017 to stand at 4.7 percent, however with a slight downward revision due to lower growth prospect in the euro area compared with the June forecast.

With the assumption that inflows of donations from GCC countries would reach 8 billion dirhams in 2016 rather than 10 billion as projected in June, the current account deficit is expected to widen to 1.9 percent of GDP in 2016 before narrowing to 1.2 percent in 2017. Under these circumstances, and assuming an inflow of foreign direct investment with an amount representing nearly 2.4 percent of GDP in 2016 and 2017, the net international reserves should cover 7 months and 6 days of imports of goods and services in 2016 and 7 months and 20 days in 2017.

Table 7.1: Forecasts of the balance of payments components

	Actual rates				Forecasts		Deviation (sept./june)	
	2012	2013	2014	2015	2016	2017	2016	2017
Exports of goods* (change in %)	5.8	-0.1	8.8	8.6	2.3	3.2	0.9	-0.7
Imports of goods* (change in %)	8.2	-0.5	0.8	-4.1	2.7	1.0	0.5	-1.2
Travel receipts (change in %)	-1.8	-0.4	3.0	3.1	3.7	2.0	-0.9	-0.6
Expatriate remittances (change in %)	0.6	-1.5	3.7	3.0	4.6	4.7	-0.1	-0.7
Current account balance (% of GDP)	**-9.5**	**-7.9**	**-5.7**	**-2.2**	**-1.9**	**-1.2**	**-0.7**	**-0.4**
Net international reserves in months of goods and services' imports	**4.1**	**4.4**	**5.3**	**6.8**	**7.2**	**7.7**	**-0.4**	**-0.5**

* From Foreign trade perspective
Sources: Foreign Exchange Office data and BAM forecasts.

Further easing in monetary conditions and continued moderate increase in bank lending

Monetary conditions broadly reflect further easing in 2016. Following the decision by the Board of Bank Al-Maghrib in June to increase the rate of the required reserve from 2 percent to 4 percent, the interbank rate was gradually aligned with the key rate and an adjustment of rates was observed on markets. The appreciation in the effective real exchange rate in 2016 should be lower than expected in the June forecast, mainly reflecting a short appreciation in the euro against the dirham and an upward revision of inflation in the main partners and competitors. In 2017, the real exchange rate should be less depreciated than projected in June in line with the appreciation of the dirham against some currencies, including the pound, along with higher inflation outlook.

Taking into account the Central Bank's decision to raise the required reserve ratio from 2 percent to 4 percent in light of the observed and expected trends of foreign exchange reserves, the situation of bank liquidity should post a deficit of 13.3 billion by end-2016 and a surplus of 2.4 billion by end- 2017.

As for bank lending, the projections for growth of loans to the nonfinancial sector were adjusted to 3 percent by-end 2016 instead of 2.7 percent as projected in June, reflecting the slight improvement observed in recent months and the upward revision of the nonagricultural value added. These loans should grow by 4 percent in 2017, a rate similar to that projected in June. The growth of money supply should stand at 5 percent in 2016. The improvement in bank lending should be offset by a slight decline in the growth rate of foreign exchange reserves and a steeper decline in net claims on the central government. For 2017, M3 aggregate should increase by 5.6 percent instead of the 5.8 percent expected in June.

Table 7.2: Forecasts of growth in money supply and bank lending

	Actual rates				Forecasts		Deviation (sept./june)	
	2012	2013	2014	2015	2016	2017	2016	2017
Bank lending to nonfinancial sector (change in %)	5.8	1.7	4.4	0.5	3.0	4.0	0.3	0.0
M3 (change in %)	4.5	3.1	6.2	5.7	5.0	5.6	-0.4	-0.2
Liquidity surplus or deficit, in billion dirhams	-64.5	-68.4	-40.6	-16.5	-13.3	2.4	-21.0	-17.9

Source : BAM.

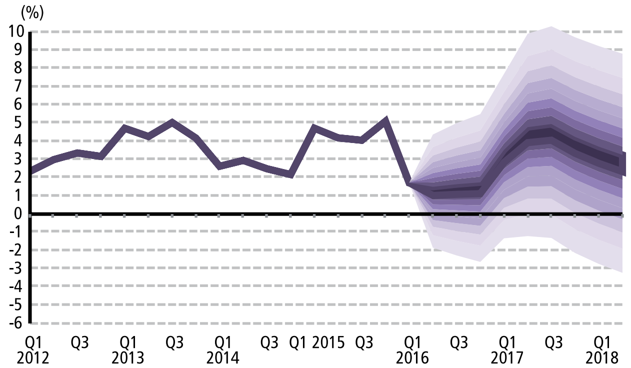
Slower domestic growth in 2016 and relative recovery in 2017

Prospects for domestic growth in 2016 were revised upward to 1.4 percent from 1.2 percent projected in June, reflecting an increase by 0.1 percentage point to 2.9 percent in the growth of nonagricultural GDP, while the expected decline in agricultural value added was kept unchanged at 9 percent.

The new estimates take into account the revision by the HPC of quarterly national accounts data for 2015 and the more-than-expected expansion in investment in the first quarter of 2016. They also reflect the upward revision of investment and final household consumption boosted by sustained momentum in purchases of passenger cars and capital goods, to a lesser extent, the positive effects from the increase in paid jobs in the second quarter of 2016 and signs of improvement in the performance of the public works sector. Concerning foreign trade, the negative contribution to growth of net exports is expected to widen following the upward revision of imports of goods and services. It would however be more than offset by the increase in domestic demand.

In 2017, growth is forecast to stand at 4 percent, unchanged compared with the June forecast, reflecting an increase by 10 percent in agricultural value added and 3.2 percent in nonagricultural GDP. This rebound should be mainly driven by an improvement in domestic demand, though slightly revised downward compared with the June forecast, due primarily to the downward revision of investment growth linked to a base effect. The positive contribution of net exports was revised upward, mainly reflecting the downward revision of imports of goods and services, with softer growth in domestic demand. The momentum in exports of goods and services should continue, albeit with a slight decline compared with the June forecast, due to the downward revision of growth prospects for the euro area and a higher appreciation of the real effective exchange rate.

Chart 7.7: Growth outlook over the forecast horizon (Q3 2016- Q2 2018), (YoY)*



* This chart shows the uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Sources: HCP data, and BAM forecasts.

Table 7.3: Growth of GDP and its components (%)

	Actual rates				Forecasts		Deviation (sept./june)	
	2012	2013	2014	2015	2016	2017	2016	2017
National growth	**3.0**	**4.5**	**2.6**	**4.5**	**1.4**	**4.0**	**0.2**	**0.0**
Agricultural VA	-9.1	17.2	-2.2	12.8	-9.0	10.0	0.0	0.0
Nonagricultural GDP	4.7	2.9	3.2	3.5	2.9	3.2	0.1	0.0

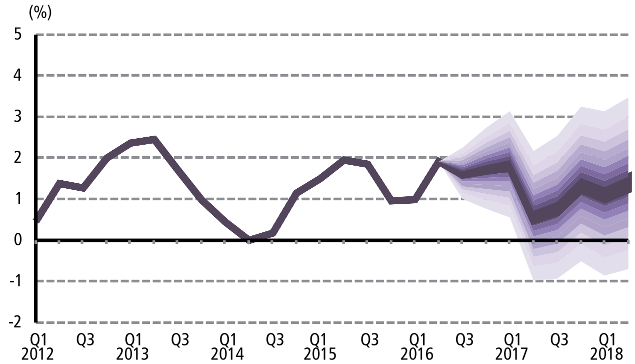
Sources: HCP data, and BAM forecasts.

Overall, economic activity should continue to evolve below its potential in 2016, thus indicating the absence of inflationary pressures. The output gap should remain negative, but ease gradually to be closed at the end of the forecast horizon, due to the combination of several favorable factors including a return to an average crop year, easing of monetary conditions, and a relative improvement of economic activity in the euro area, though slightly below the level projected in June.

Slight upward revision of core inflation

Inflation should stand at a moderate level of 1.3 percent on average over the horizon of eight quarters, between the third quarter of 2016 and the second quarter of 2018. In 2016, it should be around 1.6 percent, the same rate projected in June. This forecast covers nevertheless an upward revision by 0.3 percentage points to 0.9 percent in core inflation, mainly driven by the increase in the international prices of some basic food items and the improvement in domestic demand, offset by the faster-than-expected dissipation of the effects of the hike in volatile product prices.

Chart 7.8: Inflation forecast over the horizon (Q3 2016- Q2 2018)*



* This chart shows the uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Sources: HCP data, and BAM forecasts.

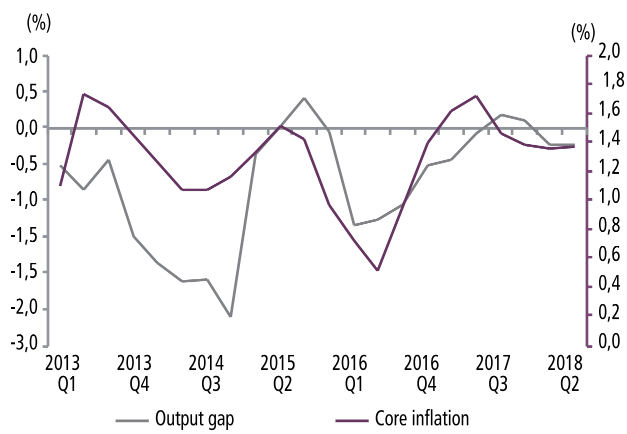
Table 7.4: Forecasts of inflation and core inflation (YoY)

	Actual rates		Forecasts			Deviation (sept./june)	
	2015	Jan.-July 2016	2016	2017	8 quarters horizon	2016	2017
Inflation	**1.6**	**1.5**	**1.6**	**1.2**	**1.3**	**0.0**	**0.2**
Core inflation	1.3	0.7	0.9	1.6	1.4	0.3	0.3

Sources: HCP data, and BAM forecasts and calculations.

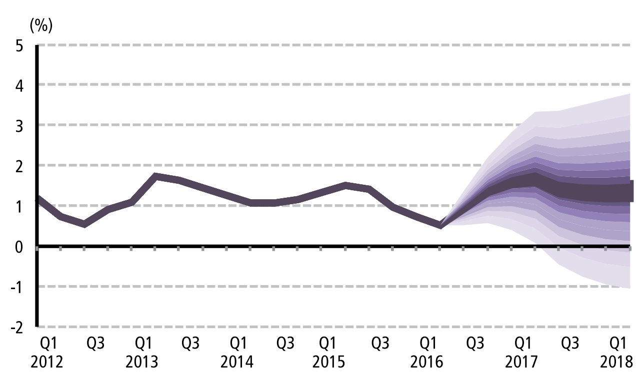
In 2017, the inflation forecast was revised upward by 0.2 percentage point to 1.2 percent, mainly as a result of the increase in core inflation to 1.6 percent instead of 1.3 percent in June forecast, reflecting the improvement in domestic demand and the upward revision of prices of basic food products.

Chart 7.9: Change in core inflation and output gap



Sources: HCP, and BAM forecasts and calculations.

Chart 7.10: Projections of core inflation over the forecast horizon (Q3 2016- Q2 2018)*



* This chart shows the uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

7.3 Balance of risks

Several risks surround the forecast baseline scenario, which, if they materialize, may affect the central projection. The balance of risks is trending downward for growth and upward for inflation.

In terms of growth, now that the Brexit risk has materialized, the uncertainties around the arrangements for future trade agreements between the United Kingdom and the European Union may lead to a decline in foreign demand. Other uncertainties mainly lie with the monetary policy normalization in the United States, rising geopolitical tensions and elections in some European countries. In addition, the reversal of the downward trend in world energy prices and the volatility in agricultural production and its spillover effects on nonagricultural activity will continue to carry a risk to domestic growth in 2017. In contrast, if the positive effects of quantitative easing measures are to continue in the euro area, foreign demand should improve further.

Regarding inflation, a further upward trend in some basic food international prices could lead to upward revisions of the baseline forecast. Other upside risks that could impact the baseline inflation forecast lie particularly in higher international oil prices and the increase of wages under the social dialogue.

LIST OF ABBREVIATIONS

ANCFCC	: National Land Registry Office
APC	: Cement manufacturers professional association
AMMC	: Autorité Marocaine des Marchés de Capitaux (Morroccan Capital Markets Authority)
BAM	: Bank Al-Maghrib
CFG	: Casablanca Finance Group
CNSS	: Caisse nationale de sécurité sociale (National Social Security Fund)
CPI	: Consumer Price Index
CPIX	: Core inflation indicator
CPIXNT	: Consumer price index of nontradables
CPIXT	: Consumer price index of tradables
CT	: Corporate tax
CUR	: Capacity utilization rate
DAP	: Diammonium Phosphate
DCT	: Domestic consumption tax
DH	: Dirham
ECB	: European Central Bank
ESI	: Economic Sentiment Indicator (Indicateur de climat économique)
FA	: Finance Act
FDI	: Foreign direct investments
FISIM	: Financial intermediation services indirectly measured
GCC	: Gulf Cooperation Council
GDP	: Gross domestic product
HCP	: High Commission for Planning
IMF	: International Monetary Fund
IPI	: Import price index
IPPI	: Industrial producer price index
IT	: Income tax
MASI	: Moroccan All Shares Index
MPR	: Monetary Policy Report
MSCI EM	: Morgan Stanley Capital International, Emerging Markets
NPL	: Nonperforming loans
OCP	: Office chérifien des phosphates (Moroccan Phosphates Office)
OECD	: Organization for Economic Cooperation and Development
ONEE	: Office national d'électricité (National Electricity Office)
OPEC	: Organization of the Petroleum Exporting Countries
PER	: Price Earning Ratio
PMI	: Purchasing Managers Index
REPI	: Real estate price index

SMIG	: Salaire Minimum Interprofessionnel Garanti (minimum wage)
TEFD	: Treasury and External Finance Department
TSA	: Treasury special accounts
TSP	: Triple superphosphate
QoQ	: Quarter-on-quarter
YoY	: Year-on-year
UCITS	: Undertakings for collective investment in transferable securities
UPC	: Unit production cost
VA	: Value added
VAT	: Value added tax

LIST OF CHARTS

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