



PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 27, 2016

1. On Tuesday, September 27, the Bank Board held its third quarterly meeting of the year, during which it discussed economic developments as well as the Bank's macroeconomic projections for the next eight quarters.
2. Considering that inflation forecast is consistent with the objective of price stability and in view of recent monetary and economic developments and their medium-term expectations, the Bank Board judged that the current level of 2.25 percent for the key rate remains appropriate and decided to keep it unchanged.
3. The Board noted that inflation, measured by the change in the consumer price index, was down from 1.9 percent in the second quarter to 1.6 percent on average in July and August, with a 0.2 percentage point increase in its core component to 0.7 percent. Based on the Bank's forecasts, inflation would average 1.6 percent in 2016 and ease to 1.2 percent in 2017, mainly due to the dissipation of temporary shocks on volatile food prices which would more than offset the expected increase in core inflation.
4. Internationally, second quarter data indicate continued slowdown in the euro area and the United States. In the medium term, the economy would be particularly impacted by uncertainties surrounding Brexit terms and some forthcoming elections. Growth forecast for the year 2016 was revised up from 1.6 to 1.7 percent in the euro area and from 1.8 to 1.5 percent in the United States, and that of 2017 was lowered from 1.9 to 1.8 percent and from 2.4 to 2.3 percent, respectively. Labor market conditions continued improving in the euro area, albeit at a slow pace, as unemployment rate is expected to remain around 10 percent in 2016 and 2017. In the United States, this rate stabilized at 4.9 percent in August and would remain at this level in the medium term. In the major emerging markets, second quarter data indicate further contraction of activity in Brazil, slight deceleration in India and stabilization in China, whose growth is expected to slow to 6.7 percent in 2016 and 6.3 percent in 2017, particularly as a result of the economic rebalancing policy and credit risks.
5. In commodity markets, the oil price in the first eight months of the year remained, on average, well below the level seen in the same period of 2015. In the medium term, it is expected to remain low, as its forecast was slightly revised up to \$42.4 per barrel for 2016 and down to \$45.4 per barrel for 2017. Prices of phosphates and derivatives also posted year-on-year declines, and their forecasts were again revised downward.
6. Under these conditions, inflation remained subdued in major advanced economies. For the full year 2016, it is expected to reach 0.2 percent in the euro area and 1.2 percent in the United States, and to speed up gradually to 1.6 percent and 2.3 percent, respectively, in 2018.
7. In terms of monetary policy decisions, the Federal Reserve decided, in September, to maintain the target range for the federal funds rate unchanged. It considered that the case for an increase in the range has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives regarding inflation and employment. The European Central Bank decided, at its September meeting, to keep the policy rate unchanged and confirmed that the monthly asset purchases of €80 billion are intended to run until the end of March 2017, or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation

consistent with its inflation objective. Moreover, the Bank of England, after lowering its key interest rate during its last meeting, decided in September to keep it at 0.25 percent, and to continue implementing the measures announced in August, with the aim of further supporting growth and ensuring a sustainable return of inflation to the target.

8. Nationally, growth slowed down to 1.7 percent in the first quarter, with a sharp contraction in the agricultural added value and a deceleration in nonagricultural GDP. On the demand side, household consumption slowed down and net exports contribution to growth was negative, while investment showed a significant rebound. For the full year 2016, Bank Al-Maghrib has revised up growth forecasts from 1.2 to 1.4 percent. Agricultural value added is projected to contract by 9 percent and nonagricultural growth would reach 2.9 percent. In 2017, the latter is expected to accelerate to 3.2 percent and agricultural added value would rebound by 10 percent, assuming a normal crop year, thus leading to an overall growth of 4 percent.
9. In the labor market, the domestic economy lost 26,000 jobs in the second quarter compared to the same period of 2015, covering a contraction of 175,000 jobs in agriculture and increases of 70,000 jobs in the services sector, 41,000 in construction and 38,000 in industry, including handicrafts. Therefore, and taking into account as well a 0.8 point drop in the participation rate, unemployment edged down slightly by 0.1 point to 8.6 percent.
10. Regarding external accounts, the trade deficit widened by 13 percent over the first eight months of the year, reflecting a significant increase in imports, particularly capital goods which rose by 22.5 percent. Meanwhile, despite the decline in sales of phosphates and derivatives, exports grew by 1.7 percent, driven mostly by higher sales of the automotive sector and food industries. Travel receipts and expatriate remittances rose by 4.5 percent and 4.8 percent, respectively. Under these circumstances and assuming an annual 8 billion dirhams inflow of grants in 2016 and 2017, current account deficit would reach 1.9 percent of GDP by the end of 2016 and would further ease to 1.2 percent of GDP in 2017. Taking also into account the expected decline in net FDI, foreign exchange reserves would continue to increase, albeit at a slower rate than anticipated in June, to stand at around 7 months and 6 days of goods and services' imports at end-2016 and 7 months and 20 days at end-2017.
11. Turning to monetary conditions, raising the required reserve ratio from 2 to 4 percent in June caused the alignment of the interbank rate with the key rate and the adjustment of rates in different markets. The overall average lending rate decreased by 31 basis points in the second quarter, following the lowering of the key rate by 25 basis points in March. In this context, outstanding bank credit to the nonfinancial sector continued improving, growing by 3.2 percent as at end-July, due mainly to a relative recovery of lending to businesses. Taking into account these developments and the slight revision of nonagricultural growth, its forecast was slightly adjusted upward by 0.3 point to 3 percent for 2016 and was kept unchanged at 4 percent for 2017. The dirham's nominal exchange rate depreciated at a quarterly rate of 0.61 percent in the second quarter, mostly because of the decline in the value of the national currency against the euro. Considering that inflation in Morocco was generally lower than in partner and competitor countries, the real effective exchange rate fell 0.78 percent. For the full year 2016, it is expected to rise by 1.4 percent and to decline slightly by 0.4 percent in 2017.
12. Concerning public finance, fiscal adjustment is under way. Budget execution in the first eight months of the year resulted in a 5.2 percent expansion in overall expenses, due largely to an increase in investment and goods and services' expenditure whereas subsidy costs shrank by 22.1 percent to 7.5 billion, representing an execution rate of 48.5 percent compared to the Finance Act planning. Revenues improved by 5.8 percent, particularly reflecting higher proceeds from direct taxes, import VAT and domestic consumption taxes. Altogether, fiscal deficit almost stabilized at 30.5 billion and was financed mainly from the domestic market. It is expected to reach 3.8 percent of GDP by the end of 2016 and 3.2 percent of GDP in 2017.