BANK AL-MAGHRIB

Monetary Policy Report

No. 38 / 2016

DOCUMENT PREPARED FOR
THE BANK BOARD
MARCH 22, 2016

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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.

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

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1. The Board of Bank Al-Maghrib held its first quarterly meeting of the year on Tuesday, March 22, 2016. At this meeting, the Board reviewed recent economic, monetary and financial developments as well as inflation forecasts up to the fourth quarter of 2017.

2. Taking into account the central inflation projection, the weak nonagricultural growth, the continued reduction of the budget deficit and the strengthening of foreign exchange reserves, the Board decided to reduce the key rate by 25 basis points to 2.25 percent in order to support economic activity.

3. The Board noted the downward trend in inflation seen in recent months. After 1.6 percent for the full year 2015, year-on-year change in prices fell to 0.5 percent on average during the first two months of 2016. Inflation forecast for all of 2016 was revised down to 0.5 percent, with a deceleration in core inflation, impacted by the slowdown in domestic demand and low inflation in the euro area. In 2017, inflation is expected to rise to 1.4 percent, covering acceleration in core inflation and a rise in prices of fuels and lubricants. These forecasts do not include the removal of sugar subsidy, whose entry into effect was announced to be in January 2016 but has not been implemented yet.

4. Internationally, growth in the fourth quarter was weaker than expected in advanced economies, at 1.6 percent in the euro area and 1.9 percent in the United States. In the major emerging economies, it continued to slow down, reaching 6.8 percent in China, a record low since 2009. In the medium term, recovery would continue in advanced economies but weaker than expected in December. The rebalancing of the Chinese economy, alongside the difficulties facing other emerging countries, particularly Brazil and Russia, would still weigh on global growth. In their March forecasts, the ECB revised euro area's growth rate from 1.7 to 1.4 percent for 2016 and from 1.9 to 1.7 percent for 2017, while the Federal Reserve projects growth rates for the United States at 2.2 percent from 2.4 percent and at 2.1 percent from 2.2 percent, respectively. In the labor market, the unemployment rate continues to trend down in the euro area, although it remains elevated, standing at 10.3 percent in January, but stabilized month-on-month in the United States at 4.9 percent in February, with a strong job creation.

5. In commodity markets, prices remain relatively low. Brent prices in particular, despite a monthly increase of 5.4 percent in February, fell 42 percent on a yearly basis, averaging $33.8 per barrel.

6. In this context, the euro area still faces deflationary pressures, with a year-on-year drop in consumer prices at 0.2 percent in February, following rises of 0.3 percent in January and 0 percent on average in 2015. The ECB

revised in March its inflation forecast, lowering it from 1 to 0.1 percent for 2016 and from 1.6 to 1.3 percent for 2017. To counter risks to its inflation target, it adopted a series of measures at its meeting of March 10, cutting its main rates, strengthening its asset purchase program and announcing the implementation of four long-term refinancing operations. Conversely, the FED kept, at its meeting of March 15-16, the target range of the federal funds rates between 0.25 percent and 0.5 percent, while recalling that the future adjustments of this band will depend on economic trends relating to its objectives of full employment and price stability, including financial and international developments. Following these decisions, major sovereign bond yields went down and the main stock markets posted gains together with a reduced volatility. Bank lending's annual growth rate edged up from 0.7 percent in December to 0.8 percent in January in the euro area and slightly decelerated from 7.5 to 7.4 percent in February in the United States.

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

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

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

coverage of 7 months and 21 days of goods and services' imports at the end of 2016 and 8 months and 15 days at the end of 2017, compared to 6 months and 24 days in 2015.

10. Strengthened foreign exchange reserves were reflected in banking liquidity, which would turn into surplus starting from the second quarter of 2016, after a strong improvement in 2015. Lending rates declined further in the fourth quarter by 18 points to 5.49 percent on average, as rates on loans to businesses fell by 17 basis points for cash facilities and 59 points for equipment loans. Despite these accommodative conditions, bank credit to the nonfinancial sector continued to decelerate amid weak nonagricultural activities. Its growth rate fell to 0.4 percent in 2015, covering a 2.2 percent decline in loans to businesses and a 3.7 percent increase in loans to households. Considering all these elements and the expectations of the banking sector, the growth rate of bank lending is projected at around 2.5 percent in 2016 and 4 percent in 2017. The dirham's effective exchange rate, in the fourth quarter 2015, showed a quarterly increase of 0.83 percent in nominal terms and 0.67 percent in real terms.

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

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

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

OVERVIEW

During the fourth quarter of 2015, growth remained moderate in most advanced economies and continued to slow down in major emerging countries. GDP growth rate fell from 2.2 percent in the third quarter to 1.9 percent in the United States and from 2.1 to 1.9 percent in the United Kingdom, and stabilized at 1.6 percent in the euro area. In the labor market, conditions continued improving in the euro area, as unemployment rate dropped to 10.3 percent in January, while it stabilized in the United States at 4.9 percent in February with a strong job creation. In major emerging countries, growth declined in India from 7.5 to 7.1 percent, and reached 6.8 percent in China, a record low since 2009. In Brazil, GDP contracted further to -5.9 percent in the fourth quarter, after -4.5 percent.

In financial markets, major stock market indexes of advanced economies continued to decline between January and February, with increased volatility in the European markets. The Dow Jones fell 0.4 percent, the EUROSTOXX 50 was down 5.9 percent, and the Nikkei 225 dropped by 6.2 percent. In emerging economies, however, the MSCI EM rose slightly, by 0.8 percent, mainly reflecting a 5.4 percent increase for Turkey and a 4.1 percent drop for China. In bond markets, rates trended differently across countries: yields of 10-year bonds fell by 30 basis points for the United States, Germany and France, and stabilized for India and China. In currency markets, the euro appreciated by 2.2 percent vis-à-vis the dollar to stand at $1.11 on average in February due to the projected delay of the Fed's tightening plan. With regard to the currencies of major emerging countries, the Chinese yuan and the Turkish lira appreciated against the dollar, while the Indian rupee depreciated, and the Brazilian real remained unchanged at 4 reals per $1. Concerning bank lending, its annual growth rate decelerated in the United States from 7.5 percent in January to 7.4 percent in February, while it improved slightly in the euro area to 0.8 percent in January from 0.7 percent a month earlier.

In commodity markets, prices broadly trended downward in February. The Brent price stood at $33.8 per barrel on average, sharply down 42 percent year-on-year, but slightly up by 5.4 percent from one month to another. Regarding non-energy commodities, the index of basic metals fell 22 percent compared to the same month of the previous year, and that of agricultural products decreased by 10.2 percent. Durum wheat prices were down 26.8 percent, compared to their level of February 2015, whereas they stabilized at $176.9 per ton, one month to another. Prices for phosphate remained unchanged for crude phosphate at $115 per tonne year on year, while they dropped by 26.8 percent to $355 per tonne for DAP and by 17.8 percent to $329 per tonne for TSP.

Against this background, inflation remained at low levels in most advanced economies. An initial Eurostat estimation for February showed that the price index may have declined 0.2 percent in the euro area after a 0.3 percent increase a month earlier, while inflation in the United States edged down from 1.4 to 1 percent. To counter risks to its inflation target, the ECB took a range of measures at its March meeting. In particular, it lowered the policy rate from 0.05 to 0 percent and the deposit facility rate from -0.30 to -0.40 percent, increased the volume of its asset purchasing program from €60 to €80 billion and enlarged it to certain bonds issued by non-bank corporations. In contrast, at its meeting on 15-16 March the Fed decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent, noting that the timing and size of future adjustments of this target range will depend on the realized and expected economic conditions relative to its objectives of maximum employment and price stability, as well as financial and international developments.

Domestically, data for January show that exports increased 3.2 percent, compared to 6.6 percent in 2015, mainly driven by shipments of phosphates and derivatives, which grew by 37.1 percent. Imports declined by 6 percent, as against 5.6 percent at-end 2015, mainly covering a 21.6 percent decrease in energy imports and a 12.2 percent increase in food purchases. Altogether, the trade deficit, after decreasing by 18.6 percent in 2015, narrowed by 22.9 percent and the coverage ratio for goods reached 71.2 percent, up 6.3 percentage points. Regarding other major components of the current account, transfers of Moroccan expatriates dropped slightly by 0.9 percent, after a 3 percent rise in 2015, and travel receipts continued to trend downward, declining by 4.8 percent after falling by 1.3 percent at-end 2015. In this context, and despite an 18.9 percent decline in FDI net flows after a 2.7 percent expansion in 2015, foreign exchange reserves were up 25 percent to 229.5 billion at end-January, equaling 6 months and 29 days of imports of goods and services.

The strengthening of foreign exchange reserves caused bank liquidity to improve markedly, as banks' needs for liquidity eased from 33.2 billion dirhams in the third quarter to 21 billion on average in the fourth quarter. As a result, the Bank reduced its injections to 23 billion dirhams, thus maintaining the interbank rate in line with the key rate. As regards other interest rates, those on Treasury bonds and private bonds did not change significantly overall, while bank lending rates again decreased by 18 basis points on average in the fourth quarter 2015, mainly reflecting a decline in rates on loans to businesses from 5.60 percent to 5.42 percent as well in rates on cash advances and equipment loans by 17 and 59 basis points, respectively. Besides the decline in lending rates, monetary conditions in the fourth quarter were defined by a 0.67 percent rise in the real effective exchange rate and a weak credit growth. Indeed, after growing by 0.6 percent year on year in the third quarter, outstanding loans to the nonfinancial sector virtually stabilized in the fourth quarter, reflecting a steeper decline in corporate lending while loans to households, albeit decelerating, maintained a 5 percent growth rate. The subdued growth of bank lending and the decelerating claims on central government offset the impact of higher foreign exchange reserves on M3, whose growth stabilized at 5.7 percent in the last two quarters.

In terms of public finance, the 2015 budget execution resulted in a deficit in line with the Finance Act and with the fiscal consolidation stance adopted since 2013. This deficit shrank by 2.9 billion to 42.7 billion dirhams-against the 42 billion initially planned-, equaling 4.4 percent of GDP. Recent data of January indicate that spending fell by 1 percent, due to lower expenses related to grants and interests. Moreover, revenues rose 1.3 percent, reflecting higher tax receipts, despite the decline of revenues from corporate tax and VAT. Overall, the fiscal balance was in a surplus of 66 million, instead of 139 million in January 2015. Taking into account the payment of 1.3 billion in arrears, the cash deficit reached USD 1.2 billion and was covered, in addition to the internal divestiture of 2 billion, by net drawings on external borrowings of USD 3.3 billion dirhams.

Under these conditions, GDP growth year-on-year accelerated from 4.3 percent in the second quarter to 4.6 percent in the third, due to the expansion of agricultural value added by 15.9 percent against 14.9 percent, and to the non-agricultural growth by 3.2 percent instead of 3 percent. On the demand side, the rapid growth reflects a 3.3-percent higher final household consumption and an increase from 1.4 to 1.8 percentage points of net exports' contribution. However, investment growth rate fell from 5.2 percent to 3.8 percent and the declining rate of central government consumption increased to 2.1 percent.

In the labor market, job creation was limited to 29,000 jobs in the fourth quarter, due to an increase by 29,000 jobs in construction, 23,000 in services and 16,000 in the industry, while 39,000 jobs were slashed in agriculture. In addition, the participation rate continued its downward trend with a further decrease of 0.9 percentage point to 46.9 percent. Under these conditions, the unemployment rate dropped year-on-year, from 9.7 percent to 9.2 percent. For the whole of 2015, despite a job creation limited to 33,000 jobs, unemployment went down 0.2 percentage point to 9.7 percent, due to a decline in the participation rate by 0.6 percentage points to 47.4 percent.

In the assets market, property prices slightly increased 0.5 percent in the fourth quarter after the declines registered over the past two quarters, while sales went up 9.8 percent after decreasing 8.6 percent a quarter earlier. At the Casablanca stock exchange, after dropping 7.2 percent in 2015, the MASI has not experienced significant changes over the first two months of 2016, while transactions remained low with an average monthly volume of 1.8 billion dirhams against 4.3 billion on average over the whole of 2015.

In this context, after posting 1.6 percent for the whole of 2015 and 1 percent in the fourth quarter of the same year, inflation, as measured by the change in the consumer price index, fell 0.3 percent in January 2016. This trend is due to a 3.1 percent drop in volatile food prices, following a 4.3 percent rise in the fourth quarter as well as to a drop from 1 percent to 0.8 percent in core inflation. The drop in inflation was offset by a less marked decline in prices of fuels and lubricants, 3.8 percent from 19.3 percent. Prices of regulated products rose 1.1 percent in January, at virtually the same pace as in the last quarter of 2015.

In terms of outlook, the recovery in advanced economies is expected to continue but at a slower-than-expected rate in December. In the main emerging countries, the slowdown and the rebalancing of the Chinese economy as well as the difficulties in Brazil and Russia would continue to weigh on the international economic situation. In its January outlook, the IMF lowered global growth projections to 3.4 percent in 2016 and 3.6 percent in 2017. In particular, in the euro area, and despite the significant easing of monetary conditions, the pace of growth was limited to 1.7 percent in 2016 and 2017, in conjunction with the negative effects of the slowdown in global growth on exports of major countries of the area. In the US, growth was revised downward, in connection with the uncertainties that continue to weigh on financial markets and falling investment. It should hover around 2.8 percent in 2016 and 2017 instead of 2.6 percent in 2015.

In the labor market, IMF's October projections indicate a continued improvement of the economic situation in the U.S, with unemployment reaching 4.9 percent in 2016 from 5.3 percent in 2015. In the euro area, unemployment is expected to continue to decline while remaining at high levels, standing at 10.5 percent in 2016 from 11 percent in 2015. In Morocco's main partners, unemployment is expected to stand at 9.9 percent in France and 19.9 percent in Spain.

In commodity markets, prices would continue to trend at low levels over the medium term. In particular, oil prices were revised downward in 2016 before bouncing back in 2017. This downward revision reflects a deceleration in global growth and a sustained increase in the production of OPEC member countries.

Against this background, price trends should remain subdued in advanced economies, before speeding-up in 2017. IMF projections for 2016 indicate an inflation rate of 1 percent in the euro area and 1.1 percent in the United States.

In these circumstances and assuming[1] an oil price of $38.4 a barrel in 2016 and $44.6 in 2017, as well as donations from the GCC countries amounting to 13 billion dirhams in 2016 and 8 billion in 2017, the current account deficit is expected to stand at 0.1 percent of GDP in 2016 and 0.3 percent of GDP in 2017. National exports should continue to grow but at a slower pace compared to 2015. Meanwhile, imports are expected to stabilize in 2016 at their 2015 level and grow 3.6 percent in 2017, owing to higher energy prices and the expected improvement in domestic demand. In this context, and under the assumption of a continued inflow of FDIs, foreign exchange reserves should continue to strengthen to cover around 7 months and 21 days of imports of goods and services in 2016 and 8 months and 15 days in 2017.

This improvement should impact the situation of bank liquidity that would become in excess starting from the second quarter of 2016. Despite these improvements and the continued decline in lending rates, bank credit growth would be limited to 2.5 percent in 2016 and would increase to 4 percent in 2017. Concerning public finances, the fiscal consolidation process, stimulated by low levels of oil prices is expected to continue in the medium term; the fiscal deficit would average 3.7 percent in 2016 and 3.1 percent in 2017.

In this context, national growth would post a stronger-than-expected deceleration in December 2015. Indeed, projections were revised downward to 1 percent, due primarily to the contraction in the agricultural added value estimated at 13.8 percent, assuming a cereal production of 38 million quintals. The growth in non-agricultural GDP is expected to remain sluggish at 2.9 percent, due in particular to a slowdown in household consumption at 1.8 percent, impacted, inter alia, by lower rural income.

In 2017, and under the assumption of a normal crop year, domestic growth is expected to rise 3.9 percent, with a 10.8 percent increase in agricultural added value and a slight acceleration in non-agricultural output to 3.1 percent, driven by higher rural incomes and an easing of monetary conditions.

Under these conditions, the inflation forecast for 2016 was revised downward to 0.5 percent, with in particular a deceleration of core inflation to 0.7 percent, impacted by a slowdown in domestic demand and a less imported inflation. In 2017, inflation is set to bounce back to 1.4 percent, due both to acceleration in core inflation to 1.1 percent and a rise in the prices of fuels and lubricants, in conjunction with the increase in prices on the international market. It is to be noted that the removal of subsidy to sugar, announced as from January 1, 2016 and not yet in force, was taken into account in these projections.

These projections are surrounded by several risks with a balance overall tilted to the downside for both inflation and growth. With respect to growth, a slower-than- expected recovery in the main trading partners may negatively impact foreign demand addressed to Morocco. Similarly, a normalization of the Fed's monetary policy, earlier-than-anticipated in the baseline scenario, would lead to the appreciation of the national currency against the euro and

1 Projections of the GPM network issued in February 2016. The Global Projection Model (GPM) is a model of the global economy developed by the IMF and the Center for economic research and its applications, for the benefit of a network of central banks and international institutions.

a lower performance of national exports. Conversely, a lesser drop in cereal output is likely to accelerate domestic growth.

Regarding inflation, there are uncertainties about the trend of oil prices and wheat on the international market. A higher-than-expected drop would result in a lower level of inflation, while a reversal of the price trend would lead to a rise in inflation. Risks to the inflation forecast may also stem from a possible wage increase as part of the social dialogue. This risk also concerns the fiscal deficit forecast that would exacerbate if Treasury expenditure increases more substantially than expected.

1.INTERNATIONAL DEVELOPMENTS

The latest data on international economic conditions indicate a further slowdown in global economic activities. Indeed, in the major advanced economies, the national accounts for the fourth quarter showed overall a slower growth in the United States, the United Kingdom and Japan and a stabilization in the euro area. Slower growth also continued in emerging and developing countries. In the labor market, the unemployment rate stagnated in February in the United States and declined slightly in the euro area, but remained high, despite the higher number of jobs created. Financial markets were characterized in February by a continued decline in major stock indexes of developed countries and some emerging markets, as well as divergent trends in the sovereign bond yields. In addition, the ECB decided on March 10 to launch a series of measures, mainly to lower its key rate to 0 percent and expand its quantitative easing program to reinforce the momentum of economic recovery and accelerate the return of inflation to a rate close to 2 percent. Finally, on commodity markets, both energy and non-energy prices continued to post declines in February. Against this backdrop, inflation rate dropped in the USA, while deflationary pressures continue to weigh on the euro area. All these elements indicate the continued absence of external inflationary pressures.

1.1 Economic activity and employment

1.1.1 Economic activity

During the fourth quarter 2015, growth slowed down particularly in the United States, United Kingdom and Japan, while it stabilized in the euro area and continued to slow in key emerging countries.

In the euro area, growth remained unchanged at 1.6 percent, year on year. In major partner countries, growth decelerated in Germany from 1.7 percent to 1.4 percent, while it increased from 1.1 percent to 1.4 percent in France, from 0.8 percent to 1 percent in Italy and from 3.4 percent to 3.5 percent in Spain.

In the United States, growth decreased to 1.9 percent, year on year, from 2.2 percent in the previous quarter, due to lower exports and non-residential investment. Similarly, in Japan, economic activity slowed markedly, as growth fell from 1.7 percent to 0.8 percent, mainly due to the weakening of household consumption and exports, affected by the appreciation of the yen. In the United Kingdom, growth also recorded a year-on-year decline to 1.9 percent from 2.1 percent a quarter earlier.

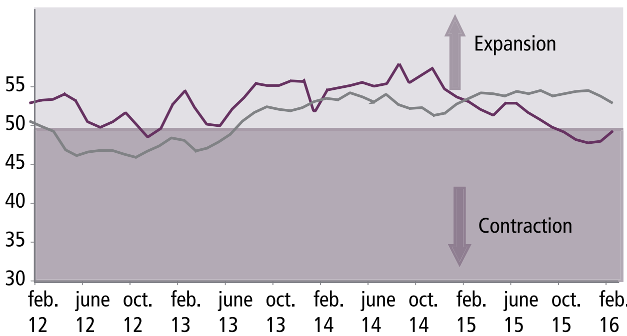
Table 1.1: YoY change in quarterly growth

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Advanced economies								
United States	1.7	2.6	2.9	2.5	2.9	2.7	2.2	1.9
Euro area	1.1	0.7	0.8	1.0	1.3	1.6	1.6	1.6
France	0.7	-0.2	0.1	0.1	0.9	1.1	1.1	1.4
Germany	2.3	1.4	1.2	1.5	1.2	1.6	1.7	1.4
Italy	-0.3	-0.3	-0.4	-0.5	0.1	0.5	0.8	1.0
Spain	0.4	1.2	1.7	2.1	2.7	3.2	3.4	3.5
United Kingdom	2.8	3.0	2.8	2.8	2.6	2.4	2.1	1.9
Japan	2.4	-0.4	-1.5	-0.9	-1.0	0.7	1.7	0.8
Emerging economies								
China	7.3	7.4	7.1	7.2	7.0	7.0	6.9	6.8
India	5.3	7.4	8.1	6.7	6.1	7.1	7.5	7.1
Brazil	3.2	-0.8	-1.1	-0.7	-2.0	-3.0	-4.5	-5.9
Turkey	4.5	2.3	2.3	2.6	2.7	4.3	5.3	N.A
Russia	1.1	1.4	0.3	-0.8	-2.1	-3.8	-3.7	N.A

Source : Datastream.

In key emerging countries, growth slowed down from 6.9 percent to 6.8 percent in China, its lowest level since 2009, in conjunction with lower exports and slower production in the industrial sector. In India, growth also fell to 7.1 percent from 7.5 percent in the previous quarter. In Brazil, GDP contracted for the seventh consecutive month to -5.9 percent from -4.5 percent a quarter earlier. In Russia, the third-quarter figures show a slightly slower contraction of GDP by 3.7 percent, as against 3.8 percent in the previous quarter. The latest available data indicate that the composite PMI of the euro area declined from 53.6 in January to 52.7 points in February, its lowest level since 13 months. The ISM manufacturing index in the United States remained in February 2015 below the threshold of 50 points, with an increase from 48.2 to 49.5 points, thus reflecting a smaller contraction.

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



Source : Datastream.

1.1.2 Labor market

In the United States, February data show stagnation in the unemployment rate at 4.9 percent and an increase in job creations to 242,000 from 172,000 in the previous month. In January, the unemployment rate in the euro area declined slightly to 10.3 percent from 10.4 percent in December, its lowest level since August 2011. It dropped from 4.4 percent to 4.3 percent in Germany, from 20.7 percent to 20.5 percent in Spain and from 11.6 percent to 11.5 percent in Italy. However, it rose from 10.1 percent to 10.2 percent in France. In the United Kingdom, data at end-November 2015 show a stable unemployment rate at 5.1 percent.

Table 1.2: Change in unemployment rate

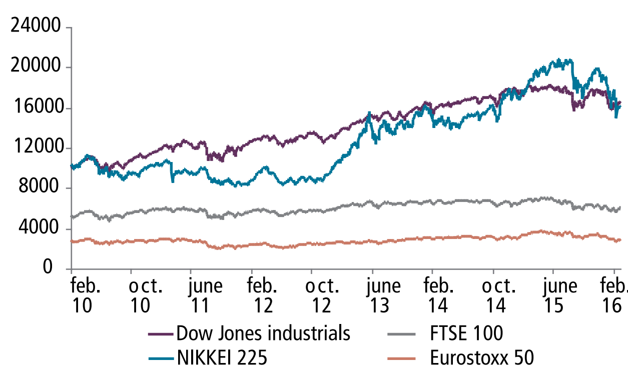
	2014	2015	dec. 2015	jan. 2016	feb. 2016
United States	**6.2**	**5.3**	**5.0**	**4.9**	**4.9**
Euro area	**11.6**	**10.9**	**10.4**	**10.3**	**N.A**
France	10.3	10.4	10.1	10.2	N.A
Italy	12.7	N.D	11.6	11.5	N.A
Germany	5.0	4.6	4.4	4.3	N.A
Spain	24.5	22.1	20.7	20.5	N.A
United Kingdom	**6.1**	**N.A**	**N.A**	**N.A**	**N.A**

Source : Eurostat.

1.2 Monetary and financial conditions

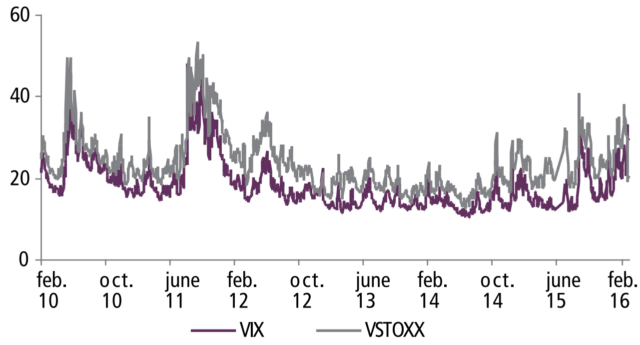
In the stock market, the advanced economies' main indexes continued to decline. Between January and February, the EUROSTOXX50, Dow Jones, NIKKEI 225 and FTSE 100 were down respectively 5.9 percent, 0.4 percent, 6.2 percent and 0.9 percent. In terms of volatility, the VSTOXX rose from 29.3 to 31.7 basis points, while the VIX fell from 23.6 to 22.7 basis points. In contrast, in emerging economies, the MSCI EM rose slightly by 0.8 percent, mainly covering a 5.4 percent increase in Turkey's index and respective decreases of 4.1 percent and 5.1 percent in China and India indexes.

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



Source : Datastream.

Chart 1.3: Change in VIX and VSTOXX

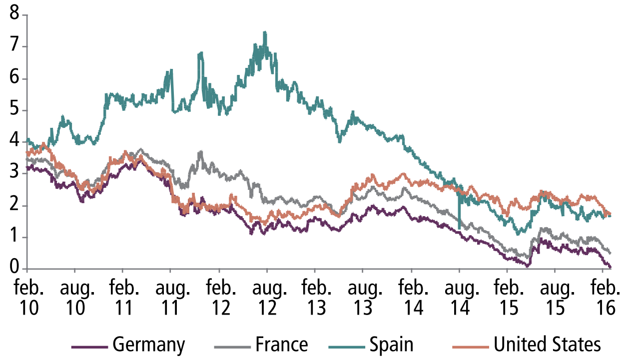


Source : Datastream.

In bond markets, 10-year yields recorded between January and February divergent trends across countries. Indeed, they decreased from 0.5 percent to 0.2 percent in Germany and from 0.9 percent to 0.6 percent in France, while they remained stable at 1.7 percent and 1.6 percent in Spain and Italy, respectively. Conversely, they increased from 9.1 percent to 10.5 percent in Greece and from 2.7 percent to 3.2 percent in Portugal. Yields on U.S. Treasury bills with the same maturity stood at 1.8 percent in February compared to 2.1 percent in the previous month.

In key emerging economies, 10-year yields stabilized at 2.9 percent in China and 7.8 percent in India, while they decreased from 16.3 percent to 15.6 percent in Brazil and from 10.8 percent to 10.5 percent in Turkey.

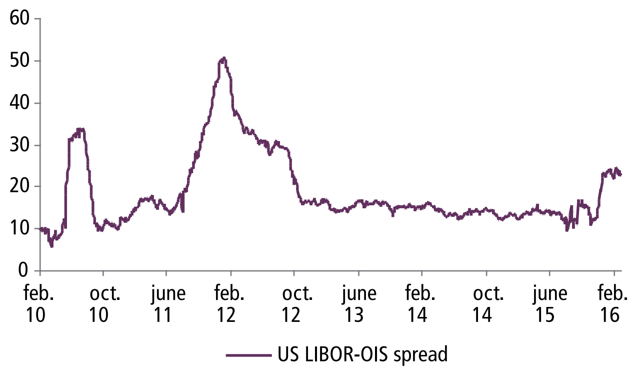
Chart 1.4: Change in the yield of ten-year government bonds



Source: Datastream.

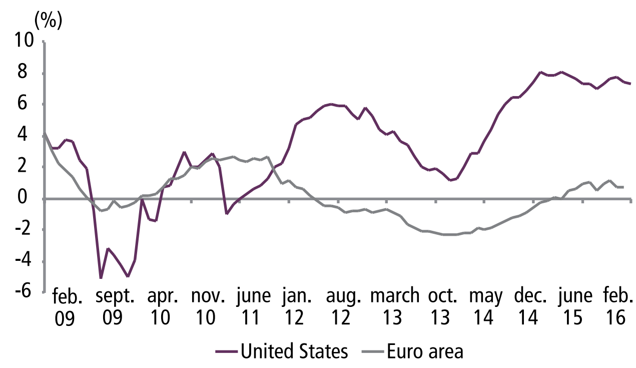
In money markets, the 3-month Euribor stood at -0.18 percent in February, as against -0.15 percent a month earlier, while the 3-month Libor stagnated at 0.62 percent. Meanwhile, the dollar Libor-OIS spread rose from 23.3 to 23.4 basis points. The annual bank credit growth slowed down to 7.4 percent in February from 7.5 percent in January in the United States, and improved slightly to 0.8 percent in January from 0.7 percent a month earlier in the euro area.

Chart 1.5: Change in the LIBOR-OIS spread



Source: Datastream.

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

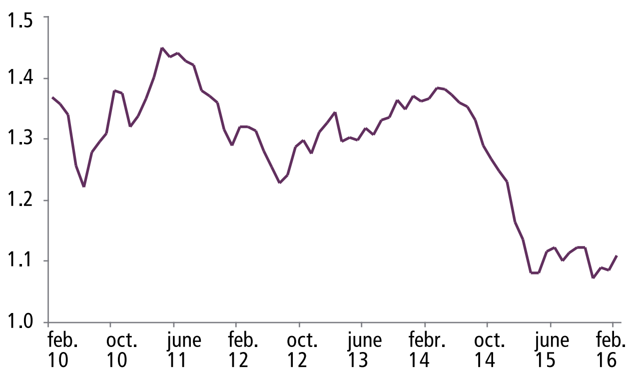


Source : Datastream.

In foreign exchange markets, the euro appreciated by 2.2 percent against the dollar to $1.11 and by 2.9 percent vis-à-vis the British pound. However, it depreciated by 0.9 percent against the Japanese yen. Regarding the change in currencies of major emerging countries against the dollar, the Chinese yuan and

Turkish lira appreciated by 0.3 percent and 2.1 percent, respectively, while the Brazilian real remained unchanged at 4 real to one dollar. The Indian rupee depreciated by 1.3 percent.

Chart 1.7: Euro/dollar exchange rate



Source : Datastream

Against this backdrop, all central banks of the major developed countries and emerging markets kept their rates unchanged, except for the ECB, which decreased its key rate. Indeed, on March 10, the ECB lowered its key rate from 0.05 percent to 0 percent, the interest rate on the deposit facility from -0.30 percent to -0.40 percent. It also expanded the monthly purchases under the asset purchase program from 60 to 80 billion euros and extended it to the bonds issued by corporations. The ECB also decided to launch four longer-term refinancing operations in the euro area. The Fed decided, on March 16, to maintain its key rate ranging from 0.25 percent to 0.5 percent. It indicated that the timing and size of future adjustments to the target range of its key rate depend on its assessment of realized and expected economic conditions relative to its two objectives of maximum employment and 2 percent inflation. The FED also indicated that it expects economic conditions to evolve in a manner that will warrant only gradual increases in the federal funds rate. The Bank of England decided, on March 17, to keep its key rate unchanged at 0.5 percent.

Similarly, in emerging countries, the Russian Central Bank also kept on March 18 its key rate unchanged at 11 percent, while noting that despite a relative stabilization of financial and commodity markets and the slower inflation, inflationary risks remain high. Likewise, the Central Bank of India decided, on February 2nd, to maintain its key rate at 6.75 percent, considering that domestic growth was reasonable, albeit lower than its medium-term expectations. Finally, the Central Bank of Brazil maintained on March 2 its rate at 14.25 percent.

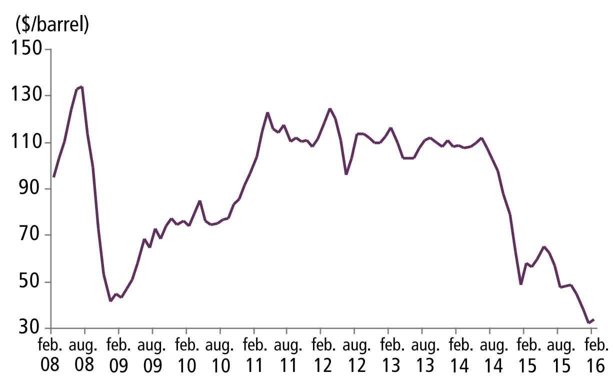
1.3 Commodity prices and inflation

During the first quarter of 2016, commodity prices broadly continued their downward trend compared to the previous year. Inflation remains very low in developed countries, particularly in the euro area.

1.3.1 Energy commodity prices

After three months of consecutive declines, the Brent price recorded in February a monthly increase of 5.4 percent, averaging $33.8 per barrel. This change is mainly due to the announcement of a conditional agreement between major oil producing countries to freeze production at the January level, a decision supported by Iran. Year on year, the Brent price declined sharply by 42 percent from $58.3 to $33.8 per barrel.

Chart 1.8: World price of Brent oil in dollar

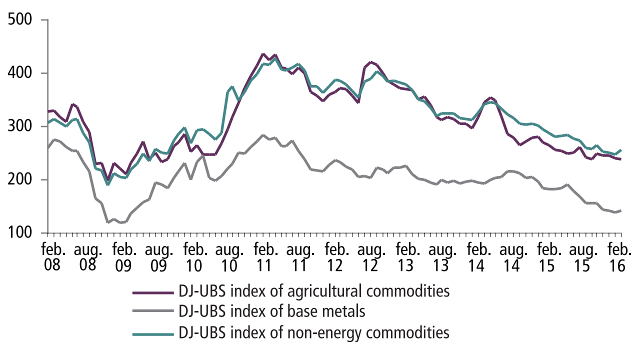


Source : Datastream.

1.3.2 Non-energy commodity prices

Au cours du mois de février, les prix des produits hors énergie ont accusé des reculs sensibles en glissement annuel. L'indice Dow Jones-UBS y afférent a ainsi enregistré une baisse de 11,3%, reflétant le repli de 10,2% de l'indice des prix des produits agricoles et la diminution marquée de 22% de celui des cours des métaux de base.

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

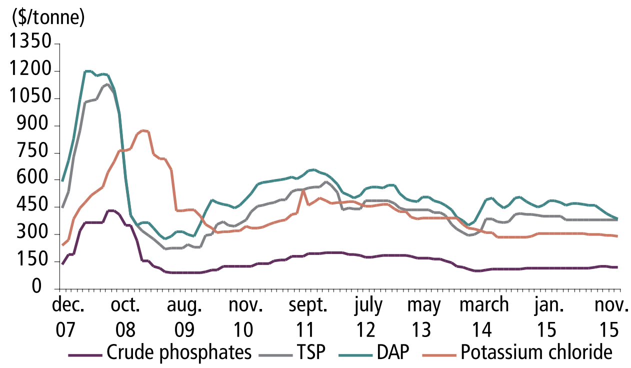


Source : Datastream.

In February, non-energy prices showed significant declines, year on year. The relevant Dow Jones-UBS decreased by 11.3 percent, reflecting a drop of 10.2 percent in the agricultural commodity price index and a marked decrease of 22 percent in the base metals price index.

Between January and February, international crude phosphate prices were down 2.5 percent, reaching $115 per tonne. Similarly, urea prices dropped by 2.3 percent to $209 per tonne, while Potassium Chloride and DAP prices recorded respective falls of 2.8 percent to $282 and 7.8 percent to $355. Moreover, after nine consecutive months of stagnation, TSP prices moved down 13.4 percent in February to $329 per tonne. Year on year, prices remained unchanged for crude phosphate, while they decreased by 7.5 percent for Potassium Chloride, 17.8 percent for TSP, 26.8 percent for DAP and 29.6 percent for urea. Finally, durum wheat prices stabilized compared to the previous month, while they declined by 26.8 percent, year on year.

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

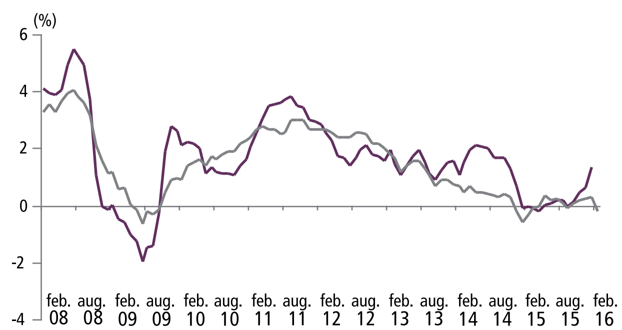


Source: World Bank.

1.3.3 Inflation in the world

In the USA, inflation dropped from 1.4 percent to 1 percent in February. According to a February initial estimate from Eurostat, the price index declined in the euro area by 0.2 percent, after rising 0.3 percent a month earlier. By country, prices fell 0.2 percent in Germany, 0.1 percent in France and 0.2 percent in Italy, after respective increases of 0.4 percent, 0.3 percent and 0.4 percent. In Spain, the decline worsened from -0.3 percent to -0.8 percent. In Japan, consumer prices fell in January by 0.1 percent after increasing 0.2 percent a month earlier. While in the United Kingdom, inflation rose slightly from 0.2 percent to 0.3 percent, respectively.

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



Source : Eurostat.

In key emerging and developing countries, inflation in China rose from 1.8 percent to 2.3 percent in February. In Brazil and Russia, the latest available data remain those of January and show stagnation at 10.7 percent and a decrease from 12.9 percent to 9.8 percent, respectively.

Table 1.3: Recent change in inflation in major advanced economies (YoY)

	2014	2015	dec. 2015	jan. 2016	feb. 2016
United States	1.6	0.1	**0.7**	**1.4**	**1.0**
Euro area	**0.4**	**0.2**	**0.2**	**0.3**	**-0.2**
Germany	0.8	0.2	0.2	0.4	-0.2
France	0.6	0.1	0.3	0.3	-0.1
Spain	-0.2	-0.4	0.0	-0.3	-0.8
Italy	0.2	0.2	0.1	0.4	-0.2
United Kingdom	**1.5**	**0.1**	0.2	**0.3**	**N.A**
Japan	**2.7**	**0.7**	0.2	**-0.1**	**N.A**

Source : Datastream.

2. EXTERNAL ACCOUNTS

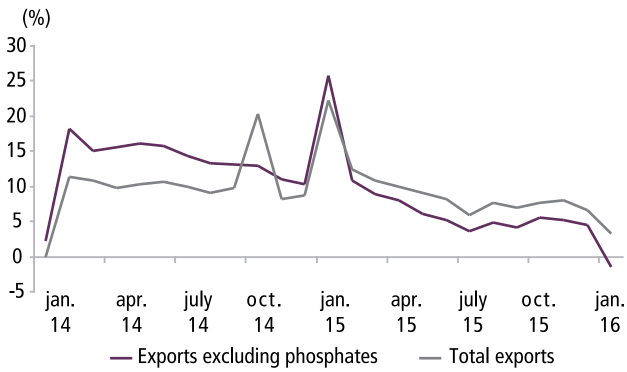
In a context marked by a slow economic recovery in the euro area, exports excluding phosphates and derivatives decreased by 1.4 percent in January 2016. In contrast, shipments of phosphates and derivatives grew by 37.1 percent, after rising 15.6 percent in 2015, against a background of falling prices in the international market. Meanwhile, imports excluding aircrafts decreased by 2.2 percent, mainly due to a decline of 21.6 percent in the energy bill. Under these conditions, the trade deficit continued to ease, recording a further decrease of 22.9 percent, thus bringing the import coverage ratio to 71.2 percent, up 6.3 percentage points. For other main components of the current account, remittances from Moroccan expatriates, after increasing 2.8 percent a year earlier, were slightly down 0.9 percent, while travel receipts continued their downward trend, with a decline of 4.8 percent. Against this backdrop, despite an 18.9 percent decline in net FDI flows, foreign exchange reserves strengthened by 25 percent to 229.5 billion at the end of January, equaling 6 months and 29 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

In January 2016, exports of goods rose by 3.2 percent, year on year, to 18.8 billion dirhams, mainly reflecting a significant increase in sales of phosphates and derivatives, which moved up 37.1 percent to 3 billion dirhams, primarily due to higher shipped quantities. Thus, exports of crude phosphates grew by 10.1 percent, owing to a 9.6 percent increase in quantities and to a virtual stagnation in prices. Regarding phosphate derivatives, the lower prices, which probably stimulated foreign demand, resulted in significantly higher quantities shipped, amounting to 69 percent for phosphoric acid and 45.2 percent for natural and chemical fertilizers.

Chart 2.1: YoY cumulative growth in exports



Source: Foreign Exchange Office.

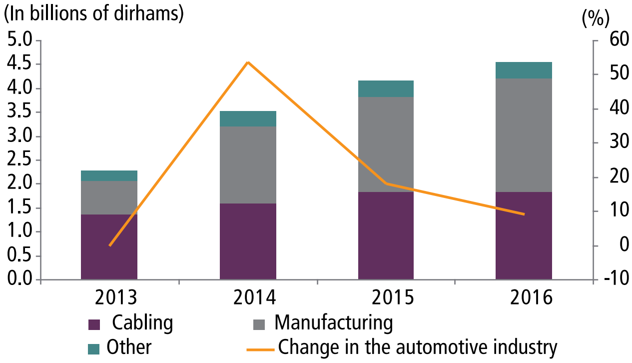
Table 2.1: YoY change in the exports of phosphates and derivatives (%)

	January 2016/January 2015		
	Value	**Quantity**	**Price**
Crude phosphates	10.1	9.6	0.4
Natural and chemical fertilizers	35.1	45.2	-6.9
Phosphoric acid	61.3	69.0	-4.5

Source: Foreign Exchange Office.

Shipments of the automotive industry continued to grow, although at a slower pace. Hence, they rose 9.2 percent to 4.5 billion dirhams, including an 18 percent increase in car manufacturing exports. Meanwhile, exports of the agricultural and agri-food sector grew by 4.1 percent, driven particularly by a 9.3 percent increase in the food industry sales. In contrast, sales of the textile sector fell by 9.3 percent to 3 billion dirhams, mainly due to lower export quantities, particularly ready-made garments and hosiery items, which declined 7.9 percent and 11.7 percent, respectively.

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



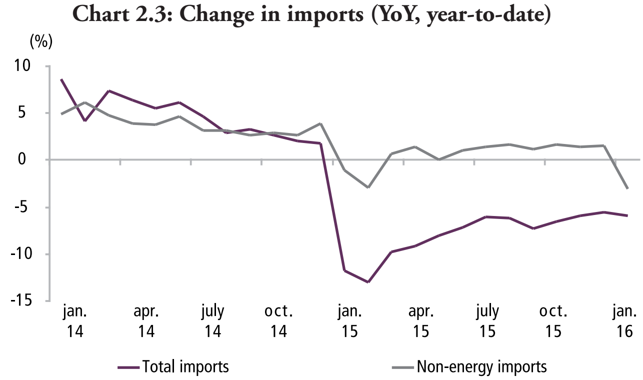
Source: Foreign Exchange Office.

Parallèlement, les exportations du secteur agricole et agro-alimentaire se sont accrues de 4,1%, tirées principalement par un accroissement de 9,3% des ventes de l'industrie alimentaire. En revanche, les ventes du secteur textile ont affiché une baisse de 9,3% à 3 milliards de dirhams, sous l'effet notamment de la baisse des quantités exportées, en particulier des vêtements confectionnés et des articles de bonneterie qui ont diminué de 7,9% et de 11,7% respectivement.

2.1.2 Imports

In January, imports decreased by 6 percent to 26.4 billion dirhams and, excluding aircrafts, they were down 2.2 percent. This change is largely due to a contraction of 21.6 percent in the energy bill, reflecting the lack of crude oil purchases and a fall of 10.5 percent in petroleum gas imports. However, diesel and fuel oil purchases increased by 6.5 percent, reflecting an increase in quantities, while prices were down.

Chart 2.3: Change in imports (YoY, year-to-date)



Source: Foreign Exchange Office.

Excluding semi-finished goods and raw materials purchases, which posted respective declines of 5.2 percent and 12.5 percent, the other imports, excluding aircrafts, were up. Indeed, capital goods imports, excluding aircraft purchases, rose 6 percent, and food purchases grew 12.2 percent, mainly in connection with an increase of 48.3 percent in wheat supplies. Similarly, imports of finished consumer goods were up 3.9 percent, with a significant increase of 41.6 percent in pharmaceutical purchases.

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

	January 2016/January 2015		
	Value	Quantity	Price
Diesel and fuel oil	6.5	56.9	-32.1
Petroleum gas	-10.5	6.0	-15.6
Crude oil	-	-	-
Crude sulfur	-22.4	-14.9	-8.8

Source: Foreign Exchange Office.

In sum, the trade deficit eased by 22.9 percent to 7.6 billion dirhams and the import coverage ratio improved by 6.3 percentage points to 71.2 percent.

2.2 Other components of the current account

ARegarding services, travel receipts fell by 4.8 percent to 3.8 billion dirhams, as a result of the security-related concerns in some countries of the region, while expenses continued their upward trend with a further increase of 8.3 percent. Transport revenues improved slightly by 0.3 percent, while transport outflows were down 9 percent. Under these conditions, the balance of services resulted in a surplus of 4.1 billion, down 9.6 percent from January 2015.

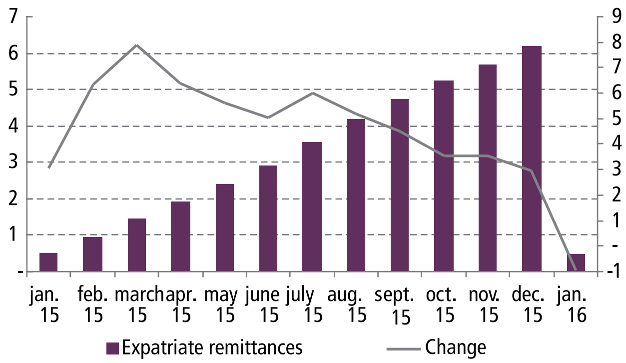
Table 2.3: Change in the trade of services (YoY, %)

(In millions of dirhams)	January		Change	
	2016	2015	Value	%
Imports	**5834**	**5451**	**383**	**7.0**
Transport services	2224	2443	-219	-9.0
Travel	1089	1006	83	8.3
Exports	**9926**	**9978**	**-52**	**-0.5**
Transport services	1873	1868	5	0.3
Travel	3785	3976	-191	-4.8
Balance	**4092**	**4527**	**-435**	**-9.6**

Source: Foreign Exchange Office.

Remittances from Moroccan expatriates decreased slightly by 0.9 percent to 4.9 billion, while they had risen 2.8 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 fell by 6.2 percent and FDI expenses moved up 23.5 percent. In total, net flows stood at 1.3 billion dirhams, down 18.9 percent.

Flows of direct investments by residents abroad totaled 1.1 billion dirhams at end-January 2016, as against 1.8 billion dirhams a year earlier.

In total, taking account of current account transactions, the outstanding international reserves grew by 25 percent, year on year, in January 2016, to 229.5 billion dirhams, equaling 6 months and 29 days of imports of goods and services.

Box 2.1: Change in external accounts in 2015

EIn 2015, the external accounts continued recovering for the third year running. The current account deficit eased from 5.7 percent of GDP in 2014 to 2.3 percent, in connection with the easing of the trade balance.

Imports fell by 5.6 percent to 366.5 billion dirhams, reflecting essentially a 28.1 percent decline in purchases of energy products, as a result of lower prices on the international market. On the other hand, the cost of food products decreased by 14.3 percent, mainly due to the decline in wheat supplies, while purchases increased by 6.1 percent for equipment goods and by 4.8 percent for semi-finished products.

As for exports, they rose by 6.6 percent to 214.1 billion, backed by the continued momentum of the automotive sector, where sales rose by 20.7 percent to 48 billion, and by a significant increase of phosphates and derivatives shipments by 15.6 percent to 44.2 billion, benefiting from the rise of the dollar. Similarly, exports of the agricultural sector were up 13.9 percent for the food industry and 7 percent for agricultural products. Conversely, exports of textile and leather dropped 1.5 percent to 33 billion.

As concerns other current transactions, transfers of Moroccans living abroad maintained their growth rate to 3 percent, despite the persisting high levels of unemployment in the major host countries. However, travel receipts, which rose 3 percent in 2014, fell 1.3 percent as a result of the insecurity issues prevailing in some countries in the region. On the other hand, donations from the Gulf countries were limited to 3.7 billion, compared to 13.1 billion in 2014.

In the financial account, inflows of foreign direct investments remained high, reaching 38.7 billion, instead of 36.6 billion in 2014, and similar expenses increased by 1.3 billion to 7.9 billion. However, the data available for the first nine months of 2015 show a decline of public loans by almost the half, from 29.8 billion in 2014 to 15.2 billion.

In sum, the outstanding net international reserves moved up 23.5 percent to 224.6 billion dirhams, equaling 6 months and 24 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

In the fourth quarter of 2015, monetary conditions were marked by an appreciation of 0.67 percent in the real effective exchange rate and further weakness in the growth rate of credit to the nonfinancial sector, with a steeper contraction in loans to businesses to 2.6 percent. Interest rates in the sovereign and private debt markets did not change significantly overall, while those on bank loans recorded an average decrease of 18 basis points, mainly reflecting lower rates on loans to businesses. Under these conditions, the money supply growth stabilized at 5.7 percent, as the expansion of net international reserves was offset by the moderation in credit growth and the deceleration in net claims on the central government.

In the real-estate market, prices were slightly up 0.5 percent, quarter on quarter, after falling 0.6 percent in the third quarter. Meanwhile, sales increased by 9.8 percent after dropping by 8.6 percent a quarter earlier. In the stock exchange market, after falling 7.2 percent in 2015, the MASI did not change significantly in the first two months of 2016, while transactions remained low with an average volume of 1.8 billion dirhams. Overall, recent developments confirm moderate inflationary pressures from asset markets.

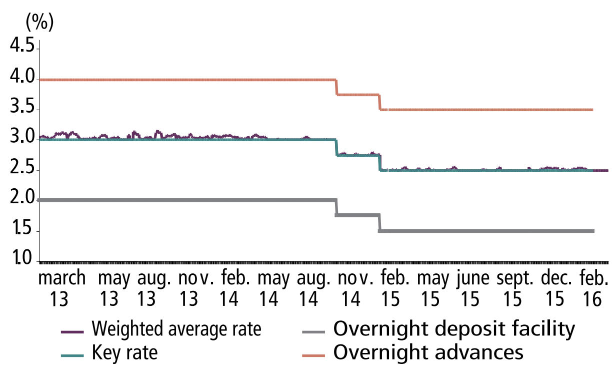
3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

In the fourth quarter of 2015, banks' liquidity needs fell to 21 billion from 33.2 billion dirhams in the third quarter, especially in connection with the expansion of foreign exchange reserves. Indeed, the Bank reduced the volume of its injections, bringing it from 34.6 billion dirhams to 23 billion, including 9.2 billion as 7-day advances and 13.7 billion as secured lending transactions, granted under the program to support the financing of VSME. The latest available figures for February 2016[1] indicate a further easing in liquidity needs, thus amounting to 7.1 billion dirhams.

Under these conditions, the weighted average rate in the interbank market remained aligned with the key rate at 2.52 percent. In other markets, Treasury bill rates did not change significantly overall from the previous quarter, on both the primary and the secondary market, and remain below their level recorded over the same period last year.

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



Source : BAM.

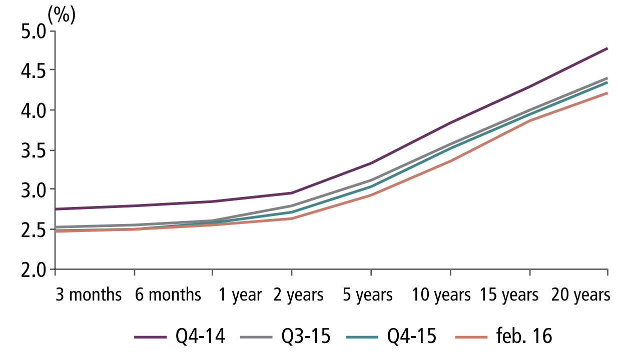
Table 3.1: Change in Treasury bond yields in the primary market (%)

	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.

1 *Figure relating to February 19, 2015*

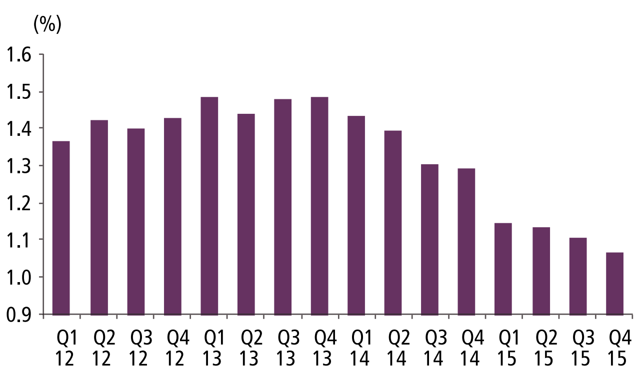
Chart 3.2: Term structure of interest rates in the secondary market



Source : BAM.

In terms of private debt, the weighted average rate of certificates of deposit issued fell back from 3.14 percent to 2.64 percent on average in the fourth quarter. Issuances in the fourth quarter focused on maturities of less than one year, while in the third quarter they rather centered on maturities between one year and three years. Regarding deposit rates, the weighted average rate of 6 and 12-month deposits remained unchanged at 3.66 percent, covering a decrease of 11 basis points in the 6-month deposit rate to 3.46 percent and a slight increase by 4 basis points in the one-year deposit rate to 3.78 percent. Against this backdrop, the banks' overall cost[2] of financing decreased slightly by 4 basis points in the fourth quarter, particularly reflecting an acceleration from 5.4 percent to 6.3 percent in the growth of demand deposits.

Chart 3.3: Change in cost of bank financing



Source : BAM.

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

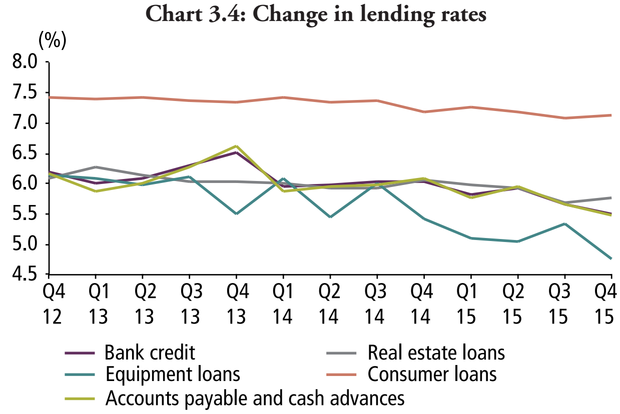
Under these conditions, banks reduced significantly rates on loans granted to customers. The lending rate was thus down 18 basis points to 5.49 percent. This change mainly reflects a decline of 18 basis points in the rate of credit to businesses, with decreases of 17 basis points in cash advances and 59 points in rates on equipment loans. In contrast, rates on loans to individuals virtually stabilized.

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

Chart 3.4: Change in lending rates

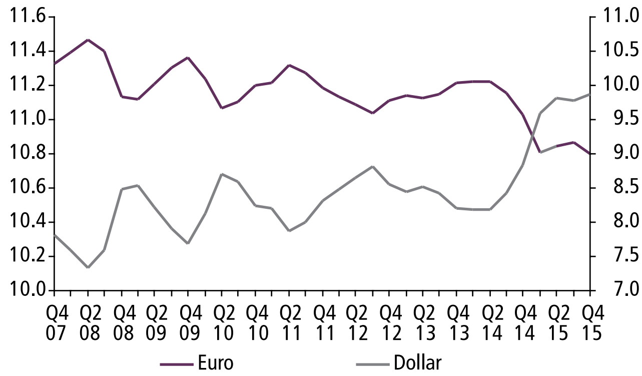


Source : BAM.

3.1.2 Exchange rate

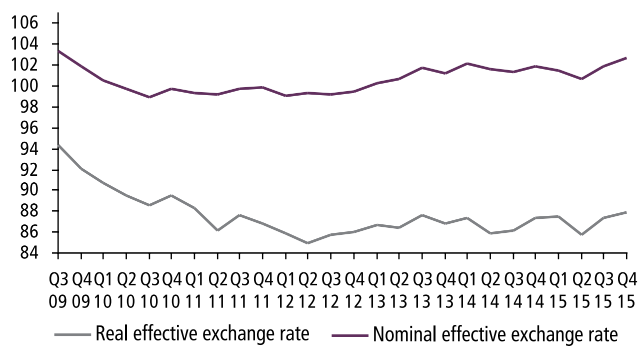
In the fourth quarter, the euro depreciated 1.52 percent against the US dollar, averaging $1.09. Under these conditions, the national currency appreciated on average by 0.62 percent vis-à-vis the euro and depreciated by 0.95 percent against the US dollar. Compared to the currencies of some emerging countries, the dirham appreciated 0.4 percent versus the Chinese yuan and by 0.8 percent against the Turkish lira. Against this backdrop, the effective exchange rate appreciated by 0.83 percent in nominal terms and 0.67 percent in real terms, taking account of an inflation in Morocco broadly lower than that of key partner countries and competitors.

Chart 3.5: Change in the exchange rate of the dirham



Source : BAM.

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



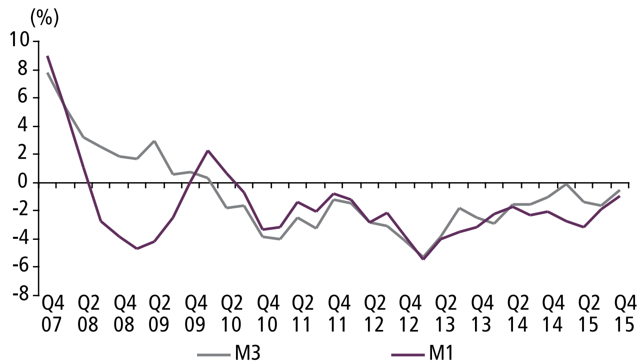
Sources : BAM and IMF calculations.

In this context, the net foreign exchange position of banks fell from 4.8 billion on average in the third quarter to 2.2 billion dirhams in the fourth quarter. Foreign exchange sales by Bank Al-Maghrib to banks stood at 619 million dirhams, from 112 million a quarter earlier. The volume of Banks' transactions with their foreign correspondents dropped by 16.6 percent to 79.9 billion. Meanwhile, bank customers' forward purchases increased by 14.4 percent to 6.3 billion and sales moved up from 2.2 to 3.4 billion dirhams.

3.1.3 Monetary position

In the fourth quarter of 2015, the money supply growth stabilized at 5.7 percent. The expansion from 18.2 percent to 23.7 percent in net international reserves was offset by the moderation in the credit growth rate at 1.7 percent and the deceleration from 15.7 percent to 6.8 percent in net claims on the central government. Therefore, the money gap for M3 remained negative, indicating the absence of medium-term monetary inflationary pressures.

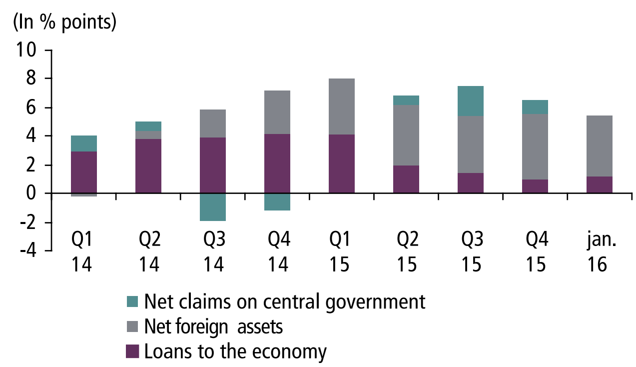
Chart 3.7: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



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

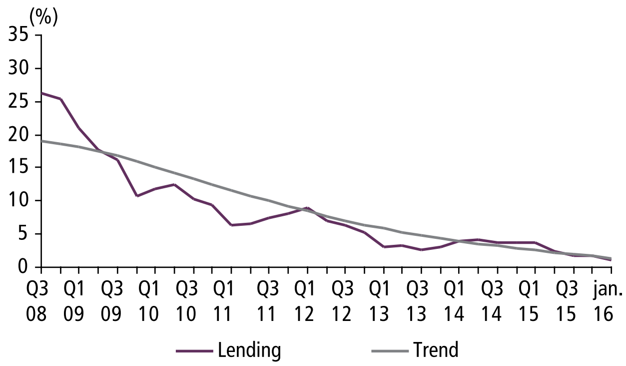


Source : BAM.

The analysis of M3 components reveals a deceleration from 6.2 percent to 3.6 percent in demand deposits of private nonfinancial corporations, while time deposits accelerated from 27 percent to 29.3 percent, thus continuing their uptrend that started in the second quarter of 2015. Demand deposits of households strengthened by 6.5 percent, from 4.7 percent in the previous quarter, while their time deposits slowed down from 8.5 percent to 6.2 percent. For other components, currency in circulation rose by 7.1 percent, from 6.6

percent and money market fund shares/units rose by 3.5 percent after falling 1.6 percent a quarter earlier.

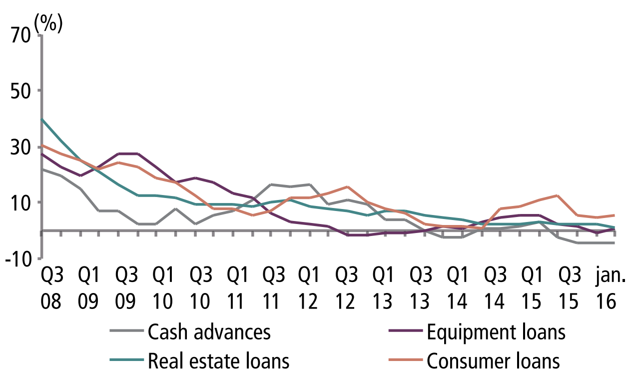
Chart 3.9: YoY change in credit



Source : BAM.

With regard to the main source of money creation, bank credit to the nonfinancial sector continued to decelerate from 0.6 percent to almost zero growth. This change mainly reflects steeper contraction in loans to businesses from 1.7 percent to 2.6 percent, thus continuing their downward trend since May 2015. This decrease is attributed to both a contraction of 2 percent in equipment loans, as against an increase of 1.6 percent, with a deeper decline to 2.3 percent in lending to private nonfinancial corporations, and a decline of 4.3 percent in cash advances, a rate almost similar to that observed a quarter before. Similarly, loans to real estate developers continued their downtrend to 7 percent, after falling 5.2 percent in the third quarter.

Chart 3.10: YoY change in loan categories

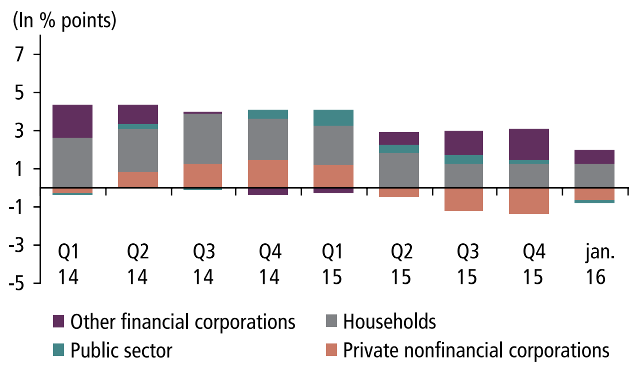


Source : BAM.

The decline in loans to businesses in the fourth quarter resulted in decreases by 5.9 percent in loans to manufacturing industries, 6.2 percent in lending to the "trade" sector and 5.1 percent in loans to "construction" sector. However, credit to the branches of "transport and communication" and "electricity, gas and water", albeit slowing compared to the third quarter, rose by 12.7 percent and 5.2 percent, respectively.

Regarding loans to households, albeit slightly decelerating, their growth rate remained at 5 percent for consumer loans and 5.4 percent for housing loans.

Chart 3.11: Institutional sectors' contribution to YoY change in credit

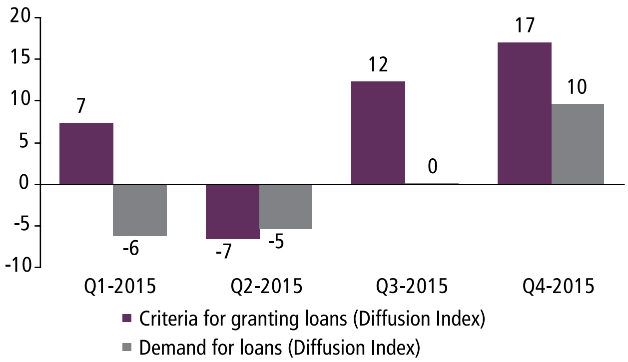


Source : BAM.

The annual growth of nonperforming loans fell from 10.7 percent to 9.8 percent, with a slowing from 15.5 percent to 14.6 percent for nonfinancial companies and from 5.1 percent to 3.7 percent for households. Their ratio was thus stable at 7.4 percent.

The latest BAM's lending conditions survey shows that the moderation of credit growth would be attributed to weak demand, albeit improving slightly in the fourth quarter. Regarding supply, banks would have eased lending conditions, particularly to businesses, as evidenced by the significant decline in lending rates applied to them.

Chart 3.12: Change in supply and demand (Diffusion Index*)



* The Diffusion Index represents the difference between answers indicating a positive change ("easing" or "increase") and those reflecting a negative change ("tightening" or "decrease").

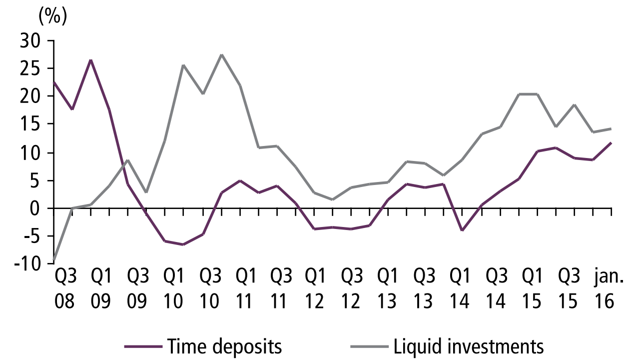
Source : BAM.

The latest available bank lending data for January 2016 show a continued moderation of bank credit growth, standing at 1.2 percent from 1.7 percent in the fourth quarter. Loans to the nonfinancial sector grew by 0.5 percent from 0.2 percent, mainly reflecting a slower drop in loans to businesses from 2.6 percent to 1.9 percent and an increase of 3.5 percent in those granted to households, a pace similar to that recorded almost a quarter earlier.

In addition, loans to the nonfinancial sector by other financial companies, not included in the monetary position, rose by 1.9 percent in the fourth quarter, thus marking a break with the downtrend that started in September 2014. This increase reflects the acceleration from 0.2 percent to 1.9 percent in loans granted by finance companies, due to increases by 1.2 percent in loans granted to businesses, as against 0.5 percent, and by 2.7 percent in loans to households as against a 0.1 percent decline. However, loans accorded by offshore banks recorded a drop of 13.6 percent, less marked than that of 26.4 percent a quarter earlier.

The liquidity rate of the economy, measured by the sum of the M3 aggregate and liquid investments as a percentage of GDP, stood at 169.2 percent in the fourth quarter, from 166.5 percent in the previous quarter, reflecting both an increase in M3 and liquid investments.

Chart 3.13: YoY change in liquid investments and time deposits



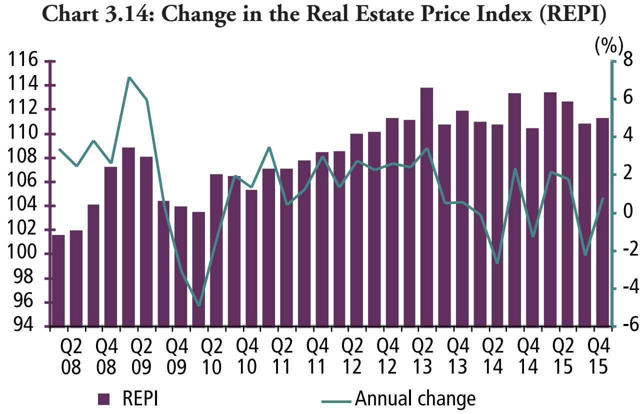
Source : BAM.

3.2 Asset prices

3.2.1 Real estate assets

After two quarters of decline, real estate prices registered a slight quarterly increase of 0.5 percent in the last quarter of 2015. By asset category, prices rose 1.2 percent for professional property, 0.7 percent for residential assets, while urban land prices posted a 0.4 percent decrease.

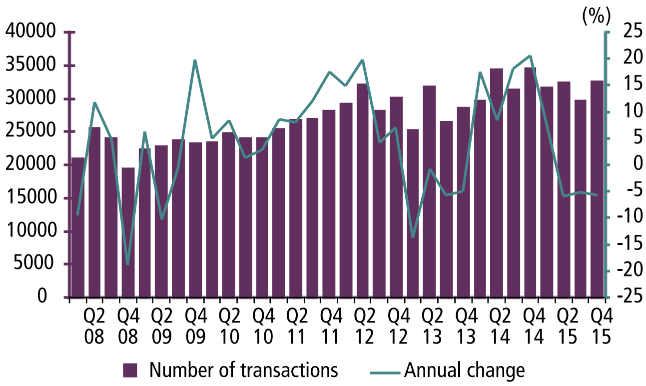
Chart 3.14: Change in the Real Estate Price Index (REPI)



Source : BAM and the National Land Registry and Mapping Agency

Meanwhile, transactions moved up 9.8 percent, after shrinking by 8.6 percent in the previous quarter. This increase was due to improved sales of all asset categories, with 18 percent for professional property, 11.2 percent for urban land and 8.7 percent for residential assets.

Chart 3.15: Change in number of real estate transactions



Source : BAM and the National Land Registry and Mapping Agency

By major cities, prices showed contrasting trends. They thus increased in Casablanca, Rabat and Fez, dropped in Marrakech, Meknes and Kenitra, and stagnated in Tangier and El Jadida. Transactions increased from one quarter to the next in major cities, with the exception of Rabat and Oujda, where they fell 10.9 percent and 13.5 percent, respectively.

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

In %	REPI		Number of transactions	
	Q3 2015	Q4 2015	Q3 2015	Q4 2015
Agadir	-0.6	2.3	-14.8	19.5
Casablanca	-5.8	5.8	-16.7	14.9
El-Jadida	3.9	-0.1	10.9	8.5
Fes	-0.8	1.9	-10.3	13.1
Kénitra	1.1	-1.1	-11.7	7.6
Marrakech	-8.1	-0.9	-27.4	9.0
Meknes	3.3	-2.4	-15.3	39.6
Oujda	1.9	0.8	27.3	-13.5
Rabat	-1.9	3.8	-6.8	-10.9
Tangier	0.5	-0.1	11.0	5.2

Source : BAM and the National Land Registry and Mapping Agency

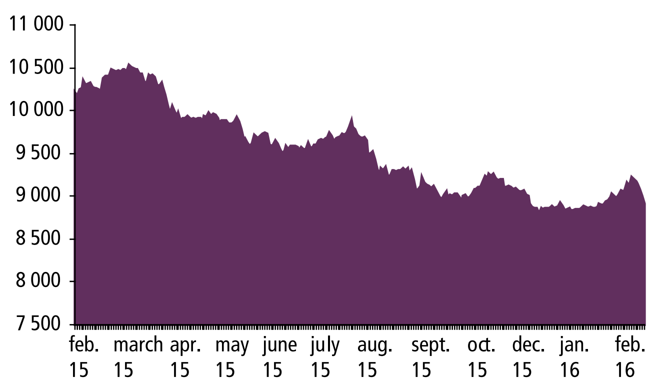
Throughout 2015, after a 0.4 percent decline in 2014, the real estate price index rose 0.6 percent. After an increase in 2014, the volume of transactions was down 6 percent, but remained above the average recorded between 2010 and 2014. In major cities, prices declined in Marrakech by 4.3 percent, while in Casablanca and Rabat, they continued their uptrend since 2012. Transactions decreased in big cities, especially in Rabat and Tangier, with respective declines by 10.9 percent and 11.9 percent.

3.2.2 Financial assets

3.2.2.1 Shares

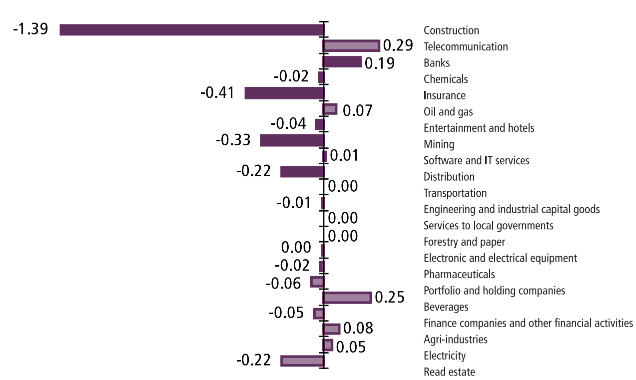
In the fourth quarter of the year, the MASI continued its downtrend that started since March 2015, with a decline of 2.1 percent. This quarterly decline mainly reflects decreases of 9.8 percent for "construction and building materials", 9.4 percent for "insurances" and 5.3 percent for the "real estate". Conversely, the indexes of "banks" and "telecommunications" posted respective increases of 0.5 percent and 1.5 percent.

Chart 3.16: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.17: Contribution of sectoral indexes to MASI growth in the Q4-2015, (in %)



Source : Casablanca Stock Exchange.

The trading volume in the central market stood at 12.8 billion in the fourth quarter 2015, due to portfolio revaluation operations, as opposed to 4.7 in the previous quarter, totaling 31.4 billion in 2015, a level lower than and close to the average recorded over the past three years.

The market capitalization stood at 453.3 billion dirhams at the end of 2015, down 1.1 percent from the previous quarter. Under these conditions, the liquidity ratio[3] in the central market remained unchanged from 2014.

For other market valuation indicators, the price earning ratio[4] (PER) stood at 17.2 in the fourth quarter 2015, down 113 basis points from the previous quarter, and the Price to Book Ratio (PB) stood at 2.3, down 9 basis points.

Data available at end-February indicate a virtual stagnation of the MASI, month-on-month, after falling 0.3 percent in January, and a trading volume in the central market averaging 1.4 billion in the first two months of 2016.

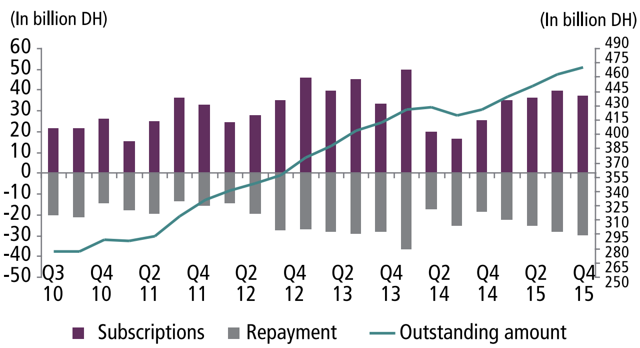
For the full year 2015, the MASI fell 7.2 percent, after rising 5.6 percent in 2014, reflecting decreases in securities of key sectoral indexes, notably "banks" with 2.7 percent, "telecommunications" with 1.9 percent, "construction and building materials" with 4.2 percent and "real estate" with 45.6 percent. In parallel, the volume of transactions increased by 5 percent to 52 billion dirhams, including 31.4 billion at the central market.

3.2.2.2 Treasury bonds

Issuances of sovereign bills amounted to 37.6 billion dirhams in the fourth quarter 2015, from 39.7 billion a quarter earlier. 55 percent of issuances had a medium-term maturity with yield rates ranging from 2.8 percent for 2-year bills and 3.14 percent for 5-year bills, as against 2.74 percent and 3.17 percent in the previous quarter, respectively. Long-term maturities represented an average of 33 percent of issues. In particular, 10-year Treasury bills had an average yield of 3.61 percent, a level almost similar to the third quarter. Yields on short-term maturities were very close to those of the third quarter. Taking into account repayments totaling 29.8 billion dirhams, the outstanding Treasury bills amounted to 470.1 billion in the fourth quarter, up 1.7 percent compared to the end of September and 10.3 percent compared to December 2014.

In January, issuances totaled 10.2 billion dirhams as against a monthly average of 12.4 billion in 2015 and their yields were lower compared to December, mainly for 2-year and 5-year maturities.

Chart 3.18: Change in outstanding Treasury bonds



Source : BAM.

3.2.2.3 Negotiable debt securities

Subscriptions of other negotiable debt securities reached 9.4 billion dirhams in the fourth quarter, after averaging 10.3 billion during the first three quarters of 2015.

Issuances of certificates of deposit stood at 4.5 billion dirhams in the fourth quarter 2015 from 2.7 a quarter earlier. These drawings, which centered mainly on less than one-year maturities, had on average a yield rate of 2.7 percent.

In terms of bills issued by finance companies, one single issuance amounting to 860 million dirhams was

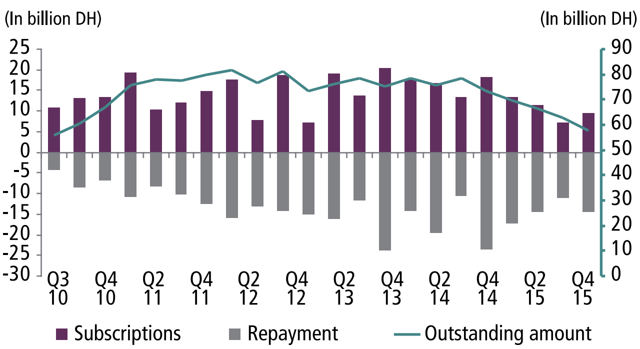
3 The liquidity ratio is equal to the sum of transactions compared to the average of stock market capitalization.

4 PER : Price Earnings Ratio is the ratio of a company's share price and its per-share earnings performed in the fourth quarter, as against an average of 1.4 billion in the first three quarters of the year, at a a rate of 3.49 percent, after ranging from 3.51 percent to 3.53 percent in the third quarter.

The issuance of commercial paper amounted to 4 billion dirhams, after averaging 3.8 in the first three quarters of 2015 at rates ranging from 4.38 percent to 4.44 percent, after a range of 4.46 percent to 4.75 percent in the third quarter.

Taking into account repayments of 14.5 billion dirhams, the outstanding amount of negotiable debt securities stood at 57.9 billion dirhams, down 7.7 percent from the previous quarter and 21.1 percent compared to end-December 2015.

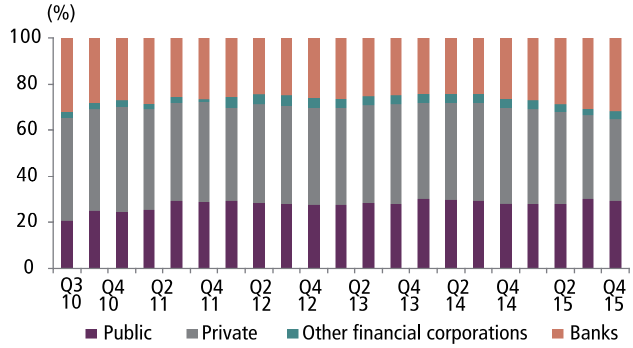
Chart 3.19: Change in outstanding amount of negotiable debt securities



Source : BAM.

In the bond market, the fourth quarter 2015 data show an amount of issuances of 3.7 billion dirhams, as against 4.2 billion a quarter earlier and 11.4 billion in the first three quarters, bringing outstanding bond issuances to 101.7 billion, up 6.2 percent compared to end-December 2014. Broken down by issuer, issuances of financial companies reached 7.8 billion dirhams in 2015, as against 4.7 billion in 2014 and those of nonfinancial companies totaled 7.3 billion from 12 billion in 2014.

Chart 3.20: Change in the structure of outstanding bonds by issuer

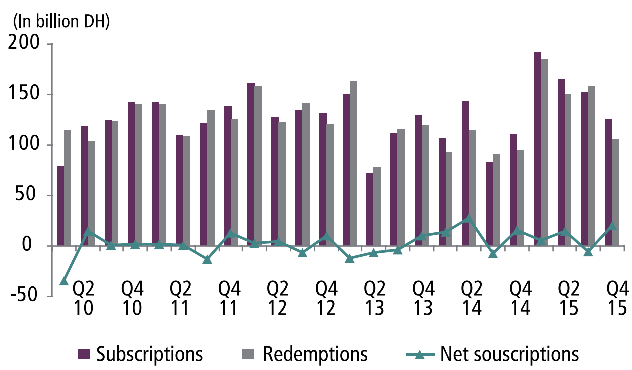


Sources : Maroclear and BAM calculations.

3.2.2.4 Mutual fund shares/units

In the fourth quarter 2015, subscriptions to mutual fund shares/units totaled 132.8 billion dirhams and redemptions stood at 111.7 billion dirhams. Taking into account also a rise by 0.3 percent in the performance indicator, the net assets of UCITS funds stood at 330.1 billion dirhams at end-2015, up 6 percent compared to the third quarter, and 9.8 percent, year on year. This increase reflects primarily appreciations by 7.6 percent in outstanding bond funds and 6 percent in money market funds. However, the outstanding amount of equity funds contacted by 5.2 percent, mainly due to a drop in the MASI.

Chart 3.21: Change in subscriptions and redemptions of mutual fund shares/units



Source : CDVM.

4. FISCAL POLICY STANCE

Budget execution in 2015 ended up the year broadly in line with the Finance Act, with a deficit of 42.7 billion, excluding privatization, from 42 billion planned. Compared to 2014, the deficit eased by 2.9 billion dirhams, thus following the budget adjustment process that began in 2013. This improvement was due to a less marked fall in revenue compared to expenses. Current expenditure dropped thanks to a contraction by more than half in subsidy costs. Meanwhile, current revenues went down, particularly impacted by a reduction in donations from GCC countries, but slightly offset by stronger tax revenues. The ratio of direct public debt to GDP is thus estimated at 64 percent at the end of 2015, from 63.4 percent at end-2014.

Concerning the execution of the Finance Act 2016, January data from the Treasury show a budget surplus of 66 million, as against 139 million in January 2015. Current receipts moved up 1.3 percent, covering higher tax revenues, excluding corporate tax and domestic VAT, and a decrease in nontax receipts. Current expenses eased by 1 percent, following a decline in subsidies and debt interest. Thus, the ordinary balance was positive and higher compared to 2015. The balance of the Treasury's special accounts turned also positive at 10.1 billion, up 2.6 billion. Based on the domestic and external financing flows, the direct public debt is expected to rise 1.5 percent at end-January 2016 compared to its level at the end of 2015, with respective increases of 2.3 percent and 1.3 percent in the outstanding external debt and the outstanding domestic debt. As to financing costs, the Treasury continues to be financed on favorable terms compared to January 2015, despite a slight increase in the weighted average rates at issuance.

4.1 Current revenues

The first month of the 2016 budget execution shows a positive trend in current revenues compared to January 2015. They improved by 1.3 percent, with a 4.4 percent increase in tax receipts to 18.4 billion and a 41.6 percent decrease in nontax revenues to 632 million dirhams. Excluding corporate tax and domestic VAT, all taxes posted increases.

Proceeds from direct taxes rose by 3.3 percent to 5.8 billion, essentially covering a 7.5 percent increase in revenue from the income tax to 4.2 billion and a 6.2 percent decline in corporate tax to 1.5 billion. The change in income tax covers mainly an increase of 30.5 percent in income tax on real estate profits to 355 million and a decrease of 2.2 percent in income tax on public wages levied by Morocco's General Treasury to 721 million, while other income tax categories rose by 7.8 percent to 3.2 billion.

Table 4.1: Change in current revenues*

	Jan. 2015	Jan. 2016	Change in %	Finance Act 2016	Implementation rate (in %)
Current revenues	**18.8**	**19.1**	**1.3**	**245.9**	**7.8**
Tax revenues	**17.6**	**18.4**	**4.4**	**215.5**	**8.6**
- Direct taxes	5.7	5.8	3.3	85.5	6.8
Including CT	1.6	1.5	-6.2	44.3	3.4
I.T	4.0	4.2	7.5	38.6	11.0
- Indirect taxes	8.8	8.7	-0.8	104.8	8.3
VAT	7.2	6.8	-5.1	79.3	8.6
DCT	1.6	1.9	18.8	25.5	7.4
- Customs duties	0.6	0.7	14.7	7.9	9.2
- Registration and stamp duties	2.6	3.2	21.9	17.3	18.3
Nontax revenues	**1.1**	**0.6**	**-41.6**	**27.2**	**2.3**
- Monopoles	0.0	0.0	0.0	8.3	0.5
- Other receipts	1.0	0.6	-43.2	18.8	3.1
Including GCC grants	0.0	0.3		13.0	2.5
TSA receipts	**0.1**	**0.0**	**-78.1**	**3.3**	**0.7**

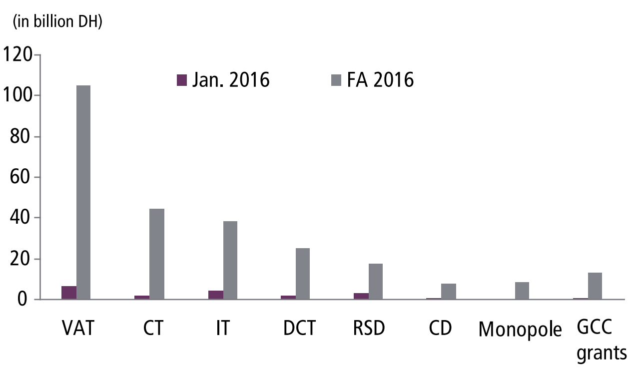
*Taking into account 30 percent of the VAT transferred to local governments. Figures in billions of dirhams.

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

Moreover, indirect taxes dropped by 66 million dirhams, although covering divergent trends across tax categories. Thus, proceeds from VAT decreased by 5.1 percent to 6.8 billion, following a repayment of 453 million of domestic VAT, as against 119 million in January 2015. Revenues from import VAT grew 1.8 percent to 3.4 billion, covering a 7.6 percent drop in energy VAT and a 3.4 percent increase in VAT on other products. Inflows from domestic consumption tax (DCT) rose 18.8 percent to 1.9 billion, driven by taxes on tobacco, up 35.3 percent. Customs duties increased by 14.7 percent to 725 million.

Regarding nontax receipts, which dropped by 41.6 percent, 39 million dirhams were collected from Bank Al-Maghrib under monopoly receipts, 118 million for gas pipeline fees and 319 million as donations from GCC countries. It should be also noted that there was a significant decline in income-offsetting debt expenditure from 1.5 billion to 79 million in January 2016 and as against 1.1 billion provided in the Finance Act.

Chart 4.1: Achievements in major public receipts



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

-VAT: Value added tax
-CT: Corporate tax
-IT: Income tax
-DCT: Domestic consumption tax
-RSD: Registration and stamp duties
-CD: Customs duties

4.2 Public expenditure

Expenditure grew overall by 11.1 percent to 29.1 billion compared to the same month of 2015. This change covers a reduction of 1 percent to 17.7 billion in current expenditure and a 37 percent increase in investment to 11.4 billion. Spending on goods and services rose by 6.5 percent to 13.5 billion, covering a 1.8 percent decrease in payroll to 7.7 billion, due to a drop of 43.3 percent in back pays, and an increase of 19.7 percent to 5.9 billion in spending on other goods and services. Change in this spending covers mainly increases of 90 percent to 1.9 billion in transfers to public institutions and 2.9 percent to 458 million in payments to Treasury special accounts.

Table 4.2: Change and execution of public spending*

	Jan. 2015	Jan. 2016	Change in %	Finance Act 2016	Implementation rate (in %)
Overall spending	**26.2**	**29.1**	**11.1**	**288.6**	**10.1**
Current spending	**17.9**	**17.7**	**-1.0**	**235.4**	**7.5**
Goods and services	12.7	13.5	6.5	167.8	8.1
Wage bill	7.8	7.7	-1.8	106.8	7.2
Other goods and services	4.9	5.9	19.7	61.0	9.6
Debt interest	1.7	1.1	-33.9	28.3	3.9
Subsidy costs	1.3	1.0	-24.8	15.6	6.5
Transfers to local governments	2.2	2.0	-5.1	23.8	8.6
Investment	**8.3**	**11.4**	**37.0**	**53.1**	**21.5**

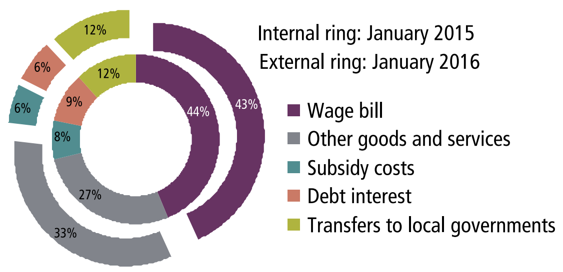
*Taking into account 30 percent of the VAT transferred to local governments.
In billions of dirhams.
Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing and BAM calculations.

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 dropped 33.9 percent to 1.1 billion, reflecting a reduction of 37.1 percent to 946 million for domestic debt and 1.3 percent to 147 million for external debt. The steeper decrease in debt interest is due to the payment of 423 million with a maturity date of January 30, 2016 and which was paid only on February 1, 2016, which is the next business day. If the payment of that amount had been made in January, the debt interest would have decreased only by 8.3 percent.

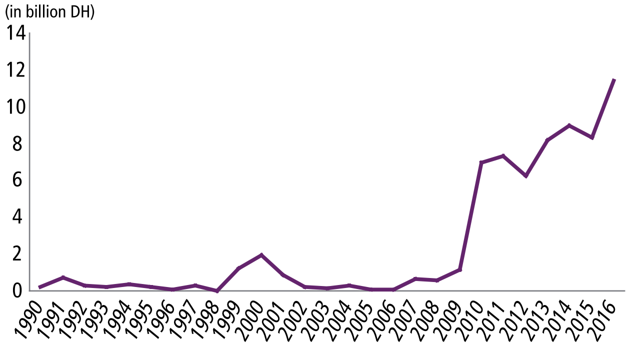
Chart 4.3: Structure of current spending



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

In terms of price subsidies, which are currently applied on butane gas, sugar and wheat flour, costs stood at one billion, down 24.8 percent. The decrease in these costs is partly attributed to a decline of 17.2 percent in international gas prices, from an average price of $375/T in January 2015 to $310.5/T in the same month of 2016. The impact of this drop was slightly mitigated by the appreciation of the dollar, whose average price stood at 9.9 dirhams, as against 9.4 in January 2015.

Chart 4.4: Investment spending in January



Source : Ministry of Economy and Finance (TEFD).

Investment spending moved up 37 percent to 11.4 billion, following an increase of 35.9 percent to 10.1 billion in transfers to Treasury special accounts as investment allowances and 69.7 percent to 1.1 billion in capital expenditure of Ministries. January 2016 investment spending constitute a record high, especially due to transfers to Treasury special accounts, which represented 61 percent of opened appropriations in the Finance Act for this category. Compared to the amount of 53.1 billion programmed in the Finance Act, the flow of January accounts for 21.5 percent.

4.3 Deficit and Treasury financing

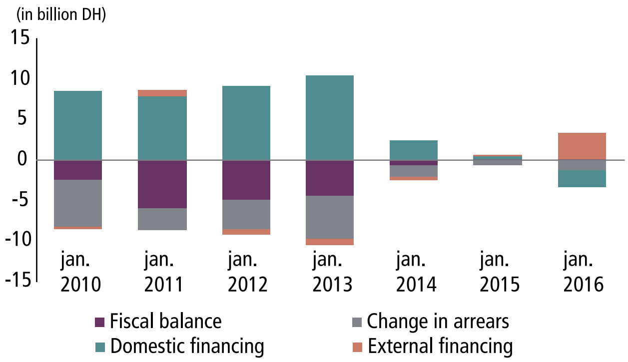
Taking into account changes in current receipts, expenditure and balance of Treasury special accounts, the fiscal balance posted a surplus of 66 million, as against 139 million in January 2015. Due to the repayment of arrears, amounting to 1.3 billion, the Treasury posted a cash deficit of 1.2 billion, worsening by 734 million from one year to another. This need for liquidity, coupled with a negative net flow of domestic financing of 2 billion, was covered by net external drawings of 3.3 billion. Gross foreign drawings come mainly from the World Bank, amounting to 3.5 billion, and the African Development Bank, totaling 760 million dirhams.

Table 4.3: Deficit financing*

	Jan. 2015	Jan. 2016	FA 2016	Gap in value FA/ jan.16
Current balance	**-5.4**	**3.6**	**2.3**	**-1.3**
Primary balance	-23.8	-7.2	-15.4	-8.2
Fiscal balance	**-45.1**	**-31.7**	**-42.0**	**-10.3**
Change in arrears	-3.5	-10.2		
Financing requirements	**-48.5**	**-42.0**	**-42.0**	**0.0**
Domestic financing	38.6	43.4	20.4	-23.0
External financing	7.8	-1.4	21.6	23.0
Privatization	2.0	0.0	0.0	0.0

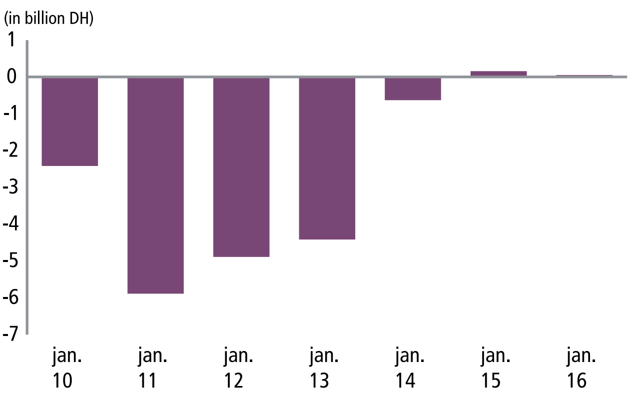
* In billions of dirhams.
Source : Ministry of Economy and Finance (TEFD), and BAM calculations.

Chart 4.5: Fiscal balance and financing



Source : Ministry of Economy and Finance (TEFD).

Chart 4.6: Fiscal balance in January from 2010 to 2016



Source : Ministry of Economy and Finance (TEFD).

The Treasury financing conditions in the domestic market were broadly similar to those of January 2015. Rates in the primary market on 10-years bills were slightly up from 3.39 percent to 3.60 percent. Yields on 52-week Treasury bills increased by 2 basis points to 2.57 percent and those on 2-year bills rose by 8 basis points to 2.69 percent. Conversely, yields on 30-year bills eased by 8 basis points to 4.92 percent. In total, the weighted average rate of issuances in January 2016 rose by 4 basis points to 3.36 percent compared to the weighted average rate of January 2015.

In terms of direct public debt, estimates based on domestic and external financing flows showed at the end of 2015 a debt of around 64 percent of GDP from 63.4 percent in 2014, up 6.8 percent to 626.6 billion dirhams. This change covers a decrease of 0.9 percentage point of GDP in the Treasury's external debt to 14.4 percent, as the value level fell 0.3 percent at 140.6 billion, and an increase in domestic debt, which should stand at 49.6 percent of GDP or 486 billion, from 48.2 percent and 445.5 billion in 2014.

Table 4.4: Treasury debt*

	2011	2012	2013	2014	2015 Est	At end-jan. 2016 Est.*
Treasury external debt	**99.6**	**116.9**	**129.8**	**141.1**	**140.6**	**143.9**
Change in %	7.8	17.4	11.1	8.7	-0.3	2.3
In % of GDP	12.1	13.8	14.4	15.3	14.4	14.5
Treasury domestic debt	**331.3**	**376.8**	**424.5**	**445.5**	**486.0**	**492.2**
Change in %	13.4	13.7	12.6	5.0	9.1	1.3
In % of GDP	40.4	44.4	47.1	48.2	49.6	49.5
Outstanding direct debt	**430.9**	**493.7**	**554.3**	**586.6**	**626.6**	**636.0**
Change in %	12.0	14.6	12.3	5.8	6.8	1.5
In % of GDP	52.5	58.2	61.5	63.4	64.0	64.0

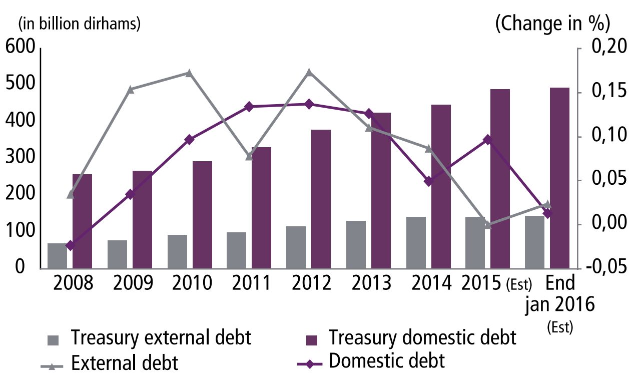
* In billions of dirhams, unless stated otherwise.

Data sources: from 2011 to 2014, Public Debt Report, Finance Bill 2016. Estimates of 2015 and 2016 are based on the flows of domestic and external financing.

- For GDP, data from 2011 to 2014 are estimates of the HCP, and those of 2015 and 2016 are BAM forecasts.

Debt at the end of January 2016 stood broadly at the same level as in 2015, or 64 percent of GDP. By component, the Treasury's external debt represents 14.5 percent of GDP and domestic debt accounts for 49.5 percent of GDP.

Chart 4.7: Treasury debt



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

Box 4.1: Budget execution in 2015

Budget developments in 2015 indicated a deficit of 42.7 billion dirhams, excluding privatization, up 0.8 billion from the amount provided in the Finance Act and representing an easing of 2.9 billion compared to 2014. The improvement registered compared to 2014 was attributed to a steeper decline in expenditure compared to current receipts. Current expenses were down 3.5 percent, following the withdrawal of funds allocated to price subsidies. Current receipts dropped by 0.5 percent, covering an improvement in tax revenues and a decline in nontax receipts. The ordinary balance was positive at 10.2 billion, from 3.2 billion in 2014, making it possible to finance almost 17 percent of investment spending.

Tax revenues, which were realized up to 98.5 percent of the Finance Act, improved by 3.8 percent to 205.8 billion. By category, direct tax revenues rose by 4.1 percent to 80.8 billion, covering mainly an increase of 8.4 percent in income tax inflows to 36.8 billion and a 0.4 percent decrease in proceeds from corporate tax to 41.3 billion. Indirect taxes drained higher revenues of 3.5 percent to 100.6 billion, reflecting increases of 2.5 percent in VAT receipts to 75.3 billion, and 6.4 percent in revenues from domestic consumption tax (DCT) to 25.4 billion, particularly with a rise of 10 percent to 15.3 billion in energy DCT. Import VAT revenue decreased by 1.4 percent to 45.8 billion, while domestic VAT receipts grew 9.3 percent to 29.5 billion. The change in the latter takes account of receipts of 234 million (4G licenses) and repayments amounting to 5.3 billion at end-December 2015, almost the same amount repaid at end-December 2014. After a slight improvement in 2014, revenues from customs duties fell by 0.3 percent to 7.7 billion, while proceeds from registration and stamp fees jumped 7 percent to 16.7 billion, despite the base effect related to an exceptional income in 2014.

The decline in nontax revenues is largely attributable to lower donations from GCC to 3.7 billion in 2015 from 13.1 billion a year earlier. Excluding these donations, nontax revenues increased by 3.9 percent, mainly thanks to the doubling of "revenue-offsetting debt expenses", amounting to 4.4 billion. Monopoly and holdings receipts, amounting to nearly 9 billion, were down 8.4 percent.

Overall expenditures were performed up to 98.2 percent of the Finance Act. They eased by 1.4 percent to 282.1 billion dirhams, covering a 7.8 percent increase in investment spending to 58.5 billion, and a decline by 3.5 percent in current expenses to 223.5 billion, driven by lower subsidy costs, which fell from 32.6 billion to nearly 14 billion in connection with the drop in international oil prices. Spending on goods and services rose 4.9 percent to 159.7 billion, reflecting an increase of 12.4 percent in spending on other goods and services to 57 billion, or 96.9 percent of the Finance Act, and a rise of 1.1 percent in payroll, albeit modest, to 102.7 billion. The latter, which was performed up to 97.3 percent of the Finance Act, represents a proportion of 10.5 percent of GDP from 11 percent in 2014. Debt interest charges moved up 10.1 percent to 27.3 billion, following increases of 10.7 percent in interest on domestic debt to 23.3 billion and 6.7 percent in that of external debt to nearly 4 billion.

Given a reduction in the repayment of arrears, amounting to 6.9 billion, the cash deficit stood at 49.6 billion, widening by 1.8 billion compared to the fiscal year 2014. This borrowing requirement was covered mainly by domestic market for an amount of 49.5 billion, of which 42.9 billion as debt issuance, from 36.4 billion in 2014. External financing flows were almost flat, reflecting repayments of 8.36 billion and drawings of 8.42 billion.

Table B4.1.1: Budget execution in 2015*

	2014	2015	Gaps		Execution / FA 2015
			in %	In value	
Current revenues	**234.9**	**233.7**	**-0.5**	**-1.2**	**97.3**
Tax revenues*	**198.2**	**205.8**	**3.8**	**7.6**	**98.5**
- Direct taxes	77.6	80.8	4.1	3.2	98.8
Including CT	41.5	41.3	-0.4	-0.2	96.6
IT	34.0	36.8	8.4	2.9	100.8
- Indirect taxes	97.3	100.6	3.5	3.4	95.9
VAT	73.4	75.3	2.5	1.8	93.8
DCT	23.8	25.4	6.4	1.5	102.9
- Customs duties	7.7	7.7	-0.3	-0.02	106.1
- Registration and stamp duties	15.6	16.7	7.0	1.1	112.1
Nontax revenues	**33.6**	**25.0**	**-25.6**	**-8.6**	**88.0**
- Monopoles	9.8	8.9	-8.4	-0.8	94.1
- Other receipts	23.8	16.0	-32.7	-7.8	85.0
Including GCC grants	13.1	3.7	-71.7	-9.4	28.6
Receipts of some TSA	**3.2**	**2.9**	**-7.1**	**-0.2**	**98.2**
Overall spending	**286.0**	**282.1**	**-1.4**	**-3.9**	**98.2**
Current spending	**231.7**	**223.5**	**-3.5**	**-8.2**	**94.0**
Goods and services	**152.3**	**159.7**	**4.9**	**7.4**	**97.2**
Wage bill	101.5	102.7	1.1	1.2	97.3
Other goods and services	50.8	57.0	12.4	6.3	96.9
Public debt interest	**24.8**	**27.3**	**10.1**	**2.5**	**102.7**
Subsidy costs	**32.6**	**14.0**	**-57.2**	**-18.7**	**61.0**
Transfers to local governments	**22.0**	**22.6**	**2.5**	**0.6**	**93.8**
Current balance	**3.2**	**10.2**		**6.9**	
Investment	54.3	58.5	7.8	4.2	118.9
TSA balance	5.4	5.6		0.2	
Fiscal balance	**-45.7**	**-42.7**		**2.9**	
In points of GDP	**-4.9%**	**-4.4%**			
Primary balance	**-20.9**	**-15.5**		**5.4**	
Change in arrears	-2.1	-6.9			
Financing balance	**-47.8**	**-49.6**		**-1.8**	
Domestic financing	36.4	49.5		13.1	
External financing	9.3	0.1		-9.2	
Privatization	2.0	0.0			

- Reprocessing of local authorities VAT by BAM.
* Figures in billions of dirhams, unless otherwise indicated.

Sources : - Ministry of Economy and Finance (TEFD).

5. DEMAND, SUPPLY AND LABOR MARKET

Quarterly national accounts, base 2007, relating to demand components published for the first time last December show in the third quarter a 3.3 percent increase in household final consumption, a 2.1 percent decline in government consumption and a 3.8 percent increase in investment. Recent developments in available infra-annual data indicate that domestic demand would have recorded a slowdown in the fourth quarter 2015, which is set to continue in the first quarter 2016. Given an unchanged contribution of net exports to growth in the fourth quarter, GDP would have grown 4 percent. For the whole of 2015, economic growth would have stood at 4.2 percent, which is a downward revision from 4.5 percent projected in the Monetary Policy Report of December 2015, mainly due to a slower-than-expected growth of nonagricultural activities.

This trend had an impact on labor market conditions, , with a limited creation of 29,000 jobs in the fourth quarter. However, in view of a decrease by 0.9 point in the participation rate, the unemployment rate dropped 0.5 percentage point to 9.2 percent. Concerning labor costs, reflecting partly an increase by 5 percent in the minimum wage in July, the private sector's wage index rose in the fourth quarter by 5.5 percent in nominal terms and 4.5 percent in real terms.

Against this backdrop, the nonagricultural output gap continues to evolve below zero, thus indicating the absence of demand-led inflationary pressures.

5.1 Domestic demand

5.1.1 Consumption

Quarterly national accounts, base 2007, relating to demand components published by the HPC for the first time last December show in the third quarter of 2015 a rise by 3.3 percent in household final consumption from 3.6 percent a year earlier. Thus, its contribution to growth stood at 2 percentage points, from 2.2 points a year earlier.

In the fourth quarter 2015, available indicators point to a 2.9 percent increase in household consumption, as against a rise of 2.6 percent in the same quarter a year earlier. It should continue to benefit from the temporary improvement in agricultural incomes, driven in particular by an exceptional crop year of 115 million quintals and an appreciation of 5 percent in the minimum wage in July.

Table 5.1: Change in the components of demand and supply (chained prices, base 2007, in %)

	2015				2016
	Q1	**Q2**	**Q3**	**Q4 f**	**Q1 f**
Household final consumption	3.6	2.4	3.3	2.9	1.7
Government consumption	0.1	-1.2	-2.1	-2.0	0.4
Investment	-4.5	5.2	3.8	4.0	1.8
Exports of G&S	2.5	2.3	3.7	7.0	2.4
Imports of G&S	-5.2	-1.2	-1.2	1.0	3.7
GDP	**4.1**	**4.3**	**4.6**	**4.0**	**1.1**
Agricultural VA	12.0	14.9	15.9	15.4	-8.9
Nonagricultural GDP	**3.1**	**3.0**	**3.2**	**2.5**	**2.2**
Taxes on products net of subsidies	13.0	14.4	12.3	14.0	11.0
Nonagricultural VA	2.0	1.6	1.6	1.5	1.5

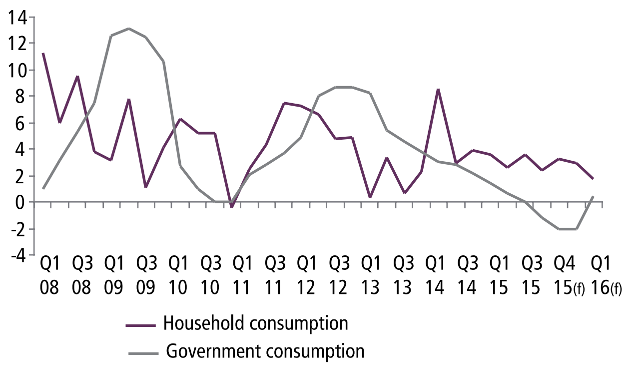
Sources: HCP, and BAM forecasts.

Over the whole of 2015, household consumption would have kept its growth pace around 3 percent, thanks in particular to the improvement in agricultural income.

In 2016, household final consumption is expected to suffer from a decline in agricultural income and the persistently weak nonagricultural output, which remains at a level below its potential. Taking into account an expected cereal production of 38 million quintals[1] for the current crop year, it should rise 1.7 percent in the first quarter of this year.

Final consumption of general government should continue its downtrend that started in the first quarter 2013. Thus, it is expected to post a third consecutive decline in the fourth quarter 2015.

Chart 5.1: Change in consumer spending (in %)



Sources: HCP, and BAM forecasts.

Regarding forecasts for the first quarter of the current year, assuming a continued increase in Treasury operating expenses in January, the general government consumption would move up 0.4 percent.

5.1.2 Investment

In the fourth quarter 2015, investment would have risen 4 percent after a decline of 1.6 percent a year earlier and its growth throughout 2015 would have stood at 2.1 percent, a pace broadly below its historical level. In the first quarter 2016, it should decelerate to 1.8 percent.

This trend is confirmed by data from BAM's monthly business survey in industry, which indicates that despite a general business climate deemed unfavorable in the fourth quarter, investment spending in all branches would have registered an increase, with the exception of "textile and leather" industries, where a decline would have been registered. These developments take place in a context of a decline for the fifth consecutive quarter in lending rates applied by banks on their nonfinancial customers regarding equipment loans, to 4.76 percent, which is a cumulative decrease of 125 basis points. Conversely, real estate loans continued to decelerate with a limited increase to 1.7 percent at end-December, reflecting in particular a further drop in loans to property developers. In addition, after three consecutive quarters of decline, lending rates on housing loans recorded a slight increase of 8 basis points from one quarter to another.

Treasury investment spending showed increases of 20.4 percent in the fourth quarter and 37 percent in January 2016, as against 5.3 percent and -6.7 percent, respectively, a year earlier.

5.2 External demand

In the fourth quarter 2015, the contribution of net exports of goods and services to growth is set to stabilize at 1.7 percentage point for the second successive quarter, reflecting stronger exports and imports.

Indeed, exports of goods and services in real terms would have increased by 7 percent in the fourth quarter 2015, thanks especially to a favorable base effect, after an average increase of 2.8 percent over the first three quarters. In turn, imports of goods and services in real terms returned to growth in the fourth quarter, with an increase of 1 percent after an average drop of 2.5 percent over the first three quarters of 2015.

Overall, taking account of a contribution of 2.3 percentage points of domestic demand components, GDP growth would have been 4 percent in the fourth quarter of 2015.

In the first quarter 2016, net exports should contribute negatively to economic growth, due to a larger increase in imports compared to exports. Taking account of a

1 Determined on the basis of climate data and the vegetation index data as at end-February.

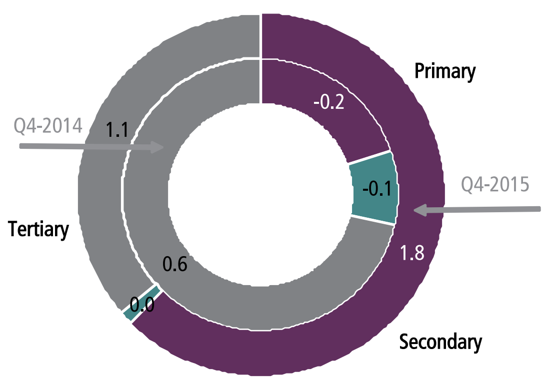
contribution of 2 percentage points of domestic demand to growth, GDP should grow by 1.1 percent.

5.3 Aggregate supply

Sectoral developments in economic activity in the fourth quarter 2015 show stronger primary activities, along with a slowdown in secondary and tertiary activities.

The agricultural value added would have increased by 15.4 percent in the fourth quarter, after a 1.3 percent decline a year earlier. This performance was attributed to an improvement in cereal production, reaching a record high of 115 million quintals.

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

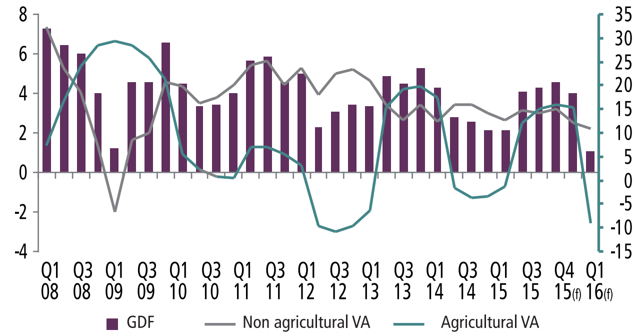


Sources: HCP, and BAM forecasts.

Meanwhile, nonagricultural activities would have slowed to 1.5 percent and taxes on products net of subsidies would have moved up 14 percent. Under these conditions, nonagricultural GDP would have stood at 2.5 percent.

Throughout 2015, GDP growth would have reached 4.2 percent, which is a downward revision compared to the forecast published in the MPR of December, with the growth of the agricultural value added kept at 14.5 percent and a slight downward revision of nonagricultural GDP from 3.3 percent to 3 percent.

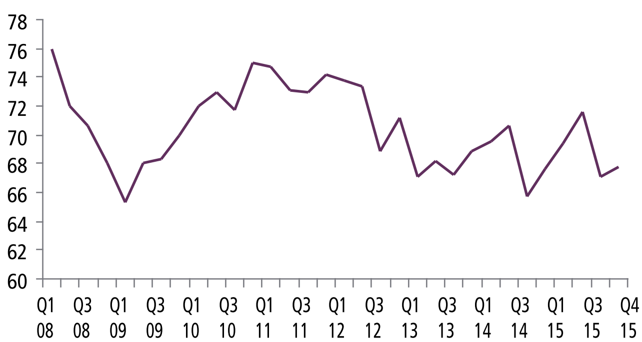
Chart 5.3: YoY annual change in GDP (chained prices, in %)



Sources: HCP, and BAM forecasts.

In particular, the value added of manufacturing industries would have contracted by 0.8 percent in the fourth quarter, as against 0.5 percent in the same quarter of the previous year. Indeed, the capacity utilization rate remained unchanged from the same quarter of the previous year at 68 percent. High and medium voltage electricity sales would have decelerated from one year to another, showing an increase of 2.2 percent, from 2.6 percent in the fourth quarter of 2014.

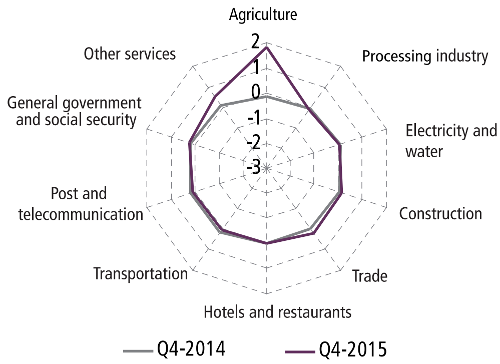
Chart 5.4: Output capacity utilization rate in industry (in %)



Source: BAM's Monthly Business Survey in Industry

The construction value added would have improved relatively by 2.1 percent in the fourth quarter from 0.9 percent in the same quarter of 2014. Indeed, cement sales grew by 9.9 percent after a drop of 4.4 percent a year earlier. However, loans to real estate developers continued to decline.

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



Sources: HCP, and BAM forecasts.

As to tertiary activities, the posts and telecommunications sector would have grown at a rate lower than in the previous year, 3 percent as against 6.2 percent. The available data for the fourth quarter show a 2.3 percent decline in the number of mobile phone subscribers, the largest since 2004, and a further drop, which began in the second quarter of 2011, in the number of subscribers to the fixed telephony.

Regarding the tourism sector, the value added of hotels and restaurants would have been down 0.7 percent in the fourth quarter, as against 0.3 percent a year earlier. Indeed, travel receipts fell 2.2 percent, as against 2.6 percent in the same quarter of 2014, and tourist arrivals registered a decrease of 4.7 percent, as opposed to 4.6 percent. This branch should continue its negative performance, particularly in connection with the climate of insecurity in some countries of the region.

Overall, the available data show in the first quarter 2016 a growth of only 1.1 percent of GDP, due to a decrease of 8.9 percent in the agricultural value added, mainly reflecting a sharp decline in the cereal component, and an increase of only 2.2 percent in nonagricultural GDP, covering a 11 percent rise in taxes on products net of subsidies and stagnation at 1.5 percent in the nonagricultural value added.

5.4 Labor market and output capacity

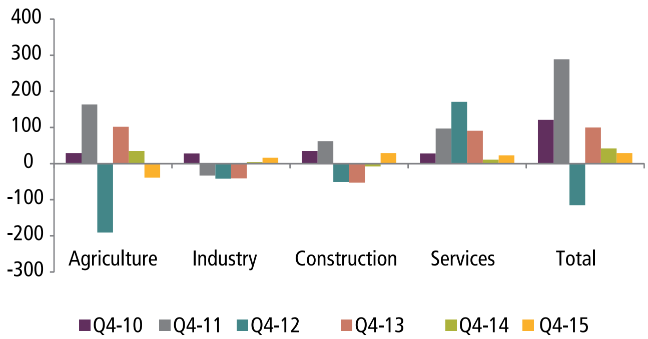
5.4.1 Participation rate and employment

During the fourth quarter of 2015, the labor market was characterized by a decline of 0.3 percent in the labor force aged 15 and over to nearly 11.8 million people. This change includes a decrease of 0.7 percent in rural areas and virtual stagnation in urban ones. Taking account of demographic changes, the participation rate continued its downward trend to a more marked rate, reaching 46.9 percent from 47.8 percent a year earlier. By place of residence, this rate decreased from 41.6 percent to 40.8 percent in urban areas and from 57.4 percent to 56.6 percent in rural areas.

Job creation remained low, amounting to 29,000 new positions, as a result of the creation of 39,000 jobs in urban areas and a loss of 10,000 jobs in rural areas. Under these conditions, the employed labor force increased slightly by 0.3 percent and the employment rate fell from 43.1 percent to 42.6 percent nationally, from 35.5 percent to 35 percent in urban areas and from 55.1 percent to 54.6 percent in rural areas.

By sector, construction was the main job-providing sector with 29,000 jobs, followed by services with 23,000 positions and industry, including crafts, with 16,000 jobs. Conversely, and despite a record cereal output, the number of jobs in the agricultural sector continued to decline for the third consecutive quarter, with a loss of 39,000 jobs.

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

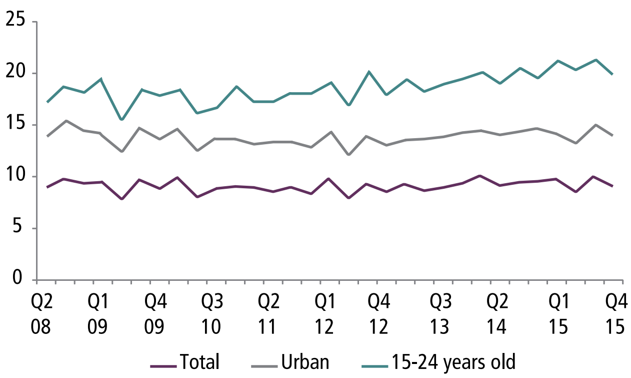


Source : HCP.

5.4.2 Unemployment and underemployment

The unemployed labor force declined in the fourth quarter by 6 percent, to 1.08 million people. The unemployment rate dropped by 0.5 percentage point to 9.2 percent overall, by 0.7 point to 14.1 percent in urban areas and by 0.5 point to 3.5 percent in rural areas. This change affected the age brackets between 35-44 years and 45 and over, whose rates fell from 6.3 percent to 4.9 percent and from 3.1 percent to 2.1 percent, respectively. However, the unemployment rate worsened from 19.7 percent to 20 percent among young people aged 15-24 years and from 13.6 percent to 13.9 percent among those aged 25-34 years.

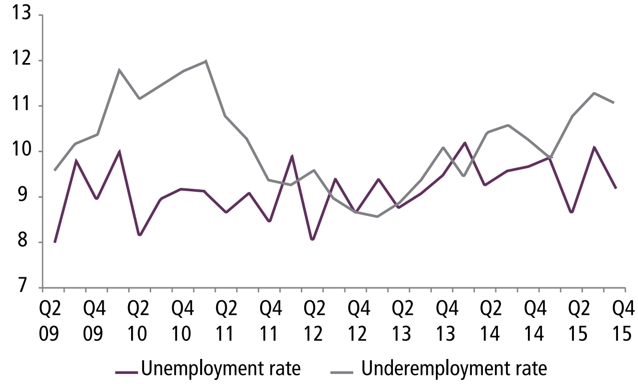
Chart 5.7: Change in unemployment rate (in %)



Source : HCP.

Underemployment[2] continued its uptrend that started in the third quarter of 2013 from 10.3 percent to 11.1 percent, thus contributing to the mitigation of rising unemployment rates. This increase affected both urban and rural areas.

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



Source : HCP.

By activity, services saw the largest increase in the underemployment rate with 1.2 percentage point to 10.7 percent, followed by agriculture with 0.9 point to 10.8 percent and industry with 0.5 point to 8.2 percent. However, the construction sector, which remains the sector most affected by this phenomenon, showed a decrease of 0.5 point to 17.6 percent.

For 2015 as a whole, the unemployment rate fell from 9.9 percent to 9.7 percent in an environment of declining participation rate from 48 percent to 47.4 percent along with a low job creation, totaling 33,000 positions. These new positions are attributed to an increase in the volume of employment, totaling 32,000 jobs in services, 18,000 jobs in construction, 15,000 jobs in industry, including crafts, and a loss of 32,000 jobs in the agricultural sector.

5.4.3 Productivity and wages

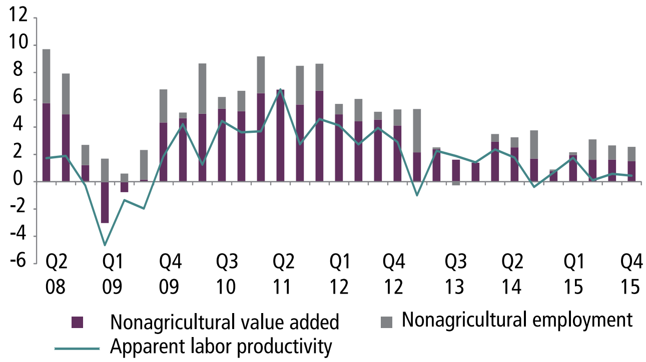
Apparent labor productivity in nonagricultural activities[3] slowed down to 0.4 percent in the fourth quarter of 2015 from 0.7 percent a year earlier. This low rate reflects in particular the lack of momentum

2 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..

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

in nonagricultural activities, whose growth should be limited to 1.5 percent in the same quarter.

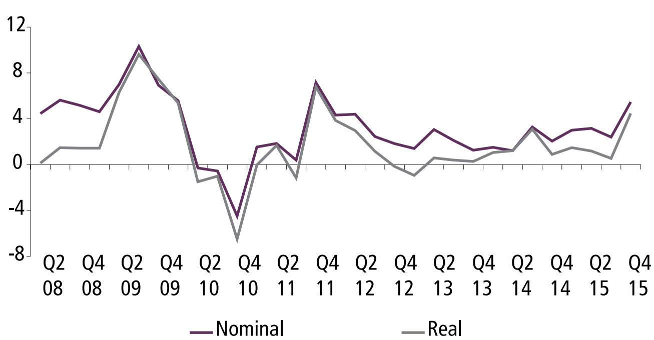
Chart 5.9: Apparent labor productivity and nonagricultural value added and employment (change in %)



Sources: HCP, and BAM calculations.

Regarding wage developments, the average wage index, calculated on the basis of CNSS data, grew in the fourth quarter 2015 by 5.5 percent in nominal terms and 4.5 percent in real terms.

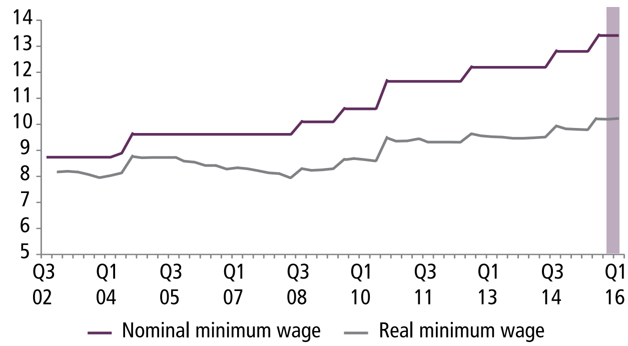
Chart 5.10: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

This increase would partly reflect a 5 percent rise in the minimum wage in July 2015 to 13.46 dirhams/hour. In real terms, this wage moved up, year on year, by 3.8 percent in the fourth quarter 2015 and should grow by 4.2 percent in the first quarter 2016.

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



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

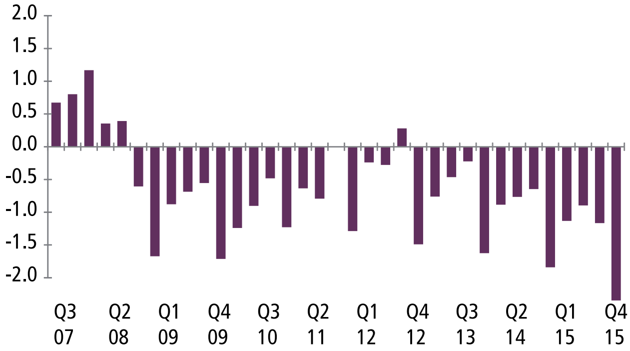
Table 5.2: Change in major labor market indicators

		Q4- 2015	Q4-2014
Labor force participation rate (in %)		**47,8**	**46,9**
Urban		41.6	40.8
Rural		57.4	56.6
Unemployment rate (in %)		**9.7**	**9.2**
Youth aged between 15 and 24		14.8	14.1
Urban		4.0	3.5
Youth aged between 15 and 24		19.7	20.0
Rural		36.7	38.9
Job creation (in thousands)		**42**	**29**
Urban		20	39
Rural		22	-10
Sectors			
Agriculture		35	-39
Industry including handicrafts		4	16
Construction		-8	29
Services		11	23
Nonagricultural apparent productivity (change in %)		**0.7**	**0.4**
		Q4- 2015	**Q3-2014**
Average wage index (Change in %)	**Nominal**	**3.3**	**3.4**
	Real	**3.1**	**1.6**

Source : HCP.

In total, the output gap trended in accordance with the outlook provided in the last MPR of December. It remained negative in the third quarter and should continue to be negative in the fourth quarter 2015 and first quarter 2016, according to forecasts by Bank Al-Maghrib.

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



Source: BAM estimates based on HCP data.

6. RECENT INFLATION TRENDS

Inflation is expected to continue, in the short term, its downward trend of the last months. In fact, it gradually declined from 0.9 percent in November to 0.3 percent in January 2016. This deceleration was mainly due to a 3.1 percent decrease in volatile food prices in January 2016, after a drop in their growth from 4.7 percent in November to 1.7 percent in December 2015. The drop in inflation was mitigated by the less marked decline in fuel and lubricant prices over the last three months, despite the significant drop in oil prices. Prices of regulated goods and core inflation decelerated slightly, without significantly impacting price trends.

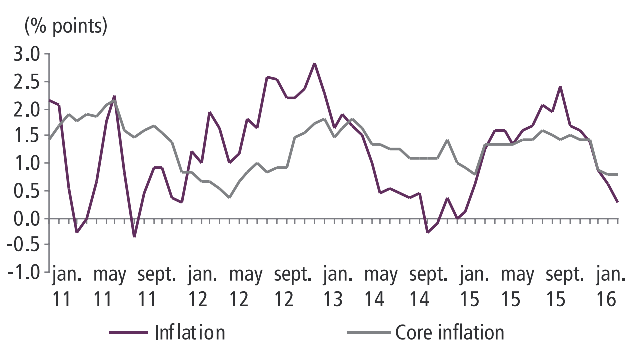
Inflation should slow again in the first quarter 2016. Hence, it would stand at 0.5 percent, as against 1.1 percent expected in December 2015. This revision primarily reflects the effects of postponing the planned reform of sugar subsidies, cancelling the rise planned, for January 2016, in the prices of water distribution and the impact of a greater-than-expected decline in the prices of oil products and volatile food.

6.1. Inflation trends

Inflation continued its deceleration that started in August 2015. Thus, it dropped from 0.9 percent in November to 0.6 percent in December, before standing at 0.3 percent in January 2016. This slowdown is mainly due to a further downward trend in the inflation of volatile food prices observed since the second half of 2015, offset by a less marked drop in fuel and lubricant prices during the last three months.

Prices of regulated goods and core inflation decelerated slightly, keeping their contributions to inflation at a constant level between November 2015 and January 2016.

Chart 6.1: Headline inflation and core inflation, YoY



Sources: HCP, and BAM calculations.

Table 6.1: Change in inflation and its components

(in %)	MoM (%)			YoY (%)		
	nov 15	dec. 15	jan. 16	nov 15	dec. 15	jan. 16
Headline inflation	**-0.5**	**0.0**	**-0.1**	**0.9**	**0.6**	**0.3**
- Volatile food products	-3.8	0.0	-1.5	4.7	1.7	-3.1
- Fuels and lubricants	-1.2	-0.9	-2.3	-20.7	-14.3	-3.8
- Administered goods	-0.1	0.0	0.6	1.2	1.2	1.1
Core inflation	**0.2**	**0.0**	**0.1**	**0.9**	**0.8**	**0.8**
- Food products	0.0	0.0	0.1	0.7	0.7	0.7
- Clothing and footwear	0.4	0.4	0.0	0.8	0.8	1.1
- Housing, water, gas, electricity and other fuels*	0.2	0.0	0.0	1.3	1.1	1.1
- Furnishings, household equipment and routine house maintenance	0.1	0.0	0.1	0.3	0.4	0.4
- Health*	0.5	0.4	-0.2	1.3	1.7	1.2
- Transportation*	-0.1	-0.2	0.2	0.4	0.3	0.5
- Communication	0.0	-0.2	0.0	0.2	0.0	0.0
- Entertainment and culture	0.0	0.0	0.1	0.6	0.5	0.6
- Education	0.0	0.0	0.0	2.1	2.1	2.1
- Restaurants and hotels	0.2	0.3	0.0	2.4	2.7	2.3
- Miscellaneous goods and services	-0.1	0.0	0.1	0.3	0.3	0.4

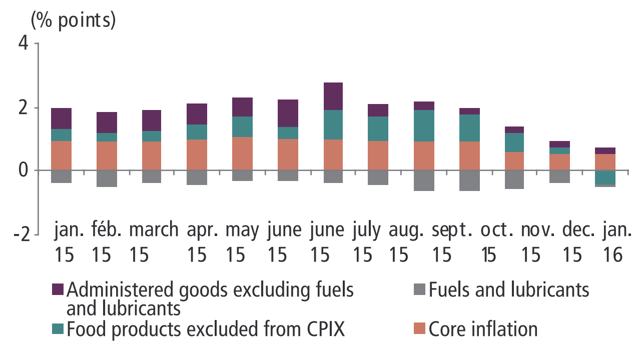
* Excluding administered goods.

Sources: HCP, and BAM calculations

6.1.1. Prices of goods excluded from core inflation

The trend reversal of inflation of food with volatile prices, from a 4.7 percent increase in November to a 3.1 percent decline in January 2016, was the main determinant of the inflation decline over the last three months. Indeed, this component's contribution to inflation, which equaled 0.6 percentage point in the first 10 months of 2015, stood at no more than 0.2 percentage point in December and -0.4 percentage point in January. Its change is due to a 12.4 percent decline in prices of fresh vegetables in January, while prices of fresh fish and unprocessed cereals fell 1 percent and 2.8 percent, respectively.

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

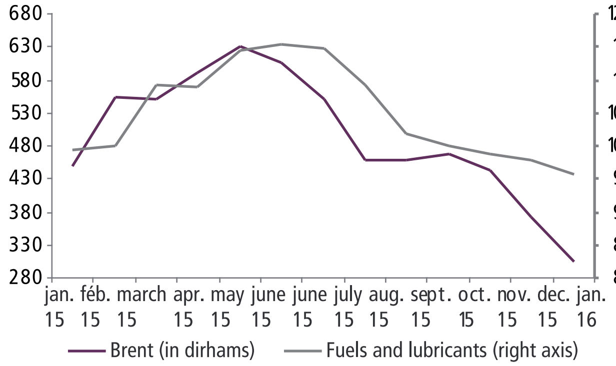


Sources: HCP, and BAM calculations.

Fuel and lubricant prices showed a slower decline to 3.8 percent in January from 16.1 percent on average in 2015. This slower drop reflects the dissipation of the impact of a significant monthly decline of fuel prices in January 2015. On the other hand, it was attributed to a partial transmission of the reduced international Brent prices to prices of fuel and lubricant as of December 2015, when oil prices were fully liberalized. Indeed, compared to price trends, which would have prevailed as part of the indexing system, the decline in fuel and lubricant prices suggests an incomplete transmission of international price trends to the price at the pump.

Prices of regulated goods rose to an almost stable pace, or 1.2 percent in November and December and 1.1 percent in January.

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



Sources: World Bank, HCP, and BAM calculations.

Box 6.1: Inflation trends in 2015

Inflation rose significantly in 2015 to 1.6 percent from 0.4 percent a year earlier.

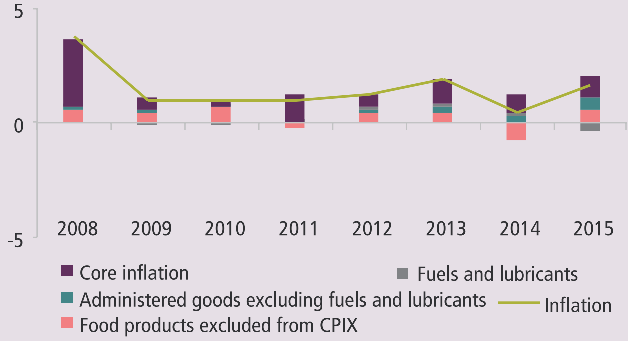
This acceleration was mainly due to a 4.3 percent increase in volatile food prices, as against a drop of 5.6 percent in 2014. It also reflects a further increase from 1.7 percent to 2.9 percent in prices of regulated goods excluding fuels and lubricants.

Indeed, prices for electricity and "water and sanitation" services grew by 6.6 percent and 8.9 percent, as against 3 percent and 6.3 percent in 2014, following the adjustment to their pricing structure. Tobacco prices were also up 4 percent from 1.7 percent in 2014, following their revision scheduled as part of the Finance Act 2013. Prices for passenger road transport rose 2.3 percent, reflecting their increase in October 2014 in response to rising diesel prices, due to the partial removal of diesel subsidies.

Nevertheless, the transmission of international oil prices decline to the pump prices resulted in a 16.1 percent drop in fuel and lubricant prices, as against a 7 percent increase a year earlier.

Core inflation accelerated slightly from 1.2 percent to 1.3 percent, mainly driven by the increase from 0.9 percent to 1.3 percent in inflation of nontradable goods. The latter is attributed to a 0.6 percent increase in "fresh meat" prices, as against a 0.9 percent decline, and to stagnation of prices of "telephone and fax services" after their 5.5 percent decline a year earlier. Inflation of tradable goods stood at 1.4 percent, as the impact of the rise of durum wheat prices on cereal prices offset the effects of persistent disinflationary pressures internationally and of falling prices of key commodities.

Chart B6.1.1: Contribution to inflation (in % points)



Sources: HCP, and BAM calculations

Box 6.2: Liberalization of liquid oil products and its impact on core inflation composition

Despite the removal of subsidies to liquid oil products in 2014, fuel pump prices remained controlled throughout the first eleven months of 2015. Indeed, the Government and marketers of oil products, ratified on December 26, 2014, an agreement to certify oil prices with a view to fully liberalizing the oil market as of December 1, 2015. This agreement outlines a set of commitments for both parties and aims mainly to assist professionals in price fixing by continuing to announce oil prices by the Government on 1st and 16th of each month for a transitional period from January 1 to November 30, 2015.

At the end of this period, the liberalization of liquid oil products prices became effective, thus completing the process of dismantling the subsidy system for such products. Indeed, changes in prices at the pump should henceforth reflect the impact of competition between marketers of the sector, in addition to the momentum in international energy prices and exchange rates.

How petroleum products are addressed when analyzing inflation?

Fuel and lubricant prices are now considered liberalized and should no longer be part of regulated goods. The latter, which represented 20.9 percent of the CPI, will constitute no more than 18.4 percent as of December 2015.

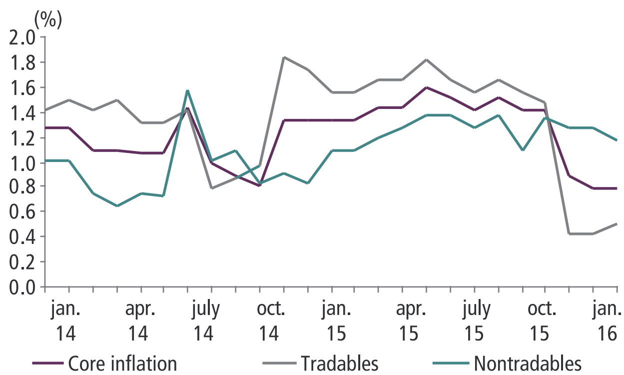
However, synchronizing such products with global energy price trends should take into account the greater volatility of their prices, which is a first limit for their integration into core inflation. In addition, similarly to a sample of countries with freely determined energy prices, those products remain excluded from the CPIX. Thus, fuel and lubricant prices will be now analyzed separately in the BAM publications, without being included in core inflation.

Previous breakdown	Current breakdown
Inflation	**Inflation**
Volatile food products	Volatile food products
Administered goods	Administered goods Fuels and lubricants
Core inflation	Core inflation

6.1.2. Core inflation

Core inflation remained virtually unchanged at 0.8 percent between November and January, reflecting a stable inflation of tradables (CPIXT) and nontradables (CPIXNT). However, it decelerated compared to its 1.4 percent average recorded in the first ten months of 2015.

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



Sources: HCP, and BAM calculations

This deceleration is attributed to a slower inflation of tradables to 0.4 percent as of November from 1.6 percent over the first ten months of 2015, due to a decrease of 0.7 percent, as against an increase of 5.9 percent in prices of cereal products

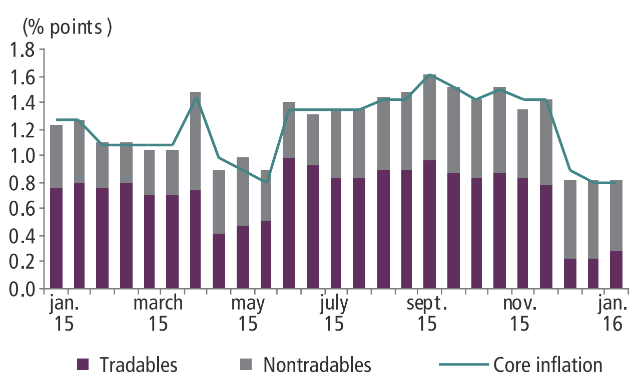
Table 6.2: Change in the price indexes of tradables and nontradables included in the CPIX

	Monthly change (%)			YoY change (%)		
	nov. 15	dec. 15	jan. 16	nov. 15	dec. 15	jan. 16
Tradables	0.0	0.1	0.1	0.4	0.4	0.5
Nontradables	0.0	0.0	0.0	1.3	1.3	1.2

Sources : HCP et calculs BAM.

The contribution of tradables to core inflation was thus limited to 0.2 percentage point, as against 0.9 point between January and October 2015. Prices of nontradables continue to evolve around 1.2 percent, keeping their contribution to core inflation at 0.6 percentage point.

Chart 6.5: Contribution of tradables and nontradables to core inflation

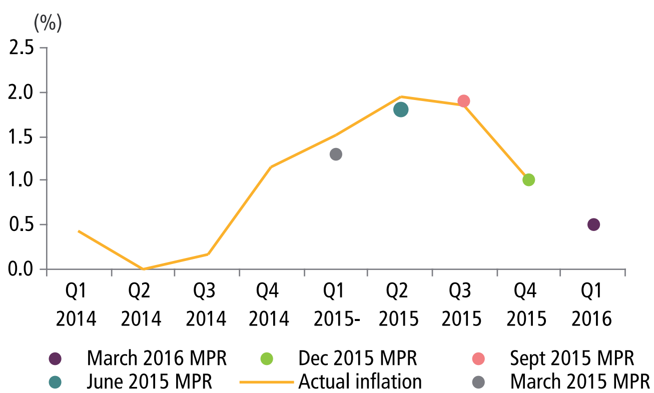


Sources: HCP, and BAM calculations.

6.2. Short-term outlook for inflation

The downward trend in inflation should continue in the first quarter 2016. Taking into account the performance of the CPI in January 2016, inflation should stand at 0.5 percent, as against 1 percent in the fourth quarter of 2015. This slowdown is probably attributed to a 0.3 percent decrease in volatile food prices in the first quarter 2016, which should result in the neutralization of their contribution to inflation. Indeed, the observed decline in food prices in January should more than offset the expected increases in wholesale prices of fresh food as part of ASAAR, a price monitoring system of the Ministry of Agriculture. The slowdown in inflation should be also attributable to the expected decline in core inflation from 1 percent in the fourth quarter 2015 to 0.8 percent in the first quarter of 2016, thus reducing its contribution to inflation to 0.5 point percent, from 0.7 point one quarter earlier. However, fuel and lubricant prices should bring their annual growth to 8.2 percent in the first quarter 2016, from -19.3 percent in the previous quarter. Regulated goods would evolve at 1.1 percent, a rate almost similar to that of the previous quarter.

Chart 6.6: Short-term forecasts and actual inflation

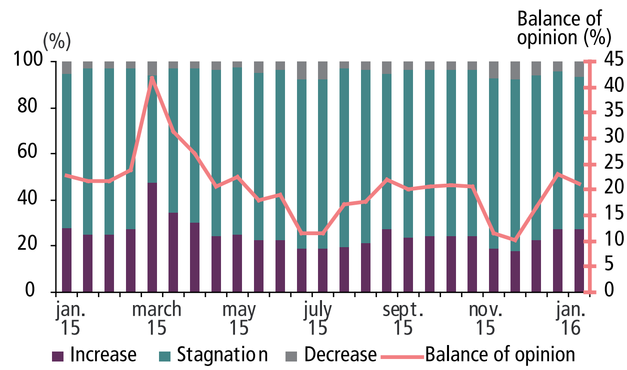


Sources : BAM.

6.3. Inflation expectations

According to BAM's business survey in industry, of January 2016, 66 percent of manufacturers project that inflation would stagnate over the next three months, while 27 percent of corporate managers predict a price increase and only 6 percent of them expect a decline, which is a balance of opinion of 21 percent.

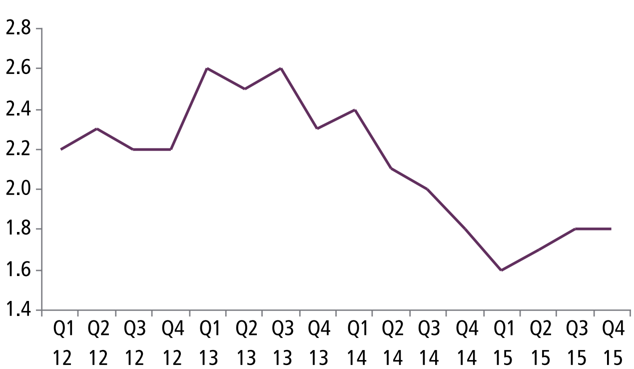
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

Furthermore, the findings of BAM's survey on inflation expectations for the fourth quarter 2015 indicate that the financial sector experts anticipate a moderate increase in inflation over the first quarter of 2017.

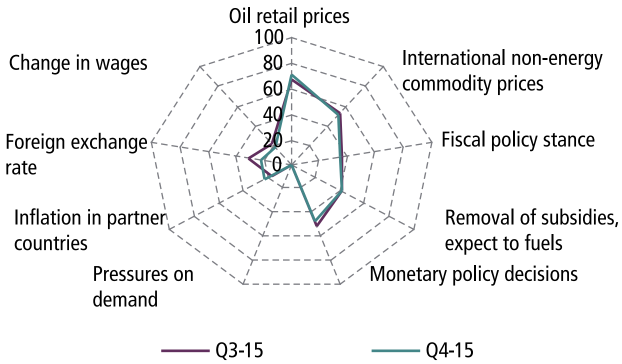
Chart 6.8: Six-month inflation expectations by financial experts



Source: BAM's quarterly survey on inflation expectations.

These experts agree on the role of future trends of pump prices and of global commodity prices as major determinants of future inflation trends.

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

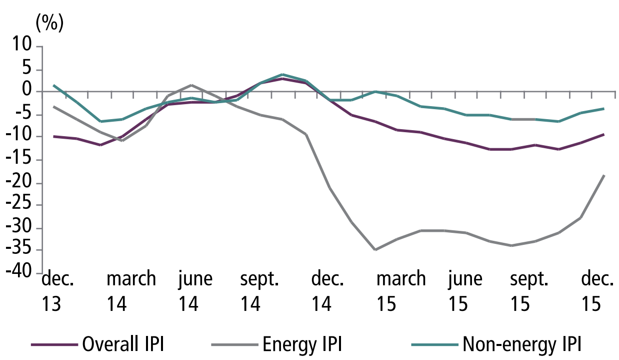


Source: BAM's quarterly survey on inflation expectations.

6.4. Import and producer prices

Year on year, non-energy import prices continued their decline which started in December 2014, with a 3.7 percent decrease in December 2015, as against 4.5 percent in November.

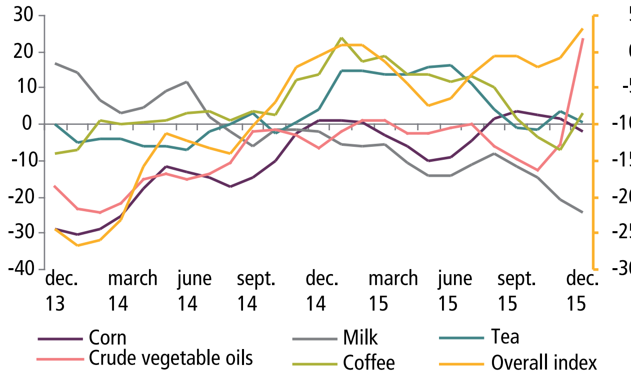
Chart 6.10: Change in overall and non-energy import price index (YoY)



Sources: Foreign Exchange Office, and BAM calculations.

This change is primarily due to the slower fall, from 6.3 percent to 4.9 percent, of import price index for semi-finished goods, reflecting a 4 percent decrease in artificial plastic prices, as against 8.4 percent a month earlier. Import prices of mining products rose from 7.3 percent in November to 7.5 percent in December, due to a steeper decrease from 9.6 percent to 11.7 percent in crude sulfur prices. Meanwhile, the growth of food import prices decelerated from 18.9 percent to 3 percent, primarily due to a slower rise, from 43.7 percent to 6.2 percent, in wheat import prices.

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



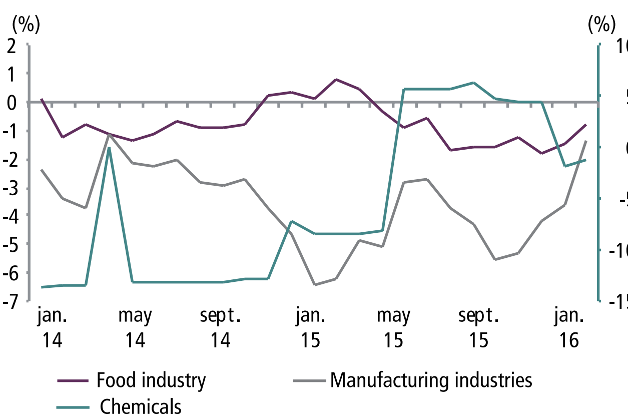
(*) Excluding wheat and sugar prices

Sources: Foreign Exchange Office, and BAM calculations.

Throughout 2015, non-energy import prices were down 3.8 percent, as against 1.8 percent, covering a decline in import prices of semi-finished goods, which more than offset the increase in food and mining products prices.

The manufacturing producer prices recorded a monthly drop of 0.2 percent in January 2016.

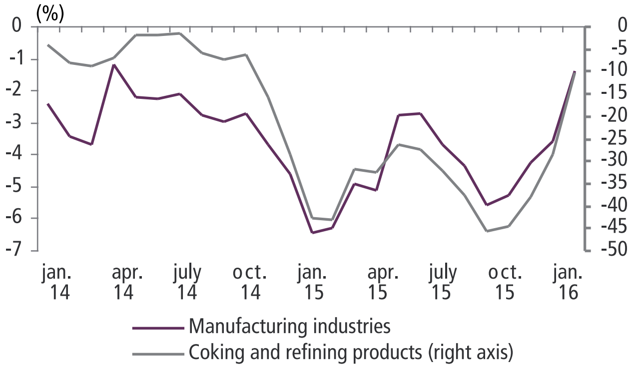
Chart 6.12: YoY change in industrial producer price indexes



Sources : HCP.

By industry, this decrease mainly reflected price declines of 1.3 percent for "coking and refining industry", 0.6 percent for "chemical products" and 0.2 percent for "food industry", which more than offset the higher producer prices of "rubber and plastics". Year on year, industrial producer prices fell by 1.4 percent in January, as against 4.2 percent in November and 3.6 percent in December.

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

In 2016 and 2017, global economy is projected to recover slower than expected, compared to December. More particularly, economic activity in the euro area would decelerate in 2016 before accelerating in 2017, mainly owing to the positive effects of monetary easing measures. Also, assuming that the Fed would maintain the target range for the federal funds rate steady through December 2016, the euro/dollar exchange rate should stabilize at its 2015 level over the forecast horizon. The medium-term projections also fall within a context of low commodity prices, revised further downwards, and a low rate of inflation in the euro area.

Despite the weak foreign demand and the high real effective exchange rate, growth of national exports of goods should remain robust, albeit decelerating compared to 2015, thanks to the performance of the car-manufacturing sector and to the increase in exports of phosphates and derivatives. Meanwhile, travel receipts should continue to decline in 2016, before recovering slightly in 2017, due to insecurity concerns in some countries of the region. Meanwhile, imports of goods would recover gradually, in conjunction with a stronger domestic demand and slower fall in the energy bill. Against this backdrop, taking into account donations from the GCC countries, as provided in the Finance Act 2016 (FA), the current account deficit should continue to ease to 0.1 percent of GDP in 2016 and 0.3 percent in 2017. Given these developments and assuming continued FDI inflows, net international reserves should therefore strengthen to cover 7 months and 21 days of imports of goods and services in 2016, and 8 months and 15 days in 2017.

Bank liquidity, which reflects improved foreign exchange reserves, should move to a surplus position starting from the second quarter of the year. Despite this improvement and a cut in interest rates in nominal terms, the growth of bank credit to the nonfinancial sector should remain low in 2016, but should pick up gradually in 2017, especially due to domestic demand recovery. The moderate growth of bank credit, combined with a drop in net claims on the central government, should offset the impacts of stronger net international reserves on the money supply, whose rate should stabilize at around 7 percent in 2016 and 2017. In terms of the other indicators of monetary conditions, the real effective exchange rate should appreciate over the forecast horizon, in connection with the depreciation of currencies of partner countries excluding the euro area. This trend should cause a tightening of monetary conditions in real terms.

Regarding public finances, the budget deficit should continue to ease to 3.7 percent of GDP in 2016 and 3.1 percent in 2017, assuming that the current fiscal policy stance would continue.

Against this backdrop, after a performance of 4.2 percent in 2015, driven by a combination of positive temporary factors, including a good crop year and a low energy cost, national growth should slow down in 2016 before recovering in 2017. Growth forecast for 2016 was revised downwards to 1 percent from 2.1 percent reported in December, following the downward revision of the cereal production, now estimated at 38 million quintals[1] from 70 million in December. In 2017, growth should accelerate to 3.9 percent, assuming a return to a normal crop year, an improvement in economic activity in the euro area and an easing of monetary conditions, which should support domestic demand.

The sharper slowdown of domestic demand, combined with lower commodity prices and cancellation of the increase, expected in January 2016, in prices of water and sanitation services, led to a downward revision of the inflation forecast in 2016. The latter should stand at 0.5 percent from 1.2 percent reported in December and its core component would stand at 0.7 percent. In 2017, inflation is forecasted to rise to 1.4 percent, due to an expected easing of monetary conditions, a recovery of domestic demand and higher international oil prices.

1 Forecast based on rainfall and vegetation status data in late February 2016.

7.1 Underlying assumptions

7.1.1 Slowing global recovery

The central scenario projections assume a slower recovery of the global economic activity, chiefly attributable to a weaker economic activity in emerging countries, mainly in China, and a progressive tightening of monetary conditions in the United States, in connection with the appreciation of the dollar. Therefore, despite the monetary easing measures, growth in the euro area seems slower than expected in 2016 to around 1.4 percent from 1.6 percent in December. In 2017, it should reach 1.9 percent, owing to the positive impact of the accommodative monetary conditions and the additional budgetary expenses related in particular to the refugees. Similarly, the expected rise by the Fed of the federal funds rates should cause the U.S. growth to drop to 2.1 percent in 2016 and 2.3 percent in 2017, compared to December. Against this backdrop, foreign demand for Morocco should continue to grow, but at a more moderate pace.

Chart 7.1: Euro area growth forecasts

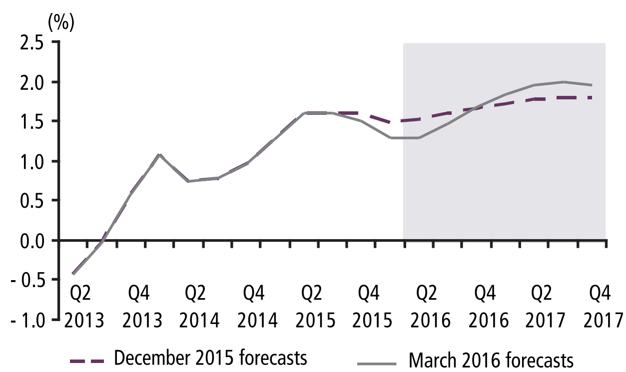
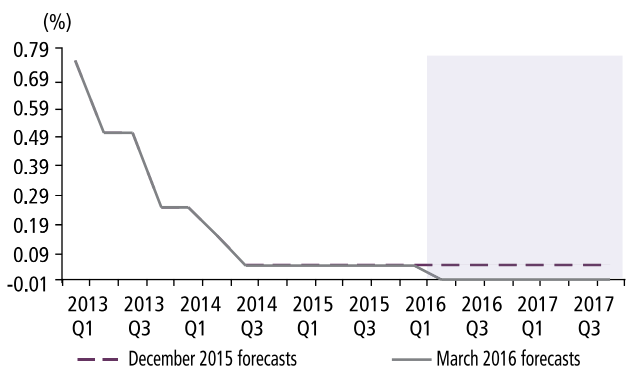
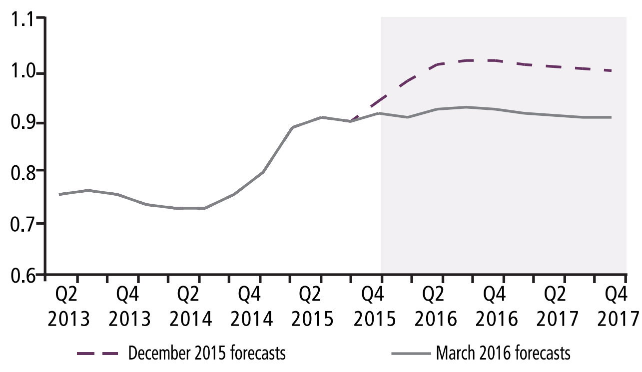


Chart 7.2: Forecasts of the ECB key rate



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

Chart 7.3: USD/EUR exchange rate forecasts



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

1 The Global Projection Model is a global economic model developed by the IMF and the Center for Economic Research and its Applications for a network of central banks and international institutions.

7.1.2 Fed funds target range to remain unchanged in 2016 and euro/dollar exchange rate over the forecast horizon almost stable

In terms of monetary conditions, the baseline forecast scenario assumes that the Fed would keep the target range for the federal funds rate unchanged through December 2016. Meanwhile, the ECB cut its key rate from 0.05 percent to 0 percent on March 10, 2016, and should maintain it at that level over the forecast horizon. It should also pursue or even expand its quantitative easing program. Under these conditions, the euro/dollar exchange rate would remain virtually stable over the forecast horizon, following a significant appreciation of the dollar in 2015.

7.1.3 Low commodity prices and inflation

In a context of slower global economic activity, particularly in emerging countries, energy commodity prices should continue to evolve at a low level in 2016. Particularly, the crude oil price is projected at $38.4/bbl in 2016 and should increase slightly to $44.6/bbl in 2017[2]. Similarly, international food commodity prices would continue to evolve at a lower level on the horizon. Under these conditions, inflation in the euro area[3] and the United States should remain low in 2016 and recover slightly in 2017, but excluding energy, consumer prices should continue to grow at moderate rates.

Chart 7.4: Forecasts of the food commodity price index

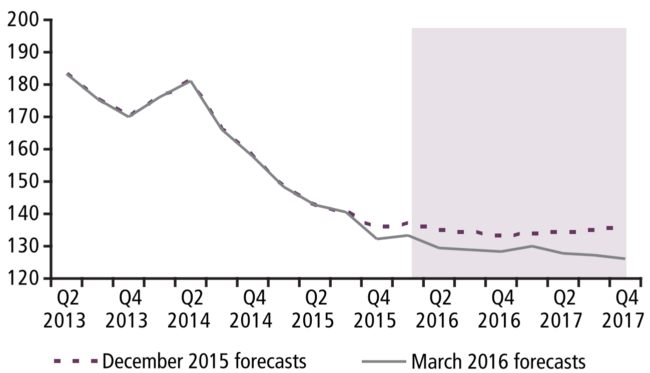
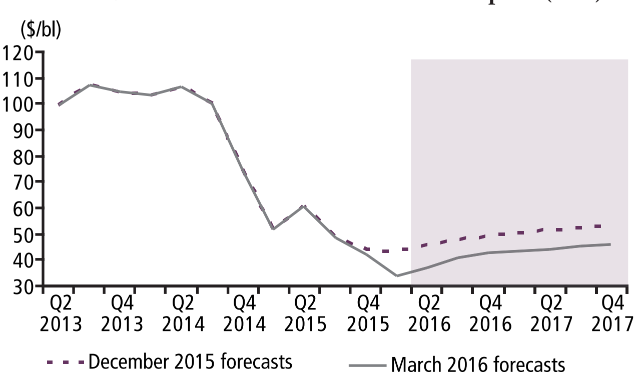
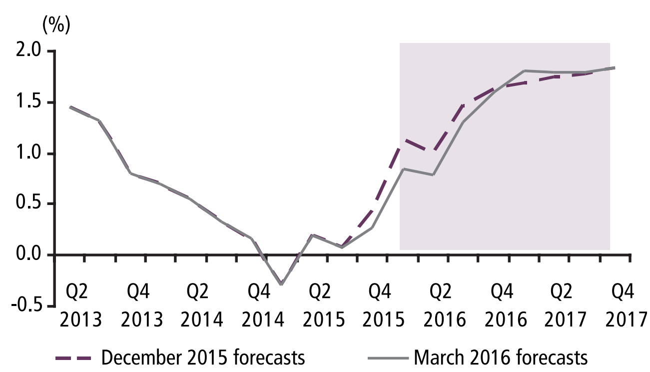


Chart 7.5: Forecasts of international crude oil price (IMF)



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

Chart 7.6: Inflation in the euro area



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

2 Forecasts made in February by the GPM. By comparison, the IMF expects an average oil price of $42/bbl in 2016 and $48.2/bbl in 2017, while the World Bank projects $37/bbl and $48/bbl, respectively.

3 The ECB expects a rate of 0.1 percent for 2016 and 1.3 percent for 2017 for overall inflation, and a rate of 1.1 percent and 1.3 percent for non-energy inflation, respectively.

7.1.4 Further easing of budget deficit

At the domestic level, the public finances forecasting assumptions, based initially on the FA 2016, were revised slightly, bringing the budget deficit from an estimate of 3.6 percent of GDP to 3.7 percent in 2016. This adjustment mainly occurred as a result of the downward revision of tax revenues, in connection with the deceleration of nonagricultural activities compared to the more optimistic macroeconomic framework of the FA 2016. Regarding donations from the GCC countries, the 13 billion dirhams programmed in the FA 2016 was withheld. On the expenditure side, subsidy costs should move down, because of the downward revision of the butane gas price.

In 2017, the budget deficit is projected to continue easing, to 3.1 percent of GDP, assuming that the current fiscal policy stance, focusing mainly on stabilizing subsidy costs and spending on other goods and services, would continue. However, considering the pension reform should result in additional personnel costs. On the revenue side, it is assumed that 8 billion dirhams will be collected as donations from the GCC countries in 2017.

7.1.5 Available data point to a cereal production well below the average in the crop year 2015-2016

After a record cereal production of 115 million quintals in 2015, the central forecast scenario is based on a production of 38 million quintals in the crop year 2015-2016, from 70 million expected in December. This estimate is based on the data concerning climate and vegetation status in late February. Recent rains recorded since February should contribute significantly to improving the production of spring crops, fruit cultivation, market gardening and livestock.

In 2017, the central scenario assumes a return to a normal 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

Albeit decelerating compared to 2015, the performance of the car-manufacturing industry and the continued increase in sales of phosphates and derivatives should support the growth of exports of goods, which would stand in nominal terms at 6.1 percent in 2016 and 5.9 percent in 2017. Imports of goods should increase slightly by 0.2 percent in 2016, covering higher wheat imports and lower energy bills. In 2017, the pace would accelerate to 3.6 percent, owing to rising world energy prices and better domestic demand. Travel revenues are expected to decrease by 1 percent in 2016, suffering from insecurity-related concerns in some countries of the region, before improving slightly by 1 percent in 2017.

Taking into account donations from the GCC countries, expected to reach 13 billion dirhams in 2016 and 8 billion in 2017, and a continued rise in remittances from Moroccan expatriates, the current account deficit should continue to ease to 0.1 percent of GDP in 2016 and to 0.3 percent of GDP in 2017. Against this backdrop, assuming continued FDI inflow, net international reserves should strengthen to cover 7 months and 21 days of imports of goods and services in 2016, and 8 months and 15 days in 2017.

Table 7.1: Forecasts of the balance of payments components

	Actual rates			Forecasts			Gap (March/ December)		
	2012	2013	2014	2015	2016	2017	2015	2016	2017
Exports of goods (change in %)	13.4	4.6	9.2	7.4	6.1	5.9	1.0	0.2	-0.8
Imports of goods (change in %)	11.4	0.6	0.9	-6.2	0.2	3.6	1.3	-3.7	-2.4
Travel receipts (change in %)	-1.8	-0.4	3.0	-1.3	-1.0	1.0	-0.4	0.0	-2.5
Private transfers (change in %)	3.5	3.4	2.7	3.0	3.3	5.5	-1.5	-1.1	0.5
Current account balance (% of GDP)	**-9.5**	**-7.9**	**-5.7**	**-2.3**	**-0.1**	**-0.3**	**-0.1**	**0.9**	**1.3**
Net international reserves in months of goods and services' imports	**4.1**	**4.4**	**5.3**	**6.8**	**7.7**	**8.5**	**0.0**	**-0.2**	**0.1**

Sources: Foreign Exchange Office and BAM forecasts.

Improved liquidity and moderate growth of bank lending

Bank liquidity should improve significantly from an average deficit of 16.5 billion dirhams in 2015 to an average surplus of 20.9 billion in 2016 and 47.1 billion in 2017. Despite this improvement and a cut in nominal interest rates, monetary conditions in real terms should tighten slightly in 2016 due to an appreciation of the real effective exchange rate. This appreciation is particularly attributed to the depreciation of the currencies of partner countries outside the euro area, despite an expected level of inflation lower than that of trading partners. In 2017, monetary conditions should ease in real terms, partly reflecting a slight depreciation of the real effective exchange rate.

Growth of the bank credit to the nonfinancial sector, suffering from low corporate demand, should remain low at around 2.5 percent in 2016 and would rise to 4 percent in 2017. The moderate pace of bank lending, combined with lower net claims on the central government, should offset the effect of stronger net international reserves on the money supply, whose pace should stabilize at around 7 percent in 2016 and 2017.

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

	Actual rates				Forecasts		Gap (March/ December)	
	2012	2013	2014	2015	2016	2017	2016	2017
Bank lending to nonfinancial sector (change in %)	5.8	1.7	4.4	0.4	2.5	4.0	-	-
M3 (change in %)	4.5	3.1	6.2	5.7	6.8	7.0	0.8	0.0
Liquidity surplus or deficit, in billion dirhams	-64.5	-68.4	-40.6	-16.5	20.9	47.1	4.9	8.6

Source : BAM.

Strong slowdown in domestic growth in 2016 and relative recovery in 2017

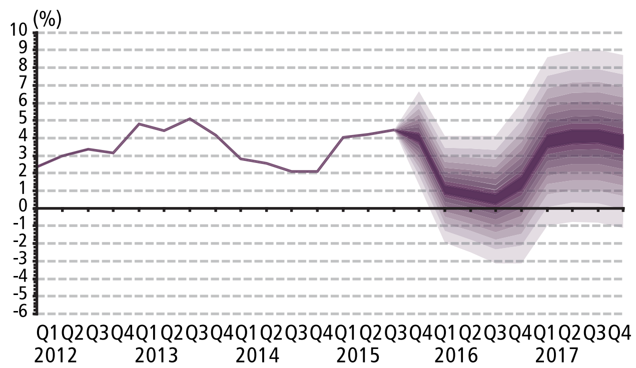
National growth, driven primarily by a combination of positive temporary factors, including a good crop year and a lower energy bill, should accelerate from 2.4 percent in 2014 to 4.2 percent in 2015.

In 2016, economic activity should record a slowdown, as growth would fall to 1 percent from 2.1 percent expected in December. This sharp deceleration, compared to 2015, primarily reflects a 13.8 percent decline in the agricultural value added, given a cereal production of 38 million quintals from 70 million assumed in December. In addition, nonagricultural growth should remain subdued at 2.9 percent from an initial forecast of 2.7 percent.

Regarding demand, growth in 2016 should suffer from slower household final consumption, mainly due to the weaker agricultural income. Similarly, the investment growth rate should decelerate, as evidenced by the slowdown in credit to the nonfinancial sector, reflecting the wait-and-see attitude of private operators, due to uncertainties surrounding the outlook for domestic economy and the lack of momentum in private consumption. The government final consumption would recover slightly, after its expected decline in 2015, because of a smaller decline in subsidy costs compared to 2015. Net exports are projected to contribute negatively to growth, reflecting a recovery of imports of goods and services, after an expected drop in 2015, and a slower growth of exports, particularly due to the continued appreciation of the real effective exchange rate and slow recovery of foreign demand.

In 2017, growth should stand at 3.9 percent, covering a 10.8 percent increase in the agricultural value added, assuming a return to an average crop year, and a slight recovery of nonagricultural growth to 3.1 percent. On the demand side, this acceleration reflects a recovery in domestic demand, with an increase in final household consumption, supported by stronger rural incomes and transfers from Moroccan expatriates, as well as an easing of monetary conditions, which should also stimulate investment. Moreover, government consumption should continue its upward trend, mainly reflecting higher personnel expenses and a dissipation of the effect of lower oil prices on subsidies in 2016. However, despite the renewed dynamism in exports, thanks to improved economic activity in the euro area, net exports' contribution to domestic growth should remain negative, in conjunction with the faster increase in imports of goods and services.

Chart 7.7: Growth forecast over the horizon (Q4 2015- Q4 2017)*



*This chart shows the uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent, and a probability which increases by 10 percent from one interval to the other.

Sources: HCP data, and BAM forecasts.

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

	Actual rates			Forecasts			Gap (March/December)		
	2012	2013	2014	2015	2016	2017	2015	2016	2017
National growth	**3.0**	**4.7**	**2.4**	**4.2**	**1.0**	**3.9**	**-0.3**	**-1.1**	**0.5**
Agricultural VA	-9.1	17.9	-2.5	14.6	-13.8	10.8	0.0	-9.5	8.3
Nonagricultural GDP	4.7	3.0	3.1	3.0	2.9	3.1	-0.3	0.2	-0.7

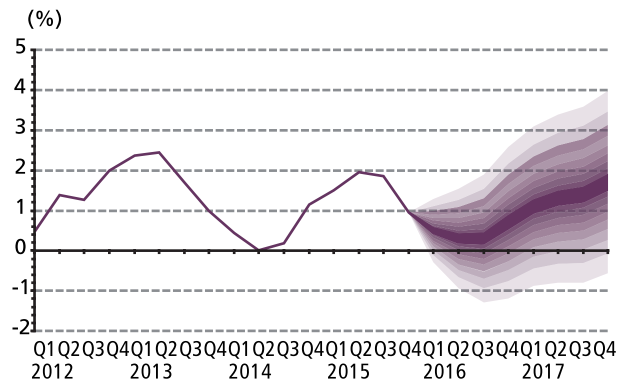
Sources: HCP data, and BAM forecasts.

Overall, national activity would probably grow below its potential in 2016, thus causing demand-driven disinflationary 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, an improvement in economic activity in the euro area and an easing of monetary conditions.

Under these conditions, inflation would decline significantly in 2016 and would be subdued in 2017

Inflation is projected to average 0.9 percent over the horizon of eight quarters, i.e. between the first quarter of 2016 and the fourth quarter of 2017. Indeed, after reaching 1.6 percent in 2015, inflation should drop to 0.5 percent in 2016, a downward revision compared to the 1.2 percent reported in the MPR of December 2015. This revision reflects the continued sluggish domestic demand, lower-than-expected commodity prices as well as a cancellation of the rise of water and sanitation prices expected in January 2016. Moreover, the announcement of sugar subsidy removal, as of January 2016, did not materialize. In 2017, inflation should recover, while remaining moderate at 1.4 percent. This change is mainly attributed to improved domestic demand and expected increase in oil prices.

Chart 7.8: Inflation forecast over the horizon (Q1 2016- Q4 2017)*



* This chart shows the uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent, and a probability which increases by 10 percent from one interval to the other.

Sources: HCP data, and BAM forecasts.

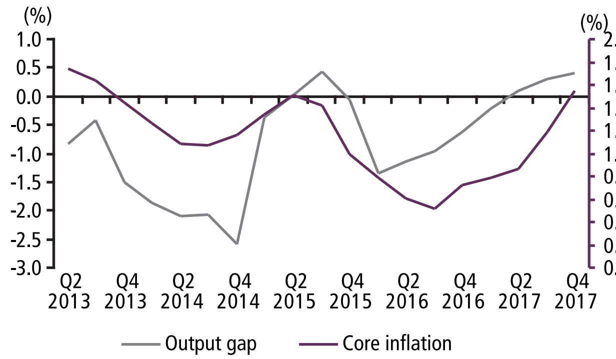
Table 7.4: Forecasts of inflation and its components (YoY)

	Actual rates	Forecasts											Gap (March/ December)	
	2015	2016				2017				2016	2017	8 quarters horizon	2016	2017
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
Inflation	1.6	**0.5**	**0.3**	**0.3**	**0.7**	**1.1**	**1.3**	**1.4**	**1.7**	**0.5**	**1.4**	**0.9**	**-0.7**	**-**
Core inflation	1.3	0.8	0.6	0.5	0.7	0.8	0.9	1.2	1.5	0.7	1.1	0.9		

Sources: HCP data, and BAM forecasts and calculations.

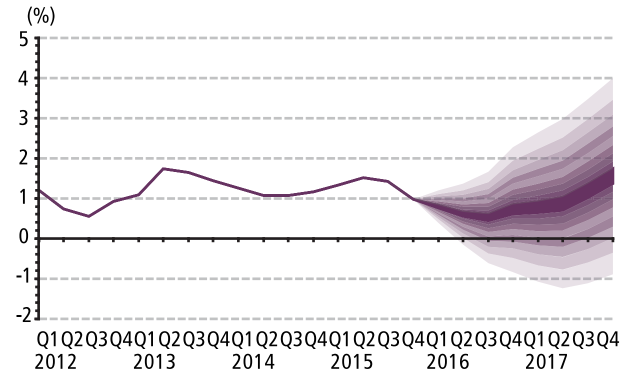
The slowdown in inflation in 2016 is mainly due to the deceleration of its core component. Core inflation, impacted by the weaker domestic demand and lower imported inflation, should drop from 1.3 percent in 2015 to 0.7 percent in 2016. Volatile food prices are projected to decline in 2016, after rising 4.3 percent in 2015. In 2017, the expected recovery of inflation is attributed to a rise in core inflation and the expected increase in fuel and lubricant prices, in conjunction with the trends of international oil prices.

Chart 7.9: Change in core inflation and output gap



Sources: HCP, and BAM forecasts and calculations.

Chart 7.10: Forecasts of core inflation over the horizon (Q1 2016- Q4 2017)*



* This chart shows the uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent, and a probability which increases by 10 percent from one interval to the other.

7.3 Balance of risks

Many risks surround the central forecast scenario, which, if they materialize, may affect the central projection. The balance of risks trends downward overall for both growth and inflation.

In terms of growth, the global economic deceleration, attributed to a slower activity in emerging economies, especially in China, constitutes a risk that could weigh on activity in partner countries and, later, on national growth through foreign demand. On the foreign exchange market, the risk of a more marked appreciation of the dirham against the euro, in connection with an earlier-than-expected possible increase in the Fed's federal funds rates, could cause the Moroccan export performance to decline.

Conversely, a stronger recovery in foreign demand, due to a faster materialization of the effect of easing measures taken by the ECB, should lead to a more significant increase in growth. In addition, a smaller decline in cereal production, thus in the agricultural value added, would cause the domestic demand to rise, especially household consumption, and wheat imports to drop, which should contribute positively to growth.

Regarding inflation, a further decline in global oil prices and food prices could lead to downward revisions to the baseline forecast. However, a trend reversal in international oil and food prices or a possible increase in wages, as part of the social dialogue, would constitute an upside risk.

Other risks concern the rising geopolitical tensions, the degree of renewed confidence of domestic and international private operators and to the context of international insecurity.

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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