PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 20, 2017

1. The Board of Bank Al-Maghrib held its second quarterly meeting of the year on Tuesday, June 20.
2. At this meeting, it examined and approved the Annual Report 2016 on the national economic, monetary and financial situation as well as on the Bank's activities.
3. The Board also analyzed the recent economic developments and the macroeconomic forecasts prepared by the Bank for the next eight quarters.
4. Based on these analyses, the Board considered that the current level of 2.25 percent for the key rate remains appropriate and decided to keep it unchanged.
5. The Board noted that inflation fell to 0.3 percent in April after an average of 1.3 percent in the first quarter, mainly as a result of a sharp decline in volatile food prices. Looking ahead, it is expected at 0.9 percent on average for the whole of 2017, and would then accelerate to 1.6 percent in 2018. Core inflation is projected to increase to 1.6 percent in 2017 and to 1.9 percent in 2018, reflecting improved domestic demand and higher inflation in major partner countries.
6. **Internationally**, the latest available data confirm the expected strengthening of global economic activity. In the United States, growth would accelerate to 2.1 percent in 2017 and 2.2 percent in 2018, with continued momentum in the labor market where the unemployment rate fell to 4.3 percent in May 2017. In the euro area, GDP would expand by 1.8 percent in 2017 and then slow down to 1.6 percent in 2018, in connection with the Brexit. In the main emerging countries, economic activity is predicted to improve overall. In particular, Russia and Brazil are expected to come out of recession, while growth in China would continue to slow down but at a slower pace than expected in March, as the impact of the economic rebalancing policy would be mitigated by fiscal support measures.
7. In commodity markets, the oil price averaged \$52.3 per barrel over the first five months of the year, up from \$37.5 per barrel in the same period of 2016. For the full year 2017, it is expected to average \$51.8 per barrel before declining to \$50.7 per barrel in 2018. Prices for crude phosphates and TSP remain low and should stand in 2017 at \$100/mt and \$275/mt, respectively, and then slightly increase in 2018. Conversely, the DAP price increased by 13 percent year-to-date until May to \$357/mt, reflecting higher global demand and limited supply, and is expected to continue to rise over the forecast horizon to reach \$366/mt on average in 2018.
8. Under these conditions, inflation in the United States would reach 2.6 percent in 2017 and 2.2 percent in 2018. In the euro area, after 0.2 percent in 2016, it is expected to show a marked acceleration in the medium term to 1.8 percent in 2017 and 1.7 percent in 2018.
9. Regarding monetary policy decisions, the Fed increased on June 14 the target range for federal funds rates to 1-1.25 percent and announced that it expects to begin implementing a

balance sheet normalization program this year. Under this program, it would gradually reduce its securities holdings by decreasing reinvestment of principal payments from maturing securities by $10 billion per month until reaching a maximum of $50 billion within one year, For its part, the ECB decided at the meeting of its Governing Council on June 8 to keep its policy rate at 0 percent, while indicating that it would remain at its present level for an extended period of time and well past the horizon of the asset purchases program.

10. **Nationally**, Bank Al-Maghrib expects GDP to accelerate to 4.4 percent in 2017, after growing by a mere 1.2 percent in 2016. Driven by a rebound in cereal production, estimated by the Department of Agriculture at 102 million quintals, agricultural value added would increase by 13.4 percent, while nonagricultural GDP growth would edge up from 3.1 to 3.3 percent. In 2018, nonagricultural activities are expected to continue to recover, growing by 3.6 percent. Under the assumption of an average crop year, agricultural value added would slightly decline to 0.9 percent, causing GDP to slow down to 3.1 percent.

11. In the labor market, after a decline in 2016, the labor force in the first quarter of 2017 posted a net annual increase of 172,000 jobseekers and the participation rate essentially stabilized at 47.5 percent. At the same time, the national economy created 109,000 jobs, including 45,000 in the services sector and 28,000 in agriculture. The unemployment rate rose by 0.3 percentage point to 10.7 percent nationally and by 0.7 point to 15.7 percent in the urban areas.

12. Regarding external accounts, the trade deficit of goods widened year-on-year by 9.1 billion dirhams in the first five months of 2017, owing mainly to a significant increase in the energy bill, and to a lesser extent the continued increase in capital goods' imports. Travel receipts and transfers of Moroccans living abroad virtually stabilized, while FDI inflows increased by 4.2 percent. Taking into account these developments and oil price forecasts as well as the grants of GCC partner countries at an annual amount of 8 billion dirhams, current account deficit is expected to slightly worsen to 4.6 percent of GDP in 2017 and then ease to 4 percent in 2018. Under these circumstances, and assuming that FDI inflows would reach 3.2 percent of GDP in 2017 and 3.5 percent in 2018, the projection of foreign exchange reserves was revised downward. They are expected to provide coverage of 6 months of goods and services' imports in 2017 and to remain close to this level at the end of 2018.

13. Turning to monetary conditions, the real effective exchange rate remained virtually unchanged during the first quarter and is not projected to change significantly in the medium term, as the expected slight appreciation in nominal terms should be offset by the inflation differential. Lending rates were up 31 basis points, particularly loans to nonfinancial corporations and individual entrepreneurs. In this context, bank lending to the nonfinancial sector increased by 3.2 percent as at-end April. Considering in particular the expected improvement in nonagricultural activity, it would grow from 3.9 percent in 2016 to 4.5 percent in 2017 and 5 percent in 2018.

14. On the fiscal side, budget deficit eased by 9.9 billion as at-end April compared with the same period in 2016, mainly as a result of a 6.8 billion increase in the positive balance of the special Treasury accounts. Overall spending was slightly up 0.4 percent, concealing in particular higher subsidy costs and lower Treasury investment. At the same time, current revenues rose by 4.5 percent, due to higher tax receipts and steeper decline in nontax receipts, mainly because of a decline in GCC grants from 1.6 billion to 0.3 billion dirhams. In the medium term, fiscal adjustment is expected to continue, and Bank Al-Maghrib projects budget deficit to ease to 3.6 percent of GDP in 2017 and 3.4 percent in 2018.