MONETARY POLICY REPORT

Nº 43 / 2017

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THE BANK BOARD
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TABLE OF CONTENTS

بنك المغرب

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, 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.

OVERVIEW

During the first quarter of 2017, global economic activity continued to show general signs of strengthening. In the major advanced economies, growth accelerated to 1.9 percent in the euro area and 2 percent in the United Kingdom, stabilized at 2 percent in the United States and slowed in Japan to 1.3 percent. In the major emerging countries, growth in China improved slightly to 6.9 percent, particularly owing to the strengthening of industrial production, while it slowed down sharply in India from 6.7 to 5.6 percent. In Brazil, the recession continued, albeit with an easing of the GDP contraction to 0.4 percent, while in Russia the latest data from the fourth quarter indicate that after seven consecutive quarters of decline, GDP recorded its first increase with 0.3 percent.

On the labor market, unemployment rate in the United States continued declining to stand at 4.3 percent in May, with 138,000 new jobs created. Similarly, this rate fell in the euro area to 9.3 percent in April, down to 17.8 percent in Spain and 11.1 percent in Italy and standing at 9.5 percent in France and 3.9 percent in Germany.

On the stock exchanges, reference indexes increased between April and May by 3.4 percent for the EUROSTOXX50, 5.1 percent for the NIKKEI 225, 1.8 percent for the FTSE 100 and 1, 2 percent for the Dow Jones. In emerging economies, the MSCI EM rose 3.3 percent, mainly reflecting increases in the indexes of Turkey, China and India. In the sovereign debt markets, the 10-year yields experienced contrasting developments, between improvement in Germany, China and India, decline in France and Italy and stagnation in the United States.

On the foreign exchange markets, the euro remained unchanged at $ 1.1 between April and May, while it rose 0.6 percent against the pound sterling and 5.1 percent against the Japanese yen. As concerns currencies of the main emerging countries, the Brazilian real depreciated against the dollar by 1.9 percent, the Turkish lira and the Indian rupee appreciated by 2.4 percent and 0.2 percent respectively, while the Chinese Yuan stagnated at 6.9 yuan per dollar. In addition, the annual growth rate of bank credit declined between March and April from 4.7 percent to 4.5 percent in the United States and from 2.3 percent to 2.2 percent in the euro area.

In commodity markets, despite its 8.1 percent increase year-on-year in May, the Brent's price fell by 4.8 percent, from one month to the other, to $51.4/barrel on average, particularly in relation to the higher shale oil. In non-energy commodities, the Dow Jones- UBS index increased by 3.5 percent year-on-year. More particularly, prices of phosphates and derivatives were down 19.1 percent year-on-year for crude phosphate, 18.2 percent for Potassium Chloride, 10 percent for urea and almost 4 percent for the TSP, while for the DAP, the price increased by 2.3 percent. For durum wheat, prices were up 5.1 percent year-on-year and 8.7 percent month-on-month.

Under these conditions, inflation in the euro area stood at 1.4 percent in May from 1.9 percent a month earlier, while it continued its deceleration in the United States for the third consecutive month, reaching 1.9 percent.

With regard to monetary policy decisions, the FED decided, at its meeting on June 14, to raise the target range of its key rate by a quarter of a percentage point to [1 percent -1.25 percent]. It also reiterated that its Committee expects economic conditions to evolve in a way that merely justifies gradual increases in rates. In addition, it underlined that it would begin this year implementing a program for its balance sheet standardization, provided that the economy as a whole evolves as planned. Similarly, the ECB decided on 8 June to maintain its key rate at 0 percent, while recalling that its rates will remain at their current levels over an extended period, and far beyond the time horizon set for net purchases of assets. It also confirmed that net purchases of assets should be made, at the current monthly rate of 60 billion euros, until the end of December 2017 or even beyond, if necessary, until it reaches a sustainable adjustment of the inflation trend in line with its objective. In addition, it clarified that if the outlook becomes less favorable or that financial conditions no longer permit further progress towards a sustainable inflation adjustment, it is ready to increase the volume and/or extend the duration of the program.

At the national level, end-of-May external accounts data indicate a 9.1 billion dirhams widening in the trade deficit of goods compared to the same period a year earlier, thus reducing the coverage rate from 58.6 percent to 56.8 percent. Imports increased by 8.6 percent, driven mainly by a 42.7 percent increase in energy bills and, to a lesser extent, an 8.1 percent rise in purchases of capital goods. At the same time, exports increased by 5.3 percent, particularly due to higher sales of the "Agriculture and agri-food" sector and of phosphates and derivatives. Shipments in the automotive sector rose slightly, while textile and leather exports almost stagnated. Concerning the other main current account items, transfers of Moroccan expatriates and travel receipts have virtually stabilized. Taking into account, in particular, 15.2 billion dirhams in FDI, net international reserves decreased at the end of May to 229.3 billion, equivalent to 5 months and 24 days of imports of FDI goods and services.

This trend was reflected in the situation of bank liquidity, as the liquidity shortage increased to 35.8 billion dirhams at the end of May. Bank Al-Maghrib adjusted the volume of its injections thus ensuring alignment of the weighted average rate on the interbank market with the policy rate. Monetary conditions in the first quarter were also characterized by a quasi-stable real effective exchange rate and a 31 basis point increase in lending rates. In this context, the annual growth rate of credit to the non-financial sector stood at 3.2 percent at the end of April. Considering a rise by 13 percent in claims on central government and by 1.6 percent in foreign exchange reserves, M3 growth stood at 5.8 percent at the end of April.

On the public finance side, the figures for the end of April 2017 show a budget deficit of 11.9 billion, down 9.9 billion compared to the same period of 2016. Overall expenditure slightly increased by 0.4 percent, covering an increase in the compensation burden and transfers to local authorities and a decrease in the Treasury's investment, expenditure on goods and services and in interest on debt. At the same time, ordinary revenues increased by 4.5 percent, reflecting improved tax revenues, while non-tax revenues declined sharply. Taking into account the 1.6 billion drop in payment arrears, the Treasury recorded a cash deficit of 13.5 billion, down 8 billion compared to the same period of 2016. This need, as well as the $2.1 billion negative net external flow, was covered by domestic resources of $ 15.6 billion. As a result, direct public debt would have increased by 1 percent compared to December 2016 level.

With regard to national accounts, growth would have accelerated markedly in the first quarter, as a result of a significant increase in agricultural value added, while non-agricultural GDP would continue to grow at a moderate pace. On the demand side, improved growth would particularly reflect a more rapid increase in household final consumption, as a result of improved farm revenues and of the labor market situation. Investment would have maintained a positive trend as indicated by the continued rise of capital goods imports, though at a pace slower than in the first quarter of 2016. On the other hand, the contribution of net external demand to growth would have remained negative.

Situation of the labor market improved in the first quarter of 2017, with 109,000 jobs created after a loss of 13 thousand a year earlier, covering an increase of 45 thousand jobs in services, 28 thousand in the Agricultural sector, 20 thousand in the construction and 16 thousand in the industry including crafts. Under these conditions, the labor market experienced a net inflow of 172 thousand people and a slight decline of the labor force participation rate by 0.1 percentage point to 47.5 percent, which resulted in higher unemployment by 0.3 percentage points to 10.7 percent at the national level and by 0.7 point to 15.7 percent in urban areas.

On the property market, prices rose by 2.5 percent in the first quarter, in all asset classes. Also, transactions fell by 13.9 percent, particularly reflecting a drop in apartment and lands sales. At the stock market level, after the significant increase recorded in 2016, the reference index was down 2.3 percent in the first quarter and 0.5 percent in May. The volume of transactions remained low, reaching a monthly average of 2.9 billion dirhams in April and May against 4.7 billion in the first quarter of 2017.

As for inflation, it slowed sharply from 1.3 percent in the first quarter of 2017 to 0.3 percent in April. This development is mainly due to the sharper decrease of volatile food prices from 0.5 percent to 7.5 percent and, at a lesser degree, to a slowdown from 19.5 percent to 11.2 percent in fuel and lubricant price rise. On the other hand, core inflation accelerated from 1.4 percent to 1.5 percent and the growth rate of regulated products tariffs rose from 0.7 percent to 0.8 percent.

In terms of prospects, global economic activity should continue to improve. Growth would accelerate in the euro area to 1.8 percent in 2017 before returning to 1.6 percent in 2018 and would strengthen in the United States to 2.1 percent in 2017 and 2.2 percent in 2018. Labor market situation should also continue to improve, as unemployment rate is expected to return to 4.7 percent in 2017 and 4.6 percent in 2018 in the United States and 9.4 percent and 9.1 percent respectively in the euro area. In the main emerging countries, Russia and Brazil are expected to emerge from recession, while in China, slowdown in activity is expected to continue as a result of the economy rebalancing policy.

In the commodities markets, after the rise in the first quarter of 2017, food prices are expected to continue to move close to their current level. On the other hand, and reflecting the increase in shale oil production in the United States and the last decision of OPEC countries to Extend oil production cuts for nine months, oil prices would continue to evolve moderately. They are expected to reach $51.8 / barrel in 2017 and $50.7 / barrel in 2018. For phosphates, prices would continue to rise at low levels, with higher prices for DAP, more than expected in March, largely due to rising global demand in response to a limited supply. Under these conditions, inflation in the euro area is expected to increase significantly from 0.2 percent in 2016 to 1.8 percent in 2017 and 1.7 percent in 2018. In the United States, it is expected to accelerate to 2, 6 percent in 2017 before returning to 2.2 percent in 2018.

At the national level, external accounts should slightly worsen in the medium term. Imports are expected to continue rising, notably with a significant increase in the energy bill in 2017 and a continued increase in purchases of capital goods. At the same time, exports would increase by 6.3 percent in 2017 and their pace would be consolidated at 5.2 percent in 2018, supported by a recovery in sales of phosphates and by-products and the continued momentum of the automotive sector. Taking into account the stable increase in travel receipts and transfers of Moroccan expatriates, as well as the annual 8 billion DH inflow of grants from GCC countries in 2017 and 2018, the current account deficit would equal 4.6 percent of GDP in 2017 and 4 percent in 2018. Assuming an inflow of FDI equivalent to 3.2 percent of GDP in 2017 and 3.5 percent in 2018, the forecast of net international reserves has been revised downwards. These should ensure the 6-month coverage of imports of goods and services in the medium term.

Taking this review into account, banking liquidity is expected to record a deficit of 34.6 billion at the end of 2017 and 43.5 billion at the end of 2018. Despite this widening, monetary conditions should remain accommodative in the medium term with an almost stable effective real exchange rate over the forecast horizon. In these circumstances, bank lending to the non-financial sector is expected to continue recovering, with 4.5 percent in 2017 and 5 percent in 2018.

With regard to public finances, after the budget deficit exceeded the Finance Act target, the budgetary adjustment is expected to resume, at a virtually similar rate to the March projections. The budget deficit is expected to return from 4.1 percent of GDP in 2016 to 3.6 percent in 2017 and 3.4 percent in 2018.

In terms of national accounts, growth is expected to accelerate to 4.4 percent in 2017 and to return to 3.1 percent in 2018, after 1.2 percent in 2016. Taking into account a cereal production of 102 million tons, agricultural value added is expected to increase by 13.4 percent in 2017, before declining by 0.9 percent in 2018 under the assumption of a normal crop year. On the other hand, nonagricultural activities would continue to improve, at 3.3 percent in 2017 and 3.6 percent in 2018.

Under these conditions, core inflation is expected to accelerate to 1.6 percent in 2017 and 1.9 percent in 2018. Fuel and lubricant prices are expected to rise in 2017 before stabilizing in 2018, while prices of volatile food products are expected to decline in 2017 then stagnate in 2018. Overall, inflation would slow to 0.9 percent in 2017, instead of 1.1 percent as forecasted in the March MPR, and increase to 1.6 percent in 2018.

However, these forecasts remain subject to several risks with a downward trend for growth and a balanced one for inflation. Indeed, several risks could impact the growth trajectory in the medium term. These include the future orientation of US policy and its impact on global activity, a higher-than-expected appreciation of the dollar due to the more rapid normalization of the Fed policy.

With regard to the risks associated with inflation central forecasting, a further decline in international oil prices or a significant appreciation of the effective exchange rate could lead to downward pressure on inflation. On the other hand, a continued uptrend of international food prices or a possible increase in wages, as part of the social dialogue, could lead to a higher-than-expected increase of consumer prices.

1.INTERNATIONAL DEVELOPMENTS

The latest national accounts data for the first quarter of 2017 show that growth in the major advanced economies remained at a relatively high level. Thus, it stabilized in the United States, slowed slightly in Japan and improved in the euro area and the United Kingdom. For emerging countries, growth in China rose for the second time in a row, while in India it posted a sharp decline. In Brazil, the recession, although slowing, continued, while in Russia growth registered its first increase in the fourth quarter of 2016, after seven consecutive quarters of decline. In the labor market, unemployment continued to drop in the United States in May with a decrease in job creation, and declined in April in the euro area. On the financial markets, they were marked in May by a rise in the main stock market indices and diverging developments in the sovereign yields of advanced countries. On the international commodity markets, data show lower prices for energy and agricultural products and a sharp rise in base metal prices. Against this background, inflation fell in May in the euro area and dropped in the United States for the third consecutive month. All these developments indicate the absence of external inflationary pressures.

1.1 Economic activity and employment

1.1.1 Economic activity

In the first quarter of 2017, growth stabilized in the United States at 2percent, while it increased in the euro area to 1.9percent from 1.8percent a quarter earlier. It dropped from 1.2 percent to 1.0percent in France, from 1.8 percent to 1.7 percent in Germany, stabilized at 3 percent in Spain, and continued its upward trend for the third consecutive quarter In Italy to 1.2 percent.

In the United Kingdom, despite the uncertainties associated with the Brexit, growth remained strong in the first quarter of 2017, rising to 2 percent from 1.9 percent a quarter earlier. In Japan, growth in the first quarter fell to 1.3percent from 1.6 percent in the previous quarter.

In emerging countries, growth accelerated slightly in China to 6.9 percent in the first quarter of 2017, from 6.8percent in the previous quarter, particularly due to the strengthening of industrial production and the improvement of property investment. In India, it was significantly slowed down by the demonetization shock, falling from 6.7 percent to 5.6 percent, its lowest level in three years.

Table 1.1: YoY change in quarterly growth

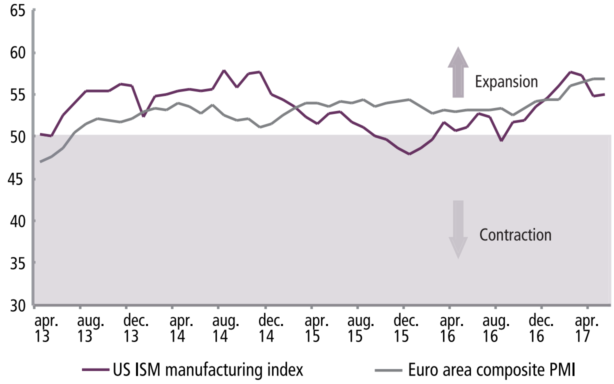
	2015			2016				2017
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Advanced economies								
United States	3.0	2.2	1.9	1.6	1.3	1.7	2.0	2.0
Euro area	2.0	1.9	2.0	1.7	1.6	1.8	1.8	1.9
France	0.9	0.8	1.0	1.2	1.2	0.9	1.2	1.0
Germany	1.8	1.7	1.3	1.9	1.8	1.7	1.8	1.7
Italy	0.7	0.7	1.0	1.1	0.8	1.0	1.1	1.2
Spain	3.1	3.4	3.6	3.4	3.4	3.2	3.0	3.0
United Kingdom	2.4	1.9	1.7	1.6	1.7	2.0	1.9	2.0
Japan	1.7	2.0	1.0	0.5	0.9	1.0	1.6	1.3
Emerging economies								
China	7.0	6.9	6.8	6.7	6.7	6.7	6.8	6.9
India	7.6	8.2	7.3	8.7	7.6	6.8	6.7	5.6
Brazil	-3.0	-4.5	-5.8	-5.4	-3.6	-2.9	-2.5	-0.4
Turkey	7.2	6.5	6.2	4.0	4.2	0.7	3.4	N.A
Russia	-3.4	-2.7	-3.2	-0.4	-0.5	-0.4	0.3	N.A

Source : Thomson Reuters Eikon.

Similarly, the recession continued in Brazil, with nonetheless a reduction in GDP contraction from -2.5 percent to -0.4 percent, while in Russia the latest available data for the fourth quarter of 2016 indicate a first growth after seven straight consecutive drops, to 0.3 percent as against -0.4 percent in the previous quarter.

Concerning high-frequency indicators, the US manufacturing ISM index rose slightly in May 2017, from 54.8 points to 54.9 points. In the euro area, the composite PMI index remained unchanged at 56.8 points in May 2017, its highest level in six years.

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 continued its decline to stand at 4.3percent in May, with the creation of 138,000 jobs, compared to 174,000 in April. In the euro area, it decreased to 9.3 percent in April, reflecting a drop from 18.1 percent to 17.8 percent in Spain and from 11.5 percent to 11.1 percent in Italy, while it stagnated at 3.9percent in Germany and 9.5percent in France. In the United Kingdom, February figures indicate a fall in the unemployment rate to 4.4 percent from 4.5 percent in the previous month.

Table 1.2: Change in unemployment rate (%)

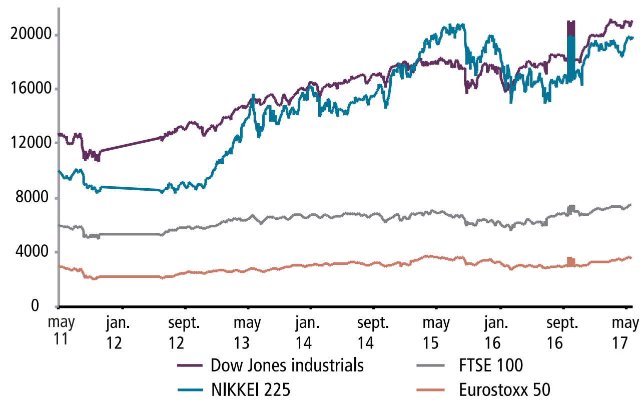
	2015	2016	2017		
			march	apr.	may
United States	**5.3**	**4.9**	**4.5**	**4.4**	**4.3**
Euro area	**10.9**	**10.0**	**9.4**	**9.3**	**n.a**
France	10.4	10.1	9.5	9.5	n.a
Italy	11.9	11.7	11.5	11.1	n.a
Germany	4.6	4.1	3.9	3.9	n.a
Spain	22.1	19.6	18.1	17.8	n.a
United Kingdom	**5.3**	**4.8**	**n.a**	**n.a**	**n.a**

Source : Eurostat and BLS

1.2 Monetary and financial conditions

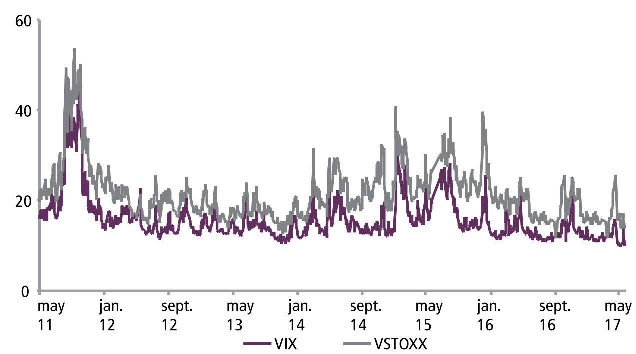
On the stock markets, the main indices of the advanced economies reported between April and May increases of 3.4 percent for the EUROSTOXX50, 5.1 percent for the NIKKEI 225, 1.8 percent for the FTSE 100 and of 1.2 percent for the Dow Jones. In terms of volatility, the VSTOXX dropped from 20.6 basis points in April to 15.1 in May and the VIX fell 13.3 basis points to 10.9.

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 emerging economies, the MSCI EM rose 3.3 percent, reflecting, in particular, increases by 6.9percent in the Turkish index, 3.7 percent in the Chinese index and 1.4 percent in that of India.

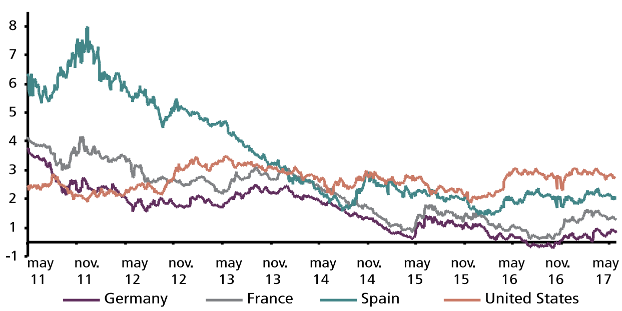
In the bond markets, the 10-year yield in the advanced economies posted divergent trends between April and May.

It increased from 0.3 percent to 0.4 percent for Germany and decreased from 0.9 percent to 0.8percent for France, from 2.3 percent to 2.2 percent for Italy and from 6.8 percent to 5.8 percent for Greece. This rate stagnated at 1.6 percent for Spain and 2.3 percent for the United States.

As to the major emerging economies, with the exception of Turkey, where it decreased from 10.6 percent to 10.3 percent, the 10-year bond yield increased from 9.9 percent to 10.2 percent For Brazil, from 3.4 percent to 3.6 percent for China and from 6.8 percent to 6.9 percent for India.

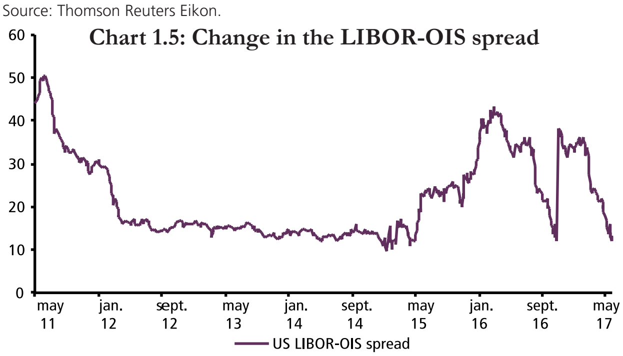
On the money markets, the 3-month Euribor stagnated between April and May at -0.33 percent and the Libor with the same maturity at 1.2 percent. The Libor-OIS dollar spread, on the other hand, fell from 20.5 basis points to 14.5. As to bank lending, its annual growth rate between March and April fell from 4.7 percent to 4.5 percent in the United States and from 2.3percent to 2.2percent in the euro Area.

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



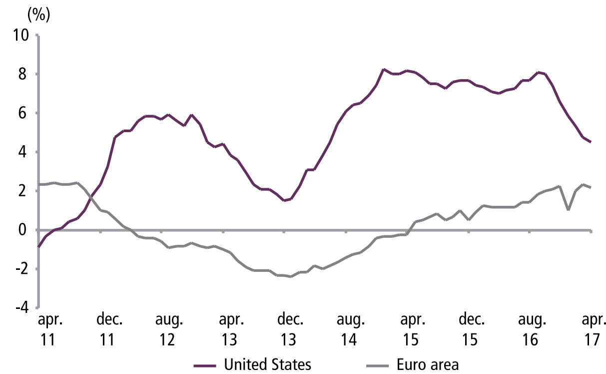
Source: Thomson Reuters Eikon.

Chart 1.5: Change in the LIBOR-OIS spread



Source: Thomson Reuters Eikon.

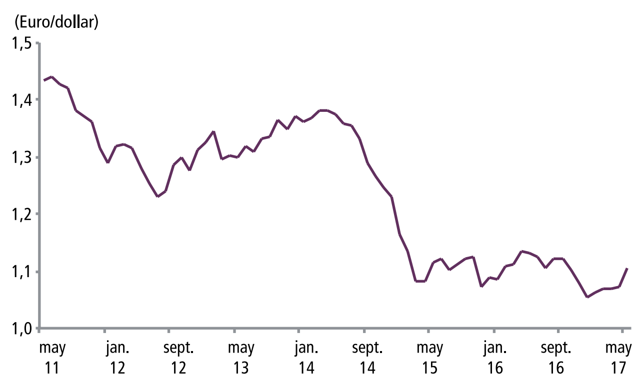
Chart 1.6: YoY change in credit in the United States and the euro area



Source : Thomson Reuters Eikon.

On the foreign exchange markets, the euro remained unchanged at $ 1.1 between April and May and rose by 0.6 percent and 5.1 percent against the pound sterling and the Japanese yen respectively. Concerning the exchange rate of currencies of the main emerging countries against the dollar, the Brazilian real depreciated by 1.9 percent, while the Turkish lira and the Indian rupee appreciated by 2.4 percent and 0.2 percent respectively. As for the Chinese Yuan, it stagnated at 6.9 Yuan to one dollar between April and May.

Chart 1.7: Euro/dollar exchange rate



Source : Thomson Reuters Eikon

With regard to central banks' decisions, the FED decided on 14 June to raise the target range of its key rate by a quarter of a percentage point to between 1 percent and 1.25 percent, taking into account the current and expected conditions of the labor market and inflation. The FED pointed out that the monetary policy stance remains accommodative, thereby further strengthening labor market conditions and a sustained return to inflation at 2 percent. It also stressed that it maintains its current policy of reinvesting all of its securities that reached maturity, and that it will begin during this year the implementation of a "normalization" program of its balance sheet, provided that the economy as a whole evolves as planned.

For its part, the Bank of England decided on 15 June to keep its key rate unchanged at 0.25 percent and to continue its purchases program of "investment grade" bonds issued by UK nonfinancial businesses at an amount totaling £10 billion, its government bond program up to £ 60 billion, bringing the total stock of its asset purchases to £ 435 billion.

Similarly, the ECB decided on 8 June to keep its key rate at 0percent, while pointing out that it continues to project that its rates will remain at their current levels over an extended period, and well beyond the set horizon for net asset purchases. As regards unconventional monetary policy measures, it confirmed that net asset purchases should be carried out, at the current monthly rate of EUR 60 billion, until end-December 2017 or beyond, if necessary, and in any case until it observes a sustainable adjustment of the inflation trend in line with its objective. In addition, it stressed that if the outlook becomes less favorable or if financial conditions no longer allow further progress towards a sustainable adjustment in inflation, it will stand ready to increase the volume and/or lengthen the duration of the program.

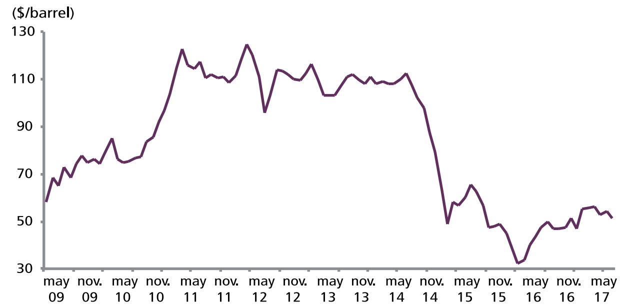
At the level of emerging countries, the Central Bank of Russia decided on 16 June to reduce its key rate to 9 percent. Similarly, the Central Bank of Brazil decided on May 31 to reduce its key rate by one percentage point to 10.25 percent, which is the sixth consecutive drop. For its part, the Reserve Bank of India decided on 7 June to keep its key rate unchanged at 6.25 percent.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

During the month of May, Brent's average price fell 4.8 percent, averaging 51.4 dollar per barrel from 54 dollars in April. This development can be explained, on the one hand, by the high production of shale oil in the United States and, on the other, by the negative reaction of the market to the producers' agreement of May 2017; as investors were expecting bigger cuts in production. On the other hand, the price of Brent rose 8.1 percent year-on-year.

Chart 1.8: World price of Brent oil in dollar

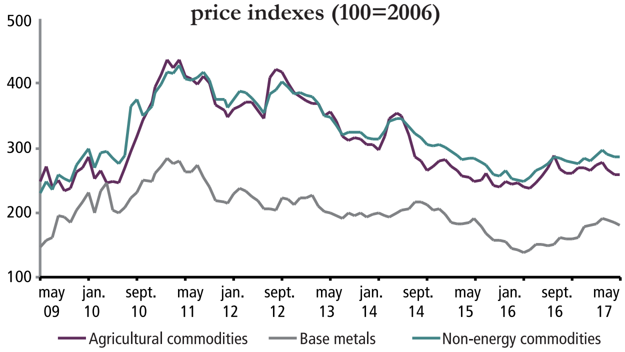


Source : Thomson Reuters Eikon.

1.3.2 Non-energy commodity prices

Non-energy commodity prices increased in May, with the Dow Jones UBS index up slightly by 3.5 percent year-on-year. This development includes, on the one hand, the sharp rise by 22.4 percent in base metal prices and, on the other, the 3.9 percent drop in the agricultural products price index.

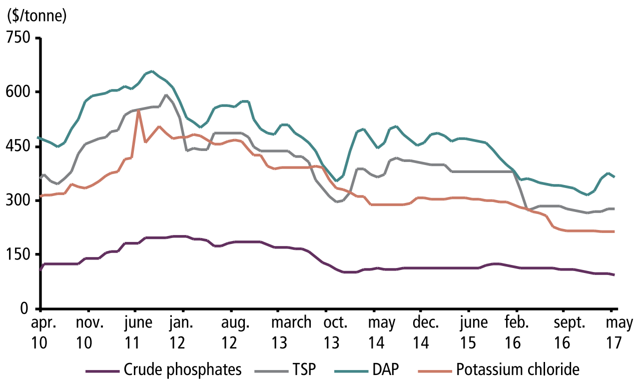
Chart 1.9: Change in the DJ-UBS non-energy commodity price indexes (100=2006)



Source : Thomson Reuters Eikon.

On the global market for phosphates and derivatives, crude oil prices fell by 3.1percent between April and May from 96 to 93 dollars per ton. Similarly, prices fell 1.1percent for the TSP to 273 dollars per ton, by 2.5 percent for the DAP to 357 dollars per ton and by 12.2 percent for the urea to 180 dollars per ton. For Potassium Chloride, it increased 0.9 percent to 216 dollars per ton between April and May. Year-on-year, prices in May decreased by 19.1 percent for crude phosphate, 18.2 percent for Potassium Chloride, 10 percent for urea and by nearly 4 percent for TSP, While the DAP price rose by 2.3 percent. With regard to agricultural products, the price of durum wheat increased by 8.7 percent on a month-to-month basis and increased by 5.1 percent year-on-year.

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



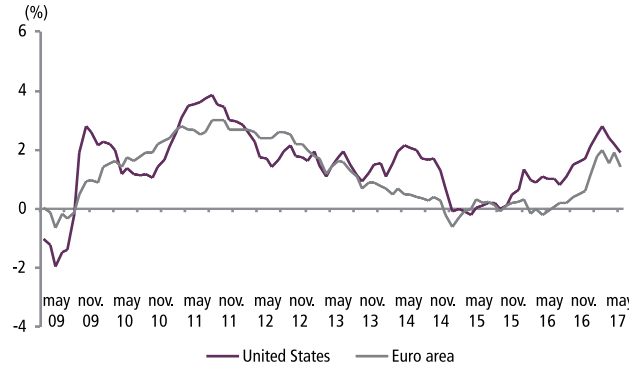
Source: World Bank.

1.3.3 Inflation in the world

n the United States, inflation continued its slowdown in March, from 2.2 percent in April to 1.9 percent in May, while it accelerated from 2.7 percent to 2.9 percent in the United Kingdom. According to a provisional Eurostat estimate for the month of May, the inflation rate in the euro area decreased from 1.9 percent to 1.4 percent, reflecting drops from 2 percent to 1.4 percent in Germany, from 2.6 percent to 1.9 percent in Spain, from 2percent to 1.5 percent in Italy and from 1.4 percent to 0.9 percent in France. With regard to inflation in Japan, the latest available data remain those of April and show an increase from 0.2 percent to 0.4 percent.

In the main emerging countries, inflation in May rose from 1.2 percent to 1. 5percent in China, and dropped from 4.1 percent to 3.6 percent in Brazil and slightly decreased in April from 4.2 percent to 4.1 percent in Russ

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

	2015	2016	2016/2017		
			march	apr.	may
United States	**0.1**	**1.3**	**2.4**	**2.2**	**1.9**
Euro area	**0.0**	**0.2**	**1.5**	**1.9**	**1.4**
Germany	0.1	0.4	1.5	2.0	1.4
France	0.1	0.3	1.4	1.4	0.9
Spain	-0.5	-0.2	2.3	2.6	1.9
Italy	0.1	-0.1	1.3	2.0	1.5
United Kingdom	**0.1**	**0.6**	**2.3**	**2.7**	**2.9**
Japan	**0.8**	**-0.1**	**0.2**	**0.4**	**n.a.**

Source : Thomson Reuters Eikon.

2. EXTERNAL ACCOUNTS

At end-March 2017, exports rose by 3.4 percent, mainly as a result of improved shipments of phosphates and derivatives and, to a lesser extent, sales in the "Agriculture and Agro-Food industries sector". In parallel, imports increased by 10.7 percent, driven mainly in "more than half" by increase in the energy bill and 13 percent in purchases of capital goods. Therefore, the trade balance worsened from 8.3 billion to 45.9 billion, bringing the coverage rate from 60.8 percent to 56.8 percent. Transfers from MOROCCAN EXPATRIATES and travel receipts were down by 1.2 percent and 4.9 percent, respectively. Taking into account in particular an inflow of FDI at 6.7 billion dirhams, net international reserves at end-March increased by 4.3 percent to 246.8 billion, or around 6 months and 11 days of imports of goods and services.

2.1 Trade balance

2.1. 1 Exports

The rise in exports over the first quarter mainly reflects a rise by 11.1 percent increase in sales of phosphates and derivatives to 10.3 billion. By product, exports of derivatives increased by 12.8 percent, with a 46.8 percent increase in volumes shipped for natural and chemical fertilizers and 6percent for phosphoric acid. Shipments of crude phosphates rose by 1.4 percent in value and by 24.4 percent in quantity.

Similarly, exports of the "Agriculture and agri-food" sector increased by 4.2 percent to 15.3 billion, while sales in the automotive sector fell by 1.2 percent and exports of textile and leather by 2.5 percent.

Table 2.1: Change in exports

Sectors/ Segments	march 2017	march 2016	Change	
			Value	In %
Exports (FOB)	**21 219**	**19 339**	**1 880**	**9.7**
Automobile	8 630	6 893	1 737	25.2
Agriculture and Agribusiness	3 583	2 913	670	23.0
Phosphates and derivatives	33 434	33 808	-374	-1.1
Textile and leather	6 226	5 973	253	4.2
Aéronautics	12 106	12 729	-623	-4.9
Electronics	12 215	14 469	-2 254	-15.6
Pharmaceutics	1 100	1 048	52	5.0
Others	26 846	28 792	-1 946	-6.8

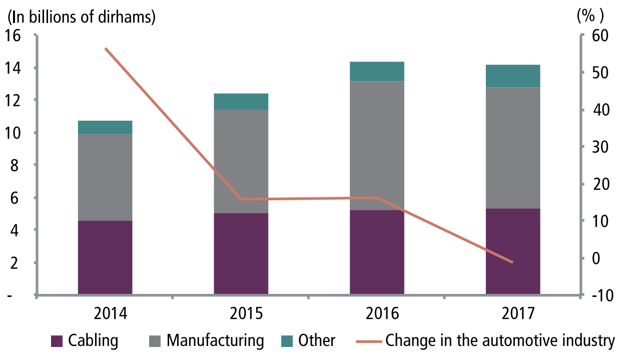
Source: Foreign Exchange Office.

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

	march 2017/march 2016		
	Value	Quantity	Price
Crude phosphates	1.4	24.4	-18.5
Natural and chemical fertilizers	29.0	46.8	-12.1
Phosphoric acid	-12.9	6.0	-17.8

Source: Foreign Exchange Office.

Chart 2.1: Change in automotive industry's exports between 2013 and 2016, at end of march



Source: Foreign Exchange Office.

2.1.2 Imports

Imports rose 10.7 percent to 106.3 billion dirhams, mainly due to a 56.3 percent increase in the energy bill to 17.3 billion. By product, acquisitions increased by 85.3 percent for gasoil and fuel oil and 34.3 percent for petroleum gas.

Similarly, purchases of capital goods increased by 13 percent to 30.2 billion, mainly due to an increase of 43.2 percent for miscellaneous machinery and equipment and 27.9percent for industrial cars. On the other hand, food imports fell by 2percent to 10.9 billion, owing to a 27 percent drop in wheat purchases, and purchases of consumer goods and semi-finished products were virtually unchanged at 19.4 billion and 23.7 billion dirhams respectively.

Overall, the trade deficit rose to 45.9 billion dirhams, deteriorating by 21.9 percent or 8.3 billion year-on-year. As a result, the coverage rate stood at 56.8 percent, down 4 percentage points from end-March 2016.

Table 2.3 : Change in imports

Products group	march 2017	march 2016	Change	
			Value	In %
Imports (CIF)	**106 302**	**96 048**	**10 254**	**10,7**
Capital goods	17 292	11 065	6 227	56,3
Finished consumer goods	30 210	26 728	3 482	13,0
Food products	4 735	4 311	424	9,8
Semi- finished products	19 385	19 220	165	0,9
Ray materials	23 703	23 553	150	0,6
Energy products	10 930	11 150	-220	-2,0

Source: Foreign Exchange Office.

Table 2.4 : Yoy change in major import products (in %)

	march 2017/march 2016		
	Value	Quantity	Price
Wheat	-27.0	-34.7	11.7
Gas oils and fuel oils	85.3	17.0	58.4
Petroleum gaz and other fuel	34.3	-1.7	36.5
Crude and unrefined sulfur	-26.1	0.9	-26.7

Source: Foreign Exchange Office.

2.2 Other components of the current account

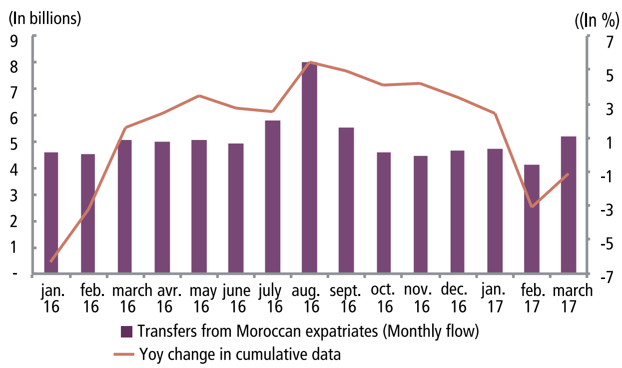
Concerning the balance of services, tourism receipts fell by 4.9 percent to 12.1 billion, while spending rose by 23 percent to 3.6 billion. Transport revenues increased by 4.2 percent and spending rose significantly by 25.2 percent. In total, the balance of services posted a surplus of 12.2 billion dirhams, down 15.6 percent compared to the same quarter of last year. With regard to Moroccan expatriates remittances, they fell by 1.2 percent to 14 billion dirhams.

Table 2.5: Change in the balance of services

(In millions of dirhams)	march 2017	march 2016	Change	
			Value	In %
Imports	**21 219**	**19 339**	**1 880**	**9.7**
Transport services	8 630	6 893	1 737	25.2
Travel	3 583	2 913	670	23.0
Exports	**33 434**	**33 808**	**-374**	**-1.1**
Transport services	6 226	5 973	253	4.2
Travel	12 106	12 729	-623	-4.9
Balance	**12 215**	**14 469**	**-2 254**	**-15.6**

Source: Foreign Exchange Office.

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



Source: Foreign Exchange Office.

2.3 Financial account

The net inflow of FDI fell slightly by 94 million dirhams, a result of a 1.9 billion drop in inflows, higher than the 1.8 billion outflows. In light of these developments and those of other financial operations, the outstanding amount of net international reserves rose by 4.3 percent year-on-year to 246.8 billion dirhams, covering around 6 months and 13 days of imports of goods and services.

Data available for May show a widening trade deficit by 9.1 billion, with imports picking up by 8.6 percent and exports by 5.3 percent. The increase in imports was mainly driven by a 42.7percent increase in the energy bill to 28.3 billion dirhams and an 8.1 percent rise in capital goods' purchases to 50.6 billion. The rise in exports is mainly due to the 6.7 percent increase in sales by the "Agriculture and agri-food" sector and 7.9 percent in phosphates and derivatives sales. For their part, Moroccan expatriates remittances and tourism receipts stabilized at 24.3 billion and 22.8 billion dirhams. Taking into account also FDI inflows at 15.2 billion dirhams, the outstanding net international reserves stood at MAD 229.3 billion, covering 5 months and 24 days of imports of goods and services.

3. MONEY, CREDIT AND ASSETS MARKET

During the first quarter of 2017, monetary conditions were characterized by an almost stable real effective exchange rate and an increase in lending rates. As regards loans to the nonfinancial sector, after a marked improvement in 2016, its growth slowed down slightly to 3 percent. As for other money supply counterparties, net international reserves decelerated while net claims on the central government rose significantly, marking a break in their downward movement since the first quarter of 2016. Overall, the growth of the money supply accelerated from 5.1 percent to 6 percent.

On the property market, prices rose 2.5 percent in the first quarter, which affected all asset classes. At the same time, sales fell by 13.9 percent, reflecting particularly the decline in sales of apartments and urban lands. On the stock market, after the significant rise in 2016, MASI posted a 2.3 percent drop in the first quarter. Transactions remained low at 14.2 billion dirhams in Q1-2017 as against a quarterly average of 18.2 billion in 2016. Overall, recent developments in asset markets do not indicate the presence of inflationary pressures.

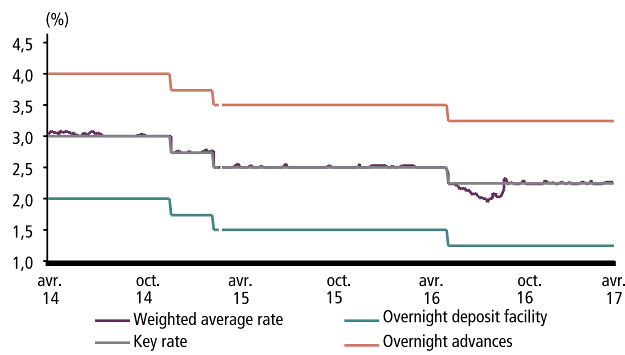
3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

During the first quarter of 2017, banks' liquidity needs fell to an average of 15.7 billion dirhams, reflecting in particular the drop in currency in circulation. Accordingly, Bank Al-Maghrib reduced its injections to 15.7 billion, of which 11.2 billion as 7-day advances and 4.5 billion in the form of secured loans operations, granted to support the financing of the VSMEs. The latest available data for the months of April and May show a rise in the liquidity shortage to 22.2 billion.

In this context, the interbank rate remained aligned with the key rate. On the Treasury bill market, interest rates remained virtually unchanged for short-term maturities and slightly higher for medium- and long-term maturities. On the secondary market, interest rates did not fluctuate significantly.

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

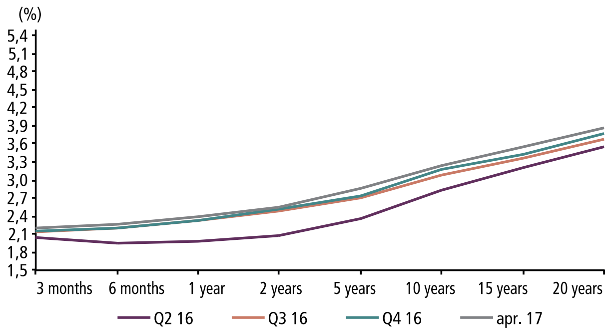


Source : BAM.

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

	2015			2016				2017	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	apr.
52 weeks	2.67	2.60	2.60	2.57	1.93	2.33	2.30	2.32	-
2 years	2.86	2.74	2.80	2 .63	2.05	2.48	2.44	2.52	2.41
5 years	3.24	3.17	3.14	2.92	2.30	2.71	2.69	2.83	2.76
10 years	3.66	3.39	3.61	3.48	2.87	3.22	3.08	3.27	-
15 years	4.07	4.06	4.05	3.77	3.22	-	-	3.87	-

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



On the other markets, issuance rates for certificates of deposit in the first quarter were generally close to those observed in the previous quarter. For deposit rates, they declined slightly by 10 basis points for one-year deposits to 3.20 percent and remained virtually unchanged for 6-month deposits at 2.86 percent. Under these conditions, banks' financing costs1 is expected to remain virtually unchanged during the first quarter of 2017.

Chart 3.3: Change in cost of bank financing

Source : BAM.

Concerning lending rates, the results of Bank Al-Maghrib survey with banks for the first quarter of 2017 show a 31 basis point rise in the overall average rate to 5.48 percent. This reflects a 33 basis point rise in lending rates to businesses, with increases of 36 points for equipment loans and 25 points for cash facilities. Similarly, lending rates to individuals registered slight increases of 5 percentage points for housing loans and 7 percentage points for consumer loans.

Table 3.2 : Change in lending rates

	2015				2016				2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Overall rate	5.81	5.93	5.67	5.49	5.55	5.25	5.08	5.17	5.48
Cash advances	5.77	5.95	5.65	5.48	5.44	5.16	4.98	5.24	5.49
Equipment loans	5.11	5.04	5.35	4.76	5.54	4.98	4.95	4.43	4.78
Real estate loans	5.98	5.92	5.68	5.76	5.59	5.44	5.34	5.15	5.35
Consumer loans	7.27	7.18	7.08	7.12	6.91	6.63	6.64	6.64	6.71

Source : BAM.

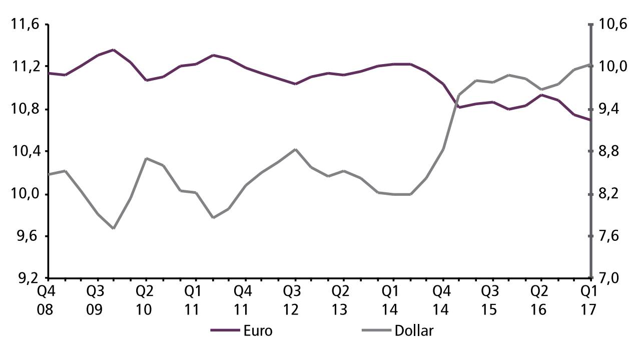
Table 3.3: Deposit rates

	2014	2015				2016				2017
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
6 months	3.71	3.64	3.60	3.56	3.46	3.31	3.18	2.94	2.90	2.86
12 months	3.94	3.85	3.83	3.74	3.78	3.67	3.55	3.33	3.30	3.20

3.1.2 Exchange rate

During the first quarter of 2017, the euro depreciated by 1.3 percent against the US dollar to 1.06. Thus, the national currency appreciated by 0.48 percent against the euro and depreciated by 0.73percent against the US dollar. Compared to the currencies of some major emerging countries, the dirham rose by 12 percent compared to the Turkish lira, while it fell 5.3 percent vis-à-vis the Brazilian real. As a result, the effective exchange rate rose by 0.5percent in nominal terms. Taking into account inflation in Morocco which is generally lower than that in partner and competing countries, the real effective exchange rate has remained virtually unchanged

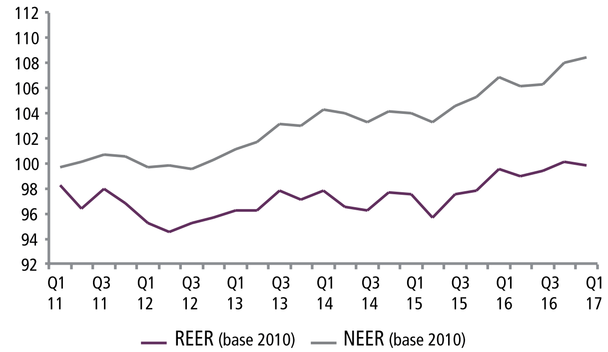
Chart 3.4: Change in the exchange rate of the dirham



Source : BAM.

1The 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)



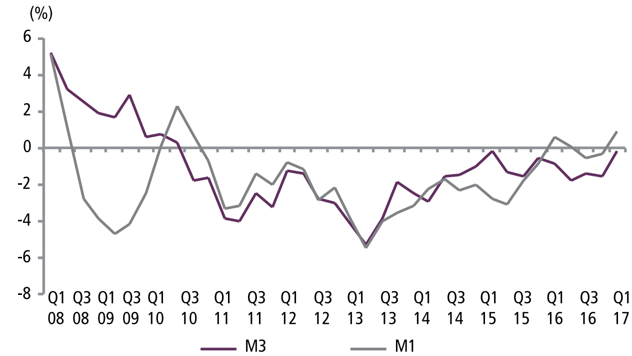
Sources : BAM and IMF calculations.

On the foreign exchange market, the volume of bank operations with customers increased by 5.5 percent in the first quarter, averaging 55.5 billion dirhams, of which 44.7 billion were on-the-spot operations and 10.8 billion as forward operations. As for Bank Al-Maghrib's operations with banks, sales averaged 1.8 billion dirhams, from 754 million in the previous quarter. Under these circumstances, banks' net foreign exchange position stood at -3.5 billion dirhams from -2.7 billion on average in the fourth quarter.

3.1.3 Monetary position

The growth in money supply accelerated from 5.1percent in the fourth quarter of 2016 to 6percent in the first quarter of 2017. This trend reflects a 10.4 percent rise in net loans to the central administration, after a 4.8 percent drop, and a slight acceleration from 4 percent to 4.2 percent in the growth rate of bank credit. Conversely, net international reserves rose by 6.9 percent from 13.2 percent.

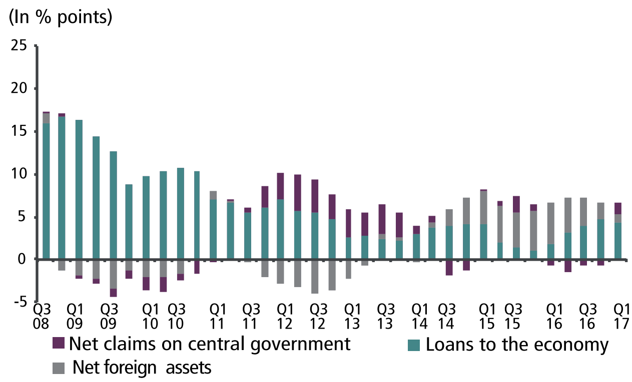
Chart 3.6: Money gap[1] (in % of M3 and M1 equilibrium outstanding amount in real terms)



1:The money 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.

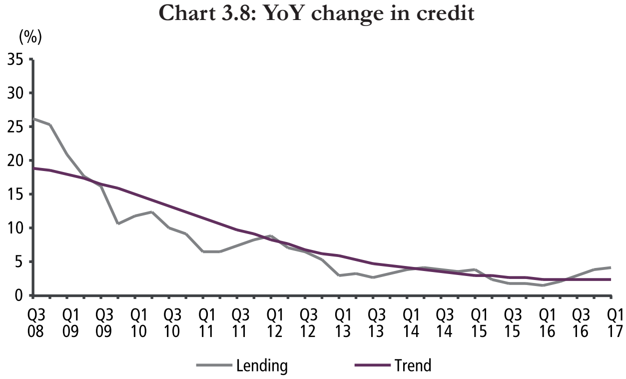
Chart 3.7: Contribution of the major counterparts to YoY change in money supply



Source : BAM.

Analysis by M3 component shows acceleration in the growth rate of currency deposits from 1. 6 percent to 9.5 percent and of money market shares/units from 1.1 percent to 16.5 percent. In turn, currency in circulation rose from 5.7 percent to 5.5 percent a quarter earlier. For demand deposits, they accelerated by 6.8 percent from 5.3 percent for private nonfinancial corporations, while those for households slowed down from 7.9 percent to 7 percent. For time deposits, they declined by 16.5 percent for private nonfinancial businesses, from 11.6 percent, and by 9.1 percent for households from a 1.4 percent increase.

Chart 3.8: YoY change in credit



Source : BAM.

Concerning bank credit, loans to the nonfinancial sector increased by 3 percent from 3.7 percent. This change reflects a slowdown from 3.9 percent to 2.2 percent in the growth rate of loans to businesses and from 5.3 percent to 3.8 percent decline in loans to private individuals. On the other hand, loans to individual entrepreneurs rose by 5 percent after a 4.1 percent drop in the previous quarter.

These developments were recorded in a context characterized by sluggish demand and virtually unchanged credit supply conditions, according to the results of Bank Al-Maghrib's survey on lending conditions.

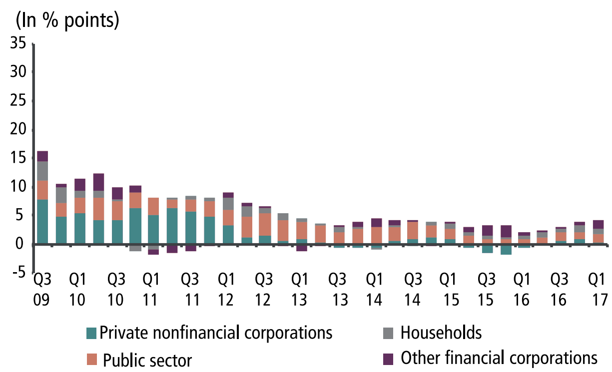
The trend in credit conditions reflects a deceleration from 2 percent to 0.9 percent in loans granted to private nonfinancial corporations, with a marked drop from 0.2 percent to 4.7 percent in cash facilities. On the other hand, equipment loans improved by 2.3 percent as against 1.8 percent, and loans for real-estate development rose by 5.7 percent, marking a break with the downward trend observed since the second quarter of 2014. Similarly, loans to public enterprises slowed down from 20.5 percent to 12.6 percent, due in particular to the deceleration from 15.3 percent to 8.2 percent in equipment loans.

Concerning loans to individual entrepreneurs, they increased by 5 percent after a 4.1 percent drop in the fourth quarter of 2016. This change reflects acceleration from 40.5 percent to 44 percent of loans to equipment and a slighter drop from 20.9 percent to 13.6 percent of cash facilities, while loans to real-estate development showed a further drop by 10.7 percent, which was virtually unchanged from the previous quarter.

By sector of activity, loans to the "trade" branch slowed down from 9.4 percent to 2.1 percent and those allocated to "extractive industries" and to the "Electricity, gas and water" sector fell respectively by 8.3 percent and 1.2 percent after increases by 1.1 percent and 2.1 percent. Loans to the "construction" sector dropped from 3.7 percent to 2.4 percent and those to the "manufacturing industries" declined by a more pronounced drop, 2.2 percent as against 1.5 percent a quarter earlier.

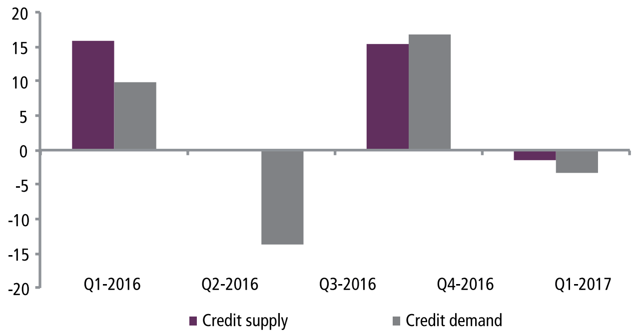
Personal loans increased from 5.3 percent to 3.8 percent, reflecting a slowdown in housing loans from 5.4 percent to 4.6 percent, as well as consumer loans from 5.6 percent to 4.6 percent.

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



Non-performing loans slowed down from 8.3 percent to 6.9 percent, reflecting a deceleration in the growth of non-payments by private nonfinancial corporations from 16.2 percent to 7.2 percent, while those of households rose 5.2 percent against a drop by 4.6 percent. As a result, the ratio of Non-performing loans to bank credit remained almost unchanged at 7.8 percent.

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

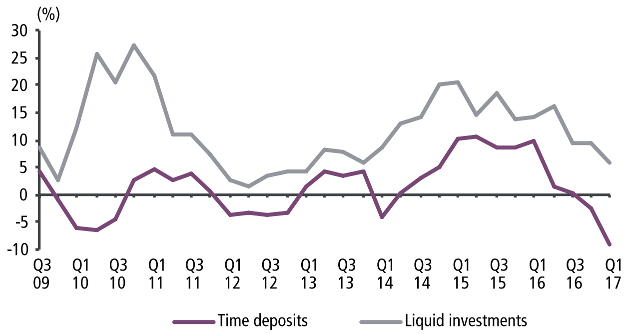


At the same time, loans to nonfinancial units by other financial companies and not included in the monetary situation increased by 7.8 percent, from 6.3 percent a quarter earlier. This increase was mainly due to a rise from 3.5 percent to 6.4 percent in loans given by finance companies, led by a significant improvement in leasing activities from 7.3percent to 10.6 percent. As to loans granted by offshore banks, their growth slowed down from 30.8 percent to 20.7 percent, with in particular a deceleration from 18.8 percent to 2.9 percent in cash facilities.

The latest data available for April 2017 show a slight improvement in bank credit to the nonfinancial sector at 3.2 percent. Loans to private businesses rose by 1.7 percent from 0.9 percent and to households by 4.1 percent from 3.7 percent.

Liquid investment aggregates rose by 5.8 percent from 9.4 percent in the first quarter of 2017, reflecting the deceleration from 8.7 percent to 4.5 percent of Treasury bills and from 10.8 percent to 2.7 percent of bond UCITS. On the other hand, shares and diversified UCITS expanded 40.7 percent from 18.7 percent the previous quarter.

Chart 3.11: YoY change in liquid investments and time deposits



3.2 Asset prices

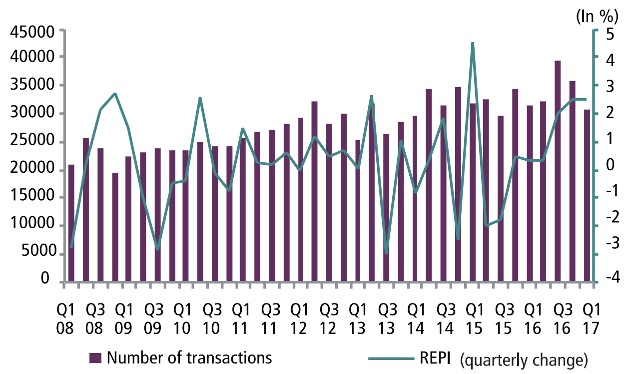
3.2.1 Real estate assets

After rising 0.9 percent in 2016, real-estate asset prices edged up 2.5 percent quarter-to-quarter in Q1-2017. This increase affected all asset classes with 2.3 percent for apartments, 2.8 percent for urban lands and 4 percent for commercial properties.

At the same time, operations fell by 13.9 percent, reflecting declines in all asset classes. In particular, sales of apartments fell by 11.9 percent and urban lands by 20.5 percent.

In the main cities, with the exception of Rabat and Kenitra, prices rose on a quarterly basis, from 0.7 percent in Meknes to 4.6 percent in El Jadida. In turn, real-estate transactions posted increases of 4.7 percent in Casablanca and 3.5 percent in Tangiers.

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



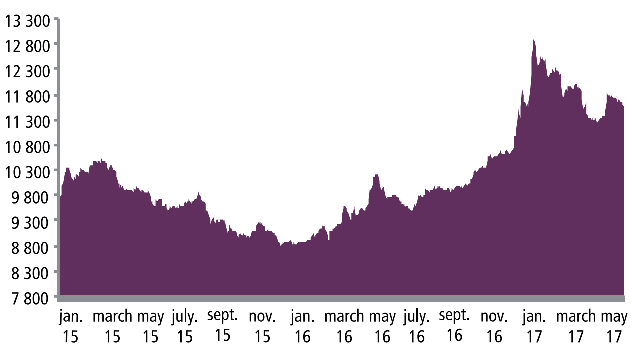
Source : BAM and the National Land Registry and Mapping Agency

3.2.2 Financial assets

3.2.2.1 Shares

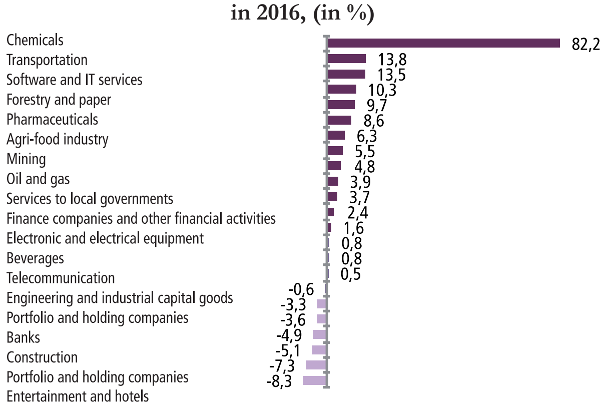
Following the significant rise in 2016, the MASI posted a 2.3 percent drop in the first quarter of 2017.

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.

This was mainly due to a decline in the asset value of the "construction and building materials" sector by 7.3percent, the banking sector by 5.1 percent and the telecommunication sector by 3.3 percent. On the other hand, the "agri-food" and "real estate" indices posted performances of 6.3 percent and 2.4 percent respectively.

As regards the volume of transactions, it posted 18.2 billion dirhams as a quarterly average in 2016 to 14.2 billion dirhams in the first quarter of 2017, of which 12.5 billion dirhams on the central market and 1.4 billion dirhams on the block market. Transactions related to capital increases, securities transfers and transfers totaled 352.2 million dirhams.

Under these circumstances, market capitalization fell on a quarterly basis by 1.5 percent to 574.5 billion dirhams. As a result, the liquidity ratio[2] rose slightly to 7.3 percent from 6.4 percent in 2016.

Data at the end of May indicate a slight decrease of 0.5 percent in the MASI and the volume of transactions stood at 3.6 billion dirhams as against a monthly average of 4.1 billion over the first four months of the year.

3.2.2.2 Treasury bonds

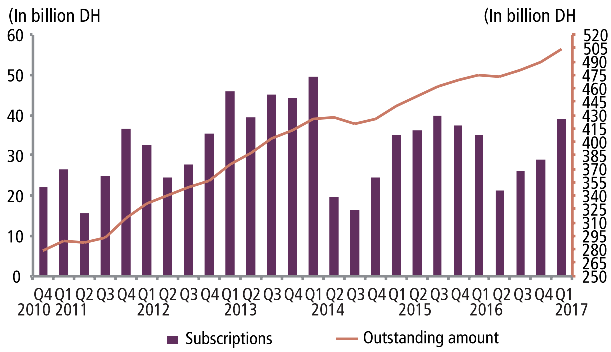
In the first quarter of 2017, Treasury issuances in the domestic market reached 39 billion, a quarterly increase of nearly 34 percent. TBs were composed up to 57 percent of medium maturities, 35 percent of short maturities, while interest rates did not vary significantly from the previous quarter.

During the month of April, Treasury borrowings were limited to 1.1 billion and had a slightly lower rate than in the previous quarter for medium-term bonds. Taking

2 The liquidity ratio represents the ratio between the volume of transactions and market capitalization.

into account a repayment amount of 6.4 billion dirhams, outstanding Treasury bills stood at 498.6 billion at end-April, up 1.7percent from December 2016.

Chart 3.15: Change in outstanding Treasury bonds



Source : BAM.

3.2.2.3 Negotiable debt securities

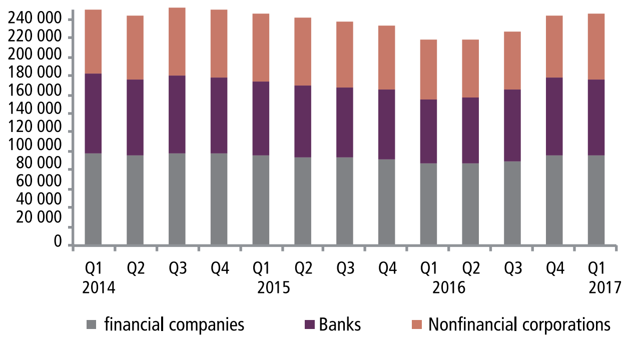
In the private debt market, issues were limited to 8.5 billion dirhams, from 14.9 billion in the fourth quarter of 2016, and concerned up to 81 percent the market for negotiable debt securities.

As for non-financial companies' borrowings, they reached 2.3 billion dirhams after 1.1 billion as a quarterly average in 2016, 772.1 million of which were issued on the commercial paper market. These issuances were made with overall slightly lower rates for the various maturities.

As concerns banks, issuances focused mainly on short-term certificates of deposit amounting to 5.6 billion dirhams compared to a quarterly average of 7 billion in 2016. For finance companies, borrowings stood at 650 million dirhams.

In April 2017, private debt issuances reached 4.3 billion dirhams, of which 3.2 billion were issued by banks, 1 billion by other financial corporations and 140 million by nonfinancial corporations. Taking into account the amount of repayments, the outstanding amount of these securities stood at 163.5 billion, down 1.6 percent from December 2016.

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



Sources : Maroclear and BAM calculations.

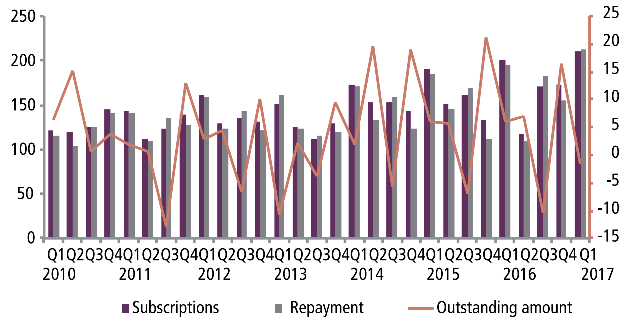
3.2.2.4 Mutual fund shares/units

In the first quarter of 2017, subscriptions to mutual fund shares/units totaled 211 billion dirhams and redemptions 212.7 billion, representing a net outflow of 1.8 billion. Taking into account a slight quarterly rise of 0.2percent in the performance index, net assets of UCITS stood at 374.8 billion dirhams at the end of March, down 0.2 percent from one quarter to the next. By fund categories, a drop by 8.9 percent was registered for net assets of money market funds and by 4.3 percent for short-term bond mutual funds. On the other hand, contractual and diversified mutual funds saw their net assets increase by 33.1 percent and 14.6 percent respectively.

The latest available data for the first two months of the second quarter3 indicate a net collection trend of 1.7 billion dirhams and a rise in the performance index by 0.9 percent compared to end-March. Under these conditions, net assets of UCITS funds stood at 378.5 billion dirhams, up 1 percent from the previous quarter.

3 Data as of May 19, 2017.

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



Source : Moroccan Stock Market Authority.

4. FISCAL POLICY STANCE

At the end of April 2017, the expenditure execution rate seems broadly in line with the finance act draft, except for investment, interest payments and subsidy. Revenues from direct taxes and registration and stamp duties have exceeded the projections of the draft finance act, while non-tax duties remain very low, due to the delay in collecting donations from the GCC countries and transfers of public enterprises and institutions from monopoly revenues.

Budget execution for the first four months of 2017 shows a 45.3 percent lower deficit to 11.9 billion. Current revenues increased by 4.5 percent, reflecting improved tax revenues and a sharp decrease in non-tax revenues. Despite weak economic growth in 2016, direct tax revenues rose by 12.4 percent to 33.7 billion dirhams. Similarly, the proceeds of indirect taxes increased, though at a slower pace, with higher VAT and lower DCT. At the same time, overall expenditure increased slightly by 0.4 percent, covering, on the one hand, higher subsidy costs and transfers to local authorities and, on the other hand, a lower Treasury investment, expenditure on goods and services and interest on debt. On the other hand, the balance of the Treasury special accounts was positive at 11.2 billion, up 6.8 billion.

The Treasury reduced its payment arrears by 1.6 billion dollars and the cash deficit fell from 21.5 to 13.5 billion dollars in the same period of 2016. This requirement, added to the negative net external flow of 2.1 billion, was covered by domestic resources, which amounted to 15.6 billion. Thus, direct public debt would have increased by 1percent compared to its level in December 2016. As regards the Treasury's financing conditions on the auctions market, they are generally favorable, as the weighted average rates virtually stabilized on average from January to April 2017 compared to the same period in 2016.

4.1 Current revenues

In the first four months of 2017, budget execution recorded an improvement in tax revenues, which more than offset the decline of non-tax ones. Current revenues grew by 4.5 percent, with a 7.8 percent increase in tax revenues to 78.7 billion, thus achieving an execution rate of 34.8 percent, and a 47.5 percent decrease in non-tax revenues to 2.7 billion dollars. The favorable development of tax revenues is mainly attributable to receipts from direct taxes and VAT.

Revenues from direct taxes rose by 12.4 percent to 33.7 billion as a result of the increase by 19.2 percent in CT proceeds to 18.7 billion and by 4.6 percent in IT receipts to 14.3 billion. The change observed in the CT revenues is probably impacted by the review of its rates, as four rates were set up in proportion to the net profits. This measure was introduced by the 2016 Finance Act and applied to the CT declared and paid in 2017. As for the IT revenues, they reflect a 1.5 percent increase in those on real estate profits to 1.4 billion and a 5.5 percent decrease in the IT on salaries paid by the TGR's Directorate of Personnel Expenditures to 2.7 billion.

On the other hand, indirect taxes increased by 6.5 percent to 35.3 billion dirhams, covering a 9.1 percent rise of VAT receipts to 27 billion and a 1.3 percent decline of DCT. Revenues from domestic VAT grew by 15.2 percent to 10.5 billion, comprising the repayment of VAT credits which amount to 2 billion as against to 2.7 billion at the end of April 2016. Similarly, import VAT receipts improved by 5.5 percent to 16.5 billion, reflecting in VAT by 28.3 percent on energy products and by 1.9 percent on other products.

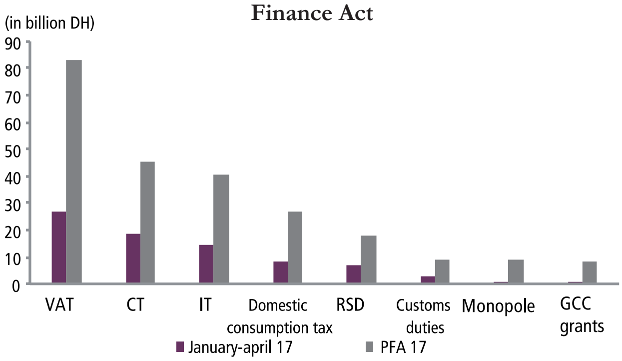
Table 4.1: Change in current revenues (in billions of dirhams)

	Jan. apr. 2016	Jan. apr. 2017	Change in %	FAP 2017	Achievements with respect to the FAP (%)
Current revenues	**78.5**	**82.0**	**4.5**	**251.4**	**32.6**
Tax revenues	**73.0**	**78.7**	**7.8**	**225.8**	**34.8**
- Direct taxes	30.0	33.7	12.4	89.4	37.7
Including CT	15.7	18.7	19.2	45.6	41.1
I.T	13.7	14.3	4.6	40.9	35.1
- Indirect taxes	33.2	35.3	6.5	109.4	32.3
VAT*	24.7	27.0	9.1	82.8	32.6
DCT	8.4	8.3	-1.3	26.6	31.3
- Customs duties	3.2	2.9	-7.9	8.9	32.9
- Registration and stamp duties	6.6	6.7	1.8	18.1	37.4
Nontax revenues	**5.1**	**2.7**	**-47.5**	**22.3**	**12.0**
- Monopoles	0.3	0.8	193.1	9.1	8.9
- Other receipts	4.8	1.9	-61.4	13.2	14.0
Including GCC grants	1.6	0.3	-77.9	8.0	4.4
TSA receipts	**0.5**	**0.7**	**42.3**	**3.3**	**21.1**

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

On the other hand, the DCT generated a total amount of 8.3 billion, down 1.3 percent, following the decline of DCT by 3.5 percent on tobacco to 3 billion and by 0.6 percent on energy products to 4.8 billion. Similarly, revenues from customs duties dropped from 7.9 percent to 2.9 billion, while those from registration and stamp duties increased by 1.8 percent to 6.7 billion.

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 revenues stood at 2.7 billion, down 47.5 percent. This decrease reflects the delay in receipt of GCC grants, which amounted to 348 million DH at the end of April 2017, as against 1.6 billion a year earlier, and the increase in monopoly revenues from 276 million to 809 million, mainly from the National Agency for the Land Registry at 300 million, Bank Al-Maghrib at 271 million and the Foreign Exchange Office at 160 million.

4.2 Public expenditure

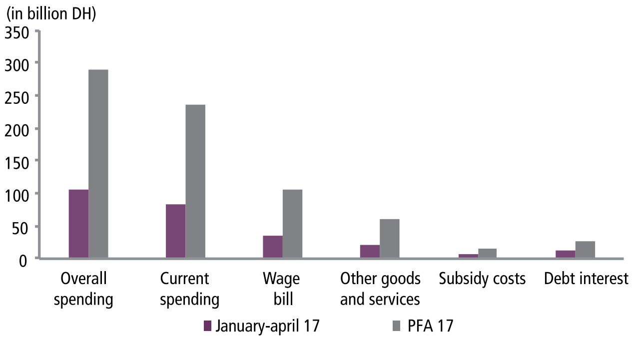
Overall expenditure increased slightly by 0.4 percent to 105.2 billion, recovering the 1.8 percent increase to 82 billion of ordinary expenditure and the 4.1 percent reduction in investment to 23.2 billion. Spending on goods and services fell 0.5 percent to 56.5 billion, reflecting a virtual stagnation of the payroll to 35.1 billion dirhams and a 1.2 percent decrease in expenditure on other goods and services to 21.4 billion. This change reflects the drop in transfers to public institutions from 3.8 percent to 7.6 billion and in payments to the special Treasury accounts by 40 percent to 900 million, while transfers to the Moroccan Pensions Fund grew by 25.7 percent to 4.4 billion dirhams.

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

	Jan. apr. 2016	Jan. apr. 2017	Change In %	FAP 2017	Achievements with respect to the FA (%)
Overall spending	**104.8**	**105.2**	**0.4**	**290.4**	**36.2**
Current spending	**80.6**	**82.0**	**1.8**	**234.8**	**34.9**
Goods and services	56.8	56.5	-0.5	167.8	33.7
Staff	35.1	35.1	-0.1	106.7	32.9
Other goods and services	21.7	21.4	-1.2	61.1	35.1
Debt interest	12.6	11.5	-9.3	27.5	41.8
Subsidy costs	3.7	5.9	59.5	14.7	40.3
Transfers to LA	7.4	8.1	9.1	24.9	32.6
Investment	**24.2**	**23.2**	**-4.1**	**55.6**	**41.7**

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

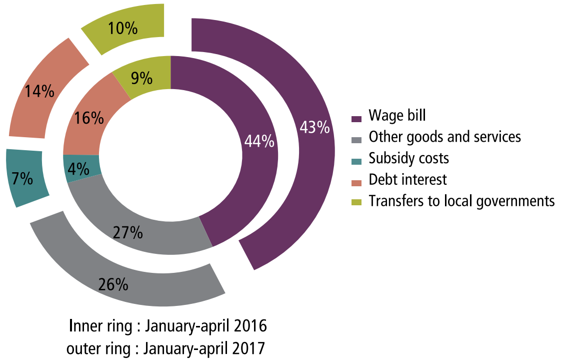
Chart 4.2: Execution of spending compared to the Finance Act



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

Debt interest charges decreased by 9.3 percent to 11.5 billion, as a result of the drop recorded in interest on domestic debt by 9.6 percent fall to 10.9 billion and on foreign debt by 2.8 percent to 613 million.

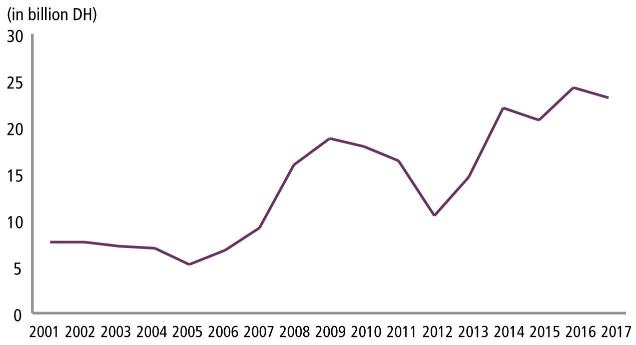
Chart 4.3: Structure of current spending



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

Subsidy costs rose 59.5 percent to 5.9 billion. They particularly rose with regard to gas due to the change observed in the price structure in June 2016 and to higher international gas prices. Besides, the exchange rate of the dirham against the dollar depreciated by 2.8 percent, rising to an average of 10 against 9.8 at the end of April 2016.

Chart 4.4: Investment spending, january - april total



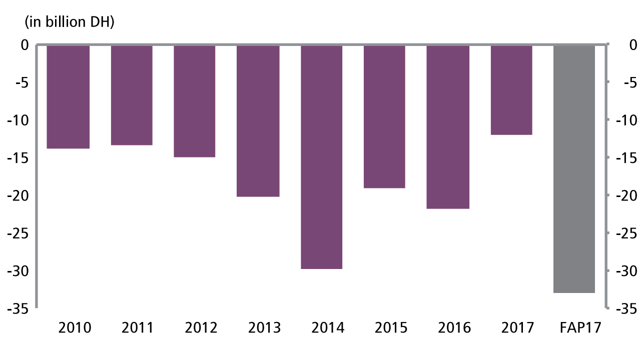
Source : Ministry of Economy and Finance (TEFD).

With an execution rate of 41.7 percent of the budget planning, investment expenses fell 4.1 percent to 23.2 billion, due to 7.7 percent-lower spending in ministries to 11.9 billion and 5.3 percent-higher common investment expenditure to 11.4 billion. The latter takes into account transfers to the Treasury special accounts, amounting to 10.6 billion against 10.1 billion at the end of April 2016.

4.3 Deficit and Treasury financing

At the end of the first four months of 2017, budget deficit eased 9.9 billion to 11.9 billion, partly due to the improvement recorded in the positive balance of the Treasury's special account by 6.8 billion to 11.2 billion. In addition, the Treasury reduced its stock of arrears from 1.6 billion to 8.7 billion1, thus generating a cash deficit of 13.5 billion, down by 8 billion compared to the end of April 2016.

Chart 4.5: Fiscal balance, january - april total



Source : Ministry of Economy and Finance (TEFD).

1 Estimation made by Bank Al Maghrib staff based on monthly flows.

Net external financing flows were negative at 2.1 billion at end-April 2017, compared to the positive flow of 3.6 billion recorded in the same period of 2016. This flow, combined with the need for financing, was covered by domestic resources for a net amount of 15.6 billion, down 2.3 billion. Of these, 8.6 billion was raised in the auction market and 6.8 billion came from the Treasury, whose deposits rose 4.5 billion compared to their level of December 2016.

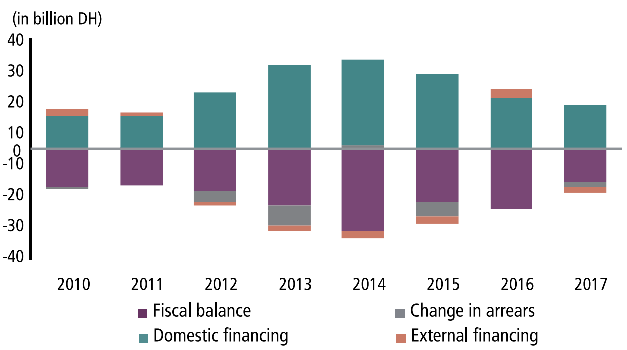
Table 4.3: Deficit financing (in billions of dirhams)

	Jan. apr. 2016	Jan. apr. 2017	FAP 2017	Absolute gap FAP/Jan. apr. 17
Current balance	**-2.0**	**0.0**	**16.6**	**16.6**
Balance of TSA	4.4	11.2	6.0	-5.2
Primary balance	-9.2	-0.4	-5.5	-5.1
Fiscal balance	**-21.8**	**-11.9**	**-33.0**	**-21.1**
Change in arrears	0.3	-1.6	0.0	
Financing requirements	**-21.5**	**-13.5**	**-33.0**	**-19.5**
Domestic financing	17.9	15.6	20.5	4.9
External financing	3.6	-2.1	12.5	14.6

Source : Ministry of Economy and Finance (TEFD).

Net subscriptions to the auction market were primarily made on 52-week bills for 11.2 billion and 5-year bills for 4.2 billion. At the same time, net repayments concerned 26-week, 2-year and 15-year bonds for 5.5 billion, 2.2 billion and 2.7 billion, respectively.

Chart 4.6: Fiscal balance and financing , january - april total*



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

Treasury conditions on the auctions market remained favorable overall. The weighted average rates (WAR) of the issued maturities decreased by 6 basis points (bps) to 3.07 percent on average. This covers different developments according to maturity. In fact, the WAR for issues on the 13-week and 26-week bills declined by 15 bps and 31 bps, respectively. Similarly, 30-year issues decreased by 23 basis points compared to the average of the first four months of 2016. On the other hand, rates for 15-year Treasury bills were up 23 bps, from 3.64 percent to 3.87percent.

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

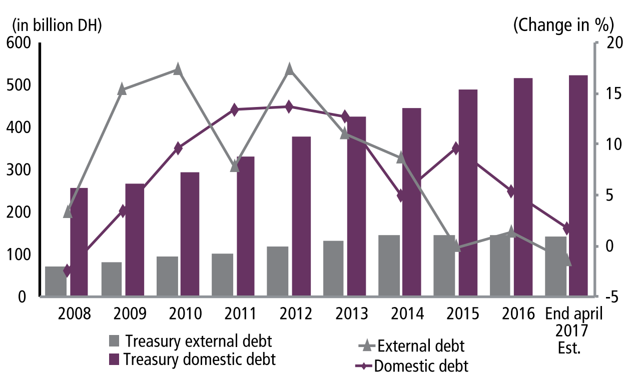
	2012	2013	2014	2015	2016	At end apr. 2017 Est*
Treasury external debt	**116.9**	**129.8**	**141.1**	**140.8**	**142.8**	**140.7**
Change in %	17.4	11.1	8.7	-0.2	1.4	-1.5
Treasury domestic debt	**376.8**	**424.5**	**445.5**	**488.4**	**514.6**	**523.4**
Change in %	13.7	12.6	5.0	9.6	5.4	1.7
Outstanding direct debt	**493.7**	**554.3**	**586.6**	**629.2**	**657.4**	**664.1**
Change in %	14.6	12.3	5.8	7.3	4.5	1.0

Source : Ministry of Economy and Finance (TEFD).

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

Regarding public debt, estimates based mainly on financing flows show a 1percent increase at end-April 2017 compared to the level recorded at the end of December 2016. This reflects a 1.5 percent drop in the external component and a 1.7 percent increase in domestic one.

Chart 4.7: Treasury debt



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

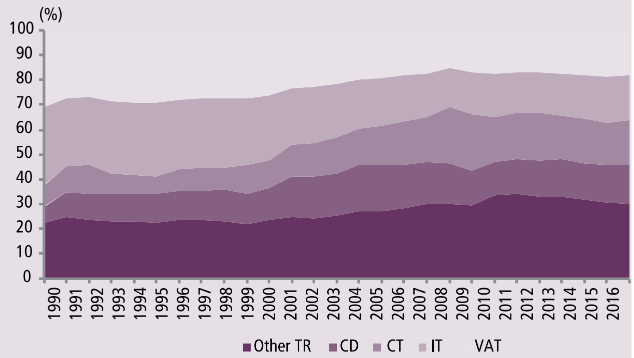
Box 4.1: Evolution and importance of VAT receipts and international comparison

The purpose of this box is to analyze VAT receipts in Morocco compared to other tax products. After its introduction in 1986, VAT contributed to an increase in tax revenues from 25.8 percent in 1990 to 35.1 percent in 2016. Moreover, an international benchmarking suggests that Morocco stands in the middle level of some developed countries in the sample.

1- VAT receipts have climbed

The VAT scope is broad and particularly covers consumption, hence its high potential, especially in economies like Morocco, where the development model is based on domestic demand. This potential is all the more important as VAT exemptions and the informal sector constitute significant shares. Since its introduction in 1986, VAT revenues increased almost regularly, to become the main source of financing for the State and local authorities, which receive 30 percent of the proceeds from this tax. **VAT is thus the first segment in terms of tax revenues, with an average share of 27.5 percent over the period 1990-2007 and 36.3 percent between 2008 and 2016.**

Chart B 4.1.1: Share of main taxers in the tax revenues



The VAT share increase essentially reflects the drop in customs duties. Indeed, after an exceptional rise in other revenues and customs duties, the latter witnessed a gradual decrease in their shares in the early 2000s, in connection with the tariff dismantling process, as part of the free trade agreements signed by Morocco. The improvement in economic activity, household consumption and imports contributed largely to higher VAT proceeds. This tax has also been impacted by the efforts made in recent years in terms of public investment, namely by public institutions. Changes in tax legislation have also had various impacts on the receipts.

To mention some examples of the changes introduced by the Finance Act concerning VAT, the scope of the latter was extended **in 1992** to include businesses whose turnover exceeds 3 million dirhams, the 12 percent rate was abolished and three new rates were implemented, namely 7 percent, 14 percent and 19 percent. **In 1993**, the decline in VAT receipts was due to the removal of the 30 percent rate and the slowdown in nominal growth to 2.3 percent. **In 1996**, VAT revenues performed well and increased by 13.3 percent, due to improved economic growth, as nominal GDP rose 12.9 percent.

Chart B 4.1. 2: VAT, income tax and corporate tax

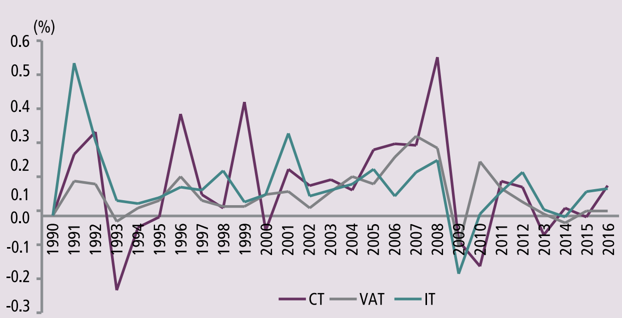
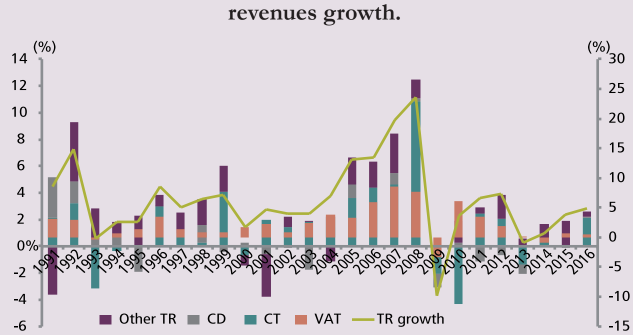


Chart B 4.1. 3: Contribution of taxes and duties to tax revenues growth.



The improvement of VAT receipts between 2004 and 2008 was partly due to the reform initiated as of 2004 to reinforce the neutrality and effectiveness of this tax. The measures taken within this reform concerned widening the tax base, reducing exemptions and reorganizing the taxation of certain products and services. During this period, the economic environment was very favorable, since the average nominal growth reached 7.6 percent, as evidenced by the exceptional performance of the CT and the IT. In addition to the economic context, results of the CT were influenced by the reduced tax rate in 2008 from 35 percent to 30 percent for common law and from 39.6 percent to 37 percent for the financial sector.

At the end of the financial year 2016, VAT proceeds increased by 1.5 percent to 75.8 billion, with a 4.6 percent increase in VAT on imports and a 3.3 percent in the VAT on exports. The latter was mainly impacted by the rise in the refund of VAT credits, which amounted to 8.1 billion, up 54.1 percent compared to 2015.

Furthermore, it is worth stressing that **the predominance of VAT on imports** was strengthened compared to domestic VAT, with a share of 63,2 percent of total VAT revenues in 2016.

Table B 4.1.1: Breakdown of tax expenditure by main taxes

	VAT	CT	IT
2009	49.7%	16.8%	12.0%
2010	46.2%	20.2%	14.1%
2011	42.2%	21.8%	12.1%
2012	39.6%	27.1%	11.0%
2013	42.1%	21.4%	12.3%
2014	41.1%	24.3%	11.4%
2015	45.3%	18.1%	12.8%
2016	46.8%	15.9%	12.8%

VAT exemptions also represent the major share of tax expenditure. It averaged 44.1 percent between 2009 and 2016 and 46.8 percent in 2016. The same applies to the number of tax measures evaluated, with 40 percent of the total. In 2016 alone, tax expenditure on VAT reached 15.2 billion, as against 14.4 billion in 2015, corresponding to 20.1 percent of VAT receipts. As regards CT, expenditure was estimated at 5.2 billion in 2016, i.e. 11.9 percent of the CT receipts.

2- VAT indicators in Morocco are close to the sample

A sample of 7 countries, both developed and developing, was selected for an international comparison which covered the 2000-2015 period, and which revealed that the average weight of VAT in the GDP equals 7.4 percent in 2015. This share is 0.2 GDP point less compared to Morocco, where the weight is 7.6 percent. A breakdown by country reveals that this weight has reached 7 percent of GDP in France and 15.3 percent of tax revenue in 2015. In Spain, VAT receipts reached 6.4 percent of GDP and 18.8 percent of tax revenues in 2015. For Turkey and Tunisia, the share of VAT revenue in GDP and tax revenues is 6.2 percent and 20.6 percent respectively for the first country in 2015 and 6.3 percent and 19 percent for the second in 2014.

Chart B 4.1.4: VAT share in 2015 tax revenues

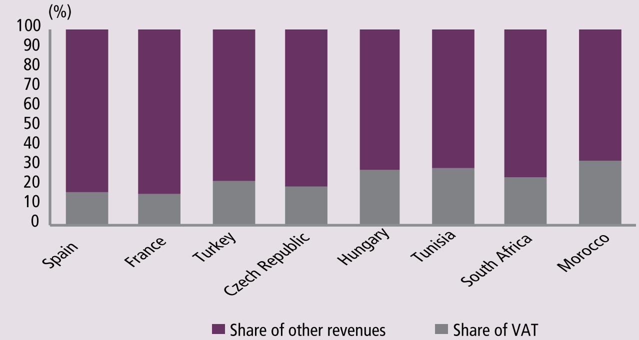
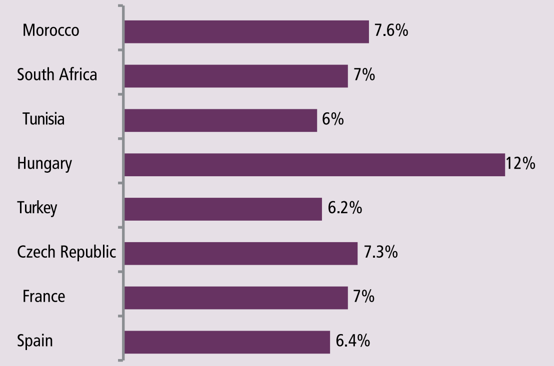


Chart B 4.1.5: VAT share, in percentage of GDP in 2015



Compared to Morocco and European countries, Hungary has the highest VAT ratio to GDP with 12 percent in 2015. According to the annual report on the evolution of tax revenue in the EU in 2014, the highest standard rate of VAT was held by Hungary with a rate of 27 percent, against 20 percent for Morocco, identical to that in France and slightly lower than the normal rate in Spain and the Czech Republic, which equals 21 percent.

Table B 4.1.2: VAT shares in GDP and tax revenues

	Share of VAT…	Spain	France	Czech Republic	Turkey	Hungary	Tunisia	South Africa	Morocco
2000-2007	In GDP	6.0	7.1	6.1	5.8	9.9	5.7	6.2	5.8
	In tax revenues	17.1	16.6	18.1	23.3	26.3	20.9	25.2	29.3
2008-2014	In GDP	5.5	6.9	7.0	5.7	11.2	5.3	6.4	8.3
	In tax revenues	16.2	15.7	20.8	21.0	29.1	18.9	23.9	36.4
2007	In GDP	5.9	7.0	6.1	5.1	10.3	5.3	6.9	7.7
	In tax revenues	16.0	16.5	17.7	21.3	25.9	19.1	25.1	33.1
2010	In GDP	5.4	6.8	6.7	5.7	11.1	5.9	6.2	8.3
	In tax revenues	16.7	16.1	20.5	21.7	29.7	19.8	24.3	37.6
2014	In GDP	6.2	7.0	7.4	5.9	11.6	6.3	6.7	7.9
	In tax revenues	18.1	15.2	22.4	20.4	30.5	19.0	24.3	37.0
2015	In GDP	6.4	7.0	7.3	6.2	12.0	6.0	7.0	7.6
	In tax revenues	18.8	15.3	21.9	20.6	30.7	-	-	36.6

Sources : OECD and the World Bank database.

It is true that after 2008, the share of VAT in tax revenues improved considerably in Morocco; however, it has slightly deteriorated in some countries in the sample, mainly due to the 2007 -2008 crisis. In fact, it rose from an average of 16.6 percent in 2000-2007 to 15.7 percent in 2008-2014 for France, and from 17.1 percent to 16.2 percent for Spain (Table 4.1.2). This decrease is also recorded in the VAT shares in GDP.

For Morocco, large sections of the economic fabric are not concerned by the VAT, as entire production and distribution circuits remain outside its scope. This situation increases the share borne by the formal sector, particularly the most transparent firms, thus creating distortions in the prices of goods and services and supporting unfair competition.

A sustained increase in tax revenues requires a greater mobilization of the fiscal sector, particularly by diminishing tax expenditures caused by the many exemptions. It is therefore essential to assess the effectiveness of VAT tax expenditures, given the large share of this tax in the revenues. In addition, it is important to reinforce the control operations, which have proved effective recently, as tax adjustments allowed a 17.4 percent improvement in revenues to 10.8 billion in 2015.

5. DEMAND, SUPPLY AND LABOR MARKET

Based on national accounts, economic growth has slowed down to 1.2 percent in 2016 against 4.5 percent a year earlier. This deceleration covers a negative contribution of 4.7 percentage points to the growth of foreign trade and a positive contribution of 5.9 percentage points of domestic demand.

In the first half of 2017, the growth pace of household final consumption would have accelerated, reflecting improved agricultural incomes and better labor market conditions. Similarly, investment would have maintained a positive trend, as indicated by the continued notable increase in imports of capital goods, albeit at a slower pace than in the first half of 2016, while net foreign demand's contribution to growth would have remained negative. Under these conditions, the GDP growth would have been around 4.5 percent.

On the supply side, agricultural value added would have rebounded owing to a 204 percent-higher cereal production. Non-agricultural growth is expected to be around 3.4 percent, notably as a result of the pick-up in the activity of processing industries, "Mining" and "Hotels and Restaurant".

Against this background, labor market improved in the first quarter with a net entry of 172 thousand job seekers and 109 thousand posts created, which resulted in the rise of unemployment rate from 10.4 percent to 10.7 percent. With regard to labor costs, the latest available data for the first quarter show a year-on-year increase in the private sector wage index by 3.5 percent in nominal terms after 2.9 percent, and by 2.2 percent in real terms after 2.0 percent.

Under these conditions, the output gap would have remained close to zero in the first half of 2017.

5.1 Domestic demand

5.1.1 Consumption

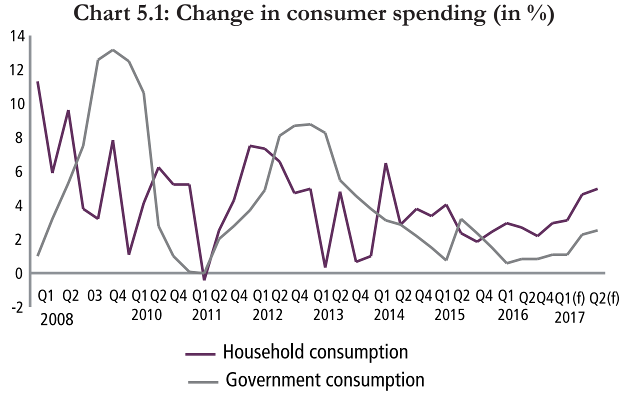
In 2016, final household consumption stood at 3.4 percent, against 2.2 percent a year earlier, bringing its contribution to growth from 1.3 to 1.9 percentage points.

In the first half of 2017, the growth pace of household consumption would have accelerated, driven by better agricultural incomes and improved labor market situation. The latter witnessed the creation of 109 thousand jobs in the first quarter, against a loss of 13 thousand posts the previous year. At the same time, consumer loans increased by 4.8 percent, compared with 4.6 percent. In the same vein, the results of the HCP Household Business Survey indicate that the Household Confidence Index (HIPC) reached its highest level since the fourth quarter of 2012.

With regard to consumption of general government, its pace slowed from 2.4 percent to 2.1 percent in 2016, maintaining its contribution to growth almost stable, while it would have grown at a moderate pace in the first two quarters of 2017.

On the other hand, operating expenses maintained their level at the end of April, while subsidy costs increased sharply by 59.5 percent after their 30.4 percent drop. Although low, contribution of general government consumption to the growth would have remained positive.

Chart 5.1: Change in consumer spending (in %)



Sources: HCP, and BAM forecasts.

5.1.2 Investment

After its growth was limited, in the year before, to 0.9 percent, investment rose 11.6 percent in 2016 due to the acceleration by 9.3 percent in gross fixed capital formation and 38.8 percent in the change in inventories. Thus, its contribution to growth increased from 0.3 percentage point to 3.6 percentage points.

Based on the available indicators, owed to the significant development of capital goods imports, investment would have maintained a positive trend in the first half of 2017, though at a slower pace compared to the first half of 2016. Similarly, equipment loans improved at end-April by 5.8 percent after 3.2 percent. Besides, loans granted to property developers showed slight signs of recovery, whereas the Treasury's investment decreased by 4.1 percent after its 16.6 percent increase.

Moreover, results of Bank Al-Maghrib's quarterly business survey for the first quarter of 2017 indicate that the business climate remains normal with an increase in sales, both on the domestic and foreign markets. Orders would also have posted a progression with a backlog that would have remained below normal. In addition, manufacturers expect that investment spending would remain stable across all sectors.

5.2 External demand

After two years of positive participation, external demand contributed 4.7 percentage points to growth. Imports of goods and services rose 15.4 percent in 2016 after falling 1.1 percent, while exports slowed from 5.5 percent to 5.1 percent.

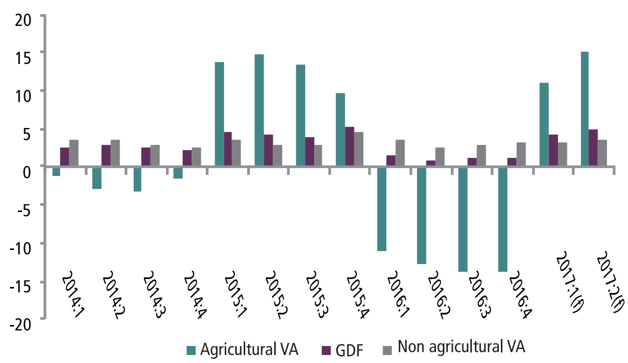
In the first half of 2017, imports of goods and services slowed down particularly as a result of the deceleration in imports of capital goods and the reduction in the cereal bill. As for exports, they are expected to increase thanks to improved external demand, especially phosphate and by-products. Hence, external demand contribution to growth would be negative and national growth would reach around 4.5 percent.

5.3 Aggregate supply

In the first half of the year, agricultural value added would have increased significantly, driven by cereal production of 102 million quintals, up 204 percent compared to the previous season. Also, its contribution to growth would equal 1.6 percentage points, after its negative participation.

For non-agricultural activities, the increase in their value added would have accelerated slightly to 2.5 percent. Considering the rise in taxes on net revenues from subsidies, non-agricultural growth would have been 3.4 percent.

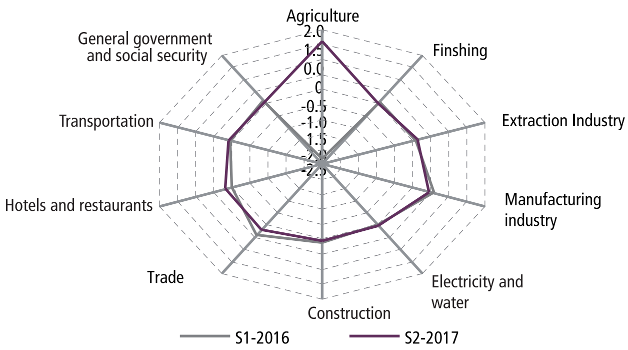
Chart 5.2: YoY annual change in GDP (chained prices, in %)



Sources: HCP, and BAM forecasts.

In the secondary sector, activity would have accelerated to 6.8 percent in the mining sector, as against 2.0 percent in the previous six months and 2.9 percent in the processing industries after 1.8 percent. However, it would have slowed down from 3.6 percent to 1.4 percent in the "electricity and water" sector, reflecting a drop in electricity production. In the construction sector, activity would have continued to evolve at a low rate, 0.9 percent after 0.6 percent.

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



Sources: HCP, and BAM forecasts

As regards tertiary activities, the added value of the "hotel and restaurant" sector would have registered a strong growth of 7.8 percent, following that of 8.6 percent in the previous six months, reflecting an improvement in its main indicators. Similarly, activity would have increased by 3.5 percent in "telecommunications", after 2.7 percent, maintained its growth to 2.2 percent in the "trade" sector and slowed down from 3.2 percent to 2.8 percent in transportation services.

5.4 Labor market and output capacity[1]

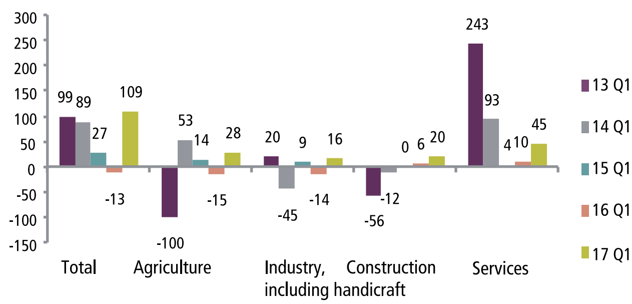
5.4.1 Activity and employment

The first quarter of 2017, the number of people aged 15 years and over increased significantly, by 1.4 percent, to 12.06 million. This trend was more pronounced in urban areas with a 1.8 percent rise compared to 0.9 percent in rural ones. Taking into account a 1.7 percent-increase in the labor force, the participation rate decreased slightly by 0.1 point to 47.5 percent at the national level. This evolution covers a drop by 0.3 percentage points to 43.1 percent in the cities and a rise by 0.3 point to 54.9 percent in rural areas.

At the same time, after 13,000 jobs were lost year earlier, the national economy witnessed the creation of 109 thousand jobs, owing to an increase by 62,000 in urban areas and 47 thousand in rural areas. The employed labor force increased by 1 percent and the employment rate decreased by 0.3 points to 42.4 percent. This same rate fell by 0.6 percentage point to 36.3 percent in urban areas, while it rose by 0.4 percentage points to 52.7 percent in rural areas.

By sector of activity, the services sector, the main job-providing sector, created 45,000 jobs, followed by agriculture with 28,000 jobs, construction with 20,000 jobs and industry, including crafts, with 16,000 jobs.

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



Source : HCP.

5.4.2 Unemployment and underemployment

Based on the above, the unemployed labor force grew by 5.1 percent to nearly 1.3 million. Taking into account the evolution of the labor force, unemployment rate rose from 10.4 percent to 10.7 percent at the national level and from 15 percent to 15.7 percent in urban areas, while it fell from 4.2 percent to 4.1 percent in rural areas. More particularly, for people aged 15 to 24, unemployment rate continued to rise, up from 24.9 percent to 25.5 percent at the national level and from 40.3 percent to 41.5 percent in the cities.

The increase in the unemployment rate was accompanied by a slight increase in underemployment[2], from 9.7 percent to 9.8 percent at the national level,

1 Data concerning the first quarter of 2016 were readjusted by the HCP based on new population forecasts according to the data of the 2014 population census.

2 The underemployed population includes persons who have worked ei¬ther: 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

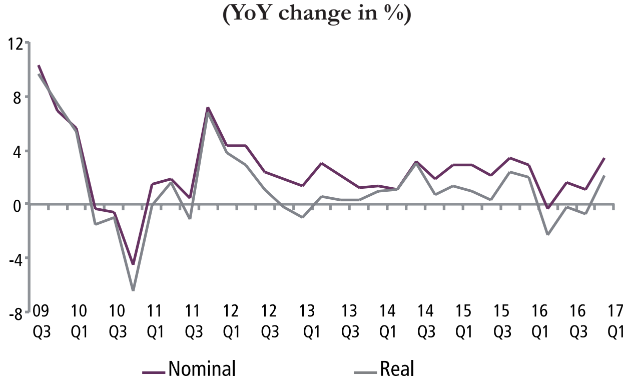
from 9.3 percent to 9.4 percent urban areas and from 10.1 percent to 10.3 percent in rural areas.

5.4.3 Productivity and wages

Apparent labor productivity in nonagricultural[3] activities slowed down in the first quarter of 2017, from 2.6 percent to 1.2 percent, as a result of the decelerating nonagricultural growth to 2.4 percent and to the faster increase of nonagricultural employment to 1.2 percent.

As regards wage costs, the latest CNSS data for the first quarter of 2017 show an increase in the average wage index by 3.5 percent after 2.9 percent in nominal terms, and by 2.2 percent after 2,0 percent in real terms.

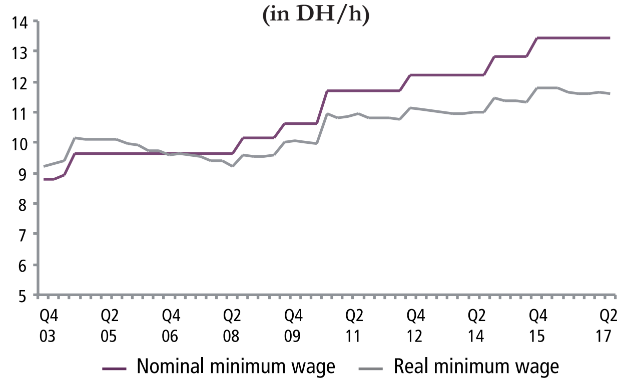
Chart 5.5: Private sector average wage index (YoY change in %)



Sources: CNSS, and BAM calculations.

On the other hand, the minimum wage stood at 11.46 dh/hour in nominal terms in the first quarter 2017. Taking into account a 1.3 percent increase in the Consumer Price Index, real GDP declined by 1.3 percent year-on-year and is expected to decrease by 0.5 percent in the second quarter 2017.

Chart 5.6: Hourly minimum wages in nominal and real terms (in DH/h)



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

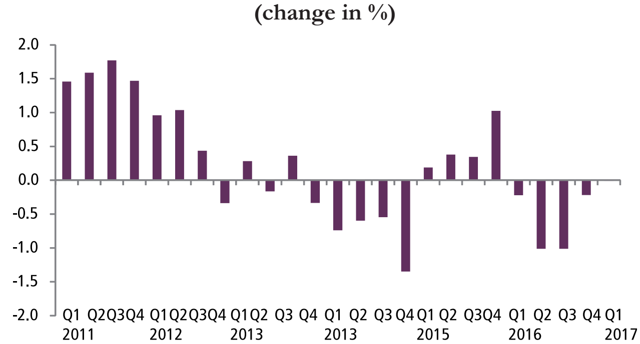
Table 5.1 : Labor market main indicators

		Q 1 2017	Q1 2016
Participation rate (%)		**47.6**	**47.5**
Urban		43.4	43.1
Rural		54.6	54.9
Unemployment rate (%)		**10.4**	**10.7**
Youth aged between 15 and 24 years old		24.9	25.5
Urban		15.0	15.7
Youth aged between 15 and 24 years old		40.3	41.5
Rural		4.2	4.1
Job creation (in thousands)		**-13**	**109**
Urban		15	62
Rural		-28	47
Sectors			
- Agriculture		-15	28
-Industry including handicrafts		-14	16
- Construction		6	20
- Services		10	45
Nonagricultural apparent productivity (change in %)		**2.6**	**1.2**
Average wage index (change in %)	**Nominal**	**2.9**	**3.5**
	Real	**2.0**	**2.2**

Sources: HPC; CNSS and BAM calculations

Overall, the output gap is expected to remain close to zero in the first half 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.

3 Measured by the ratio of nonagricultural value added to employed la¬bor force in the nonagricultural sector

6. RECENT INFLATION TRENDS

In line with the forecasts published in the last Monetary Policy Report, inflation, as measured by the change in the Consumer Price Index, declined sharply from 1.8 percent in the fourth quarter of 2016 to 1.3 percent in the first quarter of 2017. This trend intensified in April to 0.3 percent due to the sharp drop in volatile food prices and, to a lesser extent, fuel and lubricant prices. Indeed, volatile food prices fell by 7.5 percent after a 0.5 percent decline in the first quarter, mainly as a result of the 16 percent drop in fresh vegetable prices, as against 0.9 percent. At the same time, the slower growth rate of international oil prices resulted in lower prices of fuel and lubricant, from 19.5 percent to 11.2 percent.

Besides, inflation of regulated products increased 0.7 percent to 0.8 percent mainly as a result of medical services tariffs adjustment.

Excluding these products, core inflation accelerated slightly from 1.4 percent to 1.5 percent, driven mainly by changes in food prices, particularly oil and fresh meat.

In the short term, inflation is expected to slow to 0.5 percent in the second quarter, as the sharp decline in volatile food prices and the easing of fuel and lubricant prices are expected to offset the acceleration in core inflation.

6.1. Inflation trends

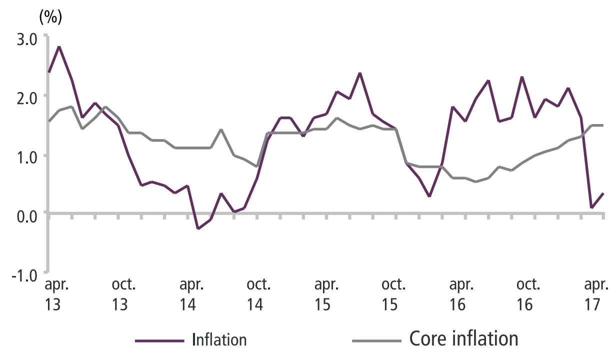
Inflation increased from 1.3 percent on average in the first quarter of 2017 to 0.3 percent in April due to the sharper decline in the volatile food prices and, to a lesser extent, to the slower rise in prices of fuels and lubricants. Core inflation and the growth rate of regulated products' prices rose slightly.

Volatile food prices declined by 7.5 percent, as against 0.5 percent, mainly due to lower prices of fresh vegetables. Meanwhile, growth rate of fuel prices fell from 19.5 percent to 11.2 percent, following the change in international oil prices.

As for prices of regulated products and services, their pace of growth rose from 0.7 percent to 0.8 percent, due to higher tariffs of some medical services.

Excluding these products, core inflation edged up from 1.4 percent in the first quarter to 1.5 percent in April, due to higher prices of certain food products.

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 (%)		
	feb. 17	march 17	apr. 17	feb. 17	march 17	apr. 17
Headline inflation	**-0.3**	**-0.6**	**0.2**	**1.6**	**0.1**	**0.3**
- Volatile food products	-2.5	-4.5	0.7	1.9	-9.1	-7.5
- Fuels and lubricants	0.3	0.1	-1.4	20.8	18.5	11.2
- Administered goods	0.1	0.0	0.1	0.7	0.8	0.8
Core inflation	**0.1**	**0.0**	**0.1**	**1.3**	**1.5**	**1.5**
- Food products	0.0	0.0	0.2	1.7	1.9	2.1
- Clothing and footwear	0.3	0.0	-0.2	1.3	1.3	1.1
- Housing, water, gas, electricity and other fuels*	0.0	0.1	0.2	0.9	0.9	1.1
- Furnishings, household equipment and routine house maintenance	0.1	0.0	-0.1	0.7	0.7	0.6
- Health*	2.1	0.3	0.0	2.4	2.6	2.6
- Transportation*	-0.1	-0.1	0.1	-0.2	-0.5	-0.3
- Communication	0.0	0.0	0.0	-0.2	-0.2	-0.2
- Entertainment and culture	0.0	0.0	0.1	1.1	1.2	0.6
- Education	0.0	0.0	0.0	2.9	2.9	2.9
- Restaurants and hotels	0.8	0.7	0.3	3.1	3.9	4.0
- Miscellaneous goods and services	0.1	0.0	0.2	0.4	0.4	0.6

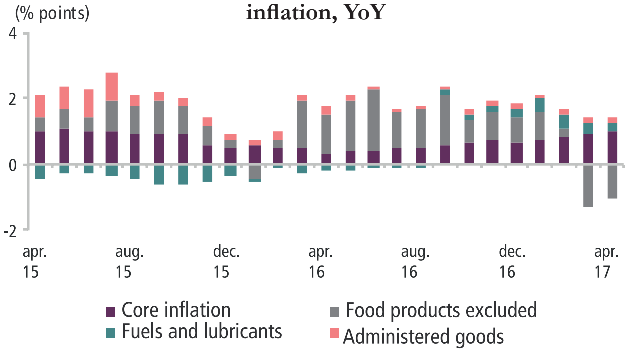
* Excluding administered goods.

Sources: HCP, and BAM calculations.

6.1.1. Prices of goods excluded from core inflation

The decline in volatile price food prices, which started in the fourth quarter last year, continued at the beginning of this year on a larger scale. On a year-on-year basis, the decrease of these products' prices accentuated from 0.5 percent in the first quarter to 7.5 percent in April. This trend has particularly affected prices of fresh vegetables, which fell from 0.9 percent to 16 percent, mainly as a result of improvements in the supply of certain products. The contribution of these products to inflation declined by -0.1 percentage point to -1.1 point in April 2017.

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

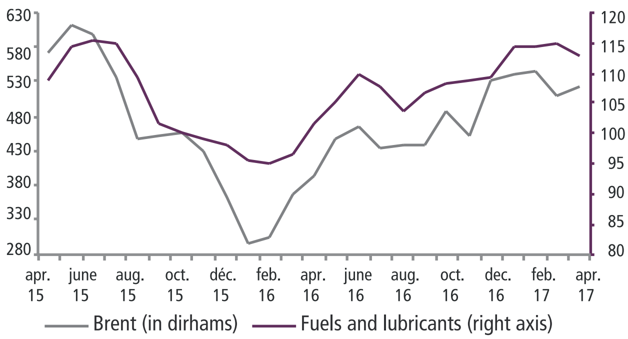


Sources: HCP, and BAM calculations.

In the same vein, the growth rate of fuel and lubricant prices fell from 19.5 percent to 11.2 percent, mainly owing to changes in international prices of oil products. The year-on-year increase in Brent price was limited to 25.4 percent in April, as against 57.5 percent in the first quarter, due to historically low levels recorded in the same period last year and to their relative decline last months.

As for regulated products, their prices' growth rate increased slightly from 0.7 percent to 0.8 percent, mainly as a result of the rise in medical services tariffs.

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



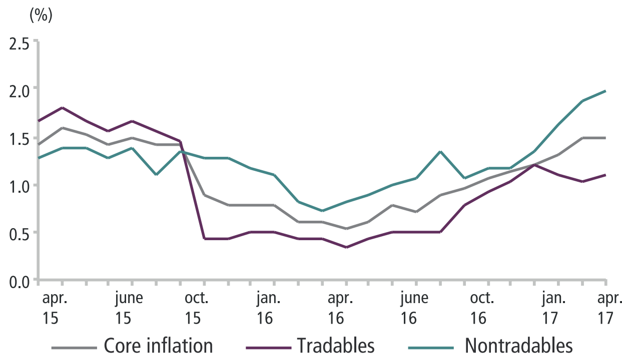
Sources: World Bank, HCP, and BAM calculations.

6.1.2. Core inflation

The acceleration in core inflation from 1.4 percent in the first quarter to 1.5 percent concerned only non-tradable goods, as the growth rate of tradable goods prices remained stable.

Indeed, inflation of non-tradable goods rose from 1.6 percent in the first quarter to 2 percent, mainly as a result of fresh meat price rise. On the contrary, tradable goods contributed to core inflation by 0.9 percentage points, as against 0.8 percentage points in the first quarter of the year.

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



Sources: HCP, and BAM calculations

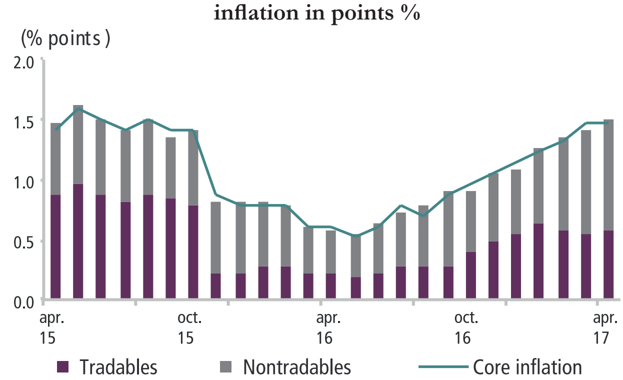
Inflation of tradable goods stabilized at 1.1 percent, mainly reflecting a slower increase in dried legumes' prices and higher prices of oils and dried fruits. The contribution of tradable goods to inflation stood at 0.6 percentage points.

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

(In %)	Monthly change (%)			YoY change (%)		
	feb. 17	march 17	apr. 17	feb. 17	march 17	apr. 17
Tradables	0.0	-0.1	0.1	1.1	1.0	1.1
Nontradables	0.2	0.1	0.2	1.6	1.9	2.0
Core inflation	0.1	0.0	0.1	1.3	1.5	1.5

Sources: HCP, and BAM calculations.

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



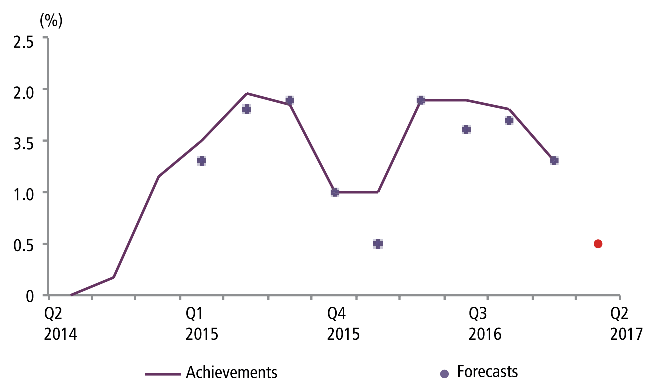
Source: BAM.

6.2. Short-term outlook for inflation

In the second quarter of the year, inflation is expected to continue in the same decelerating trend observed in the first quarter. Thus, inflation is expected to fall to 0.5 percent against 1.3 percent the previous quarter. This trend would be attributed, on the one hand, to a sharply expected low growth of volatile food prices, after its significant rise a year earlier, due to the shock that negatively impacted the supply of certain products. It would also reflect the significant deceleration in the growth rate of fuels and lubricants prices due to the projected easing of energy products prices rise.

The impact of these developments would be partially offset by the expected acceleration in core inflation. On the other hand, tariffs of regulated products are expected to change at the same rate observed one quarter before, assuming no new decision is taken regarding the prices of these products.

Chart 6.6: Short-term forecasts and actual inflation

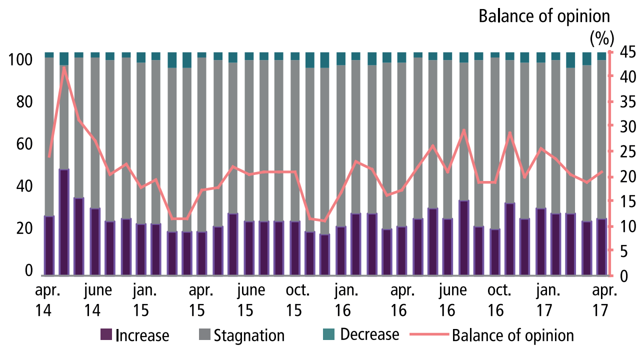


Sources : BAM.

6.3. Inflation expectations

According to the results of Bank Al-Maghrib's survey in the industry for the month of April, 71 percent of industrials expect inflation to stabilize over the next three months, while 25 percent expect higher inflation and 4 percent forecast its deceleration.

Chart 6.7: Three-month inflation expectations by corporate managers



Source: BAM's monthly business survey.

Besides, the findings of Bank Al-Maghrib's inflation expectations survey for the second quarter 2017 suggest that financial sector experts expect an average inflation rate of 1.8 percent, as against 1.9 percent in the first quarter of 2017.

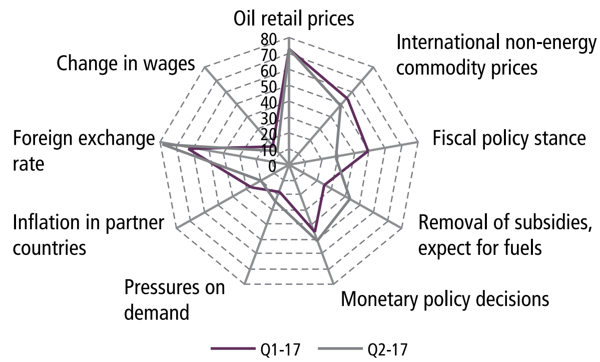
Chart 6.8: Six-month inflation expectations by financial experts

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 respect, experts agree on the decisive role of exchange rate evolution, monetary policy decisions and world prices of non-oil commodities in the future inflation trend during this period.

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

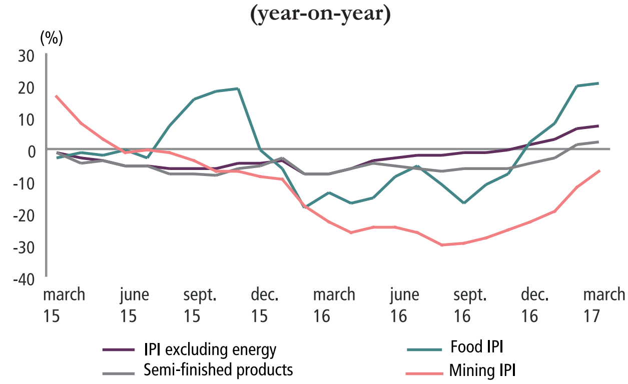


Source: BAM's quarterly survey on inflation expectations.

6.4. Import and producer prices

Non-energy import prices continued trending upward since December 2016. On a year-on-year basis, they rose by 7.1 percent in March, after their 6.5 percent rise in the previous month. This acceleration covers a more rapid growth of foodstuffs and semi-finished products import prices and a slower decline in mining products prices. In fact, prices of imported food products rose by 20.5 percent after 20.2 percent in February, driven by increases ranging between 10.7 percent for milk and 45.6 percent for sugar.

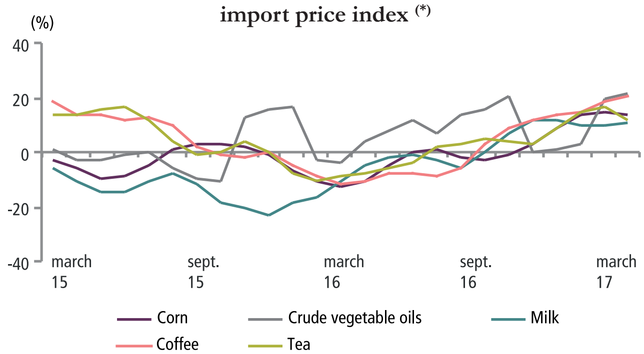
Chart 6.10: Change in the main import prices indexes (year-on-year)



Sources: Foreign Exchange Office, and BAM calculations.

Meanwhile, import prices for semi-finished products rose by 2 percent, following a 1.1 percent-rise in the previous month, due to higher prices of artificial plastic from 4.5 percent to 5.7 percent. Import prices for mining products continued their downward trend, falling by 6.6 percent, after 12.3 percent in February, as «raw sulfur» import prices continued to decline.

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

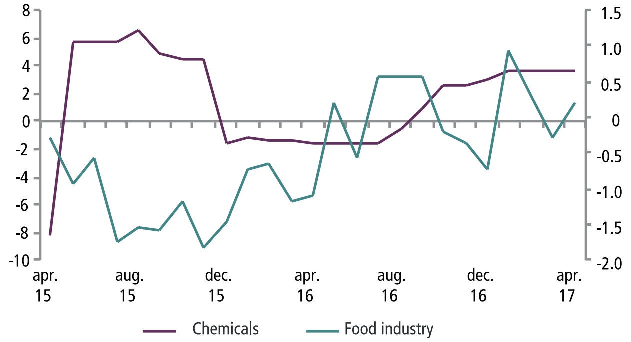


(*) Excluding wheat and sugar prices

Sources: Foreign Exchange Office, and BAM calculations.

Output prices for manufacturing industries excluding oil refining trended downward anew and fell by 0.1 percent in April, after 0.2 percent and 0.3 percent in March and February, respectively. This decline mainly reflects the producer prices decline by 0.1 percent in food industries and 0.5 percent in the clothing industry, which more than offset the 0.3 percent increase in producer prices of textile manufacturing industry.

Chart 6.12: YoY change in industrial producer price indexes



Sources : HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Global economic activity continues to show tangible signs of strengthening both in advanced and emerging economies. However, the outlook remains fraught with uncertainty, mainly due to the US government's new fiscal and trade policy and, to a lesser extent, to the outcome of the Brexit negotiations, as the risks pertaining to Eurosceptic policies have eased after the presidential elections in France.

Owing to the vigorous domestic demand and mainly to monetary and fiscal support, recovery in the euro area is expected to strengthen at a rate comparable to 2016, while economic activity in the United States is expected to strengthen in the mid-term. On the other hand, emerging economies should benefit from improved activity in advanced economies and higher commodity prices for exporting countries. More particularly, Russia and Brazil are expected to recover from their recessions, while in China, impacted by its economic rebalancing, growth will continue to decelerate, albeit moderated by fiscal support.

In the commodity markets, following an increase in the first quarter of 2017, food prices are expected to stabilize at a higher level compared to March, while the projected increase in oil prices was revised downwards. Under these conditions, and taking into account the strengthening of domestic demand and the rise in oil prices, inflation in the euro area and the United States is expected to accelerate to a level close to the target set by their central banks at the end of the forecast horizon.

At the national level, exports are expected to increase at a faster pace, supported by improved foreign demand, as sales of phosphates and by-products recovered and automotive sector shipments continued their momentum, despite their deceleration compared to 2016. Besides, imports are expected to continue their growth, albeit slowing, due to the slower pace of growth in purchases of capital goods, while the energy bill is projected to increase significantly.

Taking into account a downward revision of travel receipts and of transfers from Moroccan expatriates and assuming that annual donations of GCC countries would reach 8 billion dirhams, the current account deficit is expected to worsen slightly in 2017 then ease in 2018, though at higher levels compared to the March projections. Taking into account these developments and the anticipated continuation of FDI inflows of 34 billion in 2017 and 39.5 billion in 2018, projections of net international reserves were revised downwards to a level equivalent to 6 months of imports of goods and services over the forecast horizon. Under these conditions, the banking cash deficit is expected to rise to 34.6 billion by the end of 2017 and to 43.5 billion by the end of 2018.

After a slight tightening in 2016, mainly due to higher real effective exchange rate, monetary conditions are expected to ease in the medium term, as a result of the accommodating monetary policy stance and the near-stability of the real effective exchange rate in the forecast horizon. Besides, bank lending to the nonfinancial sector is expected to increase by 4.5 percent in 2017 and 5 percent in 2018, in line with the March projections.

As concerns public finances, after the budget deficit exceeded the Finance Act target in 2016, budgetary adjustment is expected to resume, at a virtually similar rate compared to March. Thus, after reaching 4.1 percent of GDP in 2016, the budget deficit is expected to fall to 3.6 percent and 3.4 percent of GDP in 2017 and 2018, respectively.

In terms of national accounts, growth in 2016 slowed markedly to 1.2 percent after 4.5 percent in 2015, as agricultural value added fell 12.8 percent and nonagricultural one rose merely by 2.2 percent. In 2017, activity is expected to resume at the domestic level with a forecast of 4.4 percent, driven in large part by a 13.4 percent increase in agricultural value added, given a higher-than-expected cereal production. On the other hand, nonagricultural GDP

should continue improving at a moderate pace of 3.3 percent. On the demand side, this growth rebound should be supported by robust domestic demand and reduced negative contribution of net exports. In 2018, national growth is expected to slow to 3.1 percent, with a 0.9 percent decline in agricultural value added, assuming a return to an average crop year, and a further recovery of nonagricultural GDP to 3.6 percent. The slowdown of demand is mainly due to the deceleration, albeit moderate, of domestic demand, suffering particularly from the expected decline in agricultural incomes. Similarly, the contribution of net exports to growth is expected to remain negative, reflecting continued import dynamics.

In this context, core inflation should be on an upward trend, while remaining at a moderate level. It is expected to rise from 0.8 percent in 2016 to 1.6 percent in 2017 and 1.9 percent in 2018. Prices for fuels and lubricants would rise in 2017 before stabilizing in 2018, in line with the projections of world oil prices. Given the expected decrease in volatile food prices in 2017 and their near-stagnation in 2018, inflation is expected to slow from 1.6 percent in 2016 to 0.9 percent in 2017 before accelerating 1.6 percent in 2018.

7.1 Underlying assumptions

Upturn in global growth that is beginning to be confirmed

Recent developments point to a strengthening of global economic activity and thus confirm the prospects for its recovery in the medium term. The projections for economic growth, which have remained broadly unchanged, compared to March forecast, point to a favorable outlook for both advanced and emerging economies. More particularly, growth in the United States is expected to improve from 1.6 percent to 2.1 percent in 2017 before stabilizing at 2.2 percent in 2018, benefiting mainly from strengthened domestic demand. In the euro area, after having increased by 1.7 percent in 2016, activity is expected to strengthen by 1.8 percent in 2017 then fall to 1.6 percent in 2018, driven by the near effective exit of the United Kingdom. In emerging economies, growth should benefit from improved activity in advanced economies and higher commodity prices for exporting countries. In particular, Russia and Brazil are expected to recover from their recessions, while in China, as a result of its economic rebalancing, growth is expected to continue decelerating, though moderated by fiscal support measures.

Under these conditions, foreign demand in Morocco is expected to improve at an unchanged rate compared to the March projections.

Chart 7.1: Growth in the euro area

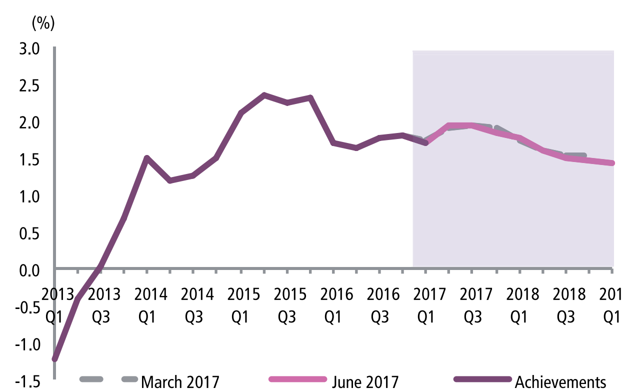
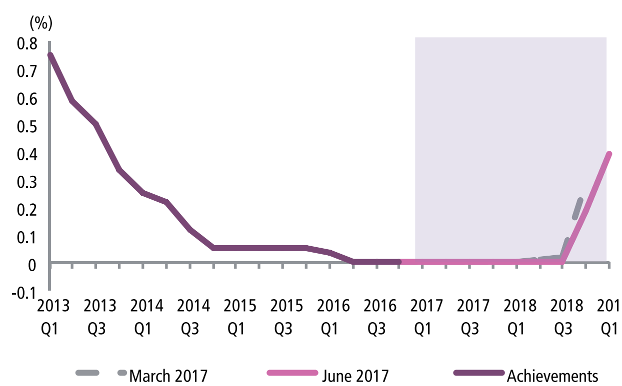


Chart 7.2: ECB policy rate



Source: GPM[1] forecasts of May 2017.

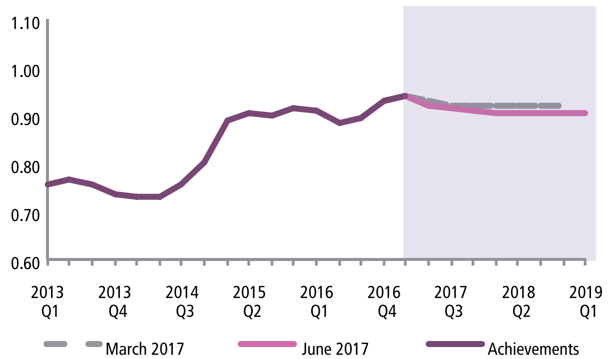
A still strong dollar against the euro, particularly reflecting the continued divergence of FED and the ECB monetary policy orientations

The divergence in the monetary policy orientations of the Fed and the ECB is expected to continue over the forecast horizon. Indeed, on June 14, the Fed increased the target range of federal funds rates to 1 -1.25 percent and is expected to continue normalizing its monetary policy with another increase projected this year. In addition, the FED is expected to start normalizing its unconventional monetary policy through a gradual reduction in the size of its balance sheet. On the other hand, the ECB should maintain its asset purchase program until the end of December or beyond if necessary and its key rate should remain unchanged at its current level until the fourth quarter of 2018.

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

Under these conditions, the dollar is expected to remain strong against the euro, albeit slightly lower than the March projections, taking into account the appreciation of the euro, particularly as a result of the mitigation of uncertainties surrounding the economic outlook of the euro area, particularly with regard to the Eurosceptic attitudes, after the presidential elections in France.

Chart 7.3: USD/EUR exchange rate



Source: GPM forecasts of May 2017.

Downward revision of oil prices and upward adjustment of food prices

Low global demand for energy products, particularly from China, combined with the higher shale oil US production, contributed to maintaining world stocks at high levels and, consequently, reduced the expected impact on prices of oil producing countries' agreement to reduce their production during the first half of the year. At the same time, world oil prices fell after the producer countries' last agreement to extend the decline of their production to March 2018, reflecting the disappointment of the markets which expected a more important reduction of the production. Against this backdrop, the expected medium-term increase in oil prices fell slightly from $42.8/bl in 2016 to $51.8/bl in 2017 and $50.7/bl in 2018, as against $54.6/bl and $55.3/bl forecasted respectively in March. In terms of fertilizer prices, DAP prices are expected to be higher than expected in March, largely due to the strong global demand for a limited supply, while prices for TSP and rock phosphate should decline slightly. For their part, world food prices[2] are expected to grow at a slightly higher level compared to March forecast, reflecting a higher-than-expected performance in the first quarter of 2017.

Against this backdrop, and taking into account the expected strengthening of domestic demand and rising oil prices, inflation in the euro area[3] should accelerate from 0.2 percent in 2016 to 1.8 percent in 2017 then to 1.7 percent in 2018. In the United States, inflation is forecasted to accelerate from 1.3 percent in 2016 to 2.6 percent in 2017 before falling back to 2.2 percent in 2018.

2 IMF food price index (basis 100 = 2005), including cereals, vegetable oils, meat, seafood, sugar, bananas and oranges.

3 May 2017 forecast of the GPM network. The ECB forecast in its June forecasts a rate of 1.5 percent for 2017 and 1.3 percent for 2018 for overall inflation. Its non-energy and food products component is expected to be at 1.1 percent and 1.4 percent, respectively.

Chart 7.4: Food commodity price index

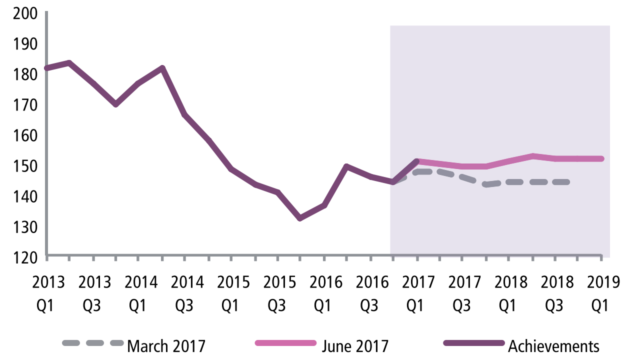


Chart 7.5: Crude oil price

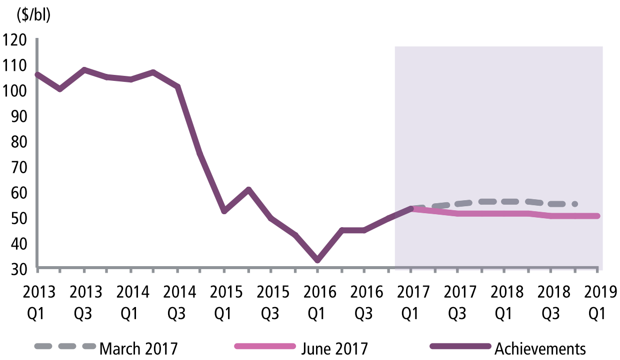


Chart 7.6: Inflation in the euro area

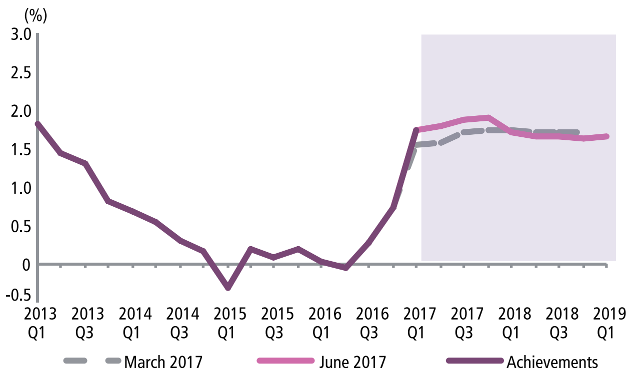
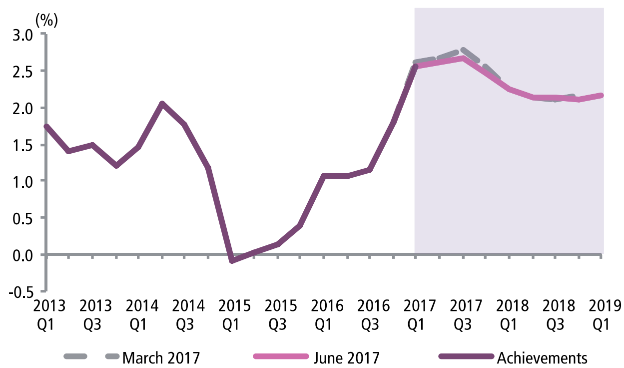


Chart 7.7: Inflation in United states



Source: GPM forecasts of May 2017.

Resumption of budgetary adjustment

Considering that the budget deficit exceeded the 2016 Finance act target, budgetary adjustment is expected to resume, albeit at a slower pace. Indeed, the fiscal deficit is expected to decrease from 4.1 percent of GDP in 2016 to 3.6 percent of GDP in 2017 and 3.4 percent of GDP in 2018.

These forecasts were only slightly adjusted compared to the March projections. Tax revenues have been revised following the update of economic growth outlook, while ordinary expenses are expected to decline as a result of subsidy costs reduction, taking into account the new assumptions on oil world prices and exchange rates.

Cereal production to stand at 102 million quintals for the crop year 2016-2017 and the uptrend of other crops to continue

According to the Ministry of Agriculture, cereal production for the 2016-2017 crop year is estimated at 102 million quintals, up 204 percent compared to the previous year and 40.5 percent compared to the average of the last five years. This change reflects favorable climatic conditions with a good distribution of rain over time and space. For other crops, production is expected to increase by 140 percent for legumes, 16.1 percent for citrus, 3.3 percent for date palms, while it is expected to fall by 26.6 percent for olive trees.

As for the 2017-2018 crop year, an average cereal production of 70 million quintals is expected, assuming a continuation of the upward trend in other crops.

7.2 Macroeconomic projections

The current account deficit should to worsen slightly in 2017 then ease in 2018

By 2018, the current account deficit is expected to reach higher-than-expected levels in March, although slightly worsening compared to 2016, to reach 4.6 percent and 4 percent of GDP in 2017 and 2018, respectively. Imports are expected to keep rising, albeit at a slower pace than a year ago, particularly with a significant increase in energy bills in 2017 and a continued rise in capital goods acquisitions, although at a slower pace compared to 2016. Exports are expected to accelerate in line mainly due to the recovery of phosphates and derivatives sales as a result of DAP higher prices and the improved growth in the euro area. Momentum in the automotive industry should at a slower pace compared to 2016. The current account projection also implies an annual inflow of grants from the GCC countries to 8 billion Dirhams in 2017 and 2018.

Taking into account the projected evolution of the main headings of the financial account, namely FDI inflows of 34 billion in 2017 and 39.5 billion in 2018, net international reserves are expected to cover 6 months of imports of goods and services over the forecast horizon.

Table 7.1: Forecasts of the balance of payments components

	Achievements					Forecasts		Gap (june/march)	
	2012	2013	2014	2015	2016	2017	2018	2017	2018
Exports of goods* (change in %)	5,8	-0,1	8,8	8,6	2,7	6,3	5,2	0,1	0,6
Imports of goods* (change in %)	8,2	-0,8	1,1	-4,1	9,9	6,4	4,6	1,4	-0,8
Travel receipts (change in %)	-1,8	-0,4	3,0	3,1	5,0	3,6	3,7	-0,6	0,3
Expatriate remittances (change in %)	0,6	-1,5	3,7	0,3	4,0	3,5	3,6	-0,6	0,0
Current account balance (% of GDP)	**-9,5**	**-7,8**	**-5,7**	**-2,1**	**-4,4**	**-4,6**	**-4,0**	**-1,2**	**-0,5**
Net international reserves in months of goods and services' imports	**4,3**	**4,5**	**5,2**	**6,7**	**6,5**	**6,0**	**6,0**	**-0,6**	**-0,6**

* From Foreign trade perspective

Sources: Foreign Exchange Office and BAM forecasts.

Quasi-stability of the real effective exchange rate over the forecast horizon and continued improvement of bank credit

After a slight tightening in 2016, mainly due to the higher real effective exchange rate, monetary conditions should ease in the medium term. This change is due, on the one hand, to the accommodative stance of monetary policy and, on the other hand, to the quasi-stability of the real effective exchange rate over the forecast horizon, due to the rising inflation in partner and competing countries, compared to Morocco, as well as to the lower appreciation of the nominal effective exchange rate, resulting from the appreciation of the euro.

Following the downward revision of foreign exchange reserves and taking into account recent developments of other liquidity factors, the banking liquidity deficit is expected to widen to 34.6 billion DH by the end of 2017 and to 43.5 billion DH at the end of 2018. For bank credit, the growth rate of loans to the nonfinancial sector is projected at 4.5 percent in 2017 and 5 percent in 2018, unchanged from March. Given the changes in other money supply counterparts, particularly the NIR, M3 growth is projected at 3.6 percent in 2017 and 4.9 percent in 2018.

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

	Achievements				Forecasts		Gap (june/march)	
	2013	2014	2015	2016	2017	2018	2016	2017
Bank lending to nonfinancial sector (change in %)	1,7	3,8	0,3	3,9	4,5	5,0	0,0	0,0
M3 (change in %)	3,1	6,2	5,7	4,7	3,6	4,9	-1,5	-0,1
Liquidity surplus or deficit, in billion dirhams	-68,4	-40,6	-16,5	-14,7	-34,6	-43,5	-21,2	-25,0

Source : BAM.

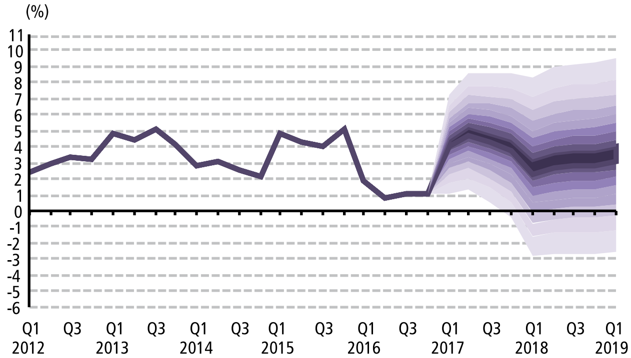
Economic activity to resume in 2017 after the sharp slowdown in 2016

In line with the Bank's forecasts, national accounts data show a marked slowdown in national growth to 1.2 percent in 2016, after 4.5 percent in 2015. This deceleration includes a 12.8 percent drop of agricultural value added and a 2.2 percent increase in non-agricultural value added. Looking ahead, growth is expected to rebound to 4.4 percent in 2017, down from 4.3 percent in March, due to a 13.4 percent increase in agricultural value added, instead of 11.5 percent in March, taking into account a cereal production of 102 million quintals instead of 78 million forecasted before. Non-agricultural GDP is expected to continue improving at a moderate pace, at a growth rate estimated at 3.3 percent.

On the demand side, the rebound in growth should be supported by continued strong domestic demand, owing to improved incomes and easing monetary conditions. By component, household final consumption is expected to strengthen, driven by better revenues, particularly form agriculture. Supported by the good orientation of public investment and by the accommodative monetary conditions, investment is expected to keep its momentum, although in deceleration from one year to the next, owing to lower imports of capital goods. The general government consumption should grow at a pace comparable to 2016, in a context of controlled expenses and limited increases of subsidy costs. Besides, deterioration in net exports is expected to ease in 2017, reflecting the deceleration in the expansion of imports of goods and services, due to the slower growth of capital goods purchases. In addition, export momentum is expected to continue, supported by improvement of foreign demand and near-stability of the real effective exchange rate.

In 2018, assuming a the crop year's return to average, national growth is expected to slow to 3.1 percent following a 0.9 percent drop in agricultural value added, as nonagricultural growth is expected to pick up to 3.6 percent. By demand component, this development would mainly reflect domestic demand deceleration, albeit moderate. Growth of household final consumption is expected to slow, due to the weakening of farm income. As for investment, its momentum should continue, despite its deceleration, owing to the continuation of major projects, notably the setup of the Peugeot plant and the continued pace of public investment. Net exports are expected to maintain a negative contribution to growth owing to the continued import momentum.

Chart 7.8: Growth outlook over the forecast horizon (Q1 2017- Q1 2019), (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 (june/march)	
	2012	2013	2014	2015	2016	2017	2018	2017	2018
National growth	**3,0**	**4,5**	**2,7**	**4,5**	**1,2**	**4,4**	**3,1**	**0,1**	**-0,7**
Agricultural VA	-9,1	17,2	-2,2	11,9	-12,8	13,4	-0,9	1,9	-3,4
Nonagricultural GDP	4,7	2,9	3,4	3,7	3,1	3,3	3,6	-0,1	-0,3

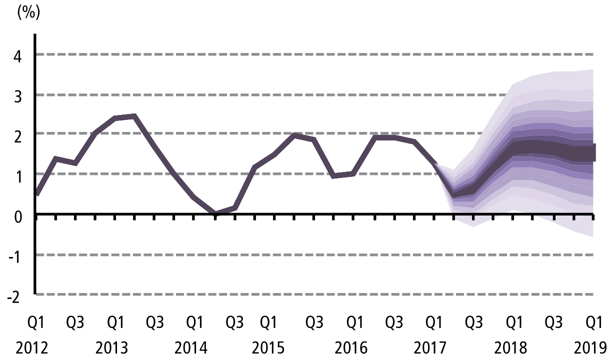
Sources: HCP data, and BAM forecasts.

Overall, after having evolved below its potential in 2016, economic cycles of domestic activity are expected to resume in 2017, bringing the output gap back to a positive level. This change would result, on the one hand, from the accommodating stance of monetary policy and, on the other, from the improved foreign demand and the quasi-stability of the real effective exchange rate.

Core inflation is expected to accelerate while remaining at a moderate level in the medium term

In the medium term, core inflation is expected to accelerate from 0.8 percent in 2016 to 1.6 percent in 2017 and 1.9 percent in 2018. Such evolution reflects the anticipated mitigation of disinflationary pressures due to the continued momentum of domestic demand and the moderate increase in imported inflation, itself impacted by rising world food prices and by the expected near-stability of the real effective exchange rate.

Chart 7.9: Inflation forecast over the horizon (Q2 2017- Q1 2019)*



* 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 (june/march)	
	2015	2016	2017	2018	8 quarters horizon	2017	2018
Inflation	**1,6**	**1,6**	**0,9**	**1,6**	**1,3**	**-0,2**	**0,0**
Core inflation	1,3	0,8	1,6	1,9	1,9	0,1	0,0

Sources: HCP data, and BAM forecasts and calculations.

Regarding fuel and lubricant prices, they are expected to continue their upward trend in 2017 before stabilizing in 2018, in line with forecasts of world oil prices. Moreover, given the declines observed in the first quarter of 2017 and the fading effects of increases recorded the second quarter of 2016, volatile food prices are expected to decline in 2017 before stabilizing in 2018.

Overall, inflation is projected to remain moderate over the forecast horizon at 1.3 percent on average. After reaching 1.6 percent in 2016, it is expected to decelerate to 0.9 percent in 2017 before rising to 1.6 percent in 2018.

Chart 7.10: Change in core inflation and output gap

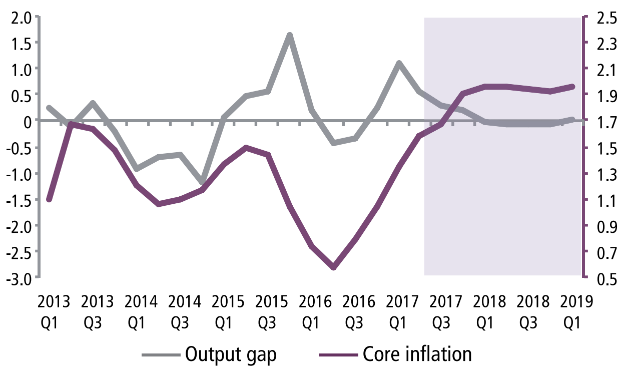
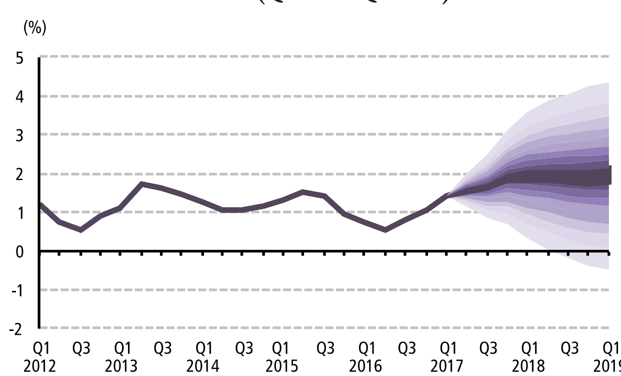


Chart 7.11: Projections of core inflation over the forecast horizon (Q2 2017- Q1 2019)*



* 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 is at equilibrium for inflation.

In terms of growth, considerable uncertainties are still surrounding foreign demand improvement. Indeed, political risks still persist and continue to weigh on the world activity outlook, particularly with regard to the trend of the new US administration's trade policy. On the other hand, risks relating to Eurosceptic policies have diminished and the anticipated negative effect of the Brexit on the European economy could be alleviated after the Article 50 activation, although heavily dependent on the negotiations with the European Union. Moreover, the continued divergence between the monetary policy orientations of the Fed and the ECB and the resulting appreciation of the real effective exchange rate could have a negative effect on Moroccan exports' competitiveness, and consequently on growth.

With regard to the risks associated with inflation central forecast, a further decline in international oil prices or a more rapid normalization of the Fed's monetary policy, added to the resulting appreciation of the real effective exchange rate, could exert a downward pressure on inflation. On the other hand, continued up-trending of international food prices or a possible increase in wages, as part of the social dialogue, may lead to a higher-than-expected increase in consumer prices.

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

LIST OF CHARTS

LIST OF TABLES

LIST OF BOXES