BANK AL-MAGHRIB

MONETARY POLICY REPORT

Nº 39 / 2016

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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, June 21, 2016

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

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

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

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

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

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

7. Under these conditions, inflation remained broadly subdued in advanced countries. In the euro area in particular, prices fell year on year by 0.1 percent in May and would rise by merely 0.2 percent in 2016 before accelerating

to 1.3 percent in 2017, based on ECB projections published following its board meeting of June 2nd. During this meeting, the ECB board decided to keep the policy rate at 0 percent and announced the start of monthly purchases under its corporate sector purchase program as from June 8 in addition to a new series of longer-term refinancing operations as from June 22. The U.S. Federal Reserve, at its meeting on June 14-15, kept the target range for federal funds unchanged between 0.25 and 0.5 percent.

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

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

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

11. Due to the continued improvement of foreign exchange reserves, the need for liquidity in the banking system shrank from 18.2 billion at end-December 2015 to 2.4 billion at end-May. Meanwhile, as a result of reducing the key rate in the Board meeting of March 22, interest rates continued easing in the interbank market as well as in the private and public debt markets. In this context, bank lending to the nonfinancial sector improved somewhat by 0.7 percent in the first four months of the year. Its forecast was slightly revised upward to 2.7

percent for 2016 and kept unchanged at 4 percent for 2017. Monetary conditions in the first quarter were also marked by an increase in the real effective exchange rate, especially as the national currency appreciated against the US dollar and the currencies of the major competing countries.

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

OVERVIEW

Over the first quarter of 2016, economic activity remained weak in major advanced economies. Growth slowed down slightly from 2.1 percent to 2 percent in the United Kingdom, stabilized at 2 percent in the United States and at 1.7 percent in the euro area, and fell from 0.8 percent to 0 percent in Japan. On the labor market, despite low job creation, the unemployment rate declined between April and May to 4.7 percent in the United States, while in the euro area, it stagnated at 10.2 percent in April. In key emerging economies, growth in China slowed down to 6.7 percent from 6.8 percent due to weaker demand. In India, it moved up from 6.9 to 7.4 percent thanks to robust household consumption, while in Brazil, the recession continued with a contraction of 5.4 percent.

Uncertainties about the economic recovery in advanced countries affected stock markets, which showed, between April and May, decreases of 1.7 percent for EUROSTOXX50, 0.8 percent for the Dow Jones and 0.2 percent for the NIKKEI 225. In emerging economies, the MSCI EM fell by 3.9 percent, mainly reflecting contractions of 7.3 percent for Turkey, 4.8 percent for China and 0.4 percent for India. In bond markets, 10-year bond yields trended differently across countries. They rose in France, Spain, China and India, stagnated in Germany and the United States and dropped in Brazil and Greece. In currency markets, the euro remained in May unchanged at 1.13 against the dollar, the Brazilian real appreciated 1.1 percent, the Chinese yuan remained stable at 6.5 yuan against the dollar, while the Turkish lira and Indian rupee depreciated by 3.7 percent and 0.4 percent, respectively. The annual growth of bank lending stagnated between April and May at 7 percent in the United States and strengthened from 1 percent in March to 1.1 percent in April in the euro area.

In commodity markets, although registering a year-on-year decrease of 26.8 percent in May, the Brent price grew 10.2 percent between April and May. Concerning phosphate and derivatives, crude prices stabilized at 115 dollars per tonne, year on year, while prices fell 25.7 percent for DAP and 25.3 percent for TSP.

Against this backdrop, inflation remained low in most advanced countries. The price index declined in May by 0.1 percent in the euro area, as against 0.2 percent a month earlier, while in the United States, the inflation rate moved down from 1.1 percent to 1 percent.

Regarding monetary policy decisions, central banks of major developed countries kept their rates unchanged. The Fed decided at its meeting of June 15, to keep its target range between 0.25 percent and 0.5 percent. Similarly, the ECB decided on June 2 to keep its rate at 0 percent and announced that it would begin on June 8 its monthly program of corporate sector assets purchases and on June 22 a new series of longer-term refinancing operations. In emerging markets, the central banks of Brazil and India decided at their last meetings to keep their policy rates unchanged, whereas Russia's central bank lowered its rate from 11 percent to 10.5 percent on June 10.

Nationally, end-May data on external accounts indicate that the trade deficit widened by 7.7 percent compared to the same period of 2015. Imports grew by 4.3 percent, particularly due to a significant rise in purchases of capital goods and finished consumer goods. However, energy supplies declined by 31.2 percent. Meanwhile, despite a decline of 11.2 percent in sales of phosphates and derivatives, exports rose overall by 2 percent, mainly reflecting an increase of 23.7 percent in car manufacturing shipments. Regarding other major components of the current account, after falling 7.1 percent a year earlier, travel receipts were up 6.4 percent and remittances from Moroccan expatriates rose 4.1 percent. Taking into account a decrease of 22.5 percent in net FDI flows and other financial transactions, foreign exchange reserves strengthened by 25.2 percent to 243.3 billion at end-May, representing 7 months and 8 days of imports of goods and services.

This improvement impacted the situation of bank liquidity, which improved considerably, as the need fell from 21 billion dirhams in the fourth quarter to 12.8 billion on average in the first quarter of 2016. Bank-Al Maghrib reduced the volume of its injections to 13.3 billion dirhams. Under these conditions and following the decision taken by the Bank Board on March 22 to lower the key rate by 25 basis points, interest rates fell across various markets. Monetary conditions were also marked in the first quarter by a 1.7 percent appreciation of the real effective exchange rate and a slight improvement in the growth of credit to the nonfinancial sector, mainly with a slow fall in loans to private nonfinancial companies. Overall, the moderate growth of bank lending, coupled with lower net claims on the central government, led to a slowdown in money supply from 5.8 to 5.3 percent.

Regarding public finance, data as at end-April 2016 show a budget deficit of 21.1 billion, widening by 2 billion compared to the same period of 2015. Overall expenditure rose by 5.6 percent, reflecting increases of 16.4 percent in investment spending, 5 percent in spending on goods and services and 9.6 percent in debt interest,while subsidy costs declined by 30.4 percent. Current revenues increased by 3 percent, covering an improvement in tax revenues, mainly direct taxes, and a sharp decrease in nontax receipts, in conjunction with low monopoly proceeds from state-owned corporations. Given a backlog of outstanding payments, amounting to 282 million, bringing their stock to 5.4 billion at end-April, the Treasury posted a cash deficit of 20.8 billion, down 3.8 billion. This need was covered by the domestic market for a net amount of 17.3 billion and external net flows of 3.5 billion.

National accounts data for the fourth quarter show a faster economic growth at 5.2 percent, year on year, from 4.6 percent in the previous quarter. This trend is attributed to a 13.5 percent expansion of the agricultural value added, as against 15.9 percent, and a 4.2 percent increase in nonagricultural GDP from 3.2 percent. Regarding demand, household final consumption grew 5 percent and investment 6.7 percent, while government consumption fell 1.9 percent. The contribution of net exports to growth stood at 0.6 percentage point. For the whole of 2015, economic growth stood at 4.5 percent, reflecting a 12.8 percent increase in the agricultural value added and a rise of 3.5 percent in nonagricultural GDP. Regarding demand, growth of household final consumption slowed down to 2.4 percent and investment decreased by 2.7 percent, while growth of government consumption almost stagnated at 1.9 percent. The contribution of net exports to growth was positive for the second consecutive year, standing at 3.5 percentage points.

On the labor market, the national economy lost 13,000 jobs in the first quarter 2016, reflecting a contraction of 15,000 jobs in the agricultural sector, 14,000 jobs in industry including handcrafts, while 10,000 and 6,000 jobs were created in services and construction, respectively. Taking into account a significant decline of 0.7 percentage points in the participation rate to 46.3 percent, the unemployment rate deteriorated slightly from 9.9 percent to 10 percent overall and from 14.3 percent to 14.6 percent in urban areas. In rural areas, it decreased from 4.7 percent to 4.5 percent.

In the assets market, real estate prices did not change in the first quarter from the previous quarter. Yet, this stability covers contrasting trends across asset categories. In parallel, transactions were down 8.5 percent, particularly with a decline of 12.8 percent in apartments' sales. In the stock market, the MASI rose 4.5 percent in the first quarter 2016 after recording an underperformance of 2.1 percent a quarter earlier and the trading volume remained relatively low, falling to 7.6 billion dirhams from 24.8 billion.

Inflation, as measured by the year-on-year change in the consumer price index, accelerated to 1.6 percent in April from 1 percent in the first quarter. This change mainly reflected a significant increase of 9.3 percent in volatile food prices from 3.2 percent, and to a lesser extent, a slow drop in fuel and lubricant prices, due to the rising international prices. Inflation of regulated goods remained almost stable at 1.1 percent, while core inflation slowed down slightly from 0.7 percent to 0.6 percent.

In terms of outlook, the global economic should continue its slow recovery in 2016 and 2017. Growth in the euro area would stand at 1.6 percent from 1.4 percent forecast in March, before improving to 1.9 percent in 2017. In the United States, it should stand at 1.8 percent in 2016 from 2.1 percent projected in the previous MPR and 2.4 percent in 2017. Growth prospects in China in 2016 were slightly higher than those projected in March, driven by the fiscal stimulus policies as part of the new growth target of the five-year plan 2016-2020.

Regarding the labor market, the latest IMF forecasts of April indicate a continued improvement of the situation 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, albeit remaining high, the unemployment rate would continue to decline to 10.3 percent in 2016 and 9.9 percent in 2017. In Morocco's main partner countries, this rate would reach 10.1 percent in France, 19.7 percent in Spain and 11.4 percent in Italy in 2016.

In commodity markets, although slightly revised upward, energy and food prices should continue to trend at relatively low levels. In particular, the Brent price would stand at $40.9 a barrel in 2016 and $48.1a barrel in 2017, from $38.4 a barrel and $44.6 a barrel. In this context, inflation in the euro area is forecast at 0.1 percent in 2016, before gradually moving towards its target, standing at 1.5 percent in 2017.

Nationally, despite the anticipated improvement in foreign demand and a less significant rise of the real effective exchange rate, the downward revision of forecasts for international prices of phosphate derivatives would impact negatively exports of goods, in nominal terms, with growth rates at 1.4 percent in 2016 and 4.6 percent in 2017. Travel receipts were significantly revised upward in 2016, in light of their recent trends. Meanwhile, imports of goods would grow at a higher- than-expected pace, particularly in conjunction with the significant increase in purchases of equipment and consumer goods, and their growth is expected to decelerate in 2017. Against this backdrop and taking into account inflows of donations from GCC countries, amounting to 10 billion dirhams in 2016 and 8 billion in 2017 and the further rise in remittances from Moroccan expatriates, the current account balance should continue to ease to -1.2 percent of GDP in 2016 and -0.8 percent of GDP in 2017. In total, foreign exchange reserves should strengthen further, albeit at a less than that expected level in March, equaling 7 months and 18 days of imports of goods and services at the end of 2016 and 8 months and 6 days at the end of 2017.

This increase should result in a significant improvement in bank liquidity with a surplus of 7.7 billion dirhams at end- 2016 and 20.3 billion at end-2017, as against a deficit of 16.5 billion in 2015. Bank credit to the nonfinancial sector should increase slightly by 2.7 percent in 2016 from 2.5 percent projected in March, in view of the slight improvement in corporate loans at the end of April. Its growth in 2017 was kept unchanged at 4 percent.

In terms of public finances, assuming that the current fiscal policy stance would continue, the deficit is projected to stand at 3.8 percent of GDP in 2016 and 3.3 percent in 2017, as against respective rates of 3.7 percent and 3.1 percent forecast in March. This slight revision is mainly due to the downward revision of GCC donations from 13 billion to 10 billion in 2016 and an upward adjustment of tax revenue and investment spending.

Economic growth should slow in 2016 to 1.2 percent from 1 percent reported in March, in conjunction with a decrease of 9 percent in the agricultural value added, as against 13.8 percent expected in March. Nonagricultural GDP growth was maintained almost unchanged at 2.8 percent, as opposed to 2.9 percent. In 2017, growth should accelerate to 4 percent from 3.9 percent projected in March. The agricultural value added would increase by 10 percent, assuming a return to a normal crop year, and nonagricultural GDP would grow by 3.2 percent, thanks to improved foreign demand, robust agricultural incomes and an easing in monetary conditions.

The inflation rate would rise to 1.6 percent in 2016 from 0.5 percent reported in the March MPR. This revision is mainly due to the recent increase in inflation of food with volatile prices observed since March and which should continue in the second quarter of 2016. In 2017, inflation should be more moderate at 1 percent from 1.4 percent predicted in March. This change is attributed to the dissipation of the effects of rising volatile prices, which should more than offset the increase caused by the recovery in domestic demand and the depreciation of the real effective exchange rate.

However, these forecasts are still surrounded by several risks with a balance overall at equilibrium for growth and tilted to the upside for inflation. With respect to growth, better prospects for global economy and particularly for the euro area would result in improved foreign demand addressed to Morocco. In addition, a smaller decline in the agricultural value added would impact positively growth. The downside risks to the growth forecast may stem from a continued slowdown of growth in the United States and a Brexit.

Regarding inflation, a continued upward trend of volatile food prices could lead to upward revisions of the inflation rate. Similarly, improved revenues resulting from adopting potential measures as part of the social dialogue is another risk to inflation trends. However, an upward trend reversal in international oil prices constitutes a downside risk.

1.INTERNATIONAL DEVELOPMENTS

The latest data on the international economic situation showed overall a weaker economic activity in major advanced economies, mainly a drop in GDP in Japan, a slower growth in the United Kingdom and a stabilization in the United States and the euro area. With the exception of India, growth decelerated further in key emerging economies. In the labor market, the unemployment rate in the United States fell in May to 4.7 percent, its lowest level since November 2007, albeit with a low job creation. The April data for the euro area indicate that this rate was almost stable at 10.2 percent. The weak recovery in advanced countries affected financial markets, especially stock markets, a large number of which registered a decline in May. Despite the increase in May, commodity prices remained relatively low. Under these conditions, inflation remained weak in most developed countries, especially in the euro area. Overall, the analysis of all of these developments indicates no external inflationary pressures.

1.1 Economic activity and employment

1.1.1 Economic activity

Year on year, growth in the euro area stabilized at 1.7 percent, covering both stagnation at 1.4 percent in France, a recovery from 1.4 percent to 1.6 percent in Germany, a slowdown from 3.5 percent to 3.4 percent in Spain and from 1.1 percent to 1 percent in Italy. In the United Kingdom, it recorded a slight deceleration from 2.1 percent to 2 percent.

In the United States, the latest year-on-year data show that growth stagnated at 2 percent. However, quarter-on-quarter data indicate a marked slowdown from 1.4 percent to 0.8 percent, due to slower private consumption and lower investment, particularly in the energy sector. In Japan, economic activity deteriorated sharply in the first quarter 2016, as growth fell back from 0.8 percent to 0 percent, year on year, reflecting mainly the weakening of household consumption.

In key emerging economies, growth slowed down in China to 6.7 percent from 6.8 percent, mainly in connection with weak demand.

Table 1.1: YoY change in quarterly growth

	2014			2015				2016
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Advanced economies								
United States	**2.6**	**2.9**	**2.5**	**2.9**	**2.7**	**2.2**	**2.0**	**2.0**
Euro area	**0.8**	**0.8**	**1**	**1.3**	**1.6**	**1.6**	**1.7**	**1.7**
France	0.4	0.7	0.7	1.3	1.1	1.1	1.4	1.4
Germany	1.4	1.2	1.5	1.2	1.6	1.7	1.4	1.6
Italy	-0.2	-0.4	-0.4	0.1	0.6	0.8	1.1	1.0
Spain	1.2	1.7	2.1	2.7	3.2	3.4	3.5	3.4
United Kingdom	**3**	**2.8**	**2.8**	**2.6**	**2.4**	**2.2**	**2.1**	**2.0**
Japan	**-0.4**	**-1.5**	**-0.9**	**-0.9**	**0.7**	**1.8**	**0.8**	**0.0**
Emerging economies								
China	**7.4**	**7.1**	**7.2**	**7**	**7**	**6.9**	**6.8**	**6.7**
India	**7.4**	**8.1**	**6.7**	**6.2**	**7.2**	**7.3**	**6.9**	**7.4**
Brazil	**-0.8**	**-1.1**	**-0.7**	**-2**	**-3**	**-4.5**	**-5.9**	**-5.4**
Turkey	**2.3**	**2.3**	**2.9**	**2.4**	**4.0**	**5.1**	**4.4**	**N.A**
Russia	**1.4**	**0.3**	**-0.8**	**-2.1**	**-3.8**	**-3.7**	**N.A**	**N.A**

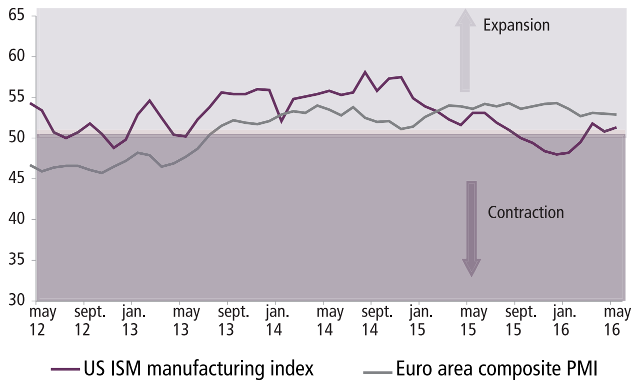
Source : Thomson Reuters Eikon.

In India, growth accelerated in the first quarter to 7.4 percent from 6.9 percent in the previous quarter, driven mainly by strong household consumption. Concerning other emerging countries, the recession continued in

Brazil, but with a lower contraction of GDP to 5.4 percent in the first quarter from 5.9 percent in the previous quarter. In Russia, the third quarter data show a slightly slower decline in GDP to 3.7 percent from 3.8 percent a quarter earlier.

High-frequency indicators show a slight downturn in economic activity in the euro area, as the PMI fell slightly to 52.9 points in May from 53 points a month earlier. However, in the United States, the ISM manufacturing index rose to 51.3 points in May from 50.8 points in April.

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

May data show a decline in the unemployment rate to 4.7 percent in the United States, its lowest level since November 2007, with weak creation of 38,000 jobs, as against 160,000 in April. In the euro area, the latest data are those of April and show stability in the unemployment rate at 10.2 percent. By country, this rate fell from 10.1 percent to 9.9 percent in France and from 20.3 percent to 20.1 percent in Spain, stagnated at 4.2 percent in Germany and rose from 11.5 percent to 11.7 percent in Italy. In the United Kingdom, February figures show a stability in the unemployment rate at 4.9 percent.

Table 1.2: Change in unemployment rate (%)

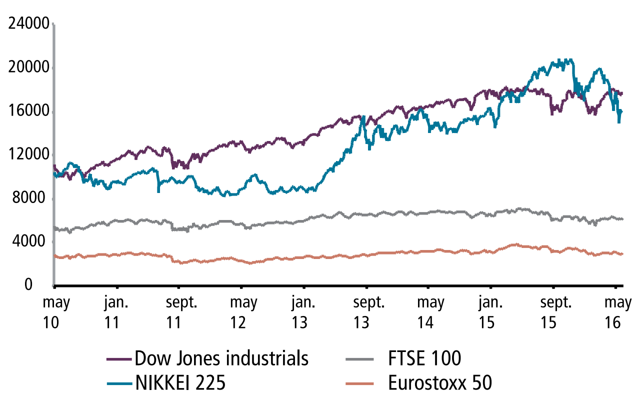
	2014	2015	march 2016	apr. 2016	may 2016
United States	**6.2**	**5.3**	**5.0**	**5.0**	**4.7**
Euro area	**11.6**	**10.9**	**10.2**	**10.2**	**N.A**
France	10.3	10.4	10.1	9.9	N.A
Italy	12.7	11.9	11.5	11.7	N.A
Germany	5.0	4.6	4.2	4.2	N.A
Spain	24.5	22.1	20.3	20.1	N.A
United Kingdom	**6.1**	**5.3**	**N.A**	**N.A**	**N.A**

Source : Eurostat et BLS

1.2 Monetary and financial conditions

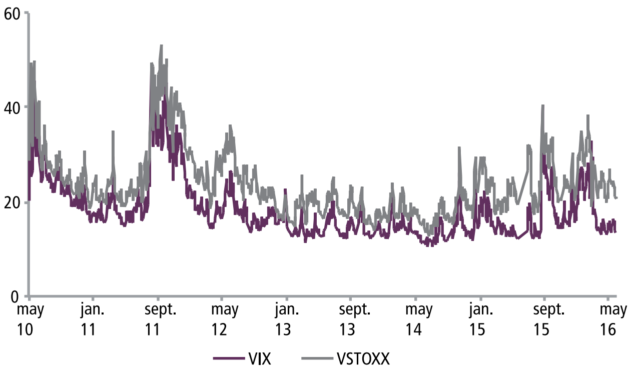
In stock markets, major indexes of advanced and emerging economies recorded declines between April and May. Indeed, the EUROSTOXX50, Dow Jones, NIKKEI 225 and FTSE 100 were down 1.7 percent, 0.8 percent, 0.2 percent and 1.6 percent, respectively. In terms of volatility, VSTOXX rose from 22.7 to 23.7 basis points and VIX moved up from 14.3 to 14.8 basis points. In emerging economies, the MSCI EM fell 3.9 percent, mainly reflecting respective decreases of 7.3 percent, 4.8 percent and 0.4 percent in the indexes of Turkey, China and India.

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



Source : Thomson Reuters Eikon.

Chart 1.3: Change in VIX and VSTOXX

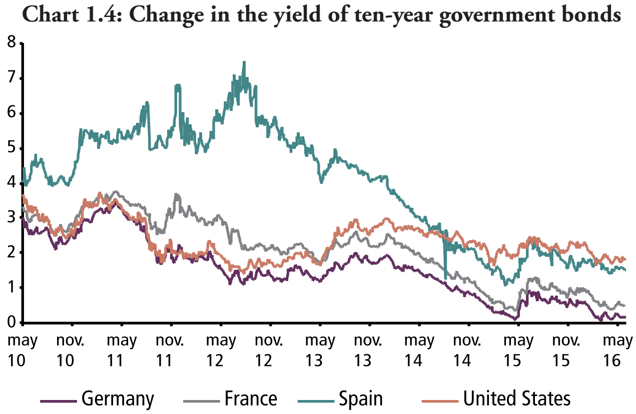


Source : Thomson Reuters Eikon.

In bond markets, 10-year yields in advanced economies trended differently across countries between April and May. They dropped from 9 percent to 7.7 percent in Greece, while they increased from 0.4 percent to 0.5 percent in France, from 3 percent to 3.1 percent in Portugal and from 1.5 percent to 1.6 percent in Spain, and stagnated at 1.5 percent in Italy, 0.2 percent in Germany and 1.8 percent in the United States.

In key emerging countries, 10-year yields fell from 13.1 percent to 12.5 percent in Brazil, and rose from 2.9 percent to 3 percent in China, from 7.4 percent to 7.5 percent in India and from 9.3 percent to 9.8 percent in Turkey.

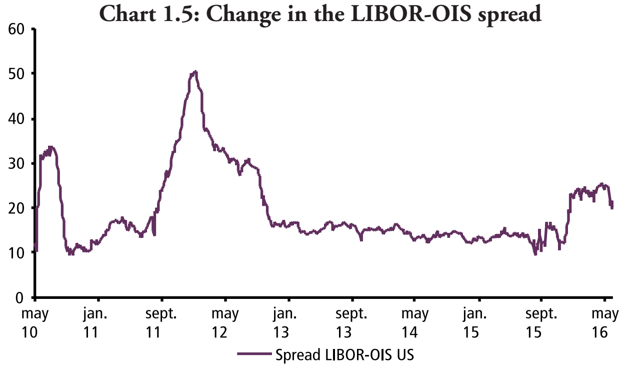
Chart 1.4: Change in the yield of ten-year government bonds



Source: Thomson Reuters Eikon.

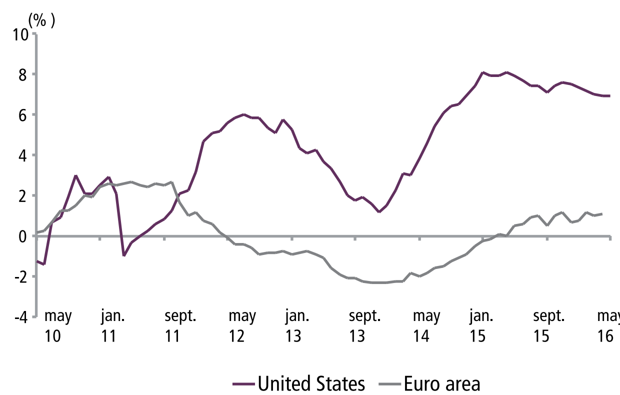
On money markets, the 3-month Euribor stood at -0.26 percent in May from -0.25 percent in the previous month, while the 3-month Libor progressed from 0.63 percent to 0.64 percent. Meanwhile, the dollar Libor-OIS spread fell from 25 to 21.8 basis points. The annual bank lending growth stagnated between March and April at 7 percent in the United States and moved up slightly from 1 percent to 1.1 percent in the euro area.

Chart 1.5: Change in the LIBOR-OIS spread



Source: Thomson Reuters Eikon.

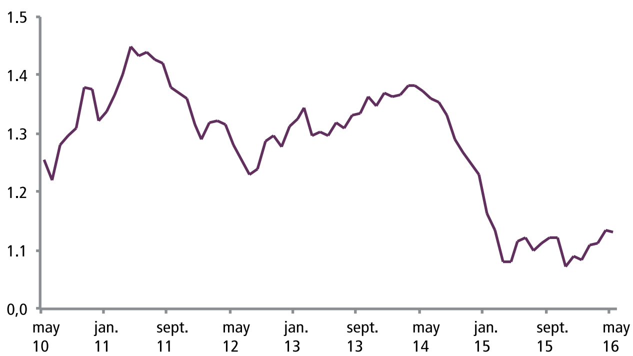
Chart 1.6: YoY change in credit in the United States and the euro area



Source : Thomson Reuters Eikon.

In foreign exchange markets, the euro remained on average at 1.13 dollars in May, while it appreciated by 1.7 percent against the pound sterling and 0.9 percent vis-à-vis the Japanese yen. In terms of the dollar trends against the currencies of key emerging countries, the Turkish lira and Indian rupee depreciated by 3.7 percent and 0.4 percent, respectively, while the Brazilian real appreciated by 1.1 percent. Meanwhile, the Chinese yuan remained stable at 6.5 yuan per one dollar.

Chart 1.7: Euro/dollar exchange rate



Source : Thomson Reuters Eikon

Under these conditions, the central banks of major advanced economies kept their rates unchanged. Indeed, the ECB decided on June 2 to keep its key rate at 0 percent, while stressing that all its rates will remain at current or lower levels for an extended period of time, and even beyond the horizon set for its asset purchases. Similarly, the Fed maintained on June 15 its target range at 0.25 to 0.5 percent, whilst reiterating that the timing and size of future adjustments to the target range will depend on its assessment of observed and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. The Bank of England also decided on June 16 to keep its key rate unchanged at 0.5 percent.

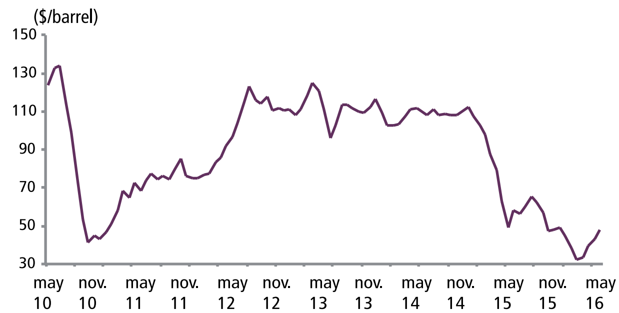
In emerging markets, the Central Bank of Brazil maintained on June 8 its key rate at 14.25 percent and the Central Bank of India kept on June 7 its rate unchanged at 6.5 percent. As to the Central Bank of Russia, it decided on June 10 to lower its key rate from 11 to 10.50 percent, noting that a positive trend had been observed that consists in a more stable inflation and a decrease in inflation expectations and inflation risks against the background of an imminent recovery of economic growth.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

In May, the average Brent price continued to rise since February, averaging \$47.7 per barrel from \$43.3 in April. This 10.2 percent increase is mainly attributed to a lower supply in the market, due in particular to a decline in production in North America. However, year on year, the Brent price remains sharply down 26.8percent.

Chart 1.8: World price of Brent oil in dollar

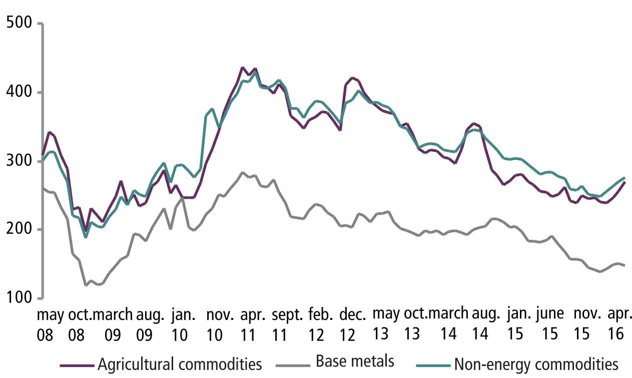


Source : Thomson Reuters Eikon.

1.3.2 Non-energy commodity prices

Non-energy prices registered a year-on-year decrease, as the relevant Dow Jones-UBS fell by 2.7 percent. This change covers a sharp decline of 22,7 percent in the base metals price index and an increase of 8.5 percent in agricultural commodity prices.

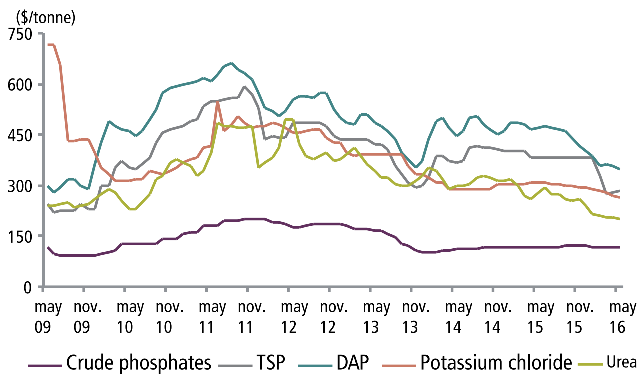
Chart 1.9: Change in the DJ-UBS non-energy commodity price indexes (100=2006)



Source : Thomson Reuters Eikon.

In the international market of phosphate and derivatives, crude prices remained unchanged at $115 per tonne between April and May. Moreover, TSP prices continued its increase that began a month ago, from $278 to $284 per tonne, which is a monthly change of 2.2 percent. In contrast, Potassium Chloride, urea and DAP prices recorded respective declines of 1.9 percent, 2 percent and 2.5 percent. Year on year, prices remain stable for crude phosphate, but down 28.6 percent for urea, 25.7 percent for DAP, 25.3 percent for TSP and 14 percent for Chloride Potassium. Durum wheat prices dropped by 8.4 percent, month on month, and 20.2 percent, year on year.

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

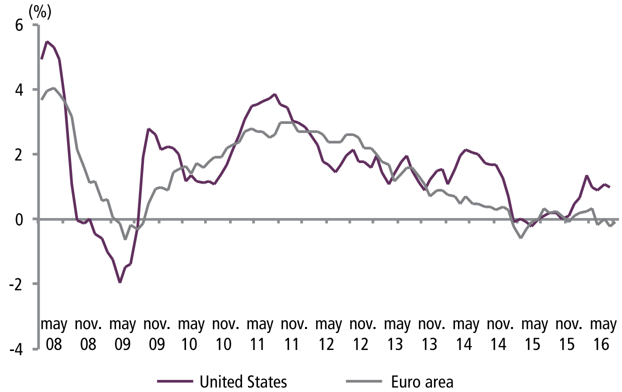


Source: World Bank.

1.3.3 Inflation in the world

In the United States, inflation decreased slightly, from 1.1 percent in April to 1 in May, whereas in the United Kingdom, this rate remained unchanged at 0.3 percent between April and May. In the euro area, according to an initial Eurostat estimate for May, the decrease in consumer prices eased slightly from 0.2 to 0.1 percent, with increases from -0.1 to 0.1 percent in France, from -0.3 to 0 percent in Germany, from -0.4 to -0.3 percent in Italy and from -1.1 to -1 percent in Spain. In Japan, the latest data available remain those of April and show a 0.3 percent fall in prices, after the stagnation observed a month earlier.

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



Source : Eurostat.

In emerging countries, inflation dropped in China from 2.3 to 2 percent in May, and declined in April from 9.4 to 9.3 percent in Brazil and from 7.3 to 7.2 percent in Russia.

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

	2014	2015	2015/2016		
			march	apr.	may
United States	**1.6**	**0.1**	**0.9**	**1.1**	**1.0**
Euro area	**0.4**	**0.2**	**0.0**	**-0.2**	**-0.1**
Germany	0.8	0.2	0.1	-0.3	0.0
France	0.6	0.1	-0.1	-0.1	**0.1**
Spain	-0.2	-0.4	-0.8	-1.1	-1.0
Italy	0.2	0.2	-0.2	-0.4	-0.3
United Kingdom	**1.5**	**0.1**	0.5	**0.3**	**0.3**
Japan	**2.7**	**0.7**	0.0	**-0.3**	**N.A.**

Source : Thomson Reuters Eikon.

2. EXTERNAL ACCOUNTS

In late April 2016, despite a 7.3 percent decline in shipments of phosphates and derivatives, due to lower prices on the international market, exports were up 3.1 percent. This trend mainly reflects an increase of 24.3 percent in sales of the automotive industry. Meanwhile, imports grew by 4.4 percent, reflecting an increase of 10.9 percent in non-energy purchases, particularly capital goods and finished consumer goods, while the energy bill shrank by 27.1 percent. Against this backdrop, the trade balance widened slightly, thus bringing the import coverage rate from 60.1 percent to 59.4 percent. For the other main components of the current account, remittances from Moroccan expatriates maintained a growth rate of 4 percent and travel receipts stood at 6.6 percent, after falling 7.7 percent a year earlier. Under these conditions and despite a decline of 26.6 percent in net FDI flows, foreign exchange reserves strengthened by 25.4 percent to 240.4 billion at end-April, equaling 7 months and 5 days of imports of goods and services.

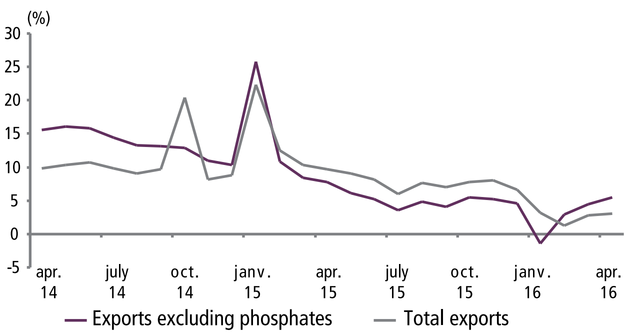
2.1 Trade balance

2.1. 1 Exports

In late April 2016, exports grew by 2.3 billion, year on year, to 77 billion dirhams. This change was largely due to an increase of 15.1 percent or 2.5 billion of shipments of the automotive industry, including 2.1 billion of car manufacturing exports. Textile sales grew faster to 5 percent from 0.4 percent a year earlier, reflecting increases of 9.8 percent for sales of ready-made garments and 6.3 percent for footwear. Similarly, shipments of agricultural and agri-food sector recorded an increase of only 3.5 percent, while they had risen 24.8 percent a year earlier. Particularly, exports of food industry and fisheries rose by 4.5 percent and 30.8 percent to 9.1 billion dirhams and 1.8 billion, respectively.

In contrast, sales of phosphates and derivatives fell by 7.3 percent to 12.7 billion dirhams, mainly owing to falling prices in the international market. By product, exports of crude phosphates decreased by 15.4 percent, with a slight increase of 1.1 percent in quantities and a drop of 16.3 percent in prices, while sales of derivatives fell by 5.3 percent, despite a 20 percent increase in shipment volumes.

Chart 2.1: YoY cumulative growth in exports



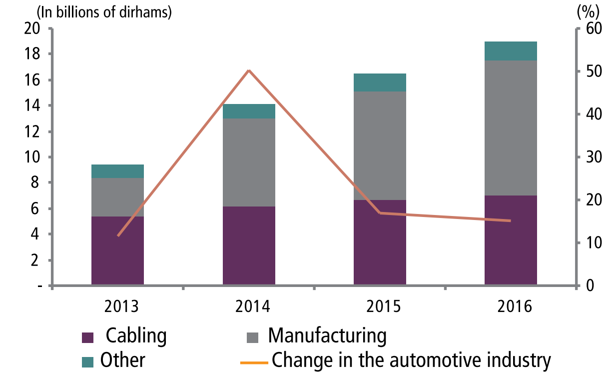
Source: Foreign Exchange Office.

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

	April 2016/April 2015		
	Value	Quantity	Price
Crude phosphates	-15.4	1.1	-16.3
Natural and chemical fertilizers	-1.5	24.8	-21.1
Phosphoric acid	-11.1	6.7	-16.7

Source: Foreign Exchange Office.

Chart 2.2: Change in automotive industry's exports in April



Source: Foreign Exchange Office.

2.1.2 Imports

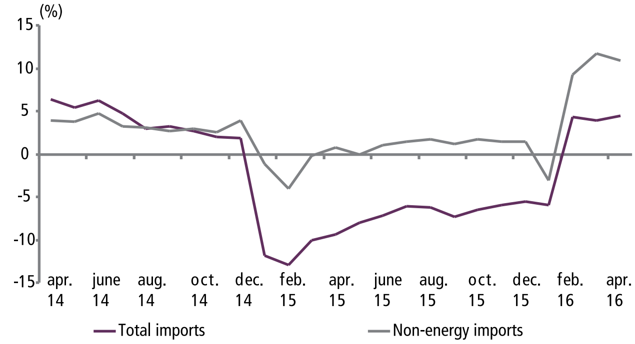
In late April, imports rose by 5.5 billion dirhams to 129.6 billion, mainly due to a growth of 17.7 percent in capital goods purchases or 5.3 billion, with especially increases of 2.5 billion for components and spare parts for industrial vehicles, 1.3 billion for purchases of railway locomotives and equipment and 1.1 billion for piston engines. Similarly, finished consumer goods were up 16.1 percent or 3.6 billion, mainly reflecting an increase of 1.7 billion in passenger car purchases, in connection with the advent of the biennial car show.

Similarly, supplies of semi-finished goods rose by 9.1 percent or 2.6 billion, reflecting an increase of 1.4 billion dirhams in purchases of piping accessories and steel construction to 2 billion dirhams.

Food imports progressed by 3.7 percent or 567 million, driven by an increase of more than double in barley supplies to 964 million, while corn and wheat purchases recorded respective decreases of 22 percent and 3.2 percent.

However, energy costs fell by 27.1 percent, mainly in connection with the lack of crude oil purchases. Similarly, declines of 1.3 billion for petroleum gas imports and 372 million for purchases of gas oils and fuel oils were registered. Similarly, raw materials purchases fell 12.3 percent, in connection with a 17 percent decrease in crude sulfur purchases to 1.8 billion, with a 5.5 percent increase in quantities and 21.3 percent decrease in prices.

Chart 2.3: YoY cumulative growth in imports



Source: Foreign Exchange Office.

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

	April 2016/April 2015		
	Value	Quantity	Price
Diesel and fuel oil	-3.2	21.7	-20.5
Petroleum gas	-5.3	56.0	-39.3
Crude oil	-26.2	7.2	-31.2
Crude sulfur	-16.9	5.5	-21.3

Source: Foreign Exchange Office.

Overall, the increase in imports was greater than in exports, reflecting a trade deficit of 52.6 billion, worsening by 3.2 billion compared to the same period of 2015. The import coverage ratio dropped from 60.1 percent to 59.4 percent.

2.2 Other components of the current account

Regarding services, travel receipts rose by 6.6 percent to 16.9 billion dirhams, after posting a decline of 7.7 percent over the same period of 2015, while the related expenditure continued their upward trend, albeit at a slower pace of 1.8 percent. Transport revenues grew slightly by 1.3 percent, while transport outflows were down 1.2 percent. Under these conditions, the balance of services resulted in a surplus of 3.3 billion, up 19.6 percent compared to April 2015.

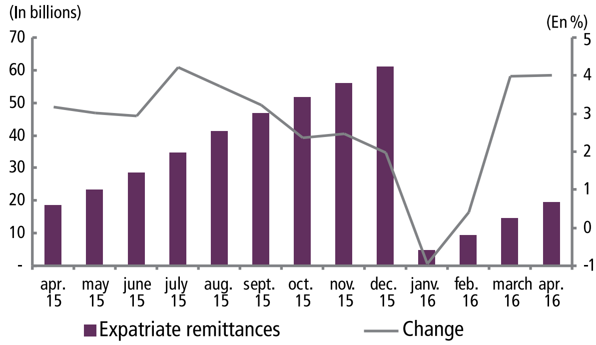
Table 2.3: Change in the trade of services (YoY, %)

(In millions of dirhams)	January-April		Change	
	2016	2015	Value	%
Imports	**23 864**	**24 687**	**-823**	**-3.3**
Transport services	9 132	9 246	-114	-1.2
Travel	4 308	4 230	78	1.8
Exports	**43 772**	**41 334**	**2 438**	**5.9**
Transport services	8 115	8 009	106	1.3
Travel	16 936	15 889	1 047	6.6
Balance	**19 908**	**16 647**	**3 261**	**19.6**

Source: Foreign Exchange Office.

Remittances from Moroccan expatriates moved up 4 percent to 19.4 billion, as against 3.2 percent a year earlier.

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



Source: Foreign Exchange Office.

2.3 Financial account

With regard to key capital account transactions, receipts from foreign direct investment (FDI) fell by 955 million dirhams at the end of April, while FDI expenses rose 1.5 billion. The positive net flows were down 26.6 percent to 6.9 billion dirhams.

FDI net outflows stood at 1.2 billion dirhams at end-April 2016 from 2.9 billion dirhams a year earlier.

Overall, taking account of current account transactions, the outstanding international reserves increased by 25.4 percent, year on year, at the end of April to 240.4 billion dirhams, equaling 7 months and 5 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

In the first quarter of 2016, monetary conditions were marked by an appreciation of the real effective exchange rate and an overall decline in interest rates in various markets, albeit with a virtual stability of rates on bank loans. Credit to the nonfinancial sector improved slightly, reflecting in particular the slower fall in loans to private nonfinancial companies. Overall, the moderation in the bank credit growth, combined with a decline in net claims on the central government, contributed to decelerating the money supply growth from 5.8 percent to 5.3 percent, despite a further increase in net international reserves. Therefore, the monetary gap remained negative and close to zero, indicating the absence of monetary inflationary pressures in the medium term.

In the real-estate market, prices showed a quarter-on-quarter stagnation in the first quarter, after edging up 0.4 percent, while real-estate transactions were down 8.5 percent, after rising 15.1 percent a quarter earlier. In the stock market, the upward trend of MASI since February 2016 was interrupted in May, with a monthly underperformance of 2.2 percent, after increasing 6.9 percent in April and 4.5 percent in the first quarter of 2016. The trading volume remains relatively low, with an average of 3.3 billion in April and May, as against 2.5 billion in the first quarter of the year. Overall, developments confirm moderate inflationary pressures from asset markets.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

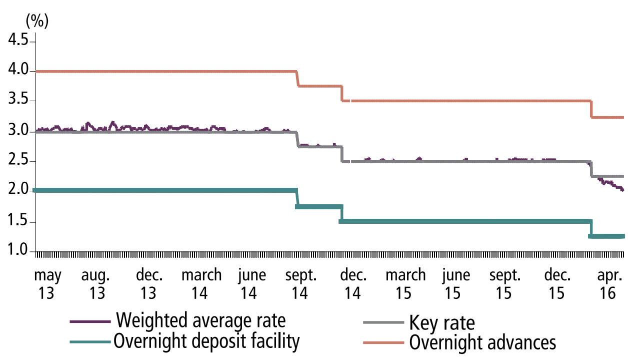
In the first quarter of 2016, banks' liquidity needs moved down to 12.8 billion on weekly average, from 21 billion in the fourth quarter 2015, reflecting the continued expansion of foreign exchange reserves. Thus, the Bank reduced the volume of its injections, reducing it from 23 billion dirhams to 13.3 billion, including 3.8 billion as 7-day advances and 9.3 billion as secured lending transactions, granted under the program to support the financing of VSME. The most recent data indicate a further easing in liquidity needs, which amounted to 5.5 billion dirhams in May 2016.

Against this backdrop and following the latest decision taken by the Bank Board on March 22 to reduce the key rate by 25 basis points, a decline in interest rates was broadly observed in various markets.

Regarding the interbank market, the weighted average rate remained almost stable at 2.51 percent on average from the beginning of the year to March 22, before falling on average during the rest of the quarter to 2.25 percent. More recently, the interbank rate averaged 2.19 percent in April and 2.08 percent in May 2016 and the average volume traded in this market dropped from 1.9 billion in April to 644 million on average in May.

In other markets, Treasury bill rates were tilted to the downside during the four months in both the primary market and the secondary one, after a stability in the fourth quarter.

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



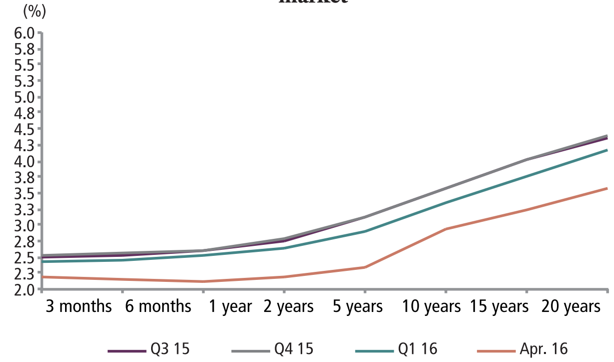
Source : BAM.

Table 3.1: Change in Treasury bond yields in the primary market (%)

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
52 weeks	3.63	3.25	3.14	2.83	2.53	2.67	2.60	2.60
2 years	4.04	3.35	-	3.02	2.59	2.86	2.74	2.80
5 years	4.62	3.91	3.80	3.33	2.98	3.24	3.17	3.14
10 years	5.43	4.47	-	3.75	3.30	3.66	3.39	3.61
15 years	5.87	5.15	-	4.30	3.89	4.07	4.06	4.05

Source : BAM.

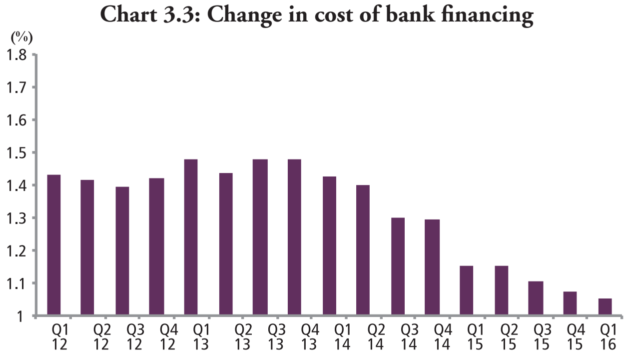
Chart 3.2: Term structure of interest rates in the secondary market



Source : BAM.

In terms of private debt, the rate of certificates of deposit issued continued to decline in the first quarter 2016. Issuances focused on maturities between one and five years. Regarding deposit rates, the weighted average rate of 6 and 12-month deposits fell by 12 basis points to 3.54 percent, covering decreases of 15 basis points in the rate of 6-month deposits to 3.31 percent and 15 basis points in the one-year deposit rate to 3.67 percent. Under these conditions, the banks' overall cost of financing[1] decreased slightly in the first quarter.

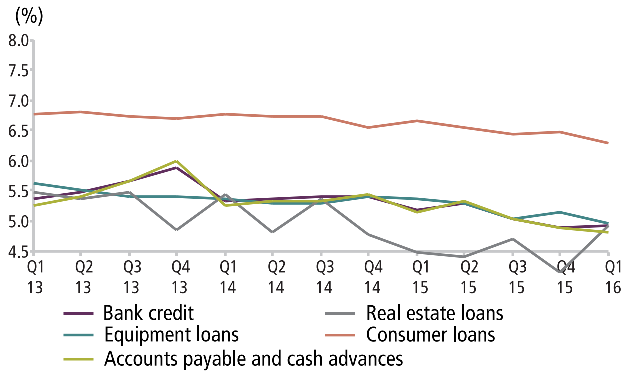
Chart 3.3: Change in cost of bank financing



Source : BAM.

In terms of lending rates, data for the first quarter of 2016 show a virtual stability of the overall weighted average rate at 5.55 percent. By loan category, rates fell by 17 points for real estate loans, 21 points for consumer loans and remained almost unchanged for cash advances. However, after the significant decline in the fourth quarter 2015, rates on equipment loans were up 78 basis points to 5.54 percent.

Chart 3.4: Change in lending rates



Source : BAM.

Table 3.2: Deposit rates (time deposits)

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6 months	3.51	3.68	3.69	3.71	3.64	3.60	3.56	3.46
12 months	3.86	3.91	3.86	3.94	3.85	3.83	3.74	3.78
Weighed average	3.71	3.81	3.80	3.85	3.76	3.71	3.66	3.66

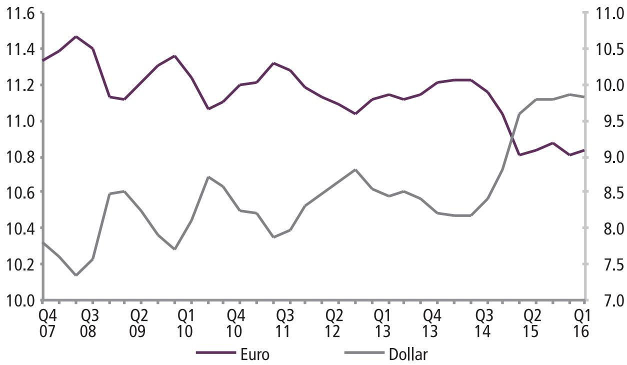
Source : BAM

3.1.2 Exchange rate

In the first quarter of 2016, the euro appreciated 0.62 percent against the US dollar, reaching $1.10 on average. In this context, the national currency depreciated by an average of 0.26 percent vis-à-vis the euro and appreciated by 0.41 percent against the US dollar. Compared with the currencies of some emerging countries, the dirham appreciated by 1.7 percent against the Turkish lira and by 2.8 percent versus the Chinese yuan. Under these conditions, the effective exchange rate appreciated by 1.37 percent in nominal terms and 1.66 percent in real terms.

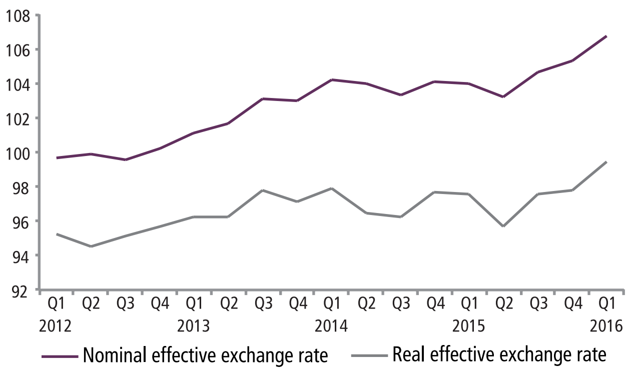
1 The cost of financing is the weighted average of the costs of banks' resources.

Chart 3.5: Change in the exchange rate of the dirham



Source : BAM.

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



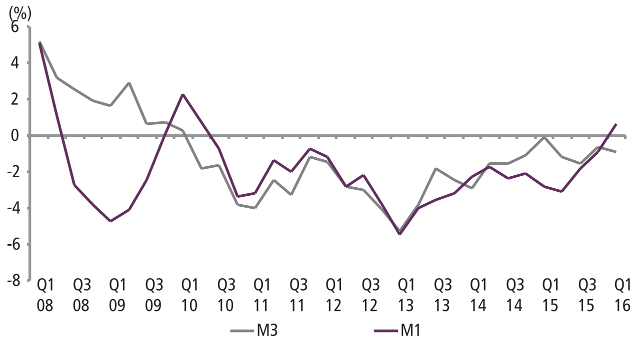
Sources : BAM and IMF calculations.

The net foreign exchange position of banks moved up from 2.2 billion on average in the fourth quarter of 2015 to 3.4 billion dirhams in the first quarter. Foreign exchange sales by Bank Al-Maghrib to banks fell back to 188 million dirhams from 619 million a quarter earlier. The volume of banks' transactions with their foreign correspondents dropped slightly by 0.5 percent to 79.5 billion. Meanwhile, bank customers' forward purchases rose by 9.9 percent to 5.7 billion and sales remained almost stable at 3.3 billion dirhams.

3.1.3 Monetary position

In the first quarter of 2016, the money supply growth decelerated from 5.8 percent to 5.3 percent. In April, this growth remained almost stable at 5.2 percent compared to the average of the first months of the year. Therefore, the monetary gap for M3 remained negative and close to zero.

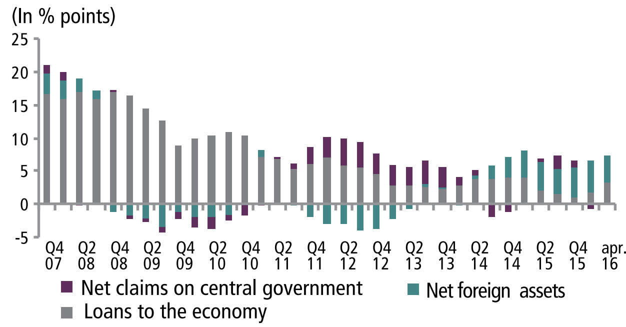
Chart 3.7: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



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

Source : BAM.

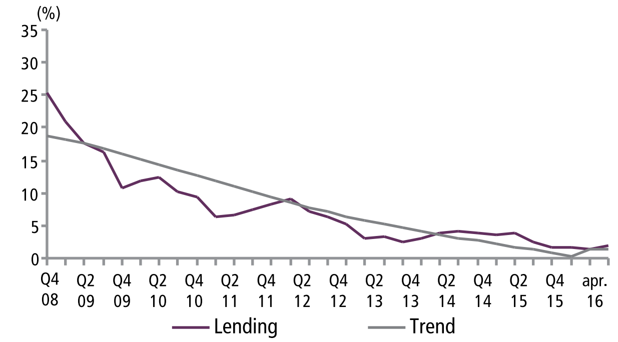
Chart 3.8: Contribution of the major counterparts to YoY change in money supply



Source : BAM.

By components, the M3 growth reflected in particular an 11.9 percent decrease in money market fund shares/units, after an increase of 3.5 percent. Regarding deposits of private nonfinancial corporations, the growth of time deposits slowed from 29.3 percent to 22.4 percent, while that of demand deposits accelerated from 3 percent to 7.6 percent. Demand deposits of households continued to improve with a growth of 7.1 percent from 6.6 percent a quarter earlier, and their time deposits accelerated from 6.2 percent to 7.3 percent. In contrast, the growth of currency in circulation and sight deposits stabilized at 7.1 percent and 6.4 percent, respectively.

Chart 3.9: YoY change in credit



Source : BAM.

By counterparties, despite the continued expansion of 27.4 percent in net international reserves during the first three months of 2016, the M3 aggregate decelerated, reflecting a slightly slow growth of bank credit from 1.7 percent to 1.5 percent and a 5.5 percent drop in net claims on the central government, after rising 7.1 percent in the fourth quarter of 2015.

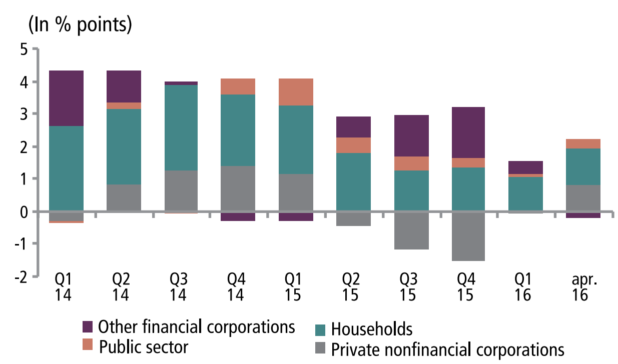
More particularly, bank credit to the nonfinancial sector increased by 1.2 percent as against a near-zero growth. Thus, loans to private nonfinancial corporations remained at the level recorded a year earlier, after a decrease of 3.3 percent in the fourth quarter of 2015. This change covers an increase of 1.3 percent in their equipment loans, after a 3.1 percent decline, and a 4.9 percent decrease in their cash advances, which is less marked compared to the previous quarter. Loans to property development were down 5.8 percent, a rate less pronounced than 6.3 percent recorded in the fourth quarter of 2015. Meanwhile, loans to public nonfinancial companies shrank by 0.3 percent, after a growth of 4.7 percent, reflecting a decline of 0.6 percent in equipment loans, after a rise of 1.7 percent and a deceleration from 29.8 percent to 5.3 percent in cash advances.

Loans to individual entrepreneurs showed a 9.3 percent decrease, a rate more pronounced than 2.7 percent registered in the fourth quarter 2015, primarily due to the steeper decline from 8.9 percent to 23.8 percent in loans allocated to real estate development.

The breakdown of credit to businesses by sector indicated in the first quarter increases of 1.3 percent in lending to the "trade" sector and 6.4 percent in loans granted to the "electricity, gas and water" branch. However, loans to manufacturing industries dropped by 2 percent and those grated to the branches of "construction" and "hotels and restaurants" contracted by 4.7 percent and 5.6 percent, respectively.

Concerning loans to individuals, the growth of consumer loans accelerated from 5.4 percent to 6 percent and that of housing loans remained virtually unchanged at 4.7 percent.

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

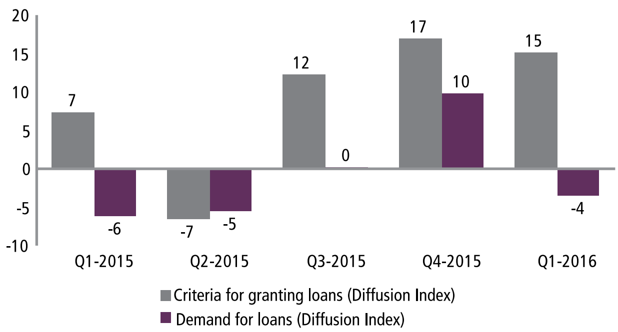


Source : BAM.

Nonperforming loans grew by 10.9 percent from 10.2 percent, covering an acceleration from 15.2 percent to 23.2 percent for nonfinancial companies and a decline of 4.3 percent for households, after an increase of 3.8 percent. Thus, their ratio to bank credit rose from 7.4 percent to 7.6 percent in the first quarter 2016.

The BAM's lending conditions survey for the first quarter of 2016 indicates that banks relaxed lending conditions for both businesses and individuals. Demand would have declined, mainly corporate demand, while demand from individuals would have remained unchanged from the fourth quarter of 2015.

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

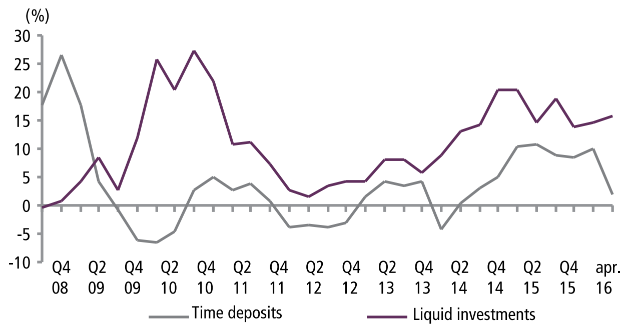


The latest available lending data for April 2016 indicate a slight improvement in the bank credit growth to 2 percent. Loans to the nonfinancial sector increased by 2.4 percent, particularly reflecting an improvement of 1.9 percent in loans to businesses and a 2.8 percent increase in those granted to households.

The growth of loans to the nonfinancial sector by other financial companies, not included in the monetary position, stabilized at 0.4 percent in the first quarter 2016, covering slow growth of credits accorded by finance companies and slow decline in those granted by offshore banks. Thus, loans from finance companies grew by 1.3 percent, as against 1.9 percent in the fourth quarter, in connection with the deeper decline from 6.2 percent to 17.2 percent in factoring credits, while the growth of consumer loans and leasing accelerated to 2.4 percent and 3.7 percent, respectively. Loans to offshore banks showed a further decline of 10 percent, a rate less marked than 13.6 percent, particularly owing to respective declines of 9.8 percent and 8.4 percent in cash loans and equipment loans, after decreases of 11.5 percent and 16.7 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 166.1 percent in the first quarter of 2016 from 168.3 percent in the previous quarter, reflecting a deceleration in money supply, wherreas liquid investments kept a high pace. Their outstanding amount moved up 14.2 percent from 13.7 percent, reflecting increases of 13.5 percent in Treasury bills and 20 percent in bond fund shares, after respective rises of 12 percent and 18.8 percent.

Chart 3.12: YoY change in liquid investments and time deposits



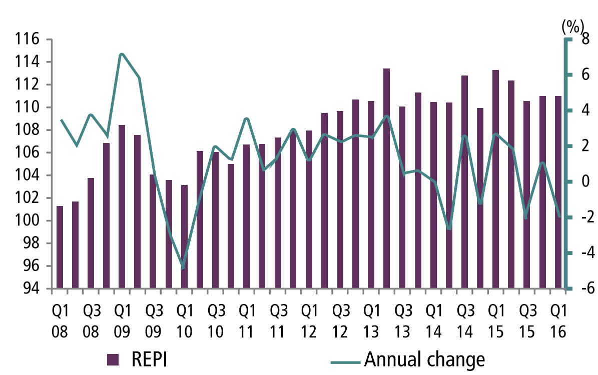
Source : BAM.

3.2 Asset prices

3.2.1 Real estate assets

After a slight increase of 0.4 percent in the fourth quarter 2015, the real estate price index (REPI) stabilized in the first quarter of 2016. Analysis by asset category shows that real estate prices fell 0.6 percent for apartments and 1.4 percent for houses. However, they increased 1.2 percent for urban land, 3.3 percent for commercial property and 4.8 percent for professional property.

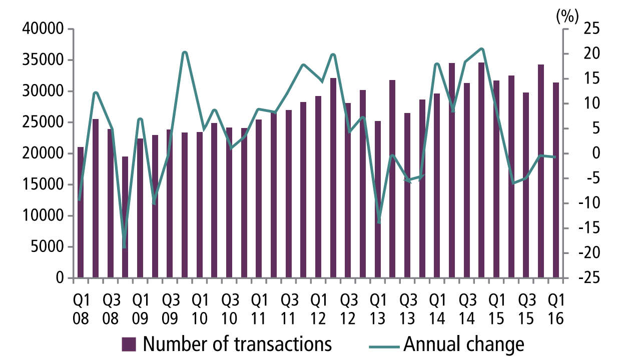
Chart 3.13: Change in the Real Estate Price Index (REPI)



Source : BAM and the National Land Registry and Mapping Agency

After rising 15.1 percent a quarter earlier, transactions registered a decrease of 8.5 percent. This drop is mainly attributed to declines of 12.8 percent in sales of apartments and 4.5 percent in those of houses, while transactions on urban land and commercial property improved by 1.1 percent and 6 percent, respectively.

Chart 3.14: Change in number of real estate transactions



Source : BAM and the National Land Registry and Mapping Agency

In major cities, prices fell overall, with the exception of Marrakech, Kenitra and El-Jadida, where they were up 3.1 percent, 1.8 percent and 1.4 percent, respectively. Real estate transactions almost stagnated in El Jadida, rose 14.3 percent in Rabat, 8.3 percent in Kenitra and 1.7 percent in Fez, and decreased in the other major cities.

Table 3.3: Quarterly change in the REPI and the number of real estate transactions in major cities

In %	REPI		Number of transactions	
	Q4-2015	Q1-2016	Q4-2015	Q1-2016
Agadir	3.0	-1.6	23.9	-6.1
Casablanca	4.7	-0.9	20.0	-7.3
El-Jadida	0.3	1.4	11.0	-0.9
Fes	2.7	-1.2	15.5	1.7
Kénitra	-1.4	1.8	14.8	8.3
Marrakech	-0.8	3.1	27.7	-26.2
Meknes	-1.1	-2.6	42.6	-10.4
Oujda	-2.7	-1.6	-12.4	-9.6
Rabat	4.0	-2.1	-8.4	14.3
Tangier	0.3	-0.6	9.0	-21.7

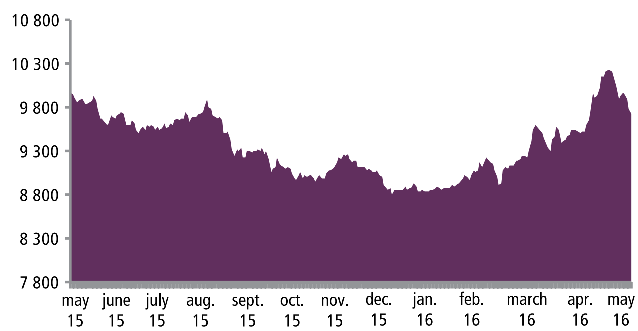
Source : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

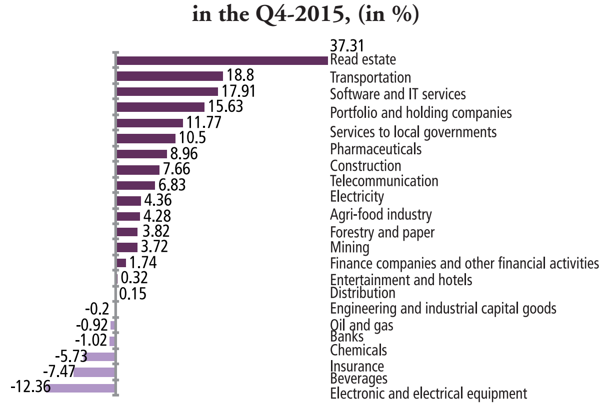
Following a contraction of 7.2 percent in 2015, the MASI recorded at the end of the first quarter 2016 a performance of 4.5 percent. This progression resulted primarily from increases of 37.3 percent in real estate shares, 9 percent in the index of "construction and building materials", 7.7 percent in the index of "telecommunications" and 4.4 percent for the agri-food sector. However, the "banks" index fell by 0.9 percent. Available data at end-May indicate the interruption of the MASI upward trend observed since February 2016. Thus, the benchmark index dropped by 2.2 percent in May, after rising 6.9 percent in the previous month.

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.

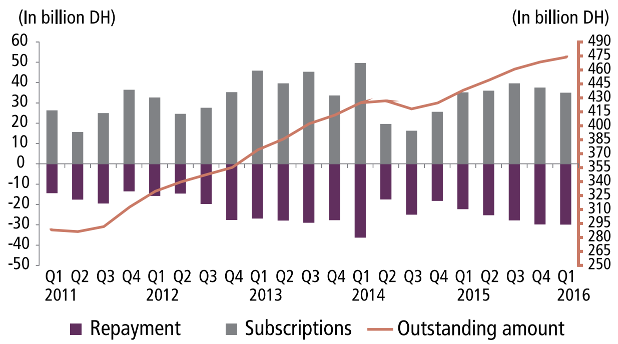
After a 24.8 billion surplus in the fourth quarter 2015, the trading volume stood at 7.6 billion dirhams in the first quarter 2016, of which 6.3 billion performed in the central market and 496.6 million in the block market. Operations relating to public offerings, securities contributions and transfers totaled 866.4 million dirhams. The trading volume stood at 3.3 billion dirhams on average in April and May, as against 2.5 billion in the first quarter 2016.

The market capitalization registered a quarterly increase of 3.8 percent to 470.4 billion dirhams, mainly due to the price effect. Under these conditions, the liquidity ratio[2] increased slightly to 8.4 percent at end-March from 8.3 percent in December.

3.2.2.2 Treasury bonds

In the first quarter 2016, Treasury issues on the domestic market stood at 35 billion dirhams from 37.6 billion a quarter earlier. 45 percent and 41 percent of issuances had a medium-term maturity and long-term one, respectively, and they were performed with lower rates to 2.78 percent and 4.05 percent. In April, issues amounted to 8.4 billion, after a monthly average of 11.7 billion and their yields were lower for all maturities compared to December. Taking into account the amount of repayment of 11.7 billion, outstanding treasury bills reached 471.9 billion dirhams.

Chart 3.17: Change in outstanding Treasury bonds



Source : BAM.

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

3.2.2.3 Negotiable debt securities

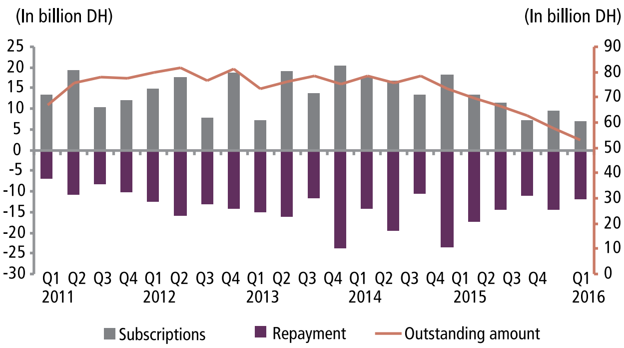
Emissions of other NDS stood at 6.9 billion dirhams in the first quarter 2016, as against 9.4 billion a quarter earlier.

Issuances of certificates of deposit amounted to 5.4 billion dirhams in the first quarter 2016 from 4.5 billion a quarter earlier, and matched low rates overall. Concerning bills of finance companies, the amount issued was 250 million dirhams, as against 860 million in the fourth quarter and was performed with a higher rate compared to the fourth quarter of 2015. Issuances of commercial paper reached 1.2 billion dirham, as opposed to 4 billion and were performed at rising rates overall.

Taking into account repayments of 11.9 billion dirhams, the outstanding amount of NDS stood at 52.7 billion dirhams, down 9 percent compared to December.

In April, emissions of other NDS amounted to 5.3 billion, as against an average of 2.3 billion in the first quarter and their yields were lower.

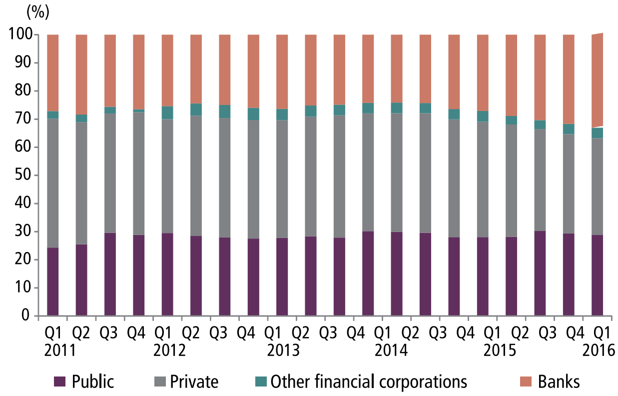
Chart 3.18: Change in outstanding amount of negotiable debt securities



Source : BAM.

In the bond market, data for the first quarter of 2016 indicate an issue amount of 150 million dirhams from 3.7 billion in the previous quarter and 3.8 billion on quarterly average in 2015. Taking into account these developments, the outstanding amount of bond issues reached 97.2 billion, down 4.4 percent compared to end-December 2015.

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

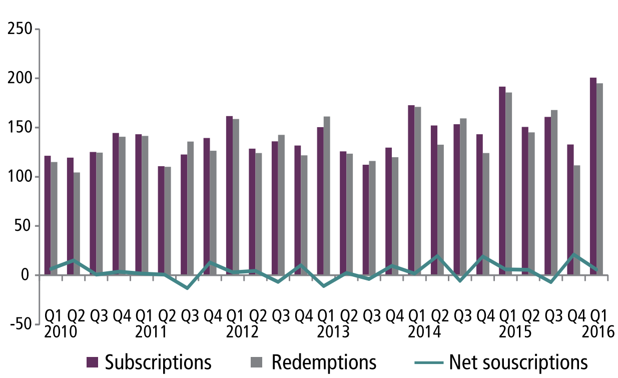


Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund shares/units

In the first quarter 2016, subscriptions to mutual fund shares/units totaled 200.8 billion dirhams from 132.8 billion a quarter earlier and redemptions stood at 194.9 billion from 111.7 billion. Taking into account a quarterly appreciation of 2.4 percent in the performance indicator, the net assets of UCITS funds stood at 342.4 billion dirhams in the first quarter, up 3.7 percent in the fourth quarter 2015. This increase reflects appreciations of the net assets of all fund categories, with the exception of money market funds, which were down 15.3 percent from one quarter to another.

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



Source : CDVM.

4. FISCAL POLICY STANCE

After an easing of 5.9 percent in the budget deficit in the first quarter 2016, end-April data show a deficit of 21.1 billion, widening by 10.6 percent compared to the same period of 2015. with regard to the programming of the finance act, expenditure, mainly investment and debt interest spending, show faster execution compared to revenue, due to delays in the collection of donations from the GCC and monopoly receipts transferred by public companies. Tax revenue trends remain favorable compared to the programming of the Finance Act, suggesting a convergence of deficit towards the 37.4 billion target.

Current receipts rose by 3 percent, covering an improvement in tax revenues and a sharp decrease in nontax receipts. Direct taxes moved up 14.6 percent to 30 billion dirhams, reflecting the large companies' good results in 2015. Meanwhile, overall expenditure increased by 5.6 percent, reflecting higher Treasury investments, spending on other goods and services and debt interest. However, subsidy costs dropped by almost a third and payroll almost stabilized around 35.1 billion dirhams. The positive balance of the Treasury special accounts was 5.4 billion, up 1.3 billion.

Based on the domestic and external financing flows, the direct public debt would increase by 1.4 percent at end-April 2016 from the level of late December 2015, with respective increases of 2.5 percent and 1.1 percent in the outstanding external debt and outstanding domestic debt. As to financing costs in the Treasury bills market, conditions improved further, as evidenced by the decline in weighted average rates at issuance compared to the first four months of 2015.

4.1 Current revenues

The sharp decline in nontax revenues at the end of April 2016 was more than offset by tax performances, mainly proceeds from direct taxes. Similarly, indirect taxes grew, albeit covering lower revenue from domestic VAT. Thus, the Treasury's current receipts rose 3 percent, with an 8.6 percent increase in tax revenues to 73 billion and a 37.9 percent decrease in nontax revenues to 5 billion dirhams.

Proceeds from direct taxes moved up 14.6 percent to 30 billion, due to an increase in corporate tax and income tax revenues, or nearly 14.3 percent each. The trend in income tax receipts is partly due to the change in the collection method of taxes on professional or agricultural incomes , and takes account of an increase of 19.6 percent in revenue from income tax on real estate profits to 1.4 billion, while income tax on salaries paid by Morocco's General Treasury fell by 0.5 percent.

Table 4.1: Change in current revenues*

	Jan-apr 2015	Jan-apr 2016	Change in %	FA 2016	Achievements with respect to the FA 2016 (%)
Current revenues	**76,2**	**78,4**	**3,0**	**245,9**	**31,9**
Tax revenues	**67,2**	**73,0**	**8,6**	**215,5**	**33,9**
- Direct taxes	26,2	30,0	14,6	85,5	35,0
Including CT	13,8	15,7	14,3	44,3	35,5
I.T	12,0	13,7	14,4	38,6	35,5
- Indirect taxes	32,5	33,2	2,1	104,8	31,7
VAT	24,8	24,7	-0,4	79,3	31,2
DCT	7,7	8,4	10,0	25,5	33,1
- Customs duties	2,7	3,2	19,2	7,9	40,4
- Registration and stamp duties	5,8	6,6	13,5	17,3	38,4
Nontax revenues	**8,0**	**5,0**	**-37,9**	**27,2**	**18,3**
- Monopoles	3,9	0,3	-92,9	8,3	3,3
- Other receipts	4,1	4,7	13,7	18,8	24,9
Including GCC grants	0,1	1,6		13,0	12,1
TSA receipts	**1,0**	**0,5**	**-47,5**	**3,3**	**15,3**

*Taking into account 30 percent of the VAT transferred to local governments. Figures in billions of dirhams.

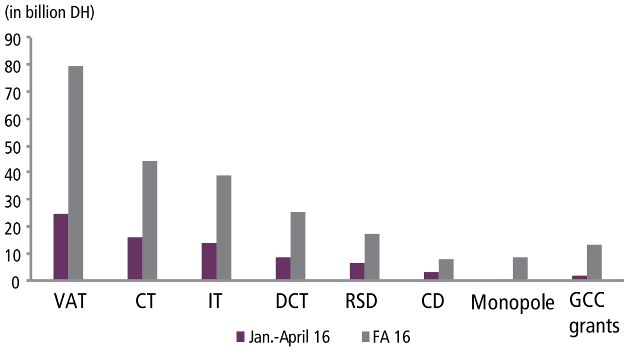
Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Regarding corporate taxes, the rebound observed can be attributed to the good performance in 2015 of certain large companies, mainly OCP, ANRT, BCP, CIH, Marsa Maroc and cement companies. March 2016 registered the highest monthly flows after March of 2012, but remains well below the 2008 level, which was a historic peak for tax collection.

Indirect taxes recorded an increase of 2.1 percent to 33.2 billion dirhams, despite a 9.8 percent decline to 9.1 billion in domestic VAT revenues. These receipts were directly impacted by faster repayments of VAT, which stood at 2.7 billion at end-April 2016, from 1.4 billion over the same period of 2015. In addition, the latest data available as at May 15, 2016, show that the repayments totaled 2.9 billion dirhams, including 1 billion for exporters, 613 million for low-income housing and 1.3 billion under arrears clearance. It should be noted that state-owned companies are largely concerned by VAT credits, with a stock at end 2014 estimated at 22.7 billion, of which 10 billion due to OCP and 4.8 billion to Autoroutes du Maroc.

Revenues from import VAT grew by 6.2 percent to 15.6 billion, covering a 16 percent decrease in energy VAT, due to the fall in international energy prices, and a 10.8 percent increase in VAT on other products. Domestic consumption tax (DCT) drained 8.4 billion, up 10 percent, following the improvement in all DCT categories, mainly tobacco DCT, up 18.2 percent, in connection with the increase in taxes on tobacco. Customs duties and registration and stamp fees rose by 19.2 percent and 13.5 percent, respectively.

Chart 4.1: Achievements in major public receipts



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

Nontax receipts, down 37.9 percent, amounted to almost 5 billion. This change covers a 1.6 billion increase in donations from GCC countries and a decrease of 92.9 percent to 276 million dirhams in monopoly receipts collected from Bank Al-Maghrib, amounting to 176 million, and the Office des Changes, amounting to 100 million. Income-offsetting debt expenditure also declined from 2.2 billion to 1.4 billion.

4.2 Public expenditure

Overall expenditure rose by 5.6 percent to 104.9 billion, reflecting increases of 16.4 percent in Treasury investments and 2.8 percent in current expenses to 80.8 billion. Spending on goods and services was up 5 percent to 57.1 billion, covering respective increases of 0.5 percent and 13.1 percent in payroll to 35.1 billion, and spending on other goods and services to 22 billion. Change in this spending takes into account increases of 14.5 percent to 7.9 billion in transfers to public institutions and 85.6 percent to 1.5 billion in payments to special accounts, as well as a decrease of 2.8 percent to 3.5 billion in transfers to Caisse Marocaine des Retraites (Moroccan Pension Fund).

Table 4.2: Change and execution of public spending*

	Jan. apr. 2015	Jan. apr. 2016	Change 16/15 In %	FA 2016	Achieve-ments with respect to the FA (%)
Overall spending	**99.3**	**104.9**	**5.6**	**289.4**	**36.3**
Current spending	**78.6**	**80.8**	**2.8**	**236.2**	**34.2**
Goods and services	54.4	57.1	5.0	167.8	34.0
Staff	34.9	35.1	0.5	106.8	32.9
Other goods and services	19.4	22.0	13.1	61.0	36.0
Debt interest	11.5	12.6	9.6	28.3	44.6
Subsidy costs	5.3	3.7	-30.4	16.4	22.6
Transfers to LA	7.4	7.4	-0.4	23.8	31.2
Investment	**20.7**	**24.1**	**16.4**	**53.1**	**45.4**

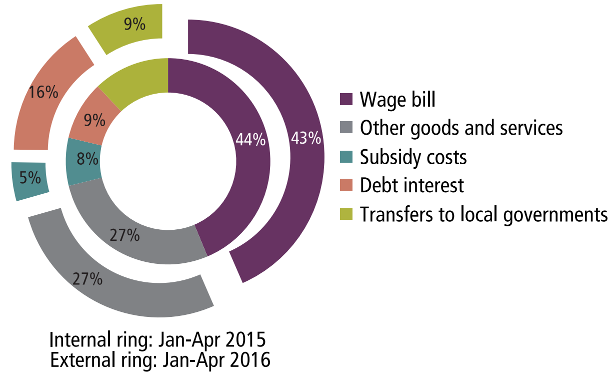
*Taking into account 30 percent of the VAT transferred to local governments.
In billions of dirhams.
Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing and BAM calculations.

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 progressed by 9.6 percent to 12.6 billion, covering an increase of 11.1 percent to 12 billion in interest on domestic debt and a 14.2 percent drop to 602 million in interest on external debt.

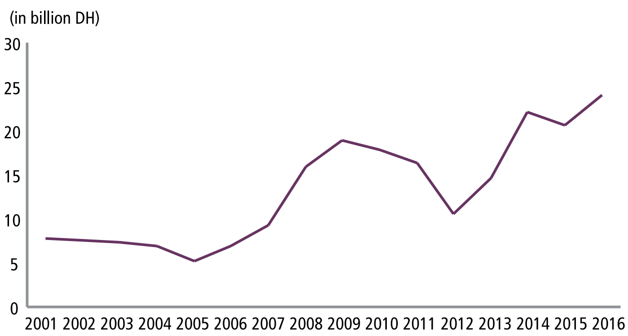
Chart 4.3: Structure of current spending



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

Subsidy costs continue its downward trend with a decline of 30.4 percent to 37 billion compared to end-April 2015. This reduction is partly attributed to a decrease of 32.4 percent in gas prices on the international market, which fell back from an average price of $413.9/T over the first four months of 2015 to $280/T for the same period in 2016.

Chart 4.4: Investment spending at end-April



Source : Ministry of Economy and Finance (TEFD).

Executed at a fairly rapid pace compared to the finance act, investment spending grew 16.4 percent to 24.1 billion, reflecting increases of 21.9 percent to 10.8 billion in common expenses and 12 percent to 12.9 billion in spending of ministries.

4.3 Deficit and Treasury financing

Taking into account changes in revenue, expenditure and balance of the Treasury special accounts, the budget deficit stood at 21.1 billion, from 19.1 billion at end-April 2015. In addition, the Treasury deferred its expenses, amounting to 282 million dirhams, bringing the stock of arrears to 5.4 billion, which resulted in a cash deficit of 20.8 billion, reflecting a deceleration of 3.8 billion.

This need for liquidity was covered by domestic market for a net amount of 17.3 billion, down 9.9 billion dirhams, and by net external flows of 3.5 billion, as against negative net flows of 2.5 billion a year earlier. Gross foreign drawings in 2016 have come mainly from the World Bank, amounting to 4.4 billion, the African Development Bank (ADB), totaling 760 million, and Japan, amounting to 712 million dirhams.

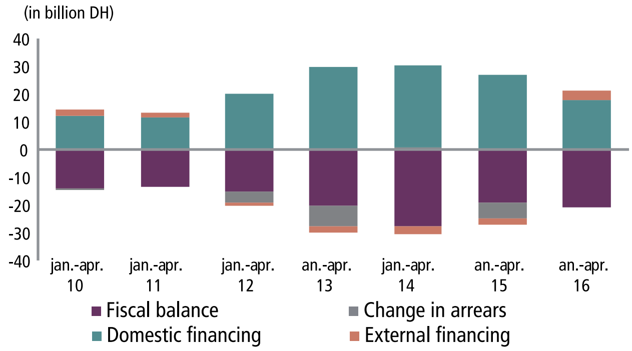
Table 4.3: Deficit financing*

	Jan. apr. 2015	Jan. apr. 2016	FA 2016	Gap in value FA/ jan.-apr.16
Current balance	**-2,5**	**-2,3**	**9,7**	**12,1**
Balance of TSA	4,1	5,4	6,0	0,6
Primary balance	-7,6	-8,5	-9,1	-0,6
Fiscal balance	**-19,1**	**-21,1**	**-37,4**	**-16,3**
Change in arrears	-5,5	0,3	0,0	
Financing requirements	**-24,6**	**-20,8**	**-37,4**	**-16,6**
Domestic financing	27,1	17,3	15,2	-2,1
External financing	-2,5	3,5	22,2	18,7

* In billions of dirhams.
Source : Ministry of Economy and Finance (TEFD), and BAM calculations.

As domestic financing benefited especially from higher deposits of the Treasury from 9 billion to 61.6 million, the auction market was used only for net amount of 1.8 billion, as opposed to 17.3 billion at end-April 2015. Net subscriptions to the auction market were performed primarily on long-term maturities, or 15 years and over. This trend towards lengthening the average maturity of debt was accentuated by redemptions and exchange of bills transactions, totaling 18.9 billion. Indeed, these transactions consisted in replacing the debt of maturities of less than or equal to 2 years with that of more than or equal to 5 years.

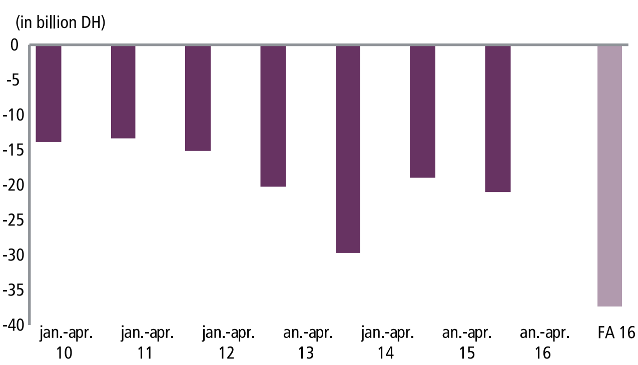
Chart 4.5: Fiscal balance and financing



Source : Ministry of Economy and Finance (TEFD).

The Treasury financing costs in the domestic market improved from the first four months of 2015. Indeed, the weighted average rate of primary issues recorded from January to April 2016 a decrease of 16 basis points (bps) to 3.13 percent, compared to the weighted average rate over the same period of 2015. Yields on 5- and 15-year bills fell to 2.77 percent from 3.64 percent, down 29 and 25 bps, respectively. Similarly, yields on 30-year Treasury bills lost 31 bps to 4.68 percent. Short-term maturities also posted declines, mainly yields on 13-week bills, from 2.51 percent to 2.29 percent. For this maturity, the rate was 1.9 percent in April, which is deemed a historically low rate, particularly due to the key rate cut and the bank liquidity decline.

Chart 4.6: Fiscal balance at end-April from 2010 to 2016 and FA 2016



Source : Ministry of Economy and Finance (TEFD).

Table 4.4: Treasury debt outlook*

	2011	2012	2013	2014	2015	At end Apr. 2016 Est.*
Treasury external debt	**99,6**	**116,9**	**129,8**	**141,1**	**140,8**	**144,4**
Change in %	7,8	17,4	11,1	8,7	-0,2	2,5
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**	**486,0**	**491,4**
Change in %	13,4	13,7	12,6	5,0	9,1	1,1
In % of GDP	40,4	44,4	47,3	48,2	49,5	48,5
Outstanding direct debt	**430,9**	**493,7**	**554,3**	**586,6**	**626,8**	**635,8**
Change in %	12,0	14,6	12,3	5,8	6,9	1,4
In % of GDP	52,5	58,2	61,7	63,5	63,8	62,7
Croissance du PIB nominal (%)	**4,5**	**3,4**	**5,9**	**2,9**	**6,3**	**3,2**

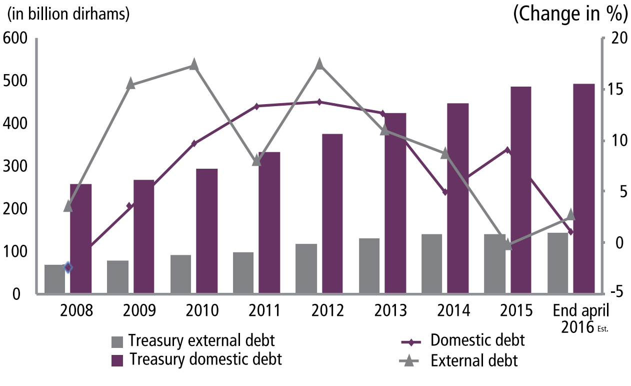
* In billions of dirhams, unless stated otherwise.

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

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

The estimated debt at end-April 2016 rose by 1.4 percent compared to end-December 2015. The Treasury's external debt and domestic debt were up 2.5 percent and 1.1 percent, respectively.

Chart 4.7: Treasury debt



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

5. DEMAND, SUPPLY AND LABOR MARKET

The national accounts data for the fourth quarter of 2015 point to a faster growth of 5.2 percent, reflecting a 5 percent increase in household final consumption, a 6.7 percent improvement in investment and a 0.6 percentage point contribution of net exports to growth. By contrast, government consumption was down 1.9 percent. For the whole of 2015, economic growth stood at 4.5 percent, reflecting a 12.8 percent increase in the agricultural value added and a rise of 3.5 percent in nonagricultural GDP. In the short term, GDP growth should be around 1.4 percent in the first half of 2016, with an average contribution of 1.4 percentage point of domestic demand components over the first two quarters and an almost zero contribution of external components.

Regarding sectoral developments, taking into account a decline in cereal production to 33.5 million quintals, albeit with a good performance of other crops prompted by rainfall in February and March, the drop in the agricultural value added would be limited to 8.9 percent in the first half of 2016. Nonagricultural GDP growth should remain around 3 percent.

On the labor market, compared to the same period of the previous year, conditions were marked in the first quarter by a slight increase in the unemployment rate from 9.9 percent to 10 percent. This change is attributed to the combined effect of a net loss of 13,000 jobs and a significant decline of 0.7 percentage point in the participation rate to 46.3 percent. Regarding labor costs, the private sector's wage index rose in the same quarter by 4.4 percent in nominal terms and 3.5 percent in real terms.

Under these conditions, the nonagricultural output gap would have continued to grow below its potential.

5.1 Domestic demand

5.1.1 Consumption

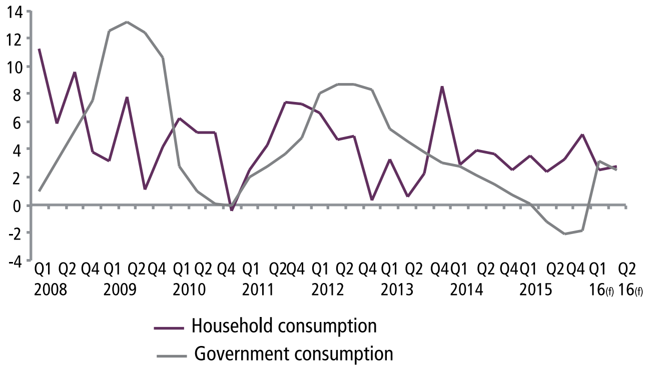
National accounts for the fourth quarter of 2015 show a 5 percent increase in household final consumption from 2.6 percent a year earlier. It contributed 3 percentage points to growth from 1.5 point.

In the first quarter 2016, available indicators point to a slower household consumption compared to a 3.6 percent increase over the same period last year. Indeed, taking into account a cereal production estimated at 33.5 million quintals, it should suffer the decline in agricultural incomes and self-consumption. Similarly, the persistently low nonagricultural growth contributed to this trend. The business survey among households, conducted by HCP, confirm this change. The household confidence index reached in the first quarter 2016 its lowest level since the start of the survey. Meanwhile, labor market conditions were marked by a drop in the participation rate and a loss of 13,000 jobs.

In the second quarter, household consumption should grow at a slightly faster pace than in the first quarter, particularly due to a significant increase in passenger car imports and sales.

In the fourth quarter 2015, the final consumption of general government remained negative for the third consecutive quarter. This trend should not continue in the first half of the year, as evidenced by end-April developments in spending on other goods and services, which posted an increase of 13.1 percent, as against a decline of 0.8 percent a year earlier. The contribution to growth of general government consumption would remain therefore positive.

Chart 5.1: Change in consumer spending (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

After an increase of 1.5 percent on average over the first three quarters, investment grew 6.7 percent in the fourth quarter of 2015. Thus, its contribution to growth amounted to 2.1 points from 1.4 point on average in the second and third quarters.

In view of recent trends in available indicators, investment would be marked in the first quarter 2016 by further weakness in gross fixed capital formation, in parallel with contrasting trends in change in inventories, with particularly an anticipated decline in stocks of agricultural products and an increase in industrial stocks, as evidenced by increases of 23.2 percent in imports of components and parts of passenger cars and vehicles and 68.1 percent in piston engines.

Meanwhile, residential investment would be marked by a slow growth in real estate loans to 1.3 percent at end-April, mainly reflecting the continued decline in loans to property developers. In the meantime, the volume of transactions fell 1.1 percent in the first quarter, year on year, while prices were down 2 percent, primarily reflecting a decrease in residential prices.

Furthermore, the BAM's monthly business survey in industry indicates that the business climate was deemed normal in the first quarter, with mainly higher investment spending in all branches compared to the previous quarter, with the exception of "mechanics and metallurgy".

In addition, Treasury investment spending moved up 16.4 percent to 24.1 billion dirhams at end-April, as against a decrease of 6.3 percent to 20.7 billion a year earlier.

5.2 External demand

The contribution of net exports of goods and services to growth stood at 0.6 percentage point in the fourth quarter, after a one-point contribution over the same period of the previous year. At constant prices, exports of goods and services grew faster to 7.8 percent from 2.8 percent on average over the first three quarters of the year. Meanwhile, imports of goods and services rose 4.8 percent after four quarters of successive declines.

This trend should continue in the first half of 2016, with continued dynamic exports and rising imports. Consequently, the contribution of net foreign demand to growth would be nearly zero.

Overall, taking account of an average contribution of 1.4 percentage point of domestic demand components to growth in the first two quarters, GDP should grow by 1.4 percent in the first half of 2016.

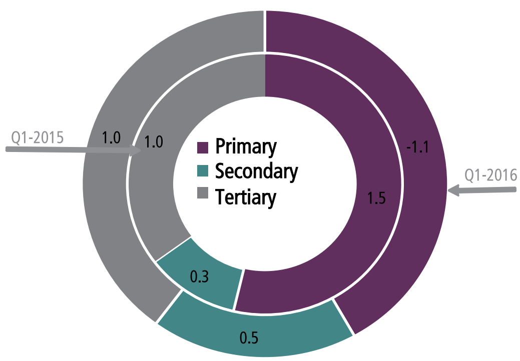
5.3 Aggregate supply

Throughout 2015, GDP growth would have stood at 4.5 percent, with increases of 12.8 percent in the agricultural value added and 3.5 percent in nonagricultural GDP.

In the first half 2016, the agricultural added value is set to fall 8.9 percent, mainly reflecting lower cereal production, whose effects should be mitigated by the good performance of other crops prompted by rainfalls in February and March.

Meanwhile, growth of the nonagricultural value added would remain weak, with limited increase of 2 percent. Taking into account a rise of 6.2 percent in taxes on products net of subsidies, nonagricultural GDP would have risen 3 percent in the first half.

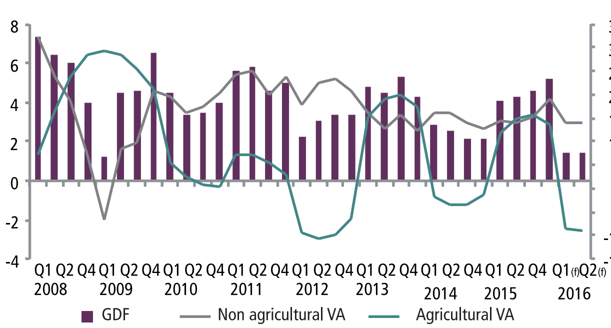
Chart 5.2: Contribution of the primary, secondary and tertiary sectors to overall growth (in % points)



Sources: HCP, and BAM forecasts.

By industry, the value added of processing industries would have decelerated relatively in the first quarter 2016, after having grown 4.5 percent in the fourth quarter, as against 1.4 percent on average during the first three quarters. The capacity utilization rate (CUR) would have stood at 61 percent overall, below its historical average of 70 percent. High and medium voltage electricity sales improved by 2.6 percent from 1.3 percent in the first quarter of 2015.

Chart 5.3: YoY annual change in GDP (chained prices, in %)



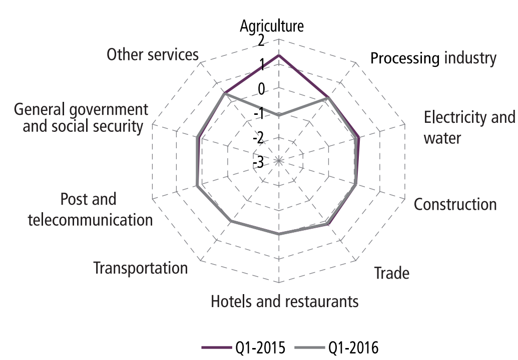
Sources: HCP, and BAM forecasts.

Chart 5.4: Output capacity utilization rate in industry (in %)

Source: BAM's Monthly Business Survey in Industry

The construction value added would have improved slightly, after rising 1.3 percent a year earlier. Indeed, cement sales grew by 5.9 percent from 0.6 percent in the first quarter of the previous year. In contrast, loans to real estate developers continued to decrease, posting in late April a decline of 9.2 percent, from 6.4 percent a year earlier.

Chart 5.5: Sectoral contribution to growth (in % points)



Sources: HCP, and BAM forecasts.

Regarding the services sector, the value added of posts and telecommunications should grow 5.2 percent in the first quarter, a rate almost similar to that of the same period of the previous year. Available data for the first quarter show a 40.3 percent increase in the number of Internet subscribers, bringing the penetration rate to 42.8 percent, owing to a slower decline in the number of subscribers to the fixed telephony from 15.3 percent to 9.2 percent and a decrease of 3 percent in the number of mobile phone subscribers, after stagnating in the same quarter of the previous year.

Although under a slowdown, the value added of hotels and restaurants would have continued to contract in connection with the climate of insecurity in some countries of the region. However, foreign trade data show in late April a 6.6 percent improvement in travel receipts, after falling 5.6 percent a year earlier.

5.4 Labor market and output capacity

5.4.1 Participation rate and employment

In the first quarter of 2016, the labor force aged 15 and over almost stabilized at 11.7 million people, up 0.6 percent in urban areas and down 0.7 percent in rural ones. Taking account of demographic changes, the participation rate fell again significantly from 47 percent to 46.3 percent nationally, from 41.6 percent to 41 percent in cities and from 55.5 percent to 54.7 percent in rural areas.

Meanwhile, after several quarters of weak job creation, the national economy showed a loss of 13,000 jobs, due to a decrease of 28,000 jobs in rural areas and creation of 15,000 jobs in urban areas. The employed labor force moved down slightly by 0.1 percent and the employment rate dropped again from 42.3 percent to 41.7 percent nationally, from 35.6 percent to 35 percent in urban areas and from 52.9 percent to 52.2 percent in rural ones.

By sector, services were the main job-providing sector, albeit with a creation of 10,000 jobs only, followed by construction with 6,000 jobs. Conversely, agriculture, forestry and fishing lost 15,000 jobs, in a context marked by negative growth in the sector's value added, while industry including handicrafts showed a contraction of 14,000 jobs, mostly in urban areas.

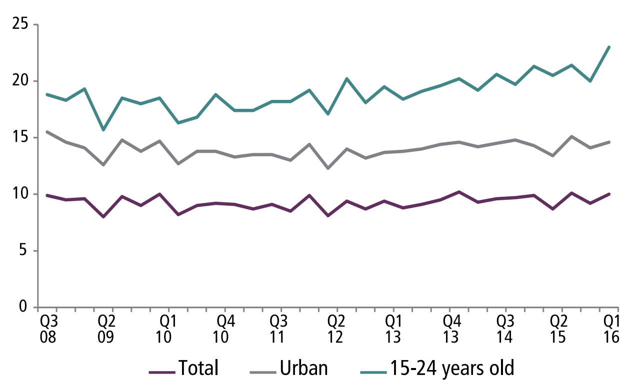
Chart 5.6: Trend in job creation by sector (in thousands)

Source : HCP.

5.4.2 Unemployment and underemployment

After a decline of 2.9 percent a year earlier, the unemployed labor force registered an increase of 1 percent in the first quarter to 1.17 million. Accordingly, and taking into account the stabilization of the labor force, the unemployment rate rose slightly from 9.9 percent to 10 percent nationally. By place of residence, this rate increased by 0.3 points to 14.6 percent in urban areas, while in rural areas, it fell back from 4.7 percent to 4.5 percent. The worsening of unemployment affected the age groups 15-24 years and 25-34 years, whose rates rose from 21.3 percent to 23 percent and from 14.1 percent to 14.7 percent, respectively. However, the unemployment rate fell from 5.5 percent to 5.3 percent among people aged 35-44 years and from 3.4 percent to 2.8 percent among those aged 45 and over.

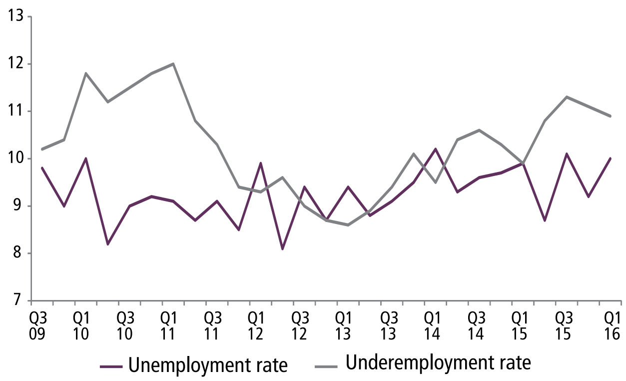
Chart 5.7: Trend in unemployment rate (in %)



Source : HCP.

Underemployment[1] continued its upward trend to 10.9 percent from 9.9 percent a year earlier, thus contributing to mitigating the worsening of the unemployment rate. This change is attributed to respective increases of 0.8 percentage point to 10.1 percent in urban areas and 1.2 point to 11.7 percent in rural areas.

Chart 5.8: Change in underemployment rate and unemployment rate (in %)



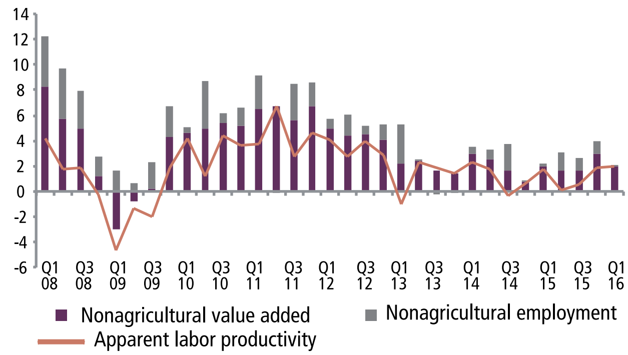
Source : HCP.

This increase concerned all sectors. Indeed, the underemployment rate rose by 0.5 percentage point to 9.6 percent for services, 1.1 point to 11.1 percent for agriculture, 1.2 point to 8.7 percent for industry, including handicrafts, and 1.3 percentage point to 17.9 percent for construction.

5.4.3 Productivity and wages

Growth of the apparent labor productivity in nonagricultural activities[2] improved slightly by 2 percent in the first quarter from 1.8 percent a year earlier. This trend reflects the combined effect of stabilization of nonagricultural growth at 2 percent and a slowdown from 0.2 percent to 0 percent in nonagricultural employment.

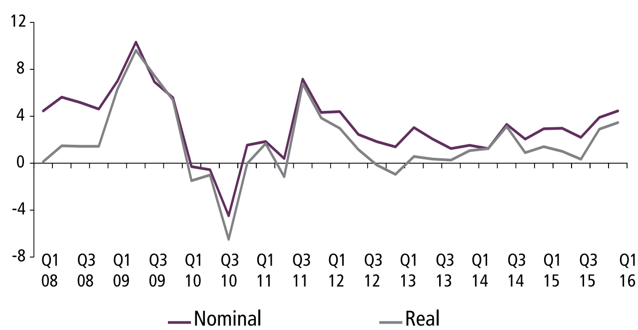
Chart 5.9: Apparent labor productivity and nonagricultural value added and employment (YoY change in %)



Sources: HCP, and BAM calculations.

In terms of wage costs, the average wage index, calculated on the basis of CNSS data, grew in the first quarter 2016 by 4.4 percent from 2.9 percent in nominal terms and by 3.5 percent from 1.4 percent in real terms.

Chart 5.10: Private sector average wage index (YoY change in %)



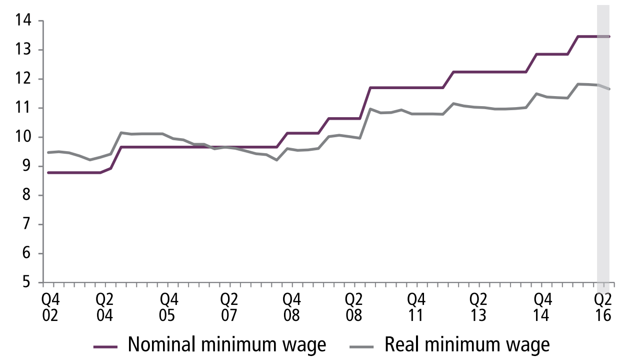
Sources: CNSS, and BAM calculations.

This increase would partly reflect a 4.7 percent rise in the minimum wage in July 2015 to 13.46 dirhams/hour. In real terms, this wage was up, year on year, by 3.8 percent in the first quarter 2016 and should grow 2.8 percent next quarter.

1 The underemployed population includes persons who have worked: i) during the reference week less than 48 hours but are willing to do overtime and available to do so or ii) more than the threshold fixed and are looking for another job or willing to change job for mismatch with their training or skills, or insufficient income.

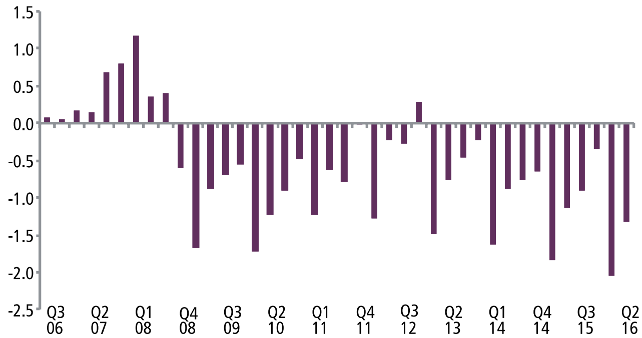
2 Measured by the ratio of the nonagricultural value added to employed labor force excluding agriculture.

Chart 5.11: Hourly minimum wages in nominal and real terms (in DH/h)



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

Chart 5.12: Trend in nonagricultural output gap (change in %)



Source: BAM estimates based on HCP data.

Table 5.1 : Labor market main indicators

		Q1- 2015	Q1-2016
Participation rate (%)		**47,0**	**46,3**
Urban		41,6	41,0
Rural		55,5	54,7
Unemployment rate (%)		**9,9**	**10,0**
Youth aged between 15 and 24 years old		21,3	23,0
Urban		14,3	14,6
Youth aged between 15 and 24 years old		39,1	41,5
Rural		4,7	4,5
Job creation (in thousands)		**27**	**-13**
Urban		45	15
Rural		-18	-28
Sectors			
- Agriculture		14	-15
-Industry including handicrafts		9	-14
- Construction		0	6
- Services		4	10
Nonagricultural apparent productivity (change in %)		**1,8**	**2**
Average wage index (change in %)	**Nominal**	**2,9**	**4,4**
	Rael	**1,4**	**3,5**

Sources: HPC; CNSS and BAM calculations

In total, the output gap should remain negative in the first half of 2016, according to forecasts by Bank Al-Maghrib.

6. RECENT INFLATION TRENDS

Inflation, driven by volatile food prices, has been rising since the beginning of the year from 1 percent in the fourth quarter 2015 and first quarter 2016 to 1.6 percent in April. The food price inflation stood at 3.2 percent in the first quarter of the year and 9.3 percent in April. The acceleration of inflation was also attributed to slower fall in fuel and lubricant prices, in connection with the recovery of international prices. Inflation of regulated goods remained almost stable at 1.1 percent since the beginning of the year. In contrast, core inflation decelerated slightly from 1 percent in the fourth quarter to 0.7 percent in the first quarter and 0.6 percent in April. The upward trend in inflation should continue in the short term, mainly due to the expected further increase in volatile food prices.

6.1. Inflation trends

Inflation recorded a net recovery in recent months. It increased from 1 percent in the first quarter to 1.6 percent in April, mainly reflecting the trend reversal of the volatile food inflation that began in February. The acceleration of inflation was also due to the slow fall in fuel and lubricant prices, while prices of regulated goods evolved at a steady pace. Excluding these products, core inflation showed a slight deceleration between February and March, before stabilizing in April.

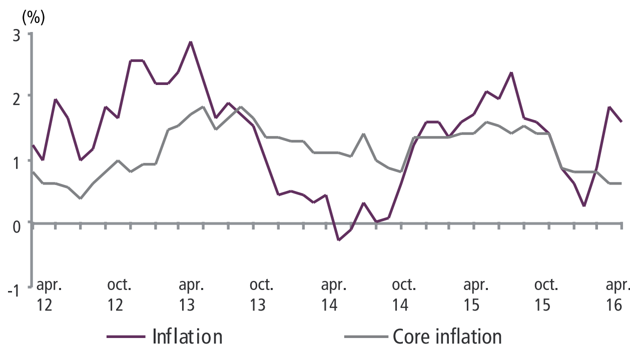
Table 6.1: Change in inflation and its components

(En %)	MoM (%)			YoY (%)		
	féb 16	march 16	apr. 16	feb 16	march 16	apr. 16
Headline inflation	**0,2**	**1,0**	**-0,1**	**0,9**	**1,8**	**1,6**
- Volatile food products	1,7	7,0	-1,0	2,0	11,1	9,3
- Fuels and lubricants	-0,8	2,0	5,1	-5,1	-11,4	-6,6
- Administered goods	0,0	-0,1	0,1	1,1	1,0	1,1
Core inflation	**0,0**	**-0,2**	**0,1**	**0,8**	**0,6**	**0,6**
- Food products	-0,2	-0,2	-0,1	0,6	0,2	0,0
- Clothing and footwear	-0,1	0,0	0,0	1,1	1,3	1,4
- Housing, water, gas, electricity and other fuels*	0,1	0,1	0,0	1,1	1,1	0,9
- Furnishings, household equipment and routine house maintenance	0,0	0,0	0,1	0,4	0,4	0,4
- Health*	-0,1	0,0	0,0	1,3	1,2	1,1
- Transportation*	0,0	0,2	-0,1	0,3	0,5	0,5
- Communication	0,0	0,0	0,0	0,0	0,0	0,0
- Entertainment and culture	0,5	-0,1	0,7	1,1	1,2	1,9
- Education	0,0	0,0	0,0	2,1	2,1	2,1
- Restaurants and hotels	0,2	0,0	0,2	2,4	2,2	2,1
- Miscellaneous goods and services	0,1	0,0	0,0	0,3	0,2	0,2

* Excluding administered goods.

Sources: HCP, and BAM calculations.

Chart 6.1: Headline inflation and core inflation, YoY

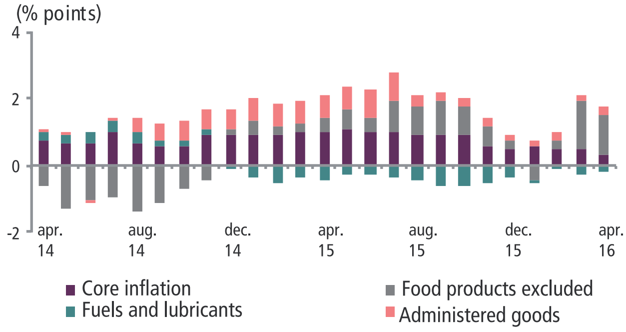


Sources: HCP, and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

After a decrease of 3.1 percent in January and a slight increase of 2 percent in February, the volatile food inflation accelerated markedly to 11.1 percent in March and 9.3 percent in April. This increase particularly concerned prices of fresh vegetables and eggs whose increases reached in April 19.5 percent and 29 percent, respectively. Thus, the contribution of these goods to inflation rose from 0.3 percentage point in February to 1.4 in March and 1.2 in April.

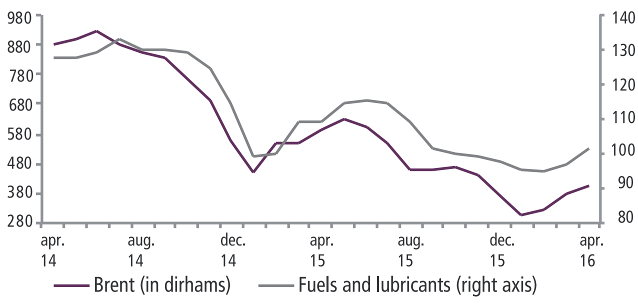
Chart 6.2: Contribution of the prices of major CPI items to inflation, YoY



Sources: HCP, and BAM calculations.

In addition, the decline in fuel and lubricant prices was limited to 6.6 percent in April, as against 11.4 percent in March, partly reflecting the relative recovery in world oil prices in the last three months. Thus, their contribution to inflation dropped to -0.2 point from -0.3 percentage point. Growth of prices of regulated goods has remained almost stable at 1.1 percent since the beginning of the year.

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

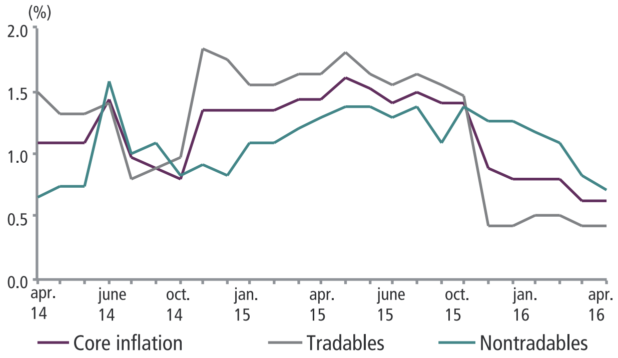


Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

Core inflation continued to decelerate from 1 percent in the fourth quarter of 2015 to 0.7 percent in the first quarter 2016 and 0.6 percent in April, its lowest level since September 2012. Reflecting the sluggish domestic demand, inflation of nontradables (CPIXNT) fell from 1.3 percent in the fourth quarter 2015 to 1.1 percent in the first quarter 2016 and 0.7 percent in April. Similarly, inflation of tradables (CPIXT) was down again from 0.8 percent in the fourth quarter 2015 to 0.5 percent in the first quarter 2016 and 0.4 percent in April, in a context marked by the persistence of relatively low world prices of key raw materials and lower inflation in major trading partners.

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



Sources: HCP, and BAM calculations

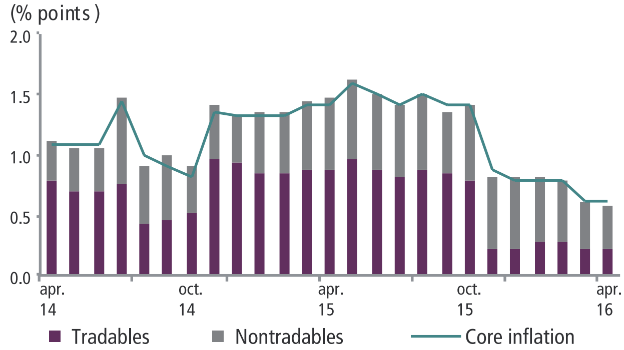
The contribution of inflation of tradables to core inflation was thus limited to 0.2 percentage point in April, as against 0.3 point in the first quarter 2016. Nontradable goods fell to 0.3 percentage point in April from 0.5 point in the first quarter 2016.

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

(In %)	Monthly change (%)			YoY change (%)		
	feb 16	march 16	apr. 16	feb 16	march 16	apr. 16
Tradables	0,1	0,0	0,0	0,5	0,4	0,4
Nontradables	-0,1	-0,2	0,1	1,1	0,8	0,7

Sources : HCP et calculs BAM.

Chart 6.5: Contribution of tradables and nontradables to core inflation



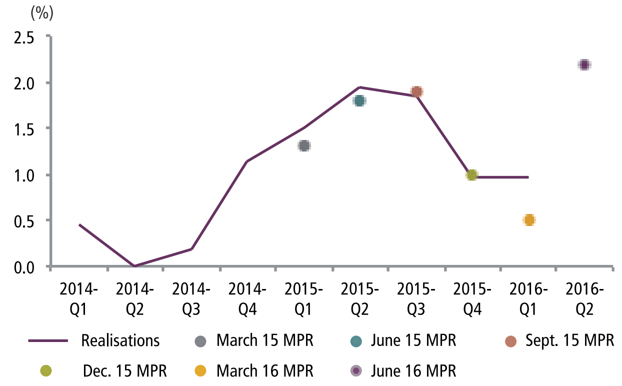
Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

After stagnation of 1 percent in the fourth quarter 2015 and first quarter of 2016, inflation should accelerate significantly by 2.2 percent in the second quarter 2016. This change would be mainly attributed to rising volatile food prices, following successive supply shocks affecting several fresh food products. Indeed, the observed increase in food prices in April should go faster in May, according to developments in the wholesale markets found by ASAAR, a price monitoring system of the Ministry of Agriculture. However, core inflation should decline from 0.7 percent in the first quarter to 0.5 percent in the second quarter 2016, in connection with the anticipated fall in some food prices.

Similarly, the expected rise in international oil prices should cause fuel and lubricant prices to continue rising. Their year-on-year decline is forecast at 6.8 percent from 6.9 percent in the first quarter 2016 and 19.3 percent in the fourth quarter of 2015. Regulated goods would evolve at 1 percent, a rate almost similar to that of the previous quarter, with an uncertainty mainly due to changes in manufactured tobacco prices, following decisions by the committee to certify these products in June 2016.

Chart 6.6: Short-term forecasts and actual inflation

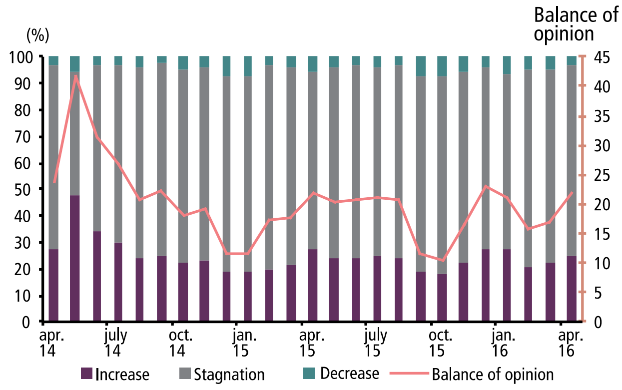


Sources : BAM.

6.3. Inflation expectations

According to BAM's business survey in industry of April 2016, 72 percent of manufacturers expect that inflation would stagnate over the next three months, while 25 percent of corporate managers expect a price increase and 3 percent of them expect a decline, which is a balance of opinion of 22 percent.

Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

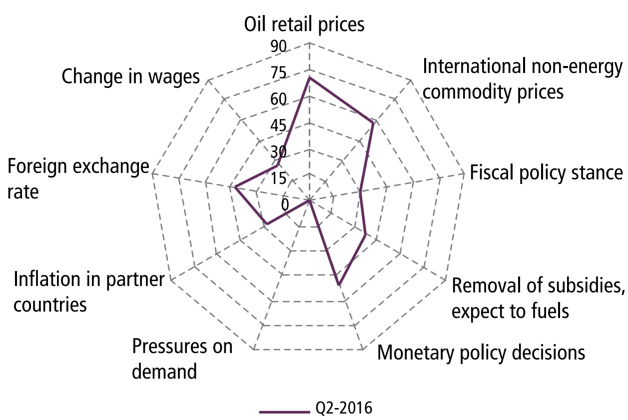
Furthermore, the findings of BAM's survey on inflation expectations for the second quarter of 2016 indicate that the financial sector experts anticipate an average inflation rate of 1.6 percent between the second quarter of 2016 and the first quarter of 2018.

Chart 6.8: Six-month inflation expectations by financial experts

Source: BAM's quarterly survey on inflation expectations.

Regarding the determinants of inflation, experts believe that pump prices, global commodity prices and monetary policy decisions are the factors of future inflation trends.

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

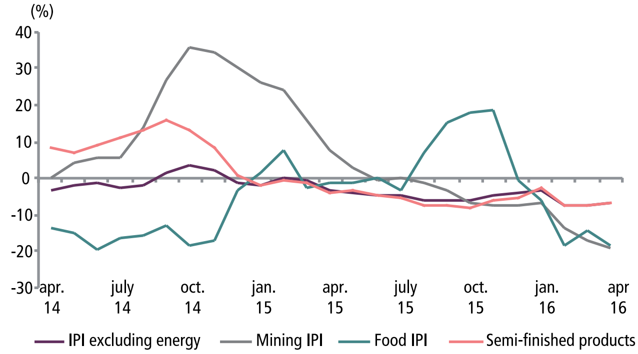


Source: BAM's quarterly survey on inflation expectations.

6.4. Import and producer prices

Year on year, non-energy import prices continued to drop since December 2014, with a 6.6 percent decline in April, as against 6 percent in the first quarter.

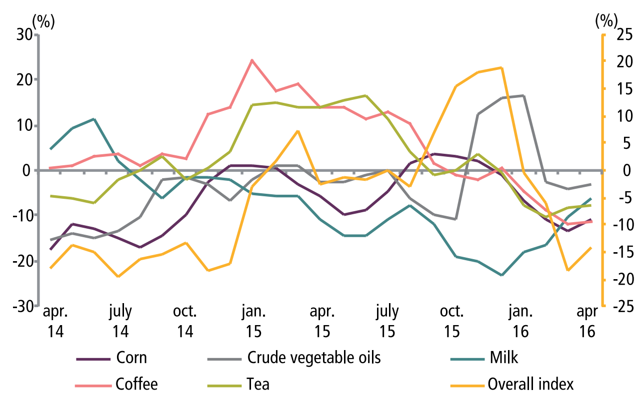
Chart 6.10: Change in the main import prices indexes (year-on-year)



Sources: Foreign Exchange Office, and BAM calculations.

This decline affected both food products, semi-finished goods and mining products. The decrease in food prices was steeper from 12.8 percent to 18.4 percent, mainly due to a 27.8 percent fall in wheat import prices, as against 18.2 percent, and a 3.3 percent decline in prices of crude vegetable oils, after rising 3.2 percent. Meanwhile, import price indexes declined further from 12.7 percent to 19.4 percent for mining products and from 5.8 percent to 7.1 percent for semi-finished goods.

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

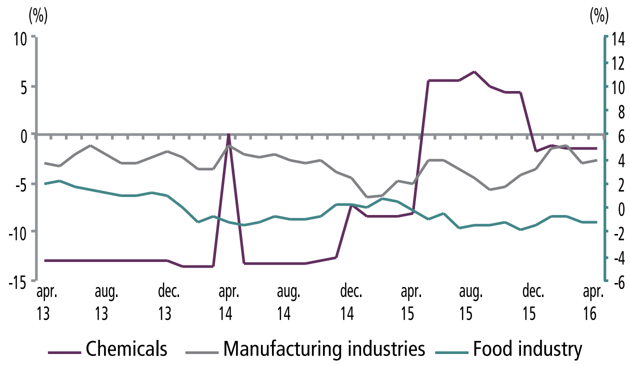


(*) Excluding wheat and sugar prices

Sources: Foreign Exchange Office, and BAM calculations.

Month on month, the manufacturing producer prices dropped for the fourth consecutive month by 0.2 percent in April, as against 0.1 percent on average in the first quarter 2016.

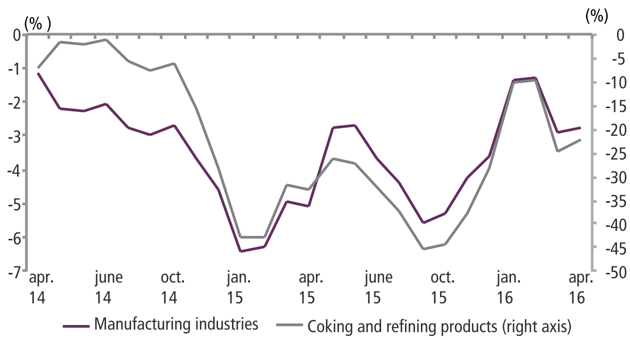
Chart 6.12: YoY change in industrial producer price indexes



Sources : HCP.

This change is attributable to declines in producer prices, reaching 0.6 percent in "food industry" and 0.9 percent in "clothing industry". These decreases more than offset a 0.8 percent increase in producer prices of "coking and refining products", as opposed to an average decrease of 1.1 percent in the first quarter. Year on year, after a decline of 1.8 percent in the first quarter, industrial producer prices in April were down 2.8 percent, compared to their level a year earlier.

Chart 6.13: YoY change in coking and refining producer price indexes and in Brent international prices



Sources: World Bank, HCP, and BAM calculations.

7. MEDIUM-TERM OUTLOOK

Summary

Global activity should broadly continue its slow recovery in 2016 and 2017. Compared to the forecasting exercise of March, the U.S. growth was revised down, while in the euro area, it was adjusted upward, supported by accommodative monetary conditions. Taking into account this revision and uncertainties about the monetary policy normalization in the United States, the dollar should slightly depreciate against the euro. On commodity markets, world prices, albeit revised upward, remain low, causing a low inflation rate in the euro area in 2016, before increasing in 2017 to a level close to the objective set by the ECB.

Despite the expected improvement in foreign demand and lower appreciation in the real effective exchange rate, the nominal-terms increase in national exports of goods was revised down, taking account of the significant downward revision of prospects for international prices for phosphate derivatives. However, travel receipts were revised upward in 2016, given recent favorable trends. Meanwhile, imports of goods should register in 2016 a larger-than-expected increase in March, particularly in connection with the significant rise in purchases of equipment and consumer goods in the first four months of the year. However, they were adjusted downward in 2017, in view of a significant base effect. Under these conditions and assuming an amount of 10 billion dirhams in 2016 and 8 billion in 2017 as donations from GCC countries, the current account deficit should ease to 1.2 percent of GDP in 2016, as against 0.1 percent predicted in March, and mitigate further to 0.8 percent of GDP in 2017. Overall, net international reserves should continue to strengthen, equaling almost 7 months and 18 days of imports of goods and services in 2016 and 8 months and 6 days in 2017.

This improvement in foreign exchange reserves should affect bank liquidity, which should move as planned in March to a surplus in 2016. However, the medium-term trend in bank lending should not change significantly from the March forecast. Taking into account the improvement of credit to the nonfinancial sector in late April, its forecast in 2016 was revised slightly upward to 2.7 percent and was kept unchanged at 4 percent in 2017. Against this backdrop, the money supply growth should stand at 5.4 percent in 2016 and 5.8 percent in 2017.

Regarding public finances, the forecast scenario assumes that the current fiscal policy stance would continue. The budget deficit should stand at 3.8 percent of GDP in 2016, slightly revised up 0.1 percentage point, particularly given the downward revision of the assumption about donations from GCC countries from 13 to 10 billion dirhams and more significant execution of tax revenues at end-April compared to the programming of the budget act. In 2017, the budget deficit was slightly revised up to 3.3 percent of GDP, as investment spending was revised up, taking into account an additional fiscal flexibility due to lower increase in operating expenditure.

Prospects for domestic growth remain broadly unchanged compared with March, albeit slightly revised upward in 2016, in conjunction with a larger-than-expected increase in non-cereal agricultural production according to data released by the Ministry of Agriculture. Moreover, recent trends of high frequency indicators show no tangible sign of economic recovery in the short term. In the medium term, some favorable factors should prompt domestic demand and exports, namely, the easing of monetary conditions and improvement in economic activity in the euro area. In short, growth is projected at 1.2 percent in 2016, as against 1 percent reported in March, and 4 percent in 2017.

Inflation forecasts in 2016 was significantly revised upwards to 1.6 percent from 0.5 percent reported in March, mainly due to the marked rise in certain volatile food prices. Conversely, core inflation remained low at 0.6 percent, mainly reflecting the expected deceleration of domestic demand. In 2017, inflation should stand at 1 percent, revised down 0.4 percentage point from the March projections. This revision reflects the dissipation of the effects of rising volatile prices of commodities, which should more than offset the increase caused by the recovery in domestic demand and depreciation of the real effective exchange rate.

7.1 Underlying assumptions

7.1.1 A still slow recovery of the world economy due to short-term transitory shocks and increased uncertainty in financial markets

The central forecast scenario is still based on a slow recovery of global economic activity, weakened particularly by uncertainties in financial markets about the Fed's monetary policy normalization. Indeed, the economic recovery in the United States should be at a slower-than- expected pace at 1.8 percent in 2016, from 2.1 percent forecast in March, before moving up to 2.4 percent in 2017. However, China's growth prospects in 2016 are slightly better than those reported in March, boosted by fiscal stimulus policies as part of the new growth target of the five-year plan of 2016-2020. Moreover, growth in the euro area is expected to grow 1.6 percent in 2016 from 1.4 percent predicted in March, before improving to 1.9 percent in 2017 thanks to strong domestic demand and more accommodative monetary conditions.
Against this backdrop, foreign demand for Morocco should remain moderate, but would improve compared to the March forecast.

Chart 7.1: Euro area growth forecasts

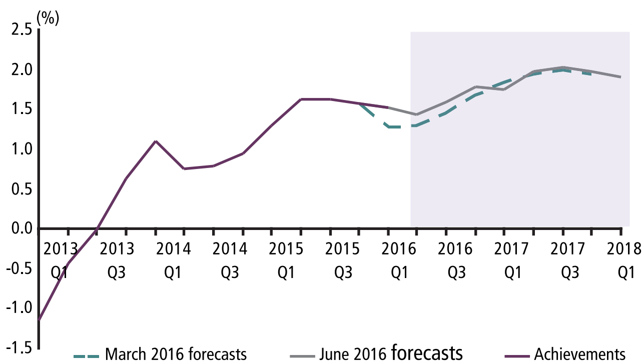
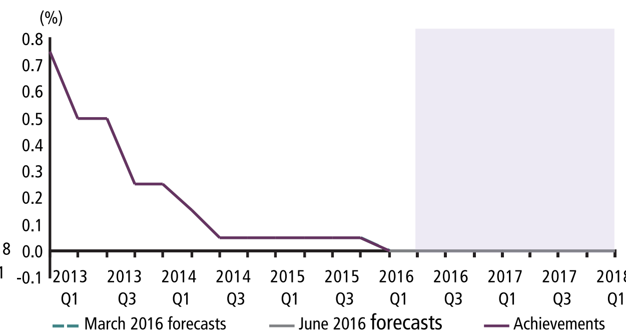


Chart 7.2: Forecasts of the ECB key rate

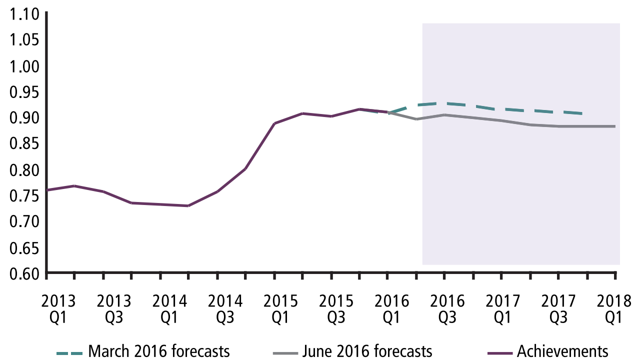


Source: GPM forecasts of May 2016, ECB, and BAM calculations.

7.1.2 Slight appreciation of the euro against the dollar: Fed target range for the federal funds rate to remain unchanged until December 2016 and ECB to continue easing

In terms of monetary conditions, the baseline forecast scenario assumes no change in monetary policies of the Fed and ECB compared with the March report. Indeed, the target range for the federal funds rate should remain stable until December 2016, while the ECB, in addition to maintaining its key rate at 0 percent, began its corporate sector purchase program (CSPP) and launched a new series of targeted longer-term refinancing operations (TLTRO II) for banks. These developments, combined with a more optimistic outlook for the recovery in the euro area, should result in a slight depreciation of the dollar vis-à-vis the euro, as against a stability assumed in March.

Chart 7.3: USD/EUR exchange rate forecasts



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

7.1.3 Relatively low commodity prices, albeit with a slight upward revision of energy and food prices

The relatively better growth prospects in the euro area and China have resulted in a slight upward revision of forecasts for energy commodity prices. Indeed, the crude oil price should average $40.9/bbl in 2016 and is expected to increase slightly to $48.1/bbl in 2017, as against $38.4/bbl and $44.6 /bbl projected respectively in March. Similarly, international food prices should be slightly higher on the horizon. Under these conditions, inflation in the euro area[1] should stand at 0.1 percent in 2016, particularly due to a greater transmission of low energy prices to overall inflation. It should then gradually converge towards its target to stand at 1.5 percent in 2017.

Furthermore, in its May forecast, the Bank maintained unchanged its prospects for global crude phosphate prices, while DAP and TSP prices were revised down 21.2 percent and 18.4 percent, respectively in 2016, and 19.1 percent and 16.6 percent in 2017, reflecting lower demand from Brazil and India, in particular.

Chart 7.4: Forecasts of the food commodity price index

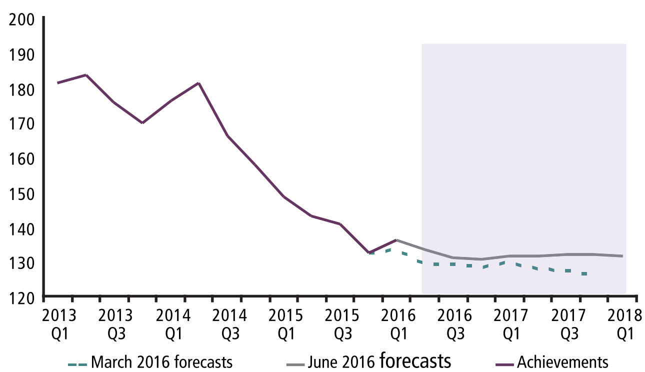
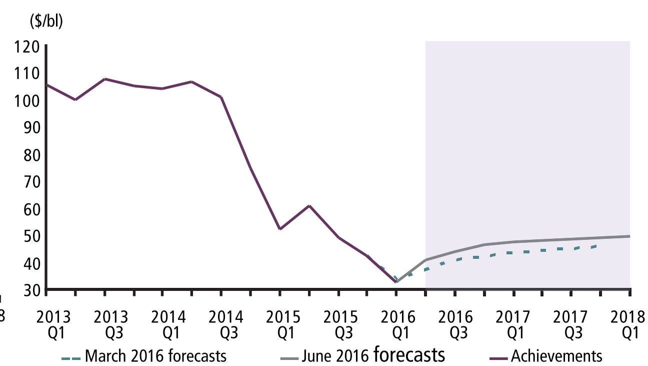


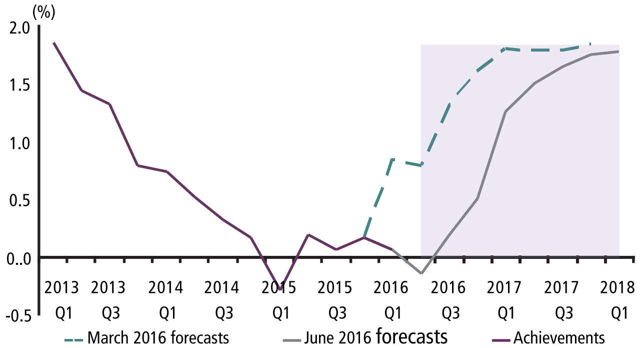
Chart 7.5: Forecasts of international crude oil price (IMF)



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

1 ECB expects in June a rate of 0.2 percent in 2016 and 1.3 percent in 2017 for overall inflation, and 0.9 percent and 1.2 percent for non-energy inflation.

Chart 7.6: Inflation in the euro area



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

7.1.4 Budget deficit to continue to ease

Nationally, the fiscal policy stance changed slightly compared to the March report, with a widening of the budget deficit to 3.8 percent of GDP in 2016 from 3.7 percent. In addition to the upward revision of nominal GDP, changes concern higher tax revenues, mainly corporate taxes and registration and stamp fees, and a slight upward revision in investment spending. This spending showed at end-April 2016 a significant increase compared to the initial programming of the finance act. Regarding donations from the GCC countries, an amount of 10 billion was assumed from 13 billion dirhams programmed in the 2016 finance act, as the Treasury collected in late April 2016 1.6 billion under these donations.

For 2017, the budget deficit was revised upward from 3.1 percent to 3.3 percent of GDP, but remains down compared to 2016, assuming that the current fiscal policy stance based mainly on the control of current expenditure and resource mobilization would continue. Because of the limited revision of growth, tax revenues remained unchanged, while expenses are mainly marked by an upward revision of investments and a slight downward revision of spending on goods and services. On the revenue side, the assumption of 8 billion dirhams as donations from GCC was kept.

7.1.5 Downward revision of cereal production and better performance of other crops in the agricultural year 2015-2016

Cereal production in the crop year 2015-2016 is estimated by the Ministry of Agriculture and Fisheries at 33.5 million quintals from 38 million assumed in March. This is a decrease of 71 percent compared to the previous year and 59 percent over the average of last five years. This change is attributed firstly to the low volume of rainfall, the lowest in the last 30 years, and secondly, poor temporal and spatial distribution of rainfall. Other crops should show an uptrend, especially fruit cultivation, oil crops, vegetable crops and livestock sector, prompted by rainfalls in February and March.

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

7.2 Macroeconomic projections

Further easing in the current account deficit and improved net international reserves

Growth of exports of goods was revised down by 4.7 percentage points to 1.4 percent in 2016 and by 1.3 point to 4.6 percent in 2017. This change reflects the downward revision of prospects for international prices of phosphate derivatives. However, travel receipts should increase by 4.6 percent in 2016, while they were projected slightly down in March, in conjunction with the improvement observed in late April. The growth of imports of goods was revised upward to 2.5 percent in 2016, from 0.2 percent in March, following the significant increase in purchases of equipment and consumer goods observed in late April. However, they were revised downward in 2017, given the significant base effect of non-energy imports.

Taking into account respective amounts of 10 billion dirhams and 8 billion as donations from GCC countries assumed in 2016 in 2017 as well as a further increase in remittances from Moroccan expatriates, the current account deficit should continue to ease to 1.2 percent of GDP in 2016 and to 0.8 percent in 2017. Under these conditions, the net international reserves should continue to increase to 7 months and 18 days of imports of goods and services in 2016 and 8 months and 6 days in 2017.

Table 7.1: Forecasts of the balance of payments components

	Achievements				Forecasts		Revisions (june/march)		
	2012	2013	2014	2015	2016	2017	2015	2016	2017
Exports of goods (change in %)	**13,4**	**4,6**	**9,2**	**7,6**	**1,4**	**4,6**	**0,2**	**-4,7**	**-1,3**
Imports of goods (change in %)	11,4	0,6	0,9	-6,2	2,5	2,1	0,0	2,3	-1,5
Travel receipts (change in %)	-1,8	-0,4	3,0	-1,2	4,6	2,6	0,1	5,6	1,6
Private transfers (change in %)	0,6	-1,5	3,7	2,9	4,7	5,4	-0,1	1,3	0,0
Current account balance (% of GDP)	**-9,5**	**-7,9**	**-5,7**	**-1,9**	**-1,2**	**-0,8**	**0,4**	**-1,1**	**-0,5**
Net international reserves in months of goods and services' imports	**4,1**	**4,4**	**5,3**	**6,8**	**7,6**	**8,2**	**0,0**	**-0,1**	**-0,3**

Sources: Foreign Exchange Office data and BAM forecasts.

The tightening of monetary conditions in real terms to mitigate and moderate growth of bank lending to continue

The accommodative stance of monetary policy, strengthened by the latest decision to reduce the key rate by 25 basis points, resulted in lower rates in the interbank market and rates on public and private debt. In particular, the interbank rate fell to 2.13 percent on average between early April and late May. Meanwhile, the dirham depreciated on average vis-à-vis the euro over the first months of the year, as against an initially expected appreciation, due to the appreciation of the euro against the dollar.

The continuation of these trends should cause the tightening of monetary conditions to ease in real terms in 2016 compared to the March forecast. In 2017, the easing of monetary conditions should be greater than expected, reflecting in particular a more marked depreciation of the real effective exchange rate, driven by a further depreciation of the dirham against the euro, and, to a lesser extent, a downward revision of domestic inflation compared to the inflation of the main partners and competitors.

Reflecting the expansion of foreign exchange reserves, the situation of bank liquidity should improve further and should move from a need of 16.5 billion dirhams in 2015 to a surplus of 7.7 billion in 2016, as against 14.4 billion projected in March in conjunction with a downward revision of foreign exchange reserves. In 2017, it should continue its uptrend to 20.3 billion.

Despite these positive conditions, the growth of bank lending to the nonfinancial sector should remain moderate, mainly reflecting sluggish economic activity. Its forecast was slightly revised up to 2.7 percent in 2016, given the improvement observed in April. It should recover in 2017 to 4 percent, a rate unchanged from March. Overall, following the downward revision of net international reserves and net claims on the central government, the annual growth of money supply is expected to move to 5.4 percent in 2016 and 5.8 percent in 2017.

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

	Achievements				Forecasts		Revisions (june/march)	
	2012	2013	2014	2015	2016	2017	2016	2017
Bank lending to nonfinancial sector (change in %)	5,8	1,7	4,4	0,5	2,7	4,0	0,2	0,0
M3 (change in %)	4,5	3,1	6,2	5,7	5,4	5,8	-1,4	-1,2
Liquidity surplus or deficit, in billion dirhams	-64,5	-68,4	-40,6	-16,5	7,7	20,3	-6,7	-19,7

Source : BAM.

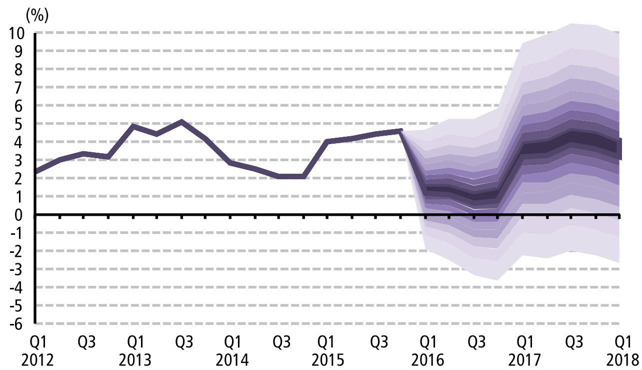
Slowing domestic growth in 2016 and relative recovery in 2017

After a rate of 4.5 percent in 2015, growth should slow in 2016 to 1.2 percent, as opposed to 1 percent expected in March. This revision is attributed to a review of the decline in the agricultural value added from 13.8 percent to 9 percent, while nonagricultural GDP growth should remain almost unchanged at 2.8 percent.

Regarding the demand, the revision of the growth in 2016 was due to a stagnation of household final consumption compared to a deceleration in projected in March, owing to a base effect and an improvement in short-term outlook, prompted by an increase in passenger car imports and consumer loans in the first quarter. Over the rest of the year, it should be supported by a smaller weakening of agricultural incomes, better growth in remittances from Moroccan expatriates and an eased tightening in monetary conditions in real terms. Following a negative performance in 2015 compared to an expected increase, investment should improve slightly in 2016, taking advantage of the upward revision of the Treasury investment, while private investment should remain sluggish, as evidenced by the still weaker growth of equipment loans. The increase in government consumption was significantly revised upward, mainly reflecting a smaller decline in subsidy costs compared to 2015. Meanwhile, the negative contribution of net exports should ease, reflecting virtually unchanged growth of imports and upward revision of exports of goods and services, following a greater-than-expected performance in automotive sales, phosphates and travel receipts in the first quarter. In addition, they should benefit on the rest of the year from a slower appreciation of the real effective exchange rate and a slightly higher foreign demand.

In 2017, growth should stand at 4 percent, covering increases of 10 percent in the agricultural value added from 10.8 percent expected in March and 3.2 percent in nonagricultural GDP from 3.1 percent. Regarding demand, the final household consumption should accelerate, supported by better rural incomes and remittances from Moroccan expatriates, as well as a greater easing of monetary conditions, which should also stimulate investment. Moreover, the government consumption should grow at the same pace of 2016, as the dissipation of the effect of the decline in oil prices in 2016 on subsidization should offset the downward revision of spending on goods and services. Moreover, the contribution of net exports to domestic growth should increase, thanks to improved economic activity in the euro area and less accelerated growth of imports of goods and services.

Chart 7.7: Growth outllok over the forecast horizon (Q1 2016- Q1 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 (%)

	Achievements				Forecasts		Revisions (june/march)	
	2012	2013	2014	2015	2016	2017	2016	2017
National growth	**3,0**	**4,5**	**2,6**	**4,5**	**1,2**	**4,0**	**0,2**	**0,1**
Agricultural VA	-9,1	17,2	-2,2	12,8	-9,0	10,0	4,8	-0,8
Nonagricultural GDP	4,7	2,9	3,2	3,5	2,8	3,2	-0,1	0,1

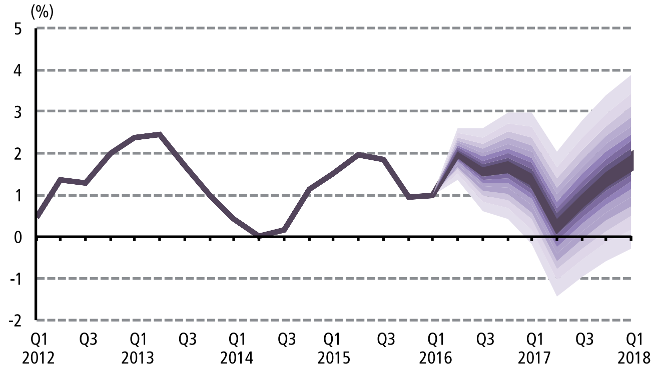
Sources: HCP data, and BAM forecasts.

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, improvement in economic activity in the euro area and easing of monetary conditions.

Upward revision of inflation in 2016 following price shocks to volatile prices of commodities

Inflation should stand at a moderate level of 1.4 percent on average over the horizon of eight quarters, between the second quarter 2016 and the first quarter of 2018. Indeed, the consumer price index should rise 1.6 percent in 2016, representing an upward revision from 0.5 percent reported in the MPR of March 2016. This revision is mainly due to higher inflation of volatile food prices, which should continue in the second quarter of 2016. In 2017, inflation should be more moderate at 1 percent from 1.4 percent expected in March 2016. This revision is attributed to the dissipation of the effect of transitory shocks to products with volatile prices and smaller increase in fuel and lubricant prices.

Chart 7.8: Inflation forecast over the horizon (Q1 2016- Q1 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 its components (YoY)

	Achievements	Forecasts			Revisions (juin/mars)	
	2015	2016	2017	8 quarters horizon	2016	2017
Inflation	**1,6**	**1,6**	**1,0**	**1,4**	**1,1**	**-0,4**
Core inflation	1,3	0,6	1,3	1,1	-0,1	0,2

Sources: HCP data, and BAM forecasts and calculations.

Core inflation forecasts were slightly revised compared with the March report. In 2016, it should grow at a low rate of 0.6 percent, given a persistently weaker domestic demand. However, it should be revised slightly upward to 1.3 percent in 2017, in conjunction with an expected improvement in the economic outlook and a further easing of monetary conditions.

Chart 7.9: Change in core inflation and output gap

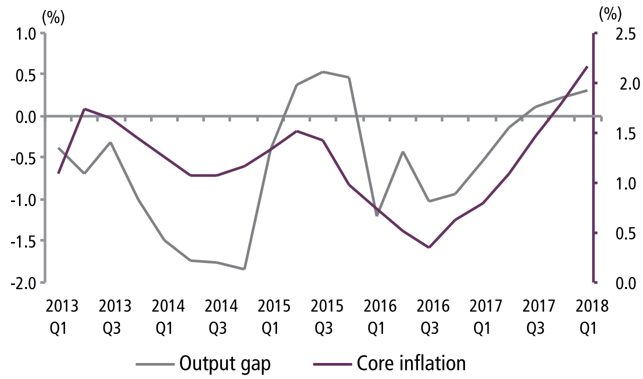
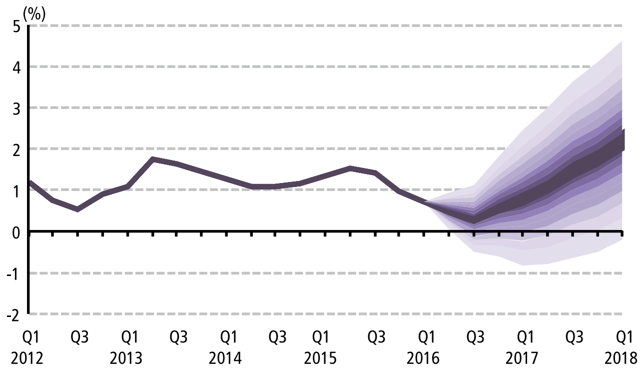


Chart 7.10: Projections of core inflation over the forecast horizon (Q2 2016- Q1 2018)*



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

Sources: HCP, and BAM forecasts and calculations.

7.3 Balance of risks

Several risks surround the central forecast scenario, which, if they materialize, may affect the central projection. The balance of risks is broadly at equilibrium for growth and trends upward for inflation.

In terms of growth, a faster recovery of global economic activity, particularly in the euro area and China, could improve the foreign demand for Morocco. In addition, a less significant decline in the agricultural value added should boost domestic demand, particularly through its effects on household consumption.

However, the persistently slow growth in the United States in the coming quarters should have a negative impact on the global economy and consequently on foreign demand for Morocco. Similarly, the possibility of England leaving the European Union continues to be an element of risk that could negatively affect growth in the euro area and subsequently foreign demand.

Regarding inflation, a further upward trend in volatile food prices could lead to upward revisions to the baseline forecast. In addition, an increase in wages as part of the social dialogue constitutes an upside risk to inflation. However, an upward trend reversal in international oil prices constitutes a downside risk.

LIST OF ABBREVIATIONS

ANCFCC	: National Land Registry Office
APC	: Cement manufacturers professional association
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

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