BANK AL-MAGHRIB

MONETARY POLICY REPORT

N° 42 / 2017

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THE BANK BOARD
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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.

Bank Al-Maghrib Board members:

The Governor, Chairman

The Director General

The Government Representative

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

Mr. Abdellatif BELMADANI

Mr. Mohammed BENAMOUR

Ms. Miriem BENSALAH CHAQROUN

Mr. Bassim JAI-HOKIMI

Mr. Mustapha MOUSSAOUI

بنك المغرب

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.

OVERVIEW

In a context marked by mounting uncertainties particularly due to the stance of the US economic and financial policy and elections in certain partner countries of the euro area, economic activity in advanced countries consolidated overall in the fourth quarter 2016. In the United States, growth accelerated from 1.7 percent to 1.9 percent, sustained by household consumption and investment, which more than offset the slowdown in government spending and exports. Similarly, in Japan, economic activity strengthened markedly, as GDP moved up 1.6 percent, from 1.1 percent in the third quarter, driven particularly by a substantial acceleration in household consumption. In the euro area, activity slowed slightly from 1.8 percent to 1.7 percent, while it stabilized in the United Kingdom at 2 percent.

In key emerging countries, growth showed its first increase in China since the fourth quarter of 2014, standing at 6.8 percent from 6.7 percent a quarter earlier. However, it decelerated slightly in India to 6.6 percent from 6.7 percent a quarter earlier. The recession continued in Brazil and Russia, albeit with a relative easing of the GDP contraction to -2.5 percent in the fourth quarter from -2.9 percent in the previous quarter and to -0.4 percent in the third quarter from -0.6 percent in the second quarter.

On the labor market, the unemployment rate fell slightly in the United States from 4.8 percent to 4.7 percent in February, with the creation of 235,000 jobs. Unemployment in the euro area stabilized at 9.6 percent in January, with rates of 3.8 percent in Germany, 10 percent in France, 18.2 percent in Spain and 11.9 percent in Italy.

Concerning financial conditions, February data show monthly underperformances of 0.7 percent for EUROSTOXX50 and 0.3 percent for NIKKEI 225. However, the Dow Jones and FTSE 100 posted respective increases of 1.8 percent and 0.2 percent. The MSCI index of emerging countries rose by 3.9 percent, reflecting mainly rises in the indexes of Turkey, India and China. In the sovereign debt markets, 10-year yields grew in France, Spain, Italy and Greece, while they stagnated in Germany and the United State, year on year. Regarding exchange rates, the euro remained unchanged at $1.1 between January and February, while it depreciated by 0.7 percent against the pound sterling and by 1.1 percent versus the Japanese yen. Concerning the currencies of the main emerging countries, the Brazilian real and Indian rupee appreciated by 2.8 percent and 1.5 percent, respectively, against the dollar, while the Chinese yuan and Turkish lira stagnated at respective rates of 6.9 and 3.7 per one dollar. The bank credit growth slowed in the United States from 6.6 percent year on year in December to 5.9 percent in January and stagnated in the euro area at 2.2 percent.

In commodity markets, the Brent price averaged $56.1/barrel in February, up 66.1 percent, year on year, following the implementation of the agreement to reduce oil production. As to non-energy commodities, the Dow Jones-UBS index rose 16.1 percent, year on year. Regarding phosphates and derivatives in particular, prices fell by 24.1 percent for Potassium Chloride to $214 per tonne, 17.9 percent for the TSP to $270 per tonne and 14.8 percent for the crude phosphate to $98 per tonne, while urea and DAP prices progressed by 18.2 percent to $247 per tonne and 1.4 percent to $360 per tonne, respectively. Durum wheat, although up 1.3 percent from one month to another, was down 17 percent, year on year.

Under these conditions, inflation continued to rise to 2 percent in February in the euro area from 1.8 percent a month earlier and stood at 2.5 percent in the United States in January from 2.1 percent in December.

In terms of monetary policy decisions, the ECB decided at its meeting of 9 March to keep its key rate unchanged at 0 percent, while indicating that its rates will remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases. The latter should continue at the current monthly pace of 80 billion euros and then 60 billion euros per month from April 2017 until the end of December 2017 or beyond, if necessary. The FED decided at its meeting of March 15 to raise the target range for the federal funds rate by a quarter of a percentage point [0.75 percent -1 percent], while stating that the stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation. It also recalled that in determining the timing and size of future adjustments to this range, it will assess realized and expected economic conditions and reiterated that its Committee expects these conditions to evolve in a manner that will warrant gradual increases in the federal funds rate.

Nationally, the export growth slowed to 2.5 percent in 2016, after an increase of 8.6 percent in 2015, impacted mainly by the contraction of exports of phosphates and derivatives, due to a significant price drop. On the other hand, automotive sales maintained their momentum with an increase of 21 percent. Imports progressed by 9.5 percent, reflecting a substantial increase in purchases of capital goods, and to a lesser extent, consumer goods and food imports. The trade balance widened by $29.8 billion, bringing the import coverage rate from 58.6 percent to 54.8 percent. For the other main components of the current account, transfers from Moroccan expatriates and travel receipts showed similar increases of 3.4 percent and donations from GCC partners amounted to 7.2 billion from 3.7 billion a year ago. Thus, the current account deficit would have widened from 2.8 percent of GDP in 2015 to 4.2 percent of GDP. Taking also into account the main financial transactions, particularly an amount of 33.1 billion dirhams of FDI flows, foreign exchange reserves rose by 21.1 percent to 251.9 billion at the end of December, equaling 6 months and 18 days of imports of goods and services.

Under these conditions, bank liquidity needs improved further to 16.8 billion dirhams on weekly average in the fourth quarter. BAM has thus adjusted its injections to align the weighted average rate on the interbank market with the key rate. In the sovereign and private debt markets, rates did not change significantly in the fourth quarter. Lending rates posted a slight increase from 5.08 percent to 5.17 percent on average, with declines of 52 basis points in equipment loans and 19 points in real estate loans, stagnation in consumer loans and a 26 basis points increase in cash facilities. In this context, credit to the nonfinancial sector continued its slight improvement since the beginning of 2016, with mainly an acceleration of loans to businesses. Taking account of a decrease in claims on the central government, the M3 aggregate rose by 5.1 percent at the end of December.

Regarding public finance, the deficit, excluding privatization, stood at 42.1 billion or 4.2 percent of GDP, exceeding 5.5 billion compared to the programming of the finance act. This trend largely reflects faster investment expenditure and lower donations compared to the estimates contained in the finance law, and the losses recorded, particularly in terms of VAT revenues. The budgetary execution for the first month of the financial year 2017, made on the basis of the Decree establishing the appropriations necessary for the operation of public services and the Decree concerning the collection of certain receipts published on December 31, 2016, resulted in a surplus of 448 million, from 116 million in January 2016. Taking also into account a reduction of 6.7 billion in the Treasury's payment arrears compared to the end of December, the financing need stood at 6.2 billion, from 1.2 billion over the same period of 2016. It was financed by the domestic market for an amount of 6.7 billion, as net external flows were negative. Thus, direct public debt would have grown by 1.1 percent compared to its level of December 2016.

Concerning the national accounts, economic activity would have slowed considerably in 2016 with a growth rate of 1.1 percent from 4.5 percent in 2015, owing to a 10.1 percent contraction in the agricultural value added and a 2.5 percent increase in nonagricultural GDP. On the demand side, this change would have been attributed to a decline in net exports and a continued sluggish domestic final consumption, with mainly a low rate of household consumption. Conversely, investment would have risen substantially, as evidenced by the significant increase in imports of capital goods.

The labor market conditions were marked in 2016 by a net loss of 37,000 jobs, due to a drop of 119,000 jobs in the agricultural sector and the creations of only 38,000 in services, 36,000 in the construction sector and 8,000 in industry, including crafts. Against this backdrop, the employed labor force declined by 0.7 percent and the participation rate dropped by one percentage point to 46.4 percent. The unemployment rate thus moved down from 9.7 percent in 2015 to 9.4 percent, but with an increase to 41.0 percent among young urban dwellers.

On the asset market, real estate prices rose 0.9 percent, as against 1.2 percent in 2015 and sales increased by 8.1 percent after falling 1.3 percent a year earlier. On the stock market, after rising 30.4 percent in 2016, MASI grew by 2.7 percent in the first two months of the year and transactions improved slightly, while the daily average volume on the central market was up to 252.4 million dirhams compared to 137.2 million dirhams on average in 2016.

Inflation stabilized in 2016 at 1.6 percent, particularly with a deceleration of core inflation from 1.3 percent in 2015 to 0.8 percent and a rise in volatile food prices to 7.5 percent from 4.3 percent. Recent data indicate faster inflation from an average of 1.8 percent in the fourth quarter to 2.1 percent in January, mainly due to a 19.4 percent increase in fuel and lubricant prices as opposed to 9.9 percent. This acceleration also reflects, albeit to a lesser extent, an increase in core inflation from 1 percent to 1.2 percent and the growth of volatile food prices from 5.9 percent to 6.3 percent. Prices for regulated products grew by 0.6 percent, a rhythm similar to that observed in the fourth quarter.

Looking ahead, the global economic recovery should continue, albeit at a slow pace, reflecting the expected acceleration of growth in advanced economies and the exit from recession in some large emerging countries. In the euro area, after an estimated rate of 1.7 percent in 2016, growth should stand at 1.9 percent in 2017, supported by favorable monetary and financial conditions, before moving back to 1.6 percent in 2018, due to the United Kingdom's effective exit from the European Union. In the United States, growth would have stood at 1.6 percent in 2016 and would rebound to 2.3 percent in 2017 and 2.4 percent in 2018. In key emerging countries, the economic slowdown in China should continue due to the economic rebalancing policy, while in Brazil and Russia, GDP should post increases after two years of recession.

In the labor market, the improvement in conditions in the United States should consolidate in the medium term, with the unemployment rate stabilizing at 4.8 percent in 2017 and 2018. In the euro area, this rate should continue its downward trend from 10 percent in 2016 to 9.8 percent in 2017 and stabilize at this level in 2018.

Commodity prices should continue to evolve to a relatively low level in the medium term, owing to a slowdown in global economic recovery. After an increase registered following the production reduction agreement, oil prices should average $54.6/bbl in 2017 and rise slightly to $55.3/bbl in 2018. Regarding phosphates, prices fell sharply for derivatives in the first half of 2016, mainly due to the output capacity surplus and the low level of international food prices. In the medium term, they should continue to evolve very close to their current levels, standing at $330 per tonne in 2017 and $338 in 2018 for DAP and close to $280 and $287 respectively for the TSP. Crude phosphate prices should stabilize at around $105 per tonne in the medium term.

In this context, inflation in the euro area should accelerate from 0.2 percent in 2016 to 1.6 percent in 2017 and 1.7 percent in 2018, driven by rising energy prices, improved economic prospects in the area and the depreciation of the euro. In the United States, it should move up to 2.7 percent in 2017 before falling to 2.2 percent in 2018.

Nationally, after a 2.5 percent increase in 2016, exports should progress by 6.2 percent in 2017, supported by the continued momentum in car manufacturing exports, albeit at a slower pace, and a recovery in phosphate sales following the dissipation of the effect of the price decline observed in 2016. They should decelerate to 4.6 percent in 2018, driven particularly by the slower growth in the main eurozone partner countries, as the Brexit approaches. At the same time, imports should continue to increase, albeit at a slower pace than in 2016, reflecting particularly the continued growth in capital goods purchases and an increase in the energy bill, the first in 4 years. The growth of travel receipts and transfers from Moroccan expatriates should consolidate in 2017 and 2018. In all, assuming that donations from GCC countries would amount to 8 billion dirhams in 2017 and 2018, the current account deficit should ease to 3.3 percent of GDP in 2017 and widen slightly to 3.5 percent of GDP in 2018.

Under these conditions, taking into account the main headings of the financial account, notably with the continued inflow of FDI in the medium term, net foreign reserves should continue to strengthen, albeit at a slower pace than expected in December. They should cover 6 months and 17 days of imports of goods and services by 2017 and 6 months and 20 days by 2018.

Given the downward revision of foreign exchange reserves and the expected change in other liquidity factors, the bank liquidity situation should post a deficit of 13.4 billion at the end of 2017 and widen to 18.5 billion by 2018. Taking into account the slight recovery in 2016 and the expected improvement in nonagricultural activities, projections for bank loans to the nonfinancial sector were adjusted from 4 percent to 4.5 percent in 2017 and from 4.5 percent to 5 percent in 2018.

In terms of public finances, taking account of the budgetary execution for 2016, the budgetary adjustment should continue but at a slower pace than expected in December. The forecast budget deficit was revised upwards to 3.7 percent of GDP in 2017 and to 3.4 percent of GDP in 2018.

Under these conditions, and assuming a cereal production of 78 million quintals in 2017 and an average crop year in 2018, economic activity should recover in the medium term at a rate that is broadly in line with December. BAM projects a growth of 4.3 percent in 2017 and 3.8 percent in 2018, with increases of 11.5 percent and 2.5 percent in the agricultural value added and 3.4 percent and 3.9 percent in nonagricultural GDP. On the demand side, this recovery should be sustained by a more robust domestic demand, driven mainly by better prospects for economic activity and by the accommodative stance of monetary policy. Net exports should also improve due to higher foreign demand addressed to Morocco and the easing of the appreciation of the real effective exchange rate.

In this context, inflation should remain moderate over the forecast horizon, at an average of 1.4 percent. After reaching 1.6 percent in 2016, it should decelerate to 1.1 percent in 2017, largely due to the dissipation of the effect of the rise in volatile food prices observed in 2016, before accelerating to 1.7 percent in 2018. On the other hand, core inflation should trend upward, notably due to improved domestic demand and slow appreciation of the real effective exchange rate. Indeed, it would accelerate from 0.8 percent in 2016 to 1.5 percent in 2017 and 1.9 percent in 2018. Reflecting a change in oil prices on the international market, fuel and lubricant prices should continue their upward trend observed since the second quarter of 2016 to increase to 9.9 percent in 2017 and stabilize in 2018.

These forecasts remain surrounded by several uncertainties, with a risk of balance tilted to the downside for growth and at equilibrium for inflation. In terms of growth, risks are particularly attributed to the protectionist trend of the US trade policy and its impact on world trade and, as well as to a greater divergence of trends in monetary policies of the Fed and ECB and its negative impact through the real effective exchange rate. On the domestic level, more than favorable climate conditions could cause cereal production to exceed 78 million quintals and growth in 2017 to be greater than expected in the central scenario.

Regarding the risks to the central inflation forecast, a more rapid rise in international oil prices or a reversal of the downward trend in world commodity prices could lead to higher-than-expected price increases. On the other hand, a more rapid-than-expected normalization of the Fed's monetary policy could result in an appreciation of the effective exchange rate and a fall in imported inflation.

1.INTERNATIONAL DEVELOPMENTS

At the end of 2016, data for the fourth quarter indicate continued consolidation of economic growth in the United States and Japan, a slight deceleration in the euro area and stabilization in the United Kingdom. In the main emerging countries, the latest available data show higher growth in China in the fourth quarter and slower growth in India. Recession continued in Brazil and Russia, although there was a relative easing of the contraction of GDP in Brazil. In the labor market, the unemployment rate fell slightly in the United States in February and stabilized in the euro area in January. Financial markets were characterized in February by divergent trends in the main stock market indexes and by an almost general increase in the sovereign yields of the advanced countries. In the commodity markets, prices in February were up year on year, for agricultural commodities, base metals and energy products. Against this backdrop, inflation trended upward overall in the major advanced economies and showed divergent changes in the main emerging economies.

1.1 Economic activity and employment

1.1.1 Economic activity

The national accounts data for the fourth quarter 2016 in the United States show a year-on-year growth of 1.9 percent from 1.7 percent in the previous quarter. This improvement is mainly attributable to higher household consumption and investment, which more than offset the slowdown in government spending and exports.

In the euro area, growth in the fourth quarter decelerated slightly from 1.8 percent to 1.7 percent. By country, it moved up in France and Germany to 1.2 percent and 1.8 percent, respectively, from 1.0 percent and 1.7 percent, respectively, in the previous quarter, decreased in Spain from 3.2 percent to 3 percent and stagnated in Italy at 1.0 percent.

In the United Kingdom, growth stabilized at 2.0 percent in the fourth quarter. On the other hand, it strengthened considerably in Japan to 1.6 percent from 1.1 percent in the third quarter, particularly with an improvement in household consumption.

Table 1.1: YoY change in quarterly growth

	2015				2016			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Advanced economies								
United States	**3.3**	**3.0**	**2.2**	**1.9**	**1.6**	**1.3**	**1.7**	**1.9**
Euro area	**1.8**	**2.0**	**1.9**	**2.0**	**1.7**	**1.6**	**1.8**	**1.7**
France	1.3	1.2	1.1	1.2	1.3	1.1	1.0	1.2
Germany	1.1	1.8	1.7	1.3	1.9	1.8	1.7	1.8
Italy	0.3	0.7	0.7	1.0	1.1	0.9	1.0	1.0
Spain	2.7	3.1	3.4	3.6	3.4	3.4	3.2	3.0
United Kingdom	**2.9**	**2.4**	**1.9**	**1.7**	**1.6**	**1.7**	**2.0**	**2.0**
Japan	**0.0**	**1.7**	**2.2**	**1.2**	**0.4**	**0.9**	**1.1**	**1.6**
Emerging economies								
China	**7.0**	**7.0**	**6.9**	**6.8**	**6.7**	**6.7**	**6.7**	**6.8**
India	**6.1**	**7.8**	**8.4**	**7.0**	**8.2**	**6.9**	**6.7**	**6.6**
Brazil	**-1.8**	**-3.0**	**-4.5**	**-5.8**	**-5.4**	**-3.6**	**-2.9**	**-2.5**
Turkey	**3.5**	**7.2**	**6.4**	**6.5**	**4.1**	**3.8**	**-0.2**	**N.A**
Russia	**-2.8**	**-4.5**	**-3.7**	**-3.8**	**-1.2**	**-0.6**	**-0.4**	**N.A**

Source : Thomson Reuters Eikon.

In emerging countries, growth in China recorded its first increase since the end of 2014 in the fourth quarter, reaching 6.8 percent from 6.7 percent in the previous quarter. In India, growth slowed slightly to 6.6 percent in the fourth quarter from 6.7 percent a quarter earlier.

Recession continued in Brazil, albeit with a relative reduction in the GDP contraction to -2.5 percent in the fourth quarter from -2.9 percent in the previous quarter and in Russia to -0.4 percent in the third quarter from -0.6 percent in the second quarter.

High-frequency indicators showed in February 2017 an acceleration of the private sector activity in the euro area. The PMI composite index stood at 56.0 points from 54.4 in January. Similarly, in the United States, the ISM manufacturing index rose to 57.7 points in February from 56.0 points in the previous month.

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

Source : Thomson Reuters Eikon.

1.1.2 Labor market

In the United States, the unemployment rate fell slightly to 4.7 percent in February, with 235,000 new jobs created, compared to 238,000 in January. In the euro area, it stabilized at 9.6 percent in January. By country, this rate decreased from 3.9 percent to 3.8 percent in Germany, from 18.4 percent to 18.2 percent in Spain, while it stagnated at 10 percent in France and at 11.9 percent in Italy. In the United Kingdom, November figures show an unemployment rate falling to 4.7 percent from 4.8 percent a month earlier.

Table 1.2: Change in unemployment rate (%)

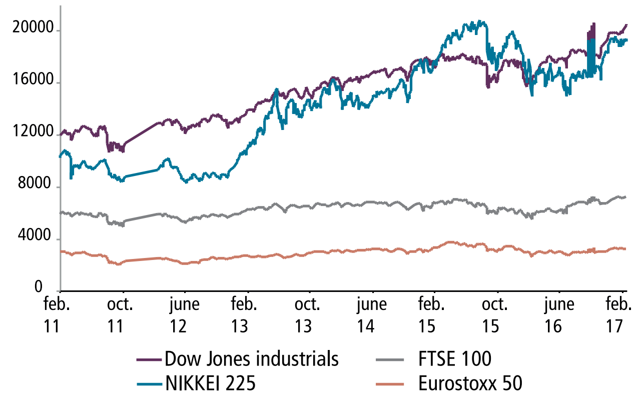
	2015	2016	2016		2017
			dec.	jan.	feb.
United States	5.3	4.9	4.7	4.8	4.7
Euro area	10.9	10.0	9.6	9.6	N.A
France	10.4	9.9	10.0	10.0	N.A
Italy	11.9	N.A	11.9	11.9	N.A
Germany	4.6	4.1	3.9	3.8	N.A
Spain	22.1	19.6	18.4	18.2	N.A
United Kingdom	5.3	N.A	N.A	N.A	N.A

Source : Eurostat and BLS

1.2 Monetary and financial conditions

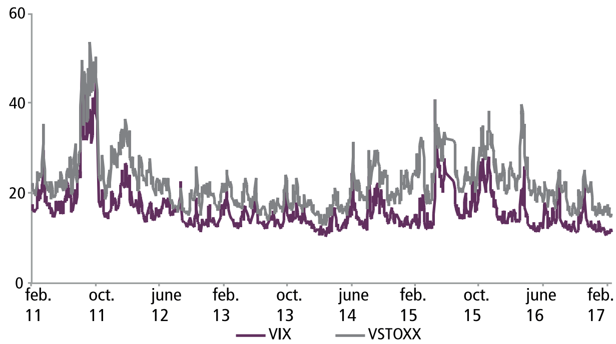
In stock markets, the main indexes of the advanced economies recorded divergent trends between January and February. While the EUROSTOXX50 decreased by 0.7 percent and the NIKKEI 225 by 0.3 percent, the Dow Jones and FTSE 100 posted respective increases of 1.8 percent and 0.2 percent. In terms of volatility, the VSTOXX stood at 15.6 basis points in February from 16 points in January and the VIX at 11.4 basis points, as against 11.7 points. In emerging economies, the MSCI EM grew by 3.9 percent, reflecting particularly respective increases of 10.8 percent, 5.5 percent and 4.3 percent in the indexes of Turkey, India and China.

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



Source : Thomson Reuters Eikon.

Chart 1.3: Change in VIX and VSTOXX

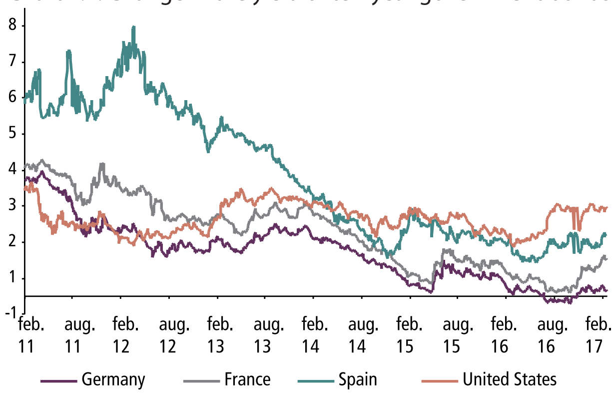


Source : Thomson Reuters Eikon.

In the bond markets, yields of 10-year bonds in the advanced economies showed an almost widespread increase between January and February. They rose from 0.9 percent to 1.1 percent in France, from 1.5 percent to 1.7 percent in Spain, from 2 percent to 2.3 percent in Italy and from 7 percent to 7.7 percent in Greece. Conversely, they stagnated at 0.2 percent in Germany and 2.4 percent in the United States.

For the major emerging economies, the 10-year yields rose from 3.2 percent to 3.4 percent in China and from 6.4 percent to 6.7 percent in India. On the contrary, they decreased from 10.9 percent to 10.3 percent in Brazil and from 11.1 percent to 10.6 percent in Turkey.

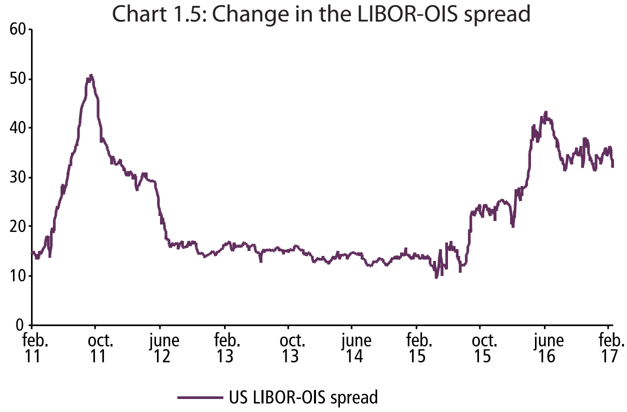
Chart 1.4: Change in the yield of ten-year government bonds



Source: Thomson Reuters Eikon.

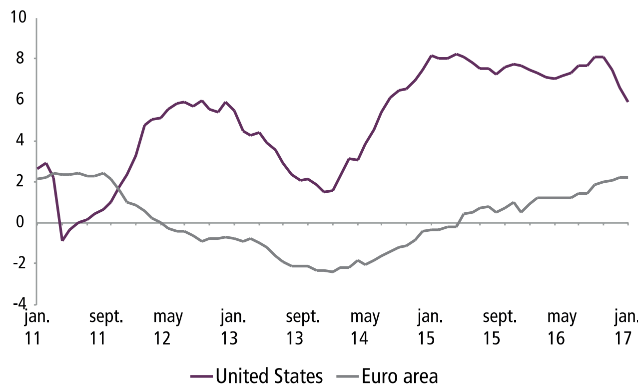
In money markets, the 3-month Euribor and 3-month Libor stagnated between January and February at -0.33 percent and 1 percent, respectively. The dollar Libor-OIS spread remained virtually unchanged at around 34.5 basis points. The annual bank lending growth decelerated between December and January in the United States from 6.6 percent to 5.9 percent, while it stagnated at 2.2 percent in the euro area.

Chart 1.5: Change in the LIBOR-OIS spread



Source: Thomson Reuters Eikon.

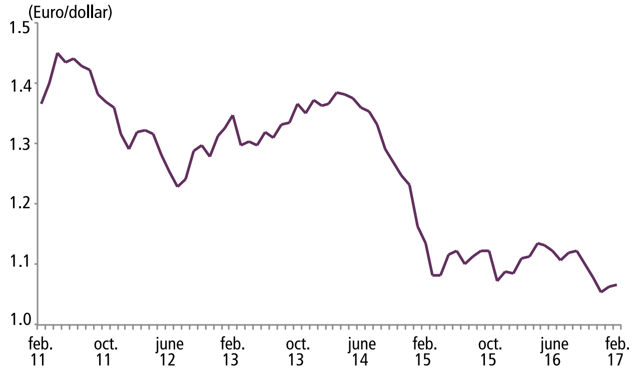
Chart 1.6: YoY change in credit in the United States and the euro area



Source : Thomson Reuters Eikon.

In foreign exchange markets, the euro remained unchanged at $1.1 between January and February and depreciated by 0.7 percent against the pound sterling and by 1.1 percent versus the Japanese yen. As to the currencies of key emerging countries against the dollar, the Brazilian real and Indian rupee appreciated by 2.8 percent and 1.5 percent, respectively, while the Chinese yuan and the Turkish lira did not change.

Chart 1.7: Euro/dollar exchange rate



Source : Thomson Reuters Eikon

In this context, except for the Fed, the central banks of the other major advanced countries kept their rates unchanged. Indeed, the Fed decided at its meeting on March 15 to raise the target range for the federal funds by a quarter of a percentage point [to 0.75 percent to 1 percent]. It pointed out that the stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation. It recalled once again that in deterring the timing and size of future adjustments to this range, its Committee will depend on its assessment of the realized and expected economic conditions relative to its two objectives of maximum employment and 2 percent inflation. It also reiterated that its Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate. The latter is likely to remain, for some time, below levels that should prevail in the longer run.

The ECB decided on March 9 to maintain its key rate at 0 percent, while reiterating that its rates will remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases. It also confirmed that it will continue its asset purchases at the current monthly pace of €80 billion until the end of March 2017 and at €60 billion per month from April 2017 until the end of December 2017 or beyond if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its inflation aim.

In the same vein, the Bank of England decided at the meeting of its Monetary Policy Committee on March 16 to keep its policy rate unchanged at 0.25 percent and to continue with its program of investment-grade corporate bond purchases financed by British nonfinancial enterprises, totaling up to £10 billion, its £60 billion government bond purchase program, bringing the total amount of the stock of its bond purchases to £435 billion.

In emerging countries, the Central Bank of Russia decided on February 3 to keep its key rate at 10 percent, indicating that the inflation momentum is in line with its forecasts, and that economic activity is recovering more quickly than expected. Similarly, the Central Bank of India decided on February 8 to maintain its key rate unchanged at 6.25 percent. The Central Bank of Brazil decided on February 22 to reduce its key rate by 75 basis points to 12.25 percent, which is the fourth consecutive cut. This decision was motivated by the fact that the available data suggest a gradual economic recovery in 2017 and by the recent fall in inflation.

Box 1.1: Economic implications of the policies of the new US administration

The results of the last presidential elections in the United States point to a significant change in the future of the US economic policy. Throughout his election campaign, Donald Trump committed himself to implementing several measures, the most important of which are: (ii) lower taxes; (Ii) increased investment in infrastructure; (Iii) streamlining banking regulations; and (iv) greater protection of US industries against foreign competition. At the same time, he promised to withdraw US participation in the COP21 Paris agreement, to stop the climate plan of his predecessor, which particularly aimed at reducing coal-related energy activity, to expel illegal immigrants, to build a wall at the Mexican border and to reinforce the constraints linked to the reception of legal migrants.

A few days after his inauguration, President Trump signed a multitude of decrees concerning, mainly:

- Trade: by putting an end to the US participation in the negotiations and the Trans-Pacific Partnership (TPP).
- Financial regulation: the decrees signed relate to the relaxation of regulation.
- Immigration: Decrees concern the strengthening of border security and the improvement of internal security.
- Health: by repealing and replacing the Affordable Care Act, a health insurance reform introduced under the presidency of Barack Obama, especially to reduce its economic cost.

The policies of the new US administration should have a significant impact on the economic outlook both in the United States and globally. While the fiscal stimulus boosts the US and global growth in the short term, a move towards more protectionism should have a major negative impact on the global economy over the medium term. The removal of multilateral trade agreements or the imposition of customs duties on imports pose potentially significant risks.

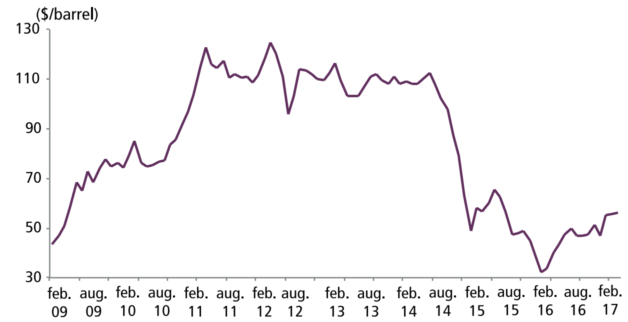
In its February 2017 forecast, the European Commission estimated that the budgetary policy of the new US administration should support US growth by 0.3 percent of GDP in 2017 and 1 percent of GDP in 2018. Growth should move up from 1.6 percent in 2016 to about 2.3 percent in 2017 before returning to 2.2 percent in 2018. The robust momentum in labor market should boost private consumption over the medium term, with strong growth of wages. Inflation should rise from 1.3 percent in 2016 to about 2.5 percent in 2017 and 2018, partly due to rising energy prices. However, the European Commission highlighted that the release of these pressures is likely to trigger an accelerated monetary policy tightening cycle. As a result, a stronger dollar and higher interest rates should partially offset the growth impulse provided by fiscal stimulus. Rising financing costs should begin weighing on investment from 2018 onwards, particularly residential investment. At the same time, the Commission also expects the US dollar strength to contribute to the deterioration of the current account deficit by 1 percentage point (to -3.5 percent of GDP) by 2018. The public deficit and debt dynamics will also be materially affected by any stimulus measures, with the deficit forecast to reach 5.5 percent of GDP by 2018 and debt levels resuming their upward trend to reach 110 percent of GDP by 2018.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

The entry into force of the oil production reduction agreement concluded last November between the producing countries, together with the gradual global economic recovery, especially in the advanced economies, brought the Brent price to an average of $56.1 per barrel in February, up 0.7 percent from January and 66.1 percent, year on year.

Chart 1.8: World price of Brent oil in dollar

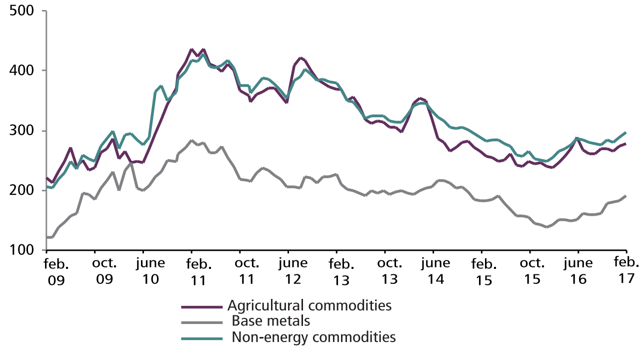


Source : Thomson Reuters Eikon.

1.3.2 Non-energy commodity prices

The price increase also affected non-energy commodities, whose prices posted a sharp rise in February, as the relevant Dow Jones-UBS index moved up 16.1 percent, year on year. This change reflects a strong growth of 33.7 percent in base metals prices and a 16.5 percent increase in the agricultural commodity price index.

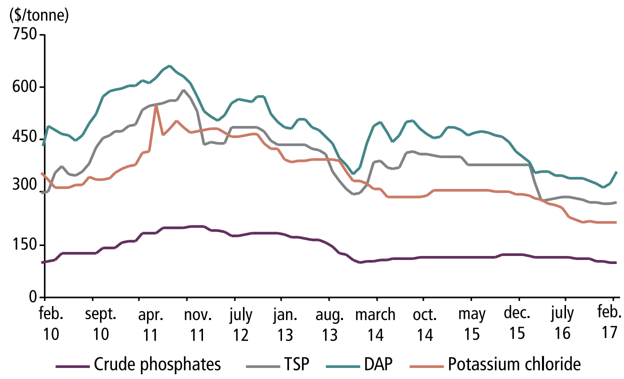
Chart 1.9: Change in the DJ-UBS non-energy commodity price indexes (100=2006)



Source : Thomson Reuters Eikon.

On the world market of phosphates and derivatives, crude phosphate prices fell by 1 percent between January and February from $99 to $98 per tonne. Similarly, the Potassium Chloride price dropped by 0.5 percent, after having stood at $215 per tonne for three consecutive months. For other derivatives, prices rose by 10.8 percent to $360 per tonne for DAP, 2.5 percent to $247 per tonne for urea, and 0.4 percent to $270 per tonne for the TSP. Year on year, prices declined 24.1 percent for Potassium Chloride in February, 17.9 percent for TSP and 14.8 percent for crude phosphate, while they increased by 1.4 percent and 18.2 percent for DAP and Urea, respectively. Concerning agricultural commodities, the durum wheat price increased by 1.3 percent month to month, but remained down 17 percent, year on year.

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



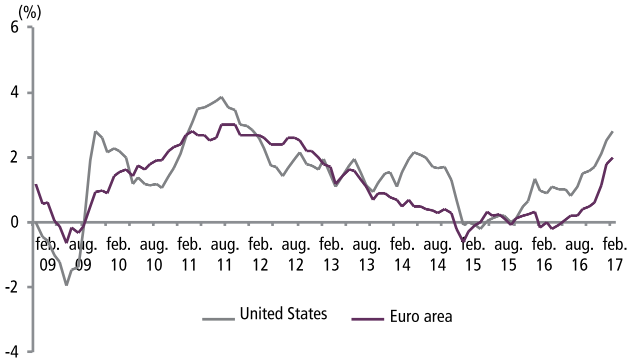
Source: World Bank.

1.3.3 Inflation in the world

In the United States, inflation continued to accelerate in July, reaching 2.8 percent in February from 2.5 percent a month earlier. According to a provisional Eurostat estimate for February, inflation in the euro area should move up from 1.8 percent to 2 percent, covering an increase from 1.9 percent to 2.2 percent in Germany and from 1 percent to 1.6 percent in Italy, stagnation at 3 percent in Spain and a slight decline from 1.6 percent to 1.4 percent in France. For the other major advanced economies, data remain those of January and show a slight increase in inflation from 0.3 percent to 0.5 percent in Japan and from 1.6 percent to 1.8 percent in the United Kingdom.

In the main emerging countries, inflation in February fell from 2.5 percent to 0.8 percent in China and from 5.4 percent to 4.8 percent in Brazil, and declined in January from 5.3 percent to 4.9 percent in Russia.

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



Source : Eurostat.

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

	2014	2015	2016/2017		
			dec.	jan.	feb.
United States	**1.6**	**0.1**	**2.1**	**2.5**	**2.8**
Euro area	**0.4**	**0.2**	**1.1**	**1.8**	**2.0**
Germany	0.8	0.2	1.7	1.9	2.2
France	0.6	0.1	0.8	1.6	1.4
Spain	-0.2	-0.4	1.6	3.0	3.0
Italy	0.2	0.2	0.5	1.0	1.6
United Kingdom	**1.5**	**0.1**	**1.6**	**1.8**	**N.A**
Japan	**2.7**	**0.7**	**0.3**	**0.5**	**N.A**

Source : Thomson Reuters Eikon.

2. EXTERNAL ACCOUNTS

In 2016, the pace of export growth slowed to 2.5 percent after an 8.6 percent increase in 2015. Sales of phosphates and derivatives fell sharply owing to the significant drop in prices, while automotive exports maintained their momentum showing an increase of 21 percent. At the same time, imports rose by 9.5 percent, driven mainly by a substantial increase in the purchases of capital goods and, to a lesser extent, consumer goods and foodstuffs. As a result, the trade balance worsened by $29.8 billion to $184 billion, thereby bringing the import coverage ratio from 58.6 percent to 54.8 percent. Transfers from Moroccan expatriates and travel receipts grew by 3.4 percent to 62.2 billion dirhams and 63.2 billion, respectively. In total, the current account deficit widened to 4.2 percent of GDP, from 2.2 percent at the end of 2015. Taking particularly into account FDI inflows of 33.1 billion dirhams and other financial transactions, net international reserves expanded by 12.1 percent to 251.9 billion at the end of December, equaling 6 months and 18 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

Despite a 10.8 percent decline in export turnover of phosphates and derivatives, global exports rose by 2.5 percent in 2016 to 223.4 billion dirhams, mainly due to an increase of 11.9 percent in sales of the automotive sector to 54.6 billion dirhams. Similarly, agricultural and agri-food exports moved up by 5.1 percent to 48.3 billion, driven mainly by the 5.7 percent increase in food industry sales. Textile and leather shipments increased by 6.7 percent to 35.3 billion dirhams and aeronautics and electronics sales progressed by 12.5 percent and 9.1 percent, respectively.

The decrease in exports of phosphates and derivatives reflects declines for crude phosphate by 25.7 percent in value and 7.3 percent in quantities. Despite a 33 percent increase in shipped volumes, sales of phosphate derivatives were down 6.7 percent.

Table 2.1: Change in exports

Sectors/ Segments	2016	2015	Change	
			Value	In %
Exports (FOB)	**223 436**	**218 040**	**5 396**	**2.5**
Automobile	54 609	48 821	5 788	11.9
Agriculture and Agribusiness	48 270	45 945	2 325	5.1
Phosphates and derivatives	39 539	44 303	-4 764	-10.8
Textile and leather	35 250	33 048	2 202	6.7
Aéronautics	9 248	8 223	1 025	12.5
Electronics	8 574	7 860	714	9.1
Pharmaceutics	1 100	1 048	52	5.0
Others	26 846	28 792	-1 946	-6.8

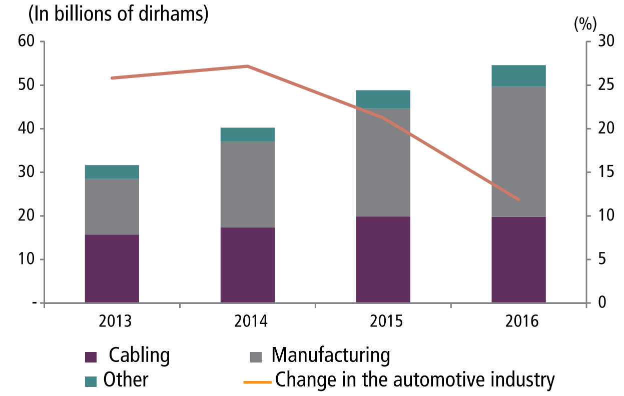
Source: Foreign Exchange Office.

Table 2.2: Change in the exports of phosphates and derivatives from 2015 to 2016 (%)

	2016/2015		
	Value	Quantity	Price
Crude phosphates	-25.7	-7.3	-19.9
Natural and chemical fertilizers	14.3	54.0	-25.8
Phosphoric acid	-30.6	-9.9	-23.0

Source: Foreign Exchange Office.

Chart 2.1: Change in automotive industry's exports between 2013 and 2016



Source: Foreign Exchange Office.

2.1.2 Imports

Imports progressed by 9.5 percent in 2016 to 407.4 billion dirhams, mainly due to a 27 percent increase in capital goods purchases, particularly with increases of 3.2 billion in purchases of components and spare parts for industrial vehicles and 3.1 billion for boilers and turbines. Similarly, consumer goods purchases rose by 15.3 percent, with particularly a 29.5 percent increase in passenger car purchases and food imports rose by 25.1 percent, largely due to an increase of almost 12.8 billion in wheat supplies.

However, the energy bill contracted by 17.9 percent or 11.9 billion, with a 15.9 percent decline in petroleum gas purchases. In 2016, no crude oil purchases were made, following the cessation of activity at the Samir refinery.

Under these conditions, the trade deficit stood at 184 billion dirhams, widening by 19.3 percent or 29.8 billion. The import coverage ratio stood at 54.8 percent, down 3.8 percentage points.

Table 2.3 : Change in imports

Products group	2016	2015	Change	
			Value	In %
Imports (CIF)	**407 435**	**372 225**	**35 210**	**9.5**
Capital goods	118 879	93 609	25 270	27.0
Finished consumer goods	80 602	69 934	10 668	15.3
Food products	44 568	35 615	8 953	25.1
Semi- finished products	91 078	85 988	5 090	5.9
Ray materials	17 833	20 733	-2 900	-14.0
Energy products	54 393	66 254	-11 861	-17.9

Source: Foreign Exchange Office.

Table 2.4 : Change in major import products from 2015 to 2016 in %

	2016/2015		
	Value	Quantity	Price
Wheat	49.4	95.7	-23.7
Gas oils and fuel oils	1.0	23.6	-18.2
Petroleum gaz and other fuel	-15.9	4.7	-19.6
Crude and unrefined sulfur	-34.1	9.9	-40.0

Source: Foreign Exchange Office.

2.2 Other components of the current account

In terms of services, tourism receipts progressed by 3.4 percent to 63.2 billion and related expenditure grew at a slightly higher rate of 4.1 percent, to 14.3 billion. Transport spending rose by 7.5 percent, reflecting an increase in imported volumes, while related revenues dropped by 5.4 percent. Overall, the balance of services resulted in a surplus of 66.8 billion dirhams, up slightly 1.1 percent compared to its level at the end of 2015.

Remittances from Moroccan expatriates consolidated by 3.4 percent to 62.2 billion dirhams or 6.2 percent of GDP.

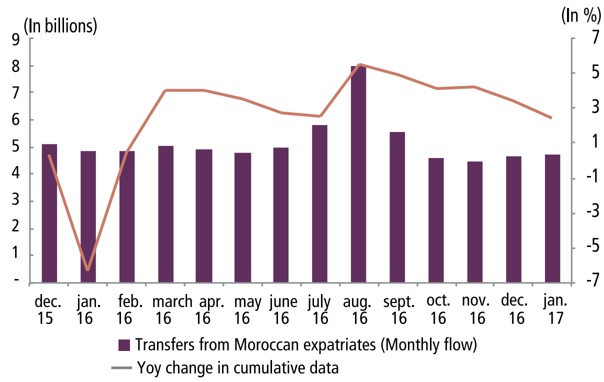
Taking also into account an inflow of public donations of 9.1 billion dirhams, of which 7.2 billion from the GCC countries, the current account deficit widened to 4.2 percent of GDP from 2.2 percent a year earlier.

Table 2.5: Change in the balance of services

(In millions of dirhams)	2016	2015	Change	
			Value	In %
Imports	**83 190**	**77 301**	**5 889**	**7.6**
Transport services	31 730	29 514	2 216	7.5
Travel	14 256	13 696	560	4.1
Exports	**149 962**	**143 329**	**6 633**	**4.6**
Transport services	25 160	26 598	-1 438	-5.4
Travel	63 240	61 150	2 090	3.4
Balance	**66 772**	**66 028**	**744**	**1.1**

Source: Foreign Exchange Office.

Chart 2.2: Change in transfers from Moroccan expatriates (YoY total)



Source: Foreign Exchange Office.

2.3 Financial account

Overall, the financial account would have generated a surplus of 34 billion dirhams in 2016, largely owing to the continued inflow of FDI. The latter amounted to 33.1 billion dirhams, down 17.2 percent and corresponding expenses moved up 25.8 percent to 10.2 billion dirhams. In summary, the net inflow stood at 22.8 billion, down 28.2 percent from 2015, when it reached a record high of 31.8 billion dirhams. The flow of direct investment of residents abroad decreased slightly by 1.4 percent to 6.3 billion dirhams at end 2016.

Given these developments and those of other financial transactions, the outstanding net international reserves increased by 12.1 percent, year on year, to 251.9 billion dirhams in December, covering 6 months and 18 days of imports of goods and services.

Recent data for the first two months of the year showed that the trade deficit worsened by 21.7 percent compared to the same period of 2016 to 26.7 billion, mainly due to the increase of 5.3 billion dirhams in imports or 8.9 percent, while exports grew by only 559 million or 1.5 percent.

The increase in imports mainly reflects a 53.4 percent increase in energy purchases to 10.4 billion and to a lesser extent an 11.8 percent increase in capital goods imports to 18.7 billion.

In terms of exports, the slight increase reflects a recovery in sales of phosphates and derivatives, which rose by 9.7 percent to 5.6 billion and a drop of 6.4 percent in the automotive sector shipments to 8.8 billion.

For the other main components, travel receipts and transfers from Moroccan expatriates decreased by 4.4 percent and 3.1 percent, respectively. Similarly, revenues from foreign direct investment fell from 5.6 billion to 4 billion dirhams.

3. MONEY, CREDIT AND ASSETS MARKET

In the fourth quarter of 2016, monetary conditions were marked by an appreciation of the real effective exchange rate and a slight increase in lending rates. Growth of credit to the nonfinancial sector continued to improve since the beginning of the year, reflecting mainly an acceleration of loans to businesses. Regarding other counterparts of the money supply, net international reserves, albeit slowing, continued their upward trend and net claims on the central government declined less sharply than in the previous quarter. Overall, the money supply growth slowed from 5.5 percent in the third quarter to 5.1 percent in the fourth quarter and the monetary gap remained negative, indicating no monetary inflationary pressures in the medium term.

In the real-estate market, prices recorded a limited change of 0.9 percent from 1.2 percent in 2015 and sales moved up 8.1 percent after falling 1.3 percent a year earlier. In the stock market, after a 30.46 percent increase in 2016, the benchmark index posted a performance of 2.7 percent in February. The trading volume on the central market remained relatively low, although rising in the first two months of the year compared to the 2016 average. Overall, recent developments in asset markets do not suggest inflationary pressures.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

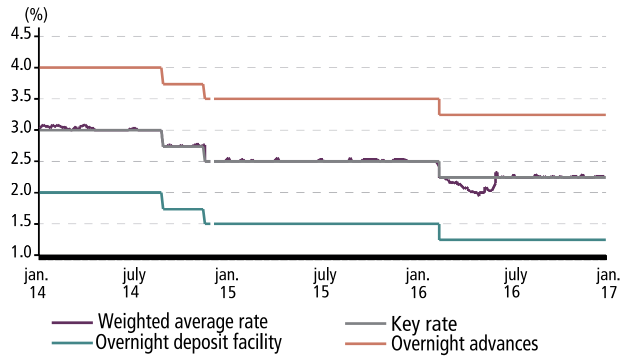
In the fourth quarter of 2016, banks' liquidity needs returned to 16.8 billion dirhams on average, largely reflecting the improvement in foreign exchange reserves. Bank Al-Maghrib reduced the volume of its injections to 17.9 billion, of which 13.4 billion as 7-day advances and 4.1 billion as secured loans granted under the program to support the financing of VSME.

The latest available data for January and February 2017[1] indicate that the liquidity need decreased further, to a weekly average of 14.3 billion dirhams.

Under these conditions, the interbank rate remained aligned with the key rate. Concerning Treasury bill rates, issues in the fourth quarter were performed with virtually unchanged rates for most maturities, compared to the third quarter, while in the secondary market a slight adjustment was observed for long-term yields. However, rates on the secondary market were slightly tilted to upside in January, particularly for medium- and long-term maturities.

1 Average of the first three weeks of February 2017.

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



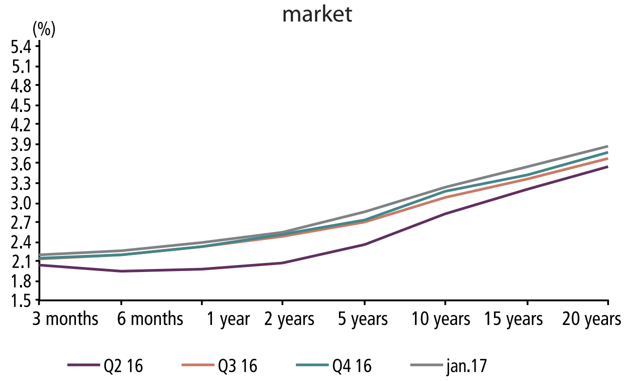
Source : BAM.

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

	2015				2016				2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	jan.
52 weeks	2.53	2.67	2.60	2.60	2.57	1.93	2.33	2.30	2.33
2 years	2.59	2.86	2.74	2.80	2 .63	2.05	2.48	2.44	2.53
5 years	2.98	3.24	3.17	3.14	2.92	2.30	2.71	2.69	2.89
10 years	3.30	3.66	3.39	3.61	3.48	2.87	3.22	3.08	-
15 years	3.89	4.07	4.06	4.05	3.77	3.22	-	-	-

Source : BAM.

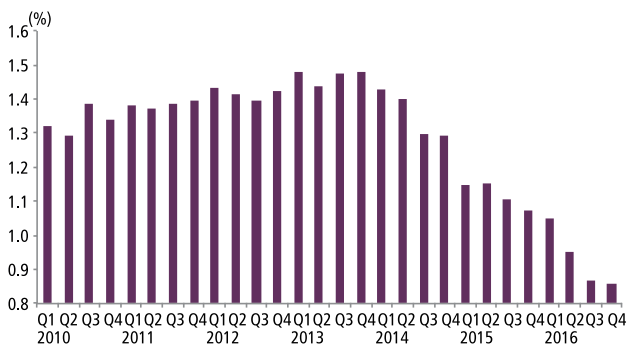
Chart 3.2: Term structure of interest rates in the secondary market



Source : BAM.

In other markets, the rates for certificates of deposit issued declined slightly for maturities of less than 3 months and increased for 6 and 12-month deposits. Deposit rates dropped slightly by 5 basis points to 2.90 percent for 6-month deposits and by 4 basis points to 3.30 percent for one-year deposits. Against this backdrop, the banks' financing costs2 would have remained virtually stable in the fourth quarter, after a marked decline in the second and third quarters following BAM's decision to reduce its key rate to 2.25 percent.

Chart 3.3: Change in cost of bank financing



Source : BAM.

As to lending rates, fourth quarter data show decreases of 52 basis point in rates on equipment loans, 19 percentage points in rates on real estate loans and a stagnant rate on consumer loans. On the other hand, rates on cash advances rose by 26 basis points to 5.24 percent, bringing the overall weighted average rate to 5.17 percent from 5.08 percent in the previous quarter.

Table 3.2: Deposit rates (time deposits)

	2014		2015				2016			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6 months	3.69	3.71	3.64	3.60	3.56	3.46	3.31	3.18	2.94	2.90
12 months	3.86	3.94	3.85	3.83	3.74	3.78	3.67	3.55	3.33	3.30

Source : BAM.

Table 3.3 : Lending rates

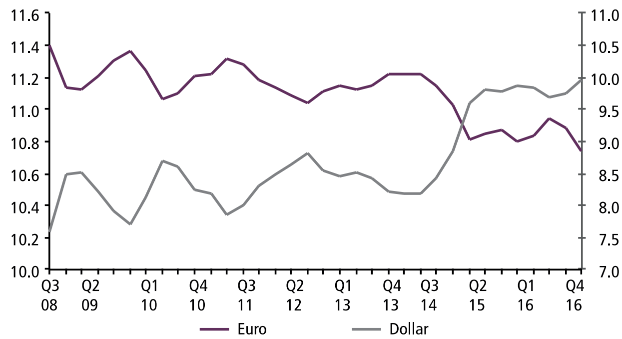
	2014	2015				2016			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Overall rate	6.03	5.81	5.93	5.67	5.49	5.55	5.25	5.08	5.17
Cash advances	6.08	5.77	5.95	5.65	5.48	5.44	5.16	4.98	5.24
Equipment loans	5.42	5.11	5.04	5.35	4.76	5.54	4.98	4.95	4.43
Real estate loans	6.05	5.98	5.92	5.68	5.76	5.59	5.44	5.34	5.15
Consumer loans	7.17	7.27	7.18	7.08	7.12	6.91	6.63	6.64	6.64

Source : BAM.

3.1.2 Exchange rate

In the fourth quarter of 2016, the euro averaged $1.08, showing a depreciation of 3.4 percent against the US dollar. The national currency appreciated on average by 1.38 percent against the euro and depreciated by 2.1 percent against the US dollar. Compared with the currencies of some competing countries, the dirham appreciated by 8.5 percent versus the Turkish lira and 0.3 percent vis-à-vis the Chinese yuan. Against this backdrop, the effective exchange rate appreciated by 1.6 percent in nominal terms. Taking into account an inflation in Morocco broadly lower than that of partner and competing countries, the appreciation stood at 0.9 percent in real terms.

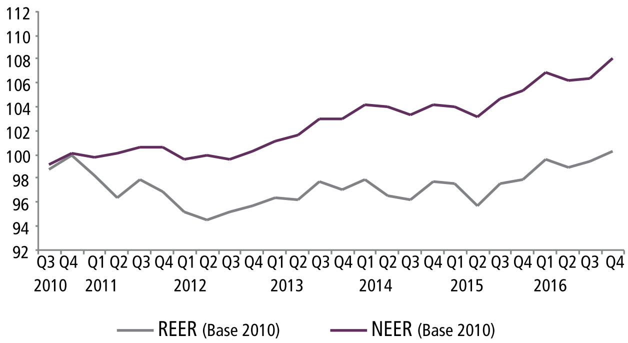
Chart 3.4: Change in the exchange rate of the dirham



Source : BAM.

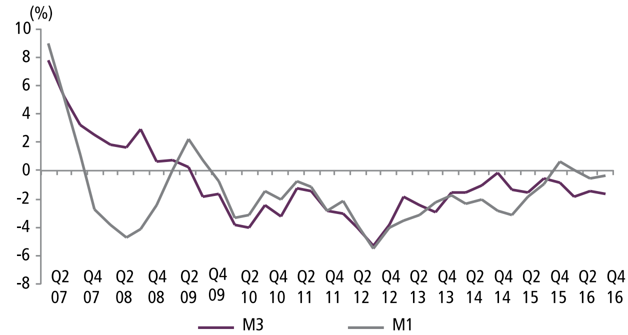
2 The cost of financing is the weighted average of the costs of banks' resources.

Chart 3.5: Change in the nominal and real effective exchange rate (Base 100 in 2010)



Sources : BAM and IMF calculations.

Chart 3.6: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



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

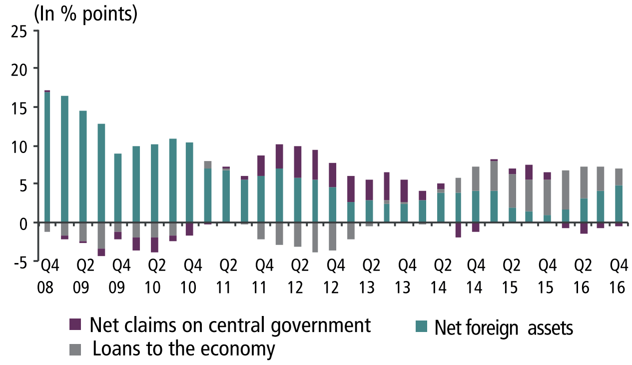
Source : BAM.

In the foreign exchange market, banks' transactions with customers resulted in a 29.2 percent increase in forward purchases to 6.8 billion in the fourth quarter and a rise of 102.6 percent in forward sales to 5 billion. Bank Al-Maghrib's foreign exchange operations with banks averaged 754 million dirhams compared to only 367 million in the previous quarter. Under these conditions, the banks' net foreign exchange position stood at -2.7 billion dirhams after a positive balance of 2.6 billion on average in the third quarter.

3.1.3 Monetary position

The money supply growth decelerated from 5.5 percent in the third quarter to 5.1 percent in the fourth quarter, due to the slower growth of net international reserves from 18.7 percent to 13.1 percent. However, the bank lending growth accelerated from 3.1 percent to 4 percent and the decline in net claims on the central government eased to 4.3 percent from 4.9 percent in the third quarter.

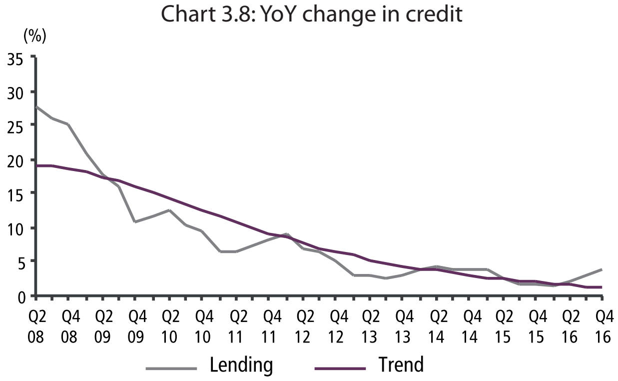
Chart 3.7: Contribution of the major counterparts to YoY change in money supply



Source : BAM.

Analysis by components, the slowdown in M3 results from a deceleration from 12.4 percent to 1.6 percent in the growth of foreign currency deposits. Similarly, the annual growth of deposits included in the money supply fell back from 5.3 percent to 4.7 percent. Thus, household deposits slowed from 8.6 percent to 8 percent for demand deposits and from 5.7 percent to 1.4 percent for time deposits. Deposits of private nonfinancial corporations fell 11.5 percent as against 4 percent in the third quarter, while their demand deposits accelerated from 3.2 percent to 4.9 percent. For other M3 components, the growth of money market fund shares/units slowed from 1.6 percent to 1.1 percent, while that of currency in circulation remained virtually stable at 5.6 percent.

Chart 3.8: YoY change in credit



Source : BAM.

Bank lending continued to improve since 2016. Particularly, loans to the nonfinancial sector grew by 3.7 percent in the fourth quarter from 3.2 percent a quarter earlier, reflecting mainly an acceleration from 3 percent to 4 percent in loans to businesses and from 5 percent to 5.3 percent in those allocated to individuals. However, loans to individual entrepreneurs fell by 5.2 percent, a rate similar to that recorded in the third quarter.

The improvement in corporate loans mainly reflected an acceleration from 1.9 percent to 5 percent in equipment loans, with a 2.5 percent increase in loans granted to private nonfinancial corporations, after a 0.4 percent drop in the previous quarter, and an acceleration from 9.5 percent to 13.4 percent in loans to public enterprises. At the same time, cash advances grew by 1.8 percent, as against 2.1 percent in the previous quarter, reflecting a significant increase of 40.8 percent in loans to public enterprises, as opposed to 43.4 percent, while cash advances to private companies fell by 0.5 percent, after a slight increase of 0.2 percent. Loans to real estate development declined again by 2.6 percent as against 2.3 percent in the third quarter.

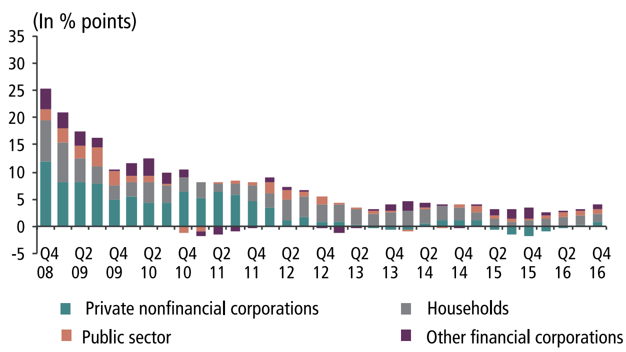
The credit granted to individual entrepreneurs registered a decrease of 5.2 percent, a rate almost similar to that recorded in the previous quarter. This trend covers a steeper decline from 13.8 percent to 22.2 percent in cash advances and a slower fall from 12.5 percent to 10.7 percent in development loans.

These trends were observed in a context marked by improved supply conditions for both businesses and households. Indeed, according to BAM's lending conditions survey in the fourth quarter, banks would have relaxed their lending conditions under the pressure of competition between them. According to banks, demand would have also grown compared to the previous quarter for all nonfinancial sectors.

By industry, the improvement in loans to businesses is mainly driven by accelerations from 8.6 percent to 11.2 percent in loans to the trade sector, from 0.6 percent to 2.1 percent in the electricity, gas and water sector and from 3.1 percent to 4.5 percent in metallurgical, mechanical and electrical industries. Similarly, loans to the hotels and restaurants sector rose by 0.4 percent after a decrease of 5 percent in the previous quarter. However, loans to the agriculture and fishing sector and chemical and related industries fell by 11 percent and 22.1 percent, respectively, after increases of 4.7 percent and 3.6 percent in the second quarter. Loans granted to the construction sector contracted by 4 percent, which is a decline more pronounced than that of 0.6 percent recorded in the previous quarter.

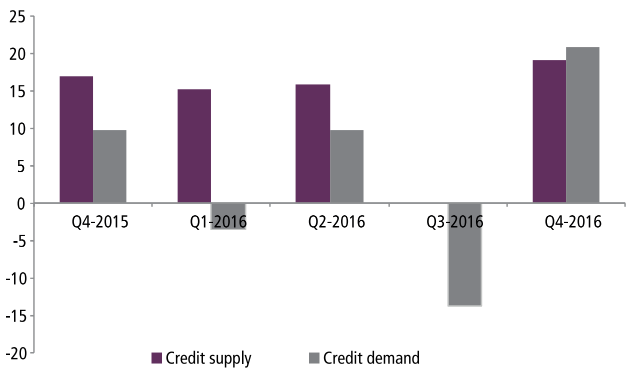
In the fourth quarter, growth of loans to individuals reflects an acceleration from 4.9 percent to 5.5 percent in the growth of home loans, while that of consumer loans slowed down from 5.8 percent to 5.6 percent.

Chart 3.9: Institutional sectors' contribution to YoY change in credit



The growth of nonperforming loans decelerated from 9 percent to 8.3 percent, reflecting a slowdown from 21 percent to 16.3 percent in those of private nonfinancial enterprises and those of households fell to 4.5 percent from 7.7 percent in the previous quarter. Thus, the ratio of nonperforming loans to bank credit was stable at 7.8 percent.

Chart 3.10: Change in credit supply and demand (Diffusion Index)

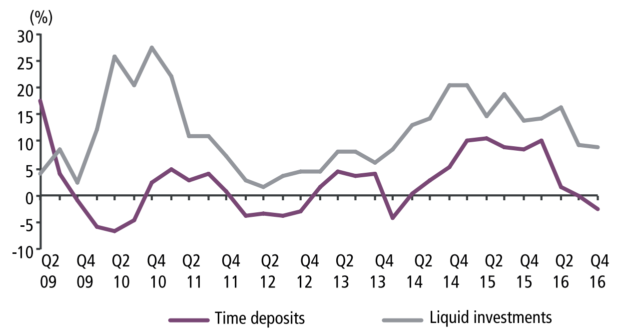


The latest available bank credit data for January 2017 indicate a slightly faster growth of bank lending to 4.4 percent. Particularly, loans to the nonfinancial sector grew by 3 percent, reflecting a deceleration to 2.2 percent in the growth of loans to enterprises and to 4.4 percent for individuals.

Loans granted to the nonfinancial sector by other financial corporations, not included in the monetary position, progressed by 6.1 percent in December, as against 8.5 percent in September, reflecting mainly a deceleration from 46.6 percent to 30.8 percent in loans distributed by offshore banks, with particularly a slowdown from 47.7 percent to 18.8 percent in the growth of cash advances. The growth of loans distributed by finance companies stabilized at 3.5 percent, because of the 0.5 percent decrease in consumer loans after a slight increase of 0.1 percent and an acceleration in leasing growth from 6.3 percent to 7.3 percent.

The growth of liquid investment aggregates remained virtually unchanged at 9.4 percent. This change covers an acceleration from 6.1 percent to 18.7 percent in the growth of equity and diversified UCITS and a deceleration from 12.7 percent to 10.8 percent in that of bond UCITS. However, Treasury bills remained virtually unchanged at 8.7 percent.

Chart 3.11: YoY change in liquid investments and time deposits



3.2 Asset prices

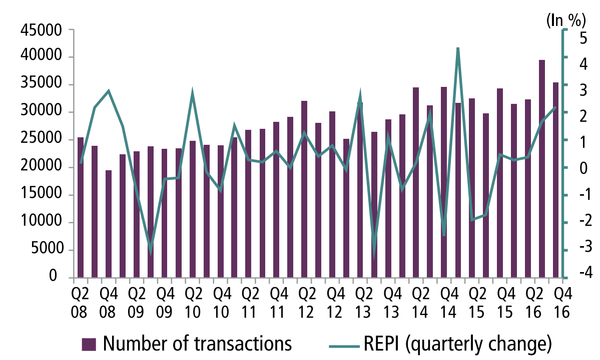
3.2.1 Real estate assets

In 2016, the real estate price index (REPI) rose by 0.9 percent, as against 1.2 percent in the previous year, mainly due to a virtual stagnation of apartment prices, after they had increased by 1.8 percent in 2015.

Regarding other assets, urban land prices were up 2.1 percent from 1.2 percent and commercial property prices rose by 5.6 percent after decreasing by 1.6 percent. At the same time, the volume of transactions grew by 8.1 percent, after a drop of 1.3 percent a year earlier. This change affected all asset categories, with particularly increases of 8 percent for apartments, 9.1 percent for urban land and 7.3 percent for commercial property.

In the main cities, the REPI registered increases, with the exception of Casablanca where prices fell by 3.8 percent. Transactions increased in most large cities, excluding Marrakesh and Tangiers, where they dropped by 14.5 percent and 5.6 percent, respectively.

Chart 3.12: Change in the REPI and the number of real estate transactions (in %)



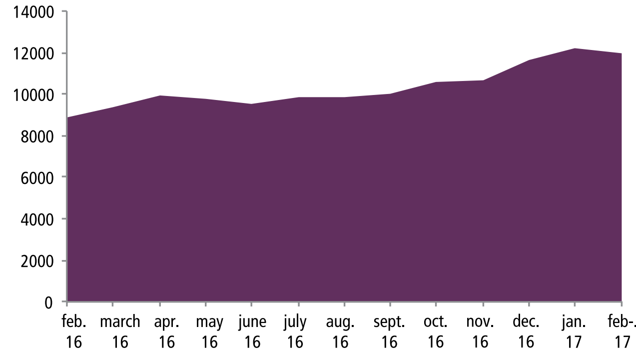
Source : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

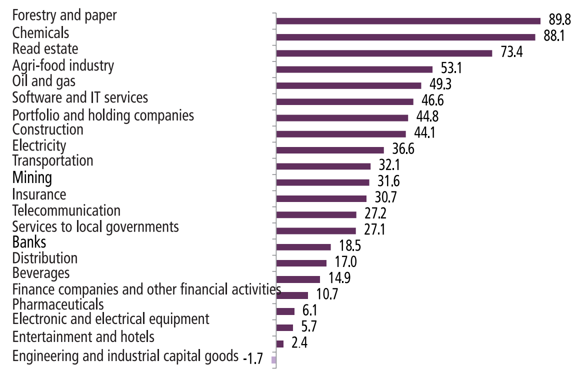
After falling by 7.2 percent in 2015, the MASI achieved an annual performance of 30.46 percent in 2016, mainly due to improved profits of listed companies and the relatively low yields on bond yields.

Chart 3.13: Daily change in MASI



Source : Casablanca Stock Exchange.

Chart 3.14: Contribution of sectoral indexes to MASI growth in 2016, (in %)



Source : Casablanca Stock Exchange.

The annual increase in the benchmark index is mainly attributed to the significant increases of 44.1 percent in the sectoral indexes of "construction and building materials", 27.2 percent in "telecommunications" and 73.4 percent in "real estate" and 18.5 percent in "banks". Conversely, the "engineering and industrial equipment" index recorded a negative performance of 1.7 percent.

The trading volume amounted to 72.7 billion dirhams in 2016, from 52.1 billion dirhams in 2015. In the central market, transactions totaled 34.2 billion dirhams from 31.4 billion dirhams a year earlier. Under these conditions, market capitalization reached its highest level since 2011, or 583.4 billion dirhams, up 28.7 percent compared to last year. Under these conditions, the liquidity ratio on the central market fell back from 6.3 percent to 5.5 percent.

The year 2016 was marked by the merger of Holcim-Maroc and Lafarge Ciments, amounting to 9.1 billion dirhams and by the listing of Marsa-Maroc by sale of shares for an amount of 1.9 billion.

Analysis of recent stock market data indicates that after a 5 percent increase in January, MASI dropped 2.2 percent in February3, bringing its year-to-date performance to 2.7 percent. In terms of transactions, the average daily volume of operations in the central market amounted to 252.4 million dirhams in January and February as against 137.2 million in 2016.

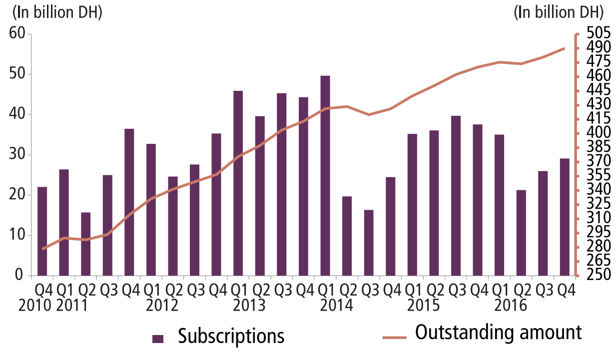
3.2.2.2 Treasury bonds

After a rise of 34.8 percent in 2015, Treasury issues on the domestic market in 2016 fell by 25 percent to 111.4 billion dirhams, in connection with a reduction in its financing need and a greater use of external resources. The maturity structure remained virtually unchanged from the previous year, with shares of 25 percent for short-term maturity, 47 percent for mid-term bonds and 28 percent for long-term bonds. Rates eased in 2016 compared to 2015, as a result of Bank Al-Maghrib's decision to lower its key rate in March 2016. The outstanding amount of Treasury bonds totaled 490 billion at end-2016, up 4.2 percent compared to 2015.

In January 2017, issues totaled 14.3 billion, up nearly 5 billion compared to the monthly average of 2016, and 65 percent of them focused on short-term maturities with slightly rising rates. Taking into account a repayment amount of 6.5 billion, the outstanding Treasury bonds rose by 2 percent compared to December 2016 to 497.7 billion dirhams.

3 Data as at February 2017.

Chart 3.15: Change in outstanding Treasury bonds



Source : BAM.

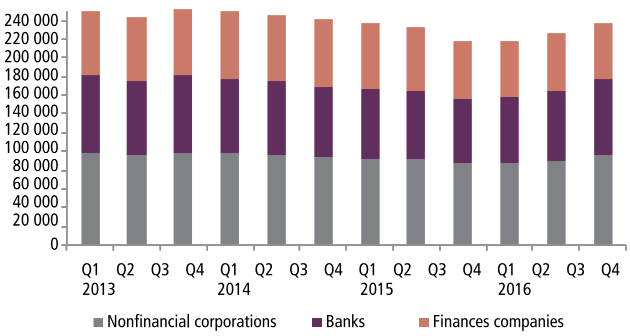
3.2.2.3 Negotiable debt securities

After reaching 56.8 billion dirhams in 2015, issues on the private debt market fell to 45.4 billion dirhams in 2016 and 62 percent of them were performed on deposit certificates. Considering the amount of repayments, outstanding private debt securities totaled 155.9 billion, down 2.3 percent from the previous year.

Issues of nonfinancial companies stood at 4.5 billion in 2016, of which 4.4 billion as commercial paper. Concerning banks, issuances amounted to 36.8 billion and 76.6 percent of them focused on certificates of deposit, with a dominance of short-term maturities. Given the repayment amount of 37.5 billion dirhams, outstanding private debt securities issued by banks amounted to 81 billion at the end of 2016, up 11 percent compared to December 2015. For financing companies, issues amounted to 3.9 billion dirhams from 5 billion dirhams in 2015. By 2016, the outstanding amount of the bonds of financing companies stood at 11.6 billion dirhams, down 20 percent compared to end-December 2015.

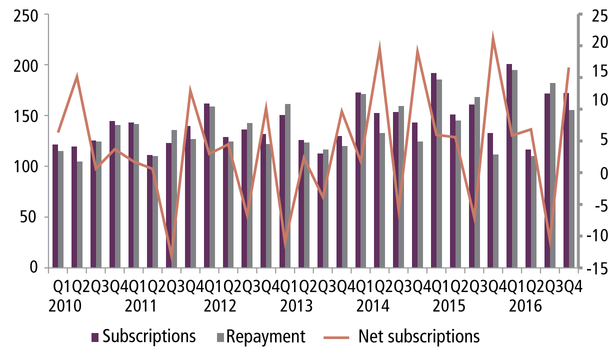
In January 2017, issuances of private debt securities reached 2.6 billion dirhams, of which 1.1 billion as certificates of deposit and 1.5 billion of bonds. Considering the amount of repayments, the outstanding amount of these securities stood at 155 billion, down 0.3 percent from December 2016.

Chart 3.16: Change in outstanding amount of negotiable debt securities (In billions of dirhams)



Sources : Maroclear and BAM calculations.

Chart 3.17: Change in subscriptions and redemptions to mutual fund (In billions of dirhams)



Source : Moroccan Stock Market Authority.

3.2.2.4 Mutual fund shares/units

In 2016, subscriptions to mutual fund shares/units totaled 729.1 billion dirhams and redemptions stood at 702.7 billion, representing a net inflow of 26.4 billion dirhams. Given an annual performance of 8.8 percent, the net assets of UCITS stood at 375.6 billion dirhams in 2016, up 13.8 percent compared to the same period of the previous year. This change reflects the appreciations of the net assets of all funds, except for the contractual ones, which declined by 9 percent.

In January, subscriptions totaled 87.1 billion and redemptions amounted to 89.6 billion, reflecting a net redemption of 2.5 billion. Under these conditions and considering a monthly performance of 1.5 percent, the net assets of UCITS funds decreased slightly by 0.1 percent compared to December 2016.

4. FISCAL POLICY STANCE

The budgetary adjustment sought by the Government for the fiscal year 2016 has not been achieved, marking a break with the consolidation process that began in 2013. The deficit, excluding privatization, stood at 42.1 billion, exceeding 5.5 billion compared to the finance act programming, and increasing 2.1 percent compared to 2015. This result largely reflects faster investment spending, lower donations from GCC countries compared to the finance act forecast, and losses registered particularly in terms of revenues from domestic VAT. Compared to the year 2015, current expenses were virtually stable, with contraction in other goods and services and interest on external debt, which offset the increase in other items, namely the wage bill and transfers to local collectivities. On the other hand, current revenues rose by 3.2 percent, due to improved tax receipts and virtually stable nontax proceeds. Direct public debt is thus estimated at around 65 percent of GDP at the end of 2016, from 64.1 percent at the end of 2015.

For the first month of fiscal year 2017, the budget execution resulted in a surplus of 448 million, instead of a surplus of 116 million in January 2016. These performances, carried out on the basis of the Decree establishing the appropriations necessary for the operation of public services and Decree concerning the collection of certain receipts published on December 31, 2016, reveal a larger increase in revenue compared with expenditure. The latter registered increases, except for other goods and services and investment spending that fell. The Treasury reduced its arrears of payments by 6.7 billion, after increasing by 5.2 billion in 2016, raising its financing need to 6.2 billion from 1.2 billion in the same period of 2016. It used the domestic market for a total of 6.7 billion to close the cash deficit and negative external net flow. Thus, the direct public debt would have increased by 1.1 percent compared to its level of December 2016. The Treasury's financing conditions on the auctions market are favorable, as evidenced by the fall in average rates at issuance in January 2017 compared to January 2016.

4.1 Current revenues

The first month of budget execution in 2017 showed a favorable trend in current revenues compared to January 2016. They improved by 5.7 percent, with a 6.5 percent increase in tax receipts to 19.6 billion and a decrease of 15.2 percent in nontax revenues to 541 million dirhams. The positive change in tax proceeds is attributable to receipts from VAT and energy domestic consumption tax (DCT) and, to a lesser extent, direct taxes.

Proceeds from direct taxes moved up 1.5 percent to 5.9 billion, representing increases of 2 percent in corporate tax revenues to 1.5 billion and 0.7 percent in income tax receipts to 4.3 billion. The change in income tax covers mainly a decrease of 9.7 percent in income tax on salaries paid by the Personnel Expenses Department of Morocco's General Treasury to 651 million and 11.3 percent in income tax on real estate profits to 315 million.

Indirect taxes progressed by 14.8 percent to almost 10 billion dirhams, reflecting mainly a 14.3 percent increase in VAT receipts to 7.8 billion dirhams. Indeed, domestic VAT revenue increased by 14.4 percent to 3.9 billion, taking into account the repayment of VAT claims amounting to 228 million dirhams from 453 million in January 2016. Similarly, receipts from import VAT grew by 14.2 percent to 3.9 billion, up 53.6 percent in VAT on energy products and 7.9 percent in VAT on other products.

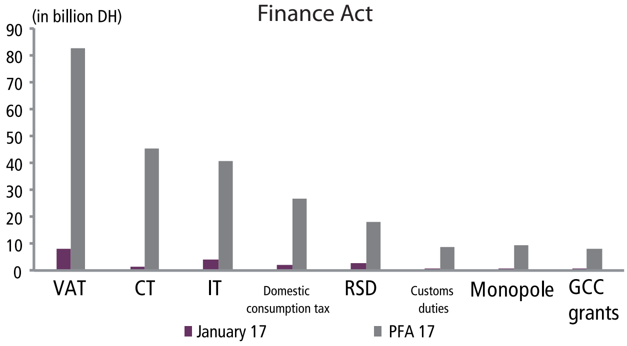
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan. 2016	Jan. 2017	Change in %	FAP 2017	Achievements with respect to the FAP (%)
Current revenues	**19.1**	**20.2**	**5.7**	**251.4**	**8.0**
Tax revenues	**18.4**	**19.6**	**6.5**	**225.8**	**8.7**
- Direct taxes	5.8	5.9	1.5	89.4	6.6
Including CT	1.5	1.5	2.0	45.6	3.4
I.T	4.2	4.3	0.7	40.9	10.5
- Indirect taxes	8.7	10.0	14.8	109.4	9.1
VAT*	6.8	7.8	14.3	82.8	9.4
DCT	1.9	2.2	16.7	26.6	8.3
- Customs duties	0.7	0.7	-7.8	8.9	7.5
- Registration and stamp duties	3.2	3.0	-3.9	18.1	16.8
Nontax revenues**	**0.6**	**0.5**	**-15.2**	**22.3**	**2.4**
- Monopoles	0.0	0.0	-7.7	9.1	0.4
- Other receipts	0.6	0.5	-15.6	13.2	3.8
Including GCC grants	0.3	0.1	-75.5	8.0	1.0
TSA receipts	**0.0**	**0.0**	**-52.2**	**3.3**	**0.3**

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

DCT showed a favorable development overall, draining 2.2 billion, up 16.7 percent, after a 48.3 percent improvement of DCT on energy products to 1.3 billion. On the other hand, tobacco DCT declined by 12.9 percent to 745 million. Customs duties, registration and stamp fees deteriorated by 7.8 percent and 3.9 percent, respectively, compared with January 2016.

Chart 4.1: Achievements in major public receipts against the Finance Act



Sources : Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.
Note :
- TVA : Value added tax
- IT : Income tax
- RSD : Registration and stamp duties
- CT : Corporate tax
- DCT : Domestic consumption tax
- CD : Customs duties

Nontax receipts showed a decrease of 15.2 percent, marked by the collection of 78 million dirhams from GCC countries, compared to 319 million a year earlier, and 36 million from monopoly revenues from Bank Al-Maghrib.

4.2 Public expenditure

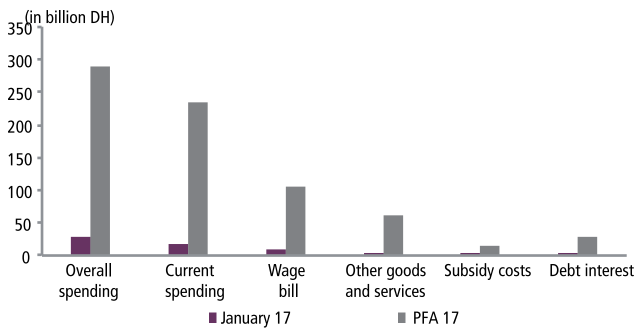
Overall expenditure moved up 1.9 percent to 29.6 billion compared with January 2016. This trend mainly covers a 3.7 percent increase in current expenses to 18.3 billion and a 0.9 percent reduction in investment spending to 11.3 billion. Spending on goods and services fell by 2 percent to 13.2 billion, reflecting a 4.6 percent increase in payroll to 8 billion dirhams, and a 10.6 percent decrease in spending on other goods and services to 5.2 billion, particularly due to respective declines of 36.8 percent and 46.5 percent in transfers to public institutions to 1.2 billion and payments to the Treasury special accounts to 245 million.

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

	Jan. 2016	Jan. 2017	Change In %	FAP 2017	Achieve-ments with respect to the FA (%)
Overall spending	**29.1**	**29.6**	**1.9**	**290.4**	**10.2**
Current spending	**17.6**	**18.3**	**3.7**	**234.8**	**7.8**
Goods and services	13.5	13.2	-2.0	167.8	7.9
Staff	7.7	8.0	4.6	106.7	7.5
Other goods and services	5.8	5.2	-10.6	61.1	8.5
Debt interest	1.1	1.3	15.5	27.5	4.6
Subsidy costs	1.0	1.5	46.1	14.7	10.1
Transfers to LA	2.0	2.3	14.3	24.9	9.4
Investment	**11.4**	**11.3**	**-0.9**	**55.6**	**20.4**

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

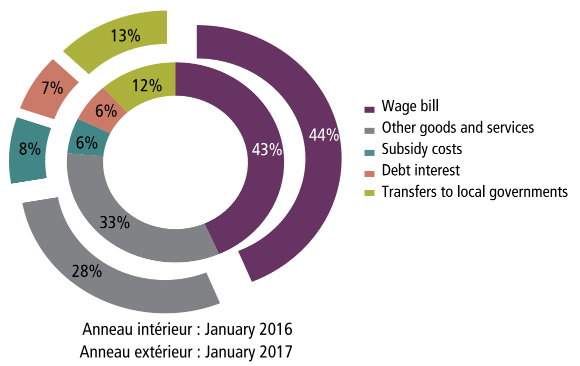
Chart 4.2: Execution of spending compared to the Finance Act



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

In addition, debt interest charges grew by 15.5 percent to 1.3 billion, reflecting an increase of 14.5 percent in interest on domestic debt and 21.9 percent in interest on external debt to 189 million.

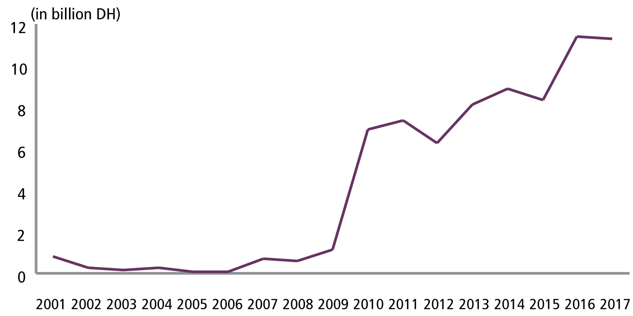
Chart 4.3: Structure of current spending



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

Subsidy costs rose by 46.1 percent to 1.5 billion. This change is partly attributed to the 71.9 percent increase in butane gas prices on the international market, which reached an average price of $490/T in January 2017 from $285/T a year earlier. Similarly, the exchange rate of the dirham against the dollar depreciated by 1.6 percent rising to an average of 10.1 from 9.9 at end-January 2016.

Chart 4.4: Investment spending at January 2001- 2017



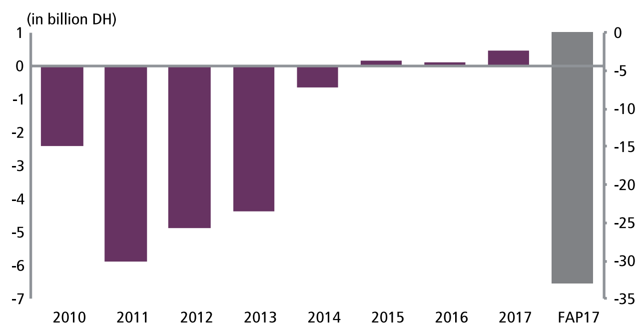
Source : Ministry of Economy and Finance (TEFD).

Investment spending eased by 0.9 percent to 11.3 billion, following a 10.1 percent drop in common expenses and an increase of 86.4 percent in the spending of ministries. The common investment expenditure takes into account transfers to the Treasury special accounts, amounting to 9.1 billion, as against 10.1 billion at end-January 2016. Compared to the amount of 55.6 billion programmed in the finance act, January flows accounts for 20.4 percent, representing a high execution rate.

4.3 Deficit and Treasury financing

Taking into account a positive balance of the Treasury special accounts of 9.9 billion, down 2 percent compared to January 2016, the position of public finances resulted in a budget surplus of 448 million, up 332 million. The Treasury has settled payment arrears of 6.7 billion dirhams, reducing its stock to nearly 5.4 billion[1], as against settlement of arrears of 1.3 billion in January 2016. As a result, the cash deficit deteriorated sharply from 5.1 billion to 6.2 billion.

Chart 4.5: Fiscal balance of january



Source : Ministry of Economy and Finance (TEFD).

1 BAM estimate on the basis of monthly flows.

Net external financing flows were negative at 458 million in January 2017, as against a positive flow at 3.9 billion in 2016. The latter and the financing need were covered by the domestic market for an amount of 6.7 billion, as against a negative net flow of 2.7 billion in January 2016.

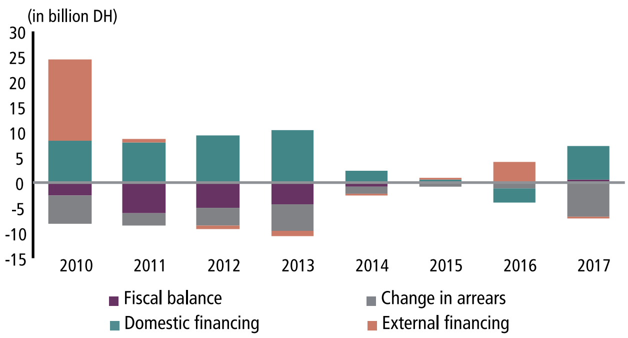
Table 4.3: Deficit financing (in billions of dirhams)

	Jan. 2016	Jan. 2017	FAP 2017	Absolute gap FAP/ jan.17
Current balance	**1.4**	**1.9**	**16.6**	**14.7**
Balance of TSA	10.1	9.9	6.0	-3.9
Primary balance	1.2	1.7	-5.5	-7.2
Fiscal balance	**0.1**	**0.4**	**-33.0**	**-33.4**
Change in arrears	-1.3	-6.7	0.0	
Financing requirements	**-1.2**	**-6.2**	**-33.0**	**-26.7**
Domestic financing	-2.7	6.7	20.5	13.8
External financing	3.9	-0.5	12.5	13.0

Source : Ministry of Economy and Finance (TEFD).

An amount of 7.7 billion was raised in the auction market, up 25.2 percent compared to January 2016. Net subscriptions to the auction market were performed mainly on 13-week bills, amounting to 7.7 billion, 52-week bonds for 8.5 billion, and two-year bills for 6.7 billion. At the same time, the net repayments concerned 26-weeks bills and 10-year bonds for 3.5 billion and 1.2 billion, respectively.

Chart 4.6: Fiscal balance and financing at January 2010- 2017*



* Privatization receipts, limited and discontinued over time, were included in domestic financing.
Source : Ministry of Economy and Finance (TEFD).

Treasury conditions in the auction market improved between January 2016 and the same month of 2017. Indeed, the weighted average rate (WAR) of issues on 13-week bills fell back by 30 basis points (bps) to 2.19 percent. Rates on 52-week Treasury bills also declined from 2.57 percent to 2.33 percent, down 24 bps. For 2-year and 5-year Treasury bills, their WARs decreased by 17 and 18 bps, to 2.53 percent and 2.89 percent, respectively. In total, the WARs of the maturities issued in January 2017 compared to the WARs of these same maturities in January 2016 were down 22 bps to 2.48 percent on average.

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

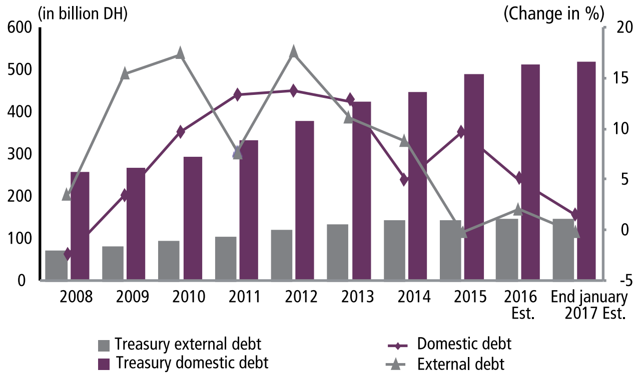
	2012	2013	2014	2015	2016	At end jan. 2017 Est*
Treasury external debt	**116.9**	**129.8**	**141.1**	**140.8**	**143.6**	**143.1**
Change in %	17.4	11.1	8.7	-0.2	2.0	-0.3
Treasury domestic debt	**376.8**	**424.5**	**445.5**	**488.4**	**512.1**	**519.8**
Change in %	13.7	12.6	5.0	9.6	4.8	1.5
Outstanding direct debt	**493.7**	**554.3**	**586.6**	**629.2**	**655.7**	**662.9**
Change in %	14.6	12.3	5.8	7.3	4.2	1.1

Source : Ministry of Economy and Finance (TEFD).

From Debt at end January 2017, estimates are based on the flows of domestic and external financing.

Concerning direct public debt, estimates based mainly on funding flows show a growth of 1.1 percent in January 2017, compared to end-December 2016. This trend covers a decrease of 0.3 percent in its external component and a 1.5 percent increase in its domestic one.

Chart 4.7: Treasury debt



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

Box 4.1: Budget execution in 2016

Budget execution in 2016 revealed a deficit of 42.1 billion dirhams, excluding privatization, or 4.2 percent of GDP, widening by 1 percent compared to 2015 and exceeding 5.5 billion of the target of the finance act 2016. This change partly reflects the acceleration of expenditure, executed with a magnitude greater than that of current revenue and the relatively low donations from GCC countries. Current receipts rose by 3.2 percent, reflecting the uptrend of the tax receipts. Current expenditure increased by 104 million, virtually stagnating from end-December 2015. The current balance posted a surplus at 17.8 billion from 10.3 billion. The balance of Treasury special accounts was positive at 3.4 billion, down 53 percent.

With an execution rate of 98.6 percent, tax receipts amounted to 212.4 billion, up 3.8 percent compared to 2015. Direct tax revenues, achieved at 99.2 percent, improved by 4.9 percent to 84.8 billion, mainly covering an increase of 5.4 percent in income tax revenues to 38.7 billion and 5.2 percent in proceeds from corporate taxes to 43.2 billion. Similarly, indirect tax receipts rose 101.9 billion, up 1.9 percent, reflecting increases of 1.5 percent in VAT revenues to 75.8 billion and 3 percent in proceeds from DCT to 26.1 billion. These trends cover an 8.6 percent increase in receipts from DCT on manufactured percent increase in

Table B 4.1.1: Budget execution in 2016

	2015	2016	Gaps		Execution /FA 2016
			in %	in value	
Ordinary receipts	**233.5**	**241.1**	**3.2**	**7.6**	**98.0**
Tax receipts*	**204.6**	**212.4**	**3.8**	**7.7**	**98.6**
- Direct taxes	80.8	84.8	4.9	4.0	99.2
Of which corporate tax I.S	41.1	43.2	5.2	2.2	97.7
Income tax revenues	36.7	38.7	5.4	2.0	100.1
- Indirect taxes	100.0	101.9	1.9	1.9	97.2
VAT	74.6	75.8	1.5	1.1	95.6
DCT	25.4	26.1	3.0	0.8	102.9
- Customs duties	7.7	9.1	17.6	1.4	114.8
- Registration and stamp	16.1	16.6	3.1	0.5	96
Non tax receipts	**25.5**	**25.4**	**-0.4**	**-0.1**	**93.5**
- Monopoles	9.0	8.2	-8.6	-0.8	98.3
- Other receipts	16.5	17.2	4	0.7	91.4
Donations from GCC countries	3.7	7.2	94.6	3.5	55.6
Receipts of some TSA	**3.4**	**3.3**	**-1.5**	**-0.1**	**100.7**
Overall expenses	**281.9**	**286.6**	**1.7**	**4.7**	**99.3**
Ordinary expenses	**223.2**	**223.3**	**0.0**	**0.1**	**94.9**
Goods and services	**159.6**	**159.4**	**-0.1**	**-0.2**	**95**
Personnel	103.0	104.3	1.3	1.4	97.7
Other goods and services	56.6	55.1	-2.7	-1.5	90.2
Public debts interests	**27.3**	**27.1**	**-0.7**	**-0.2**	**95.8**
Subsidy	**14.0**	**14.1**	**0.9**	**0.1**	**90.7**
Transfers to TA	**22.4**	**22.7**	**1.5**	**0.3**	**95.6**
Ordinary balance	**10.3**	**17.8**		**8.0**	
Investment	58.7	63.2	7.8	4.6	119
Balance of TSA des CST	7.2	3.4		-3.8	
Fiscal balance	**-41.2**	**-42.1**	**2.1**	**-0.9**	
In points of GDP	**4.2**	**4.2**			
Primary balance	**-13.9**	**-15.0**		**-9.9**	
Variation of arrears	-5.1	5.2			
Financing balance	**-46.3**	**-36.9**		**9.3**	
Domestic financing	45.9	32.6		-13.3	
Exterior financing	0.3	2.8		2.5	
Privatization	0.0	1.5			

Sources :

- Ministry of economy and finance (TEFD).
- Local government VAT reprocessing by BAM.
- 2016 GDP is estimated by BAM
- Numbers in billion DH, unless stated otherwise

receipts from DCT on manufactured tobacco to 9.3 billion and a slight decrease of 0.6 percent in DCT on energy products to 15.2 billion dirhams. Import VAT revenues moved up 4.6 percent to 47.9 billion, while domestic VAT receipts fell by 3.3 percent to 27.9 billion. Change in the latter takes account of the repayments of 8.1 billion compared to 5.3 billion in 2015. Revenue from customs duties strengthened by 17.6 percent and was collected at 114.8 percent to 9.1 billion. Similarly, receipts from registration and stamp fees jumped 3.1 percent and were collected at 96 percent to 16.6 billion.

Non-tax revenue, excluding privatization, decreased slightly by 0.4 percent to 25.4 billion, thus executed at 93.5 percent. Donations received particularly from GCC countries amounted to 7.2 billion, up 94.6 percent, but down 44.3 percent compared to the finance act forecasts. Revenues from the monopoly and shareholdings fell by 8.6 percent to 8.2 billion, which is an execution rate of 98.3 percent, 2 billion of which were provided mainly by the OCP, 1.4 billion by Maroc Telecom, 1.5 billion by the National Land Registry and Mapping, 750 million by Marsa Maroc and 435 million by Bank Al-Maghrib.

Meanwhile, the overall expenditure was executed to the tune of 99.3 percent of the finance act. It rose by 1.7 percent to 286.6 billion, reflecting an increase of 7.8 percent in investment spending to 63.2 billion. At the same time, the execution of current expenditure was controlled compared to the finance act forecast at 94.9 percent, to stand at 223.3 billion, almost stable from 2015. This change essentially reflects a decline of 0.1 percent in operating expenses to 159.4 billion, covering a decrease of 2.7 percent in other goods and services to 55.1 billion, and a 1.3 percent increase in payroll to 104.3 billion. The rise in this the latter covers increases of 0.7 percent in the structural payroll and 13.2 percent in back-pays. Debt interest charges fell slightly by 0.7 percent to 27.1 billion, showing a 95.8 percent execution rate, covering a drop of 5.1 percent in external debt interest and a virtual stabile domestic debt interest. Subsidy costs increased by 0.9 percent to 14.1 billion, showing a performance rate of 90.7 percent.

Considering the backlog of outstanding payments of 5.2 billion, the Treasury has a financing need of 36.9 billion, easing by 20.2 percent compared to December 2015. In addition to privatization receipts of 1.5 billion, this requirement was mainly covered by the domestic market with an amount of 32.6 billion, of which 23.7 billion as debt issues, as against 42.9 billion in 2015. The external financing flow amounted to 2.8 billion, as against a near-zero flow a year ago, with repayments of 7.6 billion and drawings of 10.4 billion

5. DEMAND, SUPPLY AND LABOR MARKET

Domestic activity would have grown by 1.1 percent throughout 2016, reflecting a growth of 1 percent in the first three quarters and 1.3 percent in the fourth quarter. Given the available indicators, growth should be around 3.5 percent in the first quarter of 2017, thanks to a positive contribution from net exports and a robust domestic demand.

On the supply side, considering the sharp contraction in cereal production and the decline in market gardening and pulse crops, the agricultural value added would have dropped by 10.1 percent in 2016, while nonagricultural GDP growth should stabilize at around 2.5 percent. For the first quarter of 2017, economic growth should be driven mainly by the prospects for a good crop year, while nonagricultural activities should slow down slightly to 2.4 percent from 2.5 percent in the previous quarter.

In the labor market, conditions were characterized in 2016 by a net loss of 37,000 jobs and a significant drop of one percentage point in the participation rate to 46.4 percent, which caused a slight decline from 9.7 percent to 9.4 percent in the unemployment rate. Regarding labor costs, the latest available data for the third quarter indicate a year-on-year increase of 2.1 percent in the private sector wage index, as against 2.2 percent, in nominal terms and a stable rate at 0.3 percent in real terms.

Under these conditions, the output gap would have remained negative but close to zero in the fourth quarter of 2016 and the first quarter of 2017.

5.1 Domestic demand

5.1.1 Consumption

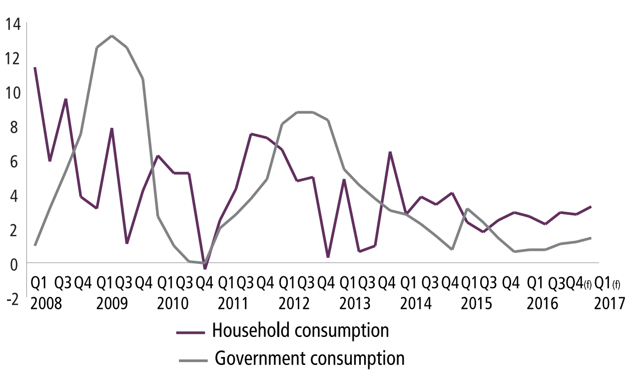
Over the whole of 2016, household consumption would have grown at around 2.7 percent, from 2.4 percent in 2015. This change takes account of an average of 2.6 percent in the first three quarters and a forecast of 2.8 percent in the fourth quarter, supported by an increase of 5.4 percent in consumer loans and 14 percent in imports of consumer goods.

In the first quarter of 2017, household final consumption should grow at a faster pace, driven mainly by improved farm incomes and a relative recovery of nonfarm ones.

The growth of government final consumption would have accelerated slightly by 1.2 percent in the fourth quarter of 2016, after an average growth of 0.9 percent in the first three quarters, thus bringing its growth from 1.9 percent in 2015 to 1 percent on average in 2016. Its contribution to growth would have stood at 0.2 percentage point in 2016 compared to 0.4 point a year earlier.

In the first quarter of 2017, government final consumption should continue its upward trend, with an expected growth of around 1.4 percent.

Chart 5.1: Change in consumer spending (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

The year 2016 would have been marked by a 6 percent increase in investment after two successive decreases of 3.4 percent and 2.7 percent in 2014 and 2015, respectively. In the fourth quarter of 2016, it would have posted a growth of 7 percent, as against a decline of 0.7 percent a year earlier.

In the first quarter of 2017, investment growth would have slowed to 3.5 percent, due to a lesser build-up of stocks as well as a less significant change in government investment.

Moreover, the findings of Bank Al-Maghrib's monthly business survey in the industry indicate that the business climate stagnated in the fourth quarter, with an increase in global orders, which does not allow them, however, to return to their normal levels. In addition, manufacturers expect an increase in the first quarter in investment spending across all industries.

5.2 External demand

After a positive contribution of 3.5 percentage points in 2015, external demand would have negatively impacted GDP growth in 2016.

In the fourth quarter of 2016, net exports maintained a negative contribution to growth, with increases of 9.6 percent in imports and 3.9 percent in exports.

Overall, with an average rate of 1 percent in the first three quarters, GDP growth would have stood at around 1.3 percent in the fourth quarter, bringing economic growth to 1.1 percent in 2016, which is the lowest rate since the early 2000s.

In the first quarter of 2017, due to a rebound in agricultural exports and improved exports of phosphates and derivatives, mainly fertilizers, as well as a deceleration in imports of capital goods, external demand should contribute positively to growth.

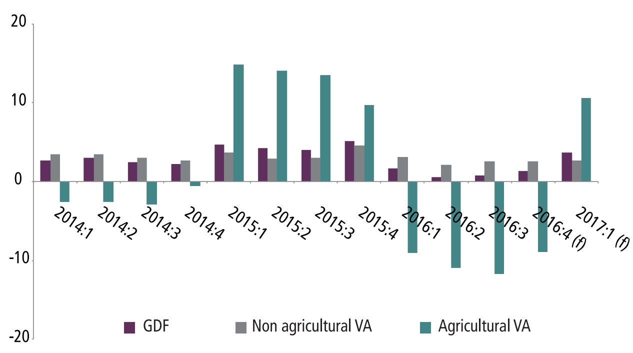
5.3 Aggregate supply

In the fourth quarter of 2016, the agricultural value added would have declined by 8.9 percent as against 11.7 percent in the previous quarter, continuing to suffer from the sharp contraction in cereal production as well as the decline in market gardening and pulse crops, whose impact was only partially mitigated by the improvement of other crops.

Regarding nonagricultural activities, the increase in their value added would have virtually stabilized at around 1.8 percent in the fourth quarter of 2016. Considering an estimated 6.8 percent increase in taxes on products net of subsidies, nonagricultural GDP growth would have stood at 2.5 percent, the same rate as in the third quarter.

GDP growth should accelerate slightly to 1.3 percent from 0.8 percent in the third quarter of 2016 and 0.5 percent in the second quarter, the lowest rate since the first quarter of 2007.

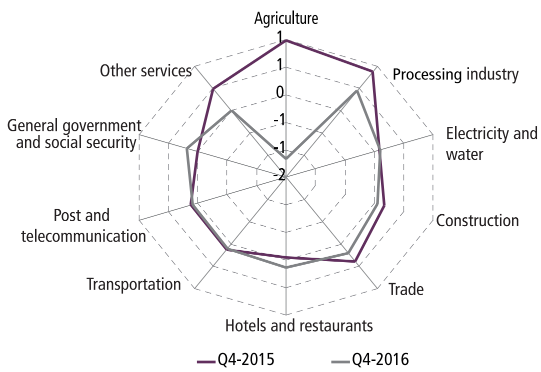
Chart 5.2: YoY annual change in GDP (chained prices, in %)



Sources: HCP, and BAM forecasts.

By sector, the value added of secondary activities would have risen in the fourth quarter of 2016 by 1.9 percent from 0.9 percent in the previous quarter, driven by the acceleration from 0.8 percent to 2.2 percent in that of the processing industries and a 2 percent increase in mining industry after a 1.4 percent decline. The electricity sector growth would have decelerated from 3.9 percent to 3.5 percent, reflecting a slowdown in domestic electricity output from 5.4 percent to 3 percent, due to the contraction in hydropower production of 19.4 percent. Construction activities remain weak with growth of only 0.8 percent.

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



Sources: HCP, and BAM forecasts

Tertiary activities would have slowed to 1.8 percent after a 2.5 percent growth in the third quarter. This change was attributed to the deceleration from 7.7 percent to 5.1 percent in the tourism sector growth and from 3.5 percent to 3.2 percent in growth of the post and telecommunication sector. The commercial sector would have maintained its growth of 1.9 percent observed in the third quarter.

Overall, for the whole of 2016, economic growth would have slowed considerably from 4.5 percent in 2015 to 1.1 percent, covering a contraction of 10.1 percent in the agricultural value added after an increase of 12.8 percent and deceleration from 3.5 percent to 2.5 percent in the nonagricultural growth.

For the first quarter of 2017, GDP growth is projected at 3.5 percent, driven by the prospects for a good crop year and the improvement in other crops under positive climatic conditions, and a 2.4 percent increase in nonagricultural activities, notably thanks to the continued improvement in industrial, mining, commercial and postal and telecommunication activities.

5.4 Labor market and output capacity[1]

5.4.1 Activity and employment

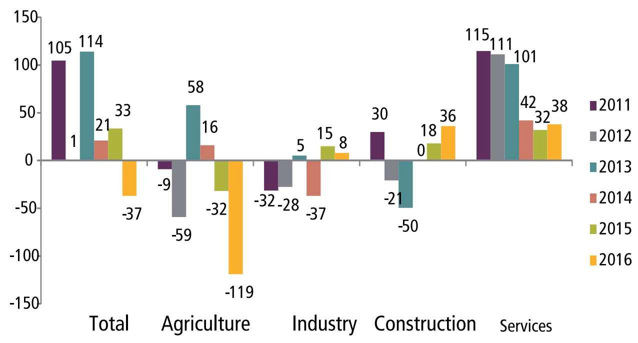
The year 2016 was marked by a decline of 0.7 percent in the labor force aged 15 years and over to 11.74 million, the first decline since 2002[2]. This trend was more marked in rural areas with a decline of 1.1 percent compared to 0.3 percent in urban areas. Taking into account the growth of the working-age population, the labor force participation rate continued to decline at a faster pace from 47.4 percent to 46.4 percent nationally, from 41.4 percent to 40.5 percent in cities and from 56.7 percent to 55.7 percent in rural areas.

At the same time, the Moroccan economy suffered a loss of 37,000 jobs, due to a drop of 63,000 jobs in rural areas and a creation of 26,000 jobs in urban areas. The employed labor force declined by 0.3 percent and the employment rate dropped by 0.8 percentage point to 42 percent, by 0.5 percentage point to 34.9 percent in urban areas and by one point to 53.4 percent in rural areas.

By sector of activity, services, the main job-providing sector, created only 38,000 jobs, followed by construction with 36,000 jobs, then industry, including handicrafts, with only 8,000 jobs. By contrast, employment in agriculture, forestry and fisheries fell for the second consecutive year, with a significant loss of 119,000 jobs.

1 This section covered the annual analysis of the labor market conditions, due to the failure to publish data for the fourth quarter of 2016.
2 Data on labor force aged 15 years and over are derived from detailed HCP reports between 1999 and 2013.

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

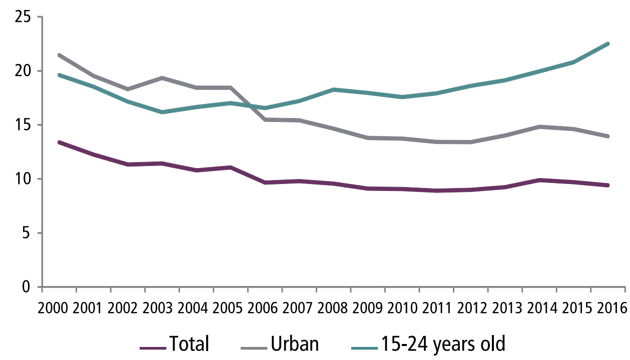


Source : HCP.

5.4.2 Unemployment and underemployment

The unemployed labor force fell again by 3.7 percent to 1.1 million persons. Considering the decline in the labor force, the unemployment rate showed an apparent improvement falling from 9.7 percent to 9.4 percent nationally. This decline affected urban areas only, as the rate dropped from 14.6 percent to 13.9 percent, but increased from 4.1 percent to 4.2 percent in rural areas. For young people aged 15 to 24 in particular, the rate again increased from 20.8 percent to 22.5 percent nationally and from 39 percent to 41 percent in cities.

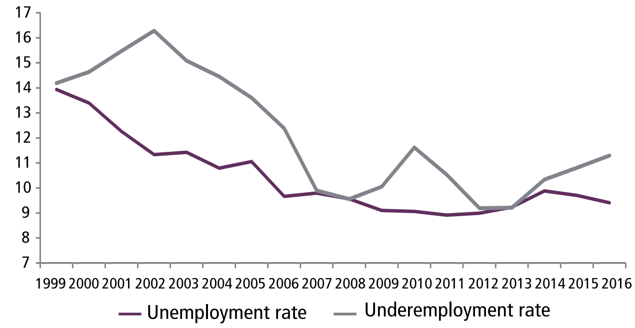
Chart 5.5: Trend in unemployment rate (in %)



Source : HCP.

As to underemployment[1], the rate rose again by 0.5 percentage point to 11.3 percent from 10.8 percent a year earlier. This change covers an increase of 0.3 point to 10.2 percent in urban areas and 0.6 point to 12.4 percent in rural areas.

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



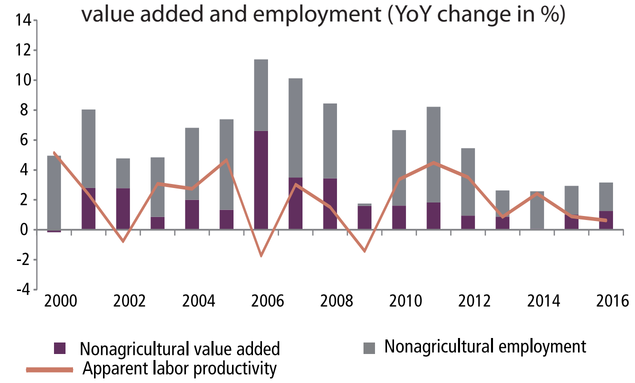
Source : HCP.

By sector, apart from services where it stagnated at 10.1 percent, underemployment was up 1.6 percentage point to 18.5 percent in construction, 0.8 point to 11.6 percent in agriculture and 0.7 point to 8.9 percent in industry, including crafts.

5.4.3 Productivity and wages

The growth of apparent labor productivity in nonagricultural activities[2] slowed from 0.9 percent in 2015 to 0.6 percent in 2016, due to the stable nonagricultural growth at 1.9 percent and a faster increase in agricultural employment from 1 percent to 1.3 percent.

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



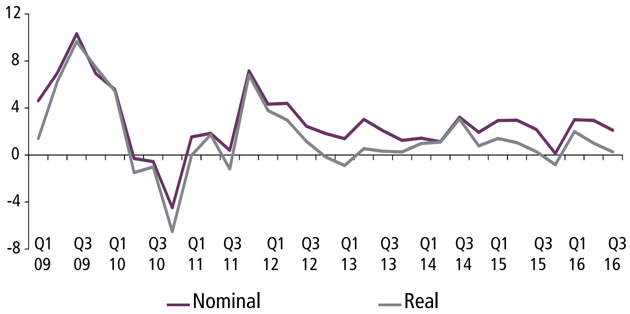
Sources: HCP, and BAM calculations.

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

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

Regarding wage costs, the latest CNSS data for the third quarter show a 2.1 percent increase in the average wage index as against 2.2 percent in nominal terms and a stable growth rate at 0.3 percent in real terms.

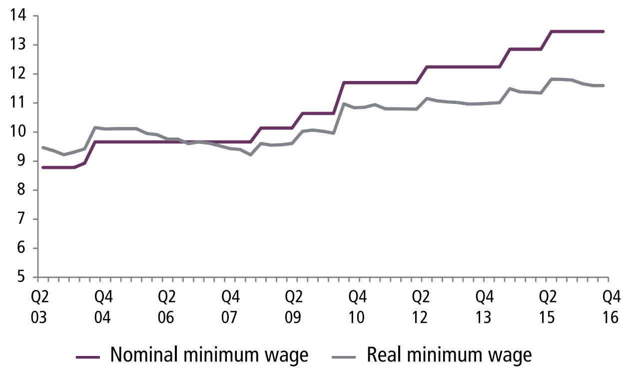
Chart 5.8: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

The minimum wage remained at 11.46 dh/hours in nominal terms in the fourth quarter of 2016. Given a 1.8 percent increase in the Consumer Price Index, it dropped in real terms by 1.8 percent, year on year, and should decrease by 1.6 percent in the first quarter of 2017.

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



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

Table 5.1 : Labor market main indicators

		2015	2016
Participation rate (%)		**47.4**	**46.4**
Urban		41.4	40.5
Rural		56.7	55.7
Unemployment rate (%)		**9.7**	**9.4**
Youth aged between 15 and 24 years old		20.8	22.5
Urban		14.6	13.9
Youth aged between 15 and 24 years old		39.0	41.0
Rural		4.1	4.2
Job creation (in thousands)		**33**	**-37.0**
Urban		29	26
Rural		4	-63
Sectors			
- Agriculture		-32	-119
-Industry including handicrafts		15	8
- Construction		18	36
- Services		32	38
Nonagricultural apparent productivity (change in %)		**0.9**	**0.6**
		Q3 2015	**Q3 2016**
Average wage index (change in %)	**Nominal**	**2.2**	**2.1**
	Real	**0.3**	**0.3**

Sources: HPC; CNSS and BAM calculations

Overall, the output gap should remain close to zero in the fourth quarter of 2016 and the first quarter of 2017 according to Bank Al-Maghrib forecasts.

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

Source: BAM estimates based on HCP data.

6. RECENT INFLATION TRENDS

In line with the forecasts published in the latest Monetary Policy Report, inflation, as measured by changes in the Consumer Price Index, edged down from 1.9 percent in the third quarter to 1.8 percent in the fourth quarter of 2016, and stood at 1.6 percent on average in 2016. In January 2017, it accelerated to 2.1 percent, due to higher fuel and lubricant prices, and to a lesser extent, a further increase in core inflation and rising volatile food prices. Indeed, fuel and lubricant prices rose 19.4 percent in January from 9.9 percent in the last quarter of the previous year, in line with the recovery of international oil prices. Similarly, inflation of volatile food prices progressed slightly from 5.9 percent to 6.3 percent, driven mainly by adverse weather conditions that impeded the development of certain crops, mainly fresh vegetables. At the same time, core inflation accelerated slightly from 1 percent to 1.2 percent, in line with changes in food prices, particularly oils and fresh meat. Inflation of regulated products remained stable at 0.6 percent.

In the short term, inflation should decelerate to 1.3 percent in the first quarter of 2017, as the slower growth of volatile food prices more than offset the acceleration in core inflation and the increase in fuel and lubricant prices.

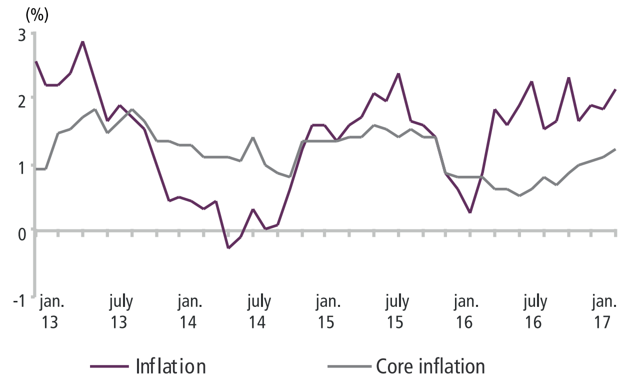
6.1. Inflation trends

Inflation rose from an average of 1.8 percent in the fourth quarter of 2016 to 2.1 percent in January 2017. This acceleration in price growth concerned all its components, except for regulated products whose pace remained stable.

The increase in fuel prices rose further from 9.9 percent to 19.4 percent, in line with the increase in international prices of petroleum products. Meanwhile, the increase in volatile food prices accelerated slightly from 5.9 percent to 6.3 percent, mainly due to rising prices of fresh vegetables, which was attributed to adverse climatic conditions that impacted the development of certain crops.

Prices for regulated products and services maintained their pace of growth unchanged at 0.6 percent, mainly due to a further increase in electricity prices under the contract program established between the State and the Office for Electricity and Drinkable Water (ONEE).

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. 16	dec. 16	jan. 17	nov. 16	dec. 16	2016	jan. 17
Headline inflation	**-0.3**	**-0.1**	**0.2**	**1.9**	**1.8**	**1.6**	**2.1**
- Volatile food products	-2.7	-0.8	-1.0	6.6	5.7	7.5	6.3
- Fuels and lubricants	0.7	0.3	4.6	10.2	11.5	-1.7	19.4
- Administered goods	0.0	0.1	0.5	0.6	0.7	0.8	0.6
Core inflation	**0.3**	**0.1**	**0.2**	**1.0**	**1.1**	**0.8**	**1.2**
- Food products	0.2	0.1	0.5	1.1	1.1	0.6	1.6
- Clothing and footwear	0.2	0.3	0.2	0.8	0.8	1.1	1.0
- Housing, water, gas, electricity and other fuels*	0.3	0.0	0.1	0.9	0.9	1.0	1.0
- Furnishings, household equipment and routine house maintenance	0.0	0.0	0.2	0.6	0.6	0.6	0.6
- Health*	0.1	-0.1	0.0	0.5	0.0	1.0	0.2
- Transportation*	0.2	-0.2	-0.1	0.2	0.2	0.3	-0.1
- Communication	0.0	0.0	0.0	-0.3	-0.2	-0.2	-0.2
- Entertainment and culture	0.0	0.0	-0.1	1.9	1.9	1.6	1.6
- Education	0.1	0.0	0.0	2.9	2.9	2.3	2.9
- Restaurants and hotels	0.2	0.2	0.0	2.6	2.5	2.5	2.5
- Miscellaneous goods and services	0.0	0.0	0.1	0.4	0.4	0.2	0.4

* Excluding administered goods.

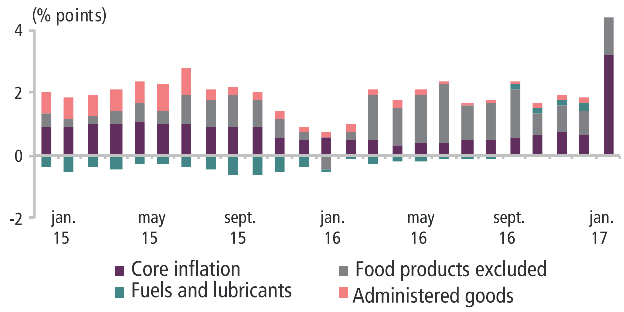
Sources: HCP, and BAM calculations.

Excluding these products, core inflation accelerated slightly from 1 percent in the fourth quarter of 2016 to 1.2 percent in January, due to higher prices for oils and fresh meat.

6.1.1. Prices of goods excluded from core inflation

Compared to the gains achieved in the second and third quarters of 2016, volatile food inflation remained relatively moderate between October 2016 and January 2017 due to mitigation of supply shocks on food. The growth of these prices fell back from 9.5 percent in the third quarter of 2016 to 5.9 percent in the fourth quarter, before registering a slight acceleration to 6.3 percent in January 2017. This trend affected mainly prices for fresh vegetables whose growth rate trended from 8 percent and 5.8 percent to 14.6 percent, mainly due to the unfavorable climatic conditions that impacted the development of certain crops. The contribution of these products to inflation declined from 1.3 in the third quarter to 0.8 percentage point in the fourth quarter and in January 2017.

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

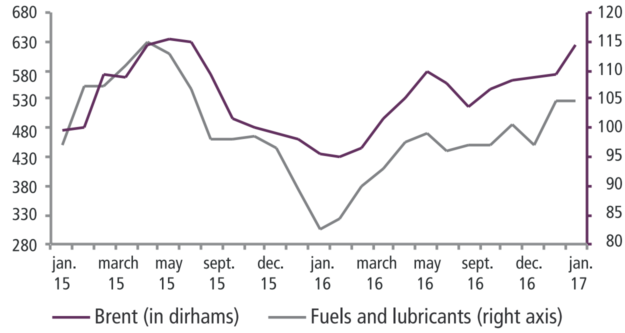


Sources: HCP, and BAM calculations.

Similarly, fuel and lubricant prices progressed further from 9.9 percent in the last quarter of 2016 to 19.4 percent in January, mainly reflecting the impact of the increase in international oil prices. Brent prices rose by 78 percent in January from their historically low level in the same period of the previous year.

Prices for regulated products continued to rise in January to 0.6 percent, a level observed in the fourth quarter of 2017. This rise mainly covers a 2.7 percent increase in electricity prices as against 2.4 percent in January 2016, owing to the contract program between the State and ONEE.

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



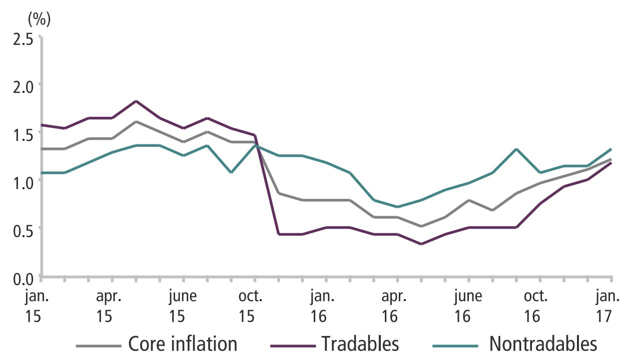
Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

The acceleration in core inflation from 1 percent in the fourth quarter to 1.2 percent in January was attributed to higher prices of both tradables and nontradables.

Inflation of tradables rose from 0.9 percent in the fourth quarter to 1.2 percent in January, driven mainly by higher oil prices. The contribution of tradables to core inflation stood at 0.6 percentage point from 0.5 percentage point.

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



Sources: HCP, and BAM calculations

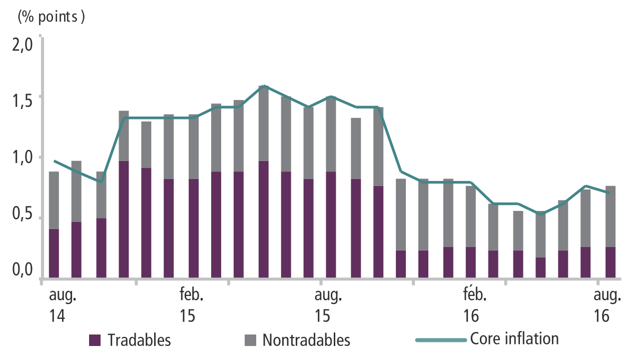
Inflation of nontradables was up from 1.2 percent to 1.3 percent, mainly reflecting a 0.4 percent increase, as against a 0.5 percent drop in fresh meat prices. The contribution of nontradables to core inflation progressed from 0.5 to 0.6 percentage point.

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

(In %)	Monthly change (%)			YoY change (%)		
	nov. 16	dec. 16	jan. 17	nov. 16	dec. 16	jan. 17
Tradables	0.2	0.2	0.3	0.9	1.0	1.2
Nontradables	0.1	0.0	0.2	1.2	1.2	1.3
Core inflation	0.3	0.1	0.2	1.0	1.1	1.2

Sources: HCP, and BAM calculations.

Chart 6.5: Contribution of tradables and nontradables to core inflation in points %



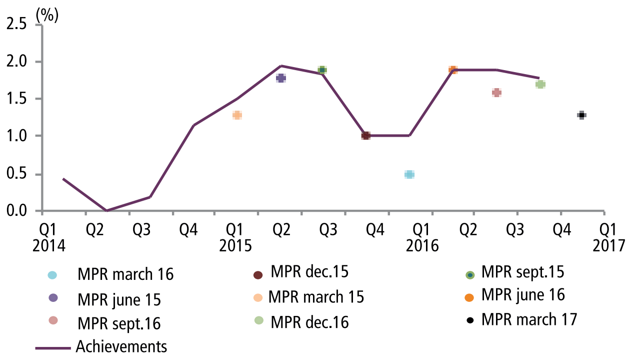
Source: BAM.

6.2. Short-term outlook for inflation

The deceleration of inflation in 2017 expected in the Monetary Policy Report of last December should be felt as from the first quarter. Indeed, it should slow to 1.3 percent from 1.8 percent in the fourth quarter of 2016. This trend would be attributed to a sharply low growth of volatile food prices, due to their relatively high level one year earlier owing to the shock that negatively impacted the supply of certain products during this period.

This decline should be offset by the expected acceleration of fuel and lubricant prices due to the projected increase in energy prices. Core inflation should accelerate and prices for regulated products should evolve at a rate slightly higher than a year ago following the application of the new electricity price increase as of January.

Chart 6.6: Short-term forecasts and actual inflation



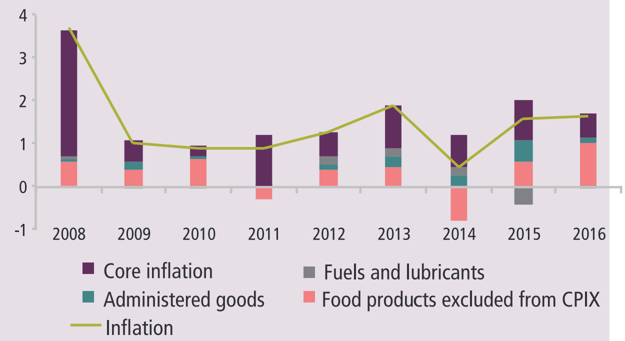
Sources : BAM.

Box 6.1: Inflation trends in 2016

Inflation measured by the change in the consumer price index stood at 1.6 percent in 2016, unchanged from 2015 and in line with its long-term trend. By component, this stagnation covers contrasting trends. Thus, after a 4.3 percent increase in 2015, volatile food prices rose by 7.5 percent, which is the highest rate in the last eight years. This acceleration is attributable to the advent of successive shocks during the year, negatively impacting the supply of three groups of fresh products, namely "fresh vegetables", "eggs" and "poultry and rabbits". Due to the reversal of the downward trend in international oil prices since the beginning of the year, the fall in fuel and lubricant prices eased sharply from 16.1 percent to 1.7 percent.

The inflationary impact of the price trends in these two components was offset by the slowdown in the inflation of regulated products and core inflation, mainly due to base effects. Thus, in the absence of new government decisions on prices for regulated products, the partial implementation of those scheduled resulted in slower inflation of regulated products and services from 2.9 percent to 0.8 percent. Core inflation decelerated from 1.3 percent to 0.8 percent, a much lower rate than its average of the last ten years. This trend is mainly attributable to a decline from 1.8 percent to 0.5 percent in the growth of food prices, mainly owing to the dissipation of the effect of soaring cereal prices in 2015.

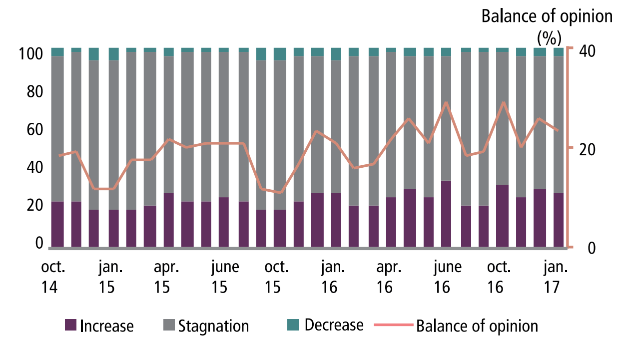
Chart B 6.1.1 : Contribution to inflation
(in % point)



6.3. Inflation expectations

The results of Bank Al-Maghrib's survey in the industry for January 2017 indicate that 68 percent of manufacturers anticipate that inflation would stagnated over the next three months, while 28 percent expect it to rise and 4 percent project to decelerate.

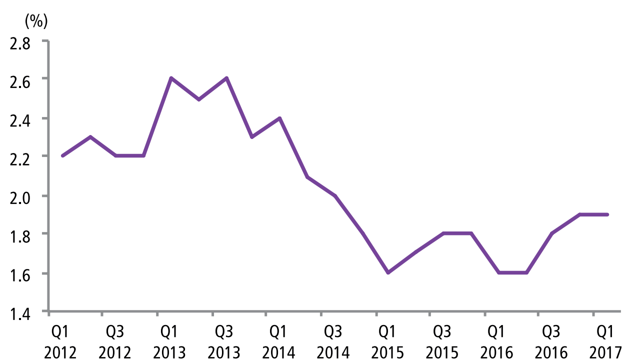
Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

Moreover, the findings of Bank Al-Maghrib's inflation expectations survey for the fourth quarter 2016 indicate that financial sector experts anticipate an average inflation rate of 1.9 percent between the fourth quarter of 2016 and third quarter of 2018.

Chart 6.8: Six-month inflation expectations by financial experts

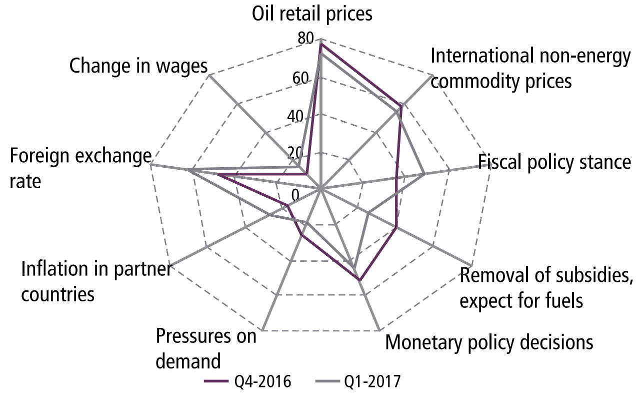


Source: BAM's quarterly survey on inflation expectations.

* From the second quarter of 2016, the anticipation horizon wwas increased from 6 to 8 quarters.

In this regard, they agree that price trends at the pump, monetary policy decisions and international commodity prices are major determinants of future inflation trends in this period.

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

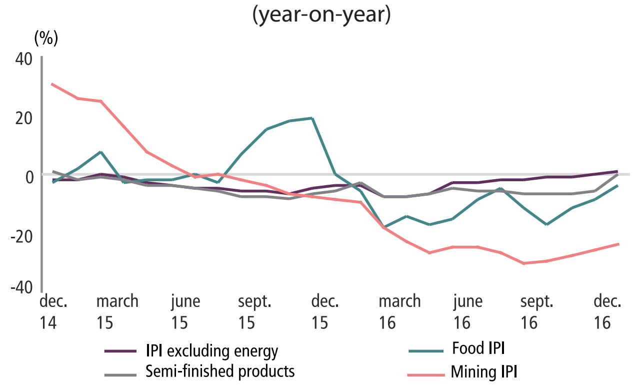


Source: BAM's quarterly survey on inflation expectations.

6.4. Import and producer prices

After consecutive declines since December 2014, non-energy import prices recorded a first annual increase of 0.6 percent in December 2016.

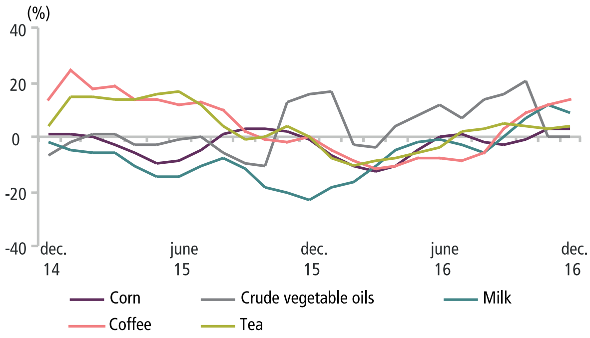
Chart 6.10: Change in the main import prices indexes (year-on-year)



Sources: Foreign Exchange Office, and BAM calculations.

Imported food prices fell by 3.4 percent, mainly due to a 20.6 percent decline in the wheat import price. Other imported foodstuffs recorded significant increases of 13.6 percent for coffee and 9 percent for milk and 3.9 percent for tea. Similarly, import prices of semi-finished products decreased by 4.9 percent and mining products by 23.2 percent.

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

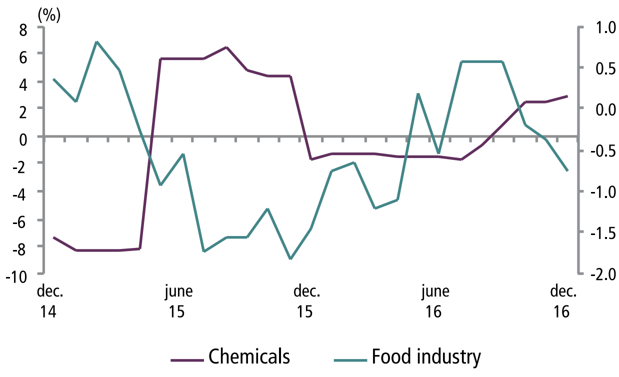


(*) Excluding wheat and sugar prices

Sources: Foreign Exchange Office, and BAM calculations.

The manufacturing producer prices excluding oil refining showed a slight monthly decline of 0.1 percent in December. This decline essentially reflects a 0.1 percent drop in producer prices of food industries and 0.6 percent of "the manufacturing of other non-metallic mineral products", which more than offset the 0.1 percent increase in producer prices of the "textile industry". Year on year, producer prices excluding refining rose 0.1 percent, as against 0.2 percent in November, bringing their average growth in 2016 to -0.4 percent from -0.2 percent a year earlier.

Chart 6.12: YoY change in industrial producer price indexes



Sources : HCP.

7. MEDIUM-TERM OUTLOOK

Summary

The global economic recovery should continue in the medium term, with a relatively stronger growth compared to December projections. It should benefit from the support measures undertaken in advanced countries, with a further mitigation of the Brexit-linked risks and a relative improvement of the growth prospects in certain emerging countries. However, the change in the world economy over the medium term remains surrounded by significant uncertainties, particularly due to the economic policy stance of the new US administration, particularly fiscal and trade policies, as well as the indebtedness level in certain emerging countries, notably China.

Thus, economic activity in the United States should pick up in 2017 and consolidate in 2018, supported by accommodative financial and monetary conditions. Growth in the euro area should continue to benefit from ECB quantitative easing measures and the easing of the effects of the Brexit-related uncertainties. Emerging countries should benefit from improved activity in advanced economies and rising commodity prices. Russia and Brazil would recover from the crisis, while growth in China should continue to slow down as the economy continues to rebalance. In commodity markets, world prices should remain relatively low overall, albeit with a slight upward revision of energy and food prices, in particular. Under these conditions, inflation in the euro area should increase substantially in 2017 and stabilize in 2018 at a level close to the ECB target, while in the United States, inflation would accelerate to 2.7 percent in 2017, driven by the upward revision of energy prices, and should fall to 2.2 percent in 2018.

In line with the expected improvement in foreign demand and given the expected recovery in sales of phosphates and derivatives and the uptrend of the automotive sector, exports of goods should accelerate. At the same time, imports of goods should continue to increase, albeit at a slower pace, reflecting the deceleration of capital goods purchases, while petroleum products should rise.

Assuming that annual donations from GCC countries would stand at 8 billion in 2017 and 2018, the current account deficit should ease compared to 2016, though at levels higher than projected in December. Taking into account these developments and the anticipated continuation of large FDI inflows, the forecast for net international reserves was revised downward. These reserves should cover 6 months and 17 days of imports of goods and services by 2017 and stabilize at 6 months and 20 days by 2018. Considering this revision and recent developments in other liquidity factors, the banking cash deficit was adjusted upward to 13.4 billion dirhams at end-2017 and 18.5 billion at end-2018.

As for bank credit, recent data for December show a slight improvement in lending to the nonfinancial sector. On the basis of this trend and the expected improvement in nonagricultural activities as of 2017, the growth of bank credit to the nonfinancial sector was adjusted to 4.5 percent in 2017 and to 5 percent in 2018.

Regarding public finances, after the 2016 budget deficit exceeded the finance act target, the budgetary adjustment is expected to continue, albeit at a much smaller scale than expected in December. Thus, the fiscal deficit is expected to fall from 4.2 percent of GDP in 2016 to 3.7 percent in 2017 and to 3.4 percent in 2018, with an upward revision of 0.6 percentage point of GDP compared to December forecasts.

National accounts data for the third quarter confirm overall the Bank's forecasts for the year, suggesting a sharp deceleration in national growth due to a contraction in agricultural output. Thus, after 4.5 percent in 2015, growth would have stood at 1.1 percent, because of a 10.1 percent drop in the agricultural value added, and a 2.5 percent increase in nonagricultural GDP. On the demand side, this deceleration covers a decline in net exports, due to the significant increase in imports of capital goods, and an improvement in domestic demand, driven by higher investment.

In the medium term, national growth is expected to be broadly in line with December projections of 4.3 percent in 2017 and 3.8 percent in 2018. This outlook should reflect respective increases of 11.5 percent and 2.5 percent in the agricultural value added and increases of 3.4 percent and 3.9 percent in nonagricultural GDP. Domestic demand should improve gradually, supported by better economic prospects and by the appropriate stance of monetary policy. Net exports are expected to improve significantly, thanks to the relative recovery in foreign demand and the easing of the appreciation of the real effective exchange rate. They should be driven by the recovery in the growth of phosphate shipments and the continued momentum in exports of Morocco's new global businesses, notably the automotive and aerospace industries.

Against this backdrop, and given the dissipation of disinflationary pressures, coupled with improved domestic demand and expected easing of the appreciation of the real effective exchange rate, core inflation should be on a bullish trend, while remaining moderate. It is expected to rise from 0.8 percent in 2016 to 1.5 percent in 2017 and 1.9 percent in 2018. Considering also the expected rise in fuel and lubricant prices following the projected growth of world prices of petroleum products and the anticipated dissipation of the effects of higher volatile food prices, inflation should move down from 1.6 percent in 2016 to 1 percent in 2017 and accelerate to 1.7 percent in 2018.

7.1 Underlying assumptions

A gradual recovery in the global economy, driven by the United States and the euro area

The gradual recovery in global economic activity should continue at a slightly higher pace than expected in December with better growth prospects in the euro area and the United States, a relative resilience of the UK economy to the Brexit-related effects, as well as an exit from the crisis of certain emerging countries, notably Russia and Brazil. However, there are strong uncertainties surrounding these projections due to the economic policy stance of the new US administration, especially the fiscal and trade policies. Particularly, economic activity in the United States should pick up in 2017 and consolidate in 2018, supported by accommodative monetary and financial conditions, with a rate of 1.6 percent in 2016 before reaching 2.3 percent in 2017 and consolidating to 2.4 percent in 2018. Growth in the euro area should continue to be supported by the ECB quantitative easing measures and the mitigation of the effects of Brexit-related uncertainties. Indeed, after 1.7 percent in 2016, it should accelerate slightly to 1.9 percent in 2017 before falling to 1.6 percent in 2018, due to the effective exit of the United Kingdom. Under these conditions, foreign demand addressed to Morocco should improve, albeit at a moderate pace.

Chart 7.1: Growth in the euro area

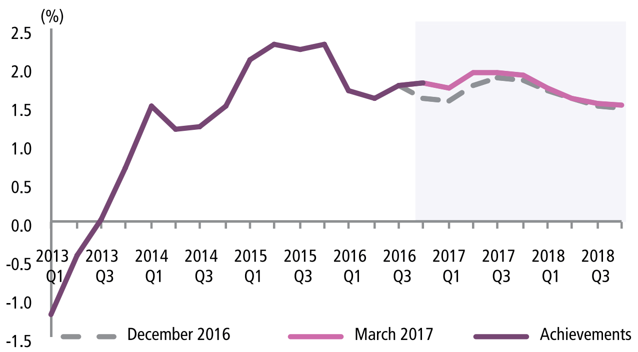
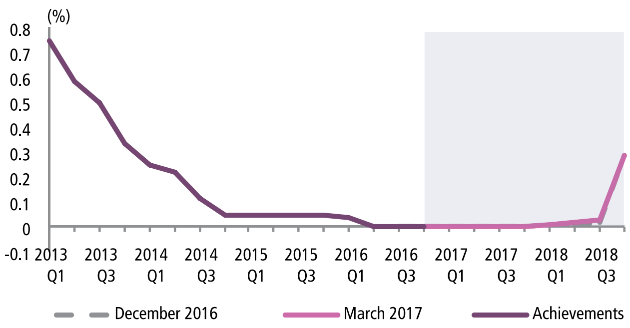


Chart 7.2: ECB policy rate



Source: GPM forecasts[1] of february 2017.

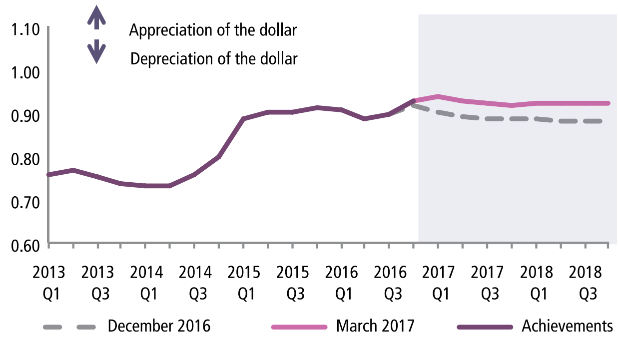
Dollar appreciation in a context of divergent monetary policy stances of the Fed and ECB

After a rebound in the fourth quarter of 2016, partly due to market reaction to the fiscal stimulus policies expected from the new US administration, the dollar should remain appreciated against the euro over the medium term, in conjunction with the better economic outlook in the United States and the continued divergence of the monetary policies of the EDF and the ECB. After raising the target range for federal fund rates to 0.75 percent to 1 percent

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

on March 15, the Fed should continue to normalize its monetary policy. However, the ECB would maintain its asset purchase program until December 2017, while reducing its amount from €80 billion to €60 billion from April 2017. Its key rate should remain unchanged until the fourth quarter of 2018. Against this backdrop and after the rebound in the fourth quarter 2016, the dollar should remain appreciated in the medium term.

Chart 7.3: USD/EUR exchange rate



Source: GPM forecasts of February 2017.

Commodity prices should continue to evolve at a low level in the medium term, albeit with upward revisions of oil and food prices

In a context of slow recovery in global economic activity and slowing growth in China, commodity prices should continue at low pace, albeit with an upward revision of forecasts for energy and food prices. After reaching $42.8/bbl in 2016, the average oil price should increase to $54.6/bbl in 2017 and then stabilize at $55.3/bbl in 2018, representing increases of $3/bbl and $1.8/bbl compared to December forecasts. Prices of phosphates and especially of fertilizers should stabilize at low levels in the medium term, particularly owing to the output capacity surplus and the low international food prices. The latter should continue to evolve at a low level, but up from December.

Against this backdrop, inflation in the euro area should rebound from 0.2 percent in 2016 to 1.6 percent in 2017, before stabilizing at 1.7 percent in 2018, reflecting the improved economic outlook, depreciation of the euro and rising energy prices. In the United States, inflation is expected to accelerate to 2.7 percent in 2017, driven by rising energy prices, and to drop to 2.2 percent in 2018.

Chart 7.4: Food commodity price index

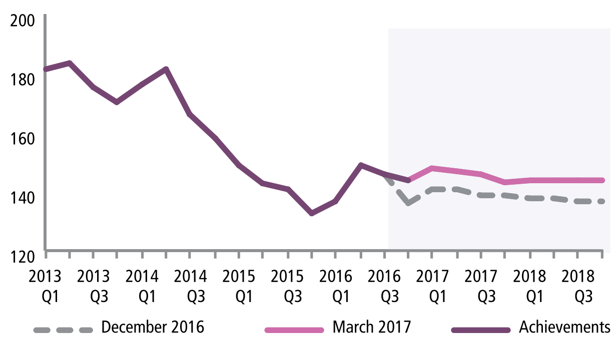
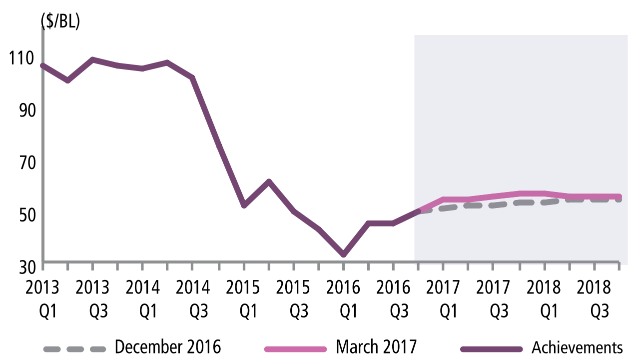


Chart 7.5: International crude oil price (IMF)



2 February 2017 forecast of the GPM network. The ECB expects in March a rate of 1.7 percent in 2017 and 1.6 percent in 2018 for aggregate inflation. Its non-energy and food component is expected to stand at 1.1 percent and 1.5 percent, respectively.

Chart 7.6: Inflation in the euro area

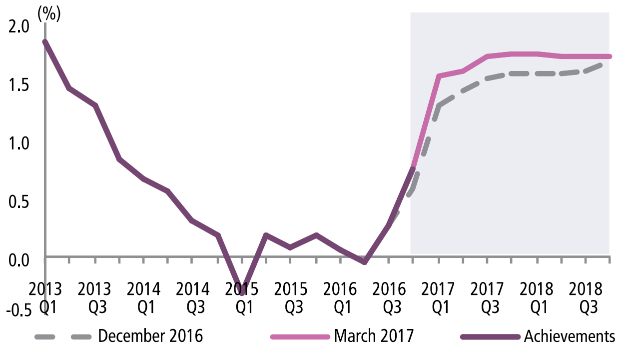
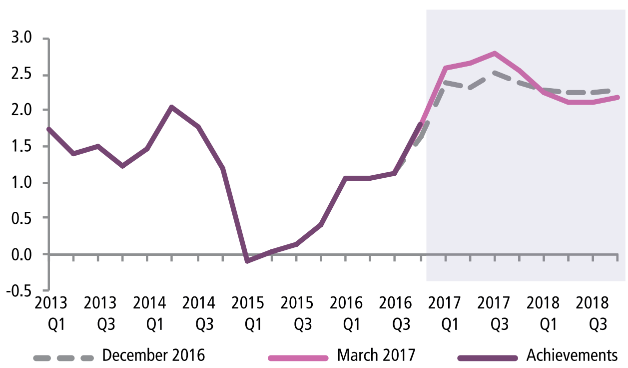


Chart 7.7: Inflation in United states



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

The budgetary adjustment pace to slow

The fiscal year 2016 resulted in a deficit of 42.1 billion dirhams, excluding privatization, exceeding by 5.5 billion the finance act target and rising by 2.1 percent compared to the fiscal year 2015. This change mainly reflects faster investment expenditure, lower donations from GCC countries and the losses recorded in tax revenue, mainly domestic VAT. The budget deficit for the years 2017 and 2018 was revised in the light of these performances and considering the adjustments to BAM's macroeconomic projections, while assuming a continued trend towards fiscal consolidation through controlling expenditure and mobilizing public receipts.

The fiscal deficit was adjusted upward by 0.6 percentage point to 3.7 percent of GDP in 2017 and to 3.4 percent of GDP in 2018, with particularly an increase in investment spending to 5.9 percent of GDP. Other changes mainly concerned the upward revision of other nontax receipts, as well as the increase in the subsidy costs, in connection with the new assumptions relating to the butane gas price and the exchange rate and taking into account transfers to the ONEE as part of the 2014-2017 contract program. These forecasts also take into account donations from GCC countries projected at 8 billion in 2017 and 2018, as against 7.2 billion in 2016.

Cereal production to stand at 78 million quintals for the crop year 2016-2017 and the uptrend of other crops to continue

Cereal production for the crop year 2015-2016 is estimated by the Ministry of Agriculture and Fisheries at 33.5 million quintals, down 71 percent from the previous year and 59 percent from the average of the last five years. This change reflects a high rainfall deficit, the largest recorded over the past 30 years, with uneven distribution of rain over time and space. For other crops, data from the Ministry of Agriculture and Fisheries indicate a decrease in market gardening production, as opposed to an increase in December, and a sharp decline in that of legumes, whose impacts were only partially mitigated by improved production of other crops.

The 2016-2017 crop year is taking place under favorable climatic conditions, with better cumulative rainfall and state of vegetation as of February 20, 2016, up 21.4 percent and 11.2 percent, respectively, compared to the average of the last five years. Against this backdrop, cereal production is projected at 78 million quintals, from 70 million assumed in December.

For 2018, an average cereal production of 70 million quintals is forecast, assuming a continued upward trend in other crops.

7.2 Macroeconomic projections

After a relative widening in 2016, the current account deficit should ease in the medium term

In 2016, the current account deficit would have reached 4.2 percent of GDP from 2.8 percent expected in December. This worsening is mainly attributed to a larger-than-expected rise in imports of capital goods and to a lesser extent an increase in consumer goods purchases.

In the medium term, the current account deficit should ease but would remain higher than expected in December, reaching 3.3 percent of GDP in 2017 and 3.5 percent of GDP in 2018. Increase in imports should continue, in line with the recovery in growth and rising oil prices. Capital goods purchases should continue to rise, but at a slower pace than in 2016 and the energy bill, after having fallen since 2013, should increase significantly in 2017 and record a slight increase in 2018. The growth of exports should accelerate, mainly due to the expected recovery in sales of phosphates and derivatives following the dissipation of the effect of lower prices in 2016 and the improved demand from the euro area. The momentum in the automotive industry should continue at a slower pace than in 2016. This current account path also implies an annual inflow of grants from GCC countries, amounting to 8 billion in 2017 and 2018.

Under these conditions and considering developments in the main headings of the financial account, particularly FDI inflows, net international reserves should cover 6 months and 17 days of imports of goods and services by 2017 and 6 months and 20 days at the end of 2018.

Table 7.1: Forecasts of the balance of payments components

	Achievements					Forecasts		Gap (march/ december)		
	2012	2013	2014	2015	2016**	2017	2018	2016	2017	2018
Exports of goods* (change in %)	5.8	-0.1	8.8	8.6	2.5	6.2	4.6	0.6	0.7	-0.2
Imports of goods* (change in %)	8.2	-0.5	0.8	-4.1	9.5	5.0	5.4	3.8	0.5	-0.5
Travel receipts (change in %)	-1.8	-0.4	3.0	3.1	3.4	4.1	3.4	-2.0	0.5	-0.4
Expatriate remittances (change in %)	0.6	-1.5	3.7	0.3	3.4	4.1	3.6	-0.6	-0.9	-0.9
Current account balance (% of GDP)	**-9.5**	**-7.9**	**-5.7**	**-2.2**	**-4.2**	**-3.3**	**-3.5**	**-1.4**	**-1.2**	**-1.0**
Net international reserves in months of goods and services' imports	**4.1**	**4.4**	**5.3**	**6.7**	**6.6**	**6.6**	**6.7**	**-0.1**	**-0.4**	**-0.7**

* From Foreign trade perspective
** Estimates

Sources: Foreign Exchange Office and BAM forecasts.

The appreciation of the real effective exchange rate to dissipate gradually in the medium term and bank credit to continue improving

Monetary conditions should remain accommodative over the forecast horizon. The real interest rate showed a drop in 2016 following the reduction in the key rate in March, but it was mitigated by the moderate inflation rate in the second half of the year. The appreciation of the real effective exchange rate in 2016 should ease in 2017 and diminish in 2018, due to a lower appreciation of the nominal effective exchange rate and the acceleration of inflation in partner and competing countries compared to domestic inflation.

Considering the downward revision of foreign exchange reserves and the recent changes in other liquidity factors, the banking liquidity situation should post a deficit of 13.4 billion dirhams at end-2017 and widen to 18.5 billion at the end of 2018. Given its slight recovery in 2016 and the expected improvement in nonagricultural activities from 2017 onwards, the growth of bank lending to the nonfinancial sector was revised to 4.5 percent in 2017 and 5 percent in 2018. In total, taking into account other money creation sources, the annual money supply growth should stabilize at around 5 percent over the forecast horizon.

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

	Achievements				Forecasts		Gap (march/ december)		
	2013	2014	2015	2016	2017	2018	2016	2017	2018
Bank lending to nonfinancial sector (change in %)	1.7	3.8	0.3	3.9	4.5	5.0	0.4	0.5	0.5
M3 (change in %)	3.1	6.2	5.7	4.7	5.1	5.0	0.0	-0.1	-0.4
Liquidity surplus or deficit, in billion dirhams	-68.4	-40.6	-16.5	-14.7	-13.4	-18.5	4.1	-6.3	-16.8

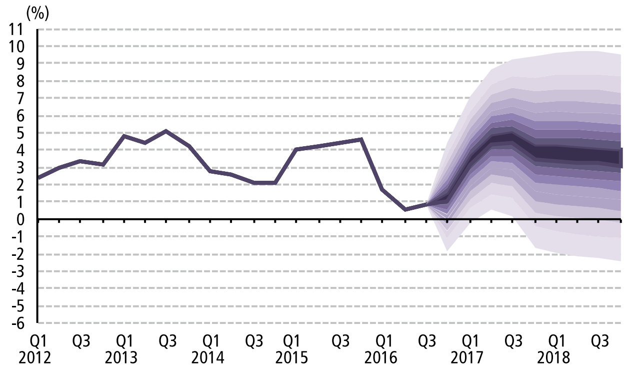
Source : BAM.

Growth to consolidate after the expected slowdown in 2016

The national accounts data for the third quarter of 2016 suggest a sharp deceleration in domestic growth, thereby broadly confirming the Bank's forecasts for the year. Growth would have stood at 1.1 percent from 4.5 percent in 2015, covering a 2.5 percent increase in nonagricultural GDP and a 10.1 percent contraction in the agricultural value added. The latter was revised downwards compared to December projections, lower than expected performance of market gardening and pulse crops. On the demand side, this deceleration reflects lower net exports after their positive contribution to growth in 2015. The anticipated expansion in imports of goods and services, revised upwards taking particularly into account the higher-than-expected growth of capital goods, should more than offset the rise in exports. Domestic demand would have improved, in conjunction with the recovery in investment, as evidenced mainly by the significant growth of capital goods imports, while household consumption, albeit slightly accelerating, remained sluggish, due to the deterioration in labor market conditions, weaker nonagricultural activities and lower farm incomes. The general government consumption would have slowed down, reflecting a continued low pace of growth in operating expenditure.

In the medium term, national economic activity is expected to pick up, at a rate broadly in line with December projections. Growth should stand at 4.3 percent in 2017 and consolidate to 3.8 percent in 2018, with respective increases of 11.5 percent and 2.5 percent in the agricultural value added and 3.4 percent and 3.9 percent in nonagricultural GDP. On the demand side, this recovery should be sustained by a relative renewed rigor of domestic demand, mainly driven by improved incomes, particularly agricultural incomes, and by the accommodative stance of monetary policy. Particularly, household final consumption should strengthen, supported by improved incomes, particularly agricultural ones. The anticipated negative effect from the increase in the employer's pension contributions as part of the reform of the Moroccan Pensions Fund (Caisse Marocaine des Retraites) should remain weak. In addition, investment should keep the pace registered in 2016, in conjunction with the continued efforts regarding public investment and its externalities on private investment. The general government consumption should maintain a modest rate of growth, in a context of controlled operating expenses. Exports of goods and services should benefit from the easing of the appreciation of the real effective exchange rate and a recovery of foreign demand larger than expected in December. They should be driven by the recovery in the growth of phosphate shipments and the continuing momentum of exports of Morocco's new businesses, mainly automotive and aeronautics industries. The growth of imports should continue, reflecting improved domestic demand and exports.

Chart 7.8: Growth outlook over the forecast horizon (Q4 2016- Q4 2018), (YoY)*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Sources: HCP data, and BAM forecasts.

Table 7.3: Economic growth (%)

	Achievements				Forecasts			Gap (march/ december)		
	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
National growth	**3.0**	**4.5**	**2.6**	**4.5**	**1.1**	**4.3**	**3.8**	**-0.1**	**0.1**	**0.1**
Agricultural VA	-9.1	17.2	-2.2	12.8	-10.1	11.5	2.5	-0.5	1.0	-1.0
Nonagricultural GDP	4.7	2.9	3.2	3.5	2.5	3.4	3.9	-0.1	0.0	0.2

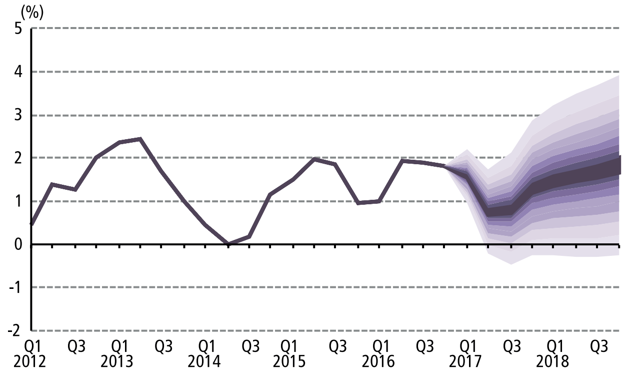
Sources: HCP data, and BAM forecasts.

Overall, the cycle of economic activity would have been negative in 2016. In the medium term, this negative cycle should gradually dissipate following the anticipated rebound in domestic demand, supported by positive outlook for income growth and the accommodative stance of monetary policy, as well as the continued momentum of export growth, sustained by the expected improvement in foreign demand and the easing of the appreciation of the real effective exchange rate.

Core inflation should accelerate but would remain moderate in the medium term

In the medium term, core inflation should accelerate from 0.8 percent in 2016 to 1.5 percent in 2017 and to 1.9 percent in 2018. This trend is attributed to the anticipated easing of disinflationary pressures, reflected by improved domestic demand and moderate increases in imported inflation, mainly owing to higher oil prices along with the expected mitigation of the appreciation of the real effective exchange rate.

Chart 7.9: Inflation forecast over the horizon
(Q1 2017- Q4 2018)*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Sources: HCP data, and BAM forecasts.

Table 7.4: Forecasts of inflation and core inflation

	Achievements		Forecasts			Gap (march/december)		
	2015	2016	2017	2018	8 quarters horizon	2016	2017	2018
Inflation	**1.6**	**1.6**	**1.1**	**1.7**	**1.4**	**0.0**	**0.1**	**0.2**
Core inflation	1.3	0.8	1.5	1.9	1.7	0.0	0.0	0.2

Sources: HCP data, and BAM forecasts and calculations.

Fuel and lubricant prices should continue their upward trend in 2017, due to rising international oil prices, before stabilizing in 2018. The deceleration of inflation in 2017 is attributable to a decline in volatile food prices after the upward shocks in the second quarter of 2016.

Overall, inflation should remain moderate over the forecast horizon at an average of 1.4 percent. After 1.6 percent in 2016, it should decelerate to 1.1 percent

Chart 7.10: Change in core inflation and output gap

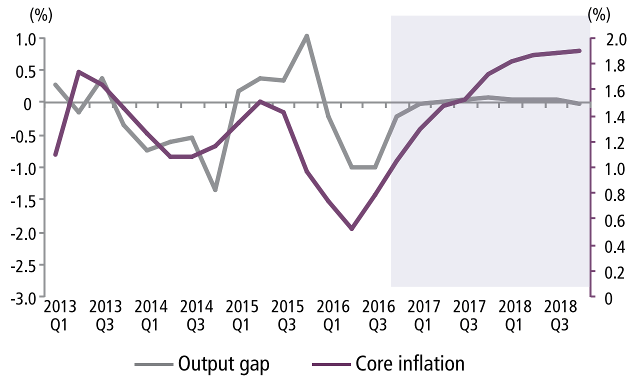
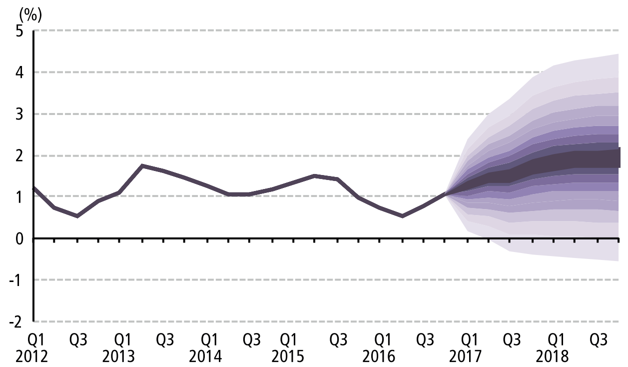


Chart 7.11: Projections of core inflation over the forecast horizon (Q1 2017- Q4 2018)*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Sources: HCP, and BAM forecasts and calculations.

7.3 Balance of risks

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

In terms of growth, uncertainties about the international environment are attributed to the trend of the new US administration's trade policy and its impact on world trade as well as the divergence of stances of the Fed and ECB monetary policies and its negative effect through an appreciation of the real effective exchange rate. Other risks relate to the outcome of elections in certain major euro area countries, notably in France and Germany, consequences of UK's effective exit from the European Union and high indebtedness level in some emerging countries, mainly China.

On the other hand, under more favorable-than-expected climatic conditions, cereal production could exceed 78 million quintals, an assumption used in the central scenario, and growth could thus accelerate further in 2017.

Concerning the risks surrounding the forecast central inflation, a higher increase in international oil prices or a reversal of the downward trend in world commodity prices could lead to a higher-than-expected increase in consumer prices. Conversely, a more rapid normalization of the FED monetary policy could exert more disinflationary pressure through the appreciation of the effective exchange rate.

LIST OF ABBREVIATIONS

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

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

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