PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, March 21, 2017

1. The Board of Bank Al-Maghrib held its first quarterly meeting of the year 2017 on Tuesday, March 21.
2. Considering inflation forecast as well as recent trends and medium-term projections of macroeconomic conditions, the Board has determined that the current level of the key rate continues to ensure appropriate monetary conditions, and decided to keep it unchanged at 2.25 percent.
3. The Board noted that inflation remained stable at 1.6 percent in 2016, in line with Bank Al-Maghrib forecasts. In January 2017, it stood at 2.1 percent, including in particular a 19.4 percent increase in fuel and lubricant prices and an acceleration in core inflation to 1.2 percent. In the medium term, inflation should however remain subdued. It is projected to edge down to 1.1 percent in 2017, reflecting the waning effect of shocks on volatile food prices, before increasing to 1.7 percent in 2018. Core inflation would trend upward, rising from 1.5 percent in 2017 to 1.9 percent in 2018, owing to improved domestic demand and higher imported inflation.

4. **Internationally**, after slowing down in 2016, global growth should pick up in 2017, driven by a recovery in advanced economies. However, these prospects are surrounded by several uncertainties arising mainly from the policy direction of the new U.S. administration and elections in some euro area countries. Growth in the United States is expected to accelerate from 1.6 percent in 2016 to 2.3 percent in 2017 and 2.4 percent in 2018. In the euro area, it would speed up from 1.7 to 1.9 percent before slowing down to 1.6 percent as the United Kingdom's effective exit from the European Union approaches. In the major emerging markets, economic activity in China would continue to decelerate, while the growth rate of Brazil and Russia would turn positive after two years of contraction. Labor market conditions continued to improve in the main advanced countries, particularly in the United States where the unemployment rate fell to 4.8 percent in 2016 and is forecast to stabilize at this level in the medium term. In the euro area, this rate continues to decline gradually. It is expected to decrease from 10 percent in 2016 to 9.8 percent in 2017 and remain at that level in 2018, with varying performances across countries.

5. In commodity markets, after the significant decline in 2015, oil prices eased again in 2016, averaging $42.8 a barrel. Following the agreement to cut production announced in November, prices jumped to nearly $55 a barrel and would remain close to this level in the medium term. Prices for phosphates and derivatives fell sharply in 2016, mainly as a result of the decline in demand, averaging $112 per metric tonne for raw phosphates and $345 per metric tonne for DAP. In the medium term, prices should hover around these levels.

6. Under these conditions, inflation in advanced economies would increase significantly. In the euro area, it would stand at 1.6 percent in 2017 and 1.7 percent in 2018. In the United States, it would reach 2.7 percent in 2017 and would remain slightly above the Federal Reserve's target in 2018.

7. Regarding monetary policy decisions, the European Central Bank decided at its meeting on March 9 to maintain its policy rate unchanged at 0 percent, while indicating that its rates will remain at their present or lower levels for an extended period of time, and well past the horizon of its program for asset purchases which will continue until the end of December 2017 or beyond, if necessary. The Fed decided at its meeting on March 15 to raise the target range for federal funds rate by 25 basis points to [0.75-1 percent]. It reiterated that the timing and size of future adjustments to this range will depend on its assessment of economic conditions in relation to its dual objective, stating that its Federal Open Market Committee expects that these conditions will evolve in a manner that will warrant gradual increases in the federal funds rates. As regards the Bank of England, it maintained its policy rate at 0.25 percent at its meeting on March 16, and decided to continue with the program of government and nonfinancial corporate bond purchases.

8. **Nationally**, GDP would grow by a mere 1.1 percent in 2016, down from 4.5 percent in 2015, reflecting a 10.1 percent contraction in the agricultural added value and a 2.5 percent increase in nonagricultural GDP. On the labor market, the year 2016 recorded a net loss of 37,000 jobs and a significant decrease in the participation rate, causing the unemployment rate to fall from 9.7 to 9.4 percent. In the medium term, growth is set to pick up, driven by better weather conditions and improved foreign demand. For 2017, Bank Al-Maghrib projections, based on weather data as at February 20, point to a rebound in cereal production at 78 million quintals and a rise in agricultural added value by 11.5 percent. Nonagricultural GDP is expected to increase by 3.4 percent and overall growth would then reach 4.3 percent. In 2018, assuming an average crop year, agricultural growth would decelerate to 2.5 percent while nonagricultural GDP would improve by 3.9 percent, bringing overall growth to 3.8 percent.

9. Regarding external accounts, despite the drop in the energy bill, the trade deficit widened by 18.2 percent in 2016, owing mainly to a significant increase in capital goods' purchases and a drop in the sales of phosphates. Taking account of a 3.4 percent rise in travel receipts and expatriate remittances, as well as the 7.2 billion dirhams inflows of GCC grants, current account deficit is likely to have worsened from 2.2 percent of GDP to 4.2 percent. In the medium term, assuming that oil prices would average \$54.6 a barrel in 2017 and \$55.3 a barrel in 2018 and that GCC grants would reach 8 billion dirhams annually, current deficit is projected to ease to 3.3 percent of GDP in 2017 and to 3.5 percent in 2018. Under these circumstances and assuming that FDI inflows would continue at a level similar to the previous years, net international reserves are predicted to strengthen further, although at a rate less sustained than expected in December, covering 6 months and 17 days of imports at end-2017 and 6 months and 20 days at end-2018.

10. Monetary conditions tightened somewhat in 2016, particularly as a result of higher real effective exchange rate. This rise is expected to ease in the medium term due to a less rapid increase in the nominal effective exchange rate and a lower inflation rate in Morocco compared to partner and competitor countries. Interest rates further decreased in the different markets. More particularly, lending rates fell by 41 basis points in the first three quarters of the year and then rose slightly by 9 percentage points in the fourth quarter to 5.17 percent. Under these circumstances, loans to the nonfinancial sector accelerated from 0.3 percent in 2015 to 3.9 percent in 2016, mainly on account of the rise in loans to businesses. In light of these developments and the expected recovery in nonagricultural activities, the projection of lending to the nonfinancial sector was revised upward to 4.5 percent in 2017 and 5 percent in 2018.

11. With regard to public finances, fiscal deficit in 2016, excluding privatization receipts, reached 42.1 billion dirhams or 4.2 percent of GDP, above the Finance Act target by 5.5 billion or 0.7 percent of GDP. This change was mainly due to higher investment spending, relatively significant VAT credit refunds and low GCC grants. Taking into account these data and the growth outlook, Bank Al-Maghrib expects fiscal adjustment to continue in the medium term, albeit at a pace slower than projected in December. Fiscal deficit would reach 3.7 percent of GDP in 2017 and ease to 3.4 percent in 2018.