PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, September 26, 2017

1. The Board of Bank Al-Maghrib held its third quarterly meeting of the year on Tuesday, September 26.
2. At this meeting, it analyzed recent economic developments and the macroeconomic forecasts prepared by the Bank for the next eight quarters.
3. Based on these analyses, the Board considered that the current level of the key rate remains appropriate and decided to keep it unchanged at 2.25 percent.
4. The Board noted that inflation slowed down sharply, from 1.9 percent in the first two months of 2017 to 0.2 percent on average in the following six months, mainly as a result of the decline in volatile food prices. It should reach 0.6 percent for the whole of 2017 and then accelerate to 1.3 percent in 2018. Core inflation, which measures the basic trend in prices, would trend upward from 0.8 percent in 2016 to 1.4 percent in 2017 and 1.6 percent in 2018.
5. Internationally, the latest available data confirm the expected strengthening of global growth, driven by accelerated growth in advanced economies. In the euro area, economic activity would accelerate from 1.7 to 2 percent in 2017 before slowing down to 1.5 percent in 2018, in conjunction in particular with the Brexit. In the United States, GDP would expand from 1.6 to 2.1 percent and then to 2.3 percent, supported by stronger domestic demand. Boosted by higher demand from advanced economies and favorable price trend in raw materials and commodities, economic activity is expected to improve in emerging markets as well.
6. In commodity markets, oil prices have hovered around $50 a barrel since the beginning of the year and would remain close to this level until the end of 2018. According to the World Bank projections published in April, prices for phosphates and derivatives would remain low, mainly as a result of the production capacity surplus. They would average $360 per metric tonne in 2017 and $366 per metric tonne in 2018 for DAP, and $100 per metric tonne then $102 per metric tonne respectively for rock phosphate.
7. Under these conditions, inflation is expected to accelerate significantly in advanced economies. In the euro area, it would rise from 0.2 to 1.5 percent in 2017 and 1.4 percent in 2018, while in the United States it would reach 2 percent and then 1.9 percent, after 1.3 percent in 2016.
8. Regarding monetary policy decisions, the European Central Bank decided at its meeting held on September 7 to maintain the interest rate on the main refinancing operations unchanged at 0 percent, indicating that its policy rates will remain at their present levels for an extended

period of time, and well past the horizon of its program for asset purchases. The latter would continue at the current monthly volume of €60 billion until the end of December 2017, or beyond if necessary. Similarly, the U.S. Federal Reserve decided at its September meeting to keep the target range for federal funds rate unchanged at 1-1.25 percent. It pointed out that its monetary policy stance remains accommodative, promoting further improvement of conditions in the labor market and a sustained return of inflation to its long-term objective. The Fed has also announced that it will start the implementation of its balance sheet normalization program in October 2017.

9. Nationally, growth in 2017 will benefit from a good crop year, as the newly revised estimates of the Ministry of Agriculture show that cereal production would reach 96 million quintals. After a decline of 12.8 percent in 2016, agricultural value added would jump by 14.7 percent in 2017 and then edge down by 1 percent in 2018 under the assumption of an average crop year. Nonagricultural activities are expected to keep momentum, and their value added would grow from 2.2 percent in 2016 to 2.9 percent and then to 3.5 percent. Altogether, Bank Al-Maghrib expects GDP to accelerate from 1.2 percent in 2016 to 4.3 percent in 2017 and then to slow to 3.1 percent by 2018.

10. In the labor market, compared to the same quarter of 2016, the labor force recorded in the second quarter 2017 a net inflow of 107,000 job seekers and the participation rate decreased slightly to 47.3 percent. At the same time, national economy created 74,000 jobs, including 52,000 in agriculture. As a result, unemployment rate increased by 0.2 percentage point to 9.3 percent.

11. With regard to external accounts, the trade deficit of goods widened by 4 percent in the first eight months of the year, mainly as a result of a 30.2 percent rise in the energy bill. In contrast, after a large increase in 2016, purchases of capital goods fell slightly, dragging down the growth of imports to 5.5 percent. At the same time, exports accelerated by 6.7 percent, owing to improved shipments of agricultural and agri-food products as well as to a rebound in the sales of phosphates and derivatives, while automotive industry exports fell by 1 percent. As for the other major items of the current account, travel receipts improved by 4.9 percent and transfers of Moroccan expatriates were up 2.7 percent. Under these conditions, and assuming that GCC grants would reach 8 billion dirhams in 2017 and 2018, current account deficit is expected to ease from 4.4 percent of GDP to 3.9 percent in 2017 and 4 percent in 2018. Assuming that FDI inflows would hover around 3.2 percent of GDP in 2017 and 3.6 percent in 2018, foreign exchange reserves are expected to reach 5 months and 22 days of imports of goods and services at the end of 2017 and 5 months and 25 days at the end of 2018.

12. Monetary conditions eased in the second quarter, as lending rates dropped by 22 percentage points and the real effective exchange rate decreased, due to the appreciation of the euro and a generally lower domestic inflation rate compared to partner and competitor countries. Under these circumstances, lending to the nonfinancial sector rose by 4.3 percent in the first seven months of the year and should continue to strengthen gradually to grow by 4.5 percent as at-end 2017 and by 5 percent in 2018.

13. Turing to public finance, budget implementation in the first eight months resulted in a deficit of 26.1 billion dirhams, down 4.7 billion compared to the same period of 2016. Current revenues rose by 5.7 percent, reflecting improved tax receipts, and overall expenditure increased by 1.6 percent, due to higher subsidy expenses and lower debt interest costs and investment spending. Taking these developments into account, fiscal deficit would be around 3.5 percent of GDP in 2017 and 3.2 percent in 2018.